

The Weekly Update

Week 26, 2022



Provided by **arcane**
research

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Market Update

- The second quarter of 2022 is finally over. Bitcoin ended the quarter down 56%, the second-worst in its history and the worst in 11 years. The uncertain macroeconomic outlook and the contagion effects in the crypto market are likely not over, with another lending firm suspending trading this week.
- Unsurprisingly, both Bitwise and Grayscale got their spot-based bitcoin ETFs rejected last week. However, they are not giving up. Grayscale has sued SEC after the rejection, hoping to convert GBTC to an ETF through court.
- BITI, the first inverse BTC ETF, grew further last week. After becoming the second-largest bitcoin-related BTC ETF in the U.S. after only four days of trading, the net short exposure has grown further and increased by more than 300% last week.

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Valuation

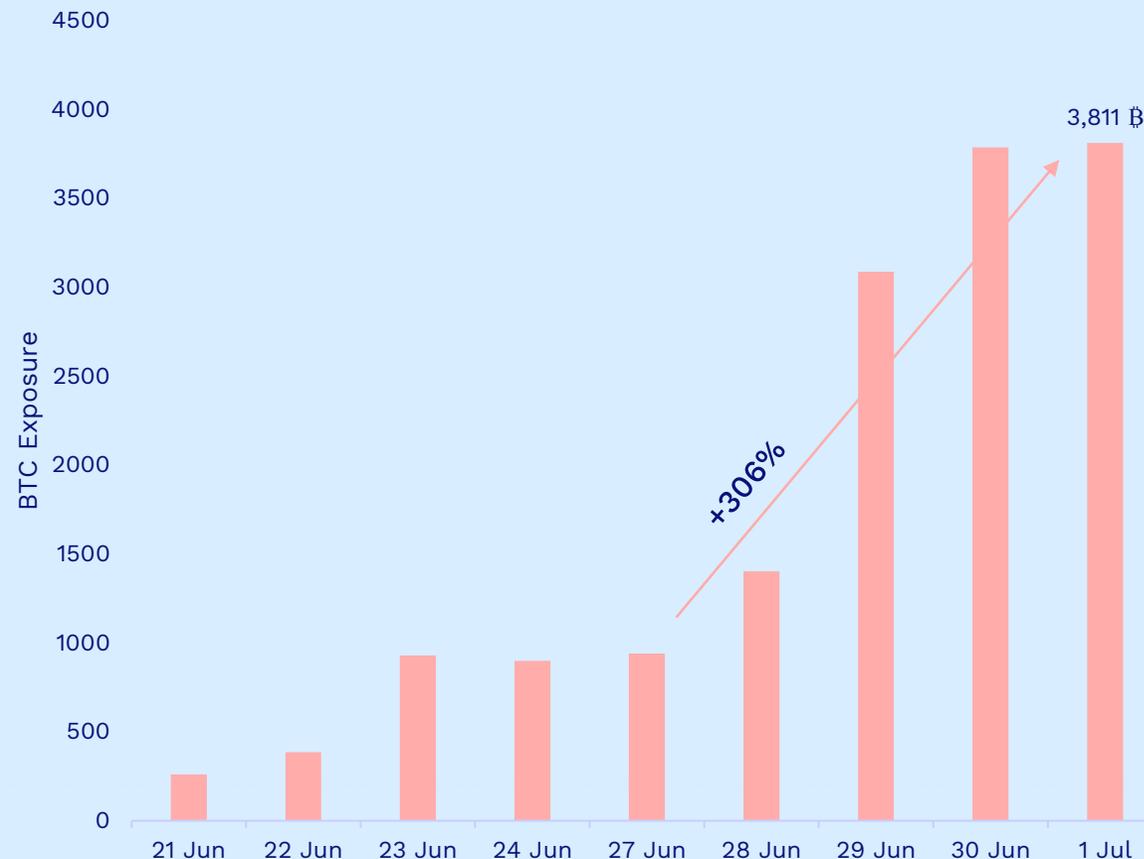
- Q2 ended as the worst quarter for bitcoin since Q3 2011, as the price declined from ~\$45,000 to ~\$19,900 – a drop of 56%.
- Funding rates on Binance and Bybit are now moving towards neutral territory after a push upwards this weekend.

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Blockchain Activity

- The bitcoin mining industry is notoriously cyclical, going from super profitable to barely cash flow break-even in just a few months.
- The broader NFT market has seen decreasing trading volume over the last couple of months. Meanwhile, the gap between Solana and Ethereum NFTs continues to shrink.

BITI: Net BTC Short Exposure



Source: ProShares

Bitcoin playing with \$20,000

- The second quarter of 2022 is finally over. Bitcoin ended the quarter down 56%, the second-worst in its history and the worst in 11 years. The uncertain macroeconomic outlook and the contagion effects in the crypto market are likely not over, with another lending firm suspending trading this week.
- Bitcoin is still playing with the \$20,000 level. After losing this level in the middle of last week, we saw a somewhat interesting close of June with an intraday price spike, followed by yesterday's price action, which took us back above this "key" price level. Bitcoin ends the last seven days with a slight decline of 2.3%.
- Unsurprisingly, both Bitwise and Grayscale got their spot-based bitcoin ETF applications rejected last week. Grayscale answered by suing the SEC, and the fight for the first spot-based bitcoin ETF in the U.S. continues.
- The top 3 coins by market cap have followed each other closely over the past seven days, with BNB slightly outperforming both BTC and ETH. ETH got hit harder during last week's sell-off but has recovered strongly this week..

Last week of top 50 by market capitalization

| Best Performing | Price | Last week | Last month | YTD |
|-----------------|-------|-----------|------------|------|
| Cosmos Hub | 9.19 | 18.0% | -0.7% | -78% |
| OKB | 12.89 | 4.6% | 12.0% | -69% |
| TRON | 0.07 | 2.3% | -14.7% | -80% |

| Worst Performing | Price | Last week | Last month | YTD |
|------------------|-------|-----------|------------|------|
| Hedera | 0.06 | -9.3% | -29.7% | -75% |
| Polkadot | 7.05 | -8.7% | -25.2% | -68% |
| Decentraland | 0.89 | -8.3% | -9.5% | -77% |

Source: CoinGecko, messari.io

Bitcoin Correlation:

| 90-day correlation (weekly change included) | ETH | | GOLD | | S&P500 | |
|--|-------|-------|-------|-------|--------|--------|
| BTC | 0.923 | 0.002 | 0.191 | 0.009 | 0.610 | -0.012 |

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



A positive start to July for altcoins

Bitcoin ended June with a decline of 37%, one of its worst months in history. Many hope for a rebound in July, and the start of the month looks positive, especially for altcoins.

- Bitcoin's terrible performance in June continued into the first days of July, but the tide turned when we kicked off a new week. Bitcoin is now flat in July, with a small gain of 0.5% this month.
- Altcoins have seen a sharper recovery than bitcoin during the first days of July. While the movements are negligible this month, all the indexes we follow are outperforming bitcoin. In other words, the trend from June continues.
- The Mid Caps Index is the best performer in July (+5.0%), with the Small Caps Index (+4.9%) and the Large Caps Index (+3.1%) following closely.
- Unsurprisingly, the bitcoin dominance continues to decline. The overall changes in dominance are small this week, with BNB showing strength among the top 10.
- Except for BNB, stablecoins are the only ones increasing their market shares in the top 10 this week. Adding the outperformance from the smaller coins, this shows us that the first days of July have been focused on altcoins.

