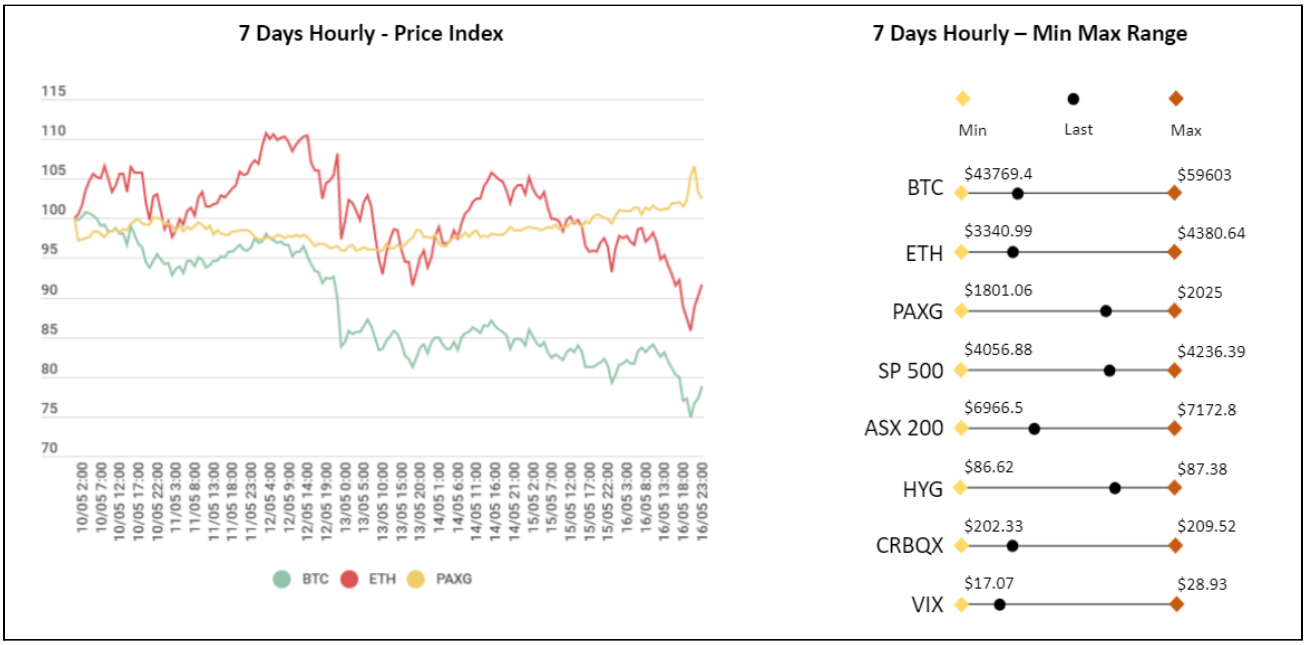
ZEROCAP
Weekly Crypto Market Wrap
10 May 2021 – 16 May 2021

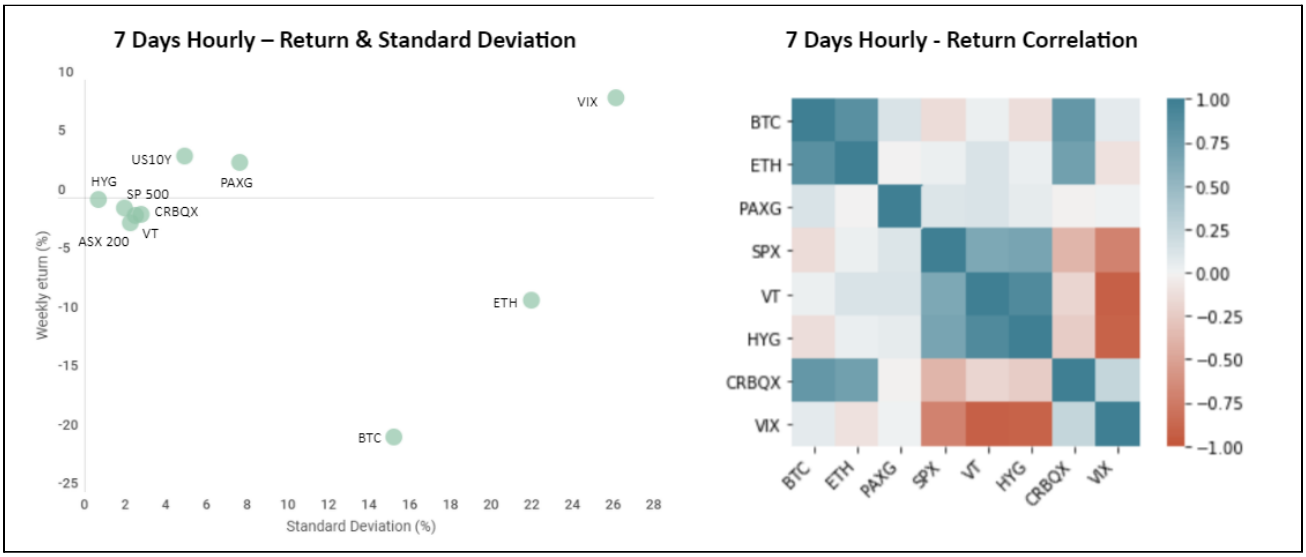
Zerocap provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at hello@zerocap.com or visit our website www.zerocap.com

