



ZEROCAP

Weekly Crypto Market Wrap

20 December 2021 – 3 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

Weeks in Review

- Happy New Year!
- Unprecedented Covid surge sees [daily cases doubling](#) from April 2021's previous records.
- US Personal Consumption Expenditures Index hits highest November level [since 1982](#).
- S&P 500 beats Dow Jones and Nasdaq in 2021 by [widest margin in 24 years](#), ringing [68 records](#) during Biden's first administrative year.
- [Biden launches crackdown](#) on largest US meat producers seeking to cut meat prices and benefit smaller producers; industry seen as a source of supply-chain vulnerability and a large cause for high inflation.
- US SEC appoints former Senate staffer [Corey Frayer](#) as Senior Crypto Adviser.
- [Only 6.3%](#) of bitcoin's supply is left circulating on crypto exchanges, a bullish sign from a certain analytical perspective.
- Bitcoin's market dominance fell below 40% for the first time [since last May](#) 2021.
- [Russia](#) pulls back on crypto ban, set to allow investments through foreign firms.
- Australia's [ASIC](#) reveals how it infiltrated crypto "pump and dump" groups on Telegram.
- Mexico confirms plans to roll out a [CBDC by 2024](#).
- US Senator [Cynthia Lummis](#) to propose thorough crypto regulation through the 2022 bill.



ZEROCAP

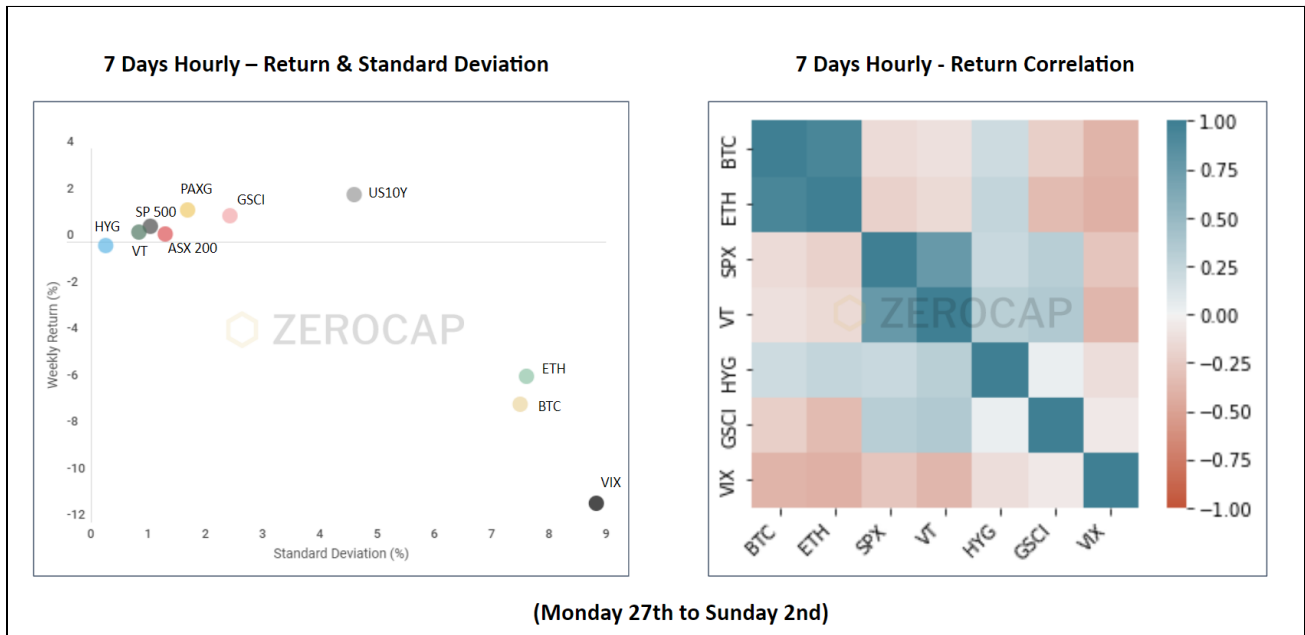
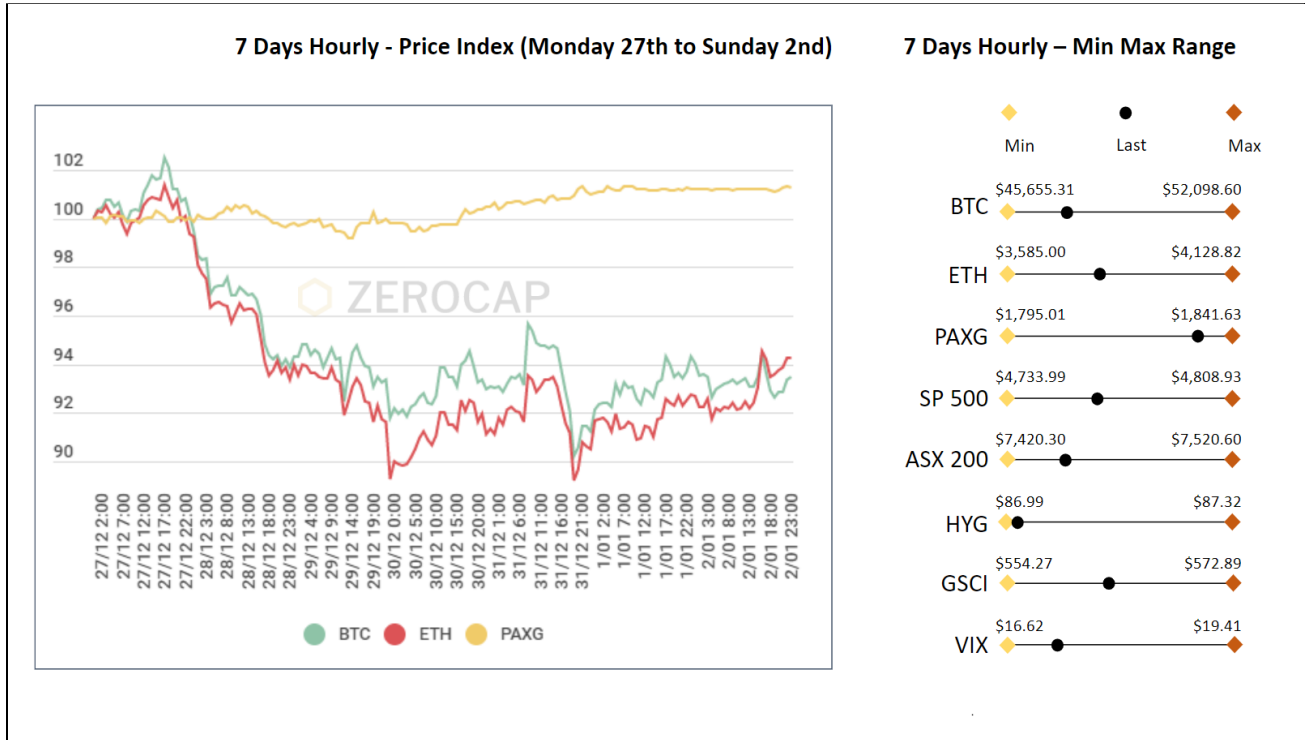
Weekly Crypto Market Wrap

20 December 2021 – 3 January 2022

- [South Korean government](#) demands Apple and Google app stores remove “play to earn” crypto games.



