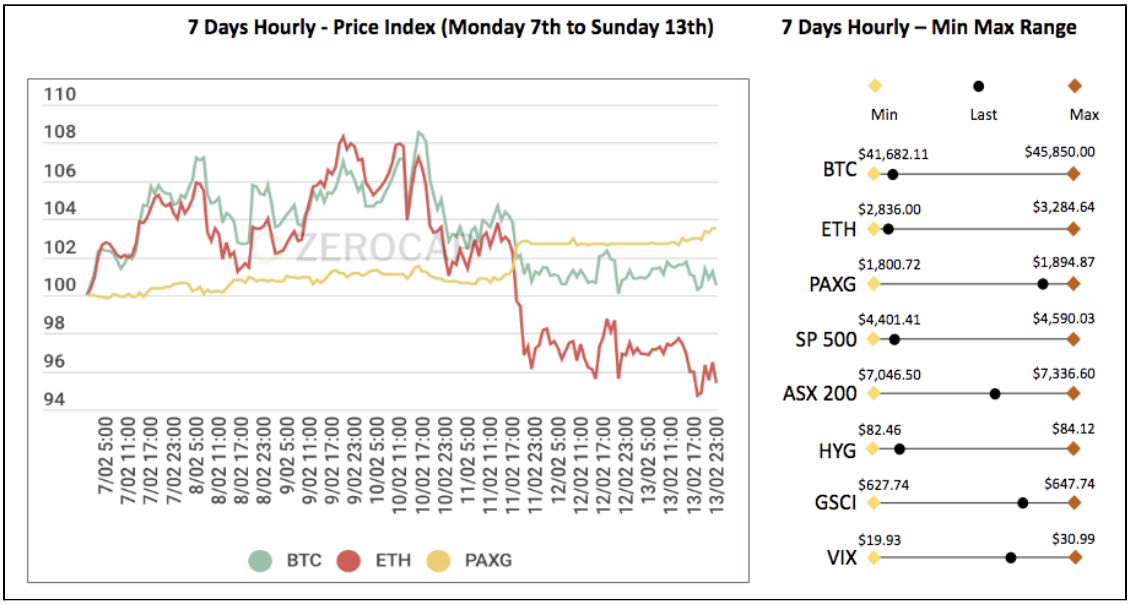
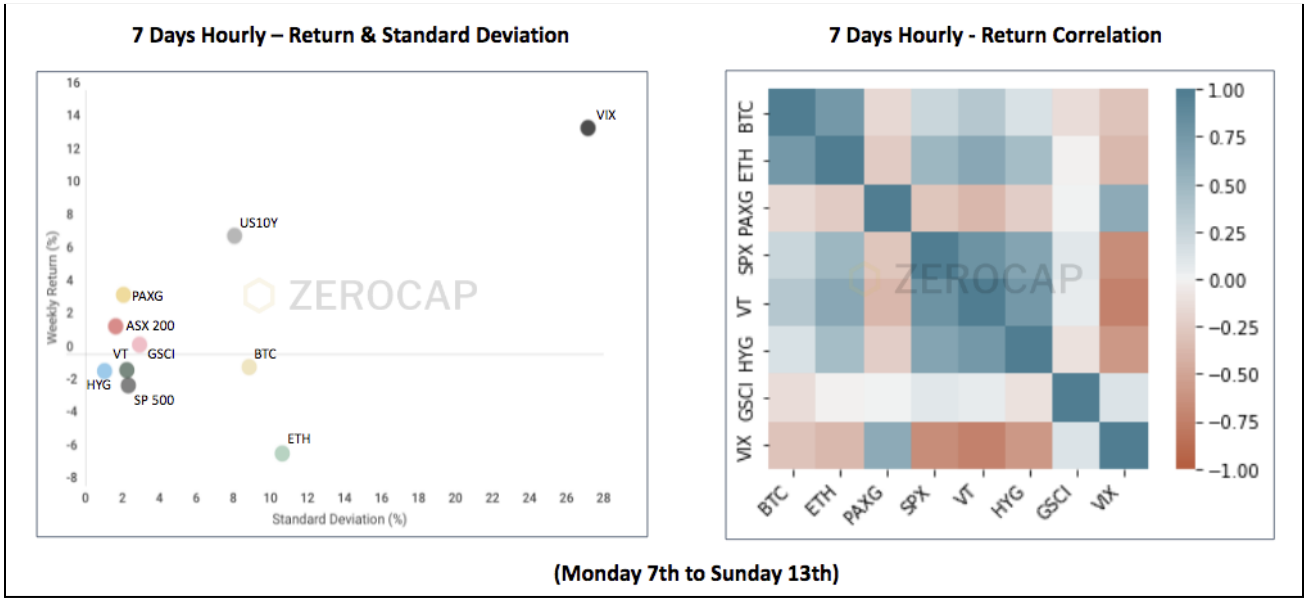
Zerocap provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at hello@zerocap.com or visit our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

