ZEROCAP
Weekly Crypto Market Wrap
30 August 2021 – 5 September 2021

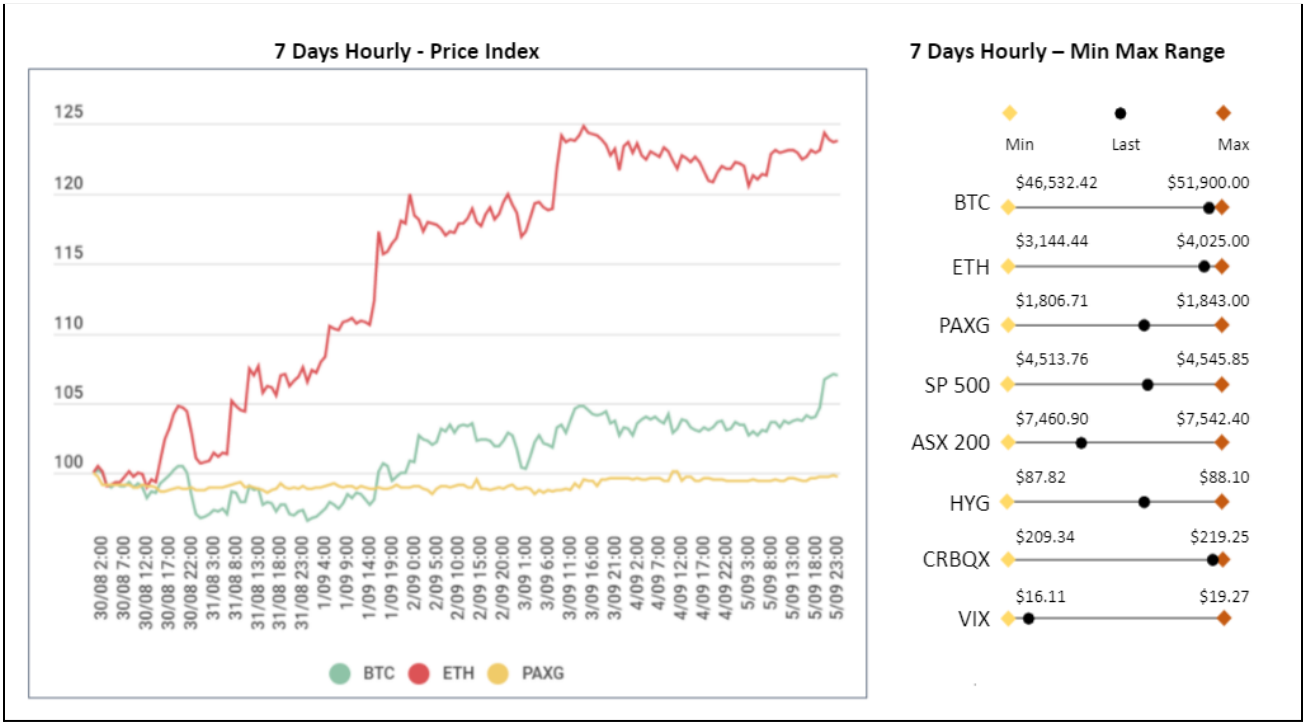
Zerocap provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at hello@zerocap.com or visit our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

