

The Weekly Update

Week 35, 2022



Provided by

arcane
research

1

Market Update

- The past seven days have mostly been flat for the most prominent cryptocurrencies, with BTC floating around \$20k for ten days.
- ETHBTC reached a new yearly high after a big pump on Tuesday as traders are bullish on ETH ahead of the merge, which is scheduled to take place between September 13th and 15th.
- Bitcoin ETP have slowed the June chaos, with muted activity throughout the summer. Nevertheless, U.S. flows suggest that the bearish sentiment is ruling the market.
- The balance sheets of the public bitcoin mining companies reveal that most of them are in less liquid positions now than this spring.

2

Valuation

- Bitcoin has fluctuated in a narrow trading range, oscillating around \$20,000 for ten days, trading at very low volatility.
- Futures basis and funding rates remains compressed while CME's BTC trading volume stagnates, indicating crumbling institutional interest in the crypto market.
- Ether futures still trades in sharp backwardation as the Merge approaches.

3

Blockchain Activity

- We see a significant increase in Bitcoin's on-chain activity after the drowsy August, but it's still at very low levels historically.
- Rollups are the trending solution for scalability on Ethereum. Average gas fees on Ethereum and BNB Chain are currently 7.7x and 3.4x more expensive than Layer 2 solution Optimism. Meanwhile, BNB has 32x more daily transactions.



Source: : Tradingview (Coinbase)

Ethereum keeps outperforming in anticipation of the merge

- The past seven days have mostly been flat for the most prominent cryptocurrencies, with BTC floating around \$20k for ten days. ETH keeps outperforming and is up 7% after a big pump on Tuesday.
- Traders are bullish on ETH ahead of the merge, which is scheduled to take place between September 13th and 15th. Today ETH activated the Bellatrix upgrade, making the Ethereum node operators technically ready for the merge.
- Apart from Ethereum's merge, the crypto market's main price-driving events are the big macro announcements and decisions.
- The US CPI for August will be released on September 13th, and the ECB will make its interest rate decision on Friday, which is estimated to hike by 75bps. These macro events, combined with the merge, might be catalysts for increased volatility going forward.
- While the large caps' performances have been mostly flat over the previous seven days, we see massive increases in some of the smaller coins. Terra Luna Classic surged by 222% amid plans to revive the chain, while Ethereum Classic increased by 20%.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Terra Luna Classic	0.0004	221.5%	324.1%	-100%
Ethereum Classic	40.46	20.0%	6.1%	-16%
Lido DAO	2.19	16.0%	-15.8%	-27%
Worst Performing	Price	Last week	Last month	YTD
OKB	14.93	-8.7%	-18.7%	-48%
Quant	93.68	-7.2%	-22.6%	-50%
ApeCoin	4.74	-4.9%	-34.9%	-64%

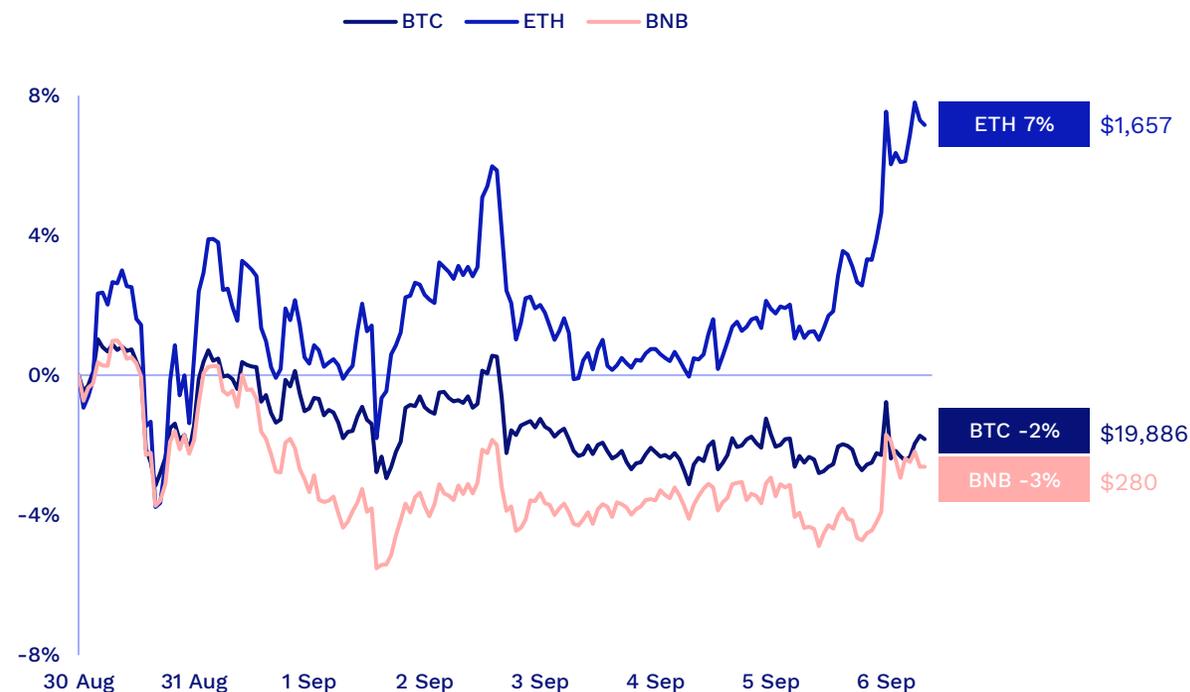
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.908	0.004	0.335	0.097	0.616	-0.011

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)



Bitcoin dominance nearing all-time lows

The BTC dominance is down at levels not seen since 2018 as ETH gains favor among crypto investors ahead of the merge.

- September has started with varying returns among our indexes. Bitcoin has started the month the worst and is down 1%. All other indexes are in the positive territory, with the Large Caps gaining 1%, the Small Caps 2%, and the Mid Caps 7%.
- The Mid Caps' strong performance this month is partly caused by Ethereum Classic pumping.
- Bitcoin's recent underperformance relative to other cryptocurrencies, particularly ETH, has led its dominance to fall towards all-time lows. The all-time low occurred during the ICO craze in January 2018.
- An essential caveat of the bitcoin dominance sitting close to an all-time low is that stablecoins are far more significant now than the last time bitcoin showed this low dominance. Excluding the USDT and USDC from the equation, we see that bitcoin still makes up half of the crypto market.

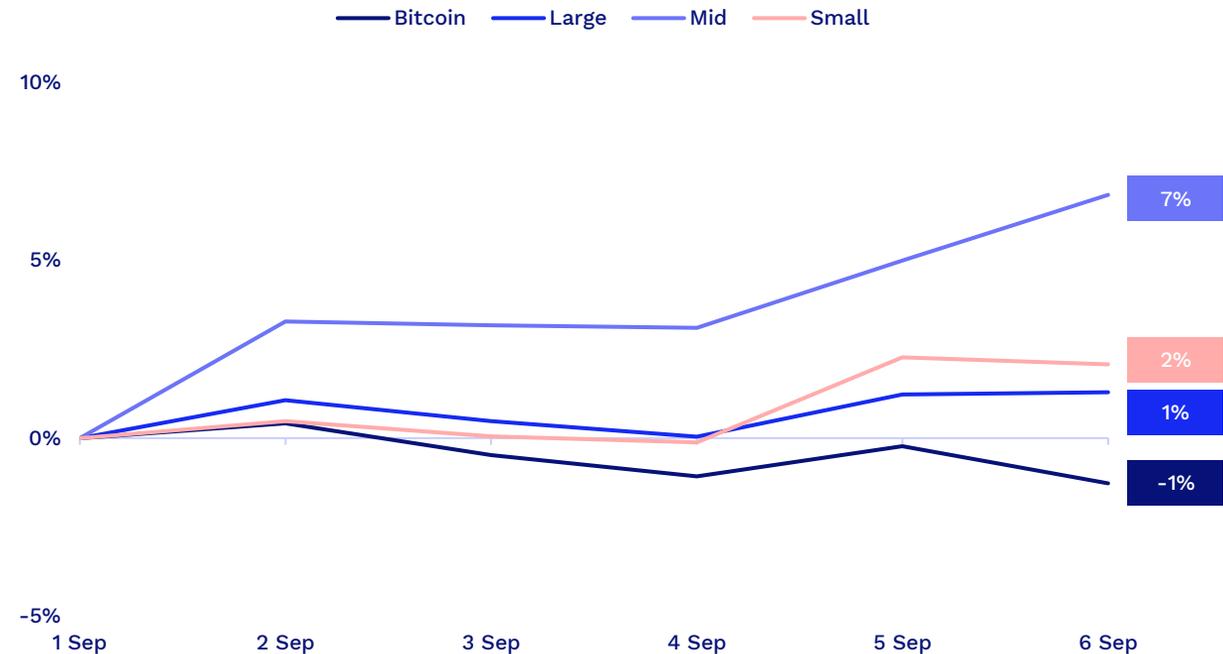
Percentage of Total Market Capitalization

