



# ZEROCAP

## Weekly Crypto Market Wrap

8 August 2022 – 14 August 2022

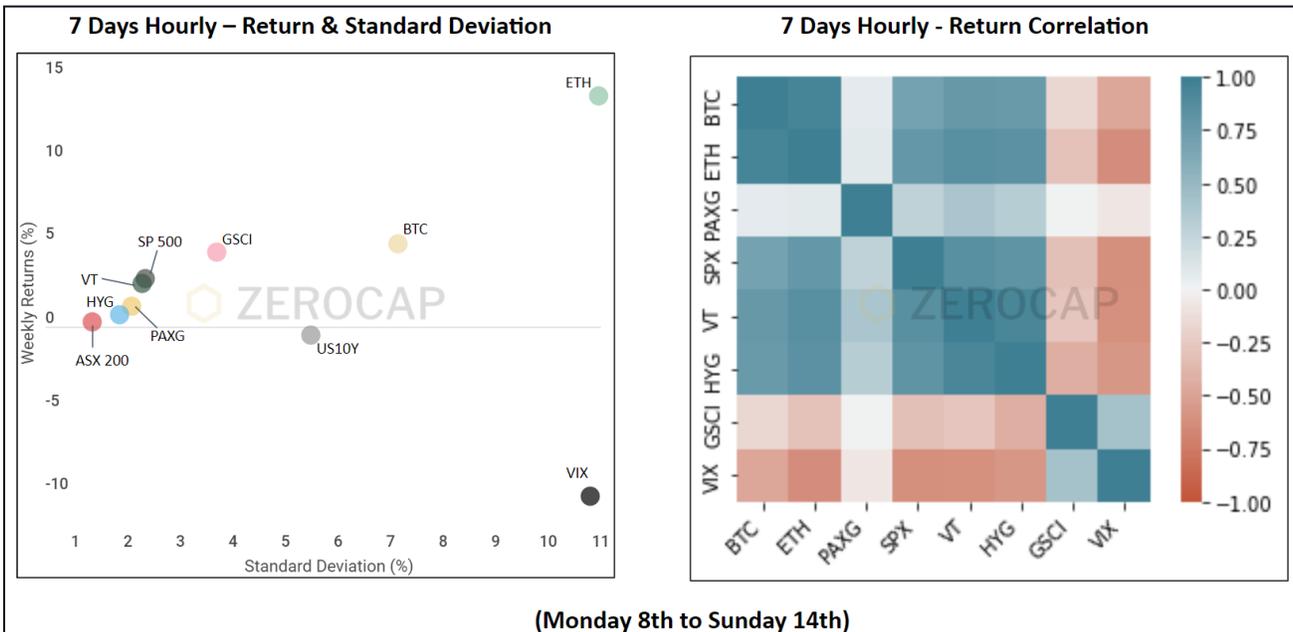
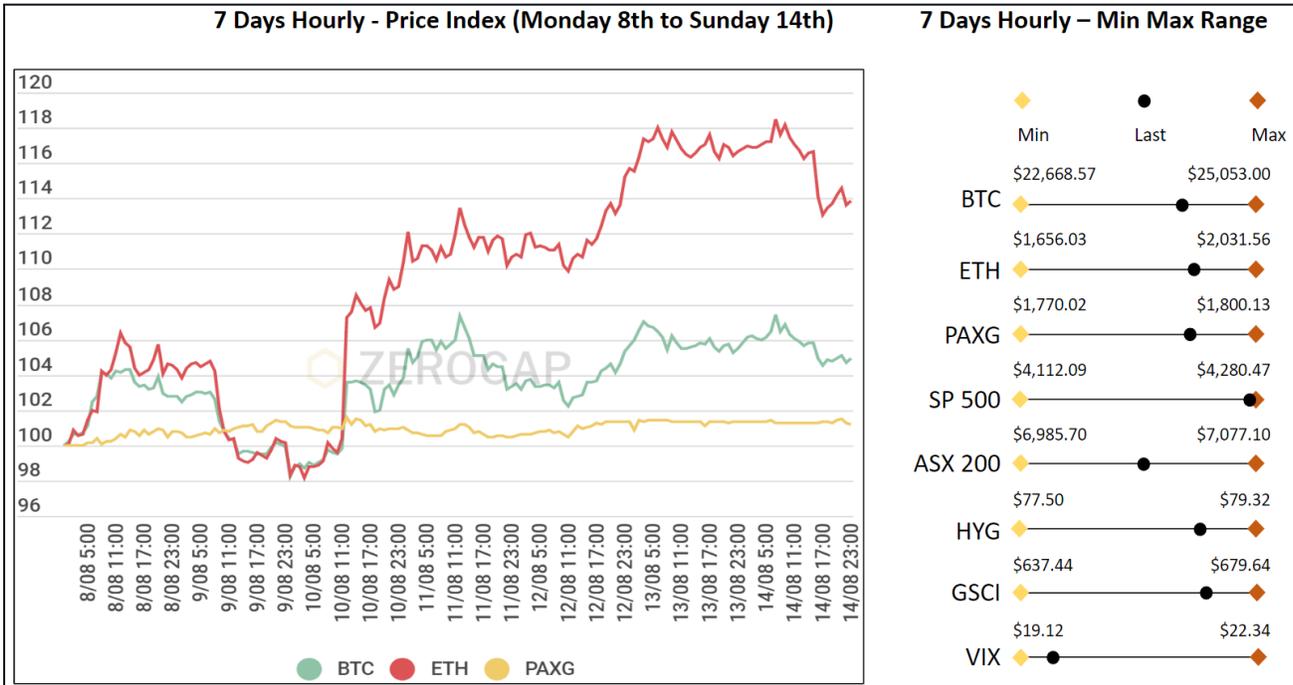
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### Week in Review

