De-Coding Crypto

Enigma Weekly

8th July 2020

Written by Joseph Edwards, Head of Research at Enigma Securities.

Our Market View

May you live in interesting times. A flat week for BTC, but not for alts, which for once steal the show here. ADA and LINK continued previous gains with huge surges, but the bigger surprise was a slight appreciation on a number of the large-cap projects outside of BTC, with XRP in particular recording a significant rise. We still remain bearish on most such projects in more general terms, but it does point to gathering momentum with regards to sentiment across alts market as a whole. Having said that, the appearance of said momentum gathering in alts has been followed by a sudden drawback more than once in recent months (September 2019, February 2020), so more monitoring needed.

On the BTC end, still waiting for confirmation. We should stress here: while our overall bias has been bearish, and remains bearish, we are ultimately more looking at this point towards confirmation at either $9600 or $8600 for a larger move up and down respectively. The latter case remains more convincing in the abstract, but recent alts moves are beginning to muddy the waters somewhat in that regard.

Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9300	1.40%	-4.29%	15.82%	-21.29%	171.4B
ETH	243.91	7.17%	0.35%	71.01%	-11.50%	27.24B
XRP	0.20002	13.85%	-1.00%	-5.42%	-41.93%	8.89B
BCH	243.60	8.91%	-3.90%	-6.68%	-31.13%	4.50B
LTC	45.27	8.96%	-2.23%	-8.38%	-56.97%	2.94B
EOS	2.670	12.28%	-3.72%	-10.64%	-44.45%	2.50B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
ADA	0.13291	57.61%	55.69%	261.20%	91.11%	3.45B
LINK	6.2731	36.54%	43.82%	175.10%	97.12%	2.20B
XTZ	2.65645	10.62%	-9.14%	103.50%	147.90%	1.93B

Retail venues latest: a picture of stagnancy?

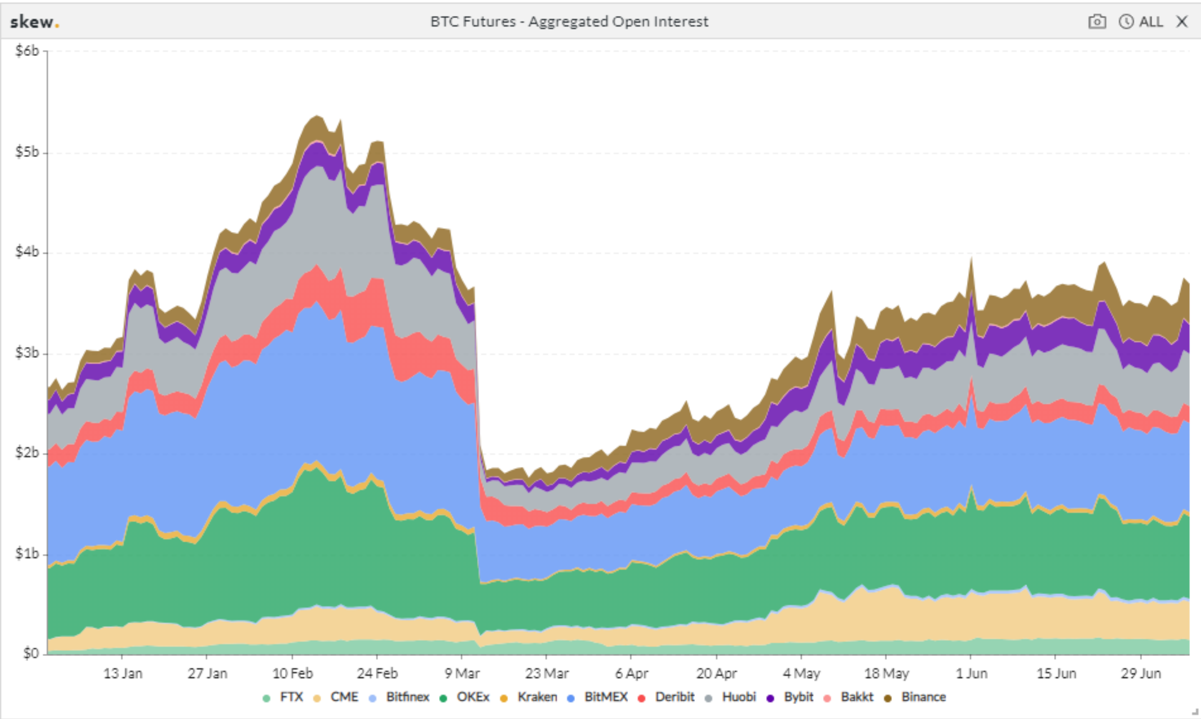
It has now been a few weeks since we last looked in detail at trends in terms of retail activity and the like. Our major conclusion back on 27th May was as follows:

