



ZEROCAP

Weekly Crypto Market Wrap

17 January 2022 – 23 January 2022

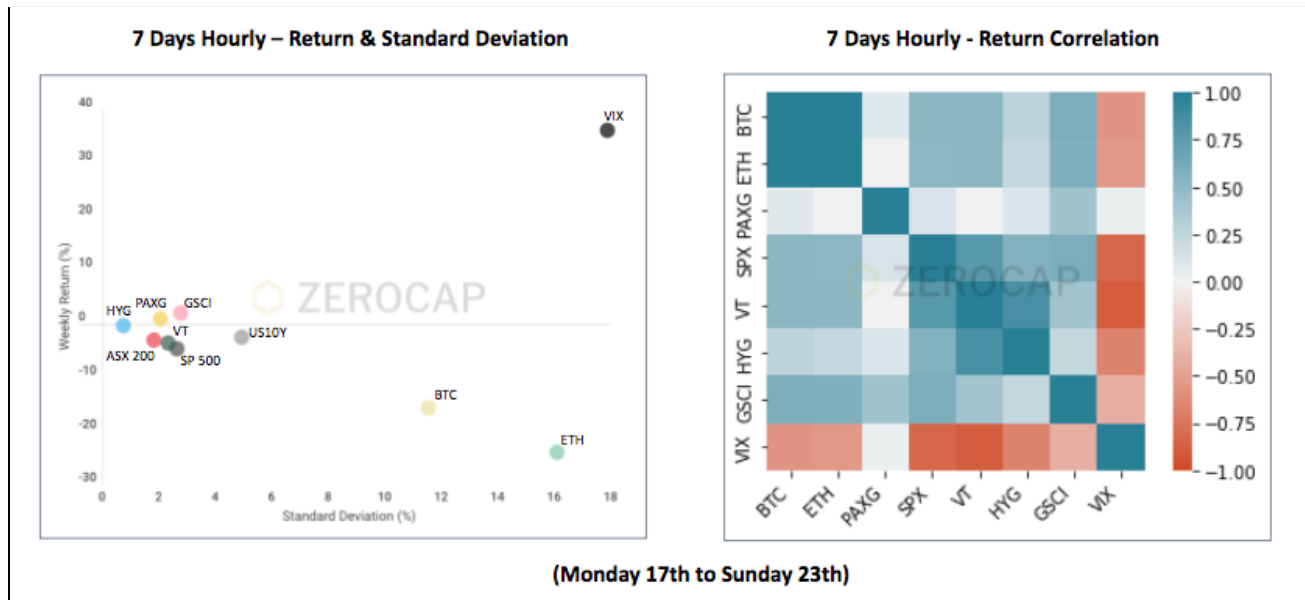
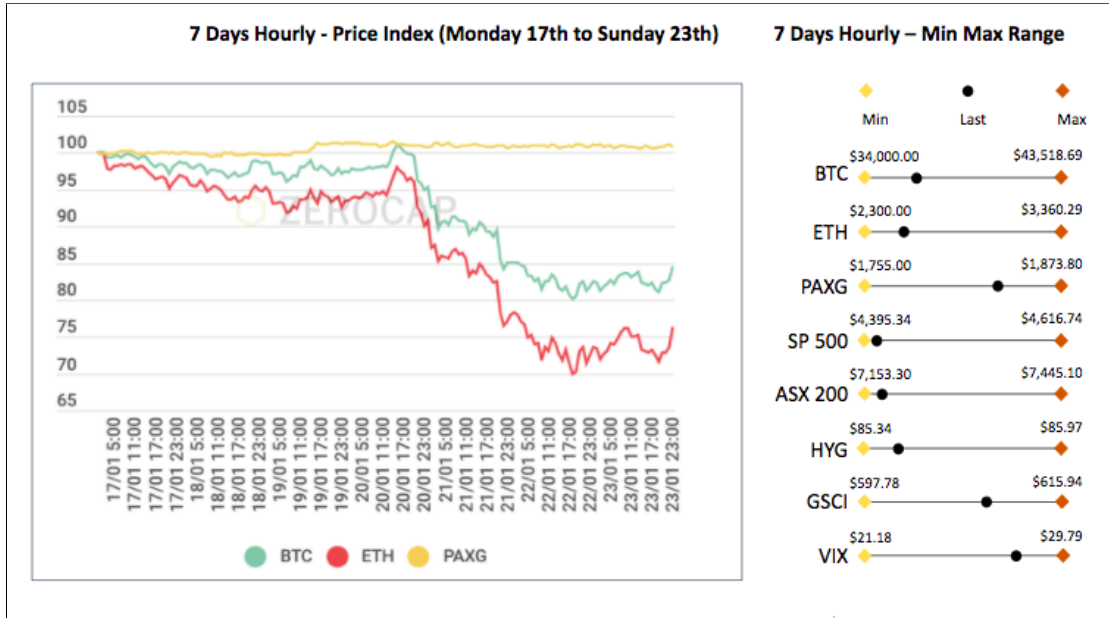
Zerocap provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at hello@zerocap.com or visit our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

