

The Weekly Update

Week 32, 2022



Provided by

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research

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Market Update

- BTC keeps showing strength, attempting to break its crucial resistance level of \$25k. BTC is up 1% over the past seven days and has consolidated in the \$23k to \$25k area.
- Ethereum's share of the total crypto market cap has surpassed 20% for the first time since May after several weeks of outperforming BTC. The recent Ether strength has led ETHBTC to climb towards its 2021 highs.
- The Fear and Greed index has recovered to its highest levels since April.
- BTC's short-term correlation to the broad financial markets has declined towards yearly low levels, with BTC underperforming Nasdaq. A sign of a structural shift?

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Valuation

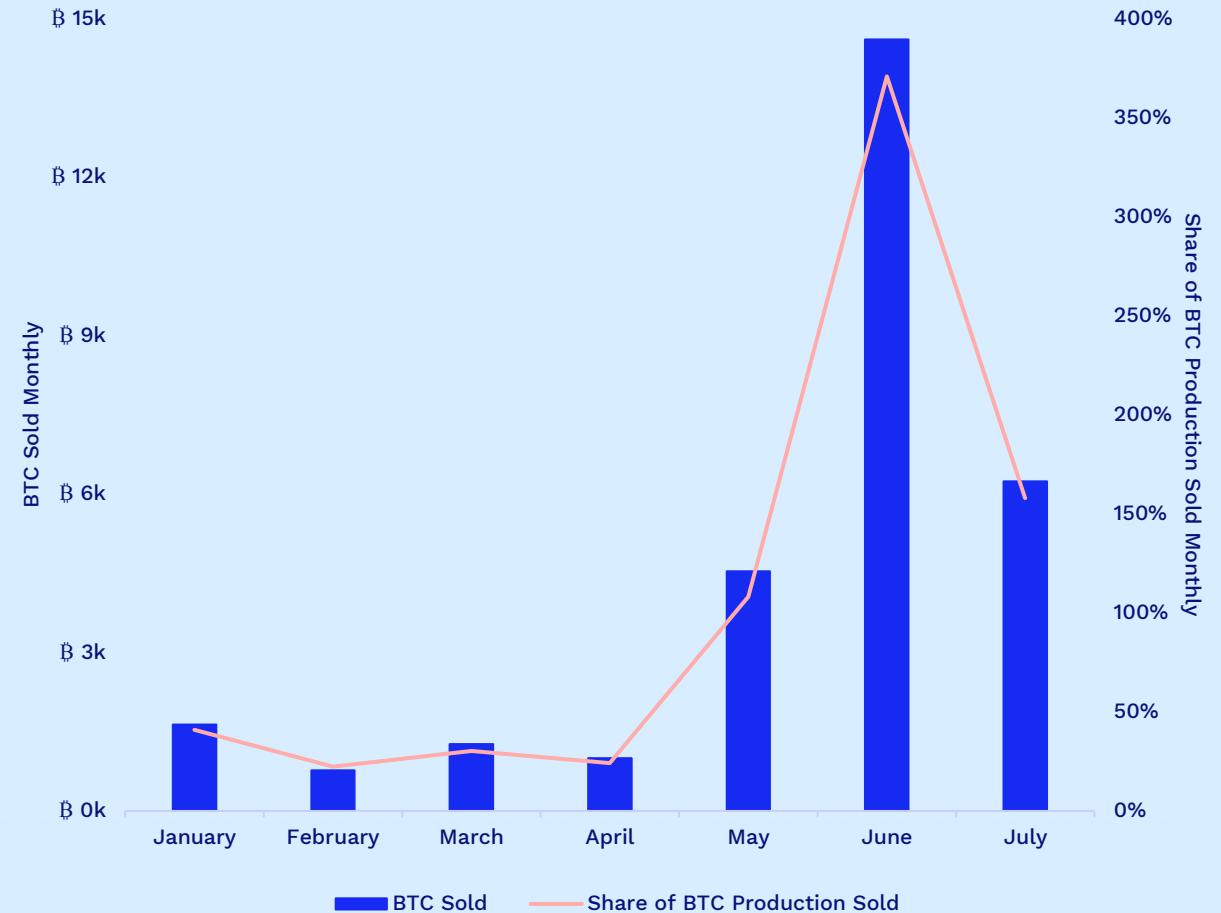
- Bitcoin remains in an uptrend, pushing higher lows and higher highs, seeing a brief visit above \$25k as the trading range narrows.
- Futures premiums and funding rates in BTC remain low as trading activity in BTC derivatives dwindles.
- The open interest in Ether options has reached a new all-time high, overtaking the BTC options open interest for the first time in history.

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Blockchain Activity

- Bitcoin's hashrate keeps hovering around 200 EH/s, close to the same levels observed in March – five months ago.
- Public miners are still dumping their bitcoin holdings at a higher rate than their production rate. Public miners sold 6,200 BTC in July, making July the second-highest BTC selling month in 2022.

Public Miners: BTC Sold in 2022



Source: Public miners' monthly production updates

Bitcoin and Ethereum attempting to break key resistance levels

- BTC keeps showing strength, attempting to break its crucial resistance level of \$25k. BTC is up 1% over the past seven days and has consolidated in the \$23k to \$25k area.
- ETH has outperformed BTC over the past seven days, shown by the ETHBTC ratio surging towards 2021 highs. ETH increased by 7% over the past seven days and has, similarly to BTC, been challenging a key resistance level at \$2k. The upcoming merge has led to elevated trading activity for ETH, especially in the options market, where the open interest surpassed BTC's for the first time in history.
- Crypto market participants continue watching big macro announcements like hawks. Last Wednesday, the July CPI came in at 8.5%. The stock and crypto markets rallied following the 0.2% lower than expected CPI release. Still, we have recently seen a decline in BTC's correlation with the stock market.
- The crypto market sentiment is currently at a four-month high, and traders are increasingly comfortable getting exposure to smaller coins. Meme coins have been making a comeback, with Shiba Inu and Dogecoin surging by 33% and 26% over the past seven days.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Shiba Inu	0.00002	32.9%	48.5%	-42%
Dogecoin	0.09	25.6%	37.2%	-49%
OKB	21.43	16.0%	65.9%	-25%
Worst Performing	Price	Last week	Last month	YTD
ApeCoin	6.35	-13.2%	33.4%	-51%
Quant	113.69	-11.6%	11.0%	-36%
Flow	2.74	-9.7%	72.6%	-67%

