ZEROCAP
Weekly Crypto Market Wrap
20 September 2021 – 26 September 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

- Fed Chair Gary Gensler at FOMC meeting; The US Federal Reserve voiced their readiness for tapering monthly purchases of assets, with November 2021 the most likely start date. Members Dot Plot showing anticipation for rates to begin normalisation from 2022, though market is currently pricing in 2023 as the lift off for US rate hikes. On the other side of the Atlantic, the Bank of England voices their own concern over inflationary expectations and the market now fully priced in a Q1 22 interest rate move higher.

- Stock market stabilised into the weekend amid Evergrande servicing its onshore bond payment, though lingering worries over the property developers offshore USD coupon weights on the credit market. S&P 500, Dow Jones Industrial Index and Nasdaq registered an uptick from the previous week.

- China declares that all crypto activities are illegal, a framework suggested in May this year, but carried out by all 10 regulatory bodies this week. The immediate sell off was limited - data shows crypto recovered from China's crackdowns 22 times in the last 12 years. The expectation is for Beijing to "clear the path" for its own version of CBDC in the near future.

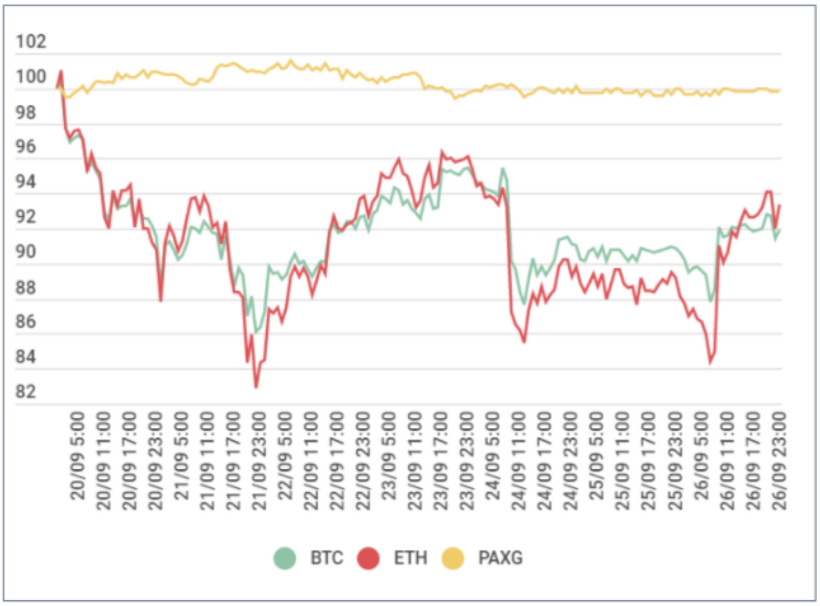
- China's Central Bank exec says crypto adoption is "a huge challenge" for regulators, as the market can operate separately from the traditional payment system. Speculation that underground outflows are above daily limits is one of the reasons behind PBoC's concern.

- Binance will end crypto futures and options in Australia on 24th December amid further regulatory monitoring on the exchange globally.

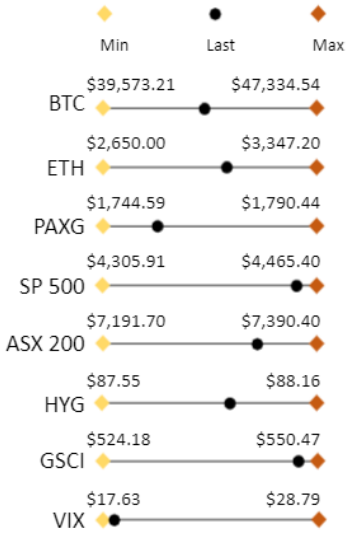
- Following US SEC warning, Coinbase abandons plan for crypto lending products. CEO claims the SEC is the only regulator not willing to meet to discuss regulations.
- Institutional investors prefer ethereum over bitcoin, according to JPMorgan analysis, while increasing their overall crypto holdings for 5th straight week.
- Canadian regulators release crypto exchange guidelines on marketing and social media.
- Twitter launches a bitcoin tipping payment tool for all users.
- Latin America's largest investment bank, Brazil's BTG Pactual launches crypto trading.