Week in Review

- Inflation climbs to highest levels in 13 years, concerns emerge as Dow Jones and S&P 500 fell more than 1% over the week.
- Approval odds for bitcoin ETFs grow higher in the US after SEC chair Gensler stated that the crypto market "could benefit from greater investor protection."
- Tesla suspends bitcoin payments over environmental concerns.
- U.S. officials investigate crypto exchange Binance amid suspicious operations.
- Facebook's Diem, formerly Libra, changes framework and announces the asset as a stablecoin focused on the US market.
- Singapore's largest bank DBS launches crypto trust solution.
- Bank of England official says UK launching a digital currency is "probable."
- China's Digital Yuan tests take another step forward with Alipay availability.

Winners & Losers





- After failing to hold the US$58,000 level, Bitcoin continued to retrace, striking fear into newer market participants. Over the course of the week Elon Musk added fuel to the fire, renouncing Tesla's support for BTC on the basis of environmental concerns. The drop has shed almost 30% from the assets all-time-high.
- Ethereum followed suit this week, falling alongside the rest of the market. We expect ETH to lead the market recovery in the coming weeks due to its strong fundamentals and increasing popularity amongst institutional buyers. Overall, BTC recorded a -20.38% loss and ETH recorded a -8.76% loss WoW.
- The US10Y jumped this week alongside the dollar as news came out confirming a significant jump in consumer prices in April. The spike put inflation figures at a 13 year high, with the US10Y closing at 1.63 after cooling off from highs of 1.70 on Thursday.
- Despite gold's use as an inflation hedge, its price was not as robust as other inflation indicators, with investors moving to bonds in order to capture the higher yield curve. Overall, the asset recorded a 2.93% gain WoW.
- Equity markets fell this week on inflation news with the S&P recording a -1.44% loss. The VIX saw was elevated on equity flows, ending the week up 8.48%.

Macro, Technicals & Order Flow

Bitcoin

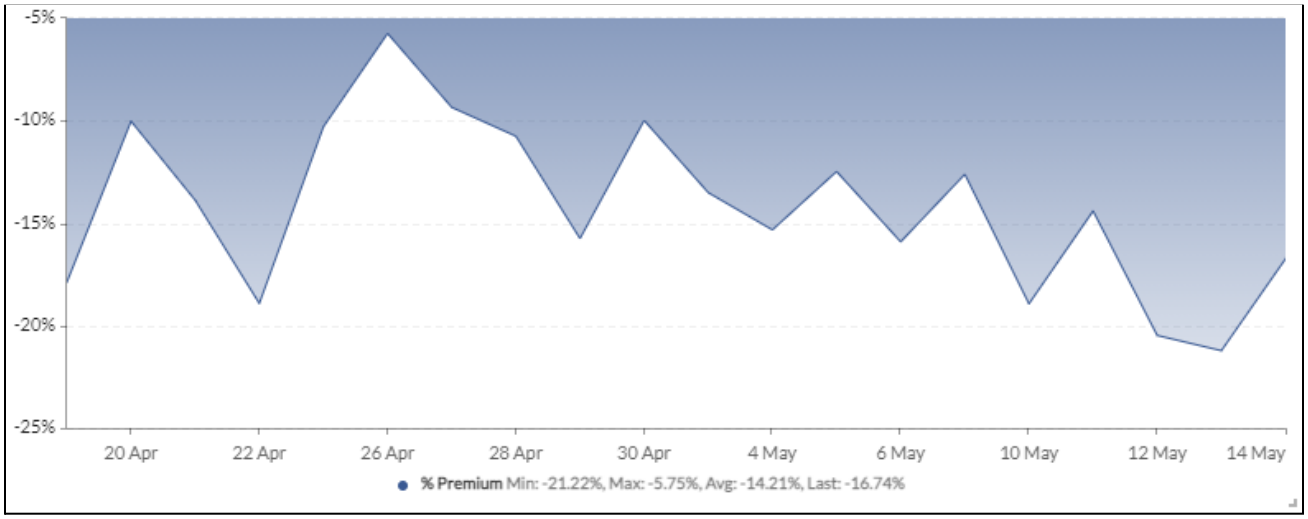
- Last week we forecast a retest of prior highs, with a break in the coming weeks. Instead we got a major breakdown through a number of key support levels. I owe the team a round of beers this week.
- The stimulus for the move? Newsflow. Elon Musk began a cascade after announcing Tesla's decision to remove bitcoin as a payment method for its cars due to environmental concerns, which was further exacerbated by Elon highlighting bitcoin's inefficiencies and claiming Dogecoin as a promising alternative. Later in the week we then got wind that Binance is under investigation by the US Justice Department and the IRS.
- On the back of this, BTC exchange inflows increased significantly, compounding selling pressure over the course of the week.

