

The Weekly Update

Week 33, 2022



Provided by **arcane**
research

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Market Update

- It's been a rough week in the market, with BTC breaking its strong uptrend momentum after a steep correction on Friday down towards \$21,000, ending the week seeing losses of 11%.
- We've explored website traffic for 35 of the largest crypto exchanges globally, finding that U.S. traders are by far the most active participants in the market, representing 14.33% of all crypto exchange visits, while Binance is the most frequently visited crypto exchange by a landslide.
- The current bitcoin drawdown has lasted for 286 days, and we are currently down 70% from the all-time high. The 2018 and 2014 bear markets lasted for 12-13 months, with maximum drawdowns of 85%.

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Valuation

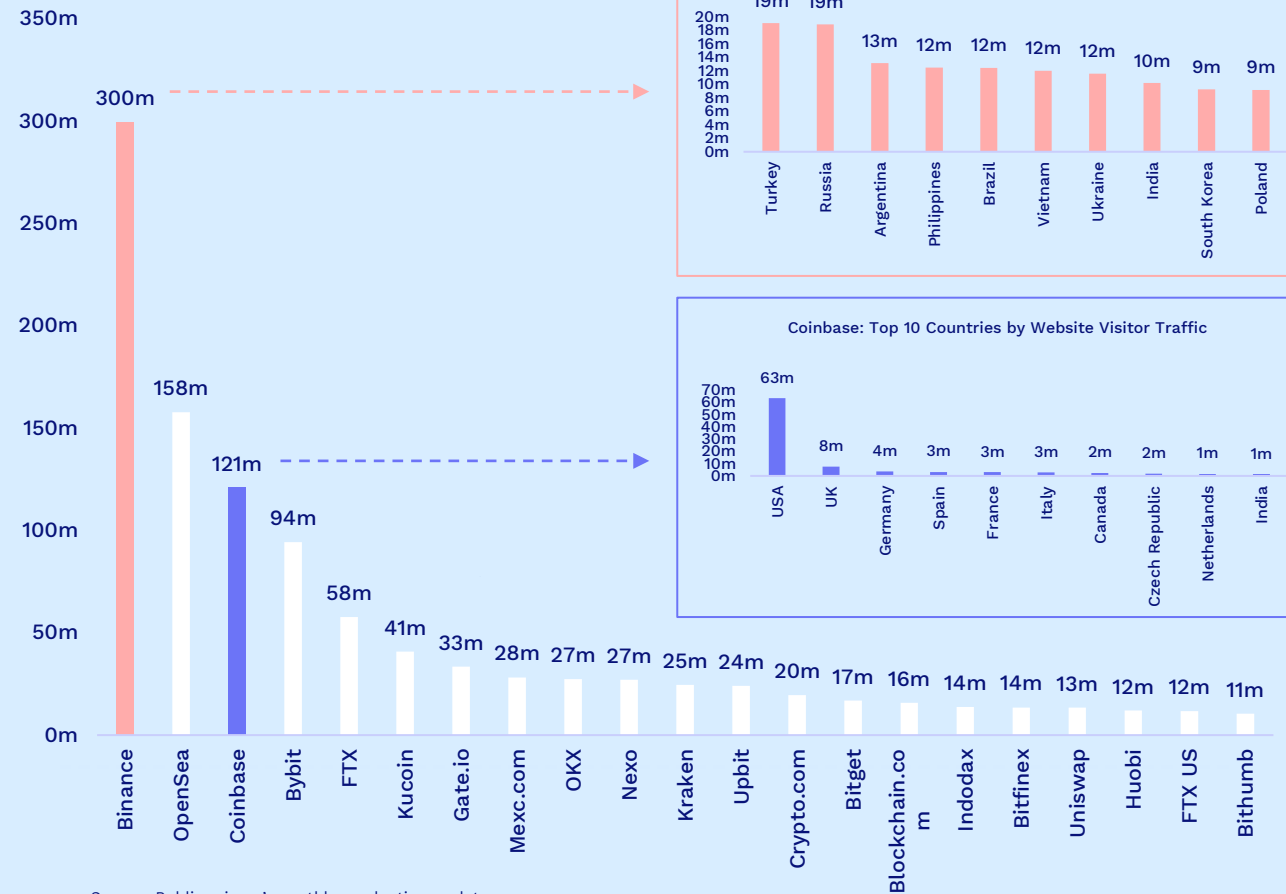
- After the uptrend in bitcoin abruptly ended, BTC has made its third retest of the \$20,700 support area.
- Futures premiums plunged towards late June lows as BTC's upward momentum stalled. The offshore premium is near all-time lows, while CME's front month contract trade at its sharpest discount to spot ever.
- Funding rates have mostly ranged in negative territory in the last week, with Binance recording its lowest funding rate since June 30th on Monday.

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Blockchain Activity

- Transaction fees are plummeting to levels not seen in more than two years, and now make up only 1% of miner revenues.
- Sudoswap has experienced tremendous growth since the launch of its automated market maker SudoAMM on July 8. On August 16, it facilitated 15.4% of OpenSea's NFT trading volume—not bad for a project launched less than two months ago.

Website Visitors: Last 90 days



Source: Public miners' monthly production updates

Bitcoin crumbling as dollar strength pushes towards 20 year high

- It's been a rough week in the market, with BTC breaking its strong uptrend momentum after a steep correction on Friday down towards \$21,000, ending the week seeing losses of 11%. The Friday sell-off coincided with the release of a record high German PPI leading investors to shy risk as expectations of further tightening commenced.
- ETH saw an even steeper sell-off, likely exaggerated by an extended bullish sentiment ahead of the merge, as we briefly noted when commenting on the ETHBTC strength in our last market update.
- Macro headwinds are once again breezing in the market, as the dollar strength index has pushed beyond the yearly high towards a new 20-year high this week. The strengthened dollar has generated a shaky environment for various assets. Since the Friday close, SPX is down 2%, Nasdaq is down 2.44%, while BTC is up 0.78%. Nevertheless, BTC's leg down early Friday might have foreshadowed the ensuing sell-off in equities, and it is far too early to make any decoupling-related victory laps.
- This week's key macro event is the annual Jackson Hole Symposium, with central bank officials from FED, BoE, and ECB attending. Jerome Powell's speech on Friday might offer guidance on FED's policy onwards, which could ignite volatility in the market.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
EOS	1.81000	41.5%	54.4%	-43%
Cosmos Hub	11.60	1.5%	14.6%	-70%
TRON	0.07	-4.5%	-1.7%	-14%
Worst Performing	Price	Last week	Last month	YTD
Filecoin	6.33	-25.5%	13.1%	-81%
NEAR Protocol	4.16	-23.2%	-3.8%	-74%
Flow	2.12	-22.9%	13.8%	-75%

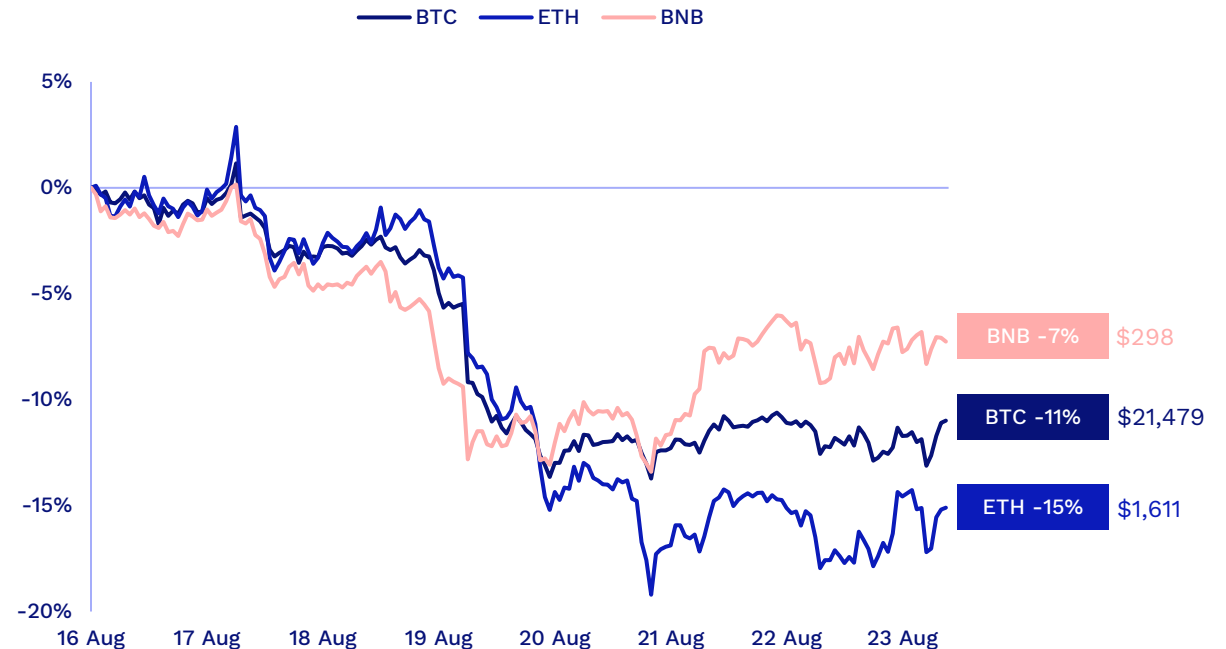
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.896	0.002	0.278	0.004	0.639	-0.004

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



And back we go to risk-off

After weeks of strengthening sentiment in the crypto market, market participants are returning to old habits in reducing their risk exposure.

