



ZEROCAP

Weekly Crypto Market Wrap

6 September 2021 – 12 September 2021

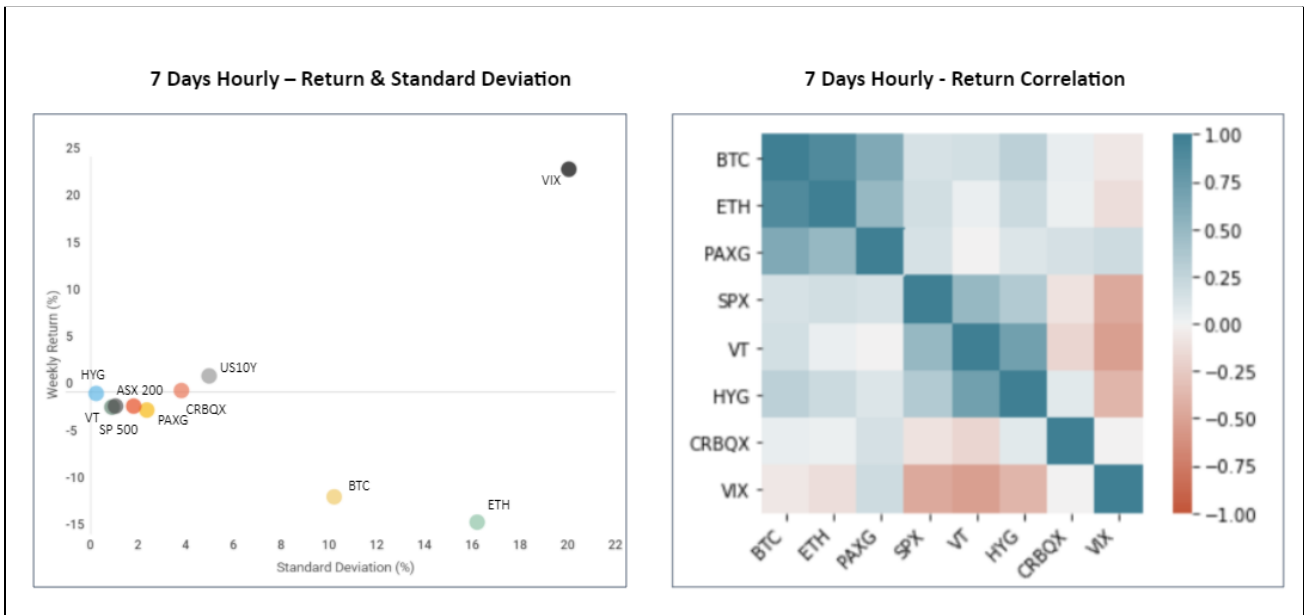
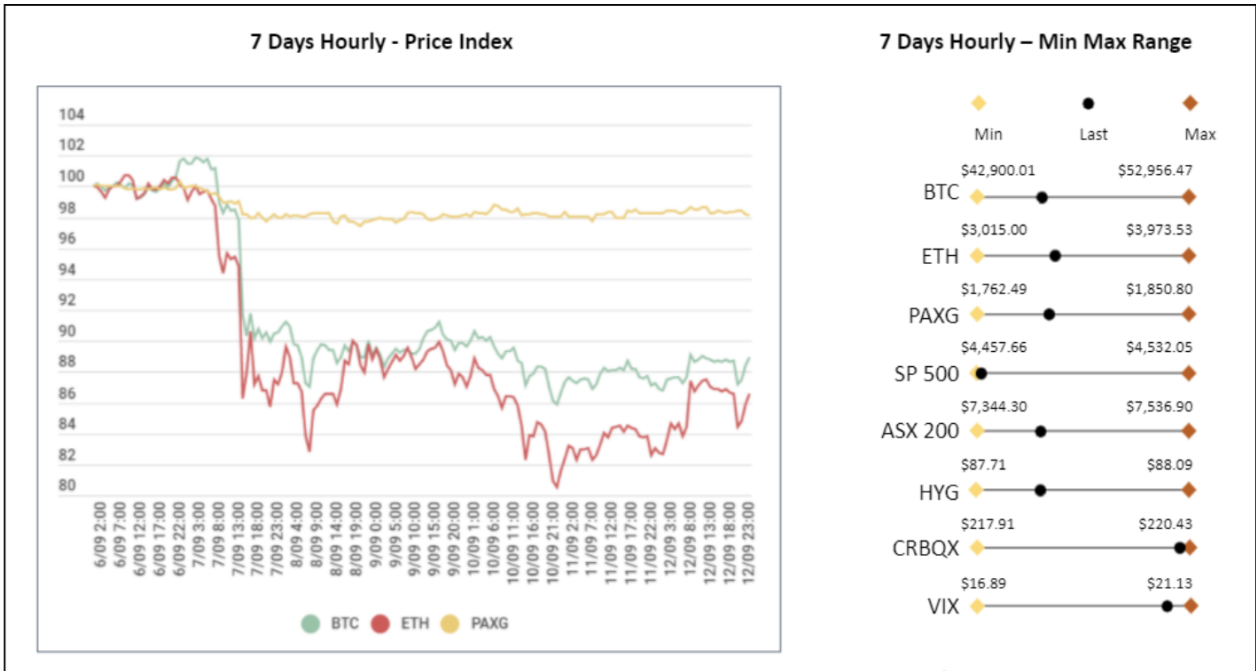
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Week in Review

