

The Weekly Update

Week 28, 2022



Provided by **arcane**
research

1

Market Update

- It's been a week filled with impactful news headlines, leading volatility to grow. Bitcoin and the overall crypto market have experienced strong momentum over the last week, pushing BTC towards its consolidation range highs of \$23,000.
- The Fear and Greed index has climbed from the extreme fear area after a record-long 74-day streak of extreme fear.
- However, the most remarkable recovery is seen in ETH, seeing an enormous 40% week, pushing ETH above \$1,500, leading the ETHBTC pair to climb to 0.07, levels not seen since mid-May.
- Celsius filed for a Chapter 11 bankruptcy last week, disclosing a \$1.2bn hole in its balance sheet and substantial asset exposure to Celsius' native token.

2

Valuation

- After a promising week with strong momentum, bitcoin faces resistance at the consolidation range high.
- The relief in the market is reflected in growing futures premiums. Offshore premiums align with early July levels but remain compressed, suggesting a prudent sentiment.

3

Blockchain Activity

- Hashrate continues to decline, leading miner revenue to plunge despite climbing BTC prices.
- In June, the public miners sold almost 25% of their bitcoin holdings at fire-sale prices.



Source: Tradingview

Massive Ethereum momentum

- The crypto market sees a strong recovery this week, with bitcoin making a push to its consolidation range highs of \$22,000. However, the most remarkable recovery is seen in ETH, seeing an enormous 40% week, pushing ETH above \$1,500 and the ETHBTC ratio to May levels ([slide 9](#)).
- It's been a week filled with price-driving news headlines, leading volatility to grow. Another inflation surprise kicked in as U.S. June CPI printed 9.1%, well above the expected 8.8%. While this initially negatively affected the market, statements in favor of a 75bps rate hike from FED's Bullard injected slight optimism to bitcoin and U.S. equities.
- BTC's correlation to U.S. equities tends to grow amid important macro events. This is also evident this week, as BTC's correlation to the S&P sees further growth. The 90-day correlation peaked at 0.655 last week, near the all-time highs from early May.
- Further, Celsius' Chapter 11 filing and the release of legal documents related to the Three Arrows Capital creditors erased some crypto-specific uncertainty from the market. Alongside the progress in Ethereum's merge, this has likely been the key driver of ETH's and ETC's remarkable gains.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Ethereum Classic	24.44	71.9%	77.8%	-28%
Polygon	0.90	59.3%	159.2%	-65%
Ethereum	1525.73	39.0%	53.3%	-59%

Worst Performing	Price	Last week	Last month	YTD
LEO Token	5.21	-2.7%	3.3%	37%
TRON	0.068	5.4%	12.0%	-11%
Dogecoin	0.066	7.3%	24.9%	-61%

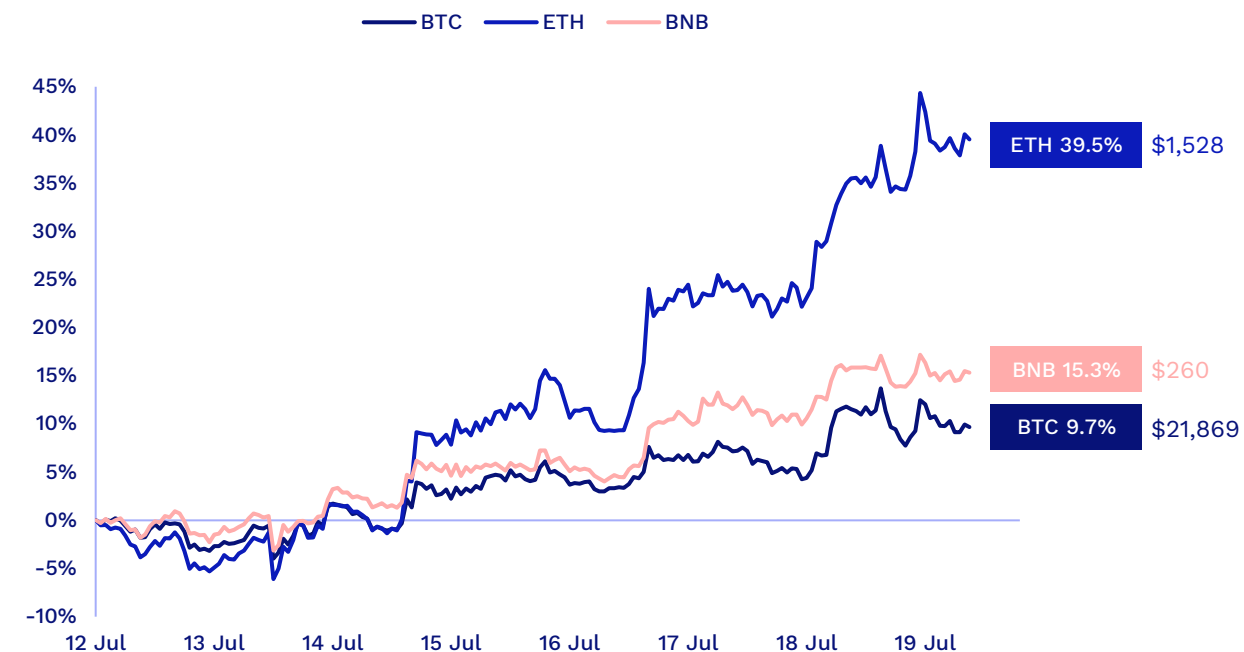
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.908	-0.012	0.158	0.005	0.643	0.019

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



Large caps outperform as ETH dominance see massive growth

The sharp recovery of ETH leads the Large Cap index to outperform the rest of the market while the BTC dominance see a sharp decline.

