



ZEROCAP

Weekly Crypto Market Wrap

9 May 2022 – 15 May 2022

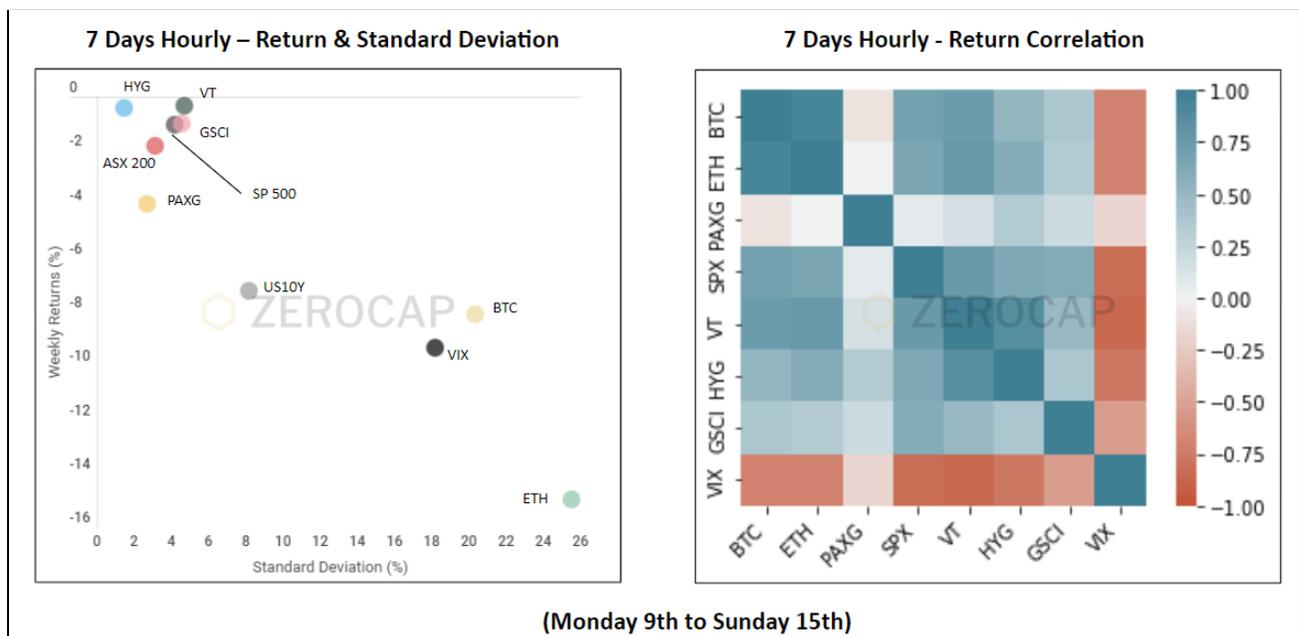
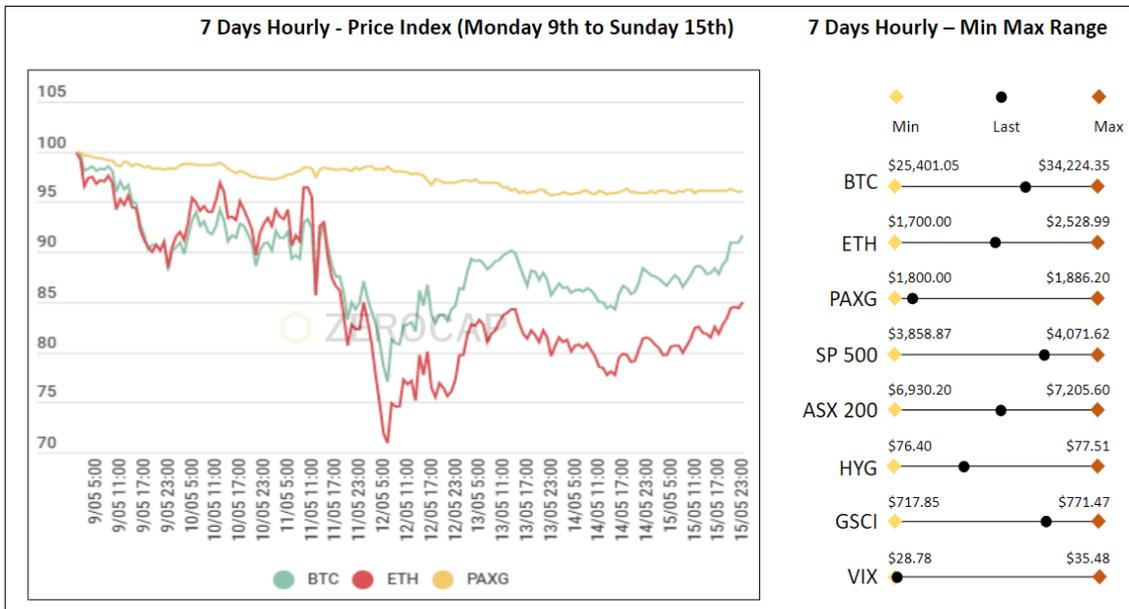
Zerocap provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at hello@zerocap.com or visit our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

