



# ZEROCAP

## Weekly Crypto Market Wrap

22 August 2022 – 28 August 2022

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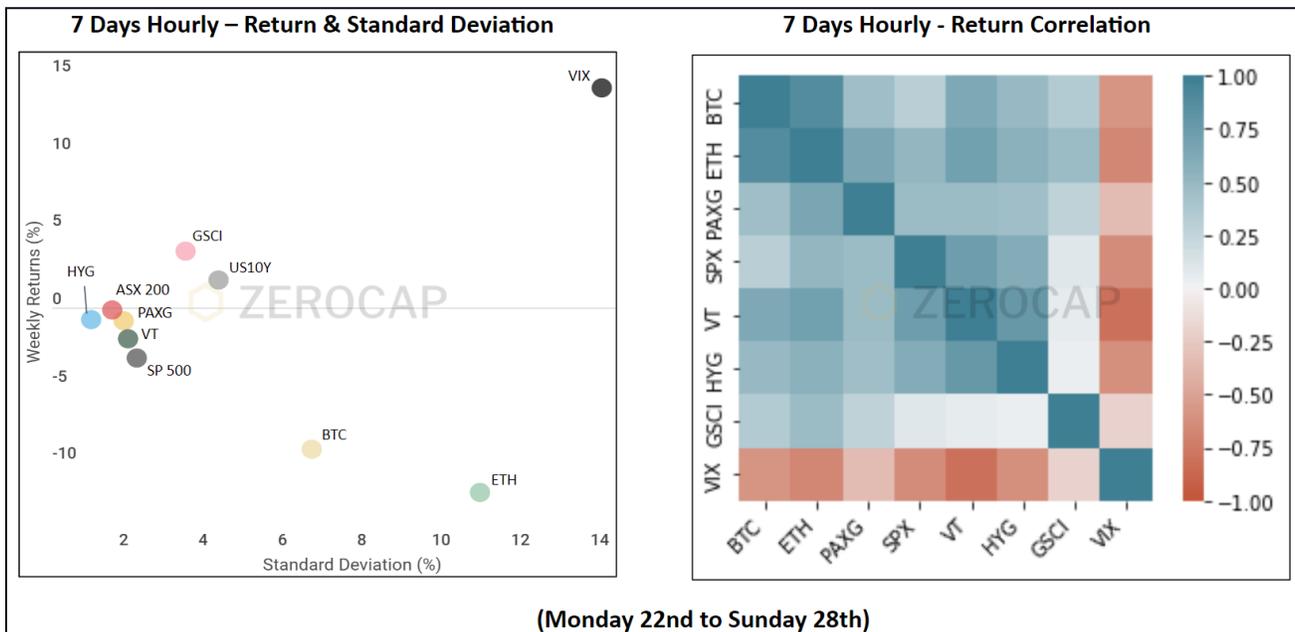
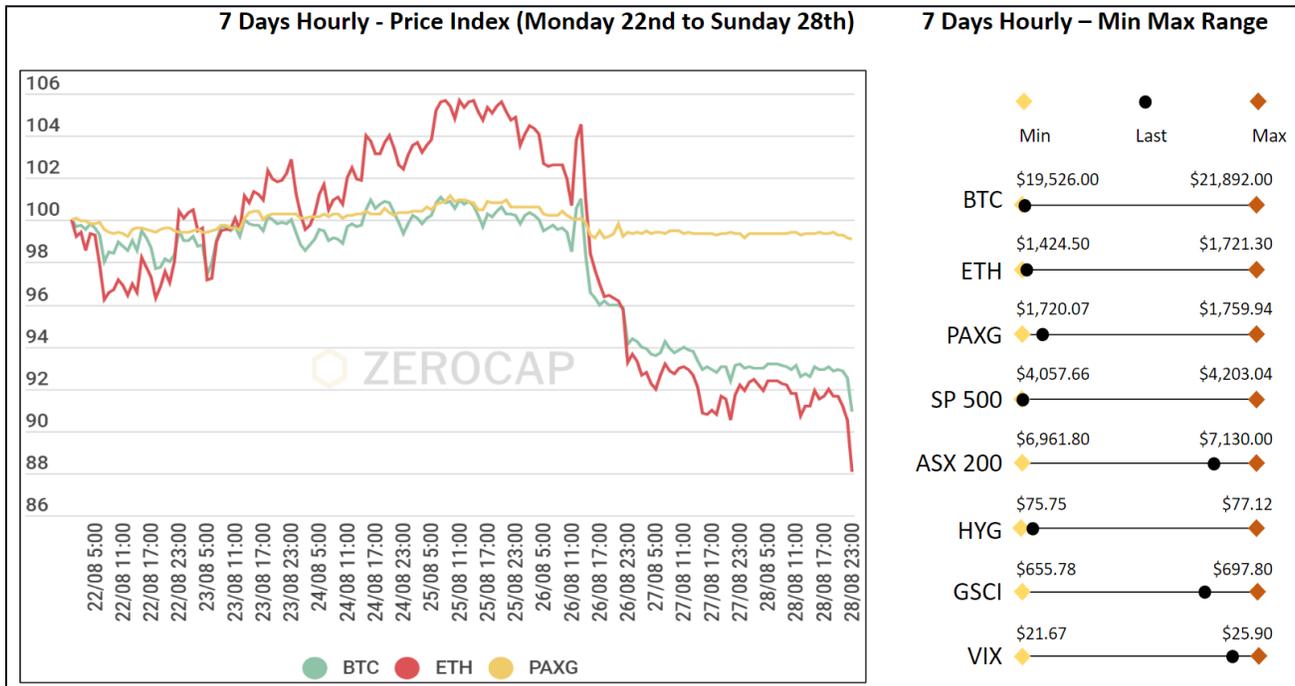
### Week in Review

