



# ZEROCAP

## Weekly Crypto Market Wrap

5 September 2022 – 11 September 2022

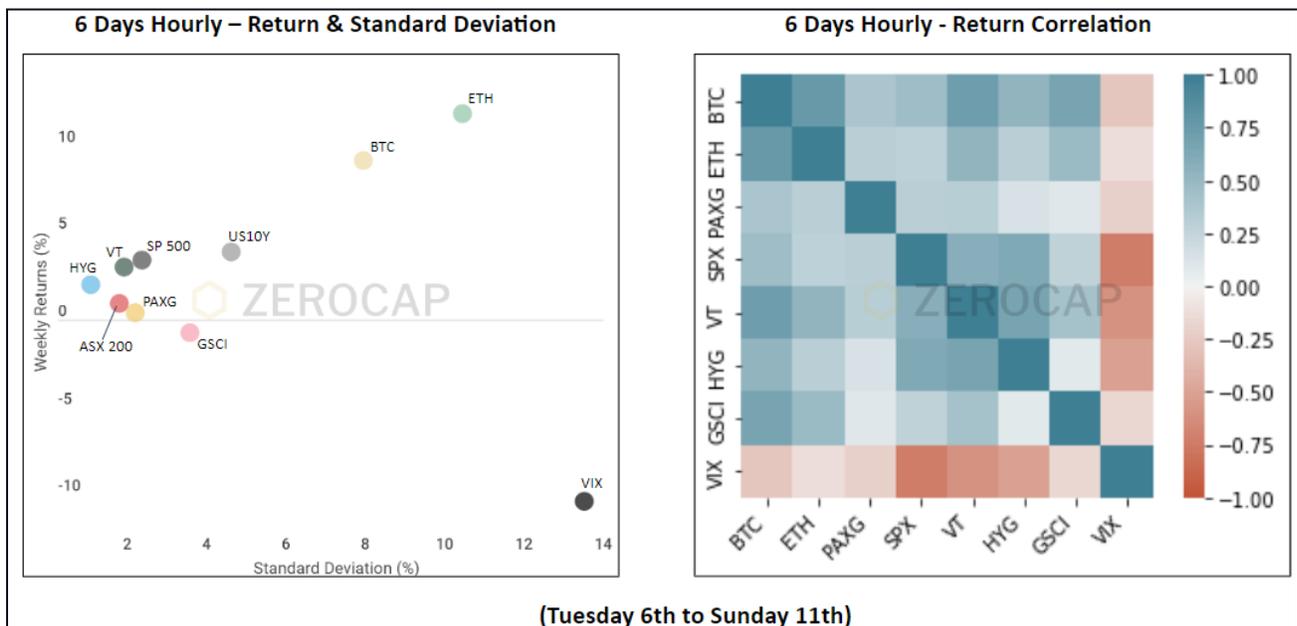
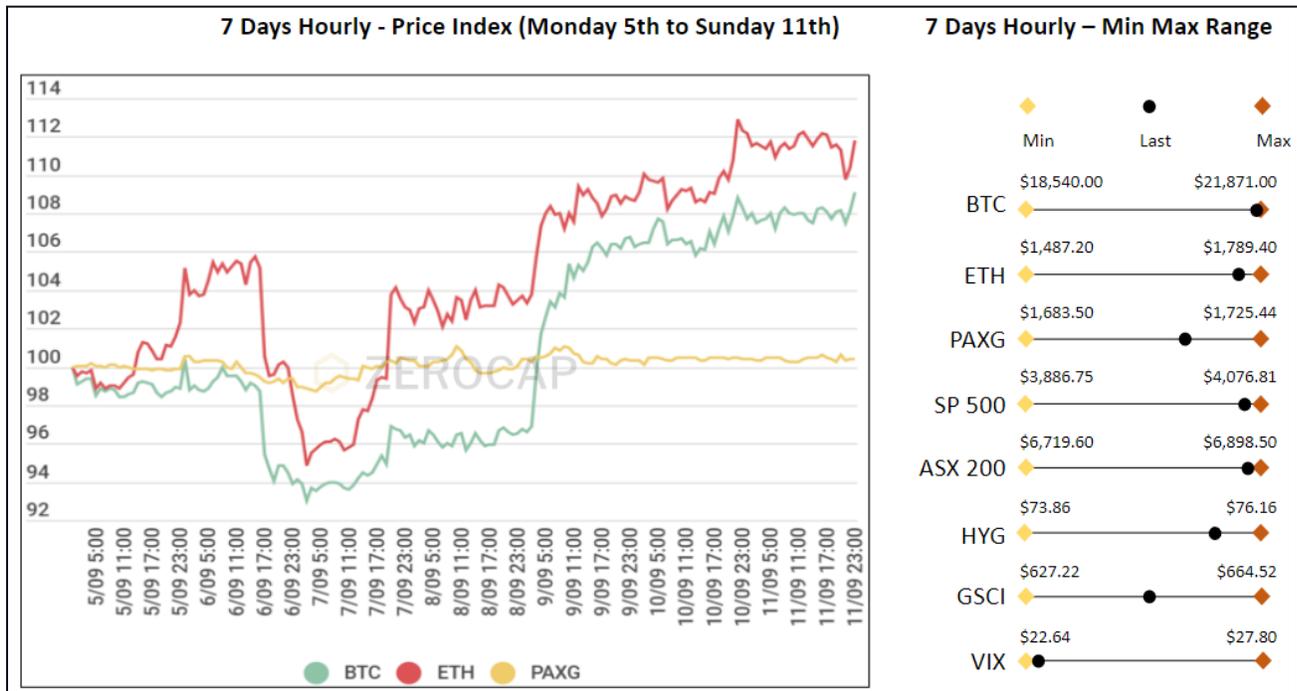
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### Week in Review