Week in Review

- [Terra](#)'s LUNA crashes 99% in a few days after its algorithmic stablecoin UST loses peg - US Treasury Secretary [Janet Yellen](#) reaffirms need for stablecoin regulations, while Federal Reserve cites worries about stablecoins in latest Financial Stability [report](#).
- Tether's USDT briefly drops below 1:1 peg to \$0.95 against the USD after the UST debacle, [CTO](#) points to panic selling pressure.
- [US' CPI](#) shows inflation slowing for the first time since August 2021, still near 40-year highs.
- UK introduces [bill](#) supporting "safe adoption of cryptocurrencies and resilient outsourcing to technology providers."
- US' SEC and CFTC chairman support digital cash market frameworks (CFTC) and authority over security-based crypto swaps (SEC) in latest [ISDA](#) meeting.
- Three crypto [ETFs](#) (2 x BTC and 1 x ETH) launched in Australia, the first in the country.
- Despite an all-out crypto ban in China, [Shanghai court](#) states Bitcoin is protected by law as "virtual property" and subject to the owner's right to compensation.
- [Meta](#) currently testing NFTs on Instagram, official feature set for a May release.
- Largest digital bank in the world [Nubank](#) to allocate 1% of their balance sheet to Bitcoin and offer crypto services to 50 million customers.

- Ethereum co-founder [Vitalik Buterin](#) donates \$4 million to Australia's University of New South Wales for novel pandemic detection tool.

Winners & Losers





Macro Environment

This week has probably been the first in history that cryptocurrency has led to event-driven risk aversion that directly impacted both the stock and bond markets. The de-pegging and collapse of the Terra Luna token and Terra USD stablecoin generated a tidal wave of drawdown in asset values throughout the cryptocurrency space. It potentially sent jitters through the credit corporate bond market due to the enormous potential liquidation effect from the USDT Tether (backed) stablecoin balance sheet reserve selling. Tech and growth stocks recovered by Friday US trading time, but not before two days of panic selling. The Nasdaq tech index has fallen in each of the last six weeks, leaving it down 25 per cent year to date. Illustrating that the cryptocurrency world has become one of the “too big to fail” asset classes, the elevation in institutional portfolio participation on this side of the fence is getting noticed in the TradFI arena. Credit rating agency Fitch believes that the “financial run” might soon spill over to the traditional market and that there is not much anyone can do to stop this trend.

Due to the diminishing tech stock market capitalisation and elevated oil prices from supply chain constraints, Saudi Arabia's Aramco took over Apple as the world's largest company by valuation (\$2.42 trillion vs Apple's \$2.38 trillion). There is now a clear connection between tech stocks and their ability to fund using debt and equity relative to the cryptocurrency space. As corporations lose value from the retracement in the stock market, higher market interest rates are hitting the corporate bond market hard. Tether, the largest stable coin issuer, with a USD 76 billion market cap at writing, holds almost all of its reserves in the fixed income market. Market estimates believe that they have \$24 billion of commercial paper, \$35 billion of Treasury notes, and at least \$4 billion in high yield corporate bonds. That means that since their previous audit at the end of 2021, the valuation on the balance sheet would have taken a meaningful haircut (one USDT may not equate to one reserve USD equivalent). The US Federal Reserve has begun its first hiking cycle since the GFC, but the market is pricing in at least three more 50bp hikes in the next few months of the FOMC meeting. The Fed is also reducing \$30 billion of treasury papers and \$17.5 billion of MBS from its balance sheet, making them a net seller in government and credit market pools



ZEROCAP

Weekly Crypto Market Wrap

9 May 2022 – 15 May 2022

rather than a net buyer. According to Bloomberg data, the high yield bond index has hit its lowest since April 2020. Despite UST Terra and USDT Tether having different mechanisms between their peg to the USD, questions are rising on the viability of Tether's reserve holdings to service a bank run of any sort.

