ENIGMA SECURITIES

# De-Coding Crypto

Weekly Analysis

## The big Bitcoin bleed

*November 27, 2019*

In this week's issue, we focus on November's unusual move down from $9000 – 'the bleed' – and explain how it needs to be understood in terms of an unusual dynamic between Western and Asian markets. We also offer a legal perspective on smart contracts.

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

### Our Market View

May you live in interesting times. Another negative week, but with potential hope on the horizon. Our research for this week discusses the BTC drop in more detail; our general outlook right now is overall neutral for December as a whole, as we seek to see more clarity from Asian markets going forward.

Asides from BTC, most altcoins have as usual tracked downwards with BTC, typically slightly more aggressively. We continue to lean negative on altcoins as a rule; a handful appear to have been oversold in the overall dump (ETH and EOS being the main two) and may be important to watch in the event of further downwards action, and ETH at its current levels also may present opportunities in December should we settle into a range, but not yet.

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

**Major**

| Ticker | Price | 7D | 1M | 6M | 12M | Cap |
|---|---|---|---|---|---|---|
| BTC | 7142.23 | -11.52% | -24.07% | -16.60% | 73.92% | 129.1B |
| ETH | 146.263 | -16.22% | -20.27% | -44.77% | 27.42% | 15.90B |
| XRP | 0.218869 | -12.87% | -27.06% | -49.14% | -40.09% | 9.47B |
| BCH | 210.893 | -11.70% | -21.61% | -51.27% | 24.28% | 3.83B |
| LTC | 46.3088 | -15.86% | -21.36% | -58.89% | 38.71% | 2.95B |
| EOS | 2.6124 | -15.26% | -22.54% | -66.20% | -6.58% | 2.49B |

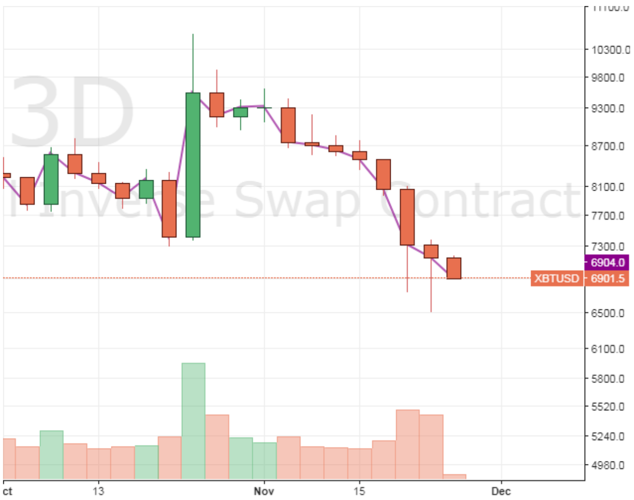
**Selected**

| Ticker | Price | 7D | 1M | 6M | 12M | Cap |
|---|---|---|---|---|---|---|
| BNB | 15.3326 | -16.86% | -24.41% | -32.69% | N/A | 2.37B |
| TRX | 0.0152897 | -7.65% | -23.66% | -59.55% | 9.18% | 1.02B |

### The big Bitcoin bleed

This has been one of the strangest months on record for BTC. Not merely because of the drop; 22% since October 1st is clearly severe, but not entirely without precedent. Not merely because of the 1-day and 2-day peak losses, either; again, severe, but these days do happen.

What made the drawdown over the last month unusual from a pure price perspective? The 3-day chart tells a lot of the story:




*Credit: BitMEX.*

While there was the occasional daily or intradaily divergence, this is why we have been referring to the period in question as the 'bleed': it was slow, but almost universally red. Volumes were low, and remained low until the very end, with some exceptionally poor days scattered in; in particular, the weekend of the 16th and 17th saw some of the lowest volumes in nearly a year, with BitMEX on the former seeing a sub-1 billion day - the first since March 31st.

This is not entirely without precedent – there were some similarities in September's behavior – but it's unusual. Where BTC moves down, the bulk of the move has historically been front-loaded; 'going parabolic' downwards is rare.

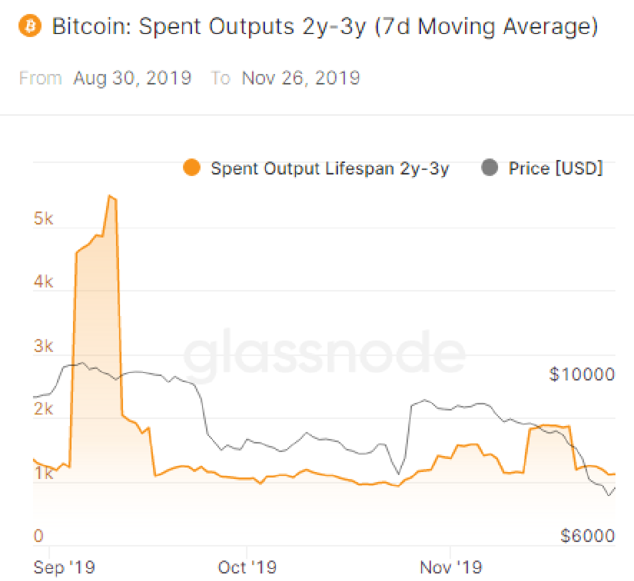
Normally, in a low-volume environment, we would at least see some variance from day-to-day; in this case, however, we saw just one day that was meaningfully positive (11th November), and trended slowly but surely down from $8800 to $8000 before finally seeing a two-day breakdown all the way to $7000 and below.

