



ZEROCAP

Weekly Crypto Market Wrap

7 March 2022 – 13 March 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

This week's Market Wrap was released on a Tuesday due to the Labour Day public holiday of 14th March in Victoria, Australia.

Week in Review

- Biden's [executive order](#) on cryptocurrencies officially released, titled "Ensuring Responsible Development of Digital Assets" and focuses on the following key areas:
 - Consumer protection, Treasury Department to lead policy research;
 - Coordinated action of federal agencies to combat illicit activities;
 - Establish frameworks to "drive U.S. competitiveness, leadership in, and leveraging of digital asset technologies";
 - Urgency on research and development of a digital dollar.
- [US inflation](#) rose to 7.9% in February, while gas prices hit \$4.17 a gallon for the first time in history - Federal Reserve set to begin rate hikes this week.
- US Senator [Elizabeth Warren](#) working on bill to target crypto against Russian sanctions - [UK](#) classifies using crypto to evade sanctions as a "criminal offence."
- [The European Union](#) extends sanctions against Russia and Belarus to cryptocurrencies, classifying them as "transferable securities."
- [South Korea's newly elected president](#) Yoon Suk-Yeol vows to reverse crypto crackdown and deregulate sectors in the nation.



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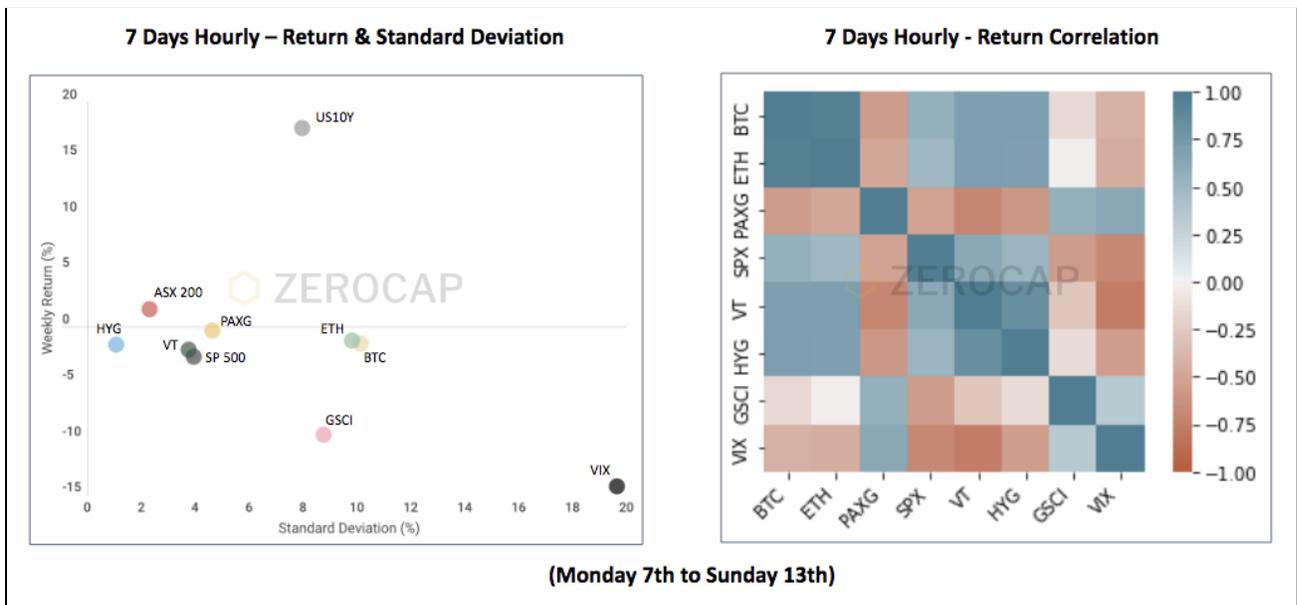
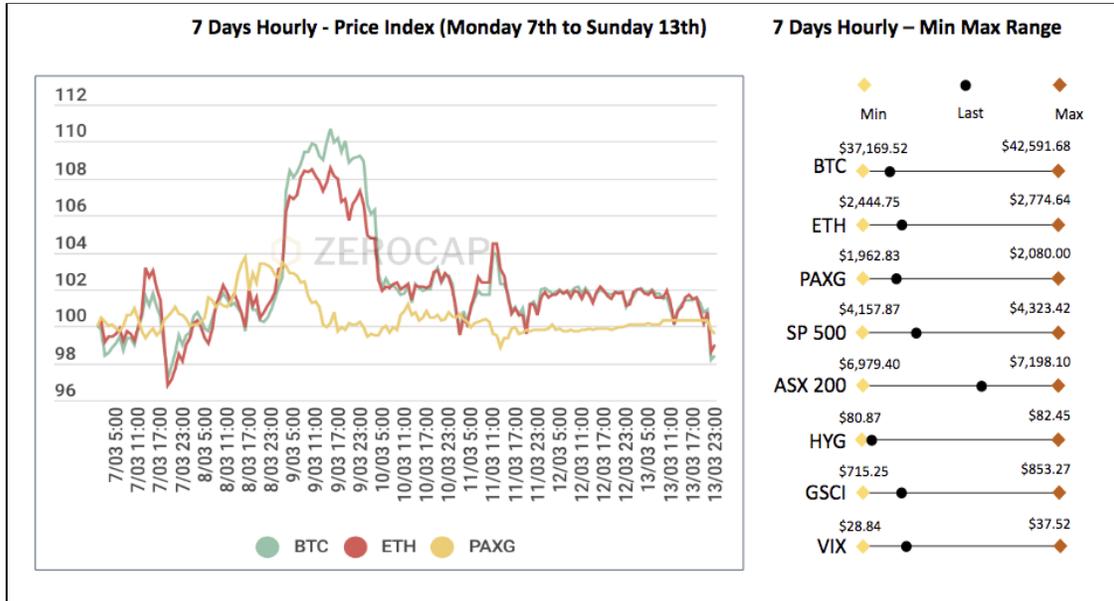
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- Tracked crypto [donations to Ukraine](#) surge to \$108 million at the time of writing.
- Chinese police [busts and closes](#) 190 illegal crypto mining farms.
- [The US Treasury](#) launches an educational campaign to warn viewers of crypto risks.
- Bank of Israel issues [draft guidelines](#) on crypto AML/CFT, with the operation currently split into conducting risk assessment and verifying the origin of the digital assets.



