



ZEROCAP

Weekly Crypto Market Wrap

15 August 2022 – 21 August 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

Week in Review

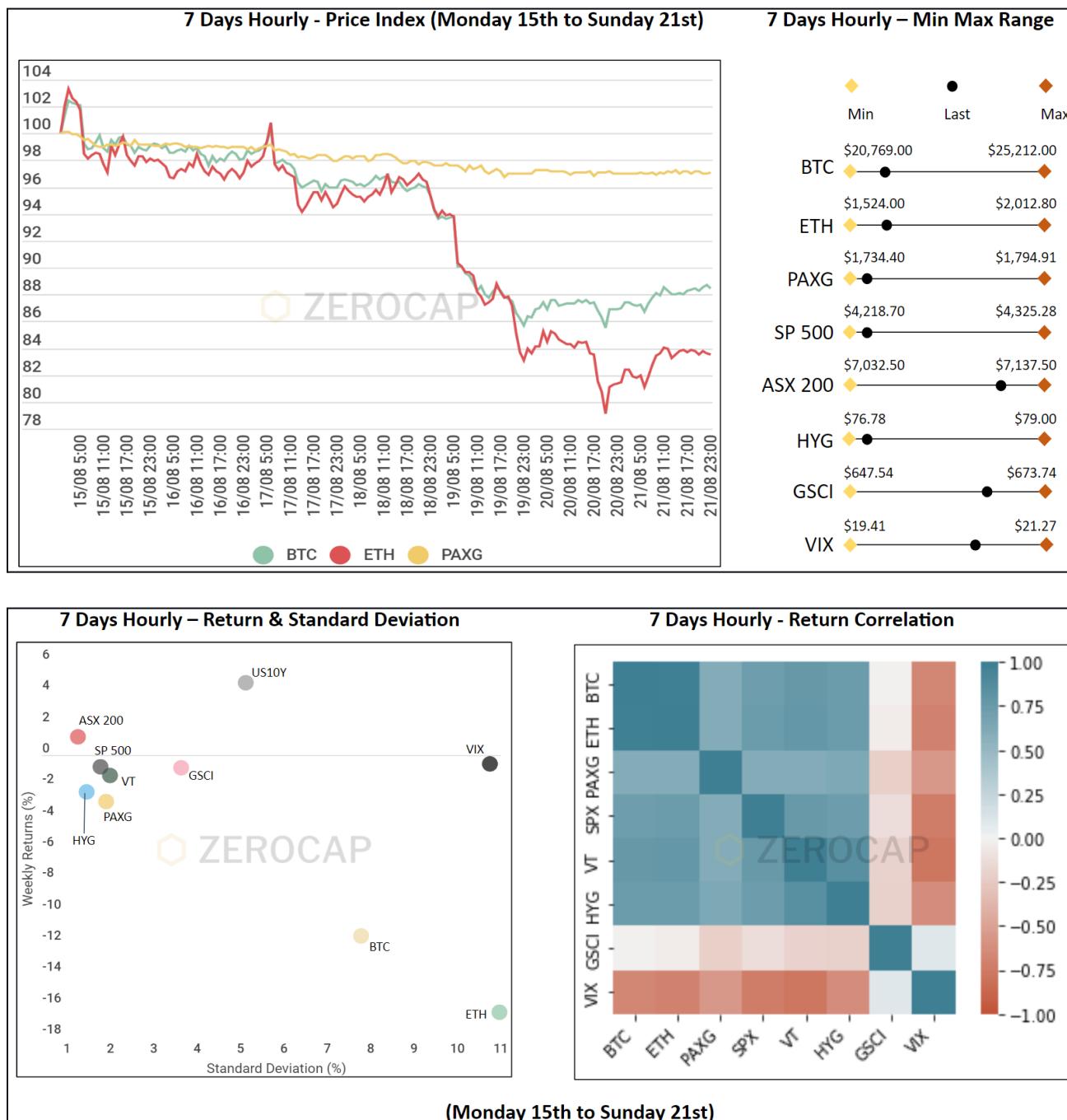
- [Australian Securities Exchange](#) (ASX) pilots blockchain settlement scheme with Zerocap to bring institutional-grade custody and tokenisation to digital assets.
- [FOMC](#) Meeting Minutes - US Reserve expects smaller hikes ahead as inflation cools off.
- [FED](#) issues guidelines for crypto banks to enter central banking system.
- [US FDIC](#) sends cease and desist orders to five crypto companies, including FTX, over misleading insurance statements to consumers.
- Ethereum Foundation clarifies [Merge](#) will not reduce gas fees - update is set to reduce network's energy consumption by 99.95%.
- [Galaxy Digital](#) terminates BitGo acquisition, citing breach of contract - BitGo sues for \$100 million in damages for terminated acquisition.
- “I, and I alone, am responsible.” - Terra (LUNA) founder [Do Kwon](#) has first interview since crash, [lawyers up](#) ahead of South Korean investigation.
- After a month-long rally of the CEL crypto coin, despite recent its bankruptcy, latest [Celsius](#)' report shows a balance gap of \$2.85 billion.
- [Coinbase](#) to benefit from Merge as clients get rewards from staking ETH - JPMorgan.
- Crypto scams fall by 65% in 2022 - [Chainalysis report](#).
- [Euro zone](#) inflation hits all-time high, [UK](#) has double-digits for the first time in 40 years - Reserve Bank of [Australia](#) (RBA) signals more half-point hikes as inflation fears grow.