	BTC	ETH	USDT	USDC	BNB	BUSD	ADA	XRP	SOL	DOT
Market Share	38.26%	20.35%	6.79%	5.20%	4.55%	1.96%	1.73%	1.66%	1.16%	0.85%
Weekly Change	-1.09%	0.93%	-0.02%	-0.07%	-0.14%	0.02%	0.19%	-0.01%	0.01%	0.00%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes



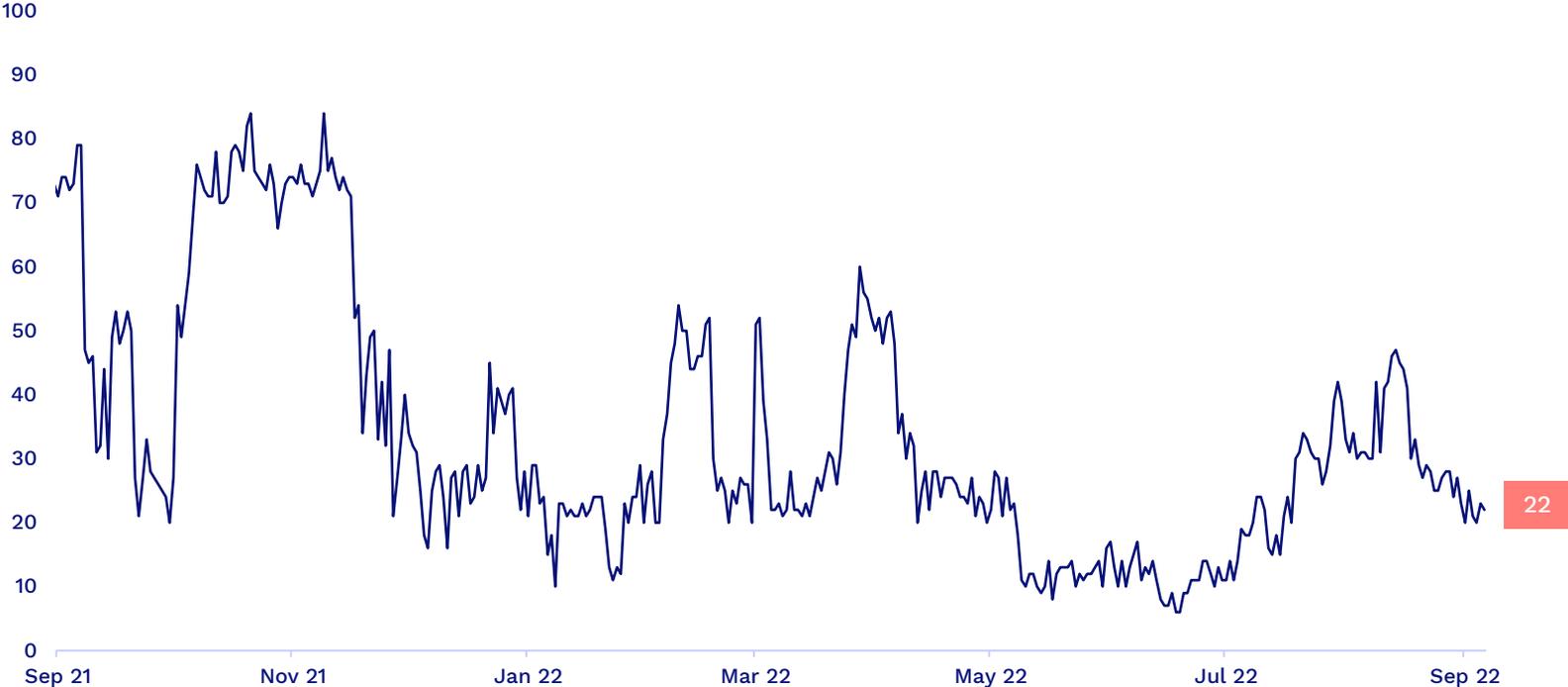
Source: Bletchley Indexes, Tradingview (Coinbase)



Five months of fearful sentiment in the crypto market

The Fear and Greed Index has dipped below 'extreme fear', marking the end of July and August's optimism buildup. While the market sentiment climbed steadily during these months, the Fear and Greed index never managed to enter the 'greed' territory, meaning that the crypto market has been in a fearful state since April. This five-month stay in the fearful territory is the longest since the index's creation in February 2018.

Fear and Greed Index



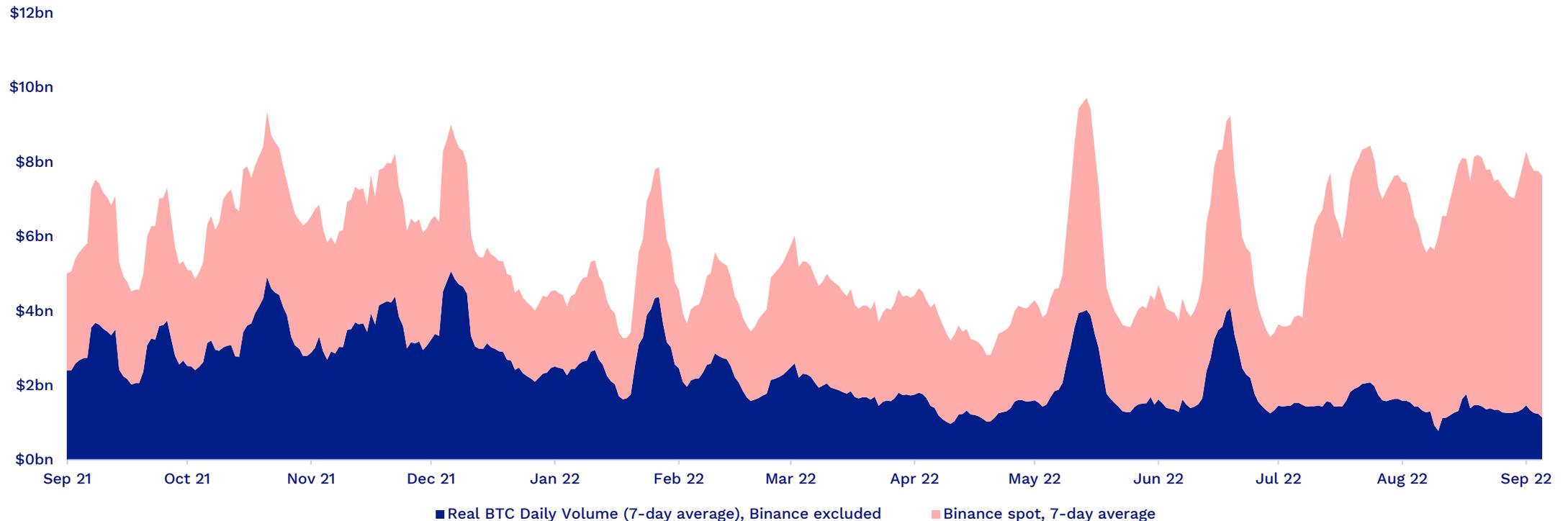
Source: Alternative.me



Binance continues being on the offensive to increase market share

Binance continues its offensive push to grab a larger share of the trading volume as well as the stablecoin market. This summer, the exchange behemoth removed fees on all stablecoin BTC pairs and their ETH-BNB pair, and now they announced that they will stop supporting USDC on their platform. Binance has been massively successful in its offensive strategy, as they have now captured an enormous share of crypto trading volumes. Still, a large percentage of this volume is likely inorganic, as indicated by the prolonged depressed trading volumes on other exchanges.

