



ZEROCAP

Weekly Crypto Market Wrap

15 November 2021 – 21 November 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

- President Biden signs the \$1T [infrastructure bill](#) containing crypto broker reporting requirements, including reporting crypto transactions over \$10k to the government within 15 days - Senator Lummis works on [separate bill](#) to narrow the regulatory scope.
- Fed Reserve governor [Waller](#) and St. Louis President [Bullard](#) urge faster tapering measures due to rapid inflation rise.
- US [retail sales report](#) climbs 1.7% in October, fastest gain since March, as Americans enter holiday season while inflation plays a role - at its highest in 31 years.
- Biden and Xi Jinping meet - leaders called for mutual respect during unexceptional meeting while Chinese officials [warned the US](#) against “playing with fire” on Taiwan.
- [Commonwealth Bank](#) CEO says the biggest risk of crypto is “missing out.”
- [US Congress](#) holds a “Demystifying Crypto” hearing, calling for crypto exchange regulations that match traditional finance’s and better oversight of stablecoins.
- U.S. Federal Reserve governor Waller’s [speech](#) praises stablecoins as genuine innovations, while claiming CBDCs are unnecessary as a payments system.
- [Blueprint for CFTC](#) regime over digital assets enters US Congress, while SEC’s Gary Gensler opposes their regulatory initiative.
- Former democratic US candidate [Hillary Clinton](#) warns that crypto can “destabilize nations”, potentially “undermining the role of the dollar as the reserve currency.”



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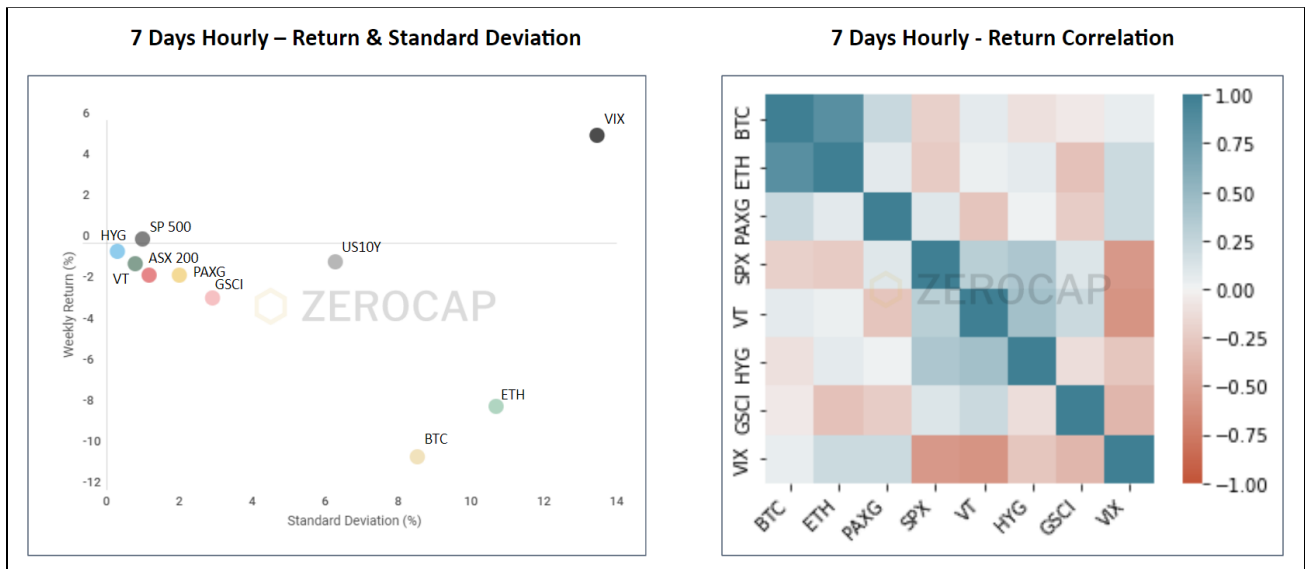
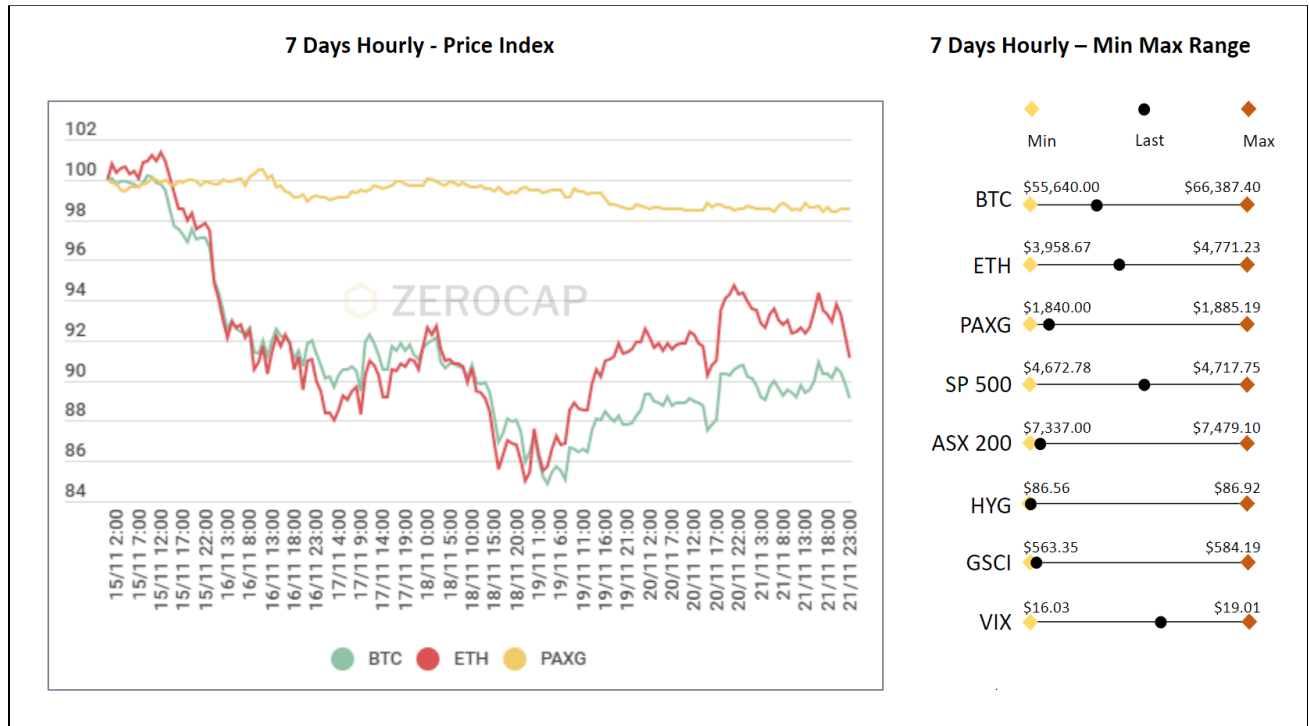
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- Winklevoss twins' [Gemini](#) raises \$400M to build Metaverse, a company valued at \$7.1B.
- [India](#) set to ban cryptocurrencies as payment method, while regulating as assets - will [reduce GST](#) paid on crypto exchanges from 18 to 1%.
- [Staples Center](#) to become “Crypto.com Arena” after \$700M naming rights deal.
- [VanEck's](#) Bitcoin futures ETF launches with lower-than-expected reception.



