

WEEKLY SPOTLIGHT

Roundup, February 2024

Weekly Spotlight by Joseph Edwards
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Weekly Spotlights and Updates

CME futures and CFTC data: BTC and ETH, February 14th

OI has - unsurprisingly given recent price action - continued to rise, albeit not too far above levels on February 14th, and with micro-BTC in particular seeing a decent sell-off/shift towards the short side going into last week. Whatever the dynamics were at play there, it doesn't seem to have correlated particularly strongly with price movements in the short-term, though next week's report (coming after February expiry and before/during the ongoing breakout) should be interesting.

Ethena and the yield race, February 21st

Ethena almost immediately got itself into controversy after pens went down on our article. Ethena realises its yields on the basis of epochs, and in spite of collecting an impressive 44.3% APY, initially tried to cut back the APY paid back to stakers to just 15.2% (probably not coincidentally almost identical to what we identified as the 'default' rate for the product) and pay the rest into the insurance fund. This was immediately and robustly hit back on by the community, and Ethena were forced to walk that back; going forward, the protocol intend to pay full APYs to stakers and instead pay nearly all non-staked USDe gains into the insurance fund (which, for now, are substantial, with 57% of USDe not



actually staked). This was the right call, and Ethena may be on the cusp of explosive growth given that funding rates even on large-caps have jumped heavily as price has increased (consistently running at over 60% and going 100%+ regularly on BTC and ETH), but this does again speak to the entire tail risk with Ethena: there is a degree of trust involved with regards to how Ethena conducts operations internally that is more significant than its initial branding seemed to let on.

BTC ETPs latest: assessing the field, February 28th

Inflows fell just short of hitting new highs on Sunday - \$648m net albeit with heavy countervailing GBTC flow. Note, however, that mention of GBTC flow - it was down to very small amounts just a couple of weeks ago, but is back into the \$300-\$500m range again now. While much is being said now about non-price-sensitive ETF flows propping up BTC (and therefore, moon etc.), we have to note here that we are seeing high volume but relatively little net price appreciation during the windows where the buying to support said ETFs is happening (late evening European time, late afternoon US time) with gains instead concentrated during the Asian session (up until about 9AM European); the flows over the next couple of days as momentum threatens to cool off somewhat will be interesting.

Markets

Bitcoin and Ethereum

One of the best months in recent memory from a price appreciation and long-term holder's perspective, and one of the worst months in terms of making any intuitive sense with regards to how it trades on low time-frames. To put it simply, sellers have been nowhere to be found; the post-ETF launch drawdown and stabilisation ended up leading to a seismic rise between the 7th and the 16th to \$52k, protracted strength there, and the parabolic action over the last week or so to take us to a new nominal all-time high. ETH has also outperformed in the net, though this is significantly less surprising given how oversold it was previously.