- Derivative Open Interest is at moderate levels, and the basis is compressed. For this reason, we don't foresee any violent moves in the short term.
- Notably, bitcoin's market cap dominance has been falling substantially over the last since the middle of March. Here's an interesting chart to help frame current moves.

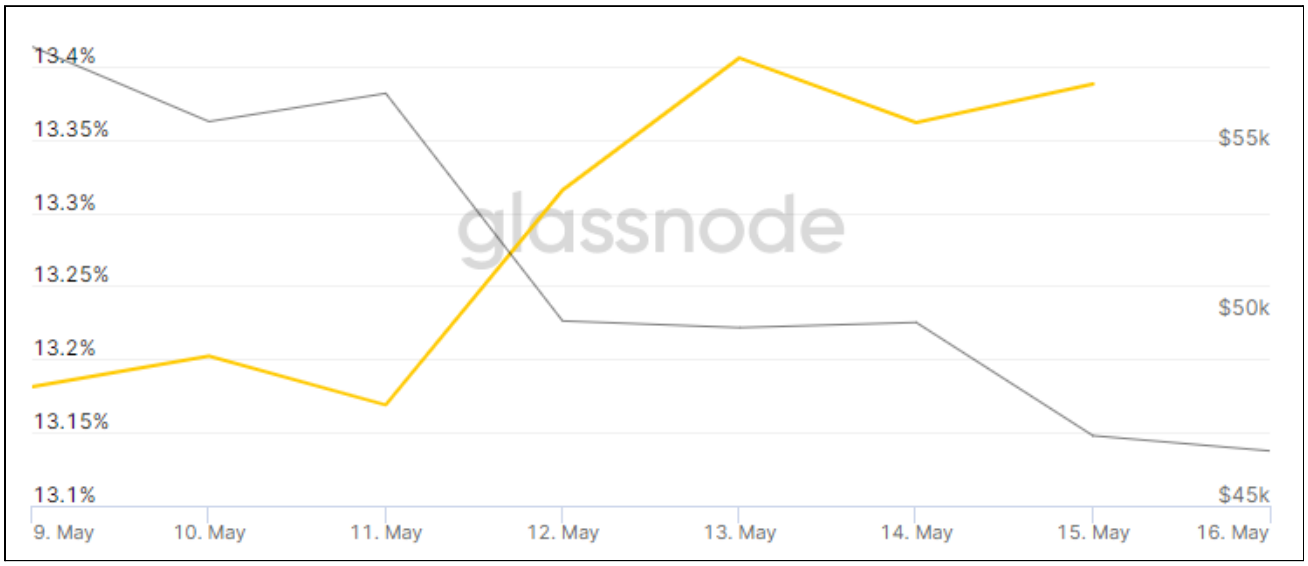
- We are approaching the prior all-time-lows of bitcoin's dominance that occurred in 2018 when the altcoin bubble popped. We are seeing some fairly drastic downward moves on the small and mid-tier altcoins right now. The "froth" levels have reached an unsustainable peak for the projects without fundamental value. Last week we mentioned that we were lightening up non-core altcoin positions, and we are continuing to do so this week. Here's how we think this will play out - right now it's a miniature liquidity event, most things are going down. This was compounded in BTC and ETH by newsflow. As BTC approaches the prior dominance level lows from 2018, we'll begin to see a shift back to value - BTC will begin to take back market dominance. This could coincide loosely with the BTC's Taproot

upgrade and ETH's EIP 1559 upgrade. Furthermore, in an altcoin bear market, investors will be looking for yields and money markets. This will be a distinctive shift from 2018 where capital largely left the space. This time, we see less outflows from the whole crypto market, and more repositioning. For this reason, DeFi projects with strong fundamentals and working products continue to outperform.