Winners & Losers





- After a failed retest of BTC's range high, price and volume dropped in the last week of the year. The widespread profit taking activity was soon offset by repositioning and accumulation leading to a tight trading range over the last week. Ethereum followed suit while a select few saw price spikes off the back of low liquidity. Overall, BTC returned -6.95% and ETH returned -5.79% WoW.
- Global Stocks closed the year in a profit-taking mood but opened strong. The S & P 500 took another record high on the first day of 2022 trading despite most of the world is still on holiday break. Apple became the first company ever to achieve a 3 trillion dollar valuation. Tesla beat estimated delivery in Q421, and the stock bounced from a low of 900 in December to start the year at \$1,200, a climb of 33%.
- The fixed income market took the most of the outflow in asset portfolio reallocation during the first trading day of 2022. Increased supply of corporate issuance and hawkish central bank comments led to a major bear steepening of the yield curve. 10year UST jumping from pre-holiday of 1.51% to start the year at 1.63%. The 30 year UST yield jumped from 1.91% to 2.02%. The next set of indications from the FED will be coming from the last FOMC minutes meeting notes this coming week. Corporate USD papers from 11 firms this coming week total at least USD 11 billion weighs on market pricing for both credit and interest rate hedging.
- Volatility was subdued going into year-end holidays, and the only indication of major fluctuations came from year-end options expiry on the final day of trading. Downside PUT sold created a chain of portfolio insurance type of delta hedging, and despite a rebound in the ETF and crypto stocks, the cash spot continues to be under pressure with BTC and ETH. Stock volatility had begun trending lower before the holiday break and didn't recover on the first trading day. VIX broke through the 20 levels before Christmas and opened the new year below 17.
- Uncertainty over Chinese property developers for the new year will again dominate the credit market. Evergrande stocks are once again on suspension



following year-end negotiations and government intervention for what some say to be a smooth bankruptcy plan.

- Macroeconomic data was light into the holiday season, with Chinese December CAIXIN manufacturing PMI beating expectations and heading back above 50 (50.9 vs 49.9 in Nov). Most of Europe, Australia and some Asian countries were still out and hence not a lot of major economic data announcements on day one of 2022 trading.
- The FX and commodities markets were dominated by the strong USD, with USDJPY up above 115 and GOLD testing its 100 day MA support of 1,803 once again. Oil rebounded strongly following stronger Chinese economic data and research suggestions that the Omicron variant will not close borders in 2022.



Macro, Technicals & Order Flow

Bitcoin



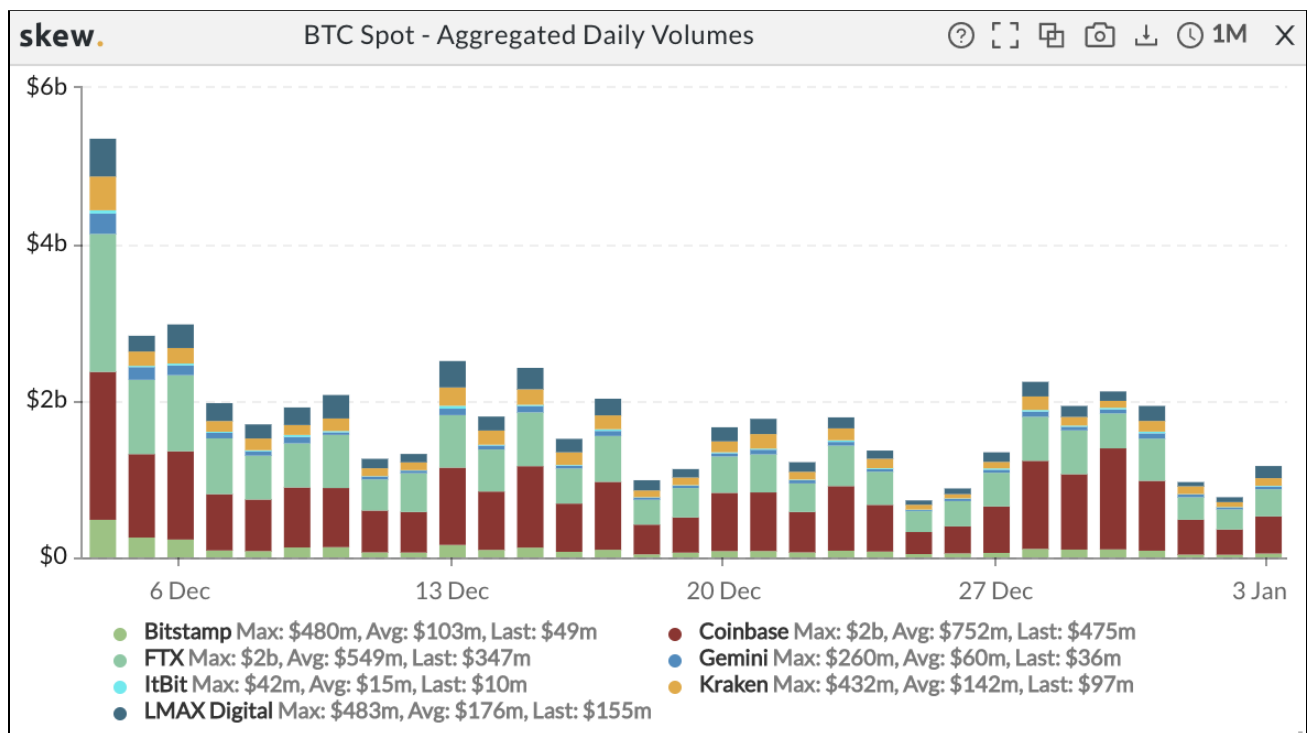
- The last week of December saw boosted sentiment as price rallied over 10% to the 51,500 level. We were expecting more volatility given the expected liquidity drain, but stocks were broadly buoyant and steady which played into steady crypto markets. The caveat to this was Tesla which saw over a 30% oscillation in the stock price.
- As we got closer to NYE, the absence of trading activity, rising tensions around Omicron coupled with the anticipation of \$6 billion worth of options expiries on 31 Dec, 2021, contributed to some bearish sentiment, resulting in drawdown across the crypto space,, marking the lows at 45,500, before ending the year marginally above the 46,000 level.
- Consolidated price action has defined the start to 2022 for BTC, whilst later 1 protocols remain buoyant. As spot volumes gradually return to markets, BTC's price action will be a function of broader intermarket flows as investors begin to



make decisions around the impact of Covid-19, inflation, tapering, and other key themes expected in 2022.