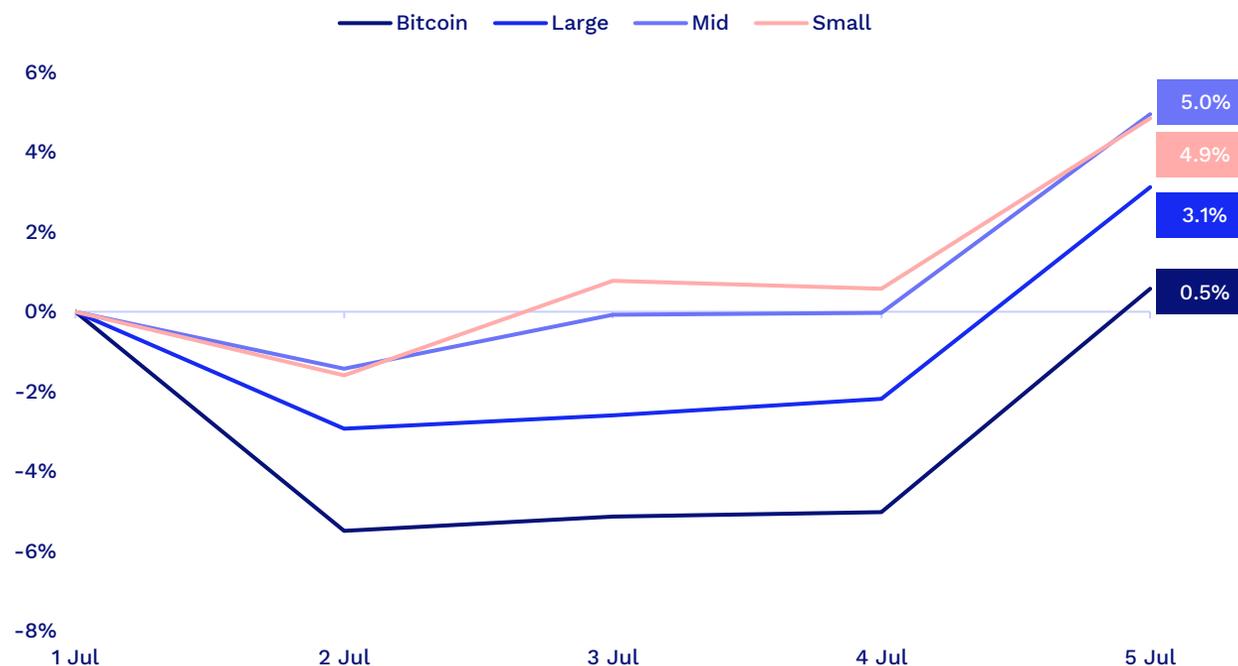
Percentage of Total Market Capitalization

| | BTC | ETH | USDT | USDC | BNB | BUSD | XRP | ADA | SOL | DOGE |
|---------------|--------|--------|-------|-------|-------|-------|--------|--------|--------|--------|
| Market Share | 42.39% | 15.42% | 7.29% | 6.09% | 4.19% | 1.92% | 1.73% | 1.72% | 1.35% | 1.00% |
| Weekly Change | -0.10% | -0.22% | 0.23% | 0.18% | 0.06% | 0.08% | -0.07% | -0.03% | -0.07% | -0.02% |

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes



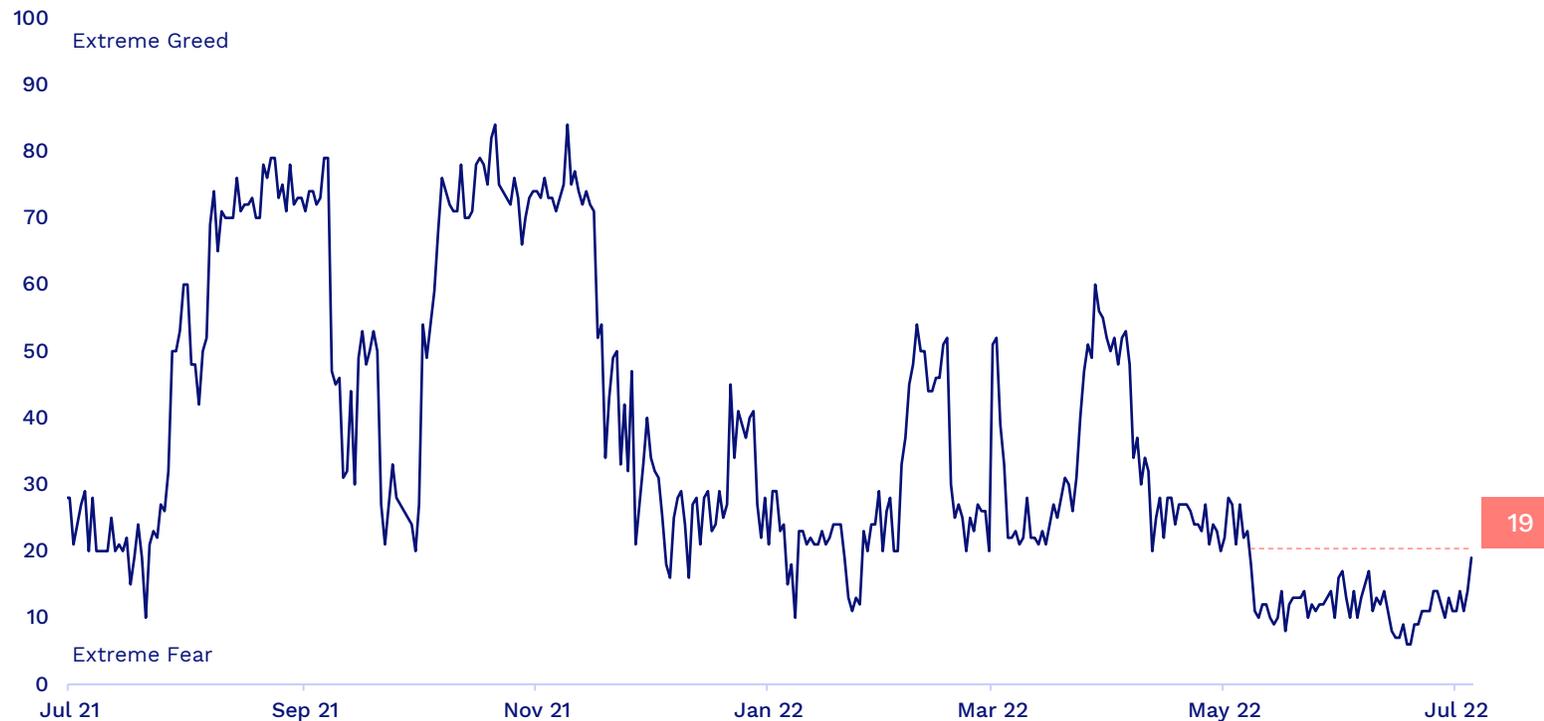
Source: Bletchley Indexes, Tradingview (Coinbase)



Sentiment changing? Highest in two months

The sentiment in the crypto market has been depressed for several months, but we're seeing a slight improvement this week. After the Fear and Greed Index climbed to 19 yesterday, we're at the highest point in two months. While we're still comfortable in the "Extreme Fear" area, we're now pushing towards the "Fear" area, and the market is slightly more optimistic than we've seen lately.