Real BTC Daily Volume* (7-day average)



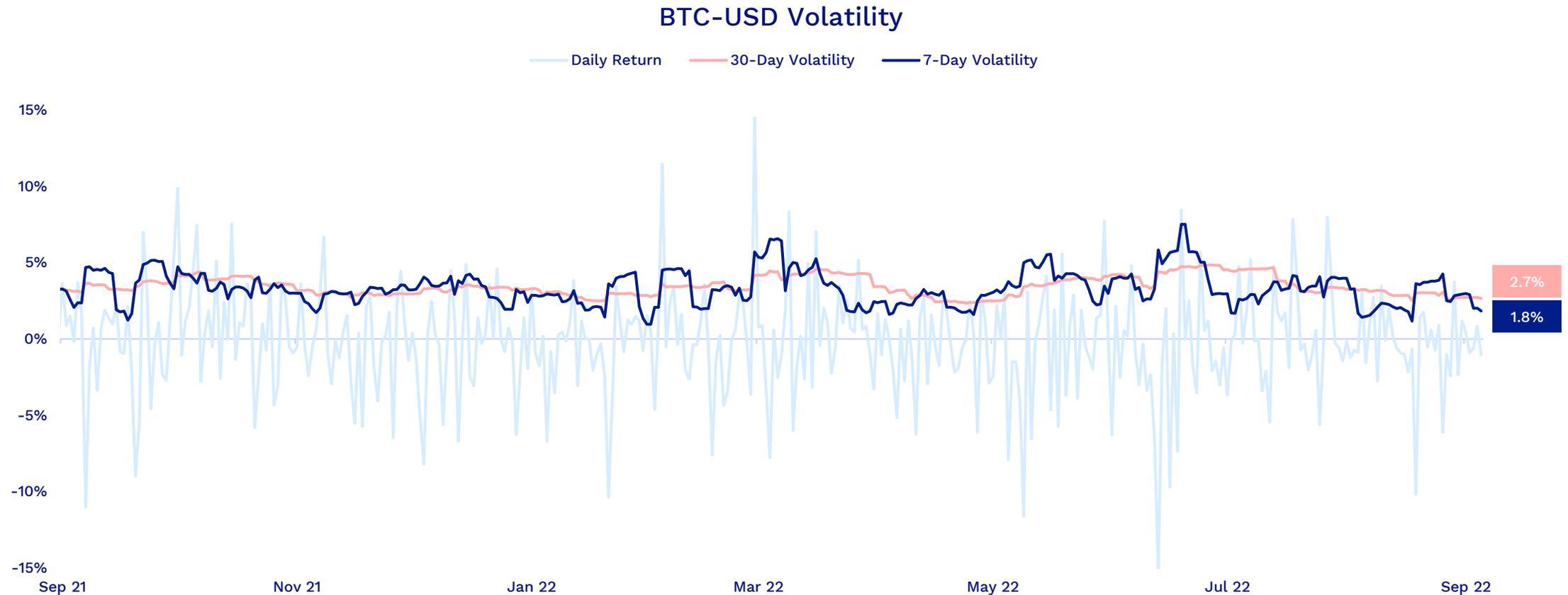
Source: Skew, Tradingview (Binance, Binance US, Bitfinex)

*Includes Bitwise 10 exchanges, LMAX, FTX



The volatility is currently very low in the crypto market

During the past seven days, bitcoin has been subject to minimal price movements as its price has stabilized at around \$20k. This recent price stability has led the 7-day volatility to fall to 1.8%, among the lowest levels observed this year. Bitcoin has recently been in a structural trend of declining volatility, as indicated by the gradual fall of its 30-day volatility since mid-July. Be aware that volatility at such low levels doesn't usually last very long.



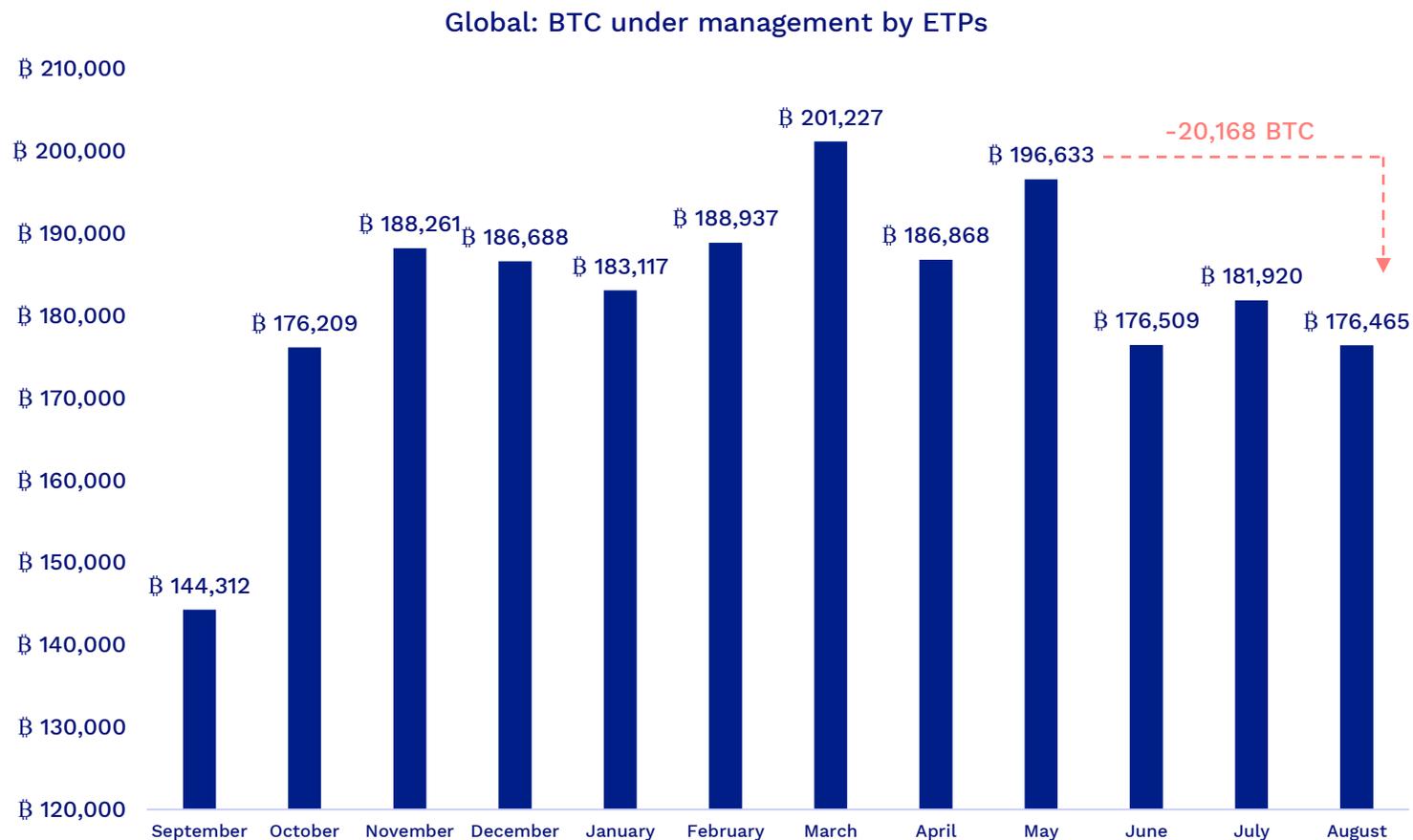
Source: Tradingview (Coinbase)



Global BTC ETP exposure declines to October levels

Bitcoin flows remain slow after the June chaos, and activity has been muted throughout the summer. The U.S. flows suggest that the bearish sentiment is ruling the market.

- Global BTC holdings by ETPs have declined by 20,168 BTC over the last three months. The most substantial downfall coincided with a huge 24,510 BTC redemption in Purpose.
- The latter part of August saw the newly launched U.S. short BTC ETF gain traction, while long-ETFs experienced outflows, leading August to become the second-worst month in U.S. BTC ETFs since launching in October 2021.
- Outside of Canada and the U.S., ETP flows remains slow, with no noteworthy developments over the last three months.
- Overall, while negative U.S. flows and a huge Canadian liquidation have reduced the BTC ETP holdings, the relatively muted activity suggests that BTC ETP owners are willing to hold onto exposure in this bear market.



Source: Tradingview (Coinbase)



New yearly high for ETH vs BTC

The Ethereum merge is nearing and ETHBTC rallies to new yearly highs.