- We are getting some positive news on Omicron - so this should support risk in the short-term. Monica Gandhi, an immunologist at the University of California, San Francisco, has noted that this variant may cause so much immunity that it could quell the pandemic. Numbers out of South Africa are supporting this.
- Although inflation numbers are high, and bonds are selling off aggressively in response, we are seeing upside moves in equities and generally positive sentiment. Couple this with a slower than expected taper and we have the right environment for risk assets in the short-term. Inflation shocks are the caveat here - anything that forces faster tightening would be a potential headwind.
- Spot volumes are recovering in BTC:

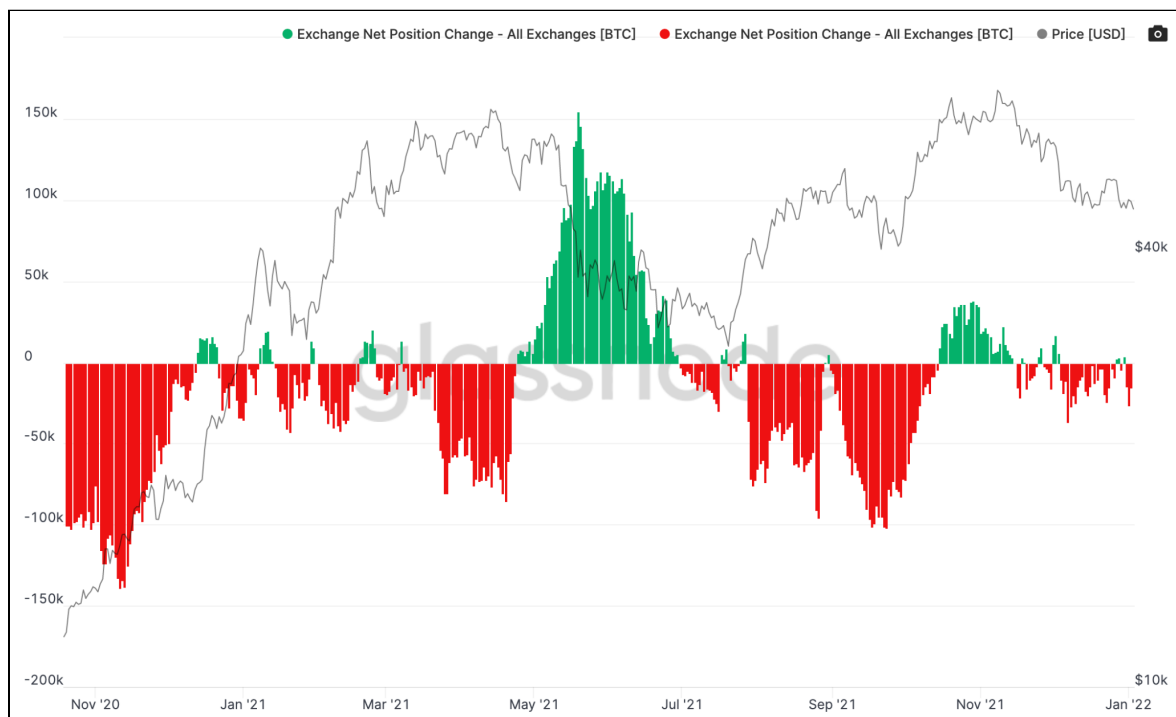
Spot BTC Aggregated Volumes





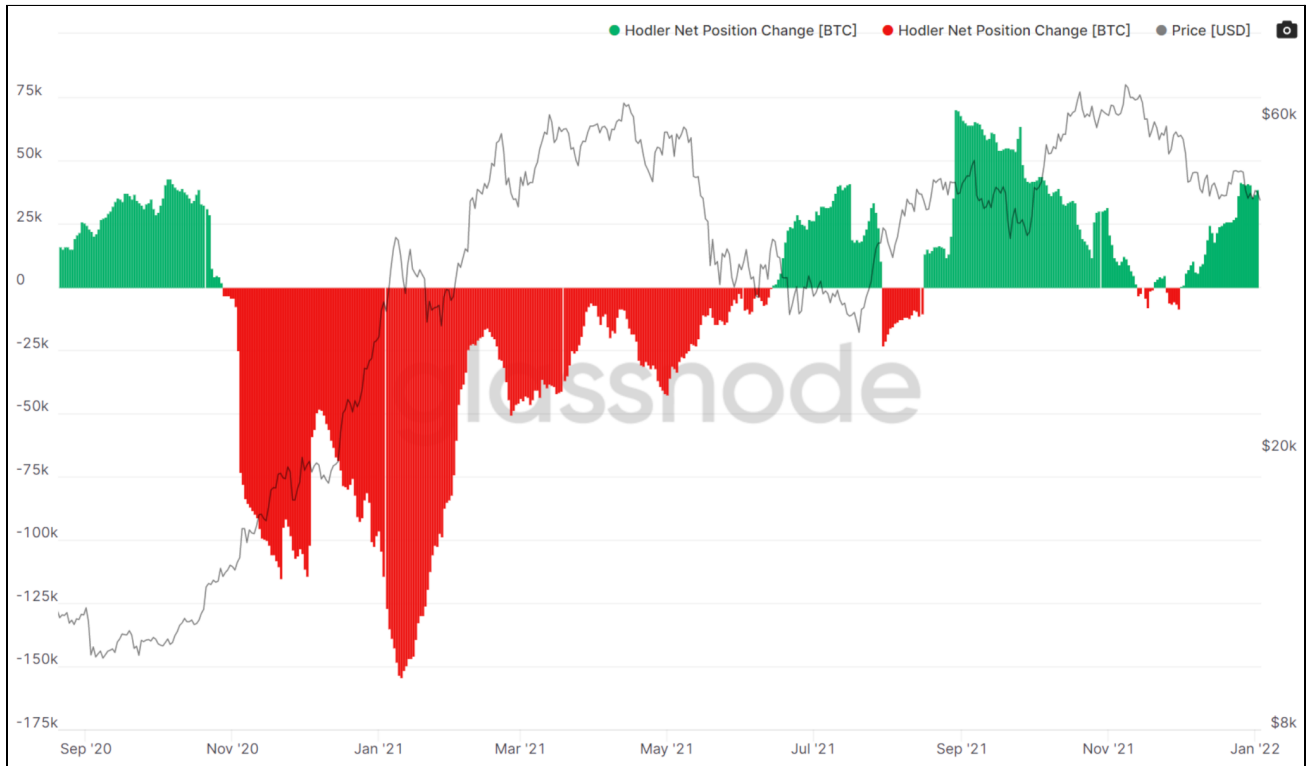
- On-chain indicators illustrate that the supply squeeze continues to grow, despite muted price action. Long-term holders are notably accumulating in this market. While funding rates vary across exchanges, on aggregate, the rates are positive showing a bullish lean in a contracting market.