- US producer inflation registered a record [8.3% Year on Year \(YoY\) increase](#) in August, and 0.7% for the month, the biggest YoY surge since 2010.
- [S&P 500](#), [Dow Jones' Index](#) have five straight days of losses, as [Nasdaq](#) also closes the week lower.
- Bitcoin is now officially legal tender in El Salvador - country faces [technical glitches](#) with crypto wallet rollouts.
- JPMorgan [issues warning](#) of crypto froth and retail investor mania, with standout references to Ethereum network "rivals" Solana and Cardano.
- US SEC releases [investor alert](#) against crypto scams, [threatens](#) to sue Coinbase over a yield lending product considered a security.
- US Senator Elizabeth Warren calls crypto "[the new shadow bank](#)," considers bill to ban American banks from holding reserves that back stablecoins.
- "Australia will be left behind" - Australian crypto businesses report up to [91 debanking events](#) to Senate enquiry.
- [Afterpay](#) looking forward to having crypto services once Australian regulations clear up.
- Hong Kong securities regulator proposes [stricter oversight](#) of crypto trading.
- Mastercard [acquires](#) crypto intelligence company Ciphertrace.
- Visa seeks bitcoin payment [integration](#) in Brazil.



Winners & Losers





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- Bitcoin and Ethereum faced deleveraging events this week as both spot and futures markets saw spikes in stops and short-selling, wiping out ~50% of fresh open interest in the market. Following the event on Tuesday, both assets spent the remainder of the week ranging as investors sat on the sideline in anticipation of a more obvious directional play. El Salvador's shaky rollout combined with regulatory uncertainty and weak US equities market likely contributed to the first significant shakeout seen since May. Overall, BTC returned -11.15% and ETH -13.83% WoW.
- The week remained predominantly risk-off across global markets with equities taking the brunt of repositioning and profit taking sales. Despite this, growth stocks still held ground better than their value counterparts. The S&P 500 closed -1.62% down WoW.
- The US10Y experienced some back and forth this week closing up 2 bps at 1.34%. Uncertainty surrounding the Fed's taper timeline remained on investor's minds. While wholesale inflation figures reduced in August MoM, many are awaiting the month's CPI inflation figures to identify if consumers have been impacted.
- Gold fell early in the week due to a strengthening dollar and rising treasury yields and remained relatively suppressed for the remainder of the week. The market is keenly awaiting CPI data this week which should give insight into any potential changes in the Federal Reserve's dovish stance. Gold finished the week -2.23% down.



