



ZEROCAP

Weekly Crypto Market Wrap

17 May 2021 – 23 May 2021

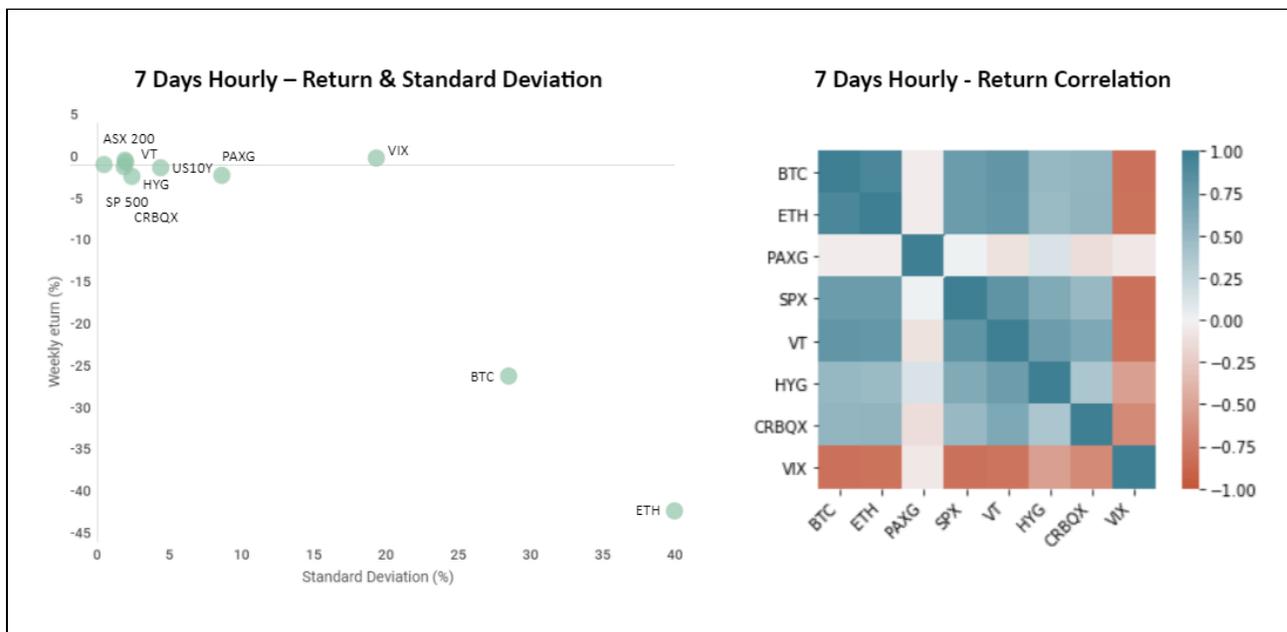
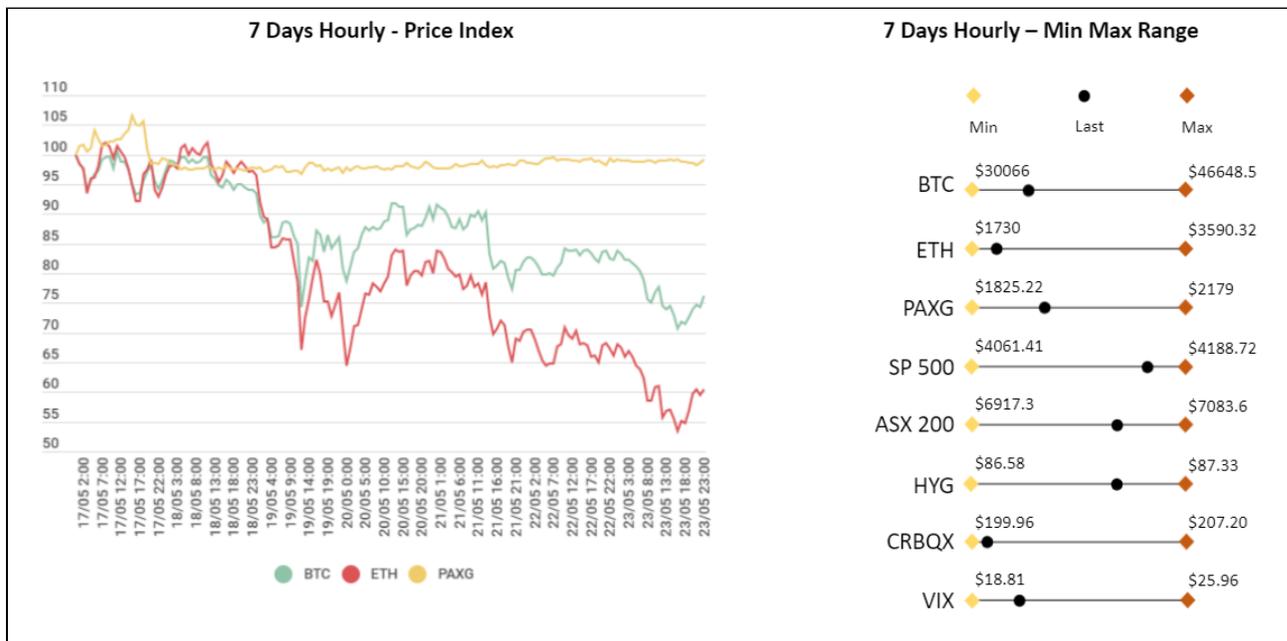
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Week in Review