- Final test for Ethereum's [Merge update](#) is successful - scheduled for 15th September.
- [BlackRock](#) launches Bitcoin private trust, providing exposure to spot BTC.
- Institutional inflows flock to ETH for 7 straight weeks as Merge nears; [CoinShares](#) report - Bitcoin global market cap dominance hits [6-month lows](#).
- US [SEC and CFTC](#) propose joining forces in crypto exposure rules for large hedge funds.
- [Reserve Bank of Australia](#) to explore CBDC uses in year-long cooperative research pilot.
- [Deloitte](#) releases report on blockchain uses for commercial real estate.
- Brazilian payments giant [Picpay](#) launches crypto exchange with Paxos partnership.
- US sanctions "crypto mixer" project [Tornado Cash](#) following alleged ties to North Korea laundering - suspect developer [arrested](#) in the Netherlands.
- [Robinhood](#) facing market manipulation lawsuit over GME/AMC 2021 "meme stocks" rally.
- [FTX](#) partners with Reddit to roll out tokenised "community points" used in subreddits.
- [Coinbase](#) reports \$1.1B loss in Q2, [S&P](#) downgrades its credit rating.
- [US CPI for July](#) register 8.5% increase, below expectations as inflationary pressure eases - [consumer sentiment](#) rises to three-month high.
- [UK's GDP](#) shrinks by 0.1% over second quarter of 2022.



### Winners & Losers





### Macro Environment

- Wednesday saw markets rally across the board following a better-than-expected United States (US) CPI print. US CPI remained unchanged in July at an 8.5% headline rate (5.9% less energy and food). Markets were optimistic, despite US FED speakers remaining hawkish, re-affirming their commitment to a 2% inflation target. The softer CPI print saw the S&P 500 retrace to levels not seen since May's sell-off, the VIX down below 20. Swaps at the time of writing, are pricing in a lesser +50 basis point (bps) hike in September.
- Corresponding with Wednesday's CPI print was an expected fall in the DXY, reaching as low as \$104.636, markets toying with the idea of a decreased pace in monetary tightening. The USD depreciated against the majority of its G10 peers; AUD/USD paired up at \$0.71 and USD/JPY back below ¥133. Front-end US Treasury yields (UST) fell significantly over the session, with 2 Year UST's contracting almost 20bps to 3.07%.
- Rising inflation, political tensions and energy prices have led Saxobanks' Christopher Dembik to compare the United Kingdom to an emerging economy, one of the only differentiators being a strong sterling. This statement comes after last week's announcement by the Bank of England estimating the UK will enter into recession in Q4 this year.
- Many emerging markets have seen a steep depreciation in their local currencies, coming hand in hand with a strong dollar and even stronger inflationary pressures. Many market participants in Chile have fled to USD stablecoins to hedge inflationary pressures, and the relative depreciation of the Peso. According to a CoinDesk report, Latin American cryptocurrency exchange CryptoMarket has seen a "50% increase in purchases of \$USDT and \$USDC" during the second quarter.
- Singaporean crypto lending platform Hodlnaut froze withdrawals on Monday, attributing its duress to strenuous market conditions. Hodlnaut later revealed its intention to declare bankruptcy, in the cancellation of its application for a digital payment token licence, submitted to the monetary authority of Singapore earlier in the year.