Winners & Losers





Macro Environment

- In the wake of Russia's invasion of Ukraine, the Russian central bank's foreign exchange reserves at the US Federal Reserve, Bank of England, Bank of Canada and European Central Bank have been frozen. An estimated USD 640 billion worth of assets will be put on hold indefinitely. A major question lingers on global central banks and Sovereign wealth managers following this action. The power given to some countries' politicians to freeze and take hold of another country's savings or reserves at a click of a button creates worry worldwide despite the geopolitical adverse effects of war on global cost. It is also generating questions on the safety of countries to hold their reserves in USD in case you fall out with the US geopolitically. The entire saga brings up the attractiveness of cryptocurrency as borderless and not in any one group's total control.
- The credit market continues to take a beating as base rates elevate and credit spreads widen out. Russia says it may have to service its Foreign currency liability in Rubles instead of FX due to sanctions by the West. The creditor's view is a default since the Ruble has limited value in the international market nowadays. But in Russia's point of view, they have serviced their debt in full by printing more Roubles from generating a larger money supply.
- Relative to equities, commodities and fixed income vols alongside BTC and ETH implied and actual volatility has been comparatively compressed during the week. For example, ten year UST yield initially retracing to a low of 1.68% as geopolitical concerns arose from the war in Ukraine, only to climb back to 2.13% following FOMC anticipation and fear of inflation from both supply and demand-side pressures. Oil prices rose to USD 130 a barrel during the week, but then dropped by \$35 by the week's end. SPOT Gold prices reached \$2,060 during the week before getting crushed to close the week at \$1,947. Comparatively, BTC's IV level has increased by five percentage points, although still presents massive premiums for those selling volatility. Actual trading for BTC has consolidated within a range of 37,540 and 42,250, with the majority of the trading being within the 38,500 to 39,250 channel for much of the last three days. Same situation with



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ETH, with most trading being conducted within the 2,520 to 2,600 range during the previous three days. The last-minute rejection by the European Union to put through a ban on energy-intensive proof-of-work mining activity provided support for BTC into the weekend.

