

De-Coding Crypto

Weekly Analysis

The Future Of Altcoins: Practice Or Perish

October 9th, 2019

In this week's issue, we examine the question of the altcoin, questioning how far it is a valid category, and consider the survivors of consolidation coming into the near future. We also look at the emerging metric of ASOL, and its potential for understanding market dynamics and potential for growth.

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

Our Market View

May you live in interesting times. This was, by market standards, looking to be a relatively quiet week, but livened up at the end with BTC pushing upwards after several days of relatively low-volume range trading.

China's Golden Week is now past us, and we have already seen major action, with BTC sitting at around \$8600 at the time of writing. We were short-term bullish prior to said movement; we are still bullish, although we must again stress that consolidation is very much the name of the game. That being said, we expect resistances at \$8700 to be weaker than supports at \$7700 were, and a return to a range around \$9000 seems likely sooner rather than later now.

Outside of BTC, most other coins performed positively; XRP in particular has shakily, but significantly, trended upwards, with TRX and LINK also notable successes. Our research in this issue discusses the situation of such coins in greater detail.

Market Snapshot

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	8534.67	3.60%	-16.18%	65.19%	32.27%	153.48B
ETH	189.389	7.26%	5.58%	12.59%	-7.52%	20.47B
XRP	0.27017	9.25%	4.25%	-18.12%	-38.67%	11.66B
BCH	231.428	3.92%	-23.51%	-20.06%	-48.41%	4.17B
LTC	57.8649	4.15%	-17.55%	-30.86%	8.14%	3.65B
EOS	3.09877	5.07%	-17.79%	-44.37%	-41.99%	3.17B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
TRX	0.16061	12.25%	2.11%	-40.45%	-32.94%	1.06B
LINK	2.56008	27.46%	42.91%	9.94%	9.94%	0.93B

The future of altcoins: practice or perish

The current conventional wisdom is that September was not a good month for 'altcoins' (non-BTC coins). This, in reality, is not entirely true. Certainly, it was a disappointing month; endemic media and social media was full of excited declarations of an 'altcoin season' to come, with bulls pointing to BTC's market dominance (its market cap as a percentage of total coin market cap) cresting 70% for the first time since March 2017 and a perceived undervaluation of altcoins (which broadly lost ground through summer even as BC rallied).

In truth, such statements seemed steeped more in pseudo-millennarianism than sound analysis. Altcoin season did not come in September; a brief and significant uptick on September 17th almost immediately stalled, and BTC's drop over the week starting September 23rd more than wiped out those gains both against the dollar and against BTC.

Yet, September was not actually a universally bad month for altcoins, with both ETH and XRP finishing with minimal losses against fiat - and, hence, decent gains against BTC. Other coins did not fare so well - LTC came out ahead against BTC, but barely, and BCH and BSV both saw losses - but, while it is undoubtedly true that the shock on the 24th in particular disproportionately affected altcoins, the market picture overall is neither so negative nor so uniform as sentiment suggests.

The failure of an epochal event to arrive rarely dissuades the millenarians; the cries that altcoin season is actually to come this month, or in November, or in December, have already started. While we are bullish on some pairs - particularly ETHUSD/ETHBTC - we do not share this fervor in general; gains as a class will likely be down to BTCUSD, and there will continue to be significant variance in ---BTC pairs.

Pair	01/09/2019	01/10/2019	Change
ETHBTC	0.017892	0.021813	21.91%
XRPBTC	0.00002684	0.00003096	15.35%
EOSBTC	0.0003464	0.0003576	3.23%
XLMBTC	0.00000646	0.00000746	15.48%
TRXBTC	0.00000162	0.00000175	8.02%
LTCBTC	0.006704	0.006758	0.81%
BCHBTC*	0.0291	0.0274	-5.84%

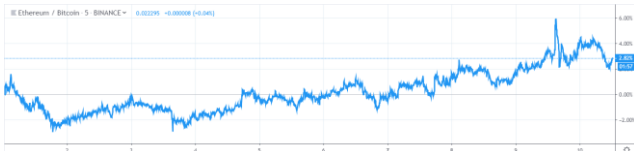
Exchange-level data courtesy of Kaiko; all pairs priced based on Binance numbers at 00:00 on the given day, except for BCHBTC, which was priced based on OKEx.

