

The Weekly Update

Week 30, 2022



Provided by

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research

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Market Update

- Bitcoin is up 9% over the past seven days as the financial markets see renewed risk appetite. On Saturday, bitcoin briefly hit its highest level since the beginning of June at ~\$24,500 but has since stabilized at \$23k.
- Altcoins outpaced bitcoin in July. Mid Caps gained the most, with a monthly return of 40%.
- After a dreadful start in 2022, July marked the best month for bitcoin this year and the highest return since October 2021, with the price increasing almost 17%.
- 2022 has been difficult for the stock market, with the S&P 500 declining 14% and the tech-oriented Nasdaq falling 22%. With bitcoin closely following equities, albeit with higher volatility, it's no surprise that bitcoin (-51%) has fallen even more than the stock market in 2022.

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Valuation

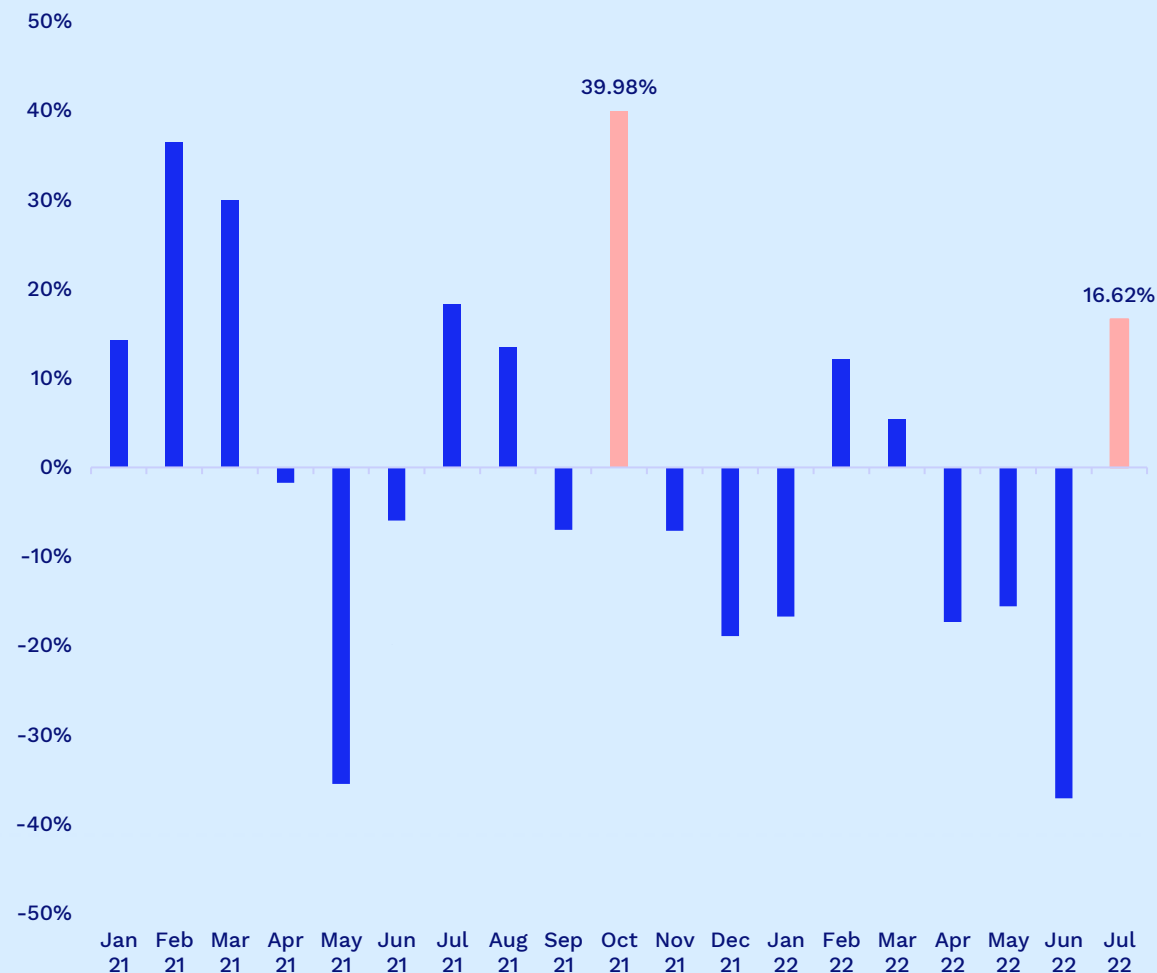
- The bitcoin price is trending upwards. Recently, we've seen a series of higher lows, and \$24k has emerged as the new resistance level.
- We saw a large spike in the futures premiums before the weekend, climbing to levels not seen in almost two months.

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Blockchain Activity

- The Bitcoin hashrate has seen a significant uptick after Bitcoin reduced its mining difficulty last week.
- After years of discussions and hard work to bring proof-of-stake to Ethereum, the merge is well into the final testing stage.
- Ethereum's upcoming move to proof-of-stake will render Ethereum miners obsolete. Will the miners accept the defeat or fight back?

Bitcoin: Monthly Performance



Source: Tradingview (Coinbase)

When the financial markets go risk-on, crypto surges

- Bitcoin is up 9% over the past seven days as the financial markets see renewed risk appetite. On Saturday, bitcoin briefly hit its highest level since the beginning of June at ~\$24,500 but has since stabilized at \$23k.
- The crypto market sentiment is improving (slide 6), and market participants are more comfortable getting altcoin exposure (next slide). As usual during such shifts towards increased risk, ETH and BNB outperformed BTC with 12% and 16% gains over the past seven days.
- The recent crypto market rally is mainly driven by increased macro-optimism. Last week's FOMC meeting ended with the Fed hiking its funds rate by 75bps. The stock market rallied following the meeting as the market perceives the Fed as increasingly likely to start cutting rates earlier than initially expected. Over the past seven days, the S&P 500 climbed 5% and Nasdaq by 6%. Bitcoin's 9% increase is then expected, given its high correlation with the stock market (slide 9).
- The increased risk appetite in the crypto market is also evident in last week's surge of smaller coins like Filecoin (+54%), Ethereum Classic (+45%), and Internet Computer (+24%).