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Winners & Losers



(Monday 15th to Sunday 21st)

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Macro Environment

- The United States (US) Federal Reserve revealed on Monday that it is approaching the final stages of publishing its “final guidance” on applications offering “master accounts” access to “novel” financial institutions. The much-anticipated guidance should see the US Fed grant account access via a tiered applicant framework, with Wyoming special purpose depository institutions such as cryptocurrency bank and exchange: Kraken potentially falling within scope. This move presents an exciting development for crypto custodian banks pushing to gain access in order to mitigate their dependence on banking intermediaries, allowing them to engage directly with the global payments ecosystem.
- Mere weeks after Nancy Pelosi’s controversial visit to Taiwan, an unannounced US bipartisan delegation headed by senator Ed Markey arrived in Taiwan on Sunday. The congressional delegation, charged with bolstering US-Taiwan relations, affirmed its commitment to “peace and partnership.”
- Crypto exchange FTX-US, along with five other crypto deposit-taking institutions, were issued cease and desist warnings last Friday. These warnings were issued following misleading information on Federal Deposit Insurance Corp (FDIC) insurance on digital assets. FTX US’s president Brett Harrison took to Twitter shortly after, clarifying FTX US’s offering of FDIC insurance only covered “USD deposits from employers” that were held at partnered FDIC-insured banking institutions.
- China, citing ongoing Covid restrictions, rising real estate debt crisis, and a “challenging international environment,” fell short of its estimated retail sales growth forecast of 5% posting growth of 2.7%. Industrial production also fell short of estimates by 3.8%, however, was also down 0.1% on June’s numbers.
- Upon release of the United Kingdom’s (UK) shock 40-year high CPI print of 10.1%, 2-year gilt yields rallied 0.3% to 2.45% on Wednesday. Money markets are now pricing in a terminal central bank interest rate of 2.05% vs previous expectations of 1.67% in May 2023.



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- Troubled crypto lender Celsius, previously known for operating one of the largest mining operations in the US, has revealed a projected decline in fund liquidity of up to 80% over the next three months in a recent update to its ongoing chapter 11 bankruptcy filing. Analysts are now estimating the firm will be bankrupt by October, with negative cash flow totalling in excess of \$137.2 million.
- Tiff Macklem, the 10th governor for the Bank of Canada, expressed his bearish market sentiment in the National Post on Tuesday. Macklem exclaimed that while inflation seems to have plateaued it “will likely remain too high for some time.”
- Commodities fluctuated avidly over the week - GOLD losing as much as -2.97% WoW dropping below \$1750 while Copper was more resilient down -0.12% at week-end. Increased hopes surrounding the revival of European-Iranian nuclear talks saw Oil trickle lower through the week. Markets were tempering their optimism, with the potential for a surge in Oil supply resulting from decreased oil sanctions. BRENT bottomed out with a 6-month low of \$91.078, WTI also trading as low as \$85.347.
- The dollar rallied in excess of 2.29% WoW. The US Fed again, reinforced its hawkish view on interest rates, ensuring they will meet a 2% inflation target, despite the looming risk of an extended recession. The USD/JPY pair broke back above ¥137, the EUR/USD edging close towards parity at \$1.003.

