

Weekly Crypto Market Wrap

29th January 2024



ZEROCAP.COM

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Week in review

- SEC delays decision on BlackRock's spot [Ethereum ETF](#) to March.
- Nine spot Bitcoin ETFs buy [100,000 BTC](#) in just 7 days after launch.
- JPMorgan downgrades Coinbase stock following disappointing ETF catalyst.
- Global crypto user base [reached 280 million](#) in 2023.
- FTX sold about \$1 billion worth of [Grayscale's Bitcoin ETF](#), exodus due to exchange's bankruptcy estate dumping 22 million shares.
- Polygon (MATIC) almost acquired as [many users as Ethereum](#) in 2023.
- US economy [defies recession fears](#) with 3.3% GDP growth in the last quarter.
- Bank of Japan maintains ["ultra-loose" policy](#), claims 2% inflation target still in sight.

Technicals

BTCUSD

We got the trendline break lower from last week, almost reaching key 38,000 support, before creating a false-break and punching back above 42,000. The ETF launches were a short-term sell the news, but as mentioned, we think lightening of the futures basis led to a cap on the spot price. As of today, 0.68% of the circulating BTC supply is sitting in the spot ETFs, and we expect this to continue to grow. Notably, Microstrategy's (NASDAQ:MSTR) holdings are sitting at around 0.89% of the total supply, setting it up to be the reserve corporation of BTC if their price prediction eventually comes true - but that's another story.

Now that the newsflow has calmed, volatility has dropped, and we have the upcoming BTC halving, we are looking fundamentally and technically strong. A re-test of 44,000 is on the cards, with a potential break of the 50,000 figure on easing inflationary concerns and an increasingly dovish market (if not Fed). Not likely to happen this week, but keep an eye on the remainder of this quarter.



Short term, we've got the FOMC this week - with Fed Funds futures pricing a 97% chance of a hold. Nothing crazy expected here. The minutes may provide a further shift in forward guidance to a less or more hawkish position. The Fed will need to tiptoe carefully around this one, as market excess is in itself inflationary. Either way, we think markets price in further dovishness into 2024 - which plays well into the crypto narrative.

Key levels

38,000 / 41,000 / 44,000 / 49,000 & 50,000 the figure

Spot desk

Balanced directional flows

BTC flow remains relatively balanced on the trading desk, with interest in altcoins picking up, such as ICP, which made a 34% rally off its lows registered last Tuesday (23-Jan). Off the back of BTC's rebound, we saw high-beta altcoins like SOL / ADA / AVAX also making decent bounces last week.

Stablecoins still dominate fiat flows

USDC and USD are still trading at a premium to USDT, in what looks to be a rotation in stablecoin dominance, and moves into more directional coins out of USDT. With AUDUSD trading lower back into the range, we are also seeing rotation back into AUD from stables and USD.

Trade Idea: ETH Layer-2 upgrade (reproduced from the prior week)

Following on from last week's post, relative value plays have come even further presenting a compelling opportunity for longer-term plays on ETH layer-2s.

The Protodank sharding update (Ethereum Improvement Protocol 4844) is anticipated to significantly decrease ETH's layer 2 blockchain fees, and increase transaction speeds. This brings transaction speeds that are

comparable with centralised computer systems. Alongside this, we have a high beta Layer 2 narrative-driven play.

Potential impact: Bullish for the price of ETH, particularly combined with ETH ETF expectations in 2024, and bullish for its more volatile Layer 2 tokens (Optimism, Arbitrum etc..). Potentially bearish for other Layer 1 competitors - SUI, SEI, NEAR, APT, who are already falling from grace. Relative value plays are worth looking at.