Fear and Greed Index



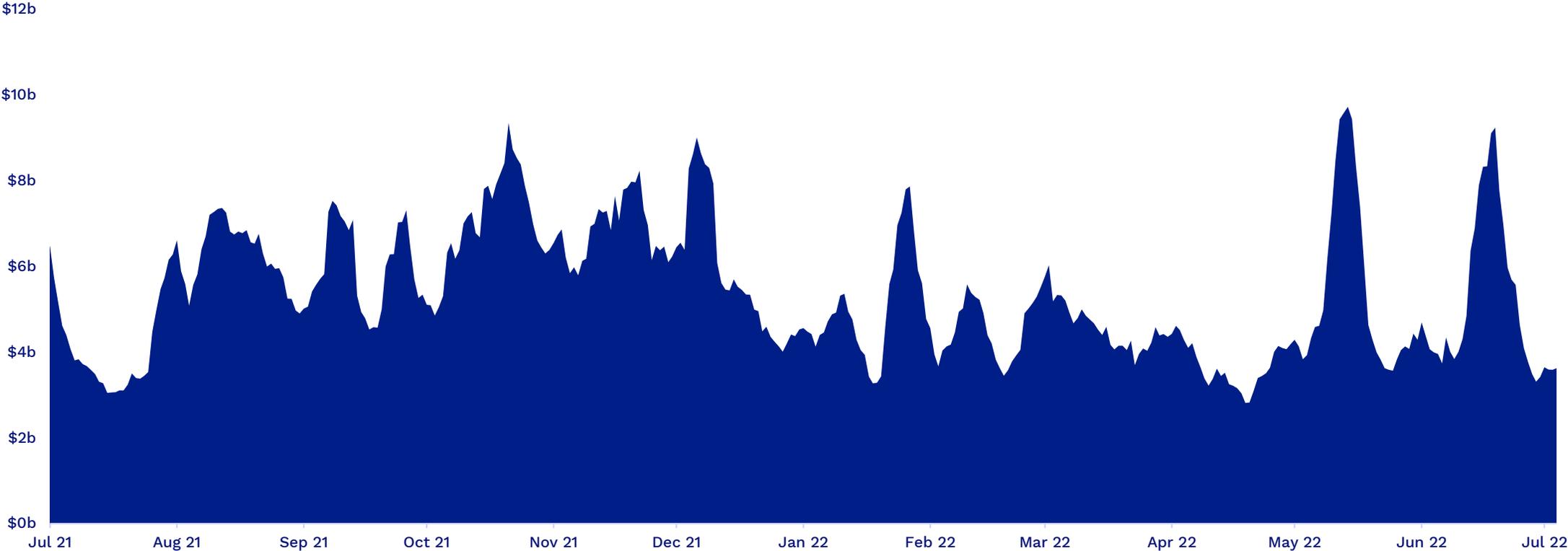
Source: Alternative.me



Bitcoin volume back to average levels

After the massive spike in the bitcoin volume in June, we're back to the average level just below \$4 billion. It's been a fairly flat week for the 7-day average bitcoin spot volume, which is a bit surprising after a somewhat volatile last week. However, Thursday and Friday saw volumes of around \$5 billion, but this was countered by the drowsy weekend activity where we only saw daily volumes of around \$2 billion. This was probably a result of the 4th of July weekend in the U.S., and Saturday saw the lowest daily volume since the first days of June.

Real BTC Daily Volume* (7-day average)



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

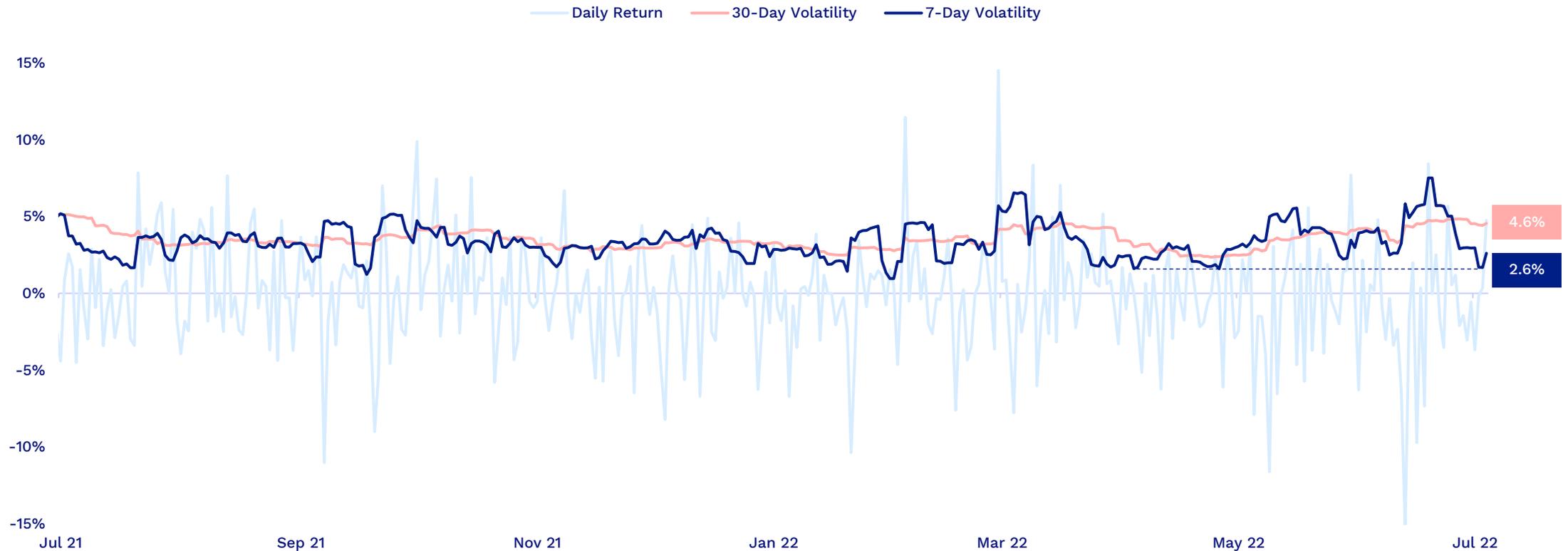
*Includes Bitwise 10 exchanges, LMAX, FTX.



7-day volatility hits 3-month low

After an eventful start of last week, bitcoin spent several days in the lower \$19k area, resulting in the 7-day volatility hitting the lowest level since early April. The volatility came back yesterday with bitcoin pushing up above \$20k again, and we saw a daily return of almost 5%. The 30-day volatility has stayed high lately and is currently at 4.6%. Bitcoin had one of its worst months in history in June, and as the 30-day volatility shows, we've seen daily price moves of almost 5% on average, far above the normal levels of 2-3%. It would not be surprising to get a somewhat uneventful July after a hefty quarter in the crypto market and the summer kicking in.