How are we approaching this environment?

1. Protect via shorting the USDT June-24 forwards

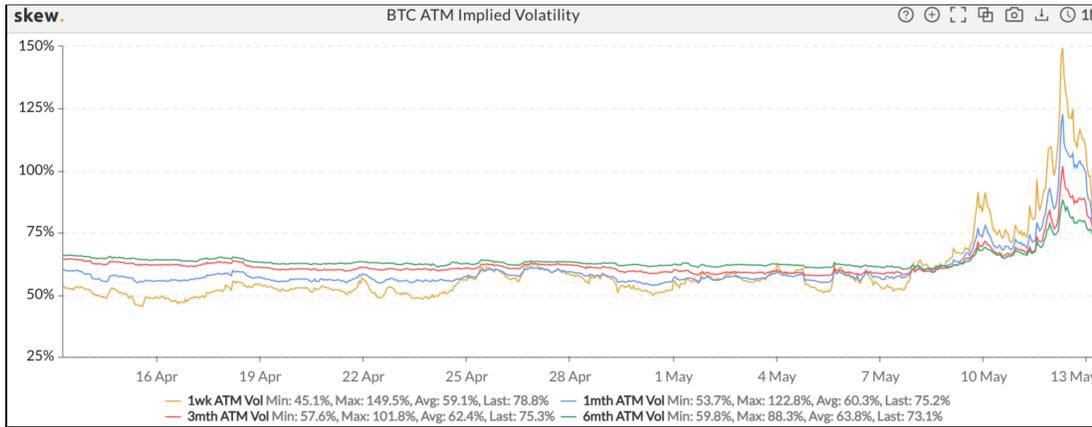
We can short USDT/USD futures which gives you short USDT exposure until June 24th, 2022. This is a hedge on systemic risk spilling over into other exposed stablecoins. This is a very cheap way to hedge tail risk. Ultimately we would put the probability of a USDT peg break below 0.90 at around 10%, with the probability of it being a medium to long-term issue at under 1%. We can offer margin on this trade at 10x notional capital.

For example, if you want to hedge US\$1,000,000 worth of USDT risk, you could put up US\$100,000 to cover the trade, and would be short on USDT until June-24. The trade would cost you 1%. Zerocap as a firm currently holds this position as a tail risk hedge.

2. Accumulate via spot and Structured Notes

The market has come a long way, and for long-term accumulators, these are great points to consider accumulation strategies. Bitcoin and Ethereum still hold great fundamentals, and the opportunity to accumulate at levels not seen since Dec, 2020 (BTC) is worth a look.

Implied volatility has shot up, creating solid yields for structure entry notes.



3. Join us in the world's first crypto Principal Protected Note

A Principal Protected Note (PPN) is a financial instrument that returns the principal amount invested at maturity regardless of the underlying asset's price movement, but allows you to participate in the upside of the underlying asset.

Our Bitcoin PPN book build closes on May 24th, 2022. It's a great play against the uncertainty in the current market.