Week in Review

- Tensions rise at Ukraine's Russia border
 - Russia [sends in more troops to the border](#).
 - Biden says Russia will "[pay a heavy price](#)" if it invades.
 - US/Russia representatives have an urgent [meeting](#) in Geneva. The US will present Russia with a written response on border security this week.
- Nasdaq and S&P 500 registered their [worst week](#) since pandemic started in March 2020.
- Fed Reserve issues [discussion paper](#) on the benefits and risks of a digital dollar - intends to leave digital USD issuance to the private sector as an intermediary model.
- Russia's Central Bank proposes a full [ban](#) of crypto mining, use and trading.
- [FTX](#) announced as naming rights sponsor of [Australian Blockchain Week 2022](#) - Zerocap's CEO Ryan McCall will be speaking at the event.
- [US SEC](#) has issued \$2.4B in crypto-related penalties since 2013.
- Over 67% of Canadians want to get paid in crypto by 2027; [Capterra research](#).
- Crypto.com was [hacked](#) - \$34 million stolen in Bitcoin and Ethereum from 483 accounts.



Winners & Losers





- The fixed income market experienced a week of volatile trading, with inflation expectations finally being priced into the front end of the curve during the start of trading. However, as the equity and credit markets accelerated selling momentum, fund-flows began to separate between widening credit spreads and safe haven inflows into government bonds. The ten year UST yield hit a high of 1.86% before dropping to 1.76% to end the week. On the other hand, the credit market widened out aggressively at the beginning of the week, pausing for one trading day before further selling momentum took hold into the weekend.
- The US reporting season continues to weigh on stocks, with Goldman Sachs the latest to miss expectations; its stocks getting hit by 8% on the announcement. Netflix's reporting was priced to show its strong position after raising subscriptions pricing across key markets. When it failed to meet expectations, the market took the share price down by over 20% and erased USD 40 billion from the market cap, a price level not seen since before the pandemic.
- Volatility levels are shifting into an elevated new range for the week. The VIX index started at the 19 level at the beginning of trading, with buying interest accelerating as the stock market rebound failed to materialise. The index closed the week just below 29 after attempting to take the 30 level. Cryptocurrency Implied Vols also bounced as downside delta hedging activity accelerated into the weekend. BTC vols claimed the mid-70s from the low 60s, while ETH vols jumped from the low 70s to close above the 90 handle.
- The FX and commodity markets reflected the risk-off mood as fund flows from risky currencies into safe haven repatriation interest. AUDJPY took the full impact of selling pressure this week, dropping from around the 83 level to close the week at 81.50. In contrast, GOLD prices were one of the benefactors for safe-haven flow, with the price climbing from 1,810 to 1,850 before settling the week at 1,835. Oil prices continued to rise as tensions between NATO and one of the OPEC+ member Russia, intensified. WTI front contact closing above the \$87 mark, the highest level since 2014. The world's second-largest economy will globally



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showcase its digital currency, dubbed e-CNY, for the first time during the Winter Olympics next month. Acceleration on CBDC creation from the majority of developed nations facilitates the familiarity of blockchain for cryptocurrency investors, while creating more questions on how the public and private integration of cryptocurrency will pave the way for the future of exchange.