Macro, Technicals & Order Flow

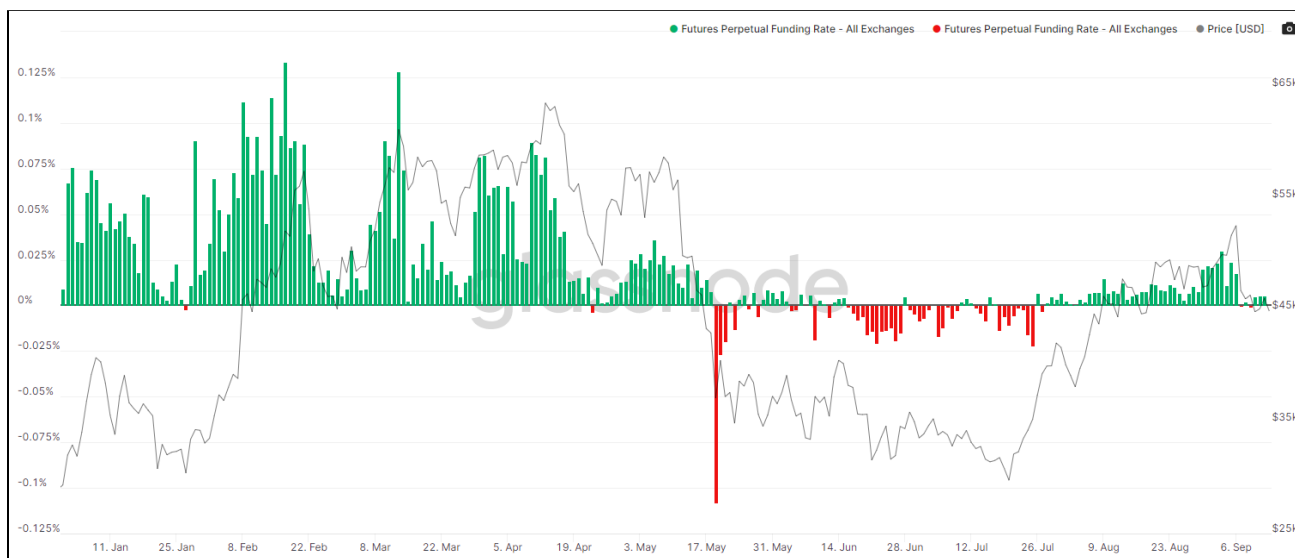
Bitcoin





- Unexpected moves this week across the board. Credit data from Tuesday's sell-off is pointing to USD leverage as the culprit, with USD spot borrowing rates spiking leading up to the fall. Notably, traditional leverage metrics, such as perpetual funding rates, were not too far above the mean before the sell-off. The basis trades are seeing increasing flows from short yield hunters (paid to be short), which suppressed the funding rates. The move definitely caught the market by surprise, leading to fast repositioning.
- The 38.2% Fib level has held price, leading to an initial bounce above the 200-day SMA. As the week progressed, price has ranged with a bearish undertone. We are taking cues from equity markets and macro themes this week, and are seeing divergent price indicators for BTC.

BTC Perpetual Swaps Funding



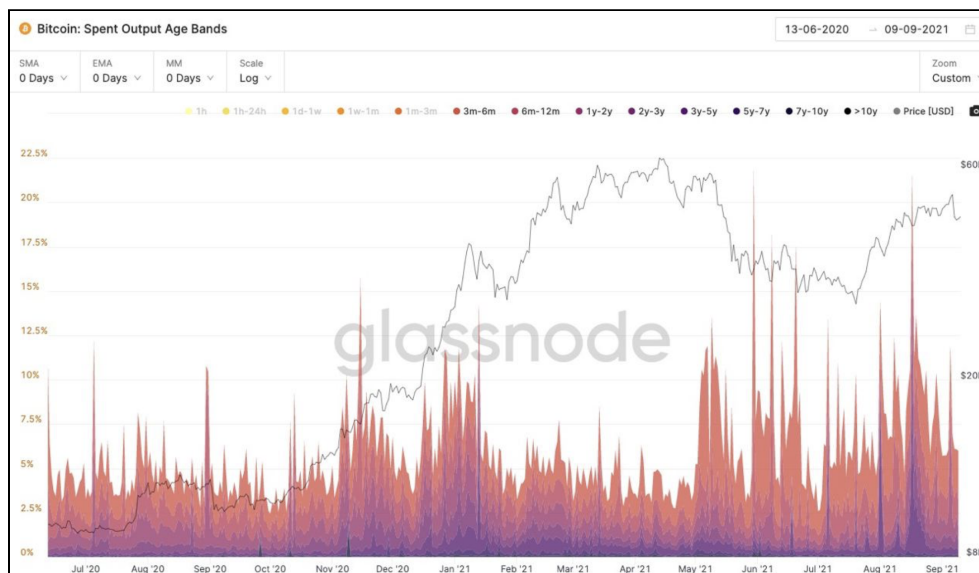


Bitcoin Futures Estimated Leverage Ratio



- Spent output ratios look at profitability and losses taken over a particular time-frame. This on-chain indicator is showing that long-term holders have largely maintained their positioning, providing insight into the nature of the drop. The fact that positions have been strongly bid at levels around the 38.2% fib has set a short-term floor for the spot bulls.

