

Weekly Crypto Market Wrap

21st August 2023



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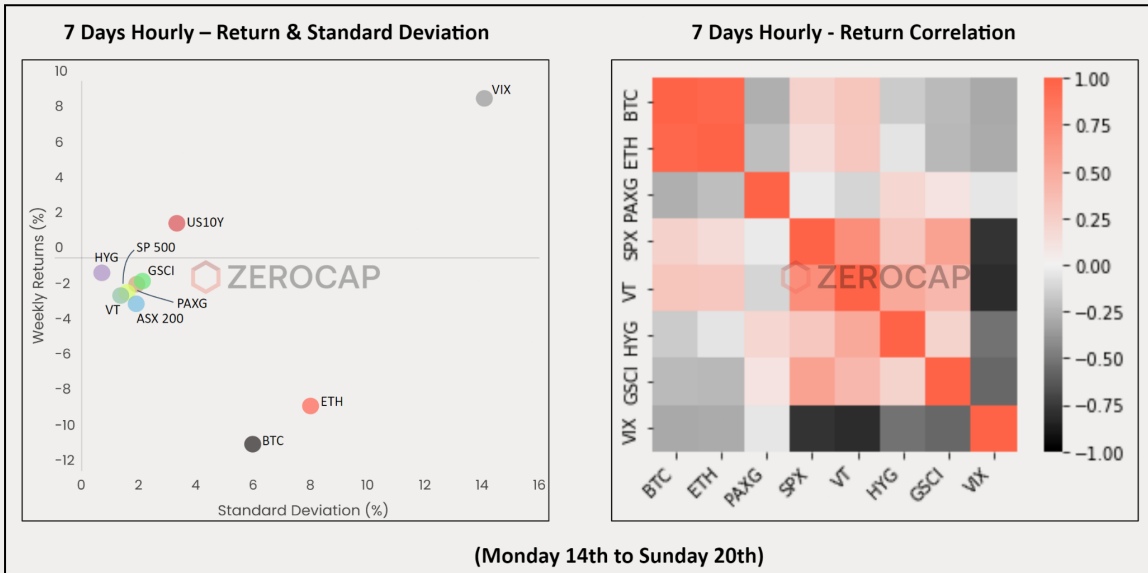
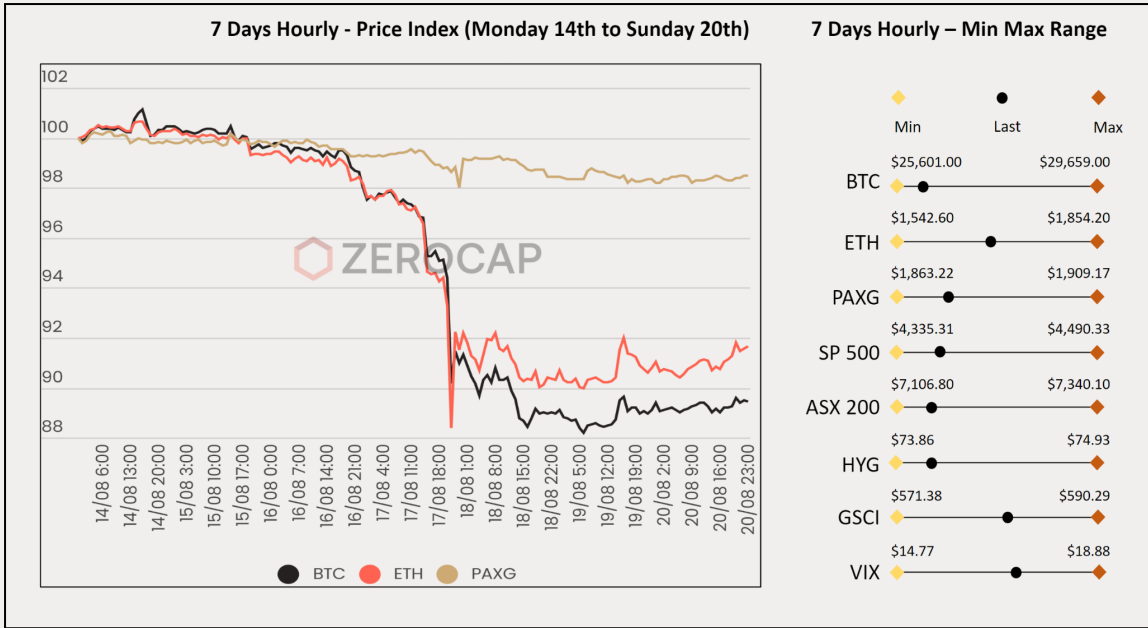
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Week in Review