- Stock market volatility measures spike with both [Dow Jones](#) and [S&P 500](#) bouncing from Wednesday's abrupt dip as [inflation records](#) continue to worry investors.
- The crypto market experiences widespread volatility amidst [US\\$1.3T in liquidations](#), a few weeks after the market's highs. While the market dips, [whales accumulate](#) over 122,000 bitcoin.
- China [reinforces a ban](#) on financial institutions from providing crypto services, present in the country [since 2013](#). [Hong Kong](#) set to allow crypto investments only to professional investors.
- OCC, Fed and FDIC plan to set up a [policy team](#) for the cryptocurrency sector.
- Fed officials [state](#) recent crypto sell-off is not of systemic concern.
- Wells Fargo to onboard actively managed [crypto strategy](#) for sophisticated investors.
- EY announces [\\$100 million funding](#) towards blockchain research.
- Fireblocks recorded [\\$500B](#) in assets handled since 2019, a 2,023% increase from 2020.
- Ethereum shares [Q1 2021](#) results, with 20x transaction volume compared to 2020.
- Nebraska [approves](#) framework for digital asset banks, similar to [Wyoming's](#) last year.



Winners & Losers





- Bitcoin began the week ranging, indicating minor support around the \$42,000 level. Continued liquidations due on newsflow and leveraged liquidations drove price further, resulting in a capitulation to the weekly low of \$30,066. More newsflow aggravated the sell-off with headlines from China, banning businesses accepting payments in cryptocurrency, playing a key role in prolonging liquidations. Later in the week, we saw another dip to \$31,100 as miners sold their holdings, flooding the market with liquidity. It should be noted that the majority of Bitcoin sold during this period was sold at a loss (measured by the time coins are held in a wallet among other metrics), suggesting that Bitcoin is flowing from weaker hands to stronger hands throughout this correction.
- Ethereum followed suit this week, falling alongside the rest of the market despite strong fundamentals. Overall, BTC recorded a -25.28% loss and ETH recorded a -41.42% loss WoW.
- The US10Y jumped midweek alongside the greenback after Fed minutes were released suggesting some officials may be inching towards tapering monetary policy, amidst continued recovery of the US economy and inflation concerns. The spike reverted swiftly by Thursday, as the market questioned the timing of any potential taper. The US10Y closed at 1.62, recording a -0.42% loss WoW.
- Gold's rally continued despite the midweek appreciation seen in the US10Y. As inflation fears remain, gold is positioned to see inflows from those seeking refuge from dollar depreciation. Overall, the gold recorded a 2.12% WoW gain¹.
- Equity markets had a week of back and forth with inflation fears and positive economic data influencing order flow. The S&P recorded a -0.34% loss. Despite a spike on Wednesday, the VIX saw a predominantly flat week, remaining moderately elevated up 0.8%.

¹ PAXG, tokenised gold, diverted from the underlying asset with the volatility this week - recording a 1.37% loss WoW.



Macro, Technicals & Order Flow

Bitcoin



- Another leg down into prior order flow zones. This time the rest of the cryptocurrency market followed, with all of the top-100 coins in the red. The media are looking for answers to this 'crash', and generally pointing at China's comments and Elon's shift in stance, but there is more to the story. Over the past few weeks, we've been mentioning the buildup of hype in the market and that we were reducing non-core altcoin positions. This hype spanned across DOGECoin and every meme coin under the sun, some with value, most without. Market tops are often preceded by peak hype, and the market needed a release valve in an overly long and over-positioned market.
- Unlike the initial 2018 declines, we don't view this as systemic. Bitcoin and ethereum have been caught up in the newsflow, and are experiencing a retracement of their own accord after one helluva year. The irony around a lot of this is that if bitcoin rose steadily from US\$5,000 in March 2020 to US\$20,000, the media and investors would be swinging from