- The strength of Ethereum has pushed the Large Cap index to see 28% MTD gains, vastly outperforming the rest of the market.
- The other altcoin indexes also see a strong week, with both Mid Caps and Small Caps seeing 19% gains three weeks into July.
- Bitcoin, on the other hand, is underperforming the rest of the crypto market, seeing 12% gains so far this month.
- Bitcoin's relative underperformance is reflected in a large decline in BTC's market dominance, falling 1.59% in the last seven days. Furthermore, stablecoins are experiencing a massive reduction in their market share, which is to be expected as the total altcoin market experience buoyancy.
- Ethereum's strength has caused its market share to soar by 3.41% in the last seven days. Other major altcoins see their market share aligning with last week's levels. This suggests that we're currently seeing a rotation from BTC and stables into ETH, with smaller altcoins enjoying the general uptrend in the market.

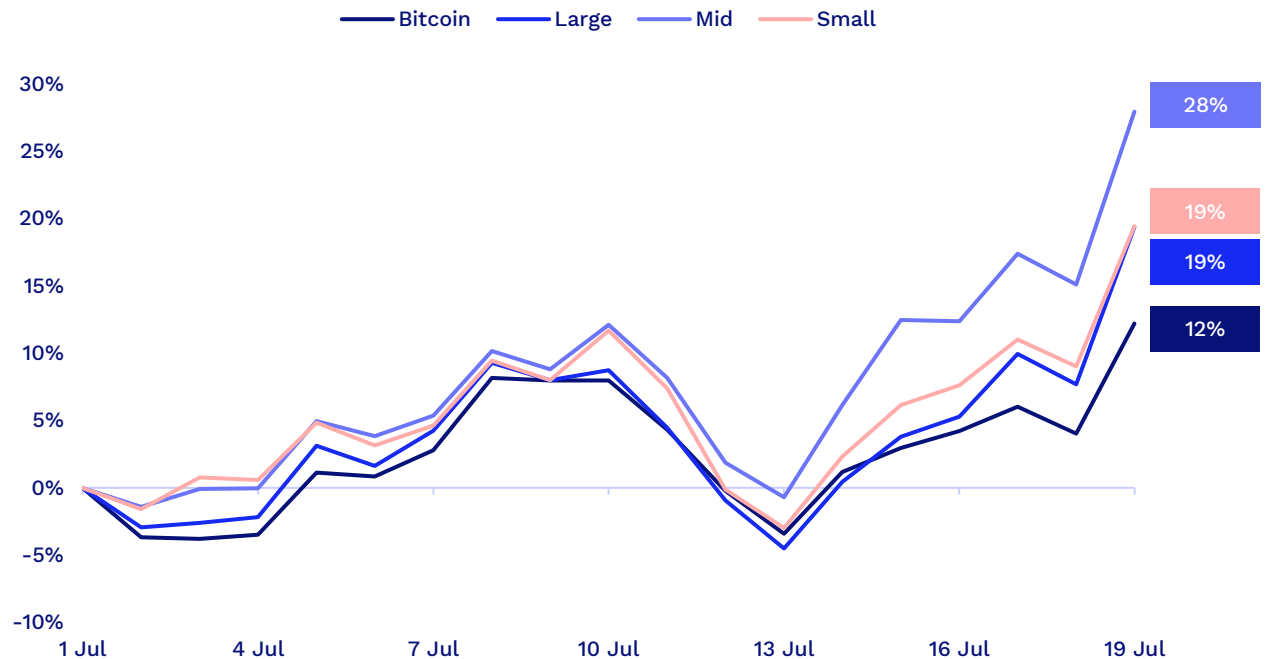
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	XRP	ADA	SOL	DOGE
Market Share	41.23%	18.22%	6.47%	5.38%	4.16%	1.72%	1.70%	1.61%	1.47%	0.87%
Weekly Change	-1.59%	3.41%	-0.98%	-0.90%	0.02%	-0.26%	-0.02%	-0.05%	0.16%	-0.06%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)



74-day streak of extreme fear finally broken

The Fear and Greed index has climbed from the extreme fear area after a record-long 74-day streak of extreme fear. This push is affected by the strengthening momentum in the market and the Ethereum rotation noted in the previous slide. While the sentiment is improving, the Fear and Greed index remains deep in the fearful territory, and other viable sentiment indicators from the derivatives market suggest that market participants still exercise caution ([Slide 14](#)).

