ZEROCAP
Weekly Crypto Market Wrap
2 August 2021 – 8 August 2021

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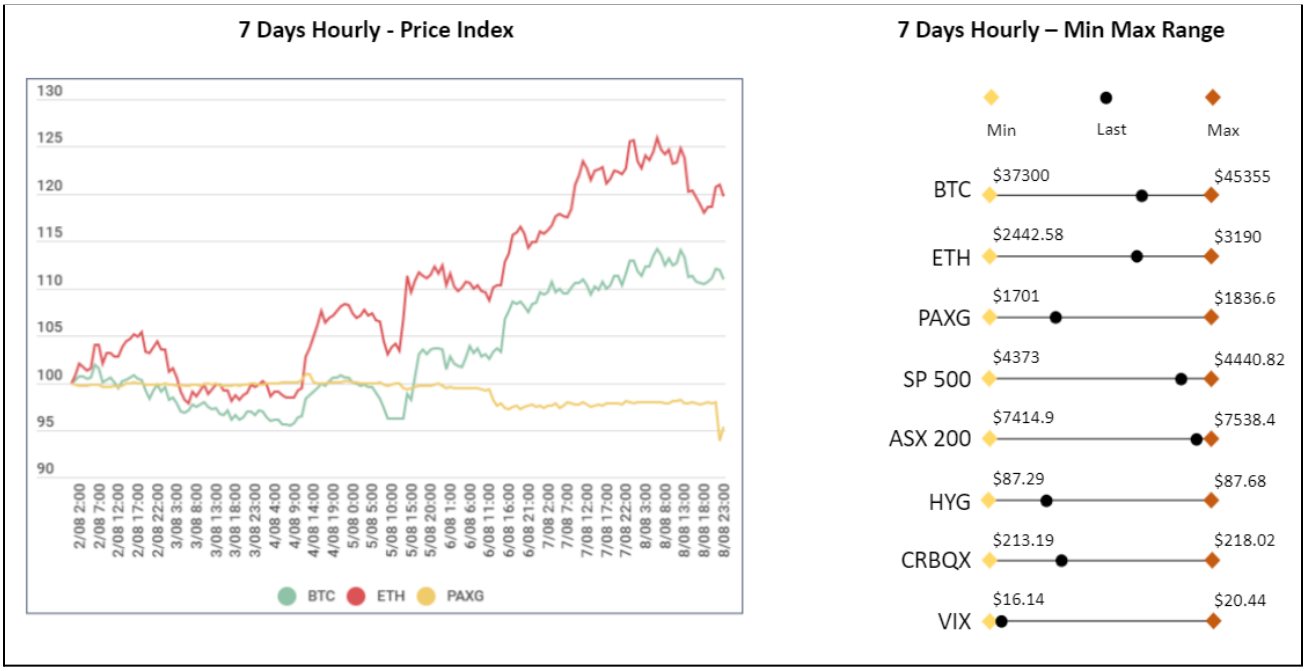
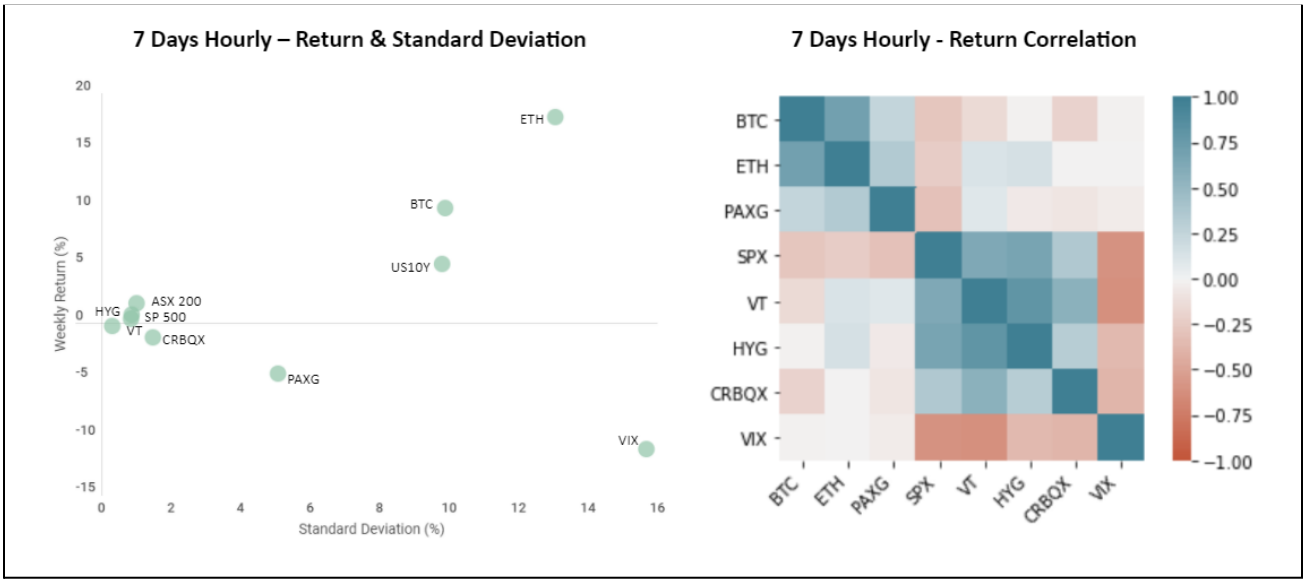
Week in Review