BTC-USD Volatility



Source: Tradingview (Coinbase)

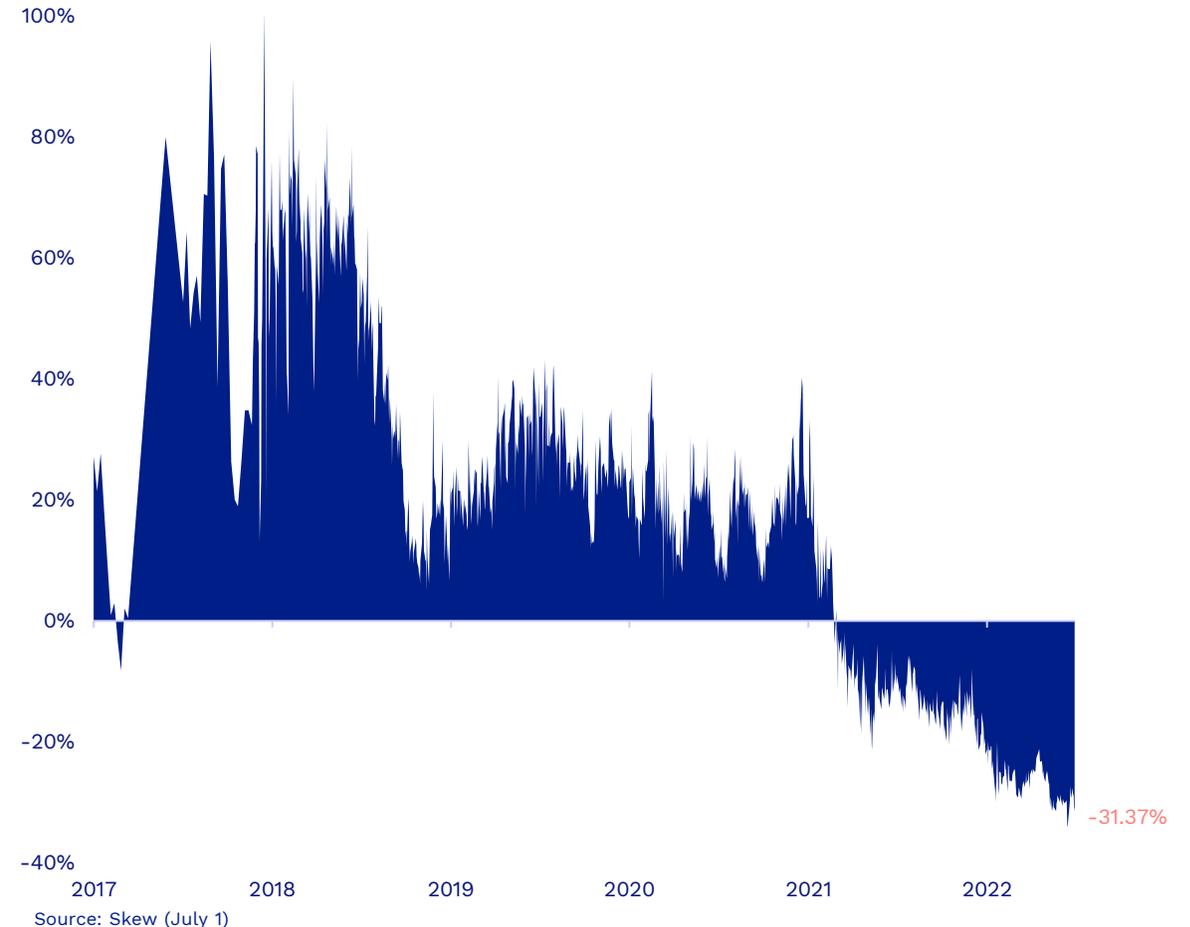


Spot-based bitcoin ETFs rejected, again

Unsurprisingly, both Bitwise's and Grayscale got their spot-based bitcoin ETFs rejected last week. However, they are not giving up. Grayscale has sued SEC after the rejection, hoping to convert GBTC to an ETF through court.

- We saw another round of rejected spot bitcoin ETFs last week. It was no surprise that the SEC rejected both Bitwise's and Grayscale's applications. Both firms filed for spot-based bitcoin ETF in October last year, but the decisions have been delayed several times as the SEC requested additional information and comment from the public.
- Grayscale wants to convert its bitcoin trust (GBTC) with \$12.35 billion in AUM into an ETF. This has drawn increased attention to the GBTC discount to the trust's net asset value (NAV), which is currently more than 30%. If the ETF is approved, the discount will effectively disappear, which has made it a hot discussion topic lately.
- The SEC pointed toward market manipulations in the bitcoin spot markets, the role of Tether, and the lack of surveillance and regulated exchanges as reasons for rejecting Grayscale's application.
- Interestingly, Grayscale immediately sued the SEC after the rejection, and according to the CEO of Grayscale, Michael Sonnenshein, they think that "the SEC is acting arbitrary and capricious by continuing to approve bitcoin futures-based ETFs while continuing to deny spot bitcoin ETFs". This refers to the fact that the SEC has rejected over a dozen spot-based bitcoin ETF applications but has approved four futures-based bitcoin ETFs in less than a year.
- Grayscale stays determined to convert GBTC into a spot-based ETF, but investors should understand that the latest petition could take up to 18 months to resolve. However, Sonnenshein is hoping for a decision within a year. It's important to keep this in mind if you're buying the heavily discounted GBTC in a bet on the ETF approval. However, as mentioned two weeks ago, 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 discount. Perhaps 18 months of waiting isn't that bad after all.

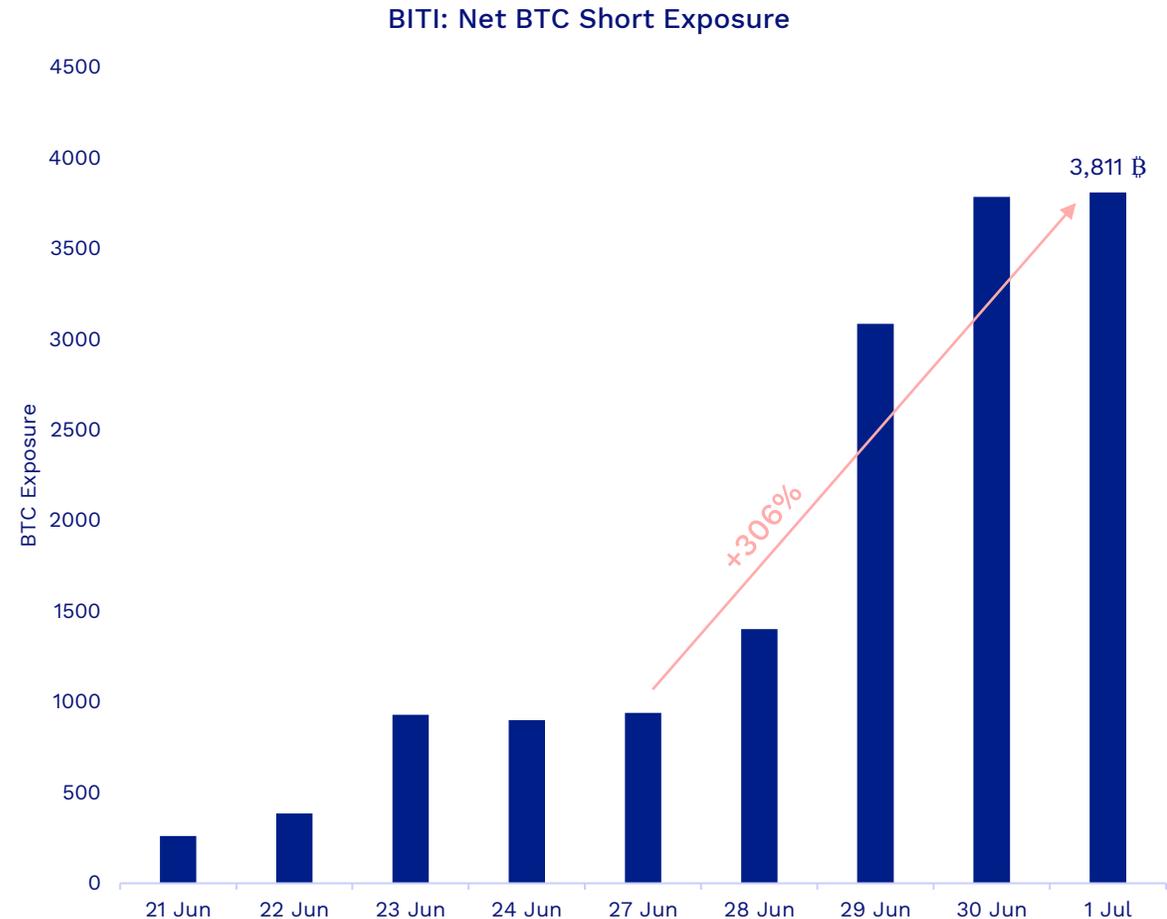
Grayscale Bitcoin Trust (GBTC) Premium/Discount to NAV