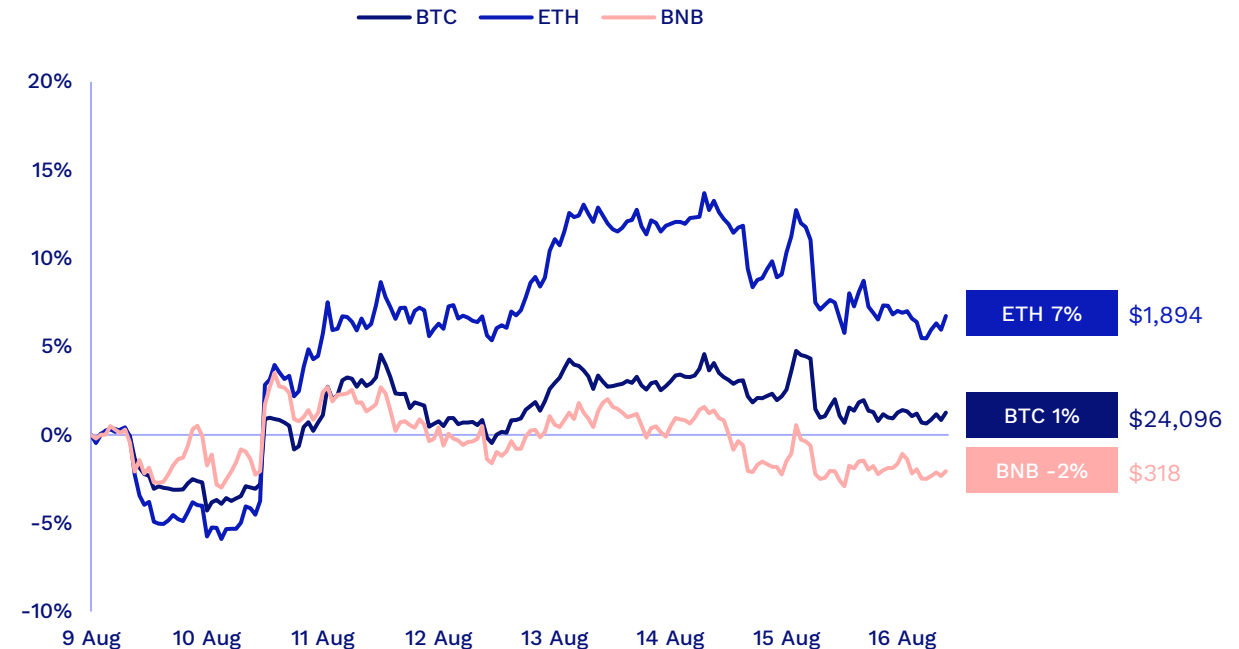
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.894	0.001	0.274	0.056	0.643	-0.002

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



Ethereum continues stealing market share

Ethereum's share of the total crypto market cap has surpassed 20% for the first time since May after several weeks of outperforming BTC.

- With half of August behind us, all indexes have seen positive returns. The Small Cap Index is the best performer with an 8% increase. Large Caps (+6%) and Mid Caps (+6%) follow closely behind, while bitcoin (+3%) has seen the least gains.
- Ethereum keeps outperforming the rest of the crypto market as traders are bullish on the smart contract platform's upcoming transition to proof-of-stake. After increasing by 7% over the past seven days in an otherwise relatively flat crypto market, Ethereum managed to increase its market share by 0.9 percentage points.
- After several weeks of outperformance, Ethereum's market share has increased from a bottom of 14.3% in the middle of June to 20.1% now. BTC's market share plummeted from 47.5% to 40.1% during the same period. It's evident that traders favor ETH over BTC right now.
- Ethereum also keeps stealing market share from other smart contract platforms in terms of total value locked on DeFi applications. Currently, 59% of the total value locked in DeFi is on Ethereum, indicating that DeFi participants are confident the merge will go as planned.

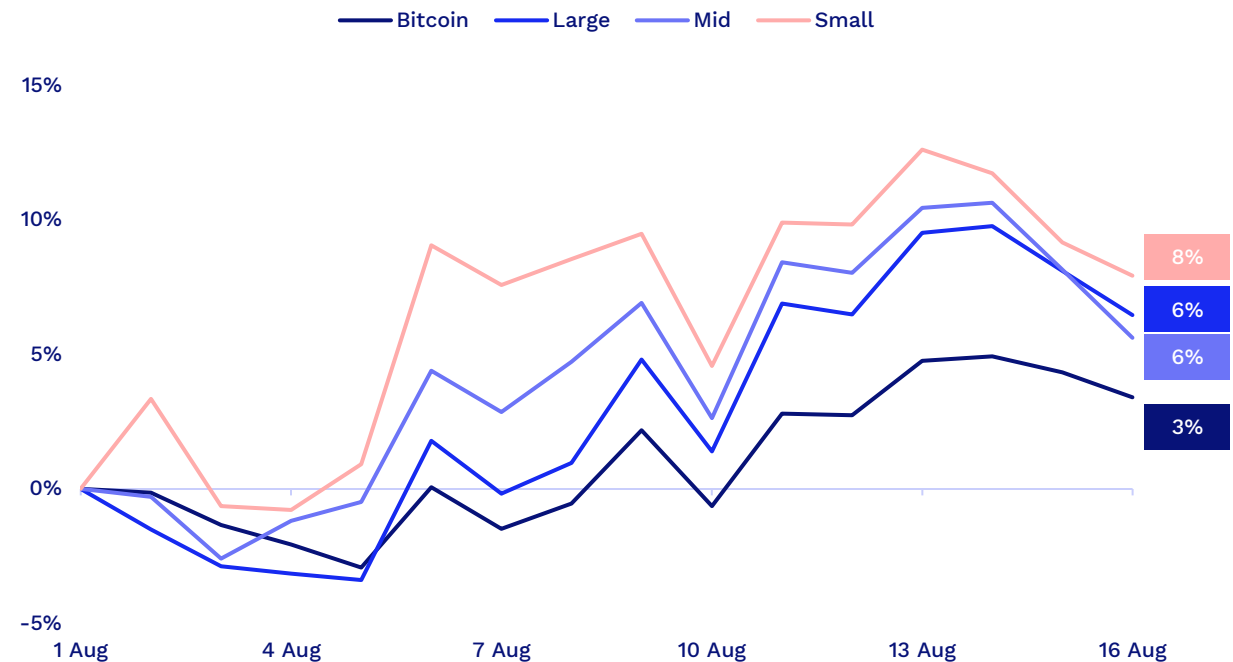
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	ADA	XRP	BUSD	SOL	DOGE
Market Share	40.10%	20.09%	5.89%	4.66%	4.46%	1.67%	1.61%	1.56%	1.32%	1.01%
Weekly Change	-0.42%	0.89%	-0.03%	-0.17%	-0.16%	0.06%	-0.01%	-0.03%	0.01%	0.15%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes



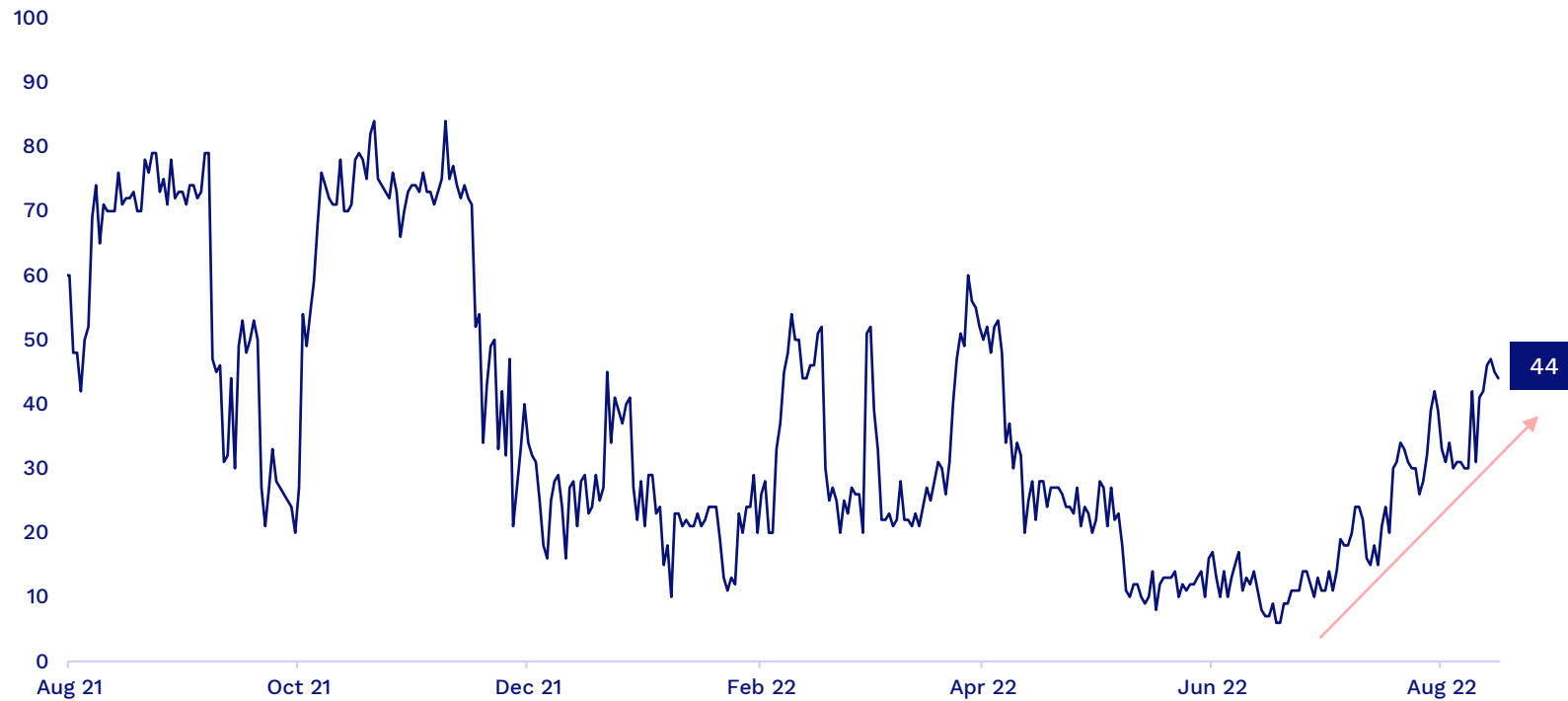
Source: Bletchley Indexes, Tradingview (Coinbase)



The crypto market sentiment reaches a four-month high

Optimism hasn't been higher in the crypto market since early April, as indicated by the Fear and Greed Index. The index currently sits at 44, a massive improvement from the low of 6 in June. Even though the market sentiment has vastly improved, the market is still careful in declaring a roaring bull market just yet, as Fear and Greed levels below 50 indicate fearfulness. The bitcoin price has soared by 40% since this bear market's bottom. Seeing such a high gain without the Fear and Greed Index visiting the greedy territory is highly unusual and indicates that market participants are skeptical that this bull market will last.

Fear and Greed Index



Source: Alternative.me



Binance volume dominance see further growth

The bitcoin spot volume has increased over the last week, with Binance's market dominance surging. In the last 7 days, Binance has accounted for nearly 90% of the bitcoin spot volume. While the removal of fees may attract wash trading to the platform, it's also natural that active traders seek to trade bitcoin on Binance, given the reduced costs. While the fee removal on Binance has caused trading volumes to grow, the bitcoin trading volumes overall remain in a lull. Both derivatives and other spot venues see declining volumes, and the overall tendency seems to be a dampened activity in the market.