- The S&P 500 and Dow Jones' Index maintained a relatively muted week, inching above previous highs despite maintaining a tight trading range.
- The US' bipartisan infrastructure bill was delayed this week as the senate debates proposed crypto tax legislation. An amendment led by senators Wyden, Loomis and Tooney is garnering significant traction and support from pro-crypto Americans.
- SEC chair Gary Gensler reinforced his support for cryptocurrency in a meeting on Tuesday, stating that distributed ledger technology will likely play a large role in the future of finance.
- Ethereum's London hard fork was successfully triggered on Thursday, marking a significant milestone for the ecosystem and substantial progress to the implementation of ETH 2.0.
- Invesco has filed for a Bitcoin ETF with the SEC this week. In an attempt to gain regulatory approval, the proposed model holds no direct exposure to BTC, rather it will invest in BTC futures, ETPs with BTC exposure and private investment trusts such as GBTC.
- Binance US' CEO steps down, citing strategic differences.
- The SEC has launched its first case involving decentralised finance technology, charging 'DeFi Money Market' for raising $30 million through allegedly fraudulent offerings.

Winners & Losers





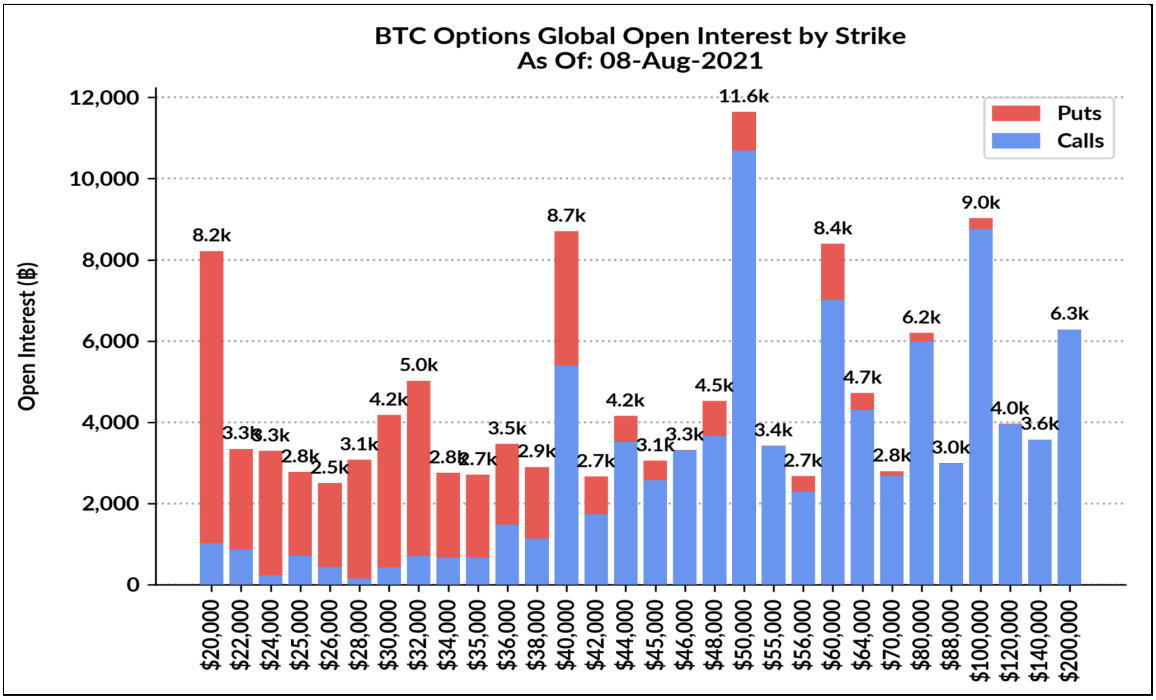
- Bitcoin and Ethereum both held their gains this week with the assets recording 9.99% and 17.96% respectively. The London hard fork remained the key fundamental driver with prices soaring in the lead up to the change and in the days following its successful implementation. Price appreciation was also supported by the Wyden/Loomis/Tooney amendment to the US' Infrastructure Bill currently in the Senate which spurred a flurry of newsflow and positive sentiment.
- Equities endured a slow climb this week which ended in the green as the July jobs report showed stronger than anticipated jobless claims. Delta variant concerns still loom overhead with the situation worsening in the US that will likely impact sentiment in the markets. Overall the S&P 500 recorded 0.67%, the Dow Jones 1.06% and the NASDAQ 0.15%.
- The US10Y continued its downward trend in the lead up to Friday's jobs report which conversely saw the treasury yield jump swiftly after its release. The addition of 943,000 non-farm payroll (NFP) jobs exceeded expectations and increased investor expectations of a rate hike, depressing bond prices and in turn raising yields. Overall, the US10Y gained 5.09%.
- A firm dollar suppressed the value of gold early in the week before the strong NFP report accelerated declines. The NFPs suggest that the Fed may begin tapering purchases sooner than expected, lowering inflation expectations and increasing the opportunity cost of holding gold. The asset returned -2.8% WoW.

