ZEROCAP
Weekly Crypto Market Wrap
14 February 2022 – 20 February 2022

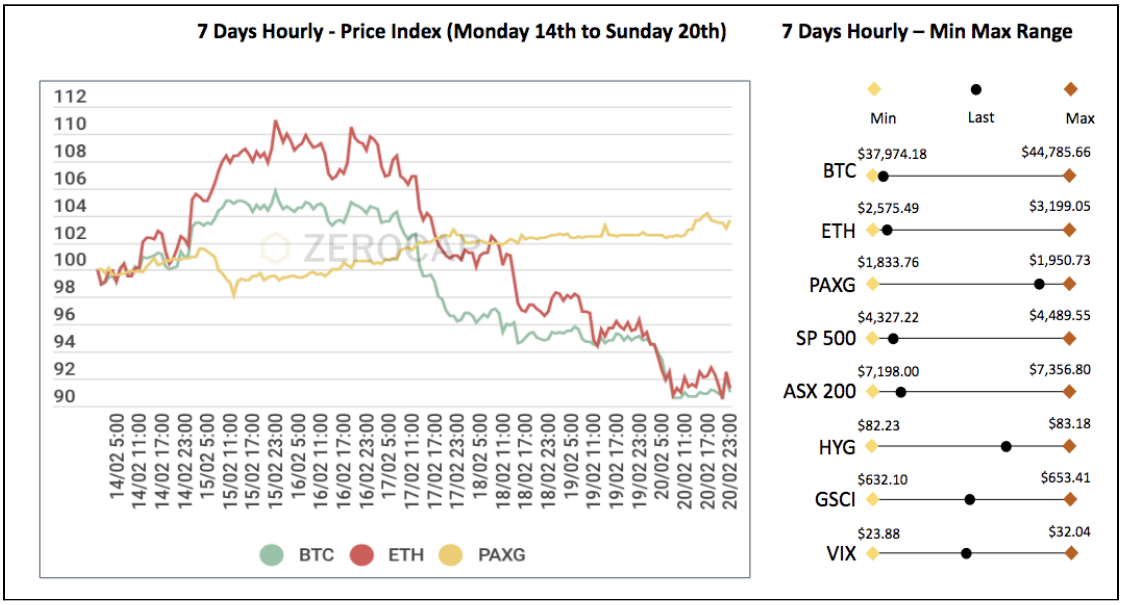
Zerocap provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at hello@zerocap.com or visit our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