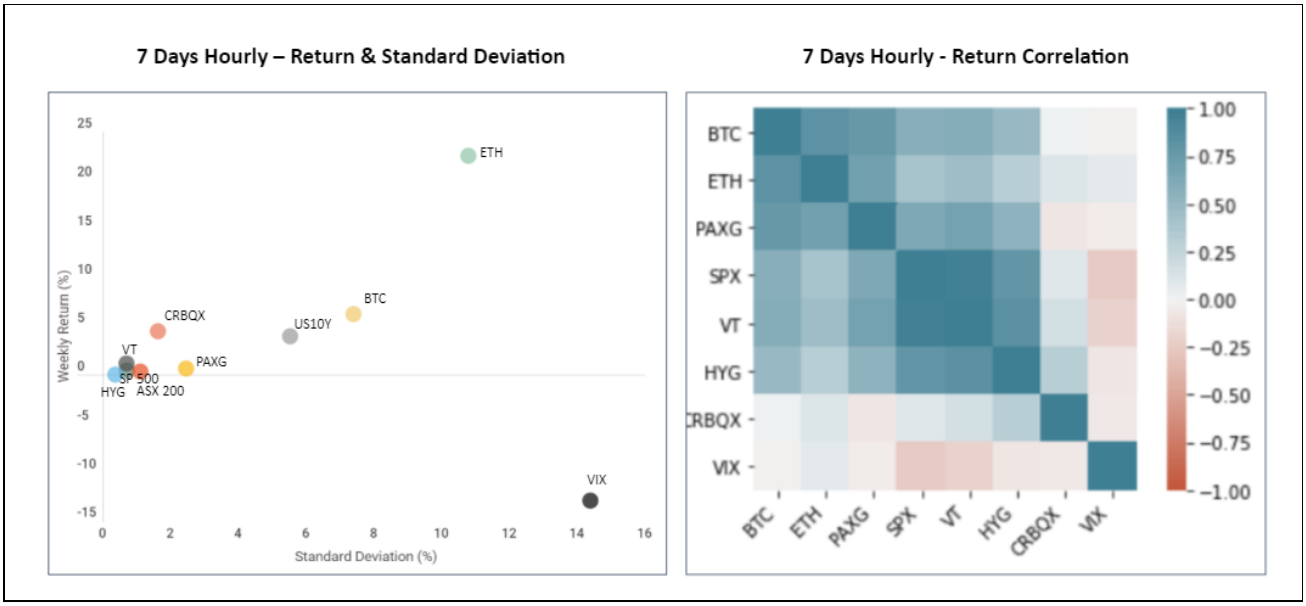
Week in Review

- August's US Jobs report disappoints, with 235k payroll growth compared to expected 720k.
- S&P 500 and Dow Jones' Index register a volatile week, while Nasdaq breaks all-time highs.
- Trump calls cryptocurrencies "a disaster waiting to happen" as the crypto market "hurts the United States currency," urging citizens to invest in the dollar.
- Total market cap of public crypto stocks quadrupled since January; CoinShares report.
- US SEC Chair Gary Gensler claims the crypto market is too big to survive outside regulations, seeks policy cooperation with the EU as crypto's disruptive nature could be "as big as the internet in the 1990's."
- US SEC investigates DEX developer Uniswap regarding marketing and user practices, charges BitConnect founder for fraudulent $2 billion raising from 2017's ICO boom.
- US Treasury seeks crypto reporting rules in $3.5 trillion reconciliation bill.
- Cryptocurrencies are now recognised under commercial law in Texas.
- FTX exchange acquires derivatives platform LedgerX, intends to extend its derivatives offering.
- Popular ETH-based wallet, MetaMask surpasses 10 million monthly active users, an 1,800% surge in 2021.

- Binance.US expected to go public in three years, says CEO.

Winners & Losers





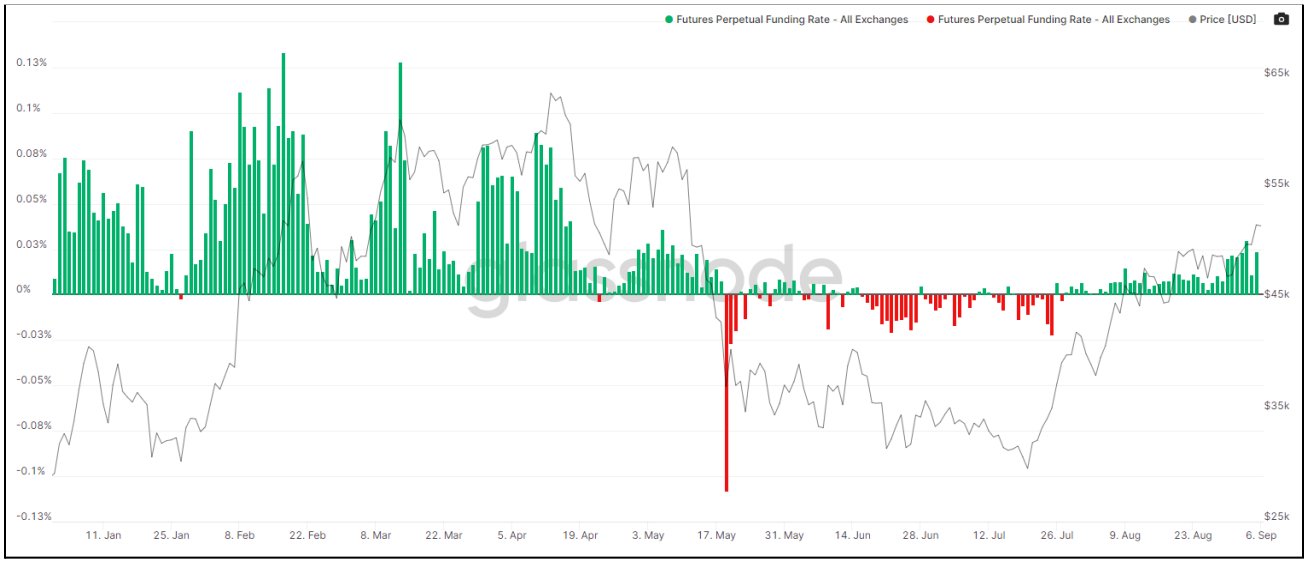
- Bitcoin and ethereum both showed strength this week, a result of continued adoption and investment globally. A notable rise in directional bets (particularly in derivatives) occurred this week as Arbitrum One (ETH scaling solution) successfully launched its mainnet and rumours of a potential BTC ETF in the US circulated. The NFT craze combined with the rallies in alternative blockchains remain key drivers for the broader crypto market currently. Overall, BTC returned 6.02% and ETH 22.52%.
- Equities posted small gains this week after trading in a tight range in anticipation of the US' employment data for August. Both the ADP and NFP figures for August came in significantly below expectations suggesting that current levels of QE and low rates are likely to stick around in the short term despite the resolution of the Fed meeting in Jackson Hole the week prior. The S&P 500 returned 0.48% WoW.
- The US10Y also showed low volatility this week, similarly awaiting the release of the August jobs report. The initial reaction was lower yield, a weaker dollar and stronger stocks. But the market digested the higher wage number alongside a stronger revision to July numbers, calling for November as the announcement of first tapering. The US10Y bounced, closing up 2 bps at 1.32%.
- Much like the rest of the market, gold held to a tight range earlier in the week before climbing on Friday as investors eye off the potential for a delay in tapering. Gold ended the week up 0.51%.