Real BTC Daily Volume* (7-day average)



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

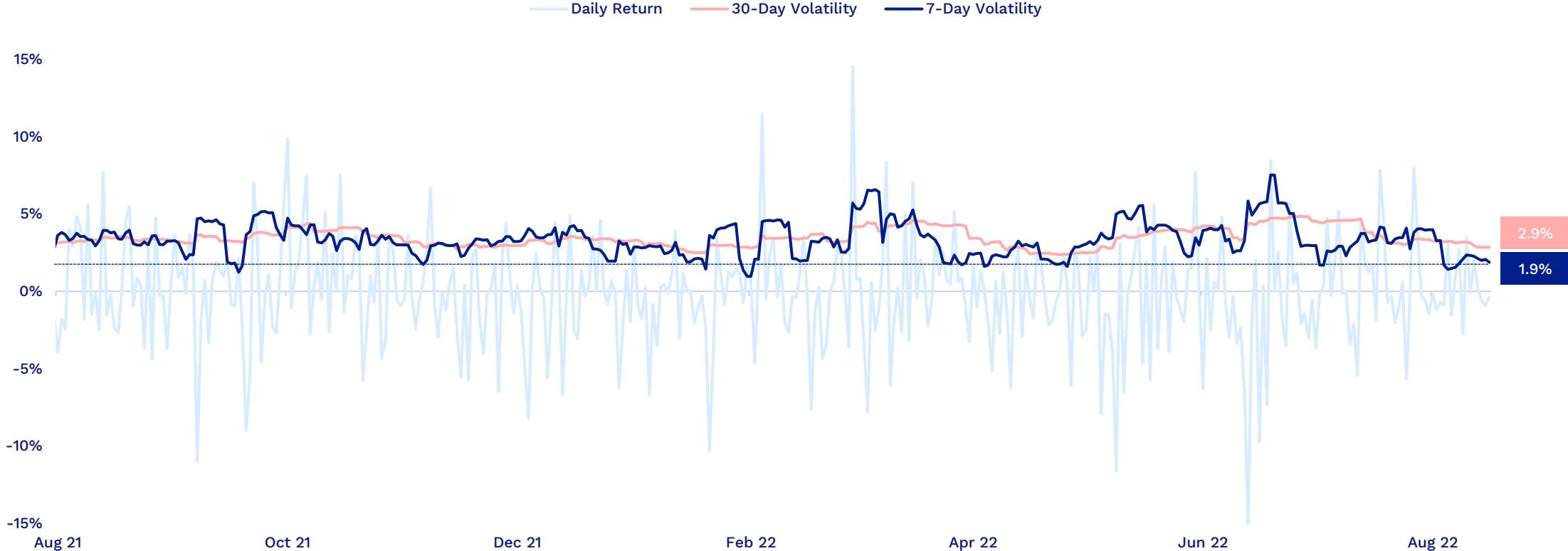
*Includes Bitwise 10 exchanges, LMAX, FTX



Bitcoin continues to trade with little volatility

The bitcoin price has stayed within the \$23k to \$25k range over the past seven days in one of its least volatile seven-day periods over the past year. Both the 7-day and the 30-day volatilities are sitting at remarkably low levels of 1.9% and 2.9%. Bitcoin's seven-day volatility has not stabilized at such low levels since late March, and such low volatility environments tend to be short-lived in bitcoin, don't be surprised if the market awakes from its temporary slumber shortly.

BTC-USD Volatility



Source: Tradingview (Coinbase)



ETHBTC climbs towards 2021 highs

Recent Ether strength has led ETHBTC to climb towards its 2021 highs.

- The Ethereum mainnet is rapidly approaching its transition from Proof of Work to Proof of Stake (the Merge) after the final testnet Goerli was successfully merged last week. The final Merge of the Ethereum mainnet is now estimated to occur around September 15th.
- The Merge has been a strong narrative, leading ETH to outperform BTC significantly since the middle of July. Relative to BTC, ETH currently trades near the 2021 highs, currently trading at 0.078, after recovering from lows of 0.053 on June 18th.
- We noted trading opportunities related to Ether in our previous market update. Since, ETHPOW-related instruments have struggled to gain any meaningful traction. BitMEX's ETHPOW instrument has seen low volumes and currently trades at \$60, 3% of the price of ETH. Meanwhile, Ether futures still trade at a sharp discount to spot, with the quarterly ETH futures contract trading 4-6% below the spot market annualized.
- In 2021, the ETHBTC price peaked at 0.0886 on December 9th, 2021, 13% higher than today's level. The current ETHBTC rally peaked at 0.0881 on August 13th following the announcement of September 15th estimate for the mainnet Merge.
- Ethereum has only traded at higher levels compared to BTC for 196 days since May 2016, or 8.62% of all days since May 2016. Since Jan 1st 2021, ETH has only closed at higher levels than today's level 39 times, or 6.59% of all days since Jan 1st 2021.
- Based on the recent strength, it's clear that traders want exposure to ETH as we're approximately one month away from the Merge date. However, relative to BTC, ETH is trading near previous cycle highs, and the current level may not be long-term sustainable. Nevertheless, ETH might be able to maintain its strength relative to BTC as we approach the Merge. Still, the crypto market tends to overemphasize the impact of known events, and it is far from unlikely that the Merge becomes an inflection point for a short-term trend reversal.



Source: Tradingview (Coinbase)

