



ZEROCAP

Weekly Crypto Market Wrap

13 June 2022 – 19 June 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

Join our Webinar - A live update on what's happening in the crypto markets

Join Toby Chapple, Head of Trading and Ornella da Costa, Wealth and Investment Manager, to find out what's happening in the crypto markets.

Learn about how our solutions are helping clients in volatile conditions. Get your questions answered in a safe, open environment.

Date: Tuesday 28 June 2022

Time: 9:30 am AEST

[Register now](#)

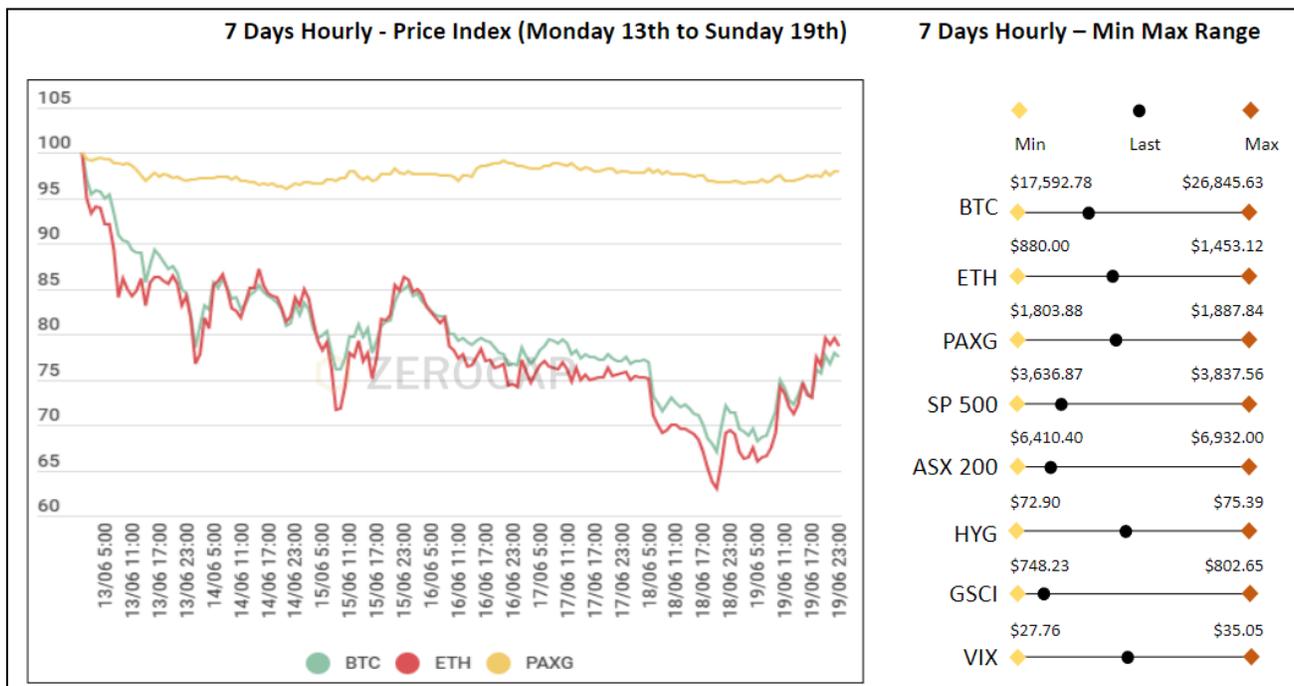
Week in Review

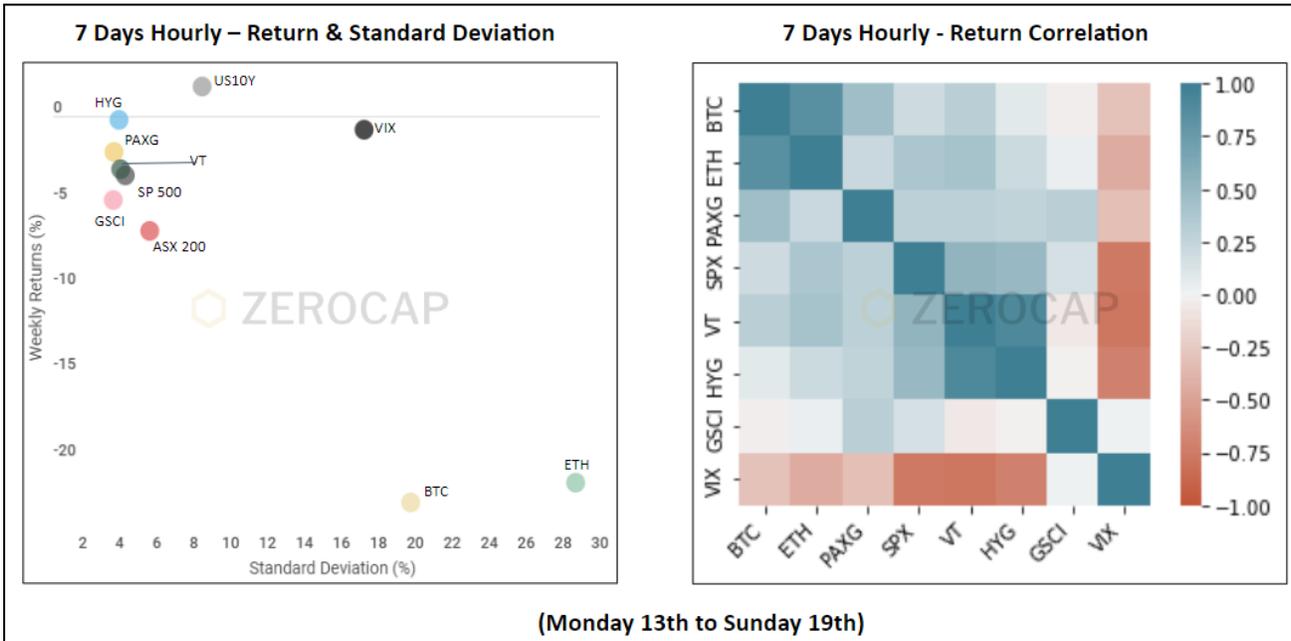
- Federal Reserve [hikes interest rates](#) by 75 basis points, biggest increase since 1994 - Chair Jerome Powell states another 0.75 hike is [likely in July](#).
- US [Treasury Secretary](#) states recession is “not inevitable,” but expects “economy to slow.”
- [Euro zone inflation](#) confirmed at record-high 8.1%.
- [European Central Bank](#) plans to cap the digital euro at €1.5 trillion in tokens.
- Metaverse industry could be worth \$5 trillion by 2030; [McKinsey & Company report](#).
- Over 71% of high net worth individuals invested in digital assets; [Capgemini research](#).



- Traditional banking uses 56 times more energy than Bitcoin; [Valuechain](#) paper.
- Bill to ban digital assets as payment [passes first reading](#) in Russian parliament.
