

The Weekly Update

Week 29, 2022



Provided by **arcane**
research

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Market Update

- Bitcoin's recent strong momentum stalled in the middle of last week, and the price has decreased by 6% over the past seven days. Still, the price remains firmly within the \$19k - \$22k consolidation range.
- The Fear and Greed Index briefly hit a high of 34 last week as the strong recovery in the crypto market spurred increased optimism among investors.
- Large institutions have sold at least 236k BTC over the past two months, leading to selling pressure that has pushed the bitcoin price down. Are the contagion effects over for now?
- The bitcoin bear market has pushed mining stock valuations to rock bottom. Which mining stocks are the most undervalued?

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Valuation

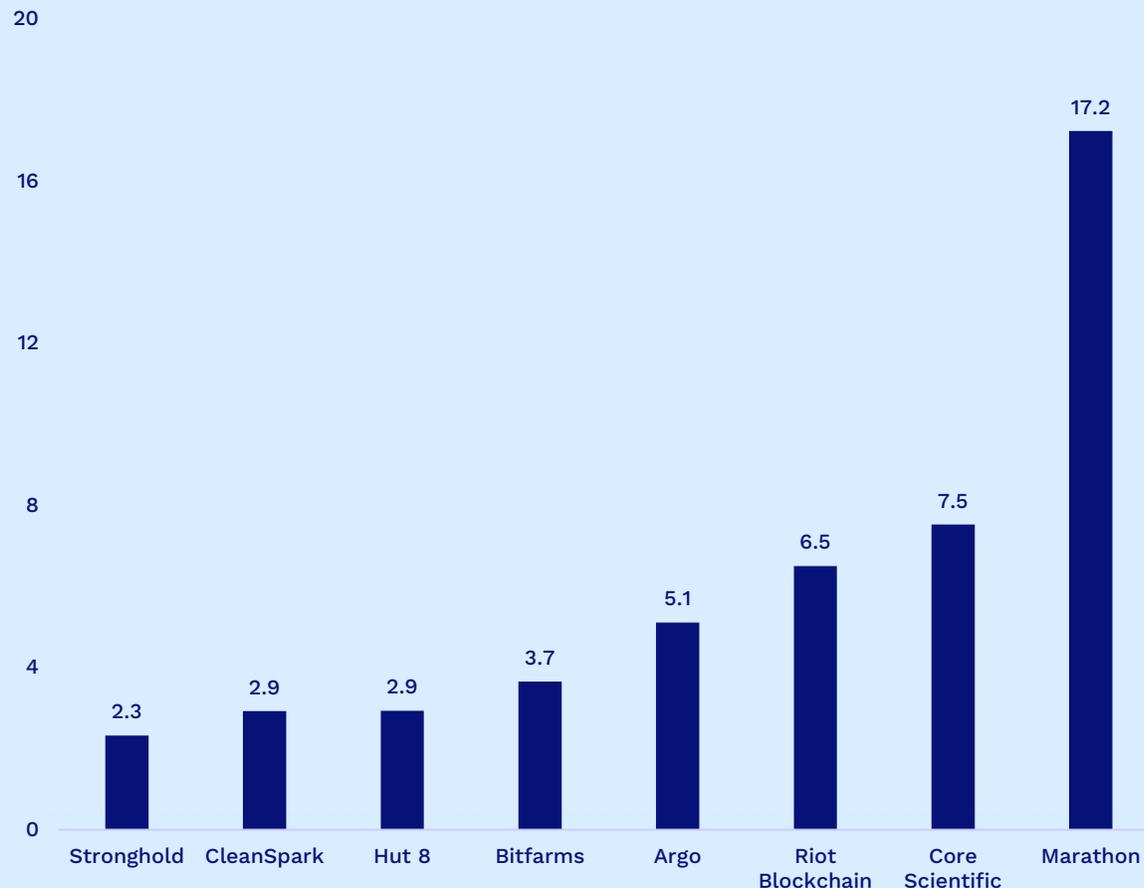
- Bitcoin keeps trading in its narrow and strong consolidation range, hovering between \$18k and \$24k for more than one month.
- Basis premiums are now sitting at similar levels on CME and the offshore exchanges, indicating that the market sentiment is balanced among different groups of traders.

3

Blockchain Activity

- The daily miner revenues are now back above \$20 million, seeing a 15% growth over the past seven days. The bitcoin miners welcomed this revenue growth, as some of them were in danger of bankruptcy.
- Last week Bitcoin reduced its mining difficulty by 5% - its largest downwards difficulty adjustment in one year. The difficulty is now down 11% from the peak in May.

Bitcoin Mining Stocks Valuation: EV / EBITDA



Source: Tradingview

The crypto market momentum stalls

- Bitcoin's recent strong momentum stalled in the middle of last week, and the price has decreased by 6% over the past seven days. Still, the price remains firmly within the \$19k - \$22k consolidation range.
- As idiosyncratic risk related to contagion effects has calmed down, the crypto market is now back to eyeballing the decisions of the Fed. In Wednesday's FOMC meeting, the FED will decide how to deal with the ever-rising CPI numbers, which exceeded expectations at 9.1% for June. The market expects the Fed to increase its funds rate by 75bps.
- Arguably, last week's most significant happening in the crypto market was Tesla announcing that they sold 75% of their bitcoin holdings in the second quarter. The bitcoin price barely reacted to the news, indicating that Elon Musk's price-driving powers have weakened from 2021.
- During the past seven days, we have seen price declines for all the top 50 cryptocurrencies by market cap. Most of these coins have seen between -0% and -10% price movements during this period. This has led to significant increases in the market dominance of stablecoins ([next slide](#)).

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
OKB	14.82	-0.1%	10.3%	-49%
Cosmos	9.39	-1.9%	8.3%	-76%
ApeCoin	5.81	-2.7%	27.5%	-56%
Worst Performing	Price	Last week	Last month	YTD
Polygon	0.76	-21.3%	25.7%	-71%
Quant	83.76	-19.7%	32.1%	-53%
Elrond	49.19	-18.6%	-20.2%	-79%