This does, however, raise the question: what is our general view on altcoins going forward? We do not take the fatalistic view of BTC market dominance; we do not see it as something that necessarily, inherently, has to change, that indicates a coming downward trend just by being.

The key tenets of our view are these:

1. BTC is the only cryptocurrency on the market that represents, and should be seen as, anything resembling a hard store-of-value, that can exist just on that basis.
2. We are extremely sceptical of the use case for any coin where the primary aim is only to provide a better payment service in generic terms.
3. There needs to be significant use cases for a coin and its underlying network beyond this.

We believe that it has been proven at this point that there is a long-term future in some form for ETH; there is simply too much being built on top of the Ethereum blockchain for it to go away. ETHBTC has steadily ticked up in October, for a 3% gain to date:



From there, the picture becomes muddy. XRP has potential, and undoubtedly looks bullish in the short-term, but we are wary of the current price relative to competitors, and believe much more needs to be seen to guarantee its position long-term; we would argue that EOS may represent a better option at the current price. We are bearish on LTC, BCH, and any other coin where the entire *raison d'être* is to simply be a more vendor-friendly store of value.

Looking towards smaller markets, we note with interest the contrasting fortune of two of the biggest ETH tokens across the last few weeks in the form of LEO (Unus Sed Leo) and LINK (Chainlink):



Chart courtesy of tradingview.com.

LEO was launched in May with a \$1 billion initial offering, and has slowly trended downwards since, finally breaking below \$1 on Sunday. A latter-day ICO, it came out without a leading use case, being issued by Bitfinex in order to make up for a reported \$850m shortfall, and with promises of future buybacks. It was a pure speculative instrument, and even with that Bitfinex backing, it has done nothing except fall in value, having never once recouped its initial listing price of \$2.49.

LINK, on the other hand, is somewhat different. A September 2017 ICO, LINK came from the beginning with an use case - it was part of the plan for the aforementioned Chainlink network, a decentralised Oracle network built to facilitate blockchain-based smart contracts. This was a coin with a genuine, blockchain-specific, albeit not initially realised use case.

On the back of a raft of good news for tokenization and major players buying on real-world use cases – most notably, [Intel and Microsoft](#) – at its peak, LINK reached \$2.78, up from a \$1.54 low on September 24th post-Bakkt, and looking to continue a week-long bull run; while we have concerns over a short-term speculative bubble (and it did indeed fall back some distance on Thursday), we are still fairly bullish over the long-term valuation of LINK.

In any case, it does help illustrate the point: actualisation is now everything. We are at a crucial time in the development of cryptocurrency and blockchain technology, where certain players in the space are primed to put themselves in positions in the ecosystem where, five years from now, they can no longer be dispensed with. A couple are already there, while many more cannot get there with the scopes of their ambition. It is that middle class -

ASOL and the potential next breakout

One of the wonders of blockchain technology and analysis is that new, useful metrics can constantly be derived from it. The latest one that you may soon start hearing about is Average Spent Output Lifespan (ASOL).

To put it as simply as possible, ASOL is derived from spent transaction outputs - so, for instance, if a coin was moved into a wallet 100 days ago, and then was moved from that wallet to another wallet today, the spent output lifespan would be 100. This is calculated across all transactions on the blockchain, so does not exclusively refer to exchanges between crypto and any other token or currency; nonetheless, as with most blockchain metrics, these are clearly the major guiding hand on it.

Some specifics for rises and falls in ASOL vary, but speaking generally, a low ASOL represents that most activity is coming on coins being traded over and over - i.e. that activity is coming from day traders and other short-term actors - and that there is a lack of movement (either in terms of sales or transfers) from longer-term stakeholders in the market, while a high ASOL tends to represent liquidation, or at least movement in some form, from said stakeholders.

