The Weekly Update

Week 23, 2022

Luno

Provided by arcane research

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Market Update

- A higher than expected U.S. CPI caused an abrupt stop to the flat market, leading BTC to plunge alongside U.S. equities, exposing new contagion-related vulnerabilities in the market. In sum, this led to a devastating week for bitcoin, seeing a loss of 25%.
- The bitcoin price dropped 15% on Monday – the biggest daily price drop since the covid crash on March 12th, 2020. This has led the Fear and Greed Index to reach 8, a more fearful market hasn't been seen since March 2020.
- On Monday, fear of Celsius insolvency and contagion effects ignited further downward pressure in an already extended sell-off.

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Valuation

- Bitcoin is close to revisiting the 2017 cycle high of $19,900 after a ravaging sell-off.
- Futures premiums have taken a massive hit this week. Currently, CME trades at a rare slight premium to the offshore exchanges.
- Yesterday saw the largest liquidation volume in BTC futures this year, with both longs and shorts being punished by the fury of Mr. Market.

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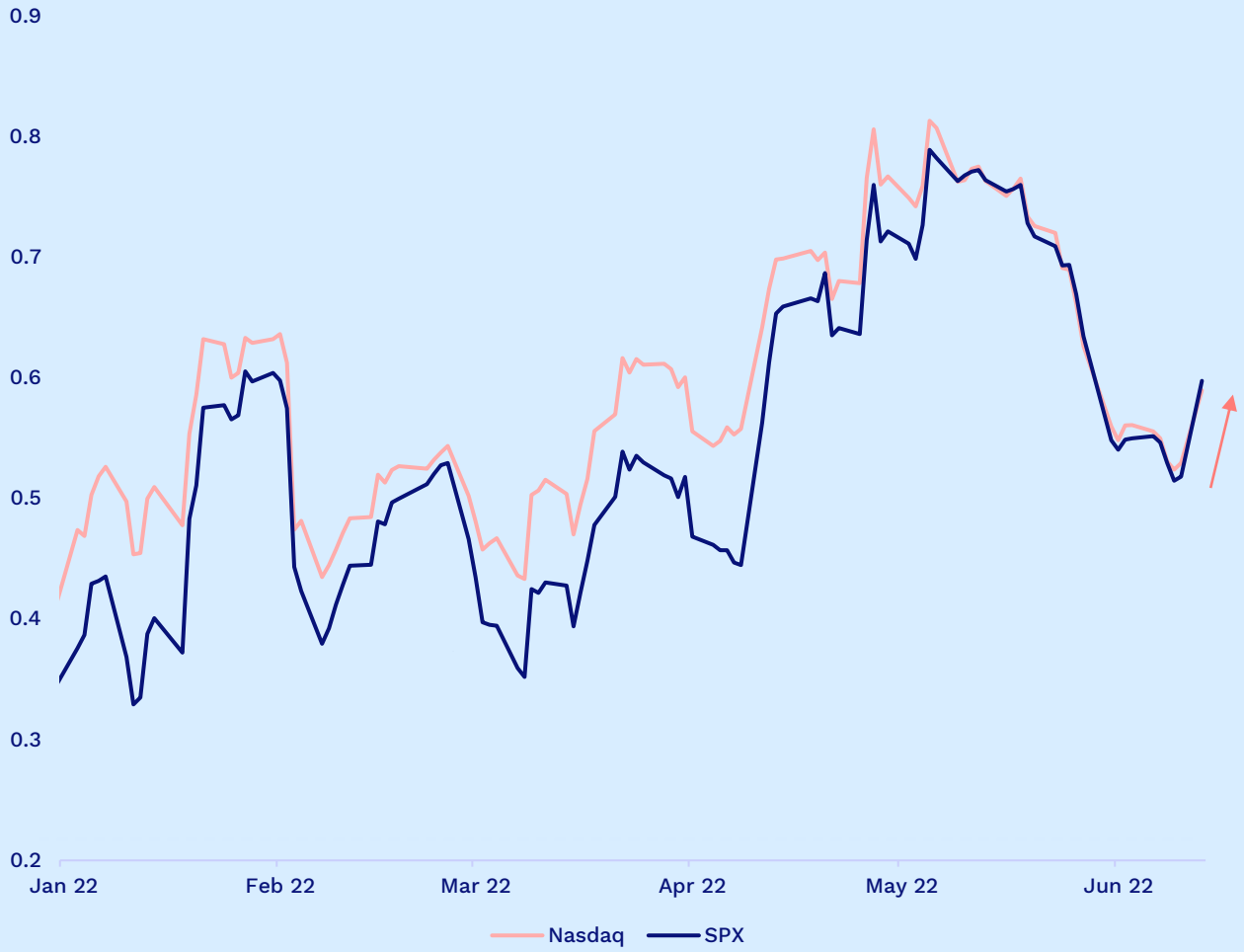
Blockchain Activity

- The same day the bitcoin price fell towards the low 20s, the hashrate reached an all-time high. There have been better times for the bitcoin miners.
- Monday saw 123,000 bitcoin withdrawn from exchanges - the highest number since March 2020.

Bitcoin 30-day correlation to Nasdaq and S&P 500



Source: Tradingview (BTC, QQQ, SPX)

A week full of nasty surprises fuels wide collapse

- A higher than expected U.S. CPI caused an abrupt stop to the flat market, leading BTC to plunge alongside U.S. equities, exposing new contagion-related vulnerabilities in the market. In sum, this led to a devastating week for bitcoin, seeing a loss of 25%.
- Bitcoin reached lows of $20,800 and has since seen a slight recovery. Nevertheless, BTC is very near its 2017 cycle peak of $19,900. Bitcoin has never before traded below previous market cycle peaks. Such an event could pose a structural shift in bitcoin with complex implications on the market and investor sentiment related to bitcoin.
- While bitcoin has faced strong headwinds in the last week, Ether has weathered an even heavier storm, seeing a 31% loss over the last seven days, leading ETH to trade below its 2018 peak. The ETH sell-off is exacerbated by the potential insolvency of Celsius.
- While the crisis in Celsius has contributed to putting a further drag on the market, the initial catalyst was the inflation surprise in the U.S. We note a decline in the 90-day correlation between BTC and S&P 500. However, short-term correlations grew heavily following Friday's inflation news – with the market preparing for more hawkish policies enacted by the FED.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
LEO Token	5.37	4.9%	8.5%	41%
OKB	10.94	-6.0%	-13.8%	-62%
Bitcoin SV	52.97	-8.0%	-2.4%	-57%

Worst Performing	Price	Last week	Last month	YTD
ApeCoin	3.72	-41.9%	-57.2%	-72%
NEAR Protocol	3.47	-36.8%	-48.3%	-77%
Flow	1.59	-36.6%	-47.7%	-82%

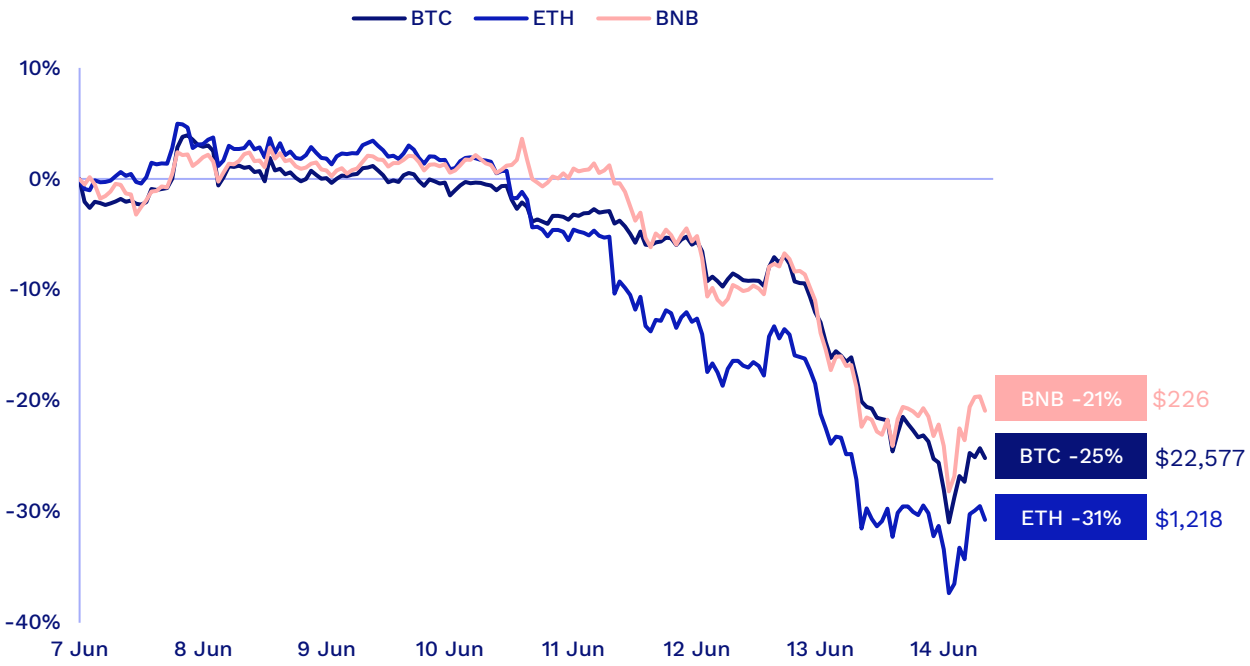
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.922	0.013	0.186	0.305	0.565	-0.019

Source: CoinMetrics

Top 3 by Market Cap: Percentage Change in Price Over the Last Week



Source: Tradingview (Coinbase, Binance US)

The entire crypto market plummets

The recent crash in the crypto market has hit most coins hard.