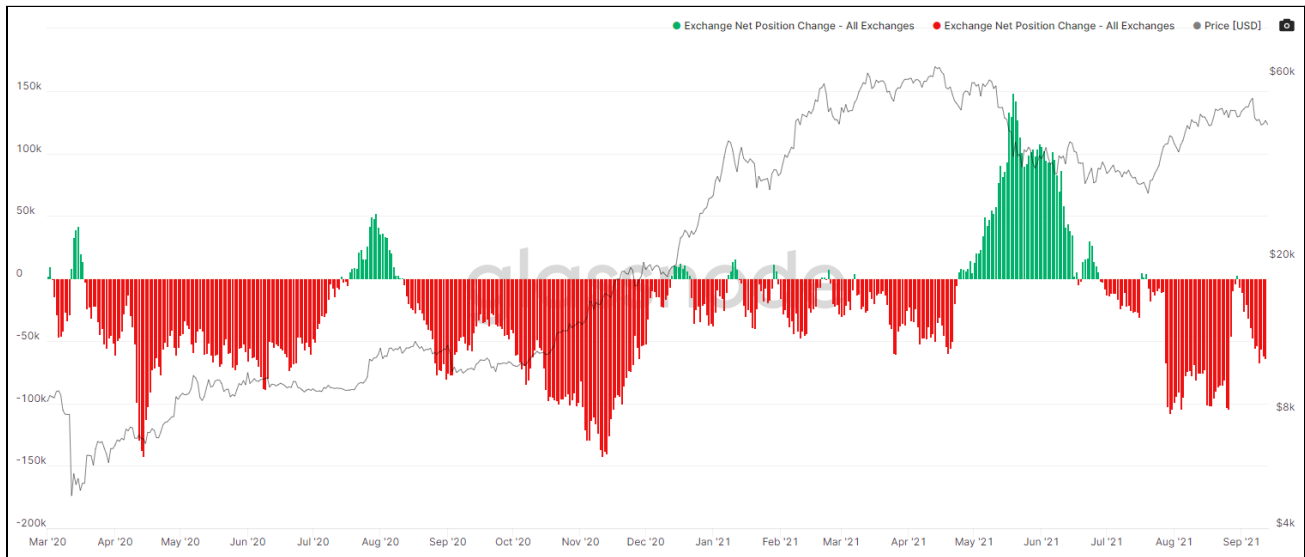
Bitcoin: Spent Output Age Bands





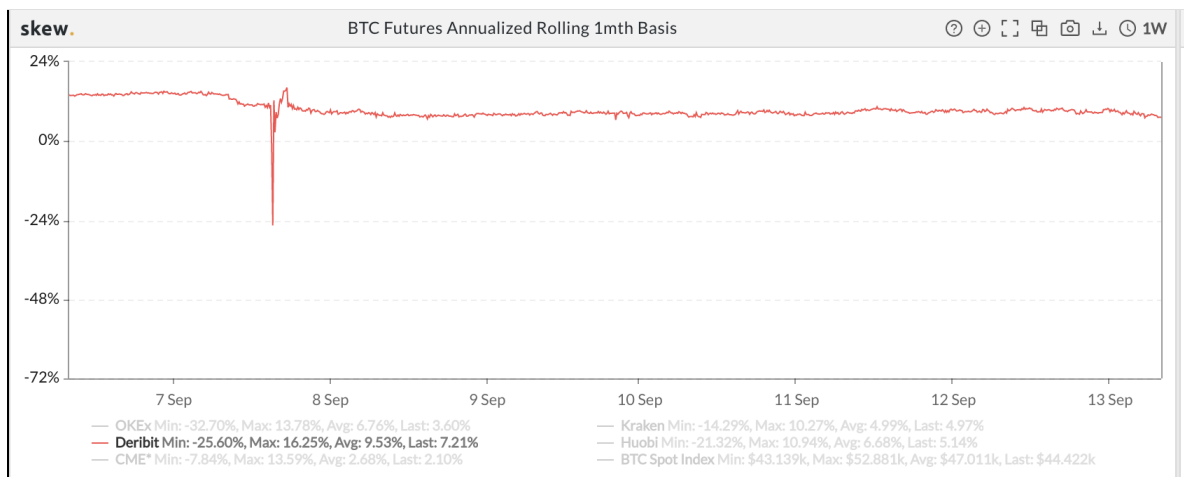
- Bitcoin outflows from exchanges are still strong, further validating a bullish lean.

