

Weekly Crypto Market Wrap

22nd May 2023



ZEROCAP.COM

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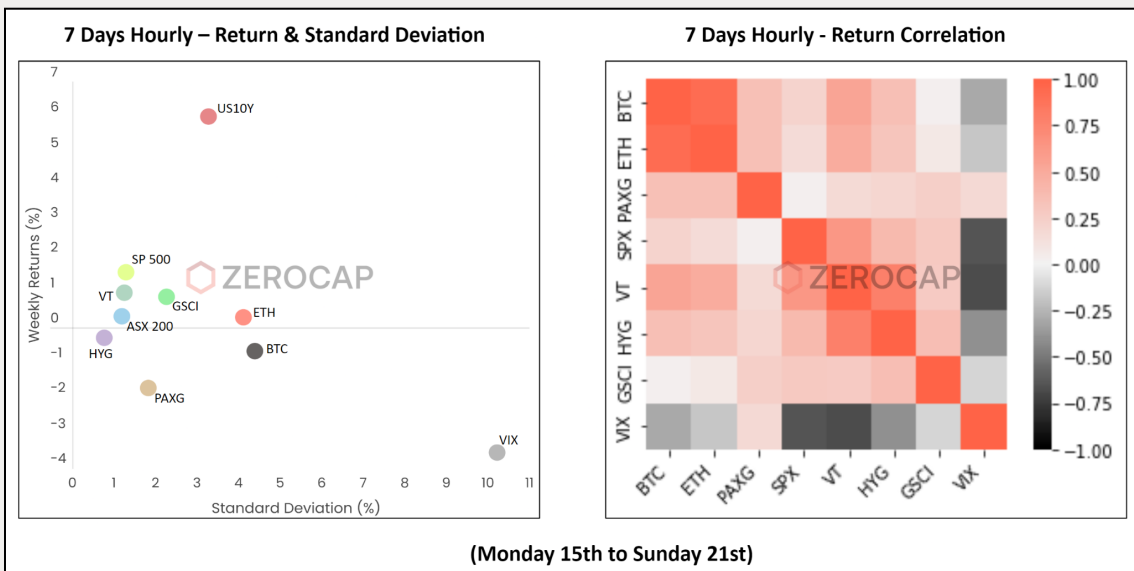
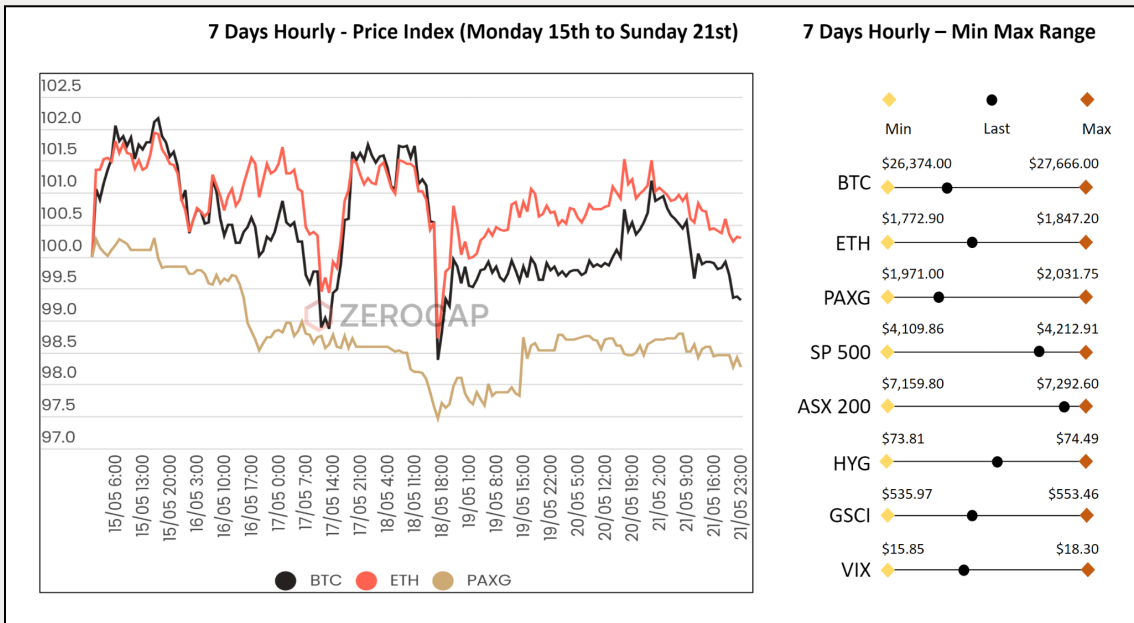
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Week in Review