Macro, Technicals & Order Flow

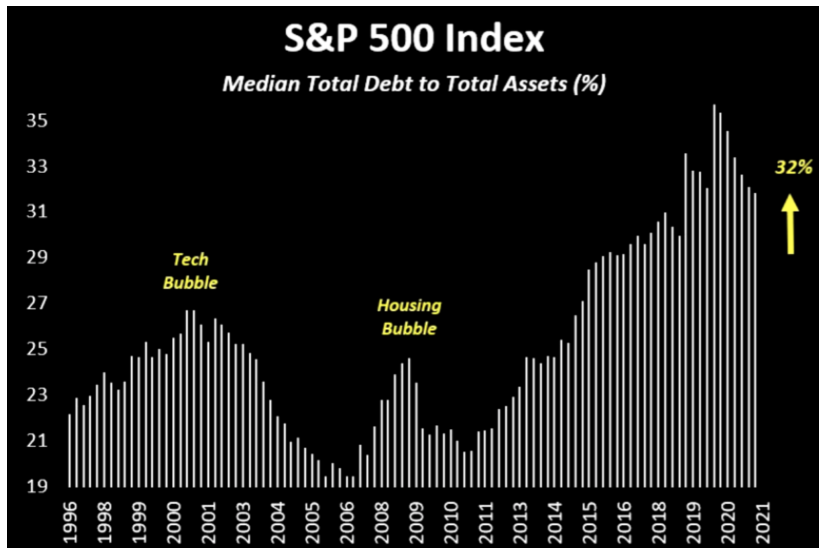
Bitcoin



- Opening the price action slightly under 43,000, BTC encountered a big move on the back of multiple risk elements being priced into the market. Tensions are rising on the Ukraine border, inflation concerns are finally being taken seriously by the market, and in response, the tapering/hiking cycle is being priced in aggressively, with risk assets dumping. Interestingly, crypto is being used as a weekend risk asset - we saw selling across the crypto space into the weekend as nerves continued to flair whilst other markets were closed.
- US Jobless claims sitting at a 3-month high further fueled the trend on Thursday, as key levels gave way. BTC is now sitting around the 35,000 mark.
- We feel that there is more downside in equities; the S&P500 is notably more leveraged than it was during the 2000's tech bubble and 2008 GFC.

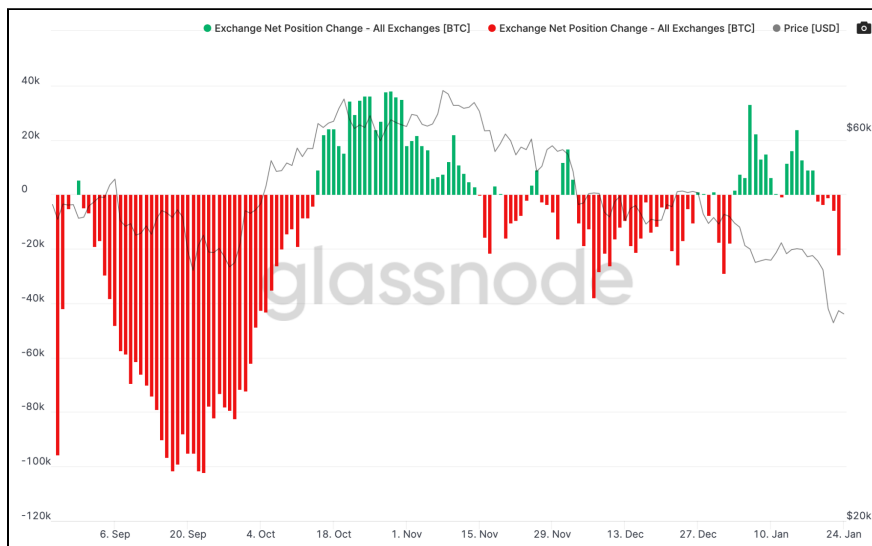


S&P500 Debt to Total Assets (The Market Ear)



