The Weekly Update

Week 24, 2022

luno

Provided by arcane research

1 Market Update

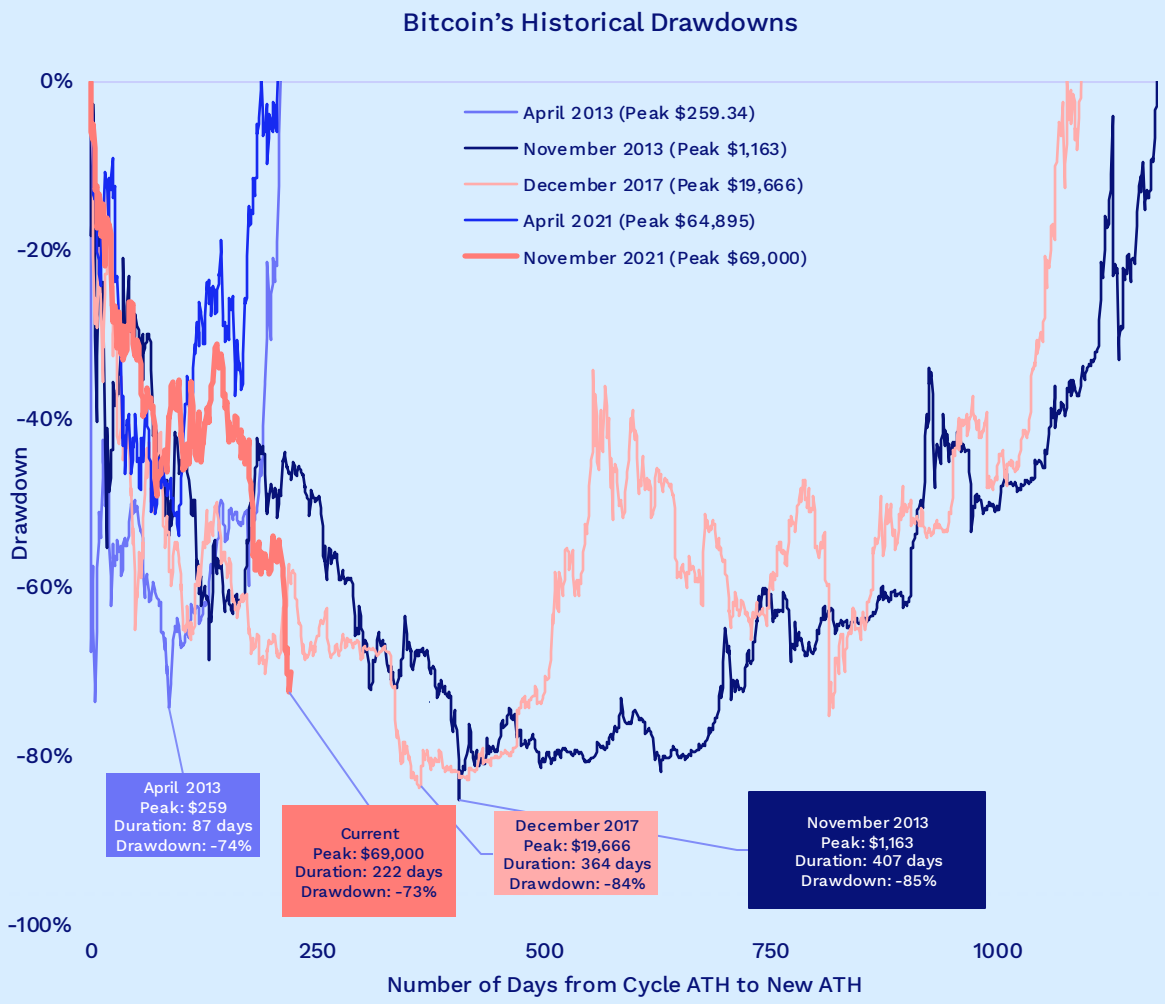
- Last week, BTC fell below $20,000, reaching lows of $17,600 before recovering above $20,000 for the weekly close amid the market-wide liquidation of 3AC's assets.
- Several large downwards price movements have caused bitcoin's 7-day volatility to hit its highest level since May 2021.
- Following the Three Arrows Capital collapse, the GBTC discount has reached record lows of 34%. GBTC will receive its ETF conversion verdict on July 6th.
- The largest Canadian bitcoin ETF, Purpose, saw its AUM plunge 50% on Friday, indicating a massive capitulation from a forced seller. In contrast, BITO saw its strongest inflows since its launch last week.

2 Valuation

- Bitcoin plunged below the 2017 peak during last week's liquidations but has found support above 2017 highs while trading below its 200-week moving average for the second time in history.
- CME futures are trading above offshore market as sell-off sent FTX futures in brief backwardation.

3 Blockchain Activity

- The cash flows of bitcoin mining keep dropping to new lows, and Antminer S9 is now in negative territory. The deteriorating profitability of mining has forced the public miners to start liquidating their bitcoin holdings.
- Solend recently advanced a governance proposal that would allow the Solend team to temporarily overtake a large and highly levered account. After intense backlash from the community, the proposal was later overturned as users returned to the ballot.



Source: Tradingview (Bitstamp)

Chaotic market following liquidations of 3AC's assets

- Three Arrows Capital (3AC) was flying too close to the sun, leading to a brutal market meltdown as 3AC failed to meet margin calls (slide 9). A market-wide liquidation of 3AC's assets ensued, leading to a plunging crypto market. Fear of contagion from the collapse infected the market, and BTC fell below $20,000, reaching lows of $17,600 before recovering above $20,000 for the weekly close.
- After the sharp rebound, all the top three cryptocurrencies by market cap end the week flat. BNB is the winner after increasing 2%, ETH ends at -1%, and BTC is the worst performer after falling 2%.
- Correlations between bitcoin and other financial assets continue increasing. Bitcoin's correlation with gold has particularly increased lately and is now sitting at heights not seen since January 2021.
- BTC's correlation with ETH is at extreme highs, sitting at 0.93. This is close to ATH and has only been higher in March 2020 following the Covid outbreak.
- The past week has been great for the smaller altcoins. Of the top 50 coins by market cap, Elrond is the winner after surging 51%. It's a long time since we saw such strong performances from the smaller coins.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Elrond	62.75	51.3%	-31.6%	-74%
Bitcoin SV	65.38	40.4%	34.1%	-47%
Helium	10.96	37.2%	35.8%	-73%

Worst Performing	Price	Last week	Last month	YTD
Monero	121.09	-8.1%	-31.4%	-51%
Bitcoin Cash	121.58	-3.6%	-36.9%	-72%
Flow	1.52	-3.5%	-46.3%	-83%

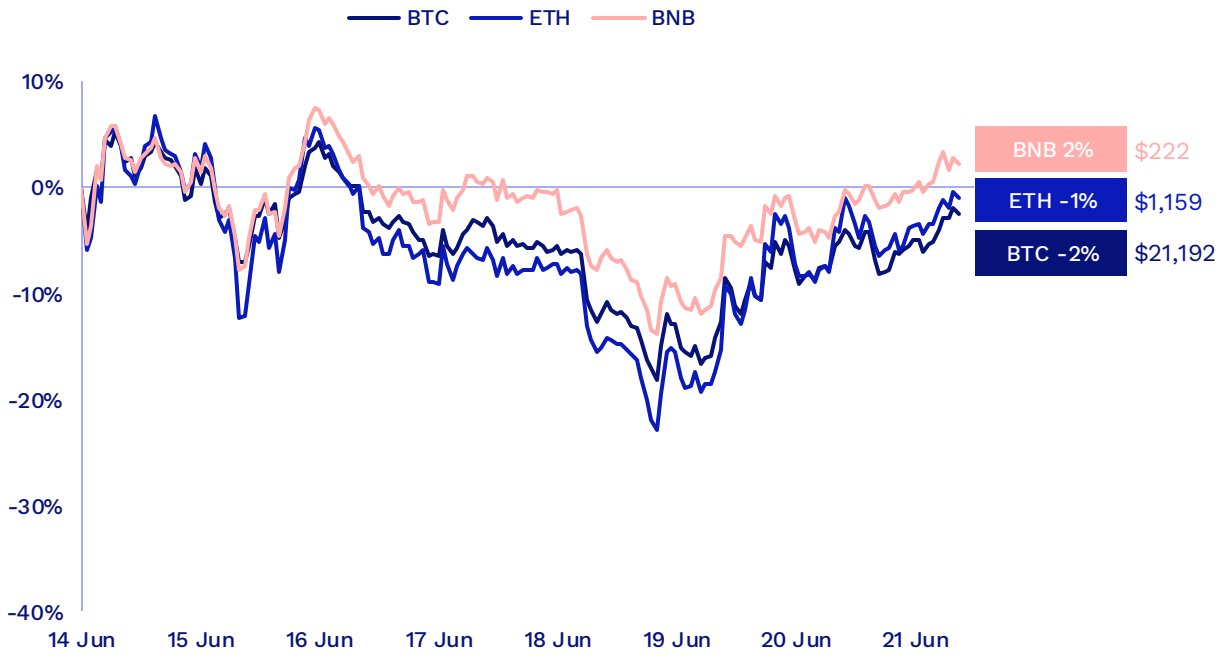
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.931	0.009	0.216	0.030	0.623	0.058

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)

The small caps are rebounding

The smaller altcoins have seen the strongest comeback as the market slightly recovers.