Winners & Losers





- Bitcoin spent the week capitulating to under US\$60,000 dragging the market with it. An unexpected building of elevated funding rates and an over-leveraged futures market caused liquidations, leading to profit-taking and short interest. The ratification of the US infrastructure bill likely impacted sentiment while the Taproot upgrade - an expected bullish catalyst - had little impact on price. Although the correction has many on the edge of their seats, resetting funding rates and open-interest is beneficial for the long term health of the market. Overall, BTC returned -10.43% and ETH -7.95% WoW.
- U.S. Tech stocks hitting all-time high once again. European growth sentiment took a backseat, with Austria entering a full lockdown due to rising COVID cases, and Germany might be following their path shortly. Travel and entertainment stocks hit hard, but the retail sector is watching this week's Black Friday and Cyber Monday weekend sales to determine how 70% of the U.S. economy will perform going forward. Lower funding rate due to safe-haven flows into the government bond market also benefited the tech sector on a valuation basis. Earnings from the two of China's biggest tech companies, Alibaba and Baidu, both disappointed, leading to worry about consumer growth from the world's second-largest economy.
- Macroeconomic data focused on US retail sales print, which rose above expectation. This was an important confidence boost given the previous week's weak consumer sentiment outcome. China's regulators suggested the economy will face years of a stagflationary environment and that banks should limit their speculative activities on the RMB as both corporate and bank proprietary trading desk skews heavily on the RMB's value. The PBoC released its quarterly monetary policy report and hinted at further stimulus policy targeting SMEs liquidity constraints.
- The Investment-grade bond fluctuated between inflation worries and stagnation following Europe's renewed lockdown concerns. S&P's headline announcement regarding default risk for China's Evergrande property weighed down Junk bond



markets. The international rating agency said Evergrande has “lost the capacity to sell new homes, which means its main business model is effectively defunct” and that S&P still believe the developer is likely to default on its outstanding debt. Another major Southern China property developer, Kaisa, failed to service its coupon payments due during the week.

- The VIX index jumped on Friday as economic concerns from European COVID cases and Austria’s lockdown weighed on reopening stocks. Equity futures in the US also saw the second-largest options expiry date, which generated a stream of delta hedging activities in the cash arena. Front end VIX futures were closing above 20 after opening the week below 16.
- Gold prices continue to benefit from inflation concerns on the top level. Portfolio allocation could see the precious metal price taking another leg up towards the 2,000 level by year-end if momentum is maintained. Oil prices traded lower through the week, with travel and holiday activities slowing down with European COVID cases concerned. Few COP26 headlines impacted the commodities market following a watered-down conclusion to the summit.



Macro, Technicals & Order Flow

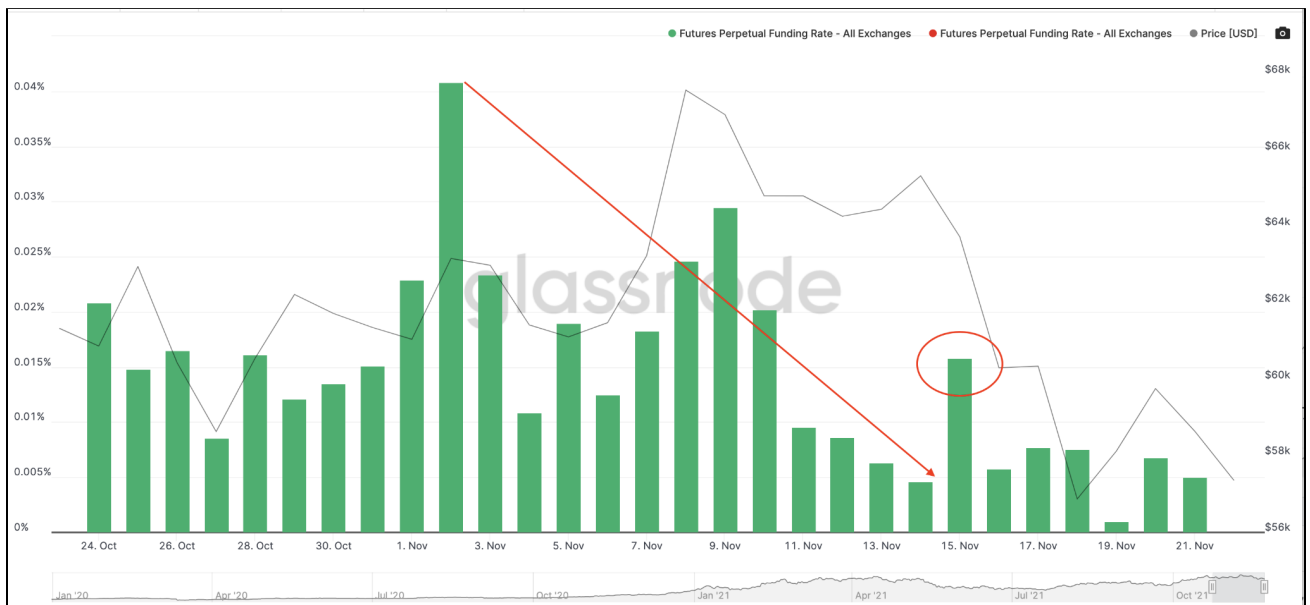
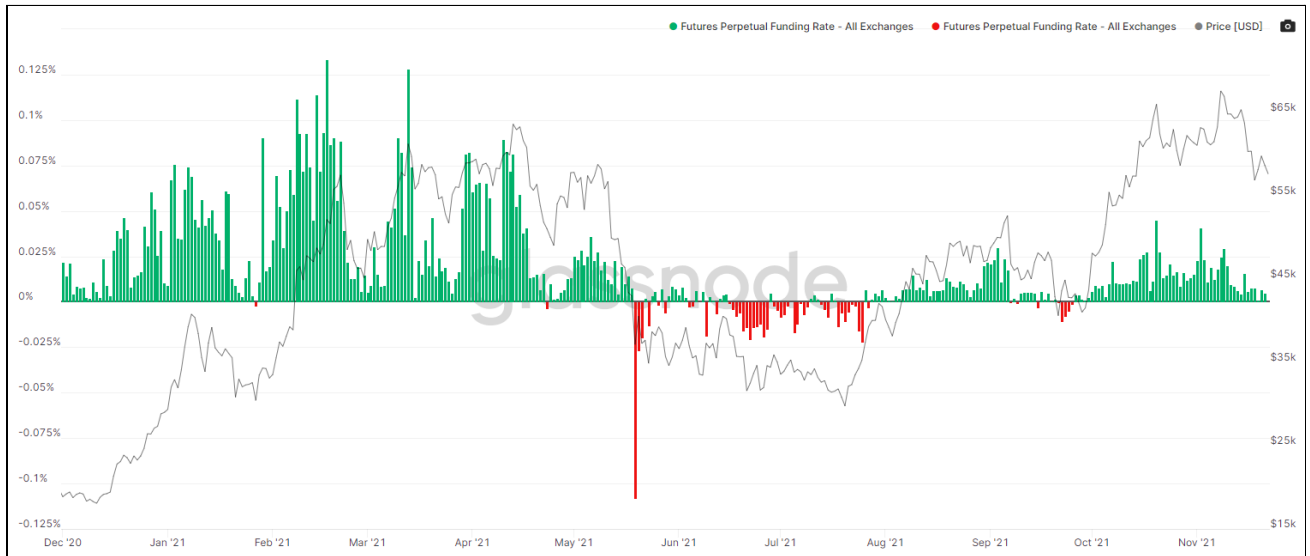
Bitcoin