Bitcoin Net Position Change



- It's interesting to note what happened to the futures curve as positioning shifted. We actually went to -24% backwardation, before recovering. For the delta-neutral traders, this is probably the easiest exit or entry you've made this year.

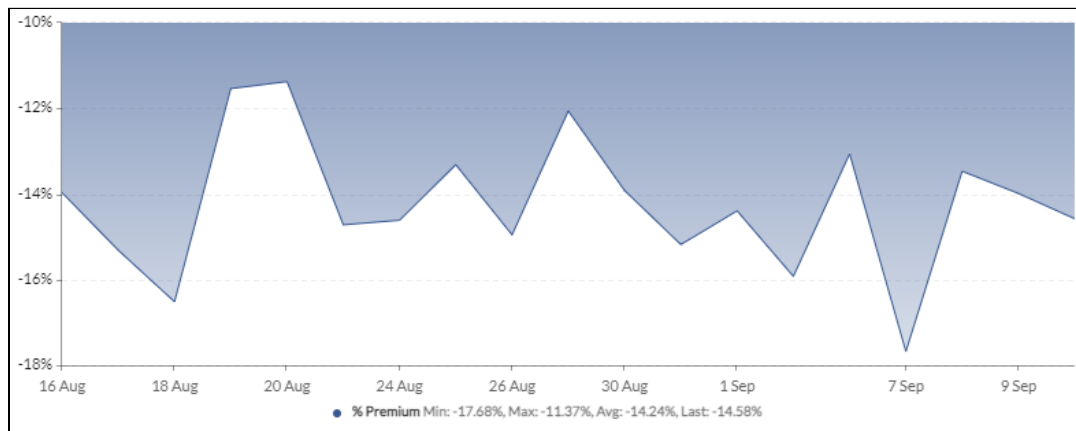
BTC Futures Annualised Rolling 1 Mth Basis





- Converse to the on-chain indicators, we are still negative on the Grayscale BTC Trust, indicating that institutional inflows have not overtaken sellers to this trade.

Grayscale Bitcoin Trust Premium



- Furthermore, macro conditions are shaky with concerns around the delta variant of Covid-19, and tapering uncertainty. We are in a push and pull scenario. If equities continue to take a meaningful dip, risk-off will filter into cryptocurrency in the short-term. The medium to long-term is still positive though, with holders and actual liquidity conditions still favourable even with a tighter tapering timeframe.