- As we approach the end of August, all the indexes are in similar territory performance-wise, declining between 7% and 8%.
- The month started with brewing optimism as market participants began to get ready for Ethereum's merge. The Small Caps Index outperformed and was up a maximum of 12% in the middle of the month.
- Last weekend, the market suddenly went risk-off again ([next slide](#)), erasing the month's gains in a few days. During this risk-off period, the smallest coins fell the most, and bitcoin kept its value the best. These dynamics are just what we expect during a worsening market sentiment.
- ETH, which has significantly outperformed BTC during the past couple of months, saw its market share peak above 20% seven days ago. ETH has underperformed against all the major cryptocurrencies over the past seven days ([previous slide](#)), leading its market share to drop by almost one percentage point.
- Who has stolen this market share from ETH? As usual during market turmoil, traders have sought refuge in stablecoins, with the market shares of USDT and USDC growing by 0.77 and 0.5 percentage points.

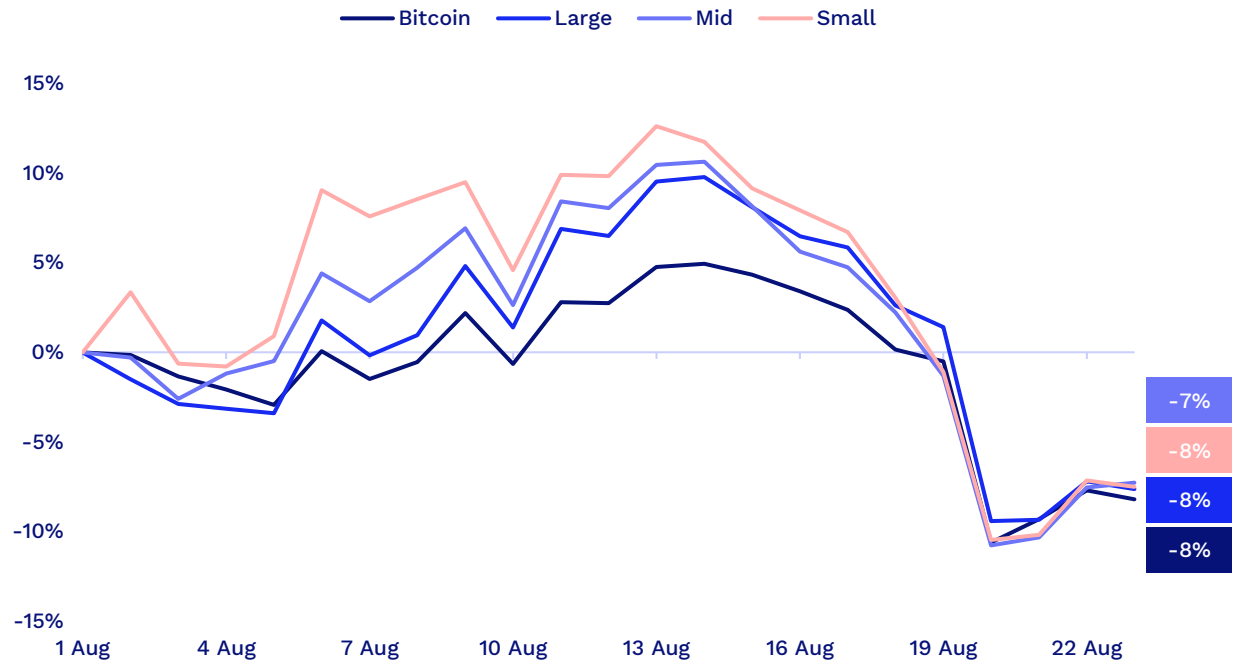
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	XRP	ADA	SOL	DOGE
Market Share	40.00%	19.18%	6.66%	5.16%	4.74%	1.88%	1.64%	1.51%	1.20%	0.89%
Weekly Change	-0.10%	-0.91%	0.77%	0.50%	0.28%	0.32%	0.03%	-0.16%	-0.12%	-0.12%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes

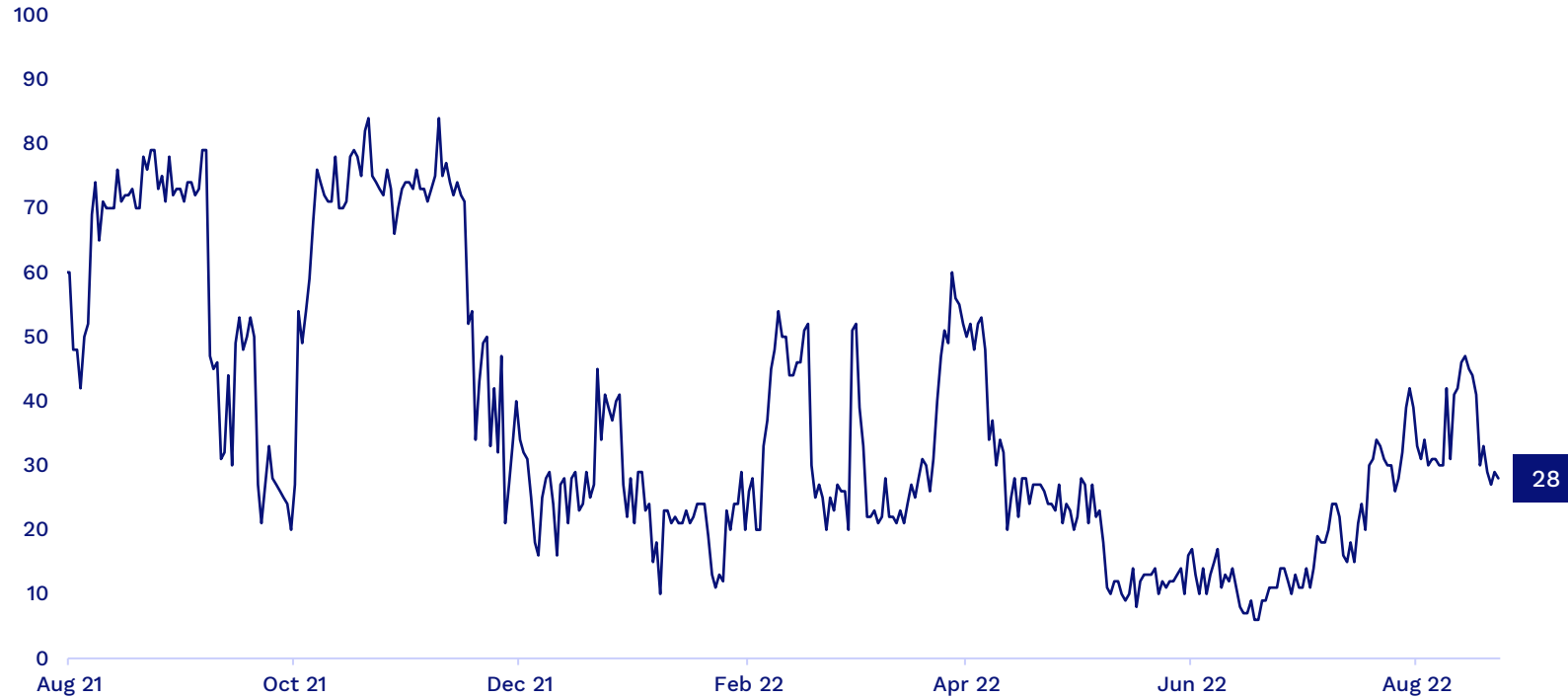


Source: Bletchley Indexes, Tradingview (Coinbase)

Market sentiment retracts after almost hitting 'greed'

In July and parts of August, optimism was building up in the crypto market, and we saw the Fear and Greed Index climb slowly but steadily from the extremely fearful territory towards the greedy area. The index hit a peak of 47 in the middle of August, just three points shy from greed. As we explained last week, market participants want to be careful in showing bullish tendencies, and the index quickly fell towards the extreme fear area just after testing the greed territory. As measured by the Fear and Greed Index, market sentiment is now at 28 – barely clinging above extreme fear.