BITI grows further: 300% increase last week

BITI, the first inverse BTC ETF, grew further last week. After becoming the second-largest bitcoin-related BTC ETF in the U.S. after only four days of trading, the net short exposure has grown further and increased by more than 300% last week.

- As reported last week, ProShares' short bitcoin ETF (BITI) became the second-largest U.S. bitcoin-related ETF in just four days. Since that, the net short exposure of BITI has increased rapidly.
- BITI now holds a net short exposure equivalent to 3811 BTC. This jump was mainly due to large inflows on June 29th and June 30th, with inflows of 1684 BTC and 700 BTC, respectively. This equals an increase in short exposure of 306% last week.
- With the inflows last week, BITI is unquestionably the second-largest BTC ETF in the U.S., increasing the gap to Valkyrie and VanEck.
- Still, BITI is only ~12% of the size of Proshares' BITO, showing that U.S. ETF investors are still preferring long exposure to bitcoin



Source: ProShares (July 1)





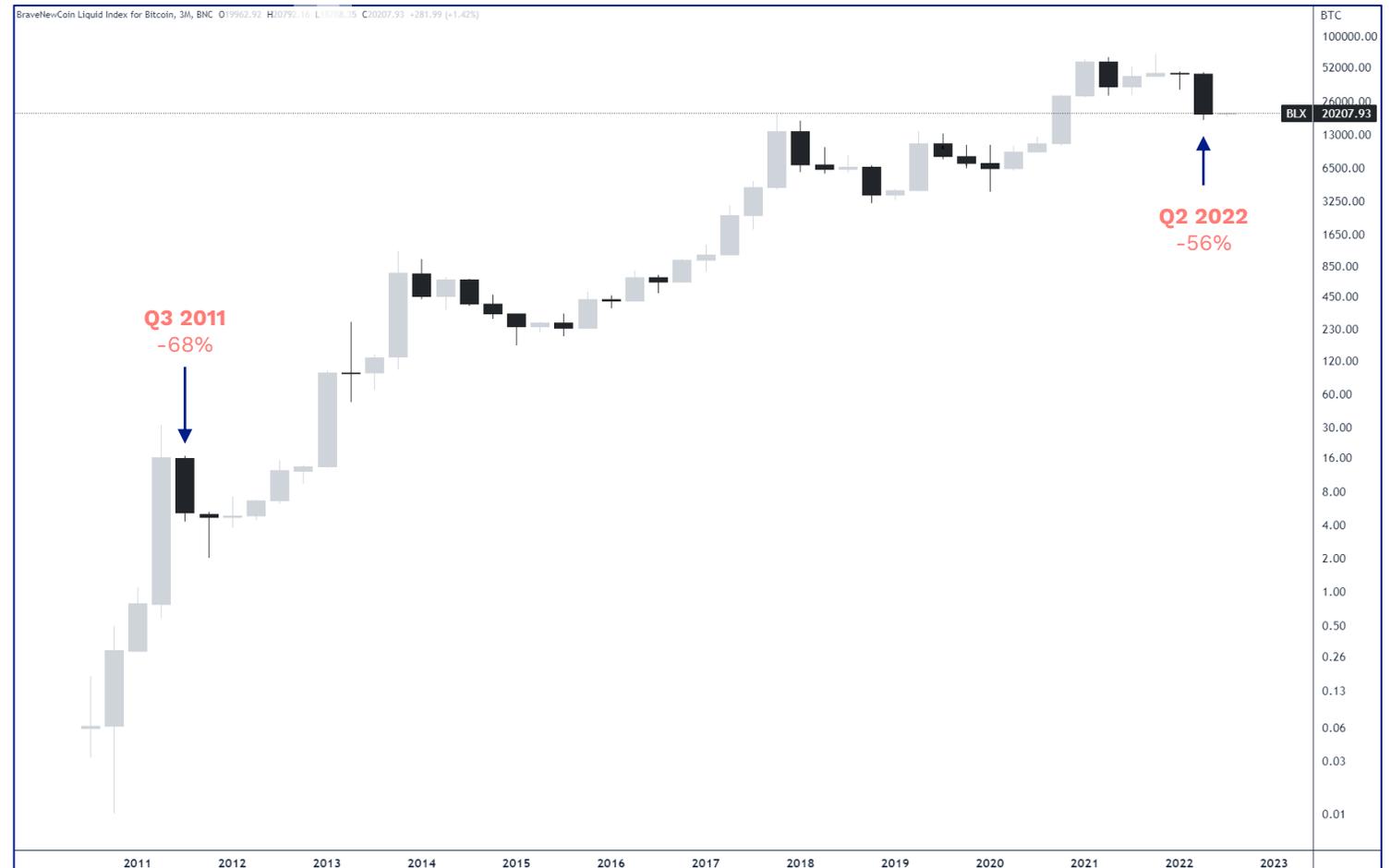
Valuation



Worst quarter since 2011 for bitcoin

Q2 ended as the worst quarter for bitcoin since Q3 2011, as the price declined from ~\$45,000 to ~\$19,900 – a drop of 56%.

- The last three months have been brutal in the crypto market. Bitcoin opened Q2 at \$45,000 and has since declined to below \$20,000.
- This marked a historic quarter for the bitcoin price, and we have to go back 11 years to find a more brutal quarter. Bitcoin ended the quarter just below \$20,000, dropping 56%.
- Bitcoin is now ranging around the \$20,000 level, which also marks the peak of the last bull run.
- Technically speaking, the close of the monthly candle was positive, as the price closed just above the 2017 peak.
- While it's too early to draw any conclusion, this could be the first sign of a classic support/resistance flip, where previous resistance will act as support.
- It's essential to understand that these are only technical levels. With uncertainty in the global financial markets, other factors are also highly relevant to analyze when looking at bitcoin's outlook.