- We were not expecting the downside liquidations that occurred last week from fast building leverage near the highs. Volatility is always possible up at these levels, and it's important to watch not only static leverage, but also the velocity at which funding rates and leverage is building. Definitely not the 'buoyant week' we called for!
- The move took out stops below prior lows, before trading back into the range. Key levels for BTC sit at 57,500 and 55,500. If we get a break lower, the next major support is down at 53,000. However, BTC fundamentals and on-chain data are supportive of a move higher in the medium-term.



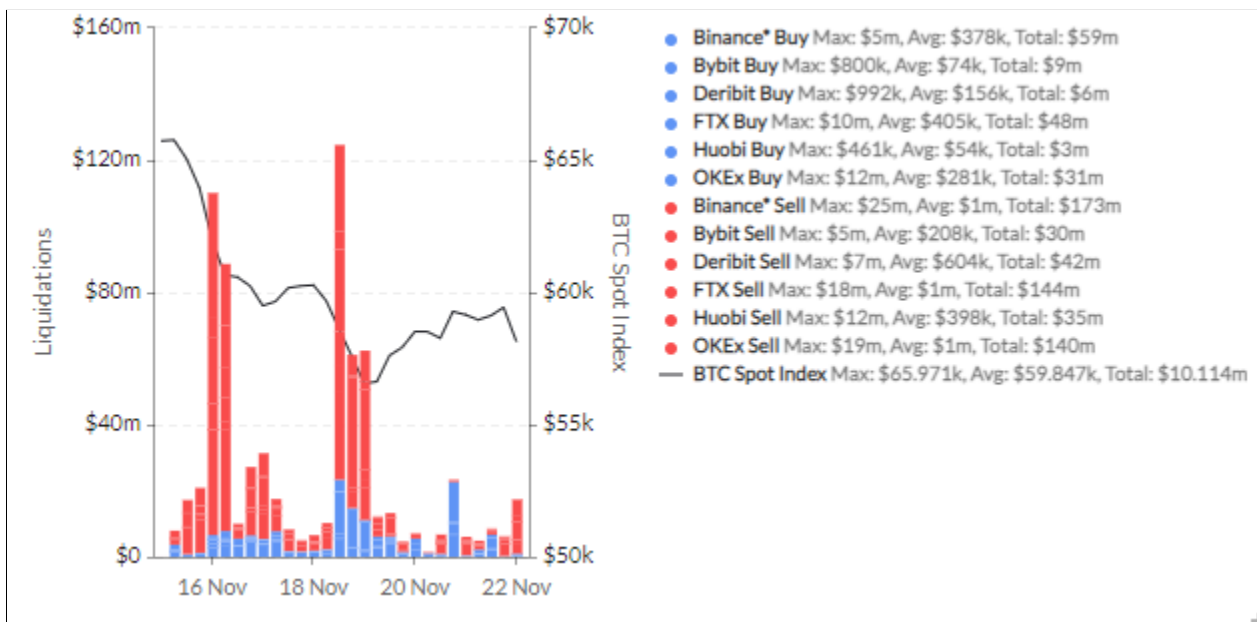
BTC Perpetual Swaps Funding



Fast money getting long (circled).