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- The Reserve Bank of Australia has unveiled its plans to pilot a “limited-scale CBDC,” operating in a “ring-fenced” test environment. This project will take place over a year-long period, in partnership with the Digital Finance Cooperative Research Centre (DFCRC).
- US manufacturing of semiconductor chips will see a \$52 billion inflow of funding via the CHIPS and Science Act signed earlier in the week. The bill aimed to promote onshore manufacturing and production, has been labelled as emergency spending, and should see Intel factories in Arizona and Ohio receive a significant funding boost.
- Coinbase has, according to Refinitiv, missed its Q2 revenue target by over \$23.9 million. Coinbase’s stock fell 75% over the quarter, corresponding to the enduring crypto winter.
- Ukraine, Czech Republic, and Hungary were amongst a number of nations having their Russian Crude Oil flow halted, due to sanctioned payment fees.
- On Thursday, the US Securities and Exchange Commission (SEC) and US Commodity Futures Trading Commission (CTFC) collectively agreed to a joint rule on more stringent reporting requirements for large hedge funds with cryptocurrency exposure. This new ruling requires Hedge funds with more than \$500million in net assets to report crypto holdings via confidential filing.
- It was a great week for commodities: WTI and Brent were up 4.06% and 3.77% WoW, and Gold reached a weekly high of \$1,807.93. Copper, an outperformer 3.28% improvement WoW. Copper rose to a six-week high, analysts suspecting market optimism surrounding better-than-expected data released by the US and China over the week.

## Technicals & Order Flow

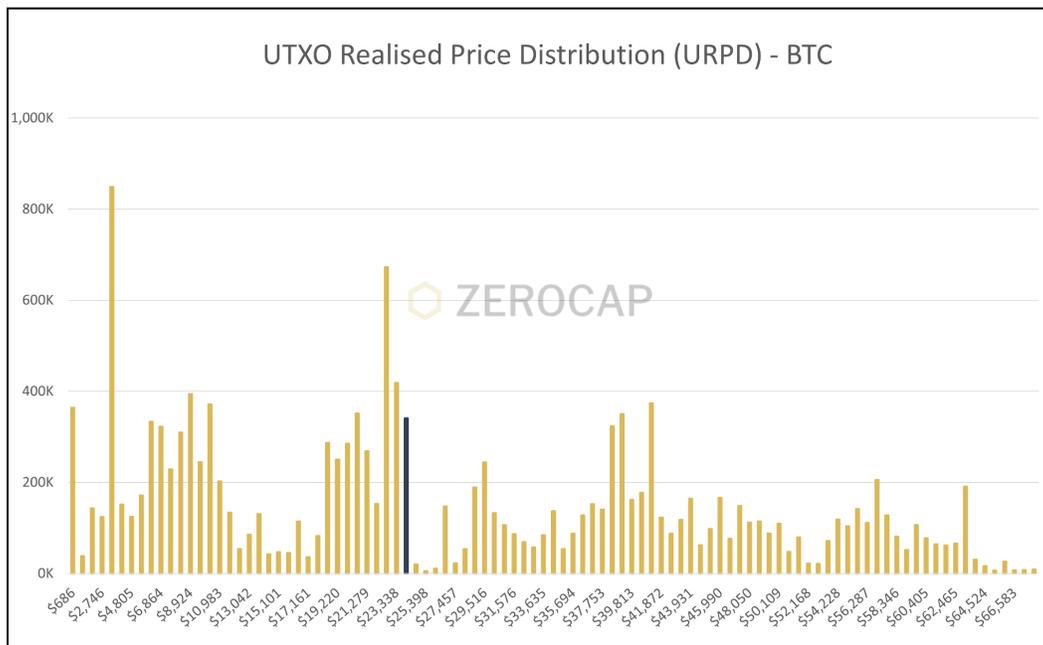
### Bitcoin



- This week, Bitcoin promptly broke 23,300 and went on to retest topside resistance at the 24,200 level. Mid-week de-risking pushed prices lower toward the 22,600 support, marking weekly lows at 22,668. However, sentiment turned in favour of the bulls and the price pushed upward into the weekend session with the 24,800-level acting as topside resistance. We are pressing against 25,400, the last significant level - a break here could make a technical push toward 28,000 - filling the gap from the May down move. Bitcoin closed 4.93% WoW.
- As investors eagerly awaited CPI data of the US, some de-risking took place. Sell-offs in equities prompted similar behaviour in crypto with Bitcoin edging lower into Wednesday's print. The lower-than-expected print provided a clearer picture of the policy path and spurred the concept of peaked US inflation, allowing Bitcoin to push higher in the later parts of the week.