Source: Tradingview (BraveNewCoin)

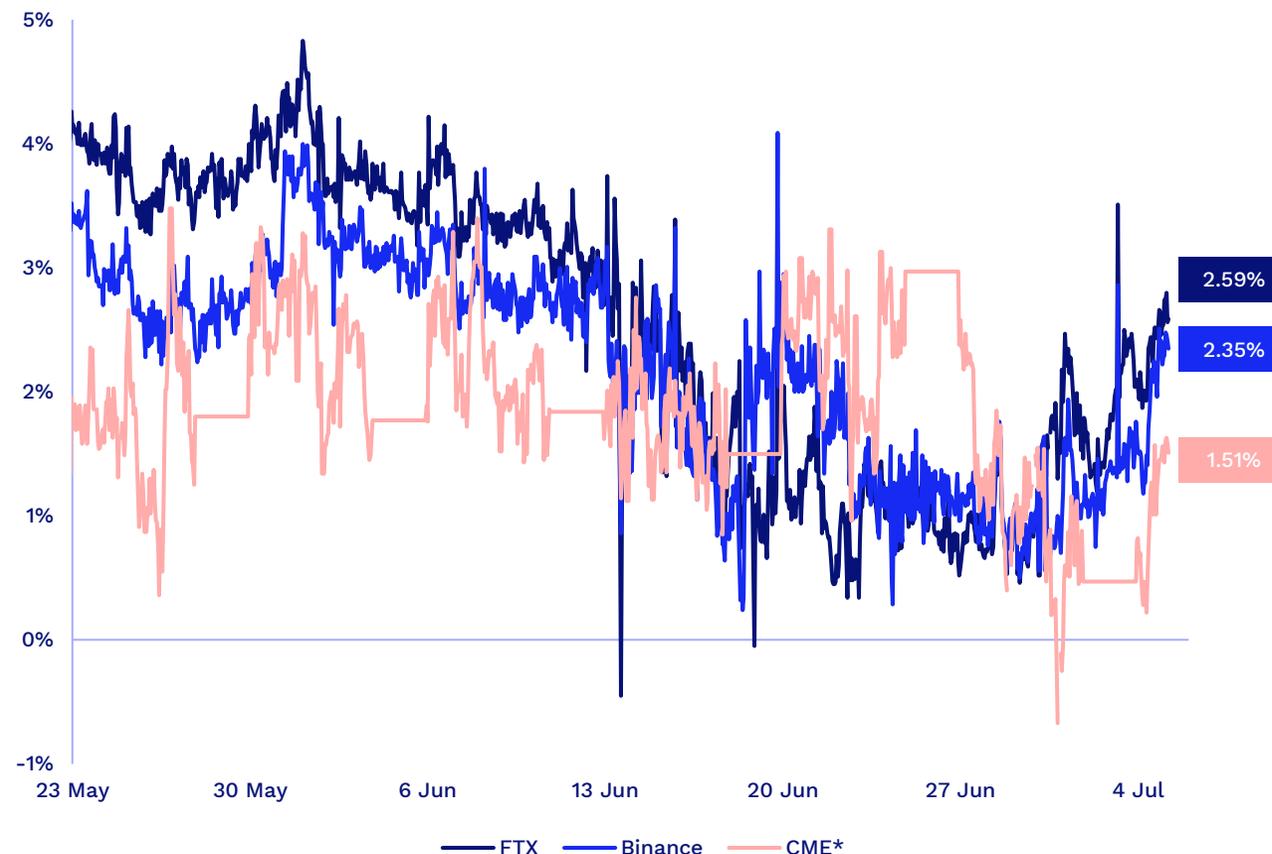


CME trading below offshore exchanges again

After a period of CME futures trading above offshore exchanges, offshore exchanges are again leading. The premium on CME declined sharply just before the weekend, hitting negative territory on June 30th.

- After hitting all-time lows last week, the futures premiums have seen a change in directions over the weekend.
- After trading at a discount to CME, offshore exchanges are now back above CME, with FTX trading at a 2.6% basis. Binance has followed closely, but CME is down to a 1.5% basis after the decline last week.
- The CME basis even hit negative territory on June 30th, after bitcoin dropped below \$20k and briefly touched the \$18k area, before closing the month with a sharp push towards \$20k again.
- The Coinbase nano futures that launched last week still see low demand. The open interest has been relatively flat, but the volume has increased a bit, seeing a daily trading volume of \$8.6 million on Friday.

Bitcoin Futures Annualized Rolling 3-Month Basis



Source: Skew

*Closed Saturday - Sunday

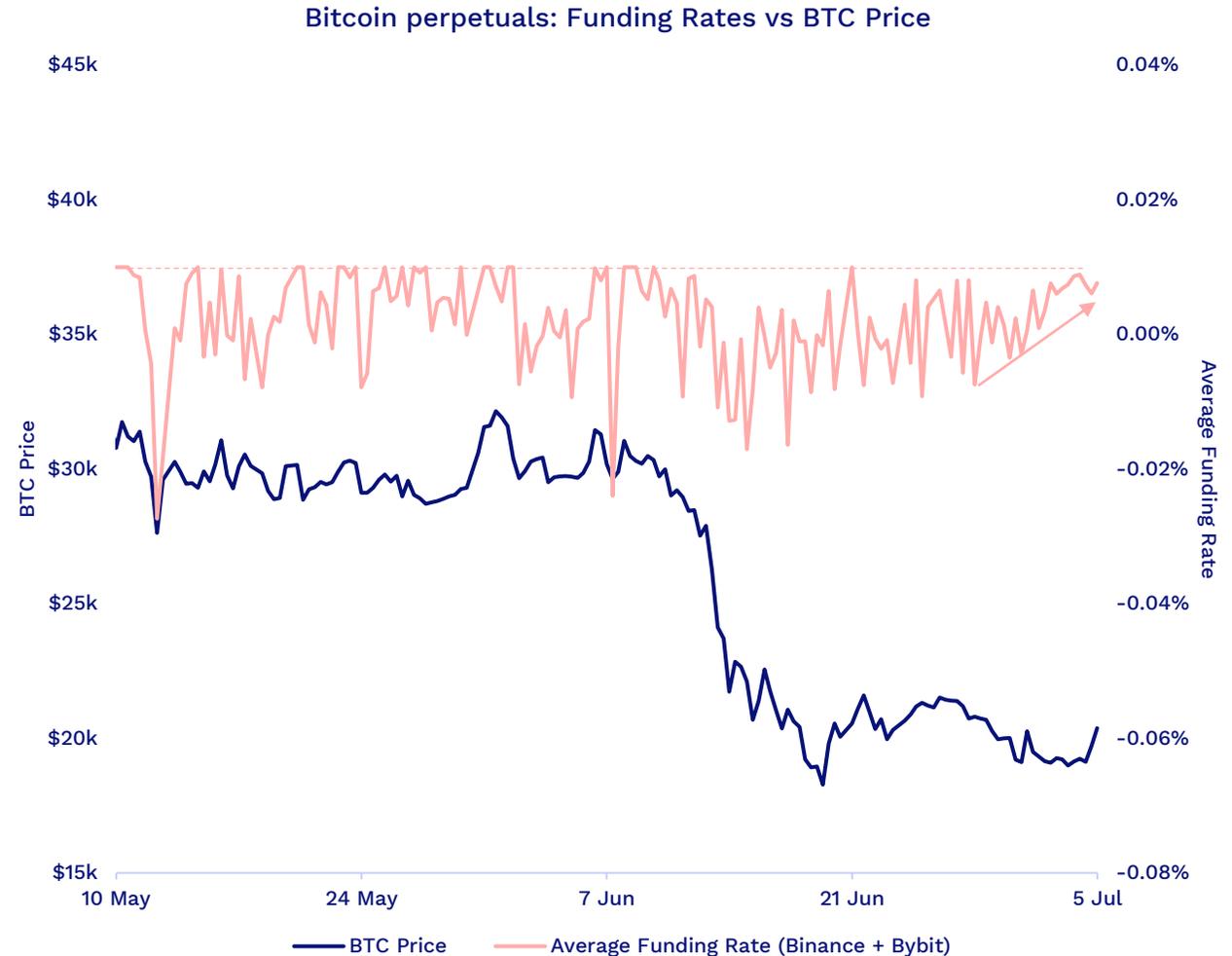


Funding rates approaching neutral levels while price stays flat

Funding rates on Binance and Bybit are now moving towards neutral territory after a push upwards this weekend.