Bitcoin Net Position Change

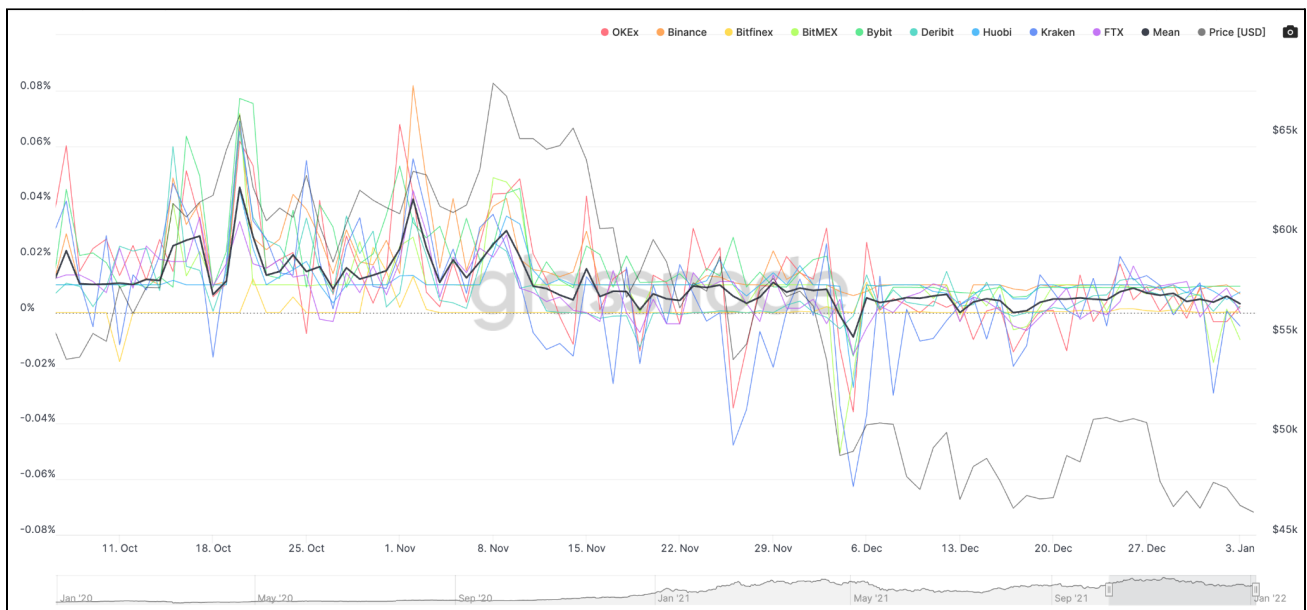




Bitcoin Net Position Change of long term wallets

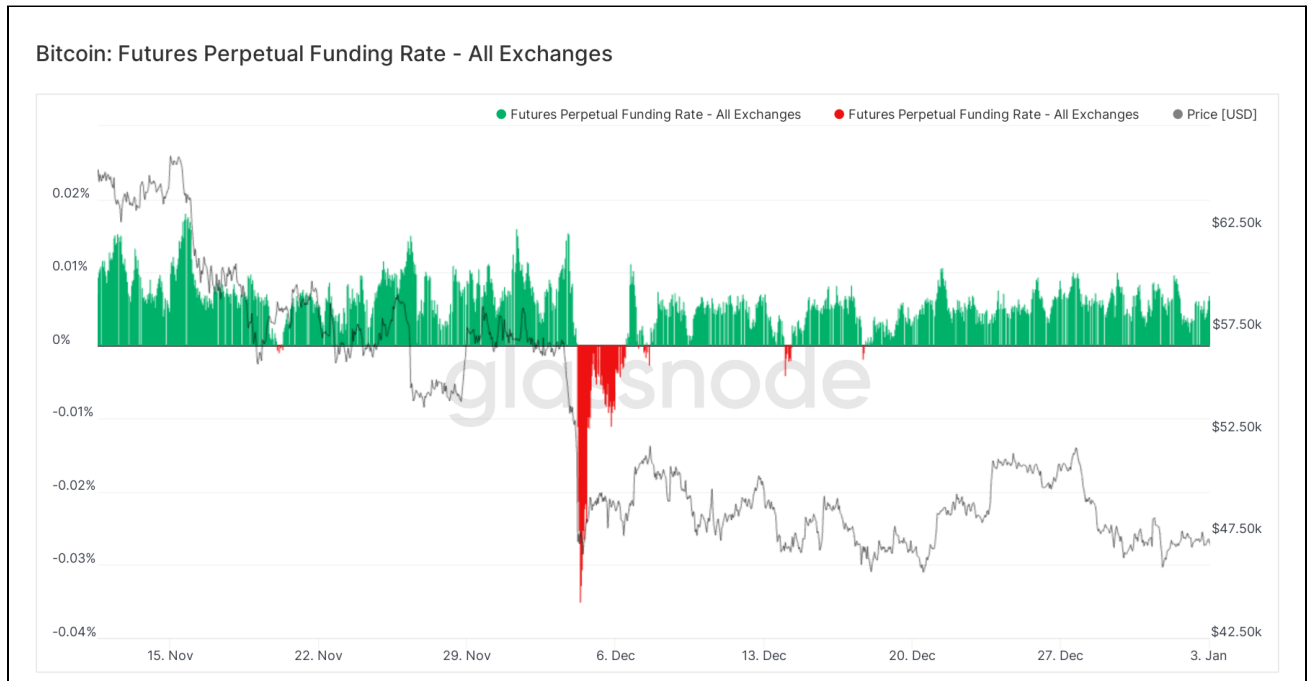


BTC Funding Rate Across Exchanges





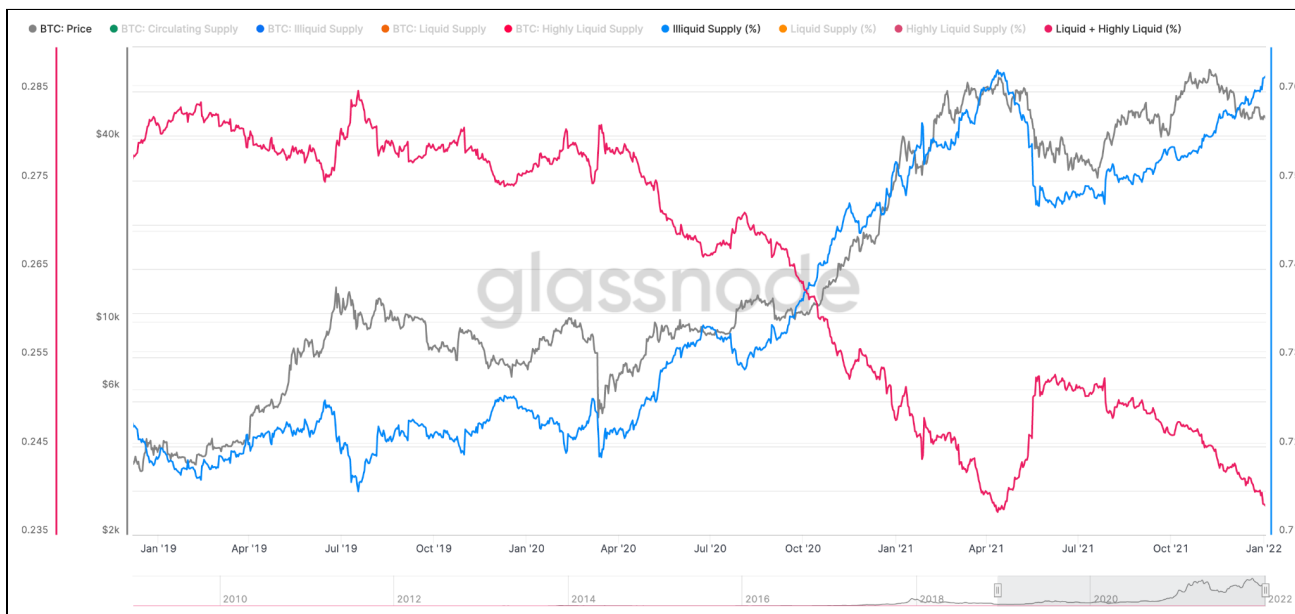
BTC Perpetual Swaps Funding - Aggregate



- Glassnode has put together a fantastic comparison of the growing divide between liquid and illiquid coins. Illiquid coins now represent 76% of the total supply - illiquidity measured by the ratio of cumulative outflows and cumulative inflows over a wallet's lifespan. This indicator alone is incredibly telling - in a steady market, flows are relatively balanced. In a market that gets shocked (upside or downside) - we see these supply shocks play out. What could be the impetus? Reallocation from funds in anticipation, or reaction to inflationary pressures and expected policy responses is our take in the medium to long-term.