- [US SEC](#) launches investigation on insider trading within crypto exchanges.
- [Binance](#) faces class action lawsuit over LUNA/UST sales.
- Texas securities regulator investigating [Celsius](#) over withdraw suspensions.
- Former NYSE president hired by [UniSwap](#) as advisor.
- [Ukraine joins](#) the European Blockchain Partnership, totalling 27 territories.

Winners & Losers





Macro Environment

- June’s anticipated FOMC meeting fueled the hawkish monetary policy outlook with its aggressive rate increase of 75 basis points, the highest rate increase since 1994. In turn, the Fed's benchmark fund rate now resides between 1.5% and 1.75%, with fed-dated swaps pricing in a peak terminal rate of 4% for June next year. Universal rate increases have also eventuated across the SNB, BOT, BOE. Alongside the increased borrowing costs, the European Central Bank held an emergency meeting on Wednesday to discuss the implementation of a new instrument to negate fragmentation risk across the euro economic zone.
- Contrary to global interest rate trends, as seen in the US, UK and Switzerland, the Bank of Japan has remained dovish. The BOJ intends to maintain its -0.1% short-term interest rate and continue to support a near 0% rate for ten-year bond yields. Subsequent to the announcement, the USD-YEN pair climbed to a new 24-year high of ¥135.6.