Macro, Technicals & Order Flow

Bitcoin

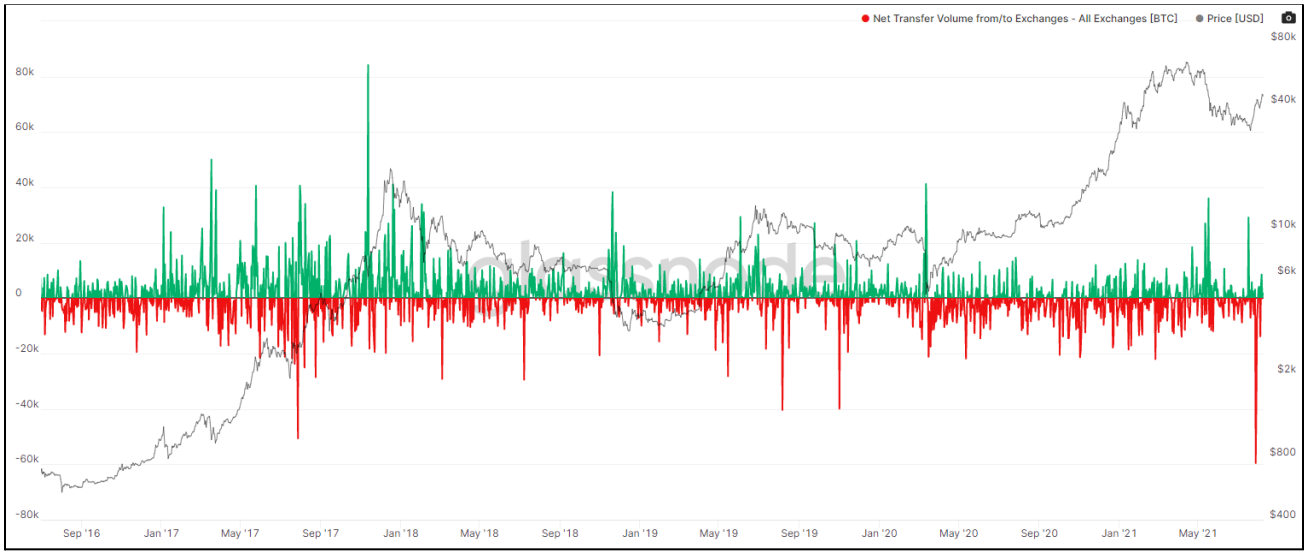
- On the back of the late July short squeeze, we've had a consistent topside run, only hitting topside resistance levels at 42,000 and 44,000.
- There is lots of optimism priced into the options market right now with call IV (implied volatility) higher than put IV moving over the last week - especially the buying of longer dated calls. We expect some short-term consolidation around these levels as the market digests this initial move higher. The 200-day moving average at approximately 45,000 has provided some resistance, but the foundation is strong for a move higher.

