



ZEROCAP

Weekly Crypto Market Wrap

18 July 2022 – 24 July 2022

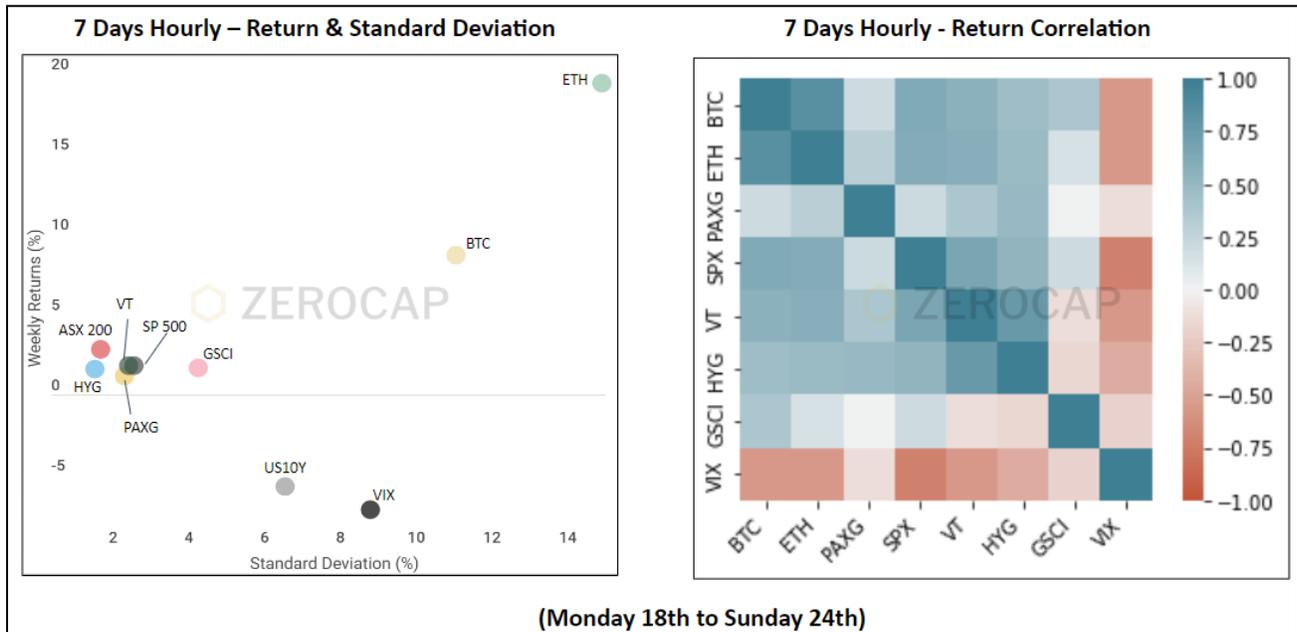
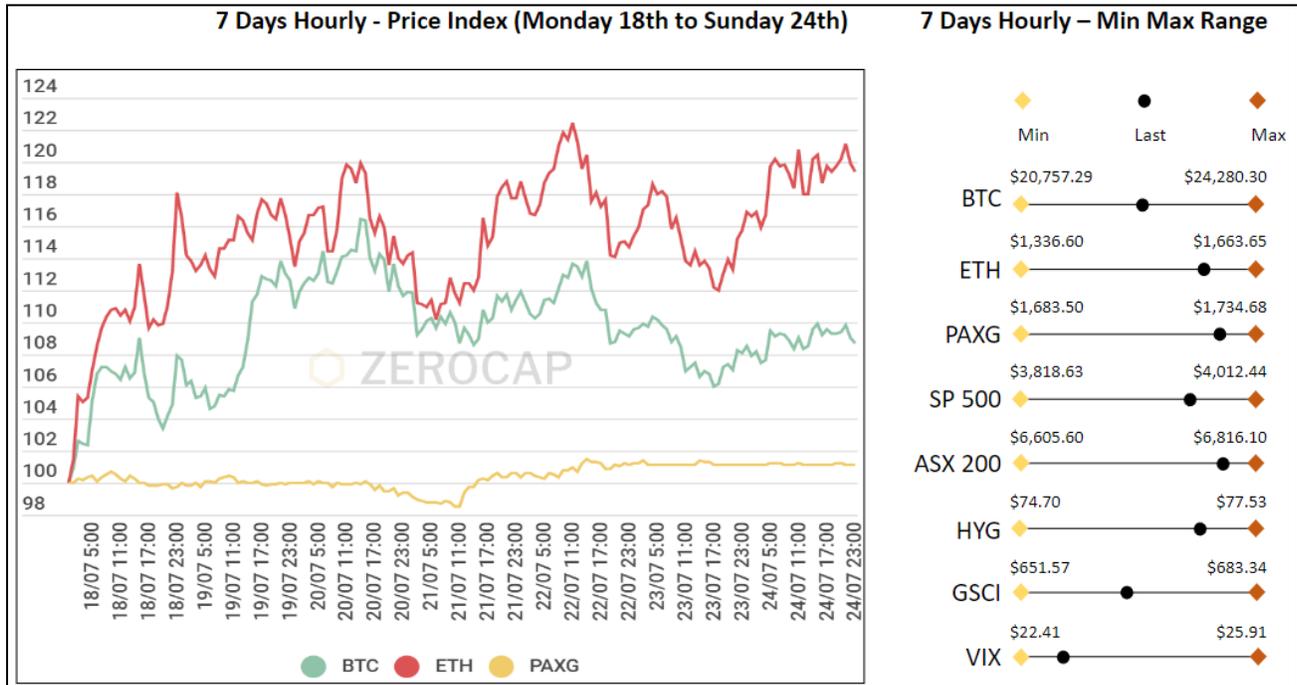
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Week in Review

