



ZEROCAP

Weekly Crypto Market Wrap

11 July 2022 – 17 July 2022

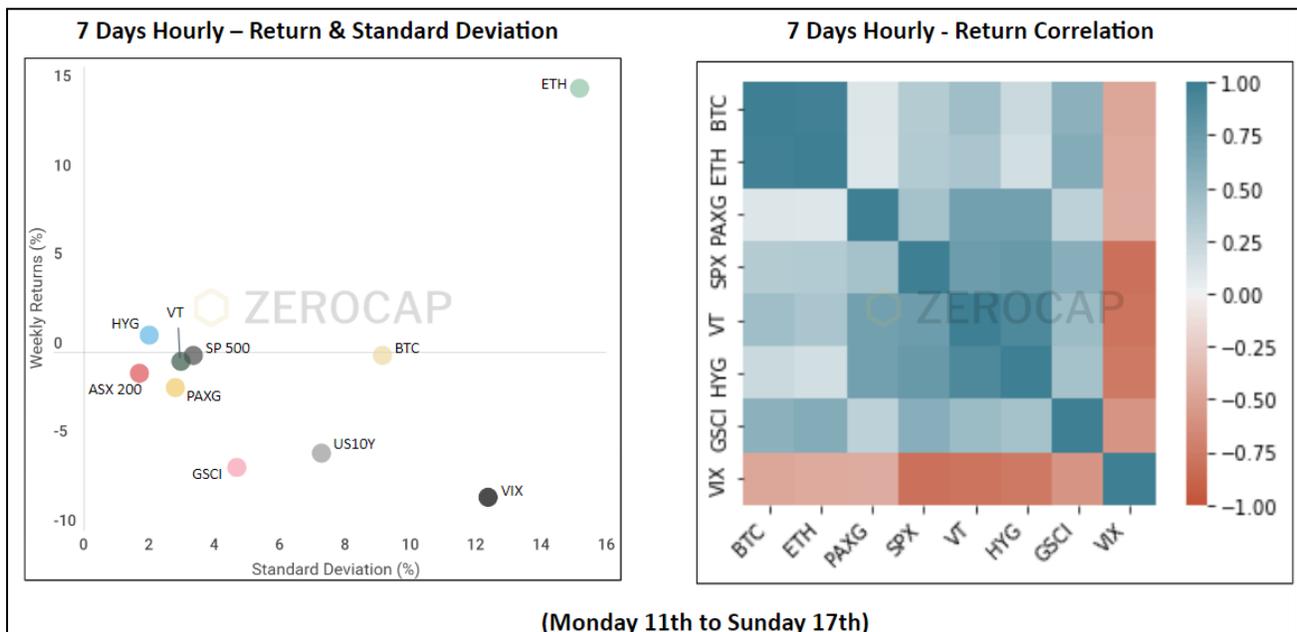
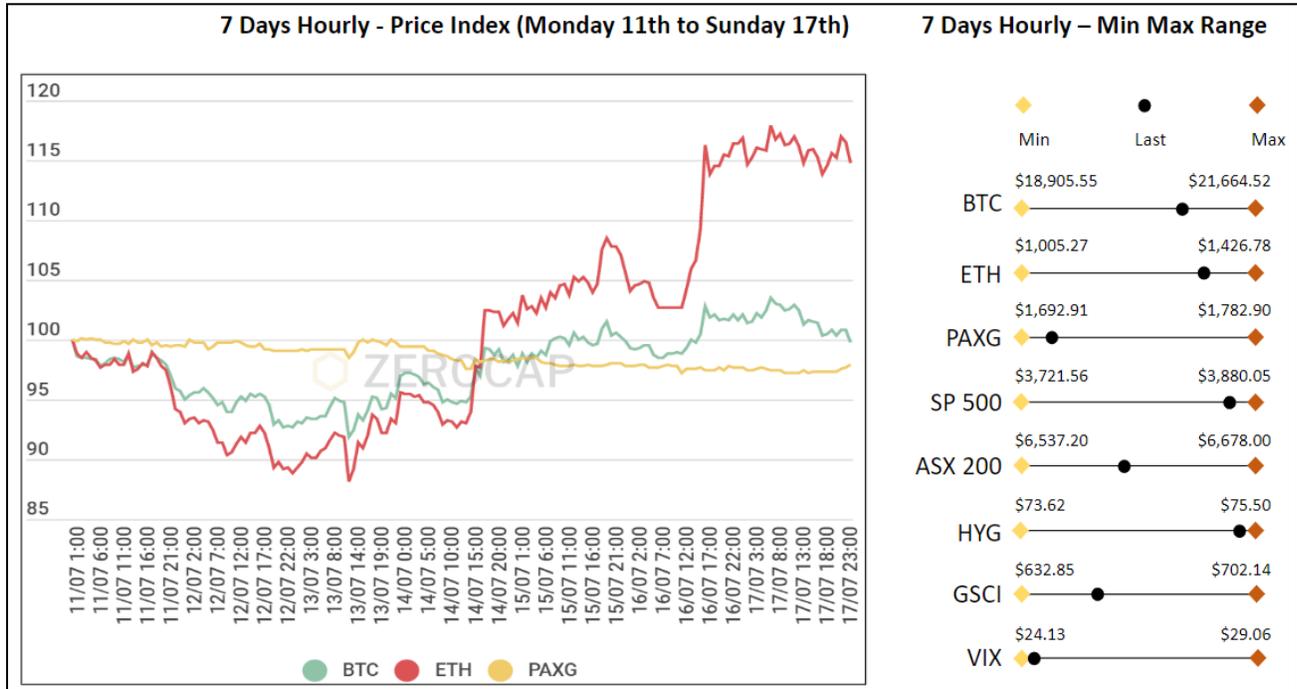
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Week in Review