Macro, Technicals & Order Flow

Bitcoin

- BTC has hung onto its levels before being dragged higher by the rest of the market. We've cleared the 61.8% fibonacci level and prior neckline head and shoulder break, which leaves a clear technical run to 55,000.
- Derivatives markets are showing moderate signs of heating up - perpetual funding rates are now clearly above the mean and gaining momentum. Nothing to worry about just yet, but we'll keep an eye on any wild speculative positions building to monitor downside risks.

BTC Perpetual Swaps Funding

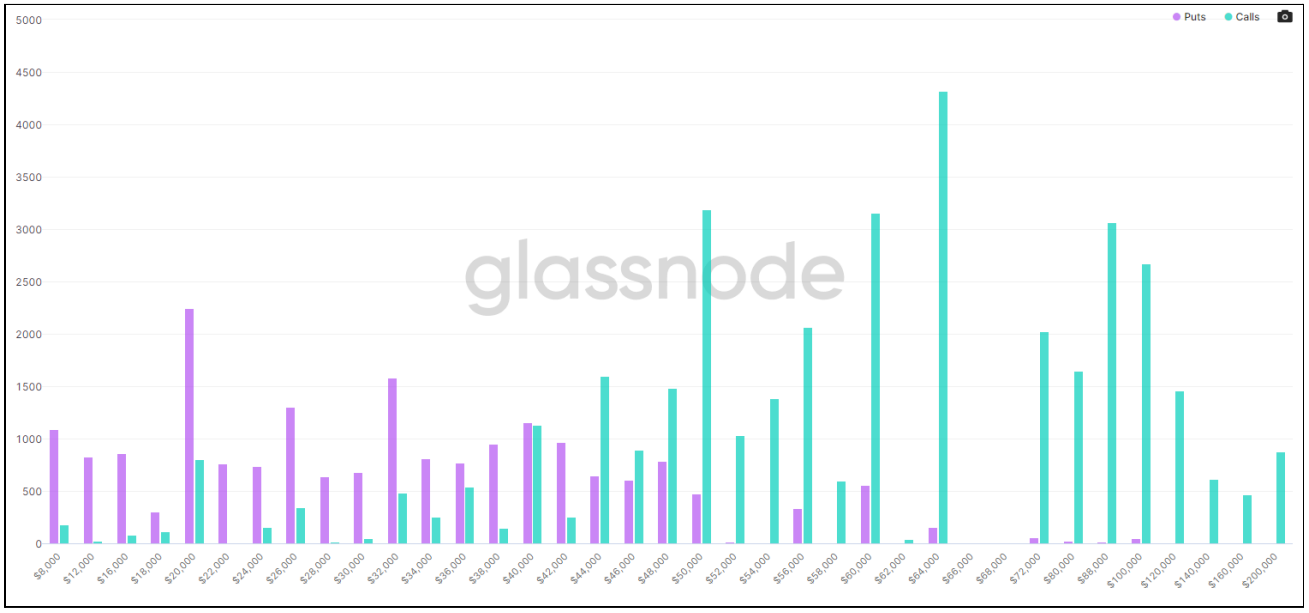


- Notably, the Futures Leverage Ratio is still at moderate levels. This measure is a ratio of the balance vs open interest at exchanges. This further validates that we are not in squeeze territory.