> The broader consideration is this: the 'unrecovered' OI as it were seems to point to a withdrawal from the market of a specific class of investor – in general, mid-sized organisations, usually with a relatively limited operational remit (pure HFTs, small-scale market-makers), that – while representing an outsized proportion in metrics such as trading volume – nonetheless represent a relatively small portion of both existing capital, and of new capital flowing into the market.

We went on to conclude:

> Moving averages for volumes on services that effectively act as on-ramps first and foremost (such as Coinbase) have persistently been dropping throughout the month, for instance, and the futures curve remains relatively flat; we aren't seeing a full rush to market.

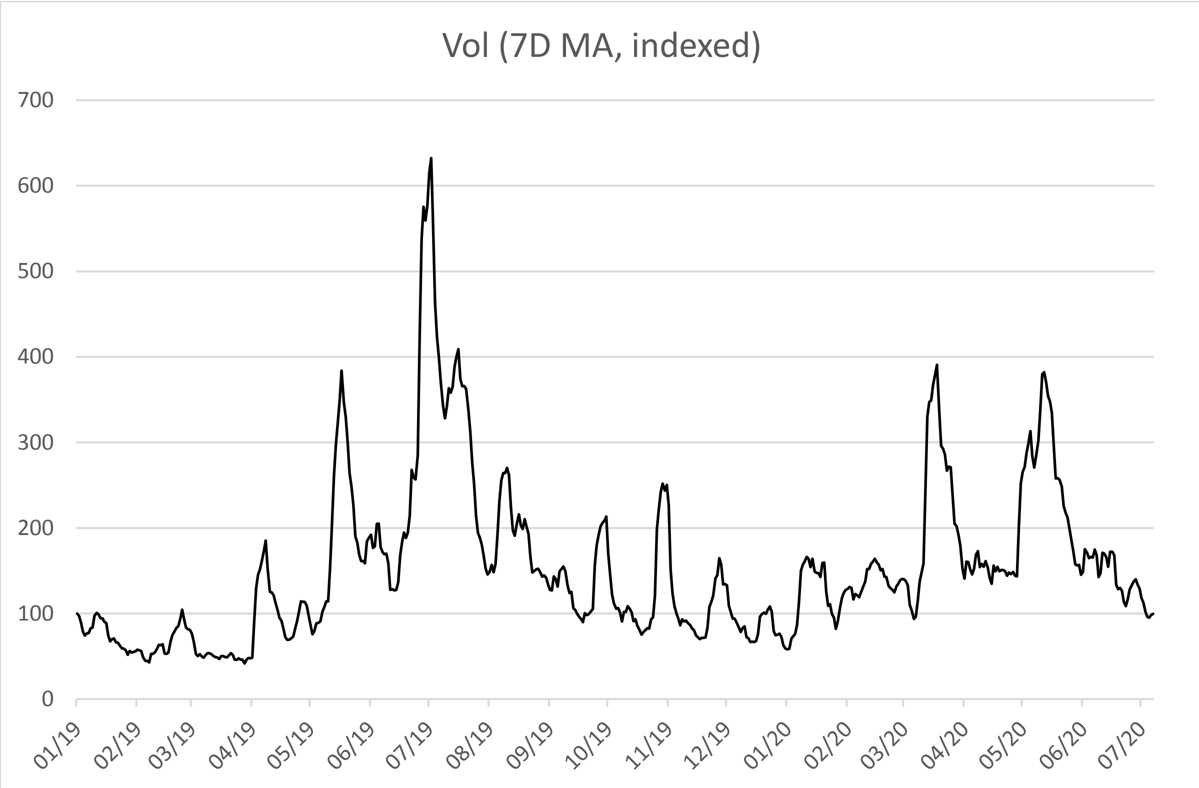
It now seems like an opportune time to revisit the issue of said retail trends. To start with, that question of OI: where do we stand as of now in that regard? The answer is: not terribly, but not well:



Credit: Skew.