- Ethereum Merge update all set, scheduled for this week - [final countdown](#) begins as the last “[shadow fork](#)” concludes successfully.
- [Binance](#) to stop supporting USDC stablecoin to favour in-house BUSD alternative - conversion to BUSD may increase supply by \$908 million; [Bank of America](#) report.
- [IMF report](#) states crypto is no longer niched and regulators must be pressured to act.
- [UK's Secretary to the Treasury](#) wants the country to be the “dominant global hub for crypto technologies,” under new Prime Minister.
- [ETC](#) calls for Mark Zuckerberg to address crypto scams on Meta’s social networks.
- [Australia calls for public opinion](#) on whether crypto should be taxed as foreign currency.
- [Australian police](#) officially launches crypto law enforcement unit to trace transactions.
- [Bank of Russia](#) legalises crypto for cross-border payments.
- [GameStop](#) partners with FTX to collaborate in crypto marketing and gaming initiatives.
- [MicroStrategy](#) files with SEC to sell up to \$500 million in stocks to buy even more Bitcoin - current holdings stand at 129,699 BTC.
- Crypto investors [sue US Department of Treasury](#) following sanctions on Tornado Cash.
- FED Chair [Jerome Powell](#) signals rate hikes will remain high to fight inflation - [ECB](#) raises rates by unprecedented 75 bps, promises even more hikes.



### Winners & Losers





### Macro Environment

- Monday's OPEC+ meeting saw oil production slashed by 100,000 barrels per day: WTI and Brent visiting levels back above \$89 and \$96 respectively. Markets were largely slow to react to the week open, despite risk being caught on the backfoot - the VIX falling an impressive -5.66%. Traders, also taking a much-needed break, as a result of the United States' Labour day long weekend.
- September's Reserve Bank of Australia (RBA) meeting took place on Tuesday, resulting in an expected 50 basis point hike. The cash rate, now the highest it's been since January 2015 sits at 2.35%, the RBA doubling down on its target inflation band of 2-3%. The October Contract for ASX: 30-Day Interbank Cash Rate Futures are now pricing in a 55% probability of another 50bps hike in October's meeting: trading at 97.410 at the time of writing. Despite this, RBA Governor Phillip Lowe has left the door open on future interest rate hikes claiming future hikes are "not on a pre-set path." Market participants such as Marcel Thieliant at Capital Economics, toying with the idea of a potential reduction in the magnitude of rate increases subject to a "moderation in price pressures."
- The European Central Bank (ECB), flexed similar hawkishness, raising rates 75bps - at par with analyst expectations. The ECB is frontloading interest rate hikes, amongst its ongoing struggles to combat supply-side inflation, as a result of soaring energy and commodity prices. Reuters estimated that Euro-nations will have to pay as much as ten times the usual market price (\$51 billion) to replenish gas stockpiles for 2022 - largely as a result of Russia severing Europe's Nord Stream link. On the flip side, Vali Analytics has predicted that the Top 100 banks could profit in excess of "\$18 billion" from commodities trading in 2022, surpassing the record numbers made during the global financial crisis of 2008.
- Growing global concerns over the weakened Japanese Yen have begun to spur, following the USD/JPY pair reaching a 24-year high of ¥144.99 the week prior. Bank of Japan (BOJ) Governor: Haruhiko Kuroda to this date has maintained a dovish monetary