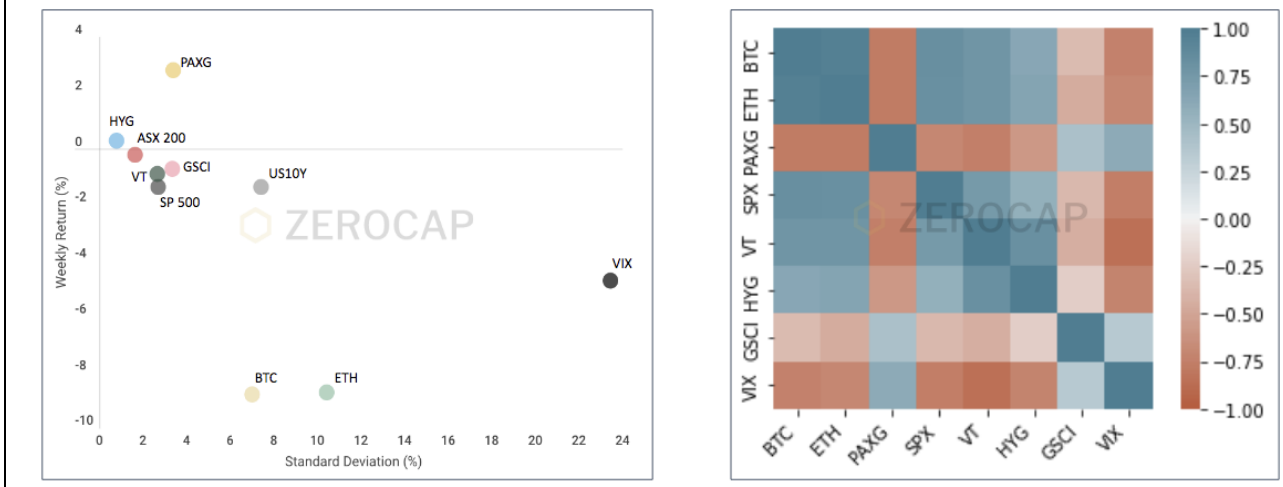
Week in Review

- Biden expected to issue an executive order on crypto this week: Yahoo Finance report.
- Federal Reserve approves rules banning its officials from trading stocks, bonds and cryptocurrencies - restrictions will take effect on May 1st.
- FOMC January Minutes: Fed ready for rate hikes and reduction in asset holdings, members show great concern as inflation spreads beyond pandemic-related sectors into the broader economy.
- St. Louis Fed President Bullard: Inflation "could get out of control," calls for immediate action on interest rates, previously mentioning full percentage point hikes by July.
- US retail sales beat expectations, surges 3.8% in January.
- Banning Bitcoin in Russia is the "same as banning the internet," says Bank of Russia governor Elvira Nabiullina.
- US Treasury affirms crypto miners and 'wallet operators' are exempt from IRS reporting rules.
- Sequoia Capital launches a crypto fund worth up to $600 million.
- Warren Buffet invests an extra $1B into Nubank, Brazilian crypto-friendly neobank, increasing his total allocation to $1.5B from July's $500 million investment.
- Canadian Prime Minister Trudeau invokes Emergency Act due to truckers protest, targets crowdfunding and crypto addresses.

- SEC hits BlockFi with $100 million penalty for unregistered lending product.
- NYSE files trademark application for trading NFTs.
- FBI launches cryptocurrency unit to deal with digital exploitations.

Winners & Losers





(Monday 14th to Sunday 20th)

- The week's fixed income market began on the backfoot as the market accelerated global unwinding of pandemic era stimulus. Ten-year UST yield pushed past the 2% level earlier on, while the 30-year hit 2.35%. The German bund went to a high of 0.35%, leaving the JGB curve as the only major developed yield curve below zero. Various FED speakers are now calling for an aggressive unwinding of the QE effort, starting with a 50bp hike in the March FOMC meeting. However, the yield curve collapsed towards the end of the week as geopolitical concerns escalated, with US president Biden calling for the imminent Russian invasion of Ukraine within days. The strategy seems quite similar to what happened with Crimea several years ago, which began with Russian backed and geared up rebels taking on the local government before Russian troops moved in to "help" loyal Russian citizens. On the other side of the world, China failed to meet market calls to cut rates to stabilise the property sector. This could be due to the news report that new home prices in the country had their first positive price rise since September 2021. The hawkish inaction led to a sell-off in both bonds and domestic stocks.
- Company earnings season is ending in the US, with 84% of reporting done and 78% beating expectations, while 19% performing poorly. Hence, earnings forecasting will now focus on how they'll go given the inflation and higher interest rate environment in the coming quarter.
- Oil prices at a seven-year high also support Shale-related stocks on the S&P 500. However, the prospect of a major global geopolitical tension on the horizon is weighing on sentiment and will continue to do so until it subsides.
- Following the stronger than expected consumer inflation data last year, supply-side pressures also show up via the US PPI report. The headline shows the YoY figure at 9.7%, while ex-food and energy were 8.3%, beating market expectations. Chinese CPI came out lower than the previous record on Dec21.