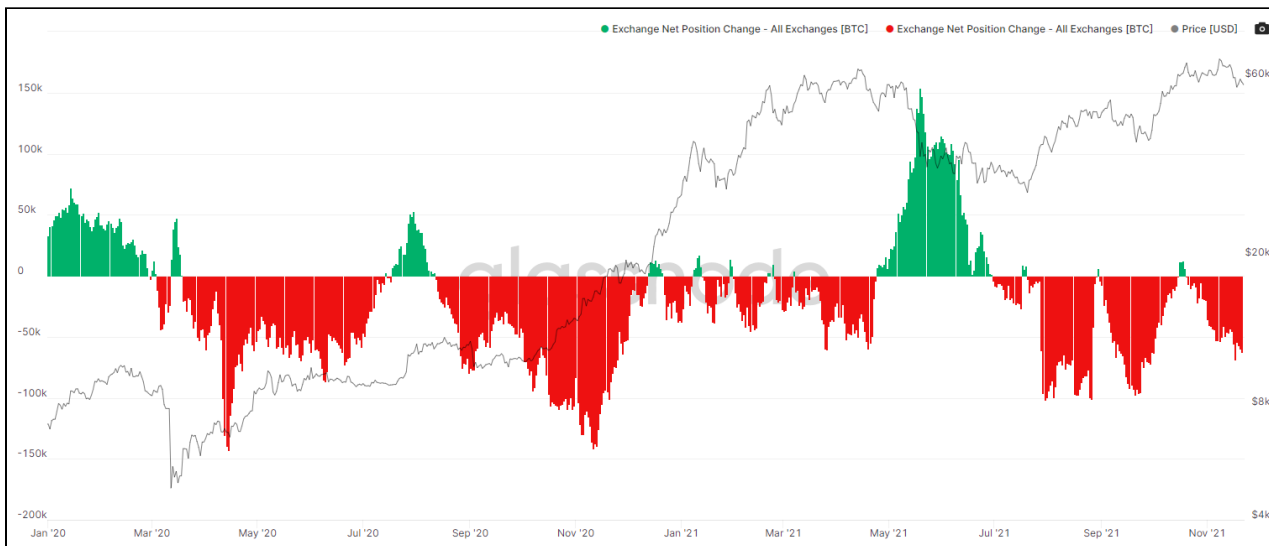


BTC Perpetual Liquidations 1W



- On-chain data is still clearly showing outflows from exchanges, indicating potential supply constraints and general bullish sentiment.

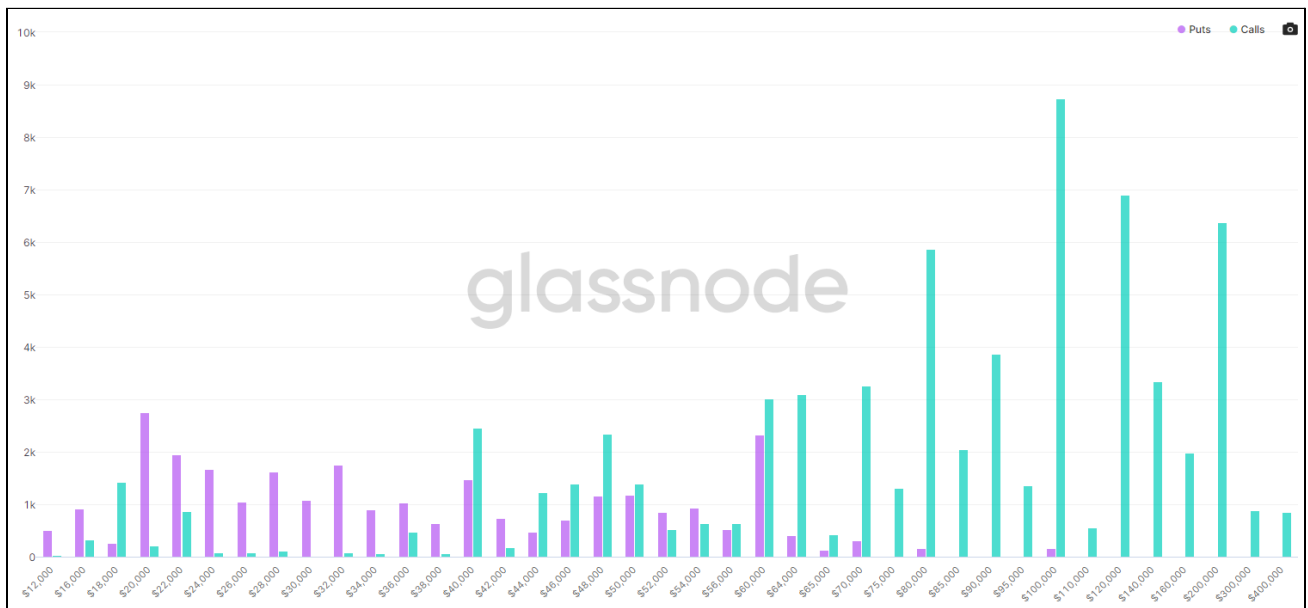
Bitcoin Net Position Change





- Option strikes out to Dec 31 are clearly weighted to calls at 80,000 / 100,000 and... 200,000. The crowd is still alive and well. This all bodes well for general sentiment.

OI Interest by Strike - Dec 31, 2021



- Bitcoin supply held by long-term holders continues to slow, indicating some profit-taking at these levels by the longer-term investors. As mentioned last week, there is generally a time lag between the slowing of accumulation by these holders and a turn in the market, very similar to the Commitments of Traders (COT) report released by the CFTC in the traditional world, tracking commercials vs speculators. This shows a longer-term potential shift in sentiment, however the correlation is tenuous in the face of broader macroeconomic forces (think inflation).



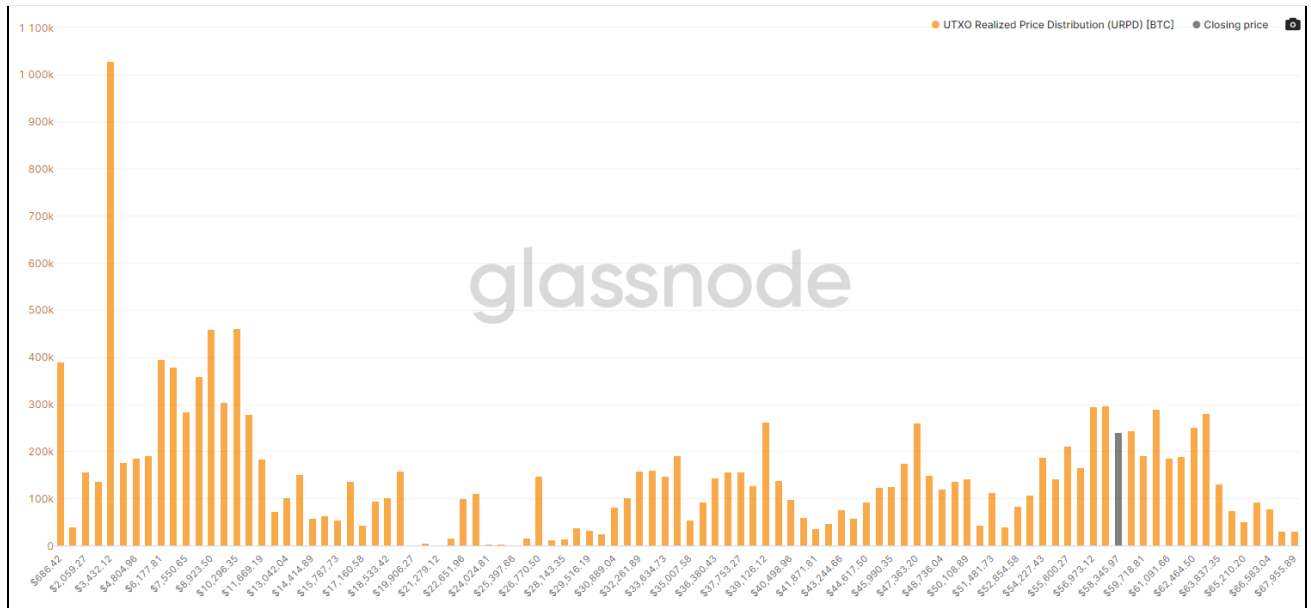
Bitcoin: Total Supply Held by Long-Term Holders



