



# ZEROCAP

## Weekly Crypto Market Wrap

12 September 2022 – 18 September 2022

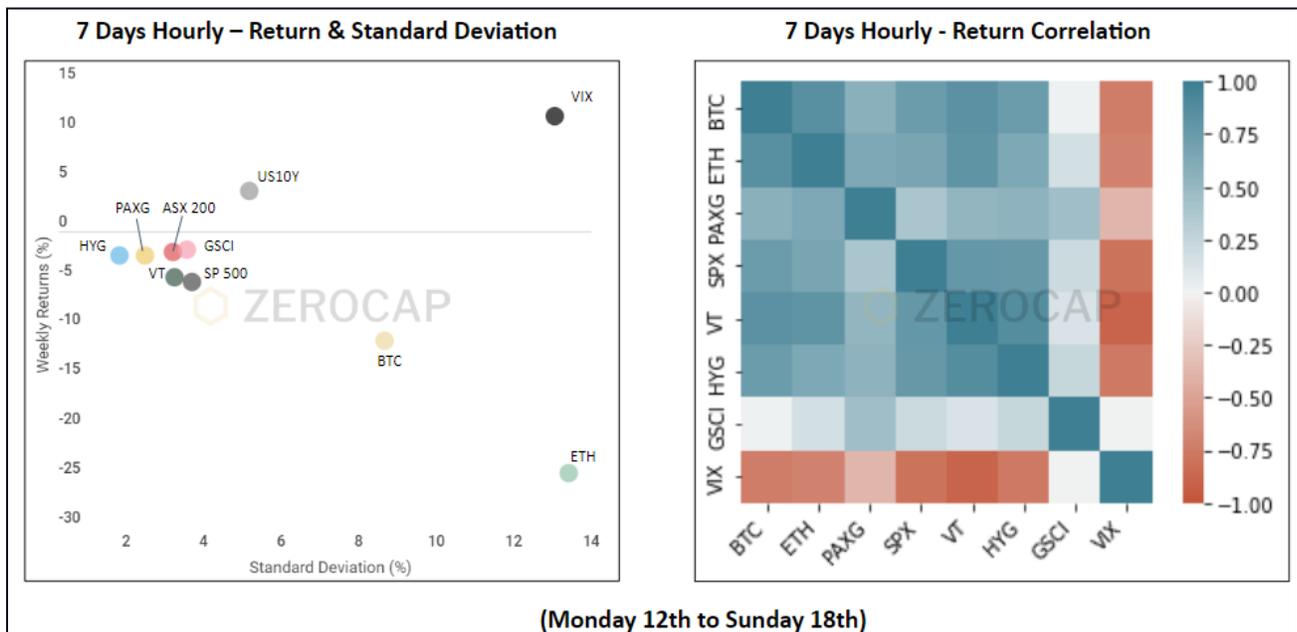
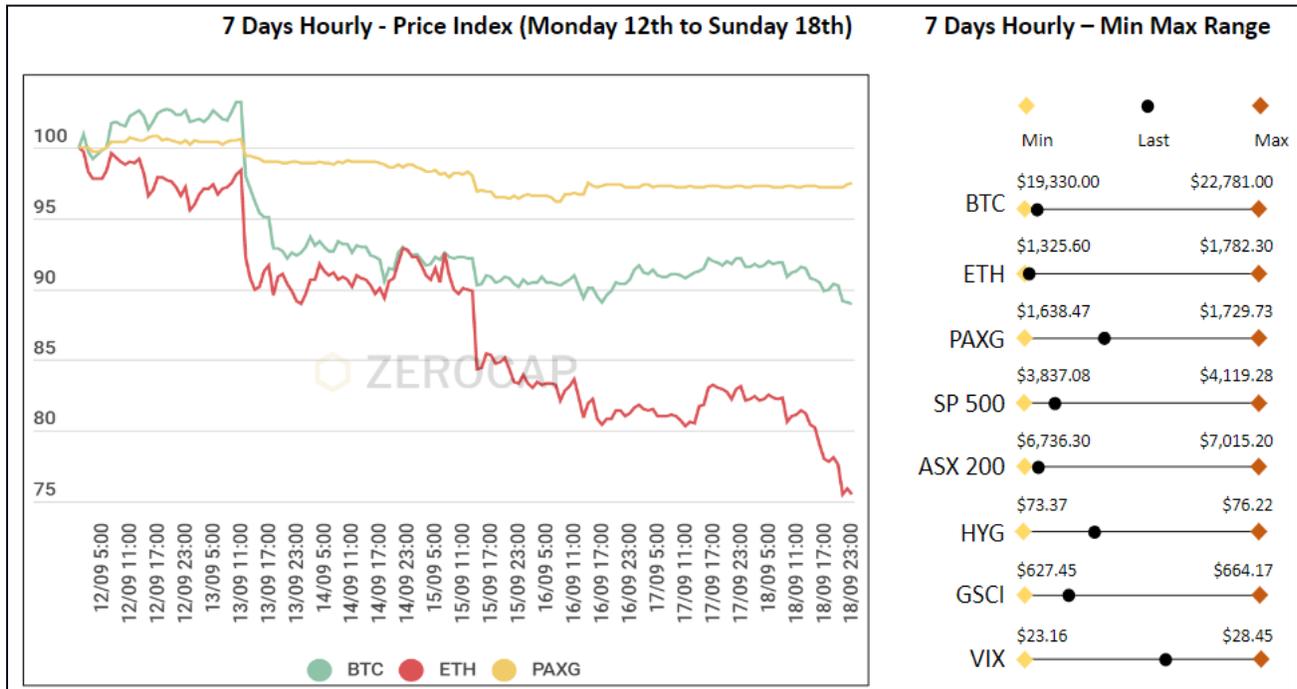
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### Week in Review