- Oil prices experienced extreme intraweek volatility not seen since the negative pricing two years ago of the front contract. This time, the geopolitical problems in Europe elevated the WTI contract to a high of USD 130.50 as a short squeeze took hold. However, the push higher didn't last long; within two days, talk of the 4th discussion between Russia and Ukraine taking hold, prices dropped by USD 30 towards 96.50, a 35% collapse.
- The FX market experienced similar volatility going into the weekend, with USDJPY rising above 118, a level not seen since December 2016. One major factor causing the spike is the gap of yield differential between the USD and YEN. During this week's FOMC meeting, the FED is expected to begin a path of aggressive rate hikes. In contrast, the BoJ is capping rates low and continuing to buy bonds through extraordinary stimulus. With several 25 bp hikes being priced into the FED curve, Two year JGB is still yielding minus three bp. At the same time, the Chinese RMB is hitting a monthly low on speculation, China is helping Russia bypass Western sanctions.



Technicals & Order Flow

Bitcoin



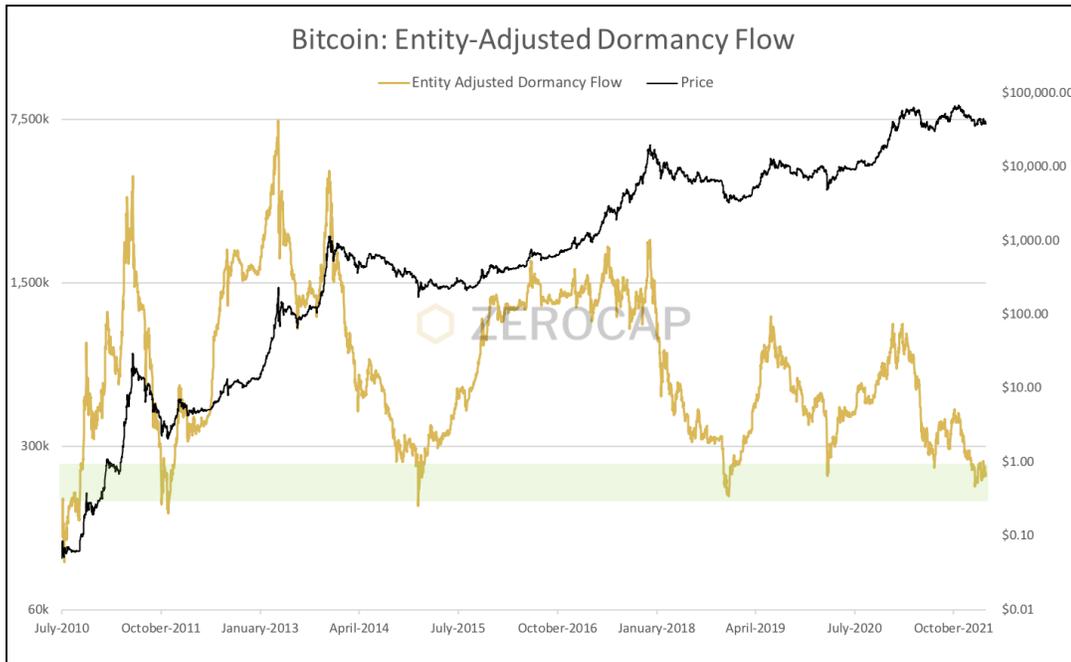
- Bitcoin opened the week slightly above 38k after heightened risk aversion took hold over the weekend. Despite making a mid-week move to 42k, BTC quickly retraced to close out the week at the 39k level. The 42k level is providing key topside resistance, with 37k to the downside providing a potential break that opens up the gap down to 35k.
- On Wednesday, the importance of crypto's developing regulatory framework and its influence on price action was clear. Investors hailed the long-awaited Biden Administration executive order on cryptocurrencies which promised the responsible development of digital assets.
- The dominance of macro forces over Bitcoin proved true again this week. We saw positive price action for both Bitcoin and equities after the Pentagon pulled the plug on the idea of NATO supplying Soviet-built MiG-29 combat jets to Ukraine.