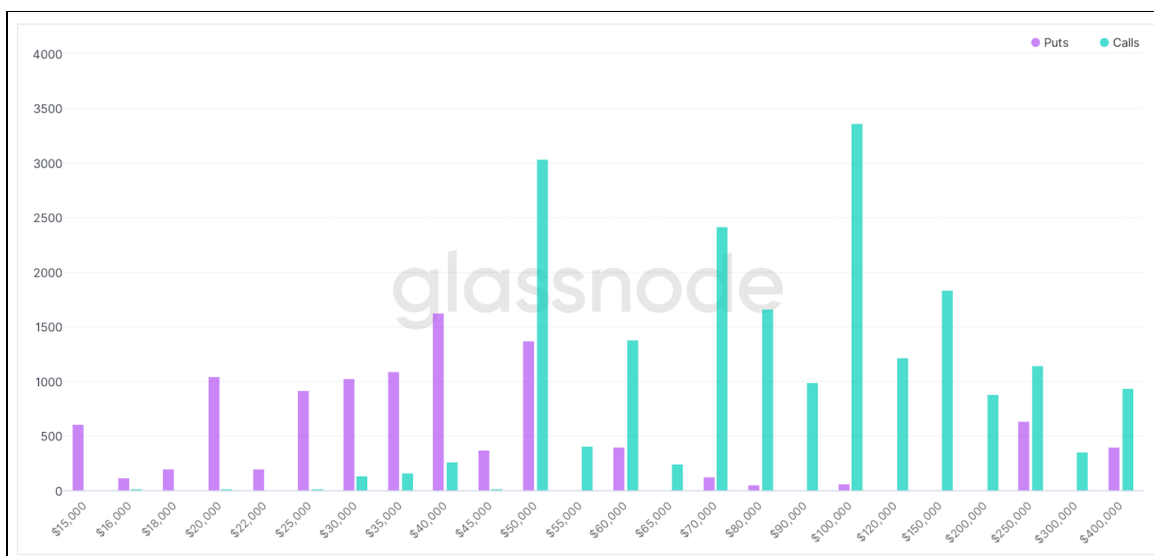


Liquid vs Illiquid Supply



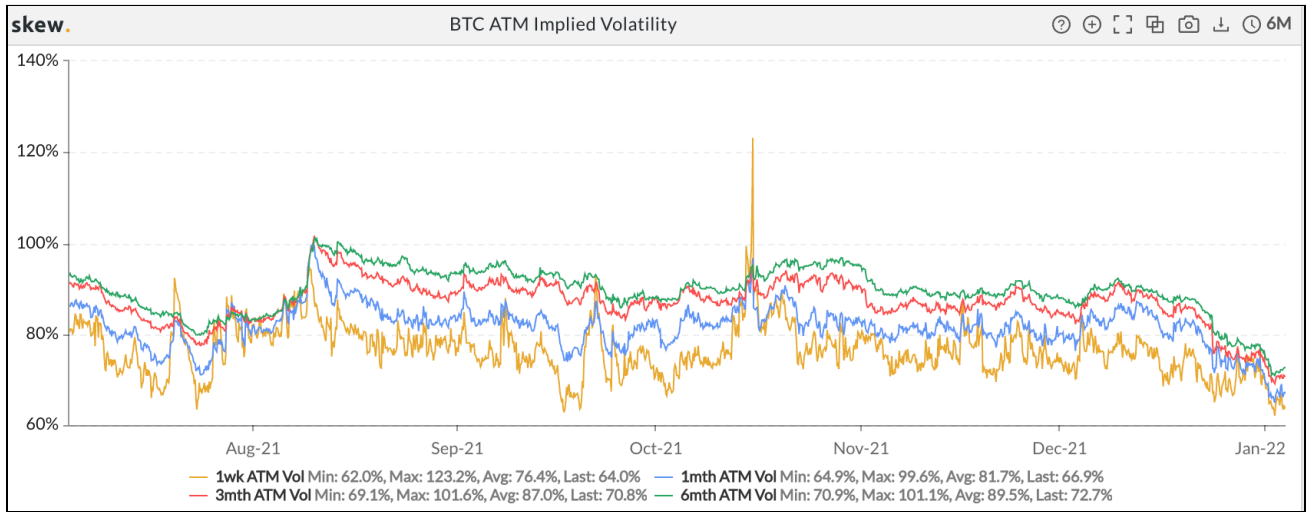
- Open interest out to Mar 25, 2022 shows that emphasis is placed on the 80,000, 100,000 and 150,000 levels for calls. Implied Volatility has fallen off a cliff, so not a bad way to play the bullish scenario.