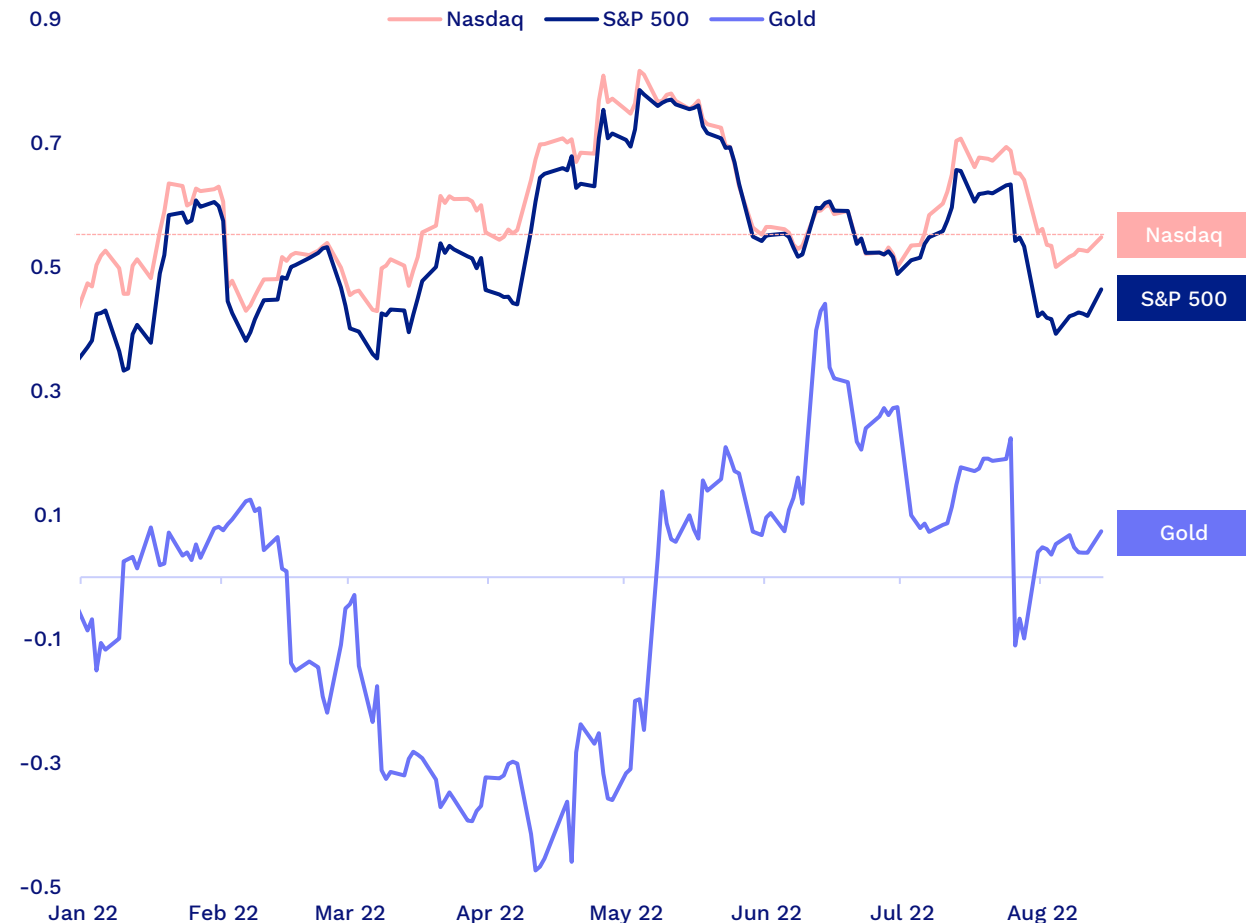


A structural shift in BTC's strongly correlated environment to U.S. equities?

BTC's short-term correlation to the broad financial markets has declined towards yearly low levels, with BTC underperforming Nasdaq. A sign of a structural shift?

- Overall, the broad financial market has seen a strong relief in risk assets, evident by Nasdaq seeing 5.77% gains since Aug 1st. Bitcoin usually outperforms equities in these conditions but has underperformed thus far in August (+2.67%). Meanwhile, amid this underperformance, BTC's correlation to risk assets has declined and flattened near yearly low levels of 0.5-0.6.
- The correlation of BTC to equities is likely caused by a myriad of forces, mostly connected to BTC being viewed as a risk asset by professional investors, in addition to BTC's relationship to general liquidity and monetary policy.
- However, the effects of certain relevant forces contributing to BTC's high correlations to other risk assets have softened over the last months. We'll mention three such forces below and will elaborate further in a deep dive later this week.
 - Reduction of BTC holdings from large public companies (i.e. Tesla).
 - Forced selling from miners on the backdrop of increased interest rates and energy prices.
 - Previous ease of access to private funding and a sharp focus on growth by crypto companies amid the fruitful bull market conditions in 2020-2021. This was followed by a very sobering hangover related to the increased cost of capital and general reduction of access to private funding for growth-oriented private crypto companies, creating the perfect conditions for the May and June meltdowns.
- Yet, BTC's current 30-day correlation to Nasdaq remains high at 0.55. Automated trading strategies and the well-known associated correlation between bitcoin and other risk assets may act as a self-fulfilling prophecy in the coming period. The aforementioned softening correlation forces may not be sufficiently strong to lead to a structural shift in this trend.
- As a side note, bitcoin and gold have been largely uncorrelated since May. A well-balanced portfolio consisting of gold and bitcoin may be an interesting play onwards, with gold seeming like a potent valve to hedge out risk.

Bitcoin: 30-day correlation to various indices



Source: Tradingview





Valuation



Bitcoin still seeing higher lows as trading range narrows

Bitcoin remains in an uptrend, pushing higher lows and higher highs, seeing a brief visit above \$25k, as the trading range narrows.

- Bitcoin's steady climb has continued in the last week and saw a brief visit above \$25k for the first time since June.
- While BTC still sees higher highs, bitcoin has traded in a tight range oscillating around \$24k this week, possibly suggesting that momentum is weakening.
- Bitcoin has found support in the higher \$23k area, trading in a tight range between ~\$23.8k-\$25k.
- Bitcoin's nearest resistance level sits at the May capitulation levels in the \$25k area. A breakout above this level could see us move towards the \$27k-\$28k level.