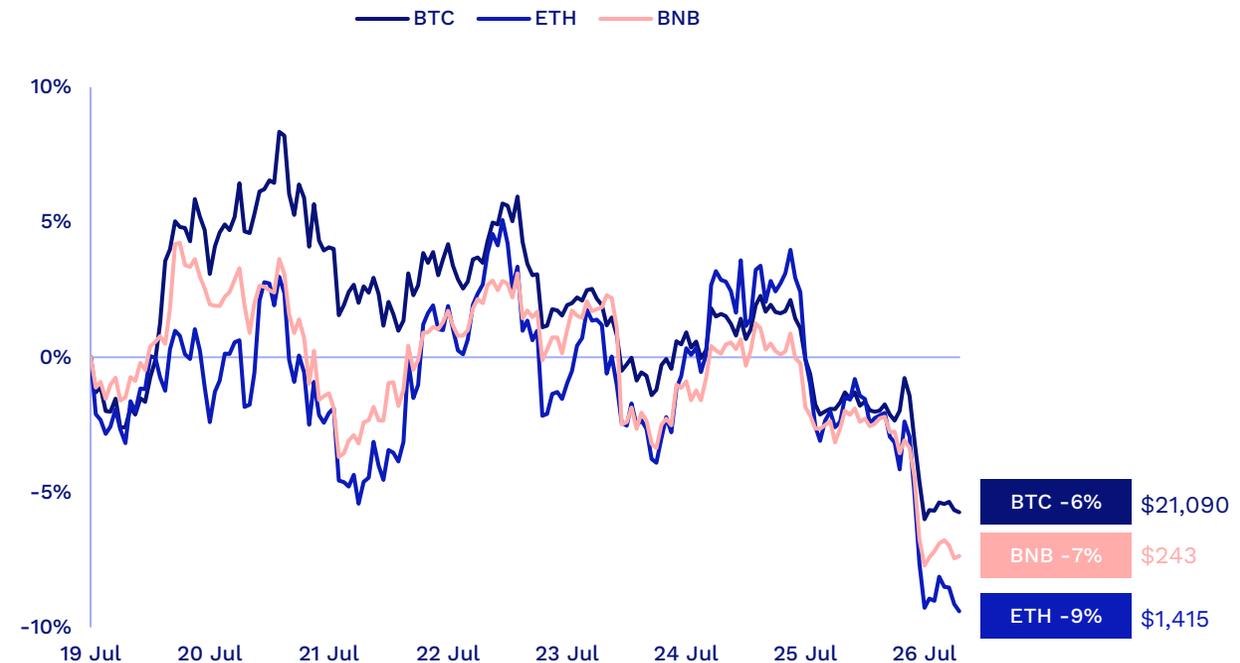
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.892	-0.016	0.217	0.059	0.642	-0.001

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



The bitcoin dominance increases as market conditions sour

Amidst ether's recent price depreciation, bitcoin has seen its dominance increase—a natural rotation as traders seek safety in a falling market.

- Although the Mid Cap index has fallen by 9% over the past 7-days, the index remains the best performer in July with a 27% increase.
- In comparison, Large Caps are down 8%, while Small Caps have fallen 10% over the past seven days.
- Ether's lack of strength relative to bitcoin has caused its market dominance to fall 0.34% over the last week. On the other hand, Bitcoin has seen its market share increase by 0.47%. This is a natural rotation as markets fall, given that investors perceive bitcoin as a lower-risk asset than ether.
- Stablecoins lost ground last week but have since rebounded. This rebound has been led by USDT and USDC, in which market shares gained 0.33% and 0.31%, respectively. The increase in stablecoin dominance is most likely caused by traders seeking to mitigate volatility risk.
- We examine how Arcane's stablecoin predictions for 2022 have turned out so far in a recently published report. [Click here to read.](#)

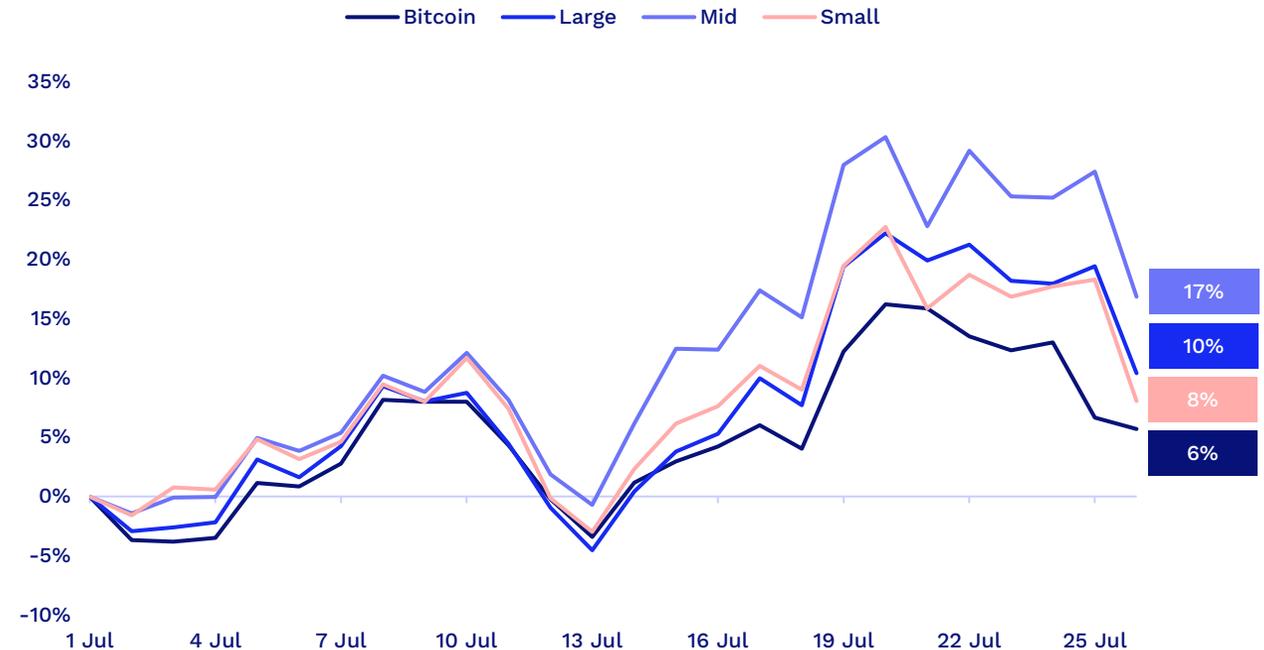
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	XRP	ADA	SOL	DOGE
Market Share	41.70%	17.88%	6.80%	5.69%	4.06%	1.85%	1.66%	1.64%	1.27%	0.84%
Weekly Change	0.47%	-0.34%	0.33%	0.31%	-0.10%	0.13%	-0.04%	0.03%	-0.20%	-0.03%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes



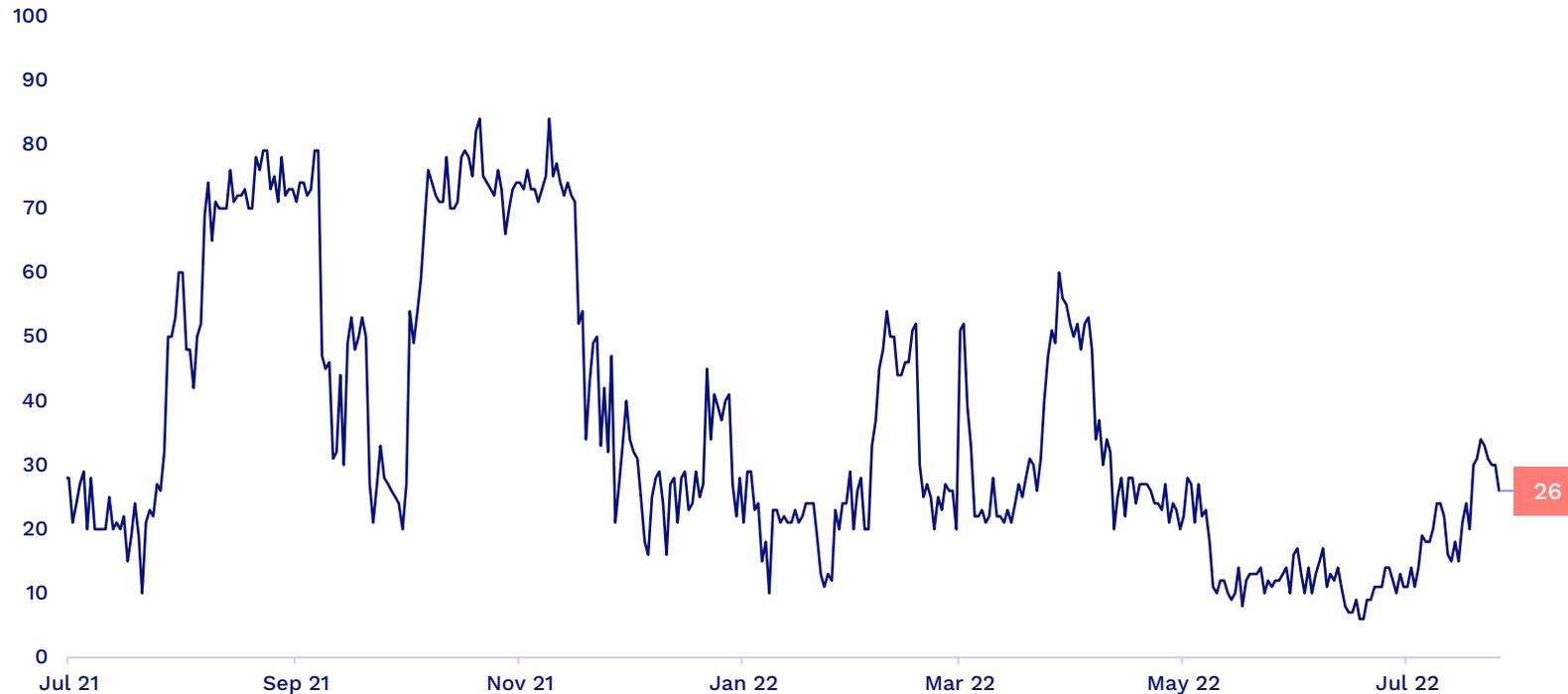
Source: Bletchley Indexes, Tradingview (Coinbase)



The Fear and Greed Index still signals a nervous market

The Fear and Greed Index briefly hit a high of 34 last week as the strong recovery in the crypto market spurred increased optimism among investors. The index has since fallen and is barely hanging above 'extreme fear', indicating that market participants fear the recent market recovery was just a fakeout. The market sentiment has definitely improved from the June lows but still signals nervousness among market participants.

Fear and Greed Index

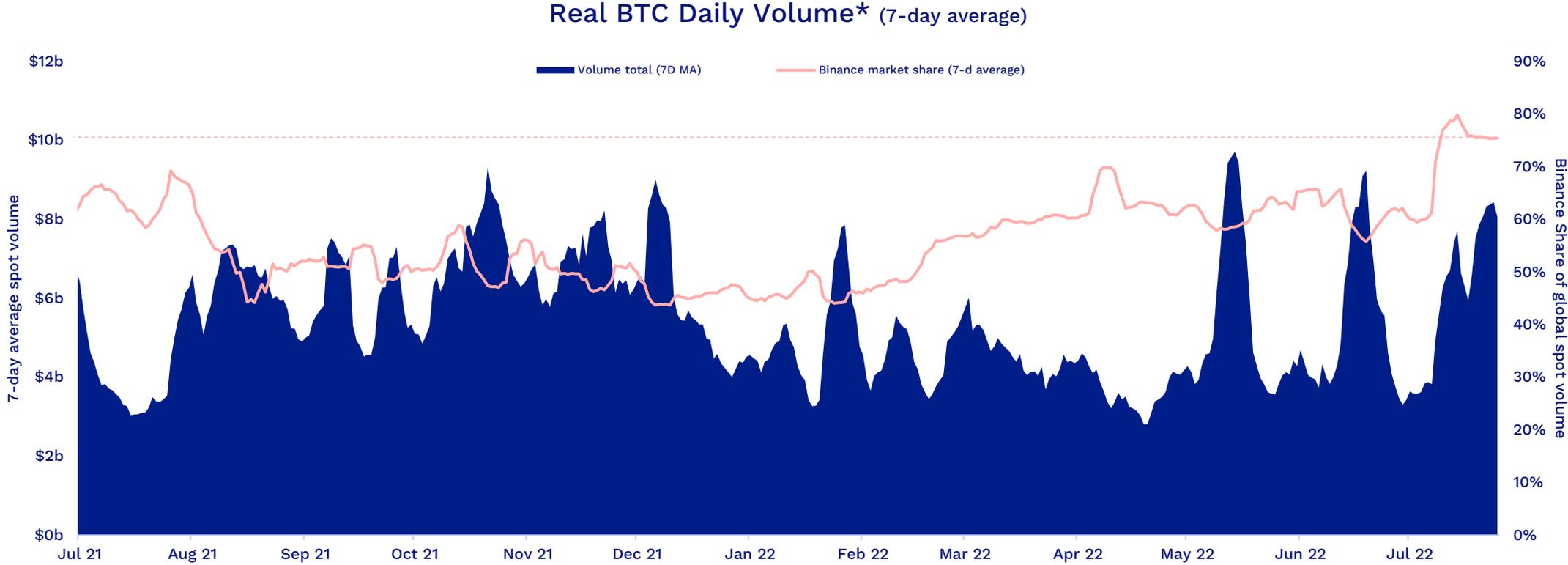


Source: Alternative.me



The bitcoin spot volume on Binance stays elevated

We have seen elevated bitcoin spot volumes in the past couple of weeks. As noted in our two previous reports, the high volumes are caused by wash trading on Binance which emerged when the exchange introduced zero fees for several BTC pairs. Binance has since attempted to reduce the amount of wash trading but has been unsuccessful so far. Other exchanges have seen depleted spot volumes recently, showcased by Binance making up 75% of spot volumes.