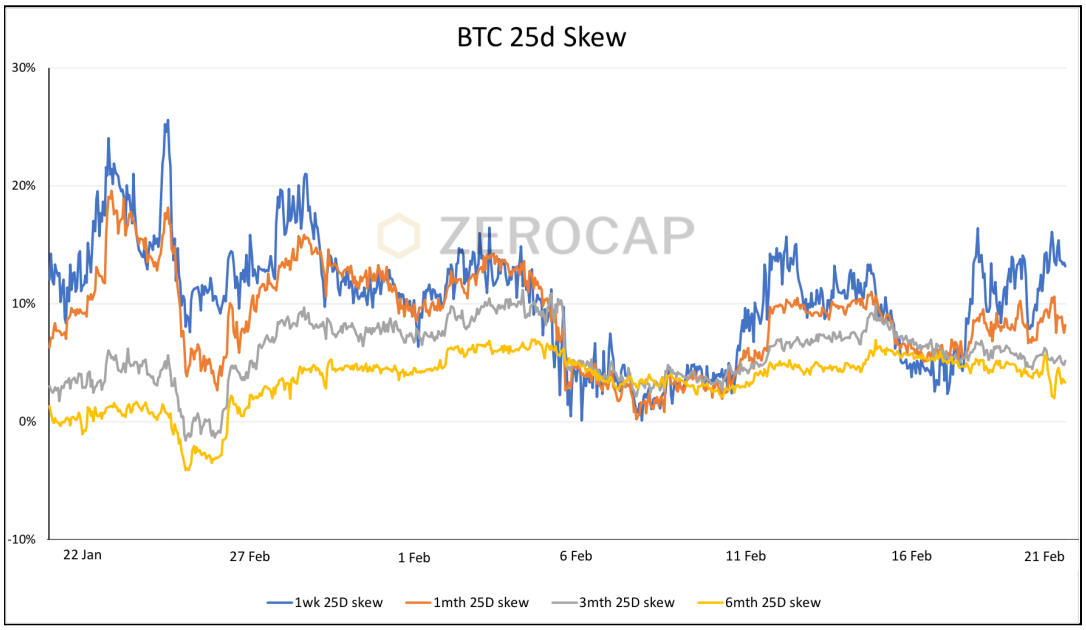
Month on month data was at 0.9% vs 1.5% previously reported, and food prices retraced lower to minus 3.8% YoY vs minus 1.2% in December.

- Risk aversion intensified into the weekend; with Monday's US presidential day holiday, money flow concentrated on safe haven migration. Ten year UST yield dropped by 10bp from weekly peak to close at 1.95%, while GOLD prices remained elevated near $1,900. VIX stayed high, but BTC and ETH implied Vol was subdued despite higher realised selling in the spot market. With its weekend trading hours, cryptocurrency provided the optimal geopolitical headline hedging tool. With French President Macron meeting up with Russian President Putin in the later hours of Monday European time, in a continual effort to de-escalate the tension, the market could be looking for a positive rebound in thin liquidity during the US holiday session.

