



ZEROCAP

Weekly Crypto Market Wrap

4 July 2022 – 10 July 2022

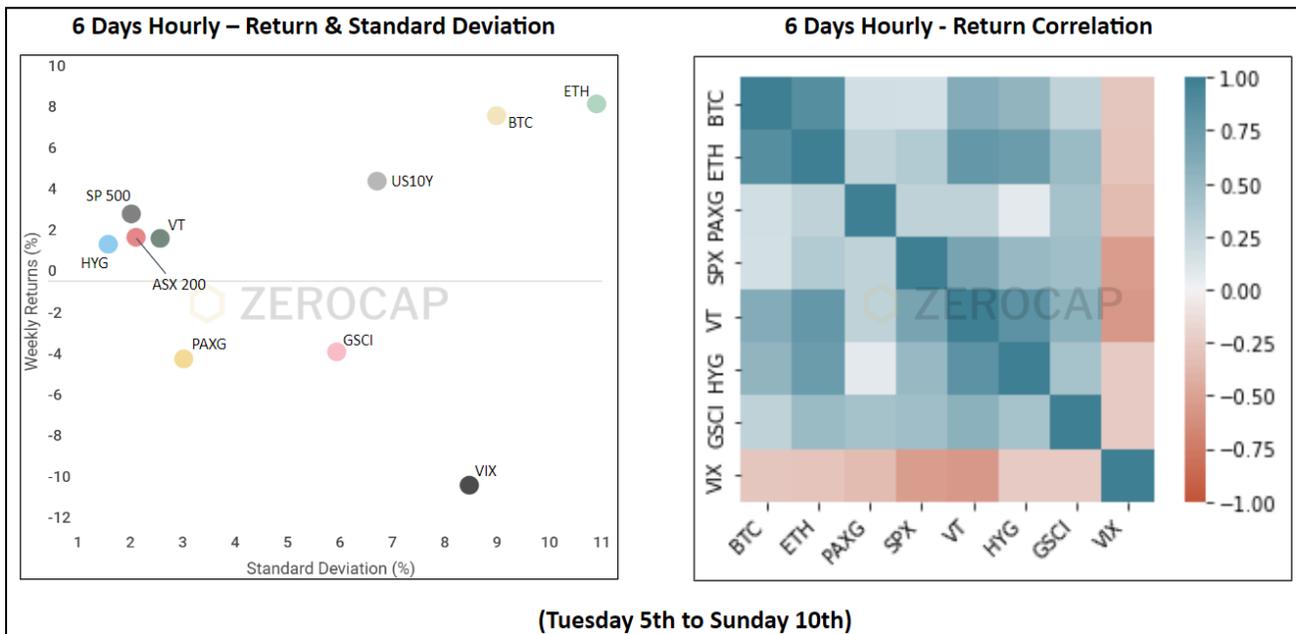
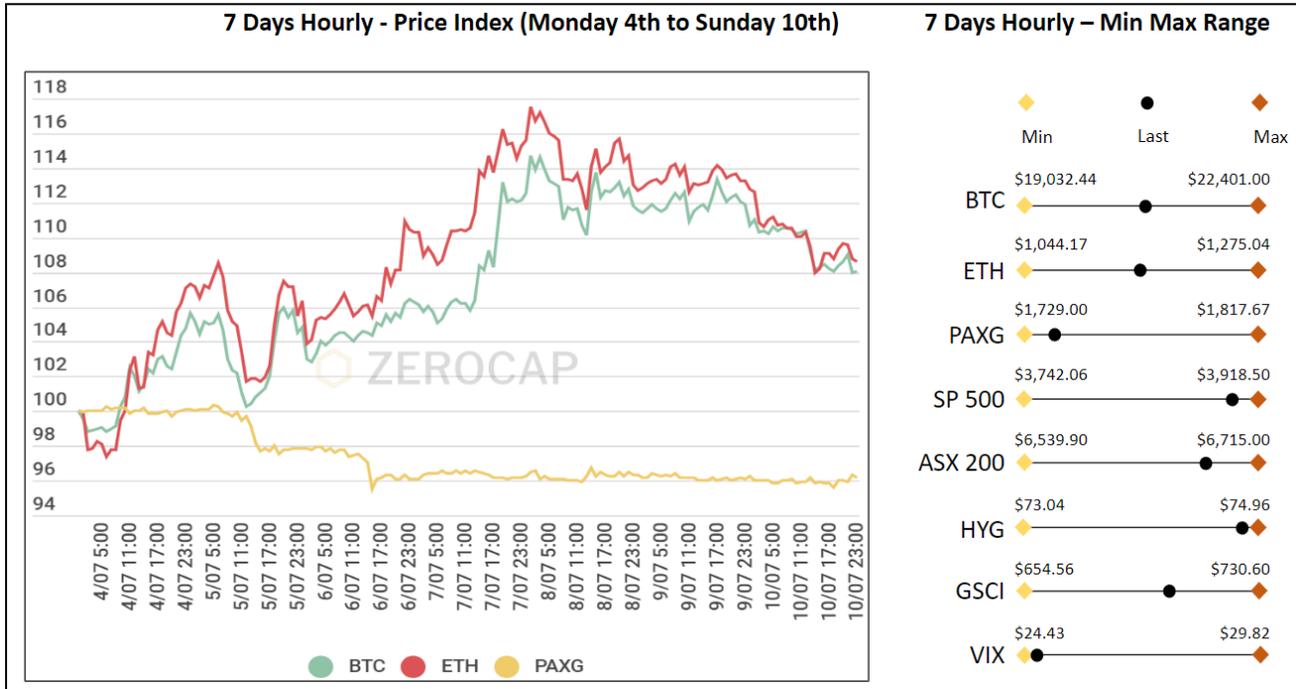
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Week in Review