- Ethereum's mainnet will transition from Proof of Work to Proof of Stake around September 14th, and the transition fuels enthusiasm in the market as ETH has pushed towards new yearly highs versus BTC.
- ETHBTC currently trades at 0.0839, a new yearly high. Last year, ETH traded above the current level vs. BTC on nine occasions, emphasizing that ETH is trading at rare highs versus BTC, showing the strength of the merge narrative in the market.
- While ETHBTC trade at yearly highs, the futures basis remains suppressed, likely caused by hedging activity previously explained related to ETHPOW and the Merge.
- The imminent Merge has also reflected well on Ethereum Classic, which is up 27% in the last 24 hours. Alongside surging ETC prices, the hashrate in ETC has grown to new all-time highs, suggesting that Ethereum miners have already begun migrating some of their activity to Ethereum Classic.
- Meanwhile, derivatives related to the potential hard fork of ETHPOW perform badly, trading below \$50, suggesting that the movement has failed to keep the attention of the traders.



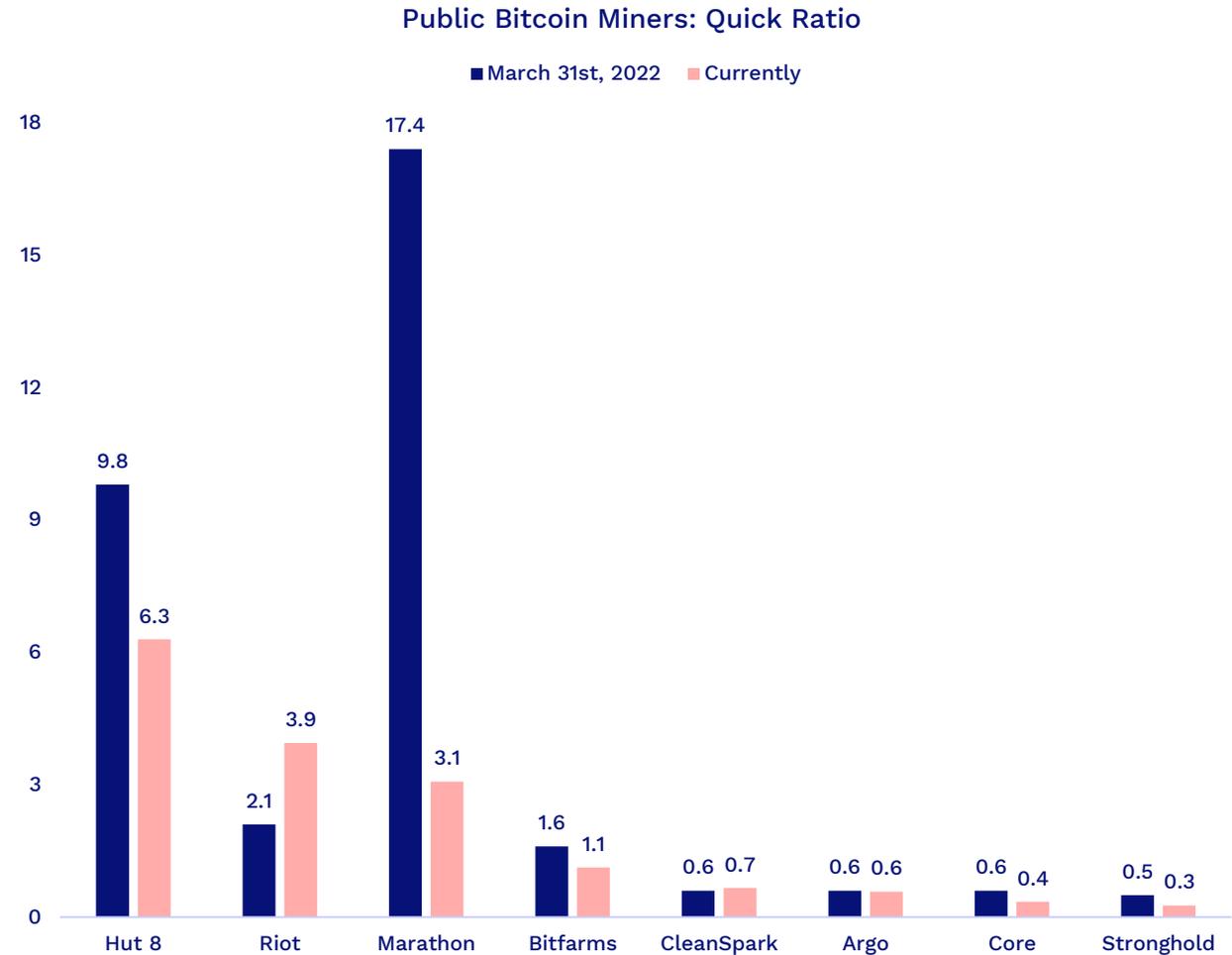
Source: Tradingview (Coinbase)



The public miners have less liquid balance sheets

The balance sheets of the public bitcoin mining companies reveal that most of them are in less liquid positions now than this spring.

- Times are currently tough for bitcoin mining companies due to a combination of bitcoin price collapse, difficulty growth and rising energy prices. Although the public bitcoin miners are struggling and have been forced to sell significant amounts of their bitcoin holdings, none have gone bankrupt so far.
- The main reason the public miners have stayed afloat is that they held massive amounts of cash and bitcoin at the start of the summer. Throughout the summer, these companies have dumped their bitcoin and used some of their cash reserves to pay for miner deliveries and other expenses.
- We can measure a company's immediate liquidity with the quick ratio, which is the liquid assets (cash and cash equivalents and cryptocurrencies) divided by the current assets.
- The chart on the right shows a comparison between eight public miners' quick ratios during the spring and now. We see that for six of eight companies, the quick ratios have declined. It has declined the most for Marathon, just expected in the middle of the summer as the company struggled with weak cash flows.
- Still, most of these companies, including Marathon, are in sound financial condition. Only one is deeply struggling: Stronghold. Stronghold has a quick ratio of only 0.3 and also has negative working capital. It will still be challenging for the company to stay afloat the coming months, unless it gets saved by a bitcoin price rebound in shining armor.



Source: Public miners' Q2 2022 filings, Yahoo Finance





Valuation



Bitcoin rangebound in narrow range

Bitcoin has fluctuated in a narrow trading range, oscillating around \$20,000 for one week, trading at very low volatility.

- It's been a very quiet week in bitcoin with BTC trading in a narrow trading range at levels near the 2017 peak.
- BTC has found support at \$19,500, which is a very important level, representing the 2017 peak.
- If BTC falls below this level, \$19,000 may act as new support, a level that held support throughout July. Further down, the depths of the 3AC capitulation of around \$18,000 remains a critical support level.
- Towards the upside, BTC is facing resistance at \$20,500. Further above, \$22,000 represent an important resistance area, marking local tops in both June and July.
- Nevertheless, bitcoin has remained in an unusually bland trading range in the last week, trading in compressed volatility. This is a difficult and choppy market to trade actively, and it may be prudent to avoid any directional bets at the moment and wait for a trend to emerge.



Source: Tradingview (Coinbase)

