ZEROCAP

Weekly Crypto Market Wrap

5 December - 11 December 2022

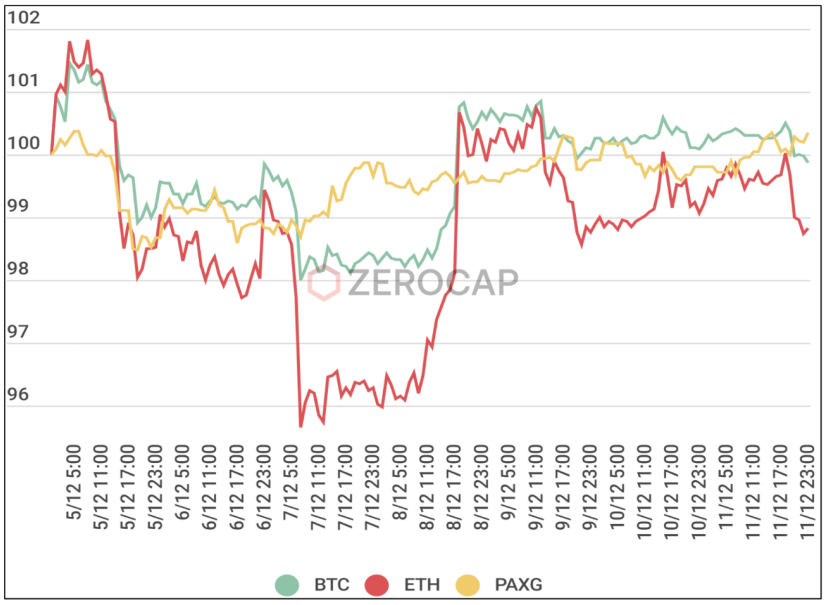
Zerocap provides digital asset investment custodial services to forward-thinking investors and institutions globally. For frictionless access to digital assets with industry-leading security, contact our team at hello@zerocap.com or visit our website www.zerocap.com

Week in Review

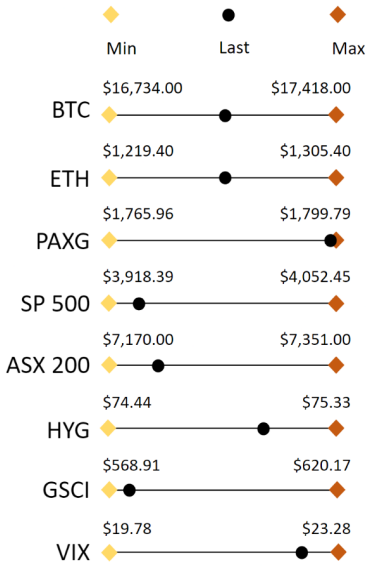
- Next FTX hearing in US Congress set for tomorrow - House Committee pushes back on founder Sam Bankman-Fried attempts on delaying testimony, misses deadline - US Department of Justice investigating SBF for siphoning funds out of the country.
- US SEC calls for crypto firms to disclose exposure to bankruptcies and other risks, shares sample letter for companies to consider whether they should update disclosures.
- Institutional registrations for trading platform spiked 57% in November; Bitstamp report.
- US Senators Elizabeth Warren and Tina Smith criticise banking ties with crypto firms, question federal regulators.
- "No healthy business can be destroyed by a tweet." - Binance CEO CZ calls out FTX's Sam Bankman-Fried, calls him "master manipulator" in the wake of bankruptcy.
- Goldman Sachs allegedly looking to buy crypto firms following FTX collapse.
- EU's Central Bank official proposes ban of tokens with "excessive ecological footprint."
- Lender Genesis warns customers that withdrawal freeze may last "additional weeks."
- USDC's Circle terminates SPAC merger, previously valued at $9 billion.
- Coca-Cola partners with Crypto.com for NFT collection celebrating Qatar World Cup.
- Chinese court defines NFTs as virtual property protected by local law.
- Nigeria limits ATM cash withdrawals to $225 a week in push for its new CBDC.
- US' Consumer Sentiment report improves in December as inflation concerns ease.