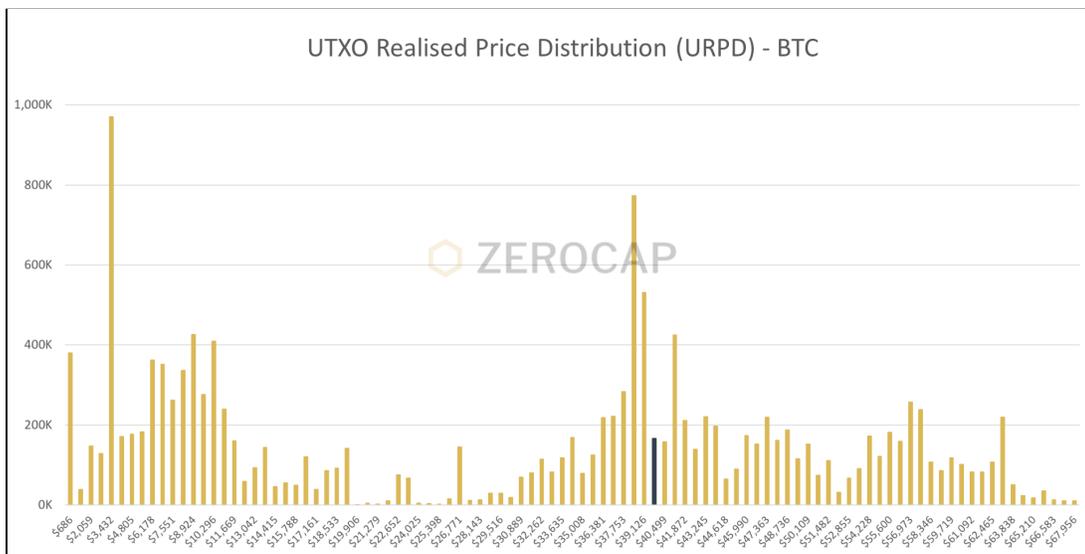
- Conversely, an announcement from US Treasury Secretary Yellen, who suggested inflation will be further impacted by the Ukrainian War, was the cause of tech stocks, the S&P500 and BTC to push lower toward the latter part of the week.
- Last week, there was speculation on how crypto assets could act as a hedge against closing opportunities for value transfer in Russia and Ukraine, which saw BTC briefly decouple from equities. This week we witnessed a different narrative, mirroring price action between the pair.



- Entity-Adjusted Dormancy Flow can be used to time market lows. Currently, this indicator resides in an area that has historically indicated market bottoms. Bitcoin seems to be priming for a reversion which could be sooner rather than later.



- URPD is an indicator that provides insights into key support levels. It seems as though significant volumes are moving around the 37k - 40k range, forming a solid price floor of short-term orderflow.





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- Whilst Bitcoin has recently shown a desire to move away from the behaviours of equities, this week the asset was subject to the same bearish geopolitical and macro pressures affecting stocks. This said, on-chain indicators suggest that we are close to a bottom with growing support close to current levels.
- Given the surge in commodity prices, as well as the inflationary concerns that continue to dominate headlines, Bitcoin's store of value characteristics may provide the grounds that further its decoupling to the pressures currently keeping equities at bay.



Ethereum



- Like Bitcoin, Ethereum benefited from the crypto study ordered by President Biden, moving 13% higher. The plan focused on supporting the technological benefits that crypto-currency could offer and aimed to analyse the impact regulation would have in the longer-term outlook for crypto.
- However, gains were short-lived. Price reverted within a 24-hour period, closing out the week around \$2,500. Volatility tailed off toward the latter part of the week, with price contracting and remaining in a range-bound environment over the weekend.
- As traders attempt to navigate the risk-off environment facilitated by geopolitical tensions and uncertainty, Ethereum continues to move in tandem with the Nasdaq 100, with correlations between the two assets topping 0.93 during the week, once again surpassing BTC's correlation with broader risk. Wednesday's FOMC is shaping up to be a defining event for directional plays and market-wide volatility.