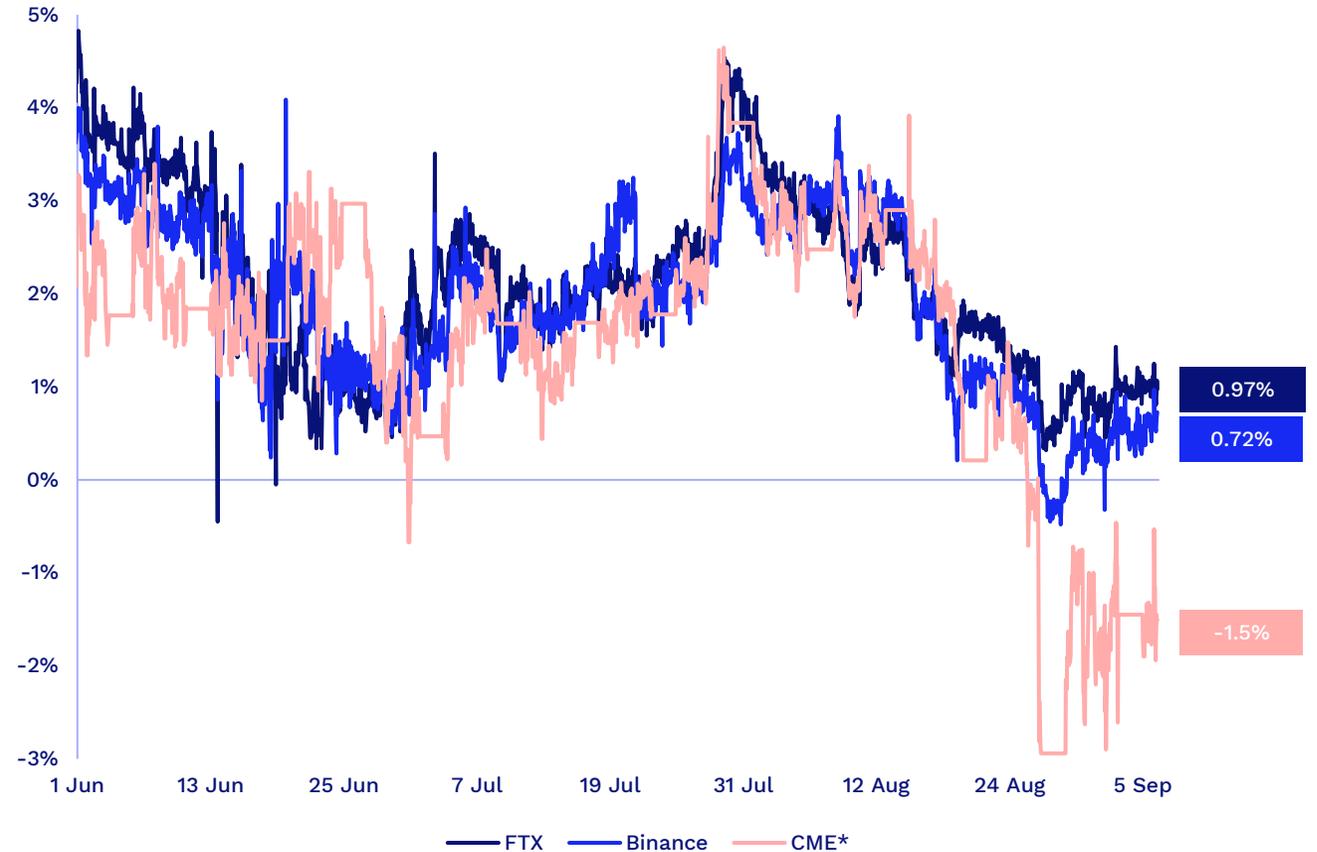


Futures traders still bearish

The bitcoin futures basis remains low amid declining volatility.

- The futures basis has stabilized as BTC has flattened near \$20,000.
- The offshore 3-month basis stays below 1% as futures traders remain cautious with few positive catalysts on the horizon.
- The situation in the futures market is unchanged from last week. CME's futures still trade in backwardation as bearish flows dominate the institutional futures market. This is evident by assessing the ETF flows, where BITI still sees inflows vs. BITO experiencing outflows.
- Outside of ETF flows, CME's BTC volumes were unusually low last week. This reduced volume may expose the market to more volatility and should be monitored closely onwards, as CME has previously been one of the key drivers of BTC's price discovery.

Bitcoin Futures Annualized Rolling 3-Month Basis



Source: Skew, Laevidas, Tradingview, CME

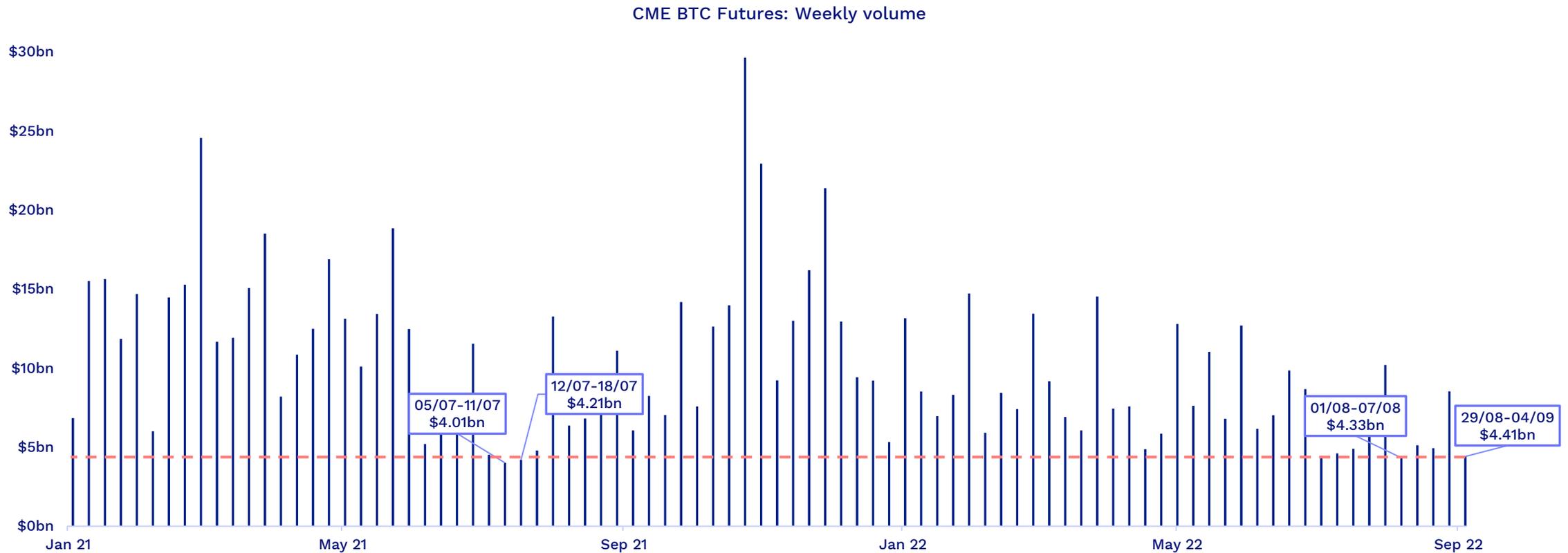
*Closed Saturday - Sunday



Institutional trading activity dries up

CME's BTC trading volume has stagnated, as institutional interest in the crypto market crumbles.

This week saw the fourth lowest weekly BTC futures volume on CME since January 1st, 2021. Only the first week of August this year and two weeks of July last year saw lower weekly trading volume as institutional interest in BTC currently stays very low.



