The Weekly Update

Week 42, 2022

luno

Provided by arcane research

1

Market Update

- Bitcoin reigns in an unusually flat environment, seeing no notable price swings over the last week.
- Excluding Binance, the bitcoin volume on the leading spot exchanges is at a 2-year low.
- Bitcoin's 30-day volatility is currently very near a 6-year-low, sitting slightly higher than low levels recorded in 2018, 2019, and 2020.
- Bitcoin's 30-day volatility is currently lower than that of the Nasdaq and S&P 500.

2

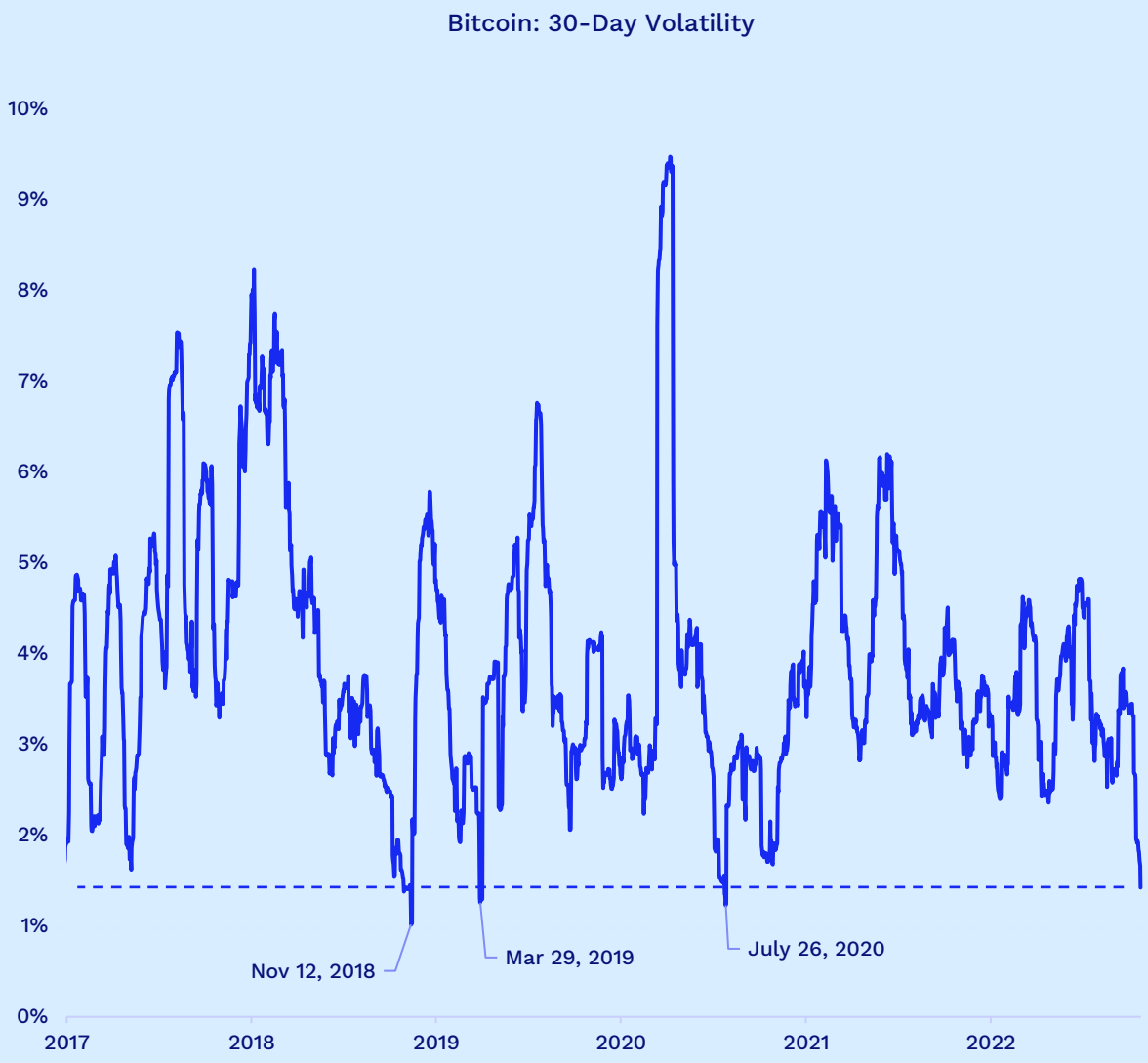
Valuation

- Another week of flat prices sees BTC's trading range narrowing even more. Prepare for volatility.
- Weekend volume in futures and perps hits 1-year low, while open interest remains stay near all-time highs.
- 3-month IVs are pushing towards two-year lows, creating an attractive entry point for straddle strategies.

