The Weekly Update

Week 25, 2022

luno

Provided by arcane research

1

Market Update

- Bitcoin sees a slow week with prices mostly oscillating around $21,000, underperforming both U.S. equities and altcoins as unresolved contagion still pressures the market.
- The 7-day average bitcoin spot trading activity has substantially dropped over the past 9 days—down from $9.2 billion on June 19th to $3.8 billion this Monday, which represents a 58.7% drawdown.
- Uncertainty related to the collapse of 3AC, corresponding defaults, and lending platform Celsius' halting of withdrawals as they face a potential bankruptcy is leading to a vicious withdrawal cycle on other centralized lending platforms.
- The first U.S. inverse BTC ETF has grown to become the second-largest BTC-related ETF four days after its launch.

2

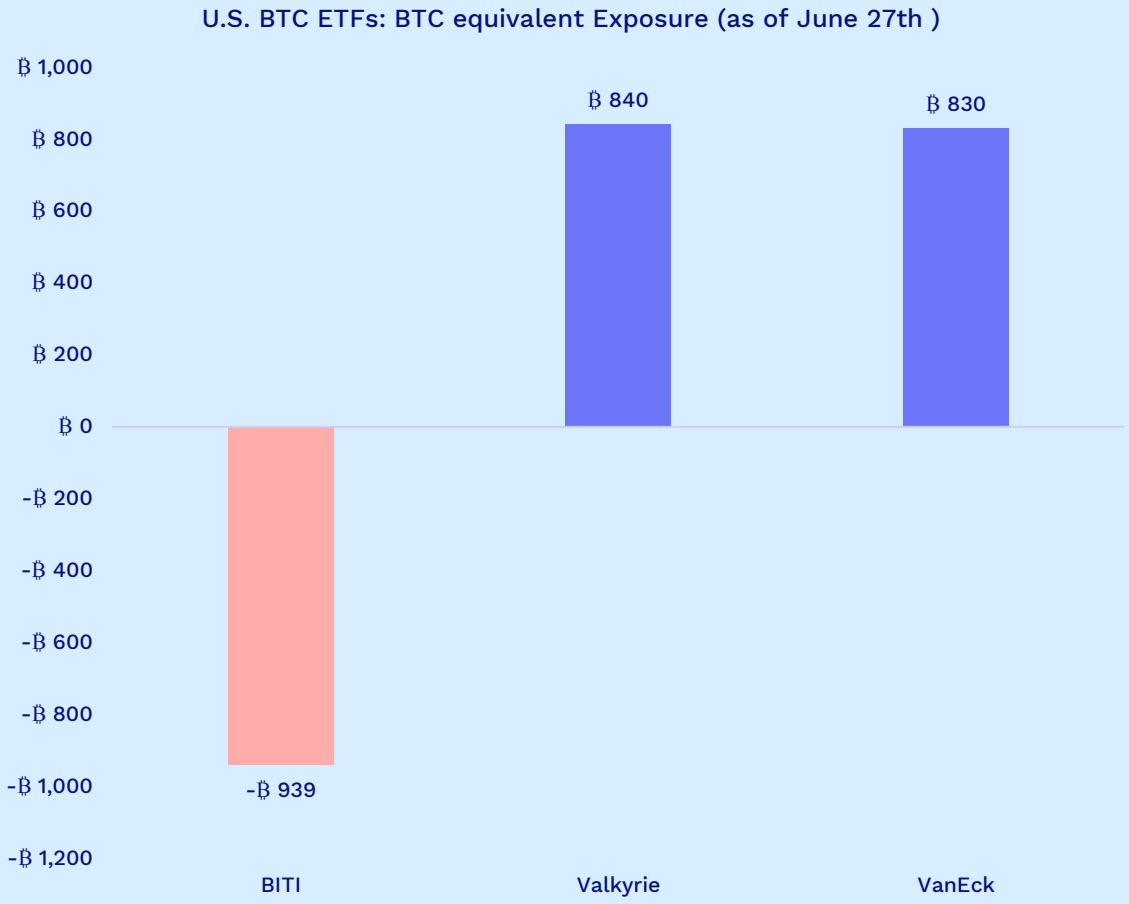
Valuation

- Bitcoin keeps ranging between its $20k support and the 200-week moving average of $22,500.
- The 3-month annualized futures basis on the offshore futures market has reached all-time lows while CME trades at a substantial premium.

3

Blockchain Activity

- The bitcoin blockchain has gone into hibernation mode as the crypto winter marks its presence.
- The prices of bitcoin mining machines have fallen off a cliff the recent months and will most likely keep falling.
- Most public bitcoin miners have enormous remaining machine payments this year. With lower operating cash flows from bitcoin mining, many miners will be forced to dump their orders.



Source: Tradingview (Bitstamp)

Bitcoin underperforming major alts and U.S. equities

- Bitcoin sees a slow week with prices mostly oscillating around $21,000. In the last seven days, BTC has underperformed U.S. equities, seeing a 3% gain, compared to S&Ps 5.6% and Nasdaq's 6% gains over the same period.
- Ether (10%) and BNB (11%) outperform both BTC and U.S. equity indexes, as the altcoin market has seen a welcome recovery after weeks of red. Ether saw its first green weekly close since March 28th last week, ending the 11-week-long trend of red candles.
- Bitcoin's relative underperformance to both equities and altcoins in this highly correlated environment is likely caused by the ever-growing contagion effects related to UST and 3AC's collapse, placing centralized lenders in between a rock and a hard place amid a combination of defaults and bank runs. The market is paying close attention to how the current imbalances are resolved, putting a tight leash on BTC's ability to see a substantial recovery.
- Smaller altcoins have seen strong recoveries in the last seven days, with Polygon's native token MATIC surging 35.2% after Polygon's development team launched a product allowing for more private voting in DAOs.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Polygon	0.54	35.2%	-7.8%	-78%
Shiba Inu	0.00	33.9%	1.2%	-69%
The Sandbox	1.17	33.7%	-10.7%	-80%

Worst Performing	Price	Last week	Last month	YTD
Bitcoin Cash	111.24	-6.7%	-38.0%	-75%
Chainlink	6.65	-5.4%	1.0%	-68%
Hedera	0.07	-2.1%	-22.1%	-77%

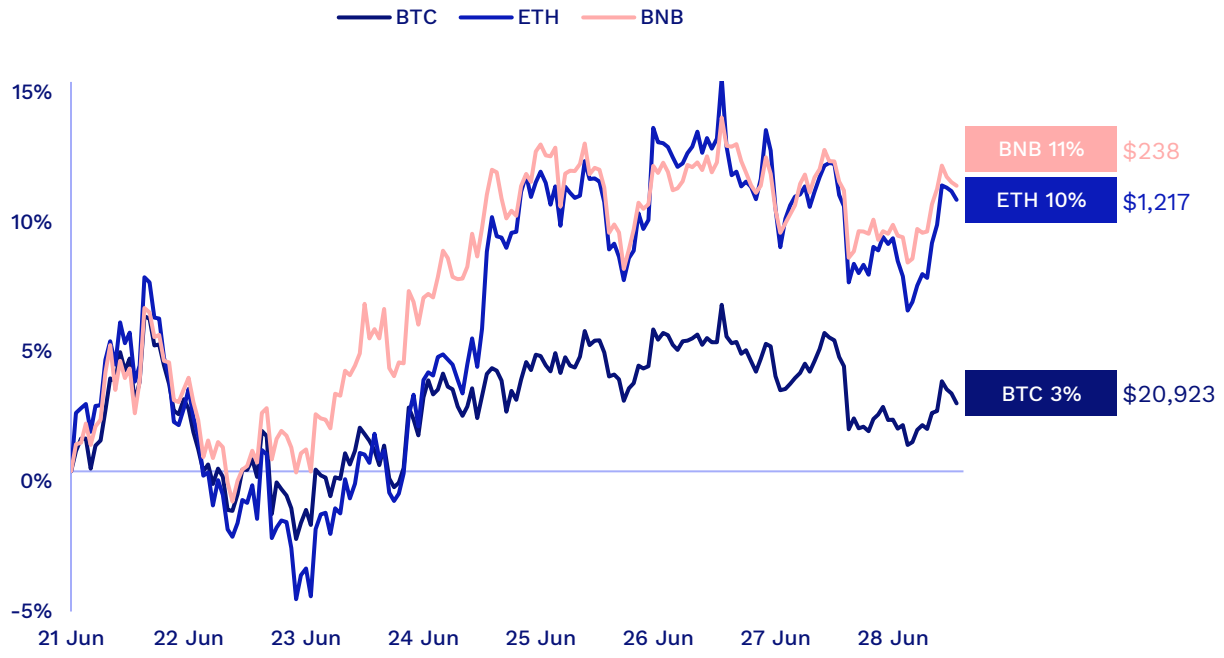
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.921	-0.010	0.182	-0.034	0.622	-0.001

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)

Bitcoin is the worst performer in June

Bitcoin has been punished for its higher liquidity than smaller cryptocurrencies as distressed market participants have been forced to unwind their most liquid assets.