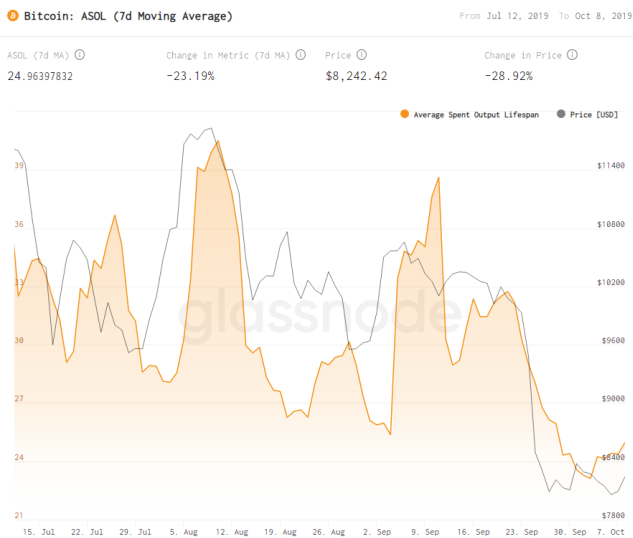


Chart courtesy of glassnode.com.

As you would expect, in general, there is a heavy correlation on the positive end between ASOL and price - when prices peak, longer-term positions get liquidated, which then serves to drive prices down. This makes sense, but is not particularly interesting or actionable, particularly for a metric that cannot realistically be aggregated in real-time. What is of considerably more interest for us is looking at how price tends to interact when ASOL begins to drop.

Significant troughs in ASOL have frequently preceded significant price action over the last several months. This does not represent a hard-and-fast rule; we looked at data from April 1st to October 1st, examining the change in 7-day MA for a given day compared to the value 7 days prior. This, it should be said, excludes some realistically actionable troughs; in any case, the 6 biggest drops by this scale were all from the 14th through to the 19th of August, which gave way to a brief rally from \$10,058 to \$10,763 before setting into a non-volatile but ultimately bearish period until late September.

Date	ASOL (7D MA)	Change (7D)
17/08/2019	28.32	-27.62%
18/08/2019	27.67	-26.72%
16/08/2019	29.87	-26.26%
15/08/2019	29.58	-25.89%
14/08/2019	29.97	-23.00%
19/08/2019	27.59	-22.43%
24/05/2019	26.26	-21.75%
04/07/2019	36.79	-21.34%
01/08/2019	28.90	-21.21%
25/05/2019	25.65	-20.85%

Data courtesy of glassnode.com.

The other dates in the top ten? 24th and 25th May (BTC at \$7,978 on the former, climbing to \$8,755 by the 27th), 4th July (a local peak of \$11,765, but BTC would peak at \$12,646 on the 10th), and 1st August (BTC at \$10,086; it then peaked at \$11,831 on the 9th).

This is certainly not a hard metric for judging price potential; ASOL reached a local nadir of 28.96 on 12th September, for instance, and there was no positive movement in price:

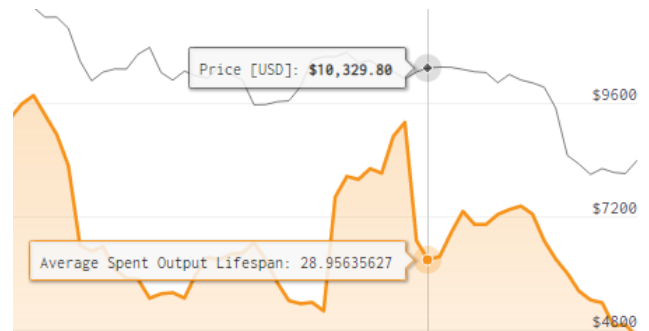


Chart courtesy of glassnode.com.

Yet, it has preceded price movement enough times in 2019 to at least make it worth noting given its current reading. ASOL reached 23.1 on October 3rd; this represented a low mark not seen since the price recovery in April and May. Before that, we have to reach all the way back to spring 2017.