Winners & Losers

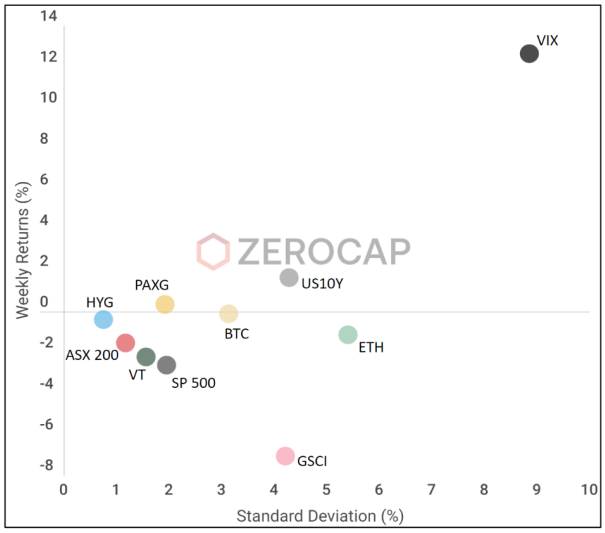
7 Days Hourly - Price Index (Monday 5th to Sunday 11th)



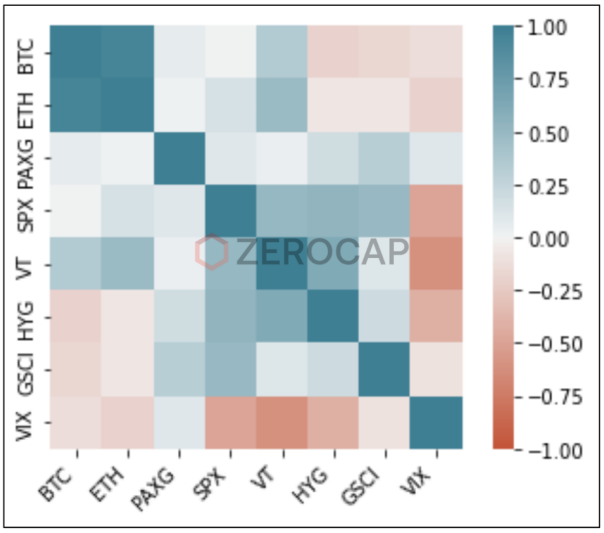
7 Days Hourly – Min Max Range



7 Days Hourly – Return & Standard Deviation



7 Days Hourly - Return Correlation



(Monday 5th to Sunday 11th)

Data source: Tradingview

Macro Environment

- Monday saw the latest release of the United States (US)'s Institute of Supply Management (ISM) Services PMI numbers, which reported an upside surprise of 56.5% for the month of November. The 56.5 print presents the 30th consecutive month of growth in the services sector, beating market expectations for a print of 53.3, notably also 210 basis points above October's two-year low print of 54.4. The stronger economic data raises fresh concerns over the potential for the US Federal Reserve to continue hiking interest rates above the projected 4.6% in 2023. The Business Activity Index increased by 9 percentage points, from 55.7% in October to 64.7% in November. The increased business activity and employment were seemingly prompted by the upcoming holiday period and renewed market sentiment. The New Orders Index, contracted slightly by 0.5 percentage points from 56.5% in October to 56% in November. The Supplier Deliveries Index also decreased by 2.4 percentage points from October's reading of 56.2 to 53.8 (a reading above 50 indicating slower deliveries). Price pressures seemed to ease with the price index lower at 70% despite inventories also shrinking to 47.9.

- The US Producer Price Index (PPI) adjusted for final demand posted monthly gains of 0.3%, corresponding with October's revised numbers - also beating forecasts of 0.2%. A significant contributor to the movement was the increased cost of services surging +0.4% MoM - posting the largest gains in three months. A +0.1% increase in the costs of goods was attributed to the rising costs of fruit and vegetables up +38.1%. Underlying producer prices showed signs of moderation, climbing just +7.4% YoY - the lowest YoY rate of increase in the last one and a half years. According to the preliminary December reading from the University of Michigan, consumers expect prices to rise at an annual rate of 4.6% over the next year, down from the 4.9% expected in November and the lowest level since September 2021.