- Bitcoin has seen 35% of its value shaven off in June. All indexes we follow have outperformed bitcoin in ascending order after their sizes. The Small Caps are the best performers after declining by 22%, followed by the Mid Caps (-24%) and the Large Caps (-33%).
- The bitcoin dominance continues to drop. It reached 48% on June 11th but has since plummeted to 42.5%. ETH also continues underperforming, as indicated by a decline in the ETH dominance from almost 20% in May to 15.6%.
- Interestingly, we also see slight declines in the market shares of stablecoins. This, together with the fall in bitcoin dominance, is typically indicative of a market with a high-risk appetite, but the market sentiment is currently extremely poor.
- The smaller coins' outperformance results not from a re-emergence of risk-taking behavior, but from distressed market participants being forced to liquidate assets. Larger cryptocurrencies, particularly BTC and ETH, are much more liquid than smaller coins, so the creditors unwind these first.
- A continuation of the market drop may force these distressed players to start liquidating their holdings of small caps as well, a situation that could lead to massive price drops for these illiquid coins.

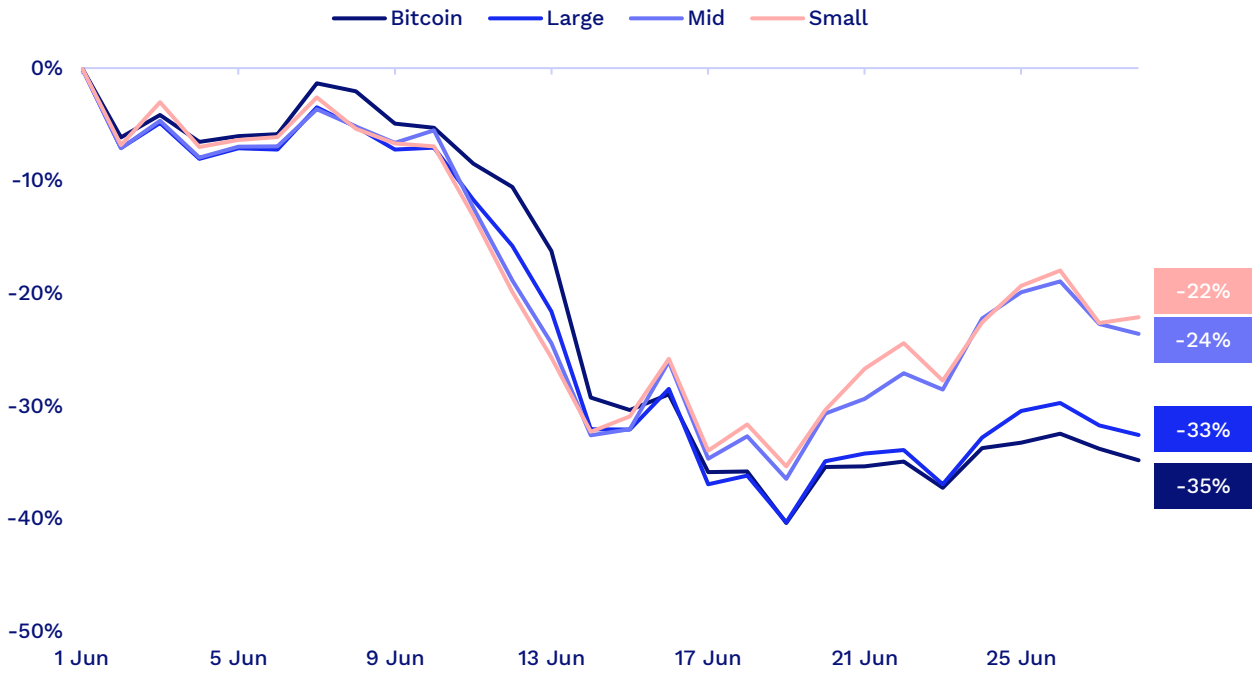
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	XRP	ADA	SOL	DOGE
Market Share	42.49%	15.64%	7.06%	5.91%	4.13%	1.84%	1.80%	1.75%	1.42%	1.02%
Weekly Change	-1.03%	0.53%	-0.19%	-0.06%	0.23%	0.00%	0.09%	-0.07%	0.03%	0.12%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes

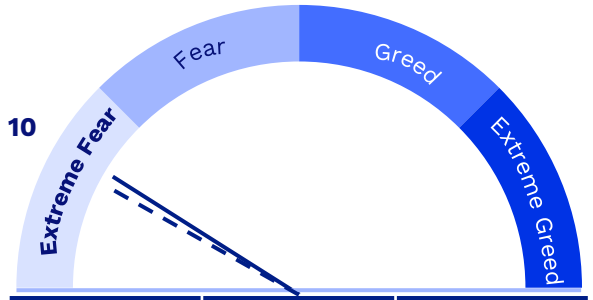


Source: Bletchley Indexes, Tradingview (Coinbase)

The prolonged extremely fearful sentiment continues

The sentiment in the crypto market remains significantly affected by a continuous flow of negative news and rumors related to different market participants. Thus, the market sentiment remains in an extremely fearful territory—as signaled by The Fear and Greed Index. Although little has changed since last week, the index has climbed one point—currently sitting at 10—following bitcoin's price consolidation in the $19,800-21,700 range over the last week.

Source: Alternative.me

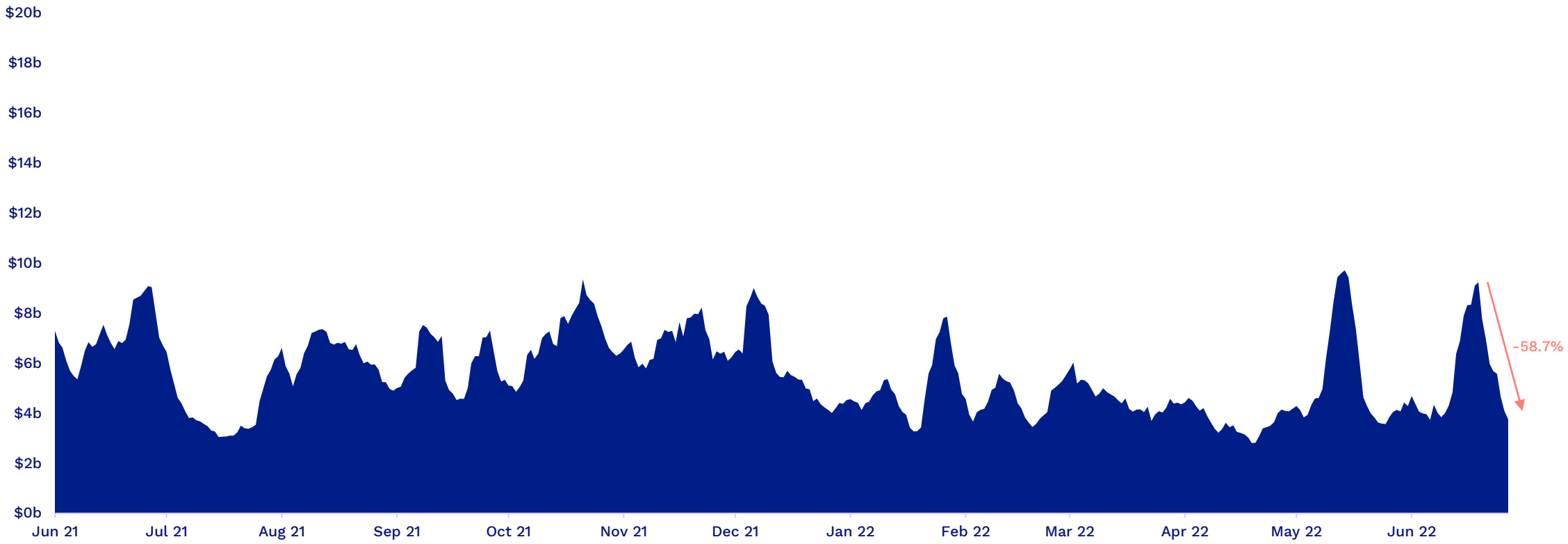


Now	Last week	Last month
Extreme Fear (10)	Extreme Fear (9)	Extreme Fear (14)

Plunging bitcoin spot activity

The 7-day average bitcoin spot trading activity has substantially dropped over the past 9 days—down from $9.2 billion on June 19th to $3.8 billion this Monday, which represents a 58.7% drawdown. Over a 9-day period, a decline in trading volume this sharp has not been observed since November 8th, 2019—excluding the fall from the recent peak around May 15th, where we saw a 62% hit to trading volumes. The uncertain market conditions may have caused traders to become more cautious, and by extension, their trading activity has been reduced.