- Bitcoin has decreased 29% in June, while the Large, Mid and Small Cap indexes are down between 32% and 33%.
- As usual during market turmoil, we see increased correlations between the different cryptocurrencies. On the chart, we can see that the indexes followed each other closely in June.
- Due to the market-wide collapse, the total crypto market cap sits below $1 trillion for the first time since January 2021. At the peak in November, this number was almost $3 trillion, meaning that $2 trillion of crypto wealth has evaporated.
- Interestingly, bitcoin has not grown its market share during the turmoil. One of the reasons might be that stablecoins continue to eat up a larger share of the crypto market. USDT increased its market share by 1.6 percentage points and USDC by 1.3 percentage points.

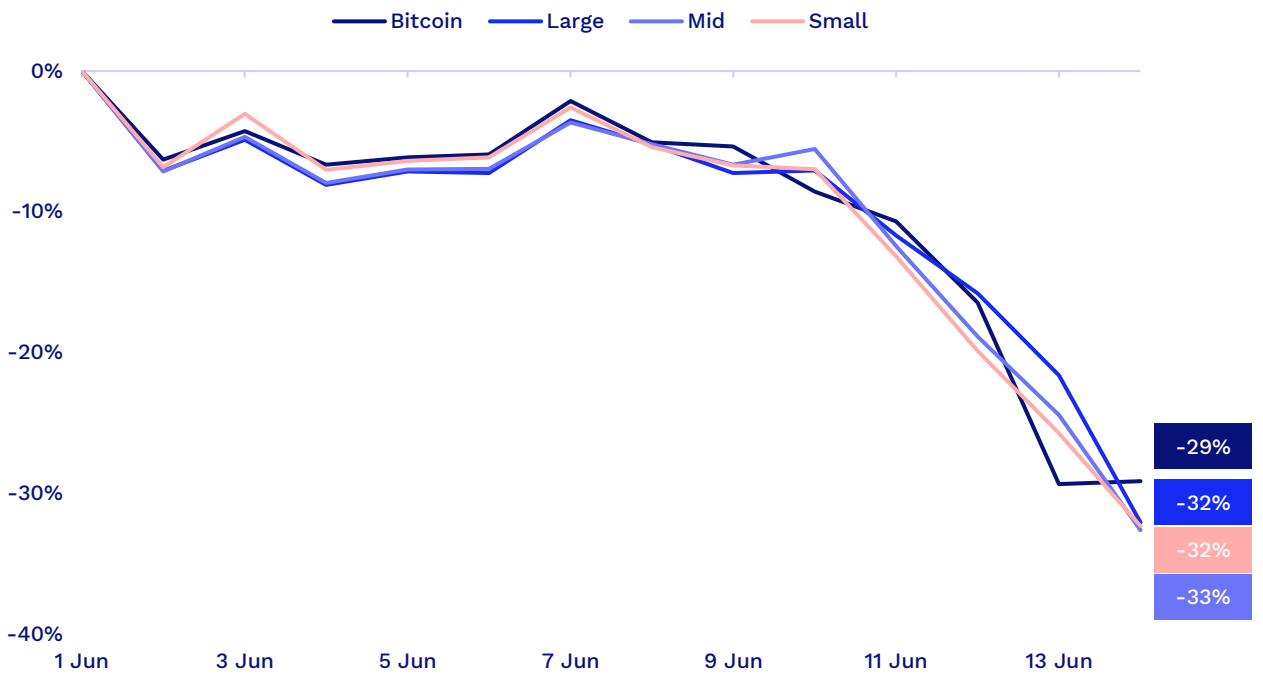
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	ADA	XRP	SOL	DOGE
Market Share	45.03%	15.42%	7.55%	5.71%	3.87%	1.84%	1.78%	1.60%	1.07%	0.78%
Weekly Change	-1.28%	-2.11%	1.61%	1.30%	0.06%	0.34%	0.15%	0.05%	-0.03%	-0.09%

* Weekly change in percentage points

Source: CoinMarketCap

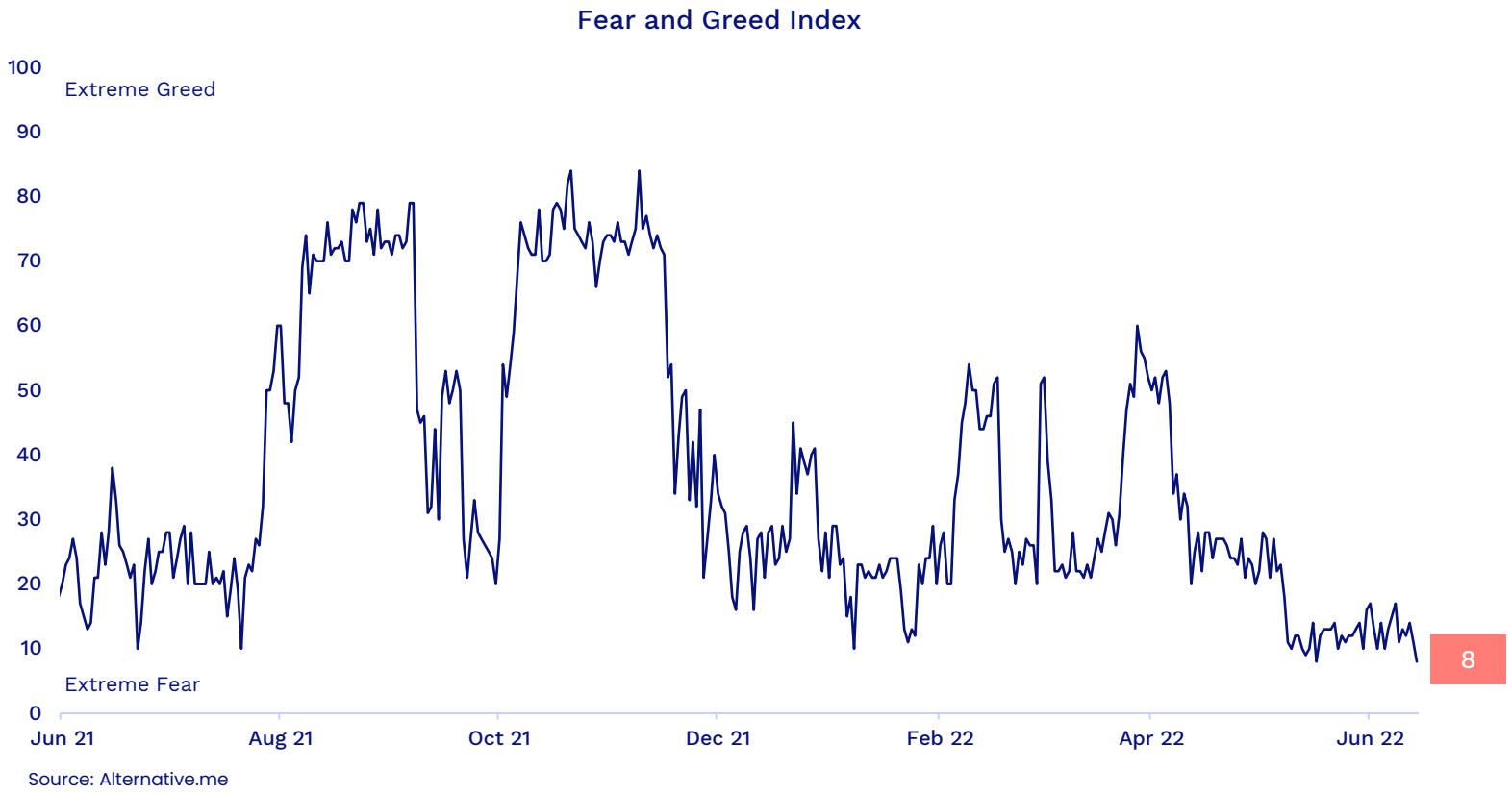
Monthly Performance of Market Cap-Weighted Indexes



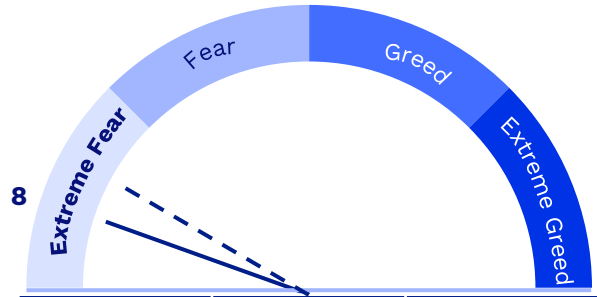
Source: Bletchley Indexes

The crypto market hasn’t been more fearful since March 2020

The Fear and Greed Index has plunged to 8 – the lowest since March 2020. Today marks the crypto market’s 56th day in the extremely fearful territory, which is the longest in the index’s history. Market participants are undoubtedly tired of the fearfulness, and many are capitulating. Historically, buying has been a profitable strategy in such fearful times. Still, it’s not easy to catch a falling knife.