Winners & Losers

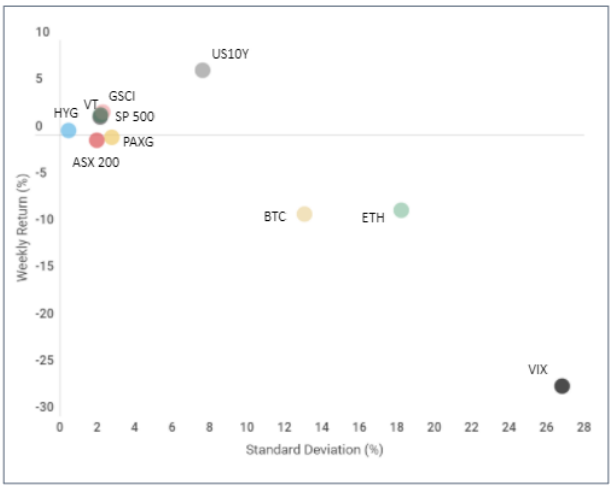
7 Days Hourly - Price Index



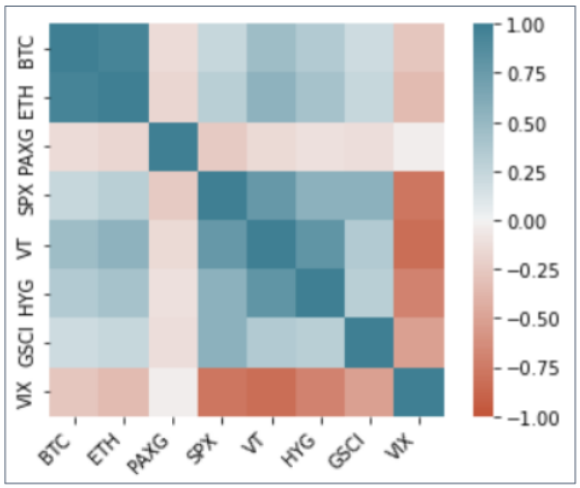
7 Days Hourly – Min Max Range



7 Days Hourly – Return & Standard Deviation



7 Days Hourly - Return Correlation



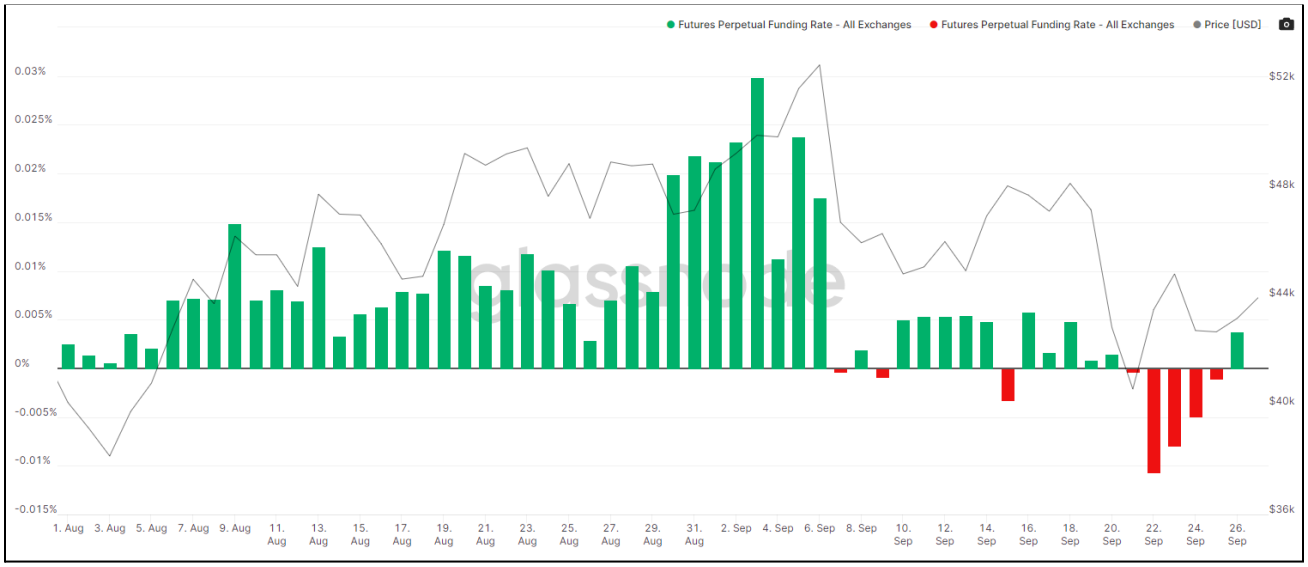
- Bitcoin and ethereum both faced major sell offs this week as the potential Evergrande default impacted global markets and China regulatory uncertainty continued. While both assets saw slight recoveries later in the week, investors remained risk-off as they awaited more definitive price action following the dump. Overall, BTC returned -8.58% and ETH -8.1% WoW.
- Equities continued dropping early in the week as Asia remained on holiday, and the rest of the market maintained risk-off on Evergrande and in anticipation of the upcoming Fed meeting. The news that came out of the FOMC meeting later in the week eased concerns with a dovish approach, Powell stating that we may see tapering in November. This combined with a lack of negative news out of China saw the markets catch a bid leading into the weekly close. The S&P 500 closed up 1.82% WoW.
- Global Government bond yields spiked higher following the FOMC and BoE's meeting as the market priced in further inflationary expectations and an early lift off by the UK central bank. US 10 year yield up 9 bps to 1.446.
- Gold prices went on the defensive following the FOMC meeting as DXY pushed towards 93.50, a one month high. With global credit markets easing concerns, dismissing Evergrande talk of China's Lehman moment, gold prices retreated by 0.2% for the week, its third straight week of decline.

