



ENIGMA
SECURITIES



De-Coding Crypto



Enigma Weekly

10th June 2020

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Our Market View

May you live in interesting times. One of the quietest weeks in recent memory, as we discuss at length in this week's research. For the sake of the busy businessperson on the go: our feeling is that, as has been the case in the past for periods of such low activity, that this is the calm before the storm, and that we are primed for a significant breakout within the next week or two. In terms of directionality, the case for that break to be towards the downside is undoubtedly strengthening, but is by no means signed or sealed so far.

Alts have, similarly, been extremely quiet, and hence there isn't much to say here in general. The one thing we would note is the case of ETH; it essentially hasn't moved on the week, sticking closely to that 0.025 BTC level that we've identified as vital for it to maintain for any ETH bull case going forward. We'd like to see it more confidently take that level than it so far has, but so far, so good.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9780.87	1.92%	11.55%	38.23%	10.27%	180.0B
ETH	243.97	1.74%	29.95%	71.84%	-9.53%	27.15B
XRP	0.201868	-1.03%	4.37%	-6.60%	-50.95%	8.91B
BCH	254.837	1.52%	9.10%	23.68%	-39.88%	4.70B
LTC	46.5259	-1.22%	11.32%	6.80%	-66.59%	3.03B
EOS	2.74773	2.40%	13.37%	8.10%	-60.35%	2.57B

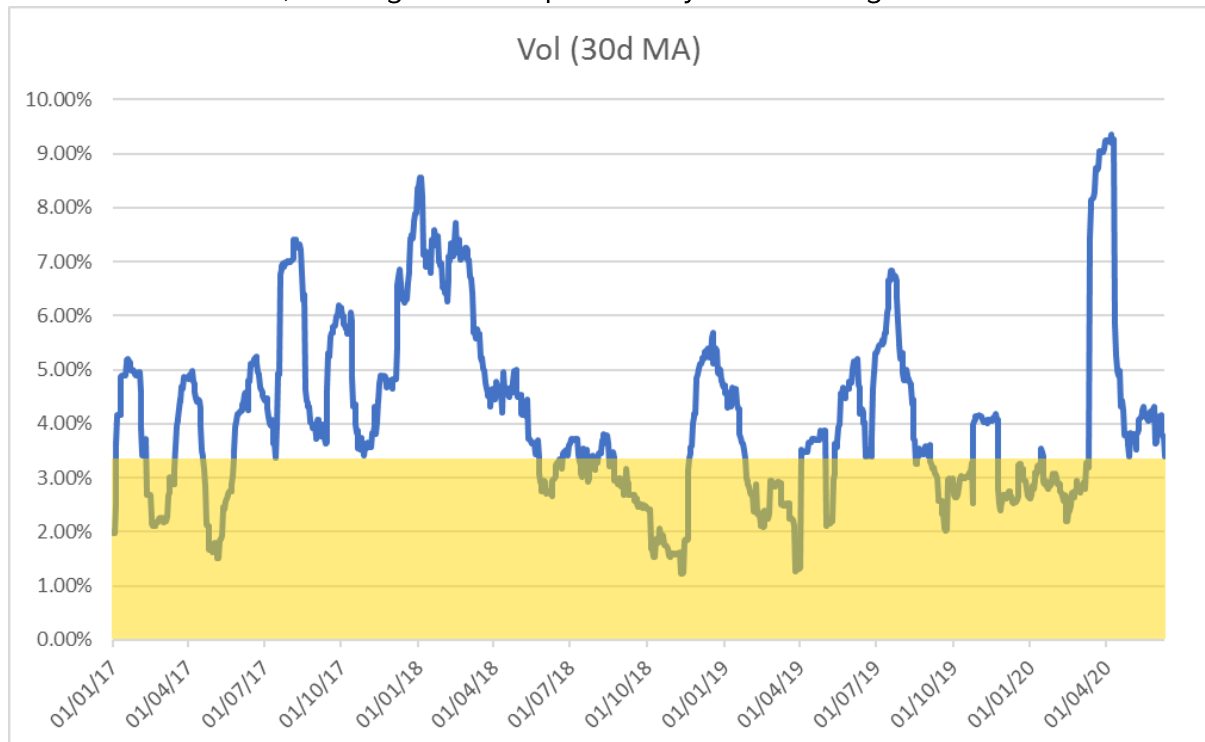
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Ticker	Price	7D	1M	6M	12M	Cap
XTZ	2.92153	0.42%	17.37%	74.56%	134.30%	2.14B
ADA	0.0820565	-3.21%	71.74%	125.50%	-10.49%	2.13B
LINK	4.38777	-0.68%	21.88%	119.20%	88.81%	1.54B

Volatility compression: a gathering storm?