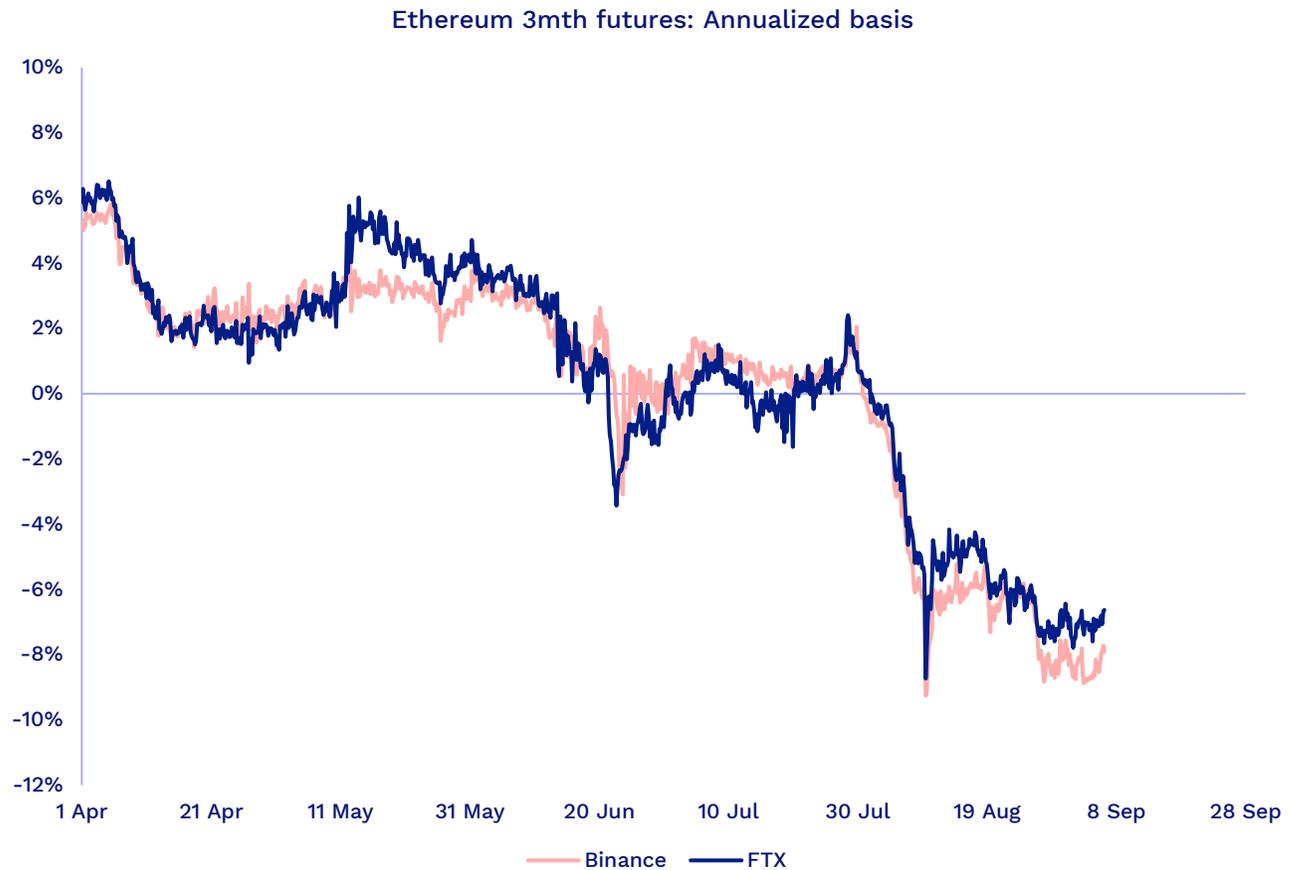
Source: Skew,



Ether trading in even sharper backwardation ahead of the Merge

Ether futures still trades in sharp backwardation as the Merge approaches.

- Ether futures are trading substantially below the spot markets as [the hedged merge](#) trade still impacts future premiums.
- Currently, 3mth ETH futures trade at 7% annualized discounts to spot while the 1mth futures trade in an even sharper discount ranging from -10-15% annualized.
- As the merge occurs, and the potential hard fork has occurred, traders are likely to cover their shorts and sell spot leading basis to recover, analogous to how BTC futures reacted post the [Bitcoin Cash hard fork in 2017](#).



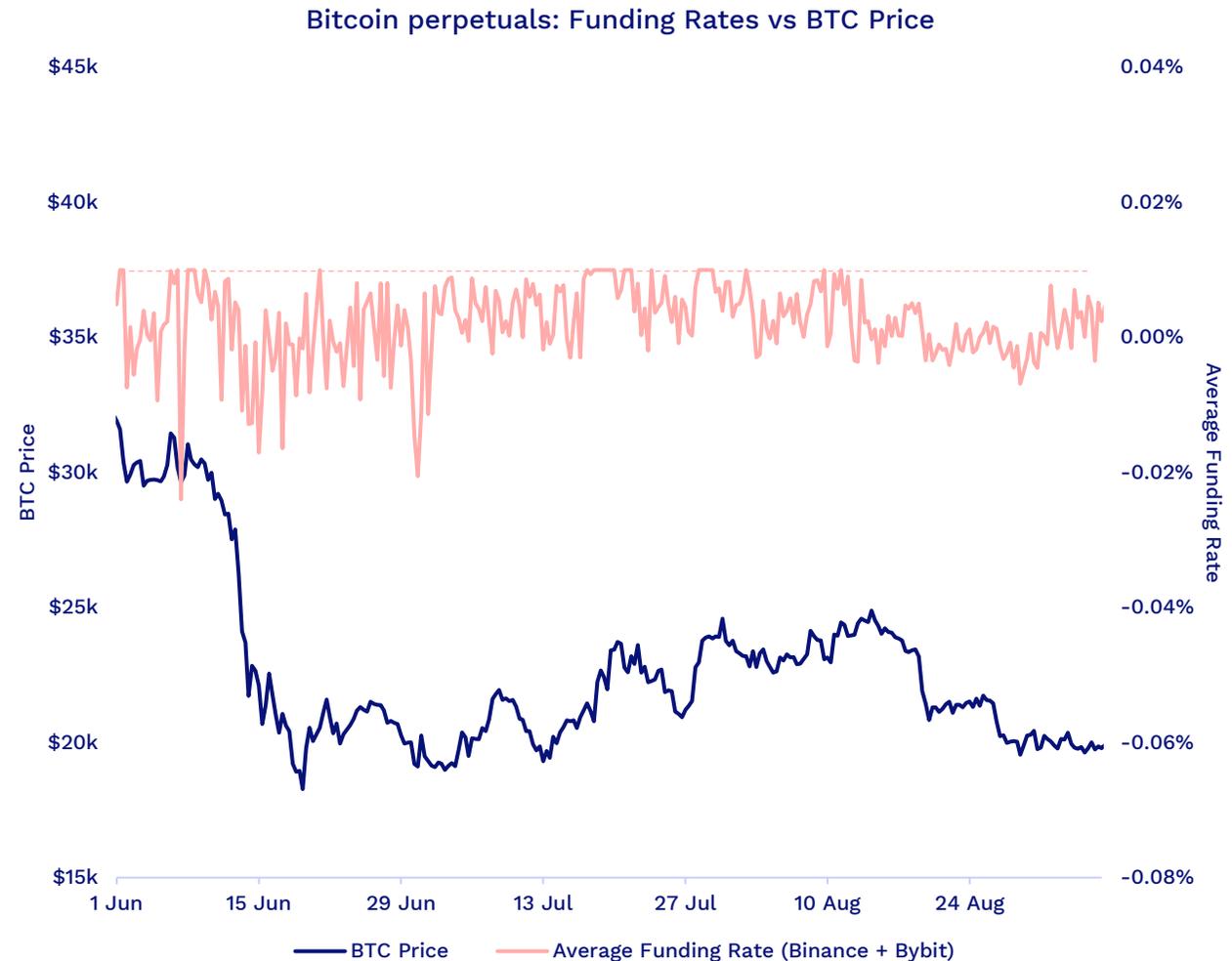
Source: Laevitas



Funding rates remain in negative territory

No changes in funding rates, as perps, still trade below spot.

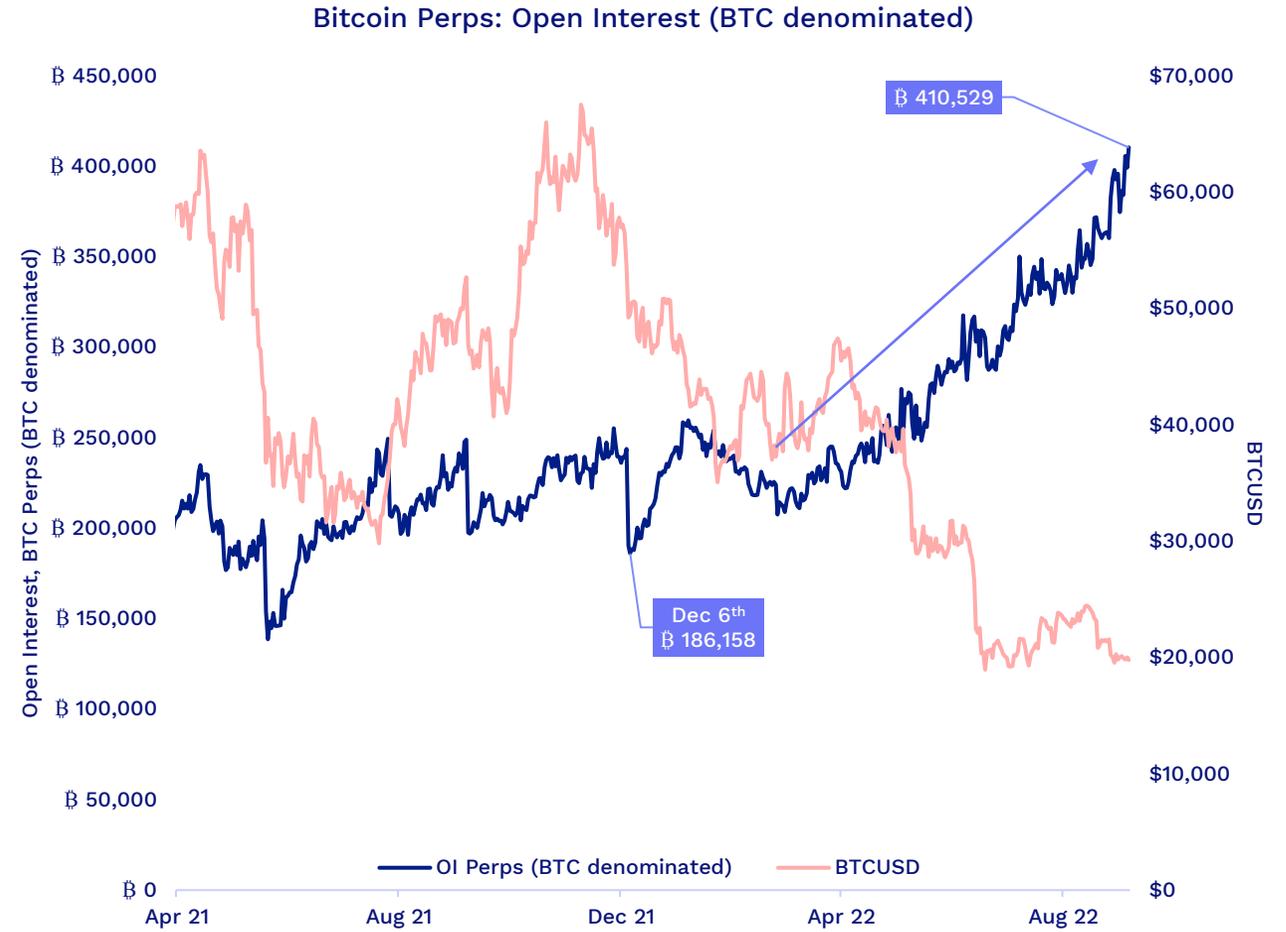
- We are nearing one month of funding rates trailing below the neutral level of 0.01% on Binance and Bybit as perp flow still suggests lackluster demand to add long exposure.
- The Binance perp has seen interesting behavior in the last few days, with signs of an eager shorter appearing and disappearing from the market, shorting short-time frame bottoms and covering at short-time frame tops.
- As illustrated in the next slide, open interest in perps is still growing and has pushed towards new all-time highs in the last seven days.
- Overall, crypto derivatives remain in a prolonged bearish state, with no indications of a sentiment change in the last week.