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Filecoin	8.08	53.9%	51.2%	-78%
Ethereum Classic	34.13	44.6%	130.6%	-3%
Internet Computer	7.70	23.5%	46.6%	-75%
Worst Performing	Price	Last week	Last month	YTD
LEO Token	5.03	-1.1%	-12.2%	-32%
Cardano	0.50	3.9%	8.6%	-62%
Algorand	0.33	5.2%	6.4%	-80%

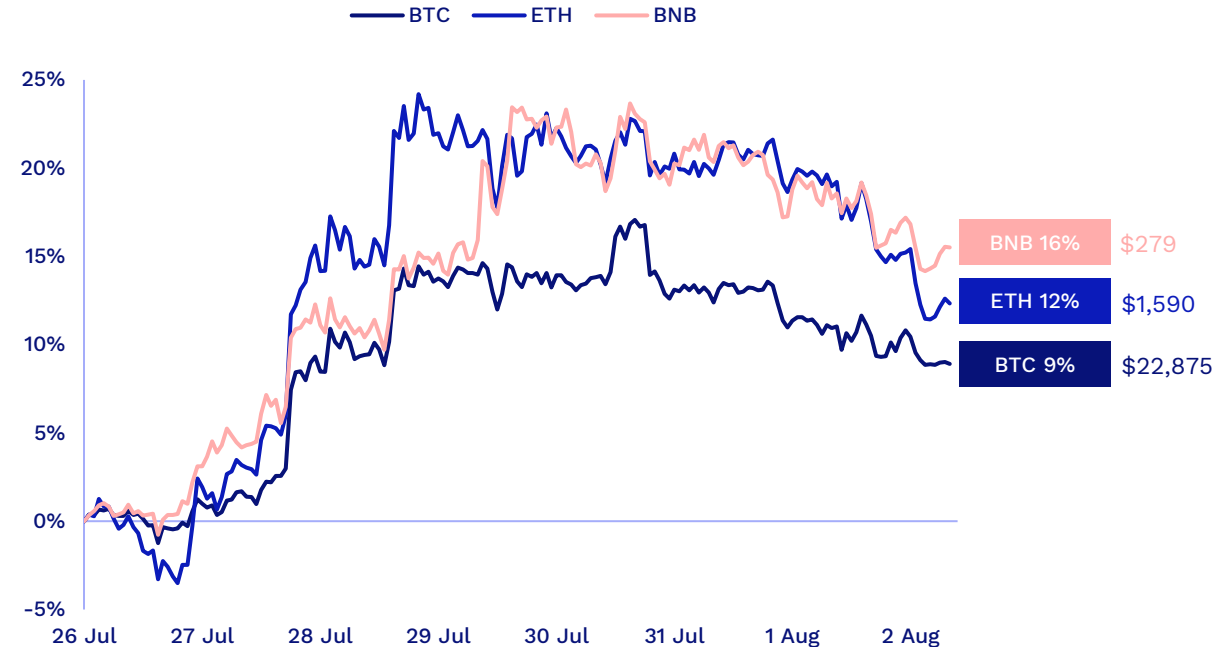
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH	GOLD	S&P500
BTC	0.896	-0.012	0.289

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



Altcoins dominating in July

Even with bitcoin's best month this year, altcoins outpaced the leading cryptocurrency in July. Mid Caps gained the most, with a monthly return of 40%.

- July gave us a classic relief rally in the crypto market, after several months of tumbling prices. Altcoins dominated, and the Mid Cap Index was the clear winner of July, with a gain of 40%.
- Most altcoins had a great month, with the Small Caps Index ending up 30% and the Large Cap Index closing July with a 26% gain.
- Bitcoin ended July with a 17% gain. Outpaced by most altcoins, but still the best month for bitcoin since October last year (slide 9).
- Ether's lack of strength relative to bitcoin last week has been reversed this week, as ether has increased its market share by 0.43 percentage points, while bitcoin has lost 0.22 percentage points.
- Notably, bitcoin and stablecoins are losing market shares this week, which shows that traders are taking on more risk again.

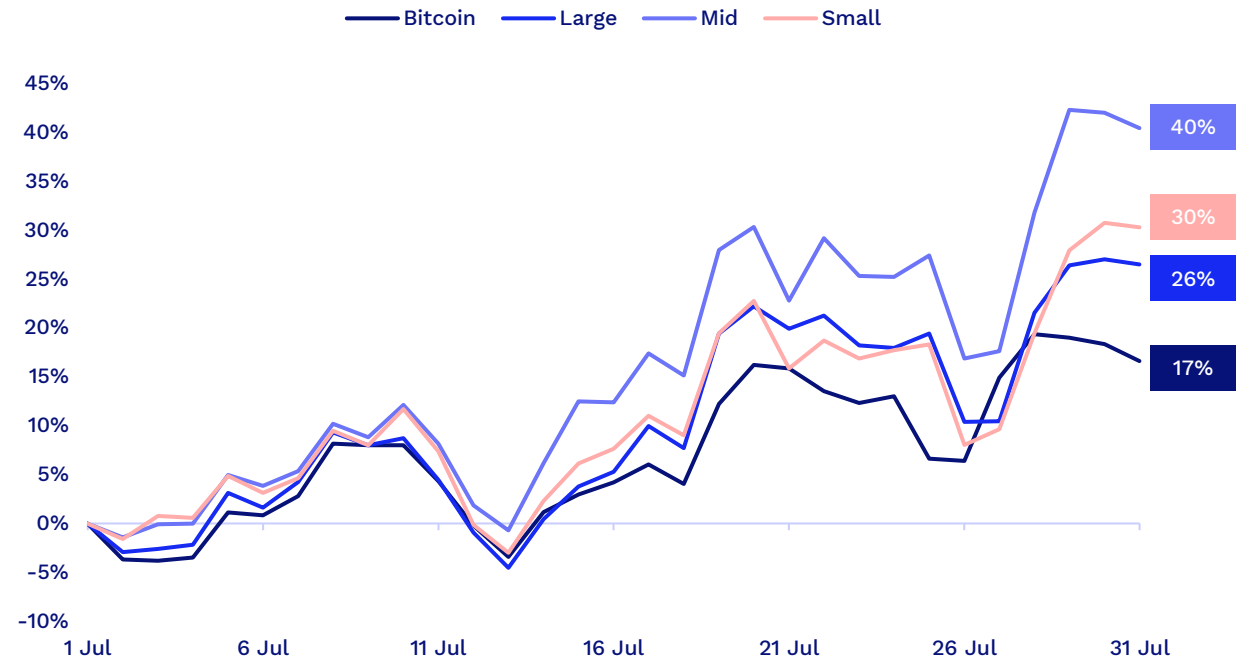
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	XRP	BUSD	ADA	SOL	DOGE
Market Share	41.48%	18.31%	6.32%	5.20%	4.26%	1.71%	1.71%	1.58%	1.33%	0.84%
Weekly Change	-0.22%	0.43%	-0.48%	-0.49%	0.20%	0.05%	-0.14%	-0.06%	0.06%	0.00%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes



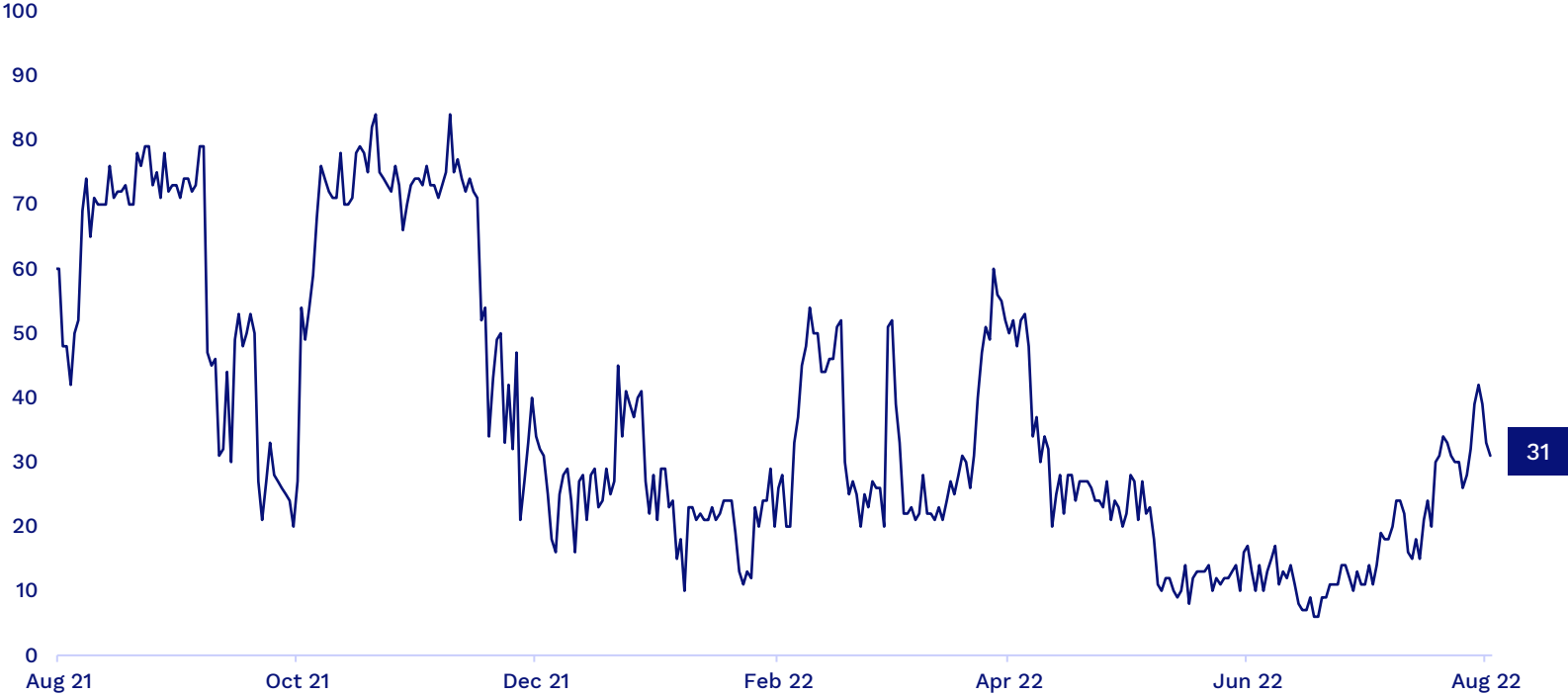
Source: Bletchley Indexes, Tradingview (Coinbase)



Least pessimistic market sentiment since April

The Fear and Greed Index sits at 31 after briefly hitting a top of 42 on Saturday, which marks the highest market sentiment peak since April. Looking at the chart, we see that the market sentiment has improved slowly during the last two weeks, signaling that market participants are still cautious. This slow market sentiment growth is in stark contrast to how the market sentiment rapidly exploded from the 'extreme fear' level to 'extreme greed' during the bull market of late 2021. Market participants are increasingly less bearish, but exercise caution after a traumatic start to the summer.

Fear and Greed Index



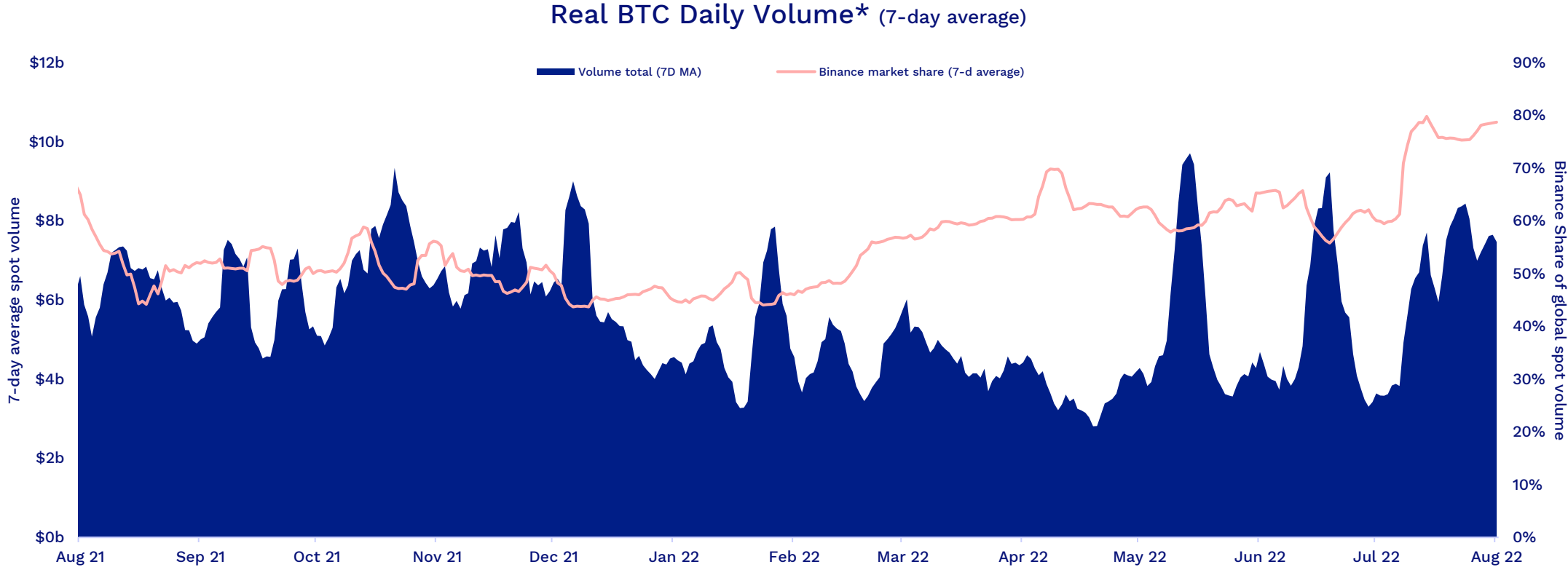
Now	Last week	Last month
Fear (31)	Fear (26)	Extreme Fear (14)

Source: Alternative.me



The elevated activity in the bitcoin spot market continues

The bitcoin spot volume continues to stay close to its one-year highs. The elevated trading activity is primarily driven by Binance, which remains the arena for 70% - 80% of the bitcoin spot trading. Binance has seen a surge in its trading volumes since it introduced zero fees for several BTC pairs three weeks ago. While parts of its volume increase are undoubtedly caused by wash trading, a significant share of the rise might be organic activity from traders attracted to the platform due to the fee removal.