- The manufacturing sector showed partial strength, with new orders for US manufactured goods rising 1% in October, surpassing analyst estimates of 0.7%. Demand for durable goods rose 0.4%, amongst expanding demand for factory

equipment, machinery, household vehicles and electronics. Demand for non-durables rose a greater +1%, some economists alluding to the latter as a potential "lipstick effect" starting to creep into household spending.

- China's trade surplus for November 2022 fell to $69.84 billion, well below market predictions of a surplus of $78.1 billion. This was the smallest trade surplus since April, as global and domestic demand remains constrained due to ongoing supply bottlenecks, and the recent COVID resurgence. Exports declined a notable -8.7% year-over-year, marking the second consecutive month of decline, as overseas demand continues to weaken.

- The S&P 500 closed the week down -2.64%, with the DXY slightly stronger at 104.963. OIL and GOLD were standouts - WTI plummeted to a near-yearly low of 70.241 (closing -13.213% WoW), and the GOLD recovery narrative continued - closing the week up +0.141% at 1794.99.

Technicals & Order Flow

Bitcoin

Data source: Tradingview

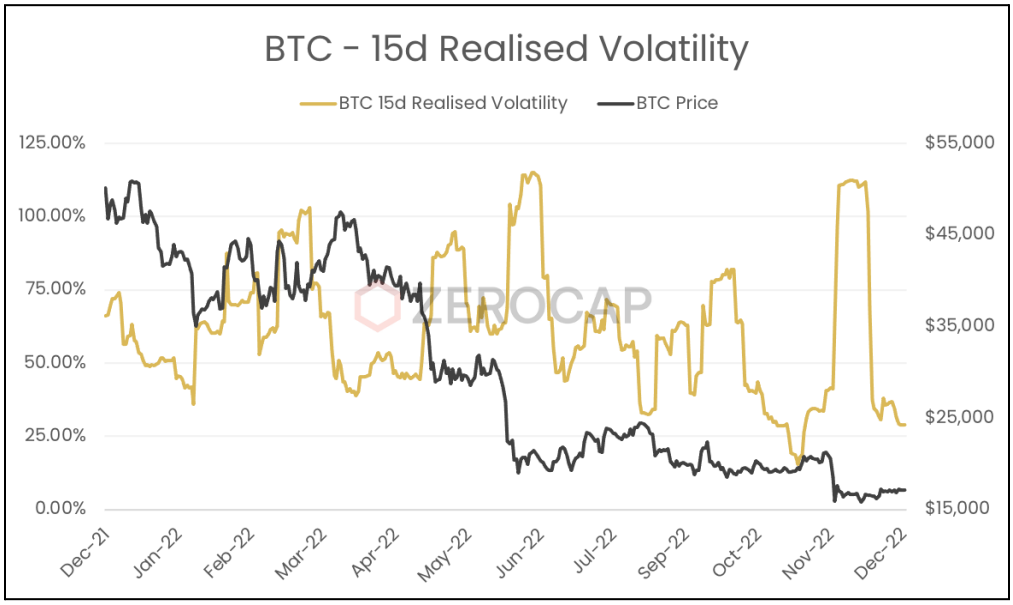
- Last week, BTC entered with buy-side pressure, quickly marking weekly highs of 17,418. Soon after, risk-off sentiment drove the price downward. Notably, the 16,700 – 16,800 zone has formed a base. Price edged higher and above 17,000 into the weekend session, with a late sell-off resulting in a WoW return of -0.13%. Zooming out on the daily charts shows strong compression in volatility. However, a shift in volatility can be expected around this coming week's CPI out of the U.S. A bearish breakdown from the 16,700-16,800 zone could lead to a re-test of the 15,500 support and any bullish moves need to press against resistance placed at 17,400 to affirm a continued move higher.