Bitcoin Options OI by Strike



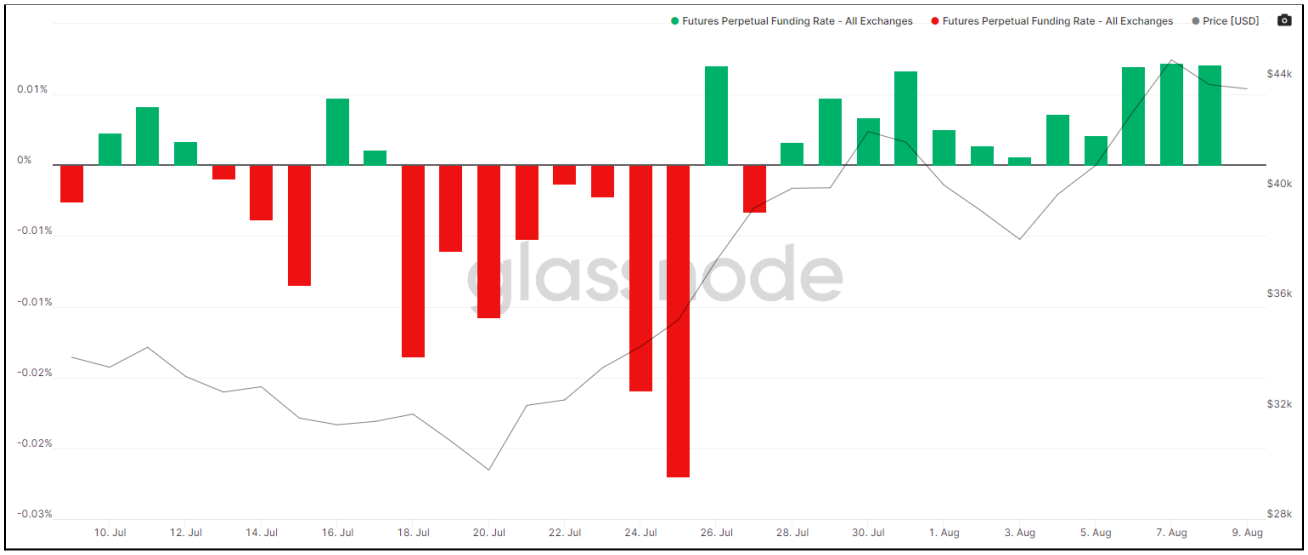
- On-chain metrics are showing continued outflows from exchanges, with significant deviations from the mean, indicating smart-money flows are holding.

Bitcoin Net Transfer Volume from/to Exchanges



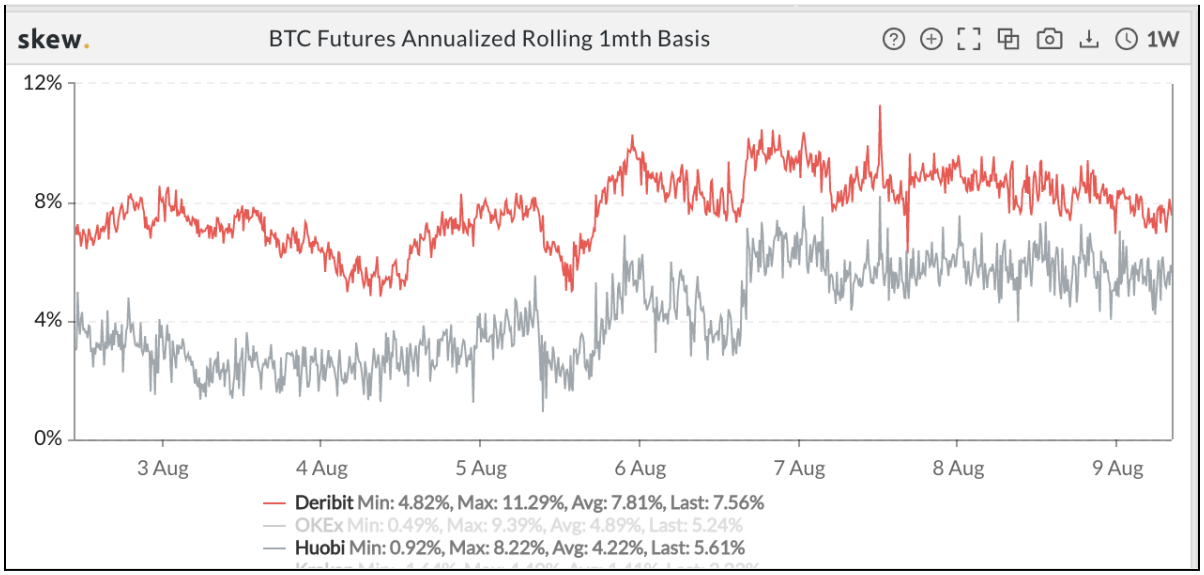
- Perpetual funding rates have turned positive, showing that weighted positioning is long in the derivatives market (longs paying shorts).