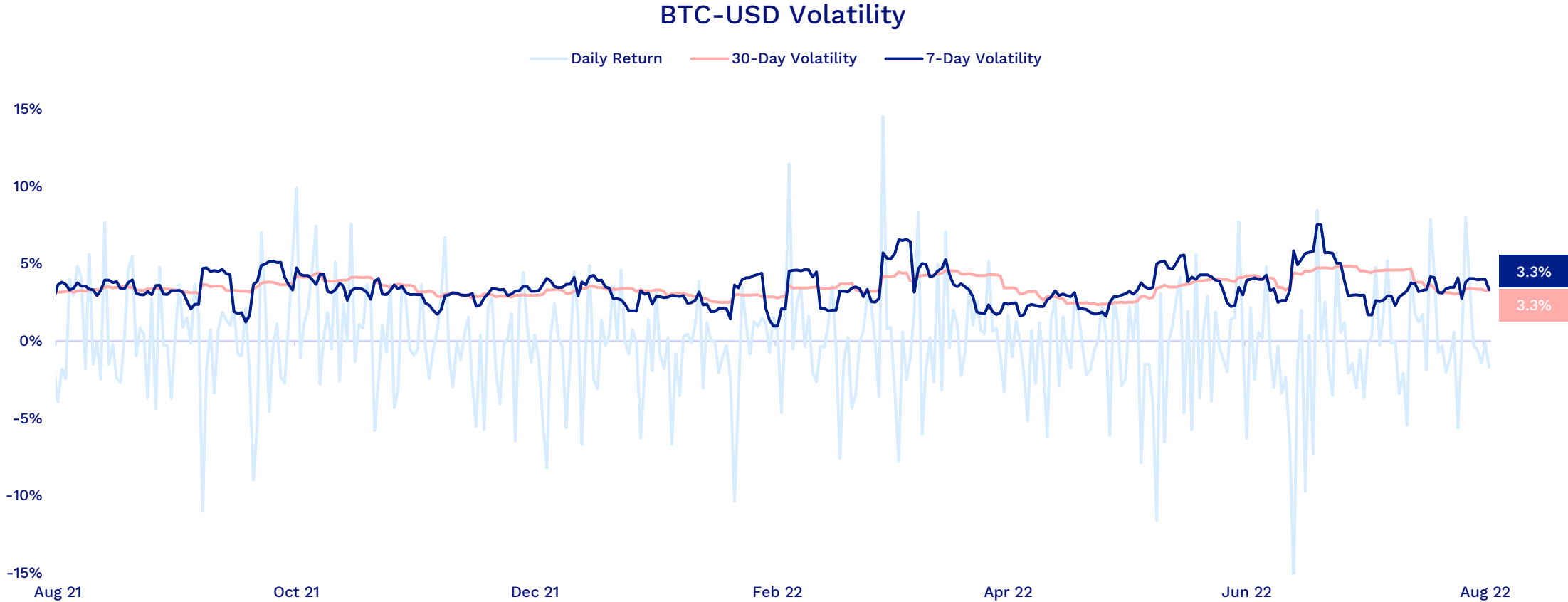
Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX



Bitcoin's volatility at historical average

Bitcoin's 7-day volatility is climbing, driven by the 8% price spike last Wednesday when bitcoin challenged the resistance level at \$24,500. Bitcoin didn't break through but stabilized just below and has since been sitting between \$23k and \$24k. The 7-day and 30-day volatility are sitting at 3.3%, which is close to the average level of the last year.



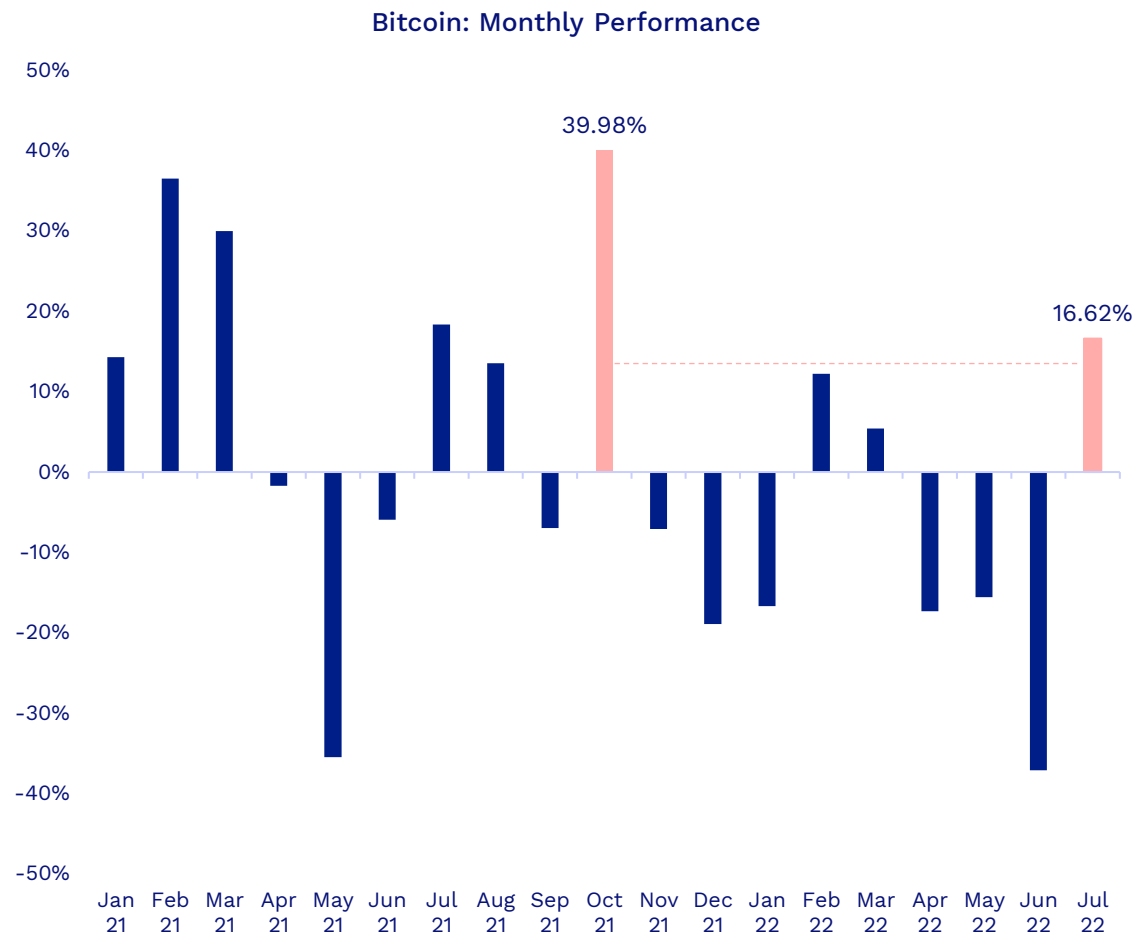
source: tradingview (coinbase)



Bitcoin's best month since October 2021

After a dreadful start in 2022, July marked the best month for bitcoin this year and the highest return since October 2021, with the price increasing almost 17%.