OI Interest by Strike - Mar 25, 2022



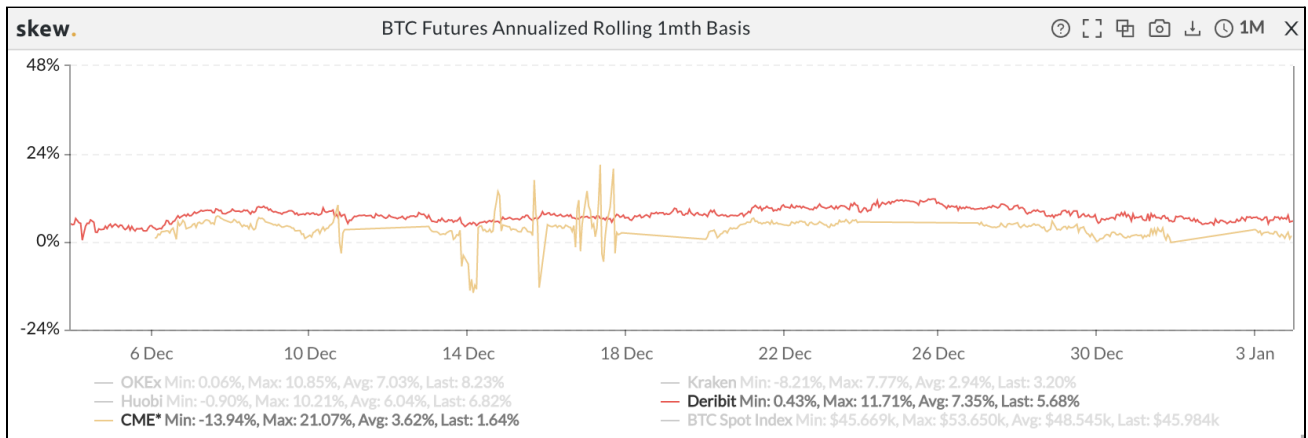


BTC Implied Volatility



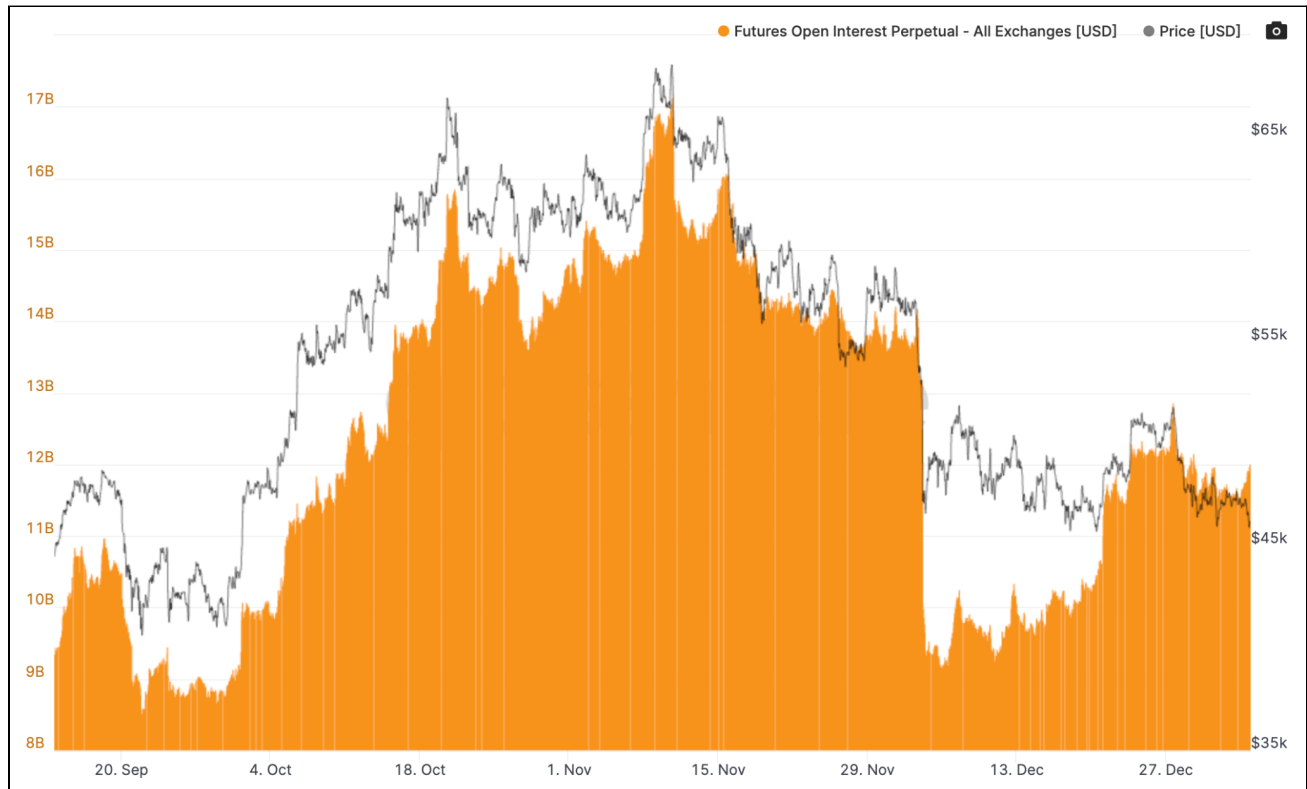
- The futures basis curve has remained relatively uneventful over the past 2 weeks, with CME gradually declining. Basis curves in crypto and CME and showing around 6% and 3% annualised respectively. Open interest is steady.

BTC Futures Annualised Rolling 1 Mth Basis (Deribit & CME)





Bitcoin Futures Open Interest



- In summary, decreasing volume and leverage has seen a consolidation phase for the past 2-weeks. Entering 2022, we are seeing increasing signs of supply squeezes. As market participants build their Q1 and annual strategies, we'll see volume increase and hopefully some indicators of what's to come!



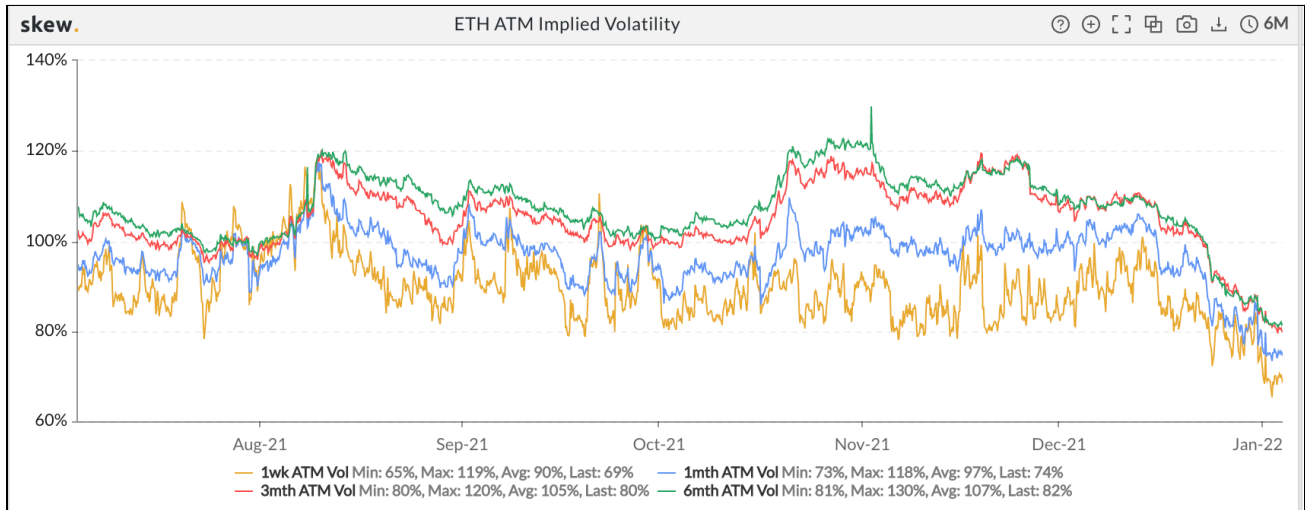
Ethereum



- Following BTC's price action, the last week of December created a grind higher as ETH's price headed towards 4,150, marking the weekly highs. However, as investors realised profits before NYE coupled with a large nominal options expiry, the price retracted and marked the lows around 3,600.
- The clear key support level at 3,600 has been tested, with prior notable highs at 4,200 and 4,800 respectively. We are forming a descending triangle, coupled with very low implied volatility.

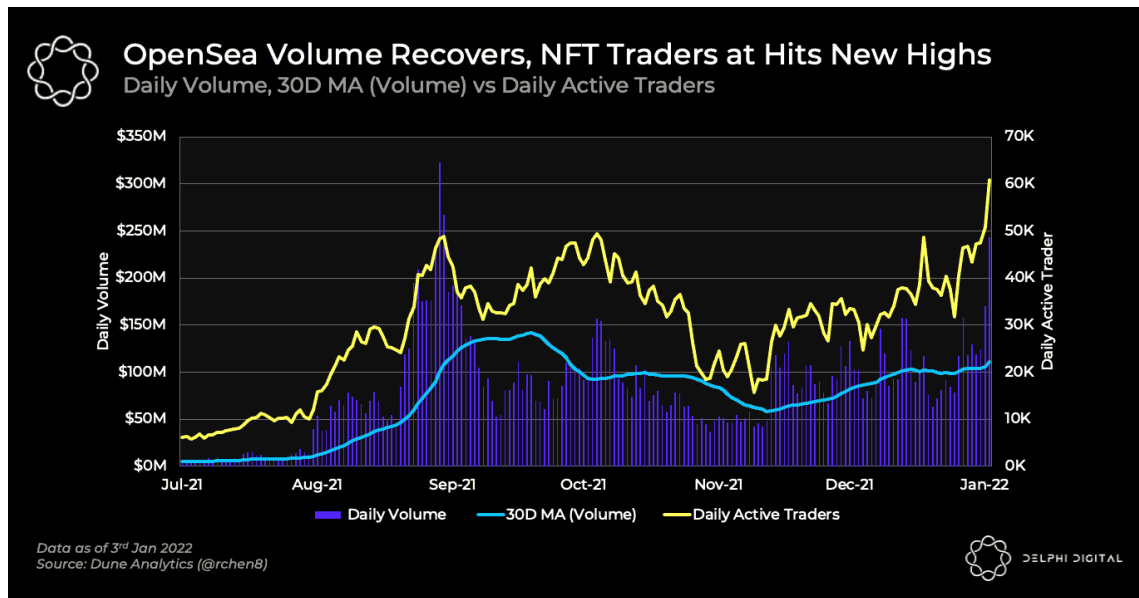


ETH ATM Implied Volatility



- OpenSea volume is demonstrating signs of recovery as the largest NFT platform hits a new high of 60k active traders in a day, while daily trading volume hits almost \$250m.