3

Blockchain Activity

- We note that Bitcoin miner fees have increased 10% this week as the block production rate falls back to its intended level. The Bitcoin hashrate has found its peak for now – was Russia behind the recent increase?
- Fears of a miner capitulation ala 2018, due to growing hashrate, are overestimated. The hash rate has grown at a predictable rate in 2022. There has already been a miner capitulation this summer, and there is no fork war.



Source: Tradingview

Dwindling activity and dead flat crypto markets

- Bitcoin reigns in an unusually flat environment, seeing no notable price swings over the last week. This has pushed the 30-day volatility to multi-year lows at levels below those of U.S. equities. Further lowering options IVs are creating an attractive entry for straddle strategies.

- The Nov 2nd FOMC press conference represents the most likely near-term catalysts to reignite volatility in the market. The market is currently pricing in a 95% chance of a 75bps interest rate hike. Previous FOMCs have tended to be volatile and should be on everyone's radar next week.

- The political turmoil in the U.K. continued last week, culminating in Rishi Sunak being installed as the new British Prime Minister. Interestingly, Sunak has been positive towards crypto, seeking to position the U.K. as a global crypto hub.

- Among this week's losers, we find LEO. LEO has seen a strong year following the seizure of funds related to the 2016 Bitfinex hack. Currently, LEO trades at a 160% premium to the value of its seized BTC, down from 256% on Sep 1st. Thus, the recent decline may be viewed as a normalization from overvalued levels.

Last week of top 50 by market capitalization

Best Performing	Price	Last week	Last month	YTD
Huobi	8.83	11.0%	96.3%	-17%
Aave	83.11	5.0%	10.7%	-69%
Polygon	0.89	4.6%	17.7%	-65%

Worst Performing	Price	Last week	Last month	YTD
Quant	179.69	-13.3%	56.4%	0%
Terra Luna Classic	0.00	-12.9%	1.8%	-100%
LEO Token	4.08	-9.4%	-4.1%	7%