- It's been a challenging year for bitcoin, but the selling finally stopped last month. With a monthly return of 16.6%, the bitcoin price had its best month in 2022 and the highest return since October 2021.
- Only two other months have had positive returns since October last year, February and March, with 12% and 5% gain, respectively.
- With June being one of the worst months in bitcoin's history, it's been a much-needed relief in the market lately.
- Interestingly, ether completely outpaced bitcoin last month, seeing a gain of 57% ahead of the upcoming migration to Proof-of-Stake.
- As discussed in the [next slide](#), the shift in direction for the bitcoin price has undoubtedly been a result of the direction of the stock market. Bitcoin bottomed on June 18th, just a day after the stock market bottomed and started climbing again.



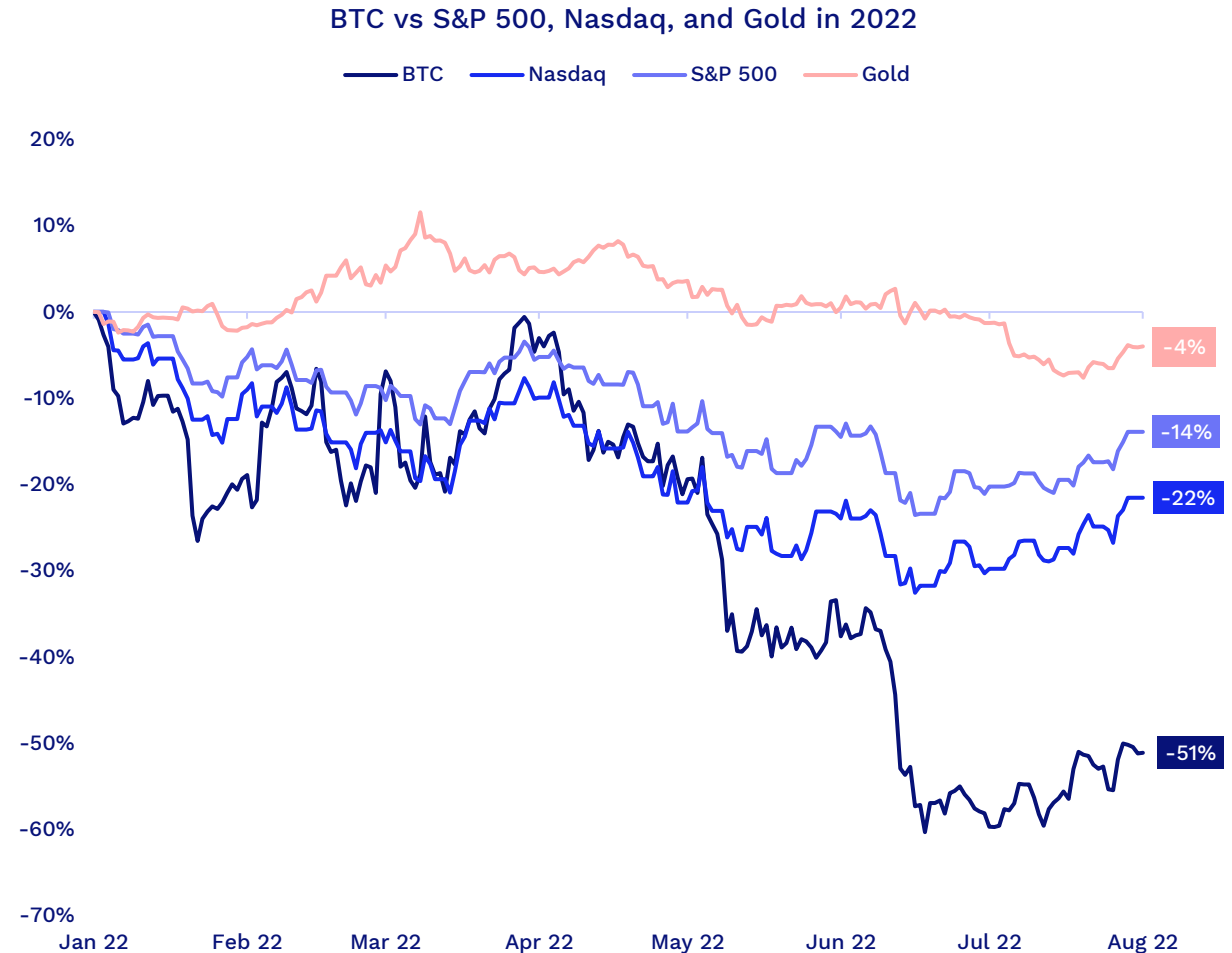
Source: Tradingview (Coinbase)



Bitcoin keeps following the stock market

If you are trying to predict the bitcoin price, you should pay attention to the macro environment and the US stock market.

- 2022 has been difficult for the stock market, with the S&P 500 declining 14% and the tech-oriented Nasdaq falling 22%. With bitcoin closely following equities, albeit with higher volatility, it's no surprise that bitcoin (-51%) has fallen even more than the stock market in 2022.
- There are two main reasons behind bitcoin's weak start to 2022. The first is forced selling related to all the prominent market participants failing in May and June. The second is rising interest rates.
- Recently, monetary and fiscal policy decisions' significance on the financial markets has increased due to worsening macro conditions as inflation runs rampant. Attempting to reduce inflation, the Fed has raised its funds rate from 0% in March to 2.25%-2.5%.
- Rising interest rates increase the cost of capital and thus lead to falling stock prices, and riskier tech stocks have declined the most. As institutional ownership of bitcoin has grown, bitcoin has become intertwined in the general financial markets and thus increasingly correlated with the stock market. This relationship has been further strengthened by the increasing importance of monetary and fiscal policy, which has led to increasing correlations not only between bitcoin and the stock market but between most financial assets.
- If the stock market keeps falling, bitcoin will also decline. Still, the recently forced selling in the crypto market has flushed out a significant amount of idiosyncratic risk, meaning that bitcoin will likely not continue falling disproportionately compared to the stock market.



Source: Tradingview





Valuation



Bitcoin printing higher lows – what's next?

The bitcoin price is trending upwards. Recently, we've seen a series of higher lows, and \$24k has emerged as the new resistance level.

- After struggling with \$24k two weeks ago, this level was again tested this weekend. The price climbed to a new local high of \$24,666 but quickly returned to the \$23k level.
- We've seen a series of higher lows since the bitcoin price changed direction in mid-June. The \$20,700 level (last week's low) is now key to watch for this trend to continue.
- If bitcoin were to fall below \$20,700, it would mark a lower low and technical be a bearish signal.
- The bitcoin price is currently at an interesting level. \$23k acted as resistance in mid-June and two weeks ago and could potentially be flipped to a support level this week.
- If the price holds at the current level, it will mark another higher low and be a bullish signal. This will likely see us push towards the \$24k level again and potentially see a break up towards the \$27k-\$28k level.