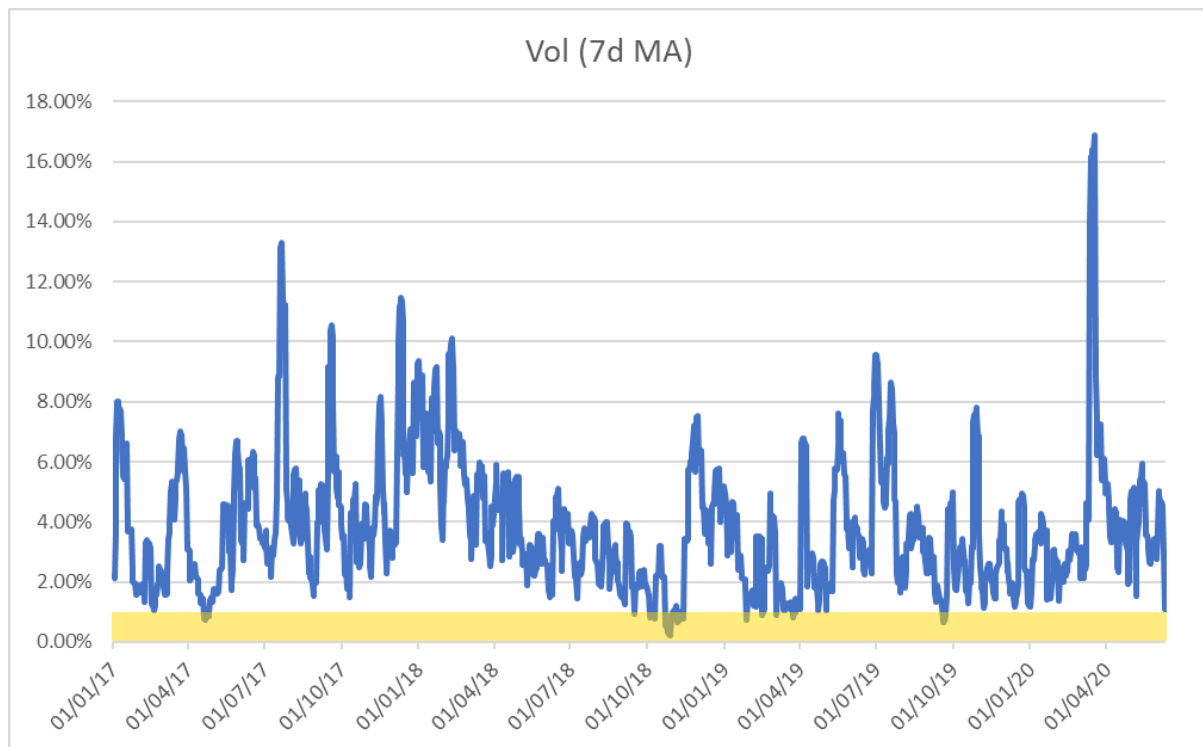
By some distance, the single most worrying trend over the last month or so has been with regards to market volatility. More specifically, it has been about the fact that it has been, by any measure, at some of the lowest levels in a good while - both throughout May and early June in general, and in particular over the course of the last week or two.

The easiest way to see this, and put it in some historical context, is to look at 7-day and 30-day moving averages for volatility (based on daily closes). The 30-day chart shows a downtrend, although not to a particularly massive degree in historical terms:



Aggregate price data via CryptoCompare. Highlighted area indicates volatility lower than most recent reading (9th June). Non-annualised.