- [Boris Johnson resigns](#) as UK Prime Minister after a series of scandals within leadership.
- Former Japan Prime Minister [Shinzo Abe](#) assassinated following a campaign speech.
- FED sees more 75 bps hikes as likely in next meetings if inflation resists; [FOMC Minutes](#).
- US government officials who own crypto are [now banned](#) from working on their policies.
- US Treasury [releases framework](#) on foreign crypto regulators based on Biden's executive order - seeks to mitigate illicit risk while protecting "U.S. and global financial stability."
- [UK government](#) looking for public input on DeFi taxation parameters.
- "[Bitcoin] tourists have been completely purged from the asset"; [Glassnode](#) report.
- Elon Musk [terminates Twitter takeover](#) deal - Company board now [suing Musk](#) over termination, still seeks for deal completion.
- Salary payments in USDT stablecoin [ruled illegal](#) in Chinese court.
- FTX signs deal with option to [buy BlockFi](#) at \$240 million - not \$25 million, as speculated.
- [Meta](#) to officially close its Novi digital wallet project after 10-month long pilot.
- US and South Korea agree to [share investigations](#) on Terra (LUNA) crash.
- USDT's [Tether](#) liquidates Celsius Bitcoin loan "with no losses" to the company.
- Celsius pays off \$500 million MakerDAO [debt](#), partner claims "ponzi scheme" in [lawsuit](#).



Winners & Losers





Macro Environment

- The start of the week saw an additional layer of stress takeover Chinese bond markets, with major Chinese developer Shimao defaulting on its \$1 billion bond coupon payment over the weekend.
- The United States celebrated its 246th Independence Day on Monday, seeing little macroeconomic action.
- Cryptocurrency lending platform Vauld was the latest in a series of crypto firms halting withdrawals earlier in the week, citing current market volatility as the reason.
- The Reserve Bank of Australia (RBA) raised its cash rate another 50 basis points on Tuesday, marking a second consecutive 50 basis point hike this year. Mortgage banks had priced in the rate increase, increasing their fixed-rate lockups over 100 basis points in anticipation.
- Foreign exchange markets were slow to price in the 50-basis point rate hike, with the AUD/USD pair dipping as low as \$0.67613 on Tuesday. The AUD recovered steadily through the week, closing just shy of the week open at \$0.6852.
- Buy now pay later firm Klarna had its valuation slashed by almost 85% in its most recent funding round. This 85% loss in value would see the Commonwealth Bank of Australia's (CBA) 4% stake in the company get written down \$2 billion on its \$2.7 billion stake valuation in June last year.
- This contraction in value is analogous with the recent decline in buy now pay later service providers such as Zip Co: down over -93% year on year.
- Singapore is exploring further Cryptocurrency regulation, particularly in relation to leveraged retail trading and investment. This comes after the January restrictions limited the marketing and advertisement of cryptocurrency & related services in public. Deputy Prime Minister Heng Swee Keat stated: "cryptocurrencies were unsuitable as retail investments due to their volatile prices."