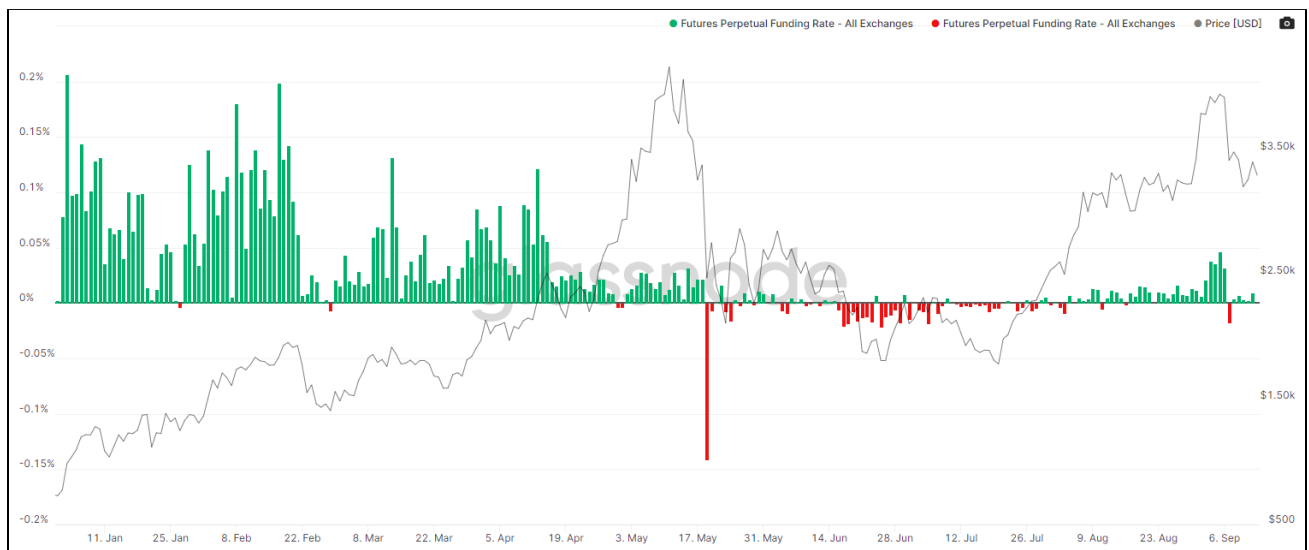
Ethereum





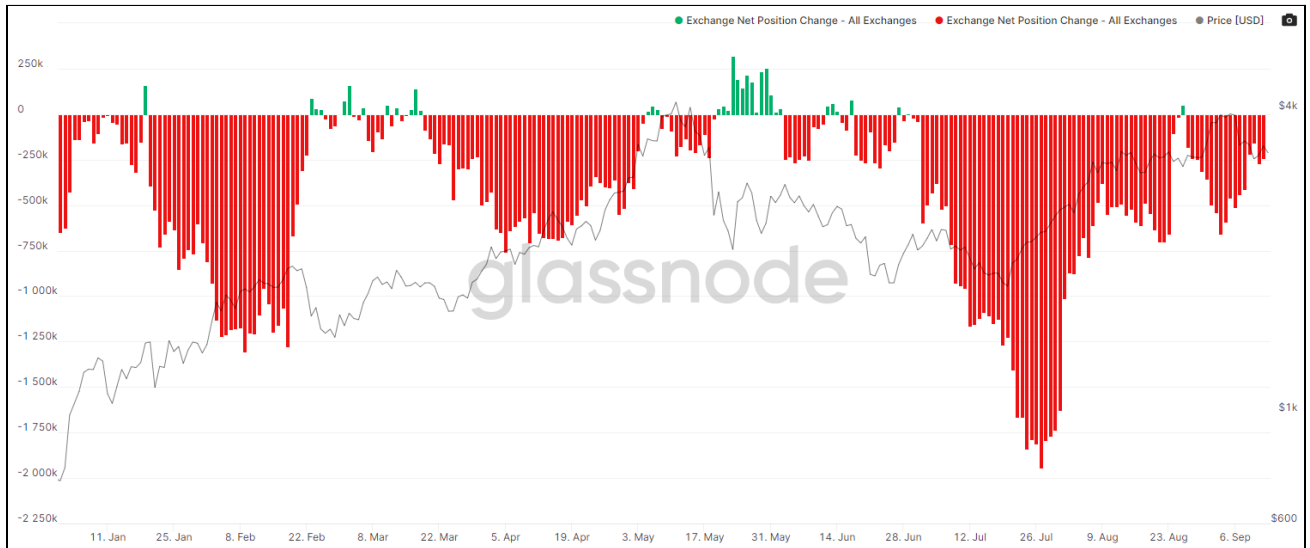
- ETH followed the liquidity move, and like BTC, respected fibs - this time at the 50% level. Price is currently heading toward key support at 3,000. ETH's move on Tuesday was also driven by a spike in USD borrowing to fund margined positions. Perpetuals and other indicators were not overly extended, like BTC, catching the market by surprise.
- Our macro comments from above hold - growth assets could take a tumble with an elevated VIX and subsequent equity market moderation. ETH would normally correlate to risk assets in this environment.
- Conversely, near term catalysts for topside still exist. On-chain data is showing outflows from exchanges, indicating a propensity to hold or buy in the spot market. New NFT projects are awash, leading to inflows across ETH and other layer-1 blockchains. Although we could be approaching bubble territory in the medium-term for NFTs given the momentum of inflows. Already OpenSea's volume is significantly down MoM.