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policy stance despite globally elevated rates. The BOJ endures with its current inflation of 2.6%, attributing the increase to supply-side - transitory pressures. FX traders were, however, pleasantly surprised on Monday, with a slight yen relief rally, gains attributed to a weakening USD - a coming to terms with globally consolidating interest rates. The DXY, having edged to a weekly low of 108.36 on Friday, saw the Euro break back above parity, the EUR/USD pair sitting at 1.0112 at the time of writing.

- The S&P 500 posted gains outside the topside of its 100-day SMA on Friday to reclaim a three-week losing streak, ending the week up 3.4%, and the Nasdaq 100 was also up approximately 2%.



### Technicals & Order Flow

#### Bitcoin



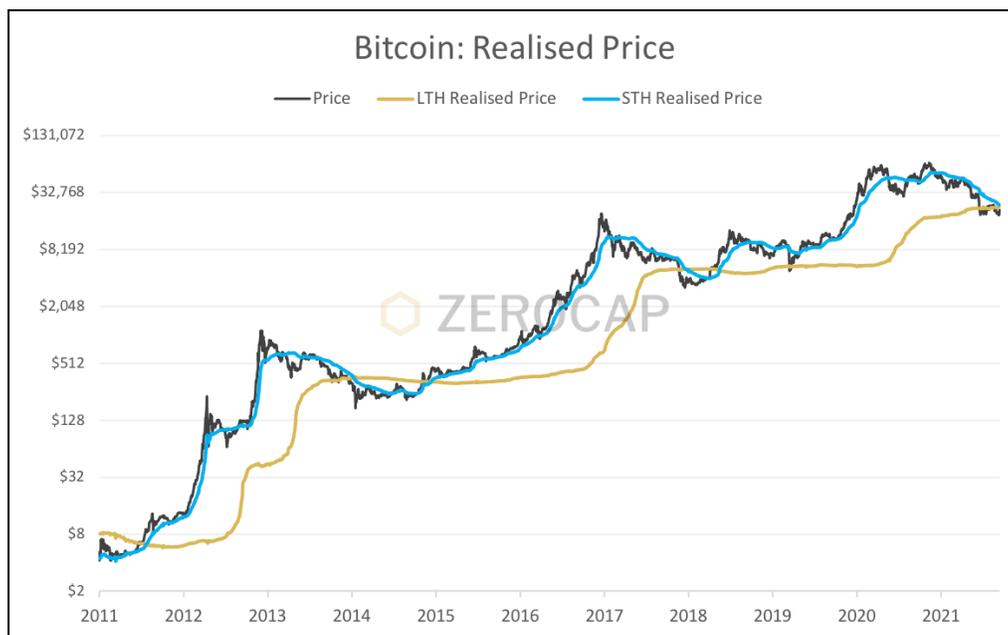
Data source: Tradingview

- Bitcoin entered the week in the absence of US trading activity and consolidated around the 20,000 level. A break of key support at 19,650 initiated substantial liquidations and catapulted price toward weekly lows. The 18,750 support was held firmly until a relief in selling pressure allowed action to lift higher. Toward the latter part of the week, price was firmly bid up with the 50-day MA acting as topside resistance. Bitcoin returned 9.10% WoW, its largest weekly return in 9 weeks.
- As traders and liquidity returned following the US's Labor Day holiday, the USD Index set a new twenty-year high at 110.78. Bitcoin, which has historically moved in contrast to the DXY, acted in line with market expectations and edged lower. As price broke through 19,650, the top of the 2017 bull run, Bitcoin retraced 4.65% in a matter of hours. Market positioning for hawkish central bank policies, elevated European Natural gas prices, and



20-year record high in the dollar index got to an extreme, and unwinding took place into the weekend.