- US Treasury calls for [public opinion](#) on digital asset policy following Biden's executive order - finds [CBDCs beneficial](#) for commercial bank stability.
- Crypto lender Celsius [files for bankruptcy](#), with \$1.19B deficit on its balance sheet - US Federal Court [freezes funds](#) of Three Arrows Capital.
- European Central Bank (ECB) releases [report](#) on crypto financial risks in DeFi and stablecoins - regulatory frameworks "need to be implemented urgently."
- ECB crypto mining [report](#) compares Proof of Work to fossil fuels cars and Proof of Stake to electric cars - calls for financial institutions to take part in a green crypto future.
- G20 regulator Financial Stability Board (FSB) to present [crypto rules](#) in October.
- US Patent and Trademark office set to study [copyright impact](#) of NFTs.
- [FED May survey](#) released Friday finds 56% of US private banks say DLT and crypto "not a priority" in development for next two years - most are "actively monitoring" the tech.
- Crypto miners in Texas [shut down](#) operations as state experiences extreme heat waves.
- [KPMG](#) to audit new pound-backed stablecoin GBPT.
- Vladimir Putin signs bill into law [banning](#) digital assets as payment.
- US inflation rose [9.1%](#) in June, highest level in 41 years.
- FED Governor Waller supports [another 75 bps rate hike](#), but states 100 bps is still likely.



Winners & Losers





Macro Environment

- For the first time since December 2002, the EUR/USD pair dipped below parity, the Euro breaching the 1:1 exchange rate with a low of \$0.9954 on Thursday. This low came after Italy's Prime Minister Mario Draghi unveiled his planned resignation.
- Deputy Prime Minister Richard Marles voiced his concerns over China's rapidly increasing military presence in the Indo-Pacific on Monday. Marles claimed the buildup was at a "rate unseen since World War II," and that a failure to preserve a healthy power dynamic in the region would have dire consequences for neighbouring nations.
- Temasek Holdings (TEM.UL), a Singapore based, top ten global investment company, posted gains of almost 6% over the year to March. These gains placed their portfolio valuation at \$403 Billion Singaporean dollars as of March 31 2022. This comes after Temasek's slight pivot away from investments in China's geography, Singapore taking over its top allocation at 27%.
- Following the shock 9.1% US CPI reading, Wednesday saw 2 & 10 Year Treasury Bond yields invert to 3.138% & 2.919% respectively. The magnitude of this inversion is the largest since the year 2000. It is also worth noting that since 1900, the 2 & 10 Year yield spread has only been inverted 28 times, 22 of which were shortly followed by a recession.
- Wednesday also saw the South Korean Central Bank raise interest rates by 50 basis points, in a bid to defend its balance of payments position against a strengthening US Dollar. The 50bps hike represents the single largest increase since the current South Korean monetary policy system's inception in 1999.
- South Africa (SA) has announced it's expecting a new wave of cryptocurrency regulations over the next 12 months. The new regulations will recognise cryptocurrencies as financial assets instead of currencies. Prompted by increased concerns over retail investor protection, after a prolonged period of market instability. Under the new regulations, cryptocurrencies will fall under the Financial Intelligence Act



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(FICA), where they will be subject to investigation regarding money laundering, terrorism financing and tax evasion.