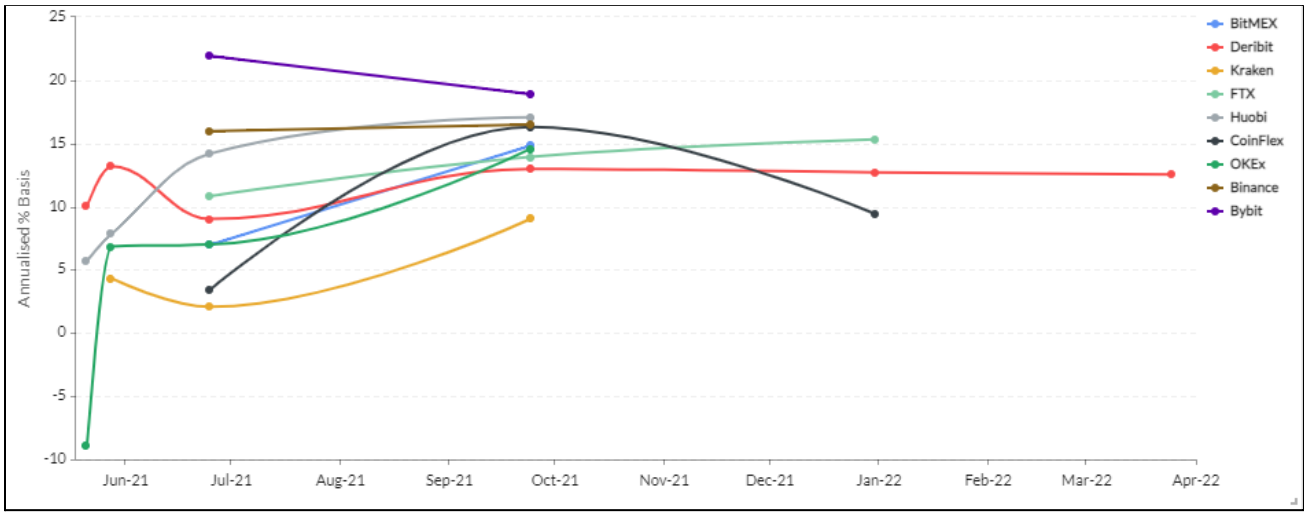
Grayscale Bitcoin Trust (GBTC) Premium



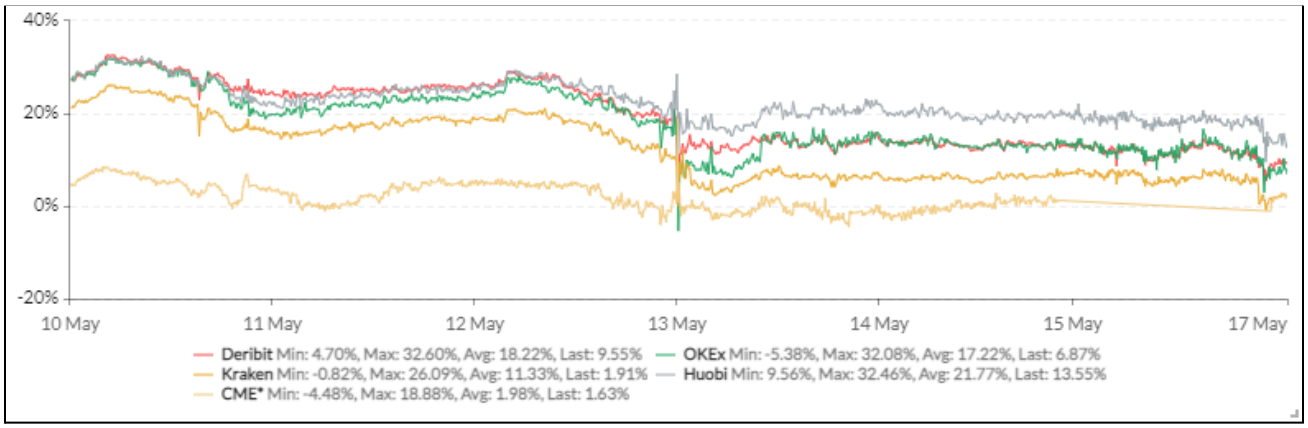
Bitcoin Percent Balance on Exchanges - All Exchanges