- Ethereum [Merge](#) successful - network now uses Proof of Stake (PoS) framework.
- [White House](#) publishes first-ever full crypto framework following Biden's executive order in March - calls for consumer protection, affordable services, responsible innovation, US' financial leadership and more.
- US Treasury Department [releases thorough report](#) on crypto assets and its consumers.
- South Korea [issues arrest warrant](#) for Terra (LUNA) co-founder Do Kwon.
- Following Ethereum merge, [SEC Chair Gary Gensler](#) says PoS assets could be securities.
- Bitcoin celebrates [5,000 days online](#) - first block was mined on 3rd January 2009.
- Tokenisation of illiquid assets to reach \$16 trillion by 2030 - [Boston Consulting Group](#).
- [ECB](#) chooses Amazon and four other companies to pilot Digital Euro apps.
- White House department analysing 18 framework options for digital dollar; [report](#).
- Emerging nations lead global crypto adoption - [Chainalysis report](#).
- [Norwegian central bank](#) using Ethereum to build its CBDC.
- Tesla launches "[Cyberwhistle](#)" that can only be purchased with dogecoin.
- [US inflation](#) rises more than expected, while [UK's](#) fall for the first time in nearly a year.
- [Putin and Xi Jinping](#) meet amid CCP leader's concerns for Ukraine conflict fallout.



### Winners & Losers



## Macro Environment

- Markets expecting a softer inflation print were rattled, following the United States' red-hot Consumer Price Index (CPI) figures for August. The increase of +0.1% (seasonally adjusted), missed market projections for a fall of -0.1%. The rise in the index was attributed to surging shelter, medical expenses and food costs - gaining 0.8% MoM alone. US treasury yields (UST) were quick to react, 2Y US treasury yields pushed upwards of 21 basis points (bps), widening the 2Y and 10Y UST yield inversion in excess of 30bps on the day, and finishing the week with a 2Y & 10Y inversion of -42bps. Markets sold off across the board, the risk-off pivot seeing the NASDAQ contract more than 6% to a low of 11710. The S&P 500, also down 5.15% WoW, recorded its worst daily performance in 2 years.
- Foreign exchange markets reacted sporadically to macroeconomic indicators and data released throughout the week. The dollar (DXY) jumped from a daily low of 107.69 to a high of 110.012 on the back of the FED's unexpected CPI print, swaps moving to price in a jumbo 0.75% hike in next week's Fed meeting. The Japanese Yen (JPY) dominated mid-week foreign exchange markets after a supposed market-maker (MM) "rate check" by the Bank of Japan (BOJ). The BOJ's elaborate signalling sent the USD/JPY pair back below the closely monitored ¥145 resistance level. Although the BOJ remains dovish, this move may open the door for a potential flip in its expansionary monetary policy stance. After Tuesday's 1% depreciation in the United Kingdom's Sterling Pound (GBP), a continued downtrend saw the GBP/USD pair bite below the 1.1351 (GBP/USD), a level not seen in 37 years. The AUD/USD pair, also at its weakest since the 2020s, hovered week-end at around \$0.667, the Euro again testing parity heading into the weekend.
- More economic indicators were released mid-week; The German Zentrum für Europäische Wirtschaftsforschung (ZEW) - economic sentiment index came out with a sour reading of -61.9, the most pessimistic reading from institutions and analysts since the global financial crisis (GFC). The US also, with more surprises, presented worse than expected US Producer Price Index numbers (above market expectations at 7.3% core), and an accompanying fall in Industrial production of -0.2% (missing the anticipated 0%).