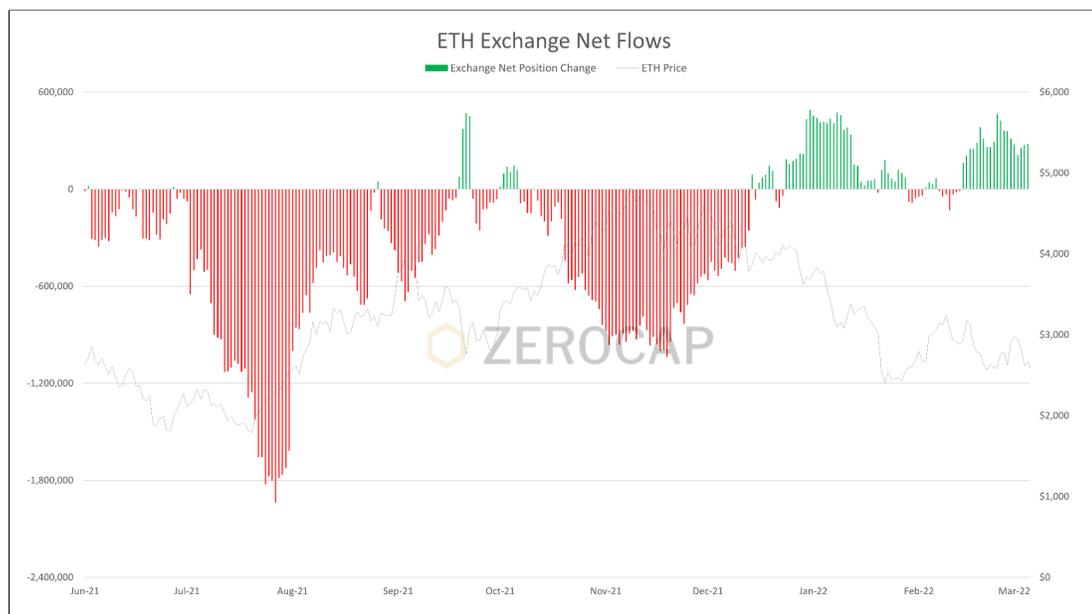
- We're seeing ranging price action in ETHBTC, with negative market-wide sentiment contributing to ETH's decrease in value relative to BTC. The dynamic apparent in the most recent bull-run is threatened by further sell-offs in crypto, with a risk-off environment historically resulting in larger declines in ETH compared to BTC. We are at a critical juncture in this pair - a very long-standing ascending trendline, and the on-chain variances between BTC and ETH are pointing to a break lower.