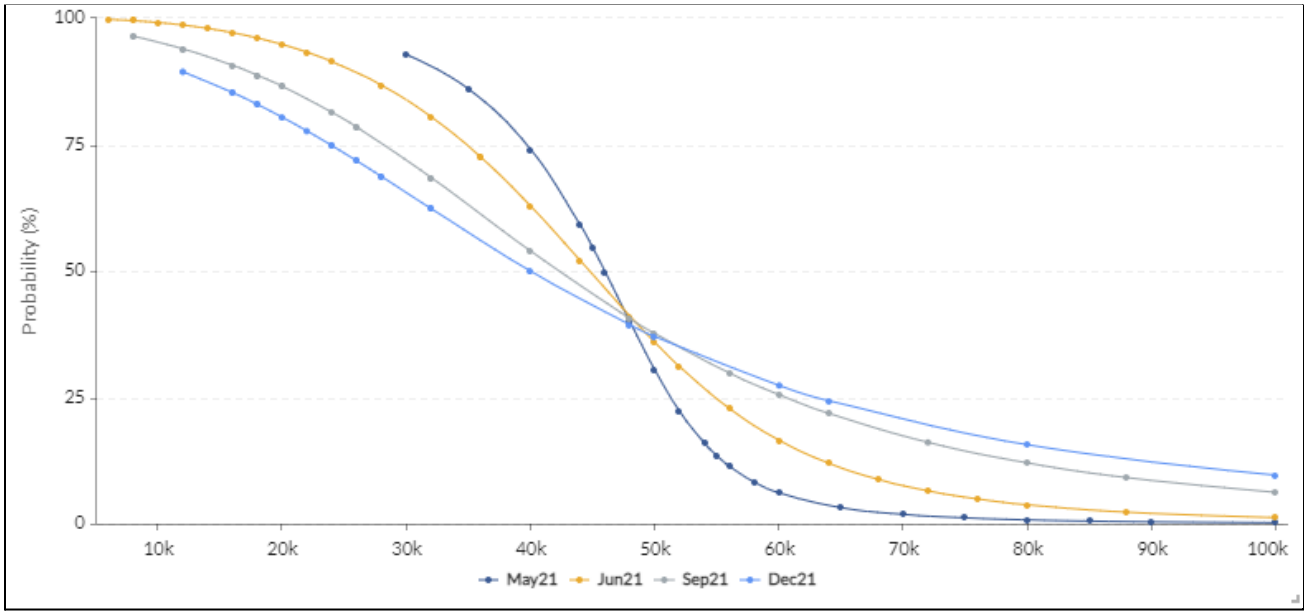
BTC Futures Annualised Basis - Current



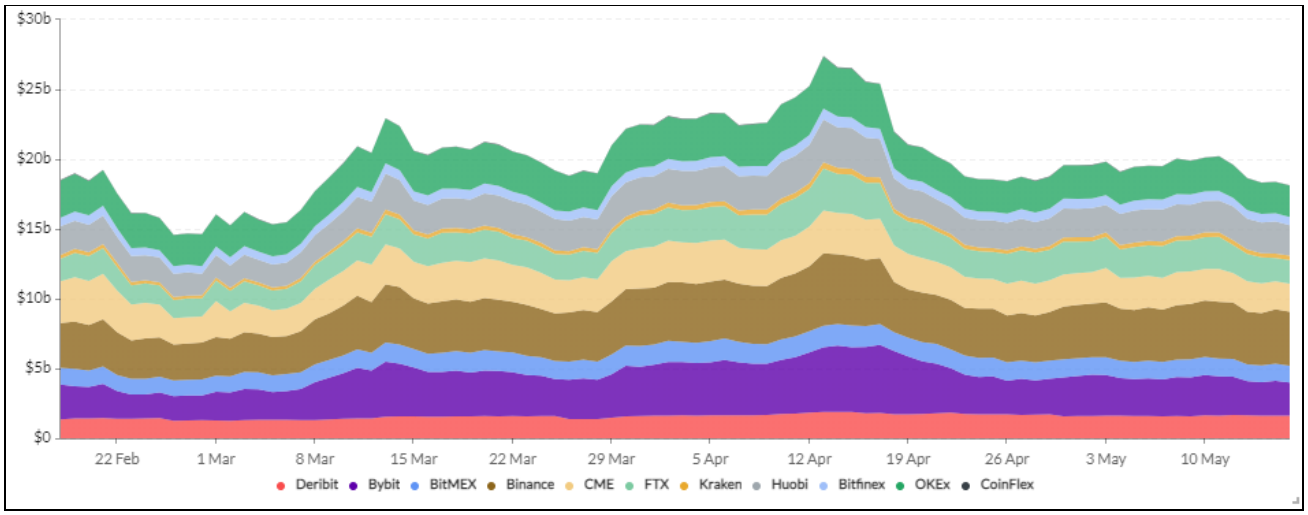
BTC Futures Annualised Rolling 1 Mth Basis