- Even though it has fallen 27%, the Small Cap index is the best performer in June after recovering strongly since the market bottomed out last weekend. Bitcoin is underperforming all indexes in June after falling 35%.
- The outperformance of small caps relative to bitcoin has led the bitcoin dominance to decline by 1.5 percentage points.
- We also see a continuation of the decrease in the ETH dominance. Since the beginning of May, it has declined from 19.5% to 15%, as ETH has underperformed the rest of the market.
- It's highly unusual to see small caps performing better than bitcoin in a falling market. However, the primary driver of this crash has been the massive Three Arrows Capital margin call. In periods of insolvency, creditors unwind the most liquid assets first, which is likely the root cause of BTC and ETH's relative underperformance in the last week. Illiquid altcoins are more challenging to sell at size, particularly during pressuring times, which explains why smaller coins have experienced less excessive selling pressure in the last week.

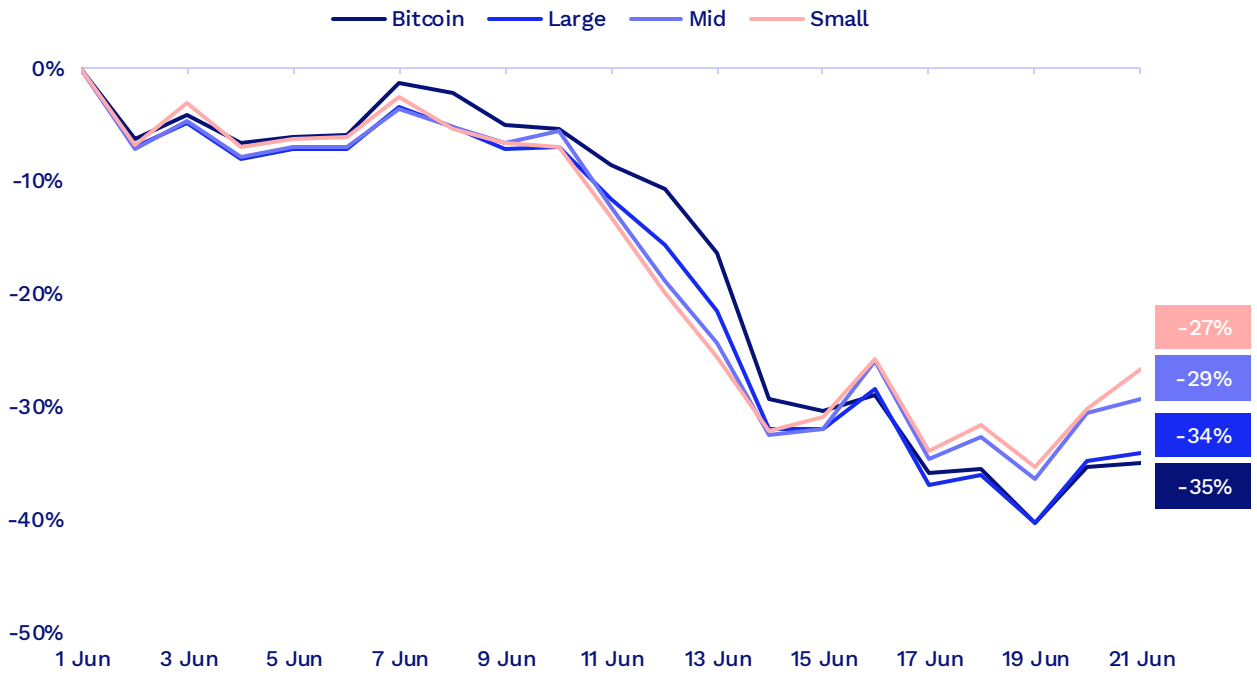
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	ADA	XRP	SOL	DOGE
Market Share	43.52%	15.11%	7.25%	5.97%	3.90%	1.84%	1.82%	1.71%	1.39%	0.90%
Weekly Change	-1.51%	-0.31%	-0.30%	0.26%	0.03%	0.00%	0.04%	0.11%	0.32%	0.12%

* Weekly change in percentage points

Source: CoinMarketCap

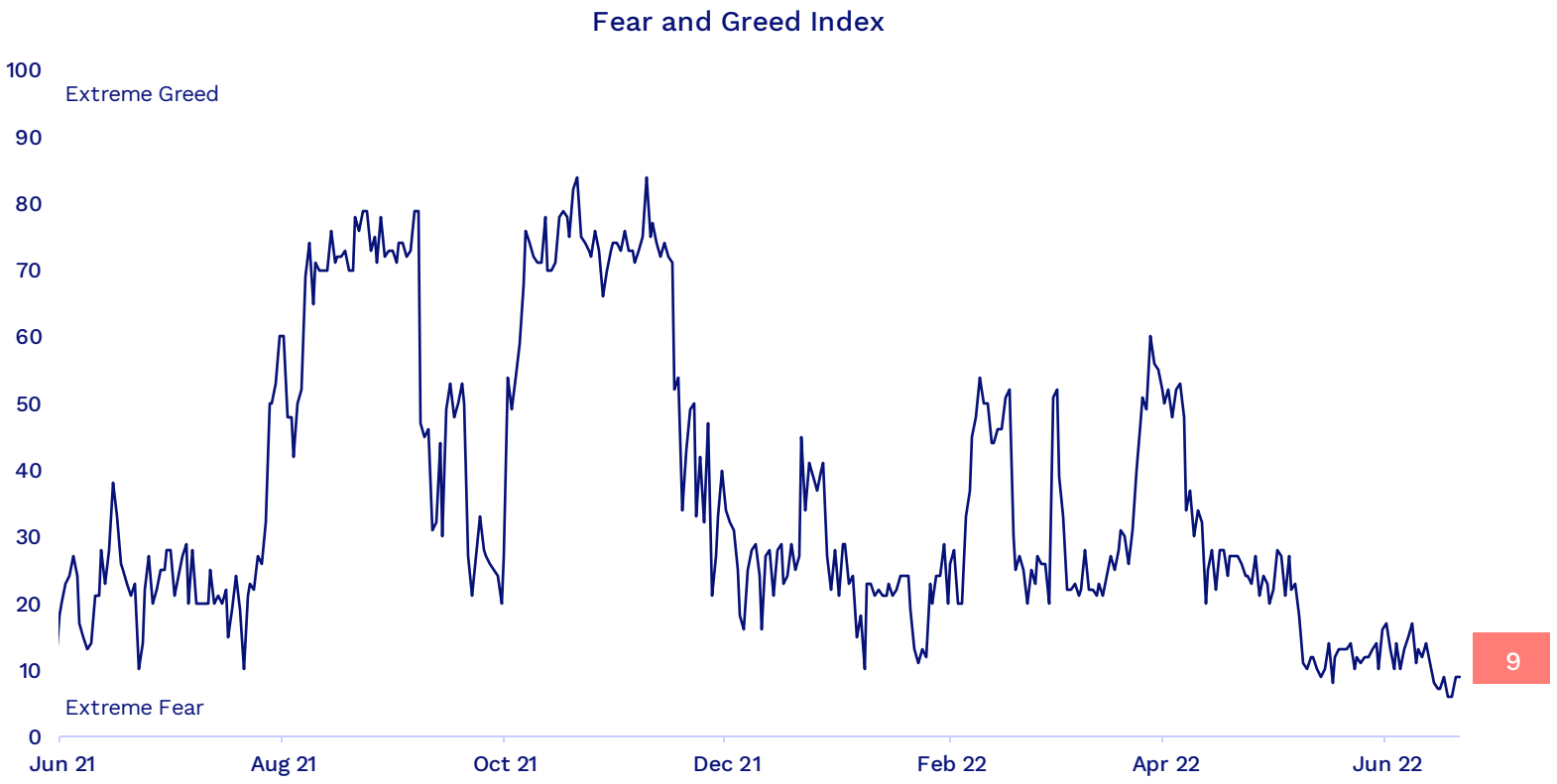
Monthly Performance of Market Cap-Weighted Indexes



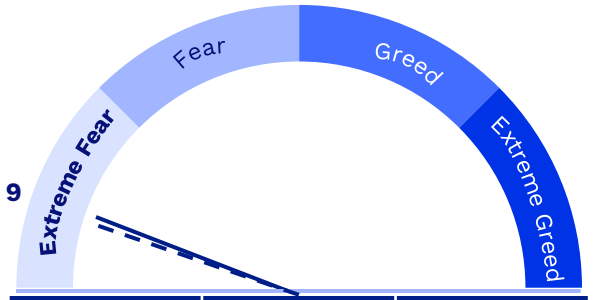
Source: Bletchley Indexes

The crypto market has been extremely fearful for two months

The crypto market is chaotic now as several substantial market participants have already gone under, and the market knows there might be more to come. The current crypto chaos is reflected in the Fear and Greed Index, which has now signaled 'extreme fear' for two months straight, which has never happened before in the index's history.