- September 9th saw equities open with strength. The S&P500 and Nasdaq added 0.9% and 1.3% respectively in the hours following market opens. In our opinion, this bullish action likely translated over into the digital asset space with Bitcoin returning 10.58% for the day.
- Bitcoin's Realised Price is the aggregate cost basis for the market. It is representative of the average cost of Bitcoin ownership amongst short-term (STH) and long-term (LTH) holders. A crossover of STH realised price and LTH realised price from above potentially indicates that a majority of participants are accumulating at levels lower than their cost basis and is behaviour consistent with late-stage bear markets. Currently, these two metrics are converging, possibly indicating a shift in sentiment.

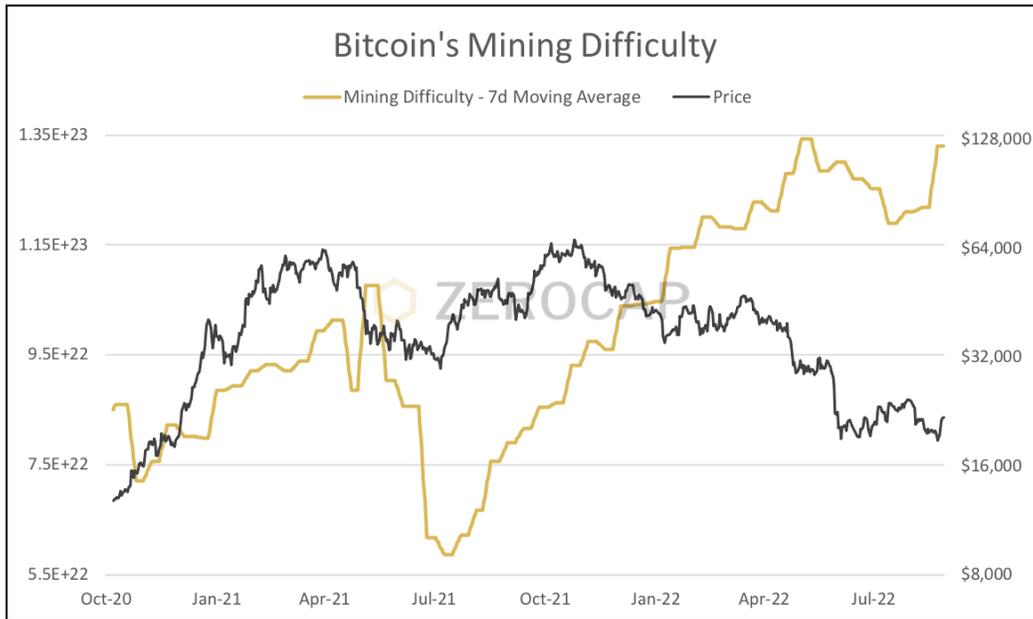


Data source: Glassnode

- Bitcoin's Mining Difficulty is a metric that is often used to analyse the health of Bitcoin's network and is also used to better understand late-stage bear markets. The recent

