



ENIGMA  
SECURITIES



MAKOR

# De-Coding Crypto



Enigma Weekly

5<sup>th</sup> August 2020

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

## Our Market View

**May you live in interesting times.** Another explosive week for BTC, as we built on last week's break of the 2020 high to briefly tread into an area - over \$12,000 - which we haven't seen in well over a year. We discuss the flash crash that took us away from that point in this week's issue, but the bottom line is: the trend remains extremely positive, we are likely to see more forays towards that level this week, and we tend to think that we will only start to find truly aggressive resistance at around \$13,000, at which point we can re-assess. For now: bullish on all time frames.

Alts market continues to look healthy for the most part. ETH continues to be extremely robust, and like BTC looks to be consolidating above historically important levels (above the June 2019 high of \$365 and the April 2018 local low of \$360), so we still see plenty of room to run there.

The two surprises have been XRP and LINK. XRP is now up 60%, almost the same as ETH, on the month; we remain sceptical on its longer-term prospects, but worth keeping an eye on as it too tries to surpass its 2020 highs (at around \$0.33). LINK meanwhile has, once again, hit all-time highs; we would be cautious about reading too much into its short-term momentum (there is a complex situation surrounding it with regards to a bungled activist short campaign), but as we've expressed before, it does have the most short-term potential of any coin outside of the traditional large-caps to break that \$3-4b market cap mark that has served as a limiter and prompt a shockwave in the landscape as a whole.

Please direct all enquiries about this week's research to [jedwards@enigma-securities.io](mailto:jedwards@enigma-securities.io).

### Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	11626	4.03%	25.04%	17.36%	-2.94%	214.5B
ETH	394.62	22.68%	65.52%	76.84%	78.90%	44.22B
XRP	0.30173	26.22%	62.32%	8.88%	-1.76%	13.54B
BCH	294.84	1.81%	23.81%	-33.68%	-11.47%	5.45B
LTC	58.58	5.14%	34.74%	-23.50%	-34.83%	3.82B
EOS	3.059	-0.61%	18.99%	-35.92%	-26.46%	2.87B
Ticker	Price	7D	1M	6M	12M	Cap
ADA	0.14282	-0.47%	44.75%	137.70%	173.90%	3.70B
LINK	9.500	33.20%	92.85%	175.80%	315.50%	3.33B
XTZ	3.190	12.00%	34.50%	38.87%	102.30%	2.33B

# The August 2<sup>nd</sup> flash crash

On 2nd August, 2020, at 4:48AM UTC, the price of BTC fell over \$1500, or roughly 13%, in a matter of minutes.

For most assets, this would be a major historical moment. Of course, we are talking about BTC here, but nevertheless, this was of course still a significant drop - the 15th-biggest hourly loss since mid-2017 in terms of raw percentage change:

	Open	Close	Change (\$)	Change (%)
12/03/2020 19:00	7346	6104	-1243	-16.91%
12/03/2020 08:00	5802	4857	-945	-16.29%
22/12/2017 16:00	13795	12094	-1701	-12.33%
13/03/2020 14:00	5381	4850	-531	-9.87%
15/03/2020 11:00	5934	5349	-585	-9.86%
13/03/2020 11:00	4661	4210	-451	-9.68%
24/09/2019 18:00	9461	8620	-841	-8.89%
10/05/2020 22:00	9537	8722	-815	-8.54%
26/06/2019 22:00	13850	12723	-1127	-8.13%
24/11/2018 16:00	4140	3804	-336	-8.12%
22/12/2017 02:00	15453	14211	-1242	-8.04%
16/03/2020 23:00	4810	4442	-368	-7.65%
24/02/2019 08:00	4084	3795	-289	-7.08%
06/02/2018 03:00	6975	6484	-491	-7.04%
02/08/2020 04:00	12000	11181	-819	-6.82%

*Reference price: BTCUSD, Coinbase.*

While it was brief, and as of the time of writing, apparently impermanent, it does seem worth devoting some space to with regards to how it happened, why it happened, and what it means for short and medium-term theses going forward.

## How it happened

First off, the context of the move. The previous day (1st August) had been relatively significant as weekends go; after the break past \$9600 and \$10,500, the next level of resistance was looking to be around \$11,400, and we swiftly moved through that in the early hours of that Saturday morning.