- Despite this, crypto on-chain data is bullish. Longer-term holders are aggressively buying into the weakness. The net position change on exchanges for BTC is negative - which means investors are pulling BTC from exchanges and creating supply constraints. Perpetual Funding rates are bouncing between negative and positive - showing indecision from shorter-term traders.

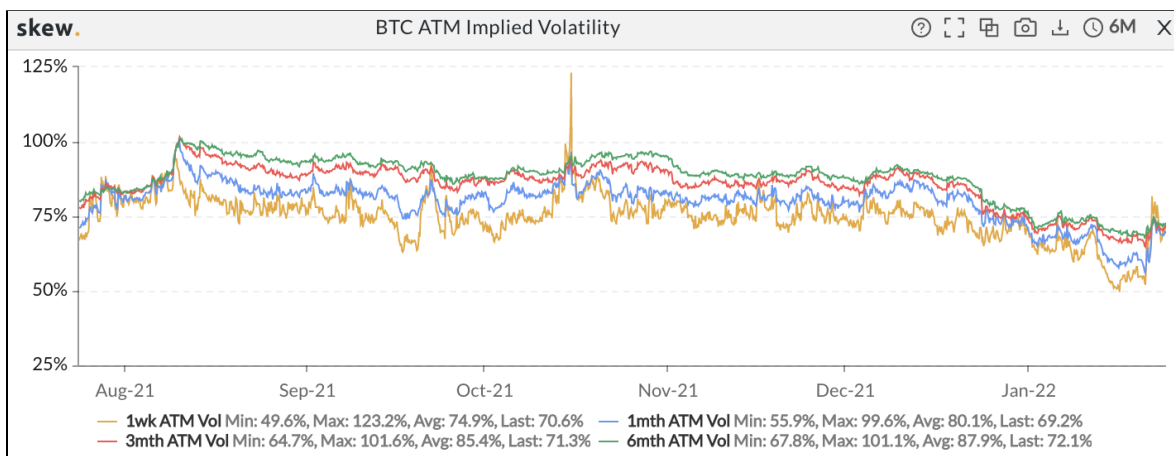
Exchange Net Position Change





- Our position still holds that the market will look for hedge assets in the medium-long term - and we feel that Bitcoin provides this hedge. It's a tough call to buy when equities are dumping and BTC is acting as a risk asset in the short-term. The way we are approaching this is to play these themes via in-house structured products, allowing us to capture yield whilst waiting for entries below current levels in BTC. Implied volatility is at healthier levels - and entry notes right now are paying up to 30% annualised at 10% below the current market. It's a win-win situation - we are happy to own BTC below 35,000, and also happy earning 30% p.a.