- Wallet addresses holding [1 Bitcoin or more](#) reach 1 million for the first time.
- Binance Australia [suspends AUD services](#) as payments provider cuts relations - Business as usual at Zerocap, with our OTC trading services operating at full capacity and offering same-day settlement for AUD trades.
- European Union Council officially approves [Markets in Crypto Assets](#) (MiCA) regulation.
- G7 meeting pushes implementation of [global travel rules](#) for crypto assets.
- Distributed Ledger Technology could save [up to \\$100B](#) per year for traditional finance.
- Tether (USDT) vows to buy Bitcoin with [15% of its net profits](#) moving forward.
- US [Secret Service](#) holds crypto, praises blockchain technology; Reddit AMA.
- Samsung is reportedly researching [South Korea's CBDC](#) for offline payments.
- Ledger clarifies firmware frameworks following [deleted tweet controversy](#) - co-founder and former CEO clarifies [there is no backdoor](#).
- OpenAI's CEO/ChatGPT creator [Sam Altman testifies](#) before US Congress, calls for AI regulation - Elon Musk, OpenAI co-founder, [criticises company](#) for pivoting away from non-profit model following his investment.
- Instagram to reportedly launch [text-based app](#) to compete with Twitter.
- New York Fed's [Empire State factory](#) gauge plummets into negative territory.
- Fed Chair Jerome Powell hints at [pause in rate hikes](#) - US [retail sales](#) rebound with solid results, [jobless claims](#) plummet.
- [Canadian CPI](#) unexpectedly rises in April, upping rate-hike pressure.

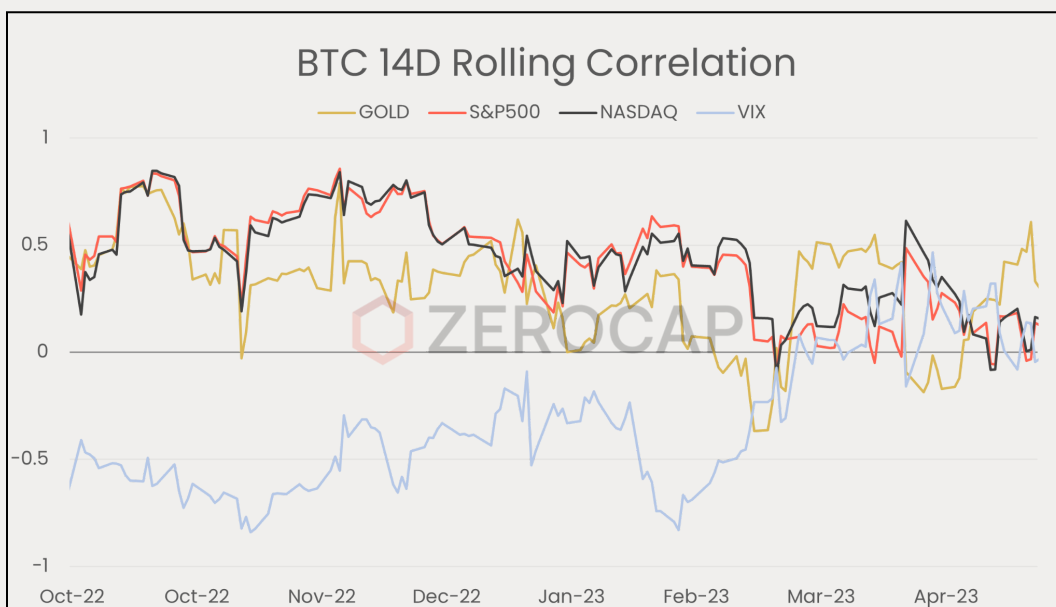
Winners & Losers



Data source: TradingView

Market Highlights

- In recent weeks, we have observed a diminishing correlation between Bitcoin (BTC) and equities, as well as BTC's relative strength in the face of banking concerns. Last week, both BTC and Ethereum (ETH) displayed negative reactions to U.S. debt ceiling talks. We also highlighted their proximity to downside support levels, particularly BTC's 100-day moving average (MA). In the current week, these critical support levels proved prudent, while market participants witnessed a continued diminished correlation to equities and relative weakness in the crypto markets. BTC and ETH experienced weekly changes of -0.7% and +0.32%, respectively, whereas the Nasdaq demonstrated a weekly increase of +3.5%. Despite prevailing concerns over U.S. banking and the debt ceiling, the prospect of the Fed concluding rate hikes saw the Nasdaq reach a one-year high with excitement in cryptocurrency's price action lagging.