Week in Review

- US government warns of "distinct possibility" that Russia may invade Ukraine in the next few days - Ukraine seeks urgent meeting with Russia.
- US inflation hit 7.5% year on year including food and energy, and 6% excluding in January, a 40-year high and above the expected 7.2%.
- St. Louis Fed President Bullard favours a more aggressive increase on interest rate, following 7.5% January CPI results - expects 100 basis points by July 1st.
- Apple is set to enable crypto payments into its ecosystem by the end of 2022.
- Russia ban, no more: Russian Central Bank plans to treat cryptos as currencies.
- "Crypto could soon exit the early adoption phase and enter an inflection point of hyper-adoption," states new WellsFargo report.
- MIT and Boston Fed test-run CBDC digital dollar project, determine blockchain technology is "not a good match."
- US Department of Justice seizes $3.6B in stolen Bitcoin and arrests two people in connection with exchange Bitfinex's major 2016 hack.
- Accounting giant KPMG adds Bitcoin and Ethereum to its Canadian treasury.
- SEC filing reviews Tesla holds $2B worth of Bitcoin as of December 2021.
- Binance invests $200 million in Forbes to boost consumer knowledge on Bitcoin.

Winners & Losers





- The week's fixed income market began on the backfoot as anticipation for the US CPI elevated rate hike fears. Three months LIBOR fixing pushed through levels not seen since the beginning of the Pandemic in early 2020. Japanese JGBs yield rose to levels not seen in six years following the stronger NFP data from the previous reporting. By the end of the week, with a stronger than expected US CPI announcement, the market was pricing in a full 50 bp hike from the FED in their March meeting and 25bp thereafter in the next two FOMC catchups. 10yr UST yield rose from 1.91% to a high of 2.04% following the inflation data, but retracing back to close the week lower on the back of Geopolitical uncertainty surrounding the Russian/Ukraine situation.
- Company earnings season now comes to the final stage of Q4 announcements, with 72% of reporting completed and 78% beating estimates while 18% underperforming. The US stock market attempted to rebound during the week, with the core index climbing from 4,480 to 4,580 before selling pressure escalated again. Geopolitical concerns, in addition to inflationary pressures, led to the market closing at the lowest level since early February.
- The macroeconomic focus was on the US CPI figure out Thursday evening AEDT time. US CPI beats expectations to the topside, 7.5% YoY against a forecast of 7.3% and 6% YoY ex-food and energy, a 40 year high. The market quickly began to price in a double-take on the March rate hike, with some are even calling for inter-meeting raise within the month of February 2022.
- China debuts its version of CBDC, or informally labeled the digital Yuan at the Winter Olympics in Beijing. This official digital version of the fiat currency performs in a two-tier platform, with the central bank directly allocating money supply to major banks. Meanwhile, the commercial banks then allocate each digital wallet of the consumer accordingly. This implementation of a CBDC from the second-largest economy in the world will perform as a benchmark for other nations to follow. The USD marched higher for most of the week, with USDJPY climbing above 116 following the US inflation report. Risk aversion, as Western