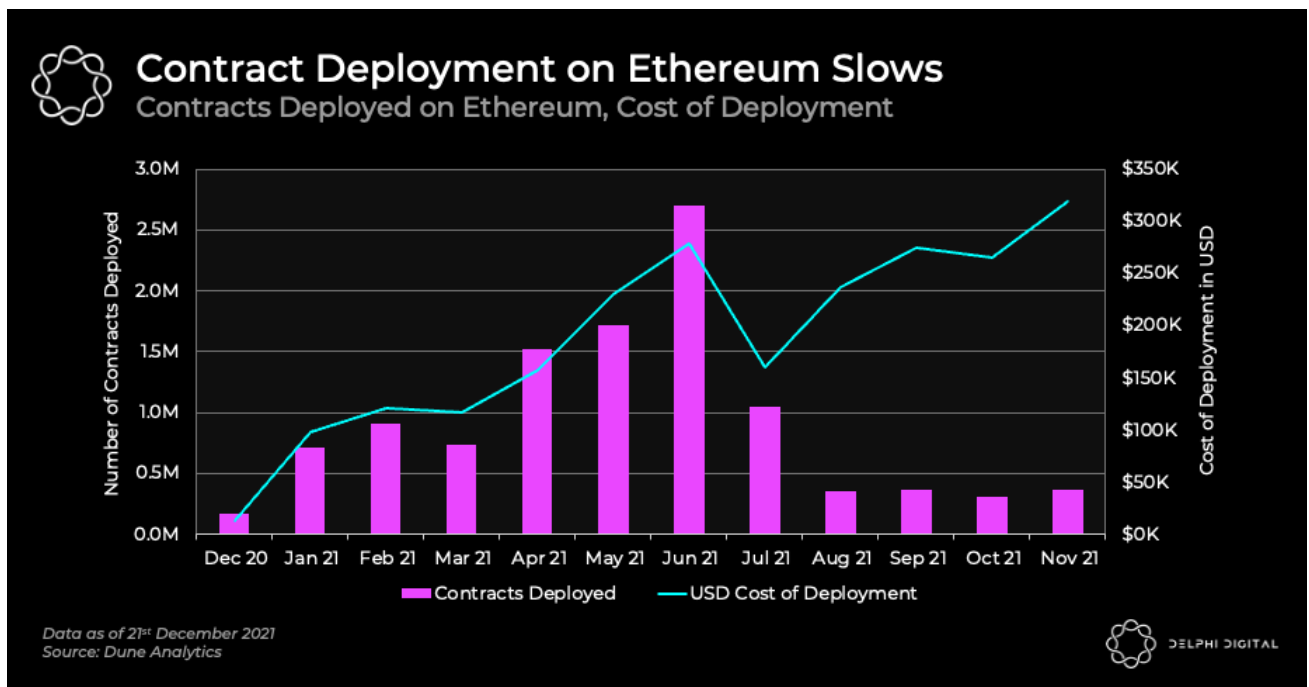
OpenSea Volume (Delphi)





- Smart contracts deployed on ETH have taken a hit since June, as the rising costs of deployment has pushed developers to seek alternatives. ETH-centric L2's may see an influx of users, as the persistently high gas fees on ETH are yet to be resolved.

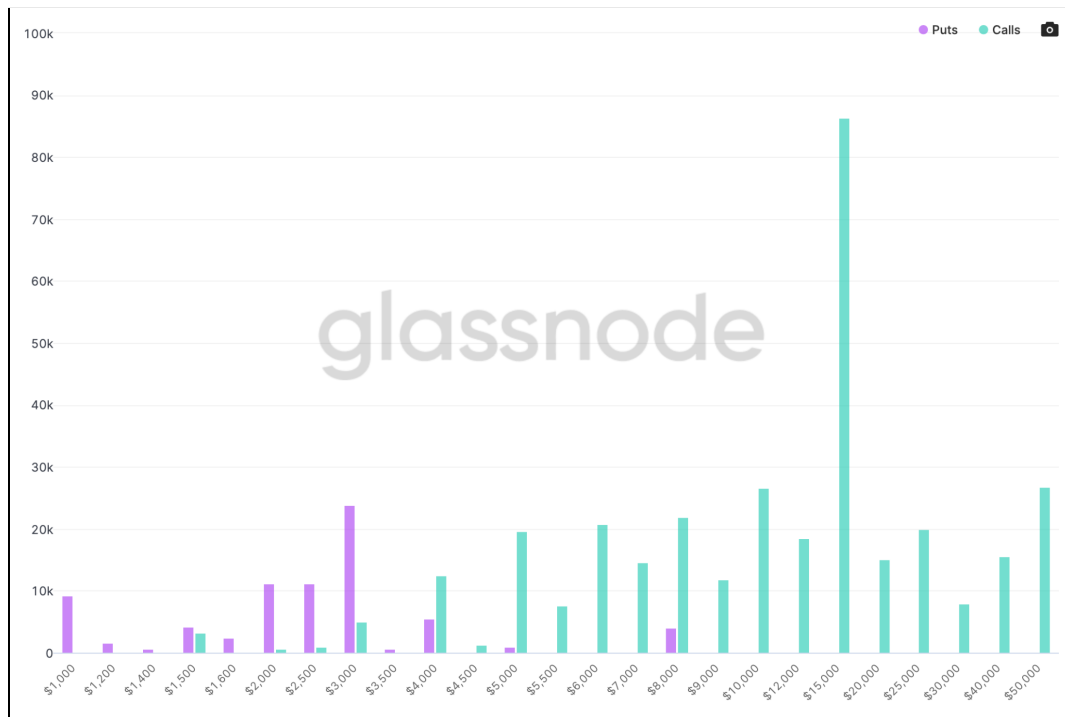
Smart Contracts deployed on Ethereum (Delphi)



- Open interest out to Mar 25, 2022 shows that emphasis is placed on the 10,000 and 15,000 levels for calls. Like BTC, with low Implied Volatility, call options would be a great way to express a bullish view.



ETH Open Interest by Strike: Mar 25, 2022



- ETHBTC continues to be range-bound as it is yet to get a convincing break above its multi-year high. On-chain data shows that exchanges have continued to experience a net inflow since mid December, implying a supply expansion on exchanges. BTC has a stronger on-chain structure for a bullish scenario at the moment.