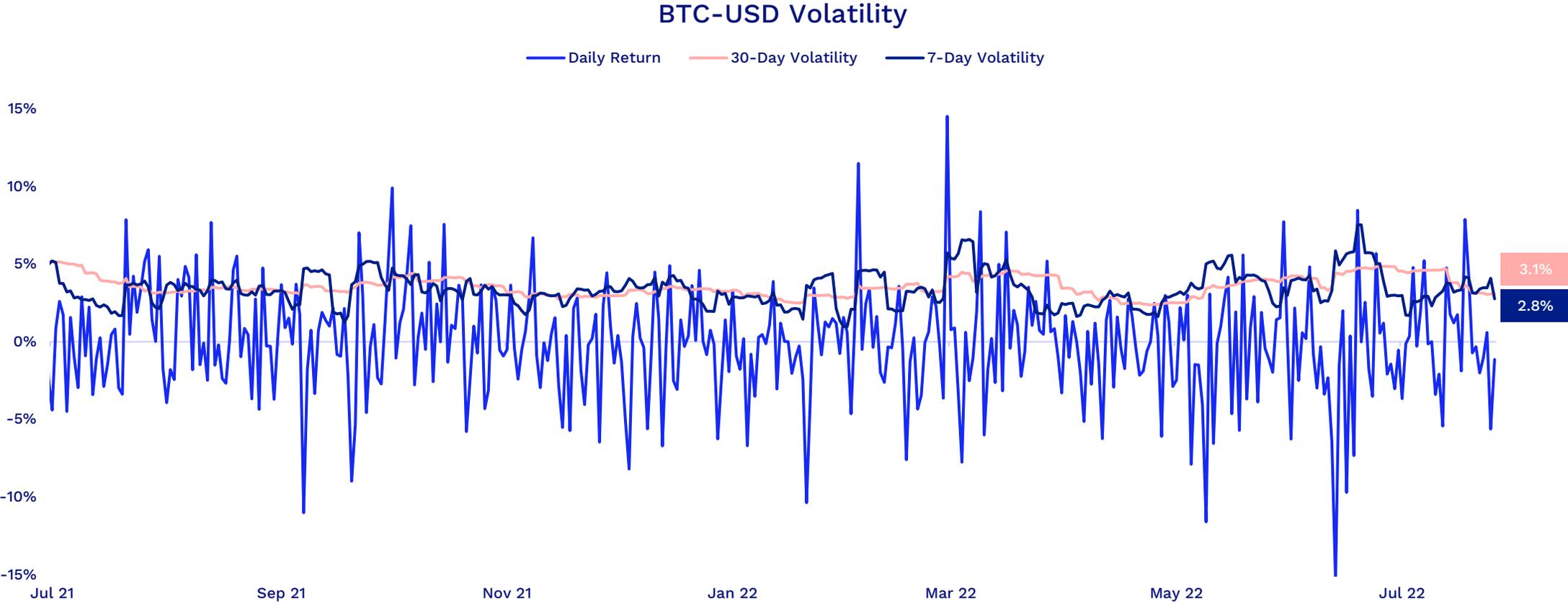
Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX.



30-day volatility hit the lowest level since May

As Bitcoin's price has declined over the past week, the 30-day volatility has fallen to 3.1%—a level we've not seen since the beginning of May. Thus, it sits slightly below the 3.6% average volatility for 2022 as the negative news flow has decelerated. Although we have seen a few days with significant negative returns, most days have delivered returns close to zero.



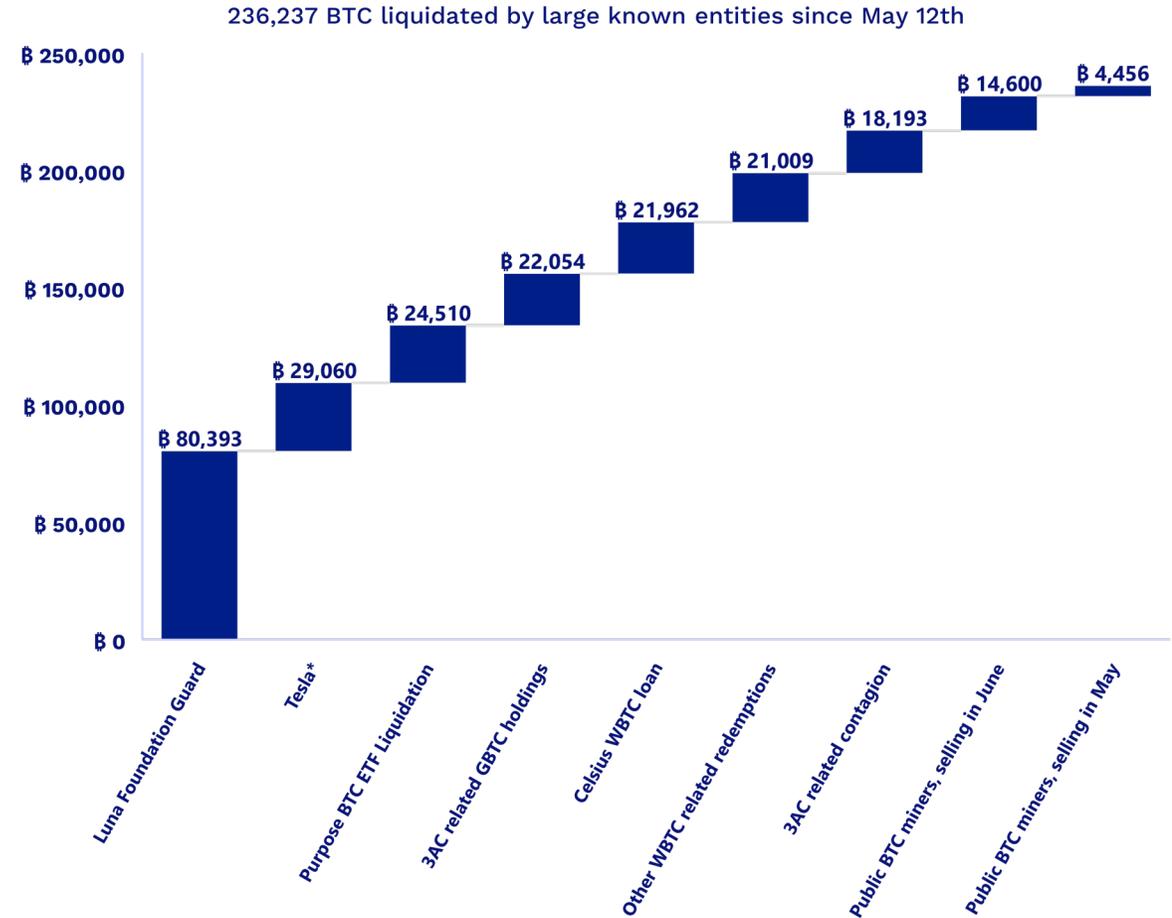
Source: Tradingview (Coinbase)



236,237 BTC sold by known institutions in the last two months

236,237 BTC. That's the amount of known selling of bitcoin since May 10th by large institutions. Most of the selling is related to forced selling, some is not. We provide a brief post-mortem on the selling pressure and contagion in the last two months.