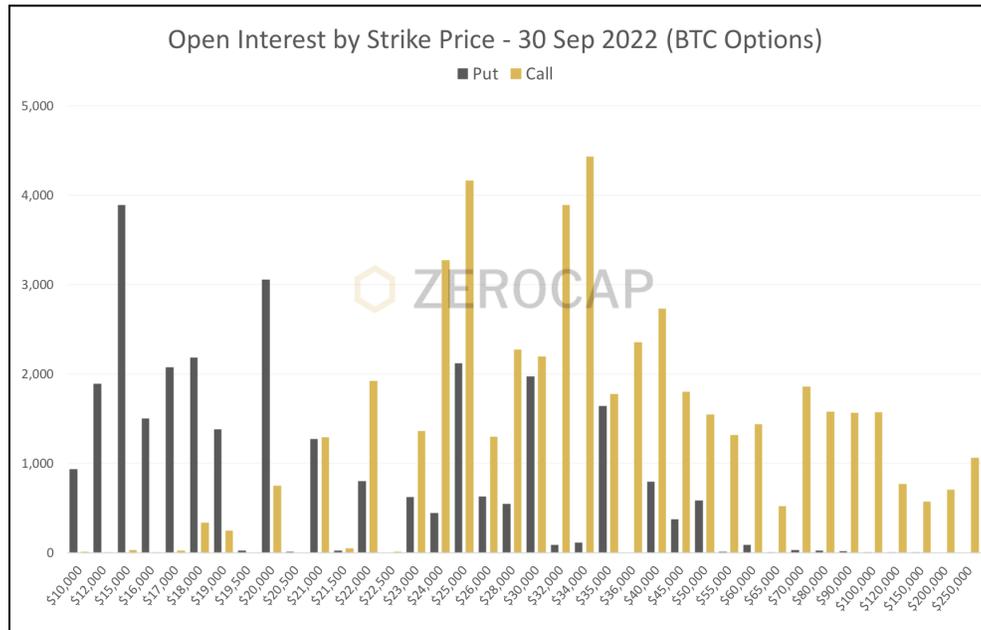


decrease in mining difficulty has been representative of over-leveraged miners who have been forced to halt operations and sell equipment. Given Bitcoin's persistent sideways action, the recent uptick in difficulty may be indicative of solvent miners acquiring relatively cheaper equipment to enhance their existing operations.



Data source: Glassnode

- Ethereum's merge is scheduled to occur this coming week (September 15th). Looking at options data, September 30th is shaping up to be a significant expiry. For calls, 24,000, 25,000, 32,000 and 34,000 are notable strikes. The 20,000 and 15,000 strikes are of particular importance for puts, potentially indicative of traders valuing downside protection given the expected volatility surrounding the event.



Data source: Glassnode

- This week, Bitcoin retested the 18,760 downside support. The persistent accumulation at these levels suggests that the 18,760 to 20,000 zone could serve as long-term support. In addition, network activity depicts improved resource allocation amongst miners. Furthermore, it is our opinion that Ethereum’s merge this coming week and CPI data out of the US could cause heightened volatility across markets.