- The Celsius network has filed for chapter 11 bankruptcy, revealing a \$1.19 Billion deficit on its balance sheet, notwithstanding the \$600 Million valuation placed on its CEL token holdings counted towards its 'Assets.'
- It was a tough end to the week for commodities, Brent falling -6.83% week on week, WTI down -7.72% falling to a low of \$88.28. Gold performed relatively well, down only -1.82%, compared to TIN which was down over 8%.
- The reported cost of producing BTC has fallen to approximately \$13,000 from \$24,000 early June, this decrease attributed to a reduction in miner electricity use, miners moving towards more efficient ASIC mining rigs. BTC closed the week down -0.17% at \$20,824, ETH reigning supreme with a 15% increase WoW at \$1,344.72.



Technicals & Order Flow

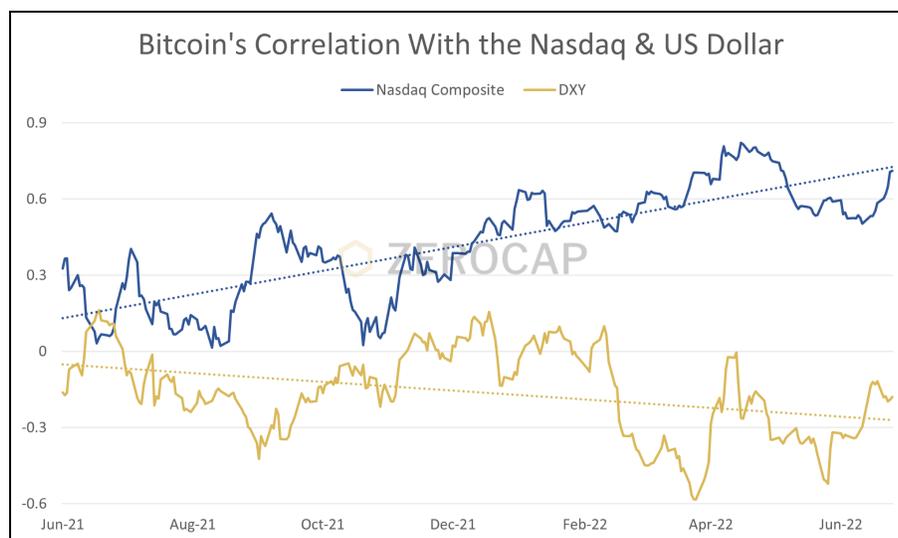
Bitcoin



- This week, Bitcoin briefly held above 20,000 before persistent bearish pressure led to a break of key support at 19,650 and consequently 19,250. Price temporarily touched lows of 18,905. However, the price was quickly bid up and a shift in sentiment acted to lift it back above 20,000. Bitcoin continued to edge upward into the weekend session, finding resistance at 21,450 before closing with -0.24% WoW.
- Growing fears of recession set the tone as risk-off ahead of Wednesday’s US inflation print. Notably, Bitcoin’s early week sell-off reflected the heavy action apparent in equities. Following the 40-year 9.1% print, and toward the latter part of the week, rallies in the S&P and Nasdaq provided the grounds for BTC’s gains into the weekend. While we’d typically see Bitcoin move lower in the presence of such newsflow, the opposite may suggest that markets have already priced in this risk.