Source: Alternative.me

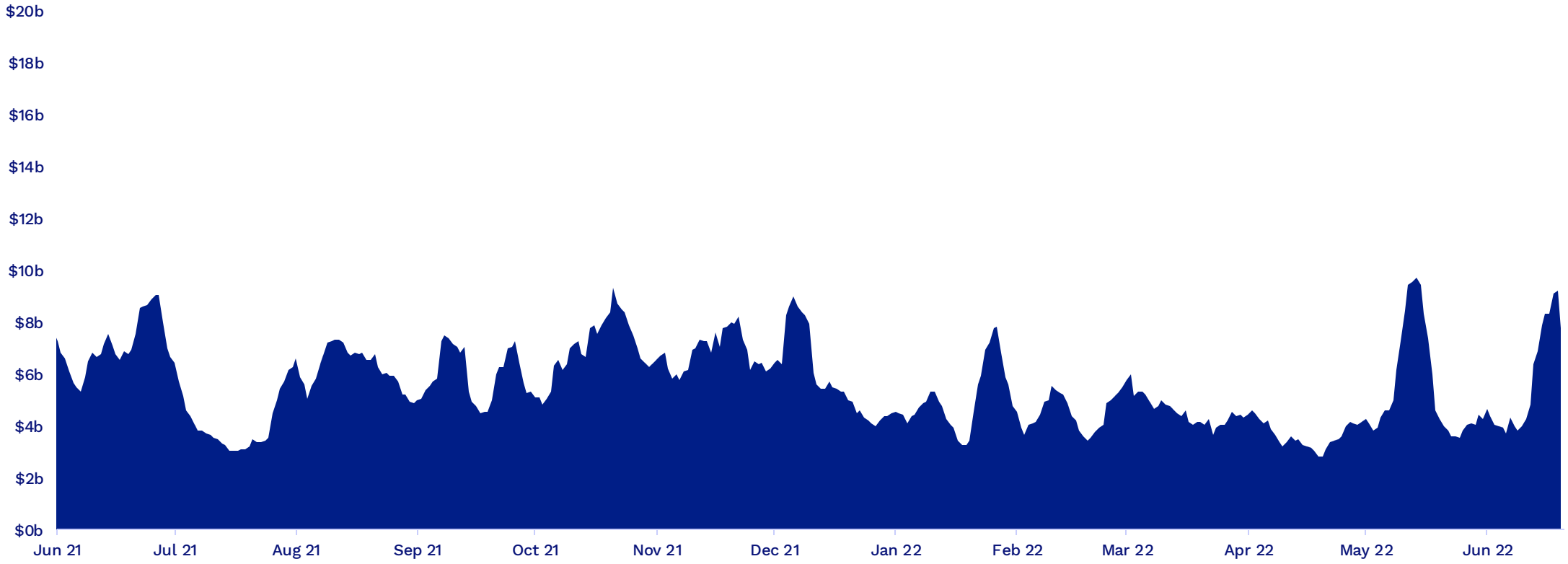


Now	Last week	Last month
Extreme Fear (9)	Extreme Fear (8)	Extreme Fear (13)

The bitcoin spot volume keeps climbing

The 7-day average bitcoin spot volume is currently $7.8 billion, close to its highest levels in the past year. Bitcoin has been very volatile lately (next slide), and we see elevated spot volumes on the most volatile days. The volume difference between specific days has also increased, as a few volatile days see very high volumes of more than $10 billion while spot volumes on most days are between $5-$6 billion.

Real BTC Daily Volume* (7-day average)

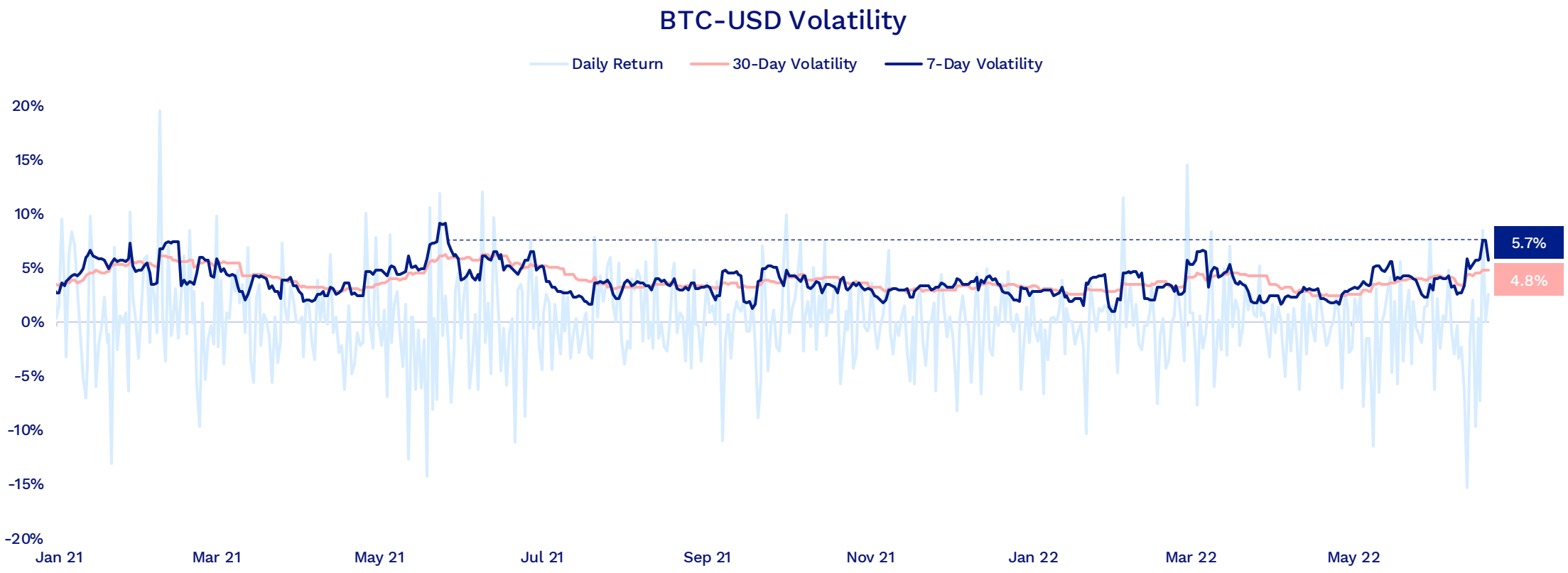


Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX.

Bitcoin's highest 7-day volatility since May 2021

Several large downwards price movements have caused bitcoin's 7-day volatility to hit its highest level since May 2021. Bitcoin also saw a significant upwards price movement as it increased by 8.5% on Sunday. Bitcoin's recent volatility has led to a substantial increase in options prices, as traders have become more eager to hedge their positions.



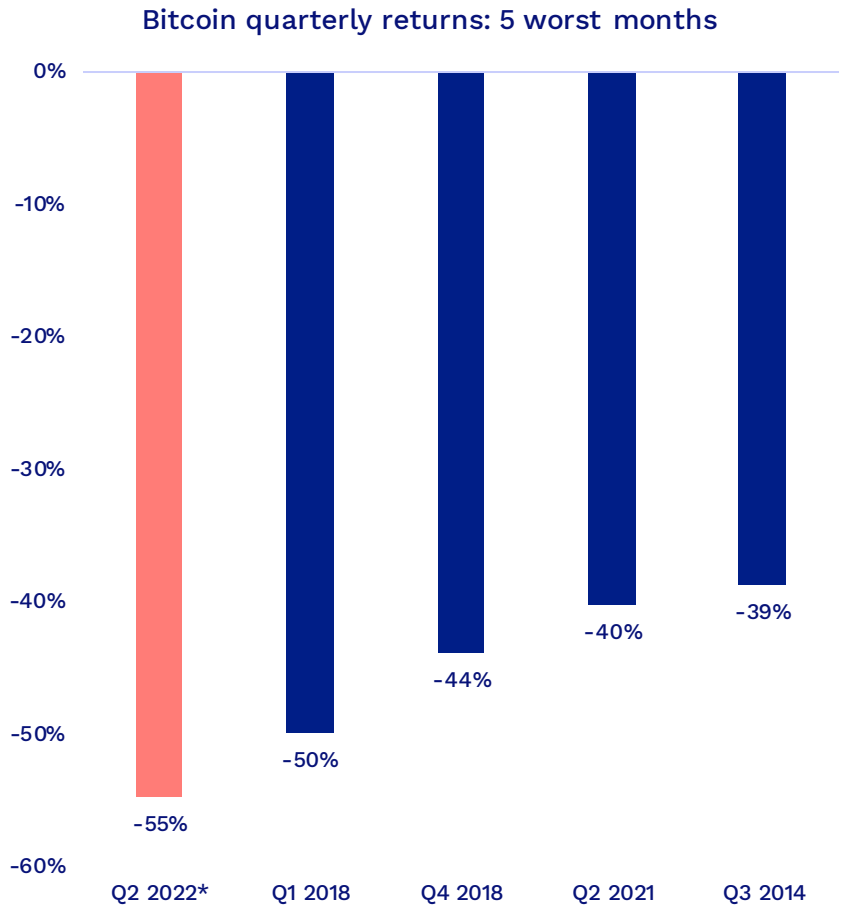
Source: Tradingview (Coinbase)

Three Arrows Capital's collapse

A grim end to the Zhupercycle

Overwhelming confidence, risk management negligence, and a chain of unfortunate events lead to the collapse of one of the industry's most renowned funds, Three Arrows Capital.