### Ethereum

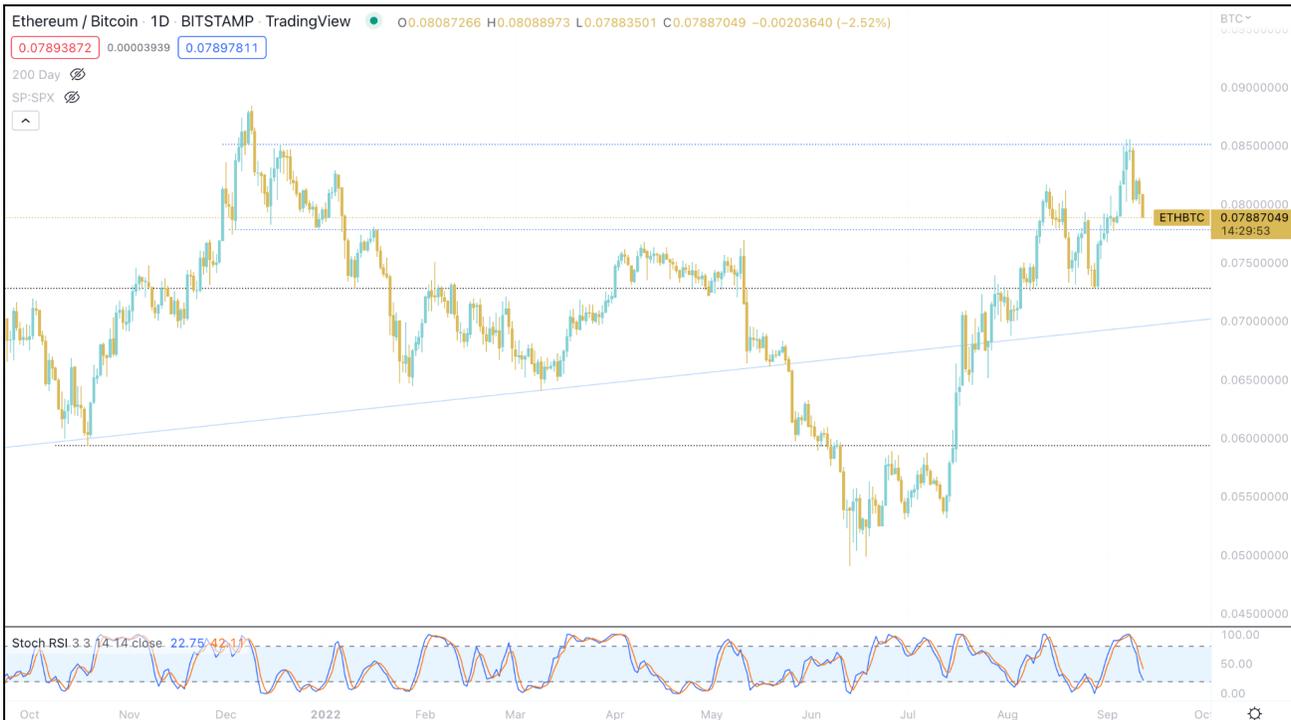


Data source: Tradingview

- As Ethereum entered the week, uncertainty amongst participants was clear. Price chopped around the range’s point of control at 1,580 until Thursday. Toward the latter part of the week, price grinded higher and reclaimed previous topside resistance at 1,680. Notable short liquidations were forced during the weekend’s session. At weekly close, price remained below the June low’s VWAP top band at 1,770, a previously well-respected support/resistance level, for a WoW gain of 11.91%.
- Ethereum’s highly anticipated merge will hopefully take place in the forthcoming week and is expected to occur on the 15th of September. Ethereum’s Beacon Chain, which uses Proof of Stake consensus, is scheduled to merge with the blockchain’s execution layer. A common misconception is that the merge will take place at a specific block. Instead, Ethereum’s merge is set up to begin once the terminal total difficulty, which measures the difficulty threshold of mining blocks, reaches 58,750,000 P. As more

miners participate in the validation of Ethereum, the difficulty increases, bringing the network closer to the merge.

### ETHBTC Daily Chart

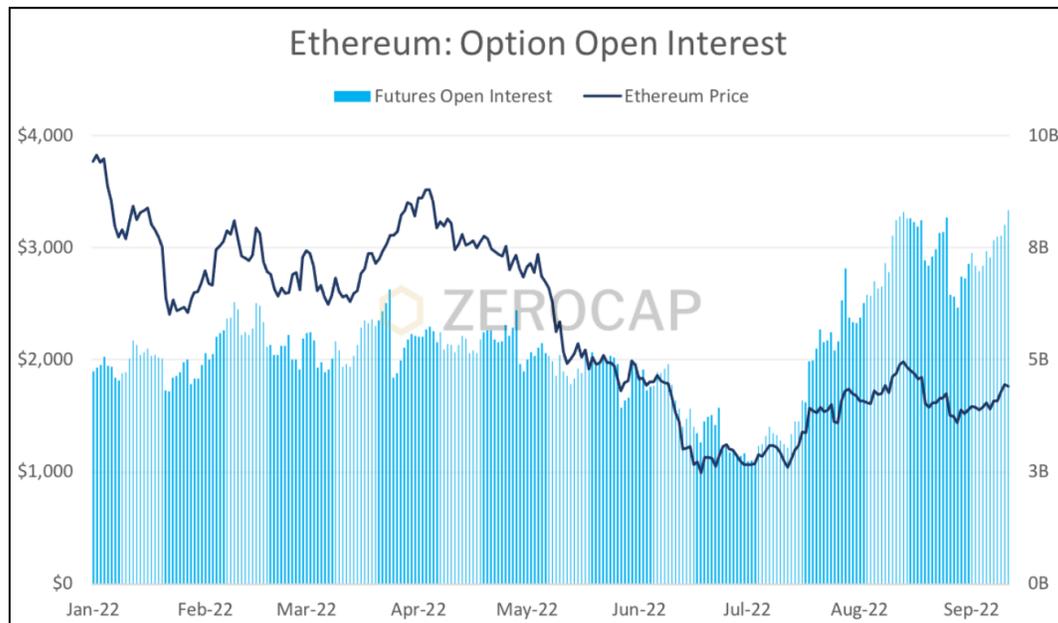


Data source: Tradingview

- Over the course of this week, ETH/BTC continued its move higher and broke above the 0.082 level on Tuesday. However, as the week progressed the pair showed signs of possible buyer exhaustion. Subsequently, ETH/BTC failed to sustain above the 0.082 support and the level was re-established as resistance by the week's close. Taking into consideration BTC's strength during the last week, failure to hold this level ahead of the merge places the pair in a potentially compromising position. We believe that, should relative weakness remain, any ETH rally or merge-related strength may be short-lived. Nonetheless, the pair returned 2.49% WoW.
- Alongside the wider crypto market, Ethereum faced strong sell-side pressure early in the week. However, by Thursday derivatives open interest and cumulative volume delta