Technicals & Order Flow

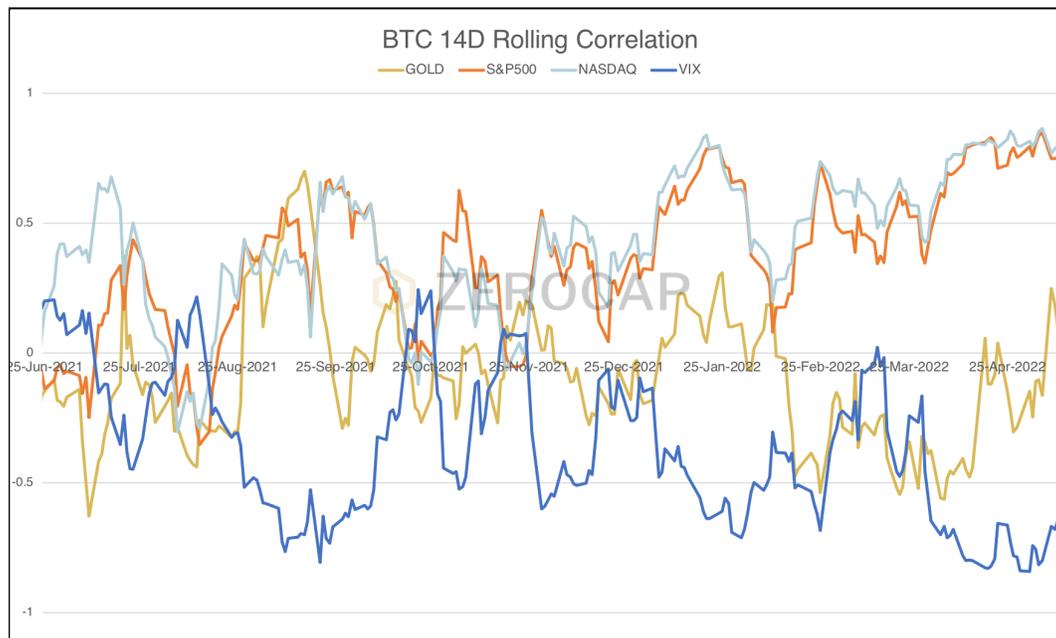
Bitcoin



- This week, Bitcoin’s footing above key support at 34,000 was lost. Price edged lower, finding relief in the monthly support zone of 29,500 and 31,500. However, a swell of sell volumes chewed through bids and 31,000 broke from above. Price spiralled to lows of 25,400, levels markets haven’t seen since the bull run that occurred at the end of 2020. Later, bulls caught a breath of fresh air, closing out the week above 31,000. Eyes are now placed on topside resistance placed around the 34,000 level.
- Despite positive news on the institutional front, including Grayscale’s meeting with the United States Securities and Exchange Commission regarding a Bitcoin ETF, the depegging of TerraUSD (UST) dictated Bitcoin’s action this week.
- Sentiment was risk-off and the Luna Foundation Guard’s recent accumulation of Bitcoin, which began in 2022, added to the selling pressure Bitcoin faced as the LFG attempted to restore UST’s peg via selling BTC/UST. Notably, the ‘black swan’ event resulted in a brief correlational breakdown between BTC and equities.

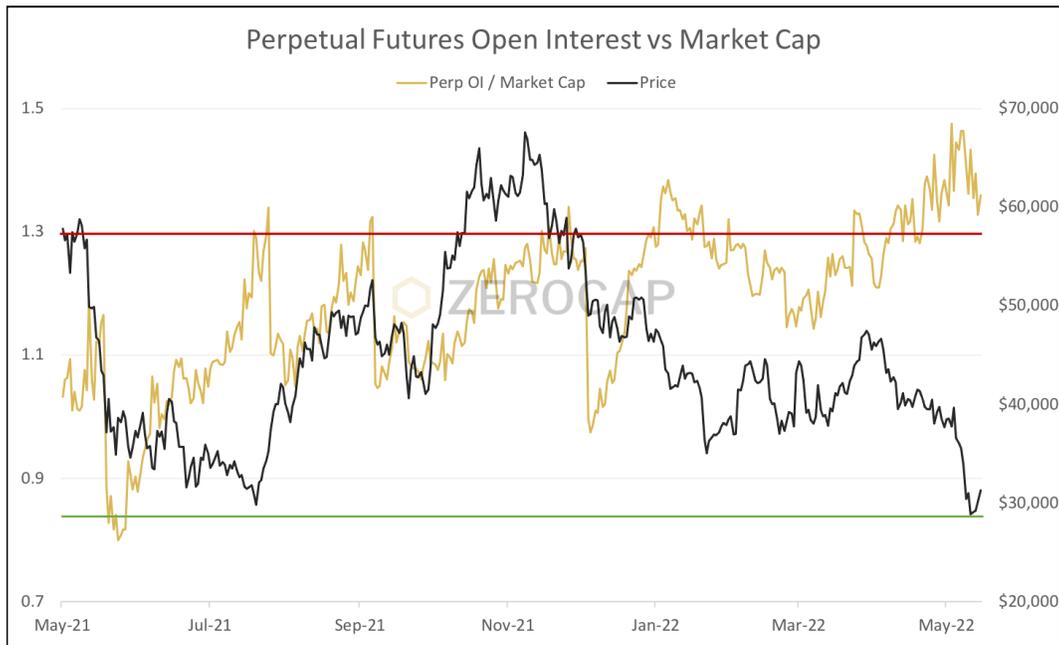


- However, after a rocky week in financial markets, stocks pushed higher into the weekend. Bitcoin has benefited from the late rally in equities (experiencing an uptick in its correlation.) and moderation in crypto risk.