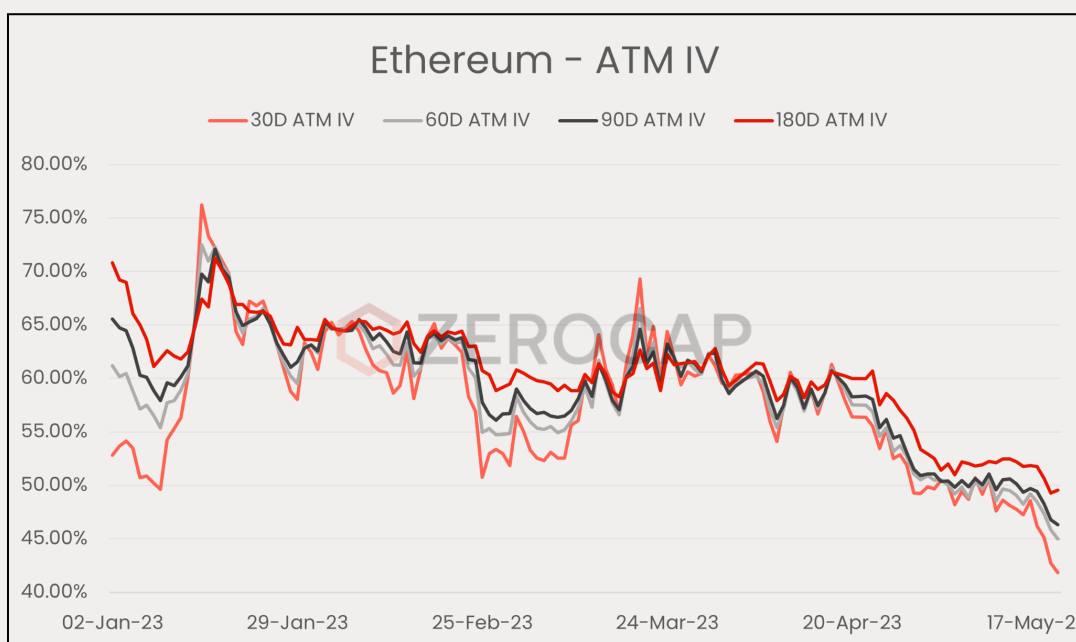


Data source: Tradingview

- The prospect of relatively cheaper liquidity and expectations of a more dovish central bank environment may act as a short-term stimulus for continued upward momentum for risk assets. Although correlation currently remains low, continued positive sentiment and strength in tech stocks could result in Bitcoin (BTC) reclaiming its status as a risk asset in the near term. The medium-term risks still weigh on all assets though - any moves closer to recession will weigh on global risk assets. This week, market participants are closely monitoring the Federal Open Market Committee (FOMC) and the

release of Personal Income/Spending data from the United States. These events will provide insights into BTC's current market positioning and further validate its trajectory.

- The persistent selling of Implied Volatility (IV) carried on throughout the week, with Ethereum's IVs notably plummeting further to record lows. This constricted price activity is largely due to the absence of news catalysts over the previous month. We're observing this impact across all risk assets, with the VOLQ (Nasdaq VIX) also hitting profoundly low levels. While volatility continues to decrease, longer-term maturities remain appealing for owning vega, particularly in Ethereum. We prefer to play this by owning strangles in September, as a strike-agnostic and cheap way to be long longer-dated volatility.



Data source: Deribit

- As anticipated, Litecoin has emerged as the prime mover WoW, as we began to witness a shift of speculative capital toward the long-established coin. With Litecoin's block reward set to halve in just 66 days, we anticipate a sustained wave of interest in LTC in the coming weeks. The total open interest in LTC futures contracts has surged by 30% in just the past few days. Concurrently, we've noticed an uptick in the sentiment towards Litecoin on social media. Past halving events have typically seen rallies peaking about 50 days before the halving date, though it's important to note that today's market dynamics are quite different from previous years. Mitigating market risk by shorting BTC, whilst being long LTC, could be a balanced way to isolate