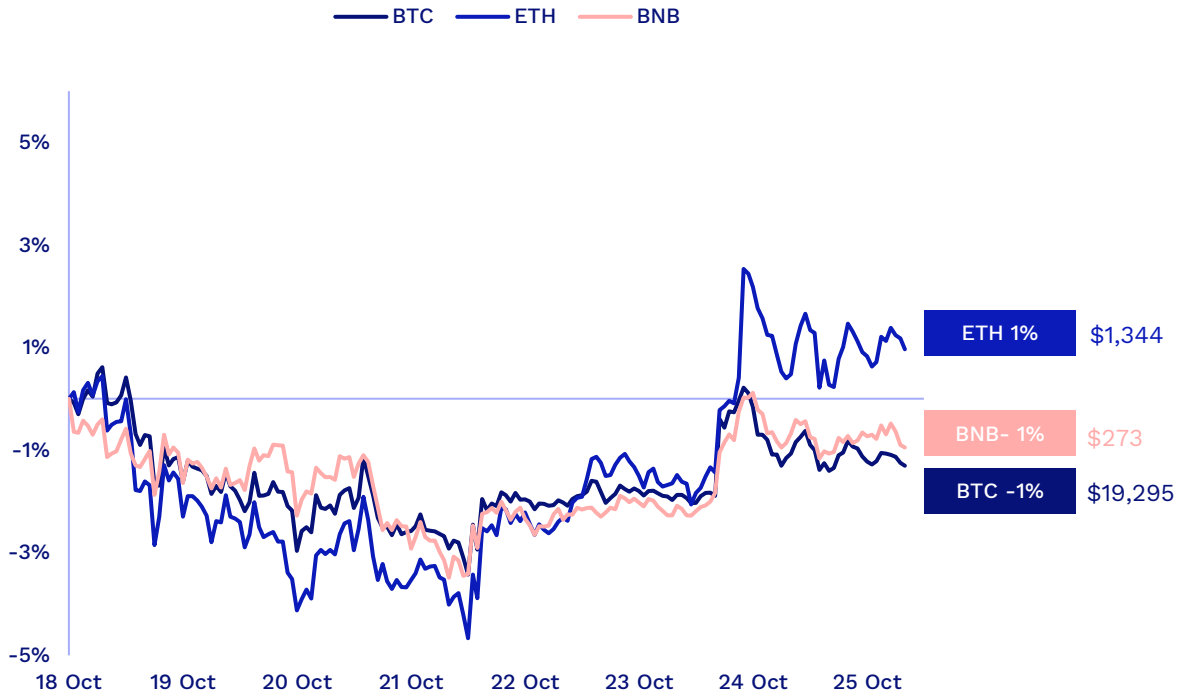
Source: CoinGecko, messari.io

Bitcoin Correlation:

90-day correlation (weekly change included)	ETH		GOLD		S&P500	
BTC	0.839	0.003	0.470	0.020	0.574	-0.042

Source: CoinMetrics

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



Source: Tradingview (Coinbase, Binance US)

Uneventful October continues

The crypto market has not moved much since last week, and the uneventful October has continued.

- Bitcoin is down 0.5% so far this month after another exceptional flat week in the crypto market. Bitcoin keeps its leading position in October, with the rest of the indexes following closely.
- The Large Cap Index is the second-best performer so far in October, currently down 2.5%. The Mid Caps Index has declined slightly and is now down 4.0% this month.
- The Small Caps Index is still lagging behind the rest, but we note that the gap is narrowing, with the index being down 6.6% so far this month.
- We note that most stablecoins gain market share again, further highlighting another week with little risk appetite from market participants.

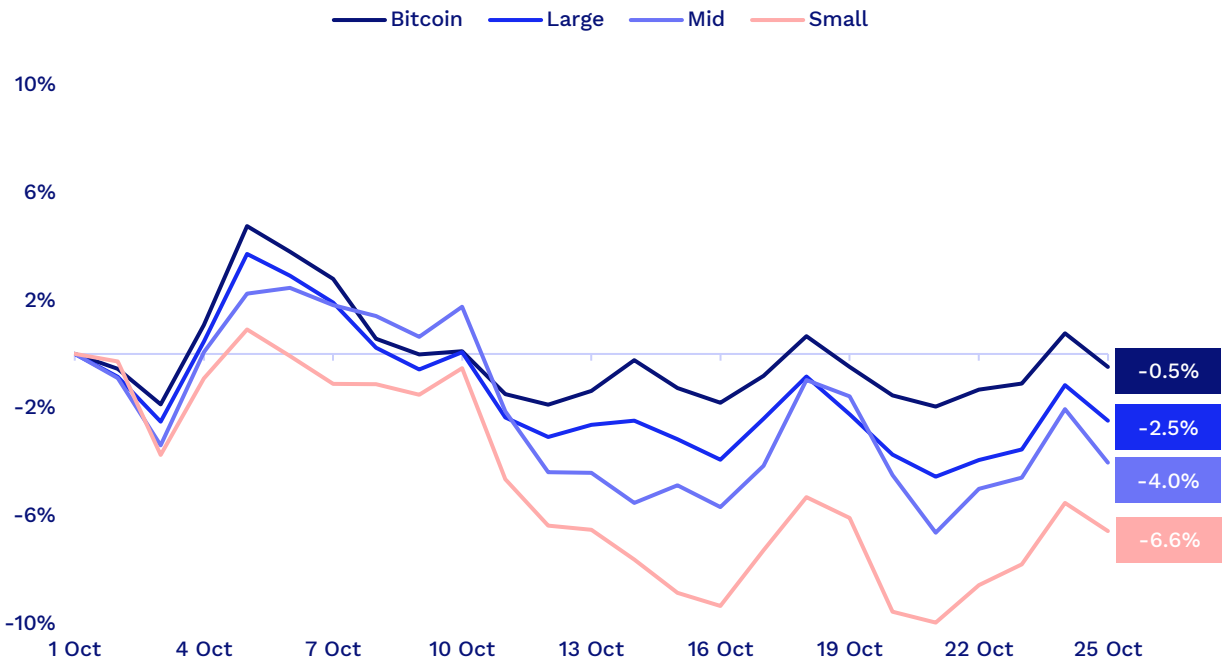
Percentage of Total Market Capitalization