Source: Tradingview (Coinbase)

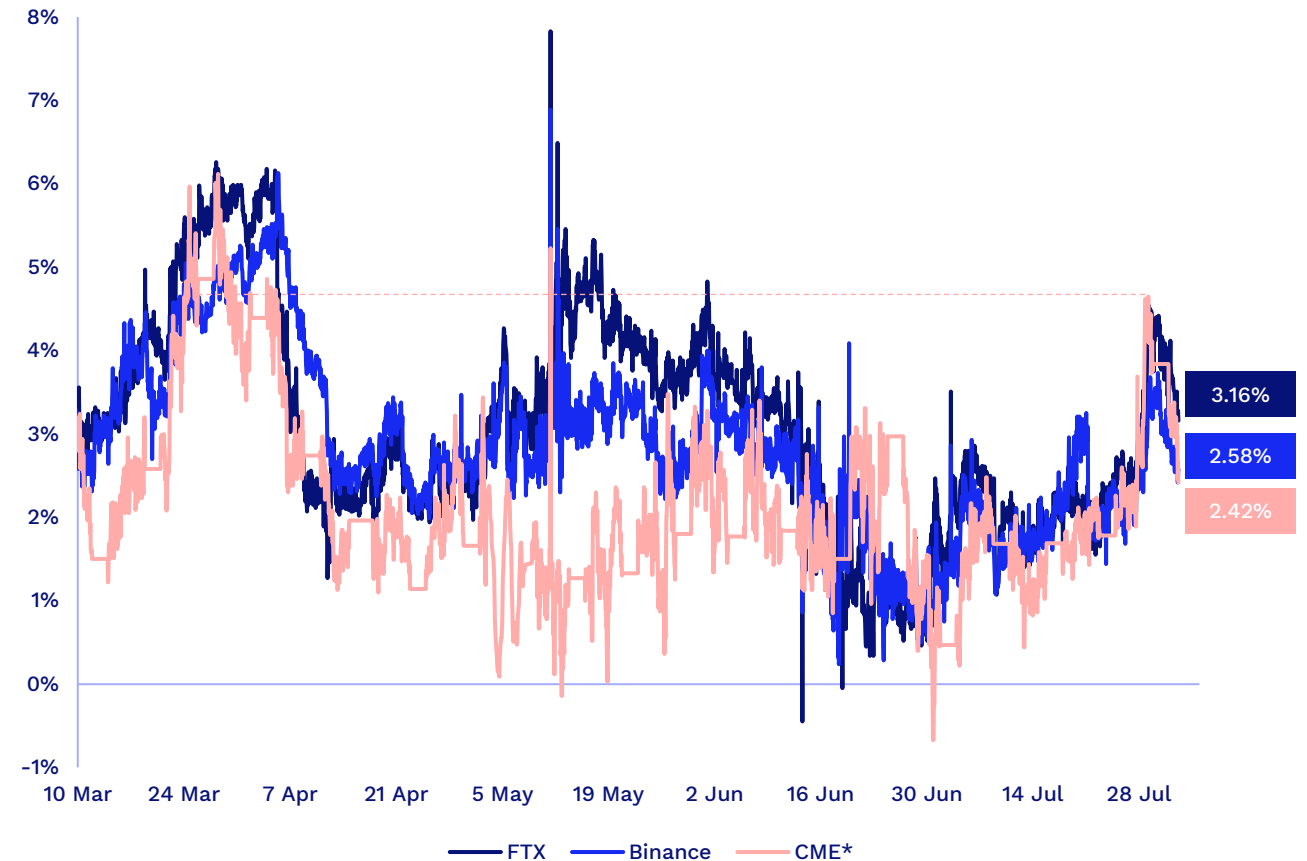


Spike in futures premiums – highest level in almost two months

We saw a large spike in the futures premiums before the weekend, climbing to levels not seen in almost two months. The premium on CME increased the most but quickly fell back as we moved into August.

- Traders in the bitcoin futures market got excited before the weekend, as we saw a significant spike in futures premiums, likely related to the stock market rally that also led to the spike in the bitcoin price.
- The 3-month basis on CME topped out close to 5% last week, the highest level seen in almost three months.
- Offshore exchanges saw similar movements and climbed to the highest levels in almost two months. FTX topped out close to 5% as well, with Binance seeing a high of around 4%.
- The futures premiums are now dropping again, especially CME, which sits at 2.4%. FTX is leading the way with almost 3.2% this morning.
- The trend has been evident over the past month. Futures traders are now more optimistic as the premiums are back at the levels we saw in April before the brutal crash and contagion effects began.

Bitcoin Futures Annualized Rolling 3-Month Basis



Source: Skew

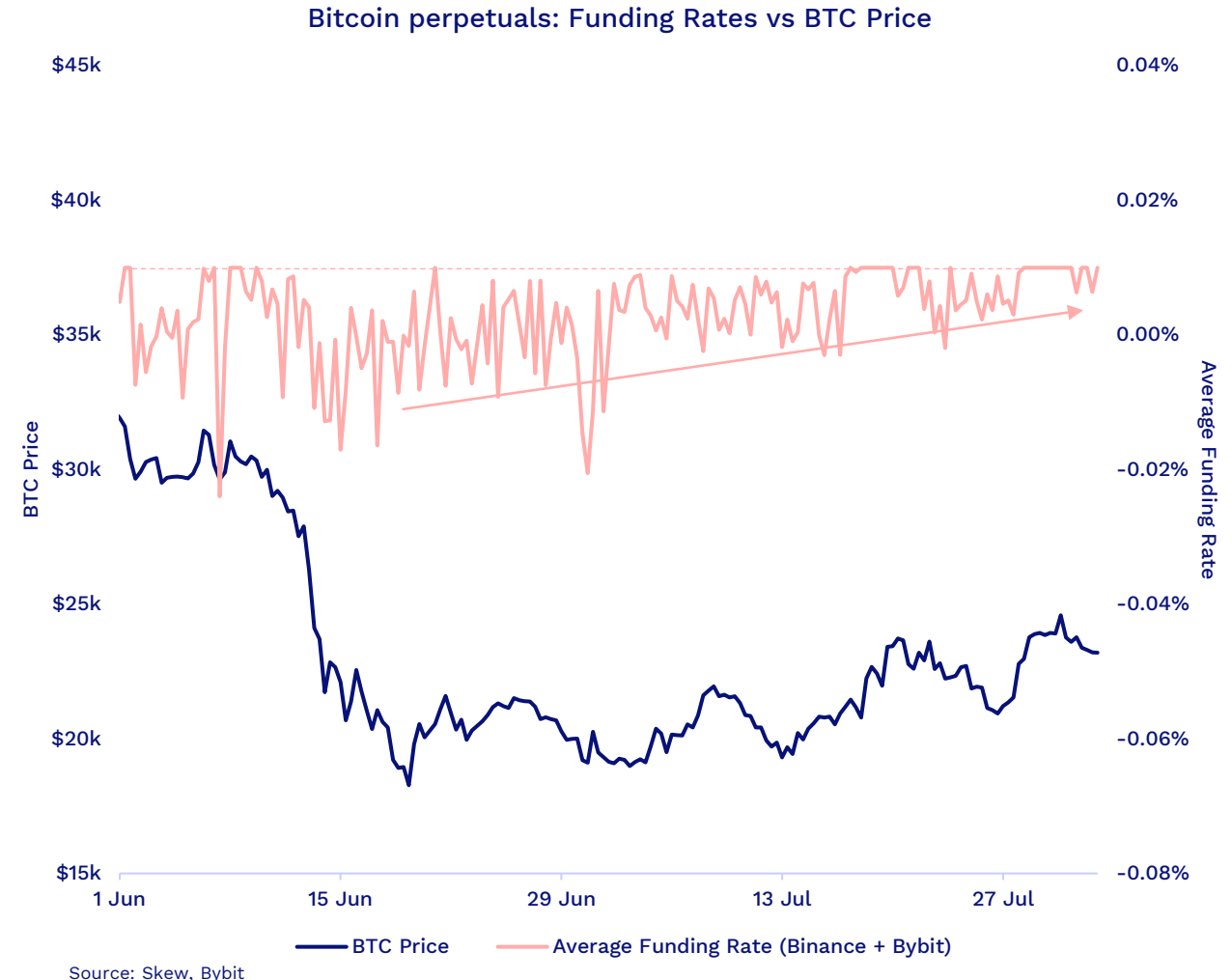
*Closed Saturday - Sunday



Funding rates trending towards neutral levels

As observed with futures premiums, the funding rates are also trending towards a more positive state.