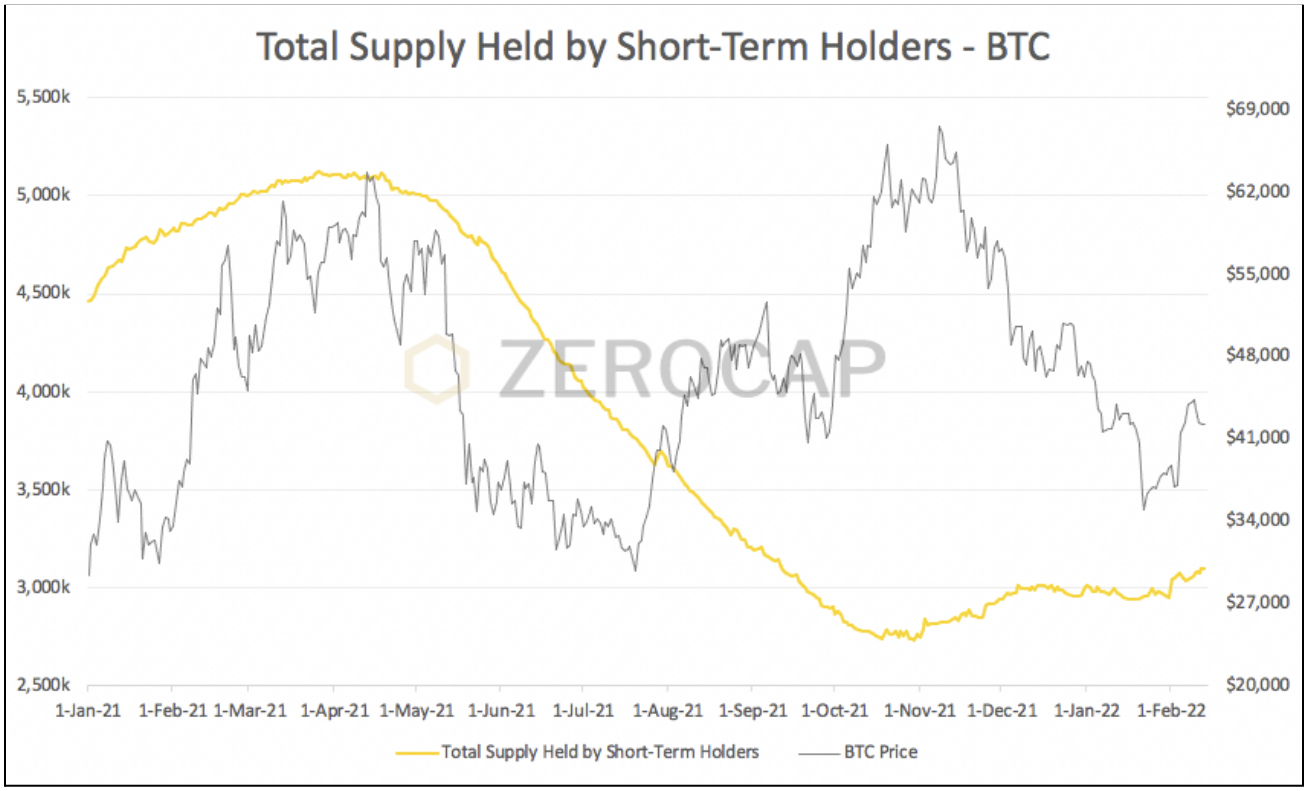
media suggest war in Ukraine is imminent, helped to generate repatriation flows back towards YEN as we move into the weekend. Gold saw both inflation-linked inflows and haven related allocation during the week. After consolidating above the $1,800 level, it rallied towards the high of 1,863 before easing off slightly by the weekend.