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- The European Union is following a similar trajectory to Singapore, reaching a provisional Markets in Crypto Assets agreement (MiCA). The agreement tasked with regulating issuers of unbacked crypto assets and stablecoins, holding service providers responsible for the loss of consumer wallet funds.
- Wednesday saw the Yield curve inverted, over increased recessionary fears and continued hawkish narrative. 10Y United States treasuries dropped below 2.8% on Wednesday, 2Y and 10Y spreads are now inverted at -2 basis points.
- Commodities were down throughout the week, WTI Crude Oil dropping below \$100 per barrel for the first time since mid-May, Citibank projecting a potential further decrease down to \$65 by the end of 2023.
- The USD showed its strength throughout the week, seeing the USD/JPY pair trade back above ¥136, further escalated by the shocking news of ex-president Abe's shooting. The EUR is quickly approaching parity with the USD down to the lowest it's been since 2002 extending below \$1.02.
- Copper was a standout amongst commodities: falling 4.7% to \$3.339, the lowest it has been since December 2020, Gold also slumped to \$1740.
- US Non-Farm payroll data was stronger than expected, markets pricing in a 75 basis point hike for the upcoming July FOMC meeting.



Technicals & Order Flow

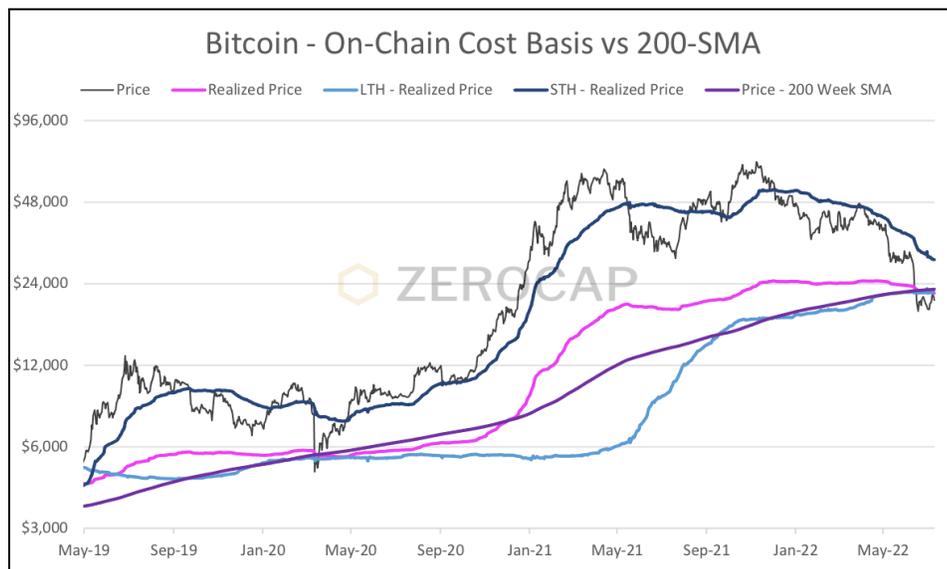
Bitcoin



- During Monday's session, Bitcoin edged higher in the absence of US trading activity. However, as participants and liquidity returned to the market, BTC chopped within the 19,700 and 20,700 range. An influx of bids on Thursday caused a shift in momentum, acting in favour of the bulls and Bitcoin pushed to weekly highs of 22,401. Bitcoin returned 8.08% WoW, its best weekly performance in over 3 months.
- This week, Bitcoin's action was a direct recipient of bolstered sentiment apparent in equity markets. Off the back of the S&P 500's push higher, tech stocks rebounded increasing risk appetite. Bitcoin pushed higher WoW, all the while looming liquidation and solvency issues persist in the broader crypto space and the DXY (USD index marked a 20-year high during Friday's session).