ETH Perpetual Swaps Funding



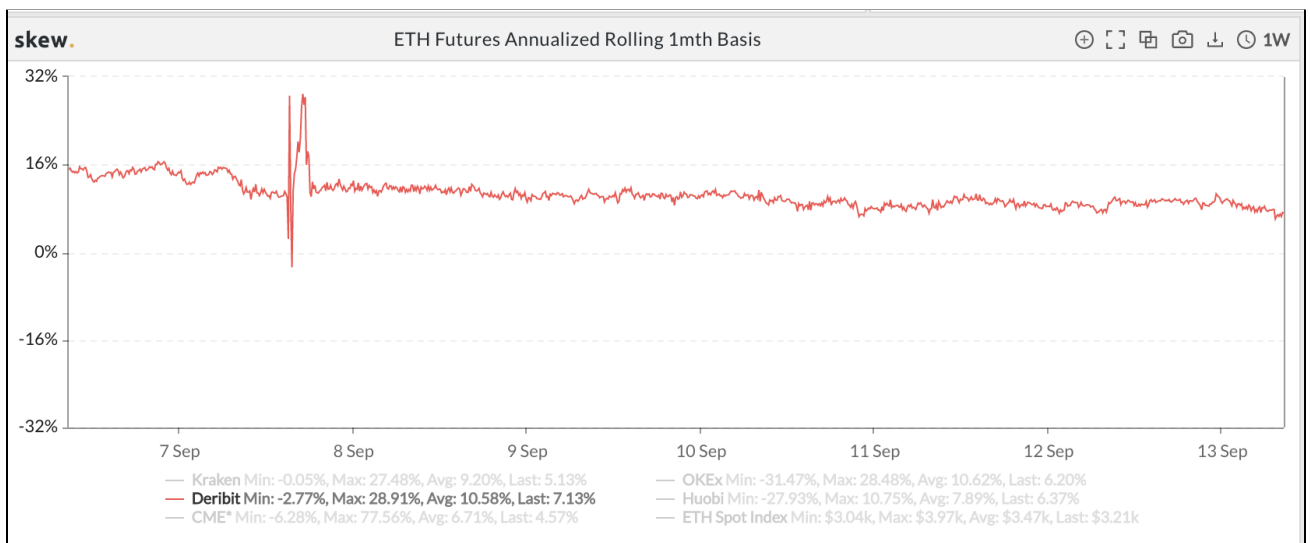


Ethereum Exchange Net Position Change



- During the move, the ETH futures basis only went slightly negative, but was wildly volatile, pumping to 30% as positions rebalanced across spot and derivatives. For the algos or fast hands that can catch this, it's a beautiful trade. Short futures, long spot BTC on the spike, and then take both off the table when vol settles.

ETH Futures Annualised Rolling 1 Mth Basis





- The amount of ETH in the ETH 2.0 staking contract currently sits at [7,495,452](#). This represents 6.3% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.
- Layer 1 blockchains were sold off during the liquidation, however some rebounded with force. Solana rebounded and then broke all-time highs. LUNA and Fantom had similar patterns. It's tough to get a handle on what the true value of these tokens are. The adoption curve is certainly there, but we are at really elevated levels up here with token market caps in the many billions. Note that I also said this when Solana was at \$40, and it still continued to move. In any event, it's not a bad idea to take some off the table when you get such a one-sided run, which we've done in some key altcoin positions.
- In summary, keep an eye on the NASDAQ and associated risk-on / risk-off moves in traditional markets. These have more of an impact that the crypto market would like to admit at times. If on-chain decides to switch, we could be in for some more downside. For now, it's back to wait and see.



DeFi & Innovation

- Institutional investors dominated DeFi in Q2 - [Chainalysis](#) Global DeFi Adoption Index.
- Credit-ratings giant Moody is [hiring crypto analysts](#) to understand DeFi.
- Nasdaq to provide price feeds for [tokenised stocks](#) in DeFi chain.
- Blockstream to pilot a renewable [mining facility](#) with Macquarie.
- Crypto exchange FTX launches [NFT marketplace](#) available to US customers.
- OpenSea's NFT volume [down 50%](#) after a major surge in August.

What to Watch

- Last week we mentioned expecting more regulatory initiatives in the US. Soon afterwards, the US SEC just took a hands-on approach by issuing warnings to Coinbase on their upcoming lending services, labelling them as securities. It's early to tell if the move is detrimental to the market; the SEC hasn't provided guidelines on how Coinbase must proceed with the request, and whether cooperation between the entities could result in eventually releasing the products according to plan. As the situation unfolds, we are looking for more details on how SEC seeks to move forward with measures, as this first direct regulatory motion could dictate the framework for other US crypto services.



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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