

# De-Coding Crypto

## Weekly Analysis

### Unsteady waters: where next in Q1?

February 26, 2020

In this week's issue, we look at the recent drawdown, its place in the market cycle, and what it means for price action over the next week or two. We also bring the latest on developments in China's DCEP program.

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#### Our Market View

May you live in interesting times. Ugly, ugly, ugly. While it wasn't a straight line down, this was a week dominated by retraces on alts and repeated moves by BTC down towards the \$9500 support, which finally broke on Wednesday morning.

We wouldn't go as far as to declare the party as fully over, but barring a huge counter-trend move in the immediate future, we probably see BTC and alts (which are losing ground against BTC almost as quickly as they gained it on the way up) running lower over the next few weeks; our research this week aims to give an idea of just how far.

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	9162.5	-9.61%	2.81%	-4.67%	140.10%	167.1B
ETH	236.018	-15.79%	37.90%	36.87%	77.89%	25.93B
XRP	0.240626	-18.49%	3.12%	-7.09%	-23.51%	10.53B
BCH	320.469	-22.91%	-14.22%	14.15%	145.00%	5.86B
LTC	66.0402	-14.38%	11.46%	2.00%	35.90%	4.25B
EOS	3.89108	-13.96%	-3.07%	16.24%	11.48%	3.63B

#### Selected

Ticker	Price	7D	1M	6M	12M	Cap
XTZ	2.61855	-30.73%	70.71%	149.40%	548.60%	1.84B
LINK	3.44654	-27.04%	29.85%	92.75%	48.00%	1.26B

#### Unsteady waters: where next in Q1?

On February 12th, with the market tapping at \$10,500, we asked: what can we learn from 2017 and 2019? Our question, at that point, was with regards to, with a bull trend looking well-established, was (to quote) "how far, and how quick?"

Two weeks later, a lot has changed. After a couple of attempts at that aforementioned \$10,500, we have spent most of the next two weeks moving around - marking lower highs each time (first at \$10,300, then at \$10,050) but always bouncing extremely aggressively on any impulse below the \$9500 level that has been important as both support and resistance in the recent past.

This week has finally seen the dam break:



Credit: Tradingview. BTCUSD, Coinbase.

The smooth upwards trend that held for a full month and a half has broken pretty much regardless of where you choose to draw the line. At the time of publishing, we have admittedly still only seem one daily close below \$9500 still, so we cannot absolutely confirm that it has been 'lost' as of yet, but clearly, it does not look good.

Hence, this brings us back to 2017 and 2019 - but this time, looking at the exceptions rather than the rules, in the form of the flat and down periods during those runs. Ultimately, the big question for us right now is this: what is the character of this move downwards - a correction that may still lead to resumption, a trend break, or an outright trend reversal?

We should start with reiterating some of the findings from the aforementioned February 12th issue. This was our breakdown of the 2017 rally:

**Rally**

Dates	Phase	Days	Low	High	Gain
25/03-11/06	1	79	890.05	2998.98	237%
16/07-01/09	2	48	1758.20	4948.00	181%
15/09-08/11	3	54	2975.01	7898.00	165%
12/11-17/12	4	36	5511.11	19891.99	261%

**Drawdown**

Dates	Phase	Days	High	Low	Loss
12/06-16/07	1	35	2998.98	1758.20	41%
02/09-15/09	2	14	4948.00	2975.01	40%
08/11-12/11	3	5	7898.00	5511.11	30%
17/12-06/02	4	52	19891.99	5873.00	70%

2017 was characterised by extremely dramatic gains, followed by extremely dramatic drawdowns. However, to reiterate what we said then, our tendency is to see action in 2017 not so much as one bull cycle with corrections in-between, but as essentially a rapid succession of market cycles, driven by a number of unique features of BTC and crypto markets at that time that are only partially replicable going forward (e.g. the hyperliquid nature of cryptoassets contributed and will continue to contribute, the extreme immaturity of market infrastructure and lack of access to derivative instruments was also a contributor but is no longer one).

Hence, for looking (potentially) mid-cycle, 2019 is much more interesting:



Credit: Tradingview. BTCUSD, Coinbase.

We noted at the time that, by the standards of 2017, it's difficult to find much that we would even describe as a drawdown. However, if we visualize in terms of looking at days with and without marking a local high at some point intraday, we get an idea of where to look:



Credit: Tradingview. BTCUSD, Coinbase.

For reference, if we applied this starting from January 3<sup>rd</sup>, 2020:



Credit: Tradingview. BTCUSD, Coinbase.

From May 17<sup>th</sup> to June 15<sup>th</sup>, there was a period with just three new highs over the course of 30 days (contrasted with twenty-seven across the remaining two months of Q2).

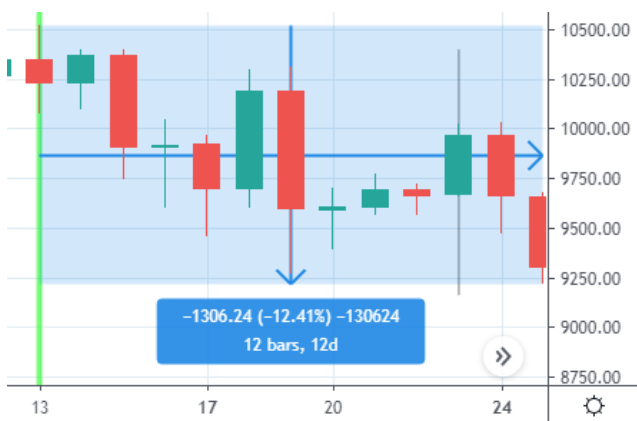
After pushing \$8400 repeatedly over the course of three days (May 15<sup>th</sup>-17<sup>th</sup>), we saw a significant drop, touching very low (anywhere between \$6000 and \$6600 depending on the platform) and closing twice just above \$7200:



Credit: Tradingview. BTCUSD, Coinbase.