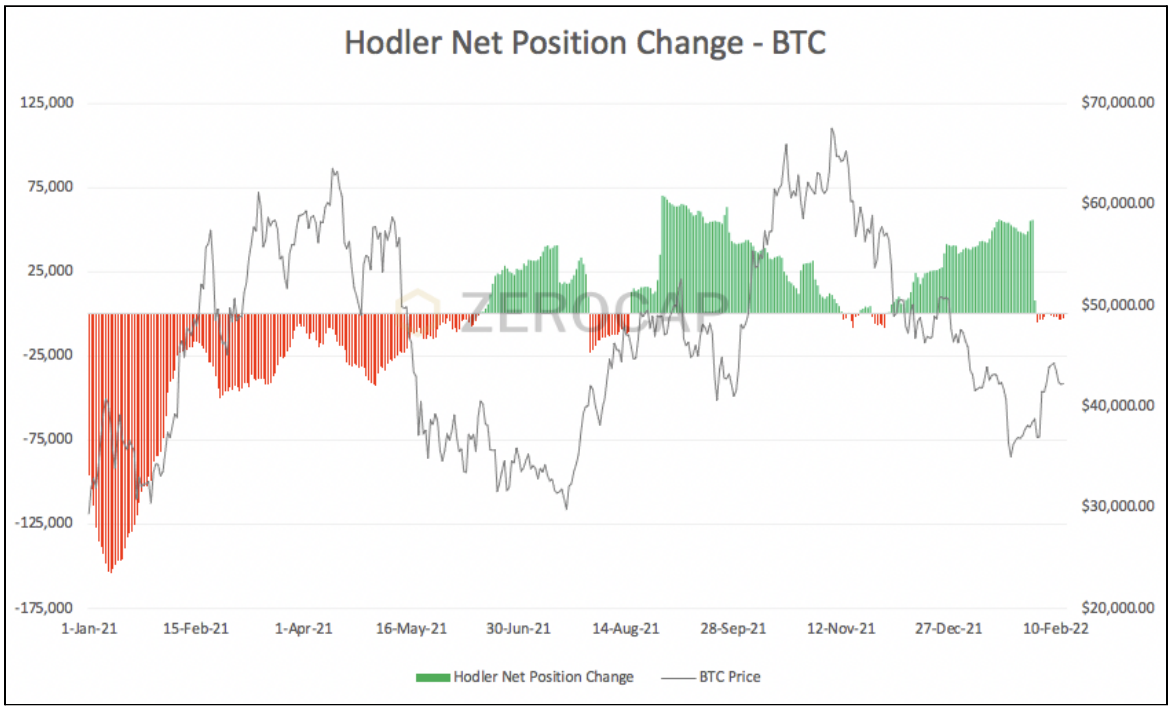
Macro, Technicals & Order Flow

Bitcoin

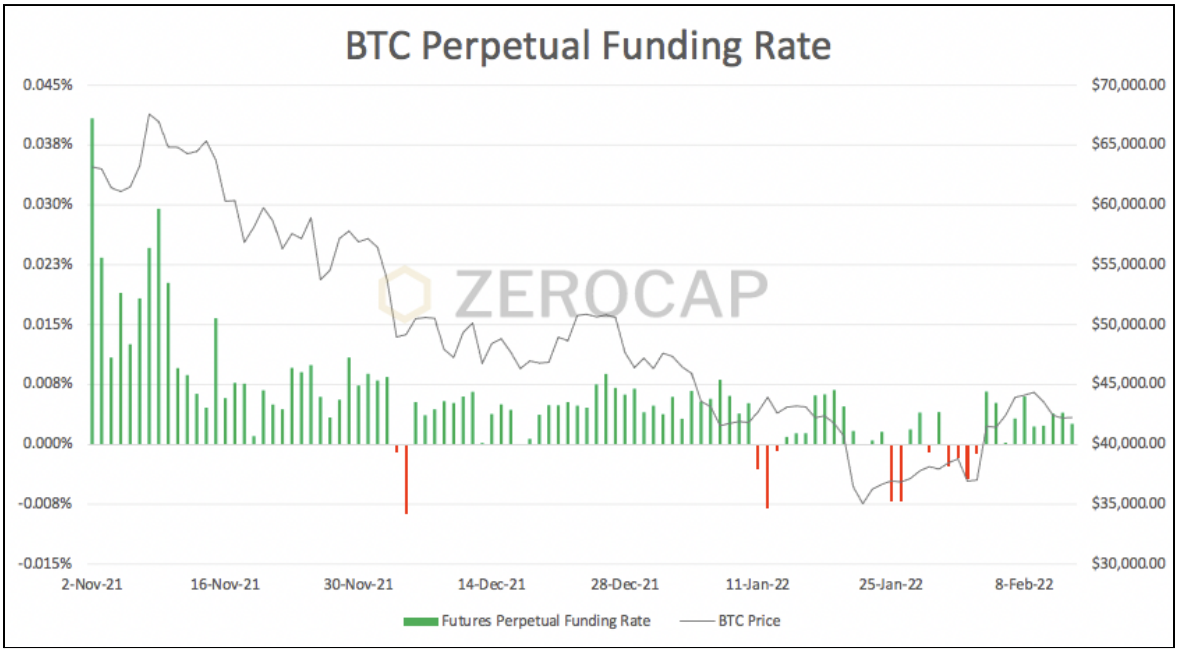
- This week, price action centred around the macro. Early, the focus was on CPI data that eventually proved to exceed investor expectations on the top side. BTC pushed to weekly highs around 45.5k shortly after, partly dislocating from other risk assets temporarily.
- Later, geopolitical pressures at the threat of war between Russia and Ukraine caused fears to rise and shift the mood to risk-off. The subsequent effects of flows into safe-haven assets rippled through the market, leading BTC to drop to weekly lows around the 41.5k level.
- In light of this down move, Bitcoin's volatility was relatively suppressed. The diversification of portfolio allocation in Q1 and continuing flows into the space are cushioning downside, alongside varying degrees of attention as an inflation hedge - although the market is yet to definitively bid on this theme.