Real BTC Daily Volume* (7-day average)

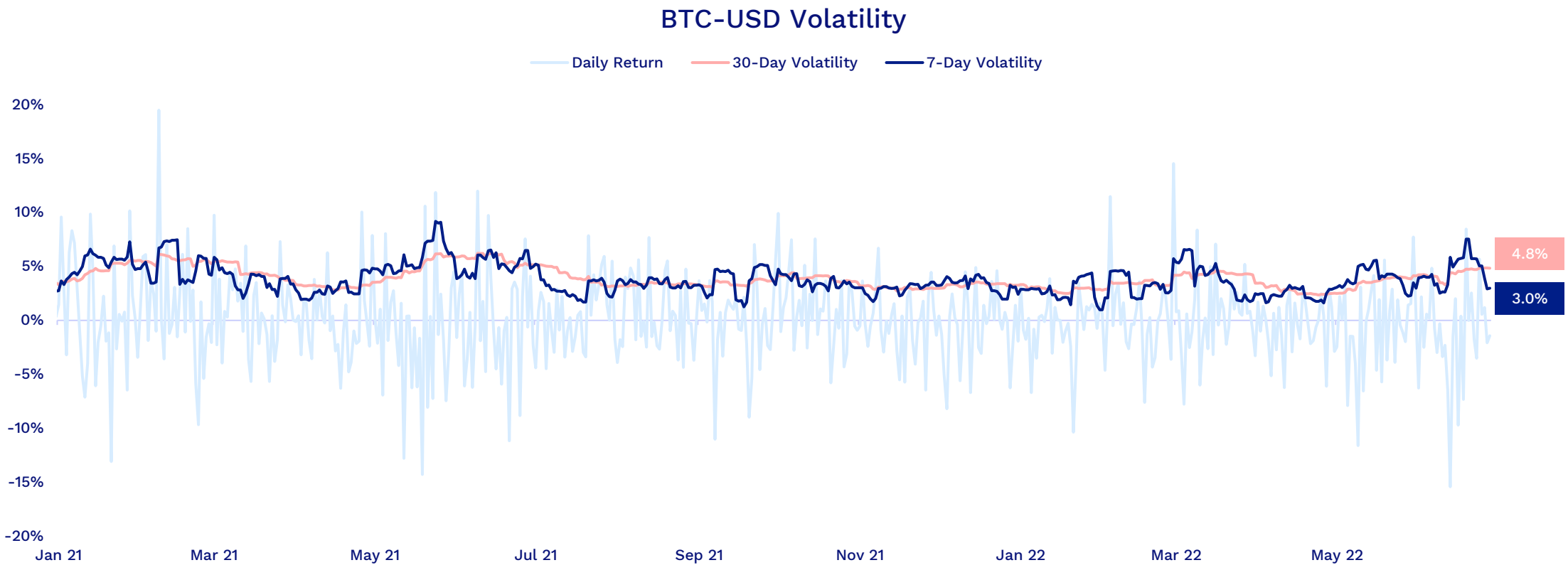


Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX.

The bitcoin price is stabilizing above $20k

Seven days ago, bitcoin's 7-day volatility hit its highest level since May 2021. The market has since been calm, with the bitcoin price stabilizing just above $20k. The market's recent stability has led bitcoin's 7-day volatility to drop to 3%, a relatively low level historically. Although the market has stabilized, traders are still prepared for another volatility uptick as the implied volatility from option prices is higher than at similar volatility levels during the spring.

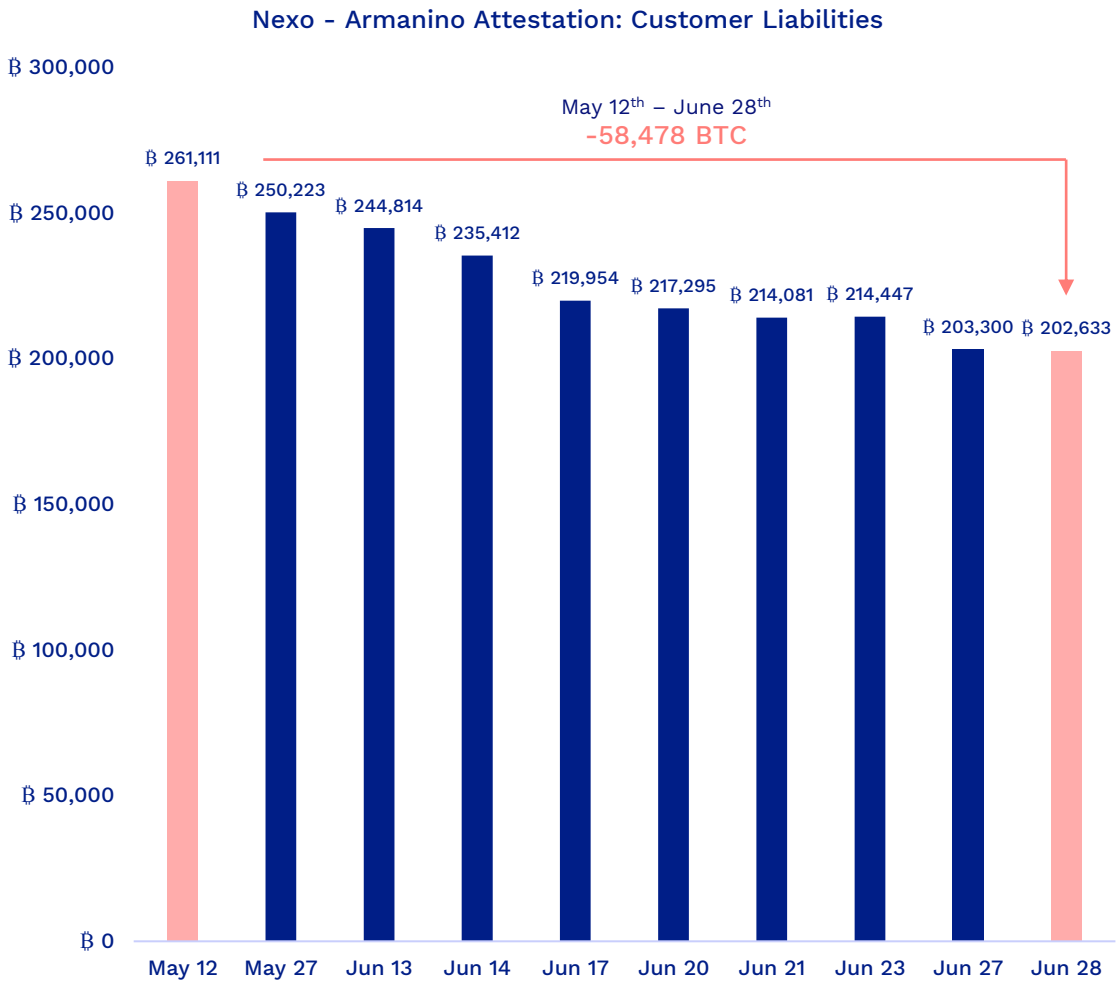


Source: Tradingview (Coinbase)

Crypto lending platforms experiencing a massive stress test

Uncertainty related to the collapse of 3AC, corresponding defaults, and lending platform Celsius' halting of withdrawals as they face a potential bankruptcy is leading to a vicious withdrawal cycle on other centralized lending platforms.

- Voyager is, per current public knowledge, the most distressed lending platform following the 3AC collapse. On Monday, Voyager issued a notice of default to 3AC of a loan amounting to 15,250 BTC and $350m USDC. The platform fulfills customer withdrawals and has accessed a 15,000 BTC and $200m USDC revolver from FTX, in which no more than $75m may be drawn over any 30-day rolling period. Voyager has accessed the $75m line of credit made available by Alameda.
- Still, in a Wednesday press release, Voyager announced $152m cash and owned crypto assets at hand, vs. $137m cash and owned crypto assets at hand on Monday, suggesting substantial customer withdrawals over the last week.
- Assessing the state of the other crypto lenders is difficult due to a general lack of transparency. However, Nexo provides daily attestations through the accounting firm Armanino. By accessing previous data through the Wayback Machine, we find that Nexo has experienced outflows equivalent to 58,478 BTC since May 12th, with withdrawal activity rising over the weekend following twitter threads by otteroooo later addressed by Nexo.
- The increased withdrawals are not an isolated Nexo or Voyager case. It happens across the entire lending market. BlockFi's CEO Zac Prince announced on the On The Brink podcast that BlockFi had experienced withdrawal volumes in the week after the 3AC liquidations of greater than 10% of their overall balances while noting that the withdrawal volume was softening last week. Hodlnaut co-founder JT also announced net outflows of 35% of their AUM over recent weeks in a twitter thread.
- In addition to offering a line of credit to Voyager, FTX/Alameda has also offered a $250m line of credit to BlockFi. Morgan Creek Digital, who have participated in BlockFi's seed A through D fundraising rounds, have responded by attempting to raise $250m in equity capital to BlockFi, noting that the credit line could enable FTX to buy BlockFi at essentially zero price.
- What we've witnessed in the last couple of weeks is a massive stress test of centralized crypto lenders, driven by Luna and 3AC-related contagion. While the second-order effects of these pressuring conditions remain uncertain, crypto owners should learn that there is no such thing as a free lunch. The interest rates originate through the introduction of new risk elements to already volatile crypto assets.