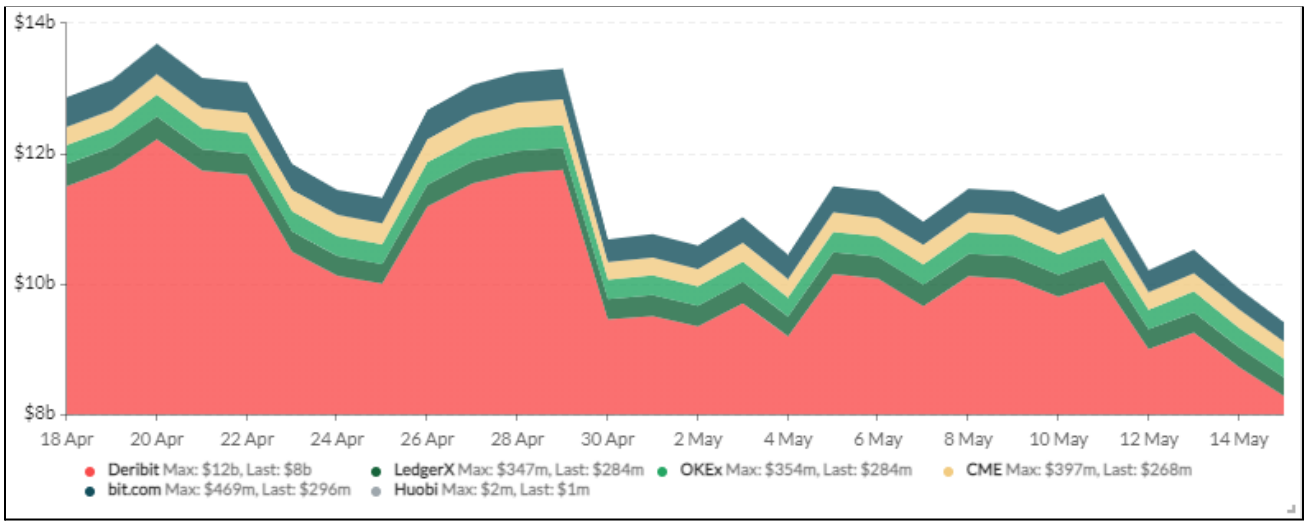
Probability of BTC being above x$ per maturity