Is a low ASOL, isolated from other variables, bullish? Not exactly; after all, at its heart, a low ASOL indicates a lack of volume (to express it plainly, the same coins are being traded over and over again, and hence only those with short-term positions are active in the market), and while short-term troughs in May preceded growth, the conditions for such a low ASOL were, at their heart, a market that had bottomed out and was for several months seeing very little movement in either direction; and, lest we forget, the current lows also line up with the lowest prices since June.

Nonetheless, we see the current trend as bullish. Technicals overall currently indicate a period of consolidation but with a breakout still likely at some point in the next 2-4 weeks; we are currently optimistic about the nature of such a breakout, though we still have some concerns over the impact of mining variables in November and December.

What we're reading

[Paypal pulls out of Facebook's Libra project](#) (Financial Times): As tempting as it is to see this as the thin of the wedge, we don't take that for granted. PayPal's statement declares: "[we will] focus on advancing our existing mission and business priorities as we strive to democratize access to financial services for underserved populations" - by this, they mean China, where [they acquired domestic payments firm Gopay on September 30th](#) and thus becoming the first foreign firm to enter that market.

Do Visa and Mastercard want a route into China? Yes, but there have been few good augurs on that front as of late; that's not to say that they're sure to stay committed to Libra, but they aren't being dragged away by costs already sunk in the way that PayPal is.

[Morningstar Is Building A Blockchain Bridge To The \\$117 Trillion Debt Securities Industry](#) (Bloomberg): This is exactly why we are bullish on Ethereum going forward - major institutions are building on top of it, and building things that take advantage of the unique capabilities of blockchain, rather than providing a perhaps marginally better solution to a solved problem. Key quote: "[Morningstar explained] how a shared, distributed ledger of transactions could directly connect lenders and borrowers without the need of custodians or trustees."

[Class action lawsuit against Bitfinex and Tether filed by lawyers who successfully sued Craig Wright](#) (TheBlockCrypto): Larry Cermak, Director of Research at BlockCrypto, via social media: "As one of the people who have previously been really upset about how Tether's operations were conducted, after reading it, I find this new class action pretty weak. It uses a lot of outdated or just wrong information and doesn't back up a lot of the claims. That being said, if it's not outright dismissed, Bitfinex/Tether might have to answer discovery. Then it could start getting interesting."

[Binance announces WeChat, Alipay support for Bitcoin purchases](#) (AMBCrypto): Certainly not bad news, but we would caution against seeing this for more than it is. Binance are not first-to-market on this (both Huobi and OKEx already have significant volumes in China through similar operations), and this does not represent any official collaboration with WeChat or Alipay (both of whom officially ban such trading); at best, it represents a blind eye being turned. Helpful, but not a game changer.

[Bakkt Futures Exchange Flatlines at 50 BTC Daily Trading Volume](#) (BeInCrypto): Volumes on Bakkt overall are down this week, but we see little point in dwelling on the running total going forward. Both success and failure at this point will be judged on the quarter or on the year, insofar as it has room left to fail with how it is currently factored into prices.

[Turkish Government Freezes Up to 3.3 Million Bank Accounts — This Is 'Why Bitcoin?'](#) (BeInCrypto): Rhetorical flourishes asides, Turkey has probably gotten less coverage than it deserves re: being a testing ground for what can be done with crypto on a day-to-day usage basis - population of 80 million, an economy that is clearly in crisis but that isn't and likely won't become a complete basket case, one of the highest per-capita uptakes of crypto in the world already...we see it as a frontier with significant potential.

Until next week – thank you for reading.



DISCLAIMER:

The information contained in this note 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 note. Enigma Securities Limited is an Appointed Representative of Makor Securities London Ltd which is authorized and regulated by the Financial Conduct Authority (625054).

-  **New York**
Park Avenue, 6th Floor 430
-  **London**
Gossard House 7/6 Saville Row
-  **Paris**
Rue Saint-Honoré 336
-  **Tel Aviv**
Menachem Begin 11 Ramat Gan
-  **Singapore**
Robinson Road 160
-  **Geneva**
Rue De La Croix-D'Or 27
-  **Gibraltar**
World Trade Center, 6 Bayside Road