The Weekly Update

Week 27, 2022

Provided by arcane research

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Market Update

- Bitcoin has declined below $20,000 after a promising mid-week performance last week but remains within its consolidation range. The Monday sell-off was sparked by a poor weekly open for equities, as the market braces for the upcoming CPI release on Wednesday.
- The bitcoin trading volume surged last week, but it was not caused by organic trading activity. Last week, Binance removed its trading fees for several bitcoin pairs, which quickly led to wash trading on the exchange.
- June U.S. CPI numbers are released on Wednesday. The last release ignited the June sell-off in bitcoin, and the market expects a 40-year high YoY level of 8.8%. Will expectations be right this time?
- The pace of the M&A activity in the crypto sector aligns with what we saw in 2021, per a new half-year report published by Architect Partners.

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Valuation

- Bitcoin has been in narrow consolidation since the early June plunge oscillating around the 2017 peak.
- The offshore futures basis has declined below 2% as BTC once again trades below $20k after failing to breach range highs last week.
- Open interest in BTC perps reached an ATH last Friday.

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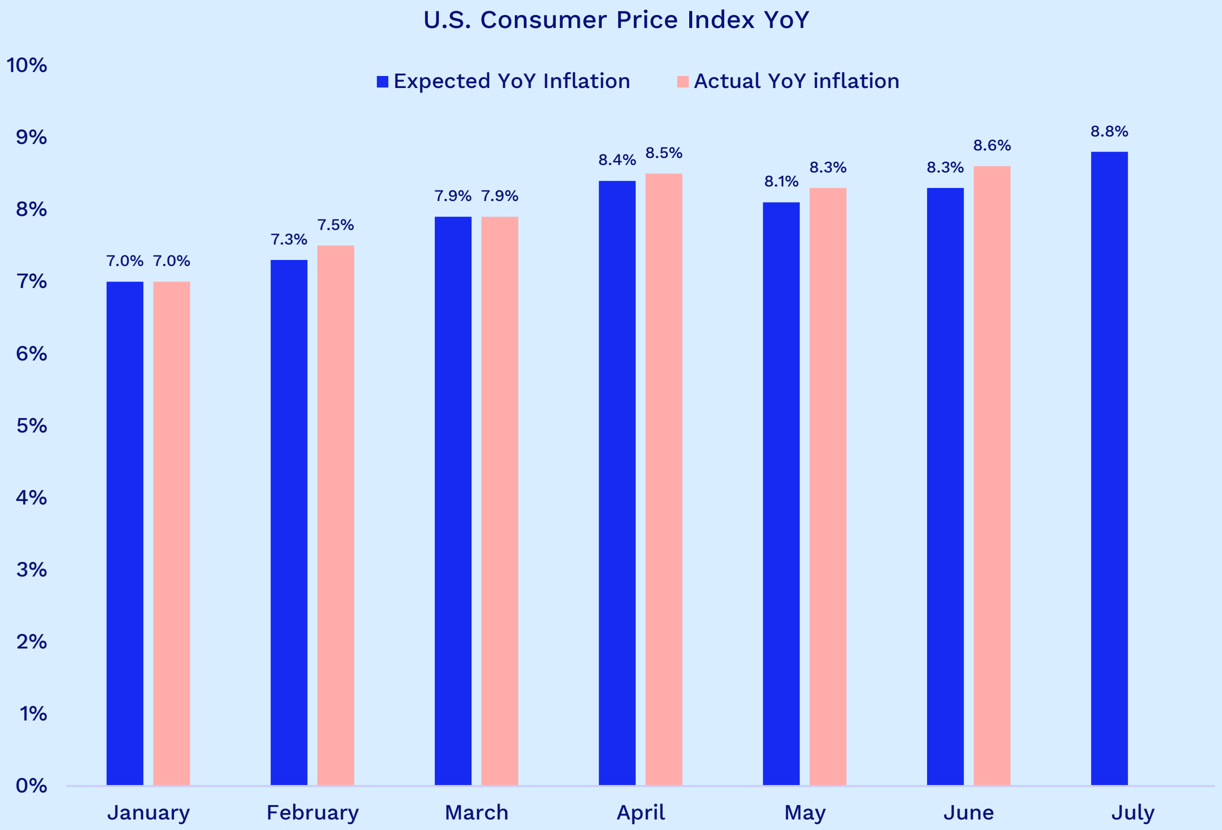
Blockchain Activity

- Second consecutive downward difficulty adjustment as daily miner revenues see further downside.
- Distressed crypto lender Celsius has repaid its Maker loan of $440m, releasing 21,962 WBTC worth of collateral.



Bitcoin daily return at CPI release date

Month	January	February	March	April	May	June
Deviation of actual CPI vs expected	0.00%	0.20%	0.00%	0.10%	0.20%	0.30%
BTC: Daily return at CPI release date	2.74%	-2.00%	-6.00%	1.39%	-6.55%	-3.38%

Source: Investing.com, Tradingview

Bitcoin in consolidation as dollar strength reaches 20-year high

- Bitcoin (-3.4%) has declined below $20,000 after a promising mid-week performance last week but remains within its $19k-$22k consolidation range.
- The Monday sell-off was sparked by a poor weekly open for equities, as the market braces for the upcoming CPI release on Wednesday (slide 10), while global turmoil and recession fears are growing. The dollar strength index has reached a 20-year high while the USDEUR pair has reached parity for the first time since 2003.
- Sam Bankman-Fried of FTX noted last week that he thinks that the contagion situation is resolved. As crypto-specific market uncertainty gets resolved, traders should prepare for equity correlations to resume, and we note a slight growth in correlations last week.
- Bitcoin outperforms BNB (-4.2%) and ETH (-7.9%). The Ether sell-off has been particularly interesting as Nexo has apparently sent 100,000+ ETH to centralized exchanges in recent days. Armanino's Nexo attestations show that Nexo's customer liabilities have declined to a BTC equivalent of 186,000 BTC, down from 202,636 BTC two weeks ago, suggesting sustained withdrawals from lending platforms.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Quant	82.49	36.1%	50.2%	-54%
Polygon	0.56	14.3%	4.6%	-78%
Internet Computer	6.34	13.2%	7.6%	-75%

Worst Performing	Price	Last week	Last month	YTD
Dogecoin	0.06	-12.0%	-12.2%	-65%
Axie Infinity	13.21	-11.8%	-18.6%	-86%
Decentraland	0.81	-11.1%	-1.2%	-76%

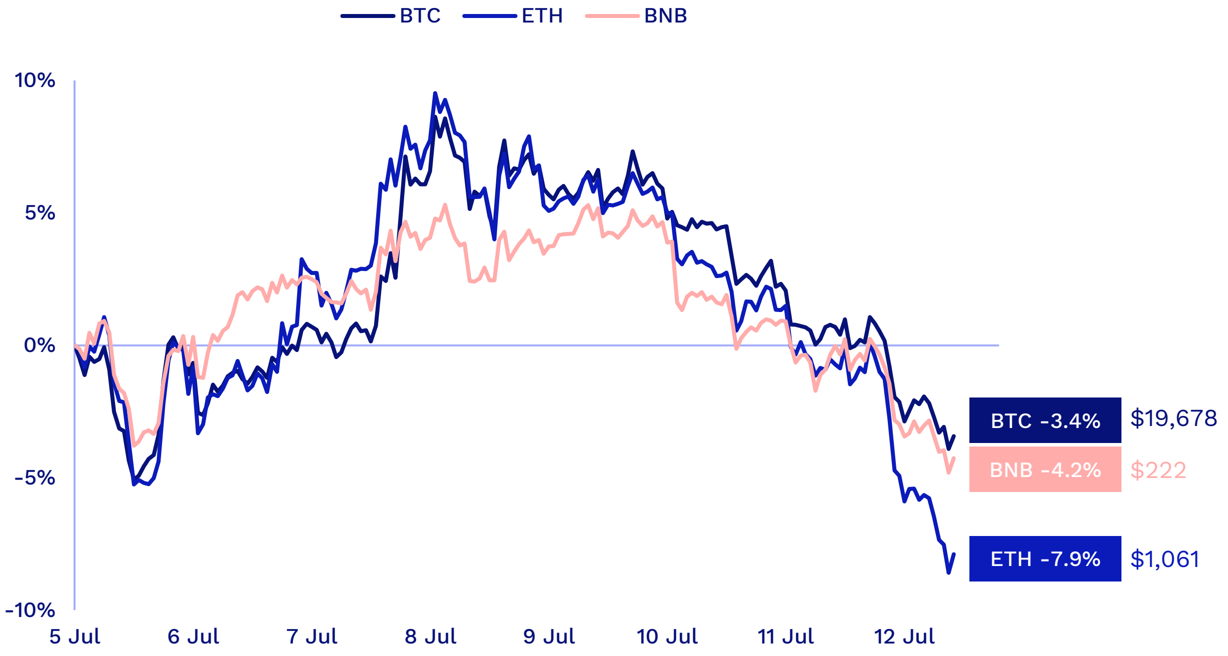
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.920	-0.003	0.153	-0.038	0.624	0.014

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)

Bitcoin and stablecoin dominance on the rise amid challenging market conditions

Bitcoin and stablecoins continue to increase their market share amidst souring market conditions as traders continue their flight from risk-on investments to safer assets.