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Technicals & Order Flow

Bitcoin



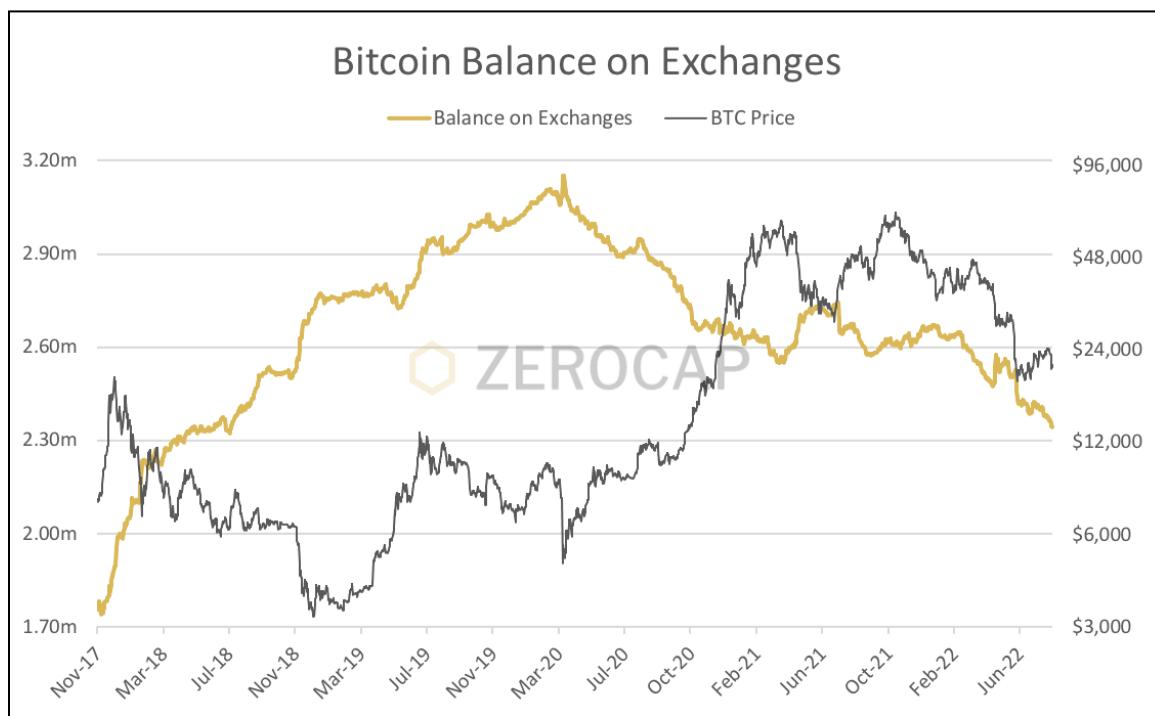
- Bitcoin entered the week pushing higher and above the 100-Day Moving Average to mark highs of 25,212. However, a sharp turn in sentiment saw Bitcoin break lower out of the bearish flag pattern drawn from July's lows and downside support at 23,300/400. Long liquidations exaggerated the push lower until support at 20,760 proved to halt bearish momentum. Price consolidated within the 20,760 and 21,600 range before closing -11.55% WoW.
- Bitcoin's action tapered off following the release of weak economic data out of the US and as investors prepared for the Fed's FOMC minutes on Thursday. The NY Fed Empire State index printed -31.5 vs. a 5.0 estimate, indicating a reduction in manufacturing activity. Surges in cotton prices following a significant crop estimate cut by the USDA further fueled the inflation debate, with Biden's signing of the \$430 billion inflation reduction act, ultimately furthering hawkish expectations.
- The Fed's FOMC minutes affirmed participant's fears by suggesting the certainty of future hikes. Consequently, the price edged downward and a break below 23,300

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initiated a spiral of long liquidations. On the 19th of August, BTC's long liquidations reached a two-month high.

- In light of this week's bearish action, we continue to see players pull Bitcoin from exchanges. Notably, this metric is the lowest it has been since July 2018 and is indicative of continued and significant accumulation, but also some risk reduction plays on the back of counterparty induced from the [Three Arrows Capital saga](#).