Bitcoin Futures Estimated Leverage Ratio

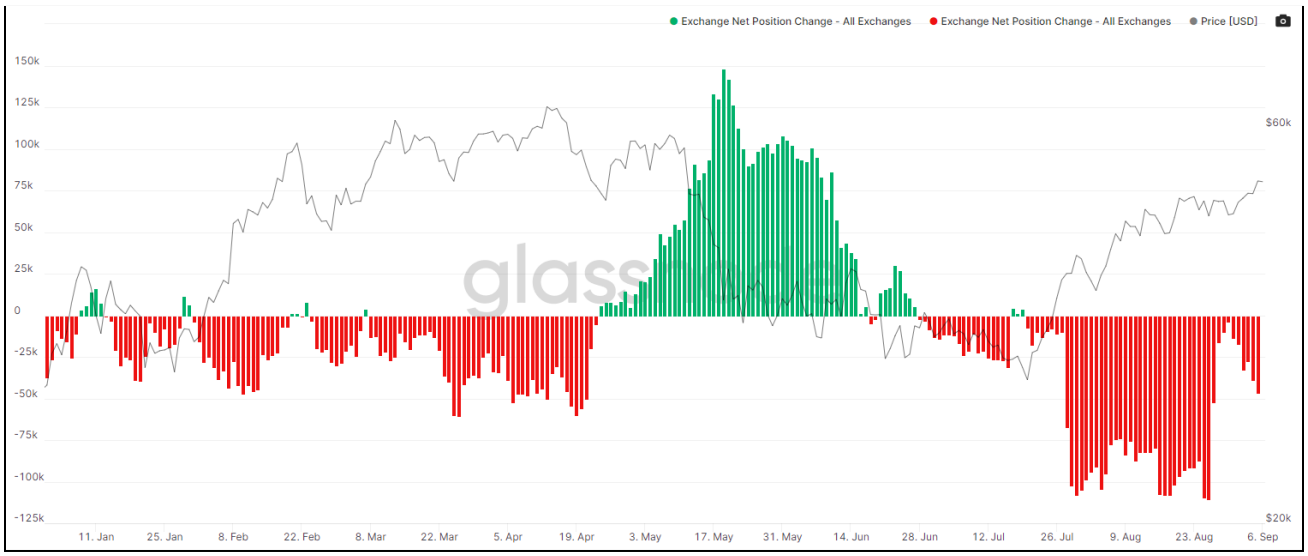
- The weighting of call options in the market was telling from the prior week, with a clear upside lean to a break of 52,000. The high of today has touched this level, and we are looking to move higher. The 24/09 expiry has strong open interest at the 60,000 and 64,000 levels. A stretch from here but, given the shift in market sentiment, we've seen stranger things happen.

BTC Options Open Interest by Strike Price (24/09)



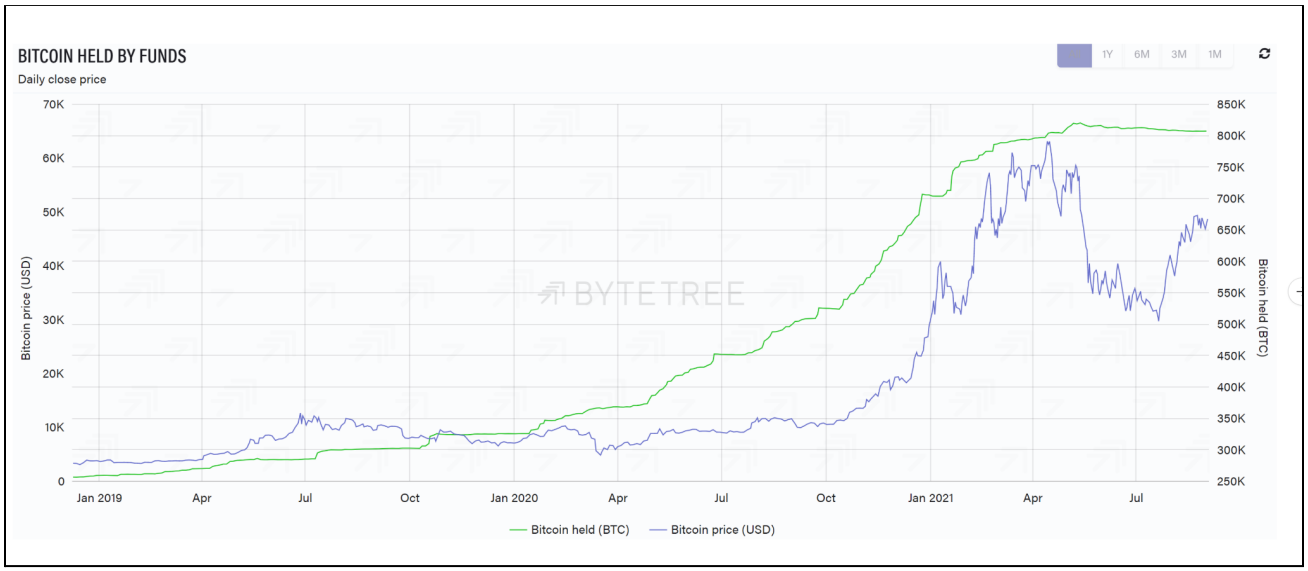
- Particularly interesting on this break is that on-chain outflows are increasing, but still have room to move further out the curve, indicating that momentum still has room to build.