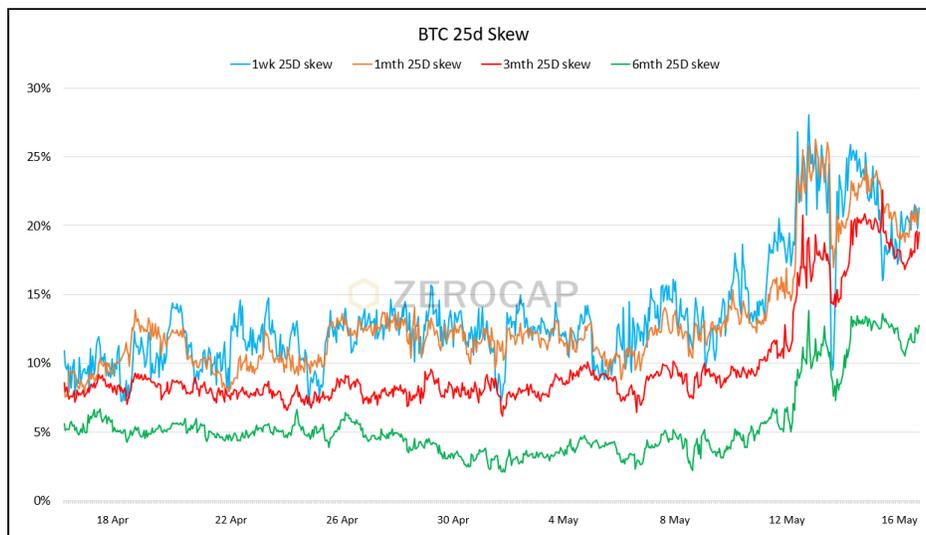
Data source: Tradingview

- Perpetual futures open interest as a proportion of market capitalisation offers insights into when markets are relatively over-leveraged. Moreover, when markets are over-leveraged and risk events trigger, the proceeding liquidations can exaggerate price moves. This was a clear outcome this week.



Data source: Glassnode

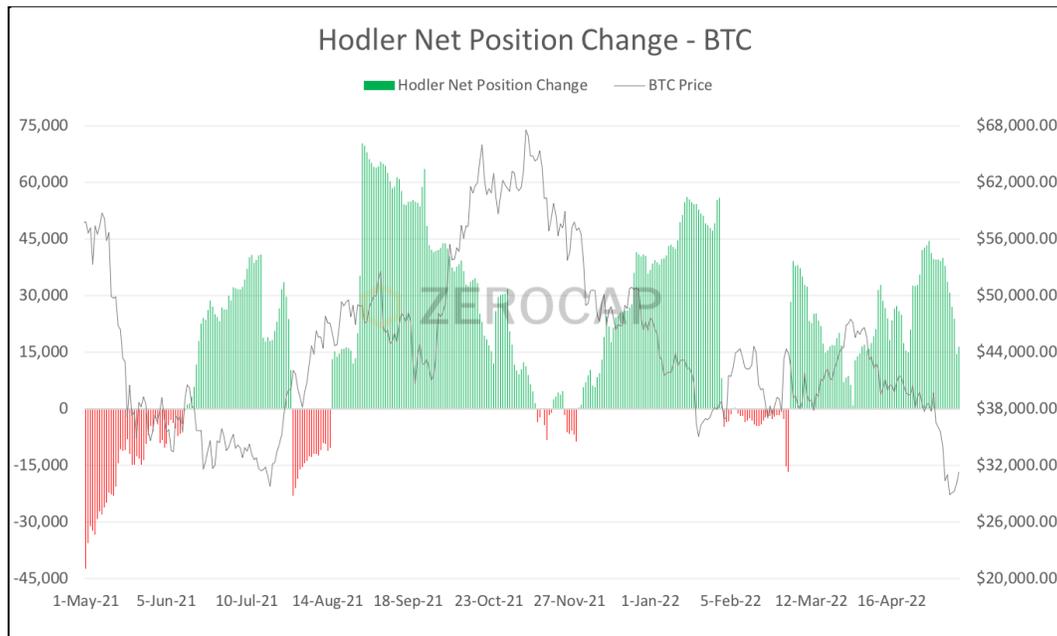
- In the context of last week's events, we saw option traders shift to a clear preference for puts. The 25 Delta skew depicts a significant increase in demand for puts relative to calls. Notably, this differential of the 1 week 25d skew is the highest it has been since May 2021.