- The 236,237 BTC number is derived from massive institutional blow-ups and other large known selling seen during the market stress in the last two months. The number does not account for other natural capitulation and hedging activity that usually occurs during crypto bear markets.
- It all started with Do Kwon and LFG. As LFG reached its initial \$3bn BTC reserves target, it took 5 days before UST's peg was in shambles, and the 80,000 BTC reserve was deployed in a desperate attempt to save the peg. Luna and UST collapsed, leading to contagion and more sell-side pressure in the months to come.
- Miners sold 4,556 BTC in May and 14,600 BTC in June.
- Some time in between and amidst this. Tesla sold 75% of its BTC stack. We estimate Tesla's sales to be 29,060 BTC at an average price of \$32,209.
- The surprise inflation in June caused a cascade of effects. Celsius and Three Arrows Capital went bust, and Luna related contagion spread its wings to several large crypto lenders.
- Now, contagion seem to be resolved, and crypto-specific uncertainty less pronounced. We will likely slump, pump, and dump in choppy conditions in the coming period, and macro and correlations will possibly resume being the key force of the market. Read the full post-mortem [here](#).

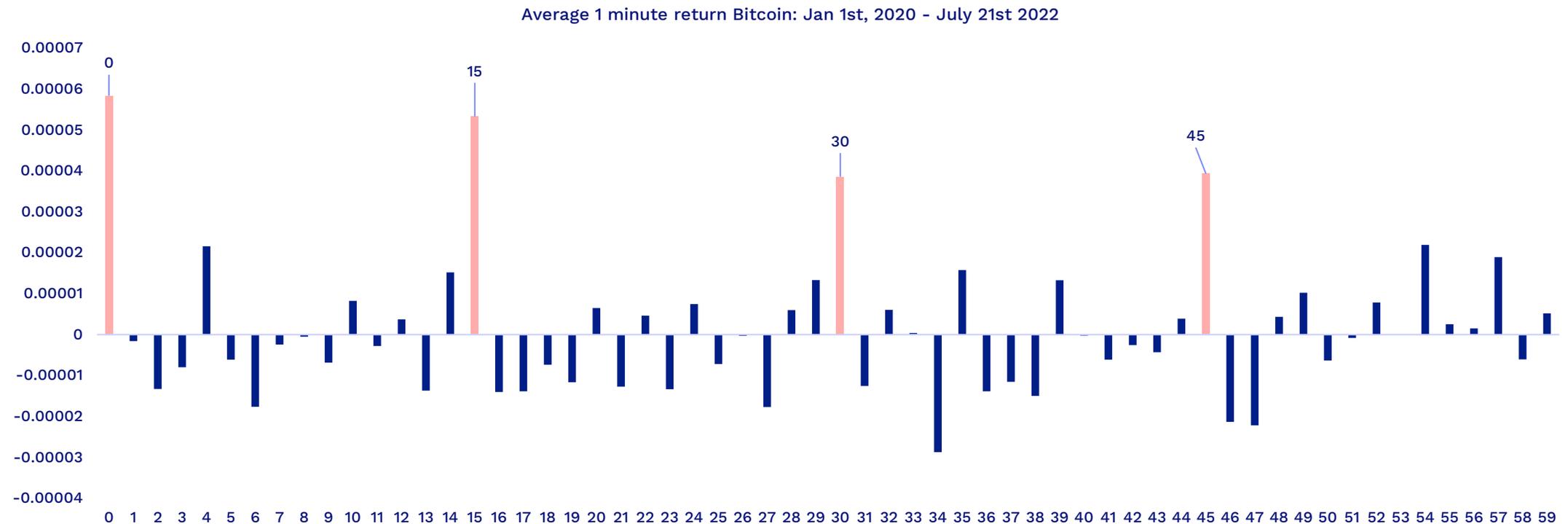


Source: Tradingview (Coinbase)



All minutes are not equal for bitcoin traders

- Since January 2020, there is a clear trend of outsized outlier returns originating in minutes 0, 15, 30, and 45 of any given hour.
- The outsized returns in minutes 0, 15, 30, and 45 were particularly evident during BTC's run from March 13th 2020-April 12th, 2021.
- The love for minutes 0, 15, 30, and 45 is less pronounced in the last year but still relevant. Only 21 out of 60 minutes have seen gains on average since the November peak. Nevertheless, minutes 0, 15, 30, and 45 have, on average, seen positive returns.



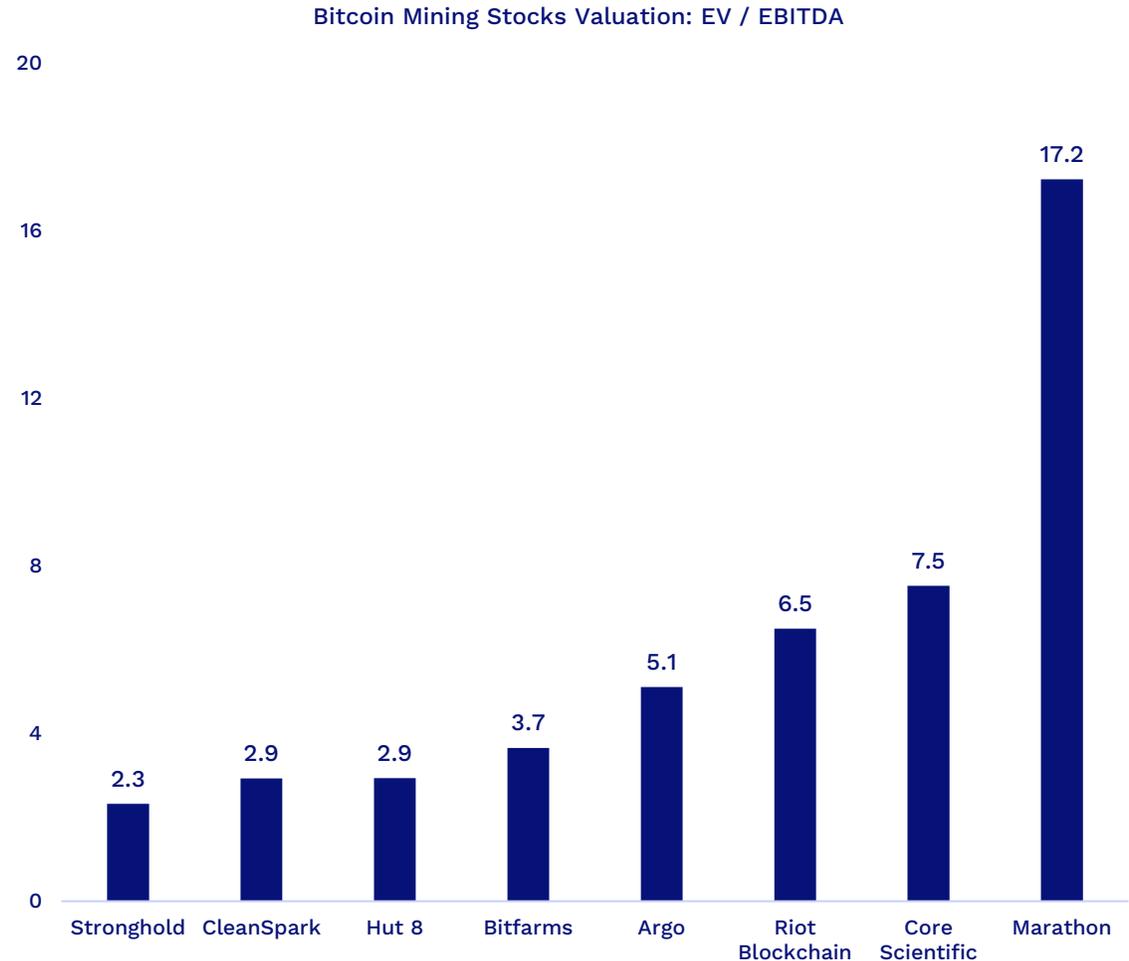
Source: FTX API



Fire sale or value trap? Looking at the valuations of bitcoin mining stocks

The bitcoin bear market has pushed mining stock valuations to rock bottom. Buying stocks at such low valuations has historically been a good strategy. Which mining stocks are the most undervalued?