Macro, Technicals & Order Flow

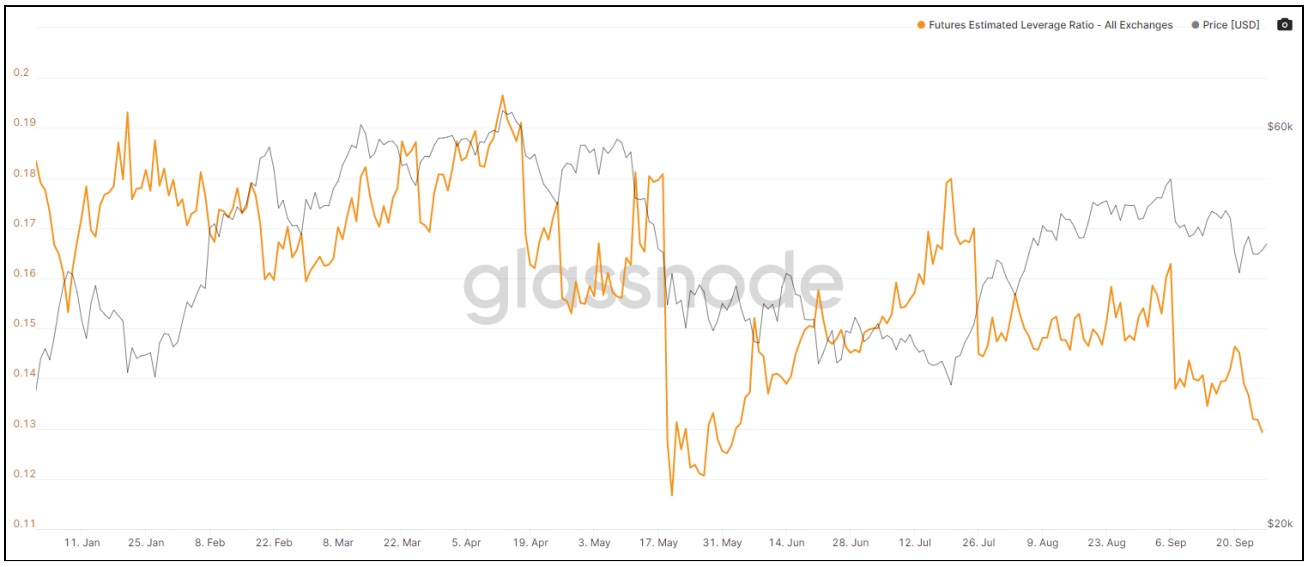
Bitcoin

- We feel that the chance Evergrande 'contagion' is unlikely given that these were non-investment grade bonds, and any real fallout needs to be tempered with the stimulus context globally right now. Further fueling BTC's short-term downside break to the 40,000 level last week was China's 'banning of crypto'. We've seen this playbook before - the market has responded with buying at these levels.
- Perpetual funding rates shifted negative during the spike, but have moderated on buying pressure.
- Leverage in the system is low, pointing to limited chances of wild downside stops being taken out.

BTC Perpetual Swaps Funding



Bitcoin Futures Estimated Leverage Ratio

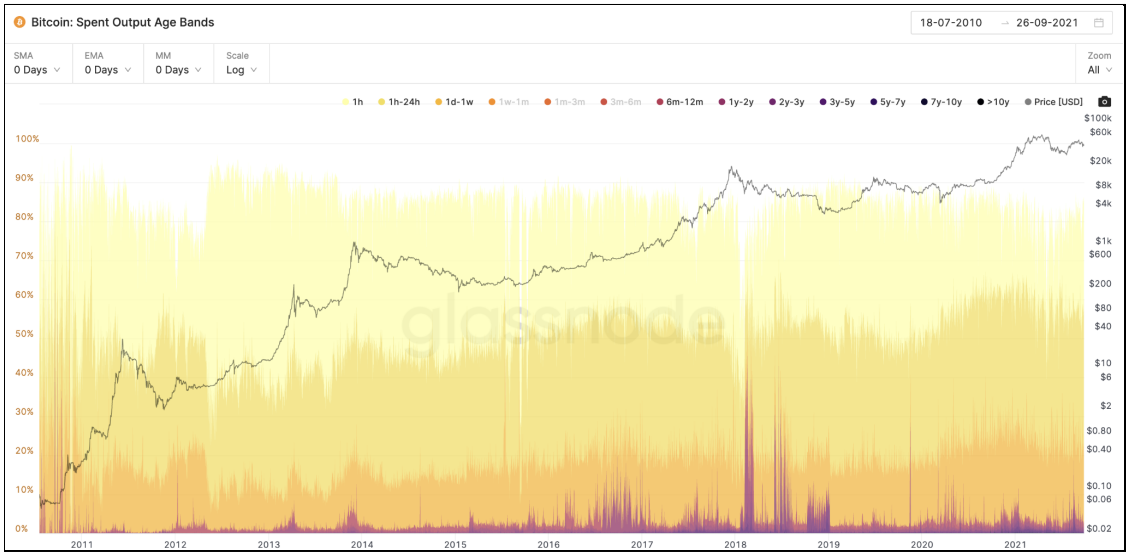


- On-chain data showing that long-term holders continue to accumulate this dip.