- On-chain data supports a move to a bullish structure. Supply held by Short-Term Holders has been increasing since November 21 and continues to increase despite the current climate. In contrast, Long Term Holders (Hodlers) have recently begun liquidating into strength. This is generally indicative of a building long momentum. Although macro and geopolitical risk will trump on-chain signals in the short term.

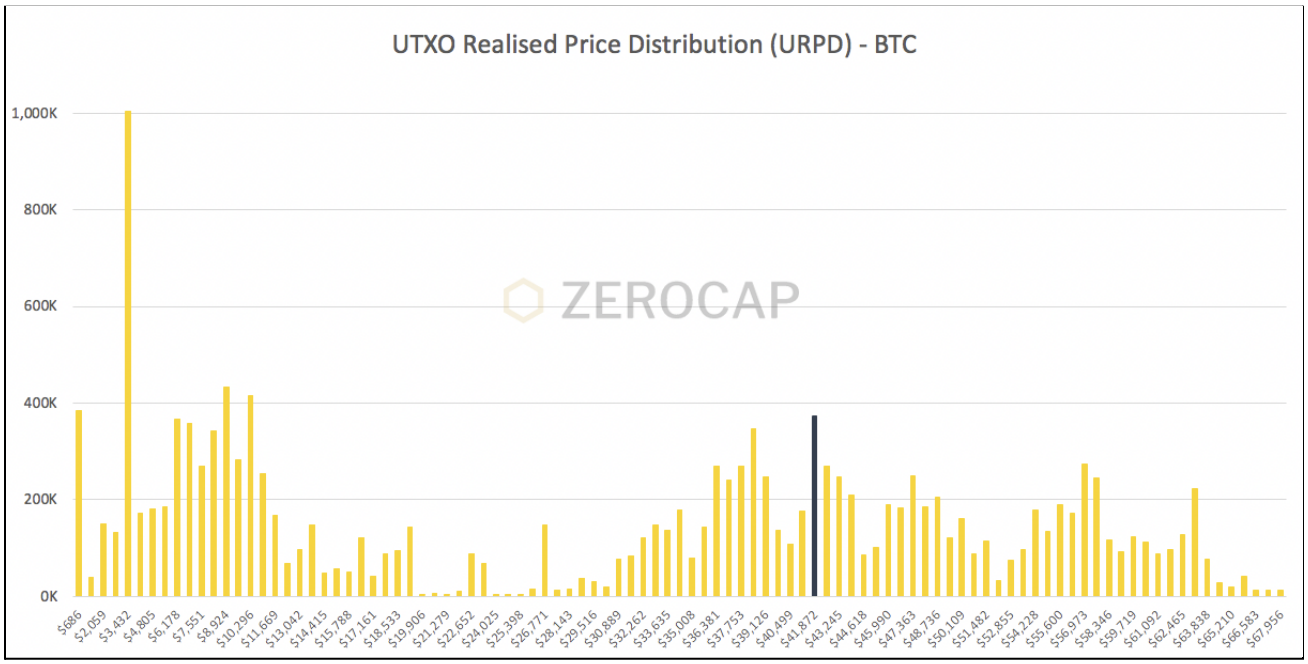




- Moderately positive funding rates paint a bullish short-term picture, despite the above-mentioned risks.