- Major US crypto bipartisan bill most likely [deferred to next year](#), Senators Cynthia Lummis and Kristen Gillibrand stated during Bloomberg Crypto summit.
- New UK bill to approve [regulation of stablecoins](#) as a form of payment.
- [Tesla](#) sold \$936 million of its Bitcoin holdings in Q2 2022, 75% of total funds in BTC.
- Central bank governors state privately issued, regulated cryptos [have benefits for global economy](#) during G20 meeting - better than CBDCs for consumers.
- Founder [Vitalik Buterin](#) says Ethereum will be “55% complete” following Merge update.
- Crypto to reach 1 billion users by 2030; Boston Consulting Group (BCG) [report](#).
- [California](#) ends 2018 ban on crypto donations for state and political campaigns.
- US Office of Government Ethics (OGE) [issues legal advisory](#) for NFT investors to report all non-fungible assets worth \$1,000 or more.
- Australian regulator [ACCC](#) using “auto take-down” technology against crypto scam sites.
- [South Korea](#) postpones 20% crypto gains tax to 2025 - authorities raid 15 entities linked to the [Terra's LUNA/UST collapse](#).
- Binance [fined](#) over illegal operations in the Netherlands.
- European Central Bank (ECB) has larger-than-expected [rate hike](#); its first in 11 years.
- [UK inflation](#) hits 40-year high at 9.4% following release of CPI report.

- [Australia's Central Bank](#) (RBA) deems interest rates “too low” even after recent rate hikes.