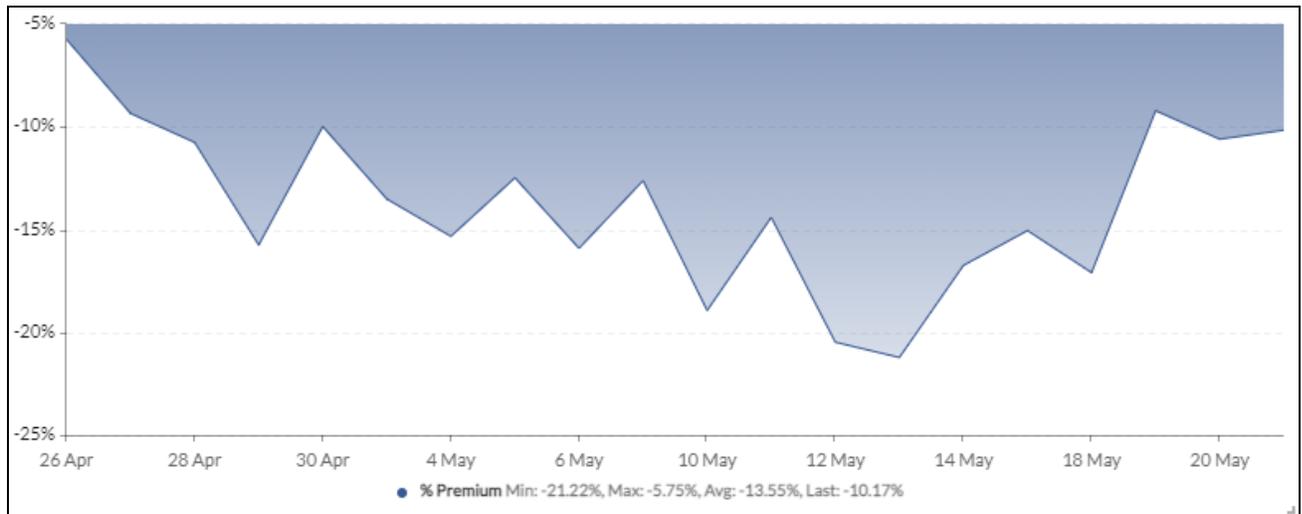
the rafters on a 400% gain in just over a year. Instead, we almost went to US\$65,000, and corrections from here seem catastrophic.

- The fundamentals still hold. In fact, they are stronger than ever as inflation is taking hold faster than the central banks realise. We are already seeing broader market rotation into value stocks, hard assets and agriculture. Spikes in energy prices are beginning to take hold. At some point the Fed and other central banks will need to taper stimulus. Bitcoin led the way into this environment as a maturing institutional asset, and it is only getting started as a global investor's hedge and value-add in everyday portfolios. We've always viewed this as the long game, and with most successful investing, it's important to look beyond the noise for clarity.
- BTC is finding technical support in all the prior zones on the run-up. Key entry points for those looking for positions 30,000, 34,000, 38,800 (if waiting for confirmation on a run). At the moment we are still in a fairly volatile market, particularly outside of BTC and ETH. We'll need to allow price to form its next range, before assessing whether we begin legging up, or take any more attempts at the downside. This said, BTC exchange inflows saw a spike at the beginning of the week before dropping over the course of the week - indicating price support in the 34,000 region.
- Despite moderate derivative interest levels at the end of the prior week, we still saw the move down. At this stage of volatility, derivatives volumes and open interest are declining. Although this could change quickly, we don't expect there to be violent moves again this week, noting that we said this last week and still had some fairly nasty liquidations. The perpetuals and crypto exchanges apparently found leveraged buildup fairly fast midweek from people buying the dip. Stop losses were triggered, and we got a liquidity cascade. Could this happen again? Yes. Is it likely this week after the recent moves? Probably not. But be wary of any leveraged positions or 'bet the house' ideas at this stage.
- The futures basis went wildly negative, then positive, then negative - and continues to oscillate. Our prop team managed to capture both sides of this trade delta-neutral over the week.
- Bitcoin dominance is notably turning around. We expect this to continue topside as the market continues to reposition.