- Perp traders are slightly more optimistic this week, with the average funding rate spending more time at the neutral level.
- The average funding rate has not touched negative territory in more than a week, something we haven't seen since the bitcoin price peaked four months ago.
- The average funding rate has slowly been trending towards the neutral level since mid-June, with the climbing bitcoin price.
- As mentioned last week, the leverage in the futures market is still quite elevated in BTC terms, and the growing optimism could open up for more liquidations if the market quickly turns to the downside.





Blockchain Activity



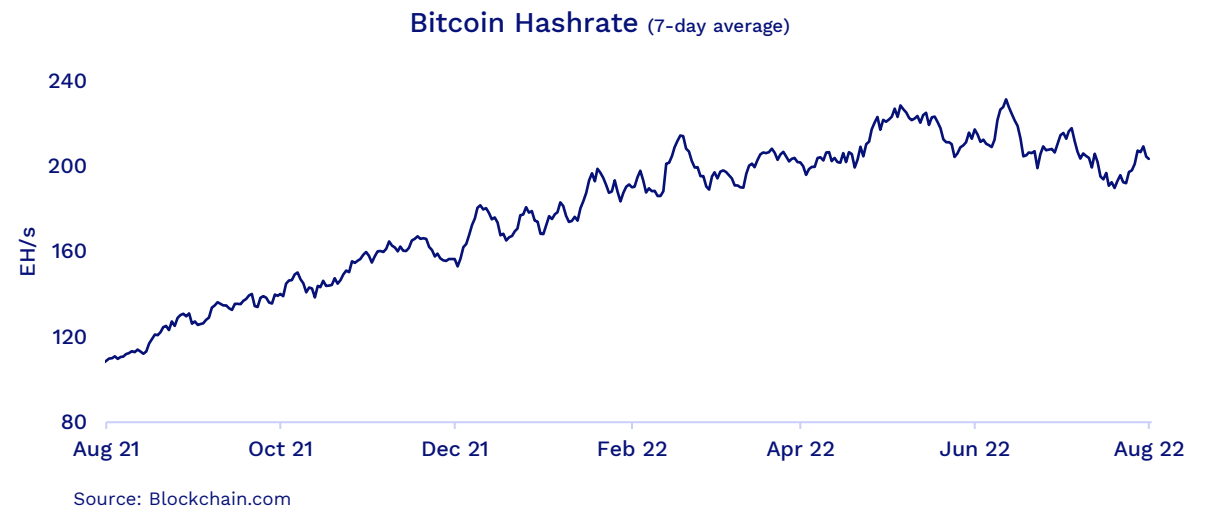
The Bitcoin hashrate rebounds following difficulty reduction

The Bitcoin hashrate has seen a significant uptick after Bitcoin reduced its mining difficulty last week.

- The Bitcoin hashrate plummeted in June and July due to the declining bitcoin price and surging electricity prices in the US, making mining unprofitable for less efficient miners.
- The falling hashrate led to the largest difficulty reduction in one year. The reduced mining difficulty, combined with the recent bitcoin price increase, has improved the profitability of mining. The mining revenue increased by 5% over the past week and is now \$21.5 million, a significant growth from the bottom of \$17 million two weeks ago.
- This mining profitability increase incentivized miners to plug in their machines again, and the hashrate saw a nice rebound over the past two weeks.
- The rising hashrate has lifted the block production rate to 6.13 blocks per hour, a bit higher than the target rate of 6. To adjust the block production rate down towards the target, the difficulty will likely increase by around 2.3% on Thursday.
- Other than that, on-chain activity continues to stay muted. The number of active addresses remains near one-year lows, and the demand for making bitcoin transactions is falling.
- The average transaction value declined by 16% over the past seven days. The lower demand for block space combined with the higher block space supply due to the rising block production rate has led transaction fees to plummet by 28%.

Powered by:		Bitcoin Network Data			
BYTETREE		8/1/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	\$ 21,552,018	\$ 20,463,881	5.32%	
	Fees per day	\$ 317,246	\$ 441,342	-28.12%	
	Fees % Revenues	1.47%	2.16%	-0.68%	
	Daily TX Volume (\$M)	\$ 3,883	\$ 4,535	-14.38%	
Utility	Transactions per day	254,429	250,640	1.51%	
	Avg TX value \$	\$ 15,260	\$ 18,093	-15.66%	
	# Blocks per hour	6.13	5.88	4.15%	
	Avg. # TX per block	1,731	1,705	1.51%	