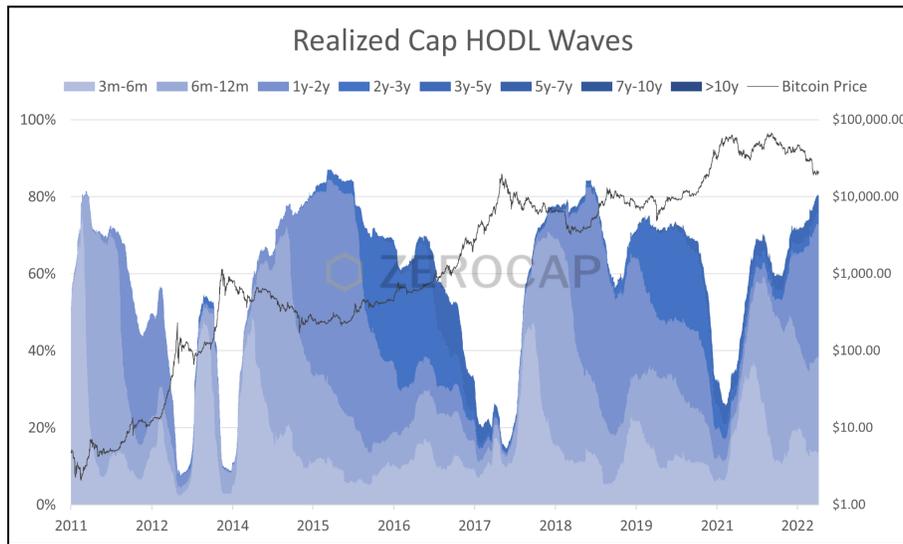


- On newsflow, Celsius paid off its remaining debt to Compound freeing up approximately 10,000 wrapped Bitcoin (wBTC). Also from the wires, repayments of BTC to Mt Gox creditors rippled through markets. Prompting some fear, the repayment represents approximately 140,000 BTC, which is approximately 8.8% of daily exchange volumes. While the size is significant, ambiguity surrounding the timing of the repayment lingers.
- Despite Wednesday's 40-year high inflation print and the DXY index reaching a multi-decade high, Bitcoin edged higher toward the latter part of the week. Notably, Bitcoin's correlation with high beta assets persists at high levels.



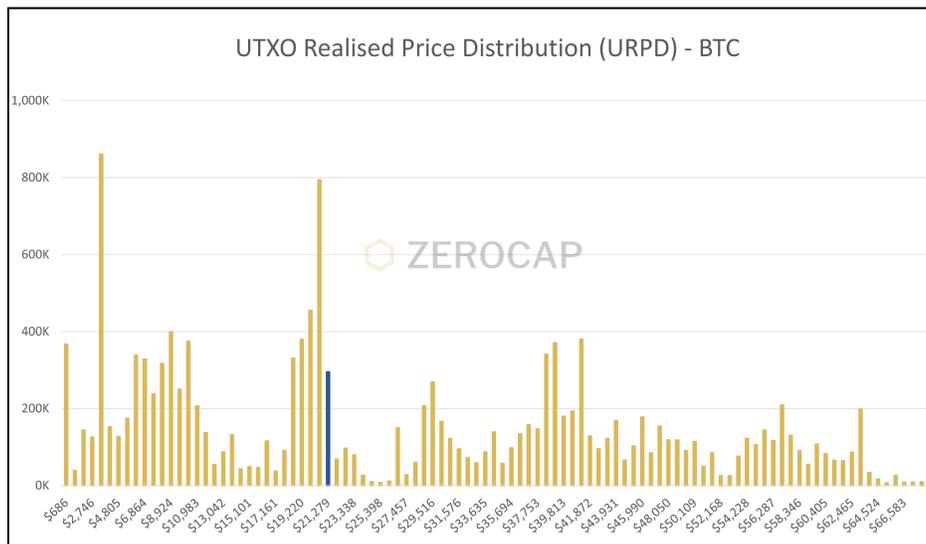
Data source: Tradingview

- Looking on-chain, over 80% of the wealth, denominated in USD terms, has been held for at least three months. This behaviour is suggestive that firmer hands are unwilling to transact at lower levels. Historically when this metric has exceeded 80%, it also coincided with the end of prior bear cycles.