Fear and Greed Index



28



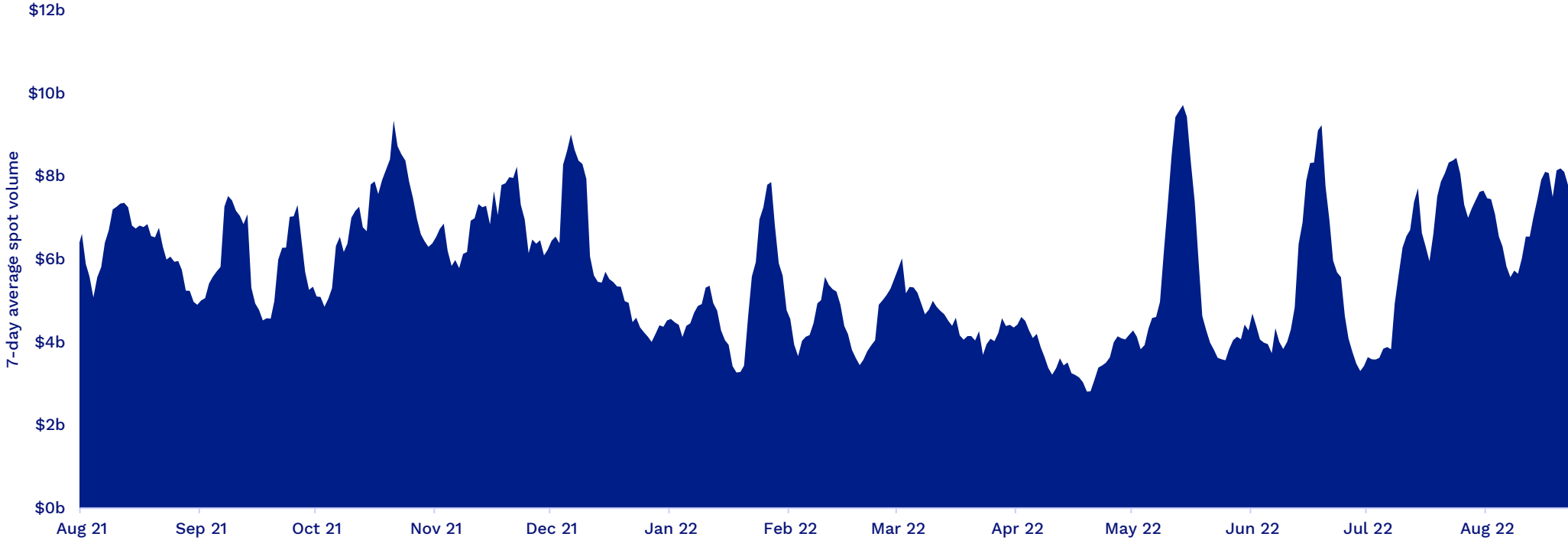
Source: Alternative.me



The bitcoin spot volume stays elevated

The elevated activity in the bitcoin spot market continues, as the spot volume keeps at among the highest levels of the past year. As we have explained in several of our recent market reports, the high volumes are caused by Binance's fee removal, which attracted massive trading activity to the exchange. Spot volumes remain depleted in other venues, and we also see little activity in the bitcoin derivatives markets. In addition, the bitcoin on-chain activity is very muted, with few large transactions taking place, indicating that Binance's surging volumes may not be organic.

Real BTC Daily Volume* (7-day average)



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

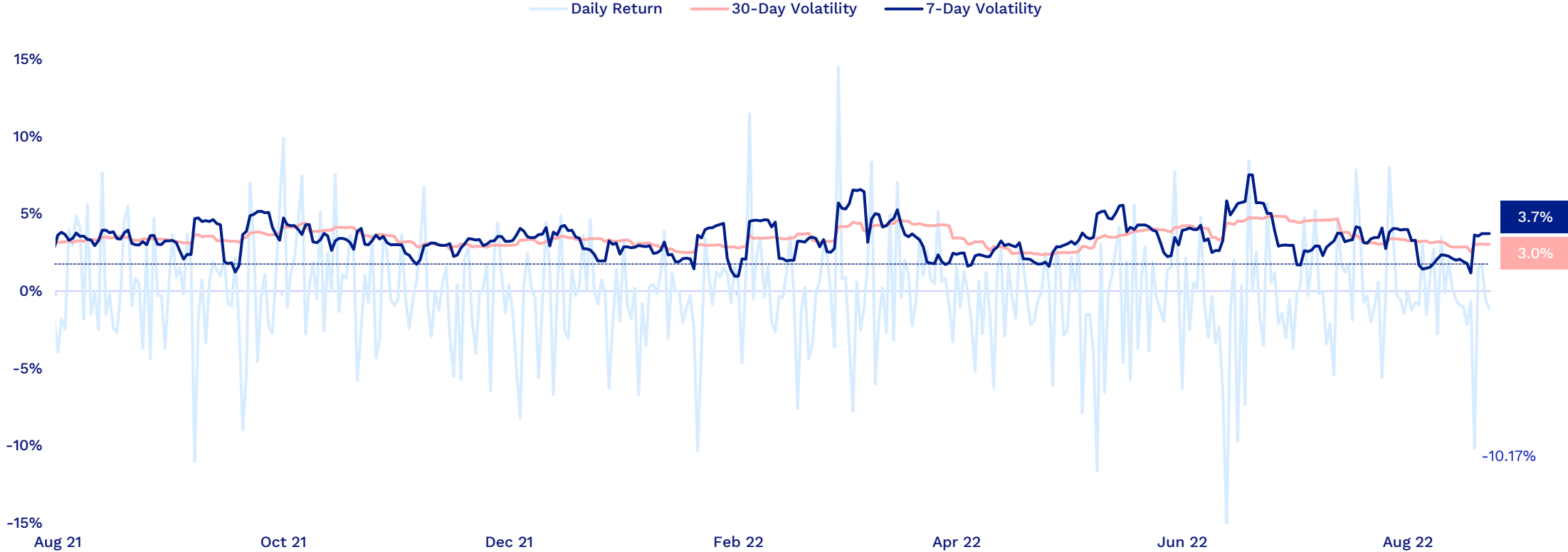
*Includes Bitwise 10 exchanges, LMAX, FTX



Big daily price decline leads bitcoin's volatility to grow

Last week we explained how bitcoin's volatility was staying at among the lowest levels in 2022 and warned that bitcoin rarely experiences such low volatility environments for prolonged periods. As we anticipated, it didn't take more than a few days before bitcoin was violently awakened from its slumber, seeing a 10% daily price decline last Friday as it fell from \$23k to below \$21k in its fifth largest daily downwards price movement of the past year.

BTC-USD Volatility



Source: Tradingview (Coinbase)

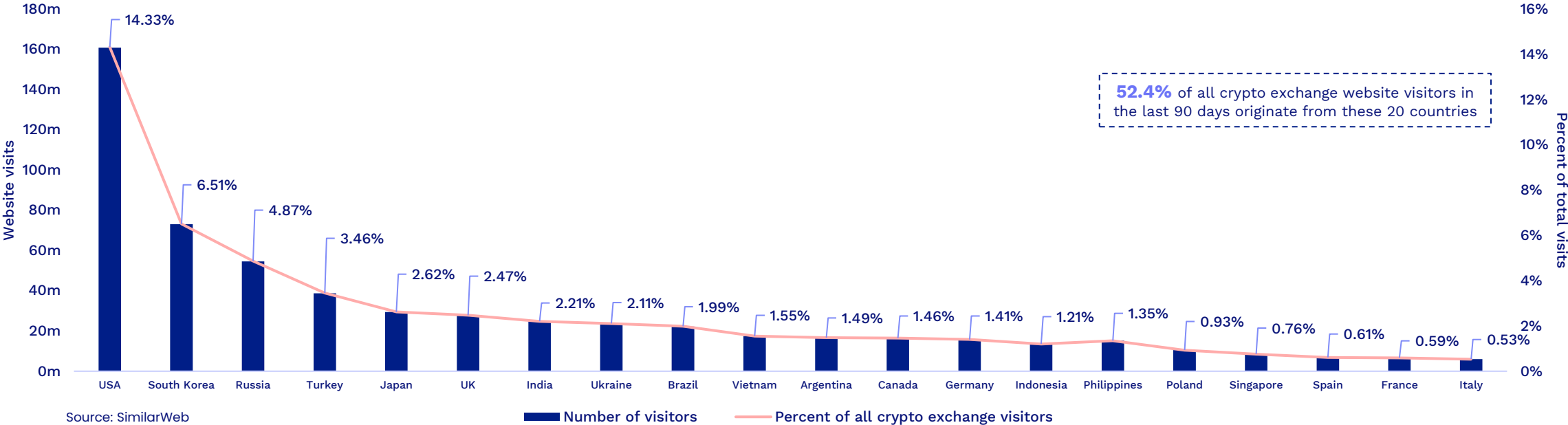


US traders dominate the crypto exchange traffic

We've explored website traffic for 35 of the largest crypto exchanges globally over the last 90 days using SimilarWeb, finding that U.S. traders are by far the most active participants in the market, representing 14.33% of all crypto exchange visits.

- Unsurprisingly, we found that U.S. web traffic by far dominated website traffic to crypto exchanges, representing 14.33% of all web traffic to crypto exchanges in the last 90 days.
- South Korea represents the second most active country in the market, while Russia comes in at third, representing 4.87% of the traffic, an interesting observation in light of sanctions against Russia in 2022. Ukraine ticks in at 8. place, representing 2.11% of the traffic, which is high considering Ukraine's population of 44 million.
- The market concentration of the top 20 countries is relatively high, representing 52.4% of all web traffic to crypto exchanges. However, while these charts illuminate geographical trends in the crypto market, VPNs may distort the quality of the data. We recommend [Chainalysis' 2021 Geography of Cryptocurrency](#) for a thorough assessment of the geographical trends.