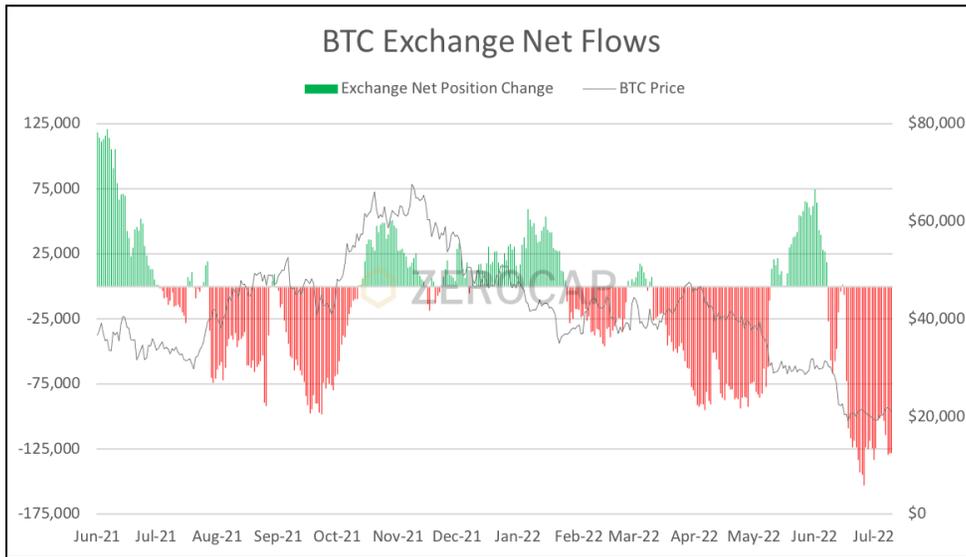


- Currently, short-term holder realised price is converging to long-term holder realised price. This behaviour is typical within late-stage bear markets. However, the 200-week SMA acted as strong topside resistance this week and it is likely that it will continue to be a key resistance moving forward. We expect further consolidation will occur before the price builds to a successful break of this key resistance level.



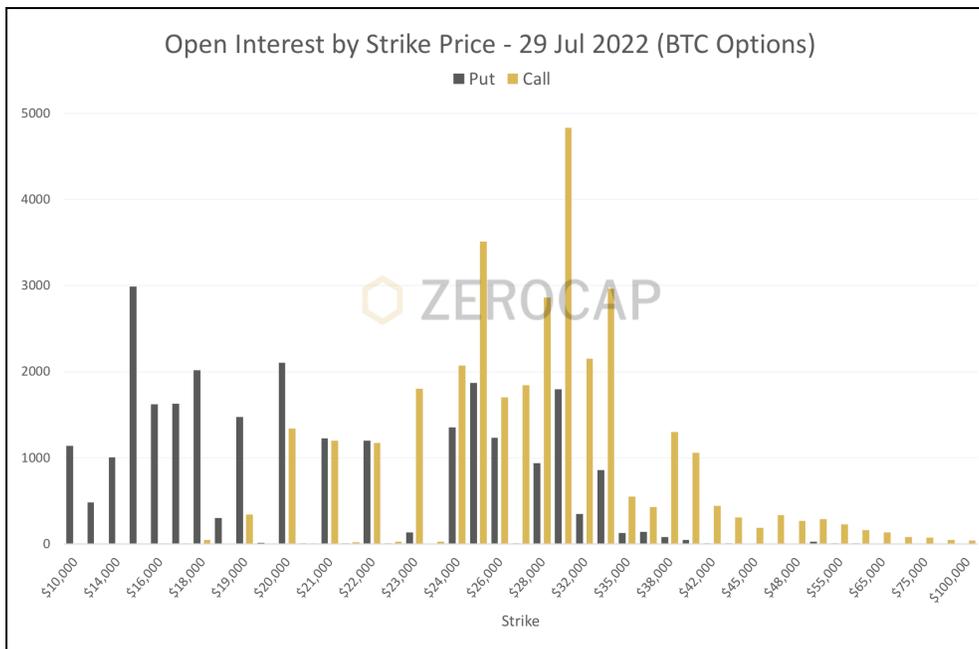
Data source: Glassnode

- Last week, we touched on the shifting implications of diminishing BTC balances on exchanges. Due to the current counterparty risk issues, and concerns associated with holding assets on exchanges, Bitcoin's net exchange flows, a metric once used to outline a propensity to hold or sell, are probably not totally reflective anymore. Nonetheless, it's interesting to note the heavy outflows have been persisting since mid-July reducing available liquidity on exchanges.



Data source: Glassnode

- Looking at derivatives data out to July 29th, there is a clear preference towards calls between the 24,000 and 35,000 strikes. Puts have the most notable volumes at 15,000, 18,000 and 20,000 strikes.