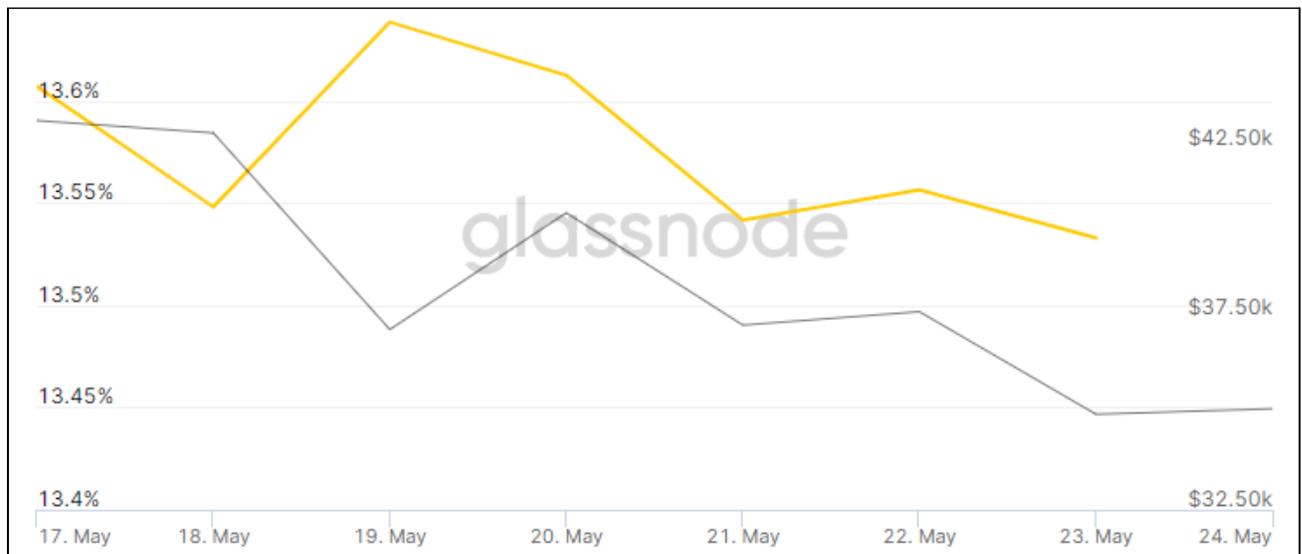




Grayscale Bitcoin Trust (GBTC) Premium

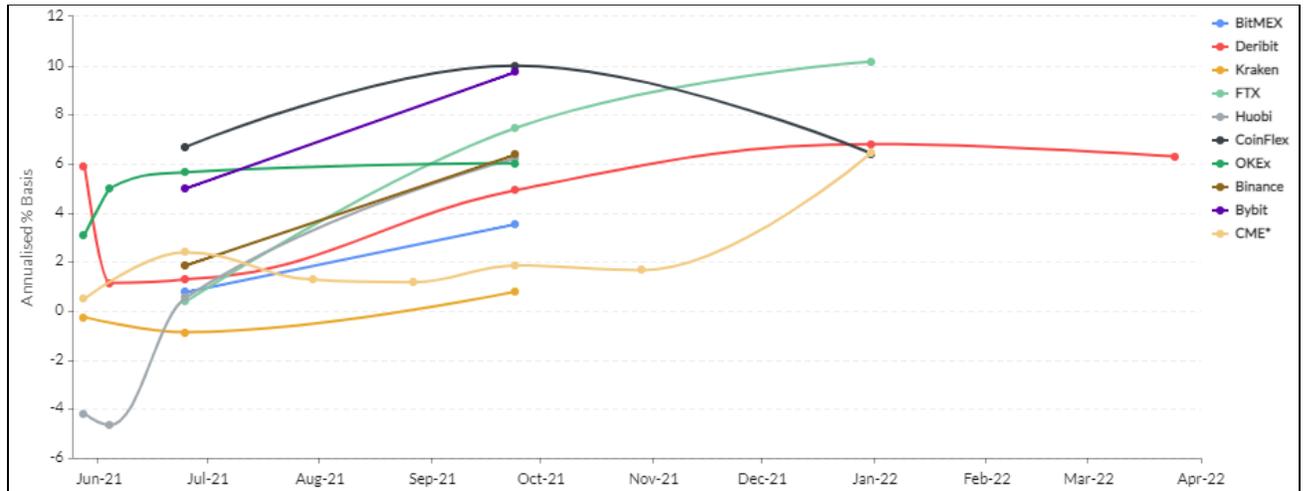


Bitcoin Percent Balance on Exchanges - All Exchanges

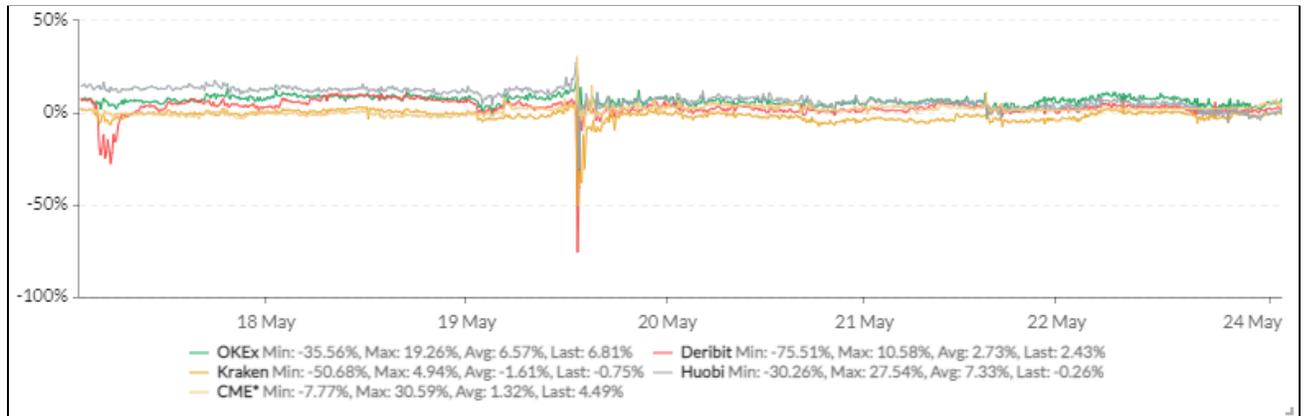




BTC Futures Annualised Basis - Current

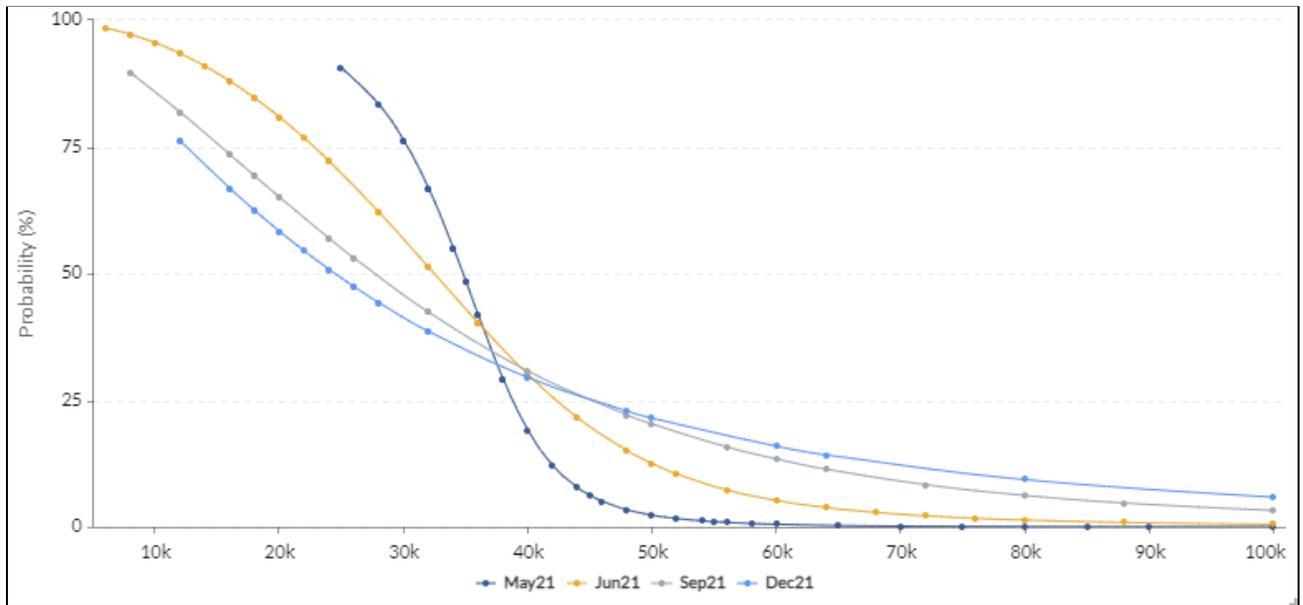


BTC Futures Annualised Rolling 1 Mth Basis

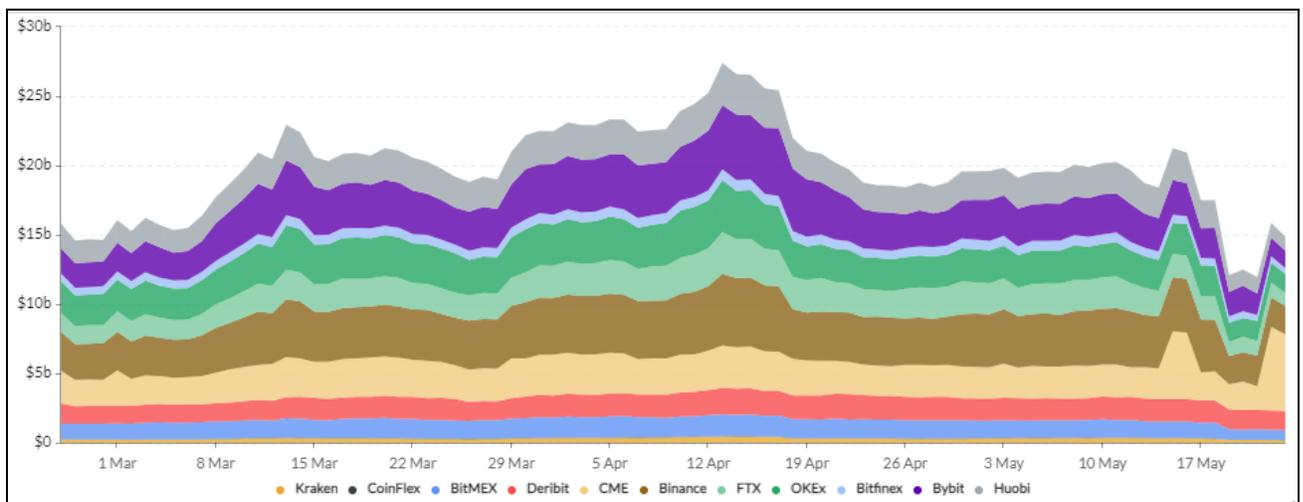




Probability of BTC being above x\$ per maturity

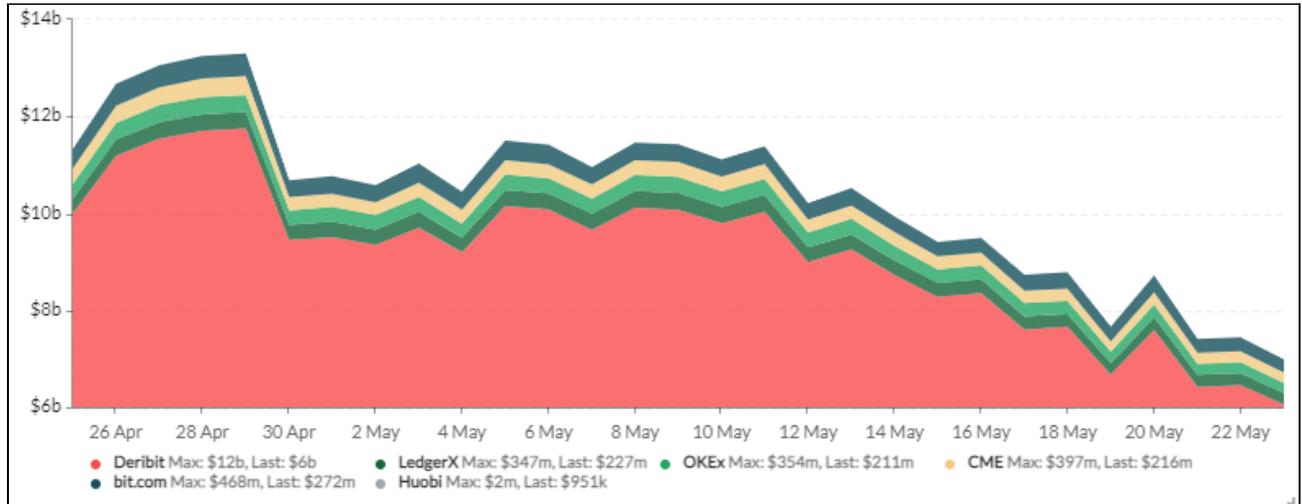