Source: Alternative.me

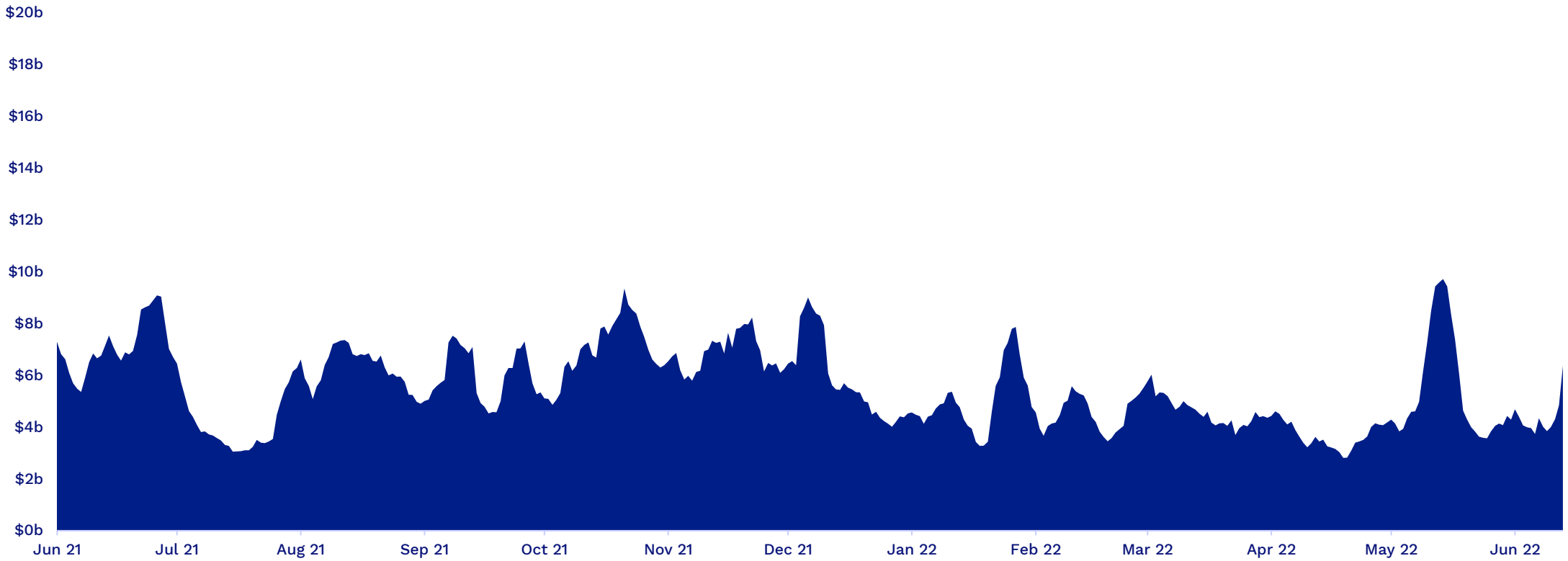


Now	Last week	Last month
Extreme Fear (8)	Extreme Fear (15)	Extreme Fear (14)

Activity surging in the bitcoin spot market

On Monday, $15.7 billion worth of bitcoin changed hands in the spot market, the highest daily spot volume since December 2021. As the Fear and Greed Index signaled ‘extreme fear’ for 56 straight days, the market turmoil on Monday was the drop leading many tired market participants to flood the spot market with bitcoin sell orders.

Real BTC Daily Volume* (7-day average)

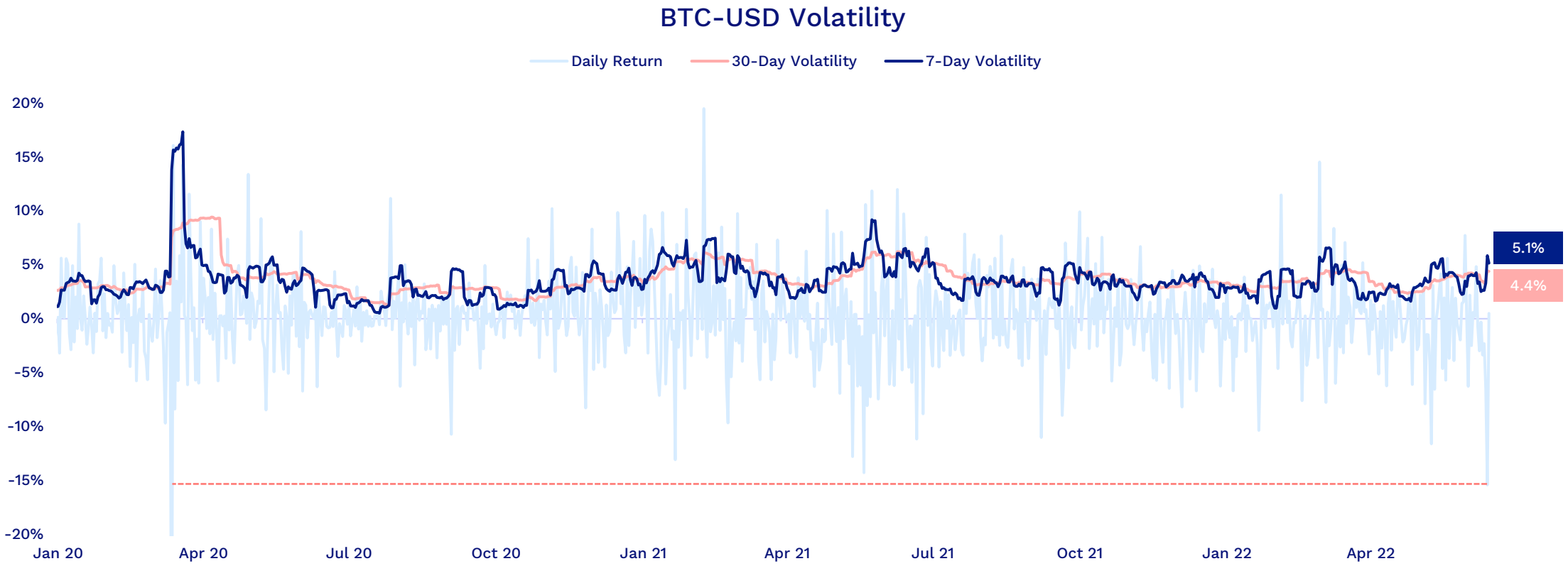


Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX.

Bitcoin's biggest daily price drop since March 2020

The bitcoin price dropped 15% on Monday – the biggest daily price drop since the covid crash on March 12th, 2020. Volatility has been low lately, and this massive decline should be a reminder of bitcoin's inherent volatility. After this movement, the 7-day volatility is 5.1%, higher than average.



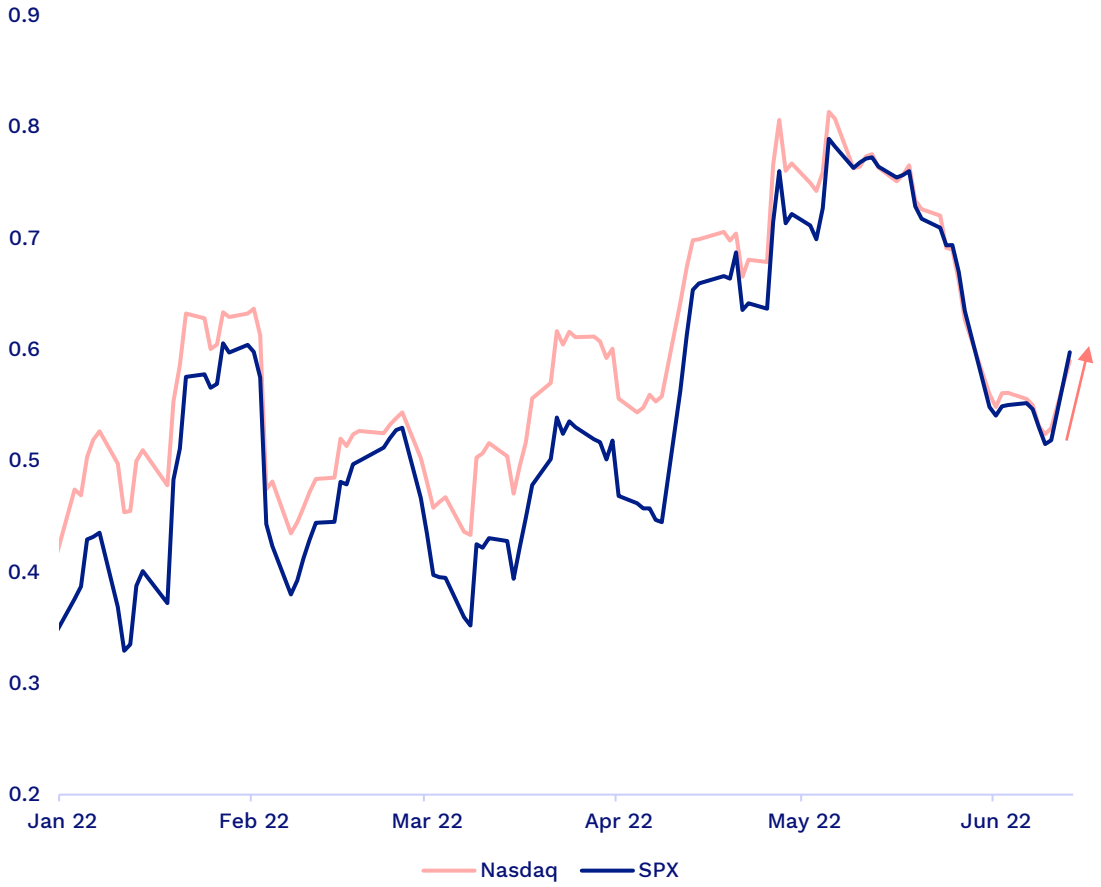
Source: Tradingview (Coinbase)

Correlations remain very sticky

Most of the crypto market is eyeballing the potential insolvency risk of Celsius as the key driver of the poor days in the market. While it's true that the Celsius situation contributes to exaggerating the sell-off, poor U.S. markets seem to be the key driver still.