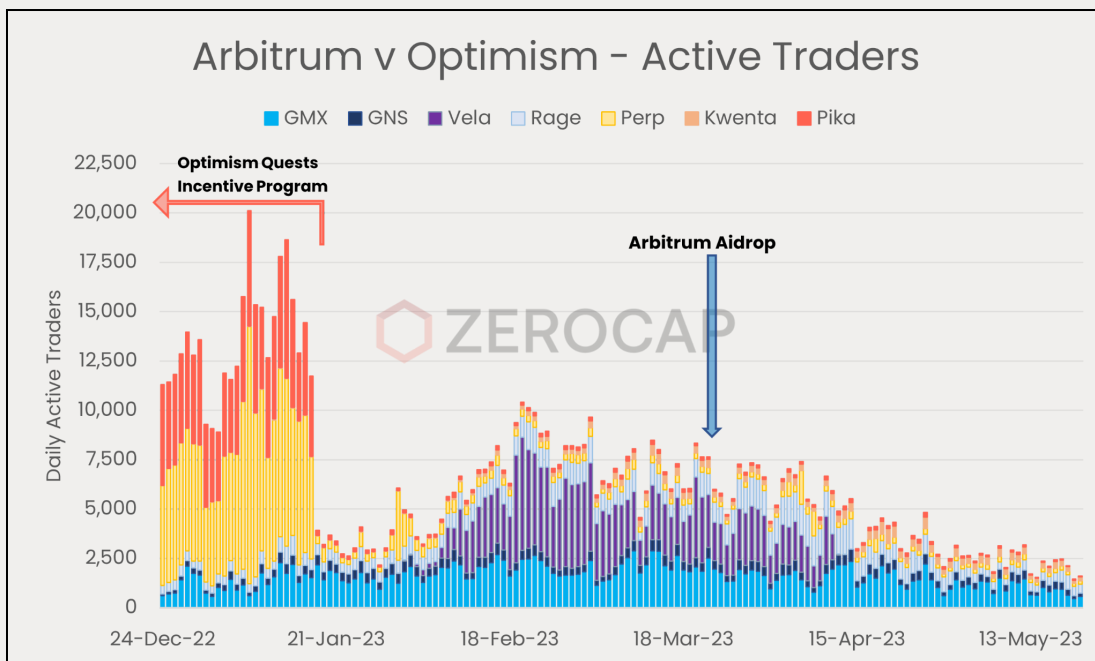
LTC's performance relative to the market if you hold a view. Over the past two weeks, Litecoin's strength relative to Bitcoin has been impressive, and it seems increasingly possible that the resistance at 0.035 could break.



Data source: TradingView

Arbitrum vs Optimism - Post-Incentive Programs

- Incentive programs and airdrops are widely employed strategies to incentivize and foster the growth of emerging blockchain networks. While these initiatives have proven effective in boosting network expansion and attracting attention, they also present challenges, such as ensuring sustainable participation and differentiating between organic growth and the influence of participants seeking to exploit the system for rewards. Of particular interest, Arbitrum and Optimism, both Layer 2 solutions for the Ethereum blockchain, have experienced substantial growth in terms of user adoption and trading volume. Notably, a key distinction between these two Layer 2 solutions becomes evident when examining the conclusion of their respective incentive and airdrop programs.



Data source: Dune Analytics

- After the completion of Optimism's Quests Incentives Program, there was a noticeable decrease in the number of daily active traders. This decline in activity suggests that the ecosystem's growth was primarily driven by token farmers seeking short-term profits rather than organic user engagement. In contrast, Arbitrum's highly anticipated airdrop, which took place on March 23rd 2023, exhibited relatively consistent levels of trader participation. This suggests a potentially higher degree of organic user growth in comparison to Optimism. If this trend continues, it bodes well for the long-term prospects of the Arbitrum ecosystem.

What to Watch

- France, UK, Germany and US' flash services and manufacturing PMI, on Tuesday.
- FED's FOMC meeting minutes, UK's CPI and Governor Bailey speeches, on Wednesday.
- US' preliminary GDP, on Thursday.
- US' core PCE price index, on Friday.

Research Lab

- [Sei Network's Optimisation of the Cosmos Chain:](#)

Sei Network is a new project that aims to optimise the Cosmos chain by providing a scalable and secure platform for DeFi applications. Learn all about Sei's Cosmos optimisation and more in the latest Research Lab article by Zerocap Innovation Analyst Beau Chaseling.

- [The Role of Decentralised Communication in Blockchains:](#)

Interested in the intersection of blockchain and communication protocols? Beau Chaseling, Innovation Analyst at Zerocap, has penned a compelling piece on the role of decentralised communication in blockchains. The article elucidates how these protocols enable the trustless operation of blockchain networks, their necessity for consensus and settlement processes, and the challenges they face as blockchain networks scale.

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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

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