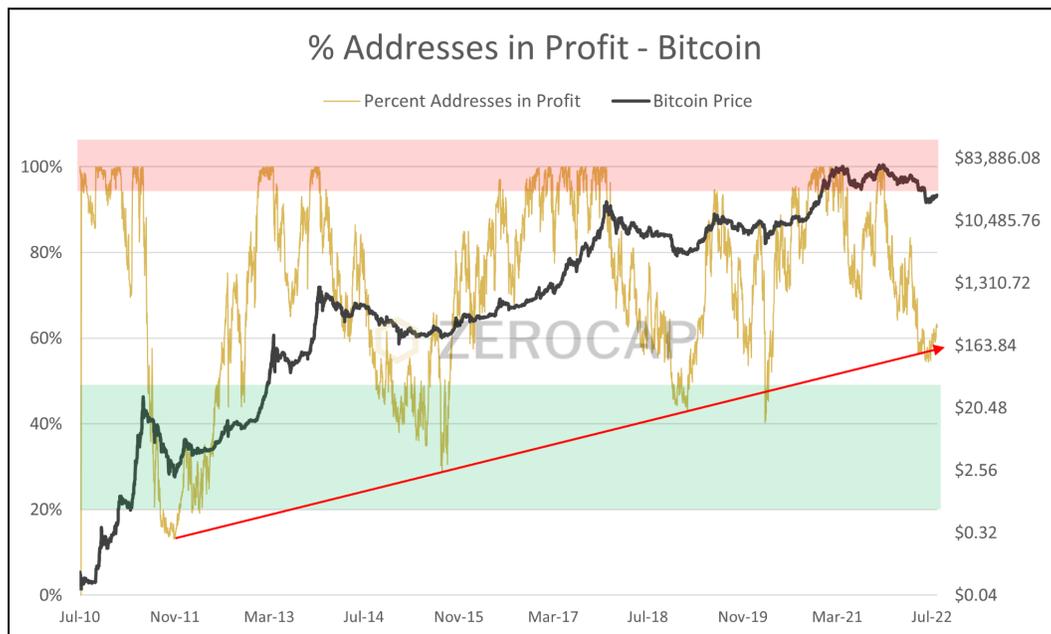


- News broke that BlackRock Inc (10T AUM), who recently partnered with Coinbase to facilitate access to cryptocurrencies, is now also offering a private Bitcoin trust that directly tracks the price of Bitcoin. In tandem with the already bolstered policy outlook, Bitcoin edged higher into the weekend.
- The URPD metric depicts the number of existing Bitcoins that have moved within a specific price bucket. The metric is useful in identifying support levels. Volumes continue to change hands within the 21,000 - 24,000 range which serves as growing downside support.