- On Friday, U.S. CPI numbers of 8.6%, above market expectations of 8.4%, shocked the market, leading both S&P 500 and Nasdaq to plunge, with BTC following the downfall.
- Two weeks ago, we mentioned the declining correlations in the market driven by the recovery in the U.S. equity markets while BTC remained mostly flat. We pointed towards June 10th and June 15th as important macro dates in order to assess whether the market structure was changing. Amid the inflation surprise, we see that BTC's correlation to equities has again seen a sharp increase.
- The market is now gearing up for a new FOMC meeting, and the higher-than-expected inflation immediately led to a reaction in U.S. treasuries, with the 2-year T-note soaring above 3%, leading Goldman Sachs to revise their FED forecast to include 75bps hikes in June and July.
- On top of the soaring T-note this month, FED has initiated its balance sheet reduction by introducing quantitative tightening, contributing to draining liquidity from the market and opening up for further headwinds.
- BTC followed U.S. markets closely on Friday and, in extension, also during this weekend. However, as prices plummeted, new ghosts emerged, and the dangers of impactful insolvencies have contributed to further drag on the crypto market.
- A lot of eyes will be glued to the FOMC meeting on Wednesday, and investors should be braced for volatility and sticky correlations at least in the coming days.

Bitcoin 30-day correlation to Nasdaq and S&P 500

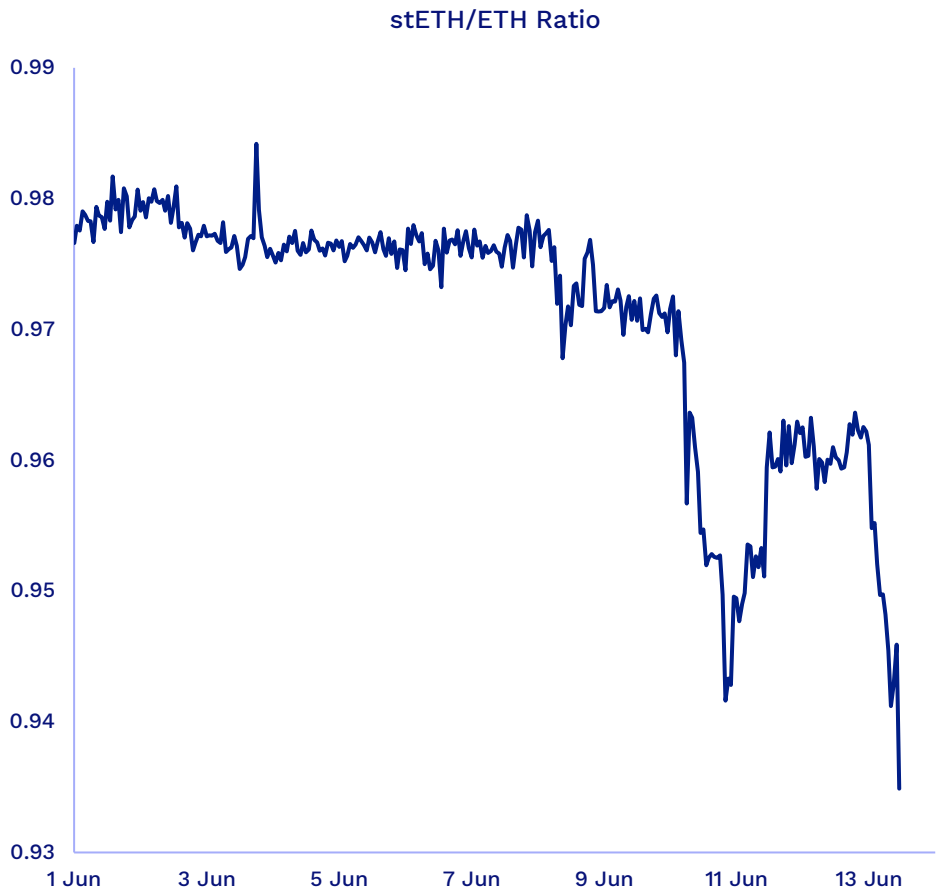


Source: Tradingview (BTC, QQQ, SPX)

Celsius blocks withdrawals as market fear Celsius insolvency

On Monday, fear of Celsius insolvency and contagion-related risks to a potential Celsius insolvency ignited further downward pressure in an already extended sell-off.

- On Monday morning, Celsius announced pausing of withdrawals citing the extreme market conditions. Celsius has previously attracted customers by offering higher yields than its main competitors. This offering has likely been enabled due to Celsius being involved in more exotic yield strategies than their peers.
- Celsius has lost funds in two major exploits over the last year, losing $70m in Stakehound in May 2021 and $54m in the BadgerDAO hack in December.
- Speculations have escalated over the last month that Celsius has been exposed to insolvency risks, in particular following the UST collapse.
- Celsius has heavy exposure to ETH 2.0 through various investments. Either through staking ETH on the beacon chain or through holding Lido's more liquid alternative stETH.
- Over the weekend, the stETH pair discount compared to ETH grew as Alameda Research redeemed 50,000 stETH for ETH, exacerbating the fears of imminent insolvency of Celsius due to further limiting Celsius' liquidity related to allowing users to withdraw ETH.
- Near to medium term, this situation may lead Celsius to be exposed to bank-run-driven insolvency, as a majority of the organization's ETH reserves is either illiquid until the merge or trading in relatively illiquid markets.
- Still, the Celsius situation remains relatively unclear at the moment. Their problems could extend beyond fear of a bank-run driven insolvency. Additionally, they do have other positions possibly at risk given further headwinds in the market, such as their WBTC position. Further, the pausing of withdrawals may be burdensome for institutions with funds locked in Celsius. As the situation unfolds, risks related to cross-protocol contagion are potent.

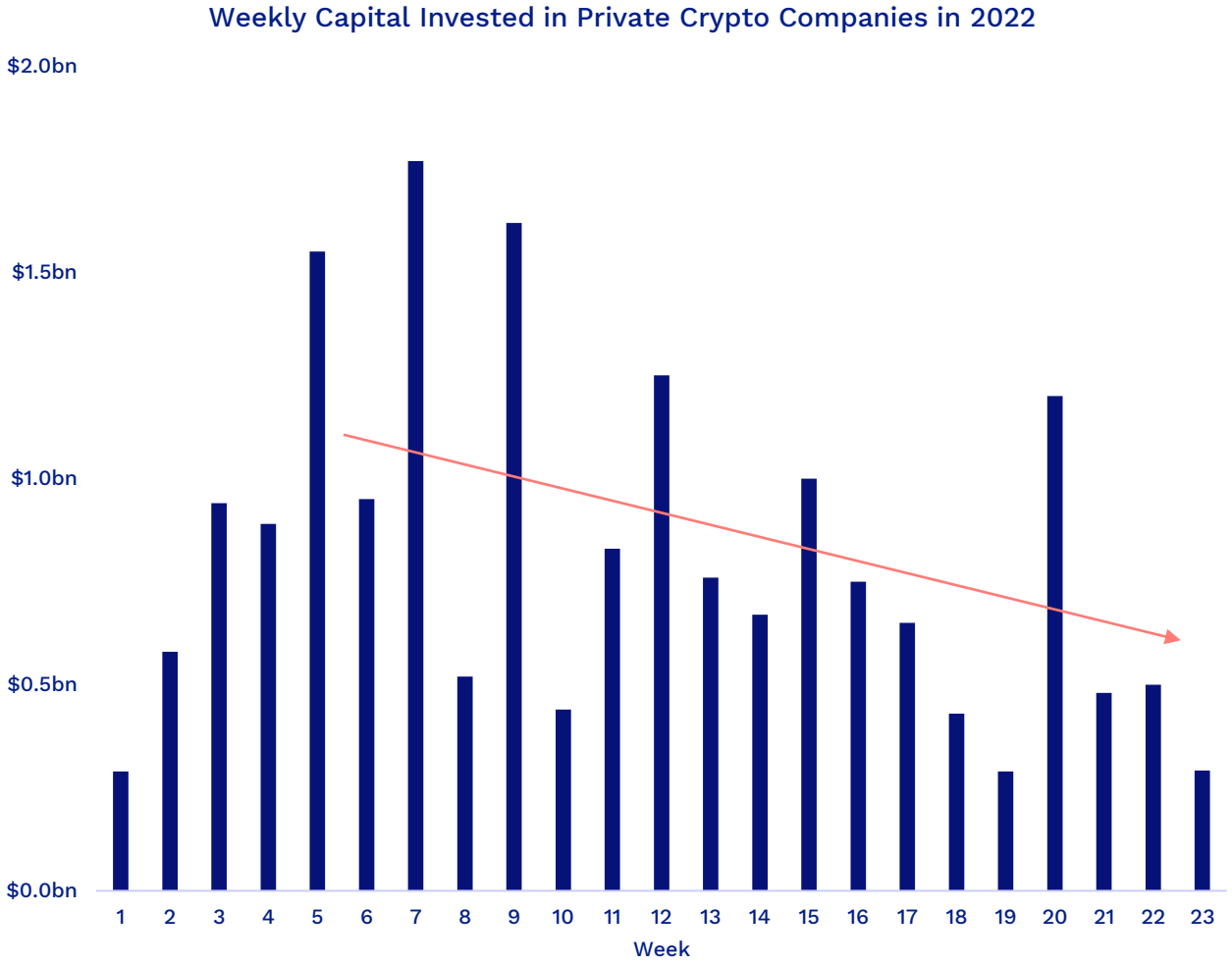


Source: Tradingview (Coinbase, Lido)