Fear and Greed Index

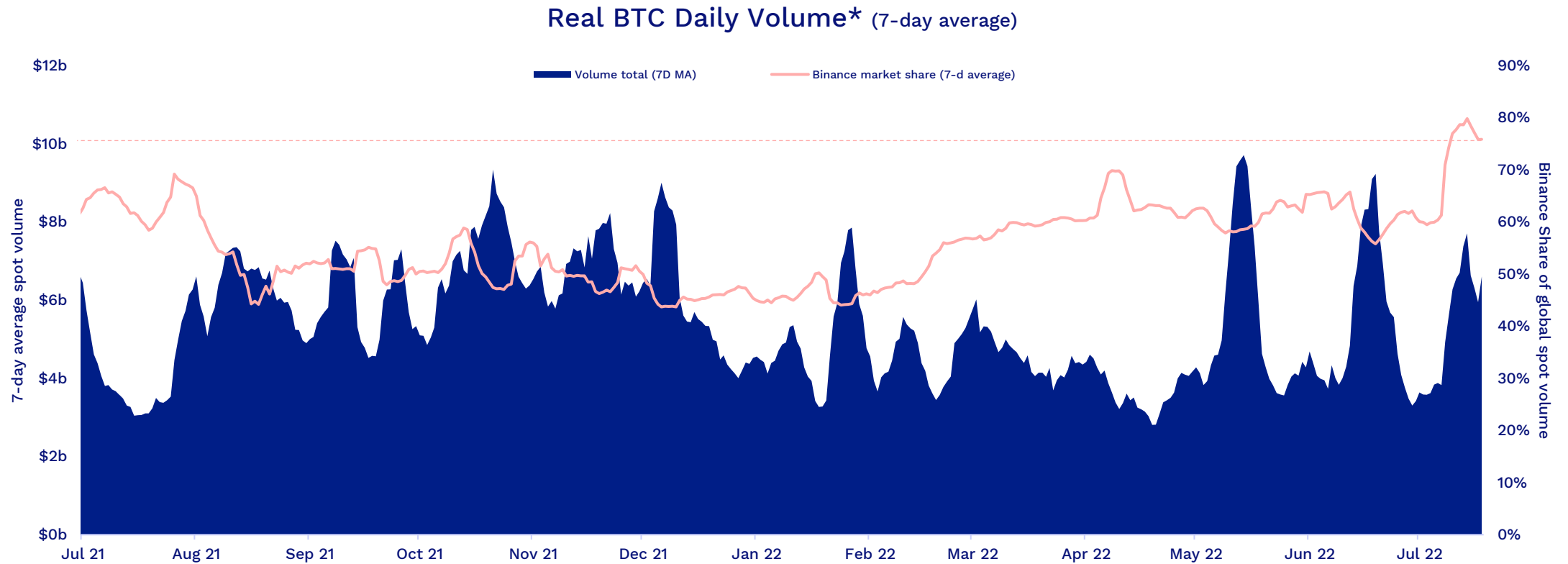


Source: Alternative.me



Binance's fee elimination leads volume to stay elevated

The bitcoin spot volume stays high, and Monday, July 18th, saw \$10bn worth of bitcoin changing hands, while the 7-day average trading volume sits at a respectable \$6.6bn. Nevertheless, this high volume remains fueled by Binance's no-fee BTC trading environment. In the last seven days, Binance has accounted for 76% of the global bitcoin spot volume, compared to the earlier market share of Binance, ranging from 50-60%. Outside of trading activity on Binance, spot volume remains muted.



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

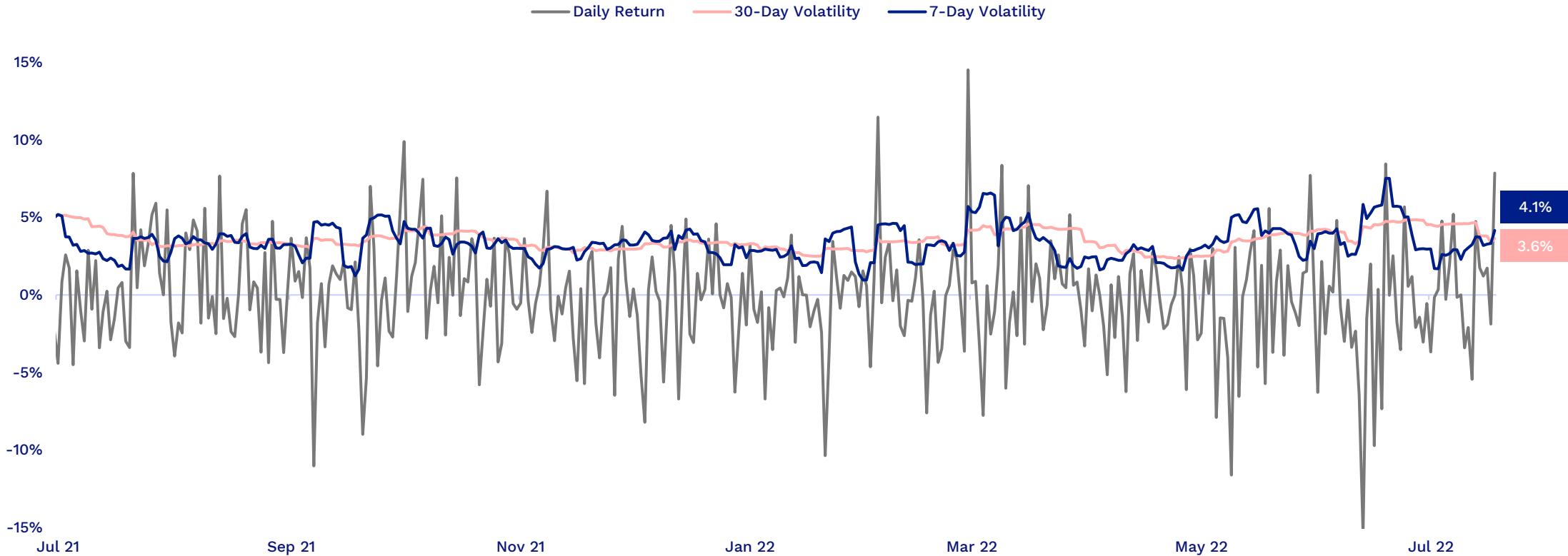
*Includes Bitwise 10 exchanges, LMAX, FTX.