Bitcoin Net Position Change

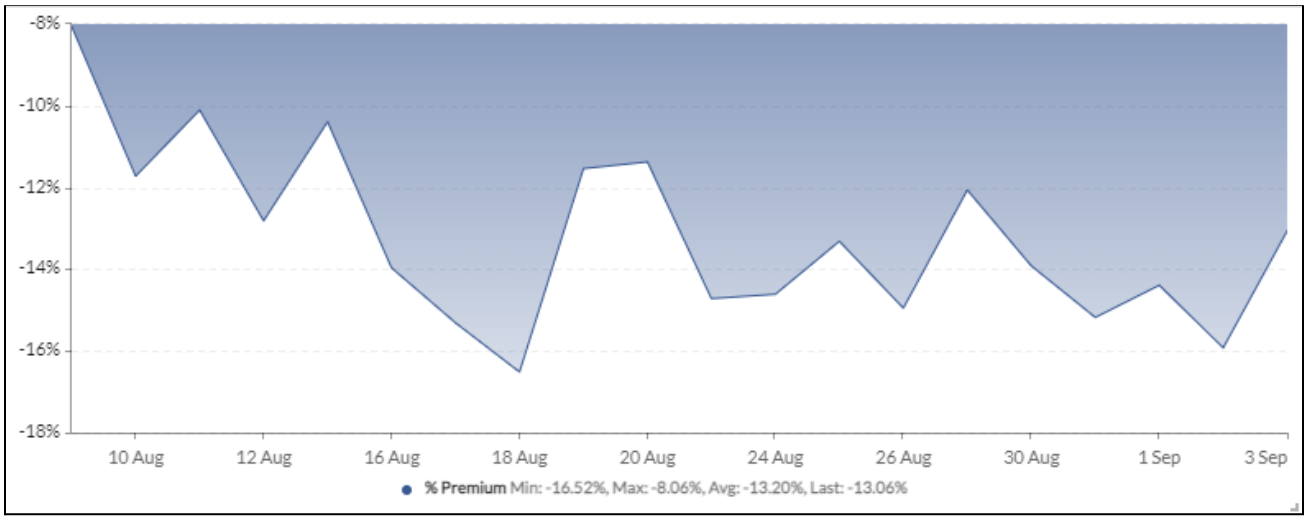


- Who's participating in this rally? Interestingly, it's not the funds... yet. After the May drop, we've seen moderation in fund holdings. Are they waiting for an entry or an exit as higher levels approach? The Grayscale premium is still underwater, validating lower institutional buying during this rally.