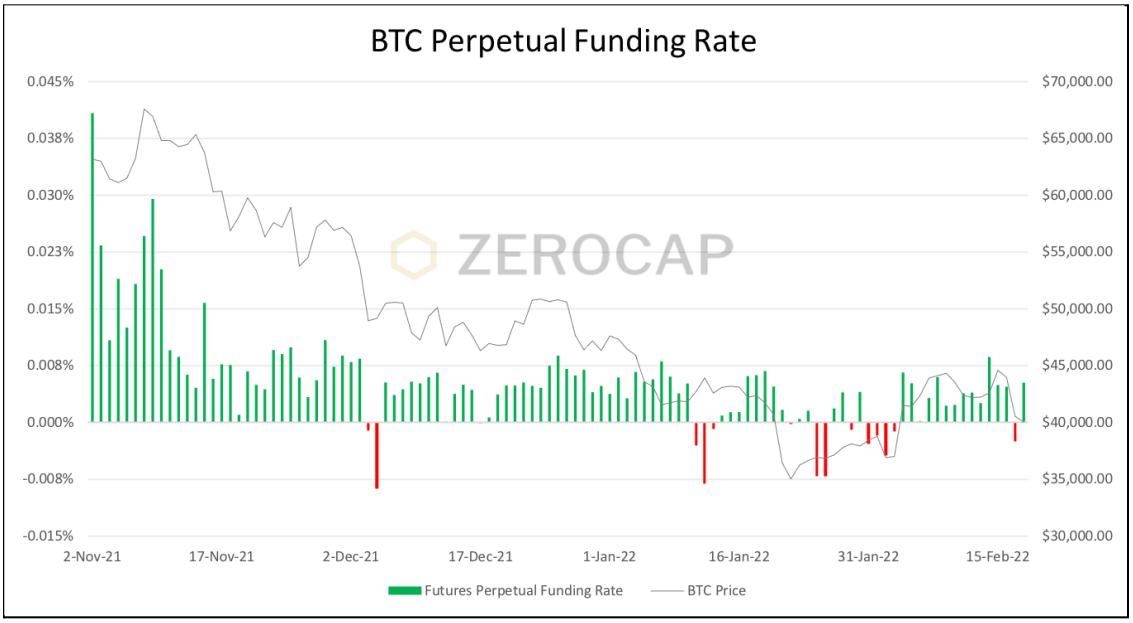
Macro, Technicals & Order Flow

Bitcoin

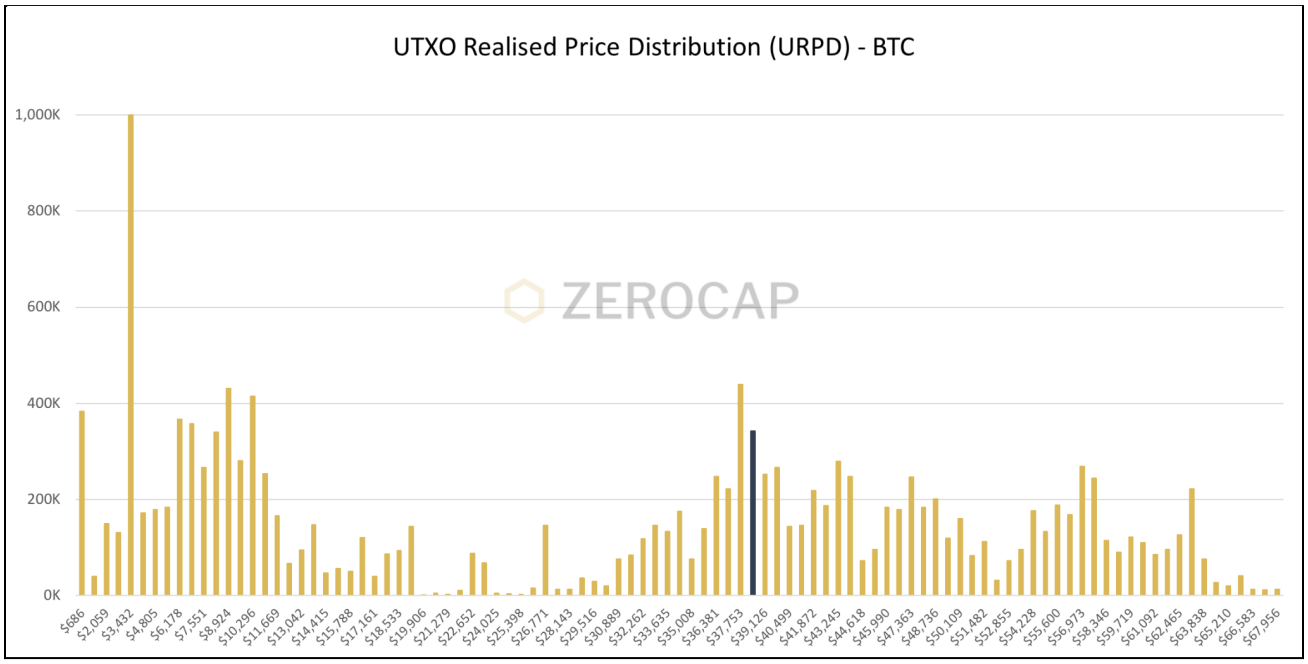
- This week, Bitcoin's price action was dictated by news out of the current geopolitical conflict in Ukraine. An early push to weekly highs around 44,000 was prompted by a partial withdrawal of troops.
- Whilst news out of the January FOMC minutes caused some bearish price action, heightened geopolitical tensions came into the spotlight late last week resulting in de-risking into the weekend. The resultant sell off in the crypto markets and a rally in bond markets reaffirmed the continuing theme of de-risking into weekends when markets are fragile.
- Bitcoin's 25-day skew depicts the difference between a 25-delta put and a 25-delta call in terms of implied volatility. Moves away from 0%, like those seen subsequent to Thursday's action, are indicative of option players favoring short term bearish plays or bidding for protection.