- Gains from early July were erased after a weak start to the week in the equity market.
- Now, Mid Caps is the only index in the green so far in June, up 1.9%. In comparison, both the Large and Small-cap indexes have fallen slightly this month, down 0.9% and 0.1%, respectively.
- Ethereum dominance is declining, leading the Large Caps Index dominance to underperform bitcoin. Ether's relative underperformance may be caused by selling pressure from lenders, as noted in slide 4.
- The stablecoin dominance has grown amidst the current market instability, currently making up around 16.8% of the total crypto market capitalization. While risky crypto investments often are punished by souring market conditions, stablecoins offer market participants a much-needed way to alleviate market volatility risks without having to exit the crypto space entirely.
- USDC has seen its market share increase 0.19 percentage points over the last week—the biggest upswing among the three largest stablecoins. This occurs in an environment of increased regulatory scrutiny, which, combined with USDC's proactive regulatory strategies, may have drawn positive attention from market actors.

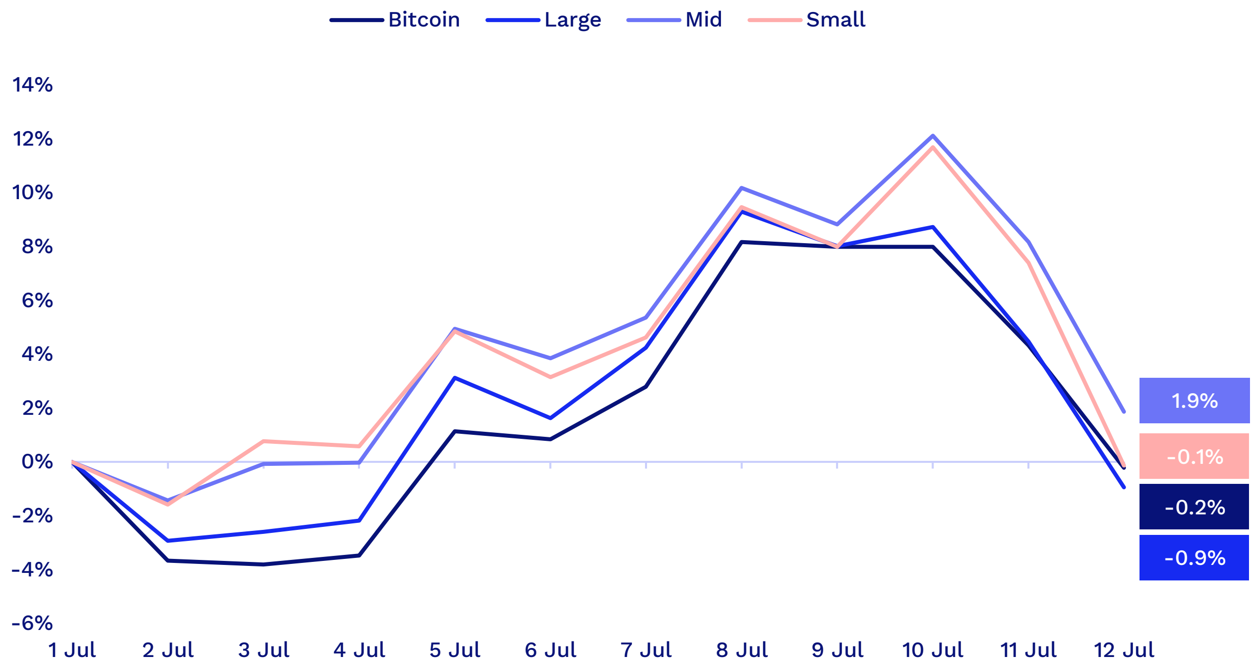
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	XRP	ADA	SOL	DOGE
Market Share	42.82%	14.81%	7.45%	6.28%	4.14%	1.98%	1.72%	1.66%	1.31%	0.93%
Weekly Change	0.43%	-0.61%	0.16%	0.19%	-0.05%	0.06%	-0.01%	-0.06%	-0.04%	-0.07%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes

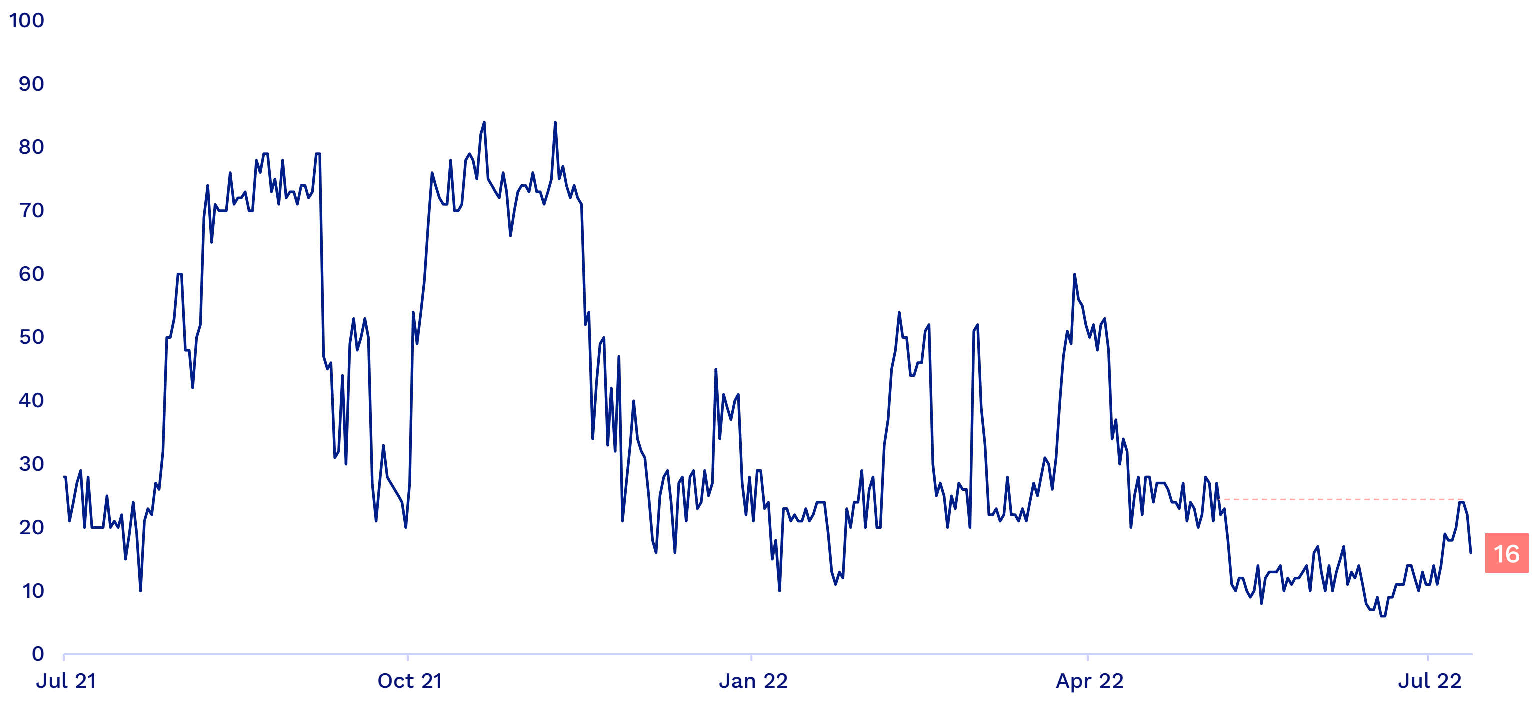


Source: Bletchley Indexes, Tradingview (Coinbase)

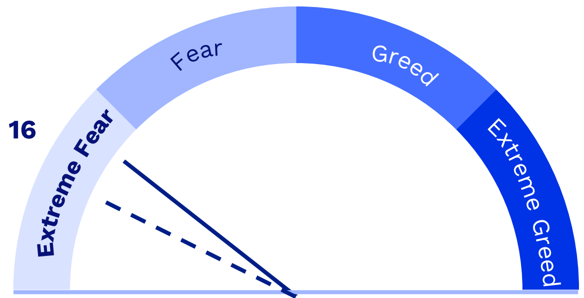
The record-long extremely fearful market sentiment continues...