BTC Implied Volatility



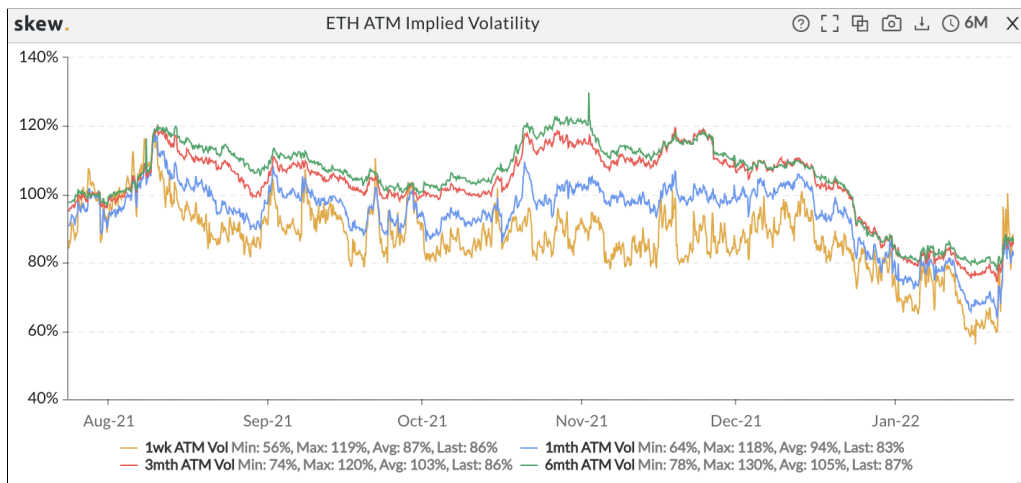


Ethereum



- Ethereum set weekly highs early at 3,300 before it tumbled for the remainder of the week, before setting lows around 2,300. Notably, implied volatility saw a +20% spike as market participants bought options protection. Despite ETH and BTC both correlating with risk, ETH is still clearly taking the brunt of risk-off moves - ETHBTC fell -10% during the week.

ETH ATM Implied Volatility





ETHBTC Daily Chart



- Despite being some of the strongest performers in the week prior, several Layer-1 protocols have experienced significant losses. Examples include NEAR & ONE who are down approximately 45%. As the FED approaches its FOMC this week, and brewing uncertainty around Russia’s plans on the Ukraine border, increasing risk moves are likely - and could be bullish or bearish.

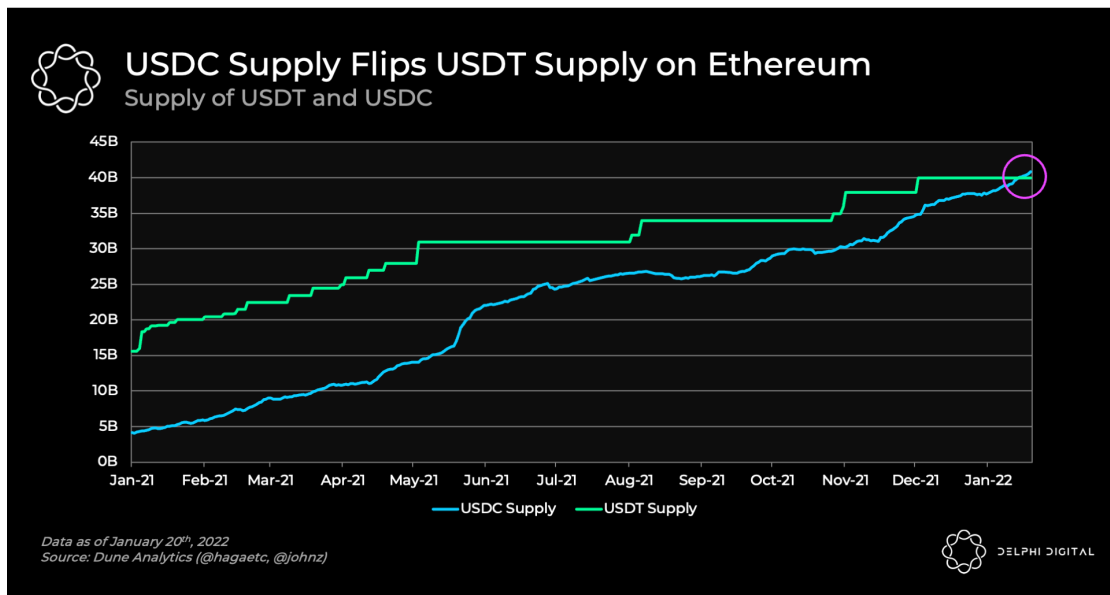
Layer 1 tokens relative comparison (Delphi)





- USDC is now the largest capitalised stablecoin and hence the most dominant stablecoin on the Ethereum Blockchain. USDC is mostly backed by cash and cash-equivalents whereas Tether's non-cash reserves have been a source of concern fuelling the upward supply of USDC.