- URPD shows the prices in which BTC supply was last on-chain. Large volumes of BTC realized at certain levels can provide indication of support and resistance levels. There's some good movement of assets at current levels, with a gap down toward the 37,000 level where support has formed.



- On balance. on-chain data continues to paint a bullish picture. Whether current levels will hold will likely be a factor of the simmering geopolitical climate. This said, the small short-lived breakdowns in BTC's correlation with the rest of the crypto space is encouraging as potential hedging flows in the medium to long-term.

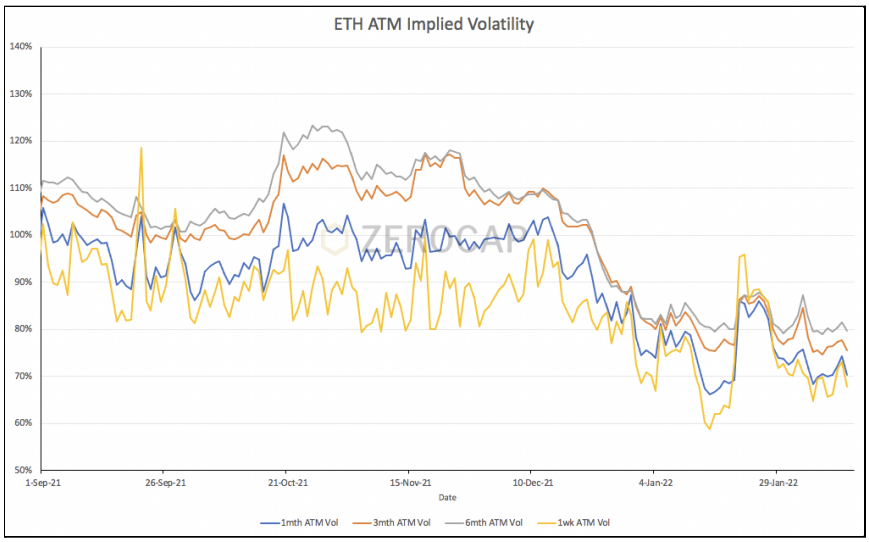
Ethereum

- Starting the week out strong, ETH continued its rally off the back of bullish momentum, setting weekly highs around 3,300. With inflation breaching 40-year highs, ETH alongside other risk-on assets saw a severe pullback during the latter half of the week, closing the week at its lows around 2,850.
- Additionally, the geopolitical risk surrounding Russia's potential invasion of Ukraine stimulated investment rotation into safe-haven assets, with GOLD rallying +3% over the week.
- ETHBTC has continued to decline following the CPI release, aligning with our previous expectations of BTC outperforming ETH during risk-off moves.