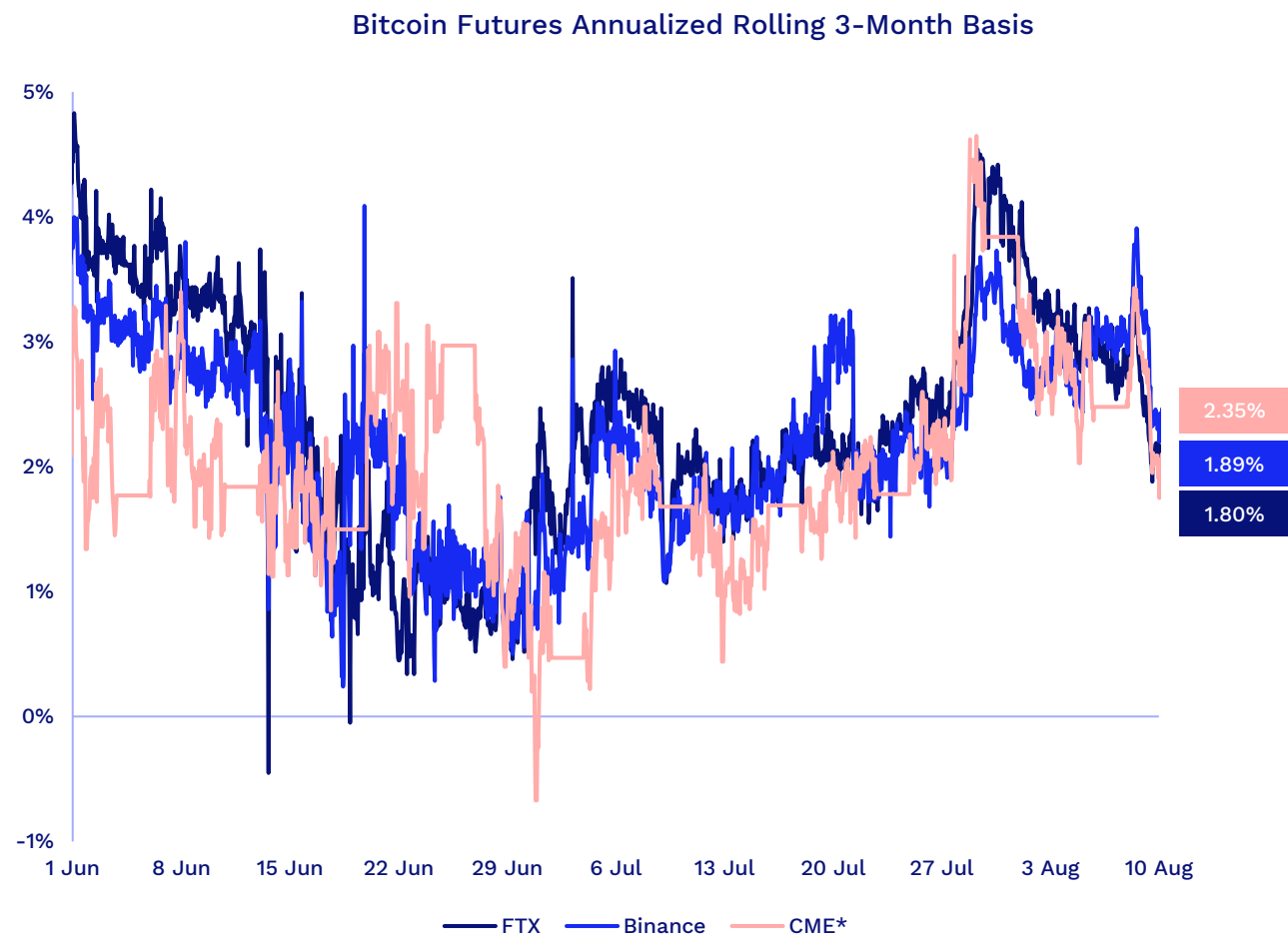
Source: Tradingview (Coinbase)



Low activity in the bitcoin futures market

No major changes in futures basis amid flat market.

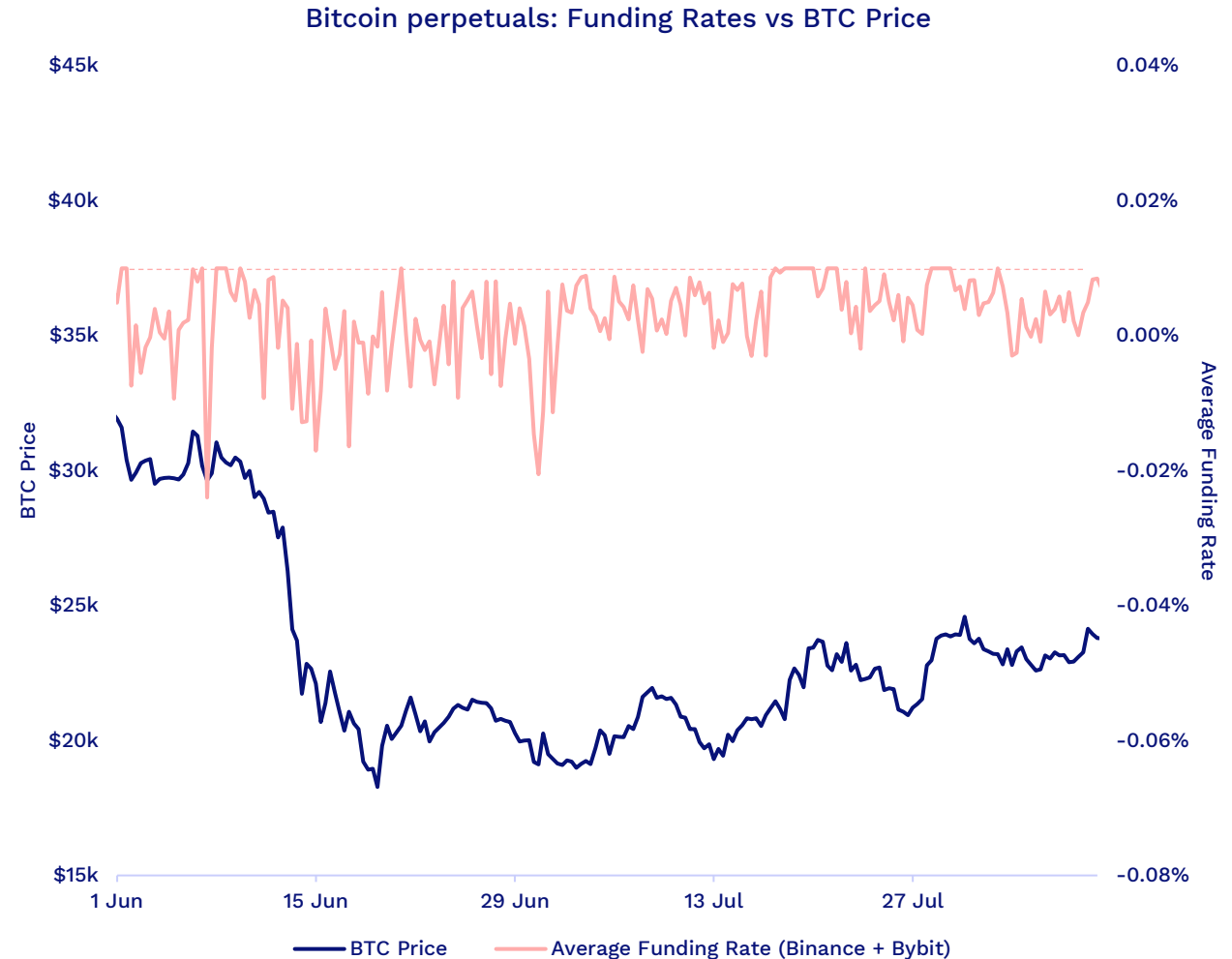
- The bitcoin futures basis has seen a slight decline since last week, with CME trading at a small premium to the offshore exchanges.
- Binance's basis has seen the most substantial decline falling from 2.9% to 1.9% over the last seven days.
- The low basis is coupled with muted trading volumes. Last week, the 7-day average trading volume in BTC futures reached its lowest level since December 2020.
- While bitcoin futures trade at relatively stable premiums, with few noteworthy tendencies, Ether futures still trade at a sharp discount to spot, likely driven by hedging and trading strategies related to the merge as mentioned last week.