- One of the most renowned funds in the crypto space, Three Allows Capital, collapsed during last week's market meltdown. 3AC's founder and CIO, Su Zhu, has long touted his view of the super cycle – a crypto market without any massive drawdowns, slow and steady, up towards the right. The last months have proven his thesis wrong, with bitcoin experiencing its worst quarter ever, and in late May, Zhu conceived that his view had been wrong.
- Q2 was a cocktail of unfortunate events for 3AC, leading the fund to experience continuous raw punches, eventually manifesting the fund's demise. The arguably most punishing strike came with the collapse of Luna. 3AC had more than $200m worth of losses related to Luna and was caught off guard alongside Celsius and others – illustrating the broad contagion effects of Luna's collapse. 3AC managed to cope through the initial Luna-induced collapse but had suffered severe losses.
- As markets failed to recover substantially post Luna and then further soured amid the surprisingly high CPI on June 10th, 3AC was rapidly pressured into default and was liquidated by a large undisclosed lender.
- 3AC's reputation had granted the fund access to the holy grail of undercollateralized lending. Poor risk management would eventually become the final nail in the coffin for 3AC and further exacerbate the post-Luna contagion effects as venues strive to wind down the remnants of 3ACs positions.
- BlockFi and Genesis have announced liquidations and mitigations of losses, with Genesis' CEO Michael Moro commenting that the losses may be netted against Genesis's balance sheet. Deribit announced possibly distressed positions and net debts while remaining financially healthy even if debts are not repaid. FTX and Bitmex also confirmed liquidating 3AC. BitMEX is also reportedly owed $6m from 3AC.
- How 3AC's counterparties handle the remaining debt is unclear. The implications and possible contagion effects might come to light in the coming weeks, and it could create a dicey environment for the already pressured markets.
- Let the collapse of Three Arrows Capital roar as a reminder of the importance of risk management, prudence, and the dangers of unabated pure conviction and confidence.



Source: Tradingview (Bitstamp)

*As of June 20th 2022

GBTC's discount reaches all-time low 2 weeks ahead of ETF verdict

The GBTC discount reached record lows of 34% following the 3AC collapse.

- The collapse of 3AC has contributed to a further widening of the GBTC discount to its net asset value. According to Bloomberg, 3AC is the largest shareholder of GBTC, holding 38.9 million shares. However, the 3AC balance of GBTC is relatively unclear. The fund last filed its holdings in a 13G filing on April 1st, 2021.

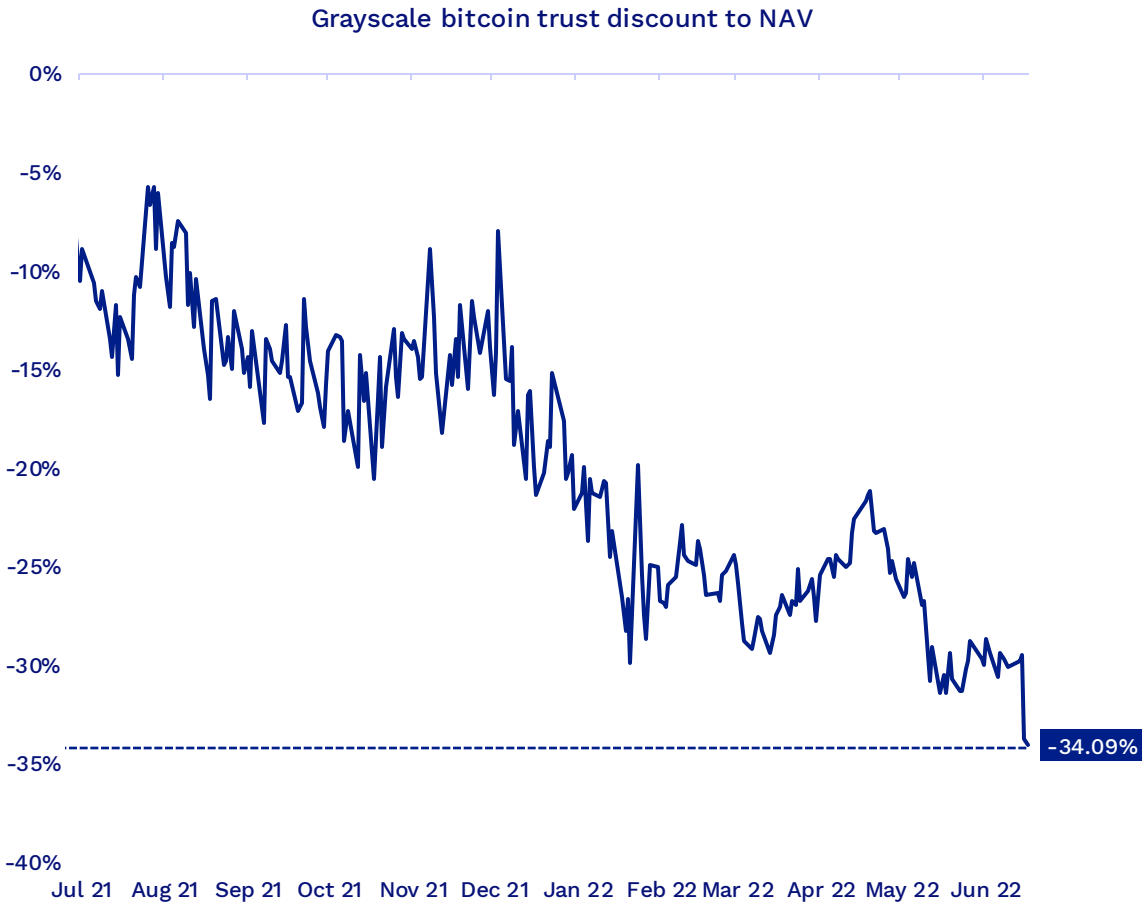
- Nevertheless, it seems clear that 3AC still had a sizable exposure to GBTC, with the fund reportedly seeking to offload its GBTC exposure to external investors prior to the definitive 3AC meltdown. 3AC provided a pitch deck laying the case for arbing the GBTC discount ahead of GBTC's final verdict on their ETF filing to the SEC.

- The trade idea is relatively simple: Long GBTC and hedge by shorting BTC. 3AC sought to facilitate this trade with a corresponding 20% performance fee.

- While 3AC's GBTC push ended in tears, the current discount of 34% of GBTC represents an interesting and possibly attractive trade. The SEC deadline for the ETF approval is set for Wednesday, July 6th. An SEC denial remains the most likely outcome. On June 29th, one week before GBTC's verdict, Bitwise will receive its final verdict – the outcome of Bitwise's filing will likely foreshadow the outcome of GBTC's filing.

- Nevertheless, at a 34% discount, GBTC is already an attractive long-term alternative for investors seeking BTC exposure. Given Grayscale's 2% annual management fee, the fund would need to remain close-ended and fail to convert to an ETF in the next 20 years to justify its current discounts. This seems unlikely. When also accounting for the tendency of bitcoin to trade in a structural contango, this GBTC trade seems like a bargain.

- While many have hoped for an ETF conversion, a GBTC approval could be bearish short-term, creating huge sell-side pressure from funds taking advantage of the massive arbitrage in a cash-neutral long GBTC, short BTC trade.