Data source: Skew



- When there is panic in the markets, the brave are often accumulating. Looking at on-chain data, we can see that many of Bitcoin's long term holders are capturing the opportunity.



Data source: Glassnode

- This week, the depegging of UST and the resultant contagion that flowed throughout Terra's ecosystem underpinned sentiment within the broader market. A shift to risk off accompanied by relatively heightened leverage disfavoured Bitcoin's action. However, we reside at attractive levels and on-chain metrics suggest that long-term investors are capitalising on the perceived opportunity. Investors are favouring puts, pursuing protection strategies in the face of market panic.
- Beyond topside resistance placed at 34,000, markets are expecting half point hikes in June and July. Given the continued heightened correlation to equities, investors can expect choppy action. This said, we have come a long way down to these levels, and the crypto ecosystem is beginning to lead some moves across broader markets. Mid to high 20's on BTC are amazing long-term levels to accumulate, or simply selling covered volatility via Structured Notes makes a lot of sense down here.



Ethereum



Data source: Tradingview

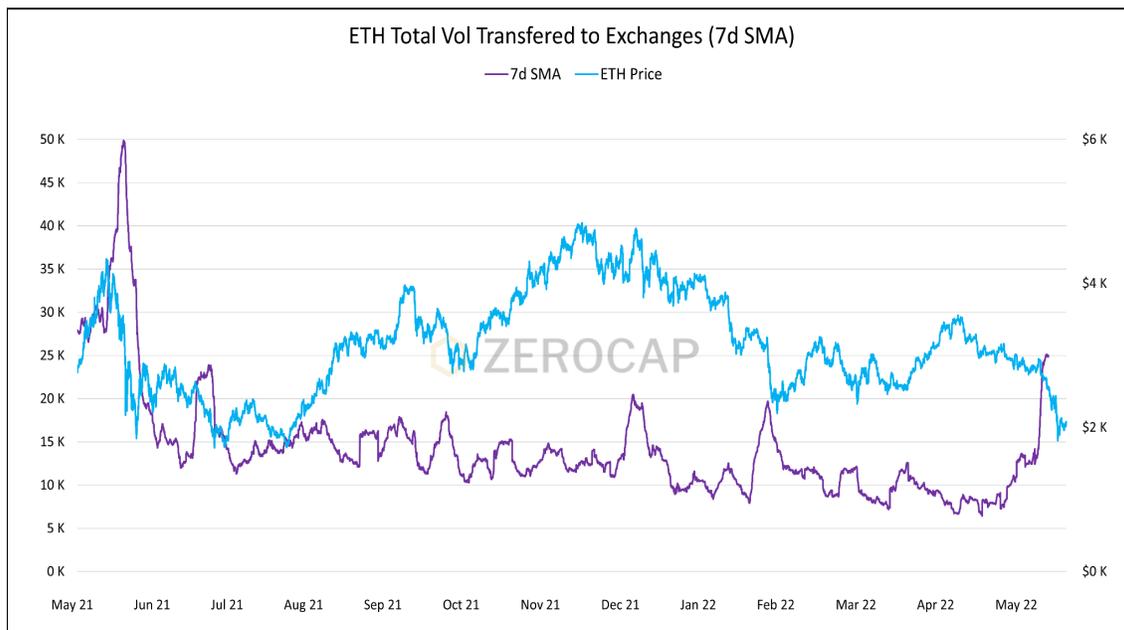
- Over the course of the week, Ethereum collapsed, falling 18% on Thursday alone, to a low of 1,700. Luna's deterioration fueled what was already a hesitant market. Fears grew when USDT, the world's largest stablecoin by market capitalisation, began to lose its peg. Extreme selling pressure across all assets followed. However, markets stabilised leading into the weekend and Ethereum benefited, clawing back 20% of its prior losses, closing the week down -15% at 2,140.
- During an unprecedented week for digital assets, Ethereum's correlations with equity markets marginally declined. Given the severity of the event, CPI data out on Wednesday, where YoY CPI inflation figures came in slightly above expectations at 8.3% seemed to have little effect. We expected to see correlations between Ethereum and the Nasdaq revert after what was an extremely volatile week.