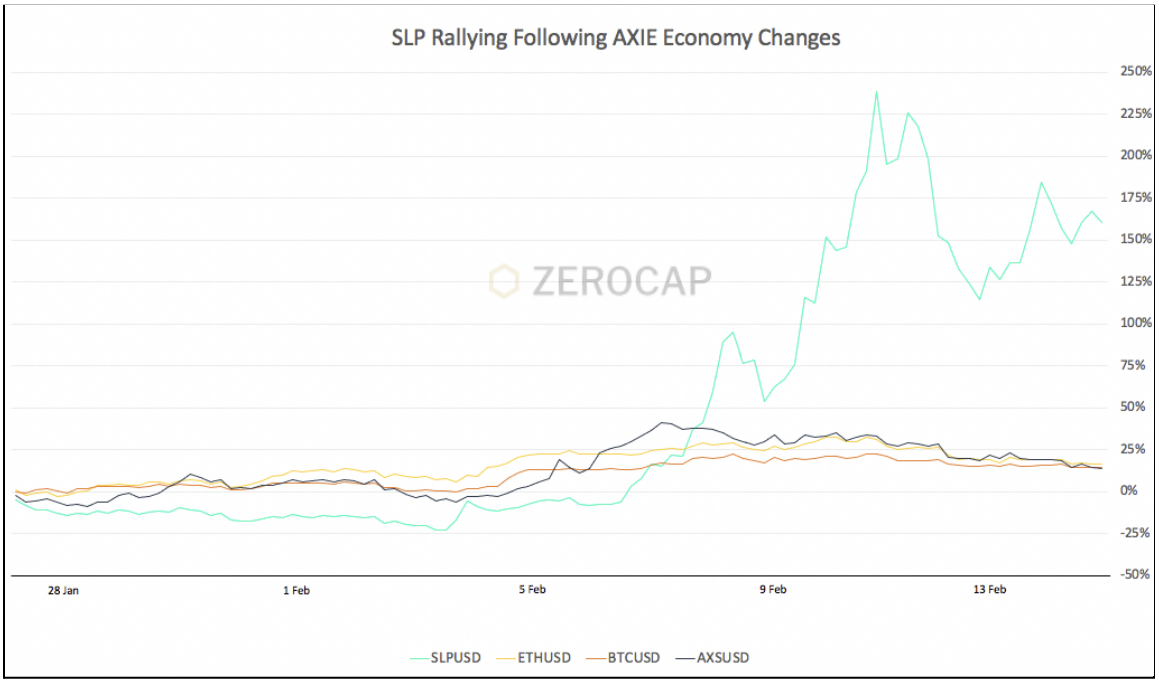
ETHBTC Daily Chart

- Implied volatility remained relatively stable throughout the week, despite the price volatility in ETH.

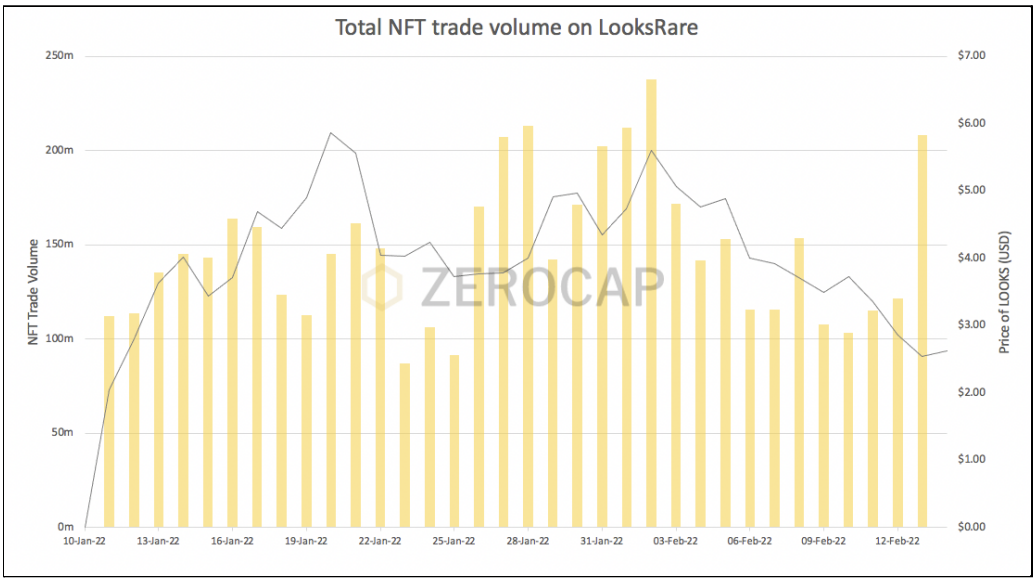
ETH ATM Implied Volatility



- Following last week's reporting of hyperinflation in SLP, Axie Infinity implemented dramatic economic changes aimed to reduce the minting rate of SLP. The price of SLP has surged +370% over the last few days and is now a strong performer with YTD gains of +48%.