There is a downtrend in place (the 3.38% as of 9th June is the lowest since Black Thursday), though we are still higher than most of Q4 2019 and Q1 2020, and naturally don't come close to that seen in crypto winter and the like. However, looking at the 7-day chart, we see something a bit different:

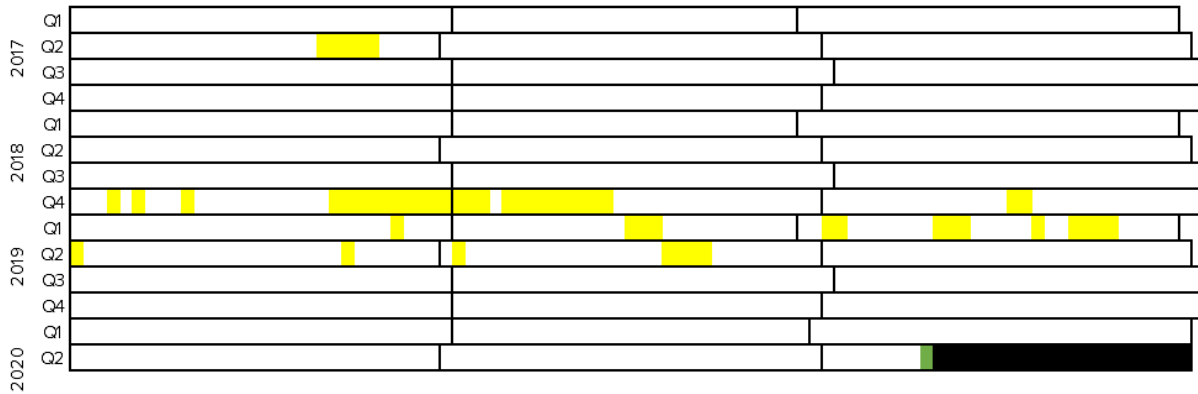


Aggregate price data via CryptoCompare. Highlighted area indicates volatility lower than most recent reading (9th June). Non-annualised.

This chart is extremely noisy owing to the nature of a 7-day MA with this sort of asset, so let's spell it out: as of Tuesday's close, 7-day average volatility was just 1.09%. Short periods of compression aren't unheard of, but this sort of extreme is at least unusual; as a reference point, here are all the periods since 2017 in which we recorded 7-day average volatility readings at this level or lower for multiple days:

Start date	End date	Days	Lowest reading
20/04/17	26/04/17	7	0.71%
15/09/18	16/09/18	2	0.94%
04/10/18	10/10/18	7	0.75%
22/10/18	03/11/18	13	0.21%
05/11/18	13/11/18	9	0.65%
15/02/19	17/02/19	3	0.89%
03/03/19	04/03/19	2	0.92%
12/03/19	14/03/19	3	1.06%
23/03/19	26/03/19	4	0.84%
19/09/19	22/09/19	3	0.63%

This may at a glance seem reasonably frequent, but even if we include single days that had such measurements, we find that most of these cases were essentially contiguous:



Suffice to say, it doesn't happen often. When it does happen, action afterwards has quite frequently been explosive:

End date	Price 0d	Price 7d	Price 14d	Price 30d	Change 30d
26/04/17	1287	1486	1752	2245	74.5%
16/09/18	6502	6703	6624	6583	1.2%
10/10/18	6581	6575	6476	6378	-3.1%
03/11/18	6376	6396	5569	3871	-39.3%
13/11/18	6339	4442	3823	3305	-47.9%
17/02/19	3671	3772	3812	4024	9.6%
04/03/19	3731	3875	3989	4977	33.4%
14/03/19	3881	3997	4036	5081	30.9%
26/03/19	3942	4907	5201	5163	31.0%
22/09/19	10037	8065	7868	8035	-20.0%