Data source: Glassnode

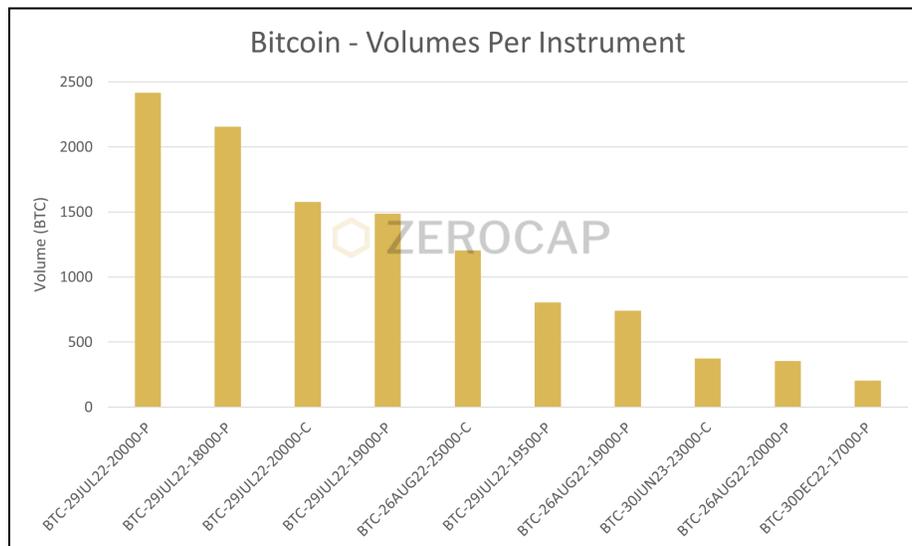
- The URPD metric depicts copious amounts of transactional flow between 18,500 and 21,000, affirming that this support range continues to grow in relevance.



Data source: Glassnode



- Options space volumes favoured puts between the 18,000 and 20,000 strikes maturing July 29th 2022. Notably, the US Fed interest rate decision coincides with this maturity. Traders are pricing in a move for this event which is reflected in the elevated implied volatility for that week.



Data source: Laevitas

- Bitcoin's action still remains dependent on sentiment driven by equity markets. While showing some atypical behaviour toward the latter part of the week, the market is still fairly directionless. Although on-chain metrics continue to point toward cyclical bottoms and are developing downside support. Contrastingly, there is a growing emphasis on puts dated for July's rate hike out of the US. We can expect that bulls will continue to target topside resistance at 21,400 before attempting a move toward 22,600.



Ethereum



Data source: Tradingview

- Ethereum bulls took control of action this week posting Ethereum’s highest return in four months. This week, the action began with markets pricing in volatility following the hotter than anticipated CPI numbers. Risk assets rallied in the days following, Ethereum gaining 24% during Friday’s session re-testing the top of a perfectly formed channel at 1,280. Moving into the weekend, Ethereum led the push higher, finding resistance at the 2018 bull run all-time high of 1,420. Ethereum returned 14.44% WoW, closing at 1,335.
- Ethereum’s spirited move higher rode off the back of developers confirming the Ethereum merge date, scheduled for September 27th. On Saturday, Ethereum propelled above resistance, liquidating \$237m worth of short positions made on major centralised exchanges. The move reflects the bullish thematic and accompanying momentum that was forming near the start of 2022. The principal benefits behind the merge remain. Post-merge, Ethereum daily issuance will fall to the equivalent value of three BTC



halvings. The inflationary supply pressure Ether experiences at present is expected to be deflationary post-merge.