BTC Futures - Aggregated Open Interest



Total BTC Options Open Interest

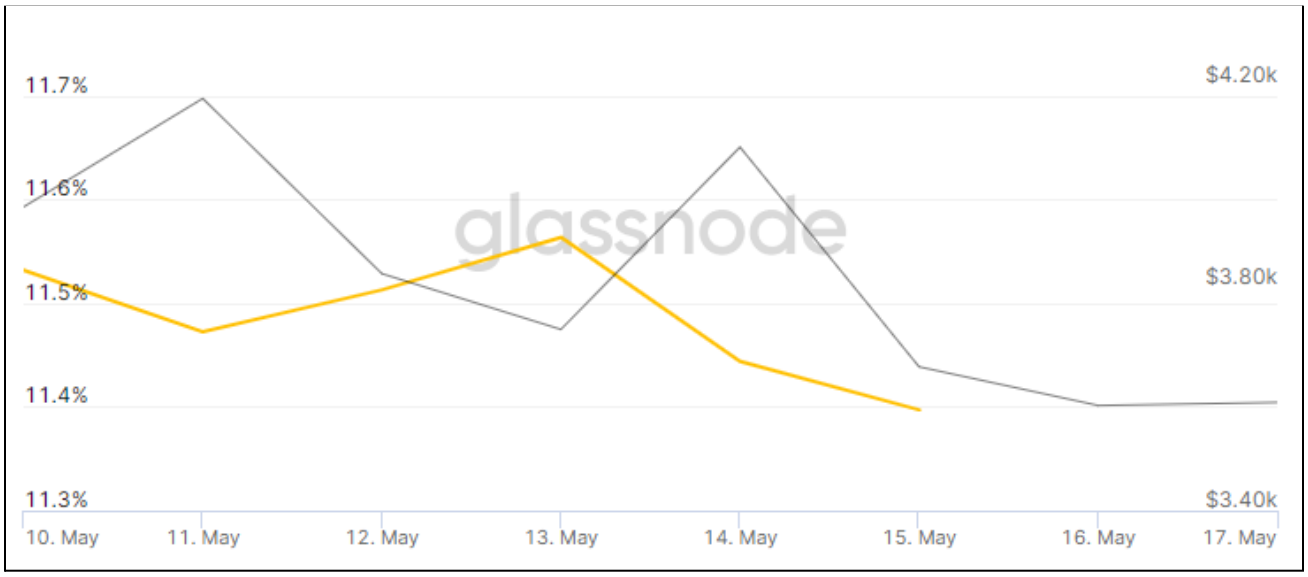


Ethereum

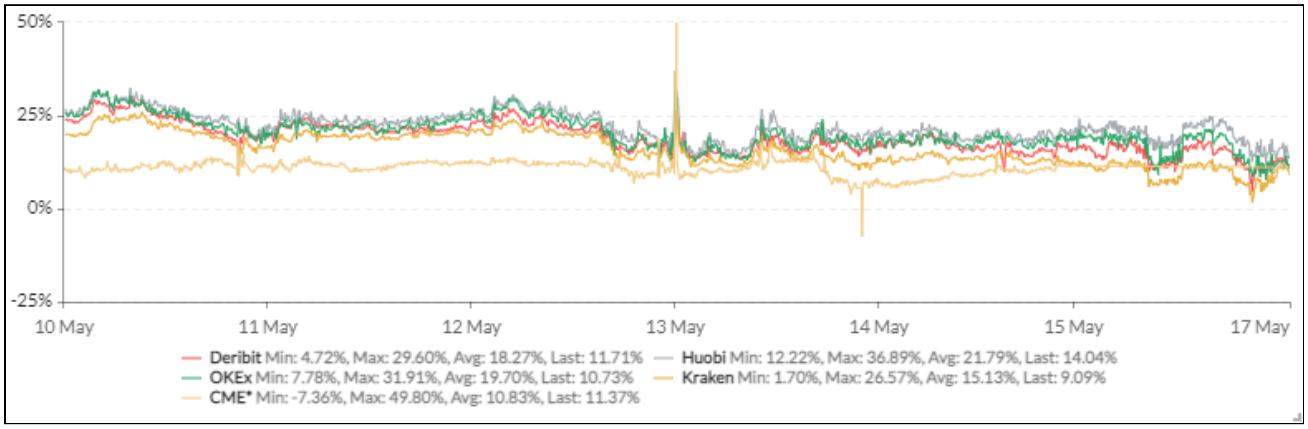
- Newsflow for ETH also had some downward pressure when Creator Vitalik Buterin sold part of his SHIB stash and donated the proceeds to charity. Although unlike BTC, we are well-bid into the new week. As mentioned in the Bitcoin section this week, DeFi is seeing inflows during this correction, and Ethereum is also benefiting from this right now. ETH outflows persist on exchanges, despite outflows seen in BTC. Continued decoupling between the two assets is further proving that current money flows are favouring DeFi protocols in various market conditions.
- The total value locked in DeFi projects took a slight hit this week dropping to $78.43 billion. This is a measured fall in comparison to previous market drops.
- The amount of ETH in the ETH 2.0 staking contract currently sits at 4,612,226, an increase of 4.33% from last week. This represents 3.98% of the total supply estimated to remain locked for ~ one year, continuing to constrict supply.

- As the crypto market corrects, Ethereum is standing out as a strong asset with widespread support. Money flows and the media narrative are still focused on the next 100x altcoin, however, the support for ethereum suggests that institutional money is already here. As the network upgrades, this will continue to be a catalyst for price appreciation.