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- The Reserve Bank of Australia (RBA) released updated unemployment figures for the month of August on Thursday. The unemployment rate was up just 0.1% on July's readings, now at 3.5%, a level still far-below Australia's estimated Non-Accelerating Inflation Rate of Unemployment (NAIRU) of 4.5%. Analysts note that whilst unemployment levels remain at record lows, underemployment remains relatively high at 5.9%, attributed to an emerging gig economy and shifting socio-economic values.
- Commodity prices tanked as a result of a stronger dollar, WTI and Brent visited weekly lows of \$83.783 and \$89.36, finishing the week lower -0.97% and -1.65% respectively. Gold also dropped lower through \$1,660.



### Technicals & Order Flow

#### Bitcoin



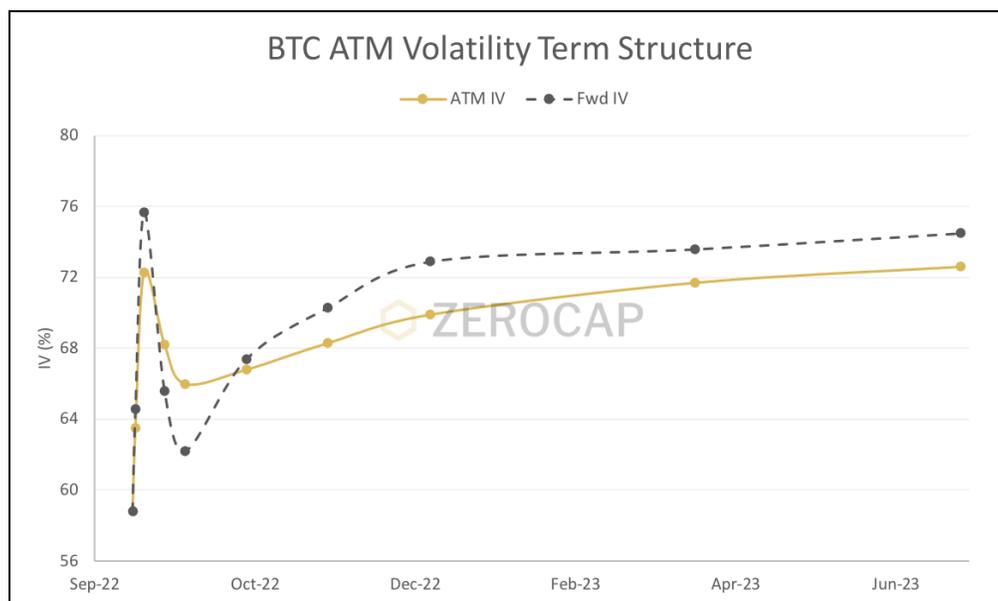
Data source: Tradingview

- Early this week, Bitcoin benefited from bullish momentum and pushed higher. Bulls found resistance at the 22,630 level and as bid volumes began to diminish, upward action tapered. In less than 8 hours, substantial mid-week selling caused the price to plummet 11.95% with the 19,650 support halting action. Short-term action is heavy with prior significant lows at 17,550 looking unstable - the last key support before the 11,000 - 14,000 range.
- Alongside bolstered sentiment in anticipation of Ethereum’s merge to PoS, participants across wider markets seemed to have leaned toward a reduction in monthly US inflation expectations. Consequently, Bitcoin and equities ascended into the Fed’s print on Wednesday. However, hotter than expected CPI flipped sentiment, with investors turning risk-off, with pricing adjusting to reflect an expected 75bp hike during this