BTC Perpetual Swaps Funding

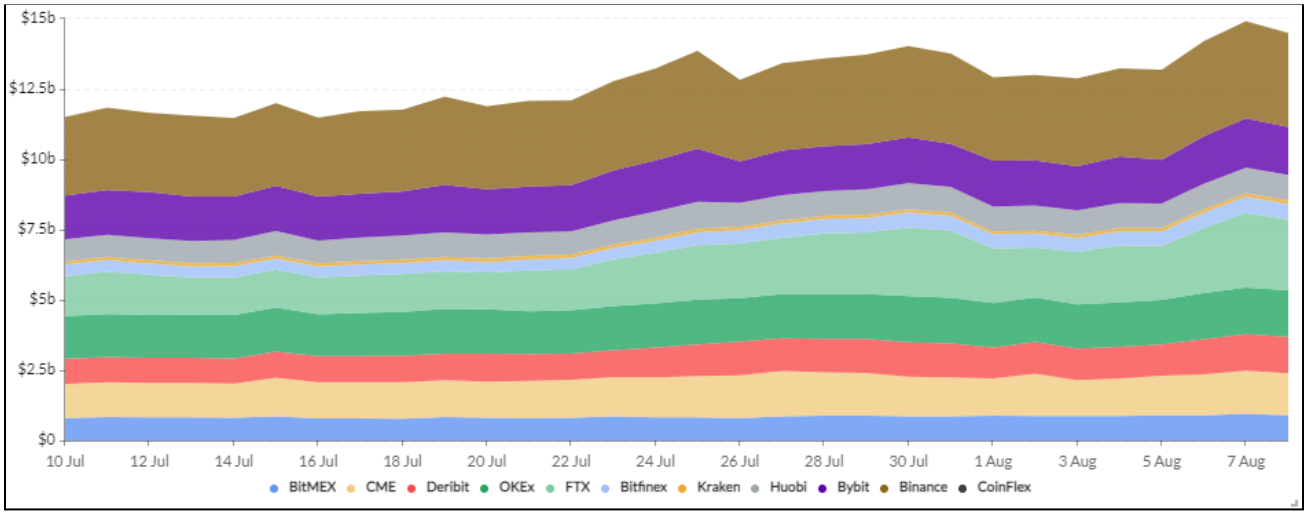


- The futures basis curve is slowly expanding, showing early signs of medium to longer-term positive flows.
- Open interest is growing, but not at levels that would suggest any wild liquidations.

BTC Futures Annualised Rolling 1 Mth Basis



BTC Futures - Aggregated Open Interest



- In summary, despite market concerns around the proposed tax compliance and infrastructure bill in the US, fundamentals are still strong. Institutional activity is on the rise again - we have yet another ETF submission in the US, this time without direct BTC exposure, JP Morgan have just launched a bitcoin only fund, and Virtu Financial is now market making on Coinbase and Gemini. Large holders between 100 and 10,000 BTC continue to accumulate long term positions, which supports