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Data source: Glassnode

- This week, Bitcoin benefited from some bolstered sentiment out of equity markets. While the 200-week SMA forms topside heavy resistance, options traders are favouring upside plays out to the end of July. In light of Bitcoin's atypical move higher alongside the DXY, Bitcoin has shown a propensity to trade in line with macroeconomic forces. We can expect volatility around this week's inflation printout of the US on Wednesday.

Ethereum



Data source: Tradingview

- Following last week's close lower, Ethereum experienced a firm rebound. ETH continues to trade well within a range between 1,040 and 1,280. Price found resistance at 1,165 early in the week. However, during Friday's session a break higher saw the price reach the top of the channel. Over the course of the weekend, prices struggled to break higher and subsequently fell 4% on Sunday. Despite Sunday's decline, Ethereum returned 8.15% WoW, closing at 1,165.
- This week, the highly anticipated Sepolia testnet successfully tested the Ethereum merge. The deployment, which simulated proof-of-work to proof-of-stake shift, marked a step closer to Ethereum's long-awaited mainnet merge that is scheduled for late August. While proving successful, Ethereum's price action was numb to the event. Ethereum's gains are instead attributable to Nasdaq's weekly move higher. The correlation between the two markets will likely persist into the near term given heightened recessionary risks.



ETHBTC Daily Chart

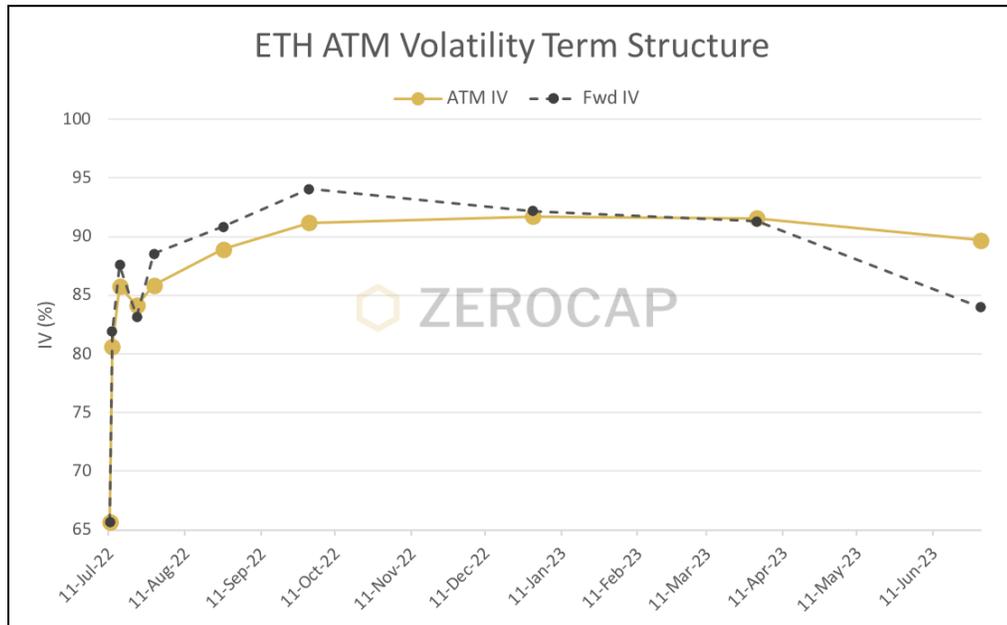


Data source: Tradingview

- ETH/BTC rose marginally higher WoW. While aligning with the pair's expected behaviour during risk-on sessions, it's worth noting that trading activity between ETH and BTC during the past month has been muted. With a lack of conviction in market direction, the pair itself has largely been range-bound between 0.052 and 0.058. The recently forced liquidations and subsequent capitulation have taken a toll on liquidity. Its effect is accurately depicted in ETH/BTC's action. Low volumes, lack of conviction, and sideways price action are all characteristics commonly shown in market behaviour after considerable liquidation events.
- Looking toward Ethereum's volatility term structure for reference, a definitive uptick in the short-dated expiries is apparent. This uptick is associated with participants pricing elevated volatility in anticipation of Wednesday's CPI print. Notably, the curve is marginally higher in August, when Ethereum's merge is scheduled. However, it can be