Last week's optimistic uptick continued into the weekend as the Fear and Greed Index briefly climbed to 24. Since then, we have witnessed a perceived weakened market sentiment with the index sitting at 16 as of July 12th. Thus, the index was not entirely able to exit the extremely fearful territory—prolonging the current record-long 68-day streak in this depressing territory. Notably, the metrics' two most influential components—namely volatility and trading volume—are affected by Binance's decision to remove trading fees from their platform (slide 7). To illustrate, the current trading volume is measured against the 30- and 90-day averages and the abolishment of fees naturally incentivized increased trading activity, which by extension can lead the metric to overstate the current market sentiment fearfulness.

Fear and Greed Index



Source: Alternative.me

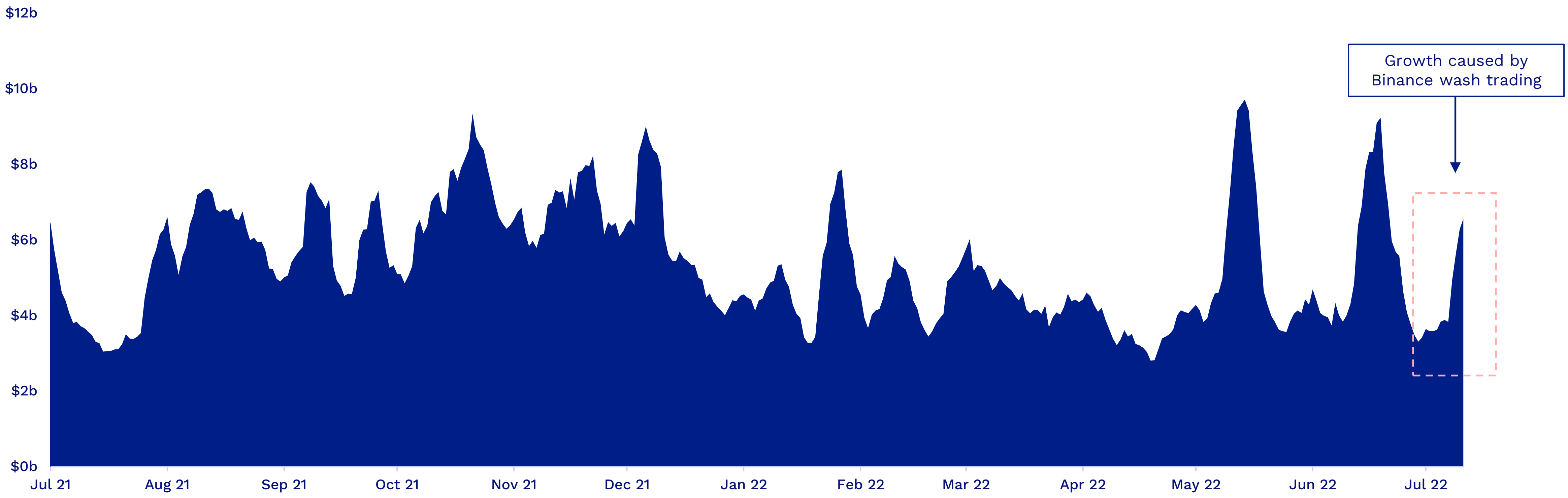


Now	Last week	Last month
Extreme Fear (16)	Extreme Fear (19)	Extreme Fear (14)

Wash trading on Binance leads trading volume to surge

The bitcoin trading volume surged last week, but it was not caused by organic trading activity. Last week, Binance removed its trading fees for several bitcoin pairs to celebrate its five-year anniversary. As noted by Kaiko, the fee removal was quickly followed by surging trading volumes on Binance, likely caused by wash trading from traders seeking to exploit the fee removal to reach higher fee tiers. On July 8th, Binance's BTC trading volume reached $11bn, accounting for 84% of the global BTC trading volume. In normal market conditions, Binance represents 50-60% of the spot volume. All other exchanges saw muted trading volume last week, with the seven-day average trading volume sitting near 1-year lows, illustrating that the organic trading activity in the market is very muted at the moment.

Real BTC Daily Volume* (7-day average)



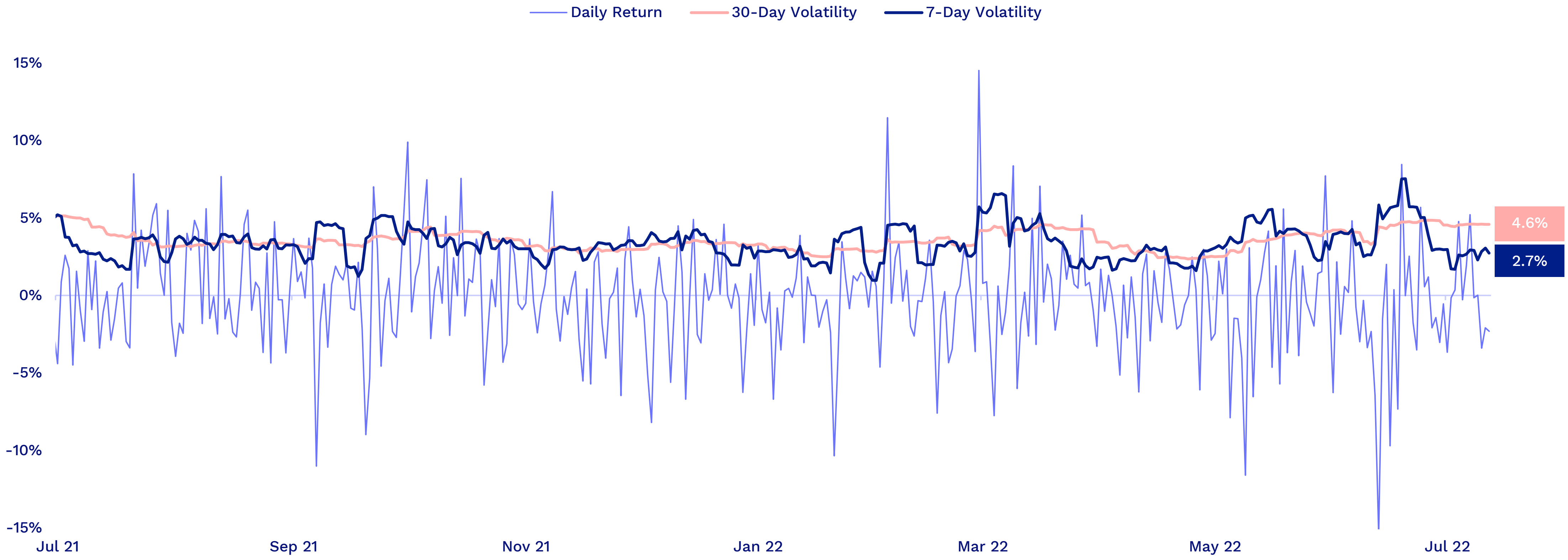
Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX.

Volatility stabilizing at bitcoin settles within $19,000-22,000 range

Bitcoin's seven-day volatility has stabilized at 2.7% as bitcoin remains in consolidation. The 30-day volatility remains high at 4.6%, still impacted by the very volatile days of mid-June amid Three Arrows Capital's collapse and the contagion-related uncertainty that erupted in the aftermath. In both 2020 and 2021, bitcoin experienced a substantial decline in volatility during the summer months, and after the tumultuous period in May and June, such a period would be welcome. However, given rising global tensions, surging inflation, and wide-reaching pessimism, this summer might offer volatility. The June U.S. CPI release on Wednesday (slide 10) might be a catalyst for a new round of volatility in the market.