- US Treasury yields persist at multi-year highs. The 10-year Treasuries currently fluctuate around the 3.15 to 3.5% level. Recessionary fears among investors were exaggerated following a subtle change in the government bond yield curves out of the UK and US. Notably, every recession in the last 60 years has been preceded by a three-month / ten-year yield curve inversion in the US.
- Supply-side inflationary pressures and concerns grow in response to the persistence of COVID-19 lockdowns in China. On a similar note, Mexico's second year of drought has seen esteemed sriracha sauce brand 'Huy Fong Foods,' temporarily halt the production of its famous 'Rooster' sauce, elevating its prices globally by approximately 10-15%.
- Stocks tumbled globally as recession fears resurfaced. A brief midweek relief rally on risk assets was short-lived as markets began to doubt the Fed in its ongoing battle with inflation. The S&P 500 ended the week 5.8% lower, along with weakened US Industrial Production contracting from May numbers. The Euro fell below \$1.05, the AUD closed in on \$0.69, and GOLD lowered by \$20 to 1836. Oil also slumped 5% on recession concerns, despite the VIX remaining steady.
- Bitcoin dipped below key support placed at \$20,000, reaching as low as \$17,592.78 on Saturday at 8 pm UTC. Ethereum followed a similar narrative, falling to \$880, after breaking its \$1,800 support level.



Three Arrows Capital Related Events

Zerocap does not hold any exposure to Celsius, Three Arrows Capital, or related borrowers.

- Three Arrows Capital (3AC) is a prominent crypto-based hedge fund trading out of Singapore. Proving themselves as being one of the top proprietary funds in the space, co-founders Zhu Su and Kyle Davies helped grow the fund to over \$10bn AUM at its peak in 2021.
- Exacerbated by the Celsius collapse, token prices fell significantly. Contagion spread through the digital asset space with many institutions feeling its effects. This week, speculators began commentating on 3AC's leveraged positions. Newsflow regarding the firm's inability to add collateral or pay off debt relating to their positions entered the spotlight. Eventually, a major liquidation occurred causing a cascade in asset prices. As the market edged downward, 3AC's leveraged positions failed to meet margin requirements resulting in substantial liquidations.
- 3AC had also invested over \$200m in Luna as part of the LFGs \$1bn raise in February this year. 3AC is renowned for its high conviction bets. In the past, they were able to capitalise on asymmetrical opportunities with this strategic mindset. However, it seems this very mindset eventually led to over-leveraging and excessive risk-taking.
- Last Thursday, due to solvency issues, 3AC was forced to sell large amounts of STETH at a loss. Akin to other investors, 3AC utilised the capital efficiency of Lido's STETH. However, like many, 3AC were caught offside by the recent fall in STETH's price relative to ETH. Looking elsewhere for liquidity, 3AC was rumoured to have sold 70 blue-chip NFTs. The firm's NFT fund, Starry Night Capital, moved its entire collection, worth \$21 million USD, onto SuperRare. Currently, none of the NFTs is held in Starry Night Capital's primary wallet.
- In an attempt to ascertain a solution for investors and lenders, 3AC took a page out of Celsius' books and hired legal and financial advisors. Though not definitive, 3AC could



look to using this assistance for restructuring purposes. However, it seems as though the firm is currently considering asset sales and a bailout via another VC fund in the cryptocurrency space.