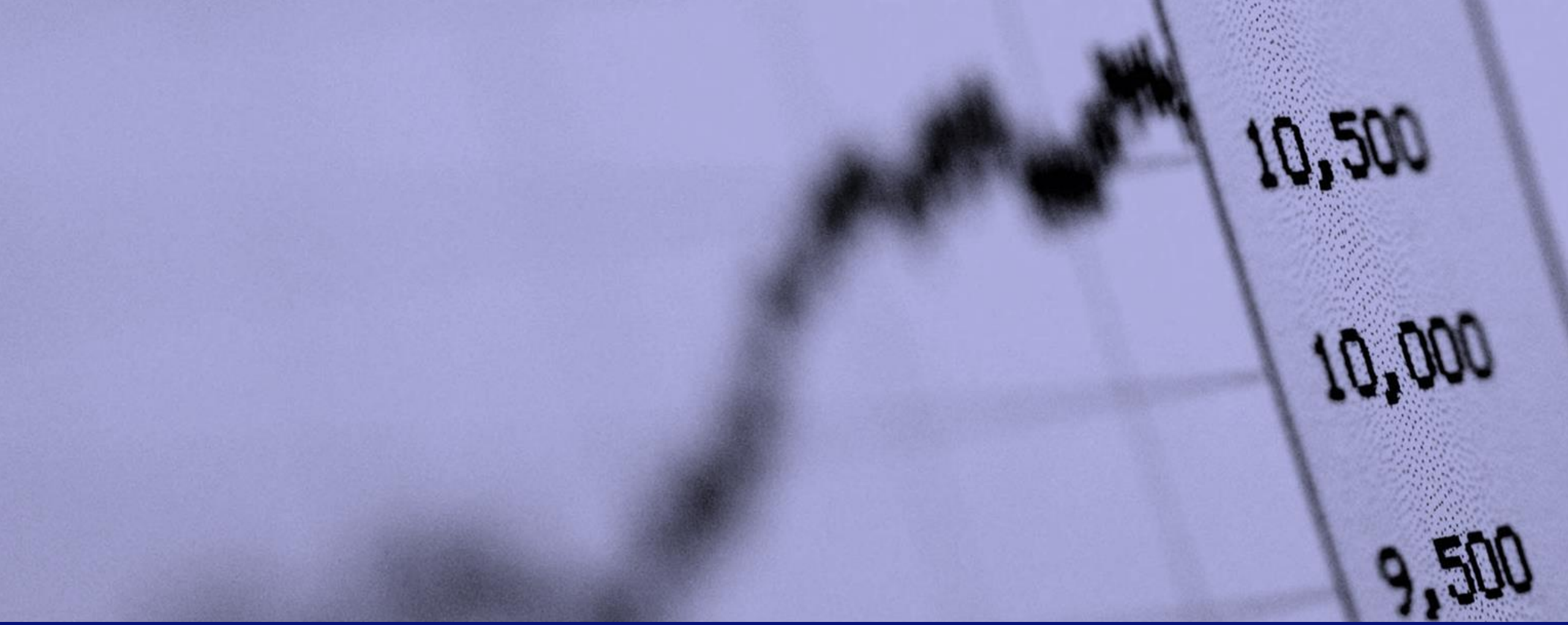
Private capital is drying up in the crypto industry

We have seen a substantial decrease in the capital invested in private crypto companies in 2022.

- At the start of 2022, when private capital markets were still on fire, crypto companies raised around $1 billion or more weekly. This number has decreased as the average size of each raise is much smaller.
- We still see many funding rounds, but companies generally raise less money since the valuations of private crypto companies have plummeted.
- BlockFi's rumored funding round is an example of the falling valuations of private crypto companies. The crypto lending platform is supposedly raising at a $1 billion valuation, down from $3 billion at their latest funding round in March 2021.
- Crypto stocks have also performed poorly recently, exemplified by Coinbase, which is down 83% from the listing date in April 2021.
- Still, we see that venture capital firms still have dry powder to deploy, as a16z raised $4.5 billion for its fourth crypto fund in April.
- The declining crypto financing conditions result both from a general capital dry-up in the financial markets and investors specifically losing interest in the crypto sector as the crypto market bleeds.



Source: Architect Partners



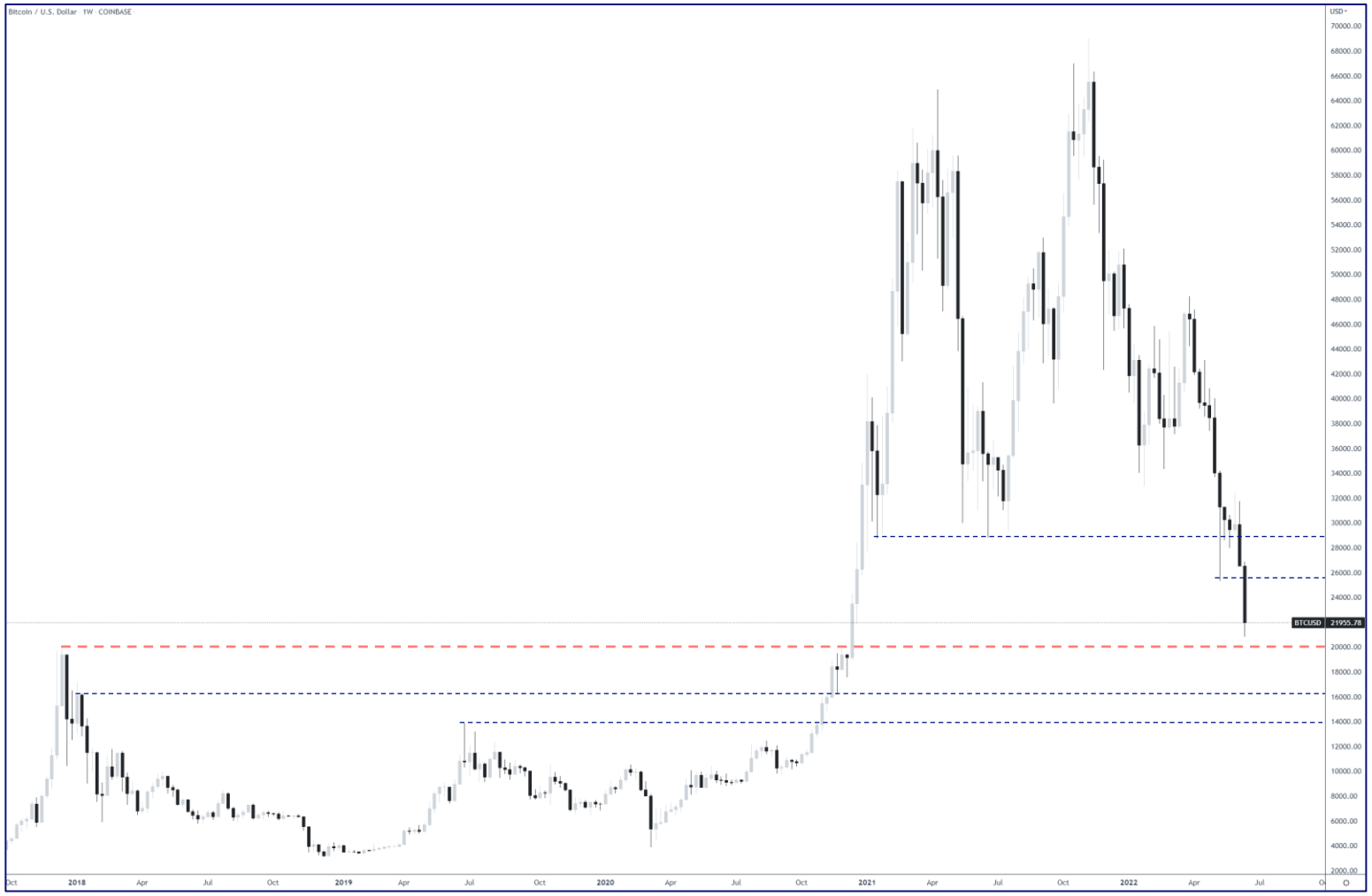
Valuation

LUNO

Bitcoin trades dangerously close to its 2017 peak

Bitcoin is close to revisiting the 2017 cycle high of $19,900 after a ravaging sell-off.

- $20,000 is a critical technical level for bitcoin, as it marks the peak of the late 2017 bull run.
- Throughout its history, bitcoin has never traded below previous cycle peaks, and a potential visit below this level could lead to a lot of hodlers capitulating and a wind-down of leverage, making this a very important support level to pay attention to onwards.
- In addition to being an important technical and psychological level, most of the open interest in bitcoin options is based on the $20k strike, which can contribute to selling pressure in the spot market should the price fall below.
- If the important $20,000 support breaks, BTC has support at $16,000 from the 17-18 relief range and the 2020 breakout. Further support could be found at $14,000 from the summer rally of 2019.
- Towards the upside, the closest resistance of meaningful strength is at $29k, with minor resistance at $25,000. A new consolidation range in this area might appear if the market settles following the important FOMC meeting on Wednesday.