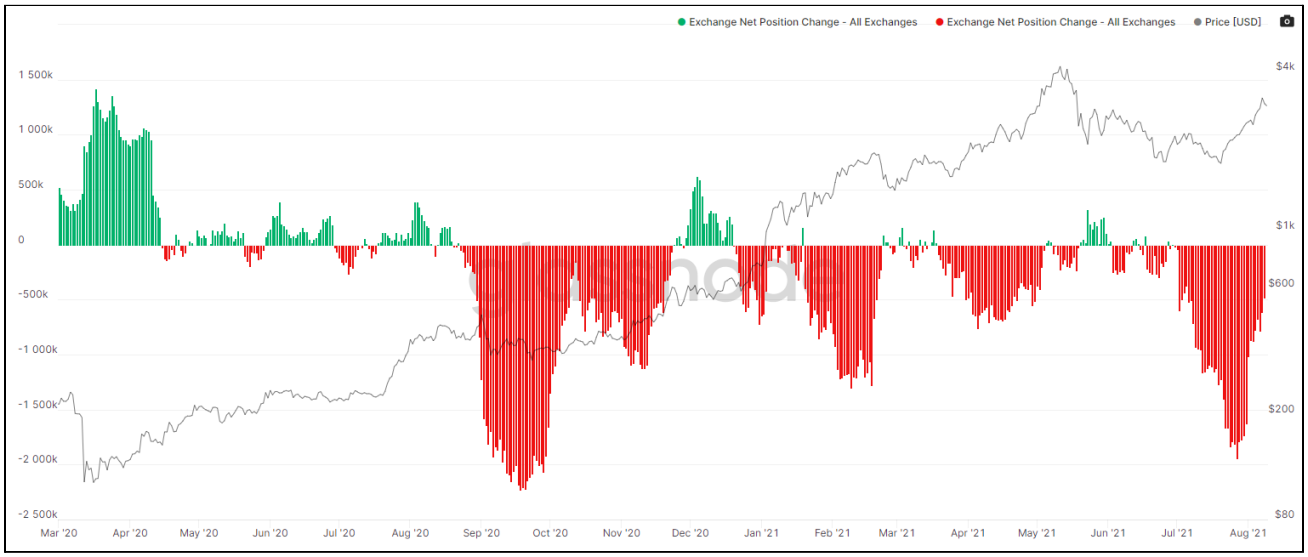
foundational market structure and positive skew. It's a healthy looking market for the short to medium-term, despite being slightly technically overextended. A clean break of the 200 SMA could lead to the next accelerated push higher.

Ethereum

- Ethereum has had one helluva run here. The London Fork was a success, and already the supply shifts in ETH are occurring, with over 3 coins per minute being burnt in the network. Given the macro and institutional adoption factors surrounding ethereum right now, this upgrade is crucial to paving the next wave of growth for the protocol. So far, things are looking good.
- Price busted up through the 3,000 level, touching the prior breaking point from the May decline, before consolidating now at around 3,000. We expect the range to hold between 2,550 and 3,000 as price takes a breather before another possible leg up later in the week, or into the next.
- Net positioning on exchanges was heavily red, signally strong outflows. We are now consolidating and seeing a reduction in outflows. This is largely a function of a technically

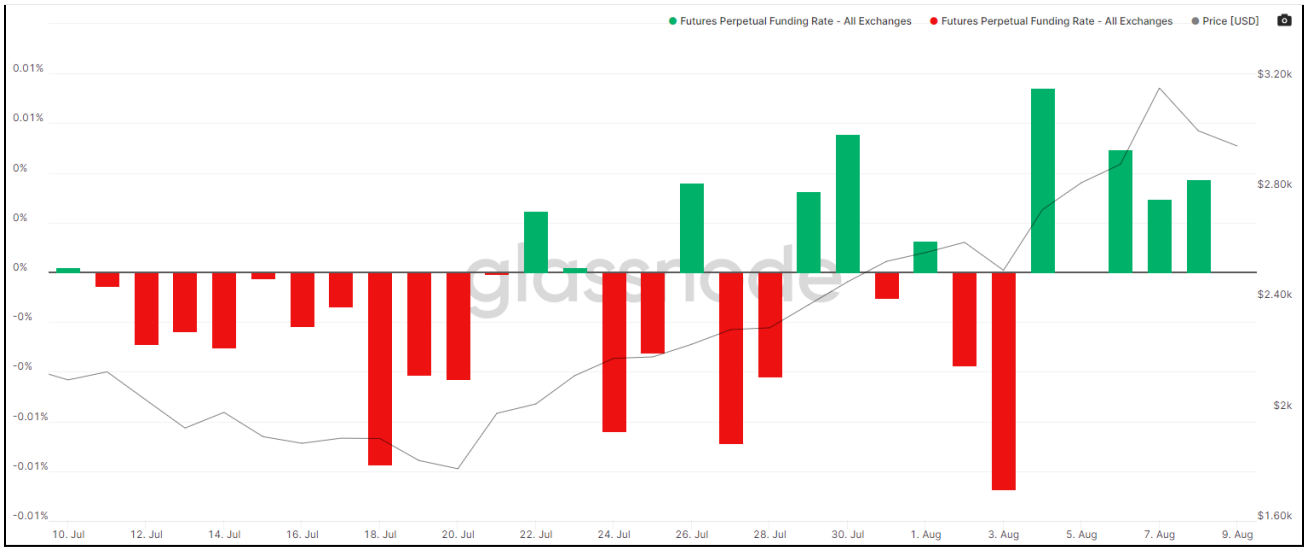
extended market and requirements to hedge (market makers) or take something off the table.