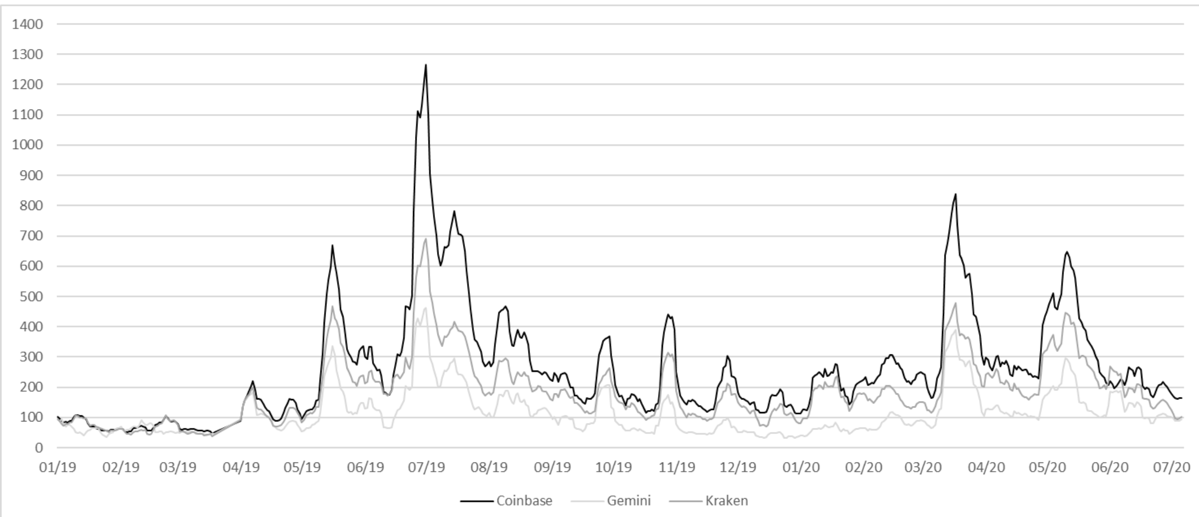
Moving averages peaked shortly before expiry in June, and have seen a small drop-off since. We should say here that expiry does not traditionally affect OI as significantly as one might be given to think, given the proportion of the market using fully perpetual contracts; only Huobi and OKEx, the two leading retail venues for non-perpetuals, tend to see such a decline).

More broadly, we seem to have entered something of a plateau point in terms of activity in said venues; few participants are looking for exits, but also relatively few are looking for entries. There are always difficulties with regards to retail spot numbers, but CryptoCompare aggregate data suggests that volumes are drifting towards not only yearly lows but some of the lowest marks since crypto winter, currently pegging almost exactly level with where we sat at the start of last year:



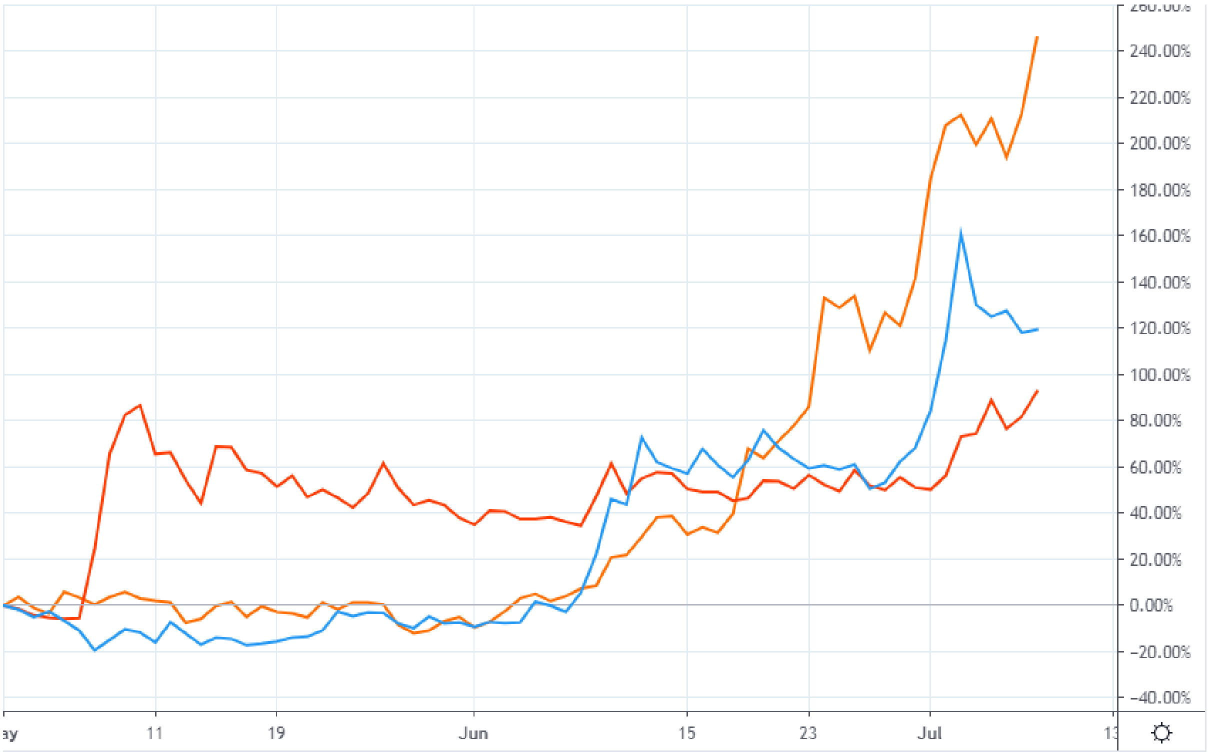
Data via CryptoCompare. BTCUSD volumes for aggregated exchanges since January 1st, 2019, indexed to volumes on said date.

Looking at a few of the smaller (but data-reliable) exchanges gives a similar story: Coinbase is above par (due to overall growth of business), but both Gemini and Kraken find themselves at almost thee exact same levels, and all three have seen significant downturns:



Data via CryptoCompare. BTCUSD volumes for selected exchanges since January 1st, 2019, indexed to volumes on said date.

The odd thing here: this does come in the context of what has to be classed at this point as a frenzy in certain cryptoassets. We have already spoken many times on LINK and ADA (up 33% and 44% in the last week alone, and 58% and 151% since our May 20th alts issue), but other coins have also gained significantly (albeit not as much). A lot of these (KNC, ZRX, SNX) are connected directly to the explosion of interest in DeFi (and staking):



Credit: Tradingview. KNCBTC (Binance) in blue, ZRXBTC (Binance) in red, SNXBTC (KuCoin) in orange.

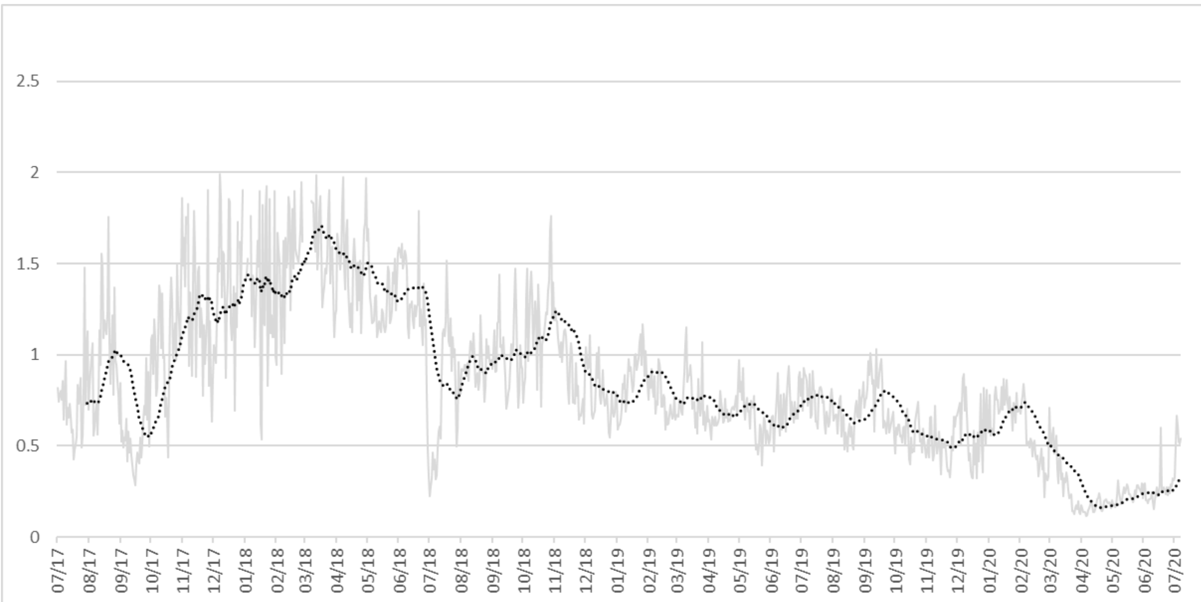
However, there have been other projects that have seemingly gained out of nowhere. DOGE, formulated as a joke cryptocurrency in 2013 (and never having gained any usage beyond that), touched highs of 60 sats today after having been in the 25-35 range since BTC's recovery post-crypto winter:

Credit: Tradingview. DOGEBTC, Binance.

Yet, BTC stands pat, with interest across the board seeming to diminish. There are both bearish and bullish elements to this. The bullish element is that, in both 2017 and 2019, BTC market dominance (i.e. the market cap of BTC against all other major crypto assets) did fall prior to BTC's own boom - that is, alts booming were in a basic sense a precondition for BTC breaking out:

Credit: Tradingview.

However, we tend to weigh the bearish case higher right now still, at least in the short term. The big thing to bear in mind with regards to 2017 that is certainly different today is that, agnostic of specific interest in BTC itself, there was a degree to which BTC itself (a $16bn market cap commodity on January 1st, 2017) served for many buyers as the only realistic onramp to the alts market (stablecoins at that time, including Tether, being existent but sparsely used), something which has become progressively less true over time; again, spot volume data always has issues, particularly on old data, but the ratio of ETHBTC and ETHUSD transactions in CryptoCompare data over time is telling:



Data via CryptoCompare. Dotted line represents 30-day MA.

This data only starts in July 2017, which actually excludes a large period where trading ETH directly for fiat on an exchange basis was somewhere between difficult and impossible, but nevertheless, the trend is very clear – whereas ETHBTC pairs were previously more active than ETHUSD pairs (i.e. buyers of ETH were onramping into BTC first), they now make up a fraction of such transactions. Given that most major DeFi projects are being built on ETH, and certain markets are already more liquid on ETH pairings than BTC pairings, this sort of mechanical beneficiary quality would be (this time around) a bullish influence on ETH far moreso than it would be on BTC, and we are left with only the adage about a rising tide lifting all ships - certainly a benefit, but not enough to offset the broader state of the BTC-specific data.

To be clear on the state of said data: the situation right now is stagnant, and while it is of course positive that there seems to be a degree of confidence by existing stakeholders (as reflected by stabilisation of open interest), both the nature of BTC as an asset and its past history (see our recent issue on volatility compression for more details as such) tend to point towards downside more frequently than upside in said situations.

As we have said, the possibility of a move upwards is not off the table, and we would expect such a move to be explosive if it came through; however, until further confirmation in that direction (we do not see recent price action as doing anything of the sort in that regard just yet), we continue to lean bearish.

Until next week – thank you for reading.

ABOUT US

Enigma Securities is a leading, regulated liquidity provider, offering its clients bespoke liquidity solutions through the use of a proprietary electronic trading platform and API access.

The firm was founded in 2017 as a subsidiary of Makor Partners Limited (UK), amid growing institutional demand for digital asset trading. Looking to seize the new, exciting opportunities presented by cryptocurrencies and blockchain technology, Enigma became one of the first regulated brokerage firms to set up banking relationships and custody solutions to meet institutional standards.

Since its launch, the firm has expanded its capabilities to the broader Fintech arena, leading innovation while working to bridge the gap between the traditional financial services industry and cryptocurrency markets.