Crypto Exchange Website Visits (Last 90 days)



Source: SimilarWeb

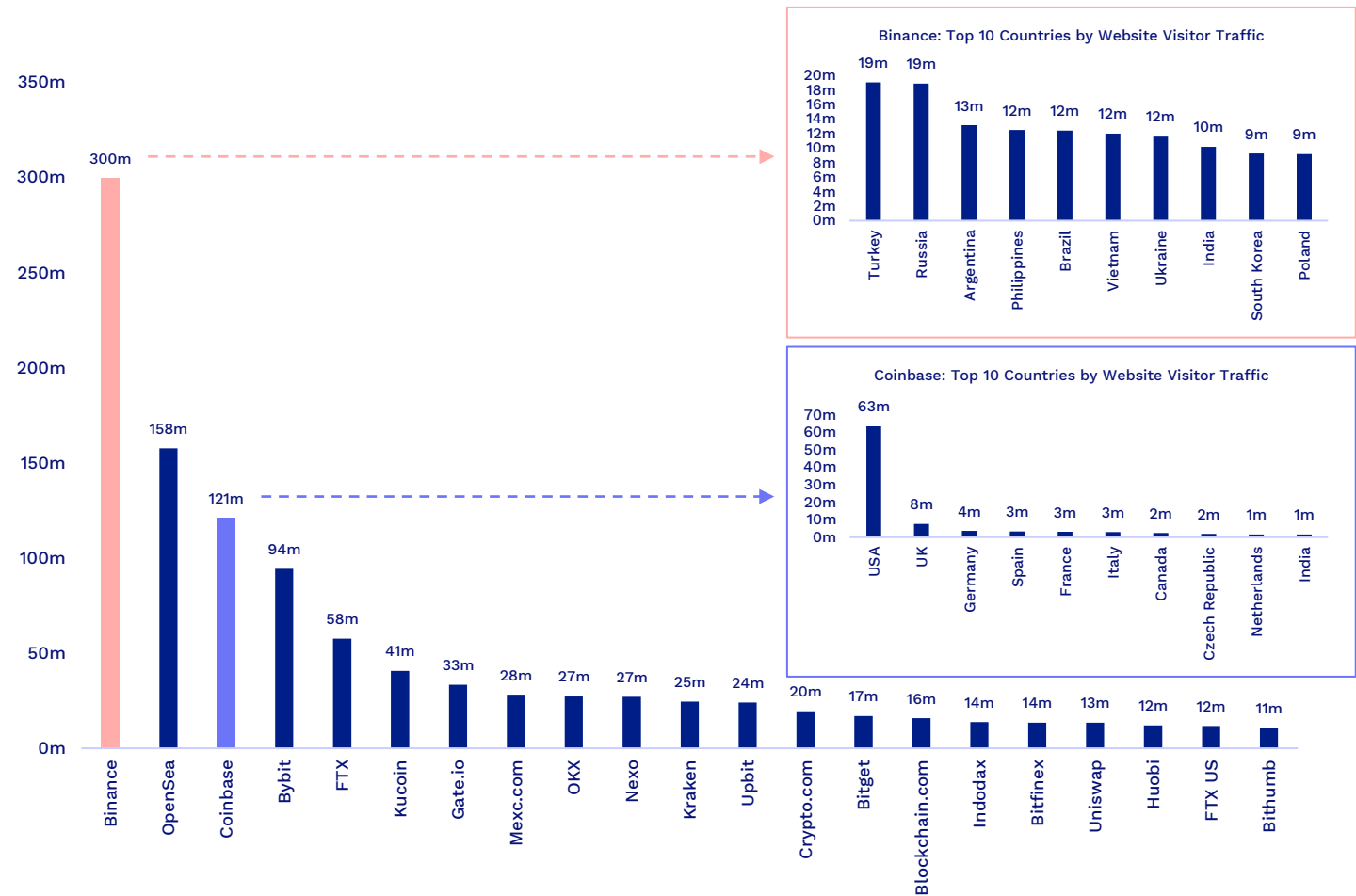


Binance the most visited crypto exchange by a landslide

Binance is by far the most visited crypto exchange, seeing 300m visits in the last 90 days. Coinbase is the second most visited exchange, and interestingly, there's barely any overlap between the most active countries visiting the exchanges.

- Binance has seen 300m website visitors over the last 90 days.
- Turkish visitors are the most active on Binance. Further, according to SimilarWeb data, Binance sees high traffic from Russia, Argentina, the Philippines, and Brazil. In general, Binance seems to have a high presence in non-English speaking countries riddled with high inflation.
- The traffic to Binance is more than twice as high as the second most actively visited exchange, Coinbase. Coinbase's most active visitors tend to originate in "Western countries", with US visitors being the most active visitors on the exchange.
- Surprisingly, the NFT marketplace OpenSea has seen higher website visitor traffic higher than all other exchanges but Binance. OpenSea, in general, has a lower bounce rate and higher visit duration than Binance and Coinbase, suggesting that the average visitor tends to use OpenSea to explore more NFT-related price data.
- This chart includes the 20 most visited exchanges. BitMEX, Bitstamp and Gemini are among the exchanges that did not make it to the top 20 most frequently visited exchanges.
- Interestingly, certain national exchanges sit high on the list. Indonesian exchange Indodax and South Korean exchanges Upbit and Bithumb figure in the top 20, in addition to FTX's US branch. Additionally, MEXC with "flexible" KYC requirements (20 BTC withdrawals without identification) figures high on the list.
- While this assessment is interesting, click farms and VPNs may lead to overestimating visits and underestimating the influence of certain countries.

Website Visitors: Last 90 days



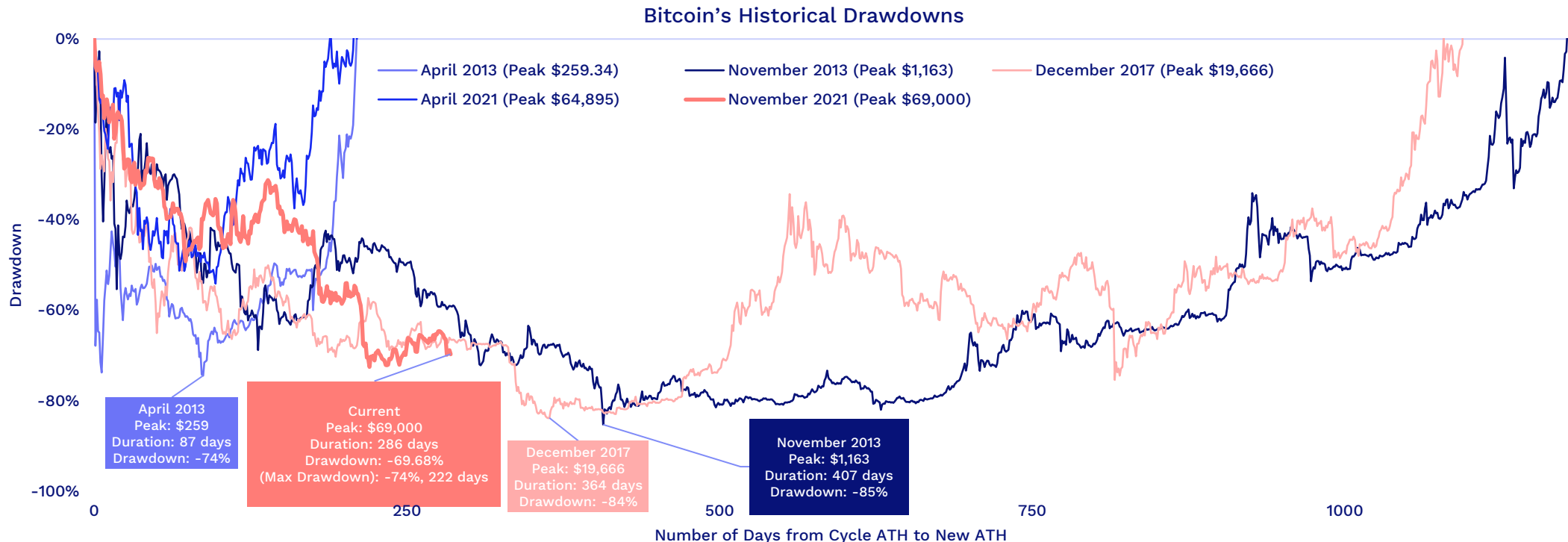
Source: SimilarWeb



The 2022 bear market is on track with the 2018 bear market

The current bitcoin drawdown has lasted for 286 days, and we are currently down 70% from the all-time high. Still, the peak depth of the drawdown of 74% occurred in June, 222 days from the ATH. In the 2014 and 2018 bear markets, the bottoms occurred 12-13 months after the bear markets began, with a max drawdown of 84-85%. If history is to repeat, a bottom could be expected to form near the year-end. Still, the market is a different beast this time around. Last year's double top in April and November was unlike what we've previously seen in bitcoin, and so was the push down below the previous ATH experienced during the massive liquidation of 3AC in June.

The 2018 bear market saw compressed volatility for prolonged durations with a 140-day leg of prices ranging from \$6-7k before the final climax down towards \$3k, resulting in flat markets for 120 days. Similar tendencies are evident today, with prices having ranged in the lower \$20k area for 70 days. Nevertheless, drawdowns of 70% have previously been a good place to begin dollar cost averaging into BTC, regardless of further turmoil.