- Funding rates for Binance and Bybit's perps have climbed lately, seeing an average of 0.003%.

The funding rate for Bybit's BTC perp has actually been neutral over the weekend, at 0.01%, while Binance's has been marginally on the negative side.
- The trend of a climbing funding rate shows that more long traders have been active this weekend, while the price has been fairly flat.
- It will be interesting to see if this trend continues and if we'll see a push up in the positive funding rate territory, which we haven't seen in several months.





Blockchain Activity



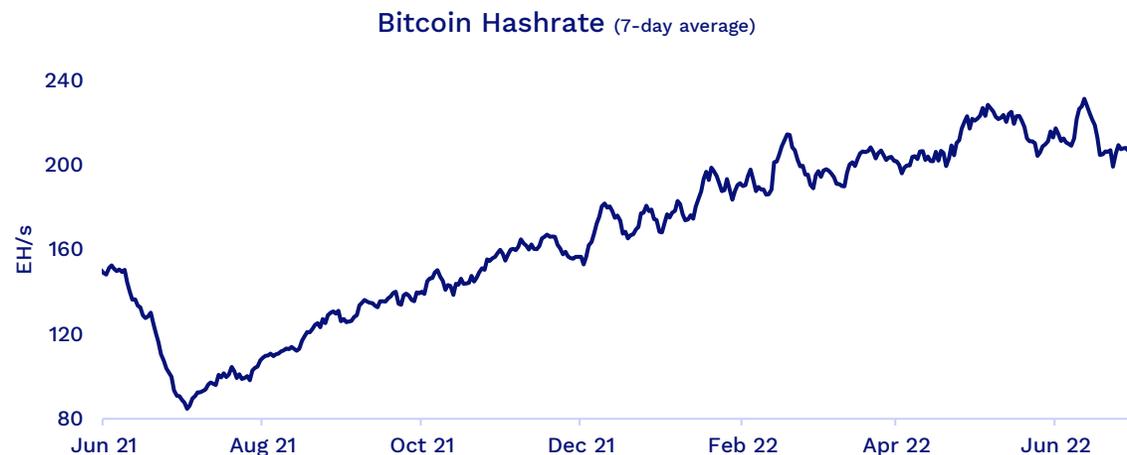
Bitcoin's on-chain activity stays at a depressed level

Bitcoin's low on-chain activity continues, as the "boring" bear market doesn't exactly entice action.

- Bitcoin's on-chain activity has been very low during the last couple of weeks, as the bear market seems to have caused market participants to lose interest. We continue to see a low number of active addresses.
- Especially the transaction fees are extremely low. During the previous seven days, we saw average daily transaction fees of only \$279k, the lowest since April 2020.
- The low transaction fees are caused by low demand for on-chain transactions. Only \$4 billion of value was transferred on-chain per day over the past seven days on average, which is relatively low historically. This number has usually been sitting above \$6B in the past year.
- We see a slight increase in the block production rate, which was 6.17 blocks per hour over the past seven days. We will likely see a 1% increase in the difficulty on Thursday.

| Powered by: | | Bitcoin Network Data | | | |
|-------------|-------------------------|----------------------|---------------|-----------|-----------|
| BYTETREE | | 7/4/2022 | 7d prior | 7d Change | 30d Trend |
| Network | Daily Miner Revenues | \$ 18,621,768 | \$ 18,732,663 | -0.59% | |
| | Fees per day | \$ 279,786 | \$ 312,771 | -10.55% | |
| | Fees % Revenues | 1.50% | 1.67% | -0.17% | |
| | Daily TX Volume (\$Bns) | \$ 4,052 | \$ 4,489 | -9.75% | |
| | Transactions per day | 248,071 | 243,304 | 1.96% | |
| Utility | Avg TX value \$ | \$ 16,333 | \$ 18,452 | -11.48% | |
| | # Blocks per hour | 6.17 | 5.86 | 5.28% | |
| | Avg. # TX per block | 1,675 | 1,642 | 1.96% | |

Source: Bytetrete



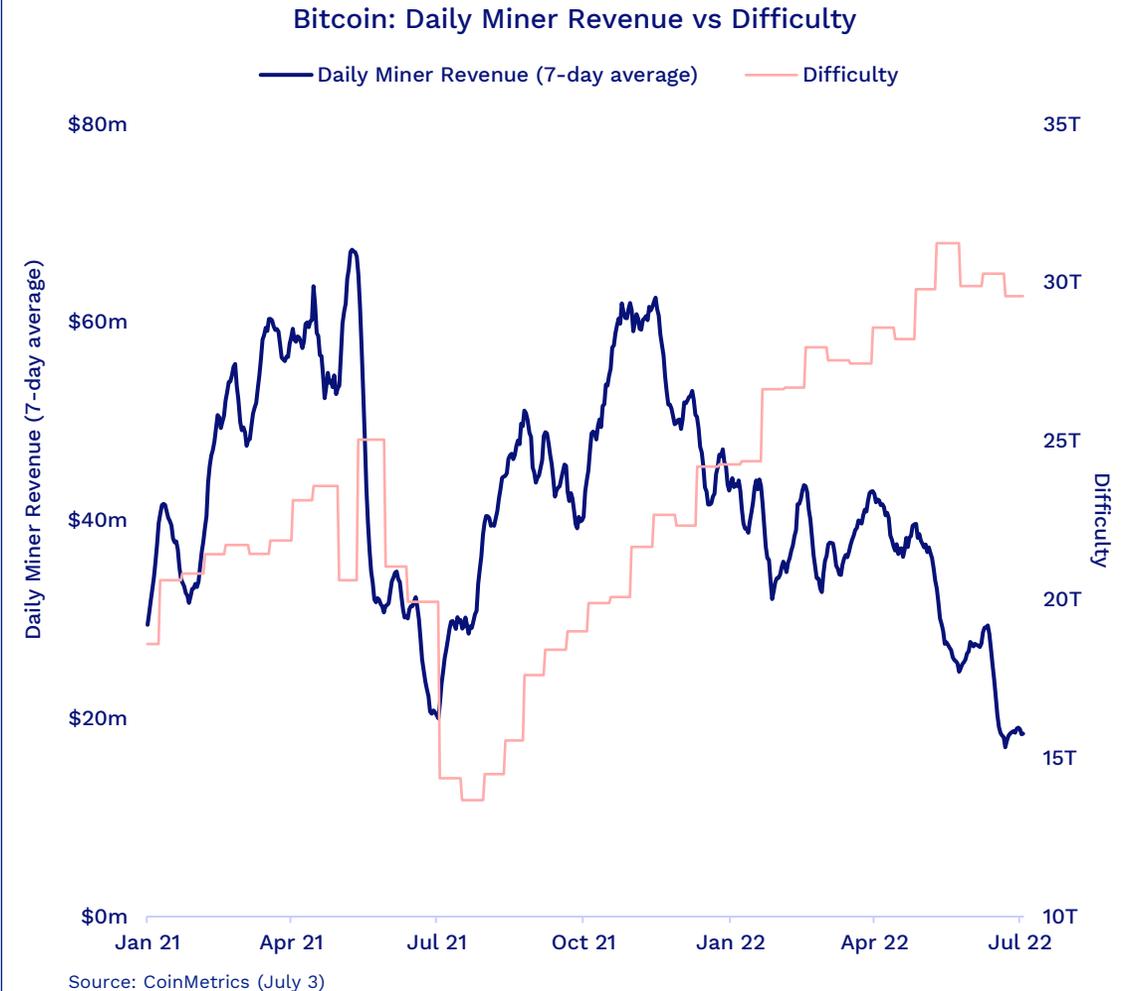
Source: Blockchain.com



The recent months have been a case study of bitcoin mining's cyclicality

The bitcoin mining industry is notoriously cyclical, going from super profitable to barely cash flow break-even in just a few months. What exactly causes this cyclicality?