- The on-chain UTXO price distribution shows the depth of bitcoin activity at certain price levels. Despite last week having a clear run at highs, leverage won the race, liquidating to prior orderflow levels and building price distribution higher. We are seeing a ranging pattern for the UTXO with clear price distribution on either side of current pricing.



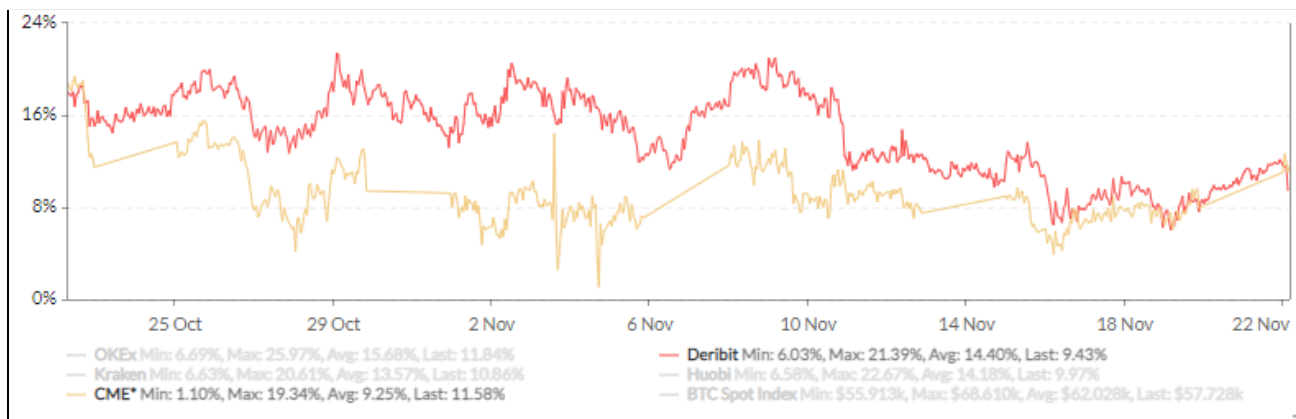
UTXO Realised Price Distribution



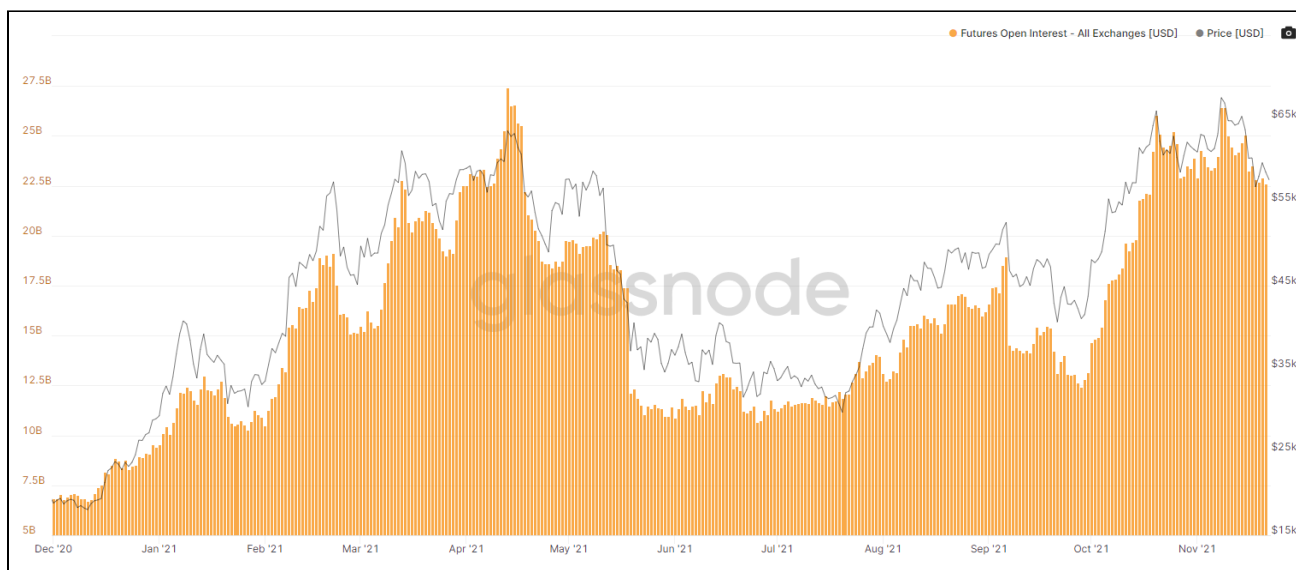
- The futures basis curve has compressed further this week on the back of the move lower. Open interest levels are still elevated, but falling against the liquidations. The combination of falling open interest and outflows from exchanges is generally associated with spot buying. Price is still hanging around the lows, if we hold here until Europe and US sessions open (Monday), we may go higher given these on-chain factors.



BTC Futures Annualised Rolling 1 Mth Basis



Bitcoin Futures Open Interest



- In summary, leverage has been reset, although futures open interest is still elevated. On-chain data is strong, and with the retail sales numbers out of the US, we are looking at more potential inflationary pressures. On that note, I was at the local market on Sunday - the butcher told me that he is expecting a 25% hike in meat prices by January given energy costs and supply chain issues. The central bank data on inflation is retrospective - look around and see what you can find now for clues. We see bitcoin being treated as a hedge in the medium to long term.