Technicals & Order Flow

Bitcoin

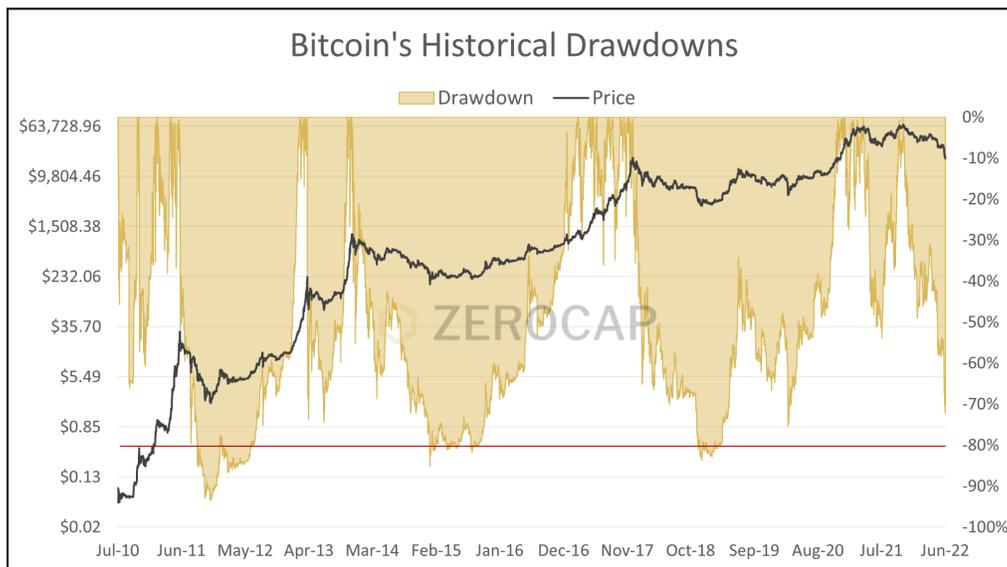


- This week, Bitcoin experienced a significant sell-off, breaking key support at 27,700 and 25,800 shortly after. Forced hands and substantial liquidations pushed Bitcoin toward 20,000. Suppressed liquidity during the weekend session resulted in a break of integral support placed at 19,650, the top of the 2017 bull run. Price pushed as low as 17,592 before bulls bid price back above 20,000 to close action -22.56% WoW.
- The negative effects of the US CPI print from the previous Friday, rolled into Monday's session alongside Celsius pausing all withdrawals sparked market-wide fears related to



the potential liquidation of Celsius' assets. Monday's session hosted the largest liquidation levels seen this year.

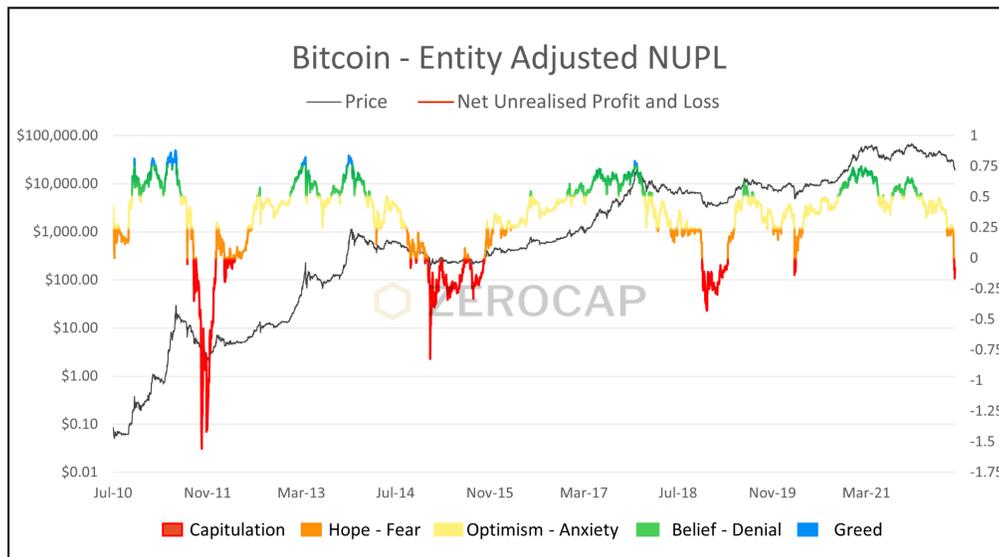
- The Fed's 75 basis point hike on Wednesday aligned with expectations. Fed Chairman Powell also shared some dovish words, stating that the recent hike was unusually large. Bitcoin experienced some relief.
- Growing concern surrounding Three Arrows Capital and the risk of liquidation of their assets took the centre stage toward the latter part of the week. On top of this, the relief rally that followed Wednesday's hike fizzled out as confidence in the Fed and their ability to dampen inflation diminished.
- Historically, Bitcoin has experienced numerous drawdowns greater than 80% from peak to trough, so, Bitcoin's recent 73% drawdown is not unfamiliar - however, with its market cap and increasing institutional investor base, it is a larger drawdown than expected against broader market cues. While this move is undoubtedly significant, historically drawdowns of such magnitude have presented favourable accumulation levels for longer-term holders. It is important to take a step back and look at the bigger picture.