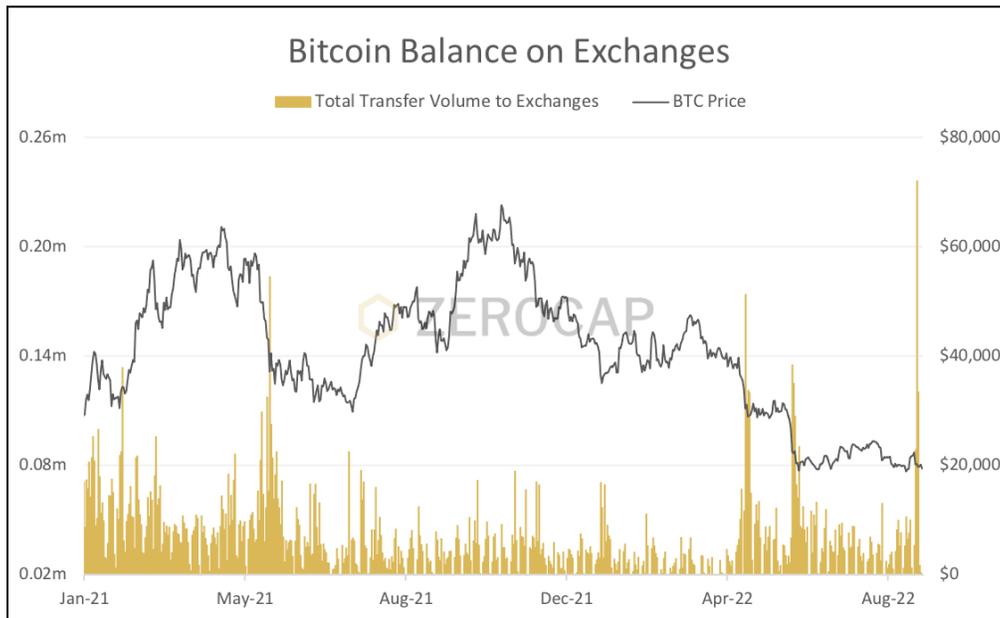
coming week's US interest rate decision. High beta assets such as ETH and BTC were all hit hardest.

- Bitcoin's at-the-money volatility term structure reflects a propensity toward front-week vols leading into this coming week's FOMC. Historically, given the current hawkish sentiment, traders may see this as a hedging opportunity against any downside moves.



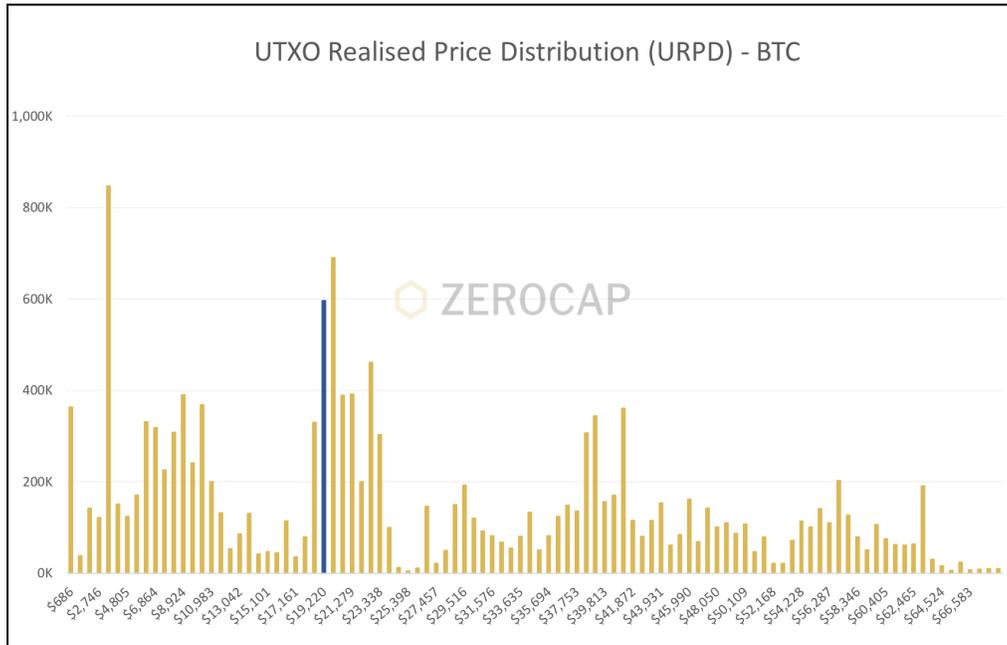
Data source: Derebit

- This week, a day prior to Ethereum's merge, Bitcoin exchange inflows marked a 2.5-year high. Similar to traders hedging risk in the options markets, market participants were likely preparing for volatility around the merge. Given the heightened expected volatility regarding this coming week's FOMC and the increased availability of Bitcoin on exchanges - if expectations are missed, there could be some substantial selling pressure.