Source: Bytetrete

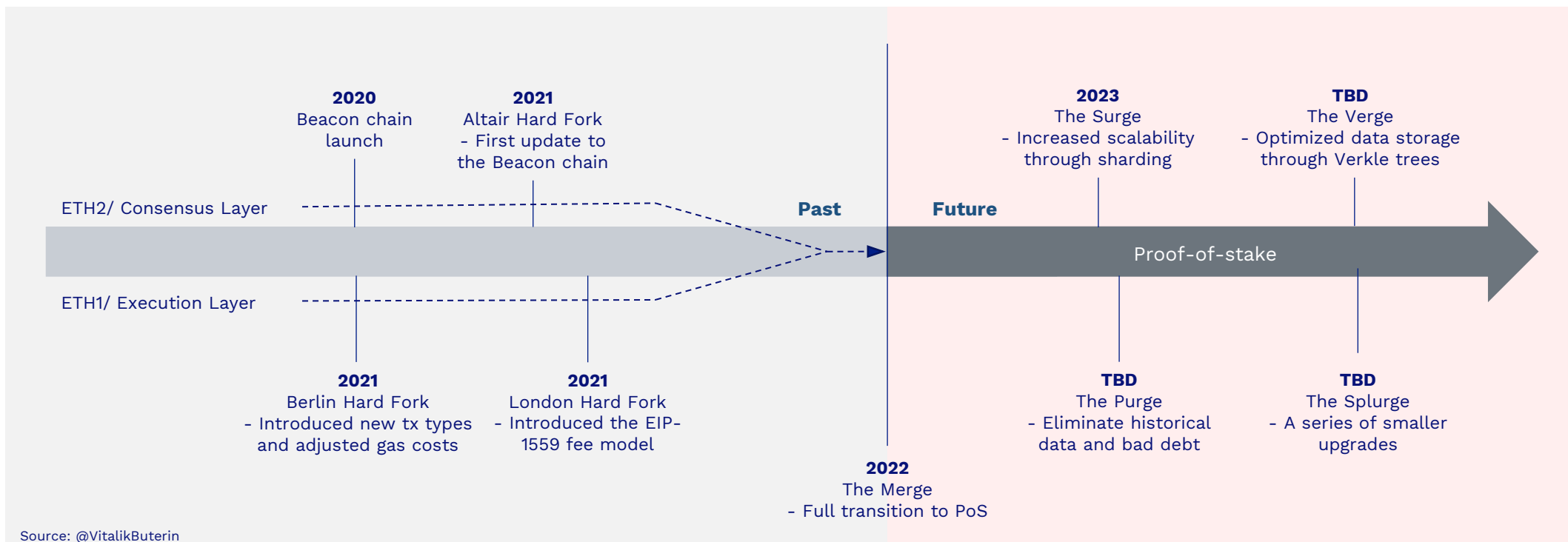


Ethereum 2.0 is around the corner

After years of discussions and hard work to bring proof-of-stake to Ethereum, the merge is well into the final testing stage. Only one more testnet remains: Goerli, and its associated Beacon Chain, Prater.

Terminal Total Difficulty (TTD) is the total difficulty required of the final block mined in Ethereum. TTD for the Goerli Testnet Merge has been set at 10,790,000, which means that the final testnet will go through The Merge transition around [August 10th](#). The following block will be produced by Proof of Stake. Vitalik recently attended EthCC, where he laid out the long-term future for Ethereum, and the full talk can be found [here](#).

Key takeaways: The Merge is a change of *consensus mechanism*, not an expansion of network capacity. The ETH2 journey is just beginning, and solutions to gas fees, speed & scalability are coming from rollups and later upgrades that are all happening in parallel.

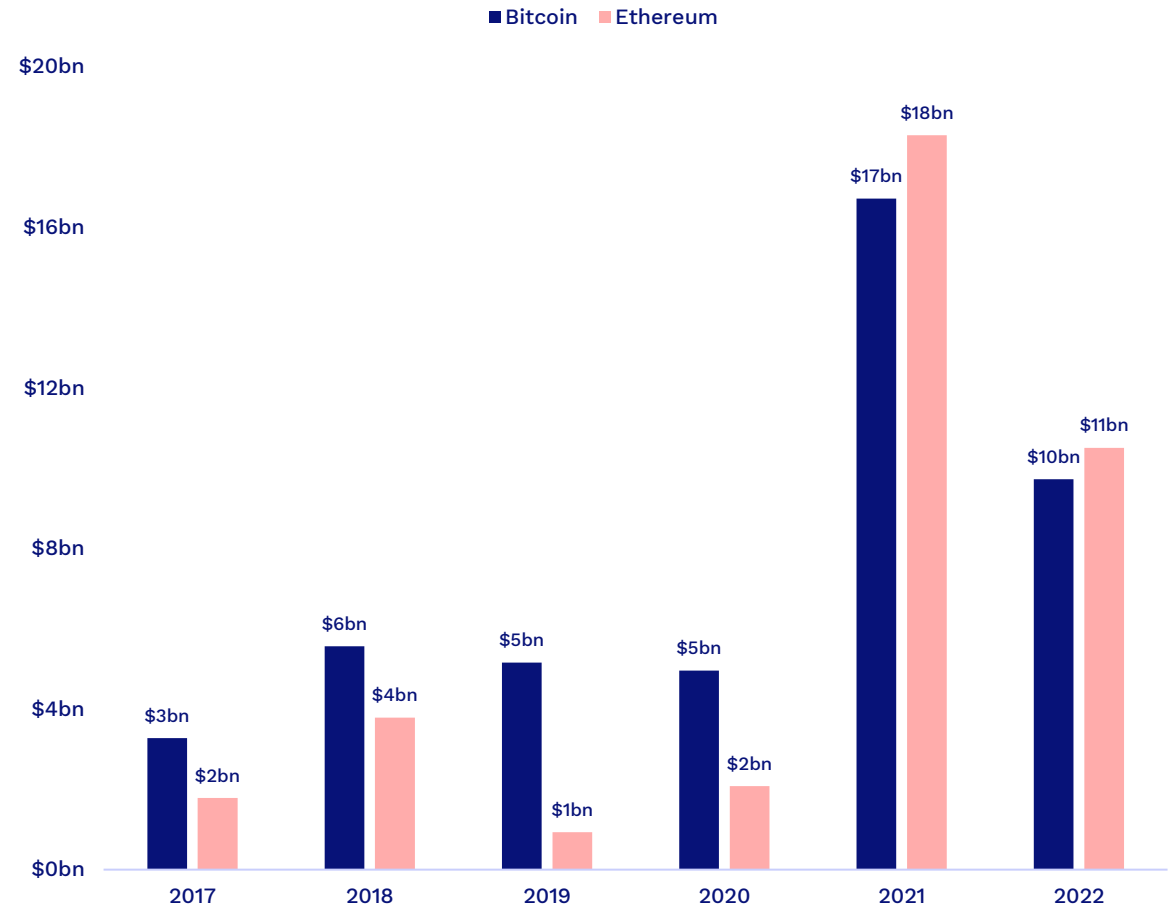


Ethereum miners are not looking forward to the merge

Ethereum's upcoming move to proof-of-stake will render Ethereum miners obsolete. Will the miners accept the defeat or fight back?

- Ethereum mining is bigger than bitcoin mining based on revenue. Ethereum miners earned \$18 billion in 2021, compared to \$17 billion for bitcoin miners.
- Soon, the merge ([previous slide](#)) will replace miners by staking validators, meaning that the Ethereum mining revenue will suddenly drop from billions of dollars annually to zero.
- Ethereum miners use GPUs, which are different from the ASICs bitcoin miners use. They can, therefore, not direct their machines to mining bitcoin instead. Several mineable GPU coins exist, but most are very small, as Ethereum currently provides around 95% of the total GPU mining revenue.
- The second-biggest GPU mineable coin is Ethereum Classic. Its mining income is currently only 3% that of Ethereum, meaning that at current price levels, it has not enough room to house the ousted Ethereum miners, although it has surged by 155% in the last month.
- With around \$15 billion invested in GPU mining machines, Ethereum miners are incentivized to attempt to push up the price of Ethereum Classic and other GPU mineable coins. Last week, one of the biggest mining pools donated \$10 million to support the Ethereum Classic ecosystem. Some prominent miners are also talking about forking Ethereum to a proof-of-work version.
- If the Ethereum miners are not successful in their attempts to move to other GPU mineable coins, their only option left is to dump their GPUs on the market, which could lead GPU prices to plummet.

Mining Revenue by Year: Ethereum vs Bitcoin



Source: CoinMetrics

*2022 is normalized to a full year based on the revenue so far



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