	BTC	ETH	USDT	BNB	USDC	XRP	BUSD	ADA	SOL	DOGE
Market Share	39.83%	17.71%	7.35%	4.71%	4.70%	2.39%	2.32%	1.33%	1.10%	0.86%
Weekly Change	-0.31%	0.29%	0.06%	-0.01%	-0.05%	-0.14%	0.02%	-0.03%	-0.09%	0.01%

* Weekly change in percentage points

Source: CoinMarketCap

Monthly Performance of Market Cap-Weighted Indexes

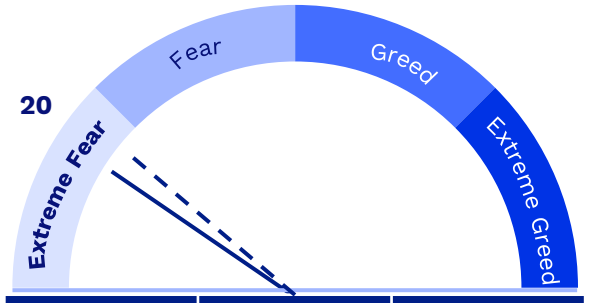


Source: Bletchley Indexes, Tradingview (Coinbase)

Another week of extreme fear

Unsurprisingly, the state of the market is still fearful, and we record another week in the “Extreme Fear” area. The Fear and Greed Index has been more or less unchanged for more than a month, fluctuating between 20 and 25. Another two weeks in this area, and we can confirm one full year of fear in the crypto market.

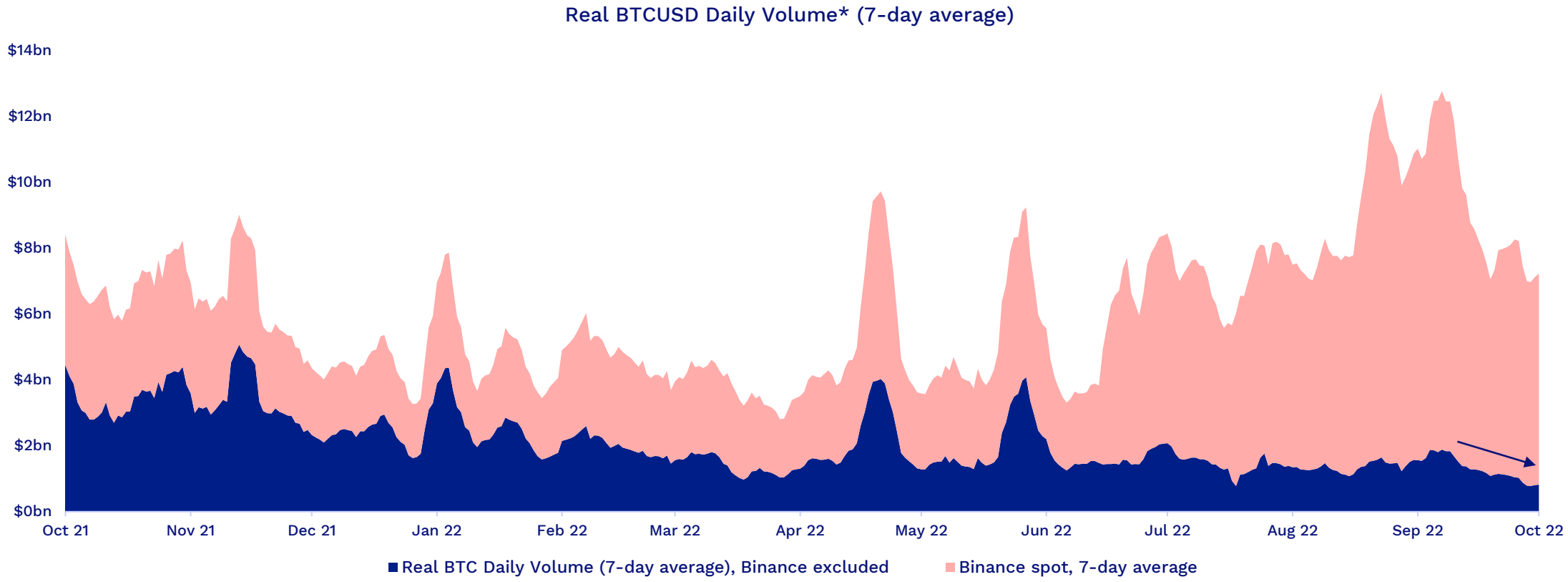
Source: Alternative.me



Now	Last week	Last month
Extreme Fear (20)	Extreme Fear (22)	Extreme Fear (24)