ETHBTC Daily Chart

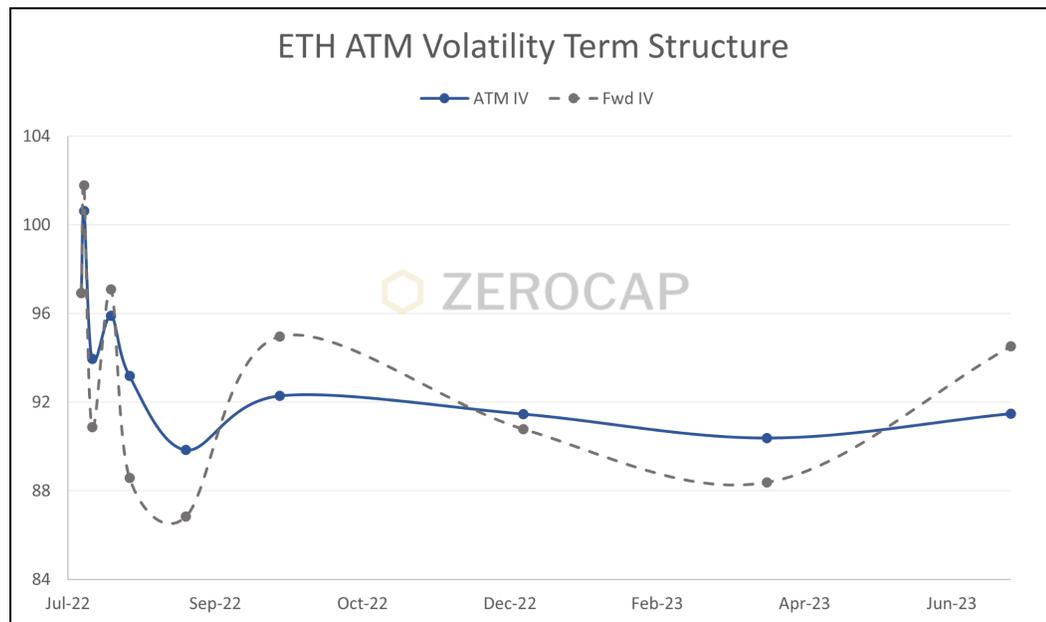


Data source: Tradingview

- ETH/BTC moved higher WoW. Throughout 2022, the pair’s action has often been dictated by market-wide risk-on sentiment. Interestingly, Friday’s merge announcement created an alternative driving force behind the pair’s rally to the significant ascending trendline from July 2021. Thus far, Bitcoin has outperformed Ethereum YoY, however, as we approach the finality of Ethereum’s highly anticipated merge, we may see this behaviour change.
- Following the announcement of Ethereum’s merge date, Ethereum’s volatility term structure kinked at the Sept-30 expiry. Contagion risks have somewhat mitigated following buyouts and credit line extensions to key players. Nonetheless, the upcoming

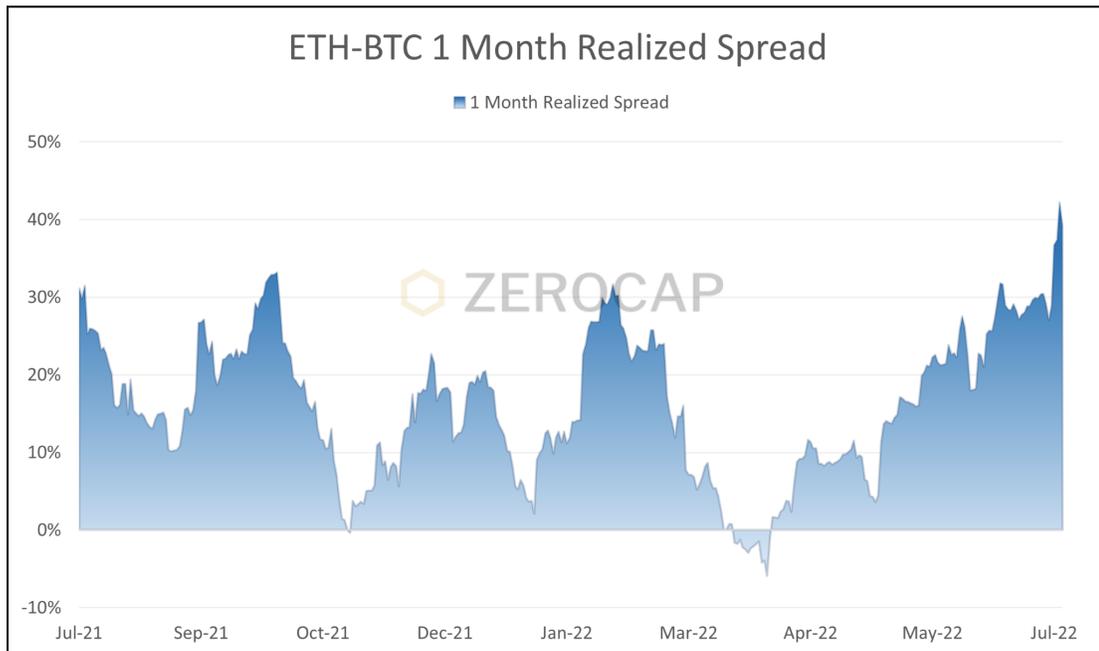


FOMC decision and heightened realised volatility currently dictate the term structure and we're seeing heightened IVs remain elevated for short-term maturities.