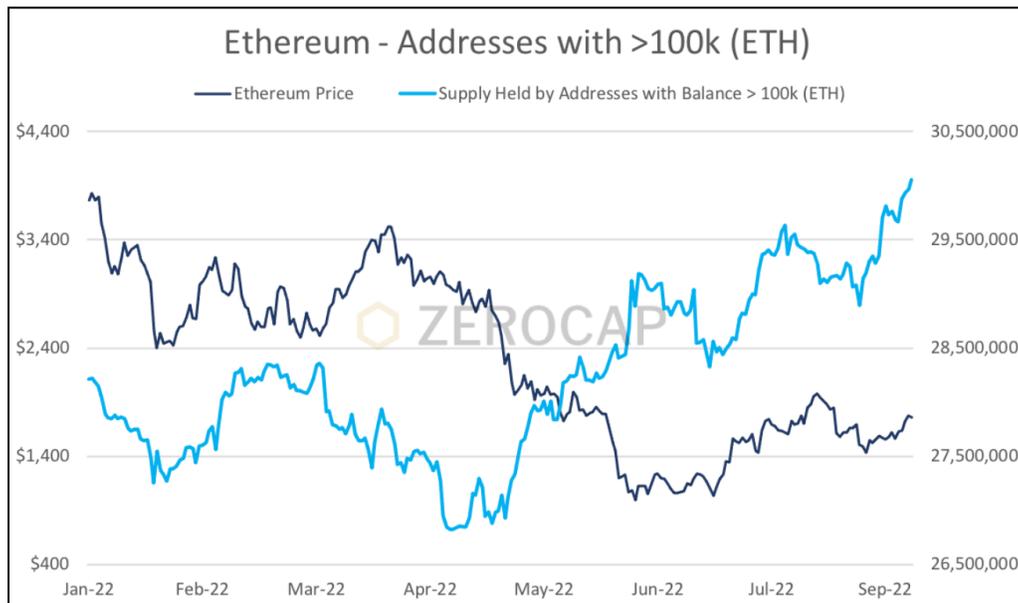


both saw notable upticks as investors added to long positions ahead of the merge and on the back of overall market strength.



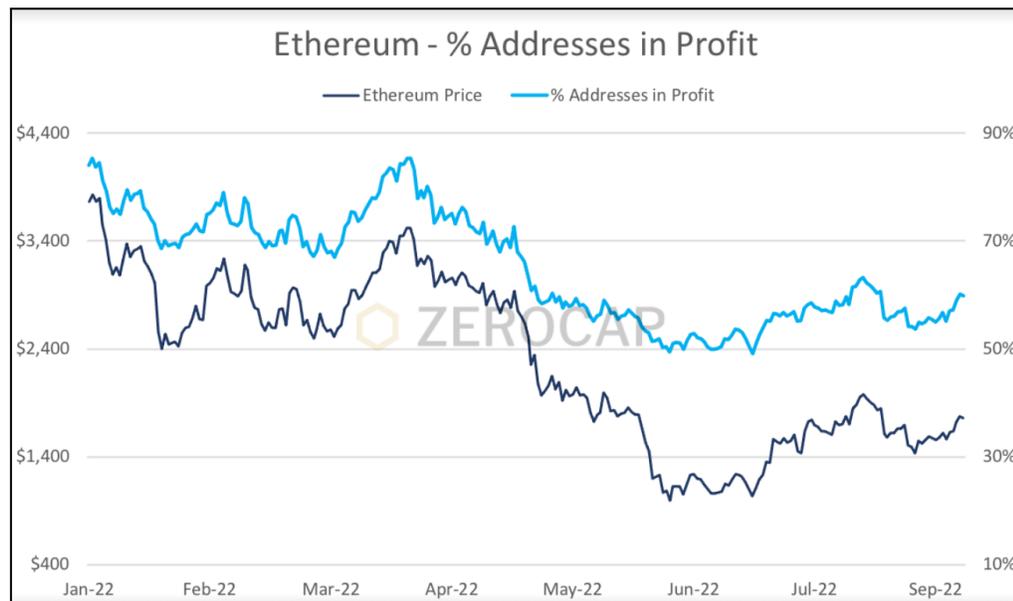
Data source: Glassnode

- Ethereum's largest holders continue to accumulate ETH. Since Monday, holders with over 100k ETH have added 0.9% of the circulating supply to their holdings (~\$1.9 billion). Whilst this increase is historically reflective of substantial buy pressure, the underlying motive is not certain. With a number of complex merge trades relying on spot ETH holdings, there is potential for this added balance to equal added sell pressure post-merge if parties may unwind trades.