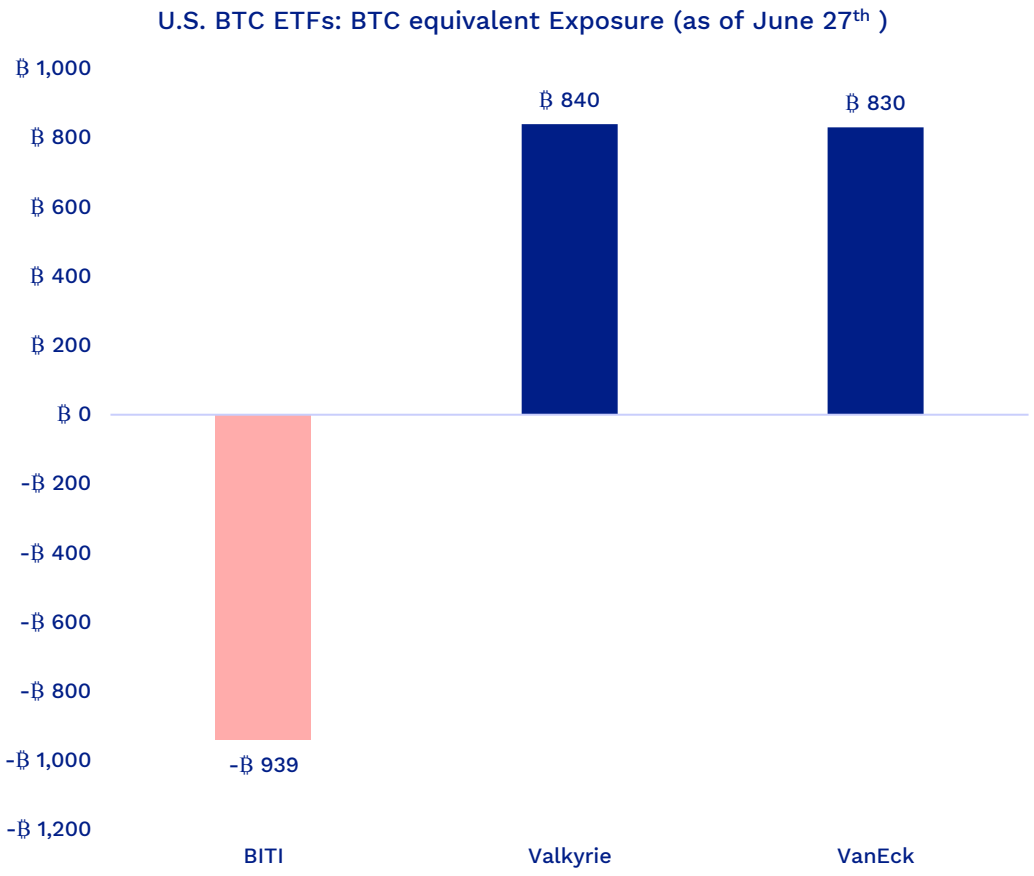


Source: Nexo, Armanino, WebArchive (Wayback Machine)

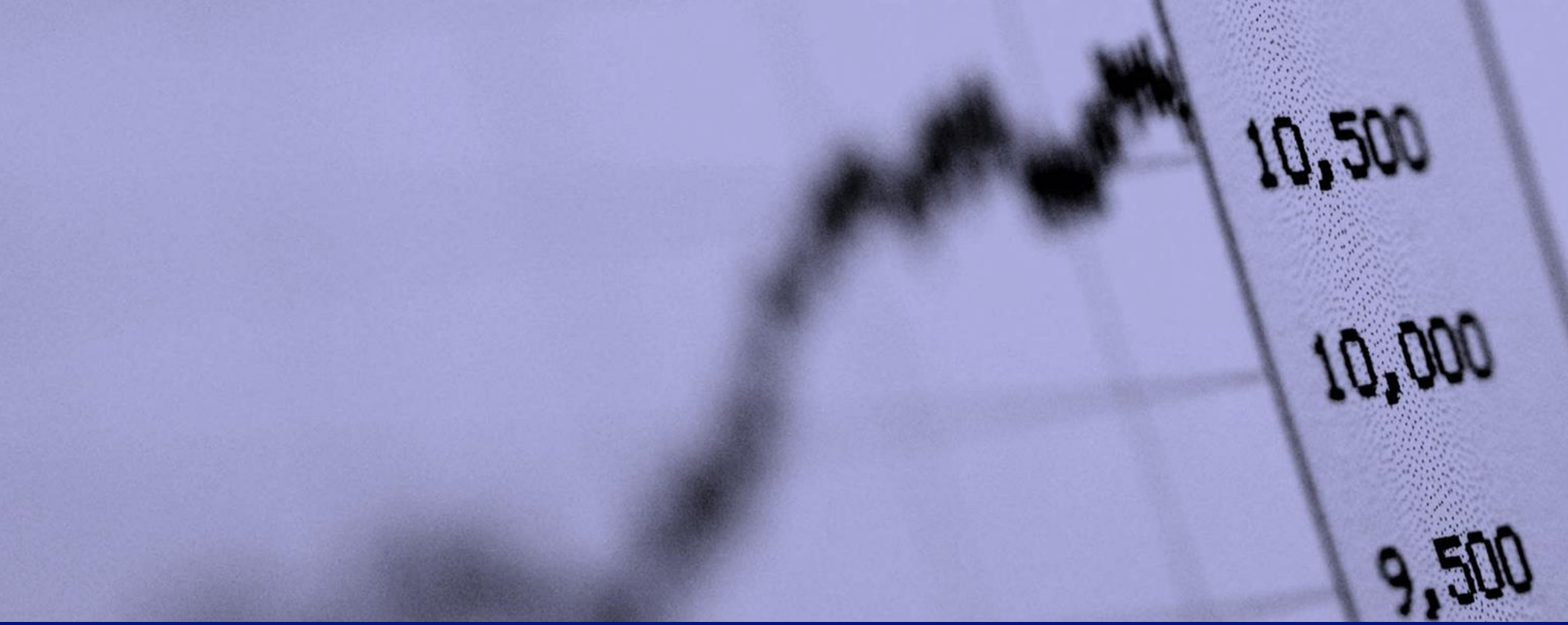
ProShares short BTC ETF becomes second-largest U.S BTC ETF in just four days

The first inverse BTC ETF launched in the U.S. last week, and it's already become the second-largest bitcoin-related BTC ETF in the U.S. after four days of trading.

- ProShares' short bitcoin ETF (BITI) launched last Tuesday, June 21st, and has already seen substantial inflows.
- The ETF shorts bitcoin and seeks a return that is -1x the benchmark (BTC) for a single day. Compound effects will lead to underperformance vs. a -1x short during upside volatility, and the ETF is not meant to be a fund for holding long-term exposure.
- The BITI launch was relatively slow, but inflows grew on Thursday. As of June 27th, BITI holds a net short exposure equivalent to 939 BTC. Meanwhile, Valkyrie's BTF ETF holds an exposure equivalent to 840 BTC, while VanEck's ETF holds an exposure equal to 830 BTC, meaning that BITI became the second-largest U.S. bitcoin-related ETF less than one week after its launch.
- Now, ProShares is managing the two largest BTC ETFs in the U.S., with ProShares' BITO dwarfing all other ETFs, holding an exposure equivalent to 32,715 BTC as of June 27th.
- The SEC approval of an inverse bitcoin ETF, while denying spot ETFs has been met by criticism. However, given the SEC's approval of futures-based long ETFs, it seems natural that the SEC also approved a futures-based ETF enabling investors to express bearish views in the market as well. This should contribute to improving the market efficiency by enabling easy access to both long and short bitcoin.
- This week, Bitwise will receive its verdict on its spot-based ETF filing. While an approval seems very unlikely at the moment, Bitwise CIO Matt Hougan expressed that the introduction of an inverse ETF is a promising development, adding that spot ETFs will come in due time as the regulatory framework improves.



Source: ProShares, Valkyrie, VanEck



Valuation

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Bitcoin ranging between two critical technical levels

Bitcoin keeps ranging between its $20k support and the 200-week moving average of $22,500.