Data source: Skew

- Relative to Bitcoin, Ethereum’s one-month realised volatility continues to climb. Markets are witnessing the highest difference since May 2021, a period that involved a 56% price fall in two weeks. ETH implied volatility also trades at a premium, with Zerocap’s Yield Entry Notes currently earning well over 30% pa.



- Ethereum continues to act as the barometer for price appreciation across crypto-assets. DeFi summer in 2021 was initiated by growth in applications built atop Ethereum. Alongside the Ethereum merge's growing hype, layer-2s on Ethereum are finalising their development and beginning to launch more scalable and efficient networks. Again, Ethereum appears to be the yardstick for a rebound in sentiment and market appreciation.



DeFi

- Uniswap, the largest decentralised exchange by total traded, endured a phishing attack, resulting in \$4.7 million USD being stolen. Several Uniswap liquidity pools received phishing links that impersonated Uniswap's website. The website claimed that users had been airdropped tokens and could swap them for UNI. As such, the Uniswap protocol is safe, yet the vulnerability of Web3 was accentuated as these phishing attacks become more targeted and effective.
- Circle, the issuer of USDC, released its monthly report which enumerated important details about the stablecoins' reserves. Although unaudited, the report detailed USDC to be fully backed. Circle specified that as of June 30, there were 55.57 billion USDC. Moreover, the token's reserve, comprising of cash and three-month US Treasury securities, equates to \$55.7 billion USD. Disclosing this report in a blog post entitled "How To Be Stable", the \$13.58 billion USD in cash and \$42.12 billion USD in three-month Treasury securities, should reassure investors regarding the stability of USDC.

Altcoins

- Layer-2 scaling blockchain, Polygon, has been selected to participate in Disney's Accelerator Program for the development of its Web3 experiences. This year, Disney's Accelerator Program is focusing on augmented reality (AR), NFTs and artificial intelligence (AI). Despite being the only blockchain involved in the program, other crypto companies were selected to participate. These projects include Lockerverse, a Web3 storytelling platform and Flickplay, a Web3 application that makes NFTs viewable and interactive via AR.

NFTs & Metaverse

- The Otherside Metaverse demo opened up for 4,500 users, giving Otherdeed owners their first trip into this virtual world. Those who were granted entry into the Otherside Metaverse tested avatar dynamics, including dancing, running, jumping and more.



Notably, the technology powering this metaverse is not owned or developed by Yuga Labs. Metaverse infrastructure company, Improbable, has licensed its Morpheus Engine to Yuga Labs. This has allowed the Otherside division to efficiently prepare the demo of their Metaverse game. Simultaneous with the demo going live, the total volume of the Otherdeed NFTs has surpassed \$1 billion USD. This feat has been achieved in just three months.

- Similar to many other cryptocurrency-related companies, NFT marketplace OpenSea, has announced mass layoffs. Citing a crypto winter and macroeconomic instability, OpenSea's CEO Devin Finzer elucidated that for the company's survival, a reduction of about 20% in headcount was necessary. Layoffs akin to OpenSea's have occurred at giants including Crypto.com, Coinbase, BlockFi and more. Nonetheless, some companies, like Binance and FTX have confirmed their hiring plans for the coming months.
- This week's 14th edition of Shanghai's 5-year plan on the digital economy revealed that the local government will be trialling NFT trading platforms. As its first move into the NFT space, these platforms will only allow NFTs to be purchased with fiat, not cryptocurrencies. Moreover, Shanghai's NFT marketplaces will only facilitate primary purchases of NFTs, ergo banning secondary sales of these assets. It is likely that the secondary sales of NFTs will be hosted on private blockchains. This step towards NFT adoption is primarily motivated by Shanghai's ongoing battle against intellectual property theft.

What to Watch

- Regulatory agencies' feedback following Celsius' bankruptcy filing.
- First results from US Treasury's public opinion request on digital assets policy.
- Australian Monetary Policy Minutes, on Monday.
- UK and Canada's CPI, on Wednesday.



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Insights

- [ZeroCap Q2 2022 Report:](#)

Our Quarterly Report is here and more thorough than ever, bringing you our market analysis of Q2 2022 along with the important data and events in DeFi, NFTs, Metaverse and Emerging Themes - followed by how ZeroCap's products have performed over the quarter.

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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, VT	HYG	SPGSCI	U.S. 10Y