- The [SEC has delayed its decision](#) on VanEck's latest bid to create a spot Bitcoin ETF after the company was denied approval for the ETF in November 2021.
- Fed Chair Jerome Powell remarked that the Federal Open Market Committee's (FOMC) "overarching focus" is to bring inflation down to the [2% inflationary target](#).
- Web3 infrastructure developer, Alchemy, [acquires education startup](#), ChainShot, marking its first acquisition.
- In the first integration between a DeFi protocol and a traditional bank, MakerDAO Provides [\\$100 million DAI loan](#) to Huntingdon Valley Bank.
- NFT lending platform, BendDAO, [faced a liquidity crisis](#) as its ETH reserves fell from \$29 million USD to \$25k USD in 2 days.
- Fashion Brands including Nike, Gucci, Dolce & Gabbana and more, have netted an [aggregated \\$260 million USD](#) in NFT sales.
- South Korea hints that a [gift tax of up to 50%](#) may be levied against crypto airdrops.
- Su Zhu, co-founder of 3AC, displays concern over [possible jail](#) terms over the liquidator's misrepresentation.
- [Vitalik Buterin](#) writes that the superiority of cryptocurrency payments is often undervalued due to their convenience and censorship-resistant nature.



- OpenSea ex-employee, Nathaniel Chastain, [files to dismiss his case](#) on the basis that NFTs are not classified as securities or commodities.

### Winners & Losers



(Monday 22nd to Sunday 28th)



### Macro Environment

- Monday saw the Euro break below parity with the USD for the first time since July, down to \$0.999. The depreciation exacerbated by a hawkish United States (US) Fed bolstering higher interest rate expectations, and surging Eurozone inflation.
- US Fed chair Jerome Powell delivered an interest rate “focused” speech at Fridays’ Jackson Hole symposium. Powell, reiterating the FOMC’s hawkish inflationary outlook, elaborated on incoming “pains to households and businesses” amongst slowing domestic growth, and a softer labour market. The Fed, looking to uphold its “overarching” commitment to price stability through a 2% inflation rate target.
- Markets expecting a potential dovish flip were caught off guard with Powell’s explicitly hawkish speech, and reacted in-kind. The S&P 500 fell -3.4% on the day, amounting to its worst daily performance since June earlier in the year, the NASDAQ was hit harder retracing almost 4% at-day-end. Gold proceeded to sell-off as the DXY recovered much of its weekly losses, finishing in the green with a 0.30% gain WoW. The Japanese Yen fell victim to the aftermath of Powell’s speech, the USD/JPY pair reaching a weekly high of ¥138.215, approaching July’s 24 year high of ¥139.39.
- Moreover, with the resulting sell-off of US Treasury bonds, yields rose across the board, 2Y UST increasing 13 basis points, to the highest they’ve been since November 2007 at 3.45%. 10Y UST appreciated similarly, closing 5bps above the week open at 3.04%. The 2 and 10 year yield curve inversion widened as a result, now sitting at -36 basis points, Powell extinguishing any remnant dovish undertones.
- Hopes that the lingering Iran nuclear deal was nearing its conclusion were suspended, following the US’s alleged rejection of three key Iranian demands. The rumoured requests include: a US government guarantee that Western countries will do business with Iran, ongoing US insurance for Iranian multinational companies in the case of a US withdrawal from the deal, and the reinstatement of Iran in the SWIFT international payments service. Oil market participants were disappointed with the delays, an expected relief in oil prices not materialising. Brent rose to \$101.22, along with WTI at



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\$94.89 a barrel during the session. Oil and gas further posted gains throughout the week, WTI and BRENT up 3.65% and 3.57% WoW.