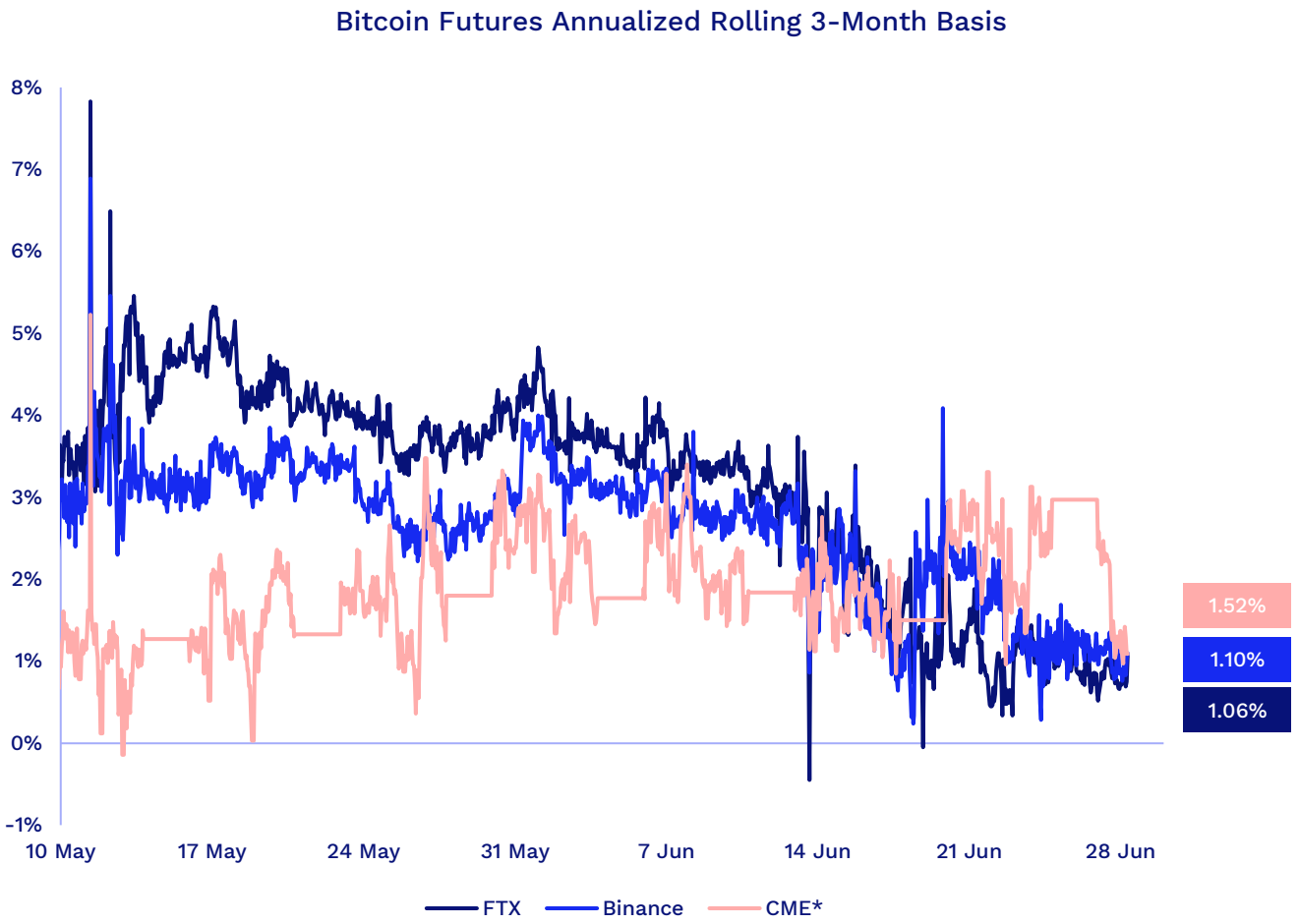
- Bitcoin has stabilized just above $20k, the peak of 2017's bull run. $20k has proved to be strong support and remains the most critical support level to pay attention to.
- Bitcoin also continues trading below its 200-week moving average of $22,500. Bitcoin has only traded below this indicator once in history, during the covid crash on March 12th, 2020.
- The $22,500 level is the most important resistance on the upside. If bitcoin can break through, the next level to pay attention to is around $30k.
- On the other hand, if bitcoin cannot hold onto its $20k support, the closest weekly support level is $16k.

Source: Tradingview (Bitstamp)

A very slow launch of Coinbase's BTC nano futures

CME has seen a decline in its futures basis, but still trades at a premium to the offshore exchanges.

- Yields have dwindled completely in the BTC futures market, and the vanishing yields are particularly evident in the offshore market, where the futures premium has flattened at all-time lows.
- CME still trades at a premium to the offshore market, but the futures basis saw a sharp decline yesterday amid BTC's decline at yesterday's U.S. open and currently trades at a 1.52% basis, compared to 2.79% last week.
- Coinbase derivates launched the cash-settled nano BTC futures yesterday. Along with CME and Bakkt, Coinbase has thus become the third platform offering derivatives to U.S. traders. One nano BTC contract represents 1/100th of a BTC, and the contract is thus smaller than what's available through CME's micro futures and Bakkt's futures.
- The Coinbase derivatives launch yesterday was rather slow. After one day of trading, the July nano futures has an open interest equivalent to 25.94 BTC, equivalent to 0.0052% of the global open interest in BTC derivatives, while seeing a daily trading volume of $3.8m USD.

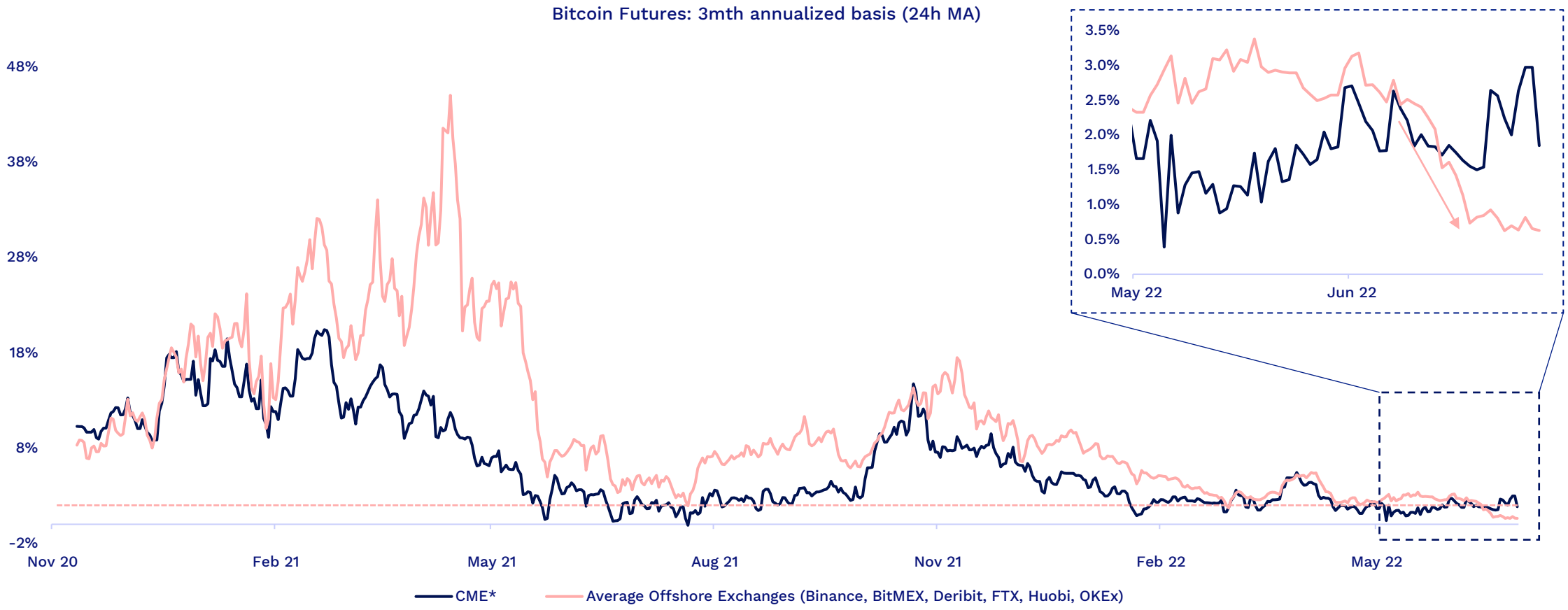


Source: Skew

*Closed Saturday - Sunday

Offshore futures basis stabilizing at all-time lows

The 3 month annualized futures basis on the offshore futures market has reached all-time lows. On June 23rd, the average annualized 3mth basis across all offshore exchanges reached 0.62%, and the basis has remained low ever since.



Source: Skew

CME at largest premium to offshore market since 2020

The CME premium over offshore futures has reached its highest level since November 2020, albeit – yields overall are extremely compressed given the current state of the market.