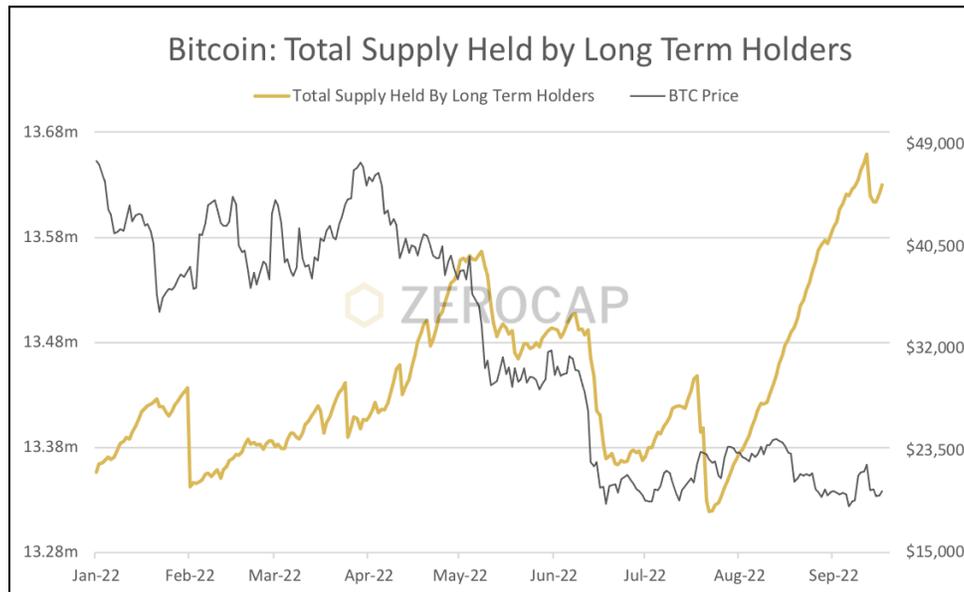
Data source: Glassnode

- URPD is a useful metric in identifying growing levels of support. Notably, a void of transacted volumes also indicates a lack of support or resistance. Significant volumes have been transacted within the 18,760 - 23,500 zone, solidifying this range as a potential long-term support. However, Bitcoin currently resides at the lower end of this zone and a fall below 18,760 reaffirms the possibility of a move to below 15,000.



Data source: Glassnode

- Notably, since the end of July we've seen long-term holders accumulate. Given a clear favour toward accumulation at current prices, a move lower may only be brief as firmer hands take advantage of relatively attractive pricing.



Data source: Glassnode

- This week, Bitcoin suffered at the hands of worse than expected inflation data out of the US. Despite significant anticipation and then the success of Ethereum’s merge to PoS, Bitcoin retraced lower below 20,000. Closing -11.07% WoW. Arguably, BTC is in a vulnerable position and some traders have recognised this, valuing option protection in anticipation of this coming week’s FOMC. While there is a growing availability of Bitcoin on exchanges, it is possible that any moves below the 18,760 support will draw lots of attention. Nonetheless, traders are likely keeping their eyes peeled for any updates from the Fed.



### Ethereum



Data source: Tradingview

- On the 15th of September, the Ethereum merge occurred, shifting the dominant blockchain's consensus layer from proof of work to proof of stake. The event was highly successful with 96% of Ethereum's proof of stake blocks in the first 2 epochs (6.4 minutes) being confirmed by over 66% of active validators. This time requirement stems from the point at which a block is finalised on Ethereum, occurring when a block of transactions cannot be reversed. Further, the merge successfully brought down Ethereum's energy consumption by 99.98%, subsequently lowering the global energy consumption by 0.2%. As such, many in the community have speculated that governments and institutions will be more receptive to Ethereum. To obtain a deeper understanding of Ethereum's merge, check out Zerocap's articles; [part 1](#) and [part 2](#).
- Ethereum began the week consolidating under 1,800 as the market remained on stand-by ahead of Tuesday's US CPI numbers. With a firmer than expected print, prices

swiftly dropped with ETH losing -8.35% in just four hours. Following the announcement, volatility remained as traders attempted to reposition ahead of the merge. After the event, the price continued to drop. By Sunday, previous support at 1,420 was retested and broken leading to a WoW return of -24.47% at Sunday close. Looking forward, it is in our view that the 1,200 region is strongly indicated to be the next key support area.