So, the big questions are: why did the bleed happen, and is it now over? On the first point, we tend to view it as a composite of factors.

In the first place, there does seem to be a degree to which the 'China surge' was too much, too soon. The market was primed for a break upwards towards the end of October anyway; the CME futures drop was one of the most severe on record at 7% on the 23rd October daily, volatility had been minimal for an extended period again, and on-chain metrics were showing similar signs to previous 2019 breakouts.

However, the brief spike above $10,000, and the resulting effect on short-term expectations from some in the market, seem to have ended up working against price action; after a few days trading in a broad range (and with it becoming clear that the China news was not going to break significant new retail volume into the market overnight), short-term volatility and volumes both plummeted, and a week of tight trading eventually ended in a small break downwards and a shift into 'bleed' market conditions.

From there on, we tend to think that the situation needs to be understood to a degree in terms of an East-West divide. On the Western side, there simply was no appetite for activity either way. Sentiment was not exactly negative in the traditional way that we expect it to be; we saw very little appetite for a sell-off in the market, and while certain on-chain metrics pointed to some modest movements by large stakeholders in the first week of the bleed, on the whole it only added up to a moderately bearish influence.




*Credit: Glassnode.*

On the Eastern side, the situation appears to have been different. BTC's performance in primarily Asian trading hours was noticeably worse over the period than in primarily European/North American trading hours; this was not exclusively the case, but it was a marked trend.

| Time (UTC) | Aggregate | %Avg |
| --- | --- | --- |
| 12AM-8AM | -$1623.95 | -0.66% |
| 8AM-4PM | -$1038.79 | -0.38% |
| 4PM-12AM | $253.84 | 0.09% |

*Data: Bitfinex via Cryptodatadownload. For period 28/10/19 – 25/11/19. %Avg represents mean average change during the given 8h periods.*

Squaring the circle here, we come to 'China news'. The pattern we have long-noted with China news is that the actual content of the news versus how it is reported in the West has tended to be rather untethered from reality; either it is perceived as overwhelmingly negative, verging on apocalyptic, or (far more rarely) it is portrayed in euphoric terms.

The pattern up until this year was generally that 'China news' (and, more generally, news from crypto-heavy areas with relatively poor communication channels with the Anglosphere - most notably Korea) was associated heavily with sudden movements in the market (primarily negatively). This has largely not held true in 2019, with a wave of negative stories across late spring and summer (particularly regarding a rumoured ban on mining in April) not seeming to move the market.

The Xi Jinping news was an exception to that rule (and served to amplify a move that was likely anyway rather than moving the market whole-cloth); ensuing follow-up news over the two following weeks had very little discernible impact.

However, over the last two weeks or so, there has been significant movement that appears to line up fairly closely with both a notably negative narrative (most prominently in the form of an 'expose' on cryptocurrency on national TV towards the start of last week, and news of Binance's Shanghai offices being shut down towards the end of it).

Why is this? We do tend to think that a couple of stories, particularly the Binance one, have added to fears in Western markets; but more than that, there seems to have been a degree to which Asian markets have themselves sold off in an attempt to frontrun such news, therefore creating the unusually sustained selloff that we saw.

In a climate where there was already unusual selling pressure being created in those markets by ongoing liquidation of assets from the PlusToken Ponzi (a primarily Chinese scheme that may have captured 'well over 200k BTC' according to one analyst), this appears to have come together to see a downward squeeze.

Is it over? In terms of the particular trend of lows, to flats, to more lows, we think the end has been reached as of Monday; volume increased significantly after the break through $7000, and our current thesis is that sub-$7000 currently presents an area where retail interest is significant enough to prevent a low-volume downtrend. Monday's rally (which saw a major move down in Asian trading hours followed by a significant bounce up in European trading hours) goes some way towards confirming that for us (as did a similar rejection of the dip to $6700 on Friday).

In terms of any further dip, and the overall market bias coming into December, things are slightly less clear. We do currently think a retest towards $6500 in the next week is more likely than not, with a bounce after that; we do not currently consider it odds-on for a short-term breakdown from there, although there are risk factors, particularly with regards to mixed signals from China and miners.