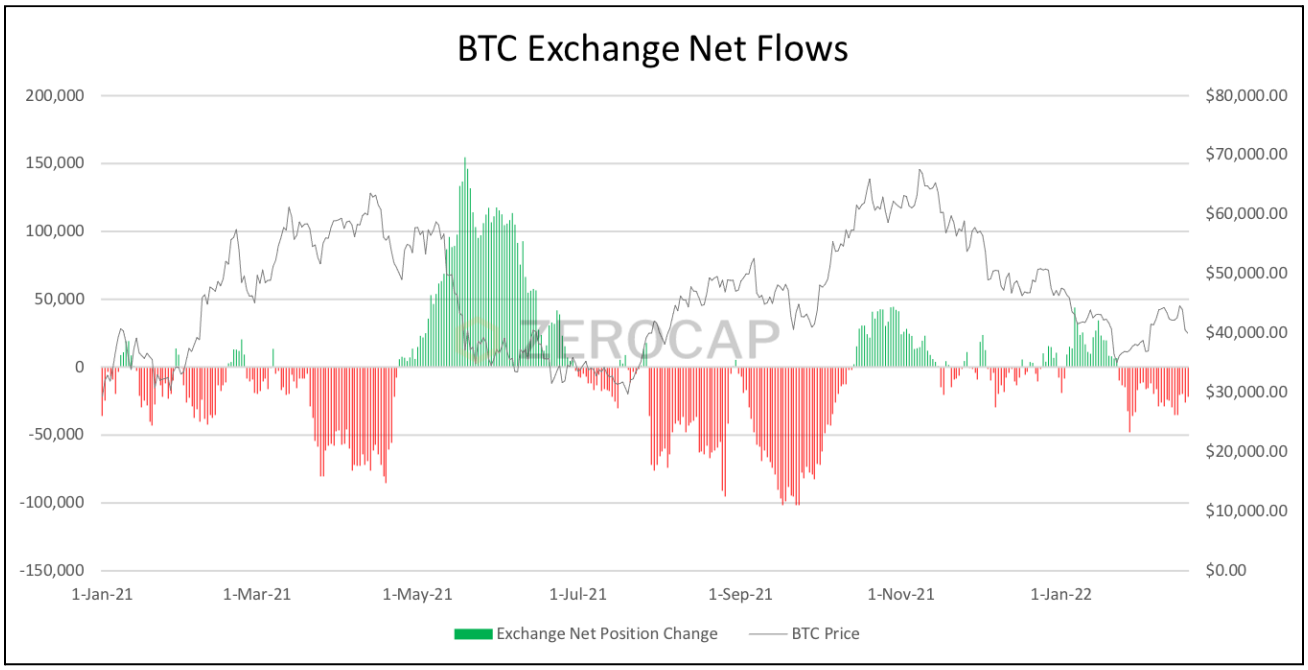
- Conversely, perpetual funding rates are on-balance positive, favoring short-term longs. That said, those playing the futures markets with leverage may soon feel the pain in the context of any near-term risk moves against the backdrop on Russia and Ukraine.



- URPD shows the prices in which BTC supply was transacted on-chain. Large volumes of BTC realized at certain levels can provide indication of support and resistance levels. Solid support has developed at current levels, where orderflow is clearly changing hands against the shifting backdrop.



- In addition to the growing support depicted by URPD, we can see that on-chain supply on exchanges is in decline, providing bullish market structure for BTC.



- Attention has diverged from interest rates and the market now waits and watches for changes in the geopolitical environment. Risk will always trump monetary policy in the short-term. Whilst on-chain continues to paint a bullish picture, some investors are taking advantage of the current market fragility, favoring bearish options structures. Taking a step back and looking beyond short term price determinants, it's worth noting Bitcoin's growing relative resilience to risk moves and that the clear bidding at current levels.