The next couple of weeks saw heavy swings both ways, but the big thing to look at here with regards to recent price action was the period from 30th May - when we saw an intraday range of \$1100 (lows below \$8000, highs just below \$9100), and a close \$900 below the high - to 10th June, where we see the final big wick down into the \$7400-\$7600 area before starting, in earnest, on an almost uninterrupted run up to \$13000.

There are clearly some similarities in structure and magnitude over that run compared to what we're seeing now; the high-to-low since the last local high is particularly interesting:



*Credit: Tradingview. BTCUSD, Coinbase.*

We would still caution against drawing too close a comparison; the main thing to note is that while January and early February have been enormously profitable for BTC, they have been of a very different complexion to either side of 2019's gains, having rarely moved up more than about 5% in a single day and showing action both ways, as opposed to the enormous gains of April and May 2019.

In any case, this remains a difficult moment to assess. Ultimately, our view is that this should represent a medium-term trend break – unless relief comes extremely soon, and we see re-establishment comfortably above \$10,000, we see more room to run downwards over at least the remainder of Q1.

In terms of re-establishing from there – and our view for 2020 as a whole absolutely does remain bullish compared to current levels – looking at the experiences of both 2017 and 2019, as well as recent lows marked in Q4, there are a few different levels to watch reaction at:

- \$8600 would represent a 18% drawdown from peak, equal to 2019; this has actually been a fairly weak support level historically, so a bounce here would be both unlikely and an extremely good augur.
- \$8000 is important for a few reasons – just over a 61.8% retrace of the total move up since January, historically important support level, and of psychological importance as the final support before a descent towards December's range in the \$7000-\$7500 range.
- \$7800 would represent a total drawdown of 30%; any drop significantly below that would force a far fuller reassessment on the health of BTC and cryptoassets in general.

We will hence be watching these levels closely should a near-term bounce not materialise.

## Latest developments in China's DCEP

*By Alina Kiselevich*

At the end of 2019 China announced that the government is planning to issue its own government-backed cryptocurrency (DCEP) in the first quarter of 2020. Now, with coronavirus spreading, China delays the research and development. Though, as Global Times reports, that does not mean that the People's Republic is not planning to launch it at all.

Before the current situation, the People's Bank of China with other authorized government bodies were discussing how the digital Yuan would be circulated as "genuine cash." Before January 2020 the government has established at least three research institutes in different cities to keep the focus on research and development of the upcoming crypto.

Regardless of the delay and the fact that the first quarter of the year is practically finished, the Republic is still planning to launch DCEP by the end of 2020: China's central bank has the technological capacity, resources, and talented personnel that will ensure that they meet up with their deadline.

## What we're reading

### [IOTA Being Shut Off Is the Latest Chapter in an Absurdist History](#)

(Coindesk): Worth reading as a very quick guide to why we tend to err on the side of caution with regards to prognosticating on small-caps. For reference, IOTA's market cap at the time of writing is \$650m; it has consistently been in the top 20 or so projects on that metric over the past three years.

### [Binance is 'not authorised' to operate in Malta, says the country's financial regulator](#)

(The Block): This is one of those stories that ends up operating as a reminder rather than anything else. There was a quiet but widespread concern towards the end of last year over how crypto businesses would be affected by KYC/AML changes in the European Union (with the 5th Anti-Money Laundering Directive, or 5AMLD, being signed into law on January 10th). The answer so far seems to have been 'not much'; apart from Binance, we did see Deribit move headquarters to Panama, but the impression we're getting so far is that it hasn't ended up forcing too many hands.

### [Binance-Backed FTX Exchange Seeks Billion-Dollar Valuation in Equity Token Sale](#)

(Coindesk): An odd initiative, but given how well Alameda and FTX have fared in their retail turn so far, it'll probably end up working somehow. Given some of the details (e.g. the \$250,000 minimum buy-in), one has to wonder if doing a raise in this way is more about testing waters around some of the complexities of doing security tokenization in the future rather than anything else.

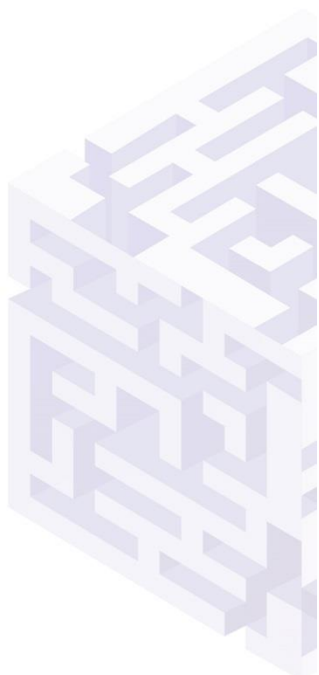
### [Warren Buffett says he will 'never' own any cryptocurrency](#)

(The Block): It would be easy to summon up the vitriol here, but to be entirely fair here, this is still a far softer tone than he's taken in the past.

### [EOS Network Suffering From Degraded Performance, Says](#)

[Coinbase](#) (Cointelegraph): Worth keeping an eye on; this is the latest in a line of complaints and concerns about EOS network operations, and while it has rarely affected price short-term, it continues to raise concerns about EOS's health long-term.

*Until next week – thank you for reading.*



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