### ETHBTC Daily Chart

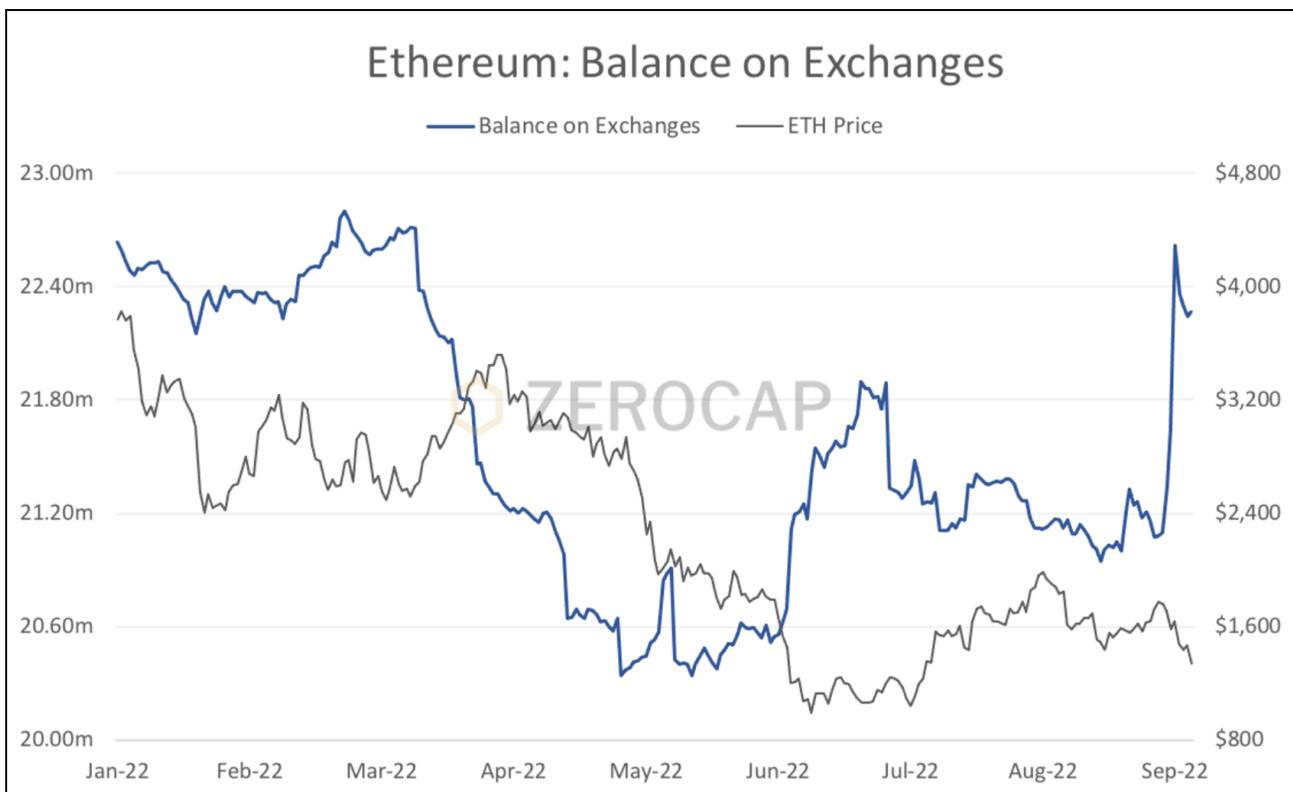


Data source: Tradingview

- ETH/BTC was similar to ETH/USD price action this week as the asset fell victim to its high beta risk asset narrative. By mid-week, it recovered a portion of its relative loss, retesting the 0.082 level. Following a failed reclaim, the pair saw its price drop quite significantly to return -15% WoW. The relative loss on the week is likely related to inflated expectations around the merge's impact on price and the subsequent unwind that occurred.



- Ethereum’s balance on exchanges saw a significant spike in the hours leading up to and following the merge, reaching levels not seen since March. It is in our view that, whilst a portion of this volume was likely due to participants hoping to catch the PoW airdrop sooner by taking advantage of exchange policies, a large portion of market participants were also moving funds with the probable intention of distributing their ETH position around the event.