After a brief period of consolidation above that point (and a test lower that ultimately stopped out very early), we resumed an upwards trajectory, and we began to approach the \$12,000 mark - technically unlikely to be particularly significant, but nonetheless a milestone, and one that was absolutely met with anticipation. This is what the chart looked like at 4:00AM UTC on that day:

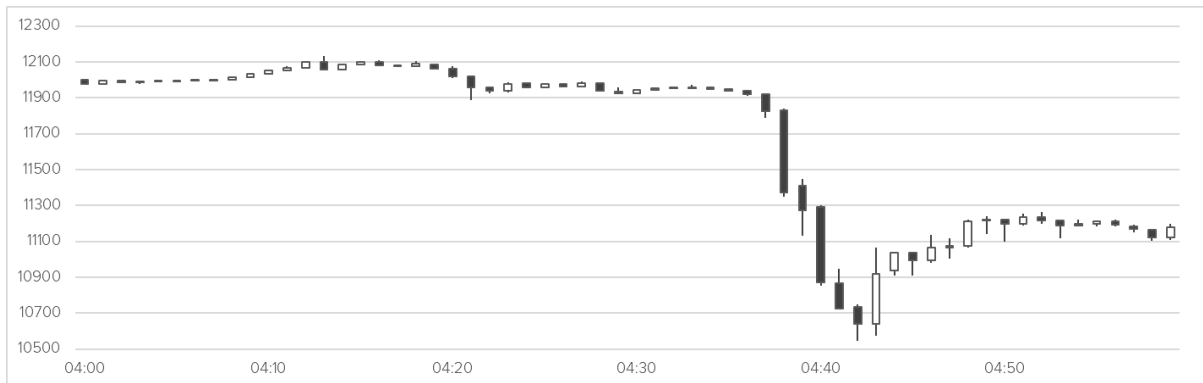


Reference price: BTCUSD, Coinbase.

We opened the hour with a \$12,000 print on Coinbase, and very slightly below it on most spot and derivatives venues. (We should mention here that CME trading for the week closed at 22:00 UTC on 31st July, and would remain closed throughout this event, re-opening at 23:00 UTC on August 2nd). We continued to move up in the first few minutes of the hour, with most venues putting up high prints in the same window of a few minutes:

	Spot		Perpetual	
	High	Time	High	Time
Binance	12123	04:16	12154	04:13
OKEx	12100	04:13	12144	04:13
Huobi	12106	04:16		
Coinbase	12134	04:13		
BitMEX			12163	04:13
Deribit			12145	04:13
ByBit			12169	04:13

From that high, we started to slip, and while it started moderately, at 4:36AM, everything gave way:

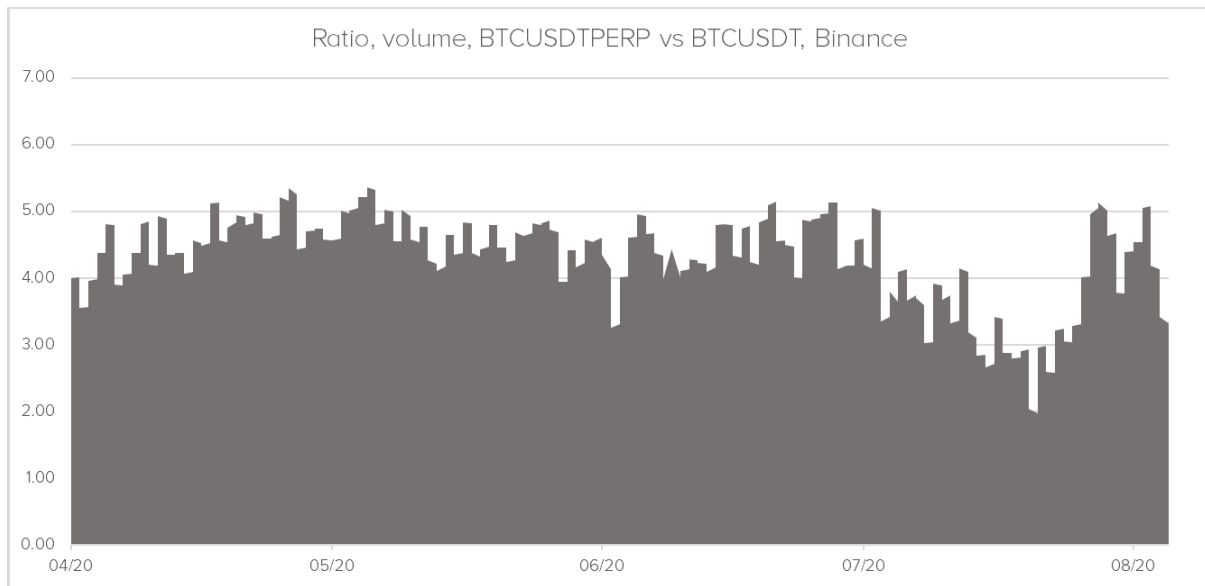


Reference price: BTCUSD, Coinbase.

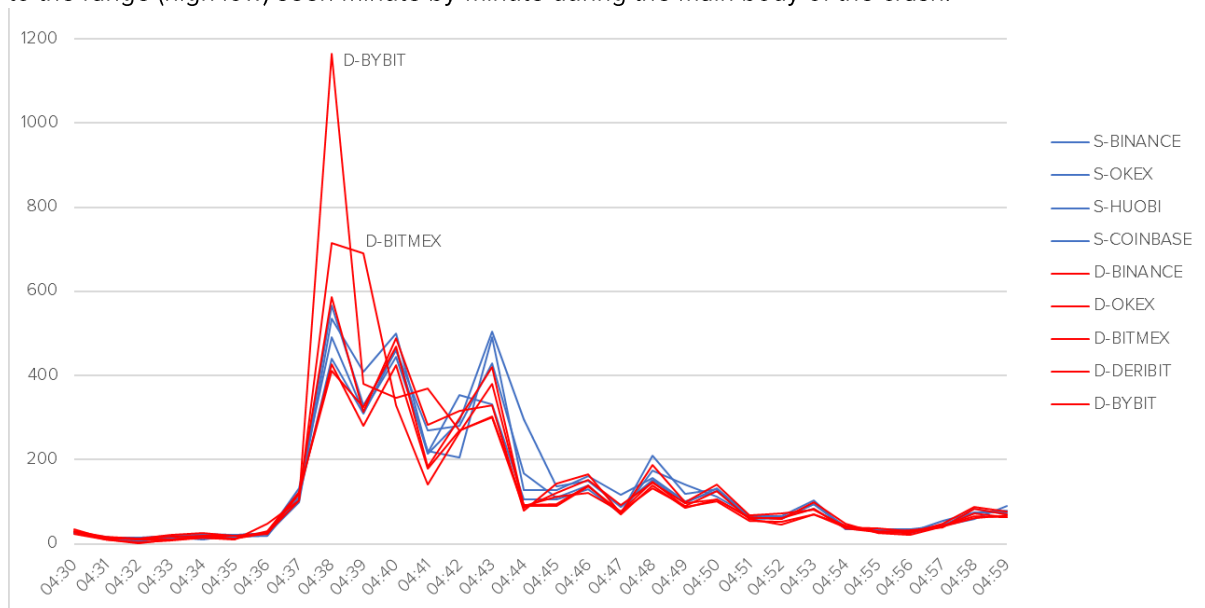
In a matter of minutes, we went from prints in the \$11,900-\$11,950 area, to around \$10,700 on spot venues, and \$10,500 on derivatives venues.

### Why it happened

So: what went on here? Even without looking at the specifics of the market data, the clue here is actually in the level we saw that bottom at on derivatives venues - \$10,500, the high in March. Volumes across the board have been up significantly since that point, but have been particularly elevated with regards to ratio of derivatives products against spot. Look, for instance, at volumes on Binance's perpetual swap against its spot product; while not historically high, there was a notable surge coinciding with the break in late July:

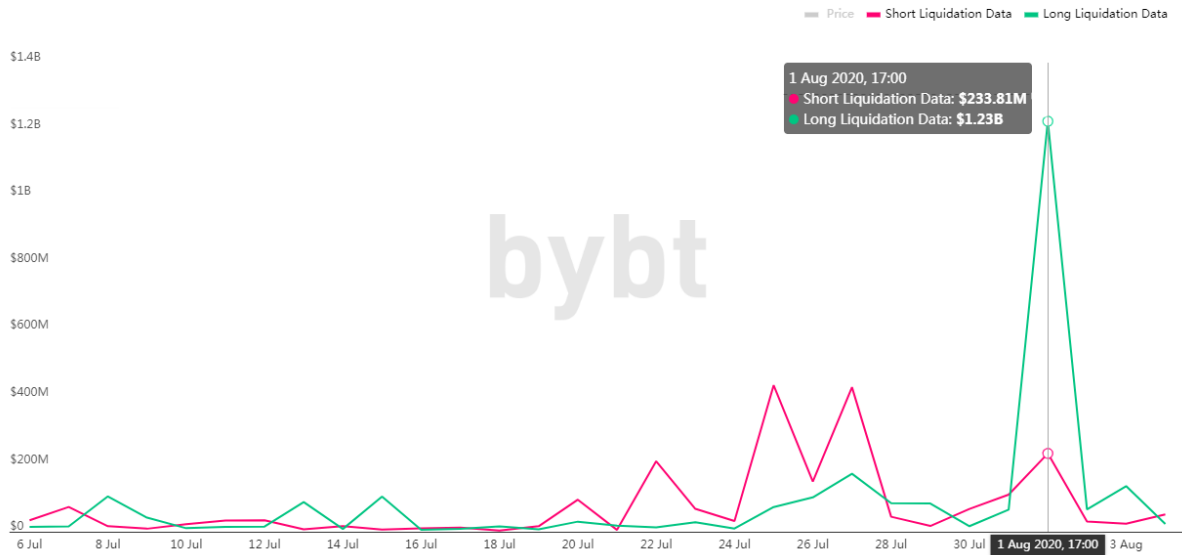


With that in mind, also note the comparison between major spot and perpetual products with regards to the range (high-low) seen minute-by-minute during the main body of the crash:



*S = Spot (BTCUSD or equivalent), D = Derivatives (BTCUSD perpetual swap or equivalent).*

This hence seems to have been that most classic of crypto phenomena, the liquidation cascade – retail derivatives traders rush into a market at or above a milestone level, the market continues to move up, at some point it naturally runs out of momentum and drifts slightly down, (we did not see any particularly unusual market activity in terms of movement or volumes in the minutes preceding the crash), overleveraged positions near the peak are liquidated, price is driven down, further positions are liquidated, and we hence see a huge drop purely on the basis of said liquidations in a very short period. Indeed, over \$1bn worth of positions were liquidated over the course of the day (comparable to Black Thursday in dollar terms, if not in BTC terms):



Credit: Bybt.

There were elements of this in the second leg of the Black Thursday crash, and more recently, we saw a similar move in early June:



Reference price: XBTUSD, BitMEX.

That move was again based on a break of a significant resistance milestone (\$9600), and again took us on derivatives venues right to the previous support (\$8600 on BitMEX, though we should say that it tended to find a floor closer to \$9100-\$9200 on spot and even other derivatives venues).

### What it means

As can often be the case with this newsletter, the message here is that the crash is, for the most part, not something to be particularly worried about. While the severity (and the mass liquidations) are something that's unique to crypto, this sort of move isn't entirely unheard of; in fact, silver (currently in the midst of a generational bull trend) did something similar just a few days ago, dropping around 6% in a similar timespan:



*Credit: Tradingview.*

The result there was a firm hold on support even at the crash's worst, a brief period of consolidation, followed by a push towards new highs over the last couple of days:



*Credit: Tradingview.*

BTC seems to be in a similar position; it held above \$10,500 on every venue, retraced a good proportion of the drawdown instantaneously, and at the time of writing, it is consolidating once again just above that resistance level at \$11,400, and it's hard to not see it pushing higher over coming days and weeks. We hence see no reason in that regard to reduce or disclaim any recent theses on BTC strength in the near-term, and remain extremely bullish.

***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.

---

### DISCLAIMER:

The information contained in this report issued by Enigma Securities Limited is not intended to be advice nor a recommendation concerning cryptocurrency investment nor an offer or solicitation to buy or sell any cryptocurrency or related financial instrument. While we provide this information in good faith it is not intended to be relied upon by you and we accept no liability nor assume any responsibility for the consequences of any reliance that may be placed upon this report. Enigma Securities Limited is an Appointment Representative of Makor Securities London Ltd which is authorized and regulated by the Financial Conduct Authority (625054)