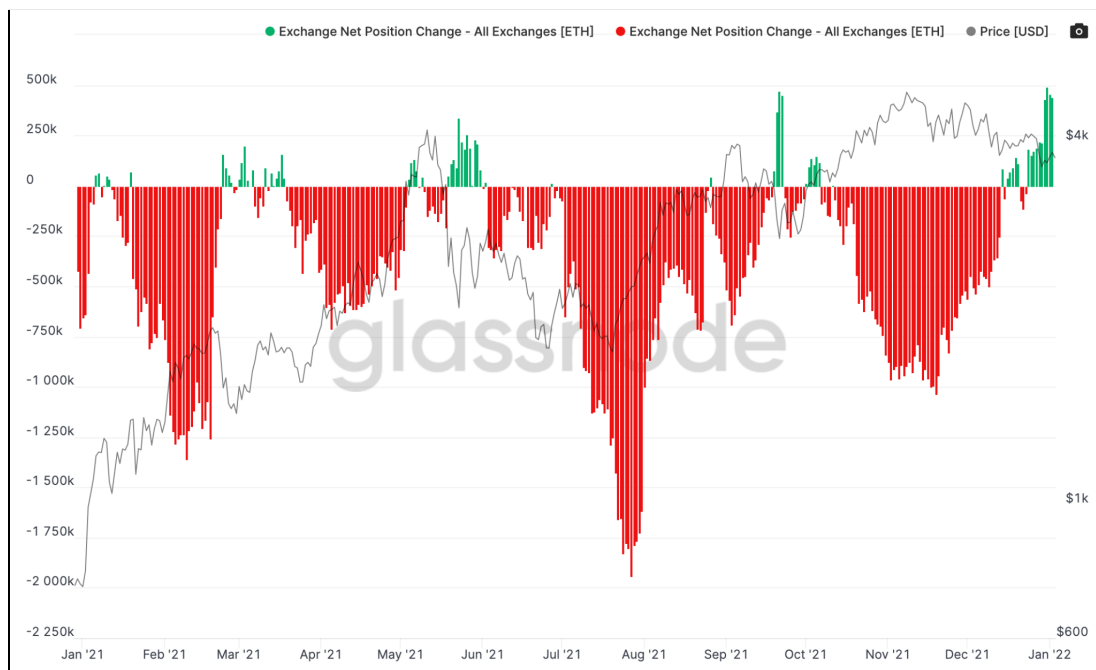
ETHBTC Daily Chart



- Net inflows onto exchanges intensified into the new year as market participants take profit and rotate into alternative investments in search of higher volatility. We do not expect these inflows to persist should ETH break its existing consolidation phase on the back of a risk-on environment.

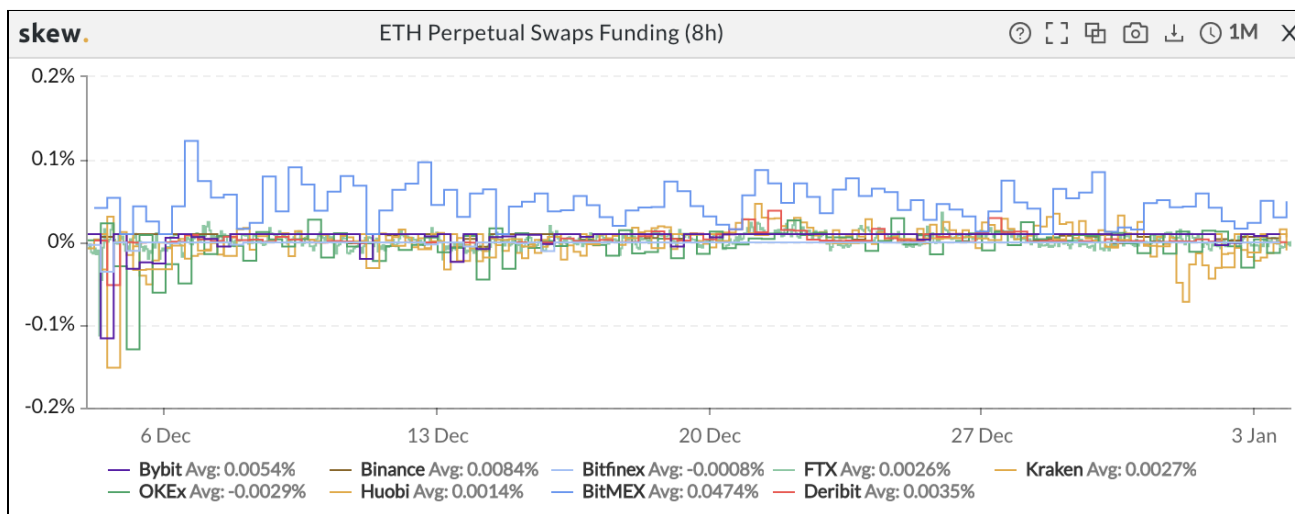


Ethereum Exchange Net Position Change



- On aggregate, perpetual funding rates remained positive throughout the last week of December, however are leaning negative in 2022, indicating short-term bearish pressure.

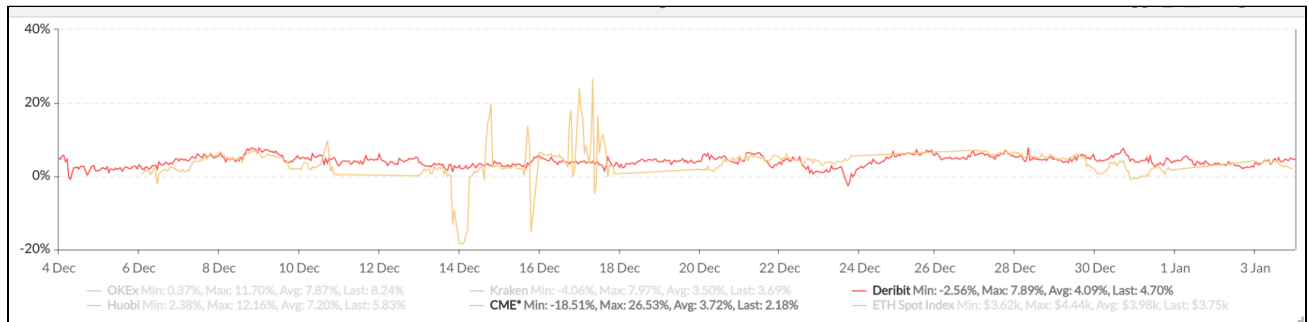
ETH Perpetual Funding Rates





- Following major volatility in the futures basis in the first half of December, the last two weeks have been relatively mundane with contained volatility.

ETH Futures Annualised Rolling 1 Mth Basis



- Ethereum staking contracts continue to limit floating supply - the amount of ETH in the ETH 2.0 staking contract currently sits at 8,855,987. This represents 7.44% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.
- In summary, while ETH tends to outperform BTC during risk-on moves, the decoupling of these 2 assets is unlikely in the short-term, although the medium to long-term view into 2022 will likely be focused on intermarket factors - inflation and tapering. From a fundamental perspective, ETH's price action will likely be driven by potential ETH-centric L2 alternatives, as well as the popularity of its L1 competitors.



ZEROCAP

Weekly Crypto Market Wrap

20 December 2021 – 3 January 2022

DeFi & Innovation

- [Terra](#) becomes second largest DeFi protocol, surpassing Binance Smart Chain.
- Global web search for “NFT” surpasses “Crypto” for [the first time ever](#).
- DAO treasuries [surged 40x](#) in 2021.
- [Shanghai](#) includes public metaverse implementation in its five-year development plan.
- [Dubai's World Trade Centre](#) set to become a specialised crypto zone - [Binance](#) joins in.

What to Watch

- Statements by nations on future restriction protocols following the recent Covid surge.
- Developments following Biden's meat crackdown plan - President potentially meeting with farmers this week.
- US' JOLTS Job Openings and Unemployment rate.



ZEROCAP

Weekly Crypto Market Wrap

20 December 2021 – 3 January 2022

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 20 Dec. 2021 0:00 UTC to 3 Jan. 2022 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	SPGSCI	U.S. 10Y