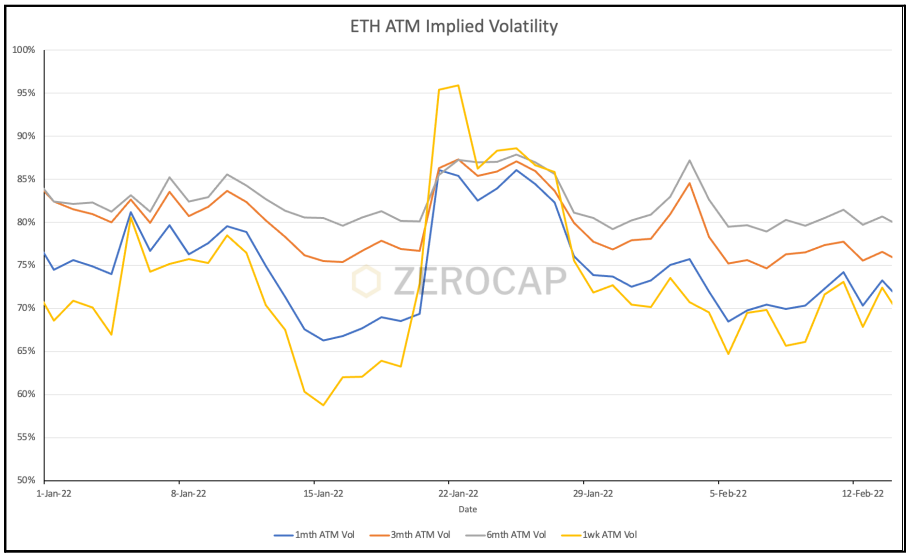
Ethereum

- Early on, as the FOMC minutes release drew closer and with tensions calming around the Ukraine border, ETH alongside other on-risk assets rallied, setting weekly highs around 3,200.
- Biden's statement regarding a likely Ukraine invasion during the latter half of the week then fueled the risk-off atmosphere, with cryptocurrencies being the primary de-risking asset choice for investors during the weekend, setting weekly lows for ETH around 2,600.
- As expected, ETHBTC declined, aligning with expectations that BTC tends to outperform ETH during risk-off moves, and vice-versa.

ETHBTC Daily Chart

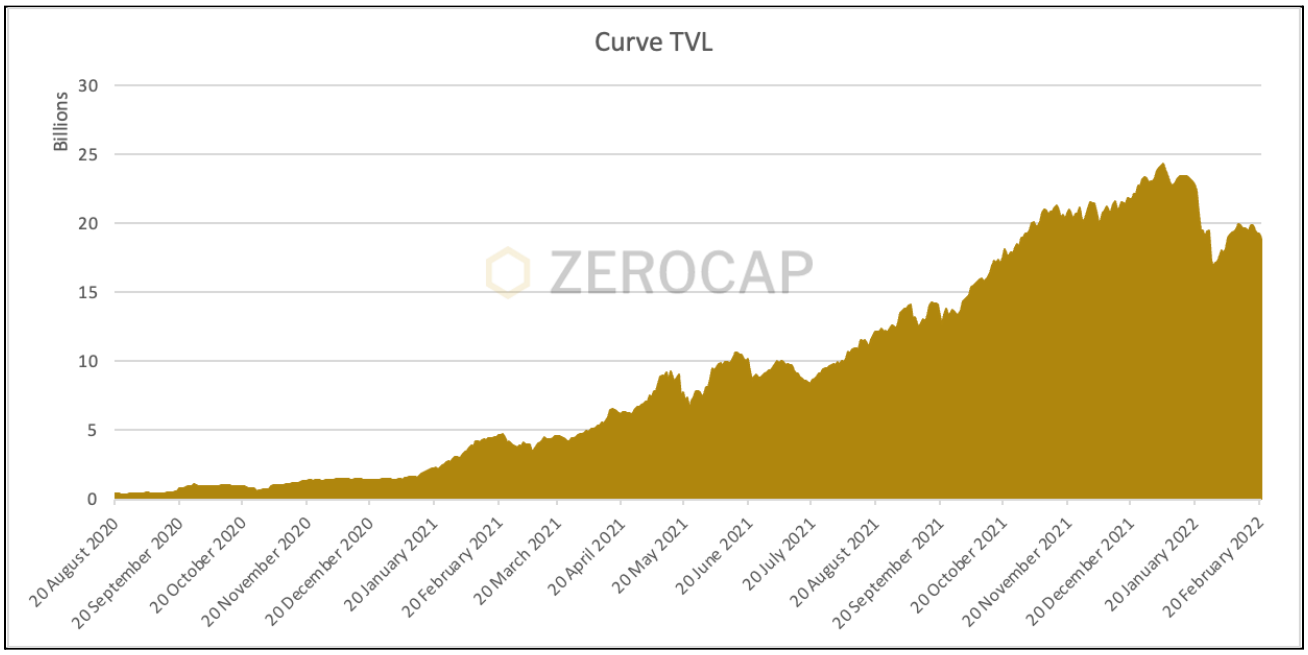
- Implied volatility remained relatively stable throughout the week, despite a -8% drawdown in ETH.