- We recently published a [blog post](#) analyzing the quality of bitcoin mining companies, where Argo and Riot came out as winners. Here we complement the blog post by analyzing the valuation of bitcoin mining companies.
- There are several ways to compare the valuations of bitcoin mining stocks. We can use industry-specific metrics like [EV / ASIC Value](#) or general valuation metrics like EV / EBITDA. The latter is an excellent valuation metric that lets us compare bitcoin mining stocks' valuations with stocks from other sectors.
- Generally, stocks with an EV / EBITDA lower than 10 are considered undervalued. We see that most bitcoin mining stocks currently have EV / EBITDA between 2 and 5.
- Stronghold and CleanSpark have the lowest valuations, while Marathon has the highest. CleanSpark also scored high on our quality analysis a couple of weeks ago.
- It's important to do your own research before investing in these companies. EV / EBITDA is a simple metric but doesn't consider all variables. Higher quality companies will generally have a higher valuation and thus a higher EV / EBITDA. For example, Stronghold which has the lowest EV / EBITDA is also struggling under a mountain of debt, meaning that the risk of bankruptcy is high.
- If you want to learn more about mining stock valuations, you can [read the full article here](#).



Source: Yahoo Finance, monthly production updates, Q2 2022 reports





Valuation



Bitcoin has established a strong consolidation range

Bitcoin keeps trading in its narrow and strong consolidation range, hovering between \$18k and \$24k for more than one month.

- The bitcoin price steadily increased over the past two weeks but met resistance at \$24k. After not managing to establish itself above this level, the bitcoin price fell to \$21k.
- Bitcoin is in a local falling trend but has strong support at \$19k, a price level it has rebounded from on multiple occasions over the past month.
- If bitcoin were to fall below \$19k, the next support level is at \$17.5k, which has served as the low of this bear market.
- The mentioned support levels are technically strong, but we should also keep in mind the \$14k support level, which was the peak in 2019.
- If bitcoin manages to regain last week's positive momentum and break out, the nearest important resistance area is at \$28k, representing the yearly bottom in 2021 and important support in May.



Source: Tradingview (Coinbase)

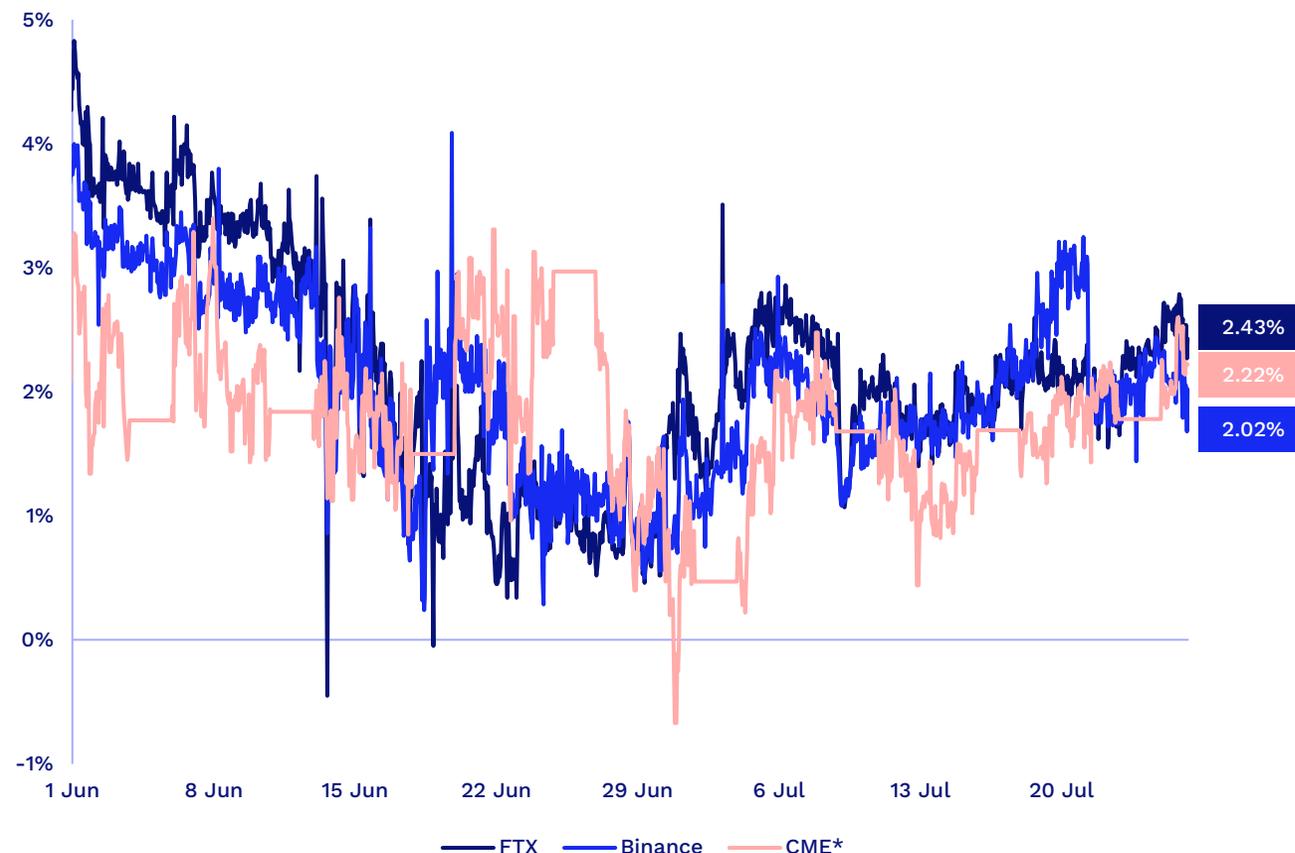


Growing futures premiums on CME, but traders still exercise caution

The basis premium on CME has grown slowly and steadily for two weeks, while the offshore basis premium has stagnated.