BTC-USD Volatility



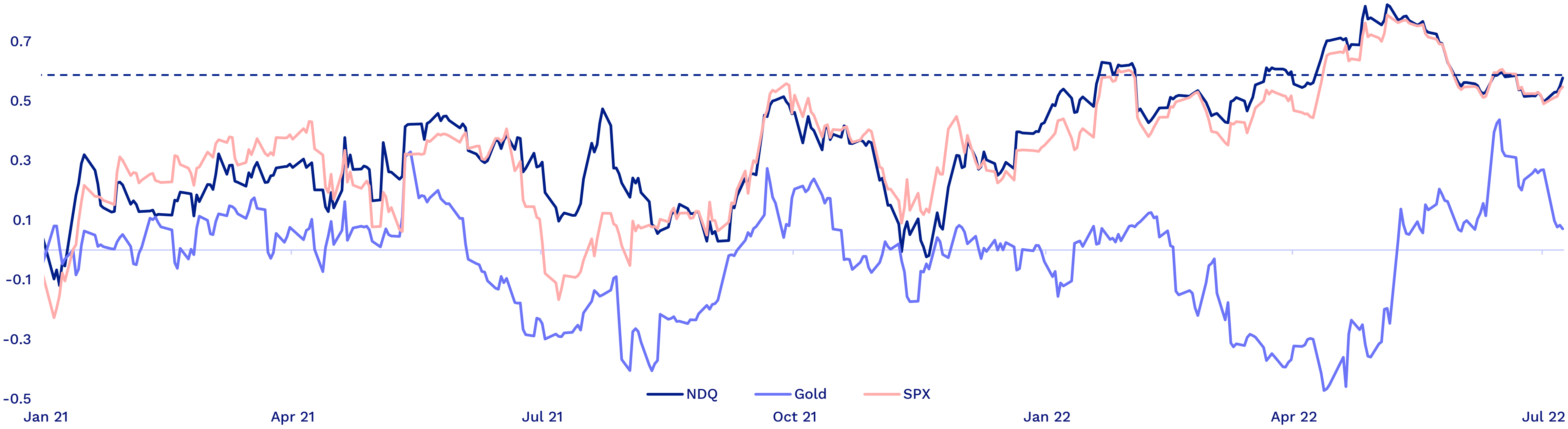
Source: Tradingview (Coinbase)

Correlations between BTC and U.S. equities remains high

Correlations between bitcoin and equities remain high as BTC's 30-day correlation to Nasdaq and S&P 500 stays above 0.5. Following the crypto-specific sell-off related to UST's collapse, correlations have declined from a peak above 0.8. In the period that followed, equities recovered, while bitcoin saw flat returns. However, as the inflation surprise of June 10th reached the market, correlations again grew, while bitcoin plunged and new collapses introduced new layers of unresolved contagion and uncertainty.

Sam Bankman-Fried of FTX noted last week that he thinks that the contagion situation is resolved. As crypto-specific market uncertainty gets resolved, traders should prepare for equity correlations to resume, and we note a slight growth in correlations last week. This week is an important macro week, with the June U.S. CPI release coming up on Wednesday (next slide).

30 day correlations to bitcoin

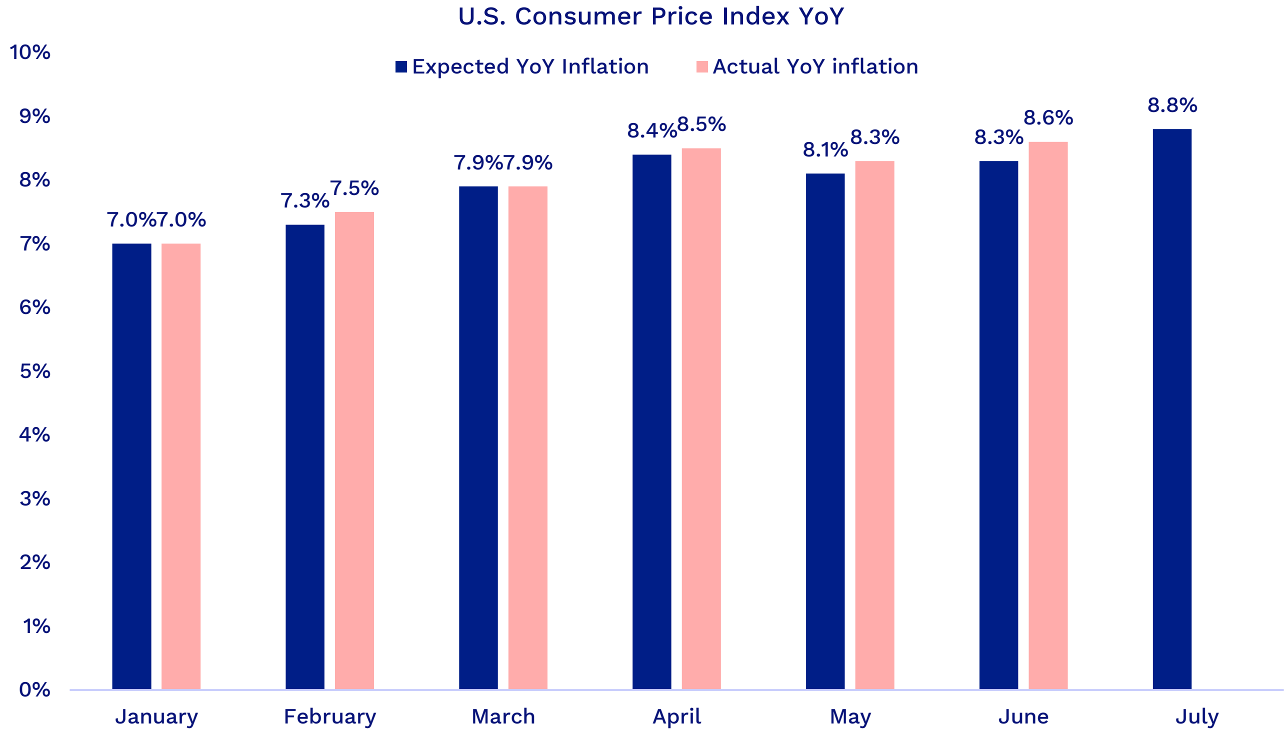


Source: Tradingview

Market bracing for 8.8% CPI print on Wednesday

June U.S. CPI numbers are released on Wednesday. The last release ignited the June sell-off in bitcoin, and the market expects a 40-year high YoY level of 8.8%. Will expectations be right this time?

- On Wednesday, July 13th, the June U.S. CPI inflation numbers will be released, and the market is expecting continued growth of the year-over-year CPI to 8.8%, up from the May year-over-year CPI of 8.6%.
- Earlier this year, U.S. inflation releases have been affiliated with volatile days in the crypto market, with the two most recent CPI releases creating havoc in the market. The above-expected April CPI release on May 11th saw bitcoin plunge by 6%. However, while some of this carnage may be affiliated with CPI, this also occurred during the collapse of UST and Luna, which was likely the key component in BTC's crash then.
- The May inflation release on June 10th, however, surprised the market. After weeks of ranging, this CPI release pushed BTC down 3.4% and became the initial catalyst leading to the liquidation of Three Arrows Capital and the ensuing mayhem in the lending sector. The June CPI release was particularly concerning, as it surpassed the year-over-year peak from April, illustrating that inflation had yet to be contained.
- Now, the market is bracing for further growth in the CPI, expecting new highs of 8.8% YoY.
- Inflation surprises towards the upside lead to enhanced expectations of further tightening of monetary policies by the Federal Reserves. These contractionary policies have a broad impact on equities, and this macro backdrop has been an important factor in bitcoin's bear market since November 2021. Be prepared for volatility following Wednesday's CPI print at 08:30 E.T.