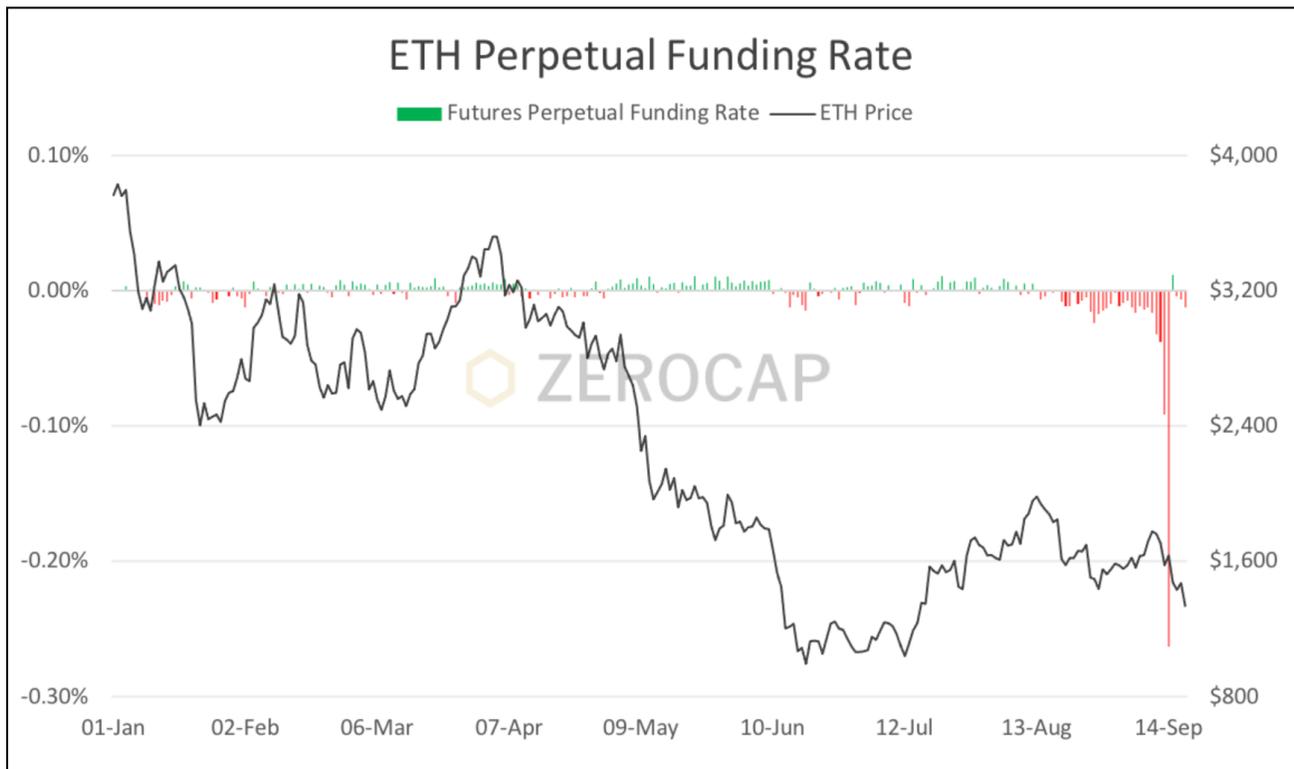


Data source: Glassnode

- Ethereum’s perpetual futures funding across exchanges also saw a heavy uptick this week as traders entered delta hedged positions to earn the PoW airdrop - the reasoning for such a significant increase in the number of traders that entered delta-neutral



strategies to yield the PoW fork. By entering so close to the merge date, they were presumably able to avoid overpaying funding costs as some others did.



Data source: Glassnode

- An important feature of Ethereum post-merge is that the supply of ETH becomes technically deflationary. However, since the event, the circulating supply of ETH has risen by 2.85k. This is due to the dynamic relationship between the amount of ETH staked, gas fees and the supply. As the amount of ETH staked rises, more rewards are paid out to validators, meaning the ETH supply increases. Simultaneously, as network usage grows, higher gas fees are paid and hence more ETH gets burned. With the 13.6 million ETH staked, the average gas fee needs to be about 15 GWEI for the token to become deflationary. As the current gas fees are averaging about 5 GWEI, the supply of ETH is going up.



### DeFi

- Marking the 12th blockchain USDT is integrated with, Tether has partnered with NEAR Protocol to natively launch its stablecoin on the network. Unlike bridged versions of USDT which face additional risks relating to cross-chain bridge exploits, Tether will accept USDT redemptions on the Near blockchains. With the popular stablecoin joining the NEAR DeFi ecosystem, it is our view that USDT will likely drive liquidity to the chain as more protocols build on Near to obtain the token's stability.