Source: Skew

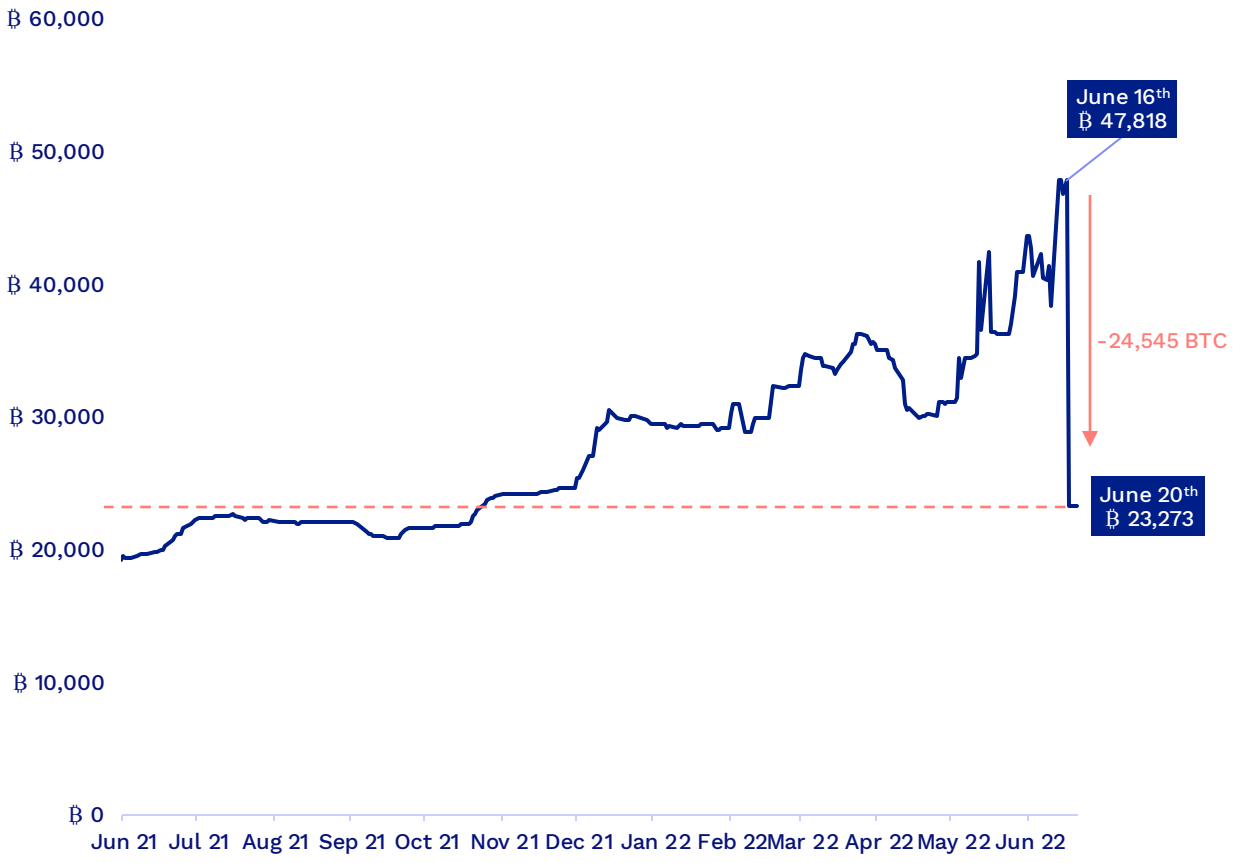
Blood in the streets

Enormous redemptions in the Purpose BTC ETF – forced seller?

The largest Canadian bitcoin ETF, Purpose, saw its AUM plunge 50% on Friday, indicating a massive capitulation from a forced seller.

- The Canadian Purpose ETF experienced massive outflows on Friday, amounting to 24,510 BTC on Friday. The fund's bitcoin under management has fallen by 24,545 BTC since Thursday, equivalent to a 51% decline.
- This is by far the most severe redemption we've seen in the relatively short-lived BTC ETF history and has contributed to shrinking Purpose's bitcoin under management down towards lows not seen since October 2021.
- The enormous outflows are likely caused by a forced seller in a huge liquidation. The forced selling of the 24,000 BTC could have triggered BTC's move down towards $17,600 this weekend.
- In early June, we noted massive net inflows to BTC ETPs, but it's safe to say that this plunge has offset all gains and more so. As of writing, BTC ETPs have seen net outflows amounting to 18,315 BTC. As of now, June 2022 has been the worst month in BTC ETP's history related to outflows, outpacing the outflows experienced in April.
- Following these outflows, Purpose is no longer the largest BTC ETP provider in the industry. ProShares' futures-based BTC ETF is now the largest exchange-traded bitcoin fund measured by AUM. In stark contrast to Purpose, BITO saw massive inflows last week (next slide).

Purpose Bitcoin ETF: Bitcoin under management



Source: Purpose

... But someone is buying the dip?

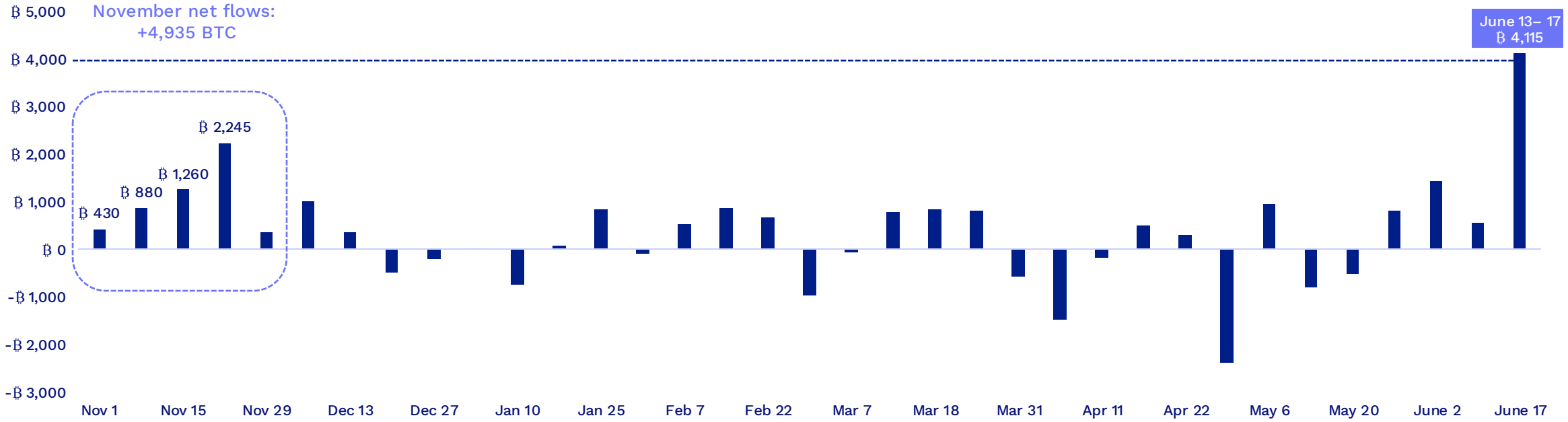
ProShares' BITO ETF saw its largest net inflows since its launch week last week, leading the funds' bitcoin exposure to grow by 4,115 BTC.

- Last week was a massive week for BITO, as the fund saw net inflows amounting to 4,115 BTC. This has pushed BITO's bitcoin equivalent exposure to a new all-time high of 31,585 BTC. ProShares has become the largest bitcoin ETF provider after surpassing Purpose's AUM during Friday's redemption carnage in Purpose. Last week's inflows are nearly as high as the monthly inflows to BITO in November and are the second-highest weekly net inflows to BITO, only surpassed by the massive 19,065 BTC equivalent inflows during the launch week.

- This suggests that at least some U.S. investors are eyeballing the current sell-off in BTC as an attractive point of entry, taking advantage of forced sellers elsewhere. However, the futures-based structure disincentivizes long-term exposure, suggesting that this is driven by short-term positioning for an expected relief rally.

- Today, ProShares will launch a short bitcoin ETF (BITI). Several have noted the timing of the BITO and BITI launches. Maybe this might contribute to breaking the BITO curse?

BITO, net weekly flows (BTC equivalent)

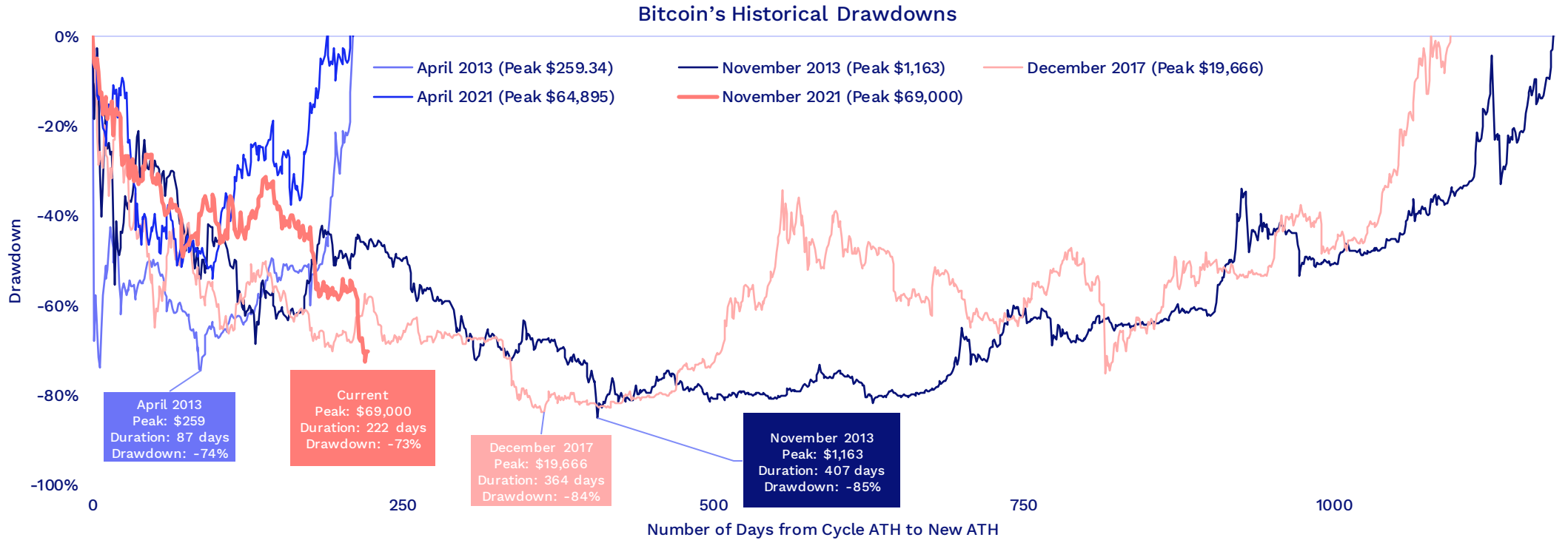


Source: BITO

Bitcoin is no stranger to long and painful drawdowns

Throughout its 13-year history, bitcoin has been through several boom-bust cycles. The current 222-day long drawdown of -73% may feel painful, but the faith of bitcoin hodlers was tested much harder in 2013 and 2017. After peaking in November 2013, bitcoin would not reach its bottom until a 407-day-long fall of 85%. The bear market that followed the $20k ATH in December 2017 was almost as bad, lasting 364 days with a maximum drawdown of 84%. If bitcoin follows the blueprint of these cycles, a bottom should occur sometime in late Q4 2022, at a price as low as **$10,350**. Still, while historical comparisons are interesting, bitcoin is now far more intertwined in the broad financial markets, with the Fed, US elections, crypto regulations, and stock market impacting its performance.