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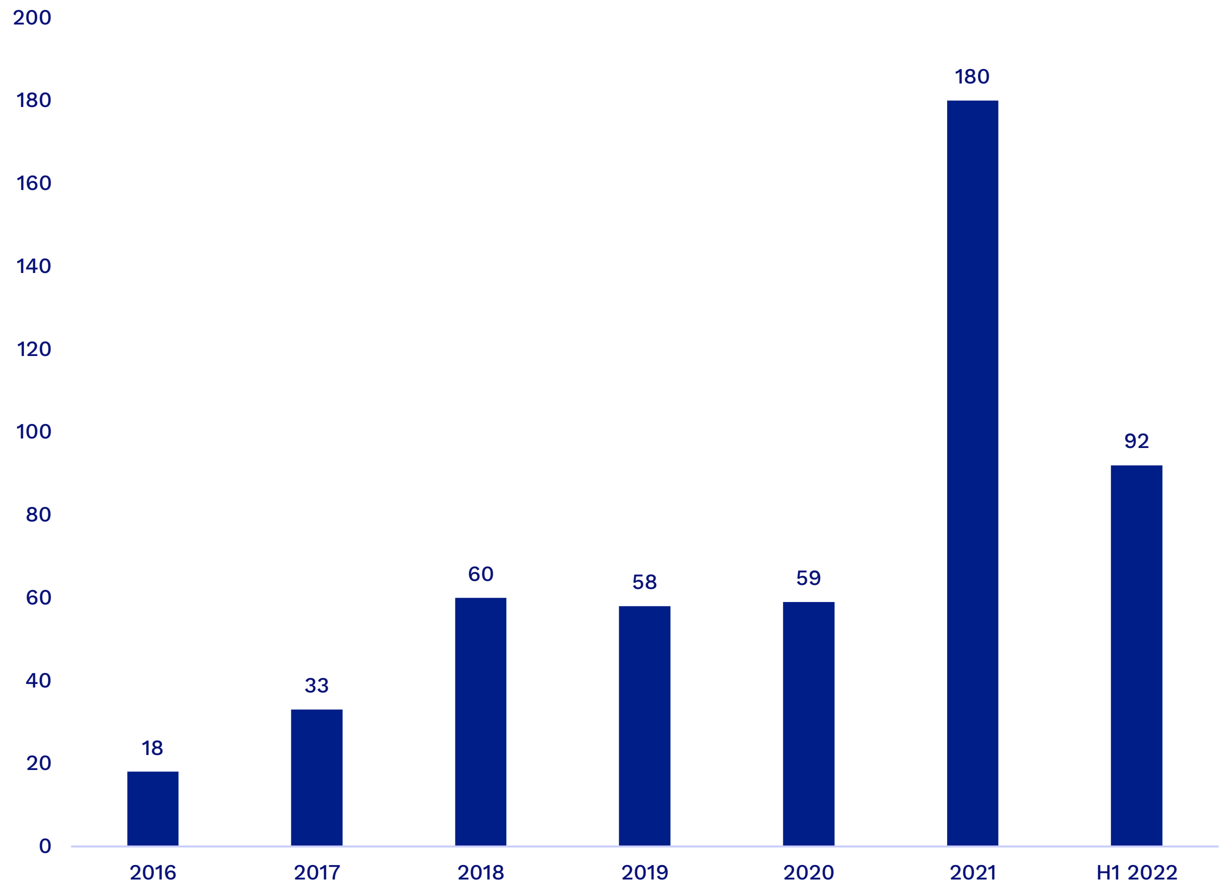
Source: Investing.com, Tradingview

Pace of crypto M&A deals on track with 2021 despite tumultuous times

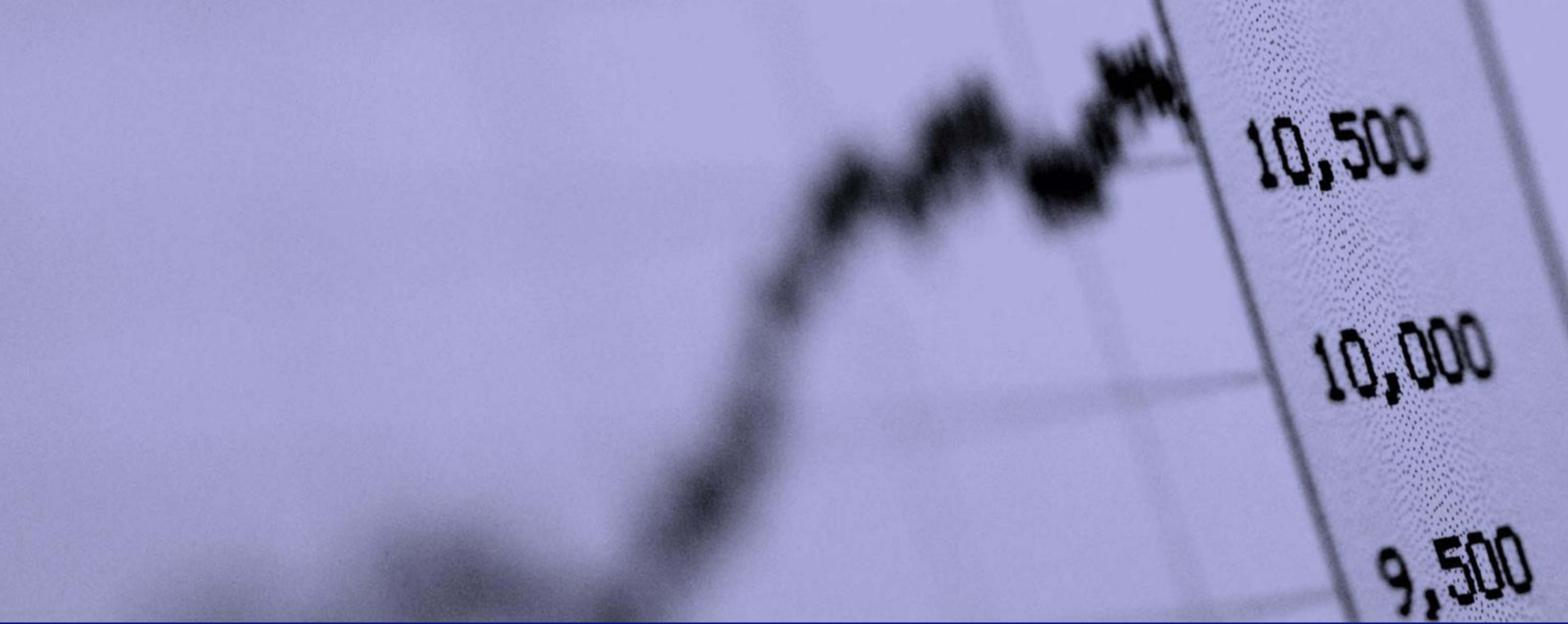
While the first half of 2022 has been a clear bear market in crypto, the pace of the M&A activity in the crypto sector aligns with what we saw in 2021, per a new half-year report published by Architect Partners.

- In a new report, Architect Partners reveal that M&A activity in the crypto market has remained high in 2022. During the first half of 2022, we have seen M&A activity aligning with last year's M&A pace, seeing a total of 92 deals. Assuming a similar growth rate in H2, we can expect 184 deals, slightly above the 2021 total of 180 deals.
- However, Q2 has been a challenging quarter for the crypto market, and it's reflected in a slight decline in crypto-related M&A activity. We saw 48 deals in Q1, 2022, and 44 deals in the second quarter.
- Nevertheless, Architect Partners forecasts growth in distressed M&As in Q3, given the challenging state of the market. Thus M&A activity could still be high as distressed companies may become attractive targets in the coming period.
- Interestingly, the report noted a sharp growth in bridge transactions, i.e., transactions between legacy and crypto businesses. So far into 2022, 49% of all crypto-related M&As have been bridge transactions. This is a substantial growth from 2021, where 28% of the deals were bridge transactions.
- In other words, legacy businesses are accounting for a larger share of the M&A activity in the market, which reflects a long-term positive outlook on the industry, despite the challenging half-year that has passed.

Number of Crypto M&As the Past Seven Years



Source: Architect Partners (as of June 30th)



Valuation

Bitcoin consolidating at 2017 peak for four weeks

Bitcoin has been in narrow consolidation since the early June plunge oscillating around the 2017 peak.

- Bitcoin is still finding strong support at the peak of the 2017 cycle at around $19,500, seeing several weekly closes near or at the 2017 peak levels in recent weeks.
- If the support breaks, the 2019 peak levels of $14,000 may act as the next zone of support, but bitcoin might find support in the $16-17,000 area as well, which acted as resistance during the relief rally in early 2018 and prior to bitcoin's 2020 breakout.
- In recent weeks, bitcoin has been in a narrow trading range between $19,000 and $22,000, with $22,000 acting as resistance on multiple attempts.
- If bitcoin breaks out towards the upside, $28,000 is the nearest strong resistance area for bitcoin, representing the yearly bottom in 2021.
- It remains 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.