- Despite a looming European winter, accompanied by skyrocketing household utility prices, a Russian liquified natural gas (LNG) plant in Portovaya, Russia has been burning off an estimated \$10 million (4.34 million cubic metres of gas) daily since June. Experts are divided on the rationale behind the flare citing: potential storage and safety concerns, and prolonged EU sanctions on Russian exported gas. Germany, also asserting the flare is the result of the excess gas, attributed to a diminishing gas supply via Nord Stream 1 pipeline.



### Technicals & Order Flow

#### Bitcoin

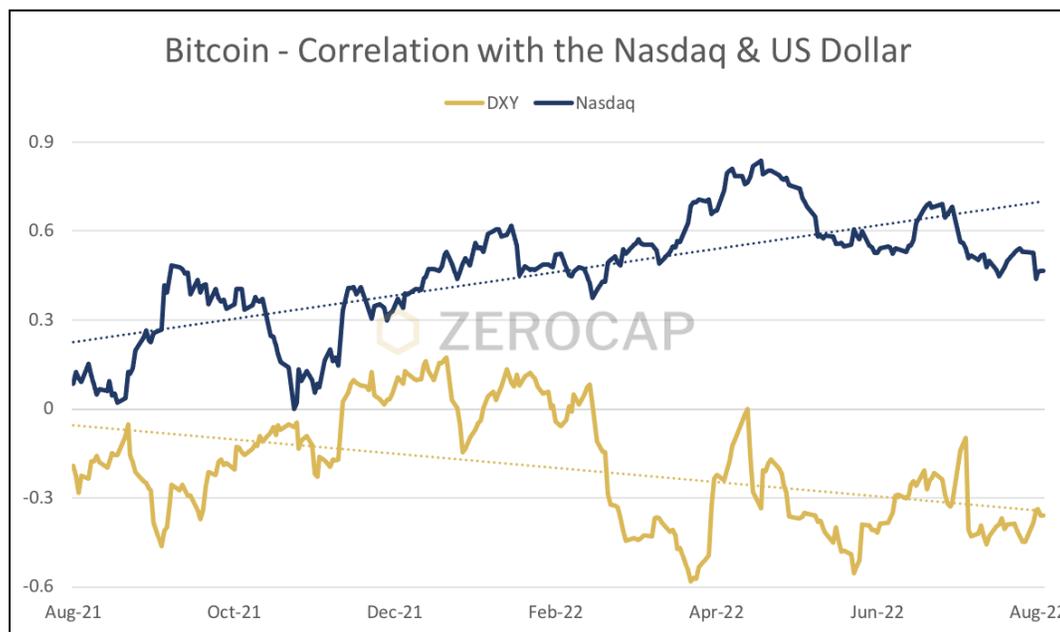


- During the early parts of the week and after an initial test of the 21,000 support, Bitcoin edged higher and consolidated within the 21,200 and 21,700 range. Sideways action persisted until late week newsflow soured sentiment and prompted price to spiral downward. While the 20,600 support temporarily halted the descending action, risk-off sentiment and continued selling volumes forced price lower. Bitcoin closed -9.11% WoW. Price, once again trades under the 200-week MA, a key level that will likely act as resistance into the short-term.
- Markets remained relatively flat in anticipation for Jackson Hole’s Friday night address by Fed Chair Powell. However, immediately prior to the event, better than expected Personal Consumption Expenditures (PCE) data shilled the shrinking inflation narrative. In the following two hours, Bitcoin rallied approximately 3.3%.
- Powell exhibited an extremely hawkish stance at Jackson Hole. Reiteration of the Fed’s commitment to contain inflation by continued tightening provoked strong de-risking across the board. Adding to already tarnished sentiment were rumours that 137,000 BTC