ETHBTC Daily Chart

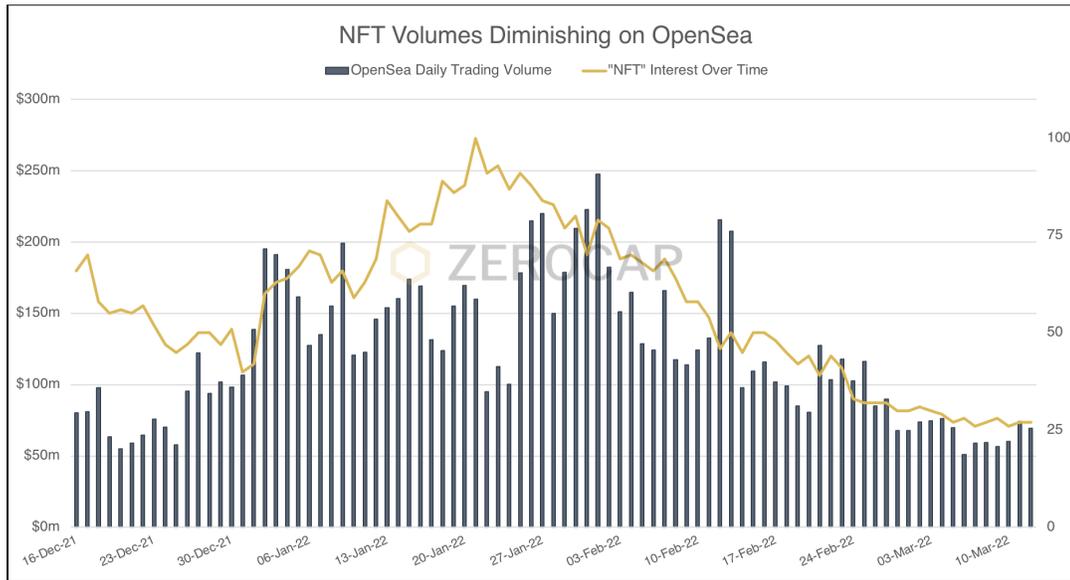




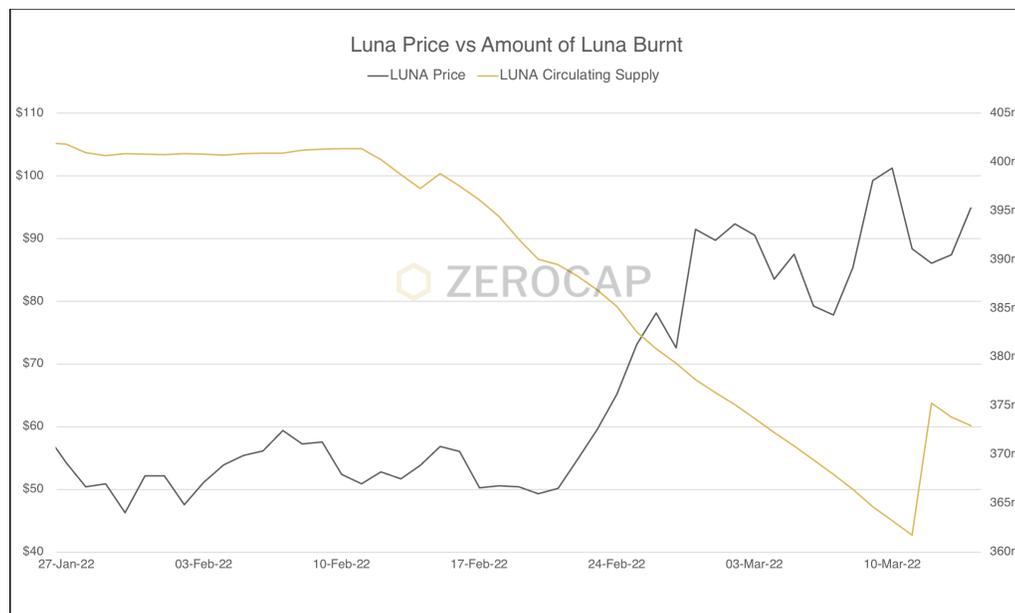
- Ethereum continues to flow into exchanges. Persistent inflows bring greater liquidity and supply on exchanges. Furthermore, bearish pressure may continue in the near term if holders decide to take profits and continue to de-risk.



- OpenSea daily volumes peaked at around \$250m in early February. Since then, daily volumes have decreased to \$70m or 70%. A similar trend is true for the number of google searches. Notably, Ethereum gas fees have also dropped to levels that have not been seen since August 2021, currently residing around 26 Gwei or roughly \$12 USD. Ethereum's gas fees clearly possess a direct relationship to NFT transaction volume.



- Since late January, inflows into Terra's native stablecoin TerraUSD, have caused the expansion of its supply by 30%. Correspondingly, LUNA's burning mechanism, designed to maintain UST's peg to \$1 USD, has been the cause of approximately 25 million burnt LUNA. The decrease in LUNA's supply has had a direct impact, contributing to the 70% increase in LUNA's price in one month.





- With exchange flows indicating bearish sentiment for ETH in the short term, the market focus shifts firmly to the FOMC on Wednesday to guide price action over the course of the week. Correlation to Nasdaq 100 has grown and will be a key metric to monitor as we navigate the ever-present geopolitical risk that will continue to dominate headlines.

DeFi & Innovation

- Interest in NFTs and Metaverse projects plummets; [Forbes](#). Yet, prices for metaverse real estate [continue to rise](#).
- Coinbase proposes crypto technology to promote [global sanctions compliance](#).
- [LimeWire](#) makes a comeback after a decade to create an NFT marketplace for music artists.

What to Watch

- Federal Reserve interest rate hikes, starting this week.
- FOMC press conference, economic projections and further statements on Wednesday.
- UK's Monetary Policy summary, 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