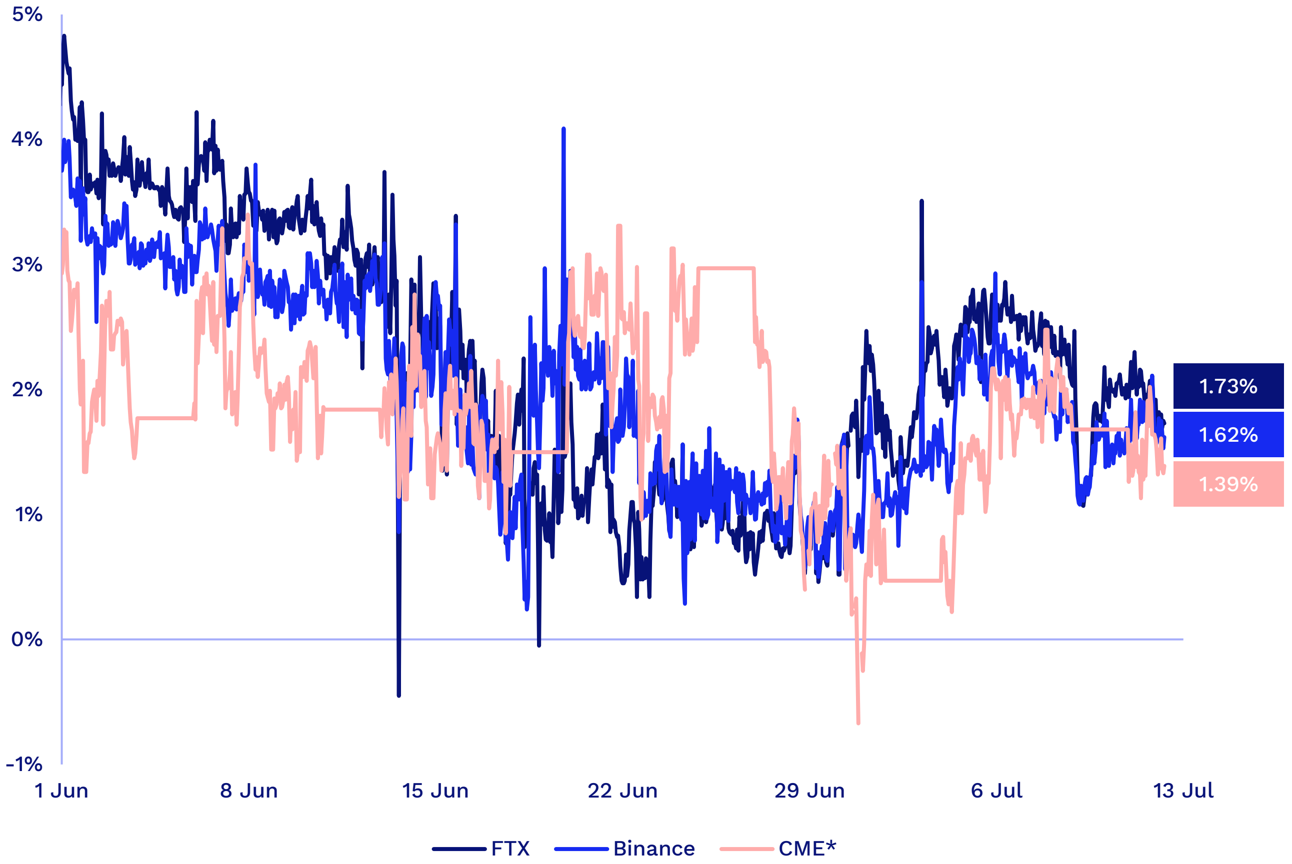
Source: Tradingview (Coinbase)

Offshore basis see sharp decline as BTC fails to breach range highs

The offshore futures basis has declined below 2% as BTC once again trades below $20k after failing to breach range highs last week.

- Both FTX and Binance saw a sharp and sudden decline in their futures premiums following CME's weekend close on Friday, plunging from 2.5% to 1% as BTC began its downward trend from $22,000.
- CME's basis has been fairly stable over the last week, oscillating around 1.5-2%. However, as the broad financial markets experienced a rough day yesterday, the CME basis saw a considerable decline on the Monday open.
- CME's basis was likely helped by BITO seeing strong inflows last week. BITO's BTC exposure has grown to an all-time high, equivalent to 33,000 BTC. However, strong BITI inflows on Monday, July 11th, contributed to offsetting the basis effect. Shorts seem to be piling in as we approach the June CPI release on Wednesday (Slide 10).
- The gap between offshore futures and CME has narrowed over the last week. Overall, yields are extremely low in the market at the moment, as the pessimistic sentiment in the market prevails.

Bitcoin Futures Annualized Rolling 3-Month Basis



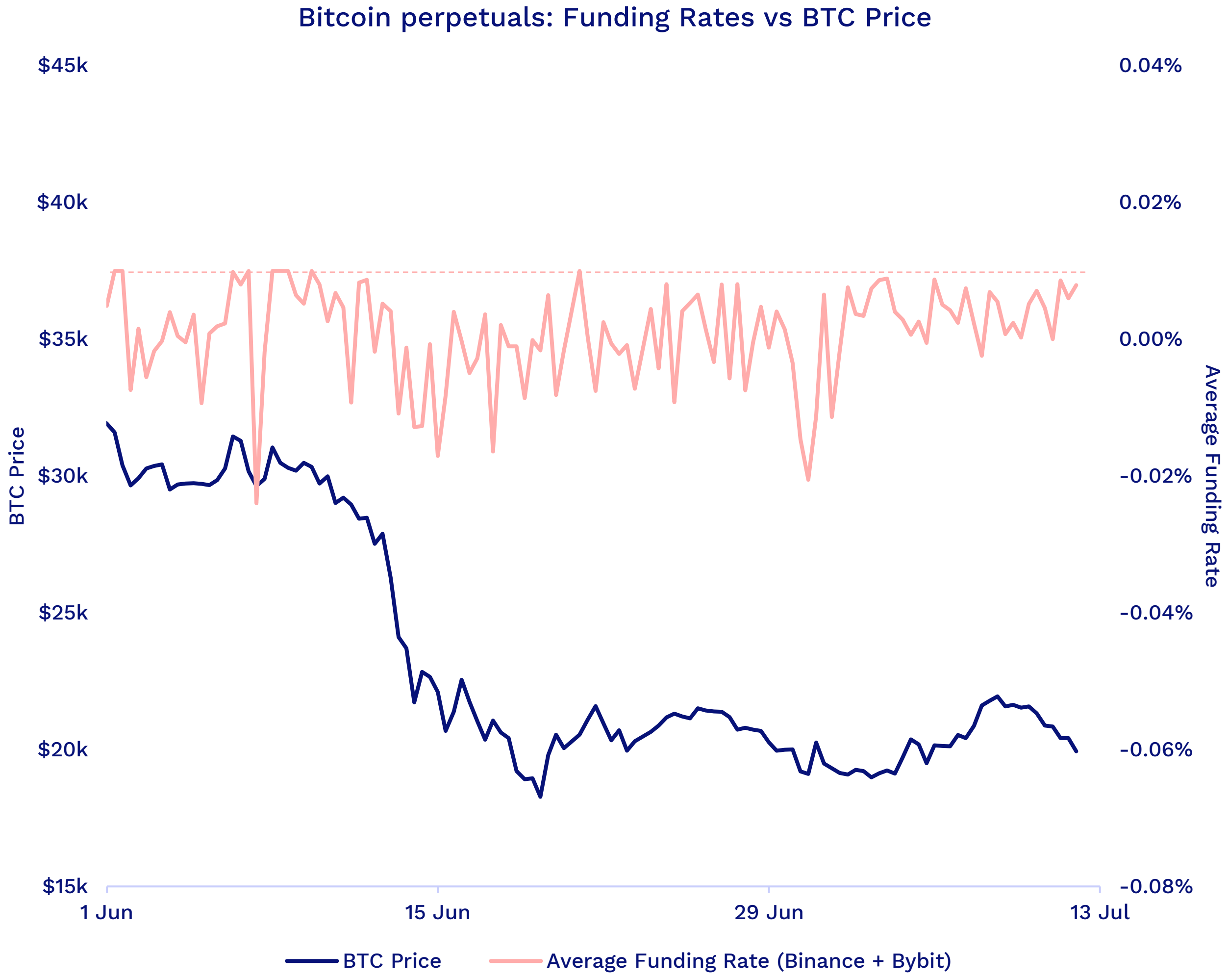
Source: Skew

*Closed Saturday - Sunday

One month of funding rates below neutral territory

The Bybit and Binance perp discount to the spot market remains sticky.