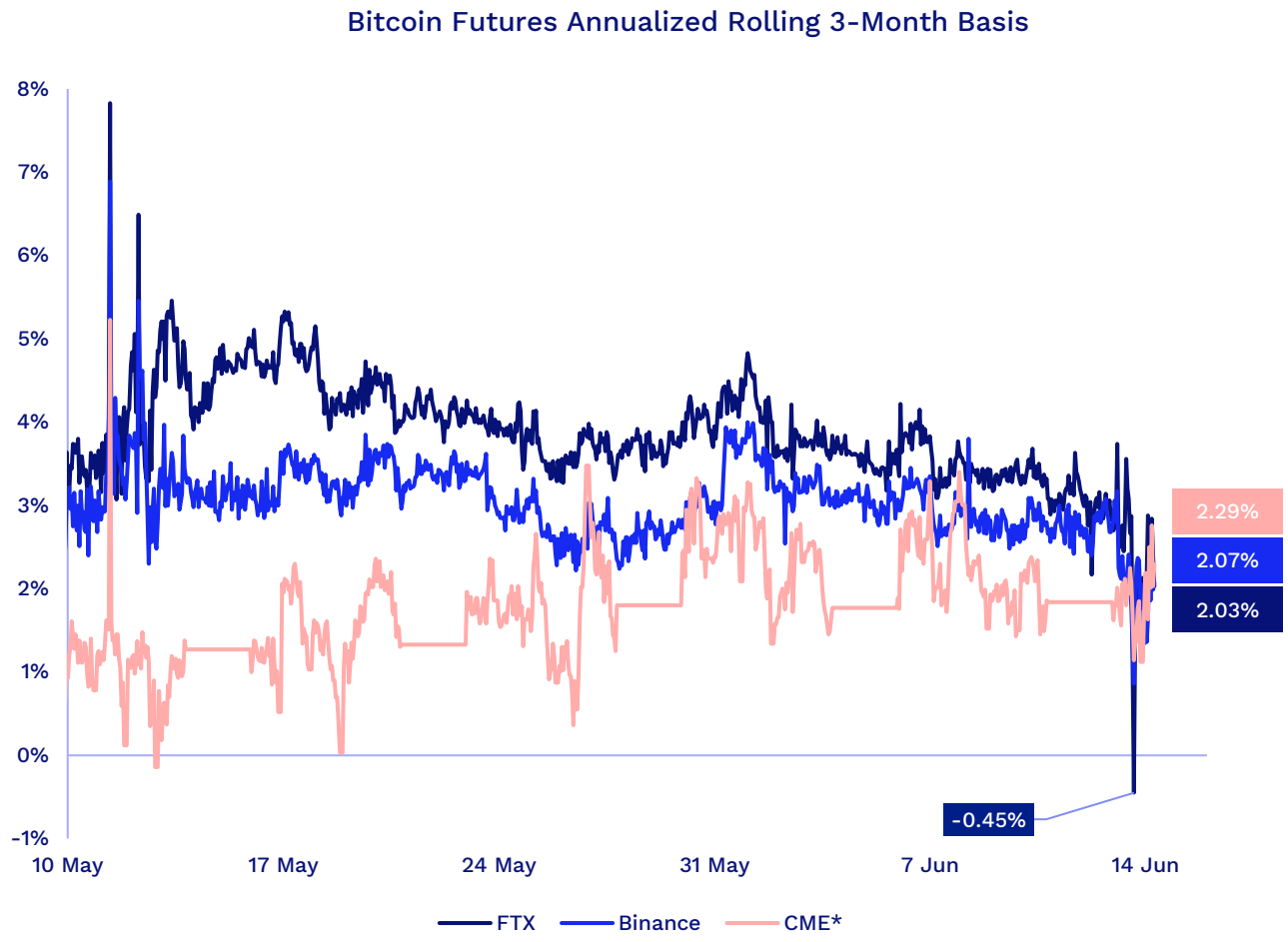


Source: Tradingview (Coinbase)

CME basis see softer reaction to the Monday crash

CME futures trading above offshore market as sell-off sent FTX futures in brief backwardation.

- Yields are contracting further in the futures market, with all instruments now seeing premiums near 2%.
- Following BTC's push below $28,000 late Sunday, futures premiums began deteriorating, with FTX's futures trading below spot, while premiums on Binance also narrowed.
- CME's premiums were also impacted but stabilized at higher levels and currently trade at a premium to the offshore market.
- Healthy inflows likely help the relatively stable futures basis on CME into the ProShares BITO ETF. Yesterday, amid the market chaos, ProShares experienced its strongest daily net inflows since November 17th, increasing its CME exposure with 250 July contracts, equivalent to an increased BTC exposure of 1250 BTC.



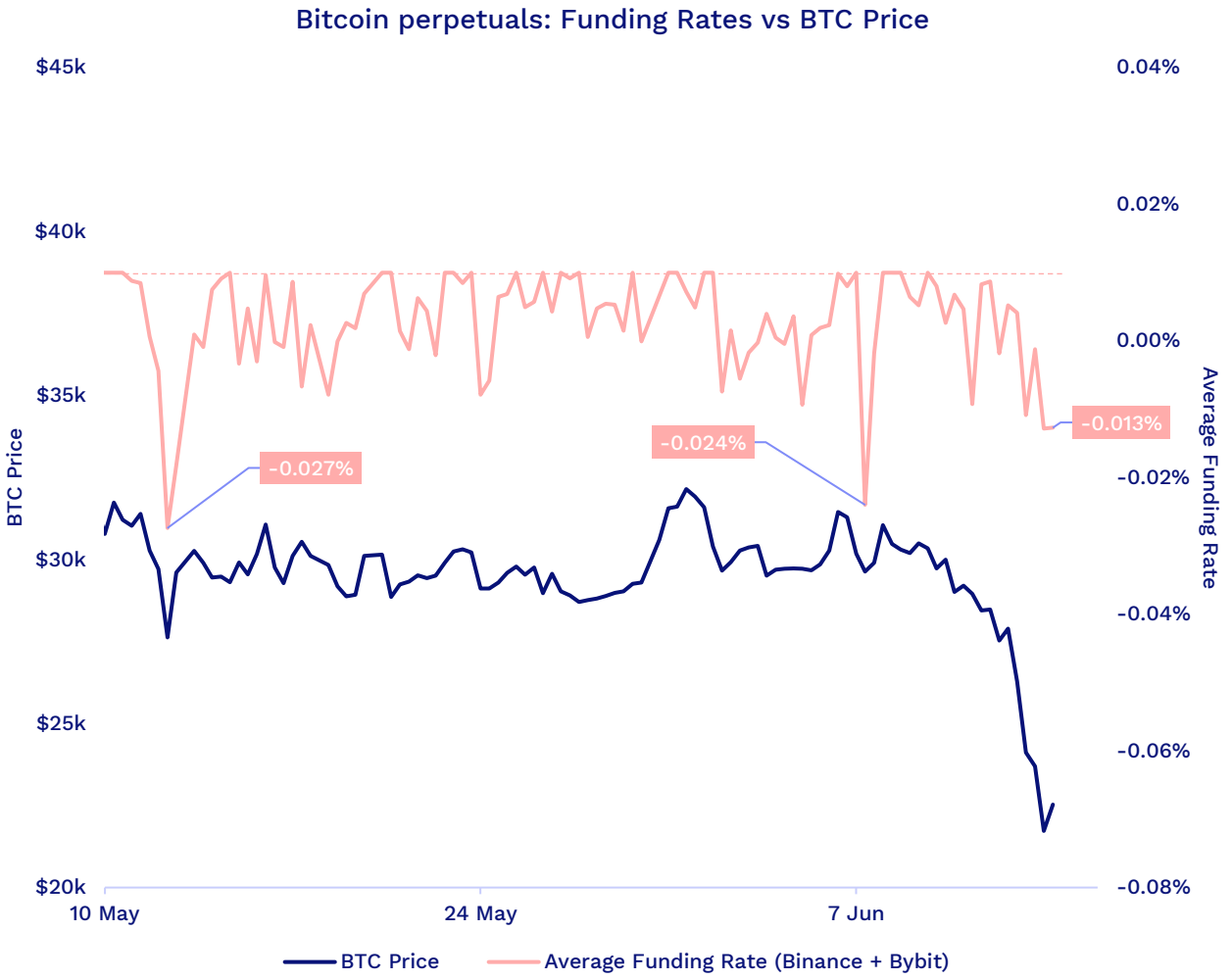
Source: Skew

*Closed Saturday - Sunday

Funding rates stay negative

No surprise, funding rates are ticking into negative terrain amid the bloodbath in the market.

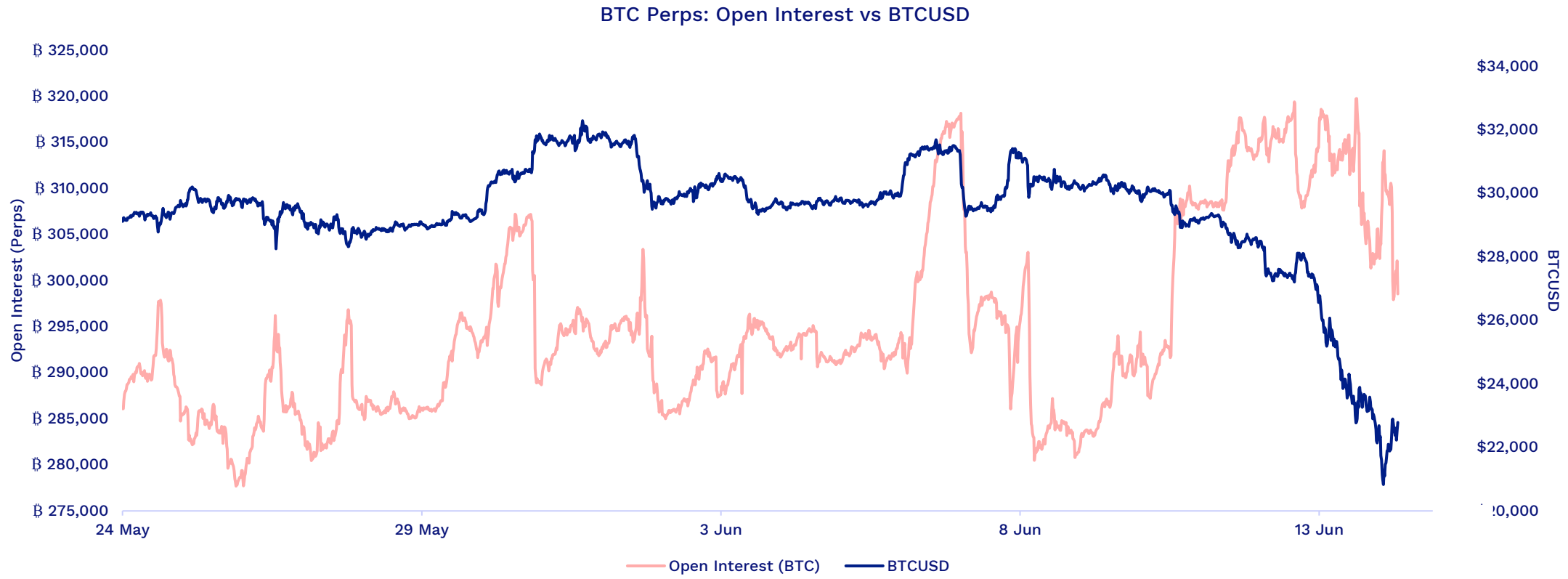
- Funding rates have trailed well below neutral throughout the last seven days and have mostly been negative amid the most recent downfall.
- The funding rates have been notoriously compressed for a long while, but the open interest in perps remains elevated, as we illustrate in the next slide.
- We've also seen a relatively orderly sell-off when assessing the derivatives market in isolation. Liquidation volumes in BTC reached new yearly highs yesterday, but we've not seen see a dislocation analogous to what we saw on December 4th.
- The current market structure with increased contagion risks related to Celsius and the pressuring macro backdrop points in the direction of caution. Yesterday's large short liquidation volume might suggest overly confident bears, but given the state of the market, careful spot accumulation seems to be the prudent option if you're eyeballing an entry.