- The extremely compressed yields in the offshore market have led CME's futures to trade at its highest premium to the offshore market since November 2020, with CME trading at a 2% premium to the offshore futures on Friday.
- However, comparing the current climate in the futures market to the state of the market in 2020 is like comparing apples and oranges. Then, momentum and optimism brewed, with the futures basis sitting comfortably above 5%. Back then, the CME basis signaled increased demand for institutional exposure in BTC.
- The current deviation comes in the backdrop of a very prolonged and rough sell-off in crypto, leading to very compressed yields.
- In the current market climate, these deviations may suggest that institutional traders are viewing this as an attractive entry point for slowly building BTC exposure. Offshore derivatives markets, on the other hand, seem to be in a state of capitulation, likely enhanced by the shaky state of lending markets following the Three Arrows Capital collapse earlier this month.

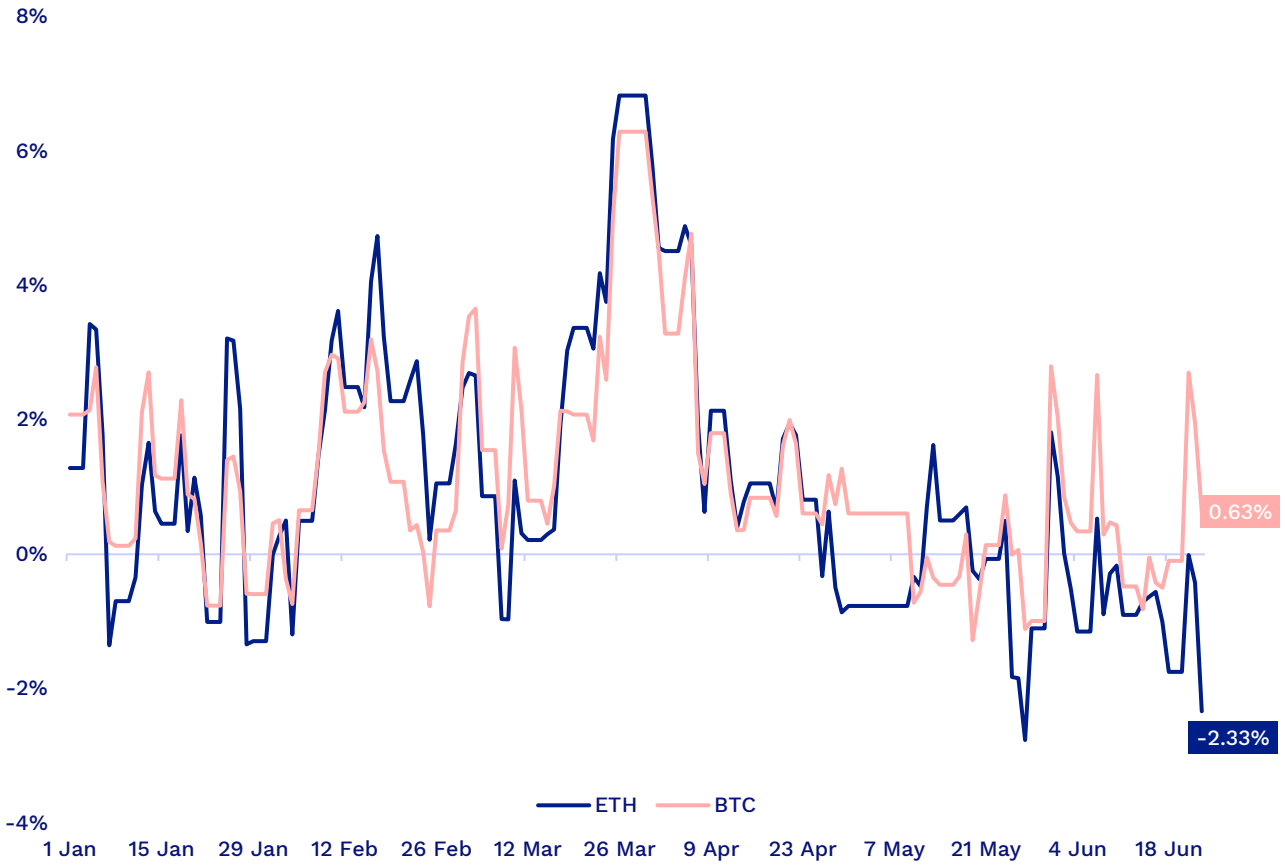
Source: Skew

Institutional investors cautious with Ether?

Ether futures on CME see basis decline to lowest levels ever recorded, while asset manager net short exposure to Ether sits at all-time highs.

- CME's front-month Ether futures have traded at a negative basis (below spot) since the middle of May.
- Interestingly, the 3mth Ether basis has decoupled from BTC in June and traded continuously below spot on June 23rd for the first time ever.
- We also note that the Ether-denominated open interest on CME climbed to the highest level since early April on Thursday while seeing a slight decline over the weekend.
- According to the most recent CFTC Commitments of Traders reports, asset managers are shorting Ether heavily. In fact, asset managers have never had a higher net short exposure to CME's Ether futures.
- On June 14th, asset managers were net short of $37m on CME's Ether futures and have since reduced their net short exposure slightly to $32m last week.

CME Crypto Futures: 1mth annualized basis (BTC vs ETH, 24h MA)

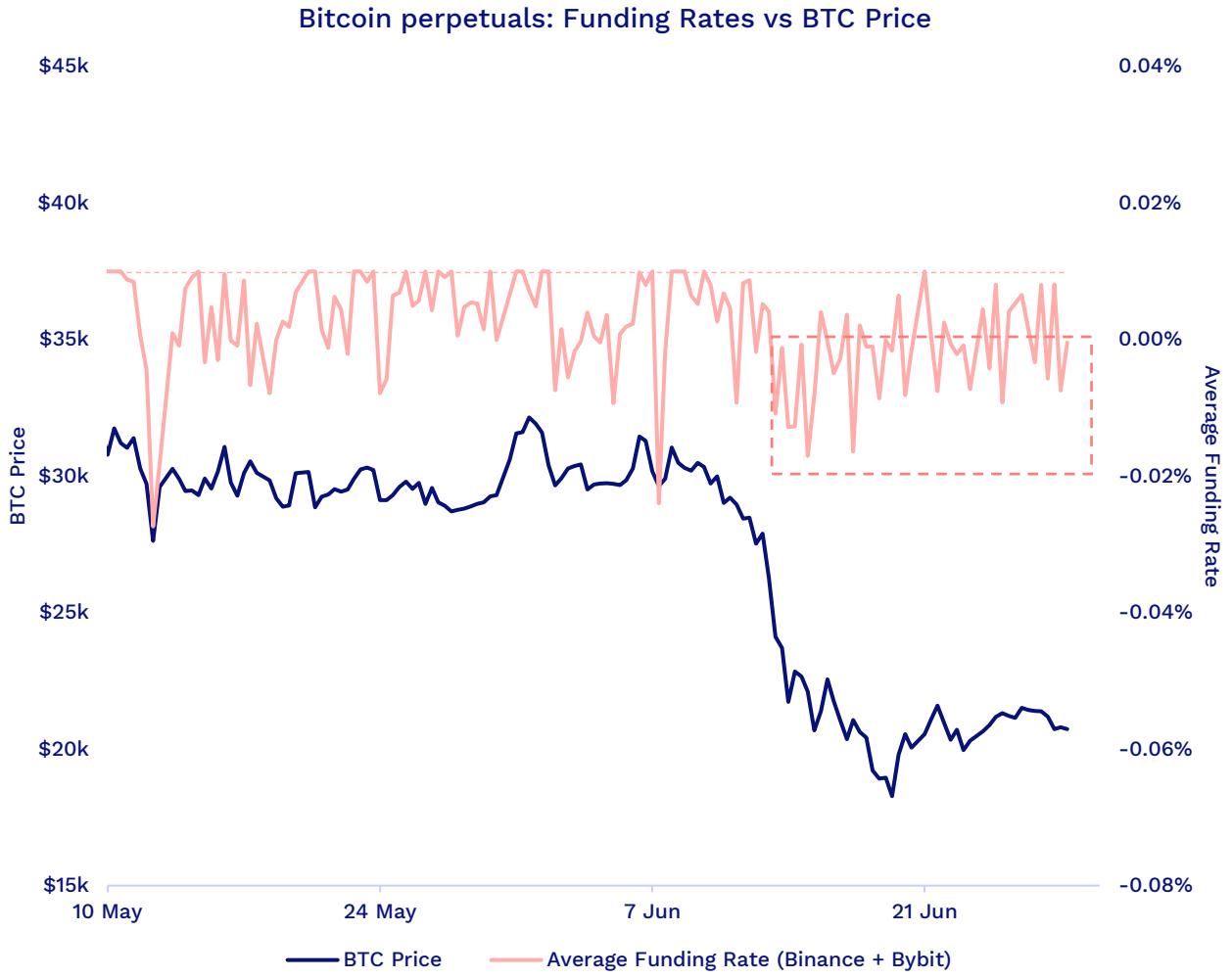


Source: Skew

Negative funding rates on Binance and Bybit in the last seven days

Funding rates on Binance and Bybit have remained negative on average in the last seven days.