Derivatives desk

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Spot / Vol Correlation

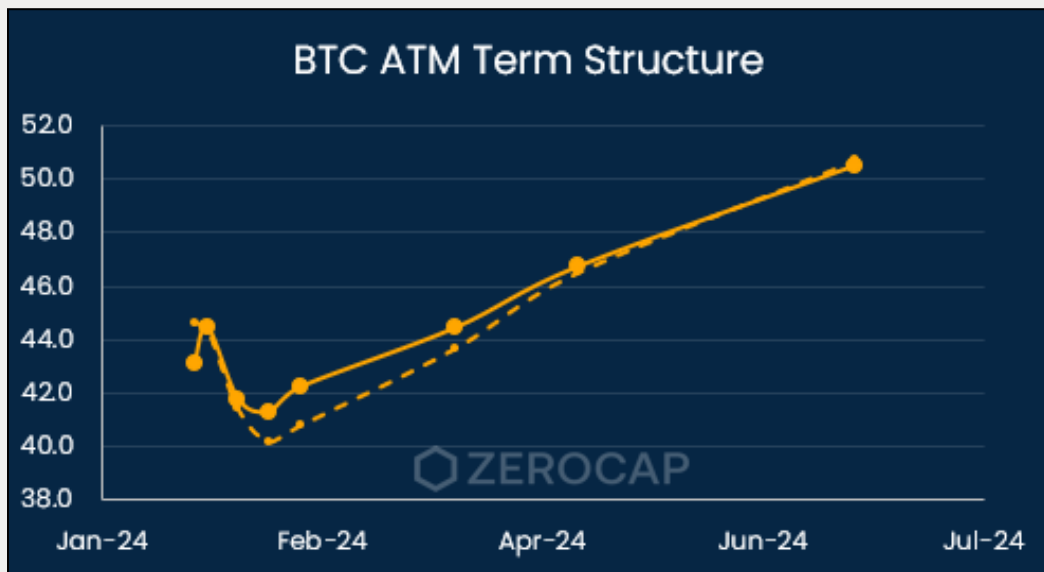
Whilst Bitcoin rallied to 42,000 over the weekend, volatility still seems unmoved by the price action, which could be reflecting market sentiment in the strength of this recent move. In the latter half of 2023, we saw an elevated spot/vol correlation with volatility consistently bid on the back of BTC's spot price. The lack of a reaction right now could mean volatility remains flat in the near term if spot continues to dribble higher.



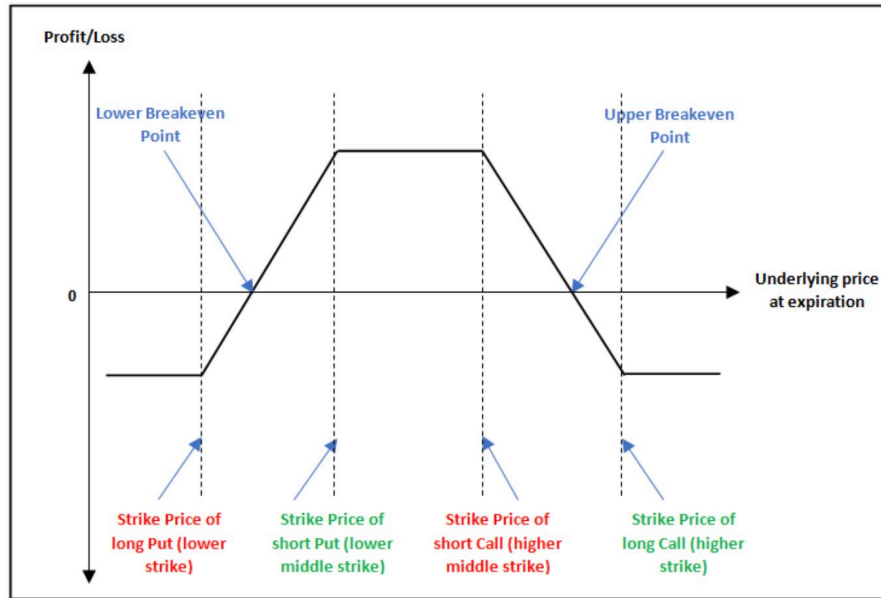
Trade idea

Looking at BTC's term structure, a kink is evident for the upcoming FOMC meeting this week. No rate change, nor any major shift in the Fed's tone is expected. We think going short a weekly Iron Condor is a good R:R play to take advantage of the elevated vol for the event and protect downside in the case the Fed does indeed shift or forecast any outlier moves in 2024. Iron Condors earn when the price stays within a range.

Call or message our desk for views on strikes based on the current spot price.



Payoff of Short Iron Condor



What to watch

- Tuesday - US Jolts Job openings report
- Wednesday - FED's FOMC conference and statement
- Thursday - Bank of England's monetary policy

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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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