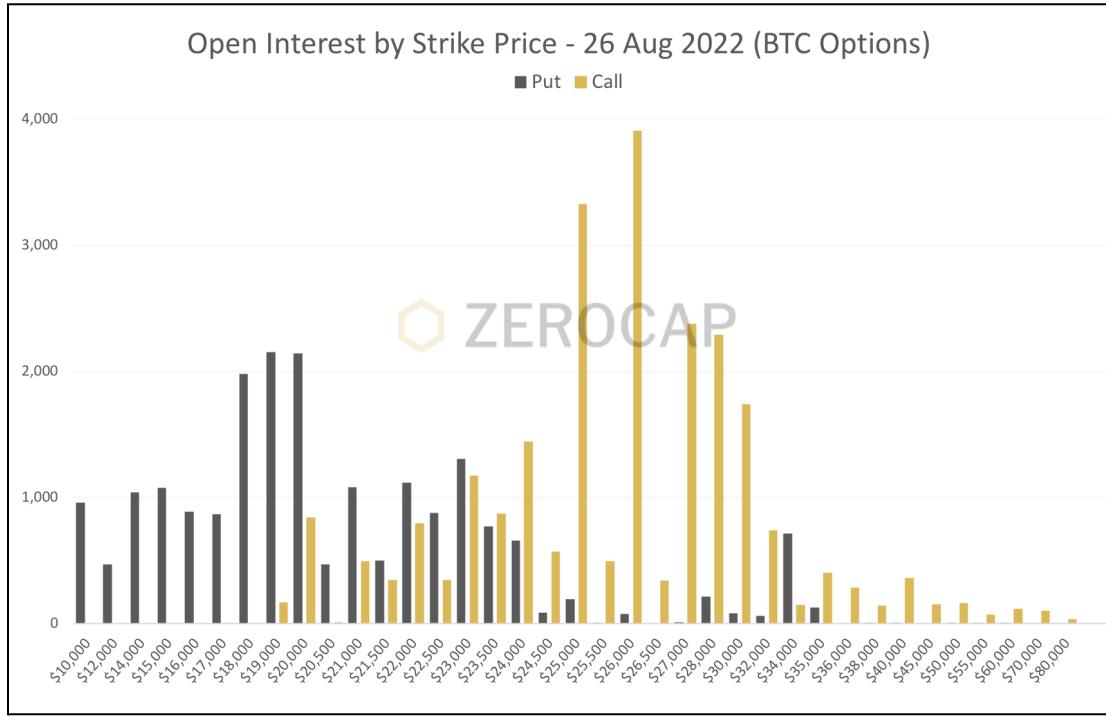


Data source: Glassnode

- Looking out to Bitcoin's August 26 options expiry, there is significant open interest above the 25,000 level. As a consequence of this week's action, the likelihood of option plays, at these levels, expiring in the money has diminished significantly.

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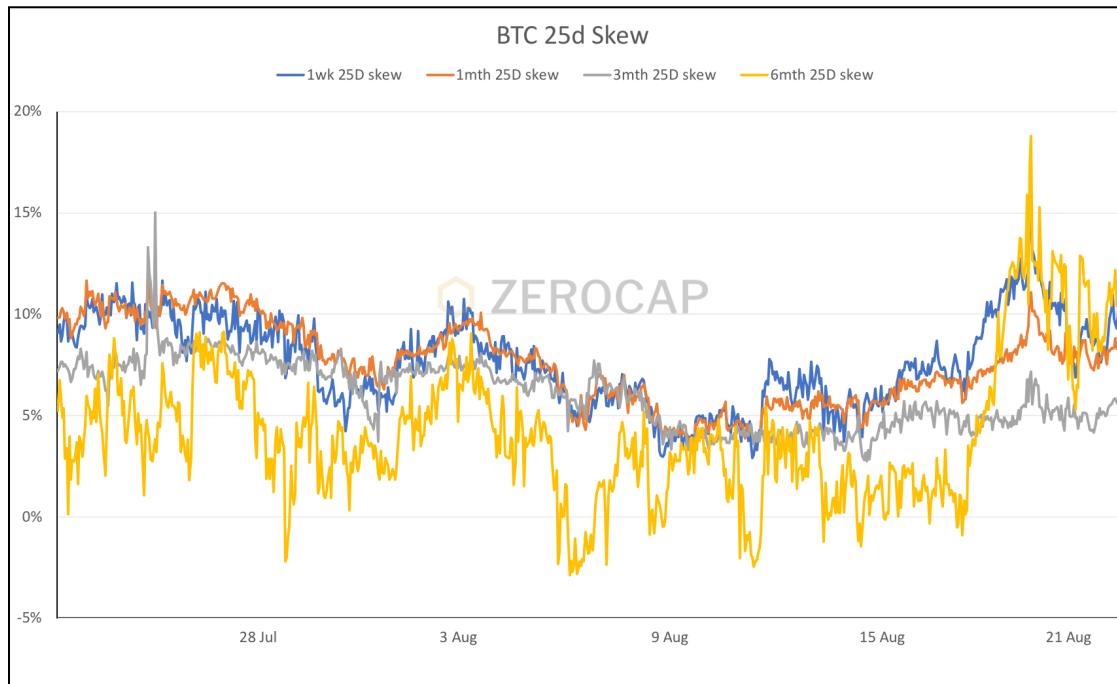
Data source: Glassnode