Ethereum Exchange Net Position Change

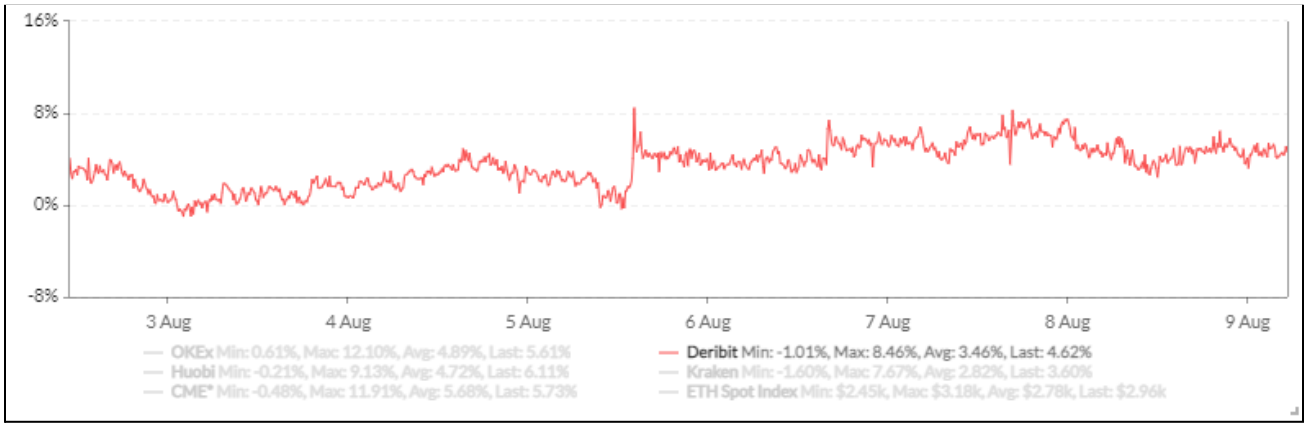


- Perpetual funding rates are not as clear cut as bitcoin, showing negative funding earlier in the week, before switching positive. A likely result of the market assessing the outcome of the fork before taking a view.
- The futures basis remains buoyant, but below its prior annualised return profiles (as with BTC). That said, open interest is growing and we could be winding up for expansion if the hedge funds and investment entities have been waiting for the hard fork to deploy some leverage in the futures curve.