- Last week, BTC's action was heavily influenced by adjusting rate hike expectations. On Monday, stronger-than-expected ISM Services PMI drove fears of continued rate hikes from the Fed and BTC's action suffered. Following some mid-week consolidation, weak economic data out of China saw Chinese equities such as Nikkei 225 and the Shanghai

Composite Index trade lower. Prior to Wall Street's opening, their imposing influence was reflected in BTC's action with price moving to weekly lows.

- Crypto-specific sentiment was somewhat bolstered following the release of Binance's proof of Bitcoin reserves by South African auditor Mazars. Also, the inflation outlook improved Thursday following U.S. Jobless Claims to come in better than expected. BTC reclaimed 17,000. However, on Friday the pair reacted poorly to U.S. PPI data. While beating expectations, the continued rise of wholesale costs prompted participants to reassess inflation outlooks.

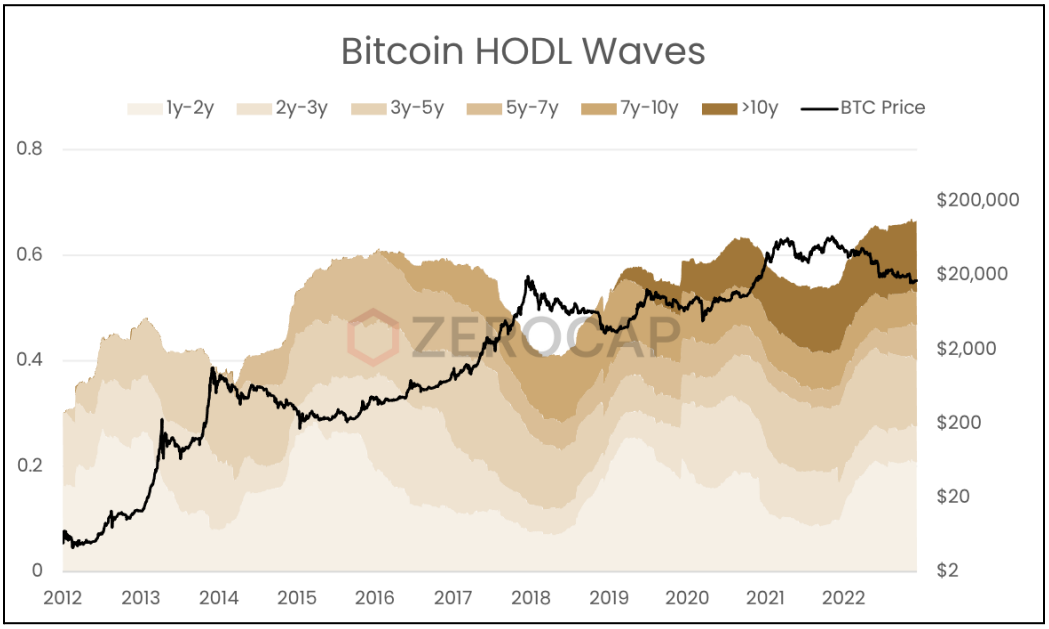
- Since FTX, Bitcoin's volatility has come off significantly. Specifically, the 15-day realised volatility is sitting at the fourth percentile for the past year, meaning that BTC's volatility profile has been higher 96% of the time when compared to current levels. Alongside realised volatility, implied volatilities are tracking lower with the only buying interest centred around short-term expiries for upcoming macro events in the US - namely inflation data and the FOMC rate decision.