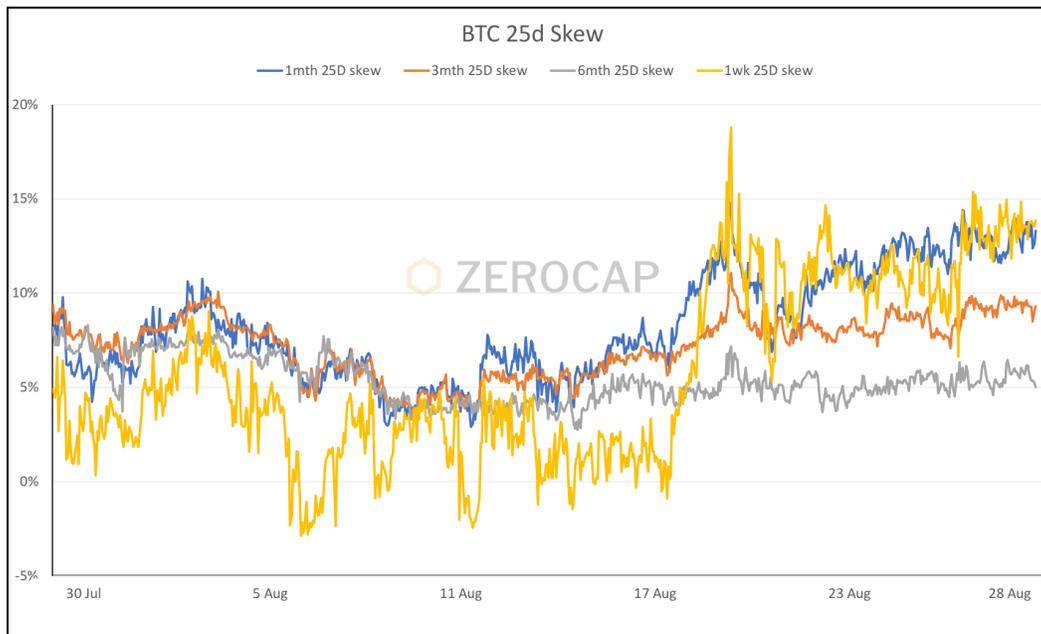
was to be released to Mt. Gox creditors, spread among participants. Consequently, wider markets and Bitcoin sold off.

- Bitcoin remains at the mercy of its heightened correlation to risk assets. Following Powell's speech, the Nasdaq experienced its greatest single day fall since June, shedding 4% for the day. Bitcoin followed suit.



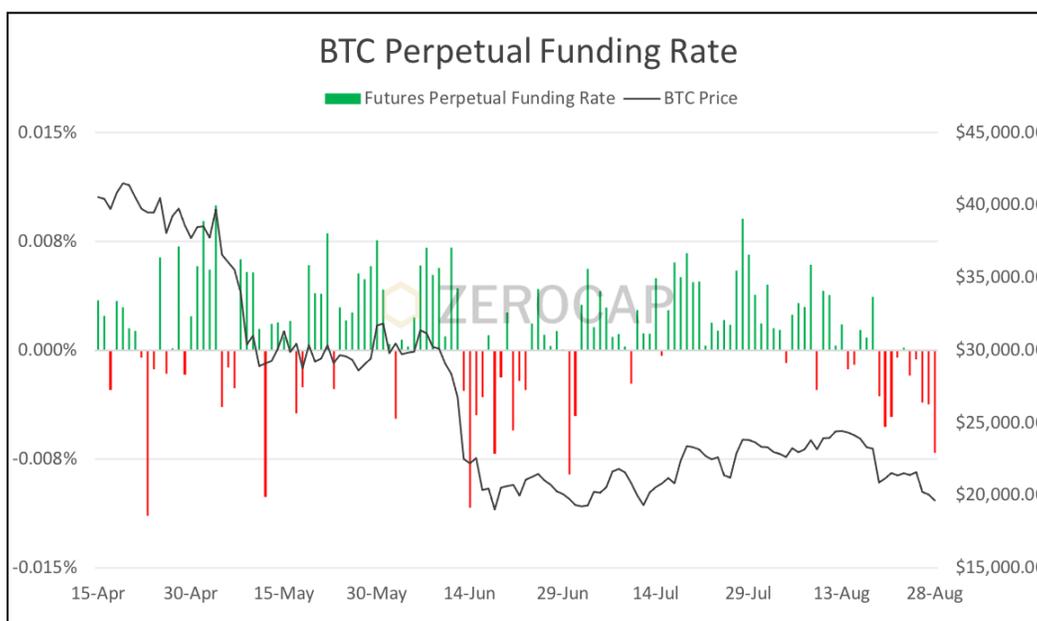
Data source: Tradingview

- Toward the latter part of August, there has been an increasing favour toward puts versus calls. This dynamic is depicted in Bitcoin's 25d skew. Moreover, off the back of last week's de-risking, Bitcoin's 25d skew edged higher, implying a shift toward downside protection in the presence of heightened volatility.