Data source: Glassnode

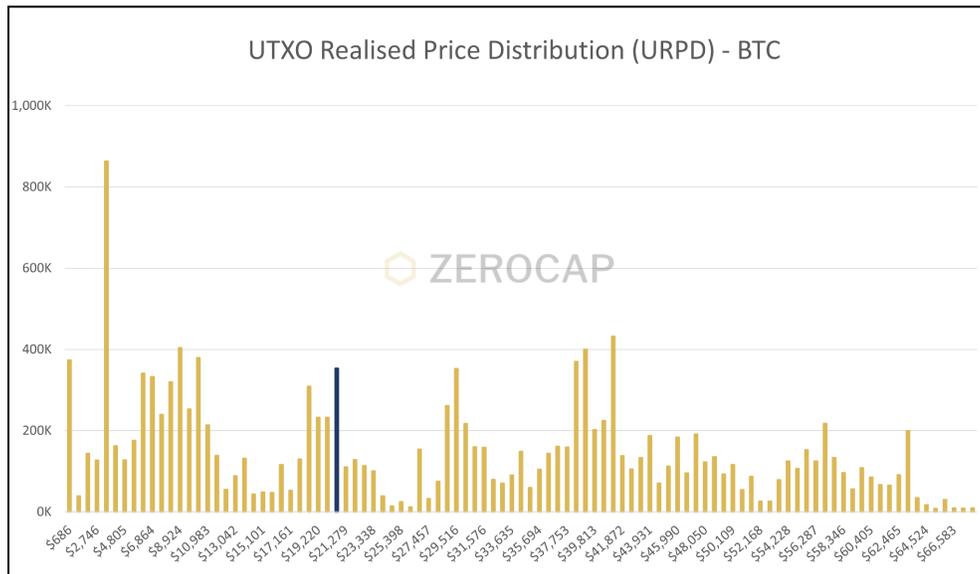


- Entity Adjusted NUPL is a metric used to assess the profitability across an entire network. Values in red or below zero are indicative of a net loss. Currently, this metric resides in the red, indicative of the market's current fear. These levels have historically been suggestive of cyclical bottoms.



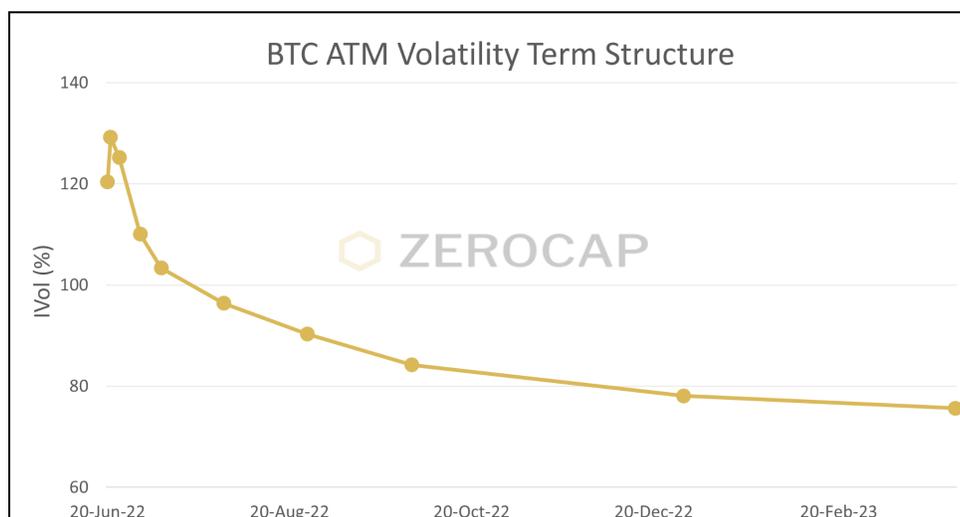
Data source: Glassnode

- Looking at URPD, there has been significant growth in volume at 19,000 - 20,500. This is indicative of growing downside support. Additionally, there is a notable void of volume above current levels until 29,000.



Data source: Glassnode

- Looking at options, the ATM IV term structure is backwardated in the near term. This provides a reflection of the market's pricing of near-term contagion risks surrounding the collapse of 3AC & Celsius.



Data source: Skew



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- Bearish sentiment, reaffirmed following the release of CPI data which missed expectations, persisted into this week. While fears ripple through the market, it is also important to recognise that Bitcoin's current behaviour isn't historically uncommon. Some on-chain metrics play into the narrative of overarching fear, showing a net loss, while other metrics outline growing downside support. A weekly close and consolidation above 20,000 are positive. However, it is likely that the weight of newsflow surrounding the current monetary policy outlook will continue to pilot short-term price action. This could be positive though - the news only needs to get 'less bad' for a meaningful relief rally - markets have priced at the end of the world over the past few weeks, with is a stretch despite the macro challenges ahead.