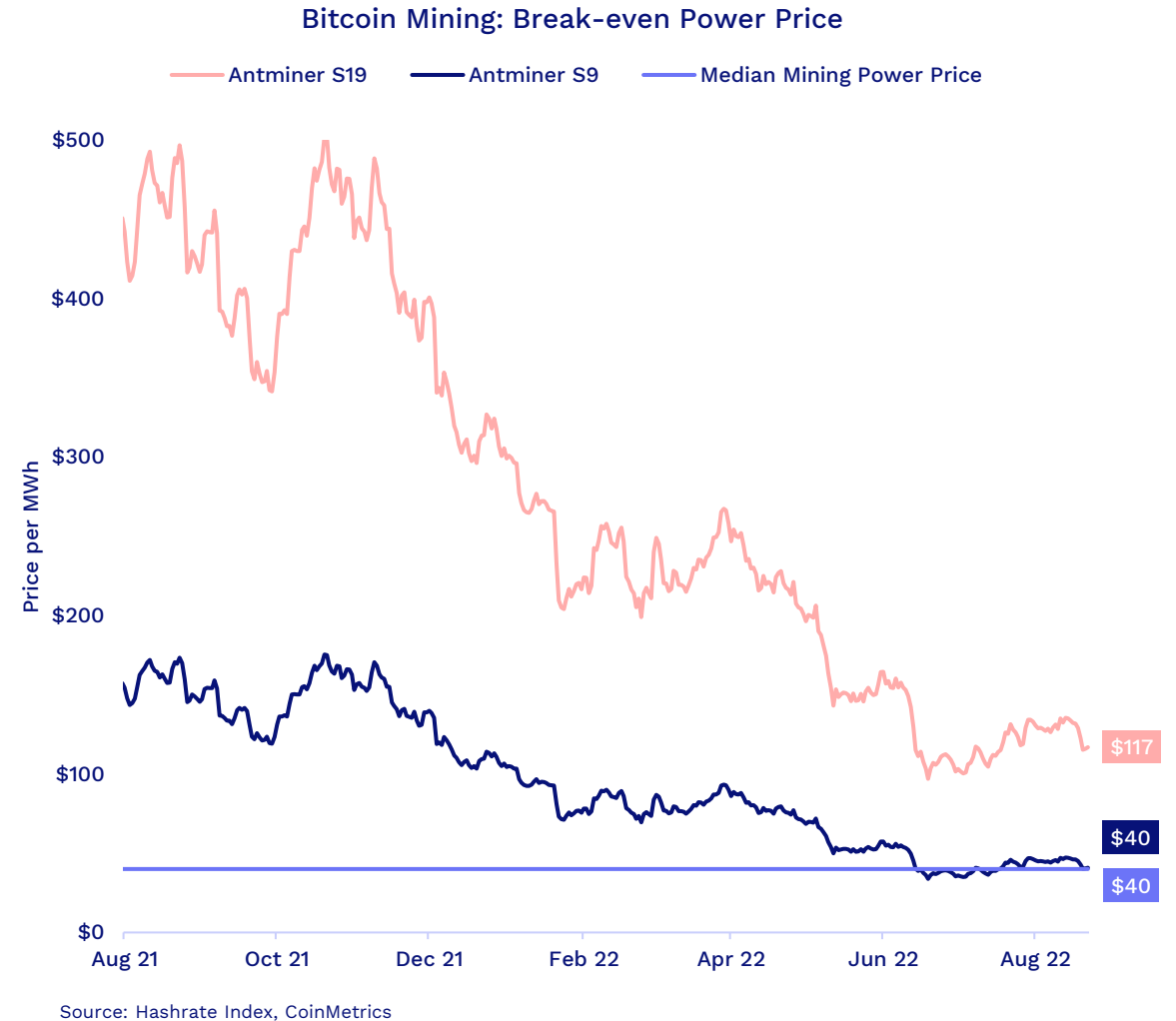
Source: Tradingview (Bitstamp)



Bitcoin miners are forced to look for cheaper electricity

2022 has been a reality check for many bitcoin miners after the super-profitable 2021. Mining margins have plummeted, forcing miners to be creative in lowering their costs.

- A bitcoin miner turns electricity into bitcoin. Therefore, the most precise way of measuring bitcoin mining profitability is to look at miners' break-even power prices. The break-even power price is the revenue per MWh of energy fed into a bitcoin mining machine. If this number is lower than the price the miner pays for this MWh, the miner should turn off its machines.
- During the height of the bull market in October 2021, directing one MWh of energy into the Antminer S19 - an energy-efficient bitcoin mining machine - gave you a revenue of \$500. If you paid only \$40 for this MWh, you had a profit margin of 1,150%. Even older and less energy-efficient models like the Antminer S9 could make massive profits during this golden era of bitcoin mining.
- Miners can now only look back at 2021 with nostalgia as profit margins have collapsed due to the plummeting bitcoin price and more hashrate coming online.
- Most of the big and publicly traded bitcoin mining companies use newer and energy-efficient models, which still run with decent profit margins. Operators of older generation models have reasons to worry as their machines have either dipped below positive cash flow territory or operate close to the margin.
- Bitcoin miners who don't have access to almost free energy at below \$20 per MWh are now forced to upgrade their machines into more energy-efficient ones, like the Antminer S19 series.
- Still, in the long-term, the only solution to survive as a miner is getting access to cheaper electricity.





Valuation



Bitcoin's uptrend broken, finding support at \$20,700

Bitcoin's uptrend of higher lows was broken last week as BTC failed to break out beyond the \$25k resistance, leading BTC to a third retest of the \$20,700 support area.

- Last week, we noted how bitcoin showed signs of weakening momentum. In the following days, BTC failed to breakout above \$25k and lost its strong upward momentum as the \$22,500 support level was breached, leading BTC to a third retest of the \$20,700 support level.
- Since the plunge, BTC has trailed in a narrow trading range between the \$21,600 resistance level and \$20,700 support. Both levels have acted as important technical levels since the mid-June market collapse.
- The \$20,700 support has now been retested three times since July 18th. Below this support area, BTC has support at the 2017 ATH levels, in addition to the \$19,000 area.
- Towards the upside, \$22,500 remains the nearest resistance level if BTC breaks out of its tight consolidation range.



Source: Tradingview (Coinbase)

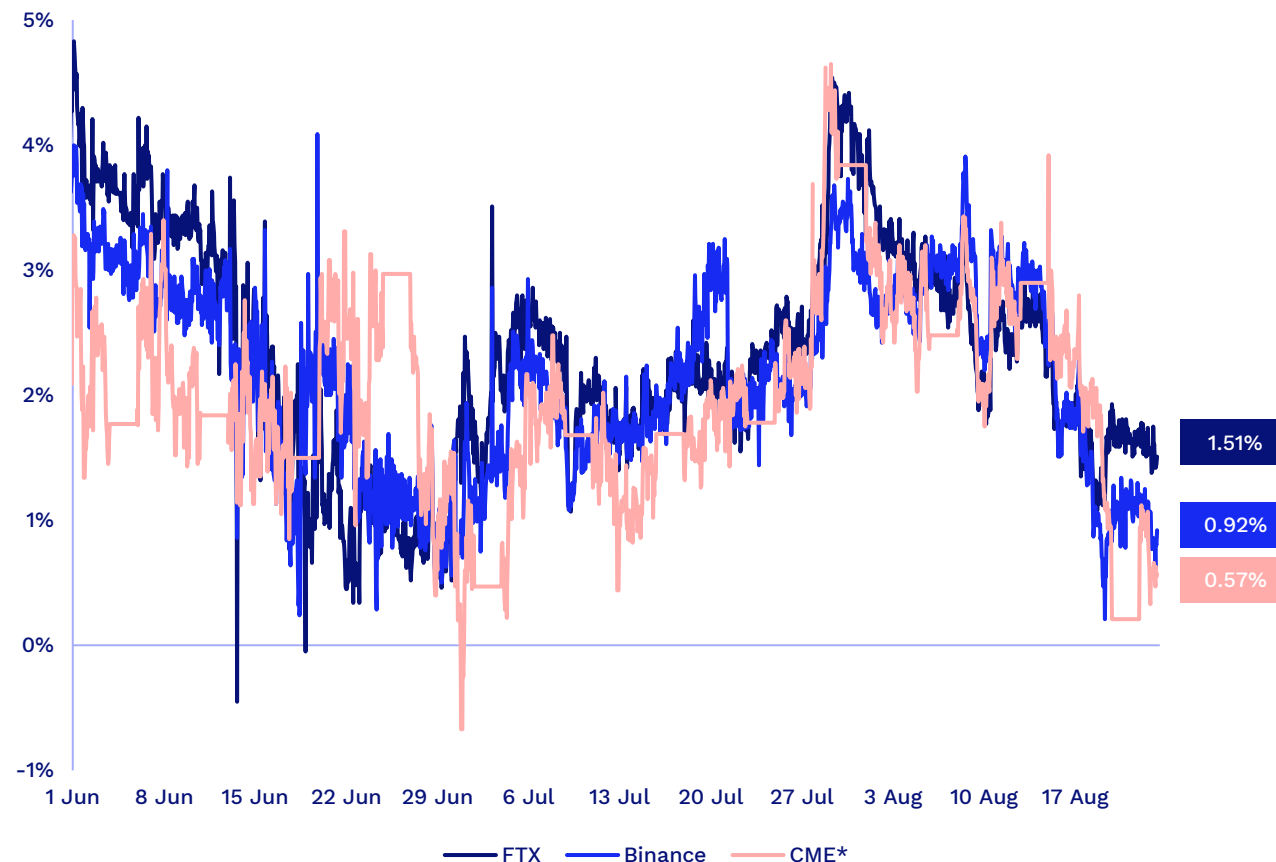


Futures basis plunge to June lows as market sentiment worsens

Futures premiums plunged towards late June lows as BTC's upward momentum stalled.