Data source: Skew

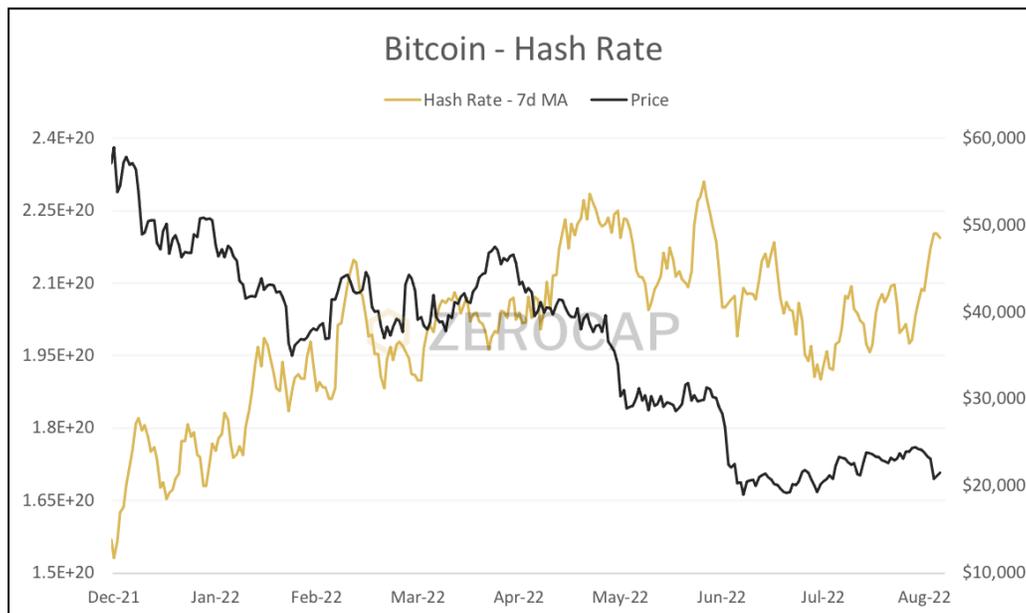
- Bitcoin's futures perpetual funding rates became more negative following Powell's speech. Often used as a mechanism to hedge downside exposure, this change is indicative of traders increasing short positions on Bitcoin perpetual future contracts.



Data source: Glassnode



- In light of this week's bearish action, on-chain metrics continue to depict positivity. One example of this is Bitcoin's hash rate. Bitcoin miner capitulation is consistent with behaviour seen in late stage bear markets. Recently, Bitcoin's hash rate halted its descent and is now increasing.



Data source: Glassnode

- This week, we saw investors de-risk. Bitcoin's co-dependence with high beta assets continues to prove true, hindering its ability to ascend higher in the presence of macro headwinds. Since mid August, traders have moved toward downside protection mechanisms, a strategy that clearly proved beneficial this week. Nonetheless, on-chain metrics such as Bitcoin's hash rate continue to depict BTC favourably. This coming week, Unemployment Rates and Non-Farm Payroll out of the US may cause some volatility.



### Ethereum



Data source: Tradingview

- After re-testing its support base above 1,500 and as the week persisted, ETH grinded higher. Notably, many remained hedged in anticipation of Jackson Hole on Friday. Off the back of heightened volatility into Friday's event, Ethereum liquidations increased significantly with an uptick on both sides. As a result of hawkish commentary from J. Powell, ETH tumbled into the weekend - falling 16.59% from the start of his speech to Sunday close. WoW, the asset returned -7.86% to close at 1,426.
- Technically, ETH now sits in a compromising position, having failed to reclaim the 1,700 level. The next higher-time frame support bases reside at 1,300, with some chop to get down below 1,000 again. Whilst BTC has built relatively strong market structure throughout their July/August rallies, ETH's strong ascension suggests there is little downside support that could act to bolster any remaining selling pressure if risk continues to unwind.