Data source: Derebit

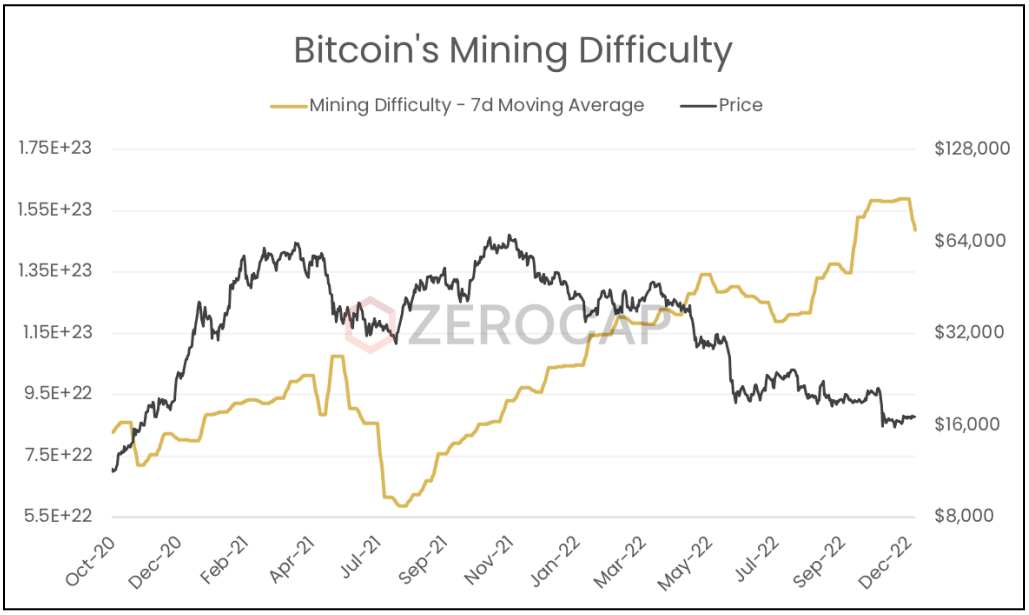
- BTC's HODL Waves shows the percentage of Bitcoin's circulating supply that last moved within a corresponding time period. Currently, the % supply of BTC held for longer than

one year is at an all-time high. HODL metrics can be used as a cyclical measure and prior peaks of long-term holdings have corresponded with market bottoms.



Data source: Glassnode

- Bitcoin's most recent difficulty adjustment represented a 7.32% decrease in mining difficulty. This change represents the most acute change in over a year. Miner capitulation has been a central narrative to 2022 thus far and Bitcoin's most recent adjustment outlines its continuation into the year's end.



Data source: Glassnode

- As markets draw closer to the year's end, attention is focused on the macro. This week, shifting expectations related to this coming week's CPI print-directed action can be expected to do so in the short term. Notably, BTC's realised and implied volatilities have compressed significantly FTX with some buying interest for short-term expiries. While some on-chain metrics such as BTC's HODL Waves indicate signs of a cyclical bottom, BTC's most recent mining difficulty adjustment shows continued capitulation amongst miners.