- The futures basis on both Binance and CME was pressured into its lowest levels since late June amid BTC's Friday sell-off.
- The shakeout was particularly rough on Binance, where the basis plunged from 1.5% to 0.2% on Friday as BTC derivatives saw their largest liquidation volumes since June 13th. The annualized basis has since recovered slightly on Binance to 0.92%.
- CME's 3-month basis (0.57%) has yet to recover, despite current rolling effects in the futures-based BTC ETFs. The current rolling period alongside worsening market conditions has contributed to sending the 1mth basis on CME to an all-time low.
- Contrary to CME and Binance, FTX's basis remained fairly stable last week, currently sitting at 1.51%.
- Overall, the current futures basis sits at levels only experienced briefly during the June crash, indicative of a very bearish sentiment among futures traders, as illustrated in the next slide.

Bitcoin Futures Annualized Rolling 3-Month Basis



Source: Skew

*Closed Saturday - Sunday

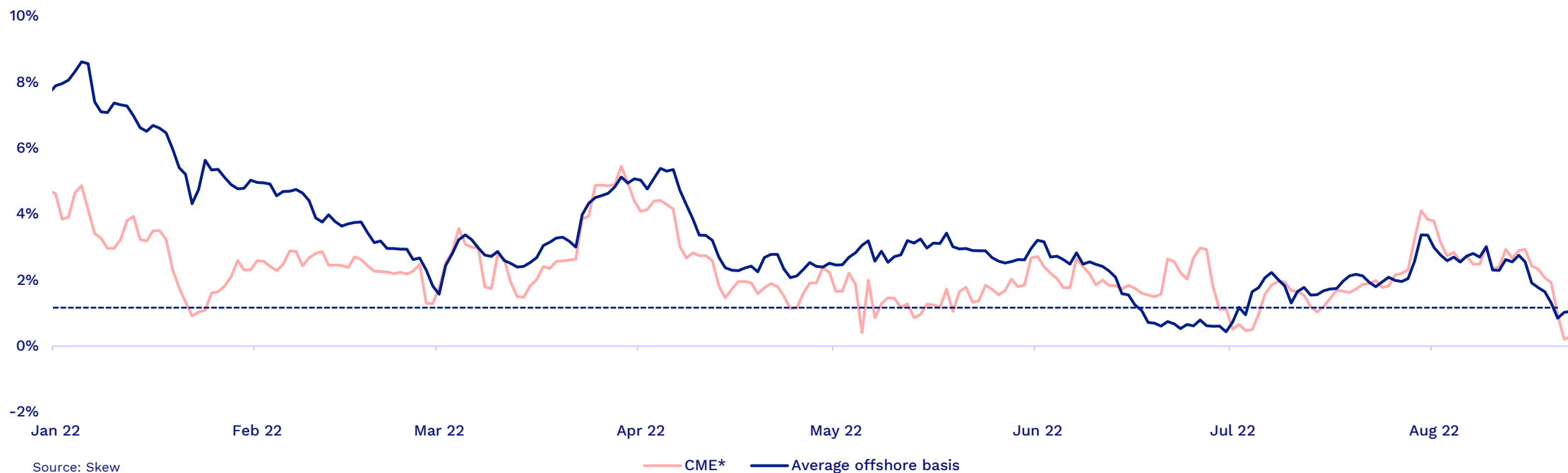


Offshore basis nearing all-time lows

The three-month futures basis reached its lowest level since June in the offshore market and plunged below the 2021 lows.

The average annualized offshore 3-month futures basis declined to 0.8% on Saturday, August 20th, and has yet to see a proper recovery, currently sitting at 1%. This is the lowest futures basis seen in BTC futures since late June. Additionally, today, the average offshore futures basis sits below the lows of 1.3% on July 21st, 2021. This shows that traders are currently very cautious, with a deficient willingness to add long exposure while hedging remains in high demand. Such signals have typically preceded recoveries in BTC, but this time around, it could also be a symptom of reduced interest and apathy towards BTC, as experienced during the bear markets of 2014 and 2018.

BTC Futures Annualized Rolling 3-Month Basis (MA)

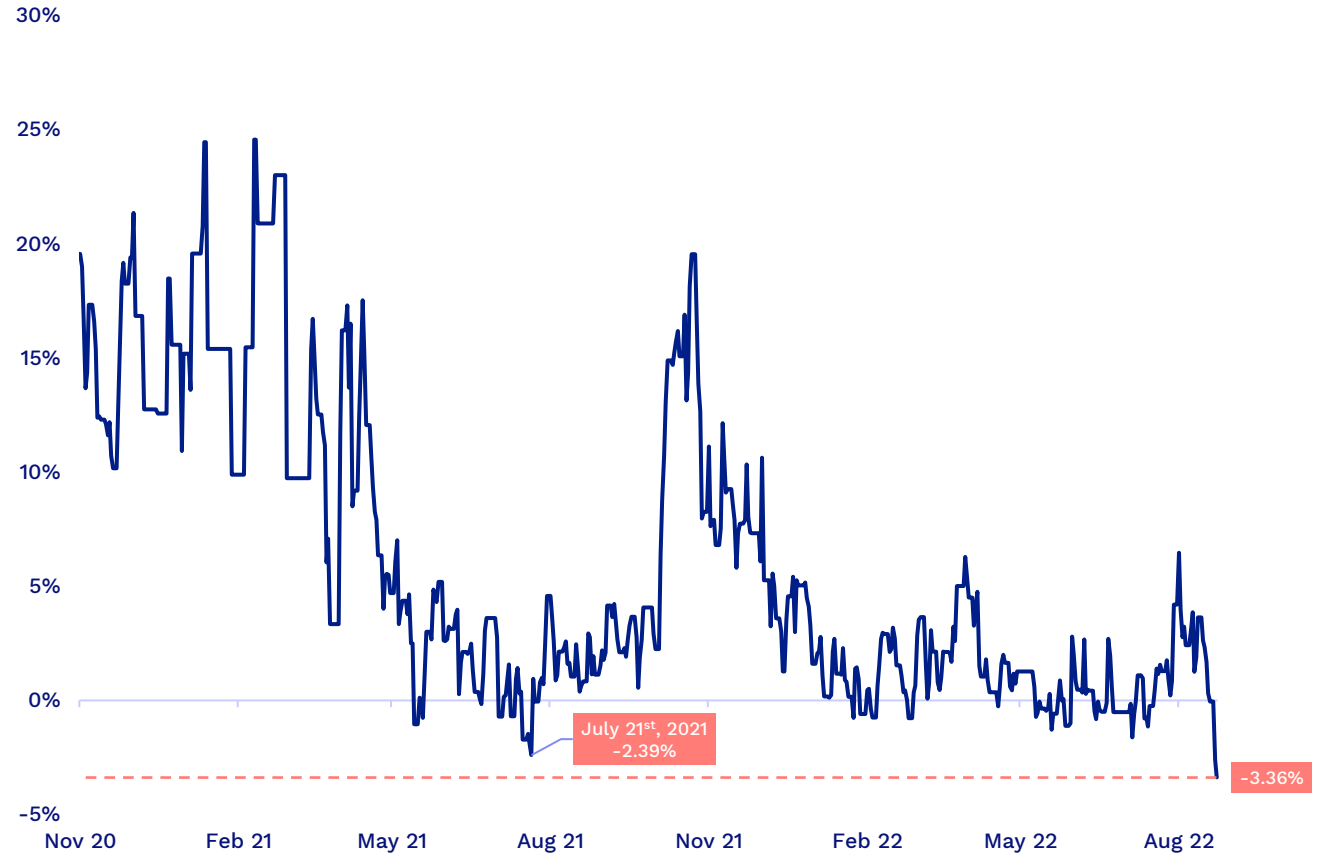


CME's front month BTC futures trading at sharpest discount ever recorded

While CME's quarterly contracts trade at a slight premium, CME's front-month contract sees its largest discount to the spot market ever recorded.

- The futures basis on CME's most traded BTC contract, the front-month futures contract, is trading in sharp backwardation as the annualized basis reached an all-time low yesterday, averaging at -3.36%.
- The previous all-time low occurred on July 21st, 2021, and was followed by a hefty short squeeze.
- Overall, CME's futures have tended to trade at a discount in the last two months but saw a solid short-lived recovery during the early August strength in the market.
- The growing discounts in the front-month contracts might be explained in part by structural effects. BITO has begun rolling their August contract exposure, possibly causing downward pressure on the front-month contracts. Yesterday, BITO rolled over 1000 August contracts and will roll over a further 3000 August contracts by Friday. Previous rolling periods have tended to be accompanied by a declining front-month basis.
- Still, such extreme discounts have not appeared during previous rolling periods. They might be a symptom of worsening liquidity or general de-risking as S&P 500 and Nasdaq see a tumultuous start to the week while the dollar strength index pushes towards new highs.