Source: Skew

Open interest in perps still elevated around 300,000 BTC

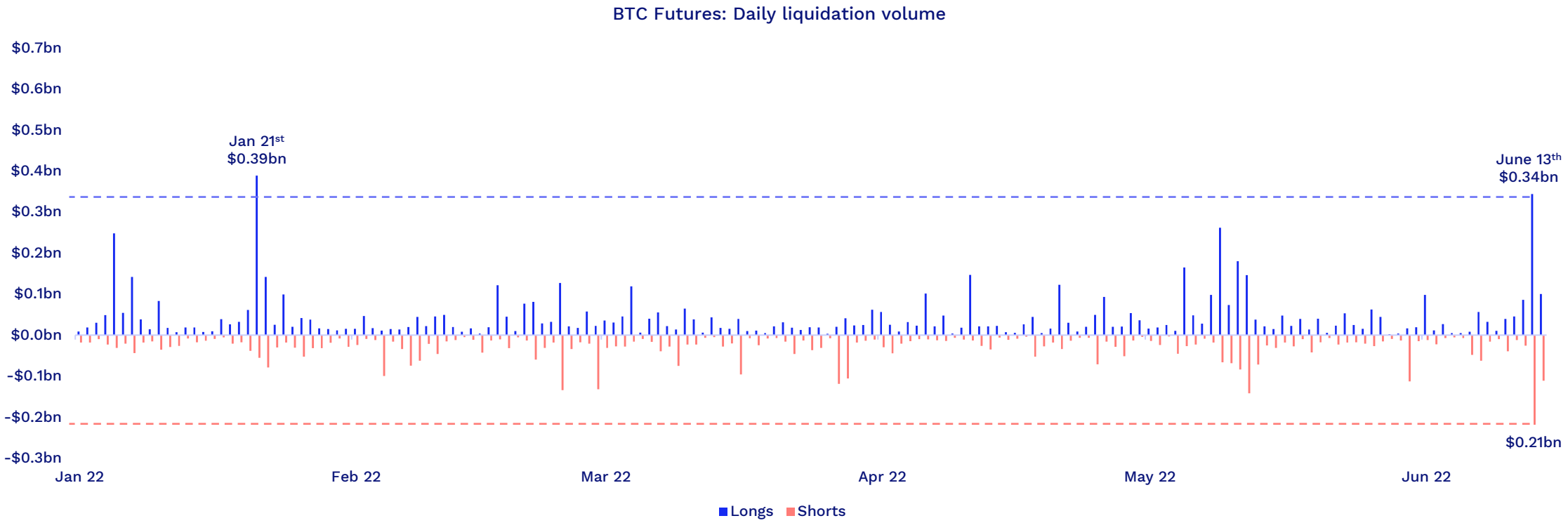
The open interest in BTC perps still remains elevated despite the strong sustained sell-off, currently sitting at 298,500 BTC. Yesterday saw relatively volatile development in open interest, with several peaks amid the sell-off, suggesting that some attempted to catch the falling knife. It's somewhat unsettling to see open interest remaining at such elevated levels. Amid the December 4th crash, the BTC denominated open interest in perps plunged towards 190,000 BTC.



Source: Skew, Laevitas

Largest daily liquidation volume in BTC futures in 2022

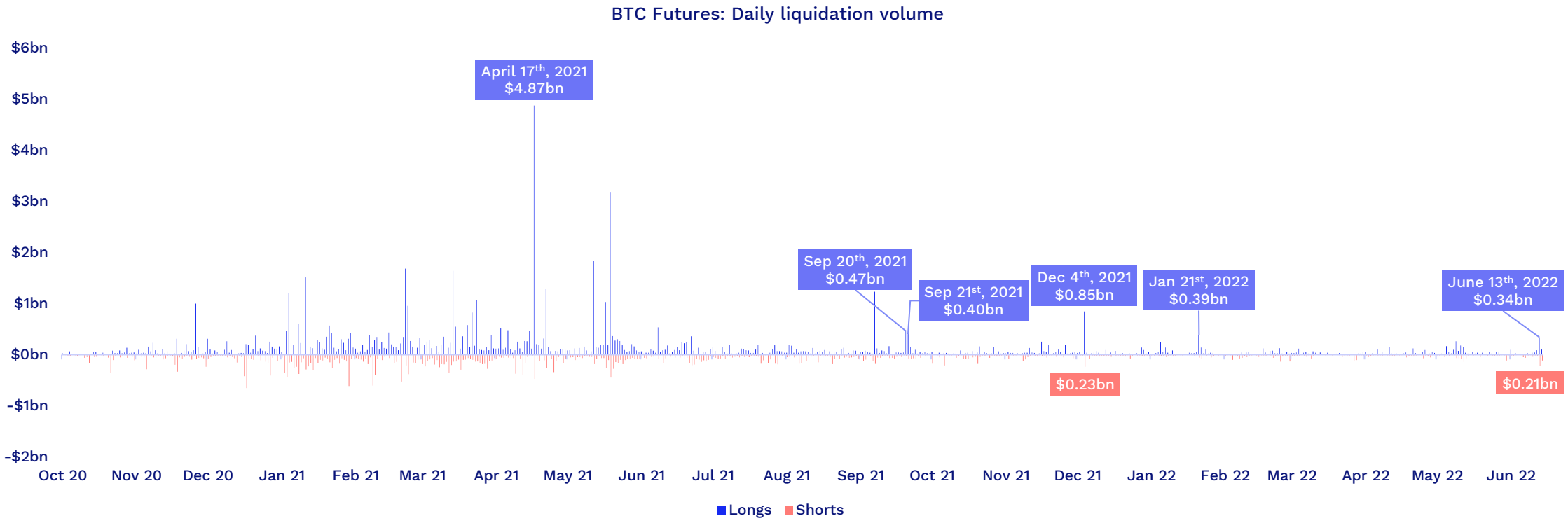
Yesterday saw $340 million worth of longs and $210m worth of shorts being liquidated in the market, leading yesterday to become the most severe liquidation day in the BTC futures market this year. January 21st saw more elevated long liquidation volumes but more soft short liquidation volumes. The surging short liquidations indicate a growing willingness to short with leverage in the market. Unfortunately, Bybit and Binance restricted their liquidation data last year, leading to a dramatic decline in the data quality when assessing this metric, which we highlight in the next slide. 2021 liquidation volumes are not in any way comparable to those of today, and while partly being caused by a reduced risk appetite in the market, the API adjustments of Binance and Bybit play an important role as well.



Source: Coinglass

Do not compare 2021 liquidations to 2022

On April 27th, 2021, Binance conveniently "upgraded their APIs to optimize the User Data Stream", leading the WebSocket to stop pushing real-time liquidations, dramatically reducing the liquidation data stream provided by the platform. Bybit conveniently followed suit in the obfuscation on September 17th, 2021, restricting WebSocket data to create a "fair trading environment". These two adjustments have made it impossible to compare 2021 liquidations to the current volumes. However, we may compare and contrast liquidations following the adjustments. Yesterday's surge in liquidations is the fifth most violent long liquidation day in the market since September 17th, 2021, and interestingly the second-largest daily short liquidation volume, only behind December 4th.



Source: Coinglass

Ballooning open interest in ETH

BTC futures are not alone in seeing elevated open interest in notional terms. ETH denominated open interest has soared by 35% over the weekend.

- The ETH denominated open interest in Ethereum futures has soared from 2.4m ETH to 3.3m ETH over the weekend, corresponding to an increase of 35%, before plunging by 400,000 ETH in the next 24 hours.
- The volatile open interest in ETH might be caused by funds seeking to take advantage of the growing "discounts" to stETH compared to ETH, leading to investors seeking to short Ether futures to hedge stETH exposure.
- Funding rates plunged well into negative terrain during this surge, suggesting that short traders were the most aggressive, further suggesting hedging activity, possibly related to the stETH discounts.

Ethereum futures/perps: Ether denominated open interest

Source: Laevitas

Blockchain Activity

LUNO

Bitcoin on-chain summary: Hashrate at all-time high

The same day the bitcoin price fell towards the low 20s, the hashrate reached an all-time high. There have been better times for the bitcoin miners.

- Daily miner revenues continue staying depressed at $27 million. Still, this number is a 7-day average that looks backward. The number is likely closer to $23 million now as the bitcoin price has fallen to $22,500.
- If you think the bitcoin hodlers are struggling now, you should know miners are struggling even more. Their profitability is not only being squeezed by the plummeting bitcoin price but also by the record-high competition in the mining industry as the 7-day average hashrate reached an all-time high of 231 EH/s on Monday.
- The combination of the falling bitcoin price and increasing hashrate means that miners must compete harder for lower-value block rewards. We see this dynamic play out among the public miners, as they have produced less bitcoin than expected during the spring.
- We also see an 18% decline in transaction fees per day. The fees are now sitting at $370,000 per day, close to the lowest level since July 2020.
- The low transaction fees are surprising, considering we saw a record-high number of bitcoin outflow from exchanges on Monday.