Volatility climbs higher

Bitcoin's volatility remains high as bitcoin's 7-day volatility climbs to 4.1%. The current volatility in bitcoin is high compared to the volatility seen during the summer of 2020 and 2021. Several important price-driving news headlines influence this elevated volatility. While volumes remain comparable to the last summer (when excluding the Binance surge), the hectic news cycle and reduced liquidity contribute to elevating the volatility.

BTC-USD Volatility



Source: Tradingview (Coinbase)



Increased risk appetite?

ETHBTC recovers to May levels

Ethereum has seen a sharp recovery over the weekend, leading the ETHBTC pair to climb to 0.07, levels not seen since mid-May.

- The crypto market has seen a strong recovery over the weekend, with Ethereum's performance being particularly impressive, leading the ETHBTC pair to surge from 0.053 on July 12th to 0.07 on July 19th.
- ETH's newfound strength might be related to increased risk appetite in the market, evident by sharp altcoin recoveries across the board as the bitcoin dominance plunges to its lowest level since May 13th.
- On Thursday, July 14th, the Ethereum Foundation member Tim Beiko suggested Sept 19th as the tentative launch date for the merge. This might have benefited ETH, leading to last week's surge. Following the announcement, Lido's staked ETH token has neared ETH parity.
- In addition to the merge and increased risk appetite, structural effects might have also contributed to lifting Ether. Last week, Celsius repaid its DeFi loans. This contributed to reducing the downward gravitational pull enforced by potential liquidations and contagion-related uncertainty.
- Contagion seems to be resolving now, with prices stabilizing. This recovery may be viewed as a healthy confirmation of the market normalizing as market stress settles down.



Source: Tradingview (Coinbase)



Celsius files for bankruptcy, noting a \$1.2 billion balance sheet hole

Celsius filed for a Chapter 11 bankruptcy last week, disclosing a \$1.2bn hole in its balance sheet and substantial asset exposure to Celsius' native token.

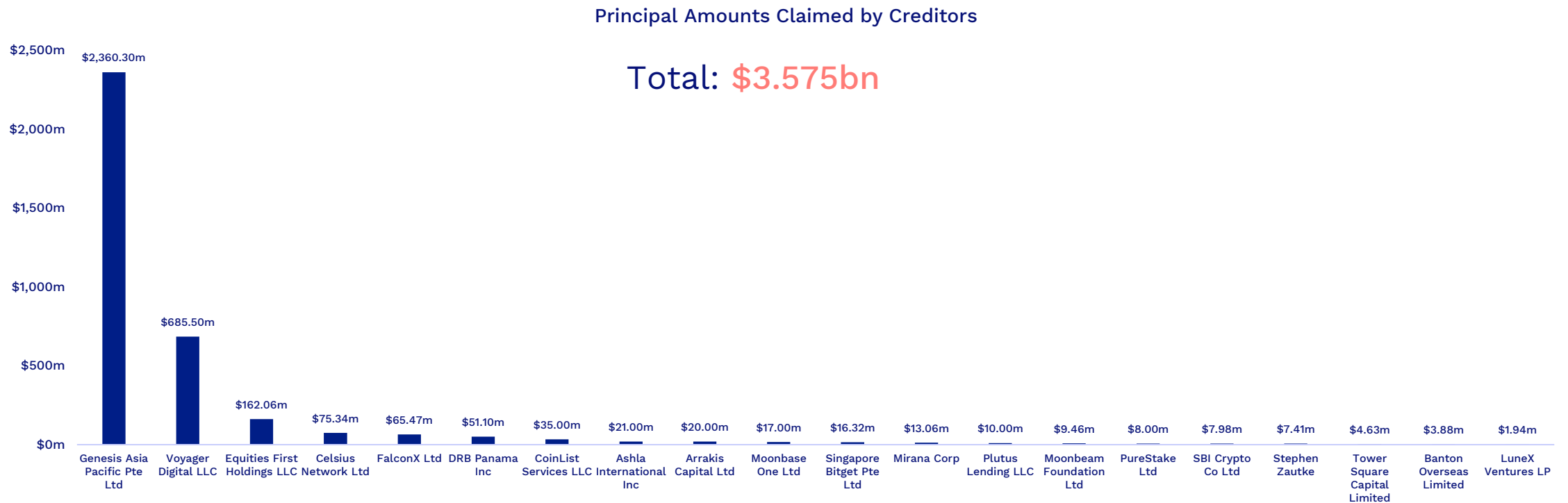
- Last week, Celsius became the second crypto lender to file a Chapter 11 bankruptcy a month after blocking withdrawals.
- Celsius reportedly has \$167m cash at hand, which they seek to use during the reorganization after the Chapter 11 filing.
- The bankruptcy filing disclosed Celsius' largest creditors, with Pharos USD Fund SP being the largest creditor with an unsecured claim of \$81m.
- Later documentation revealed a \$1.2 billion hole in Celsius' balance sheet, with \$5.5bn in customer liabilities and \$4.3bn worth of assets, of which \$600m is related to the company's CEL holdings and \$720m is related to Celsius' mining branch.
- Per previous reports, Celsius Mining, has invested in mining equipment and equity investments in Core Scientific, Rhodium Enterprises, and Luxor Technologies. As of November 2021, Celsius stated that they had an operational mining fleet of about 22,000 bitcoin ASIC miners. The substantial hashrate decline experienced recently may be caused by Celsius' restructuring.
- In addition to Celsius' and Voyager's Chapter 11's, Vault and Babel Finance have frozen withdrawals. Recently leaked documents illustrate the impact of Three Arrows Capital's collapse on other creditors ([next slide](#)).