CME BTC Futures Annualized Rolling 1-Month Basis (MA)



Source: Skew

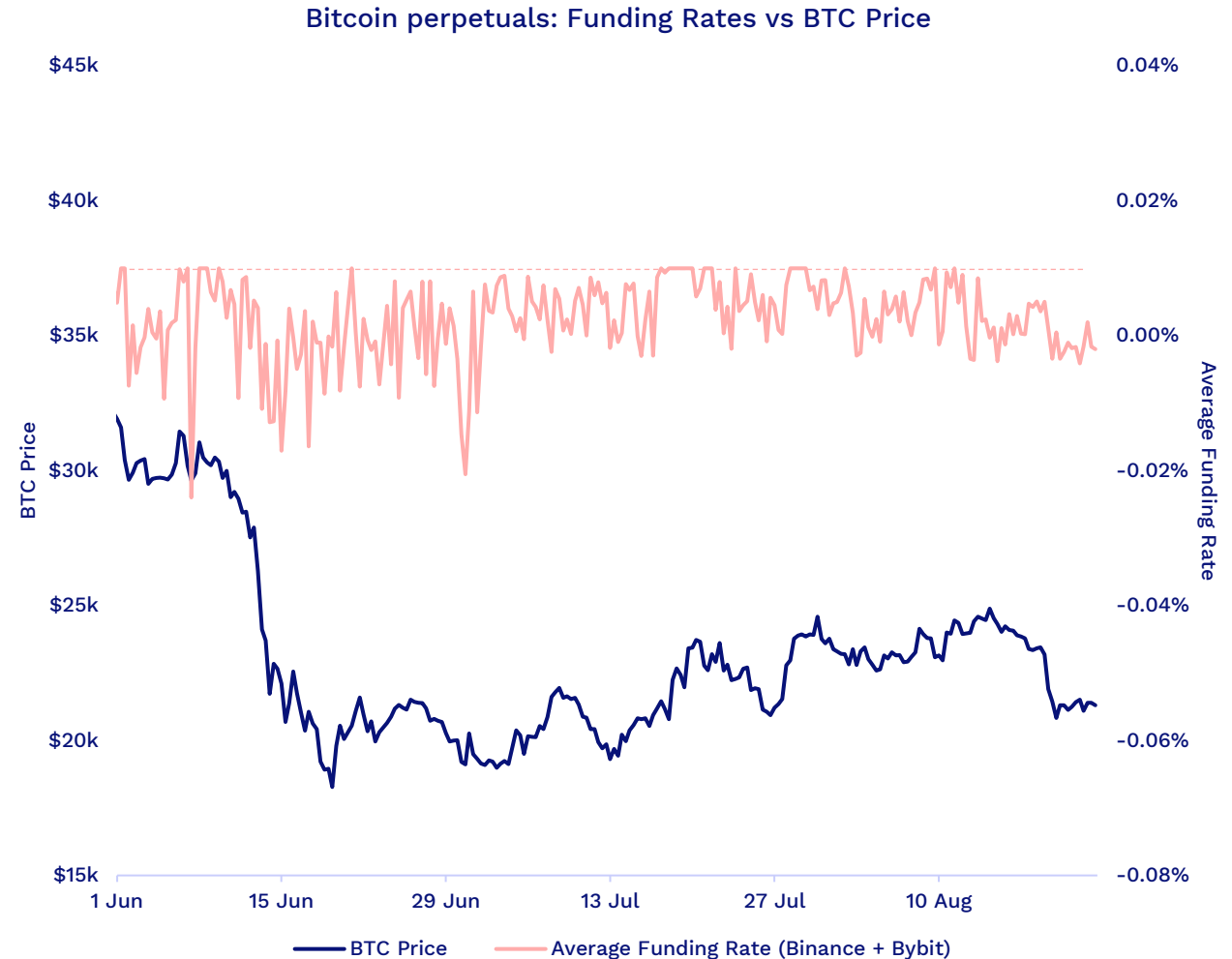
*Closed Saturday - Sunday



Funding rates remain in negative territory

Funding rates have mostly ranged in negative territory in the last week, with Binance recording its lowest funding rate since June 30th on Monday.

- We have not seen neutral funding rates on Binance in the last 14 days, as perps continuously trade below the spot market.
- While funding rates mostly remain below neutral and frequent in negative terrain, perp open interest stays elevated. On Friday morning, the perp OI spiked to a new all-time high of 380,000 BTC but quickly declined to 364,000 BTC as bitcoin momentum turned.
- The decline coincided with BTC's highest long liquidation volume since June 13th.
- The open interest in BTC perps has since recovered and sits near all-time highs at 370,000 BTC, as leverage remains high in BTC derivatives.
- On Monday, Binance's funding rates reached its lowest levels since June 30th, suggesting lackluster demand to add long exposure, mirroring what we see in the futures market.
- While BTC derivatives might signal a climate ripe for a short squeeze, the choppy trading range alongside global market turmoil speaks in favor of conservative positioning and gradual accumulation in the spot market.





Blockchain Activity



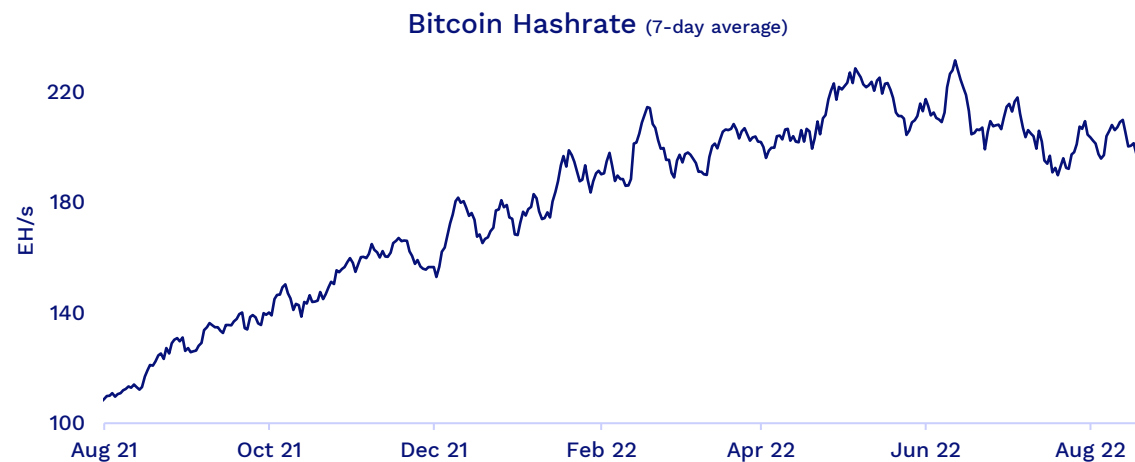
Bitcoin's transaction fees plummets to April 2020 bottom

Transaction fees are plummeting to levels not seen in more than two years, and now make up only 1% of miner revenues.

- The daily transaction fees plummeted by 28% over the past seven days and were only \$265,000. It's the lowest level since April 2020 and signals very muted on-chain activity at the moment.
- Transaction fees now make up only 1.28% of miners' revenues, and miners receive almost 99% of revenues from the block subsidy of 6.25 bitcoin.
- The transaction fees over the past seven days equal an average of only 0.08 bitcoin per block, substantially below the historical average of 0.4 bitcoin. The block reward consists of the block subsidy plus transaction fees. As the block subsidy decreases due to the halving, the transaction fees will gradually become a more critical source of miner revenue.
- In the long term, the level of transaction fees will have massive implications for Bitcoin's security and energy consumption. [This article](#) estimates Bitcoin's energy consumption in 2040, explaining how vital the fees will become.
- Why are transaction fees so low currently? First of all, we see a 10% decline in the daily transaction volume, which is now sitting at \$3.3 billion, a very low level historically. This is caused by an 11% decline in the average transaction value.
- Secondly, the block production rate has been at 6.18 blocks per hour, slightly higher than the target of 6. The higher number of blocks has increased the block space supply, at the same time as we see depleted block size demand. These supply and demand dynamics have led transaction fees to plummet.

Powered by:		Bitcoin Network Data			
BYTETREE		8/22/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	\$ 20,785,811	\$ 21,891,781	-5.05%	
	Fees per day	\$ 265,461	\$ 369,505	-28.16%	
	Fees % Revenues	1.28%	1.69%	-0.41%	
	Daily TX Volume (\$M)	\$ 3,354	\$ 3,730	-10.08%	
	Transactions per day	254,081	251,773	0.92%	
Utility	Avg TX value \$	\$ 13,201	\$ 14,815	-10.90%	
	# Blocks per hour	6.18	5.96	3.59%	
	Avg. # TX per block	1,713	1,698	0.92%	