Powered by: BYTETREE

	Bitcoin Network Data	6/13/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	$ 27,006,873	$ 27,212,734	-0.76%	
	Fees per day	$ 371,585	$ 454,960	-18.33%	
	Fees % Revenues	1.38%	1.67%	-0.30%	
	Daily TX Volume ($Bns)	$ 6,090	$ 5,052	20.55%	
	Transactions per day	252,015	252,821	-0.32%	
Utility	Avg TX value $	$ 24,167	$ 19,983	20.94%	
	# Blocks per hour	6.23	5.86	6.19%	
	Avg. # TX per block	1,687	1,692	-0.32%	

Source: Bytetree

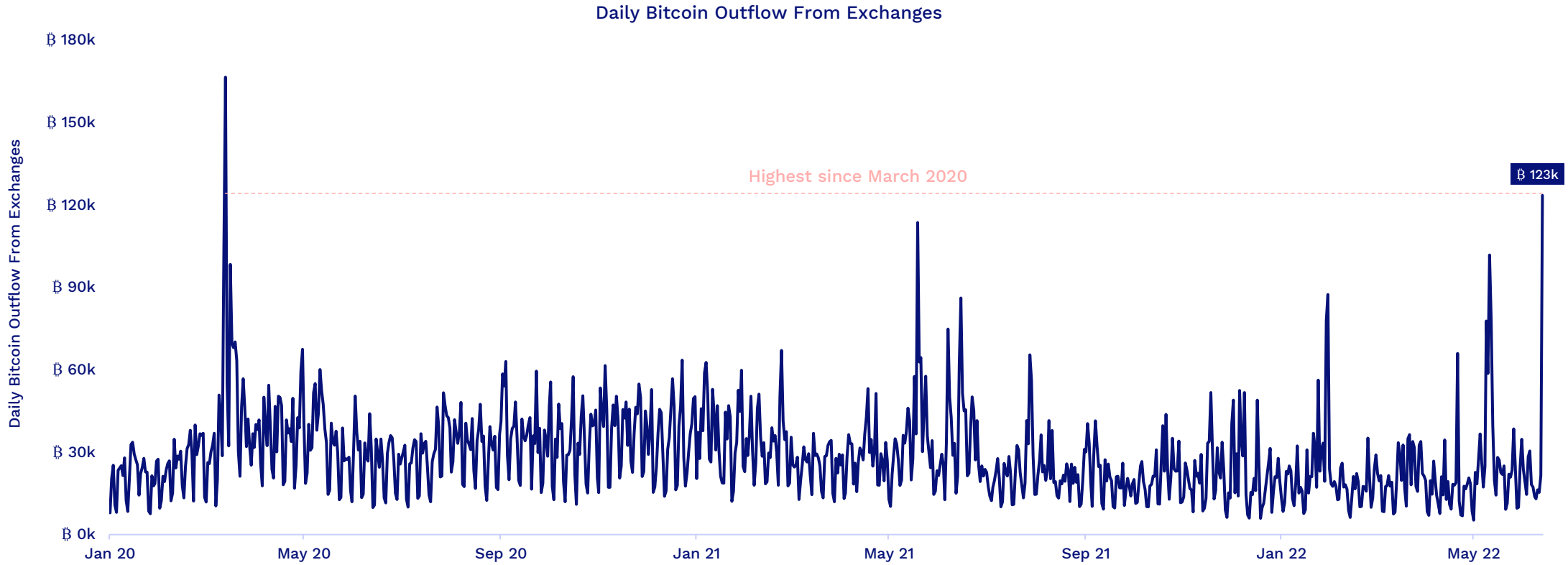
Bitcoin Hashrate (7-day average)

Source: Blockchain.com

Bitcoin flowing out from exchanges

Monday saw 123,000 bitcoin withdrawn from exchanges - the highest number since March 2020. However, it's important to remember that this metric can be a bit unreliable as some new exchange addresses can go undetected by the data providers for a while, and later show to be internal movements and not real outflows.

Usually, such large outflows result from corresponding inflows during the previous days. We haven't seen any such large inflows lately, indicating that the outflows could be caused by increased perceived counterparty risk spurred by the Celsius situation. It didn't help that Binance also suspended withdrawals shortly after Celsius, apparently due to technical issues. Luckily for depositors, Binance resumed withdrawals after a few hours. These episodes should have reminded hodlers that cold storage is always the safest.

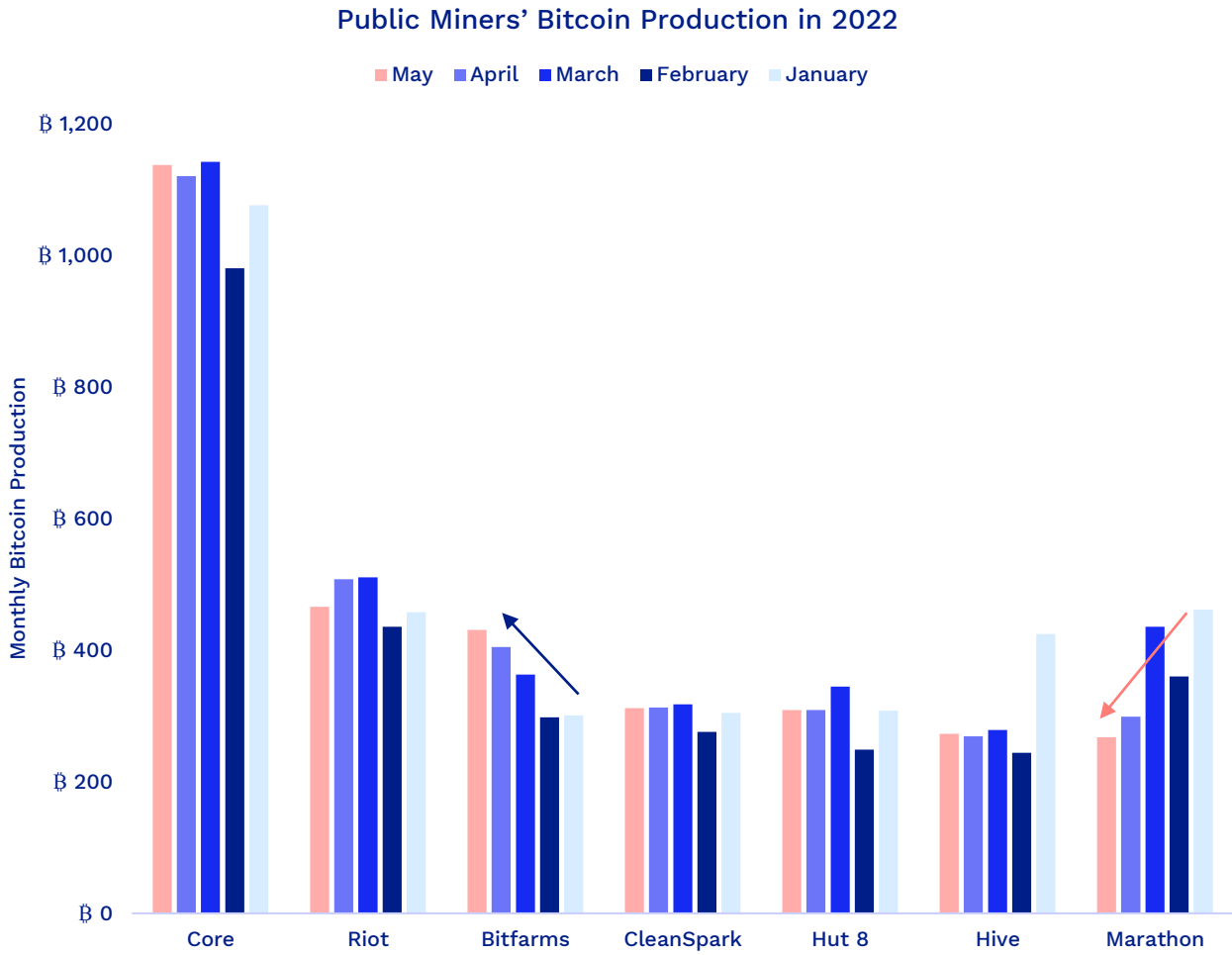


Source: CoinMetrics

The public miners are producing less bitcoin than expected

At the start of 2022, most public miners had lofty plans to expand their bitcoin production capabilities. Halfway into 2022 and few have managed to increase their bitcoin production.

- In May, most public miners didn't produce significantly more bitcoin than in January. These companies have struggled to keep up with the increasing difficulty and have not been able to grow their hashrate as fast as expected.
- Some of these companies are even producing less bitcoin now than at the start of the year. Marathon is the prime example, mining 462 BTC in January and only 268 in May, corresponding to a 42% decrease. Their May and April production numbers are especially disappointing considering that they had among the most extensive hashrate expectation plans.
- Marathon's reduced bitcoin production is mostly caused by their delays in energizing their machines at their new Texas facility and ongoing maintenance issues at the coal plant in Montana, which powers most of their miners.
- Bitfarms is the only of these miners that has consistently increased its bitcoin production since January. The company produced 301 BTC in January and 431 in May, a 43% increase.
- Will the disappointing bitcoin production numbers of most public miners in 2022 teach investors to be more critical when they see lofty future hashrate plans?



Source: Production updates (Core, Riot, Bitfarms, CleanSpark, Hut 8, Hive, Marathon)

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