Court document shed light on Three Arrows Capital's vast claims

Three Arrows Capital's creditors lent the fund \$3.5bn. Genesis Asia Pacific is the largest creditor, having lent \$2.3bn to the now bankrupt fund.

- A massive [1157-page legal document](#) covering the 3AC liquidation was published yesterday, showing that 27 firms had lent Three Arrows Capital \$3.575bn, with Genesis being the biggest creditor. Genesis has stated that the firm has no remaining exposure to Three Arrows Capital after Digital Currency Group took on some of Genesis' liabilities.
- Now bankrupt broker Voyager is the second-largest creditor with a \$685.5m claim on Three Arrows Capital.



Source: Leaked Affidavits





Valuation



Bitcoin faces resistance at range highs of \$23,000

After a promising week with strong momentum, bitcoin faces resistance at the consolidation range high.

- Bitcoin has now remained in a consolidation range around the \$20,000 area since June 12th, but promising price action in recent days has lifted BTC towards range highs.
- Bitcoin faced difficulties breaching the consolidation range high of \$23,000 at the first attempt but is showing promising momentum as bitcoin is finding support at previous resistance levels around the \$22,000 area.
- If bitcoin manages to break through \$23,000, \$25,500 represent the next key resistance area, marking the capitulation candle amid the LUNA collapse. The next important resistance area for bitcoin is found at \$28,000, the yearly low level of 2021.
- Towards the downside, \$19,000 represent an important support level held throughout July.
- In general, BTC remains in a choppy environment, within a prolonged trading range in an environment that is difficult to trade. A bullish breakout in this environment may cause shorts offside, creating room for further upside.



Source: Tradingview (Coinbase)