Ethereum

Data source: Tradingview

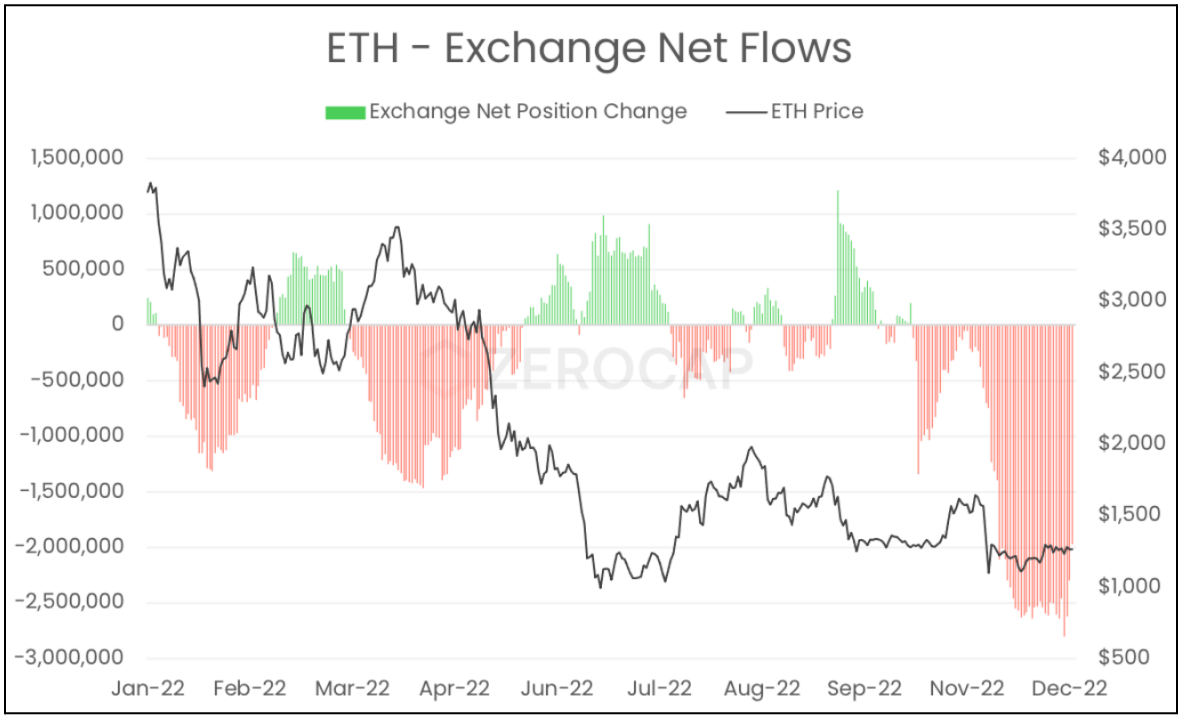
- Ethereum faced a quiet week, chopping into a tight $100 range as uncertainty resulted in consolidation under resistance. On a weekly time frame, ETH now finds itself in a compromising position, having closed the week below a previous support base at $1,275, further decreasing the likelihood of a breakout going into year-end. With a week of high-impact economic data ahead, it is likely that the market is awaiting further direction before taking directionality. This being said, as we edge towards the end of the year, it can be expected that liquidity will continue to dry up. WoW ETH/USD returned -1.28%.

ETHBTC Daily Chart

Data source: Tradingview

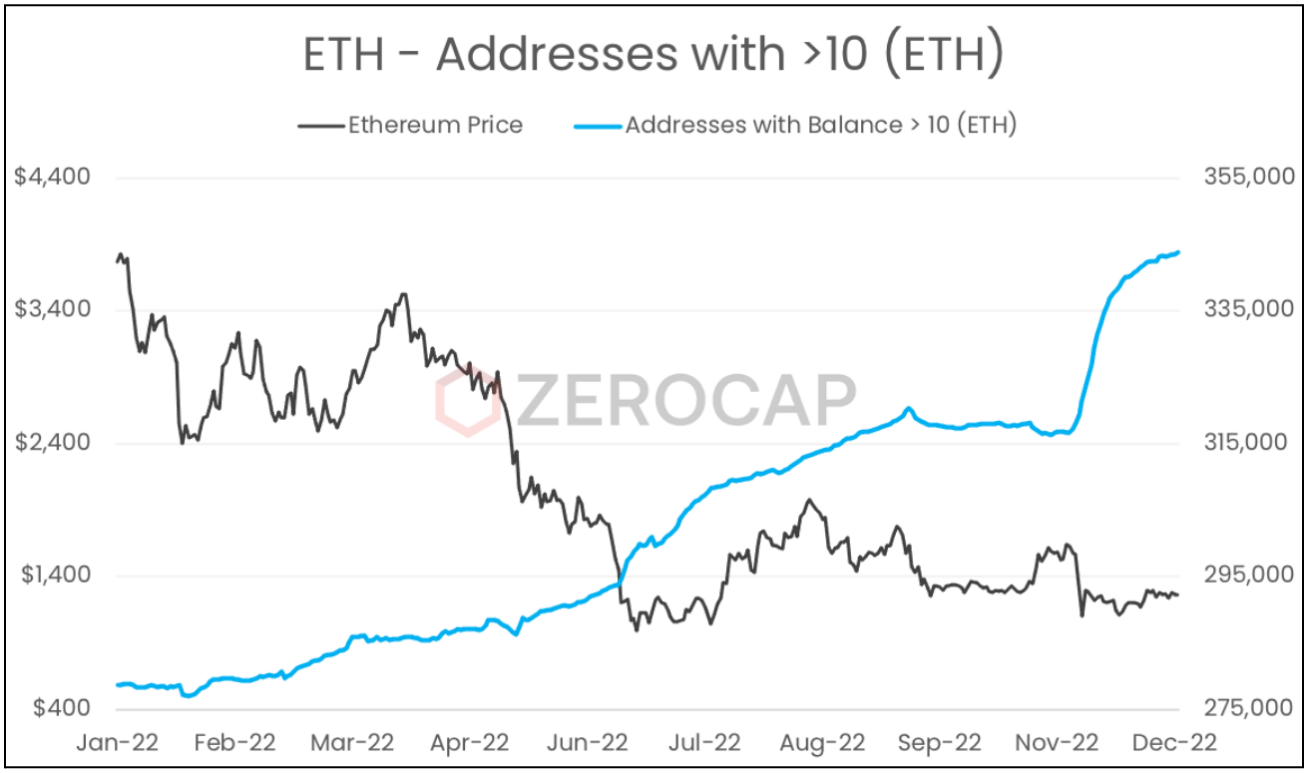
- ETH/BTC faced similar ranging activity, slowly losing steam over the course of the week. The pair still finds itself consolidating as the market searches for a narrative to latch on to. With a host of upcoming macro events, it is expected that ETH will track any risk pivot as a result of macro drivers. Overall, ETH/BTC closed the week -1.18% down.