ETHBTC Daily Chart



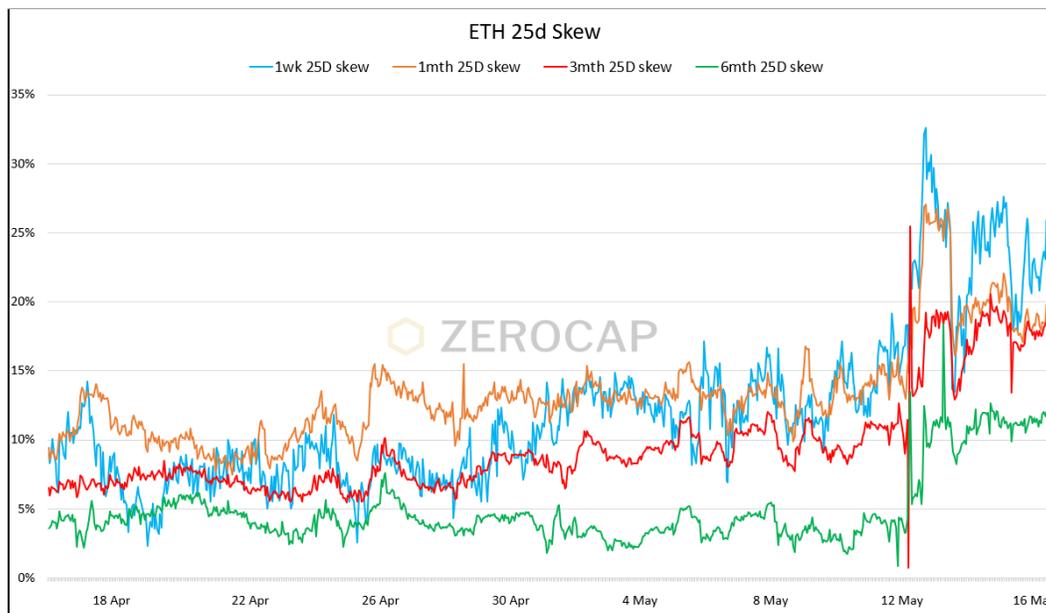
Data source: Tradingview

- Ethereum lost ground to Bitcoin WoW. This behaviour between the pair affirms historical behaviour commonly observed during risk-off sentiment. ETH/BTC did, however, find solid support at 0.066, bouncing off the bottom of the rising channel which began in May 2021. Any further rallies in crypto against positive equity moves will likely see Ethereum outperform Bitcoin and regain some value. This said, that ascending trendline is fairly defined, and a break below here would be significant.
- Exchange inflows saw an exponential increase this week. Prominent DeFi protocols faced significant decreases in their TVLs, coinciding with the significant increase in exchange deposits. Exchanges experienced levels of inflows not observed since July 2021. This behaviour provides a stark view of the turmoil markets faced this week.



Data source: Glassnode

- Near month 25d put skews were elevated, providing colour to participants' willingness to pay for downside protection on Ethereum's price. Volatility has increased drastically, presenting a fantastic opportunity to sell options in the near term.



Data source: Skew



- Ethereum experienced one of its most tumultuous weeks since it began in 2015. Whilst the true impact of the collapse of Luna is yet to be realised, ETH bulls are hoping for any sign of reprieve after six consecutive weeks of price slumps. Ethereum developers have indicated merge testing will take place on the Ropsten testnet on approximately June 8th, serving as the bullish fundamental case for Ethereum in the near term. This said, macro headwinds will prove a volatile road forward this year.

Innovation

- KuCoin, a leading cryptocurrency exchange, raised \$150 million USD in a Series B funding round. The centralised exchange's post-funding round valuation is approximately \$10 billion USD. Moreover, Kucoin's innovation team stated that the funds will be used to "pioneer exploration in Web 3.0" and further navigate rigid global regulation.