Data source: Glassnode

- The percentage of ETH addresses in profit also remains an important metric to watch. Given the current context, whereby investors are likely aiming to recoup bear market losses, as price edges higher, so does the likelihood of potential profit taking amongst participants. With the merge being touted as a ‘buy the rumour, sell the news’ event, it is possible that medium-term price action could counteract the crowded view. Despite this, short-term volatility is expected around the merge. In our view, with more than half of the supply sitting in profit planning to de-risk before, at the time of and after the event, downside pressure is likely.



Data source: Glassnode

- This coming week will host a landmark event for 2022. Open interest in the options markets depicts substantial preparation amongst traders. In addition, many larger holders of Ethereum have been persistently accumulating in anticipation. Notably, alongside Ethereum's merge is inflationary data out of the US. Whilst we have historically seen a co-dependence between high beta assets and Ethereum, given the scale of the event, participants may see a breakdown in this relationship. Nonetheless, volatility can be expected.

## DeFi

- Frax Finance is launching its own permissionless lending market on its native stablecoin protocol. As a permissionless lending market, Fraxlend will facilitate the borrowing and lending of any token supported by Chainlink's price oracles. This decentralised application seeks to create more cash flow for Frax Finance, ergo enabling Frax to buy back and burn FXS - the protocol's governance token. With this new platform, Frax's



presence extends to the most popular sectors of the DeFi space; an algorithmic stablecoin, a decentralised exchange and a lending protocol.

- Coinbase released a Maker proposal that specifies that MakerDAO is set to transfer 33% of its peg stability module (PSM) into a Coinbase Prime account to receive 1.5% APY. MakerDAO's PSM protects DAI's \$1 USD peg by allowing users to swap accepted collateral directly for DAI at a fixed rate. Currently, DAI's PSM has \$1.6 billion USD, meaning that if this proposal is accepted, Coinbase will receive \$528 million USD and pay Maker a total of \$24 million USD per year in interest. This proposal will enable MakerDAO to generate revenue on idle assets within its balance sheet.

### Innovation

- Binance finished development of zkBNB, a zero-knowledge network as part of the Binance Smart Chain (BSC) and subsequently open-sourced the platform code. Like Ethereum Layer 2s, zkBNB seeks to leverage BSC's security whilst simultaneously increasing scalability through zero-knowledge proofs. The new platform is only available in testnet, with a mainnet launch target set at the end of 2022. According to Binance, zkBNB can support up to 100 million addresses and handle over 5k transactions per second.

### NFTs & Metaverse

- In the lead up to the 2022 World Cup, FIFA has announced that it will release Algorand-based NFTs on its own marketplace. This platform, named FIFA Collect+, will offer soccer-based collectibles, including moments, art and imagery, primarily based on the World Cup. All NFTs sold on FIFA Collect+ are powered by Algorand smart contracts given the entities' partnership established in May 2022.
- Technology giant, LG Electronics, will be launching a new NFT platform in collaboration with Hedera Hashgraph called LG Art Lab. LG's platform will enable customers to trade their NFTs and notably facilitate the display of digital artwork on their televisions.



Initially, LG Art Lab will only be available in the US on specific televisions. The interface is sought to additionally feature profiles of artists and previews of their upcoming work upon their NFT being presented on one's television.

- Chinese companies working on metaverse technology have raised \$780 million USD, 5.46 billion yuan, to build and improve the infrastructure for the sector. With 160k virtual human enterprises, there are 20 cities/provinces in China that are supporting the metaverse. Moreover, the report announcing the total raised by these companies also outlined that the market size of China's metaverse is expected to grow to \$5.8 trillion USD by 2030.

### What to Watch

- The Ethereum Merge, implemented anytime between Tuesday and Thursday.
- US and UK's Core Price Index, on Tuesday and Wednesday.
- US retail sales, on Thursday.
- Mark Zuckerberg and Meta's potential response following FTC's legal request - the Meta founder has until 24th October to comply with demands.

### Insights

- Have you heard of [Regenerative Finance \(ReFi\)](#)? In this part 1 of 3 series, Innovation Analyst Nathan Lenga details what constitutes ReFi, the problem it's attempting to solve and an example of "the Tragedy of the Commons."

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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