Ethereum



Data source: Tradingview

- Relative to the wider cryptocurrency market, Ethereum suffered greatly. An array of catalysts forced the hands of leveraged participants and in turn negatively impacted Ethereum’s price action. Fears were exacerbated when the potential insolvency of Three Arrows Capital gripped the market. Suppressed liquidity over the weekend resulted in a break of 1,000 – price falling to a YTD low of \$875. Bulls bid up at these levels pushing the price up 20.82% into the weekly close. WoW Ethereum returned -20.81%, closing at 1,125.
- Since the turn of the year, market-wide fear has simmered. Hawkish monetary outlook, as well as geopolitical turmoil, contribute to this thematic. Correspondingly, digital assets’ correlation with the Nasdaq has persisted at all-time highs. More recently, this correlation has broken down. This week, the collapse of prominent crypto institutions and projects resulted in exaggerated deleveraging forcing digital assets to decouple from US tech stocks.

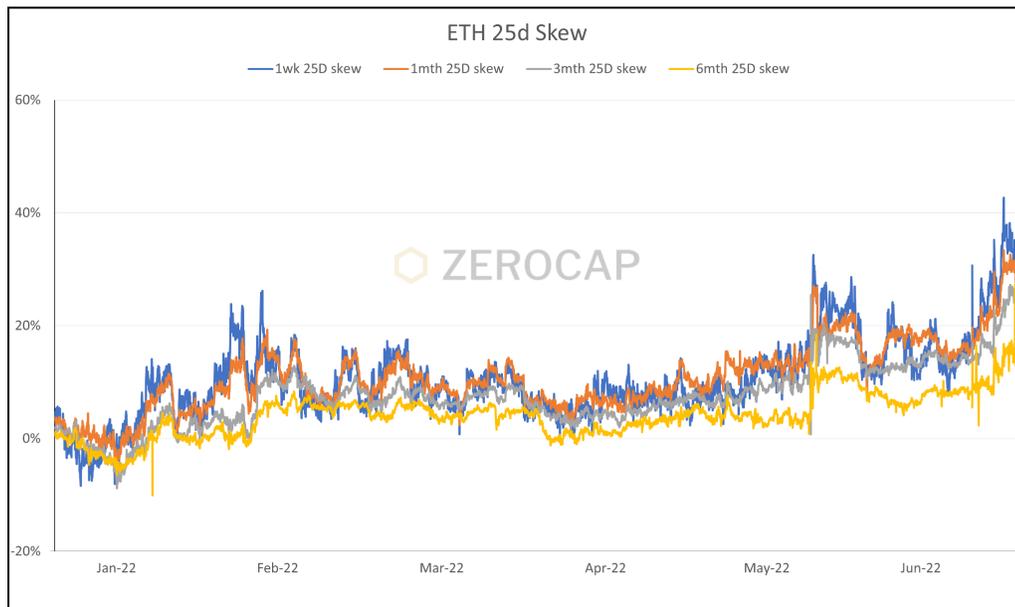


ETHBTC Daily Chart



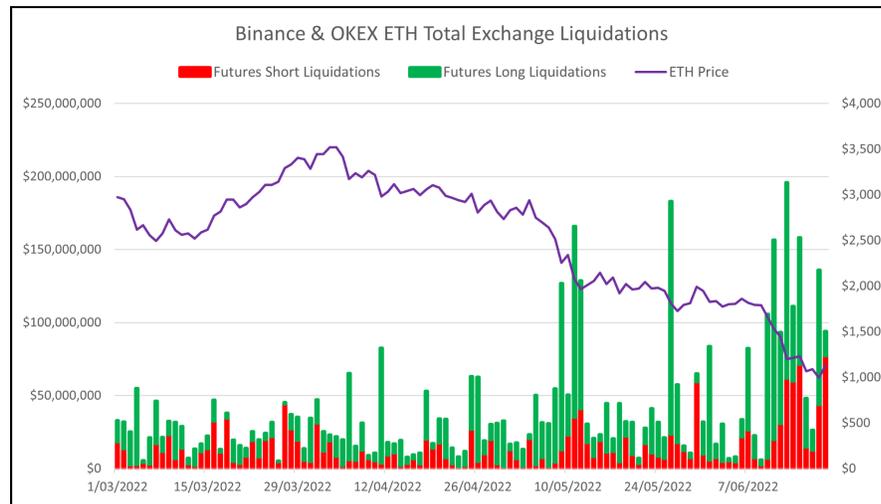
Data source: Tradingview

- In order to regain dominance over Bitcoin, Ethereum has vast hurdles to overcome. There is a lack of technical support down to 0.04. Additionally, if past bear market behaviour proves consistent, Bitcoin should continue to show market dominance. This dynamic is likely to continue until a structural market shift.
- In the options market, validation of the market's bearish sentiment is shown in Ethereum's 25-delta put/call skew. Ethereum's 25d Skew, which depicts the implied volatility (IV) of a 25d puts compared to 25d calls, reached all-time highs this week. These heightened levels suggest a willingness to pay relatively more for tail risk protection.