- Coinbase wins [NFA approval](#) to offer Bitcoin and Ethereum futures - Meanwhile, exchange suspends [USDT, DAI and RAI](#) trading in Canada.
- [SpaceX](#) allegedly sold Bitcoin holdings in the last two years and has written down its crypto assets' value.
- FTX's Sam Bankman Fried [now officially in jail](#) after bail revoked - Requests [weekly jail release](#) to work on defense case.
- PayPal set to roll out [cryptocurrency hub](#) for select users.
- [Binance Connect](#) shuts down due to "changing market and user needs."
- SEC delays deadlines for [Bitcoin ETF](#) approval for early 2024 - [Ethereum Futures ETF](#) approval likely set for as early as October 2023.
- Bitcoin Ordinals NFT volume tanks 97% since May record; [DappRadar](#).
- Tether discontinues [Bitcoin-based stablecoin](#) citing lack of usage.
- [Evergrande](#) files for US bankruptcy protection as China economic fears mount - Asia shares face 3rd week of losses.
- FED officials see '[upside risks](#)' to inflation possibly leading to more rate hikes.
- US economy showing [signs of resilience](#) as July retail sales up by 0.7% - US [jobless claims](#) continue to fall.

Winners & Losers



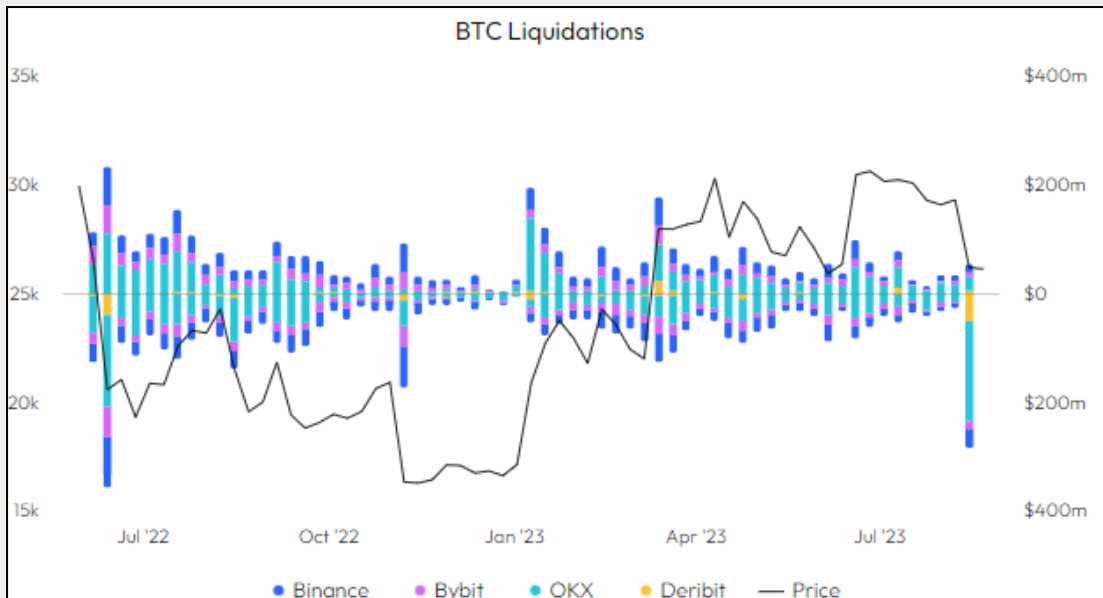
Data source: TradingView

Market Highlights

- The cryptocurrency market experienced significant turbulence this week, with Bitcoin's price dropping to its lowest level since mid-June 2022, falling below \$26,000 on Friday. The decline, at -11% WoW, is the worst return since last November's crash to \$15,000. The fuel was excessive leverage in the system and all-time lows in options volatility, the ignition was sparked by SpaceX reportedly writing off its Bitcoin holdings. Ethereum, which also plummeted heavily, rebounded strongly on Friday after news emerged that the SEC is poised to approve Ether futures ETFs in the US. The \$25,000 level for BTC remains a crucial level to maintain, as the market is again tentatively waiting for a catalyst to dictate direction after a significant wipeout of leverage. The Grayscale case versus the SEC is reportedly nearing a conclusion, and the outcome could have a significant impact on upcoming spot ETF filings due early September.