Bitcoin Held by Select Funds

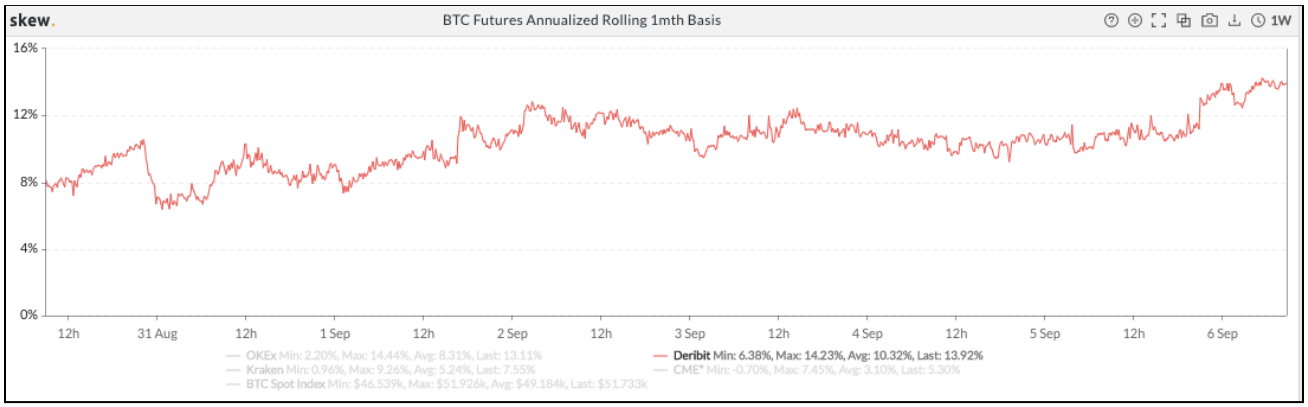


Grayscale Bitcoin Trust Premium



- The futures basis has broken out of its range. All in all, BTC is looking good for a move higher this week.