- Further, Bitcoin's 25d skew depicts a bearish outlook. The recent and significant uptick in 25d skew is indicative of a shift toward puts relative to calls. While suggestive of current market sentiment, this may also be traders preparing for this coming week's GDP printout of the US.



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Data source: Skew

- In recent weeks, price action has been accompanied by a lack of conviction. Climbs higher have been consistently suppressed by the ever-present hawkish macro outlook. In light of this, significant open interest in long positions grew. This week, bullish sentiment faded in the presence of further rate hikes, significant de-risking took place and action suffered from the significant liquidation of long positions. Nonetheless, players continue to take advantage of current prices and are accumulating. Correspondingly, some traders are hedging downside exposure. Moreover, we can expect short-term action to centre around this coming week's GDP print out of the US.

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Ethereum

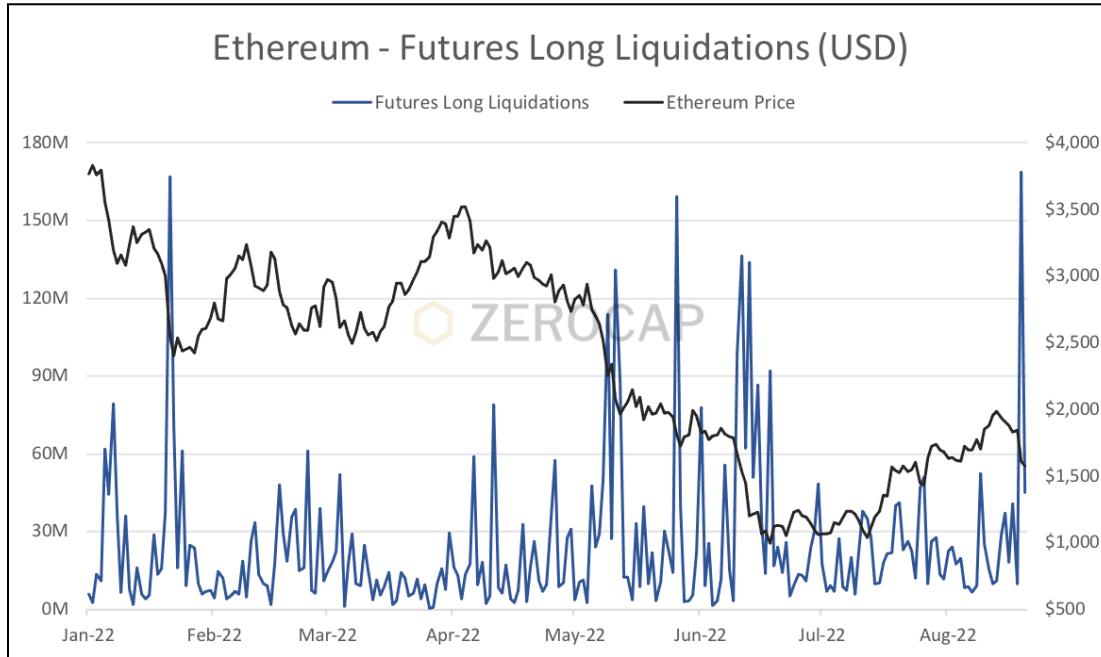


Data source: Tradingview

- After six weeks of consecutive gains, Ethereum's price aggressively retraced. A strong rejection of the 2,000 resistance proved to be the turning point, with a reversion of risk assets forcing a sharp move down in Ethereum. Price fell to previously rigid support at 1,700 before succumbing to the selling pressure leading into the weekend. At the close, the price resided at 1,617 to round off a -16.43% decline WoW.
- Leading into this week's session, a lack of volatility above 1,850 provided justification for an increase in open interest in perpetual futures. A fall of over 2% in the Nasdaq on Friday accompanied the crypto market's initial drawback. Substantial long liquidations across CeFi exchanges, totalling 168m on leading exchanges, eventuated into a cascading price effect. This figure is representative of liquidations on Binance, OKx and Bitmex, being the largest single-day liquidations since the collapse of Luna in May 2022.

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- The market-wide downturn is reflected clearly in the price of Ether relative to Bitcoin. During the previous month and as the merge approached, participants favoured Ethereum's potential upside relative to Bitcoin. Moreover, Ethereum has exhibited clear strength over Bitcoin. Price found resistance in the middle of the previously year-long rising channel at 0.082, before finding support at 0.07330 at the close. Price action appears to have reclaimed the previously well-supported rising channel, which may act as favourable entry points for Ether relative to Bitcoin moving forward.