- The basis premium on CME has grown by almost 1% over the past seven days, signaling increased optimism among institutional futures traders.
- After its recent growth, the basis premium on CME surpassed that of Binance, which saw a major decline over the past seven days.
- Basis premiums are now sitting at similar levels on CME and the offshore exchanges, indicating that the market sentiment is balanced among different groups of traders.
- While the basis premium on CME has grown, it's still just 2.2%, a relatively low level historically. This indicates that although sentiment is improving, traders still exercise caution.

Bitcoin Futures Annualized Rolling 3-Month Basis



Source: Skew

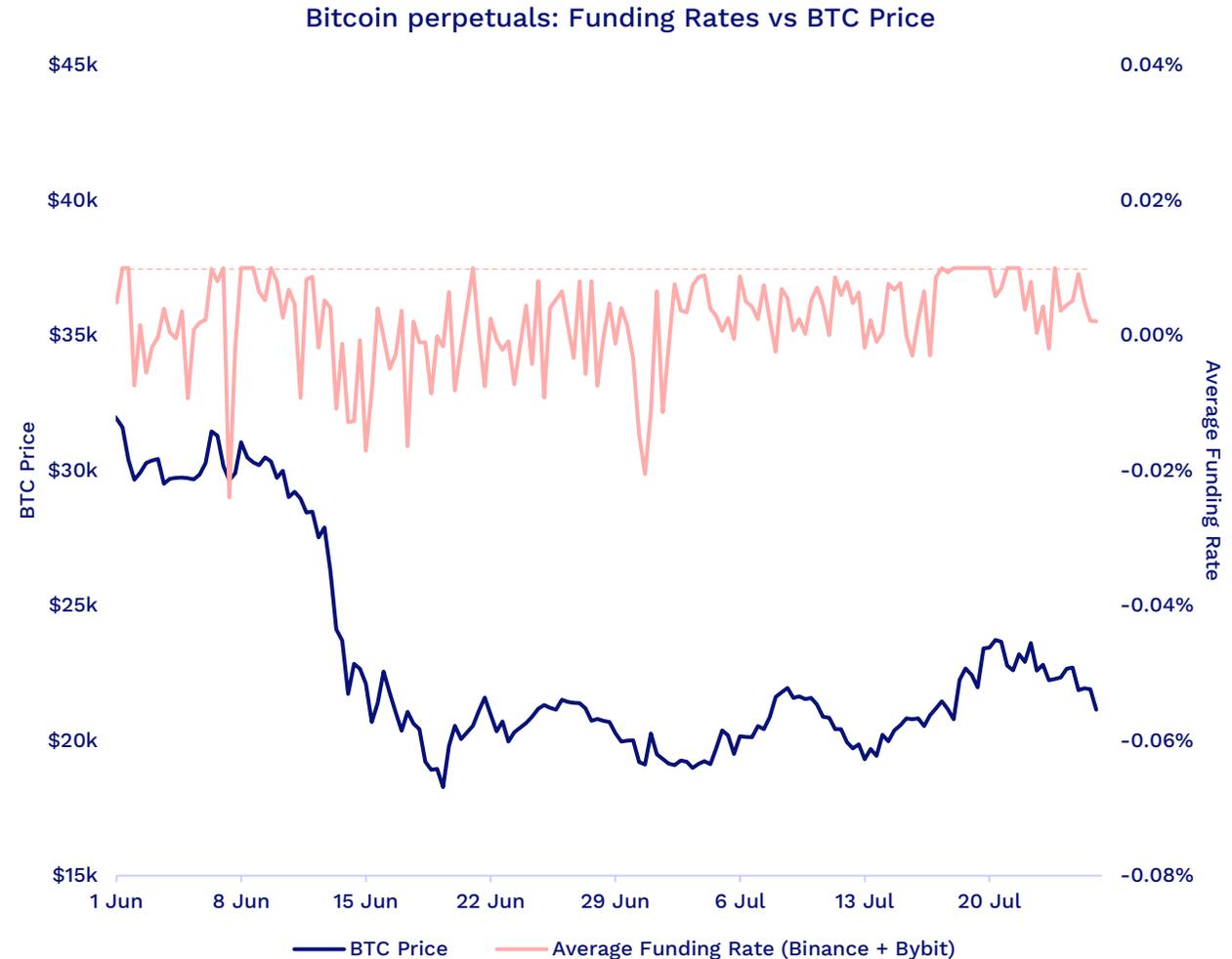
*Closed Saturday - Sunday



Funding rates for bitcoin perps falls below neutral

After briefly visiting neutral territory at 0.01%, funding rates are now back below neutral.

- Bitcoin's recovery over the past two weeks ignited optimism among perp traders, showcased by funding rates normalizing at neutral levels. The funding rates have since fallen straight back below neutral territory as traders exercise caution amid a retracting bitcoin price.
- Still, funding rates are considerably higher than for most of June when contagion effects ravaged the market. The market sentiment has clearly improved since then, which is also evident when looking at the increase of the Fear and Greed Index ([slide 6](#)).
- Open interest remains elevated in BTC terms, indicating high leverage. This high leverage makes the market vulnerable to either a short or long squeeze should a significant price movement occur on either side.





Blockchain Activity



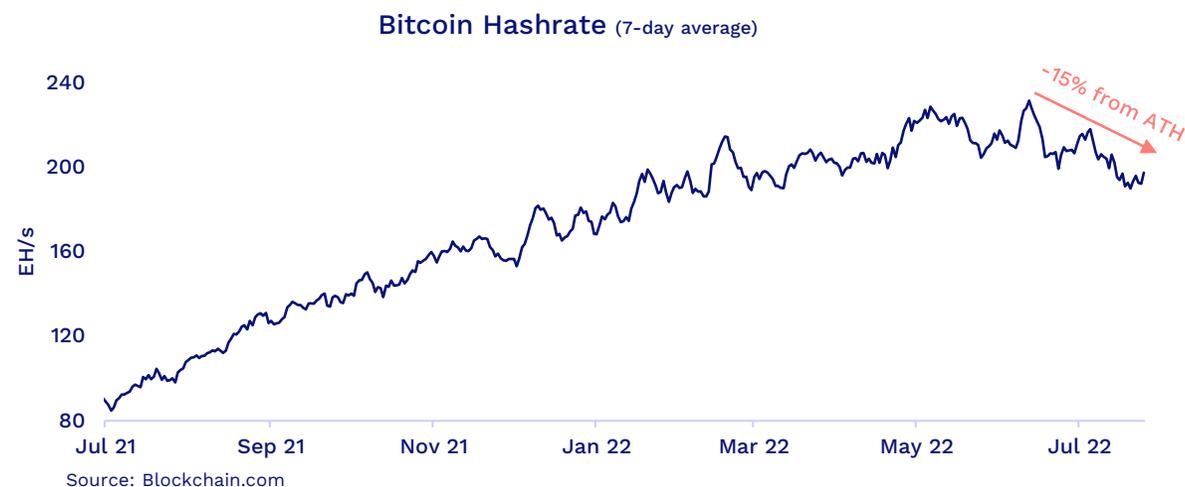
Huge increase in bitcoin mining revenue

The struggling bitcoin miners finally see increases in revenues after Bitcoin reduces its mining difficulty by the most in one year.