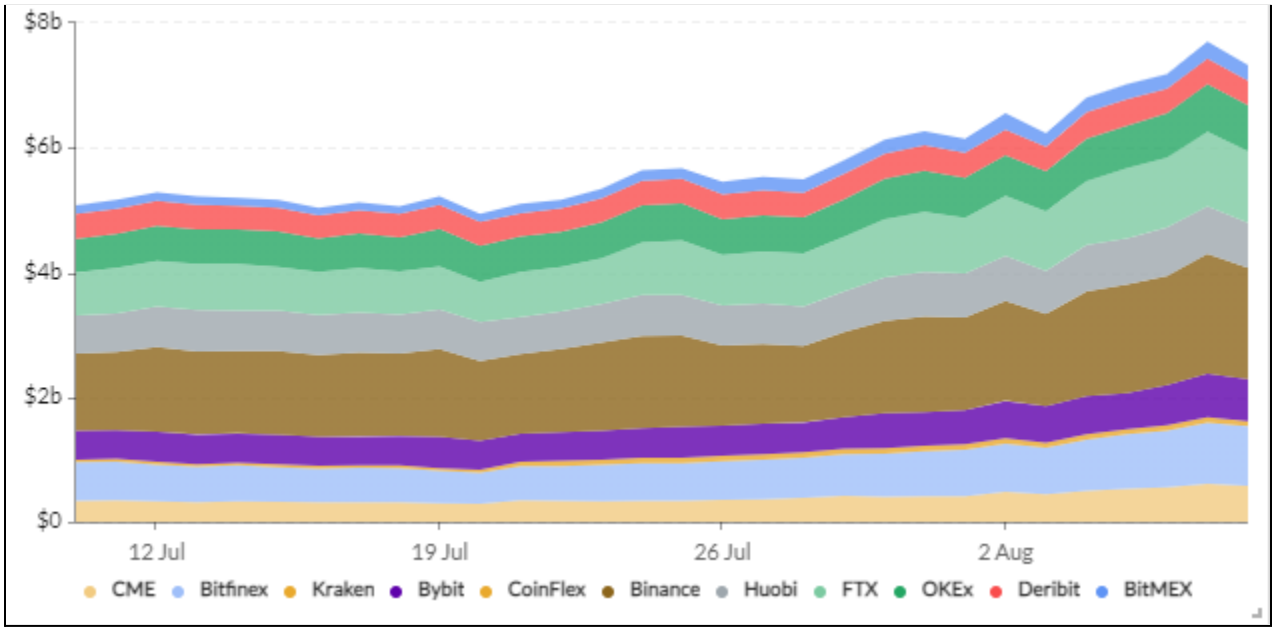
ETH Perpetual Swaps Funding



ETH Futures Annualised Rolling 1 Mth Basis



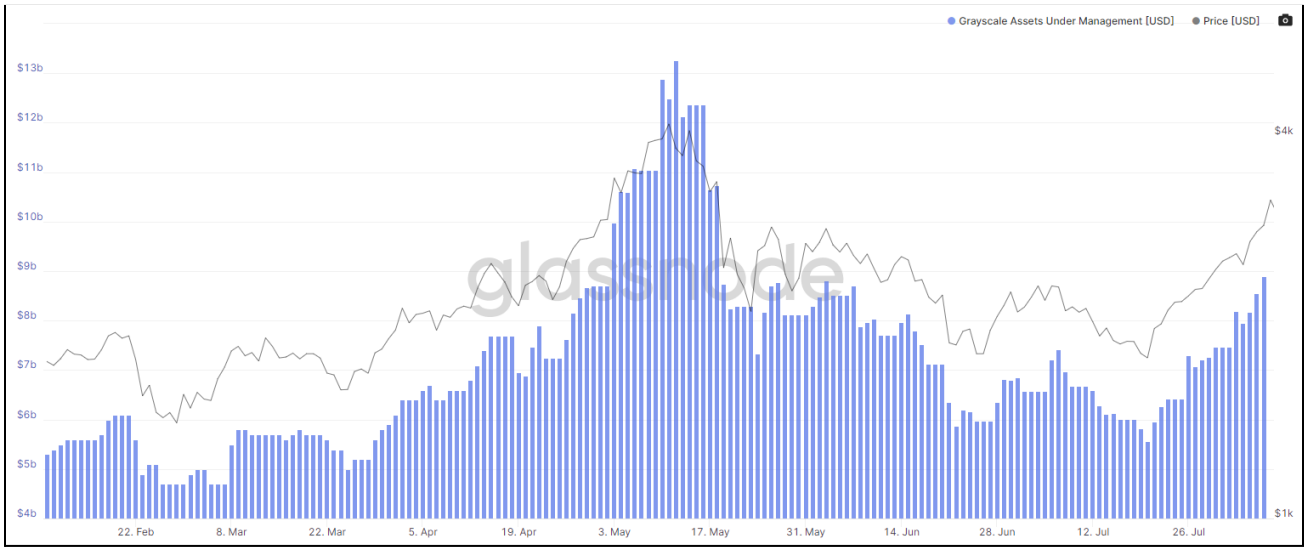
ETH Futures Aggregate Open Interest



- The amount of ETH in the ETH 2.0 staking contract currently sits at 6,575,389. This represents 5.62% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.

- In summary, ETH foundations are looking stronger after the hard fork. Institutional flows are increasing via Grayscale and other channels, and we are still in a period of global central bank liquidity which bodes well for risk-assets. We are technically overextended, as with BTC, so expect some retracement into the range, but the medium-term indicators are looking positive at this juncture.

Ethereum Grayscale Assets Under Management



DeFi & Innovation

- Crypto.com launches worldwide support for USDC deposits and withdrawals on the back of a partnership with the currency's issuer Circle.
- Terra (LUNA) recorded a 300% gain from its May low this week as investors catch on to the ecosystem's rapid expansion and development.
- Axie Infinity (AXS), a blockchain computer game, is closing in on 1M daily active users.
- FTX enables support for Binance Smart Chain's BNB and BUSD with BEP-20 tokens on the horizon.
- The City of Miami has released its own cryptocurrency token dubbed MiamiCoin (MIA).

What to Watch

- Keep an eye on the July CPI figures this week out of the US. Despite strong NFPs, the market will be closely watching for the Goldilocks inflation numbers - not too cool, and not too hot. The tapering timeline will take cues from inflation figures, and market sentiment is tending to underprice the risk of inflation shocks right now.

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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