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ETHBTC Daily Chart

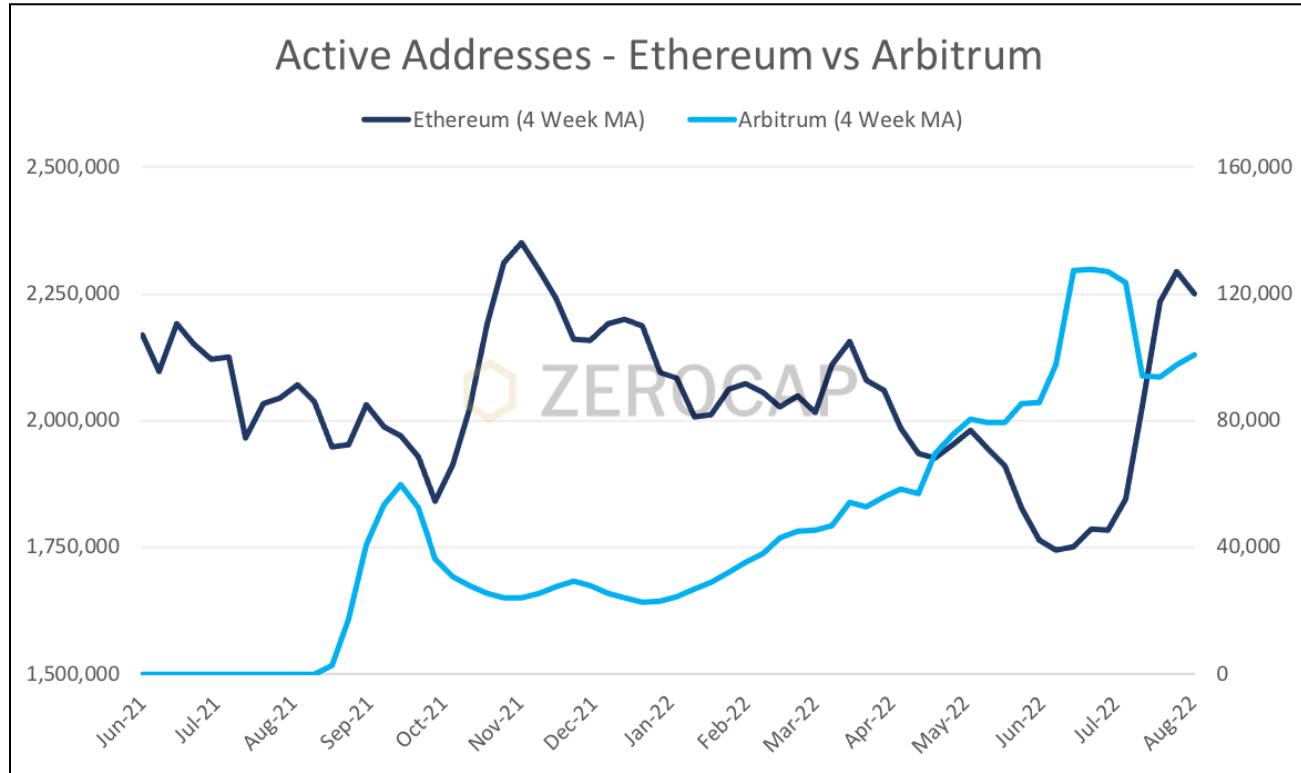


Data source: Tradingview

- Despite the growing excitement around Ethereum's merge, the blockchain's daily active addresses are beginning to slightly decline. Conversely, Layer 2 platforms, including Optimism and Arbitrum are seeing significant growth in daily active users. When combined with the increasing demand for layer 2's blockspace, it becomes apparent that rollups are achieving their purpose of decreasing Ethereum network activity. The impact of Layer 2's can be quantified via the decreasing trend of Ethereum gas fees, which have reached lows of below 10.