### ETHBTC Daily Chart

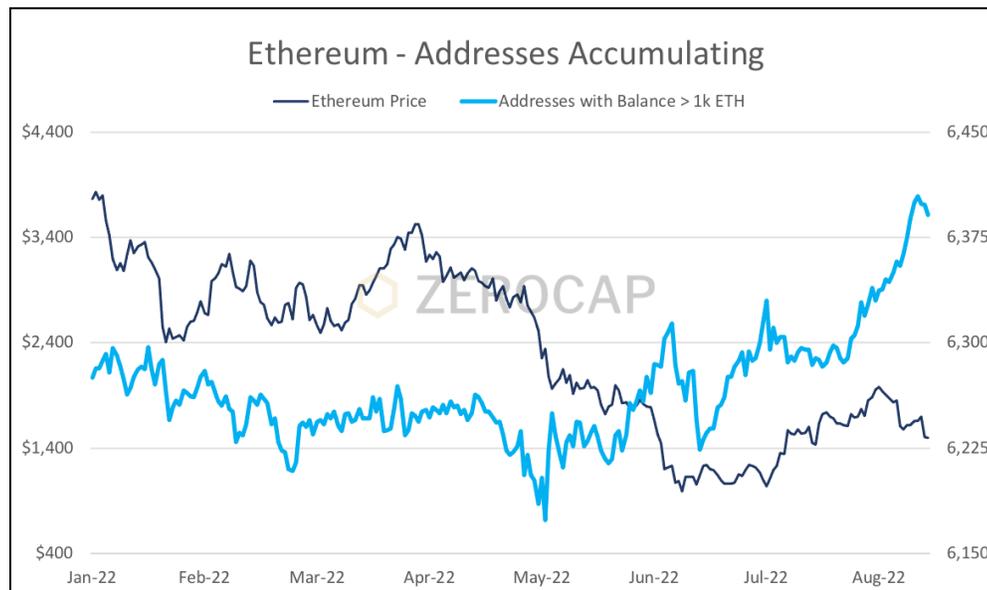


Data source: Tradingview

- ETH/BTC traded similarly to ETH/USD going into Jackson Hole as BTC consolidated around its range VWAP (21k region) and ETH grinded higher. Although, following the market wide sell-off from Friday onwards ETH fell against BTC, closing the week at 0.0729 for a -2.99% return WoW. This move is indicative of a broader market pivot to risk-off as well as the relative positioning of market participants between the two assets. BTC's price action, while still correlated to traditional markets, has had less speculative premium in recent months which has aided its relative loss this week.
- Since ETH's local top above 2,000, we have seen aggressive "buy the dip" behaviour from Ethereum's largest holders. While the macroeconomic environment continues to weigh heavily on risk assets, on-chain metrics suggest that high conviction participants are accumulating into Ethereum's merge. Due to the asset's expected supply dynamic shift post-merge, holders within these brackets may be placing relatively greater focus on

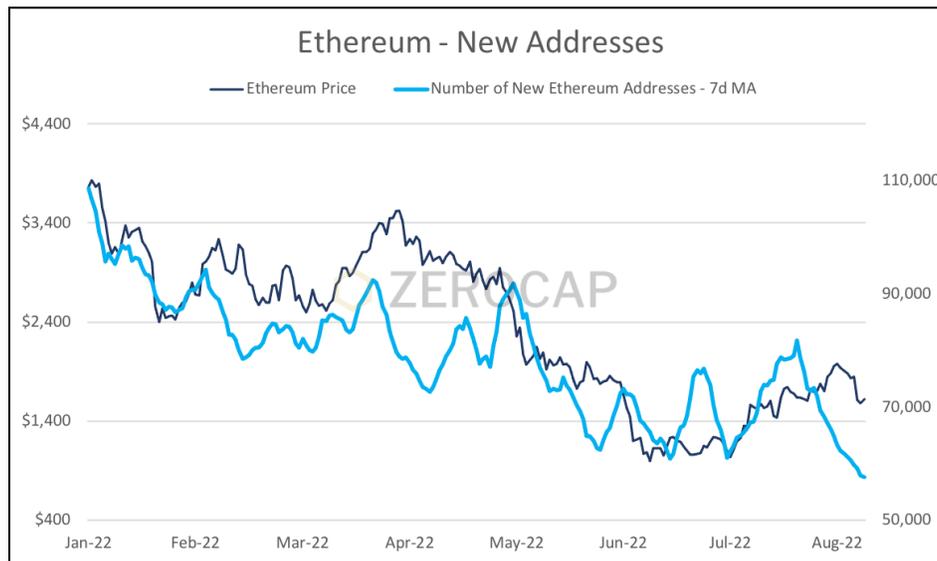


long-term value generation. While this insight is positive, ETH's price action continues to support a high beta risk asset narrative and ultimately forms an uncertain short-term outlook.