Funding rates below neutral as open interest declines

Funding rates at negative levels throughout most of last week, indicating a lack of conviction for further upside.

- Funding rates in perps are mirroring the stagnant trend in BTC futures and have mostly trailed in negative terrain far below neutral levels over the last week.
- Despite BTC's strong upwards trend of higher lows, perp traders seem uninterested in adding long exposure, as the bitcoin derivatives market stays in a slow state.
- A substantial decline in open interest has accompanied the low funding rates. The BTC denominated open interest has declined from a peak of 360,000 early last week to 335,000 BTC, driven mainly by activity on Binance.



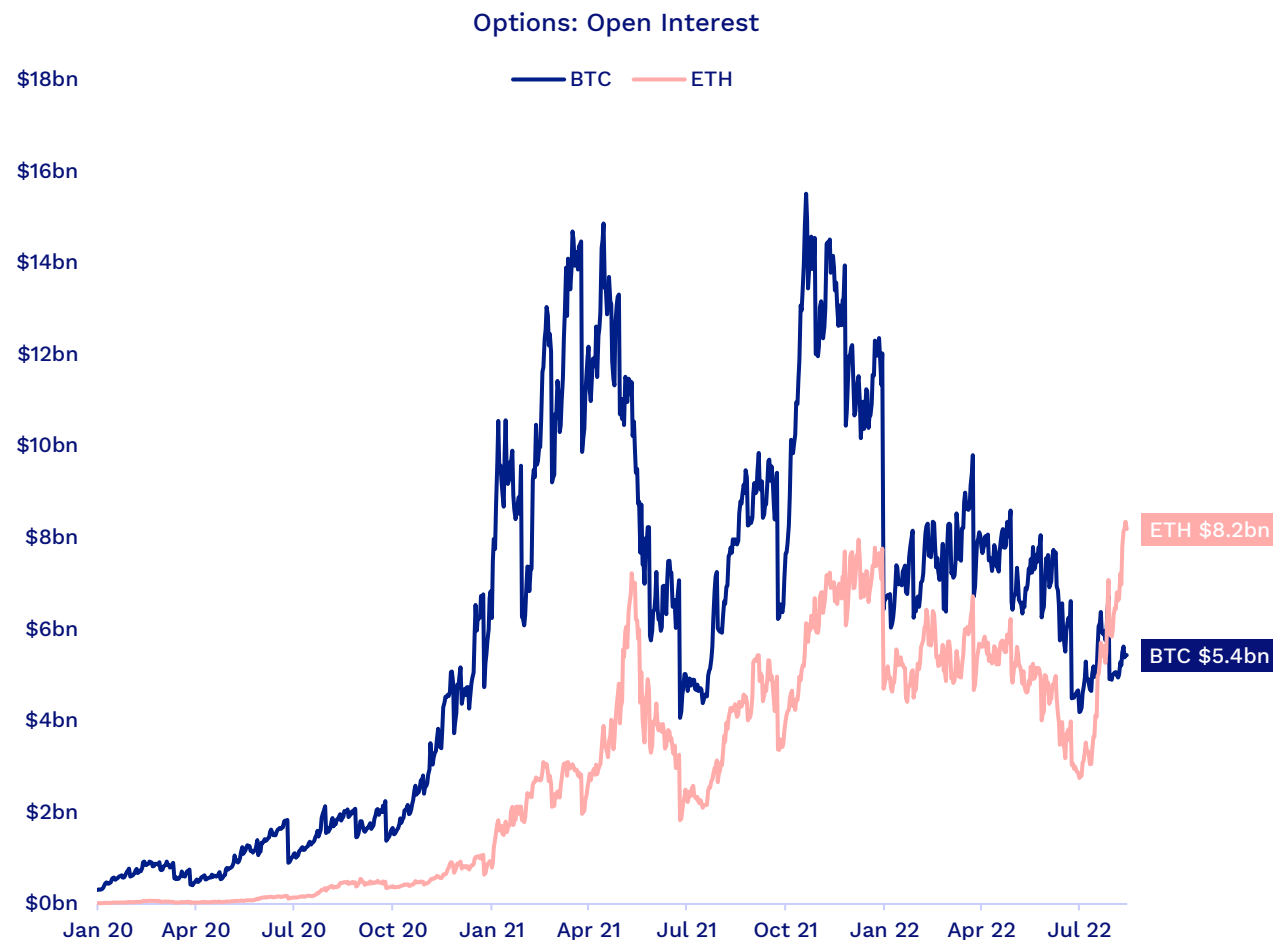
Source: Skew, Bybit



Open interest in Ether options has overtaken BTC options

The open interest in Ether options has reached a new all-time high, overtaking the BTC options open interest for the first time in history.

- Activity in Ether options has blossomed as Ethereum nears its merge date.
- The open interest in Ether options has now pushed to a new all-time high of \$8.1bn, substantially higher than the current open interest in BTC options of \$5.5bn.
- Three strike dates are particularly crowded, September 30th, December 30th, and March 31st, with \$3,000 being the most crowded strike price.
- The implied volatility of mid-term strike dates (1-6 month durations) of Ether options are trailing at around 100%, whereas BTC options see far lower IVs trailing around 70%.
- While ETH options see a high open interest and an elevated put call ratio, options skew remains slightly positive, with puts remaining pricier than calls. This indicates that activity in Ether options is related to sophisticated trading strategies, with the predominant activity being related to buying and selling calls in ETH for various maturities.



Source: Skew














Blockchain Activity



Bitcoin's hashrate hasn't grown in five months

Bitcoin's hashrate keeps hovering around 200 EH/s, close to the same levels observed in March – five months ago.