The vertical venture of BTC's open interest continues

Open interest in perps sees further growth – now sitting at 410,529 BTC.

- BTC denominated open interest in perps grew by 12,000 BTC in the last week and still pushes towards new highs as BTC stays rangebound.
- The BTC denominated open interest in BTC perps now sits at a record high 410,529 BTC.
- The high open interest in the market and indications of reduced liquidity and trading volume may be a recipe for a volatility spike shortly. The next weeks offer several catalysts, most notably the U.S. CPI release (Sep 13th) and the ETH merge (Sep 14-15th).



Source: Laevitas





Blockchain Activity



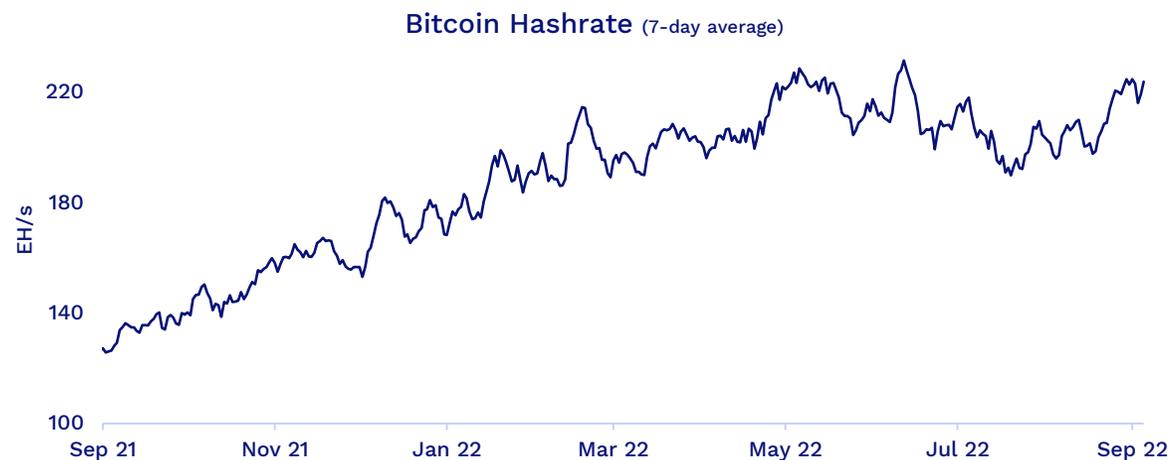
On-chain activity increases, but is still extremely low

We see a significant increase in Bitcoin's on-chain activity after the drowsy August, but it's still at very low levels historically.

- As we pointed out last week, Bitcoin's on-chain activity was very low at the end of August. Over the past seven days, we have seen an upswing in on-chain activity, as indicated by a surge in active addresses from the bottom of 880k one week ago to 925k.
- With more users making on-chain transactions, we also see a 23% increase in the daily transaction volume. This higher demand for transacting has naturally led to a 32% surge in daily fees, now at \$277k.
- Even after this massive increase, the daily transaction fees are still close to the lowest since May 2020. This reminds us that although on-chain activity has been increasing lately, it's still very low historically.
- Bitcoin's hashrate continues to tick upwards after a summer without growth. The 7-day average hashrate is now at 225 EH/s, and only a 3% increase is required to break the all-time high of 231 EH/s.
- The reason behind the hashrate surge is likely that American miners are coming back online after shutting off their machines as a response to surging electricity prices following summer heatwaves.
- Last week, all this hashrate coming online led to some of the highest block production rates observed, at 6.64 blocks per hour. The Bitcoin network responded by increasing the difficulty by 9.3% - the second-biggest difficulty increase in 2022. This difficulty increase has pushed down the block production rate towards the target of 6, but it's still slightly above at 6.2.

Powered by:		Bitcoin Network Data			
BYTETREE		9/5/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	\$ 18,818,405	\$ 20,802,773	-9.54%	
	Fees per day	\$ 276,538	\$ 209,577	31.95%	
	Fees % Revenues	1.47%	1.01%	0.46%	
	Daily TX Volume (\$M)	\$ 3,454	\$ 2,801	23.32%	
	Transactions per day	251,018	245,211	2.37%	
Utility	Avg TX value \$	\$ 13,760	\$ 11,422	20.47%	
	# Blocks per hour	6.20	6.64	-6.63%	
	Avg. # TX per block	1,686	1,647	2.37%	