Winners & Losers





Macro Environment

- Japan celebrated Marine Day (海の日) on Monday, with local markets taking a much-needed break. China's central bank governor: Yi Gang has pledged further monetary policy support, following a prolonged period of lockdowns and a worsening property debt crisis.
- The governor of The Reserve Bank of Australia - Phillip Lowe voiced his opinions on stablecoins. Lowe claimed privately held stablecoins hold real promise, given they are regulated in a manner similar to bank deposits and have their value backed by the state.
- Goldman Sachs (GS) reported a drop in revenue of 48% attributing the loss to a reduction in deals. Companies are now taking a more conservative approach to stock and debt offerings. Goldmans' chief financial officer Denis Coleman further elaborated, announcing GS' intent to "slow hiring velocity," and reinstate employee annual performance reviews.
- Dante Disparte, Circle's Chief Strategy Officer released a series of blog posts on Monday outlining 18 core principles vital to the integration of privately held stablecoins and public central bank digital currencies (CBDC). Disparte exclaimed that without adequate regulatory clarity a domestic - "fintech constitutional crisis" may emerge alongside "global regulatory arbitrage."
- Cryptocurrency exchange Binance is in hot water having been issued a \$3.5 million fine from Dutch regulators. The Dutch central bank asserted that Binance was operating without regulatory authorisation.
- The Celsius network has been granted approval to construct a \$3.7 million dollar Bitcoin (BTC) mining facility. Celsius' lawyer at the bankruptcy hearing, Patrick Nash said the new facility "could provide a gateway to repay customers" whose assets have been frozen prior to the filing.
- 10-Year US Treasuries were up past the 3% mark again on Wednesday, equities gathering momentum, Gazprom looking to restart European gas exports.



- Morgan Stanley's Simon Waever, global head of emerging-market sovereign credit strategy announced Morgan Stanley's intent to purchase El Salvadoran government bonds. Waever stated that the euro bonds have been "overly punished" in comparison to other struggling peer nations.
- Italian prime minister Mario Draghi won the upper house confidence vote on Wednesday, despite three of the core coalition parties refusing to take part. Draghi's resignation now hangs on the remaining threads of the coalition's unity.
- Friday saw the European Central Bank (ECB) raise official interest rates by a surprise 50 basis points, 25 points higher than anticipated. This hike represents the ECB's first rate increase in 11 years, and the largest since the year 2000. Corresponding with the rate increase, was a rally in the EUR/USD above \$1.025. The Bank of Japan now remains the only major regulator with a dovish interest rate stance, employing negative interest rates.
- The USD/JPY pair climbed above ¥138, and the EUR/USD shifted higher to \$1.0278. Pressure on commodities eased: WTI and Brent both revisited levels over \$100 at highs of \$100.662 & \$104.178 respectively. Uncertainty over Ukraine and Russia grain deal due to be signed Friday has pushed soybean, wheat and corn prices lower. Corn down over 3.2%.
- ETH was the standout performer over the week, up more than 20% from this week's open, BTC lagging behind up roughly 5% at EOW.