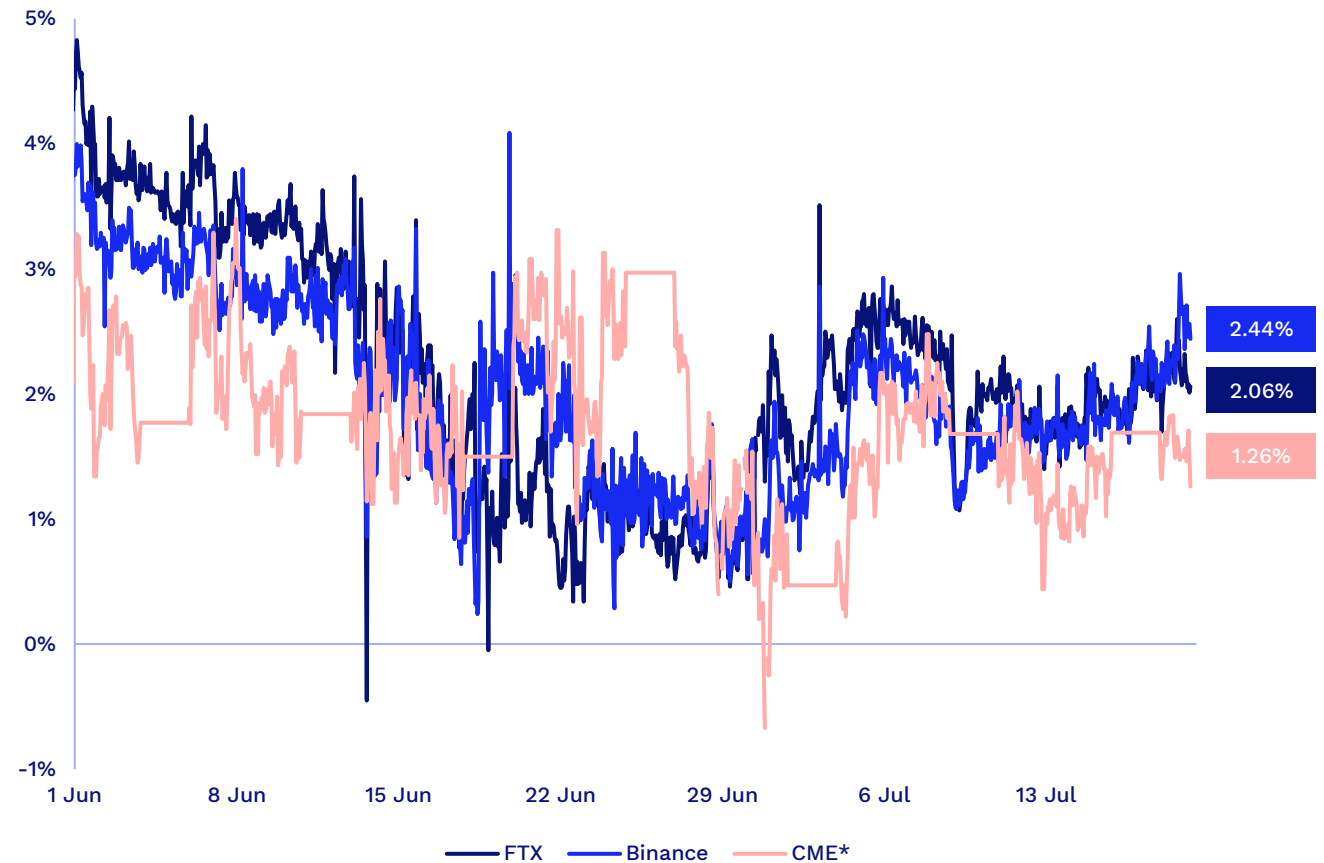


Offshore premiums see slow and steady growth

The relief in the market is reflected in growing futures premiums. Offshore premiums align with early July levels but remain compressed, suggesting a prudent sentiment.

- As seen in late June, BTC pushing towards the higher end of its consolidation range contributes to elevating the futures basis, suggesting a growing willingness to long amid strength.
- This has contributed to lifting the offshore basis above 2%, in line with the premiums seen in early July. Still, while this suggests an improved sentiment, these premiums remain near historic lows.
- CME's basis, on the other hand, remains flat compared to last week, trailing near 1.5% as institutional traders still remain cautious on adding exposure. CME's sluggish basis is impacted by outflows from BITI equivalent to 1265 BTC in the last week, creating some sell-side pressure in the CME futures.
- Overall, the futures basis remains largely unchanged, with minor daily variations. The slight and steady increase over the last week offshore suggests a gradually improving sentiment as momentum strengthens.