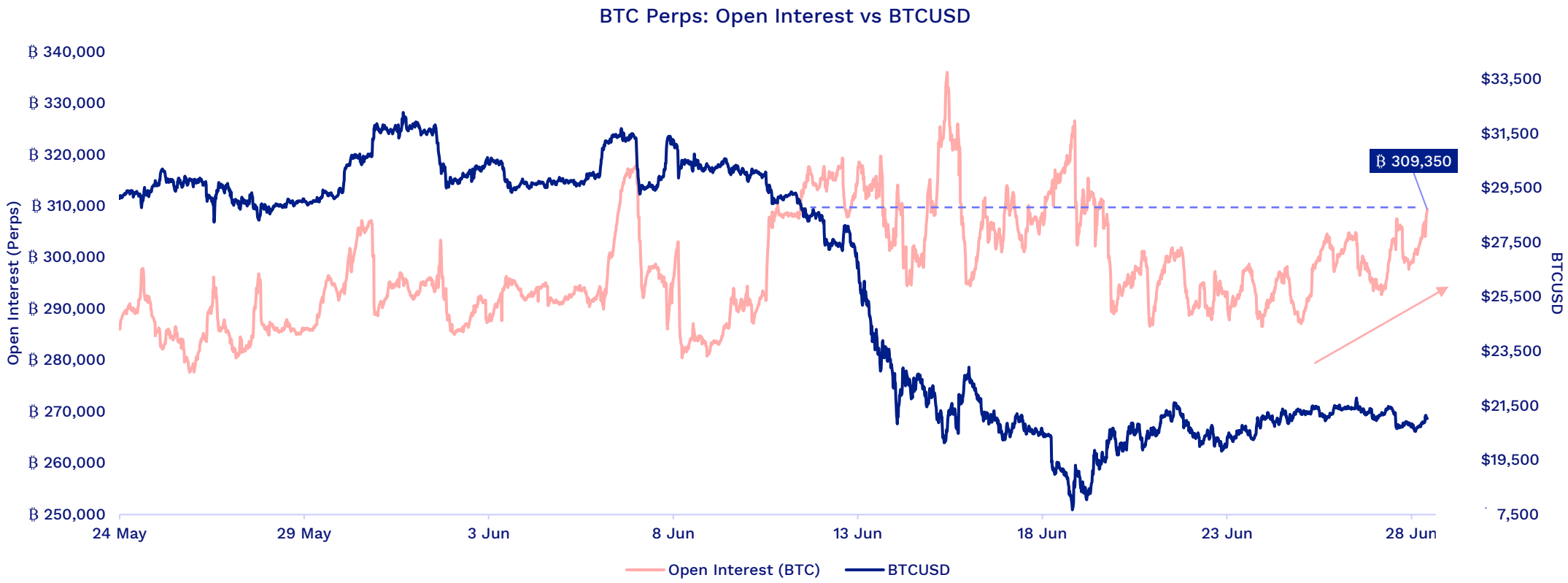
- Binance and Bybit's perps have seen an average funding rate of -0.0015% in the last seven days, considerably below the neutral funding rate level of 0.01%, with the aggregated funding rates never reaching neutral territory.
- This suggests that short traders have been the most active market participants in the last week, and pessimism seems to be the leading sentiment among perp traders.
- The muted funding rates are accompanied by a growth in open interest, pushing the BTC-denominated open interest in perps up to June 18th highs (next slide).



Source: Skew

Open interest in bitcoin perps at highest levels since June 18th

- After some relatively idle days in the BTC perps, open interest has again risen, currently sitting at 309,350 BTC. This is the highest OI recorded in BTC perps since OI soared amid BTC's leg down below $20,000 on June 18th.
- The growing open interest has been chiefly concentrated at Binance and Bybit, where the perps have seen negative funding rates in recent days, suggesting that shorts have dominated in the contribution on this leg up.



Source: Skew, Laevitas

Blockchain Activity

luno

The Bitcoin network hasn't been drowsier in a long time

The bitcoin blockchain has gone into hibernation mode as the crypto winter marks its presence.

- We usually see very high on-chain activity during bull markets. This high activity further increases when the market crashes, as market participants scramble to get out of their positions. When the bitcoin price finally stabilizes at a low price, the on-chain activity usually drops to extremely low levels, as people lose interest. It looks like we are in such a period right now.

- The average transaction value is back at its normal level of around $18k after sitting at the abnormally $37k last week, which was likely caused by the big market movements incentivizing market participants to move their coins into or out of exchanges. As bitcoin has stabilized at around $20k, the spot market has calmed down, and as a result, the large on-chain transactions have stopped.

- The drop in on-chain activity has led to a substantial decline in the daily transaction fees, and they are now sitting at only $312k - their lowest level since June 2020. We also see a massive reduction in active addresses, which are now at the lowest since August 2021.

- The block production rate is still slow, as the poor profitability of mining has forced many miners to unplug their ASICs. This has led to a significant drop in ASIC prices.

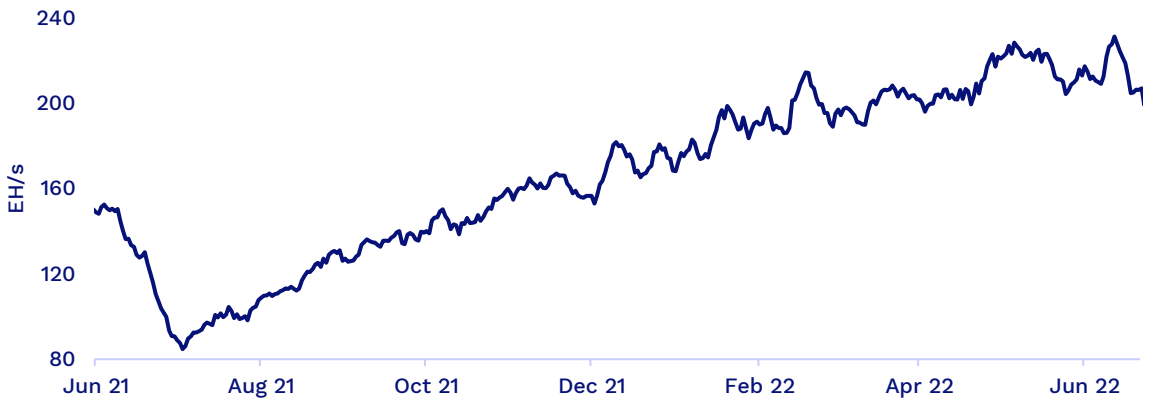
- Due to the current depressed profitability of mining, the hashrate will likely stay relatively flat in 2022 unless we see a steep rebound in the bitcoin price. In that case, the hashrate will explode since many machines are on the sidelines, and the public miners have massive upcoming machine deliveries.

Powered by: BYTETREE

	Bitcoin Network Data				
		6/27/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	$ 18,694,989	$ 18,324,376	2.02%	
	Fees per day	$ 312,191	$ 437,159	-28.59%	
	Fees % Revenues	1.67%	2.39%	-0.72%	
	Daily TX Volume ($Bns)	$ 4,484	$ 9,293	-51.75%	
	Transactions per day	242,737	252,382	-3.82%	
Utility	Avg TX value $	$ 18,473	$ 36,821	-49.83%	
	# Blocks per hour	5.85	5.71	2.50%	
	Avg. # TX per block	1,729	1,797	-3.82%	

Source: Bytetree

Bitcoin Hashrate (7-day average)