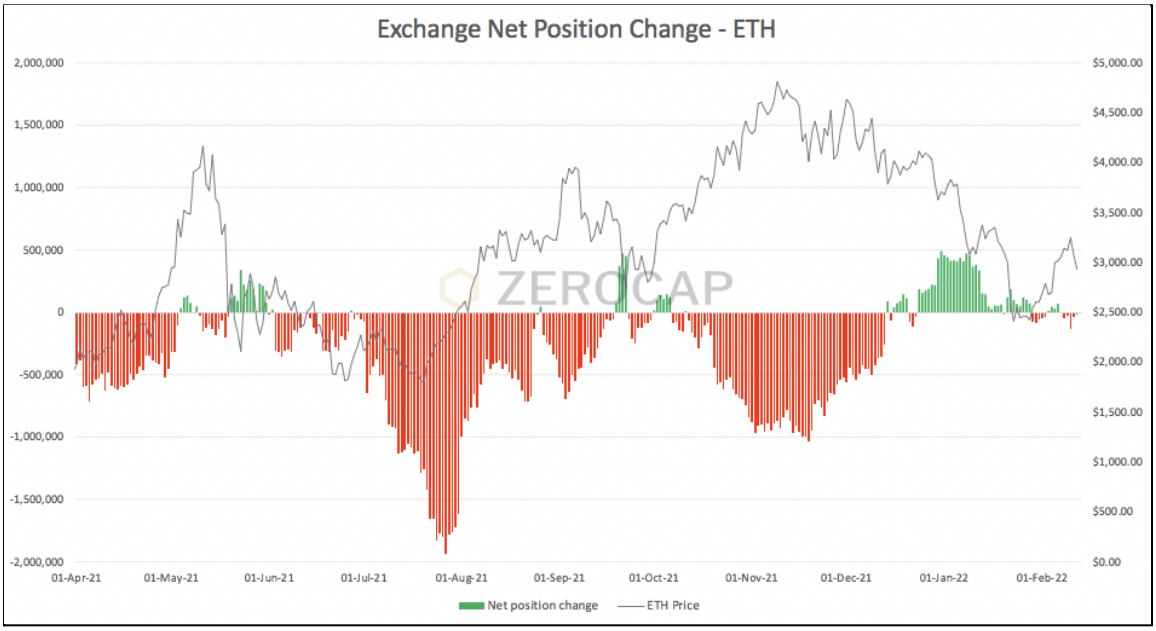


- With 97% of NFT trading volume on LooksRare being stimulated by wash trading, the price of LOOKS has continued to decline since the start of the month as the platform has reduced reward incentives, leading to a -55% decline over the past 2 weeks.



- Albeit minimal, net exchange outflows persisted throughout the week despite market volatility, implying a continued supply squeeze pressure on exchanges as holders remain undecided with a bullish lean in the current market.

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 9,394,288. This represents 7.86% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.
- As institutional investors re-allocate resources and liquidity gradually returns to markets, Ethereum remains the institutional choice for entry into DeFi demonstrated by the Enterprise Ethereum Alliance (EEA), with over 200 firms including Microsoft, Mastercard and J.P. Morgan experimenting with private versions of ETH for enterprise purposes. Despite the rise of competent Layer 1 competitors, ETH's First-mover advantage consistently provides value, with protocols typically releasing an ETH-bridge in order to gain interoperability throughout the ecosystem. Like BTC, short-term price action will be heavily influenced by geopolitical and macro risk, specifically the FOMC minutes scheduled for later this week.

DeFi & Innovation

- McDonald's files trademarks for virtual Metaverse restaurants.
- United Nations approves NFT standards, initiative led by Tencent.
- AAVE launches Web 3 social media platform - AAVE is part of Zerocap's DeFi Index product.
- Tennessee introduces bill to allow state to invest in crypto.
- Bitcoin Lightning Network goes live on Jack Dorsey's Cash App.
- A quarter of people will spend time in the Metaverse by 2026; Gartner report.
- PayPal establishes advisory council on crypto and blockchain.

What to Watch

- Russia x Ukraine tensions in this absolutely decisive week.
- St. Louis Fed President Bullard speaks today, with potential details on upcoming rate hikes.
- Great Britain's CPI, US Retail Sales and FOMC Meeting Minutes - on Wednesday.

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