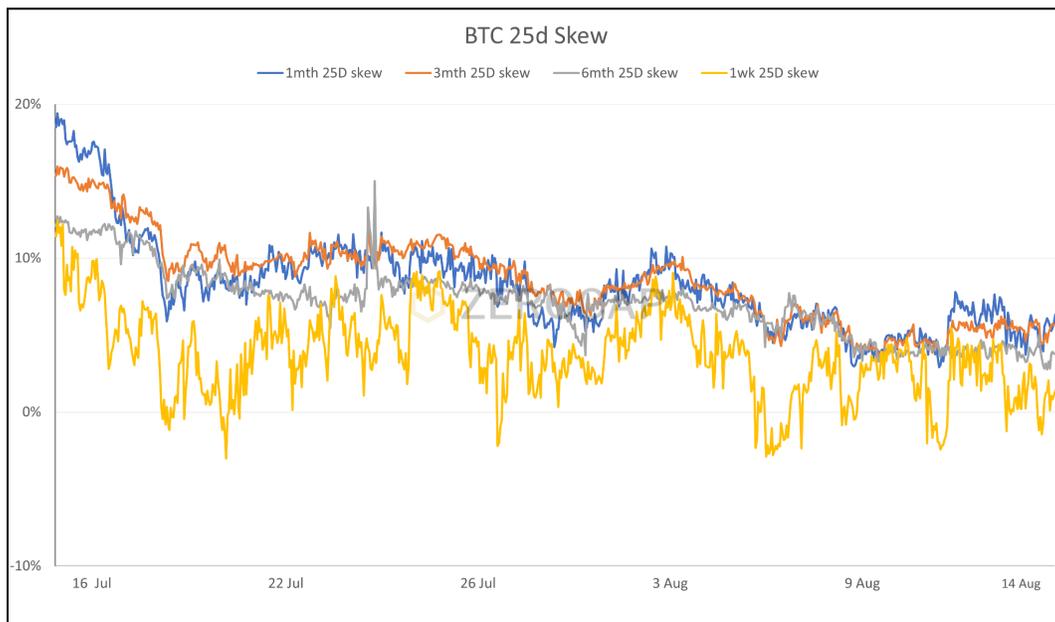
Data source: Glassnode

- Percent addresses in profit is a metric that is often used to time market cycles. The metric is clearly showing significant support for buoyancy here in price, although keep in mind that macro factors will trump this if we get more inflation scares on upcoming prints or geopolitical risk.



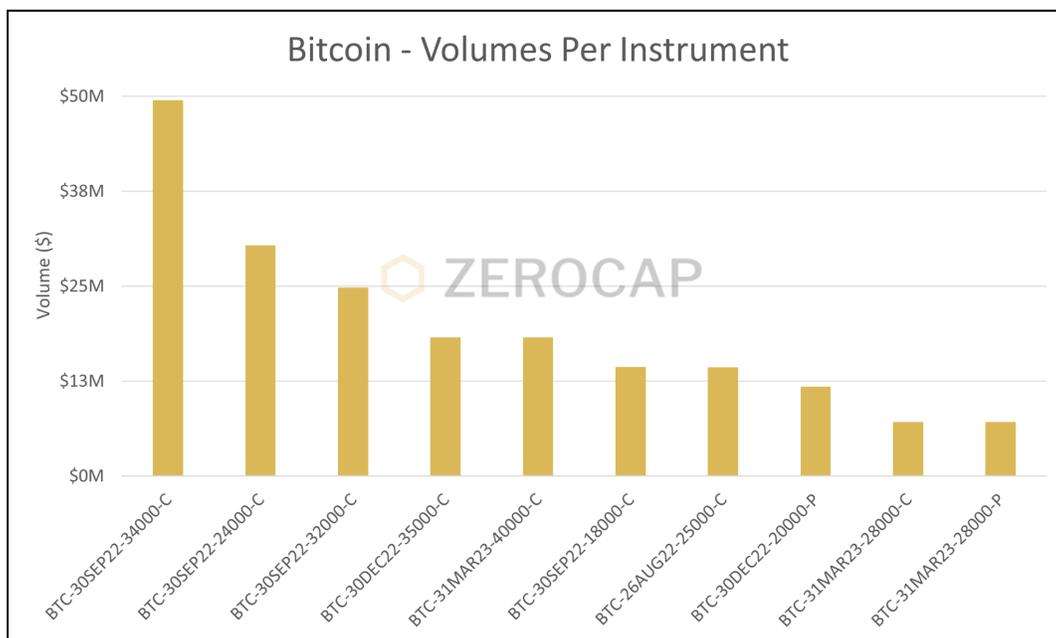
Data source: Glassnode

- Bitcoin's skew depicts the difference in implied volatility of 25d puts and calls. Since the collapse of Celsius and Three Arrows Capital, Bitcoin's skew has been diminishing, indicative of a growing preference for bullish plays.



Data source: Skew

- This narrative is reaffirmed when looking at the most popular strategies traded this week. Traders are forming call option plays, centred around Ethereum’s merge scheduled for 15th September, 2022.





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*Data source: Laevidas*

- Last week's action depicted an underlying sense of indecisiveness. This week, with greater clarity regarding the inflationary context, action favoured the upside. There is growing downside support and a preference for bullish plays. However, given Bitcoin's clear reliance on the macroeconomic narrative, markets may endure some heightened volatility around this coming week's FOMC minutes.