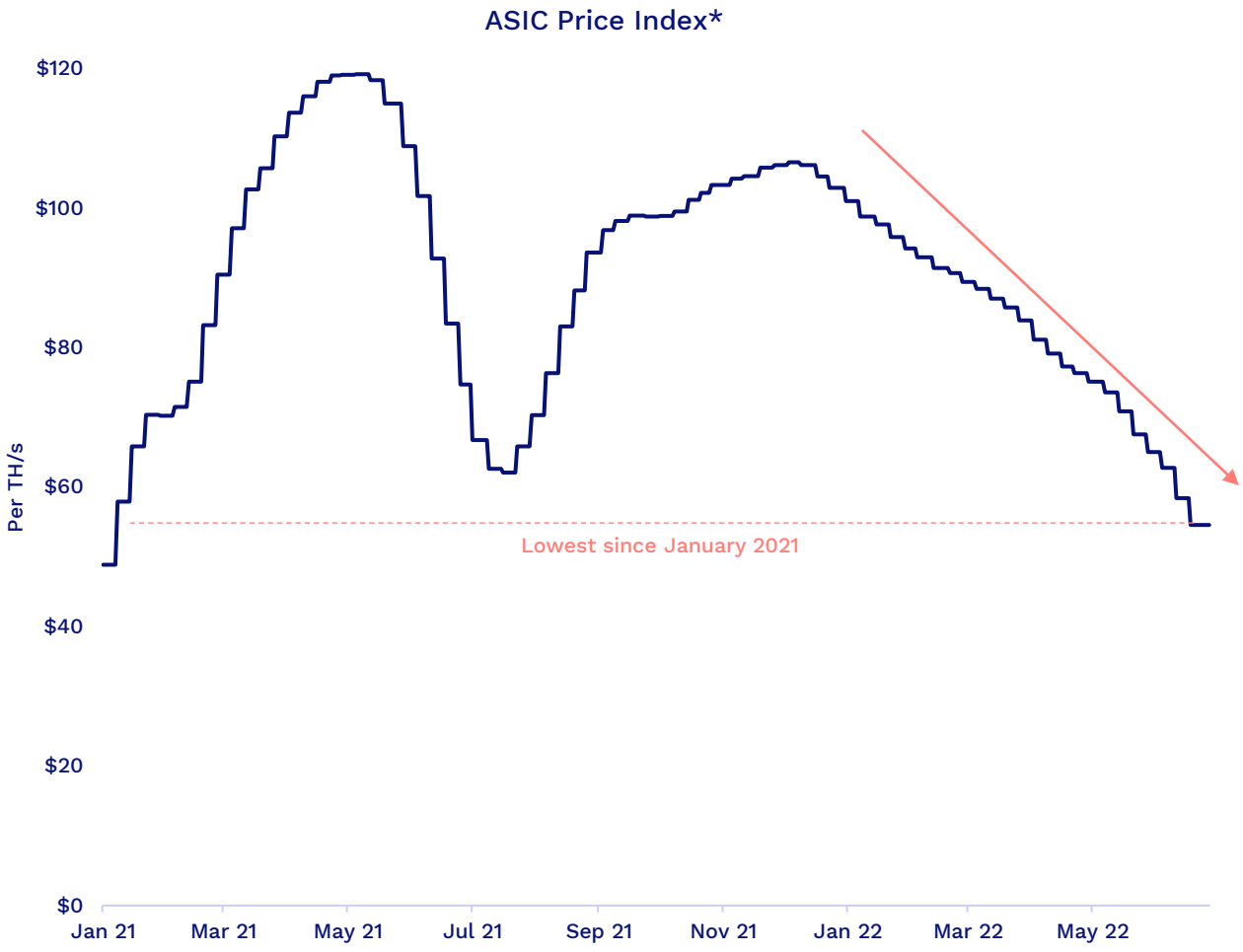


Source: Blockchain.com

ASIC prices haven't been lower since January 2021

The prices of bitcoin mining machines have fallen off a cliff the recent months and will most likely keep falling.

- The machines used for bitcoin mining are called ASICs. These machines are priced based on their capability to generate bitcoin (TH/s).
- At the peak in April 2021, the most energy-efficient ASICs sold for $120 per TH/s. Prices plummeted in the summer of 2021 as China's bitcoin mining ban led to a flood of Chinese ASICs hitting the market but rebounded in November as bitcoin hit an all-time high.
- Since November, ASIC prices have been steadily falling as mining has become less profitable. Prices are now at January 2021 levels, with prices halving since the November peak.
- The plummeting ASIC prices can lead to problems for bitcoin mining companies that have taken on debt positions collateralized by their ASICs. As the value of the ASICs fall, the loan to value increases, forcing these companies to post more collateral.
- ASICs are now priced similarly as in January 2021, but at that time, mining was twice as profitable as now. Therefore, theoretically, machine prices will need to half in price from today's levels to account for this profitability difference, if priced at the same multiple.
- Another reason the ASIC prices will likely keep dropping is the public miners' massive remaining machine payments, as those who cannot pay for these upcoming deliveries will have to dump them on the market (next slide).



Source: Hashrate Index

*Under 38 J/TH

The public bitcoin miners are getting in a liquidity squeeze

Most public bitcoin miners have enormous remaining machine payments this year. With lower operating cash flows from bitcoin mining, many miners will be forced to dump their orders.

- 2021's super-profits of bitcoin mining led the public mining companies to initiate extreme expansion plans. These expansion efforts required massive machine orders, and the miners expect enormous machine deliveries in the coming months.

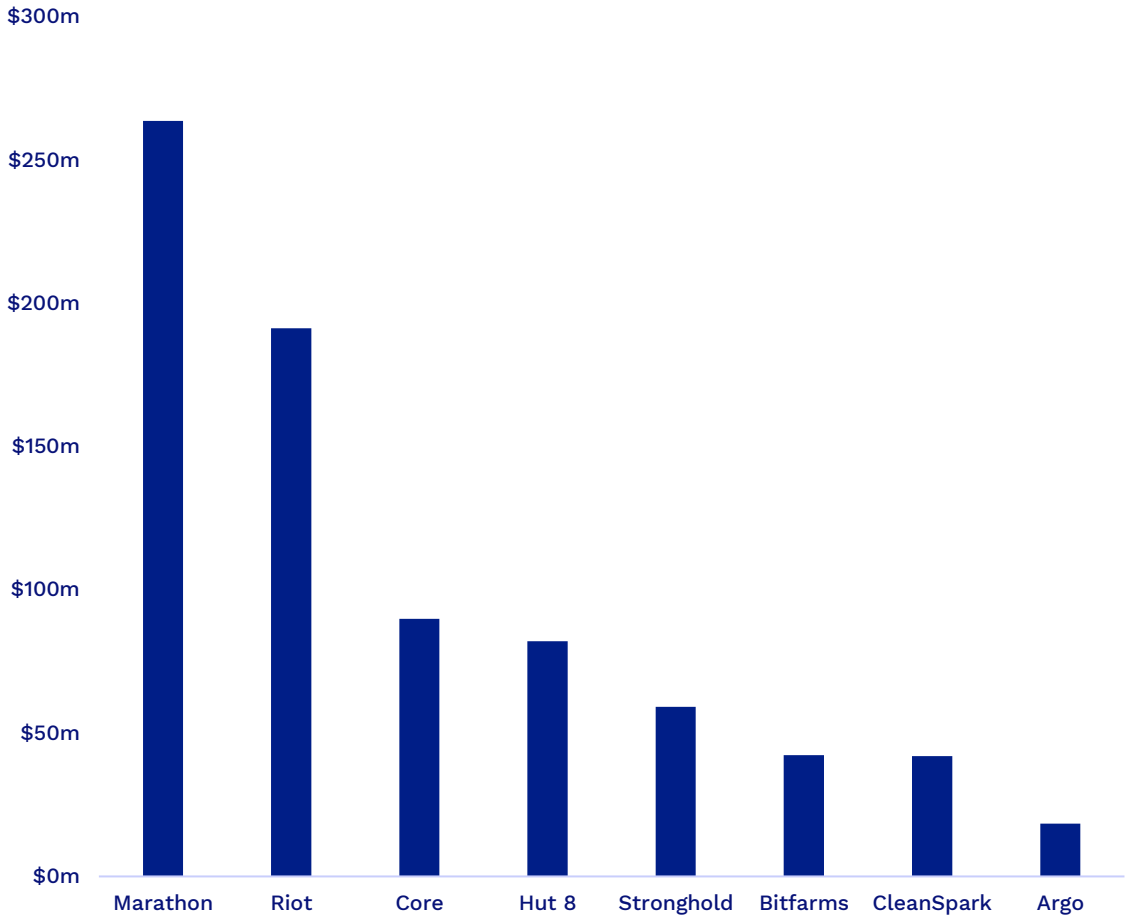
- Some public miners have hundreds of millions in remaining machine payments in 2022. Marathon has the most, with $260 million, as they plan to increase hashrate from the current 3.9 EH/s to 23.3 EH/s by early 2023.

- If Marathon cannot immediately plug in their machines as they are delivered, their massive upcoming machine payments will drain them of liquidity. Still, the company has a lot of cash on hand they can use to escape this challenging situation.

- If these companies are not able to pay for their upcoming machine deliveries, they will have four choices:
    1. Raise equity at a lower valuation.
    2. Raise debt at a high-interest rate.
    3. Sell the machine orders to better-capitalized players.
    4. Default on their orders.

- Because the challenging capital markets will force many miners to sell their machine orders or default, we will likely see a flood of ASICs hitting the market, which will continue to drive the ASIC prices downwards (previous slide).

Public Miners: Remaining Machine Payments in 2022



Source: Q2 2022 Financial Reports

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