Bitcoin Futures Annualized Rolling 3-Month Basis



Source: Skew

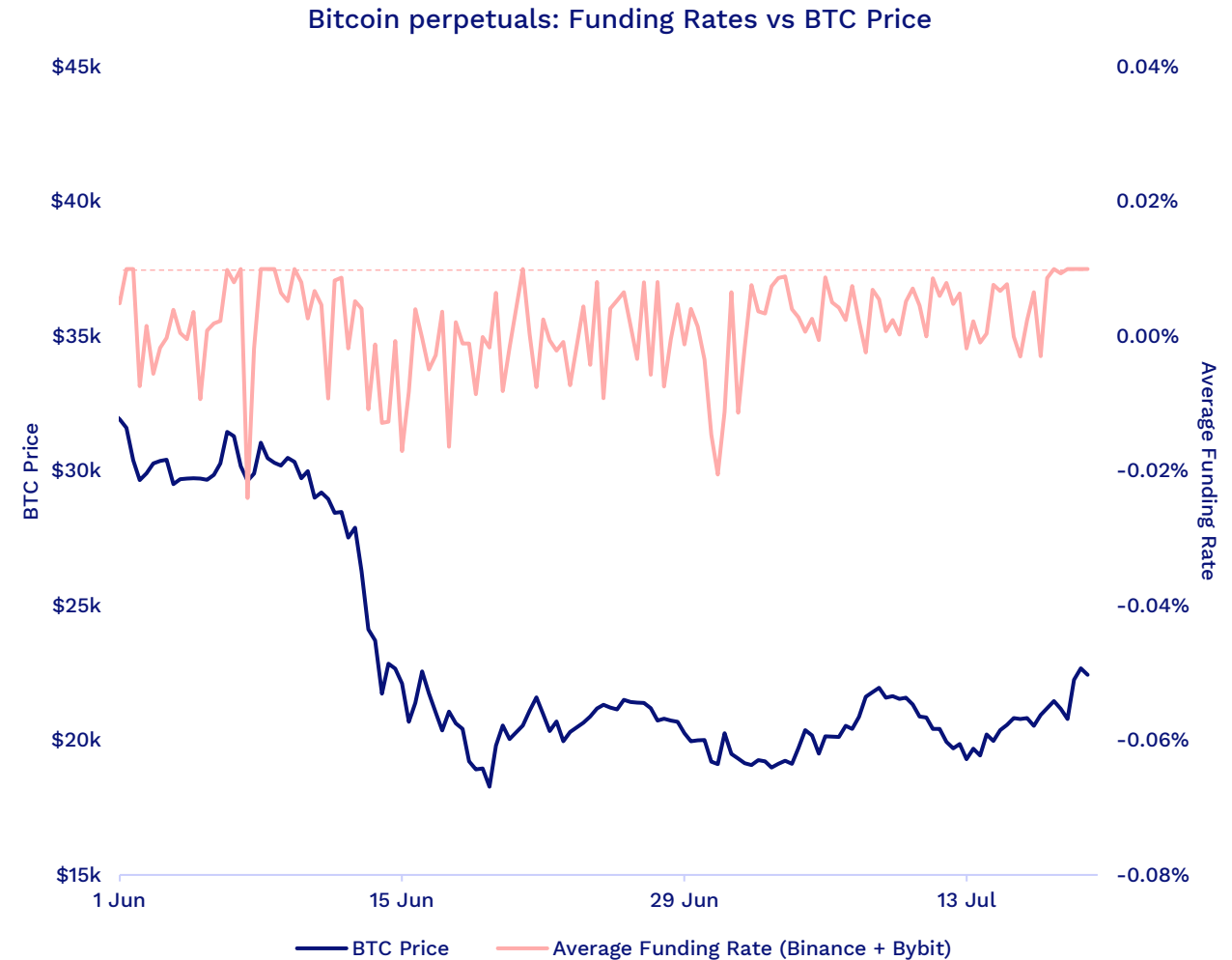
*Closed Saturday - Sunday



Funding rates reaches neutral levels as market conditions normalize

As BTC regains its trading range highs, funding rates have normalized at neutral levels.

- The funding rates at Binance and Bybit have reached neutral levels of 0.01% as BTC recovers towards range highs.
- This is the first occurrence of sustained neutral funding rates in perps since early June, and it suggests that sentiment is improving.
- It further indicates that uncertainty related to bankruptcies and contagion is reduced in the market, with more market participants willing to long, leading perp prices to align with spot.
- Open interest in perps saw a sharp uptick Monday morning but then declined substantially as BTC pushed below \$22,000. The current BTC denominated open interest in BTC perps aligns with the levels reported last week. Thus, leverage remains elevated, albeit with few alarming developments during the recent strength.



Source: Skew, Bybit





Blockchain Activity



Hashrate plunges to March lows

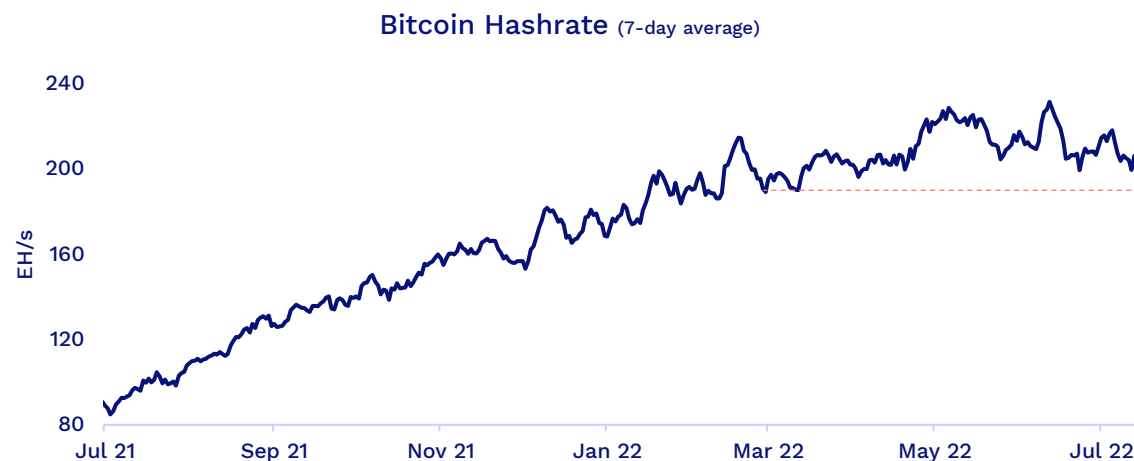
Largest negative difficulty readjustment since July 2021 scheduled on Thursday

Hashrate continues to decline, leading miner revenue to plunge despite climbing BTC prices.

- The last week has seen a block discovery rate of 5.53 blocks per hour, far below the 6 blocks per hour target of the bitcoin network, as BTC's hashrate declines towards March lows.
- This will likely lead to a third consecutive negative difficulty adjustment on Thursday. The upcoming difficulty adjustment is estimated to a difficulty reduction of 5.9%, according to BTC.com. This would be the largest percentage decline in difficulty since July 3rd, 2021, a period that saw massive consecutive downward difficulty readjustments due to the Chinese mining ban. This indicates that large miners struggle to maintain operations amid the pressuring market conditions.
- The reduced hashrate is reflected in reduced miner revenues in the last week, falling to \$17.7m. This is the lowest weekly miner revenue we've recorded as long as we've been tracking Bytetreer's miner revenue approximation.
- While the block production rate has seen a substantial fall, transaction fees have risen. This suggests that there is a high demand for block space. On Wednesday evening, July 13th, the median block fee rates reached a 1-year high of 29 sats/vByte, while the median transaction fee on Thursday, July 14th, averaged at 0.00011 BTC, the second-highest average transaction fee in 2022.