BTC Futures - Aggregated Open Interest





Total BTC Options Open Interest





Ethereum

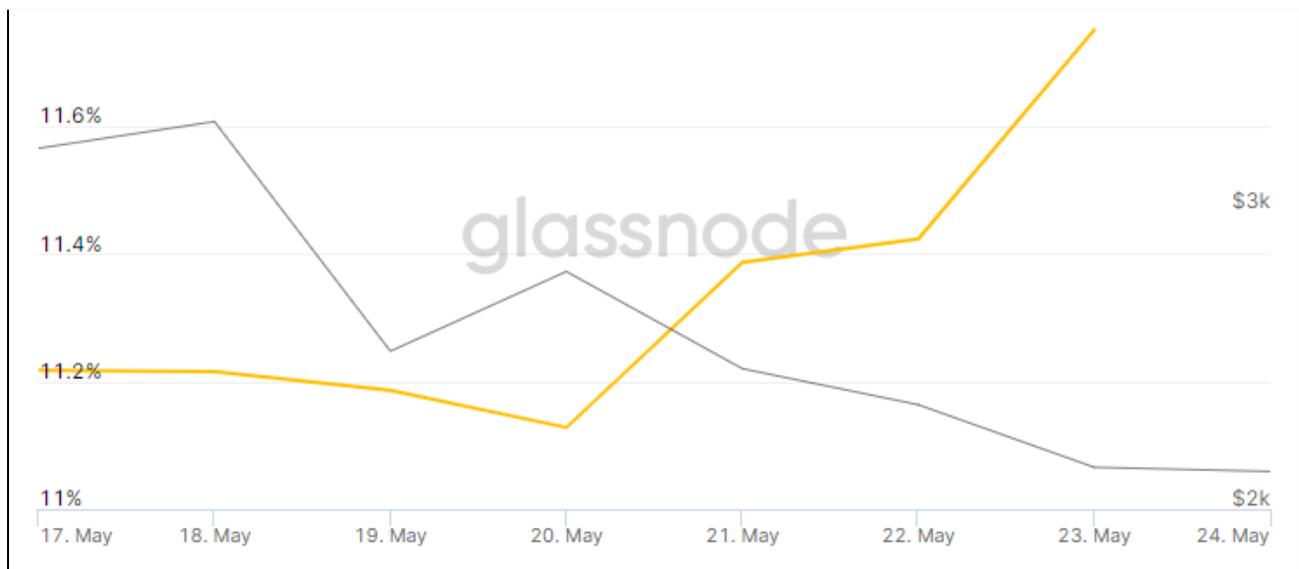


- Ethereum had a massive run-up in the prior month and an equally spectacular drop over the past two weeks. It's important to remember that ethereum is still the incumbent protocol, with most DeFi projects built upon it. In fact, the top 20 DeFi projects by assets held are all built on ethereum. We are coming up to the EIP 1559 upgrade which will drastically improve transaction fees and