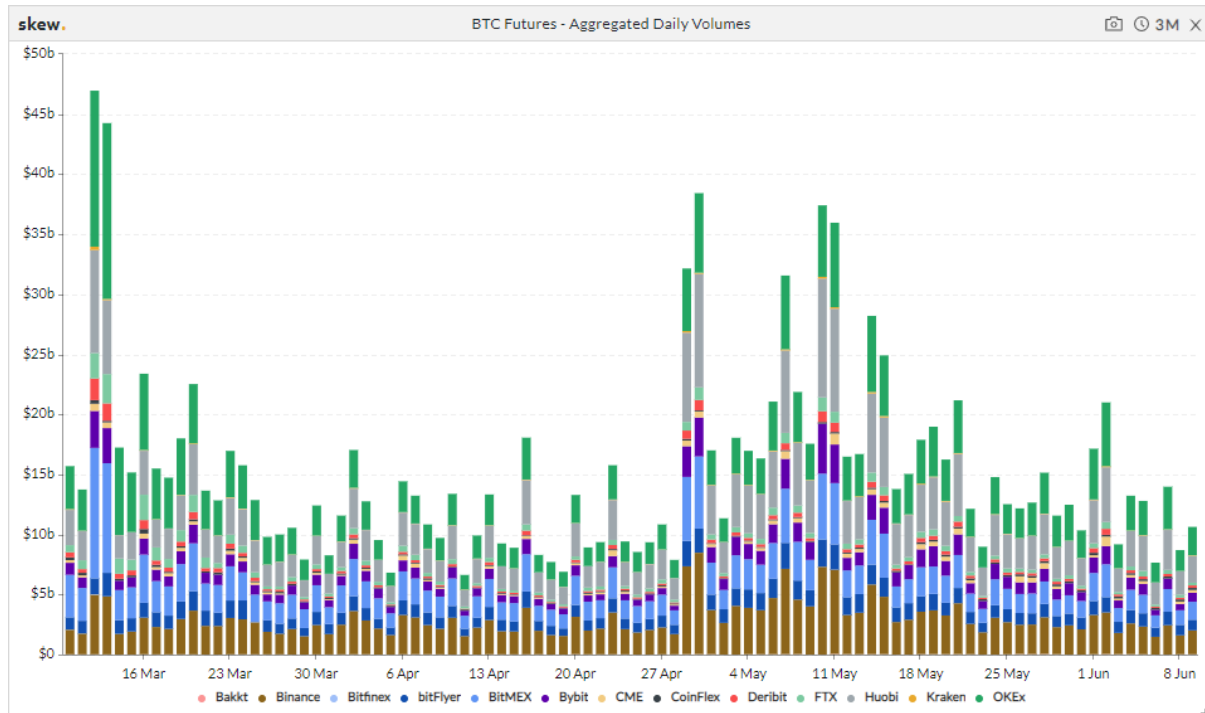
Aggregate price data via CryptoCompare.

Some of these events essentially reflect the same event, but as can be seen, at least two big moves to the upside – the first phase of the 2017 bull run and the Q2 2019 run – and two big moves to the downside – crypto winter and the September 2019 crash – were preceded, often in very short order, by similar volatility compression.

There are never any guarantees in crypto, and as we can see, these sorts of periods can take a little while to come to a conclusion. However, make no mistake: this sort of volatility compression, on the timescales we're seeing right now, almost always signifies that a major move is coming, and we would be very surprised to not see that play out in the coming days and weeks here.

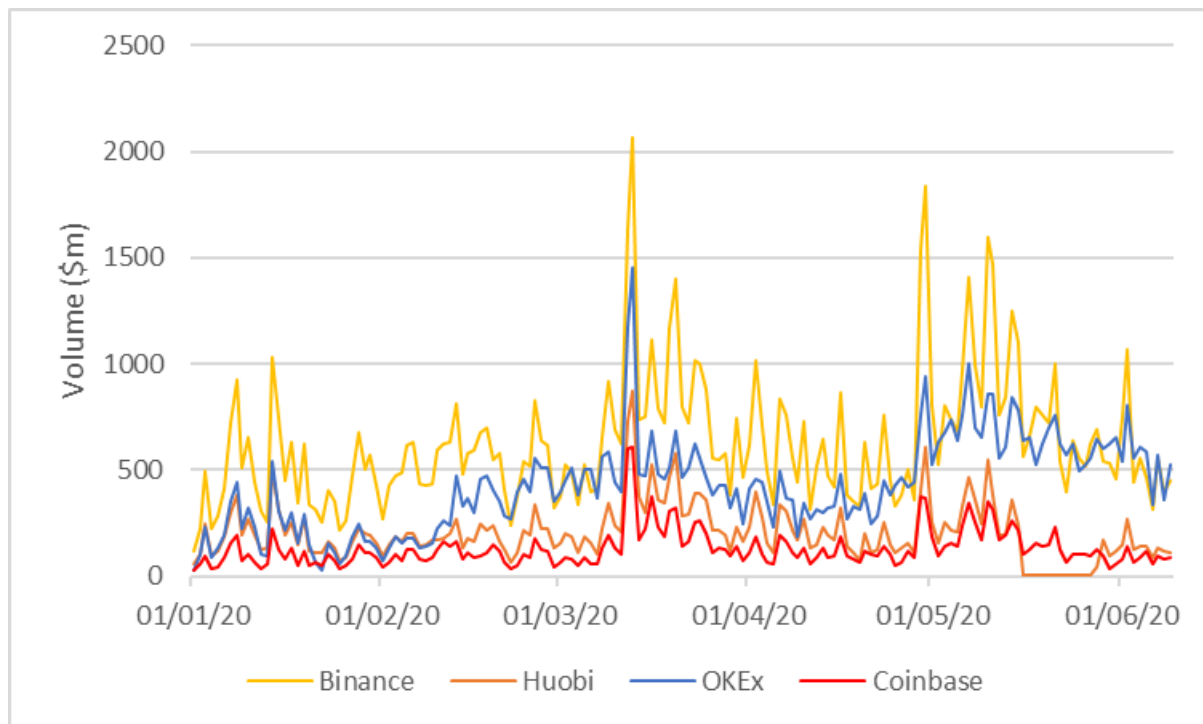
Having established that, the next question: up or down? While our stance, for the most part, has tended to lean bullish at these levels, we are now seeing a concerning number of factors that, if not out-and-out red flags, do at the least give some reason for significant caution.