Technicals & Order Flow

Bitcoin

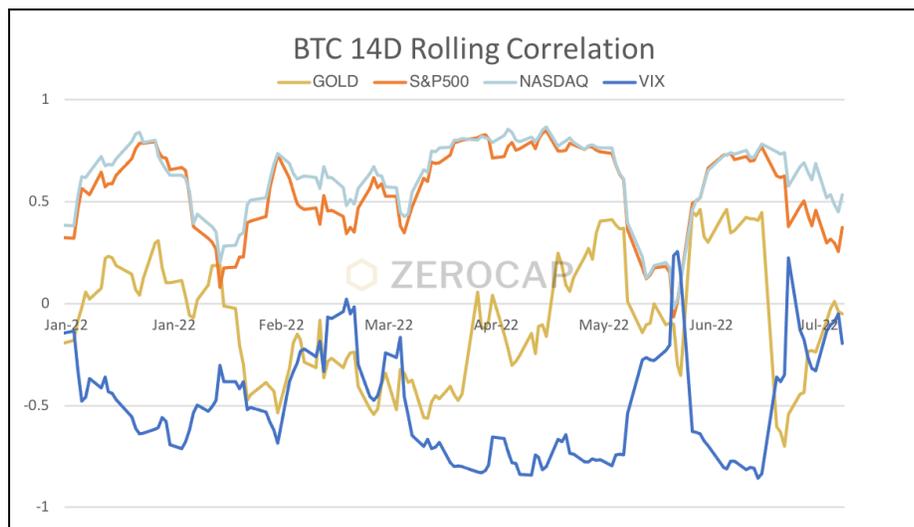


- Riding off the back of the bolstered sentiment, Bitcoin edged higher as markets entered the new week. Despite finding some initial resistance at the 22,600 level, bulls pushed the price higher and above the 200-week moving average, a key topside support. While momentum faded as the weekend drew closer, price remained elevated, ranging around the 22,900 level and closing +8.70% WoW. We may, however, see markets de-risk into this coming week's interest rate decision out of the US. Fed's funds futures are pricing in a 78% chance of a 75bps hike, and a 22% chance of a full 100bps hike. A surprise 100bps hike would be negative for risk in the short-term, but keep an eye on 10-year treasuries as keeping a lid on inflation, fast, means we could be avoiding longer-run recessions which is positive for longer-term growth prospects.
- Ethereum's confirmation of the ETH 2.0 merge date benefitted Bitcoin's action, with bolstered sentiment contributing to early week gains. However, following revelations



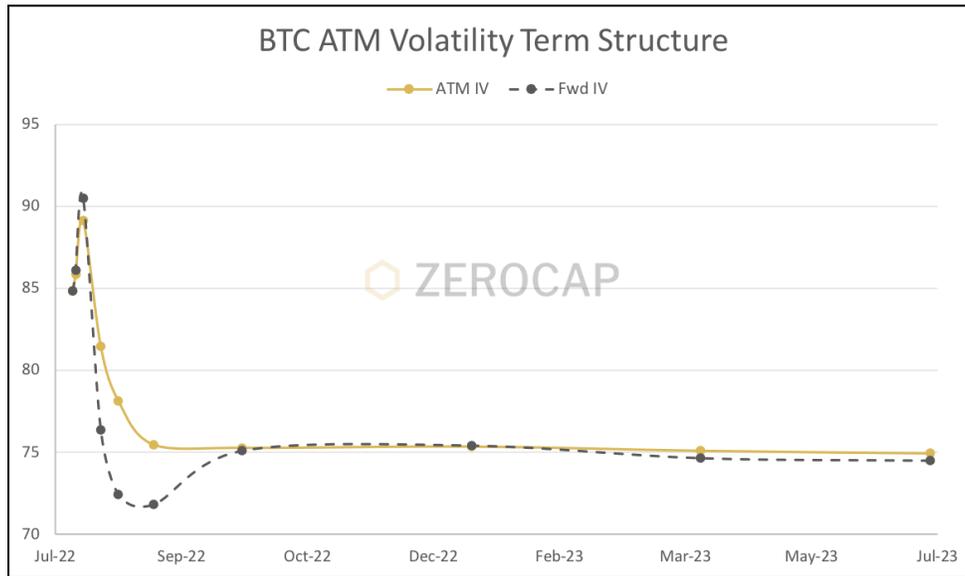
that Tesla sold 75% of its BTC position in Q2, the price lost footing above the 200-week moving average and edged downward.

- The announcement from Ethereum’s developers provided the stimulus for a breakdown in Bitcoin’s correlation with equities this week. Short-term moves out of the FOMC will likely see a high beta relationship come back into play.