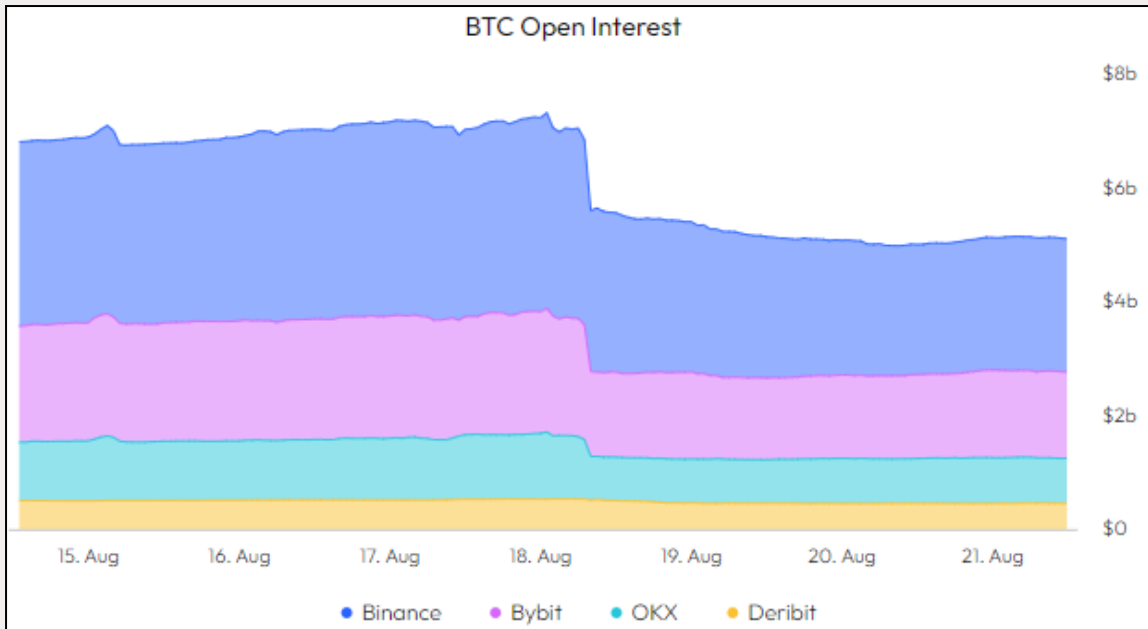


- Friday's decline marked the highest single day of liquidations since the Luna crash in June 2022, with \$1 billion in liquidations reported across all major derivatives exchanges, exacerbated by broader macroeconomic concerns, including fears over the Chinese economy and rising bond yields, which may compound digital asset woes in the near term.