Bitcoin: Total Supply Held by Long-Term Holders

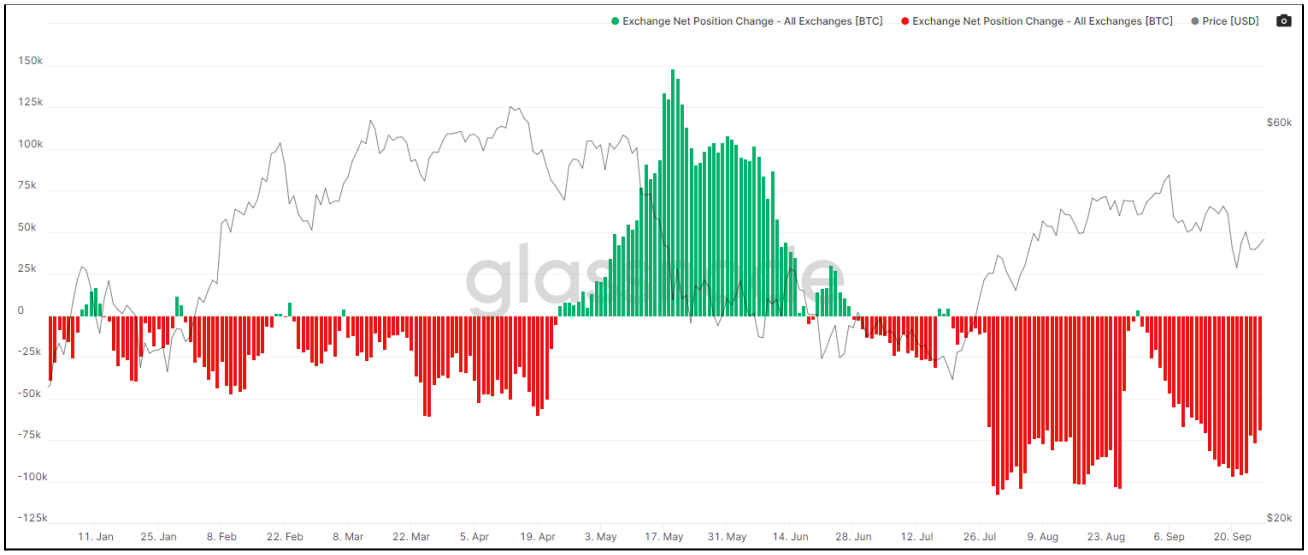
- Spend Output Age Bands are still showing that recent and current moves are built on shorter-term holders. The 'smart money' is reducing spend and holding, whilst short-term outputs are playing momentum.

Bitcoin: Spent Output Age Bands



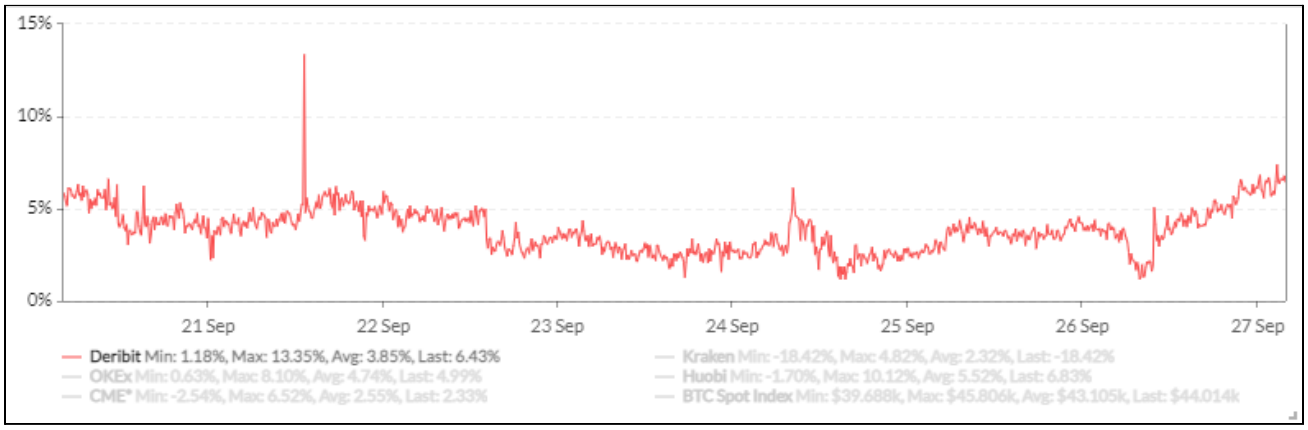
- Similarly, bitcoin's net position change on exchanges continues to signal bullish sentiment, with exchange outflows significant.