Veteran hodlers know that pain and agony is the price we pay for upside asymmetry.



Source: Tradingview (Bitstamp)

Valuation

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Finding support at $20,000, but trading below 200w MA

Bitcoin plunged below the 2017 peak during last week's liquidations but has found support above 2017 highs while trading below its 200-week moving average for the second time in history.

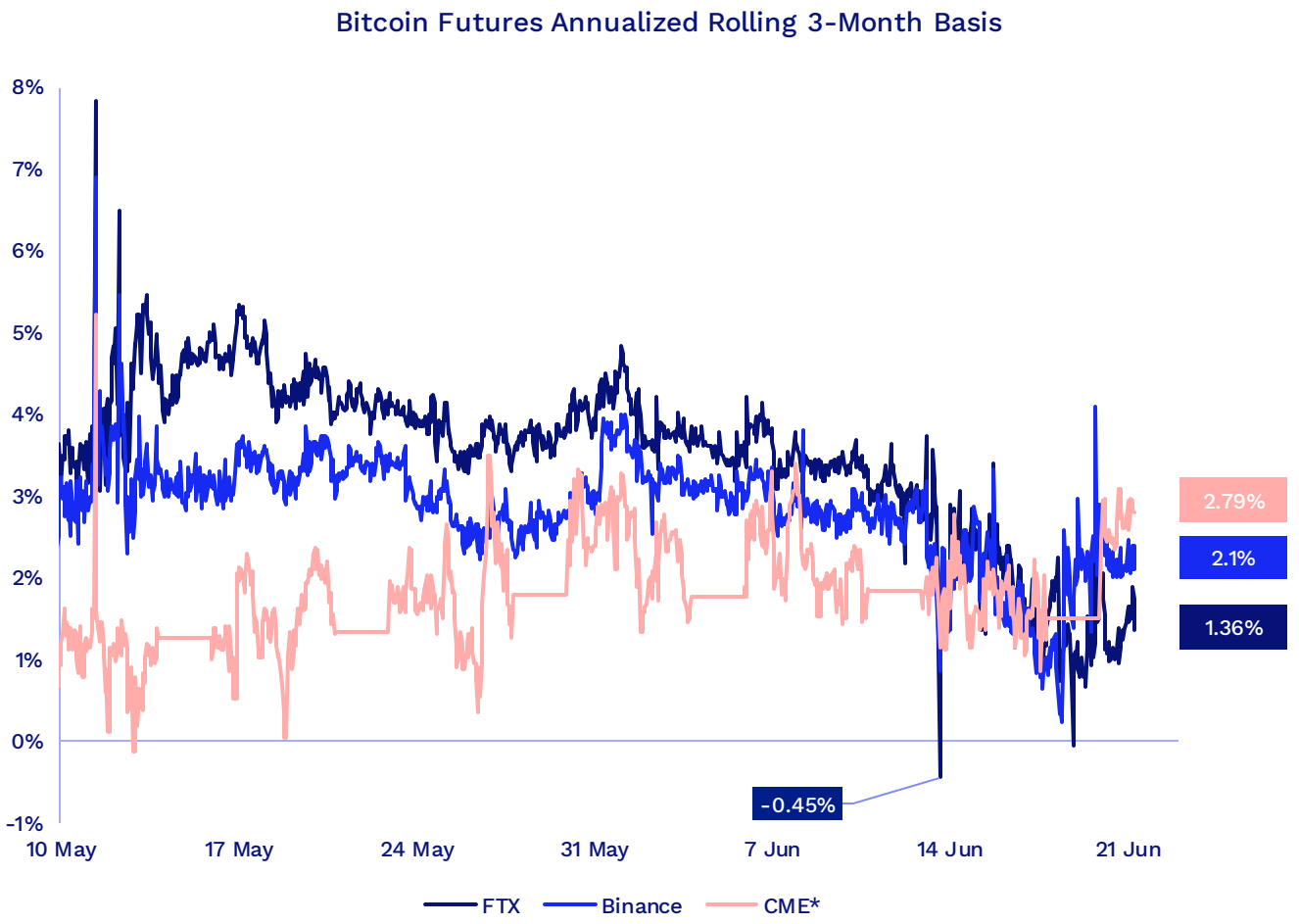
- Bitcoin shattered below $20,000 amid last week's forced selling but has since recovered to levels above the 2017 peak, seeing a promising weekly close of $20,500 above the 2017 highs.
- For now, BTC has found support above $20,000. Last week's visit below was caused by massive forced selling, evident by both 3AC's collapse and Purpose's massive redemptions.
- $20,000 remains the most critical support level to pay attention to onwards.
- In addition to the important support at $20,000, BTC is currently trading below the 200-week moving average for the second time in its history. This also happened during the March 12th, 2020, crash.
- BTC is now in an interesting position below the 200w MA of $22,427 and the $20,000 support. A breakout above the 200w MA would be very welcome and could indicate a market bottom.

Source: Tradingview (Bitstamp)

CME back at a premium

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

- Yields remain low in the 1-3% range. Since Monday, CME has traded at a consistent premium to the offshore market.
- FTX consistently traded at a premium to the other venues in May but is now trading considerably below its peers. As noted in earlier in this report, FTX was involved in liquidating three arrows capital, which might be the catalyst behind the reduced premiums on FTX.
- CME's premium to the offshore market might, in part, be lifted by BITO's strong inflows last week. It will be interesting to see if the launch of BITI may impact the CME basis in the coming weeks, as access to short-selling bitcoin becomes easier.



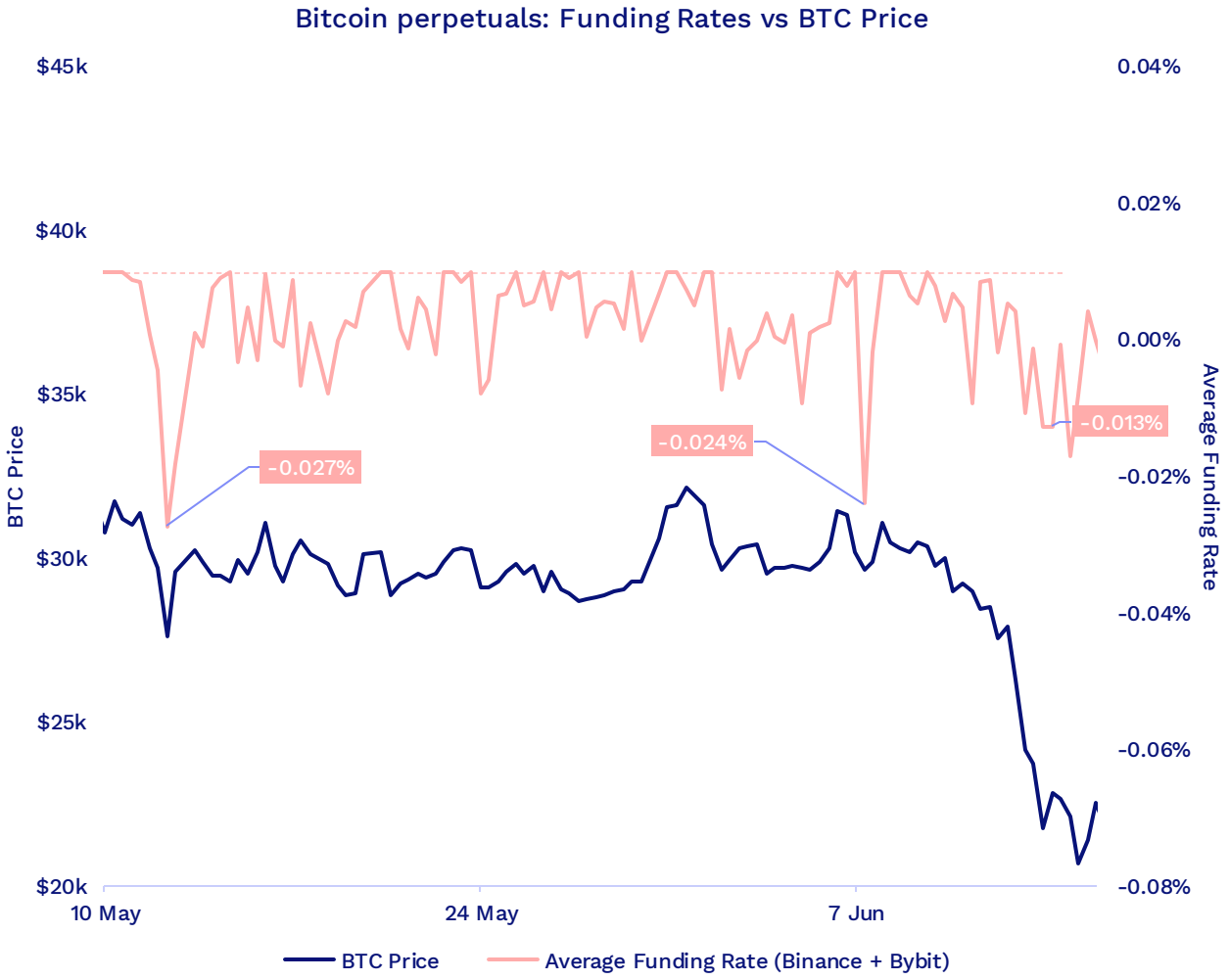
Source: Skew

*Closed Saturday - Sunday

Perps still tend to trade at a discount to spot

Funding rates in perps stay neutral to below neutral amid the sell-off.