- Funding rates remain below neutral on Bybit and Binance, while we note a massive growth in BTC-denominated open interest in perps last week (next slide).
- The average funding rate of Binance and Bybit has only been neutral on one occasion since BTC's meltdown from $30k, confirming a prevailing cautious sentiment in BTC perps, with perps tending to trade at a discount to spot.
- On par with what we see elsewhere in the crypto market, the continuously low funding rates illustrate the current low yield environment in crypto. It also shows the strong bearish sentiment in the market.
- A Wednesday CPI print below the 8.8% expectation tomorrow might catch shorts offside, which could become an interesting catalyst for short-term positive momentum in the market.



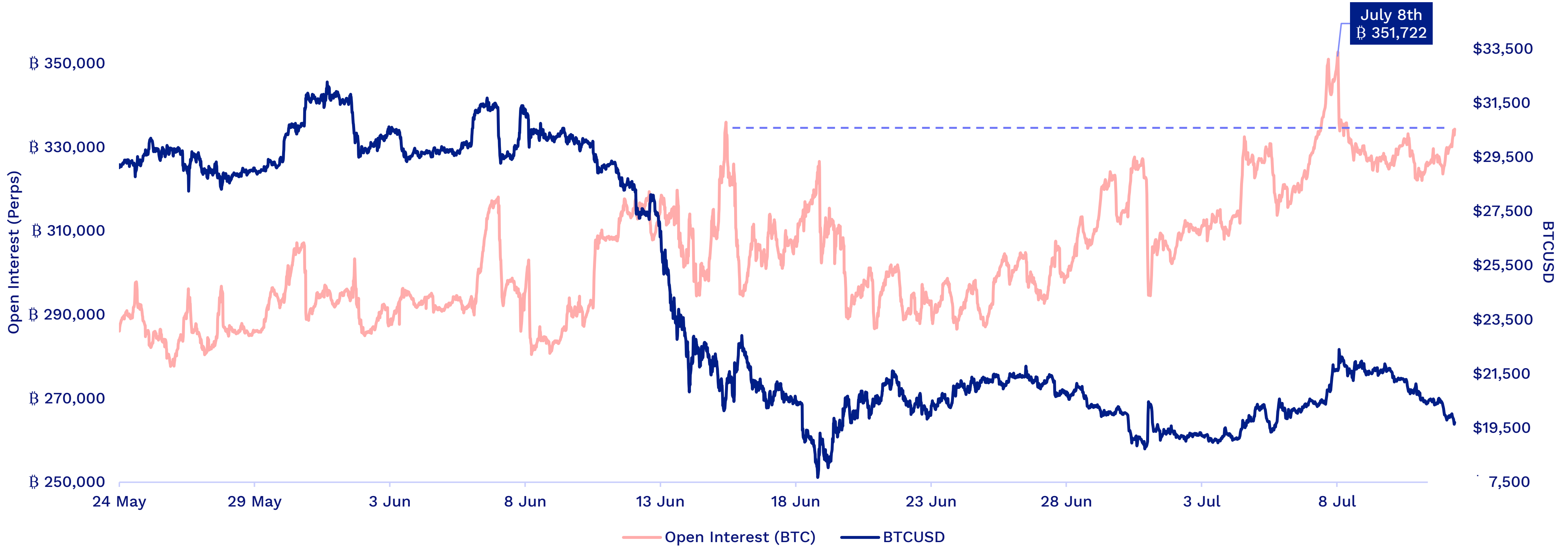
Source: Skew

Open interest in BTC perps surged to a new all-time high on July 8th

and OI still remains on par with June 12th ATH as the market stays leveraged ahead of Wednesday's CPI release

- BTC-denominated open interest in bitcoin perps surged last week towards a new all-time high of 351,722 BTC. The open interest quickly declined in the following days, suggesting traders realized profits as BTC traded at range highs of $22,000.

- The OI surge on Thursday and Friday suggests that the recovery in the market last week was driven by derivatives traders. The sharp decline in the offshore futures basis following BTC's peak further suggests that derivatives traders drove the small recovery.



Source: Skew, Laevitas

Blockchain Activity

Six blocks in six minutes

Second consecutive downward difficulty adjustment as daily miner revenues see further downside.

- The on-chain activity in Bitcoin remains low this week, and the daily miner revenues continue to decline, falling 1.34% over the last seven days to $18.4m.
- The declining miner revenues are driven by a reduced hashrate. Over the last seven days, we saw an average block discovery rate of 5.7 blocks per hour, well below last week's 6.18 blocks per hour.
- The hashrate decline led to bitcoin's second consecutive downward difficulty adjustment last Thursday. Since the block discovery rate has normalized. However, we note that Saturday saw the very unlikely event of six discovered blocks in a 6.5-minute timespan!
- Growing transaction fees contribute to offsetting some of the miner revenue effects from the reduced block discovery rate, as transaction fees see a sharp 44% growth over the last seven days.

Powered by: BYTETREE

		Bitcoin Network Data			
		11/07/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	$ 18,391,460	$ 18,640,410	-1.34%	
	Fees per day	$ 404,688	$ 280,310	44.37%	
	Fees % Revenues	2.20%	1.50%	0.70%	
	Daily TX Volume ($Bns)	$ 3,702	$ 4,054	-8.69%	
	Transactions per day	$ 243,932	$ 248,294	-1.76%	
Utility	Avg TX value $	$ 15,175	$ 16,326	-7.05%	
	# Blocks per hour	5.70	6.18	-7.71%	
	Avg. # TX per block	1,782	1,814	-1.76%	

Source: Bytetree

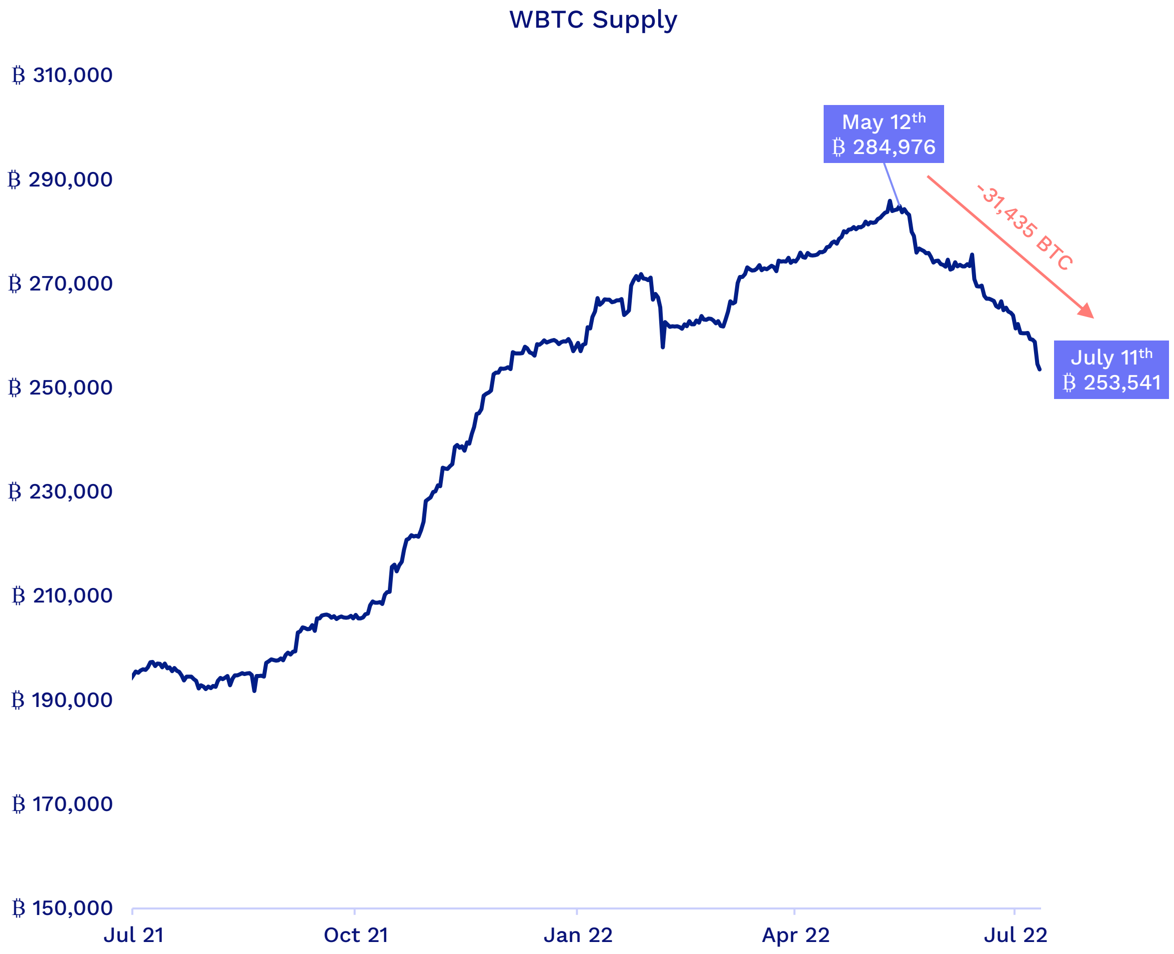
Bitcoin Hashrate (7-day average)