- The daily miner revenues are now back above \$20 million, seeing a 15% growth over the past seven days. The bitcoin miners welcomed this revenue growth, as some of them were in danger of bankruptcy as the industry-wide revenue fell below \$18 million – the lowest level since November 2020.
- The miner revenue increase is partly caused by last week's 5% difficulty reduction (next slide). This was Bitcoin's largest downward difficulty adjustment in one year, as the hashrate has fallen 15% from its all-time high in June.
- We already see that the difficulty adjustment has had its desired effects, as the block production rate is closing in on the target of 6 blocks per hour. Keeping the block production rate close to the target independent of the hashrate is the purpose of the difficulty adjustment, which happens every 2,600 blocks or approximately every second week.
- Other than that, not much is happening on-chain. The on-chain activity remains at muted levels, with the number of active addresses sitting at the lowest since September last year.

Powered by:		Bitcoin Network Data			
BYTETREE		7/25/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	\$ 20,444,661	\$ 17,707,135	15.46%	
	Fees per day	\$ 441,196	\$ 458,669	-3.81%	
	Fees % Revenues	2.16%	2.59%	-0.43%	
	Daily TX Volume (\$Bns)	\$ 4,532	\$ 3,739	21.20%	
	Transactions per day	\$ 250,406	\$ 247,270	1.27%	
Utility	Avg TX value \$	\$ 18,097	\$ 15,121	19.68%	
	# Blocks per hour	5.88	5.54	6.13%	
	Avg. # TX per block	1,776	1,754	1.27%	

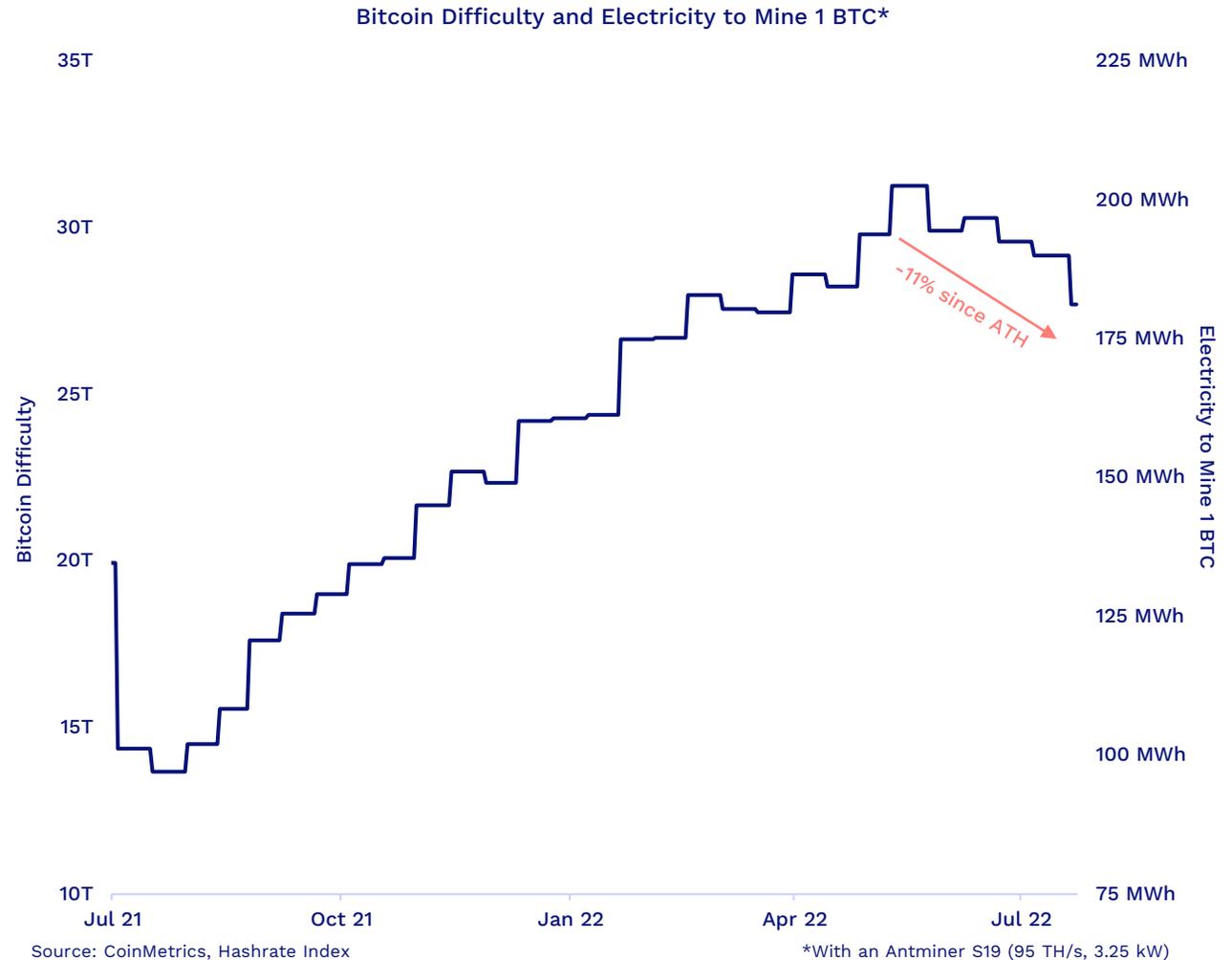
Source: Bytetrete



The bitcoin mining difficulty is decreasing at its fastest rate in one year

Last week Bitcoin reduced its mining difficulty by 5% - its largest downwards difficulty adjustment in one year. The difficulty is now down 11% from the peak in May.

- As shown in the chart, the difficulty measures how much electricity is required to mine bitcoin. The higher the difficulty, the longer an ASIC must run to find a block; thus, the more electricity it will spend. ASICs differ in their energy efficiencies, and in the chart, we have used the Antminer S19, a relatively energy-efficient model.
- The Antminer S19 currently requires 181 MWh to mine one bitcoin. This is down 11% from 204 MWh in May when the difficulty sat at an all-time high.
- The hashrate has plummeted lately ([previous slide](#)) as American miners turned off their machines for significant periods over the past two weeks as electricity prices soared due to a heatwave. In addition to simply reacting to prices, many miners participate in demand response programs that require them to power down their machines when electricity is scarce.
- The recent difficulty reductions are highly welcomed by the miners [struggling with profitability](#) due to a combination of high difficulty, rising electricity prices, and depressed bitcoin price.
- In a [blog post](#) published three weeks ago, we warned that some public miners might be in danger of bankruptcy. The falling mining difficulty combined with the rising bitcoin price should give these companies some breathing room.



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