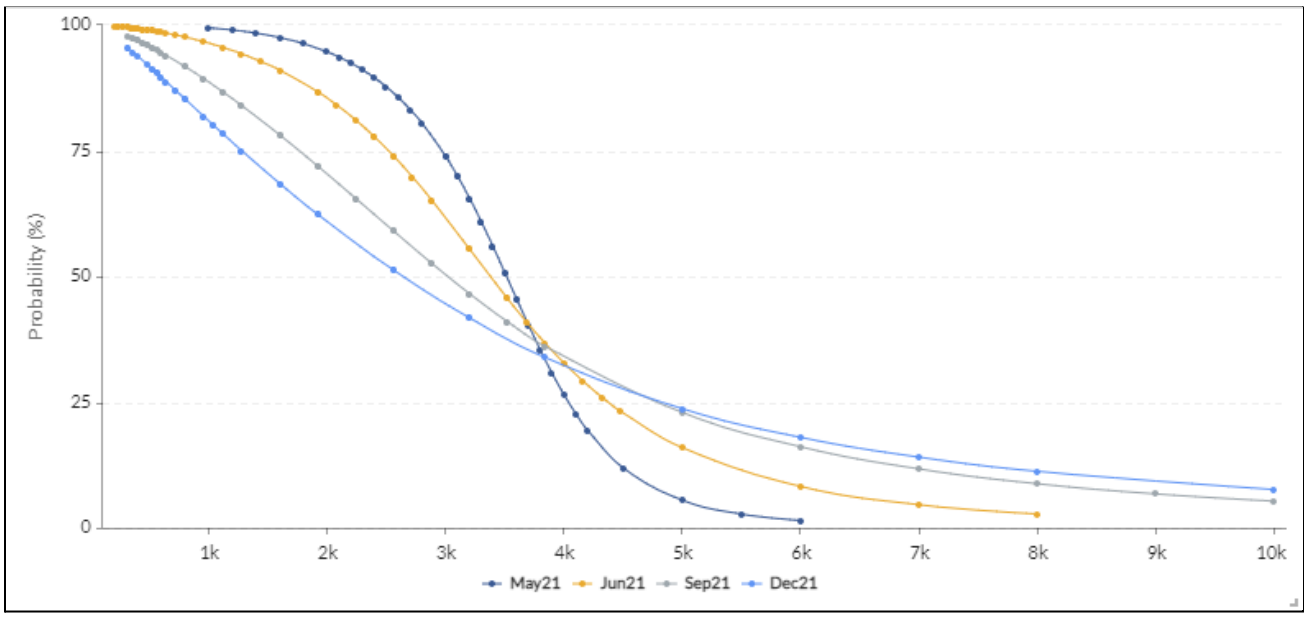
Ether Percent Balance on Exchanges - All Exchanges



ETH Futures Annualised Rolling 1 Mth Basis



Probability of ETH being above x$ per maturity



DeFi & Innovation

- DeFi's growth pushes crypto's global money supply share above 2%.
- Hedge funds Millenium, Matrix and Point72 show interest in developing DeFi funds.
- eBay allows NFT tokens to be sold on the platform.
- Alpha finance relaunches its V2 platform, providing leveraged yield options for users.
- FTX CEO Sam Banjman-Fried believes Tokenised stocks will gain traction due to 24/7 trade and global access to US markets.
- Art-tech company Startbahn raises $10 million to protect artists' rights through NFTs.

What to Watch

- Will Tesla's decision on suspending bitcoin payments change the minds of other big names in crypto adoption?
- Despite a rocky week, Ethereum registered independent moves compared to bitcoin. As the asset grows with institutional adoption, could we be witnessing the transition to ethereum as the most favourable asset in the crypto market?

Insights

- Tesla no longer accepting bitcoin - Does the asset have an energy problem? Elon Musk announced last Thursday that Tesla will no longer accept bitcoin as payment due to environmental concerns from energy consumption. Bitcoin mining does consume a lot of energy at the moment, but here are a couple of factors to consider.
- The Bitcoin Whitepaper: An overview - In October of 2008, the Bitcoin network was officially introduced through a simple pdf file named "Bitcoin: A Peer-to-Peer Electronic Cash System." Here we provide an overview of what the Bitcoin whitepaper covers by highlighting the crucial information of the document that changed previous concepts of finance and money.

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* Index used:

Bitcoin	Ethereum	Gold	Equities	High Yield Corporate Bonds	Commodities	Treasury Yields
BTC	ETH	PAXG	S&P 500, ASX 200, VT	HYG	CRBQX	U.S. 10Y