### Ethereum



Data source: Tradingview

- Ethereum rallied higher WoW, signifying six straight weeks of price gains. CPI figures on Wednesday coming in lower than expected fuelled an 8.31% upside move in the hours following its release. This momentum continued into the weekend, breaking above resistance at \$1,900, before briefly touching the \$2,000 handle on Saturday. Since June, we’ve witnessed an unreal rally against the broader market backdrop. Given this rally and strong overhead resistance, we may see some profit taking in the near term. Ethereum ended the week at \$1,935 representing a 13.85% gain WoW.
- The Goerli testnet was successfully merged on Thursday, defining the final testnet on Ethereum to merge to a PoS model. The simulation’s success provides Ethereum’s participants with confidence in Ethereum’s actual merge to PoS. Given the Merge’s updated soft date of September 15th, participants continue to price in the likelihood of a



delayed merge event. At present, the options market is pricing in a 25% chance the merge occurs in September.

### ETHBTC Daily Chart

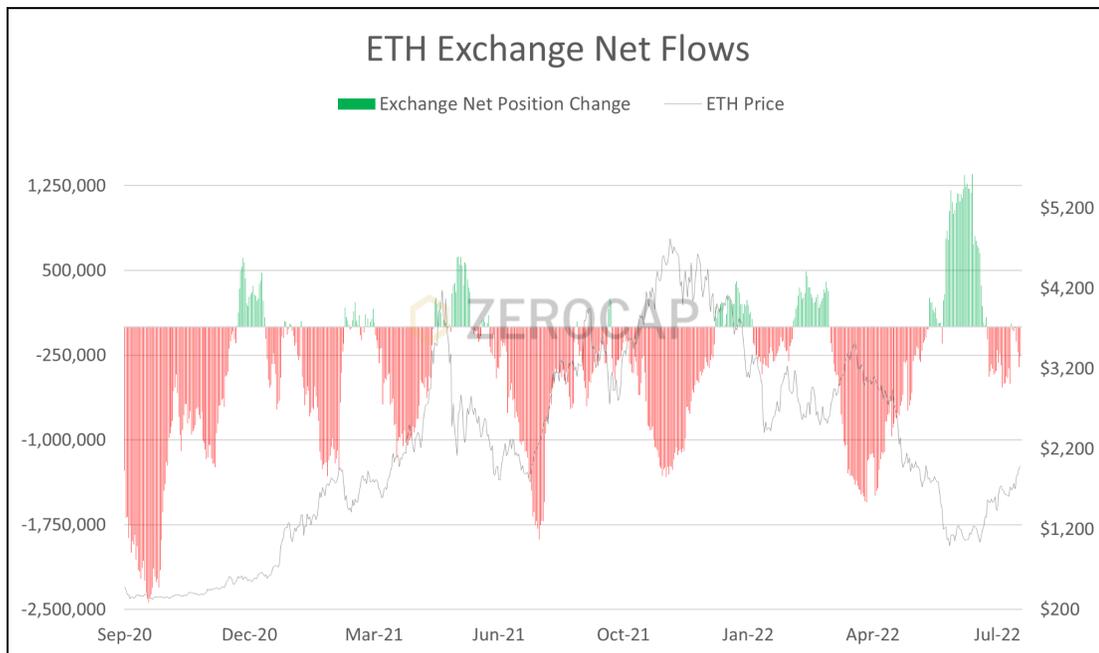


Data source: Tradingview

- Market sentiment and recent price action can be accurately depicted by the ETH/BTC pair. Since the May lows, which were characterised by the Luna crash, Ethereum has outperformed Bitcoin by 60%. The pair has historically shown similar price behaviour during 2017 and 2021 where we have seen Ethereum greatly outperform BTC. With the developing strength in Ether, the merge is shaping up as the event that could propel Ethereum to all-time highs relative to Bitcoin should it arrive on time.
- Ethereum held on exchanges currently reflects relatively limited spot buying and selling. The added focus has been placed on the ETHW fork, a software fork to maintain a Proof-of-Work version of the protocol. This has contributed to growth in speculative bets



wagered via derivative markets. Moreover, the recent price action appears to be less driven by spot buyers than in recent rallies. In the 30-Dec Ethereum future, we see the contract currently trading at 1.37% discount to spot.