### Innovation

- Starbucks announced the Starbucks Odyssey event at its annual investor day, highlighting its venture into the Web3 space. The process will see the merging of the successful Starbucks Loyalty program with a Polygon-based NFT platform. To engage with the Odyssey experience, Starbucks Rewards members will participate in activities known as 'journeys'. These 'journeys' can include interactive games and challenges which relate to Starbucks' brand and the history of coffee. Once completed, members will earn Polygon NFTs and points. These rewards unlock exclusive benefits that range from virtual espresso martini-making classes to travel packages.
- Google Cloud has become Axie Infinity's Ronin Network's 18th validator as part of the chain's aggressive attempt to diversify its validators after incurring a \$600 million USD hack earlier this year. Since the exploit in March, the network's validators have doubled. The collaboration will leverage Google Cloud's Search technology to validate transactions coming through Ronin. In addition to this partnership, Google Cloud has previously worked with other blockchains, including Theta and Hedera. Beyond this, Google Cloud has a Web3 team, the Digital Assets Team, that is dedicated to building services for developers in the blockchain sector.



### NFTs & Metaverse

- Despite Ethereum-based NFTs historically dominating the sector, Solana NFTs have recently been gaining traction, reaching all-time highs regarding the number of mints, transactions and volume. Over the last week, Solana facilitated 1 million NFT transactions, with an aggregated volume of just under \$43 million USD. This surge in activity has been driven primarily by a number of collections, including the leading collection, DeGods and the newly minted y00ts. Moreover, this record-breaking week for the NFT ecosystem on Solana was lifted by Dust Labs, the company behind both DeGods and y00ts, closing its \$7 million USD seed funding round.
- Following the establishment of SudoSwap, an NFT-focused automated market maker that enables users to avoid creator royalties, some platforms, like X2Y2, have adopted a similar, royalty fee model to retain volumes. In response, Solana's Magic Eden has partnered with marketplace Coral Cube to launch MetaShield. This product protects creators' royalties through tracking Solana-based NFTs across other platforms, noting when sales occur without royalties. In these situations, the NFT will automatically incur debt for the unpaid royalties which can be settled by any individual looking to make the NFT "whole" again. MetaShield incentivises the sale of NFTs with royalties for future transactions.
- Though the ETH merge likely had a minimal impact on NFTs themselves, investors paid exorbitant gas fees to obtain verifiable proof of their involvement with this historical event. The founder of an NFT project called VanityBlocks which enables individuals to fill an entire Ethereum block with a single block and subsequently turn that block into an NFT, paid 30.5 ETH, \$47.2k USD, to mint the final proof of work block on the Ethereum blockchain. Furthermore, a gas war arose between a number of parties to mint the first NFT on the Ethereum proof of stake chain. Within 17 seconds, the first NFT was minted, costing the holder 36.8 ETH, \$60.6k USD, in gas fees.
- The company behind the popular Ethereum NFT collection, Doodles, has raised \$54 million USD at a \$704 million USD valuation amidst the downturn in NFT trading



volumes. Despite minting a year ago, Doodles is one of the largest and most dominant collections. The fresh capital by Doodles is set to increase its dominance by expanding into the music and gaming spaces.

### What to Watch

- FOMC's conference with economic projections and federal funds rate, on Wednesday.
- Japan and UK's monetary policy statements, on Thursday.
- Fed Chair Jerome Powell speaks, on Friday.

### Insights

- [New Aussie product trades the Ethereum merge](#): A Write up by the Australian Financial Review on Zerocap's ETH Merge Note, our latest structured product allowing investors to profit from volatility in the market for Ethereum, following the blockchain network's historic software upgrade.
- [The Ethereum Merge updates: What are the main changes in the Ethereum network?](#) After a few delays and plenty of waiting, the Ethereum Merge is finally here. In this article, Innovation Analyst Nathan Lenga covers the most important changes related to the Merge and how they affect the network, the ETH crypto asset and Layer 2s moving forward.
- [Aussie crypto firms to cash in on Ethereum merge](#): Zerocap Head of Trading Toby Chapple provides insights on Ethereum merge flows and the recent market momentum in this Australian Financial Review piece by Aleks Vickovich and Jessica Sier.



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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