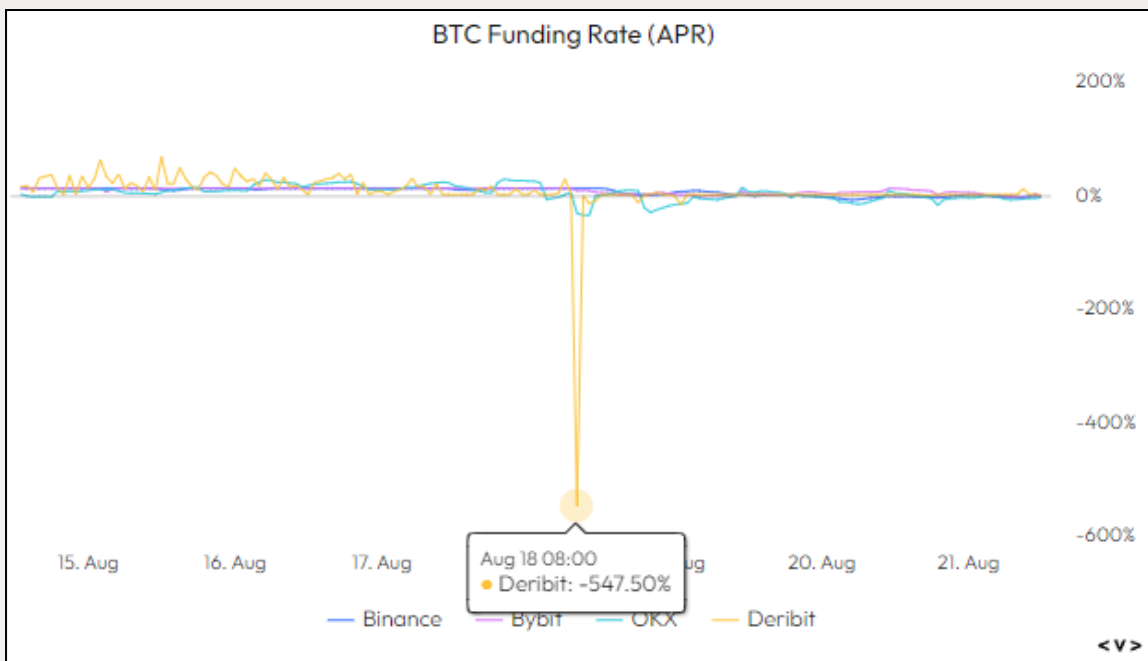
Data Source: Velo Data - BTC Liquidations

- Leading up to Friday, volatility selling strategies were preferred over prior months, resulting in volatility having been traded at all-time lows. The lack of a defining price catalyst had affected IV but also caused an evenly weighted build in open interest in derivatives markets, with price constrained within the 29-31k range for several weeks. This ultimately contributed to the sheer velocity of the price fall, and as a result, we saw the open interest across derivatives venues fall by a third, reflecting a significant wipeout of leverage across the space.



Data Source: Velo Data - BTC Open Interest

- One intriguing discrepancy during Friday's sell-off occurred on Deribit, the leading options exchange in crypto. In previous months, we've seen a consistent inflow of capital into BTC CME futures contracts, largely spurred by the continuing transformation of the ETF narrative. As a result, front and quarterly futures contracts on CME began to trade at a premium compared to crypto venues like Deribit. Recent COT reports from CME indicate that a large portion of short interest consisted of 'hedge funds' and proprietary trading firms, likely aiming to arbitrage the difference between native venues and CME.
- On Friday, long futures (and short volatility) positions began to unravel, with the quarterly futures contracts trading much lower than spot, and eventually at enormous discounts to the underlying spot level as liquidations began to occur. Based on order book and trade flow, it seems that Deribit's liquidation engine began liquidating a number of large positions (and accounts) particularly concentrated in December's expiry, which contributed a \$2,500 discount on a contract that typically trades at a premium to spot. The perpetual futures contract was also impacted, trading at a large discount with the 8-hour funding recording a -547.5% APY charge to hold short positions on the contract. The liquidations in total reflected the second largest liquidation event in history on Deribit.



- In the midst of the chaos, a separate liquidation was being handled through DeFi protocol Venus, which is built atop the BNB Chain. Following the massive \$560 million hack on the Binance Smart Chain (BSC) bridge in October 2022, the perpetrator deposited 900,000 BNB worth \$200 million in the Venus lending protocol as collateral, borrowing \$150 million in stablecoins. To mitigate the risks present with liquidation in such a large position, the Venus DAO decided to whitelist BNB Chain as the sole liquidator for the hacker's address in case of a margin call. Recently, with the crypto market tumbling along with BNB's token price, the team manually liquidated the position and Binance took over the position. This event marks the second high-value on-chain liquidation to be brought to the spotlight since CRV only weeks ago.

What to Watch

- BRICS summit, from Tuesday till Thursday.
- French, German, UK and US Flash Manufacturing, on Wednesday.
- Jackson Hole, from Thursday till Saturday.

Research Lab

- [Overcoming the Fundamental Limits of Smart Contracts and DAO Governance - Pairwyse Protocol:](#)

In partnership with Pairwyse Protocol, Research Lab's Beau Chaseling, Finn Judell, and Nathan Lenga present an extremely thorough piece on blockchain technology, focusing on the challenges of DAO-based smart contracts. Unveiling the Pairwyse Protocol, the researchers explore the centralisation paradox and introduce a novel on-chain solution, providing an essential contribution to the understanding of DAO governance.

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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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