- Despite ether's underwhelming price action last week, we have seen a consistent indication of accumulation on-chain. One of the most significant of which is the persistently high rate of exchange outflows (currently maintaining levels not seen since 2017), likely representing the purchase of cryptocurrency on exchange before withdrawing to self-custody.



Data source: Glassnode

- Further to the above point, the number of on-chain wallets with a balance larger than 10 ETH has continued to increase following FTX's collapse. Whether this increase has been driven by a shift to self custody or accumulation amongst market participants, both are incredibly positive for the state of the network given the current stage in the cycle.



Data source: Glassnode

DeFi

- Maple Finance, a decentralised finance (DeFi) lending platform, has ended its relationship with Orthogonal Trading after the company allegedly misled investors over its financial position regarding its exposure to FTX. Orthogonal Trading defaulted on 6 loans, valuing their outstanding liabilities at $31 million USD in the M11 USDC pool, which it is unable to repay. It also has another $5 million USD in liabilities in the M11 Wrapped Ethereum pool. Fortunately, Maple Finance's institutional lending pools exist independently, hence the protocol will continue operating as normal, albeit with more rigorous analysis and due diligence into institutional borrowers.

Innovation

- LGND has partnered with Warner Music Group and Polygon to launch LGND Music, a Web3 music platform set to go live in January 2023. The platform will be built on

Polygon and will enable users to buy and fully own music tokens. LGND Music will also allow select Warner Music Group artists to launch digital collectibles on the app and desktop platforms. The platform is intended to be easy to use - even for those unfamiliar with cryptocurrencies or digital collectibles; this gives the product the potential to assist in onboarding a meaningful number of web2 users into the web3 space.

- The Ethereum Foundation summarised and announced its grant allocations for Q3 of 2022. With more than $8 million USD, the Ethereum Foundation issued grants to a diverse set of companies and platforms that are building open-source software and researching the blockchain space. A significant focus on last quarter's grants was given to projects working on cryptography & zero-knowledge proofs. Other focal areas included entities developing and researching the consensus layer as well as the data availability layer, education platforms and developer tooling.

- The CEO of crypto-focused news platform, The Block, has resigned for failing to disclose $27m of loans he took from Sam Bankman-Fried's Alameda Research. Mike McCaffrey was the CEO of the site from April 2020, having previously worked as COO and chief of staff. In April 2021, McCaffrey led the charge to buy out non-employee shareholders such that The Block could become independent. The wider team believed this was being achieved through his own finances, when in reality, McCaffrey took loans to make this purchase. New CEO Bobby Moran said there was no evidence that McCaffrey had "improperly" influenced coverage of Sam Bankman-Fried, FTX or Alameda Research on the news site.