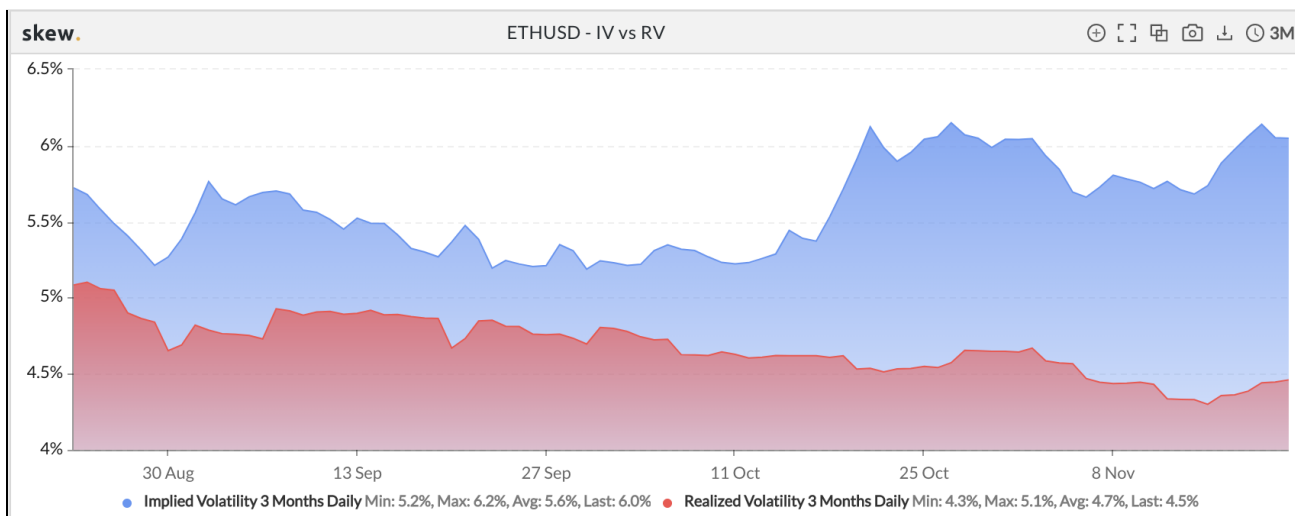
Ethereum



- Ethereum equally felt the force of liquidations this week, breaking the ascending trendline from late September. Price has respected the prior highs early Sep at 4,000 the figure. There is much orderflow between 4,000 and 5,000 - with significant options call interest at 5,000. Our OTC desk has seen significant profit-taking up to 4,950 - with customers taking advantage of our structured products (primarily covered calls in this case) to take advantage of high-yield plays on Dec 31 strikes. The implied volatility levels are outta this world - it pays to be a contrarian here, sell the vol and earn yield whilst waiting for your levels to hit. Key levels are clearly 4,000 to the downside, with the prior highs and ascending trendline coalescing at the 5,000 level.

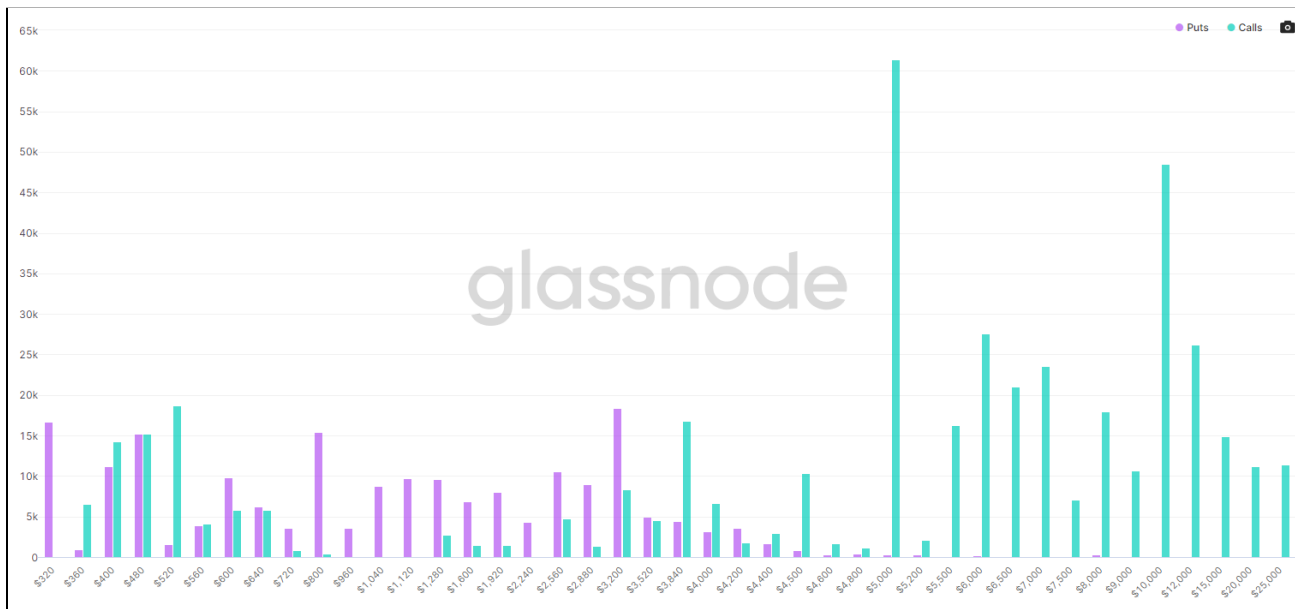


ETHUSD Implied Volatility vs Realised Volatility



- Open interest is still favouring 5,000 the figure with call interest substantial at these levels.

ETH Open Interest by Strike: Dec 31, 2021



- The ETHBTC has managed to find its legs again, with ETH outperforming BTC during the liquidity moves.