Source: Bytetrete

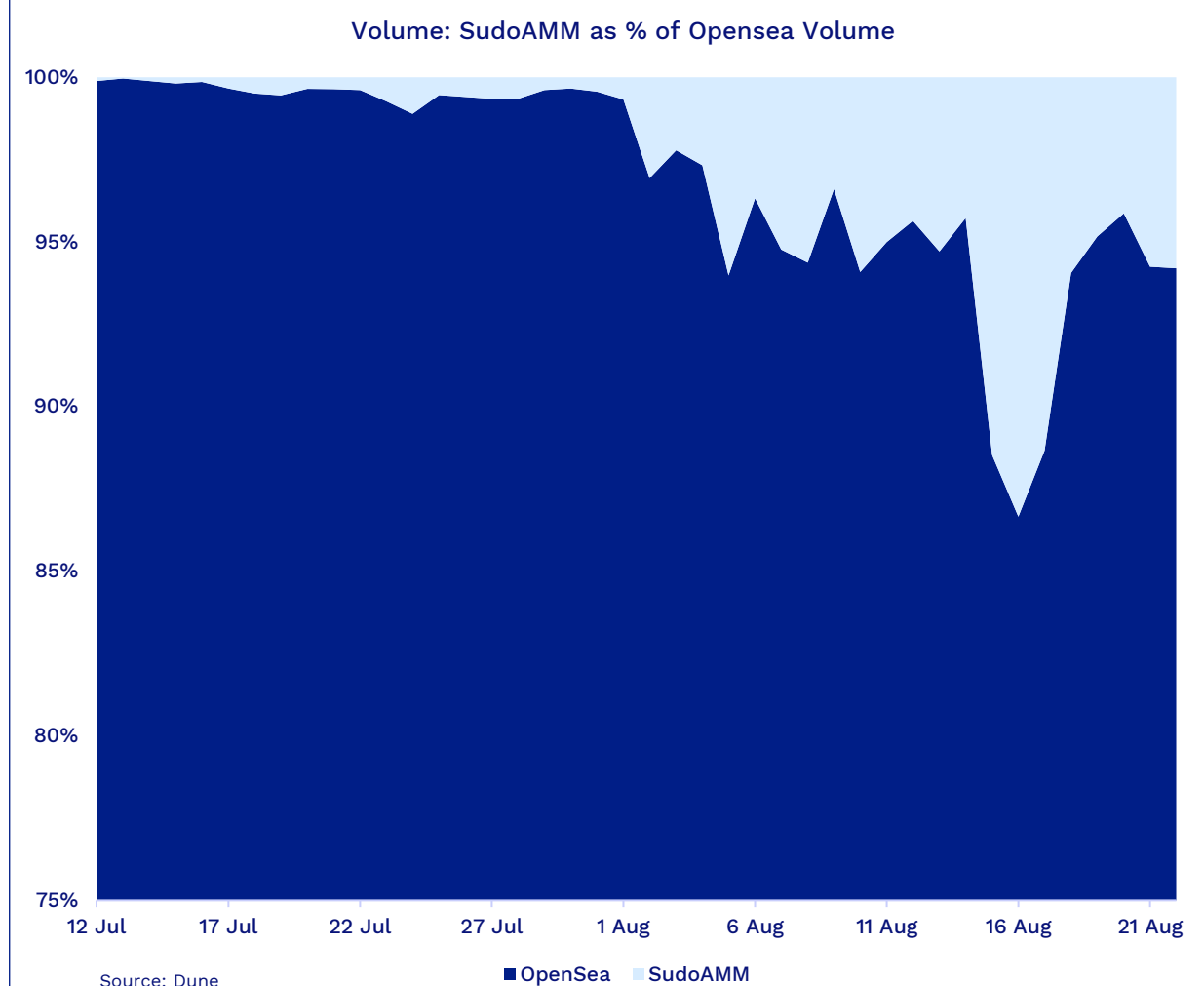


Source: Blockchain.com

Degens are finding favor with NFTs

Sudoswap has experienced tremendous growth since the launch of its automated market maker SudoAMM on July 8. On August 16, it facilitated 15.4% of OpenSea's NFT trading volume—not bad for a project launched less than two months ago.

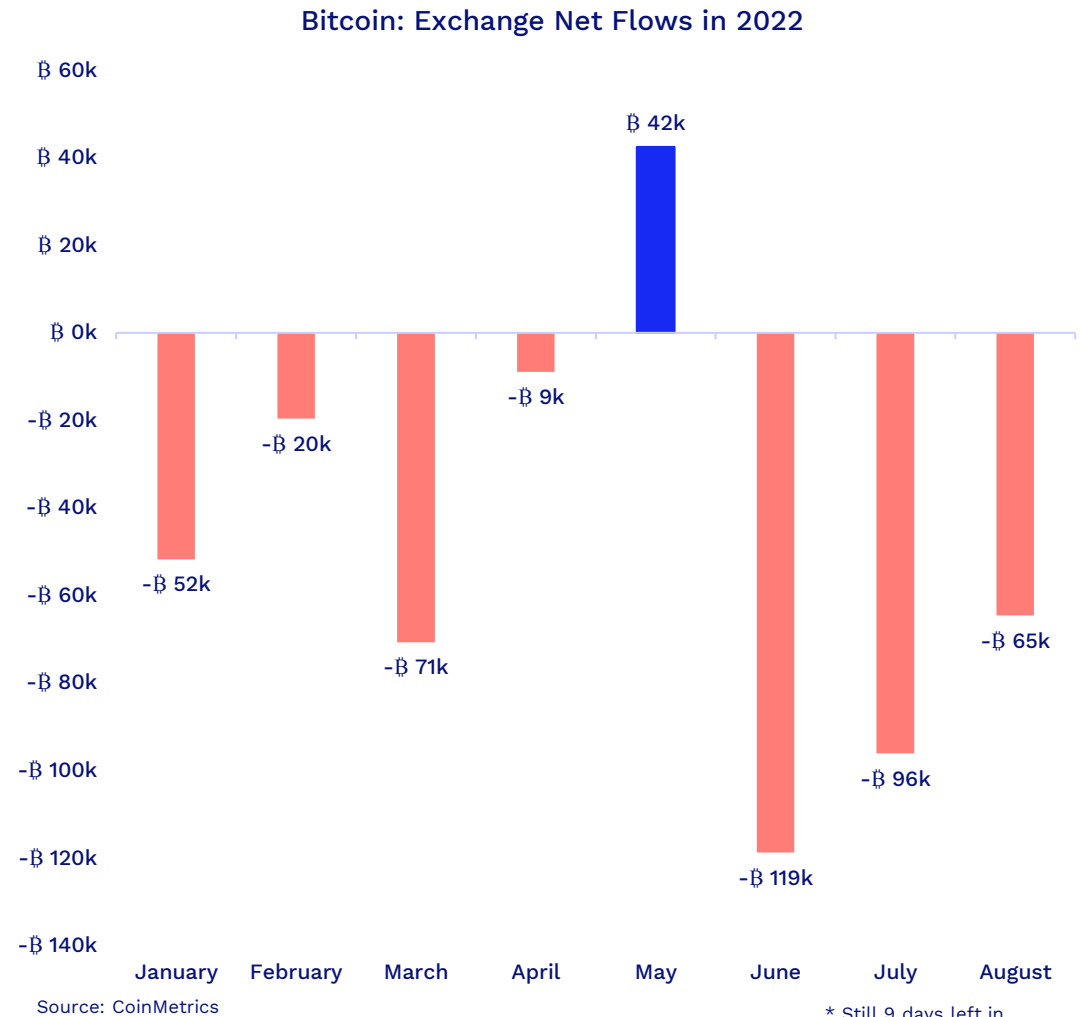
- Sudoswap is a decentralized NFT marketplace that introduces an automated market maker like Uniswap to NFTs, allowing users to trade and swap NFTs using liquidity pools rather than standalone listings. More broadly, it's a step in the direction of NFT financialization.
- Instead of a traditional buyer-to-seller relationship, SudoAMM uses preprogrammed liquidity pools to buy and sell NFTs. In other words, it allows users to instantly sell their NFTs into a pool at a quoted price, similar to limit orders, rather than having to accept a bid like on OpenSea.
- Because it allows users to deposit a combination of NFTs from a single collection and ETH along a specific price range (bonding curve), anyone can become a liquidity provider for NFTs and earn fees as other users swap NFTs for ETH or vice versa. This makes it one of the few opportunities in DeFi and NFTs to earn *real* yield.
- So far, the protocol has seen good traction, adding 14,700 users and 13,000 ETH in trading volume since it launched. The numbers are nothing close to OpenSea, however, and the complex nature of the product likely won't appeal to the mass NFT market.
- Ultimately, Sudoswap is attacking the problem of liquidity, which is especially hard for NFTs, but matters because it creates more efficient markets. Nobody has solved it so far, but perhaps Sudoswap will. And maybe future NFT markets will be dominated by degens.



Bitcoin is flowing out of crypto exchanges

Hodlers have been moving their precious bitcoin out of exchanges like never before following this summer's collapse of major crypto lenders. These events undoubtedly damaged the lenders' trustworthiness, but are hodlers also losing trust in exchanges?

- There is now 2.1 million bitcoin deposited at exchanges, but this number has declined for seven out of eight months in 2022. The year started with slight negative exchange net flows from January to April but then saw significant net inflows in May.
- The exchange inflow period didn't last long. At the end of May, the crypto market got hit by the Terra Luna collapse, setting in motion a cascade of implosions lasting throughout June and July, where some of the crypto market's biggest risk-takers collapsed.
- After several years of growing trust in exchanges and lending platforms, counterparty risk suddenly became an essential consideration for crypto hodlers. Deposits started to flow out of both crypto exchanges and lenders.
- June saw a net outflow from exchanges of 119,000 bitcoin, the highest outflow since November 2020. July also saw massive outflows, with 96,000 bitcoin being withdrawn from exchanges. The exchange outflows have continued in August, with a net of 65,000 bitcoin withdrawn in the first 22 days of the month.
- The massive bitcoin outflows from centralized counterparties indicate that crypto hodlers are trusting the exchanges and lenders less than before. Bitcoin is increasingly being moved into cold storage, further indicated by the recent sales boost hardware wallet manufacturers like Ledger and Trezor have seen.
- Still, it's important to remember that the current bitcoin market structure is very different from what it was, and bitcoin is available through a wide range of venues outside of the traditional spot markets. This can make some on-chain metrics more irrelevant. Read more about it [here](#).



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