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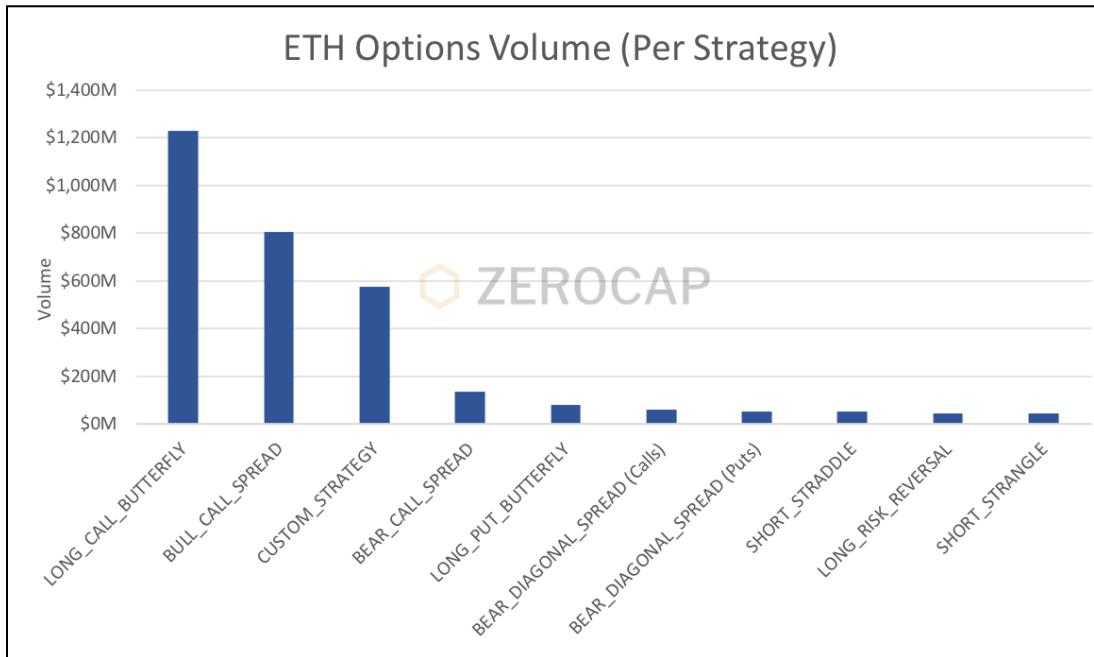


Data source: Dune Analytics and Etherscan

- Moreover, following Ethereum Improvement Proposal after the merge, namely EIP-4844, it is likely that rollup fees fall further. This will lead more individuals to utilise the lower costs of rollups as opposed to Ethereum's base layer. Nonetheless, once transactions have been compressed on Layer 2, they will be posted on the Ethereum network to leverage the security offered by the blockchain. As such, even if Ethereum's activity levels continue to diminish following its merge to proof of stake, the network's importance will remain.