Source: Bytetrete



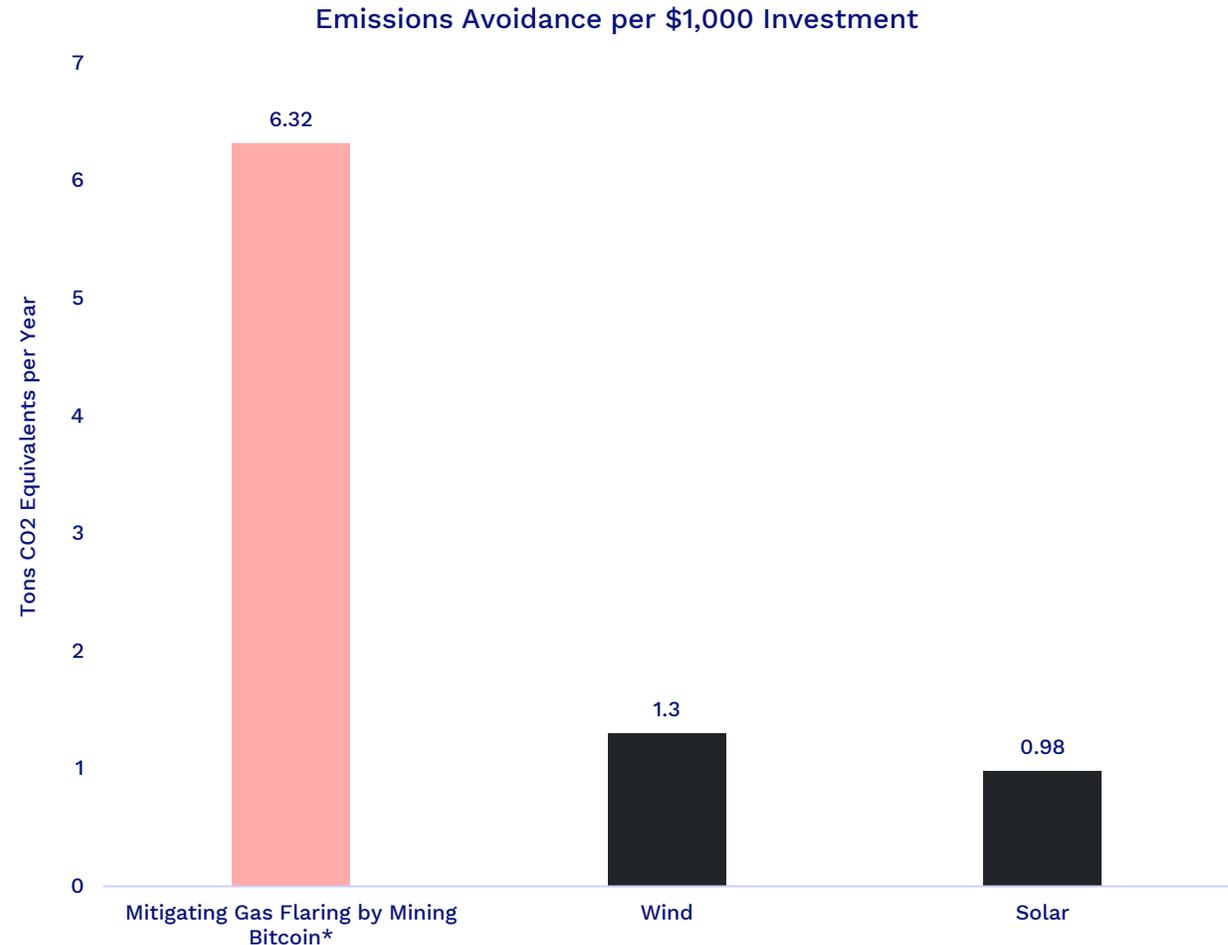
Source: Blockchain.com



Bitcoin mining is the most cost-effective way to reduce emissions

Mitigating natural gas flaring by mining bitcoin is a more cost-effective way of reducing greenhouse gas emissions than building wind or solar plants.

- Natural gas is produced as a byproduct of oil drilling. Harnessing this gas for consumption is not always economically viable. In these cases, the oil producer ends up burning the gas on-site in a process called flaring.
- Gas flaring creates emissions without deriving any utility. In addition, the flaring process releases higher amounts of the extremely potent greenhouse gas methane than burning the gas inside the controlled environment of an electrical generator.
- Bitcoin mining has emerged as the superior technology for reducing natural gas flaring. The location agnosticism, modularity, and portability of the bitcoin mining process make it possible to place a bitcoin mining operation directly at the oil well to offtake the excess natural gas and mitigate flaring.
- The biggest driving force for this type of bitcoin mining is the opportunity to reduce emissions. Numbers from Crusoe Energy shows that mitigating natural gas flaring by mining bitcoin is by far the most cost-effective way of reducing emissions. Per \$1,000 investment, a bitcoin mining system reduces emissions of 6.32 tons of CO₂ equivalents per year, compared to 1.3 for wind and 0.98 for solar.
- Mitigating natural gas flaring is just one of several ways bitcoin miners can positively impact the energy sector. Learn more in Arcane's new report titled "[How Bitcoin Mining Can Transform the Energy Industry](#)".



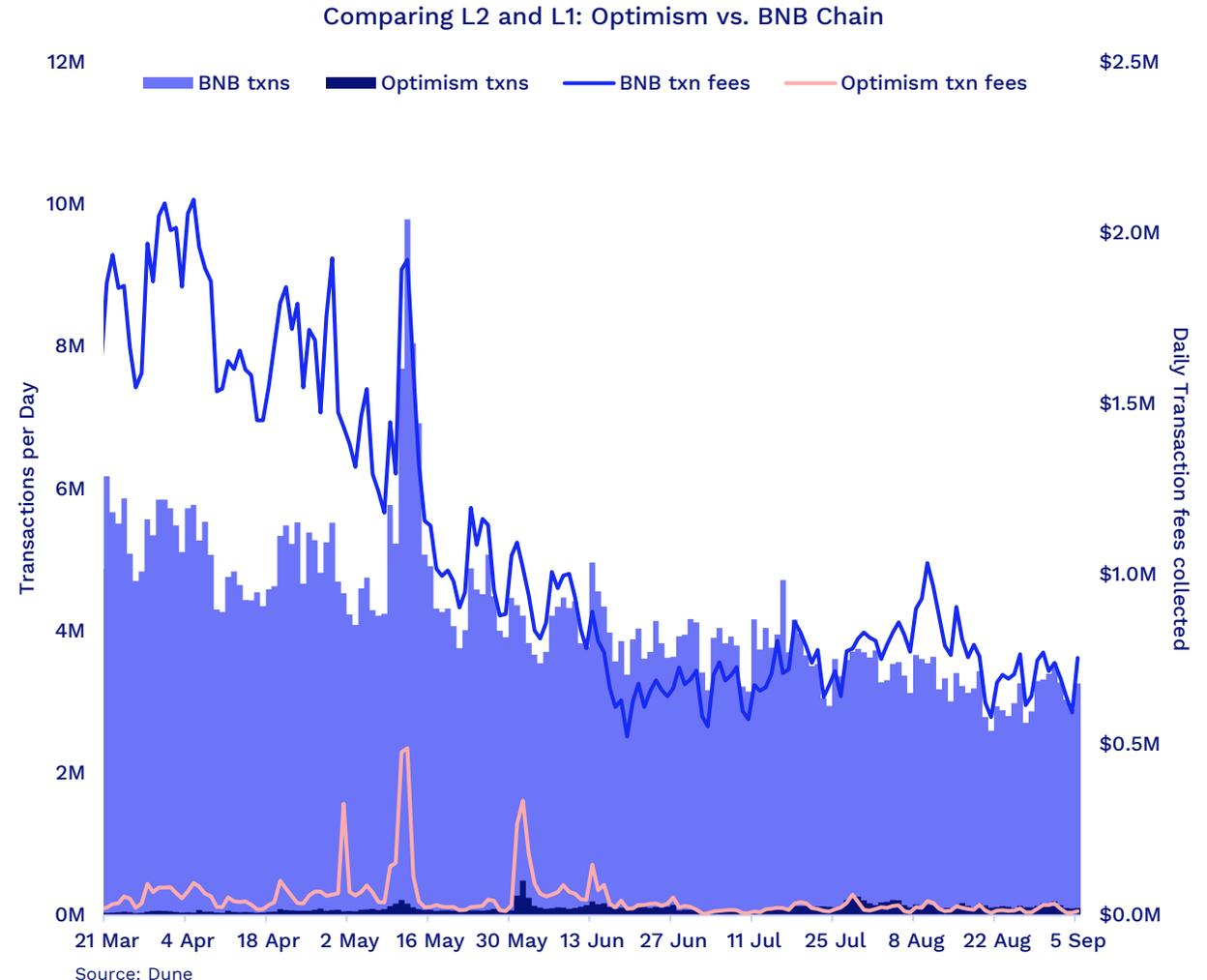
Source: Crusoe Energy's Digital Flare Mitigation System



The untold tale of brand awareness

Rollups are the trending solution for scalability on Ethereum. Average gas fees on Ethereum and BNB Chain are currently 7.7x and 3.4x more expensive than Layer 2 solution Optimism. Meanwhile, BNB has 32x more daily transactions.

- Crypto is a world where financial incentives clash with ideals, so there isn't a good measure of "real" usage yet. Everything is either incentivized, gameable, or inelastic (in terms of real competition). BNB is far from an apple-to-apple comparison to Layer 2, but it illustrates the significance of marketing and network effects.
- BNB Chain optimizes for speed, scalability, and cross-chain interoperability, but not decentralization. This means that the protocol can achieve a much higher transaction throughput than Ethereum. As a result, the transaction fees are also much cheaper.
- Launched by Binance—a true behemoth in the crypto world—BNB has established clear network effects, particularly in eastern markets. Binance has realized a 30M userbase they can leverage via email marketing, and influence a broader audience via social media and education.
- In addition, Binance consists of a venture fund, project launchpads, an incubator lab, a charity fund, the DEX PancakeSwap, and the most dominating CEX in crypto. Owning the largest on-off ramp is by far the best way to funnel users directly onto the chain.
- The security and decentralization compromises are clearly acceptable to many users in the short-term, so rollup teams have to be significantly more aggressive with marketing and emphasize unbiased education of new users to outcompete BNB and centralized protocols.



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