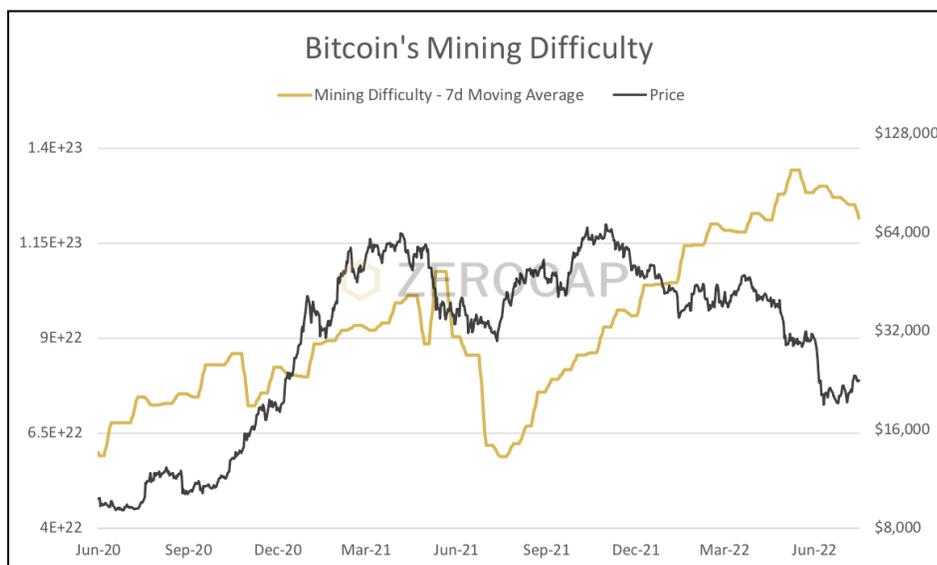
Data source: Tradingview

- The expected impact of macro newsflow on Bitcoin’s action is clearly depicted in Bitcoin’s at-the-money volatility term structure. Derivatives traders are pricing in heightened risk around the Fed’s interest rate decision that is scheduled for July 28th.



Data source: Skew

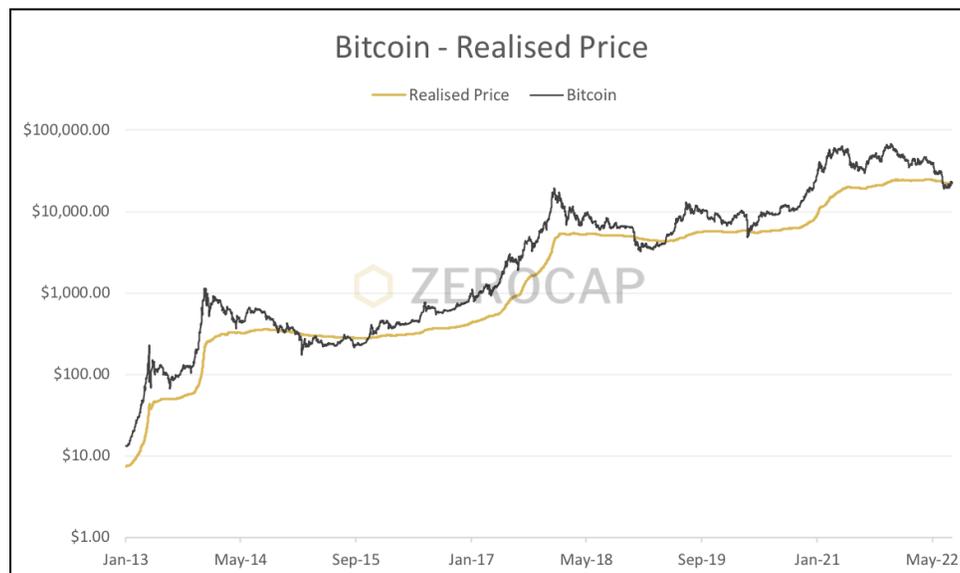
- What are often indicative of late-stage bear markets, signs of miner capitulation continue. This is reflected in a number of metrics such as Bitcoin's mining difficulty which is currently decreasing. Notably, this is the metric's most consistent decline since June 2021.





Data source: Glassnode

- Realised price is indicative of the average acquisition price or cost basis of Bitcoin's supply. Often, when BTC falls below its realised price a cyclical bottom is set. Historically, once BTC drops below its realised price and then climbs back above it has never returned to that bottom again. Recently, Bitcoin fell below and then subsequently rose above its realised price.



Data source: Glassnode

- This week markets witnessed some independence in Bitcoin's price action from that of equities. While this behaviour may not persist into the short-term, it forms precedence for further divergence as the Ethereum merge edges closer. Markets can expect some volatility in Bitcoin's short-term action in correspondence with this week's Fed interest rate decision in the US.