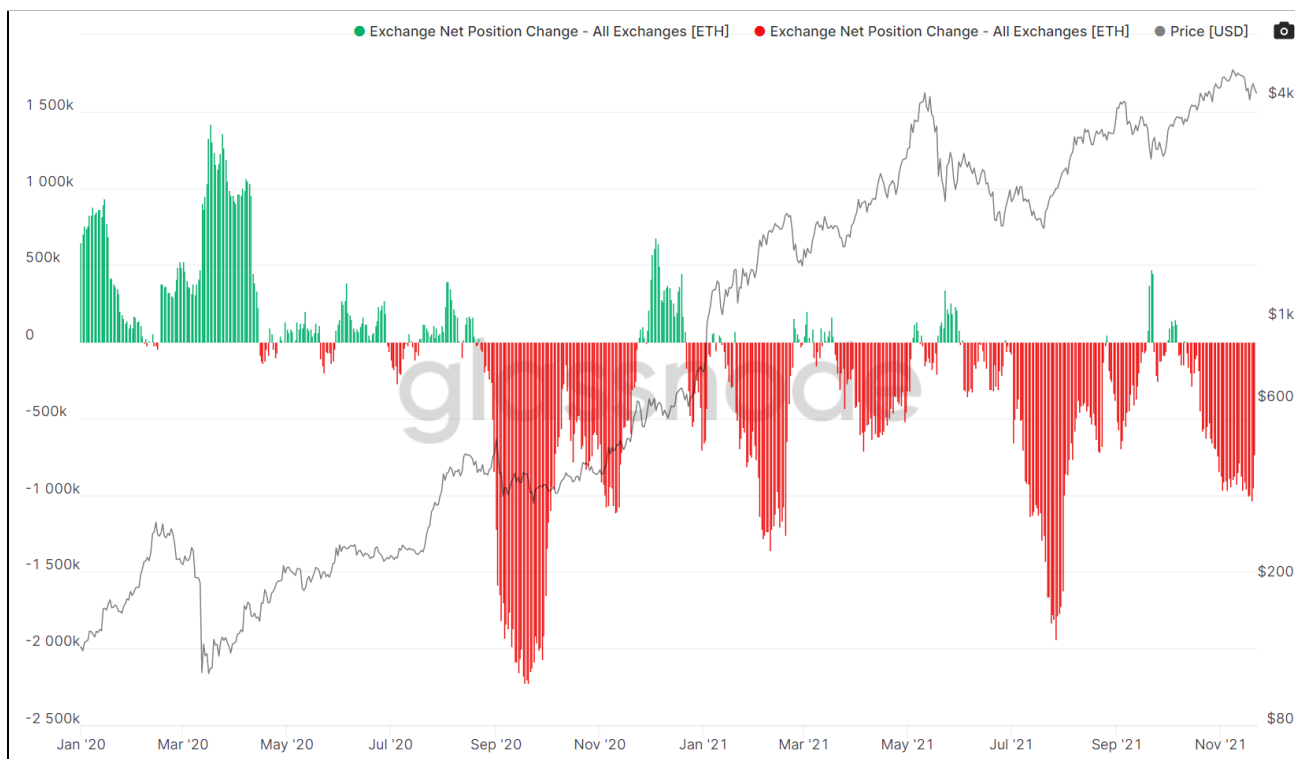
ETHBTC Daily Chart





- Strong outflows from exchanges (indicating contraction in supply) are persisting, however, on-chain data is showing that some larger wallet holders with a supply held of 10 to 100 ETH have suddenly liquidated alongside the drop.

Ethereum Exchange Net Position Change





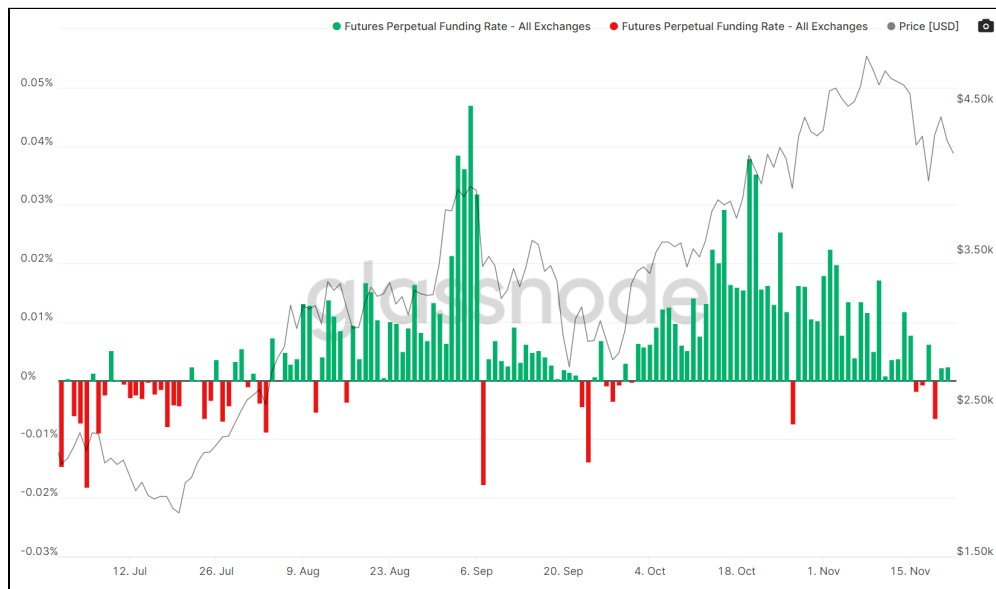
Supply Held by Wallets with Balances of 10-100 ETH





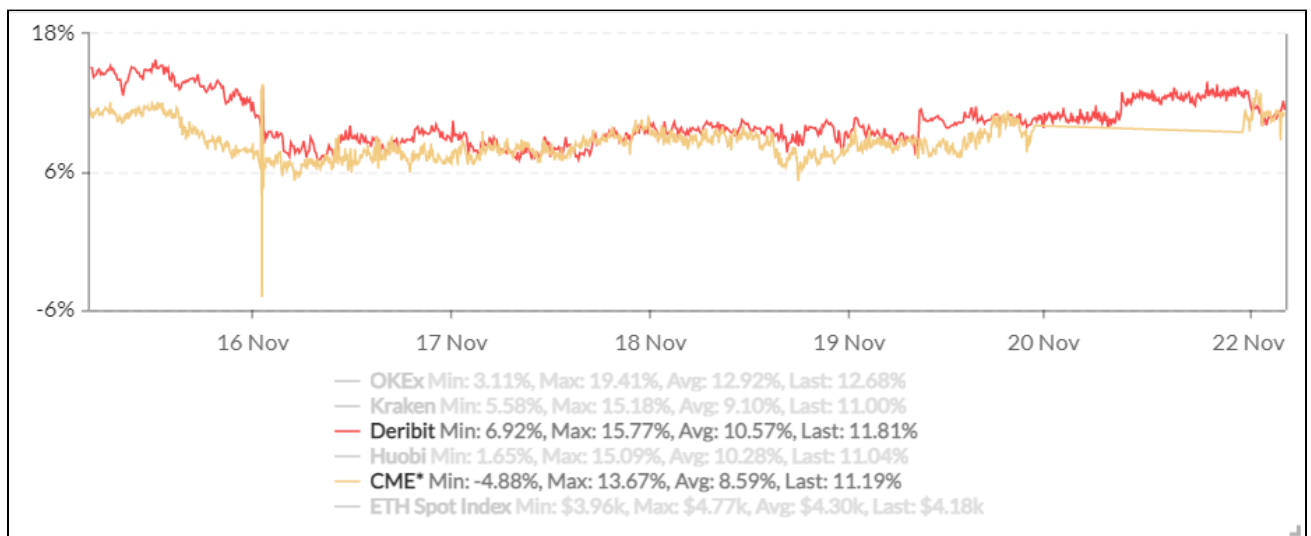
- Perpetual funding rates, like BTC, had a sudden spike before the move.