Bitcoin Net Position Change



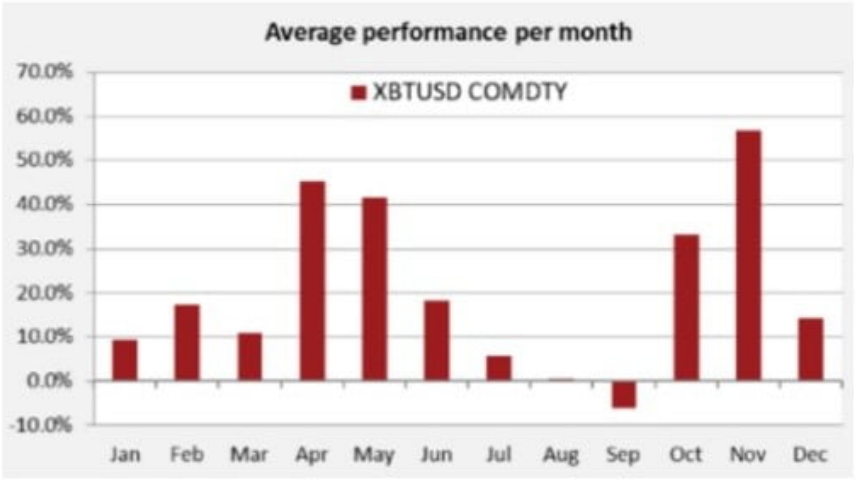
- Futures curve is historically compressed, but has clearly recovered on the back of the risk this week.

BTC Futures Annualised Rolling 1 Mth Basis



- On-chain is still strongly bullish, and since last week the market has signalled that Evergrande and China news is not as dire as the initial spikes would suggest. All the CB activity we had last week has been fairly dovish on the global scale, despite the BOE looking for hikes. Most notably as we approach October, make note of seasonality. September has lost over 35% in the last 4 years, prior to a run in October. As always, take any seasonality with other indicators, which are looking promising in the medium-term.