Ethereum



Data source: Tradingview

- Ethereum initiated this week's action with an immediate and clear break of topside resistance placed at 1,420, the 2018 bull run's high. Ethereum's action remained elevated albeit resistance at 1,600 and 1,650 acted to dampen WoW gains. In light of diminished liquidity conditions during the weekend's session, the 1,490 to 1,525 range provided firm support, indicating its relevance as short-term support. Ethereum set a 6-week high of 1,600 and returned 19.40% WoW.
- In the days following Ethereum's Merge date confirmation, the total crypto market capitalisation increased by over 15%. Given the inherent benefits and simmering anticipation associated with Ethereum's Merge, it is likely that ETH's price action will lead to short-term digital asset returns as well as provide the basis for further correlational breakdowns with equities.



ETHBTC Daily Chart

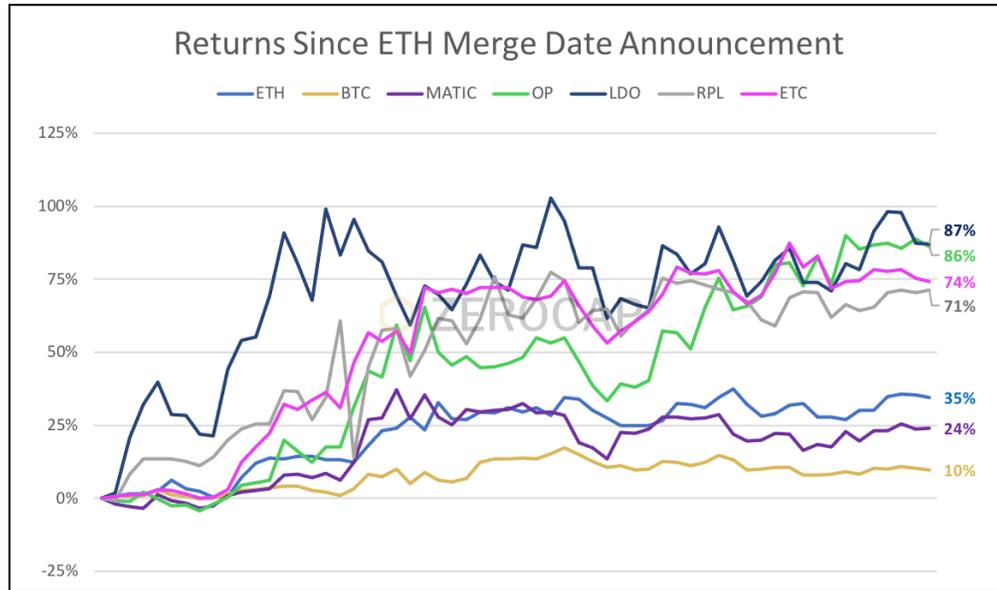


Data source: Tradingview

- Bolstered sentiment, off the back of Ethereum’s Merge date announcement, flowed into this week’s action and drove returns across digital assets. Given a heightened propensity toward risk-on, ETH/BTC pushed higher WoW. The 0.0707 level acted as topside resistance this week, with the 0.672 to 0.680 range acting as downside support during the weekend’s session.
- Looking closely at the effects of Ethereum’s merge date announcement, projects that are highly dependent on Ethereum’s success greatly benefitted from the news. Ethereum Layer 2 rollups such as Optimism posted impressive returns. Likewise, LIDO and RPL, the native tokens for leading Ethereum liquid staking platforms’, Lido and Rocketpool, posted notable returns. Notably, Ethereum Classic (ETC), a hard fork of Ethereum which intends to retain the PoW model, has gained off the back of recent