ETH Perpetual Swaps Funding



- The futures basis curve is ranging, showing more promise than BTC.

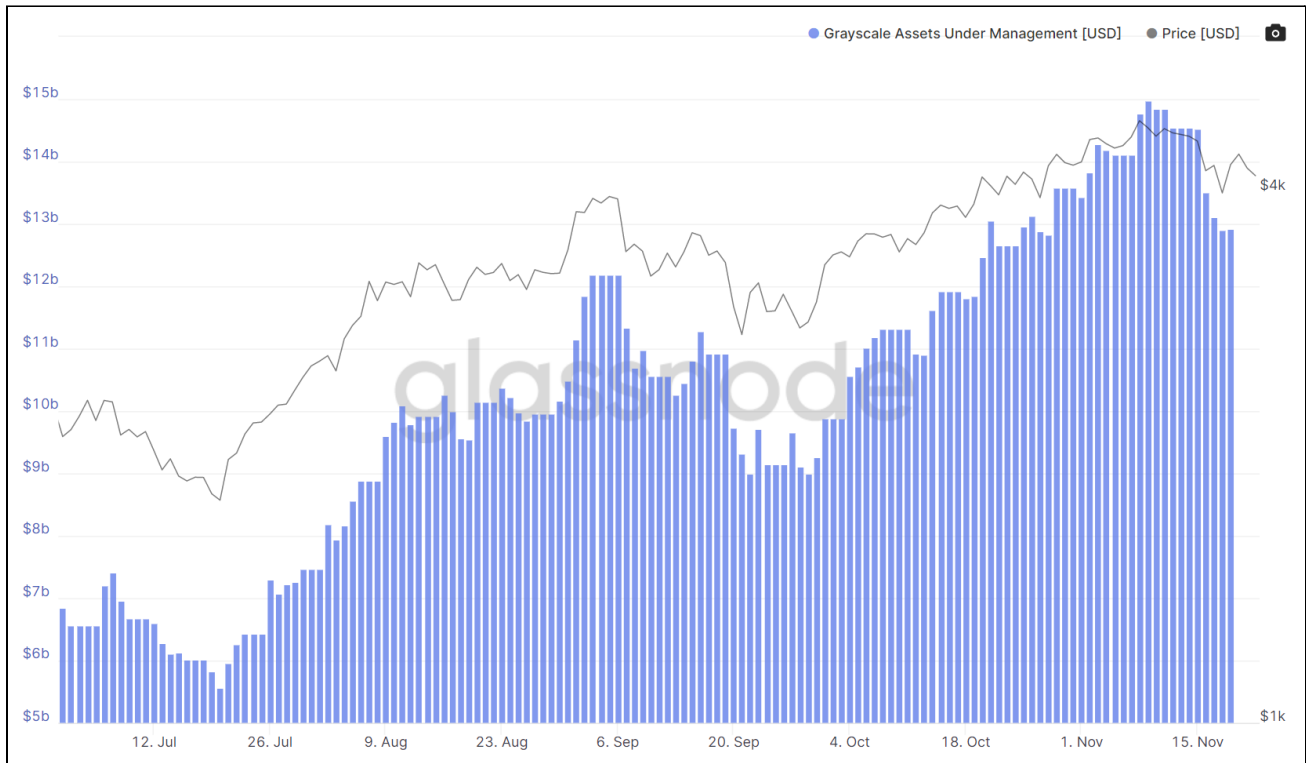
ETH Futures Annualised Rolling 1 Mth Basis





- Grayscale AUM is beginning to roll over, showing waning institutional interest after its bit run from early October.

Ethereum Grayscale AUM



- Ethereum staking contracts continue to limit floating supply - the amount of ETH in the ETH 2.0 staking contract currently sits at 8,327,126. This represents 7.03% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.
- The big media narrative over the past two weeks in cryptoland has been around transaction fees (again), and further into ethereum's value proposition. AK (one of our proprietary trading friends) gave his opinion on the network which is worth posting here (thanks AK!):



- ETH - unusable for most people with the current gas fees, and thus the network is currently favouring the bigger holders.
- Against the DeFi proposition - which was originally 'bank the unbanked' in the early ethereum days, is now totally unattainable.
- Deflationary elements seem to optimise for wealth, not utility at times. Deviating from their original mission.
- This casts doubts as to its future, but despite this, the charts are looking wildly positive.
- It's worth looking at the other side of the coin - there are certainly some headwinds for ETH, but also some pretty serious institutional flows and its place as the incumbent. Keep an eye on the media and growing interest in chains such as Solana, Avalanche and Fantom for signs of the next wave of adoption.. or maybe that comes in the next cycle?



DeFi & Innovation

- Polkadot network has its [first parachain auction](#), \$1.3B in DOT committed.
- [Binance Smart Chain](#) hits record-high daily transactions.
- [El Salvador](#) to build crypto-fueled “Crypto City” - backed by BTC bonds.
- Twitter releases [whitepaper](#) for its decentralized exchange (DEX) project.
- [Brave's](#) web browser now includes a built-in crypto wallet, no extension required.
- Australian baseball club [Perth Heat](#) to pay athletes in bitcoin.

What to Watch

- Further developments on crypto directives of the \$1T infrastructure bill.
- Will the Federal Reserve adopt faster tapering due to inflation rise concerns?
- US' preliminary GDP, Core PCE Price Index and FOMC meeting minutes on Wednesday.
- Bank of England governor Bailey conference at the Cambridge Union on Thursday.



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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	SPGSCI	U.S. 10Y