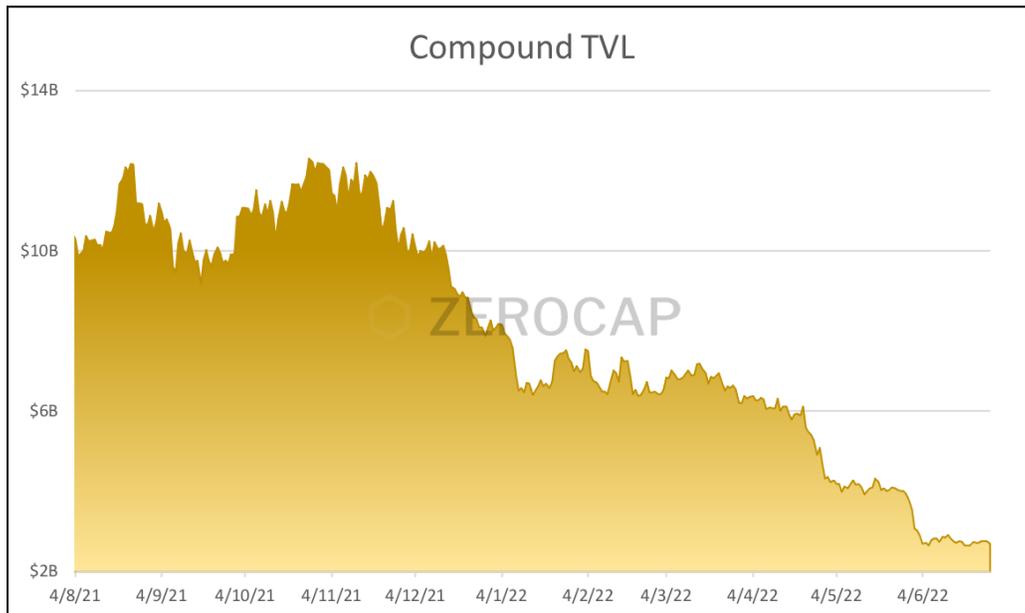


expected that the curve will provide a more definitive narrative when transparency around the merger's timing is provided.



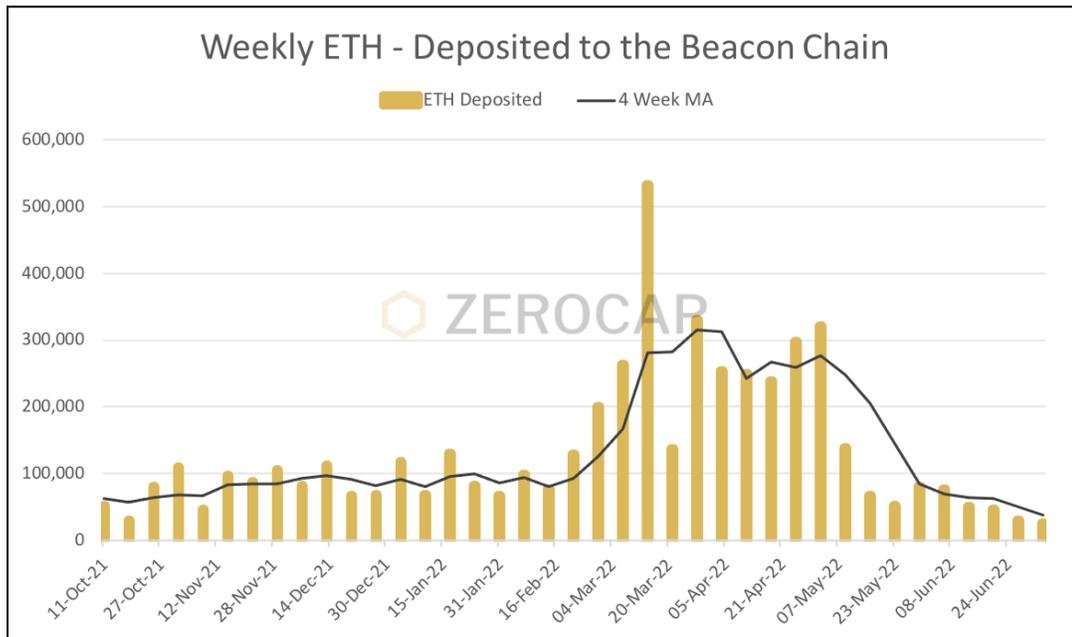
Data source: Skew

- Since November 2021, prominent Ethereum lending protocols have experienced significant decreases in TVL. Notably, Compound's TVL has fallen 83% from \$21.48bn to \$3.61bn. Following numerous liquidation events from large players, liquidity on DeFi lending protocols has depleted. Consequently, USD stablecoin DeFi borrow rates have diminished. For example, Compound's current USDC annualised variable borrow rate equates to 1.57%. This presents an opportunity for DeFi participants.