NFTs & Metaverse

- Meta announced their partnership with Polygon and their intention to integrate NFTs with Instagram. Users will soon be able to link their wallets to the social media platform and display their NFTs. Mark Zuckerberg articulated that if the Polygon NFT collaboration with Instagram proves successful, Facebook may become host to similar functionality in the near future.
- Zagamond, the owner of Azuki, a popular NFT collection, was revealed to have previously been involved with prominent collections such as Tendies, CryptoZunks and CryptoPhunks; all three of which were rugpulls (scams). Due to the association, the Azuki collection experienced a significant drop in floor price.



- Starbucks announced its first venture into the digital asset space, launching its own NFT collection. The Starbucks' Innovation Team specified that the NFTs will be built on an environmentally stable blockchain and have unique utility for holders. However, some Starbucks employees have opposed the decentralised move.
- Australia Zoo launches an NFT project focussing on protecting wildlife. Each NFT will feature a different Australian Zoo Wildlife creature and have unique use cases. The digital assets will be purchasable with fiat and all proceeds will be used to benefit wildlife conservation movements.

What to Watch

- Great Britain's monetary policy report, on Monday.
- Fed chair Jerome Powell speaks about inflation for Wall Street Journal and US April's retail sales report, on Tuesday.
- Great Britain and Canada's CPI, on Wednesday.
- Australia's parliamentary elections, on Friday.

Insights

[Introducing the Zerocap Principal Protected Note for Bitcoin:](#)

Here we provide information on our Bitcoin Principal Protected Note - the first crypto PPN in the world - along with details of the expert team behind the product and recordings of our recent Zerocap PPN Webinar.

The Zerocap PPN provides upside to the price of BTC with principal protection (even if the price of BTC falls below entry level). Ideal for investors looking to build their exposure to BTC whilst managing risk in a very efficient way.



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 9 May, 2022 0:00 UTC to 15 May, 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.

This document is issued by Zerocap Pty Ltd (Zerocap), an Authorised Representative (#001289130) of Gannet Capital Pty Ltd (Gannet) AFSL 340799. This document is made available to you on the basis that you are a Wholesale or Professional Investor. This document is not intended for retail clients nor should it be distributed to retail investors. This document has been prepared for information purposes only and may not be relied on for any other purpose (including, without limitation, as legal, tax, financial or investment advice). Nothing in this document should be interpreted as an endorsement or recommendation of a particular investment or strategy. Any opinions expressed are general in nature and do not consider the objectives, financial situation or needs of any person. Before making an investment decision you should conduct your own due diligence, consider what is suitable for you and your personal circumstances and obtain your own independent advice. Zerocap Pty Ltd (Zerocap) makes no representation or warranty (express or implied) that any information contained in this document is accurate or complete. Information included in this document is based on matters as they exist as of the date of preparation of this document and will not be updated or otherwise revised. Certain statements reflect Zerocap's views, estimates, opinions or predictions which may be based on proprietary models and assumptions, and there is no guarantee that these views, estimates, opinions or predictions are currently accurate or that they will be ultimately realised. There are significant uncertainties inherent in the forward-looking statements included in this document. Neither historical returns nor economic, market or other indications of performance should be considered as an indication of future results or performance. Investing in cryptocurrencies and/or digital assets involves a substantial degree of risk and could result in the loss of the entire amount invested. Nothing in this document is intended to imply that investing in cryptocurrencies and/or digital assets may be considered "conservative", "safe", "risk free", or "risk averse".

You should be aware that dealing in products that are leveraged carries significantly greater risk than non-leveraged products. As such, you could both gain and lose larger amounts. You may even sustain losses well in excess of your initial deposit and also in excess of the margin required to establish and maintain any positions in the leveraged products. Accordingly, you should carefully consider whether leveraged products are appropriate for you in light of your financial circumstances and risk profile.

* Index used:

Bitcoin	Ethereum	Gold	Equities	High Yield Corporate Bonds	Commodities	Treasury Yields
BTC	ETH	PAXG	S&P 500, ASX 200,	HYG	SPGSCI	U.S. 10Y



ZEROCAP

Weekly Crypto Market Wrap

9 May 2022 – 15 May 2022

			VT			
--	--	--	----	--	--	--