Data source: Glassnode

- Since the end of July, the growth rate of new Ethereum addresses has been declining. In light of the significant anticipation surrounding Ethereum's merge to Proof of Stake, this trend depicts a lack of new participants entering the ecosystem. Correspondingly, Ethereum returned 102% between July 13th and August 13th, 2022. Given Ethereum's significant drawdown from November 2021 highs, it is likely that traders are taking profits before the Merge date. This is especially true given the shift in the macro tone from Friday's speech and crowded nature of Ethereum merge trades.

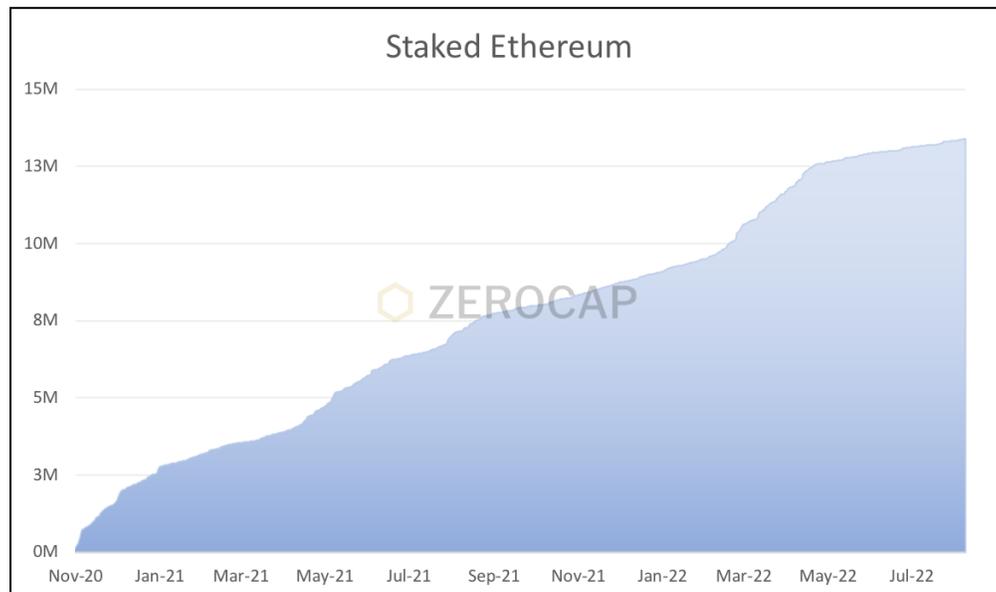


Data source: Glassnode

- As a result of less activity, gas fees have reduced and scalability concerns have become less relevant. Nonetheless, Ethereum faces the threat of exorbitant transaction costs after the merge. To achieve reduced fees and increased transaction speeds, Ethereum's rollup-centric roadmap champions Ethereum Improvement Proposal (EIP) 4844, Proto-Danksharding. This upgrade introduces a new transaction type to Ethereum which relieves network pressure through adding 2 MB worth of space to each block. Due to the compression methods used by rollups, this increase is orders of magnitude greater for Layer 2's projects.
- Price continued on a downward trajectory this week. The revival of a strong hawkish narrative resulted in strong de-risking with Ethereum's price suffering. Alongside dampened sentiment and as the Ethereum merge edges nearer, profit taking becomes increasingly attractive for traders. In recent months, Ethereum has led action across the digital asset space. Now, as we enter September we may see Bitcoin take charge if the macroeconomic context does not improve.



### Liquid Staking



Data source: Glassnode

- This week, Coinbase launched a new utility token; Wrapped Ethereum Staking Token (cbETH). cbETH is an ERC-20 token that represents the price of staked ETH and all of its accrued staking interest. Accordingly, Coinbase has stipulated that unlike Lido's stETH, cbETH does not track the price of ETH. This announcement resulted in a decrease in the price of stETH. This decrease may be attributed to individuals selling their stETH in order to obtain cbETH. As participants look for alternatives to Lido, the merge narrative becomes increasingly positive given staking pools are more decentralised.
- As stated by the Ethereum Foundation, the merge will not result in the unlocking of staked Ethereum. In addition to staked principal, staking rewards and newly issued ETH will still be locked on Ethereum's Beacon Chain. Only upon Ethereum's next major development, the Shanghai upgrade, will withdrawals be enabled. Notably, the Shanghai upgrade is tentatively scheduled for 6 to 12 months following the merge.