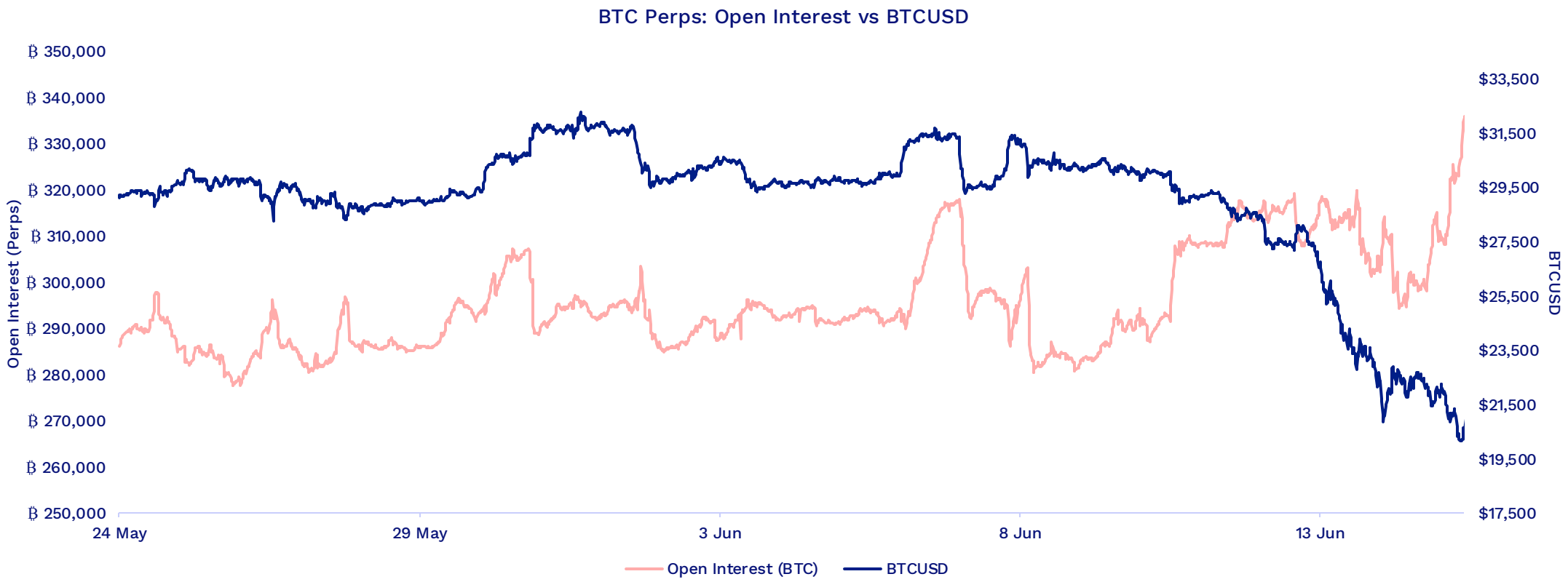
- No noteworthy developments in BTC perps over the last week. With bitcoin oscillating around $20,000, funding rates stay negative.
- Deribit saw the largest funding rate impact during last week's 3AC-related chaos. The Deribit funding rate reached -0.053%, the lowest since May 19th, 2021.
- The plunging Deribit funding rates came amid growing fears of Deribit insolvency due to the 3AC collapse. As highlighted in slide 9, Deribit publicly announced that Deribit would remain financially healthy, even if debts were not repaid. Funding rates have since stabilized.



Source: Skew

Open interest in perps still elevated around 300,000 BTC

- While funding rates remain low, the BTC-denominated open interest remains elevated, still sitting at around 300,000 BTC.
- The BTC-denominated OI moved in erratic bursts during the market meltdown last week and peaked at a new all-time high of 335,000 on Wednesday, with bitcoin trading at $20,170. BTC's recovery to 21,500 led OI to plunge, an indication of a short squeeze. Similar tendencies were seen over the weekend, where the BTC perp OI spiked at 325,000 BTC as BTC plunged to $17,600. OI has since declined slowly alongside the recovering market



Source: Skew, Laevitas

Blockchain Activity

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The Bitcoin blockchain is waking to life

We see a massive increase in Bitcoin's on-chain activity as large holders liquidate parts of their bitcoin holdings.

- Daily miner revenues continue plummeting due to the falling bitcoin price. They are now sitting at $18 million, down 32% from the $27 million seven days ago.
- Although miner revenues are falling, the transaction fees increase by 17% and are now $440k. The fees' share of the miner revenue is 2.4%, the highest since July 2021.
- The increase in transaction fees is caused by a 52% surge in the daily transaction volume, which is now at $9.2 billion. We have seen high spot volumes lately, leading many to transfer coins to exchanges. We also see several big players selling their coins, for example, the biggest publicly traded mining companies.
- As usual, we don't see a significant change in the number of daily transactions as the 250k is close to Bitcoin's maximum on-chain capacity.
- The plummeting mining profitability (next slide) has led to a sharp drop in the hashrate, as miners with higher electricity prices and less energy-efficient machines unplug their machines. Luckily for miners, they will get a highly welcomed estimated 1.9% reduction in the mining difficulty on Wednesday.

Powered by: BYTETREE

	Bitcoin Network Data				
		6/20/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	$ 18,324,376	$ 27,027,611	-32.20%	
	Fees per day	$ 437,159	$ 372,215	17.45%	
	Fees % Revenues	2.39%	1.38%	1.01%	
	Daily TX Volume ($Bns)	$ 9,293	$ 6,106	52.20%	
	Transactions per day	252,382	252,454	-0.03%	
Utility	Avg TX value $	$ 36,821	$ 24,185	52.25%	
	# Blocks per hour	5.71	6.23	-8.40%	
	Avg. # TX per block	1,842	1,843	-0.03%	

Source: Bytetree

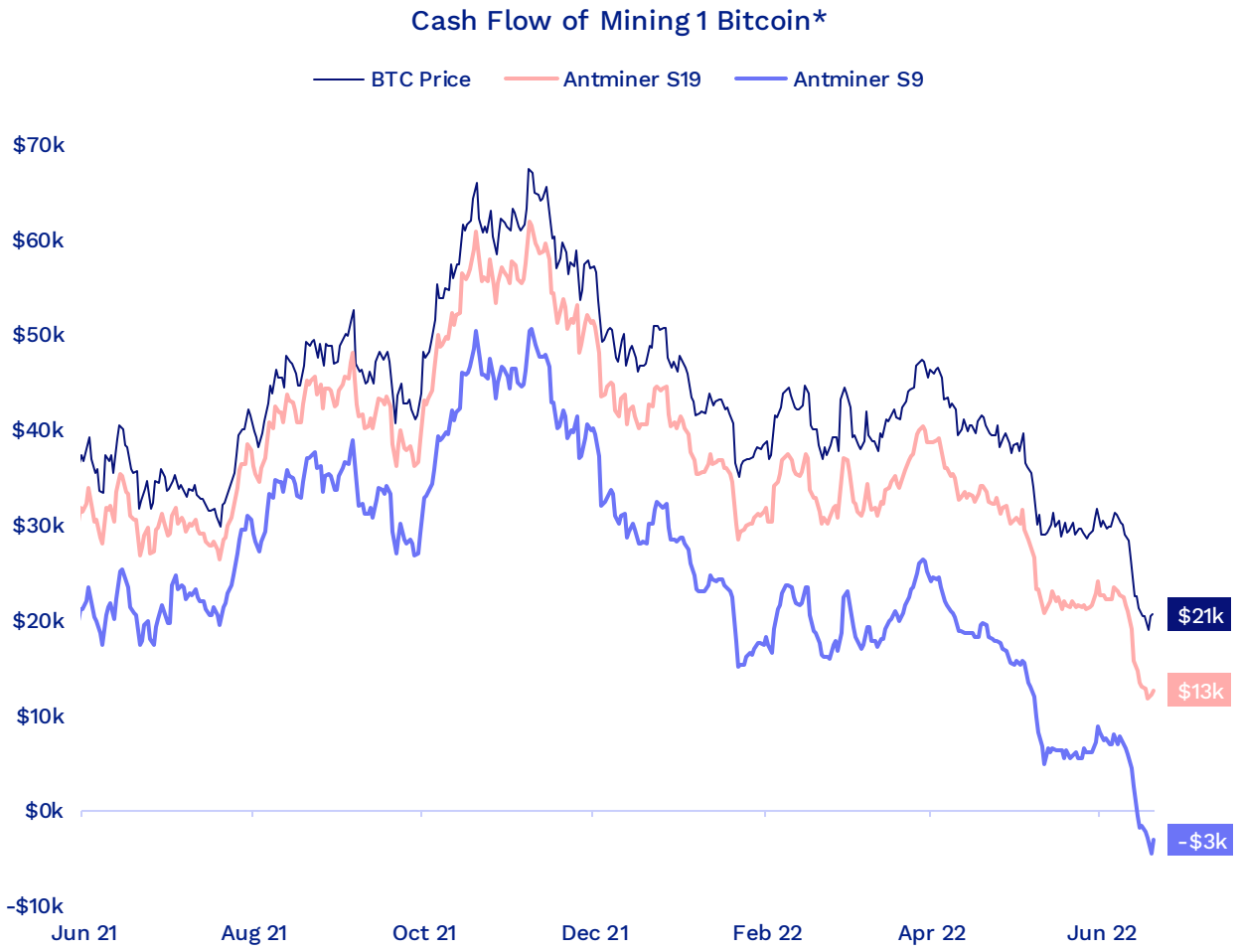
Bitcoin Hashrate (7-day average)

Source: Blockchain.com

The profitability of bitcoin mining is plummeting

The cash flows of bitcoin mining keep dropping to new lows, and Antminer S9 is now in negative territory.