BTC Seasonal Returns

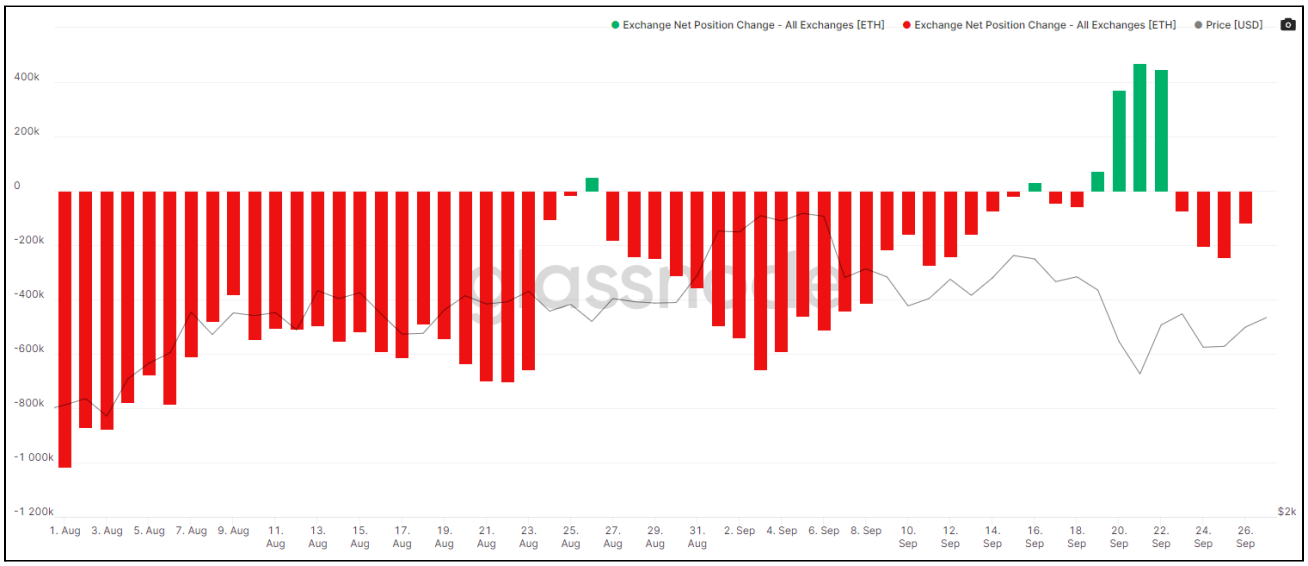


Source: Sentix; Bloomberg

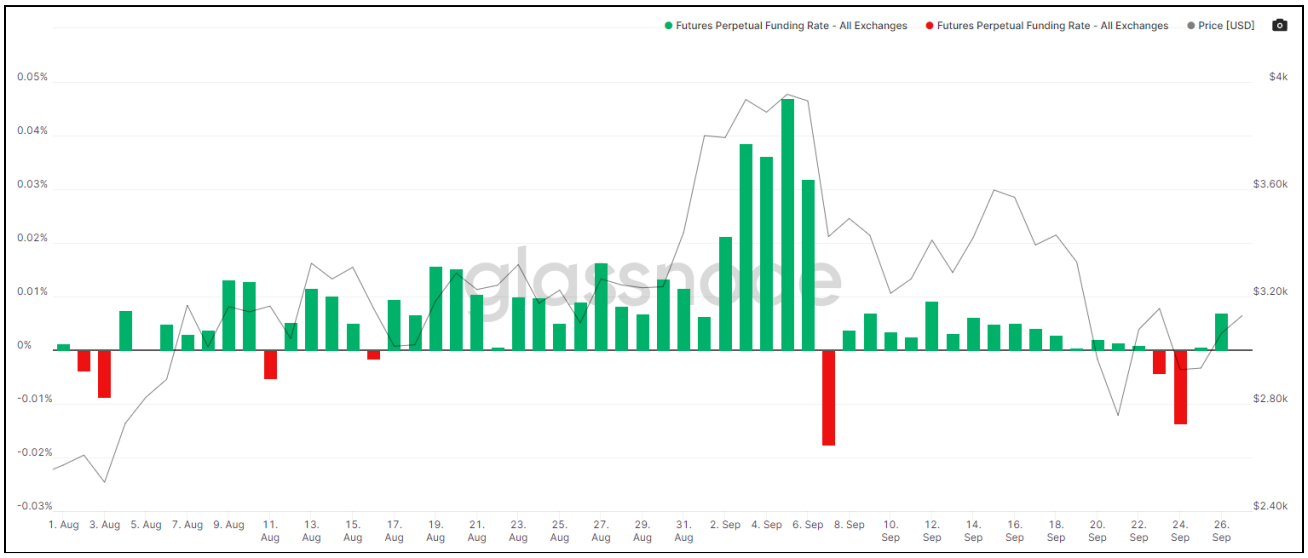
Ethereum

- Ethereum is also playing the bounce, extending further to the downside than we expected to 2,650, coinciding with the 200-SMA. ETH on-chain inflows to exchanges had flipped positive in the week prior, and didn't have the buoyancy that BTC's on-chain metrics were showing. This week has been a different story though, shifting to net outflows alongside a moderation in intermarket risk.
- Perpetual funding rates have responded by flipping positive, indicating positive sentiment in derivatives. With limited leverage in the system, this is a positive sign.