BTC Futures Annualised Rolling 1 Mth Basis

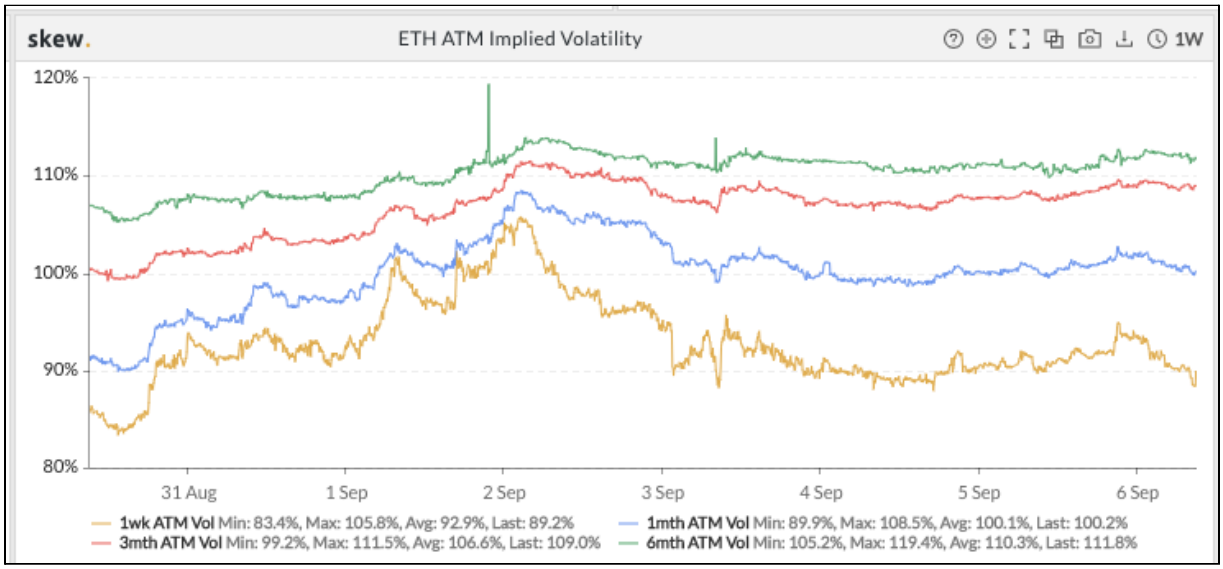


Ethereum

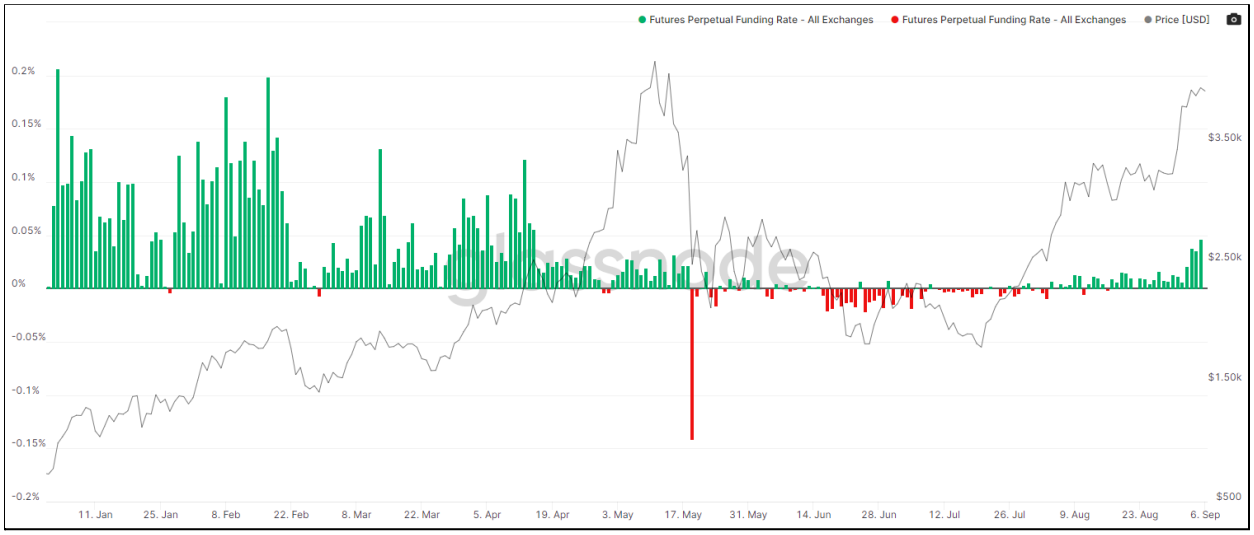
- And kaboom - ETH flies through near-term levels and is gunning for its all-time highs. The asset is very bullish, clearing the 78.6% fibonacci level, with call options

being bought up (especially in the short end). Spiking of short term implied vol building momentum, Perpetual funding rates and futures leverage is starting to move. Technicals from here are clear. ETH actually went deflationary for a portion of the week, with negative daily issuance, due to the burn rate introduced in EIP-1559. There's a chance we clear all-time highs this week.