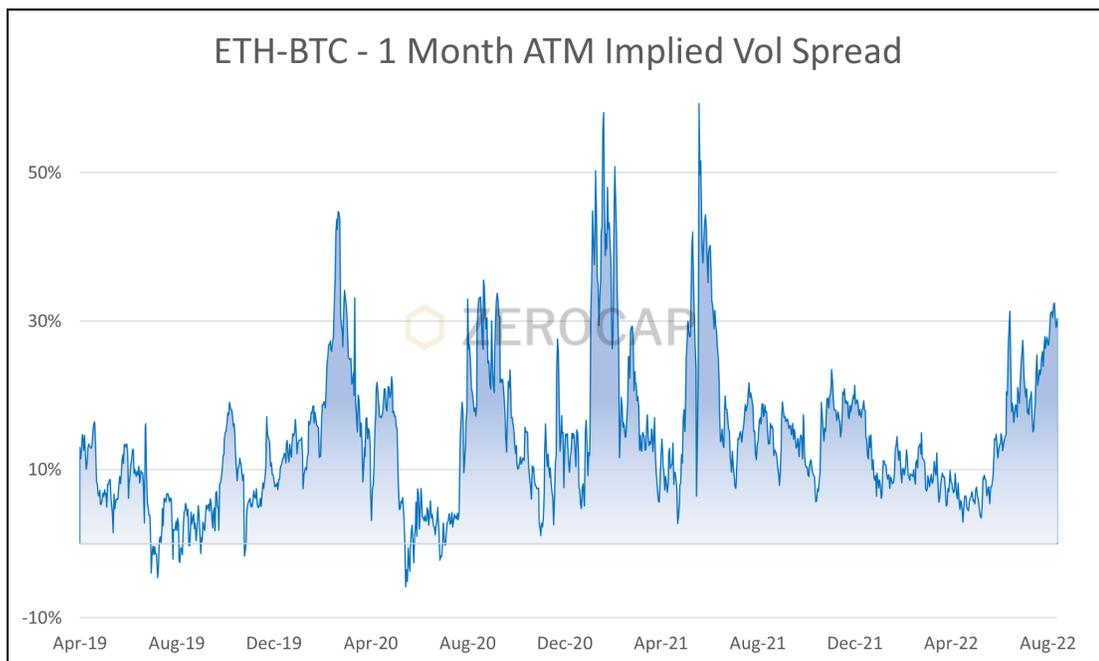


Data source: Glassnode

- As the merge grows closer, it is likely that the Ethereum network will see miners start to employ more aggressive front-running strategies to increase their maximal extractable value (MEV). Already, the cumulative MEV is sitting at \$673.1 million USD according to Flashbots. Nonetheless, as miners become increasingly interested in extracting as much value from users transacting on Ethereum before the shift to proof of stake, this value is primed to rise. As a result, the possibility of gas fees significantly increasing emerges as miners compete to obtain MEV. Concurrently, with this increased competition, total fees wasted on failed MEV transactions will likely proportionately rise.



- In options, we see the ETH/BTC 1m ATM implied volatility spread rising to its highest level in 2022. The implied volatility spread reflects the premium of an at-the-money Ethereum option relative to Bitcoin. Uncertainty surrounding the merge had elevated IV around dates priced around September, and we now see further elevation in December as the options market prices in the POW fork.



Data source: Skew

- Ethereum displayed no signs of slowing this week. Lower than anticipated inflation figures contributed to a strong rally in Crypto and Ethereum. Ethereum currently hovers at levels we last saw in May 2022 before the collapse of Luna. Open interest and trade flows in derivatives continue to increase and drive price action. It is expected to see this persist leading into the merge date as participants focus on unique payoff structures in the options market.



### Altcoins

- Decentralised finance platform, Kujira, has announced its plans to build a decentralised stablecoin, USK. Unlike other algorithmic stablecoins, USK will be independent of centralised authorities that issue stablecoins like USDT or USDC. Accordingly, USK will be overcollateralised with ATOM and, at a later date, Kujira's native token, KUJI. This stablecoin will likely be crucial in the creation of Kujira's next liquidation platform. Unlike the platform built on the Terra blockchain, this iteration of the Kujira platform will rely on USK, rather than UST.

### DeFi

- The US Treasury Department recently barred the use of Tornado Cash by US citizens. Tornado Cash is a popular crypto-mixing protocol, giving users the ability to hide the history of their tokens. Through this, individuals can transact without fearing all their previous transactions being traceable due to the transparent nature of the blockchain. The Office of Foreign Assets Control (OFAC) added Tornado Cash to its Specially Designated Nationals (SDN) list. As a result, no American entity or individual can interact with Tornado Cash or associated wallet addresses. Following the sanctioning of this protocol, Circle has blacklisted the specified mixer addresses, freezing an estimated 75k USDC. Moreover, Github removed Tornado Cash's open-sourced page.
- The US Treasury's sanctioning of Tornado Cash has seen DeFi protocols banning wallets that have interacted with the mixer platform. These protocols include Aave, Uniswap, Balancer, dYdX and more. To determine which addresses should be banned, most platforms use a centralised dataset created by TRM labs. Leveraging this, individuals have been sending 0.1 ETH from Tornado Cash to well-known wallets. Due to this, many non-US citizens have been banned from these platforms, risking a ripple effect and downward pressure on the wider market. Fortunately, most DeFi protocols have taken a proactive approach in unbanning these wallet addresses.