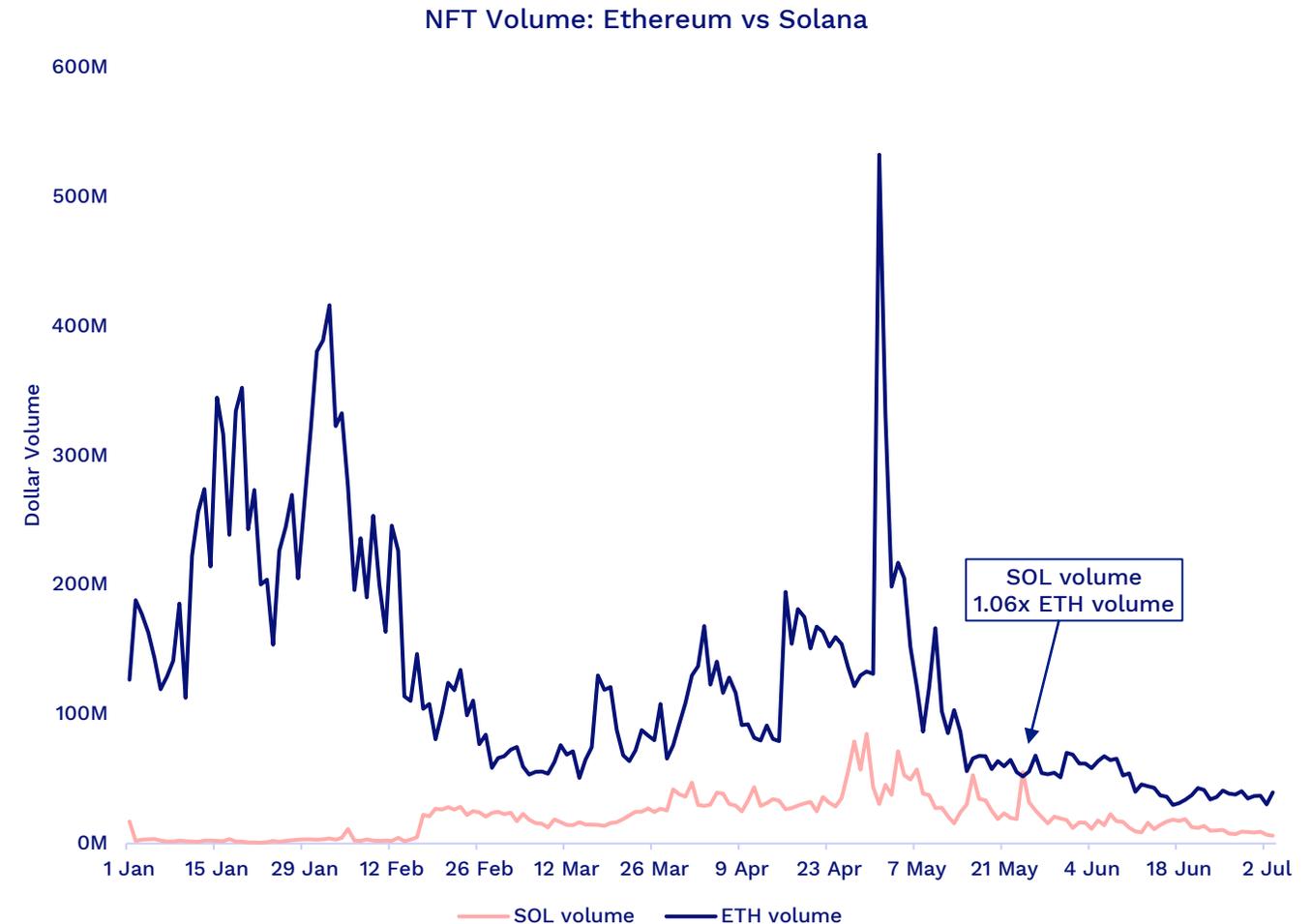
- The bitcoin mining industry's daily revenue has plummeted to \$18 million from a peak of \$62 million in November 2021. 2021 was an excellent year for the bitcoin mining industry, with average daily revenue of \$46 million, corresponding to a total industry revenue of \$16.7 billion. In comparison, in 2020, the combined income of the mining industry was \$5 billion.
- The super-profits of 2021 led to massive investments in new mining infrastructure as both existing and new players eagerly wanted to grab a share of the profits. The hashrate grew as the new machines came online ([previous slide](#)), and the Bitcoin network increased its difficulty in response.
- The increasing difficulty means that not only is the mining industry's total revenue much lower now compared to in 2021, but the competition for this revenue has also increased. These two factors have led the daily income of an Antminer S19 to plunge to \$8 from \$38 in November 2021. This reduced revenue has again led to a steep reduction in [machine prices](#).
- High CAPEX industries that derive revenue from a commodity tend to be very cyclical, and bitcoin mining is no exception. The shipping industry is another example. The cycle goes as follows: A rising commodity price leads to a period of super-profits, which causes overinvestment in new production capacity. Too much new production capacity then comes online with a lag, leading to abnormally low profits in the industry. This ultimately leads to a withdrawal of production capacity, and the cycle starts again when the commodity price increases. Rinse and repeat.
- The bitcoin mining industry's current position in its cycle means that it will only continue to get worse unless the bitcoin price rebounds, due to new mining capacity continue coming online.



The winds are changing in the NFT space

The broader NFT market has seen decreasing trading volume over the last couple of months. Meanwhile, the gap between Solana and Ethereum NFTs continues to shrink.

- Despite the distance between the networks, the smaller Solana market surpassed the NFT volume on Ethereum on May 24. Meanwhile, the number of daily active addresses on Solana was ~2.5x greater than Ethereum throughout June.
- The pace of the Ethereum blockchain network has decreased while transaction costs have increased, making way for Solana-based NFT marketplaces to pick up steam.
- The average transaction fee on Ethereum was \$6.5 in June, in contrast to the few cents users currently pay for block space on Solana. Meanwhile, Solana has captured a significant market share for gaming NFTs.
- But while Solana is showing solid signs of growth, the Ethereum market remains much more valuable overall. Over the last 30 days, the NFT market on Ethereum was 3.5x the size of the Solana market in terms of dollar amount generated via sales.
- However, the overall momentum in the NFT space has stalled amidst a broader market crash. Compared to the all-time high of \$476 million on May 1, OpenSea registered just \$17 million in Ethereum trading volume on Monday.



Source: DappRadar, Dune (July 3)



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