Powered by:		Bitcoin Network Data			
BYTETREE		18/07/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	\$ 17,686,174	\$ 18,429,009	-4.03%	
	Fees per day	\$ 457,737	\$ 406,490	12.61%	
	Fees % Revenues	2.59%	2.21%	0.38%	
	Daily TX Volume (\$Bns)	\$ 3,733	\$ 3,720	0.35%	
	Transactions per day	\$ 246,860	\$ 244,610	0.92%	
Utility	Avg TX value \$	\$ 15,121	\$ 15,207	-0.56%	
	# Blocks per hour	5.53	5.71	-3.23%	
	Avg. # TX per block	1,860	1,843	0.92%	

Source: Bytetreer



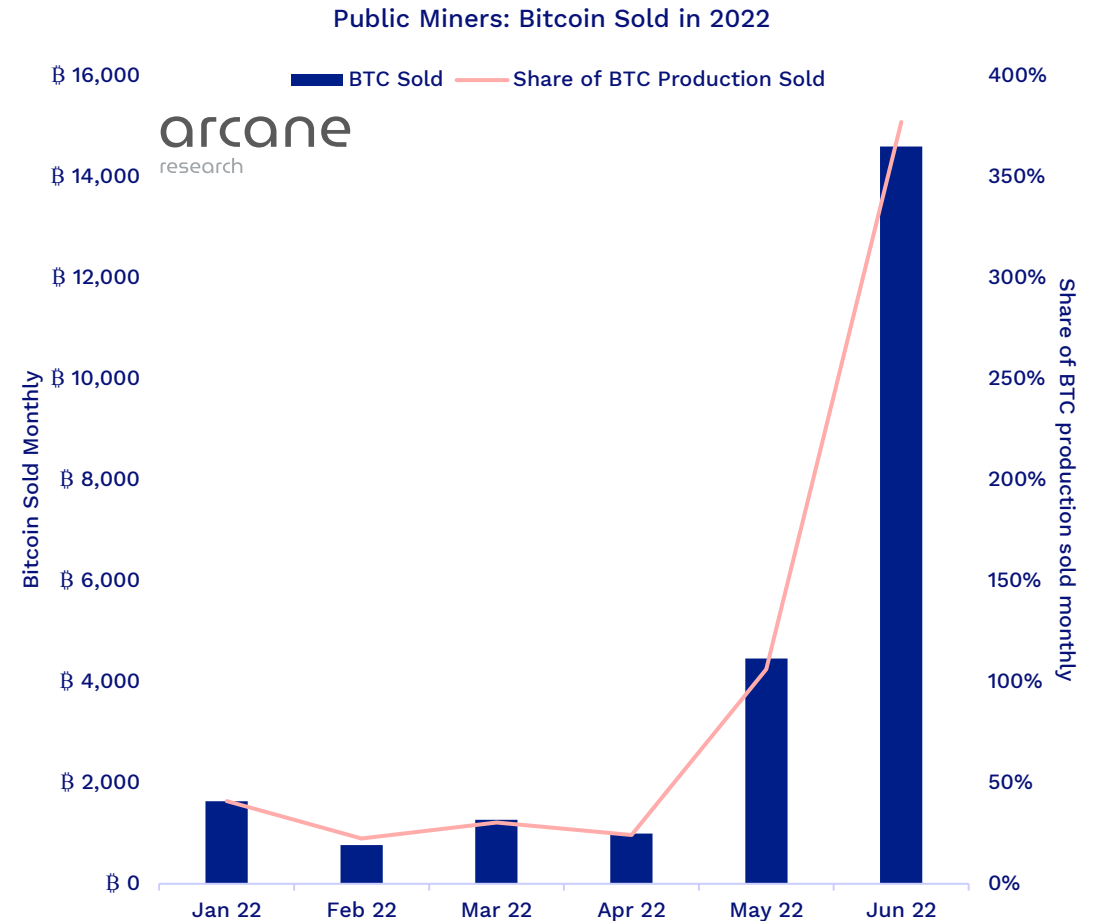
Source: Blockchain.com



Public miners sold nearly 25% of its BTC holdings in June

In June, the public miners sold almost 25% of their bitcoin holdings at fire-sale prices.

- The public miners only sold between 20% and 40% of their bitcoin production from January to April this year, as most of them strived to keep the produced bitcoin as part of their "hodl-at-any-cost" strategy.
- This strategy worked until the bitcoin price plunged from \$40k to \$30k in May. The bitcoin price decline spurred financial difficulties that forced the miners to start liquidating their precious bitcoin holdings, and May was the first month where they sold more than 100% of their production.
- Many were shocked by the public miners' massive bitcoin sales in May, but in June, they sold about 14,600 bitcoin – almost four times as much as in May. The public miners only produced 3,900 bitcoin this month, meaning they sold almost 400% of their production, ultimately draining their bitcoin holdings by nearly 25%.
- Some miners sold most of their bitcoin holdings in May and June, while others managed to hold onto their coins. Core Scientific has been the largest bitcoin seller by far, dumping almost 10,000 bitcoin in May and June. Core Scientific started selling in May but stepped up in June when they sold more than 7,000 bitcoin.
- Bitfarms has been the second-largest bitcoin seller during this bear market, selling 3,353 bitcoin in June. The German company Northern Data is the third-largest seller after dumping the entirety of its bitcoin and ether holdings in May and June.
- Most miners have increased their bitcoin sales recently to free up liquidity on their balance sheet, as they need dollars to pay for upcoming infrastructure upgrades and machine deliveries. We dig further into the mining selling pressure [here](#).



Source: Monthly production updates



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