ETH ATM Implied Volatility

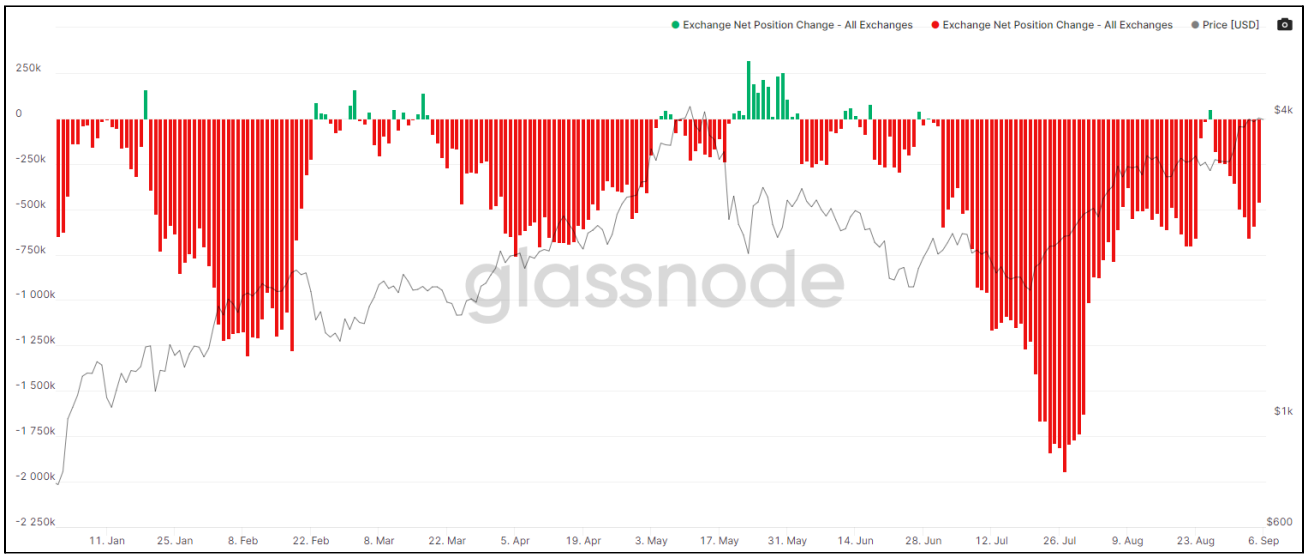


ETH Perpetual Swaps Funding



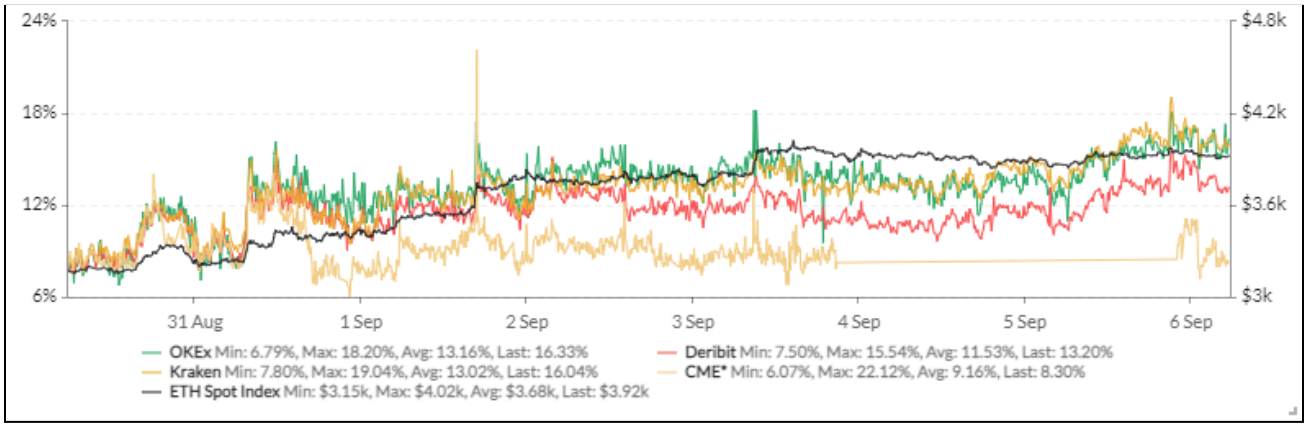
- After the small fake out on-chain net inflow, we are clearly building outflow momentum again - indicating a propensity to hold.

Ethereum Exchange Net Position Change



- Like BTC, we've seen a nice breakout of the future's basis curve, indicating strong and growing expectations of future prices.

ETH Futures Annualised Rolling 1 Mth Basis



- The amount of ETH in the ETH 2.0 staking contract currently sits at 7,290,396 . This represents 6.21% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.

- Layer 1 blockchains are still going ballistic, with Fantom and Solana standouts for growth over the past weeks. Transaction fees, DeFi use-cases and NFTs have been triggers, alongside some pretty awesome advances in their technology.

- Admittedly, this is a marked shift from our view a week ago - which was to wait and see. This whole move has been micro (eg DeFi / NFT) and not a macro move. There is a building narrative that ethereum's use case is now so strong that we see a flippening of the largest market cap, bitcoin, in favour of ethereum. Whatever your view, it's clear that ETH is back in the hot seat.

DeFi & Innovation

- SEC is allegedly investigating other DeFi apps beyond Uniswap.
- Twitter is reportedly working on a bitcoin tipping feature as part of its "Tip Jar" tool. Platform also seeks to allow users to add their BTC and ETH addresses to profiles.
- Shop.com now accepts bitcoin payments after BitPay partnership.
- Australia, Singapore, Malaysia and South Africa to trial cross-border CBDC payments.
- US Universities begin to offer DeFi courses towards better financial literacy.
- China's blockchain infrastructure is set to digitize securities and futures.

What to Watch

- With August's US Jobs Report recording much lower results than expected, tapering might arrive later than initially planned by the Fed. Even though we don't have a set date on the measures yet, Fed Chair Jerome Powell mentioned in Jackson Hole that tapering would be well on its way if the US continued its growth trend. With August's jobs bringing in approximately 50% less new payrolls than 2021's monthly average, we expect comments on the future plans for economic stability.
- Regulatory measures are getting stronger in the US with the SEC taking action against crypto's largest DEX and filing suit against a fraudulent project, whilst the Treasury seeks tougher crypto regulations in the current reconciliation bill. The end goal, however, is not clear; officials such as Gary Gensler seek to promote the market through regulation, while others see cryptocurrencies as a threat that must be contained through legal crackdown. As the US crypto market skyrockets in adoption and investment options, we expect more details on regulatory initiatives in the upcoming weeks to better understand if such steps will be beneficial to inflows.

Disclaimer

This document has been prepared by Zerocap Pty Ltd, its directors, employees and agents for information purposes only and by no means constitutes a solicitation to investment or disinvestment. The views expressed in this update reflect the analysts' personal opinions about the cryptocurrencies. These views may change without notice and are subject to market conditions. All data used in the update are between 30 Aug. 2021 0:00 UTC to 5 Sep. 2021 23:59 UTC from TradingView. Contents presented may be subject to errors. The updates are for personal use only and should not be republished or redistributed. Zerocap Pty Ltd reserves the right of final interpretation for the content herein above.

* 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