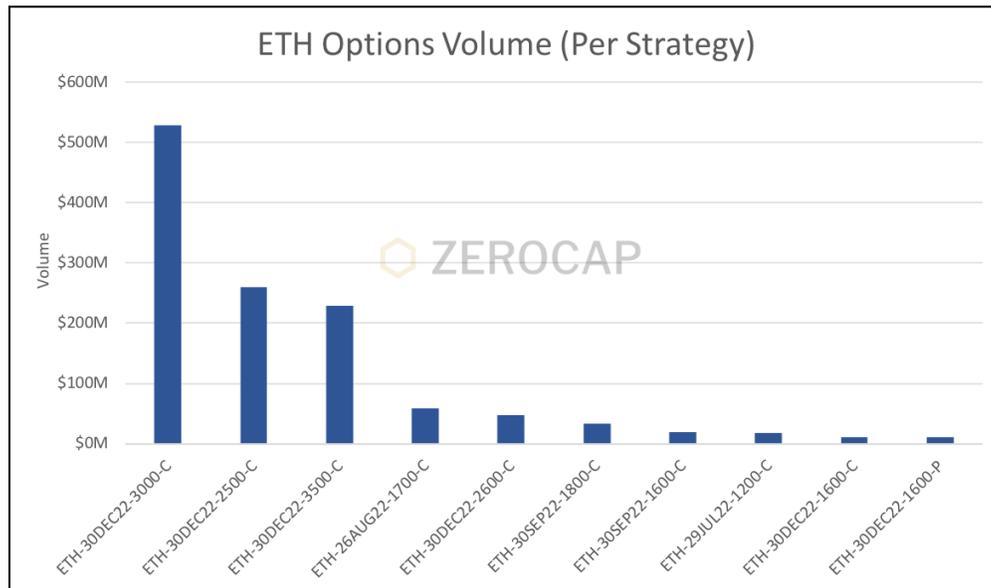


developments. This gain can be attributed to the expected transition of existing Ethereum miners to the classic fork.



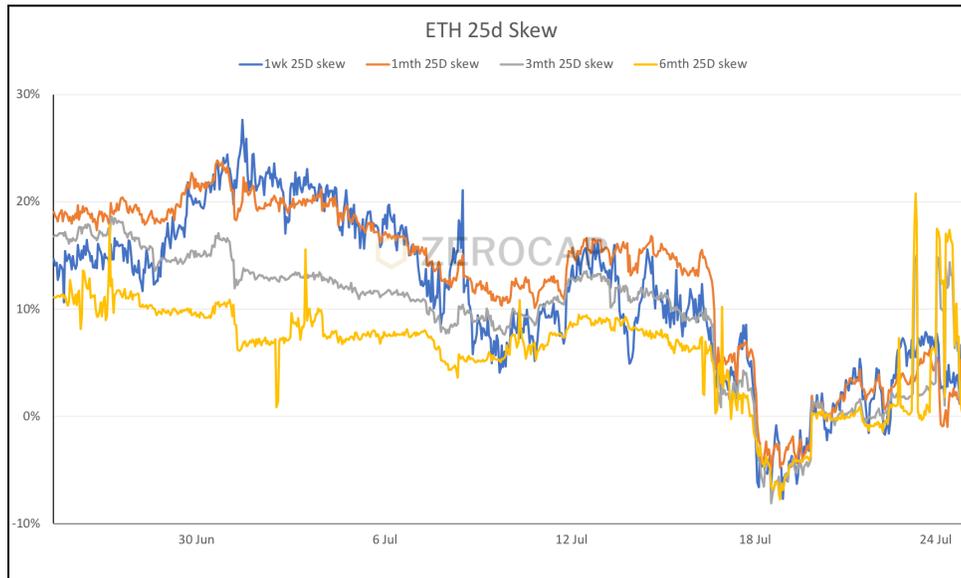
Data source: Trading View

- Last week, following the encouraging news regarding the merge, there was a clear preference for bullish bets on the upside. More specifically, in regard to the December 2022 expiry, call butterflies at the 2,500, 3,000 and 3,500 strikes were bought alongside 2,600/3,000 call spreads.