Data source: DeFi Llama

- The amount of Ethereum deposited into the beacon chain is decreasing drastically. Representative of ETH 2.0 staking allocations, this change is unsurprising. Alongside Ethereum's price degradation, 3AC and Celsius were both known holders of a sizable amount of stETH and were forced to unwind their positions. This in turn resulted in stETH trading at a discount, with some holders having to liquidate positions at a loss. Currently, 10.89% of the ETH supply is locked and staked in the beacon contract. Of that supply, 33.52% is attributed to liquid staking protocols. ETH 2.0 deposit metrics will be indicative of sentiment leading into the merge, with an increase in deposits likely representative of a more positive outlook post-merge for Ethereum (and the market).



Data source: Dune Analytics

- Diminished liquidity conditions off the back of recent and substantial liquidations can be reflected in Ethereum's see-sawing action. As the CPI release on Wednesday approaches, participants eagerly await. Historically, CPI figures missing expectations have resulted in aggressive sell-offs in risk assets, Ethereum being no exception. Moreover, in the absence of any further news flow, Wednesday's print will likely be the most significant determinant of action in the short term.



DeFi

- After nearly incurring liquidations on its DeFi positions, Celsius has safely paid off its DAI debt and removed its collateral - \$450 million USD worth of BTC. These funds will likely be integral in their restructuring. Moreover, Tether has disclosed information about Celsius' loan liquidation process. Describing Celsius as a “minimal part of its shareholder equity”, Tether has expressed that it suffered no losses in liquidating the USDT loan.
- MakerDAO recently passed a proposal to adopt real-world assets into its protocol. The expansion of products will generate new revenue for the lending platform and potentially offset the loss of revenue heralded by the state of the crypto market. The DAO will be investing \$500 million USD into US Treasuries and corporate bonds. Indeed, the community voted for 80% of funds to be allocated to short-term Treasuries and 20% to investment-grade corporate bonds.

Altcoins

- The popular borrowing and lending protocol, AAVE, has announced it will be creating its own stablecoin. This token, named GHO, will be a decentralised, US dollar-pegged stablecoin. Akin to Luna's UST and Tron's USDD, GHO will be backed by crypto collateral. Unlike other algorithmic stablecoins, investors will be able to mint GHO against a diverse set of assets. Through governance proposals and the AAVE DAO, this new stablecoin will be managed by the community.

NFTs & Metaverse

- Reddit is introducing an NFT-based avatar marketplace built on the Polygon blockchain. The collectible avatars will act as users' profile pictures on Reddit. Artists within the most popular subreddits have contributed to the avatar designs which will soon be minted. The purchase and sale of these NFTs through Reddit will be in local currencies, like US dollars. Moreover, all NFT avatars will be sold at a fixed price ranging from \$9.99 USD to



\$99.99 USD. Profits generated by artists from the secondary sales of these avatars on marketplaces like OpenSea will be shared 50/50 with Reddit.

- 48 NFT-related projects that previously existed on the Terra blockchain have begun migrating to Polygon. Marketplaces like OnePlanet and metaverse games like Derby Stars were left homeless when Terra collapsed. Fortunately, Polygon funded and facilitated the efficient adoption of these NFT applications onto its chain to continue growing the ecosystem.
- Information delineating the \$625 million USD Axie Infinity hack foregrounded how a fictitious job set everything in motion. When a senior engineer at Axie Infinity opened a fake job offer, he simultaneously downloaded spyware and malware which infiltrated Ronin systems. This allowed the exploiter to obtain access to 4 of the 9 validator nodes, ergo only necessitating 1 more to control the assets on the Ronin network.

What to Watch

- US' Consumer Price Index (CPI), on Wednesday.
- US' Core Retail Sales, on Friday.
- Prime Ministers' aftermaths - What comes after Boris Johnson's resignation and Shinzo Abe's tragic death?

Insights

- [Monthly Investment View - July 2022:](#)

We provide a brief breakdown of the main events in June and what we expect moving forward in the next few weeks.

- [Where Crypto Innovation is Going:](#)



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Innovation Analyst Nathan Lenga describes how current crypto innovation is taking effect on improving our daily lives - ranging from data ownership, education and identity to new jobs populating the virtual space.



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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