For instance, looking at derivatives markets volumes, we have seen a significant decline over the course of the last month or so:



Credit: Skew.

Looking at the big three retail derivatives venues in particular (BitMEX, Huobi, and OKEX), volumes are drifting lower and lower (including BitMEX's first day with below \$1bn volume since January 2nd, and only its sixth since last April). Interestingly, though, looking at major spot venues (Binance, Huobi, OKEX, Coinbase), volumes have slipped, but not quite to the same degree, especially taken in historical context:



Data via CryptoCompare.

Astute observers will immediately note the comparisons here with late February and early March, and when combining this sort of data with the overall picture in terms of technical analysis and the like, this really forms the big concern here. As we have said ad nauseam, our view of the January and February run was that it was fueled largely by an influx of institutional money shortly after the new year rather than by a sustained upswing in retail demand.

Despite price action since Black Thursday, and despite narratives around stimulus spending and availability of consumer disposable income, we still have not seen all that many signs of a retail surge; there are signs of the groundwork being laid for one going forward, but not yet.

What we have seen, as our 27th May issue discusses in some detail, are significant inflows from large funds and institutions, as reflected in CME futures hitting record highs. We should note that since the aforementioned issue, we have already seen some pullback in that regard; open interest fell from 11,802 contracts to 9,170 and 9,999 over the last two weeks respectively, and the leveraged long vs. short ratio is falling again, from a local high at 0.80 to 0.64 as of last week. In any case: our thesis all along has been that, at BTC's current price levels and market cap, we find ourselves in a situation where to appreciate above current levels, we need to be seeing significant interest and inflows from all possible sectors.

As it stands, we are seeing something similar to the January and February rush in terms of source and magnitude of demand. That is a significant problem given our current position - scraping the bottom of the exact same range (\$9600-\$10,300) that we topped out at in that run, and seeing a formation develop on both short-term and medium-term charts that is beginning to look very much like a double-top or even triple-top situation (the prognosis from such a formation of course being potentially deeply negative).

In functional terms, we do not think it time to pull the emergency brake just yet, though. While factors like volatility and volume compression have tended to lean bearish with regards to the outcomes produced, they have also given way to hyper-bullish epochs (such as the end of crypto winter in April and May 2019, for instance), and while momentum doesn't feel like it favours such a breakout here, it seems a mistake to rule it out entirely at this point; the long-term outlook, both macro and micro, remains bullish towards the end of the year and beyond.

This is not a time to abandon biases or positions entirely. What this likely is, however, is a time to deleverage, to take advantage of the temporarily low volatility to reduce exposure, and above all else: to be ready to act when markets do start moving. Whether towards the upside or the downside, the inevitable conclusion of such periods in the past has been an explosive shift in one direction or the other; we see no reason to expect differently this time around.

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.

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