In particular, we note the stock performance of both Canaan and Hut 8. Hut 8 is a small (128M cap at time of writing) Toronto-listed crypto mining firm; they were until last week the only such listed firm with a >10M cap. Canaan just IPOd, and by their own estimates, hold over 20% of the global market share for crypto mining card production. HUT 8 is interesting because it unsurprisingly has correlated fairly closely with BTC price, but specifically saw a gap open last week that appeared to frontrun the overall market trend:


*Credit: Tradingview.*

After trading flat through the bulk of the bleed after its initial drop, HUT is down a further 7% this week. Canaan is in a similar state; after trading in sum flat on its $9 IPO price across the first couple of days (which itself was revised down from $10), it is now down 9%:


*Credit: Tradingview*

For reference, the lowest 4H close on Friday was just under $7100; $6500 would represent an 8% drop from that (from its low at $6700, it would be $6150).

Market conditions and response will then need to be watched closely from there. With that in mind, we go into December with no bias yet established; while we tend to believe that there will be greater upside than downside, and that in particular the Bakkt launch on December 9th may at this point actually be undersold going in, the macro picture is unlikely to become cleaner or clearer at this point for the remainder of Q4 2019, and we would need to see a shift in behavior on Eastern markets to feel confident in making a hard confirmation regarding the end of recent downward pressure.

## Smart contracts: the legal perspective

### *By Alina Kisilevich*

The global smart contract market is expected to reach $300 million by 2023 and the World Economic Forum predicts that 10 percent of global GDP will be stored on the blockchain network by 2027. Even though blockchain does, without a doubt, represent technological breakthrough, cryptoassets and smart contracts mostly seem to be in the grey zone and their legal status is uncertain in a lot of countries, meaning that they are not necessarily banned, but also not really defined by law, which makes it hard for any actions in the field including investment in technology, as they are highly dependant on legal rights for any future references.

Recently the UK Jurisdiction Taskforce of the Lawtech Delivery Panel has issued "The Legal Statement on Cryptoassets and Smart Contracts", a 64-page document stating cryptoassets to be viewed as tradeable property and smart contracts to be enforceable under English law. It might serve as a base for guiding cryptocurrency adoption in the United Kingdom, which would also benefit the crypto and blockchain ecosystem.

Such regulations constitute an important step for the future of cryptoworld, legalization and realization of digital currencies and smart contracts as a follow-up to the adaptability of the common law system. It is also a good example of how flexible and eager to grow the English common law is.

Moreover, the document is said to increase confidence amongst law firms to adopt new technologies and among investors to invest. The former could drive productivity growth in the legal sector and the latter is a great boost for the UK economy.

It is still early to say about any expected pros of the above mentioned decisions on a global scale, but it seems that more and more countries are trying to find a way to implement ways to define such a complex part of fintech, and it looks promising not only for the legal field, but for the economy as well.

## What we're reading

Crypto Exchange Upbit Confirms Theft of 342,000 Ether — $50M (CoinTelegraph): Always going to be a risk in the sector, unfortunately. We tend to see most exchange hacks as a cost of doing business at this point - there simply is no way to entirely eliminate the risk, just to reduce it. It's a hit that Upbit can absorb without major problems in any case.

Ending Support for Monero(XMR) on 19.02.2020 (BitBay): We are honestly surprised that so many exchanges are still keeping Monero listed at this point. We are overall still negative on the prospects of Monero and other privacy coins, and believe their place in the 2020 crypto world is at best tenuous, but we are keeping an eye on it; despite some dreadful headlines over the last couple of weeks (both this and the Monero website being hacked to serve malicious software to users), price has held relatively steady over that time, and XMRBTC outperformed ETHBTC over the month.

Bakkt Bitcoin Futures Set New Daily Record Trading Over $20M (CoinTelegraph): Bakkt has been smashing previous records so far this week and set an all-time high for open interest at the close on Tuesday ($3.94 million) - interesting to see how this interacts with the late CME futures expiry this week.

Bitcoin's Ultimate Price Floor Could Soon Be Destroyed (Forbes): Sensationalism as usual, and the specific things being talked about with regards to optical computing are a full generation away, but is important to remember that the mining-based price floor isn't permanent, and that marginal efficiency on 7nm chips could be in the order of 3x or more of most 16nm chips. In any case, the fact that there are still hundreds of thousands of Antminer S9s being used tells you all you need to know about how long hardware transitions take in practice.

25,000 Blockchain Firms in China Tried to Issue Cryptos, Senior Official Claims (Coindesk): To reiterate: this is the key theme to understanding China news. China does not want to kill Huobi, it does not want to kill OKEx. It may want to throttle Binance at times, but that's a different story. The problem for the Chinese government is the huge number of misleading or outright scam projects using the terminology of blockchain (and by extension of cryptocurrency),

*Until next week – thank you for reading.*

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