- The extreme mining profitability in November led to massive investments in new production capacity. All these new ASICs coming online have resulted in a growing hashrate while the bitcoin price has fallen.
- The increasing hashrate and the falling bitcoin price have pushed the mining profitability down to levels not seen since 2020. At $40 per MWh, the energy-efficient Antminer S19 currently yields a cash flow per bitcoin of $13k, corresponding to an 80% decline from the November 2021 peak. The Antminer S9, our proxy for old generation machines, is now cash-flow negative.
- The public miners have very low production costs since they have access to cheap electricity and use new, energy-efficient machines. This means that they are not at risk of having to shut off their machines, but the lower cash flows will give them trouble securing financing, which will likely put a final nail in the coffin of their lofty expansion plans. Now it's about survival.
- The low cash flows mean miners must increasingly sell their bitcoin to pay financing costs. We have already witnessed a significant increase in bitcoin sales from public miners (next slide).



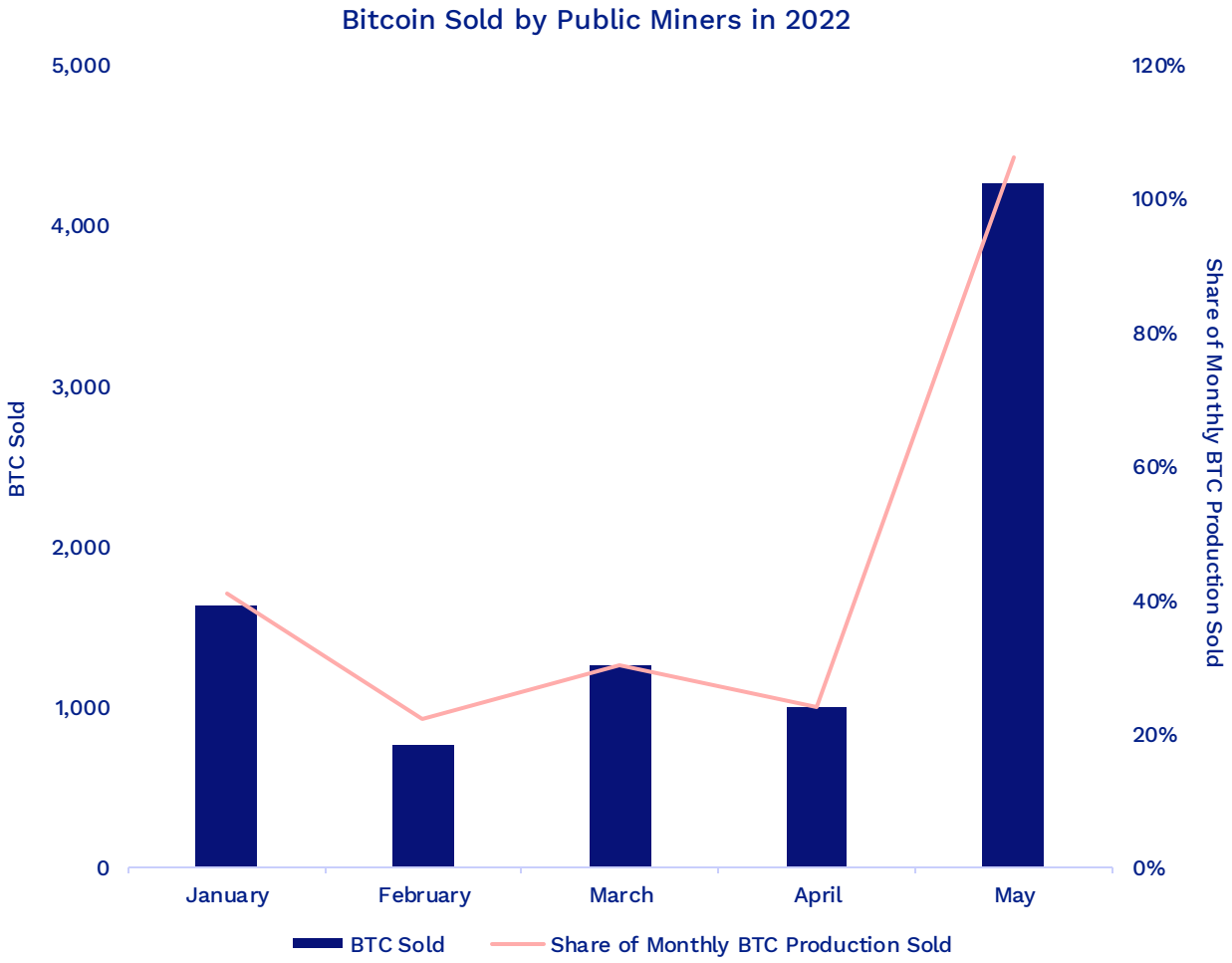
Source: Hashrate Index, CoinMetrics

*Power price of $40 per MWh

Miners have started to dump their bitcoin holdings

The deteriorating profitability of mining has forced the public miners to start liquidating their bitcoin holdings.

- Bitcoin miners are the only natural net sellers of bitcoin. They receive 900 BTC daily and seek to hodl as much as possible. Ironically, their hodl ambitions make them sell their precious bitcoin during bear markets since that is when the market forces them to sell.
- In the first four months of 2022, public mining companies sold 30% of their bitcoin production. The plummeting bitcoin price forced these miners to increase their selling rate to more than 100% of their output in May. The conditions have worsened in June, meaning they are likely selling even more.
- The public miners only make up around 20% of Bitcoin's hashrate but studying their behavior can hint at what the private miners are doing. Public miners likely sell a larger portion of their mined bitcoin now since they could keep a larger share of their production during the bull market by tapping into financial markets, which was more difficult for private miners.
- The miners are some of the biggest whales, holding around 800,000 bitcoin according to CoinMetrics (1 hop), of which public miners own 46,000. If they are forced to liquidate a considerable share of these holdings, it could contribute to pushing the bitcoin price further down.



Source: Monthly production updates (All public miners)

Solana decentralization on display?

The Solana-based DeFi protocol Solend recently advanced a governance proposal that would allow the Solend team to temporarily overtake a large and highly levered account. After intense backlash from the community, the proposal was later overturned as users returned to the ballot.

- On Sunday, the organization behind the Solana-based algorithmic, "decentralized" protocol for borrowing and lending–the Solend DAO–passed its first governance proposal vote with 97.5% affirmative votes. Notably, one whale provided 1M out of the 1,155,431 total votes—singlehandedly elevating the vote above the necessary 1% participation threshold.
- The proposal outlined a plan to grant the Solend team emergency powers to manually liquidate a large and unresponsive account belonging to Solend's largest user in an over-the-counter (OTC) trade.
- The user's account constitutes 88% of all borrowed USDC and 95% of all deposited SOL in Solend's main pool. In aggregate, the user has deposited 5.7M SOL to borrow 108M USDC and USDT—a levered position where 20% of the position, or 21M, will be liquidated if SOL falls to $22.3.
- SOL has traded as low as $26 in the recent market-wide meltdown—uncomfortably close to the liquidation price. However, the price bounced to $37 over the last few days, alleviating the immediate liquidation danger. A 40% sell-off is now required for the account to become liquidated.
- In a liquidation event, the account's assets would normally be liquidated on-chain through market sells on decentralized exchanges. As explained in the proposal, this process could now potentially pose systemic protocol risk. These decentralized exchanges lack sufficient liquidity to handle sell orders of this size.
- As a result, the proposal sought to mitigate the damages from the forced liquidation by initiating the token sale through an OTC desk instead of on-chain, thereby reducing the market impact.
- The proposal unsurprisingly triggered negative reactions across the crypto community, as seizing user assets strongly opposes DeFi norms. As a result, the temporary account seizure plan was reversed as users overwhelmingly voted in favor (99.8%) of a counterproposal on Monday 30th, invalidating the first proposal. Solend now attempts to outline a new plan that does not involve account seizure.
- Nevertheless, these events shows how the term "decentralization" might not always represent true decentralization, something DeFi participating should keep in mind.

Source: Tradingview (Coinbase)

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