### Altcoins

- Unlike Circle, who is blacklisting wallets associated with Tornado Cash, Tether is not actively complying with the US Treasury imposed sanctions. Tether has stated that thus far, no US officials have contacted Tether. Irrespective of this, it is unclear whether Tether is legally obligated to abide by requests from the US Treasury. Tether, which is based in Hong-Kong, is under the impression that it is distanced from the requirements imposed by US departments.

### DeFi

- Branded as the first integration between a DeFi protocol and a traditional bank, MakerDAO connected DAI to Huntingdon Valley Bank (HVB). Maker provided HVB with a \$100 million DAI loan. Beyond this, the bank has the ability to request more capital over the next year. In this partnership, MakerDAO generates yields from its DAI holders via HVB's bond managers. Further, the decentralised autonomous organisation benefits through diversifying its counterparty risks through its relationship and dealings with the bank.

### Innovation

- Following a proposal that laid out the team's purpose and budget requirements, the community has voted for the inauguration of the Uniswap Foundation. The foundation will receive \$74 million USD, with an initial \$20 million USD disbursement, to support future endeavours and build out a team of 12 individuals. These funds will come out of Uniswap's \$3 billion USD treasury. Moreover, the proposal saw over 86 million UNI, 99% of the total votes, in favour of the Uniswap Foundation.
- Telegram founder, Pavel Durov, has hinted towards the possibility of the application launching a marketplace to auction usernames and addresses. Durov referenced The Open Network (TON), a protocol he developed, when specifying the platform to support Telegram's marketplace. This would be another move by the messaging app to adopt



elements of Web3. Additionally, the Telegram team would create a platform that allowed for the tokenisation of usernames using contracts akin to ERC-721 tokens.

### NFTs & Metaverse

- With over \$55 million USD of collateralized NFTs on BendDAO, the NFT lending protocol has efficiently grown in popularity. However, as a consequence of falling floor prices of numerous collections, many positions have been liquidated. As part of BendDAO's function, liquidated NFTs can be purchased at a discount. Notably, BendDAO's auction period for liquidators was previously 48 hours. Despite positions falling below a health factor of 1 (when liquidators can first bid on a borrower's NFT), the extensiveness of the auction period prevented positions from being liquidated for extended periods of time. As a result, BendDAO faced significant liquidity constraints. To resolve this, the protocol founder created an emergency proposal, specifying that the liquidation threshold be dropped to 70%, auctions to only last only 4 hours, and the minimum bid for liquidators to be lowered substantially.
- Elliptic, a blockchain analytics firm, released a report on financial crimes within the NFT market. The security firm spotlighted that July 2022 had the greatest number of thefts and scams. Despite the persisting bearish market conditions, exploiters have not stopped their efforts to illicitly obtain NFTs. Moreover, Elliptic found that \$8 million of illegal funds were laundered through NFT platforms. Further, between July 2021 and July 2022, over \$100 million USD worth of NFTs were reported as stolen through various times of scams that plague the sector.
- X2Y2, a highly popular NFT marketplace, has updated its user interface to enable individuals to opt out of and adjust royalty fees paid to creators. X2Y2 users will be able to select 0%, 2.5% and 5% in creator fees when purchasing an NFT. This move was likely incentivised by the wave of dominant aggregator marketplaces looking to provide a similar functionality. When combining the marketplace's 0.5% maker and taker fees with the possibility for no royalties, X2Y2's trading volume is positioned to substantially increase.



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### What to Watch

- The price action of oil, and ongoing negotiations surrounding the Iran nuclear deal.
- New York Fed President: John Williams' talk on Tuesday, along with the release of the US Conference Boards' consumer confidence readings - will the US reach its forecasted 97.5?
- European YoY CPI release this coming Wednesday - will the ECB make moves to hike rates 50 or 75bps heading into September's ECB meeting?
- China's Caixin Manufacturing PMI results for August, also released on Wednesday.
- Friday's release of US Non-farm payroll numbers, and the official US unemployment rate.

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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