speed. Like bitcoin, the fundamentals remain intact - and the crowded long trade is getting a reset.
- The total value locked in DeFi projects plummeted 36% this week dropping to \$50.29 billion. The liquidity crisis seen last week crashed prices across the entire crypto market with the impact felt most in lower cap assets.
- The amount of ETH in the ETH 2.0 staking contract currently sits at 4,840,706, an increase of 4.95% from last week. This represents 4.17% of the total supply estimated to remain locked for ~ one year, continuing to constrict supply.

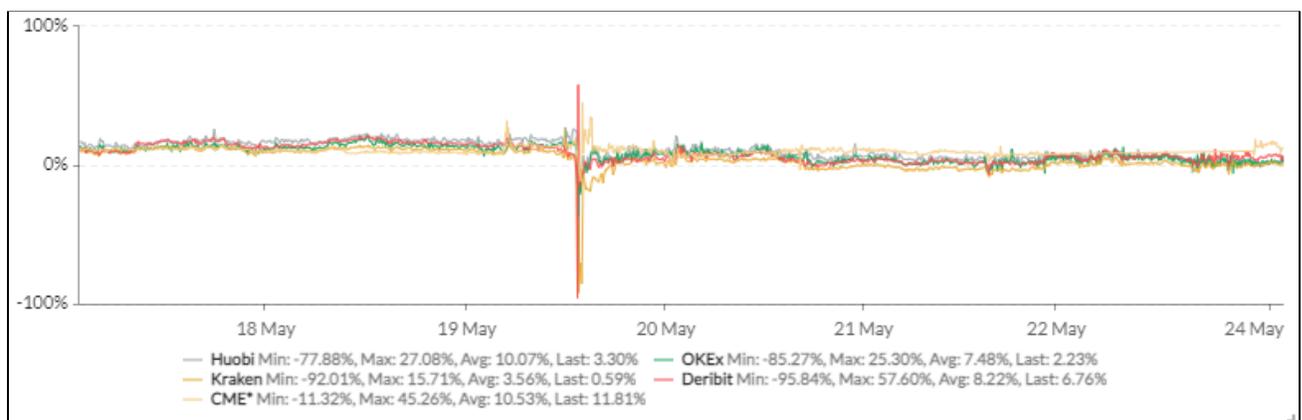


- Where to from here? Medium to long-term, we still see BTC as the inflation play and ETH as the token powering the primary DeFi protocol, particularly after their upcoming network upgrades. Ultimately the DeFi vertical is of huge importance and relevance, unlike many of the other crypto verticals out there. As a subset of Ethereum, I see some core DeFi projects knocking it out of the park when everything settles.