Altcoins

- Decentralised exchange (DEX), SushiSwap, is facing a severe funding issue with a runway that has fallen to 1.5 years in the bear market. This comes as a result of the DEX's $5 million USD annual expenses. Jared Gray, the DEX's "head chief" is proposing to direct all fees paid to xSushi holders into its multi-signature treasury wallet for a year. Currently, xSushi holders receive 0.05% of each swap, with 10% of that fee going to the SushiSwap treasury. The proposal would increase the treasury fee ratio from 10% to 100%, meaning

xSushi holders would no longer receive any token rewards. The original fee-sharing system would either be restored after a year or upon SushiSwap's tokenomics being successfully revamped.

- Chainlink's first staking pool has attracted 24.27 million tokens, worth around $170m, in just two days, with community allotment completely filling up within that time. The staking system is intended to preserve the high quality of Chainlink's price feed for ETH. Participants and node operators are committing their holdings of Chainlink's LINK tokens in exchange for annualised rewards of 4.75%. The success of the new staking system indicates that there is still interest from investors in digital asset projects, despite the crypto winter. Nonetheless, with the LINK token down by more than 12% over the week, Chainlink's staking appears to be a "buy the rumour, sell the news" event.

- ApeCoin's staking rewards are set to begin emitting today, and the official staking contract has already taken in nearly $32 million USD worth of APE in one day. More than 7.6 million APE have been deposited into the contract to date, along with a number of NFTs. ApeCoin's staking model provides rewards to ApeCoin holders who stake their tokens within the contract or Bored Ape and Mutant Ape NFTs. A total of 175 million APE will be awarded through staking over the next three years, with 100 million of that allocated to the first year of rewards. However, the staking model faced recent backlash when Horizen Labs announced that its official staking website would be unavailable to users in some countries, including the United States, due to regulatory concerns.

NFTs & Metaverse

- Metaverse platform, Decentraland, has launched a new feature that allows its users who own LAND to rent out the space on the platform for set periods of time. This enables LAND owners to earn passive income from their metaverse assets. Rentals will be performed in Decentraland's native token, MANA, and paid upfront. Notably, the community response to the announcement has been positive, with some individuals on Twitter suggesting that the rental service should also be available for wearables

- GameStop has announced it will no longer concentrate on cryptocurrencies as a result of suffering $94.7m in net losses during Q3 and subsequently laying off staff from its digital assets department. CEO, Matt Furlong, said the company has "minimised exposure" to cryptocurrencies, yet will end all of its ventures into this segment of the blockchain industry. Earlier this year, GameStop said it was exploring blockchain technology, non-fungible tokens and digital assets as avenues for growth. Nonetheless, GameStop's endeavours in the NFTs space are still being iterated upon.

What to Watch

- FTX's second US hearing, on Tuesday.
- US' CPI and UK's governor Bailey speech, also on Tuesday.
- FED's Economic Projections, Funds Rate and UK's CPI, on Wednesday.
- EU's Monetary Policy Statement and ECB conference, on Thursday.
- US, UK, German and Frech manufacturing reports, on Friday.

Insights

- Zerocap Special Projects Lead Kurt Grumelart with Ausbiz

  In this interview, Kurt discusses traditional institutions scouting for a bargain, how the FTX collapse affects the credit market, Circle's terminated merger deal with SPAC, exchange staff cuts and more.

- Zerocap CEO Ryan McCall at Insignia Capital's Future of Financial Services Forum

  Ryan joined IOOF's Jerry Kalogeropoulos and John Bassilios of Hall & Wilcox for a webinar on Insignia Financial's forum.

  Watch the full webinar at the link above.

- The Ethereum Energy Consumption Was Reduced by 99.9% – Here's Why

  Ethereum's energy intake following the Merge update was a never-before-seen change for any hardware-based technology: a staggering 99.9% reduction.

  But why is that possible? In this article, Head of Marketing Tammy Paola provides a straightforward explanation of the change in practice, the difference between Proof-of-Work x Proof-of-Stake and why the framework can provide a new direction for crypto networks.

Disclaimer

* 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