- Bitcoin's hashrate keeps hovering around 200 EH/s, close to the same levels observed in March – five months ago. The weak bitcoin price has disincentivized miners from expanding capacity. In addition, supply chain issues have made hashrate expansion challenging, as there is a considerable lack of data center capacity to plug in the machines.
- Most mining analysts expected the hashrate to reach around 300 EH/s by the end of the year, but it looks implausible now. The hashrate will likely end the year somewhere between 230 and 250 EH/s. The remaining growth during the year will be due to public miners like Marathon, Core Scientific, and Riot having massive expansion plans in Q3 and Q4.
- Other than that, we see that the number of active addresses is normalizing. The 7-day average of active addresses currently sits at 928k, compared to the bottom of 834k in the middle of June. On-chain activity is returning after an unusually calm on-chain period since the middle of June.
- In addition to the growing number of active addresses, we see that the daily transaction volume has increased by 13% over the past seven days. With the number of transactions per day being relatively static at around 250k, the increase in daily transaction volume is due to the average transaction value increasing by 15%.
- Even though on-chain activity has been increasing, transaction fees are still low, with the average transaction fee over the past seven days being only \$1.4. Transaction fees are currently only 1.7% of miner revenues, which is extremely low historically. The historical average since 2011 is 3.2%.

Powered by: 		Bitcoin Network Data			
		8/15/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	\$ 21,869,812	\$ 21,936,999	-0.31%	
	Fees per day	\$ 369,111	\$ 356,709	3.48%	
	Fees % Revenues	1.69%	1.63%	0.06%	
	Daily TX Volume (\$M)	\$ 3,720	\$ 3,294	12.93%	
	Transactions per day	251,413	255,371	-1.55%	
Utility	Avg TX value \$	\$ 14,797	\$ 12,900	14.71%	
	# Blocks per hour	5.96	6.23	-4.30%	
	Avg. # TX per block	1,758	1,786	-1.55%	

Source: Bytetrete

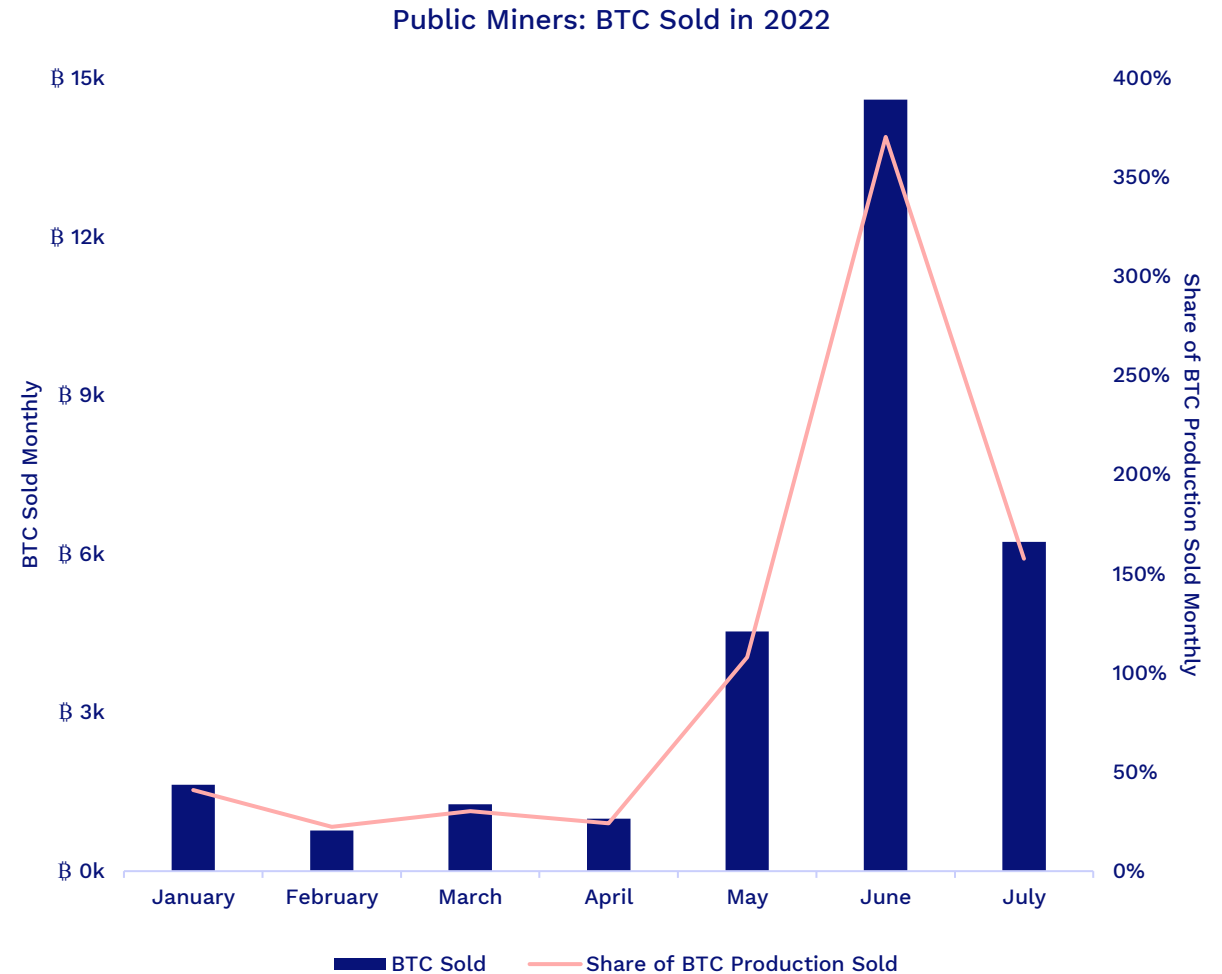


Source: Blockchain.com

The selling pressure from the public bitcoin miners is easing

The public miners are still dumping their bitcoin holdings, but not nearly to the same extent as during the mining bloodbath earlier this summer.

- The market rout during May and June created a new generation of forced bitcoin sellers, as known institutions dumped close to 240,000 BTC. The die-hard hodling public miners were among those who were forced to dump thousands of bitcoin to fire sale prices.
- The selling pressure from the public miners has since weakened, as they "only" sold 6,200 BTC in July, less than half the amount they sold the previous month. July was still the second-highest BTC selling month in 2022 for the public miners, indicating that they are still in a difficult financial position.
- The public miners sold 158% of their bitcoin production in July, making it the third month in a row where they sold more than 100% of production.
- While the bitcoin price plummeted by 41% in June, it rebounded in July and gained 26%. This naturally gave the public miners some breathing room, and June's forced selling stopped. July has seen a more natural selling pressure related to de-risking.
- We expect the selling pressure to continue at between 100% and 150% of production unless something significant happens to the bitcoin price. This is equivalent to between 4,000 and 6,000 BTC per month.



Source: Public miners' monthly production updates aggregated by Arcane Research



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