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Data source: Laevitas

- A dynamic thematic occurring within the Options space is a significant flow into bullish Ethereum options strategies. Based on observable exchange-traded strategies, in the last month, 66% of Ether option volumes have been concentrated in 2000-3000-3500 call butterflies. This behaviour is indicative of participants targeting a price of 3,000 for Ethereum post-merge. This is particularly true in later-year expiries. Additionally, the bull-call spread is capturing notable flows.
- During the last six weeks, Ethereum has led action across the digital asset ecosystem. Moreover, we can expect Ethereum to guide sentiment and directionality into the highly anticipated event. Despite this week marking Ethereum's first slump in six weeks of consecutive gains, the approaching weeks are important in determining Ethereum's position relative to the rest of the market as it enters a crucial new phase of its development.

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Altcoins

- Optimism has recently had significant growth in the total value locked (TVL) in its protocols due to the OP token Summer incentives. By offering rewards to individuals using platforms built on the Optimism network, including Aave and Lyra, Optimism's TVL has almost doubled. Accordingly, user activity on Optimism has already reached new heights. With Optimism's traction growing, more Ethereum-based protocols are migrating their smart contracts to Optimism. This is not a challenging endeavour given Optimism is an Ethereum Virtual Machine Compatible network.

DeFi

- Tether, the issuer of the largest stablecoin, USDT, has partnered with BDO Italia to begin providing regular reports on the token's reserves. Though currently publishing its reports quarterly, Tether has stipulated that it will begin releasing the audited monthly reports. The accounting firm verified numerous promises Tether made relating to the holdings of commercial papers. Indeed, BDO Italia has stated that the USDT reserves total commercial paper holdings declined by 58% to \$8.5 billion USD. Moreover, BDO's report confirmed that Tether had \$66.4 billion USD in assets, matching the market capitalisation of USDT.
- Acala Network, a popular DeFi protocol on Polkadot, was subject to a misconfiguration bug. This error enabled exploiters to mint an incorrect number of aUSD, the protocol's native stablecoin. With 1.2 billion aUSD erroneously minted, the stablecoin depegged, losing over 99% of its value. Additionally, following the attack, Acala paused its network's activity. After the successful passing of a governance proposal to burn the 1.28 billion aUSD, the stablecoin's value is sitting at over \$0.80 USD.

Innovation

- Brazil's Federal Deputy, Joênia Wapixana, has proposed a bill to tokenise mined gold on the blockchain. This bill has the potential to bring transparency to Brazil's inherently

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opaque gold mining industry. Additionally, tokenising mined gold will enable the country to greater account for its mining activities. The increased level of transparency offered by public, immutable ledgers has the ability to combat illegal mining in the country. Indeed, Wapixana expressed that an estimated 50% of Brazil's gold is mined illegally.

- A report from Blockdata on the top 100 banks' investments in the blockchain space depicted increasing levels of activity from these institutions. This report foregrounds the paradigmatic shift in the perspective of traditional financial banks that previously maintained the distance between themselves and cryptocurrencies. For instance, Alphabet, the parent company of Google and YouTube, invested \$1.5 billion into blockchain products and services in 4 different rounds. Moreover, Blackrock participated in 3 rounds, investing a total of \$1.2 billion USD into crypto-related projects.

NFTs & Metaverse

- Yuga Labs released the official IP rights agreement for holders of CryptoPunks and Meebits. Similar to that of Yuga Labs' native collections, holders of CryptoPunks and Meebits do legally own their NFT. In this sense, Yuga Labs has no right to seize, freeze or modify the ownership of any individuals' CryptoPunk or Meebit. However, Yuga Labs owns the IP to the art, yet is licensing it to the owner of the NFT. Beyond this, in regards to a possible fork of Ethereum's Proof of Work network, Yuga Labs has stated that it would only recognise the licensing rights of NFTs on Ethereum's proof of stake blockchain.
- With mounting regulatory scrutiny on NFTs in China, Tencent announced that its NFT platform, Huanhe, will no longer be releasing new NFTs to be purchased by the public. Notably, users of Huanhe will still be able to hold, display and request refunds for their NFTs. Tencent's Huanhe is currently one of the largest NFT platforms in China. The closing, be it temporary or permanent, of Huanhe's NFT platform comes after Tencent's signing of an agreement in June of 2022 to limit the secondary trading of NFTs. Further,



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this event reflects a broader picture of China's perspective on cryptocurrencies and blockchain technologies.

What to Watch

- Jackson Hole symposium, on Thursday and Friday - is the American economy strong enough for more forward momentum? Fed Chair Powell to speak at the event.
- US Preliminary GDP, on Thursday.



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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