Source: Blockchain.com

Celsius repays its Maker loan and hires restructuring lawyers

Distressed crypto lender Celsius has repaid its Maker loan of $440m, releasing 21,962 WBTC worth of collateral.

- On June 12th, lending platform Celsius halted withdrawals citing challenging market conditions. Celsius had significant exposure to illiquid staked ETH and also staked ETH proxy STETH, in addition to publicly known loans with WBTC collateral through Maker.
- Celsius has recently reshaped its entire board and has hired restructuring lawyers from Kirkland & Ellis LLP, who also serves as restructuring lawyers for Voyager's chapter 11 filing. Additionally, last week Jason Stone filed a lawsuit against Celsius last week related to potential fraud by Celsius.
- Last week, Celsius repaid its Maker debt, freeing 21,962 WBTC worth of collateral. This collateral may be sold OTC to meet creditor demands and customer withdrawals.
- The freed-up WBTC, in addition to Celsius ETH holdings, has been sent to FTX, Binance, and Coinbase wallets, and the wallets have since received stablecoins, possibly to pay off further DeFi debts.
- Since May 12th, the WBTC supply has declined by 31,435 BTC, and it has fallen by 5,000 BTC since Celsius repaid its Maker debt, suggesting substantial WBTC redemptions recently. The circulating WBTC supply has now declined to its lowest level since late November 2021.
- On April 28th, we published an article commenting on the relevancy of the abundant BTC supply available through alternative investment vehicles, pointing fingers at WBTC, Purpose, and GBTC, among other vehicles. Recent events and the current Celsius unwinding confirms that exchange balance is far from sufficient when assessing the full scope of bitcoins market liquidity.



Source: Coingecko

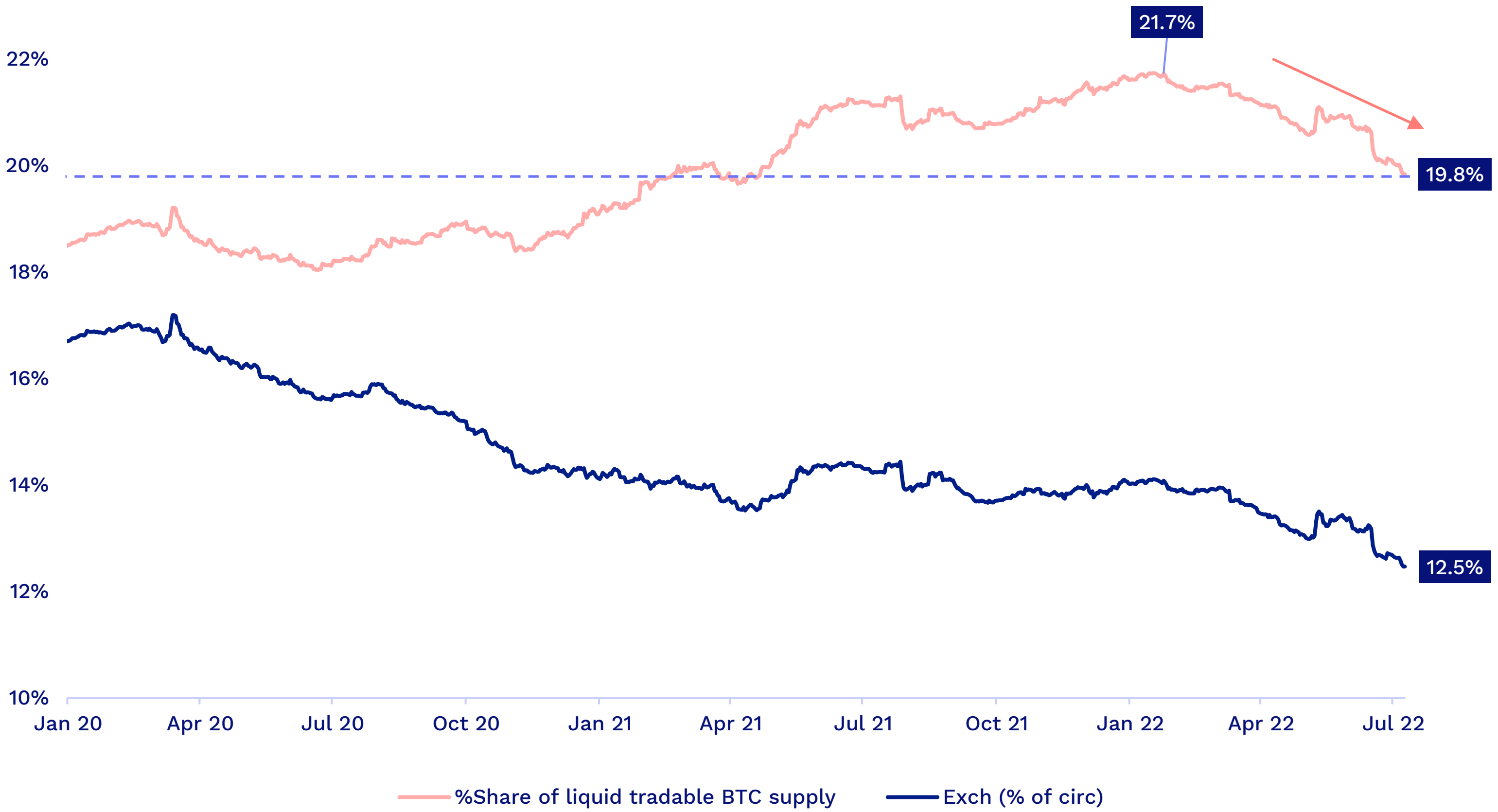
Our liquid tradable BTC proxy below 20% for the first time since April 2021

WBTC and ETF redemptions behind reduction in this proxy

The liquid tradable BTC proxy introduced by us in April has declined to a 15-month low of 19.8% amid the massive redemptions experienced in recent months.

- As mentioned briefly in the previous slide, **we published an article** in April exploring and providing context to why traders should be cautious when interpreting on-chain narratives covering bitcoin.
- While exchange balances have seen a steady and sustained decline, from 17% of the circulating supply to 12.5% in the last two years, our liquid tradable BTC proxy has been far more elevated, reaching highs of 21.7% on January 26th.
- However, since, and in particular, in the last two months, the liquid tradable BTC proxy has seen a sharp decline, falling below 20% for the first time since April 2021.
- This decline is caused by large redemptions in WBTC and the Canadian BTC ETFs, in addition to the declining exchange balances.

Bitcoin liquidity: Exchange Balance vs "Liquid tradable BTC" proxy



Source: Glassnode, Skew, Dune, MicroStrategy, Tesla, Square, Meitu, Aker, Bytetree, VanEck, Proshares, Hashdex, StatusInvest

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