ETH ATM Implied Volatility



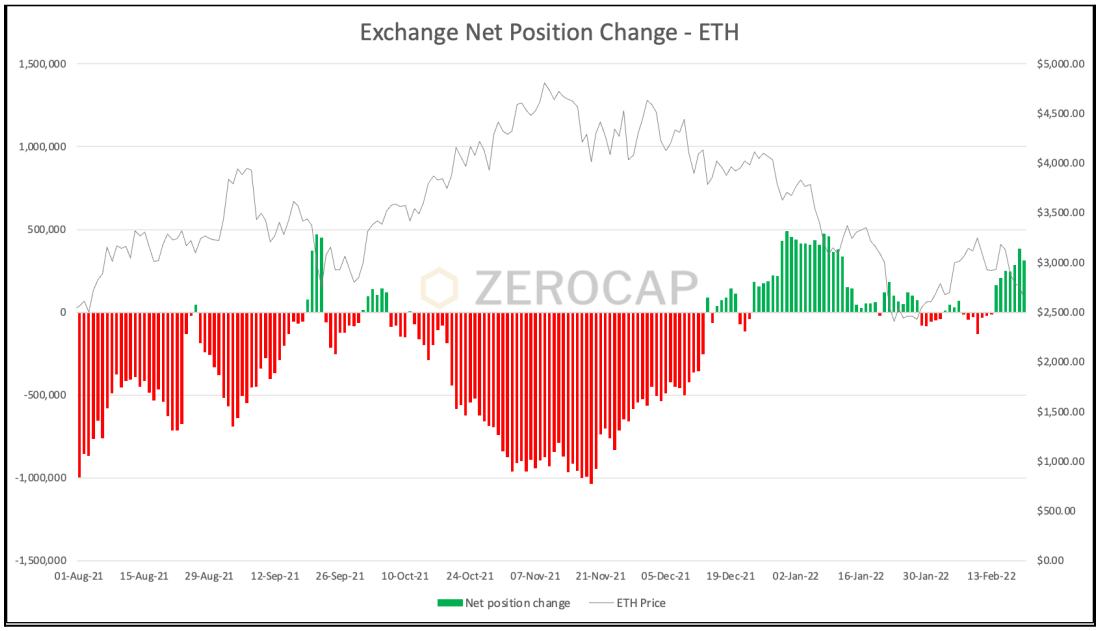
- The largest DeFi protocol in terms of Total Value Locked, Curve, offers low-fee and low-slippage DEX services for stablecoins. There are several projects designed to accumulate CRV (Curve's governance token) in order to maximize boosted returns, and direct CRV emissions through their voting power. Currently, there exist 4 major projects, and 19 major DAO's consistently accumulating CRV tokens. With its recent bridge into Polkadot facilitated by Moonbeam, the Curve wars are heating up.

Curve Total Value Locked (TVL)



- In contrast to BTC, net exchange inflows persisted throughout the week, with investors de-risking against looming geopolitical uncertainty. The supply expansion continues while funding rates oscillate, indicating that traders are undecided in the current atmosphere.

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 9,485,647. This represents 7.93% of the total supply estimated to remain locked for ~ one year, continuing to slowly constrict supply.
- The highly anticipated Proof of Stake (Pos) transition in June 2022 is a primary incentive for ETH holders to continue accumulating for the mid-term, as the persistently high gas fee remains a fundamental bottleneck. However, a shift in short-term sentiment is evident, as the TVL of competitor L1 protocols is rising, consequently decreasing ETH's market share in the DeFi ecosystem. While interoperability with ETH remains a priority for most L1 protocols, short-term

sentiment remains geopolitical and macro reliant. If risk holds out, keep an eye on US GDP growth set to be released later this week.

DeFi & Innovation

- OpenSea suffers $1.7 million phishing attack targeting NFT migrations as the company establishes a platform-wide smart contracts upgrade - CEO speaks out.
- Binance Smart Chain becomes BNB Chain - the move is seen as strategic to distance the exchange from the decentralized network.
- JPMorgan opens an expo branch in Decentraland's metaverse, after releasing a report describing Metaverse investments as a "$1T opportunity."
- More than $300k in Digital Yuan was spent daily at the Winter Olympics.
- Twitter enables crypto users to give and receive Ethereum tips natively.

What to Watch

- Biden's alleged executive order on cryptocurrencies.
- Russia x Ukraine conflict updates.
- US Preliminary GDP, on Thursday.
- US Core PCE, on Friday.

Insights

Article on Smart Beta - We have launched the Smart Beta Bitcoin Fund, offering balanced risk exposure to Bitcoin in a regulated unit trust. This piece explains the reasoning behind our unique new product, with data on how it performs against Bitcoin itself and the S&P 500.

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 14 Feb. 2022 0:00 UTC to 20 Feb. 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