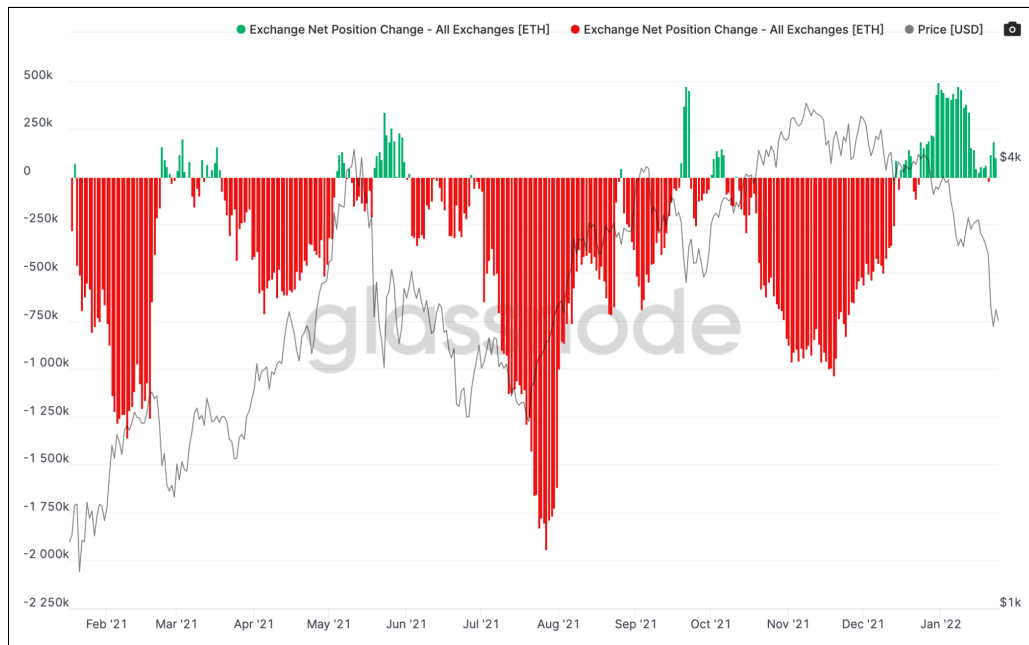
USDC vs. USDT supply on Ethereum (Delphi)



- Unlike BTC, on-chain exchange flows have been slowly building - adding to liquid supply. Interesting that this has decoupled from BTC.



Ethereum Exchange Net Position Change



- Ethereum staking contracts continue to limit floating supply - the amount of ETH in the ETH 2.0 staking contract currently sits at 9,125,106. This represents 7.65% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.
- With over \$500m+ in ETH liquidations following the market pullback, how much further do we have to fall? Tough to pick at this stage, but given the weight of equity markets right now, we could see some further downward spikes before the market settles.



DeFi & Innovation

- [Microsoft](#) buys gaming developer “Activision-Blizzard” for \$69B, the biggest acquisition in gaming history - states gaming “will play a key role in the development of metaverse platforms.”
- [THORChain](#) brings DeFi yields and native swaps to the DOGE network, with Luna and UST coming next - THORChain is part of our DeFi Index structured product.
- Twitter now is offering NFT-verified [profile pictures](#) to its users.
- Coinbase [partners](#) with Mastercard for NFT marketplace purchases.

What to Watch

- Further details on Russia x Ukraine tensions including US’ written response to Russia’s red line security concerns.
- More details on Russia’s intent to ban crypto - such a proposal has gone by before with Russia seemingly on the fence, will the country go through with the process this time?
- FOMC on Wednesday, US’ Advance GDP on Thursday and the PCE Price Index on Friday.

Article

[Introduction to Portfolio Diversification Using Crypto Assets:](#)

Zerocap Treasurer William Fong provides a fantastic intro on how to diversify investment portfolios using crypto assets, thoroughly explained in traditional finance language. Definitely a must-read for current investors and newcomers of the digital finance ecosystem.



Disclaimer

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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