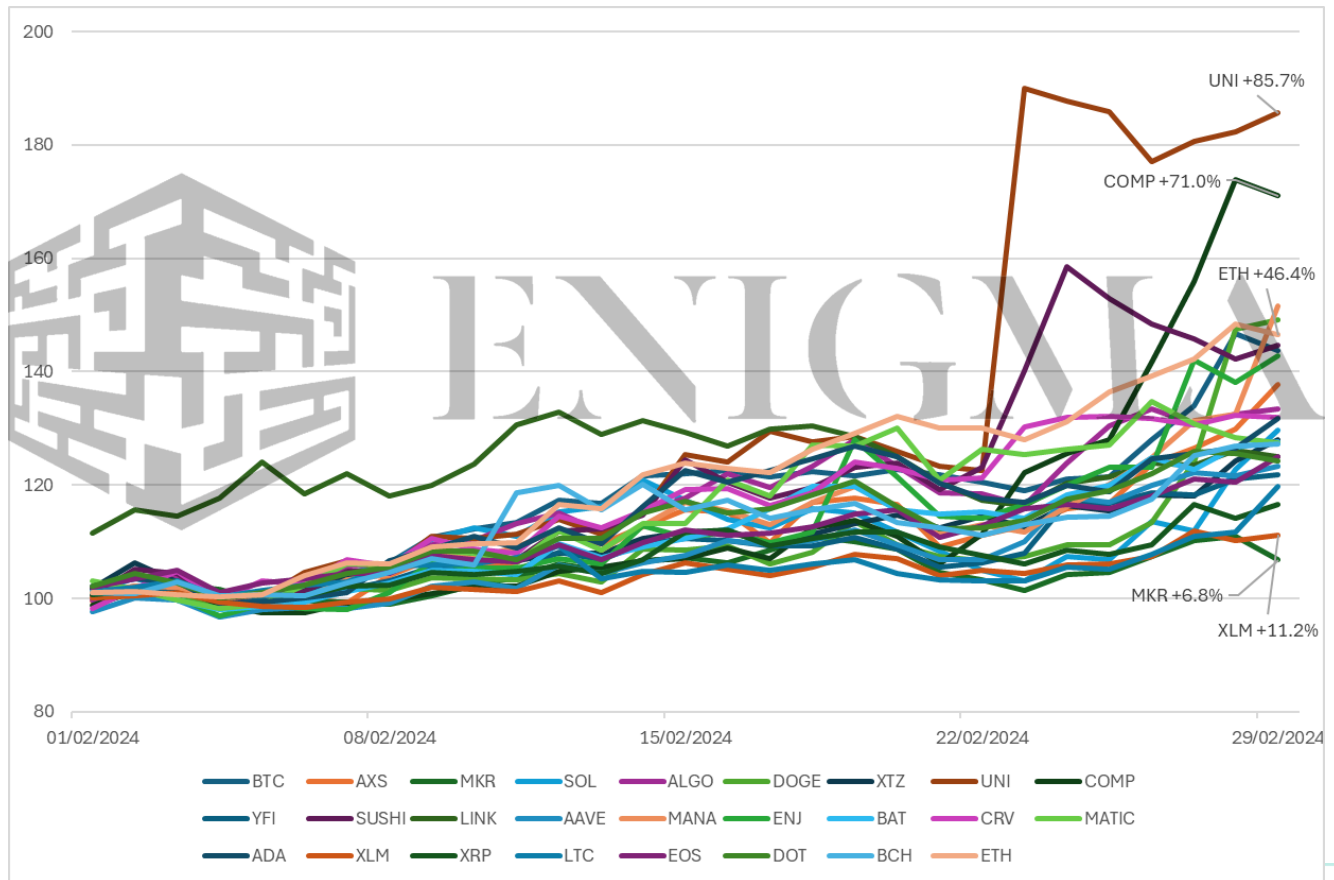


The general rule with crypto markets is that double/triple tops don't exist and to buy any breakout. We shifted our own medium-term bearish view above around \$48k or so, and we ultimately think the risk-reward on almost all time frames has to slant towards favouring upside at this point across the board. There are two general notes we would make, however. The first is to point out what we alluded to earlier: high breaks are transformative but there is still a tendency for momentum to stall at them. BTC's 2017 high was always a little disputed with regards to the 'real' number, but it was generally adjudged to be somewhere between \$19k and \$20k; the initial break on \$19k on November 24th saw momentum drain for a couple of weeks and we didn't reclear and go above \$20k until December 16th. While markets have defied every expectation with regards to where they should stall over the past few months, it is something to bear in mind especially with the red flags being put up by things like perpetuals funding rates.

The second is how money rotates through different crypto assets when markets do run. Right now, with retail only just starting to buy in, we think it's safest in general to look towards the ETHBTC ratio; ETH has been stuck in a corridor between around 0.050 and 0.063 since it broke down vs BTC in June 2022, and we tend to expect it to keep within that corridor in the short-term, thus making for some potentially very easy RV or long-short trades there. It seems to us very unlikely that ETH ultimately breaks towards the downside in the medium-term (i.e. outside of that channel), and our view has been since January that the ETH ETF will be bullish, though perhaps a little pause for thought will be needed if the expectations for said ETH ETF ramp up drastically going into it (right now they still seem measured). We have seen a small 'memecoin' craze again in the last week or so, so in terms of assets of a high enough quality to be generally tradeable, we would tend to expect a rotation of BTCETH -> DeFi and L2s (L2s in particular have been underbought for most of the last month) -> other easily ETH-accessible sectors (e.g. LINK, SNX, DYDX, maybe ATOM) -> more stagnant assets and alt-L1s. The temptation is always strong in these cases to chase into new ecosystems; we don't think the market is there yet in general.



Mid- and small-caps



Standouts on the month to the upside:

LINK, MKR: January was an extremely rough month for the field in general; out of the assets we track most closely, only four finished above even, and two of those were BTC and ETH. The two exceptions - LINK and MKR - are a relatively familiar tandem; both are heavily connected to RWA assets, and hence have tended to perform well when the rest of the market struggles because of that. At this point, we wouldn't be surprised if LINK replicates what we saw with it in 2019/2020 with regards to overperforming significantly during a pre-bull market period of consolidation (albeit ultimately disappointing after that); the same could be said of MKR if rates remain elevated and rates cuts fail to materialize.

Standouts on the month to the downside:

AAVE, CRV: Taking a broader view here, performance on DeFi bluechips wasn't too bad all things considered this month; yes, all returned negatively against all of USD/ETH/BTC,



but given their long-term tendency towards underperformance anyway, and the likes of COMP and YFI having some of the fewest overall losses, things could have gone a lot worse all things considered. The two notable laggards were AAVE (-23%) and CRV (-25%); we tend to think that this slight underperformance relates back once again to the Michael Egorov situation, which - while largely resolved at this point - came back into the headlines for a bit due to the expiry of the handshake lockup agreement on CRV that had been OTC sold by Egorov back in September. We are inclined to expect a bounce on both CRV and AAVE this month as a result, particularly given encouraging developments on Aave's GHO stablecoin (now trading within 50bps of peg instead of the persistent -2% or more discount it has generally traded at over the last few months, and even nominally hitting said peg on certain venues for the first time yesterday).

DOT, ADA, ALGO: Among the worst performers were DOT (-20%), ADA (-17%) and most notably ALGO (-30%). As we have said many times, while there's going to be a moment in the cycle where any given alt-L1 could see a sudden and outsized surge, in general and in next, expect underperformance. The uncomfortable secret with L1s in general is that turning a L1 from an empty shell into something with genuine activity is a process that takes several billion dollars being thrown out to anyone who will take it - essentially, you have to create a significant developer community with enough sunk cost that they stick on the chain, and eventually by sheer virtue of numbers that developer community will stumble into something that will get adoption (at least within the context of crypto). Ethereum did this back in the day with Consensus, and Solana held onto enough runway and was aggressive with it in 2023 to break through. On all three of the L1s mentioned, as with others, we haven't seen enough consistent signs of such an approach, and hence we would tend to expect them to continue to lose ground on SOL and lose ground to various upstart L1s going into 2024.



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