Ether Percent Balance on Exchanges - All Exchanges

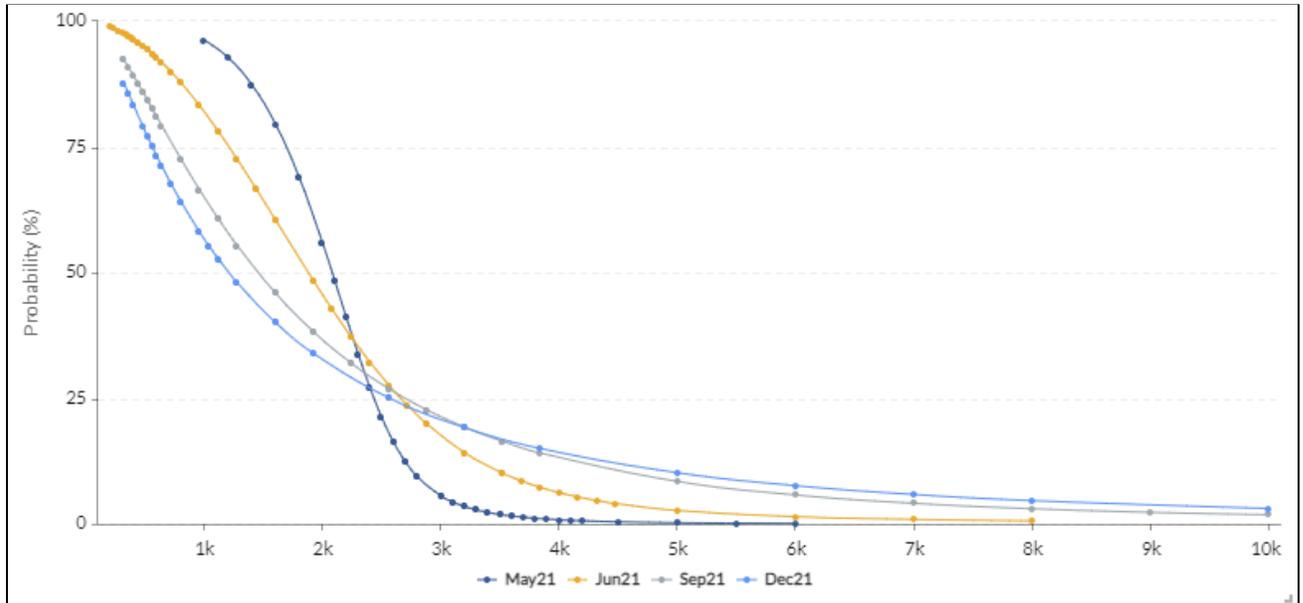


ETH Futures Annualised Rolling 1 Mth Basis





Probability of ETH being above x\$ per maturity





DeFi & Innovation

- [DeFi](#) market grows [88x in a year](#), leading a wave of innovative crypto protocols.
- Latest crypto [report](#) from PwC shows hedge funds are increasingly adapting DeFi into their investment framework, with 31% using decentralised exchanges (DEXs)
- [Optimism](#) protocol for the Ethereum network advances to [layer 2 scaling](#).
- Alpha Finance [V2 launch](#) deemed successful with high lending interest rates.
- Nvidia further [limits crypto mining](#) in new graphics cards.
- Dogecoin developers claim to be working with Elon Musk [since 2019](#).
- Auction house [Christie's](#) set to auction Andy Warhol's work as NFTs.

What to Watch

- The recent correction showed consequences of gradual buildup in unsophisticated investors creating hype. As crypto whales accumulate more bitcoin during this uncertain period, could the market be gearing up towards a season of sustainable growth?
- As China reinforces their ban on crypto services and US commissions plan a policy team for digital assets, will American regulations advance towards better frameworks for the market or crackdown with restrictive proposals?

Insights

- [CIO Jonathan de Wet interview on Forkast News](#) - On the recent bitcoin drop, Jon spoke briefly with editor-in-chief Angie Lau from Forkast.News on hype-driven market moves.
- [Understanding the power of dollar-cost-averaging](#) - In 2020, we witnessed the steepest equities crash ever recorded. Although the quick recovery was equally unforeseen, the event highlights the importance of risk mitigation. Here, Zerocap covers the benefits of dollar-cost-averaging (DCA) over speculative guessing, and why it matters in any market scenario.



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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