Ethereum Exchange Net Position Change

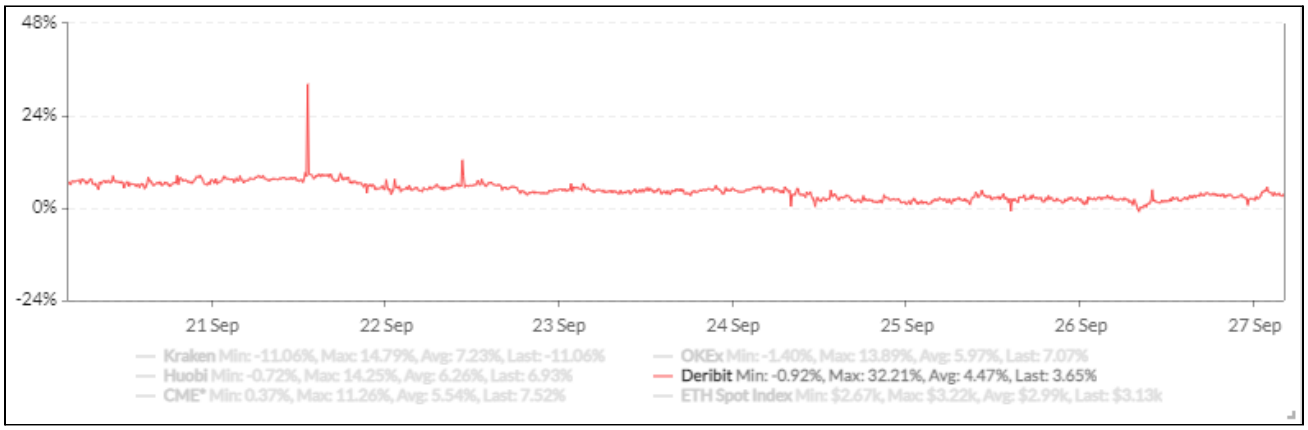


ETH Perpetual Swaps Funding



- Although against this backdrop, ETH's futures basis curve is still trending downward.

ETH Futures Annualised Rolling 1 Mth Basis



- The amount of ETH in the ETH 2.0 staking contract currently sits at 7,768,763 . This represents 6.6% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.

- The market feels like it's favouring BTC at the moment, which could be the early stages of hedge vs risk asset playing out. We've had this thesis for a while, but it'll take a few economic shocks to test the theory in the medium-term. If inflation decides to take hold, medium-term divergence in on-chain, derivatives and fundamentals in ethereum and bitcoin would make a great play short on ETH/BTC. It's already looking a bit toppy here, and has arguably made a loose break of the ascending trendline from March 2021. This said, easing expectations of Evergrande issues and general bullish sentiment on dovish tapering expectations is likely to keep ETH buoyant for some time yet.

ETH/BTC

ETHBTC
Compare
Indicators
Financials
Templates
Alert
Replay
Publish
Ethereum / Bitcoin 1D BITSTAMP
200 Day 0.05942002
Stoch RSI 3 3 14 14 close 47.96 32.44

DeFi & Innovation

- Dfinity is set to host bitcoin smart contracts on the Internet Computer (ICP) network, opening up DeFi for BTC.
- US crypto companies seek DeFi approval with SEC and physically backed bitcoin ETFs.
- UniSwap announces its d'App is now fully integrated with EIP-1599 following the ETH hard fork.
- Fed Chair Jerome Powell claims Reserve is undecided about developing a digital dollar, set to release paper on CBDC soon.
- PayPal launches a "super app" combining crypto, savings, bills, shopping and more.

What to Watch

- Here we are once more with a crackdown from China, this time declaring that all cryptocurrency transactions are illegal. China has prohibited banks from handling transactions related to crypto for years, and as China now aims at crypto transactions, we'll keep an eye on what the consequences will be for active crypto users/businesses in the nation, and how the market will react to those actions. We've seen this playbook before from China, and the market has found a way forward. Will this time be different?
- The Fed announced that it's ready to begin tapering, concluding that the economy has been recovering well from the pandemic. Tapering will happen, and it will happen soon. While the market had a week in the green, we are looking ahead to more developments on Evergrande, the Federal Reserve and Covid-19 cases in the US, which have been surging greatly in the past few weeks.

Insights

- Zerocap DeFi Index - August Highlights: August was quite the month for Zerocap's DeFi Index! Have a look at our returns and insights on the projects that stood out during the period.

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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