Data source: Laevitas

- These flows pushed longer-term 25d skews negative briefly before moderating towards neutral levels. As the demand for downside protection diminishes alongside liquidation risks, we may see negative skews repeat. This is particularly true if the spot price moves back towards the 2,000 level.



Data source: Skew

- Last week, we discussed the premise of how Ethereum is acting as the indicator for price appreciation across digital assets. This week, off the back of Ethereum’s merge date confirmation, this trend continued. While traders continue to move toward a favour for longer-term bullish bets on Ethereum, it is worthwhile noting that short-term action may be impeded by the persisting hawkish macro thematic.



DeFi

- The founder of Curve Finance, a decentralised exchange for stablecoins, has recently implied that a native stablecoin is in development. With this, Curve joins the list of DeFi protocols that are developing or have their own stablecoins. Already, AAVE, MakerDAO and more fall into this category. Though little information is available regarding the schematics of this token, it is known that the token will be over-collateralised. Hence, the stablecoin will be backed by excess collateral; the same design that is used by DAI.

Innovation

- At the Ethereum Community Conference this week, Polygon announced Polygon zkEVM, the first Ethereum-compatible scaling solution which effectively utilises zero-knowledge proofs. A zkEVM will be capable of significantly speeding up transactions and bringing down gas fees on the Ethereum Network. Moreover, Sandeep Nailwal, Co-Founder of Polygon, has expressed that he expects Polygon zkEVM to slice transaction fees by 90% compared to Ethereum. Currently, Polygon predicts that Polygon zkEVM's mainnet will go live in 2023. Two types of rollups exist, optimistic rollups and zero-knowledge rollups. Already, optimistic rollups are EVM-compatible, while most in the community expected that a fully featured ZK-rollup which could accommodate Ethereum smart contracts were over a year away.
- Decentralised music platform, Audius, recently endured a proposal exploit which resulted in the loss of \$6.1 million USD worth of AUDIO tokens from the protocol's treasury. A malicious proposal that requested the transfer of 18 million AUDIO tokens under the guise of benefiting the protocol was approved by the community. These stolen tokens were dumped and sold for \$1.08 million USD, sparking maximum slippage. Nonetheless, investors participated in an immediate buyback to prevent other holders from dumping their tokens too.



NFTs & Metaverse

- Microsoft's Minecraft will be banning NFTs on servers and additional NFTs that utilise the game's assets or designs. Contending that NFTs obtain their value purely based on an exclusive scarcity model, the Minecraft team will prohibit blockchain technology on independent game servers. This way, Minecraft players will have a "safe and inclusive experience" ([Minecraft's Article](#)). Subsequently, the founder of Epic Games expressed his support for NFTs and blockchain technology. With the recent announcement of Epic Games' first blockchain game, Gala, the company's perspective on cryptocurrencies has seemingly shifted. Epic Games has explained that disallowing blockchain limits developers who will no longer be free to build games independently.

What to Watch

- Federal Reserve's FOMC Press Conference, on Wednesday - future hikes to be discussed.
- US' preliminary GDP - is the country edging closer to an actual recession?

Announcements & Insights

- **Zerocap is now available on the Bloomberg Terminal:**

Find original research, insights and thought leadership features on the leading financial data software of the past 40 years.

- [Bitcoin and Ethereum: The Market Leaders:](#)



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More than 18,000 cryptocurrencies exist, with numerous projects that possess similarities to both Bitcoin and Ethereum. This begs the question; why are Bitcoin and Ethereum the market leaders?

In this article, Zerocap trader Joe Wilson provides a thorough breakdown of what makes the two leading cryptocurrencies special.

- [Wholesale Investor's "Hunt for Yield" panel session - Sydney July 25, 26 and 27th:](#)

Where do we find yield? What resources across asset classes present the best opportunities for investors?

Join Zerocap Treasurer William Fong in the "Hunt for Yield" panel session for Wholesale Investor, where these questions are answered and coupled with actionable insights for your respective portfolios.



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



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