- With the growing risk of negative regulation from government authorities, fear around MakerDAO's DAI has begun spreading. These concerns relate to the possibility of Circle blacklisting DAI smart contract addresses. Responding to this risk, MakerDAO co-founder, Rune Christensen, has announced his plans to sell almost \$3.5 billion USD backing DAI for ETH. Notably, due to the severe reliance on USDC, DAI has become known as 'wrapped USDC'. Given there is \$6.8 billion DAI in circulation, an implosion of this stablecoin due to Circle's actions could have widespread impacts on the DeFi ecosystem.
- Reports have come out unveiling how Solana's Total Value Locked (TVL) figures were inflated by an individual creating numerous fake developer personas. Ian Macalinao, the creator of Solana's Saber stablecoin, was discovered to have additionally been involved in the Sunny DeFi staking platform, Cashio, Quarry, TribecaDAO and more. By linking these protocols together with value, Macalinao made it appear there were billions of extra dollars in Solana's TVL. In fact, the developer stated that his strategies led to the protocols he was involved in making up \$7.5 billion USD of Solana's \$10.5 billion USD TVL at its peak.
- Polkadot stablecoin, aUSD, has lost its \$1 USD peg after exploiters leveraged a bug in the token's underlying protocol, Acala Network. The popular DeFi protocol was subject to a misconfiguration bug in its new iBTC/aUSD liquidity pool - which had gone live that day. As a result, attackers printed 1.2 billion aUSD on the Acala network. Upon the announcement of this exploit, aUSD depegged. After reaching a low of \$0.57 USD, aUSD has regained some of its value, currently oscillating between \$0.88 USD and \$0.95 USD.

## Innovation

- Reddit has partnered with FTX to tokenize its Community Points as Arbitrum-based tokens. This announcement reflects positively on the popular layer-two network as it was chosen after the launch of Arbitrum Nova - its most significant upgrade since launch. According to Offchain Labs, the company behind Arbitrum, Reddit selected the network after it bested other Ethereum L2 in a competition named "The Great Reddit



Scaling Bake-Off". Furthermore, Reddit will utilise FTX Pay for users with insufficient ETH to pay the gas fees for minting the Community Tokens. Reddit's Community Points will first be made available on the r/CryptoCurrency and r/Fortnite subreddits.

- Gitcoin, a team focused on funding public goods through its grants and the GitcoinDAO, will be releasing a decentralised passport. This passport is poised to act as an individual's online identity. Gitcoin explained that Web3 faces a crisis of trust with accurate voting mechanisms, communal funding and distribution of tokens to unique users is becoming increasingly challenging. Moreover, Gitcoin was incentivised by its use of quadratic funding for providing grants. This funding model works by giving more weight to the number of donors rather than the total donated. As such, the project is highly susceptible to sybil attacks. A digital passport, acting as proof of personhood, can resolve this problem.

### NFTs & Metaverse

- Attempting to placate the community's anger around OpenSea allowing for the sale of stolen NFTs that have been reported, the marketplace announced its solution. OpenSea's policy change stipulates that police reports will now be used to confirm all stolen item reports on the platform. Accordingly, after an item has been reported, if there is no police report provided within 7 days, the platform will re-enable the buying and selling of the NFT. In this sense, OpenSea's approach to dealing with reportedly stolen items is changing with consideration of US law. Beyond the announcement, OpenSea outlined that it will be working on automating threat and theft detection with AI.
- In celebration of International Friendship Day, Coca-Cola has launched its newest NFT collection. Powered by composable smart contracts on the Polygon blockchain, Coca-Cola's NFTs are generative and shareable. These collectibles utilise a unique share-to-reveal feature where each NFT will only be visible once shared with a friend. With this collection, Coca-Cola has now created more than 4k digital collectibles. Most of which have been limited-edition NFTs commemorating different events.



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## What to Watch

- Australia's monetary policy meeting minutes, on Monday.
- Canada's CPI, on Tuesday.
- FED's FOMC Meeting Minutes, on Wednesday - potential positive outlook coming from the Reserve following CPI results?



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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