Data source: Skew

- As previously mentioned, Ethereum's action has been adversely affected by an abundance of negative news flow. This week, as the price plummeted, speculators on exchanges were liquidated. In turn, this heightened the velocity of forced selling pressure. On Monday, during what can be defined as the session's peak fear, we saw Ethereum exchange liquidations (Binance & OKEX) reach \$195,874,937.96, its highest level thus far in 2022.



Data source: Glassnode

- This week was Ethereum's eleventh consecutive weekly decline. This marks the most persistent sell-off in Ethereum's existence. It could be said that market sentiment is the worst it's been since the Mt.Gox hack in 2013. In the coming weeks, the outcome and flow-on effects of the Celsius and 3AC collapses will dictate short-term price action, and provide a clearer market structure leading into the ETH 2.0 merge in August. From here, newsflow around macro challenges and inflation will dominate direction - but we are a long way down, and newsflow could take a slight turn.



Altcoins

- The Solana network is facing a devastating liquidation of \$170 million USD worth of SOL that would likely crash the value of the token. A whale has used Solana's most popular lending protocol, Solend, to collateralise 5.7 million SOL; this makes up 95% of the DeFi platform's SOL pool. Despite his positions approaching liquidation, the whale is not closing them. The risk of this liquidation is that the selling pressure on Solana's decentralised exchanges results in the blockchain being jammed and halting its execution of transactions. Sparking outrage in the community, Solend developers started a vote to take control of the whale's wallet and safely liquidate their positions. Responding to criticisms of the initial proposal, the Solend team have begun working on an alteration that does not involve emergency power. Nonetheless, urgency is necessary as most users of Solend are unable to withdraw stablecoins from the protocol.

Innovation

- Circle, issuer of the USDC stablecoin, has announced its Euro-backed stablecoin. This token, EUROCC, will be built on the Ethereum blockchain and will initially be available on a number of popular exchanges. The reserves for EUROCC will be held by American regulated financial institutions and only include cash and euro government debt only.
- Following the significant number of NFT phishing attacks originating from Discord, Nansen has announced its new Web3 messaging service. The application, Nansen Connect, will target NFT and crypto communities, offering a safe alternative to Discord. Using a peer-to-peer connectivity framework, to utilise the service, individuals will need to prove they hold the NFT or token to access certain communities. To grow the platform, Nansen will be utilising the \$75 million USD the company raised in its funding round last December.



NFTs & Metaverse

- The creators of Goblintown.wtf, Truth Labs, have revealed their identity online. Describing itself as a collective of creators working in the Web3 space, Truth Labs specified that the team doxxed themselves given the surprise growth rate of the collection. The team emphasised that the announcement is “for the holders”, subsequently providing a future roadmap for the Goblintown.wtf collection. This news led to Truth Labs’ other NFT projects seeing a substantial rise in floor price, averaging almost 250%.
- The French Olympic Committee is reportedly planning to utilise blockchain technology for its ticketing system in the 2024 Olympic Games. The speculation comes after the Committee published a report stating that blockchain tickets should be used in all of France’s major sporting events. By representing tickets as NFTs on the blockchain, tickets will be personalised for fans and additionally act as non-transferable assets. Moreover, the tickets will include a rotating QR code that will be immutably activated when the ticket is scanned. This will minimise the number of individuals who enter the Olympic venues without a ticket.

What to Watch

- Fed Chair Jerome Powell testifies on the Semi-Annual Monetary Report before Congress on Wednesday - markets hope for clarity on convoluted inflation statements over the past few months.
- UK’s CPI, on Wednesday.
- Second testimony of the week for Jerome Powell before Congress, on Thursday.



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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
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BTC	ETH	PAXG	S&P 500, ASX 200, VT	HYG	SPGSCI	U.S. 10Y
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