Spot volume continues its decline on most exchanges

With little price action, the activity on most spot exchanges has naturally been low over the past seven days. The spot volume on Binance also declined this week after a little deviation from the rest last week. Excluding Binance, the bitcoin volume on the leading spot exchanges is at a 2-year low.

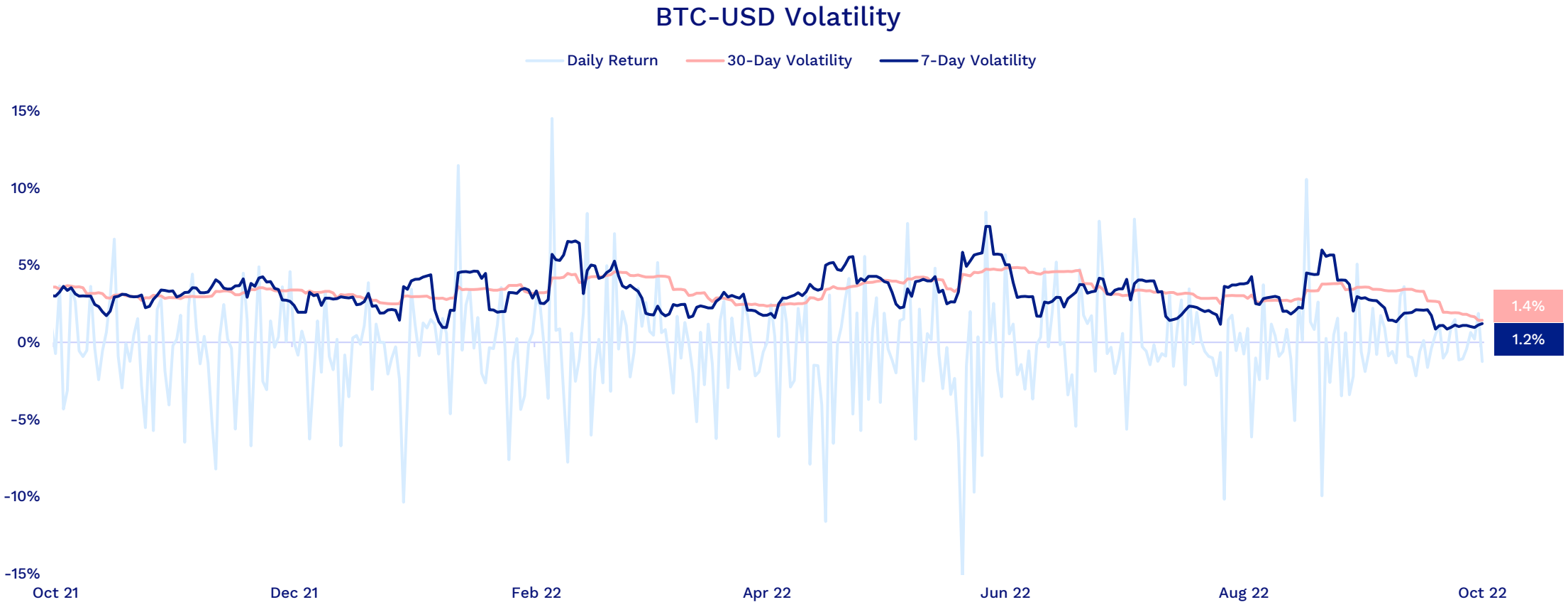


Source: Tradingview

*Includes Bitwise 10 exchanges and FTX

30-day volatility at historic lows

The 30-day volatility is declining even more this week and is now at 1.4%. We've observed this level on very few occasions historically, as described in more detail on the next slide. The 7-day volatility has increased slightly but holds around the 1% level. To put this in perspective, bitcoin is less volatile than equities right now, as elaborated on slide 9.

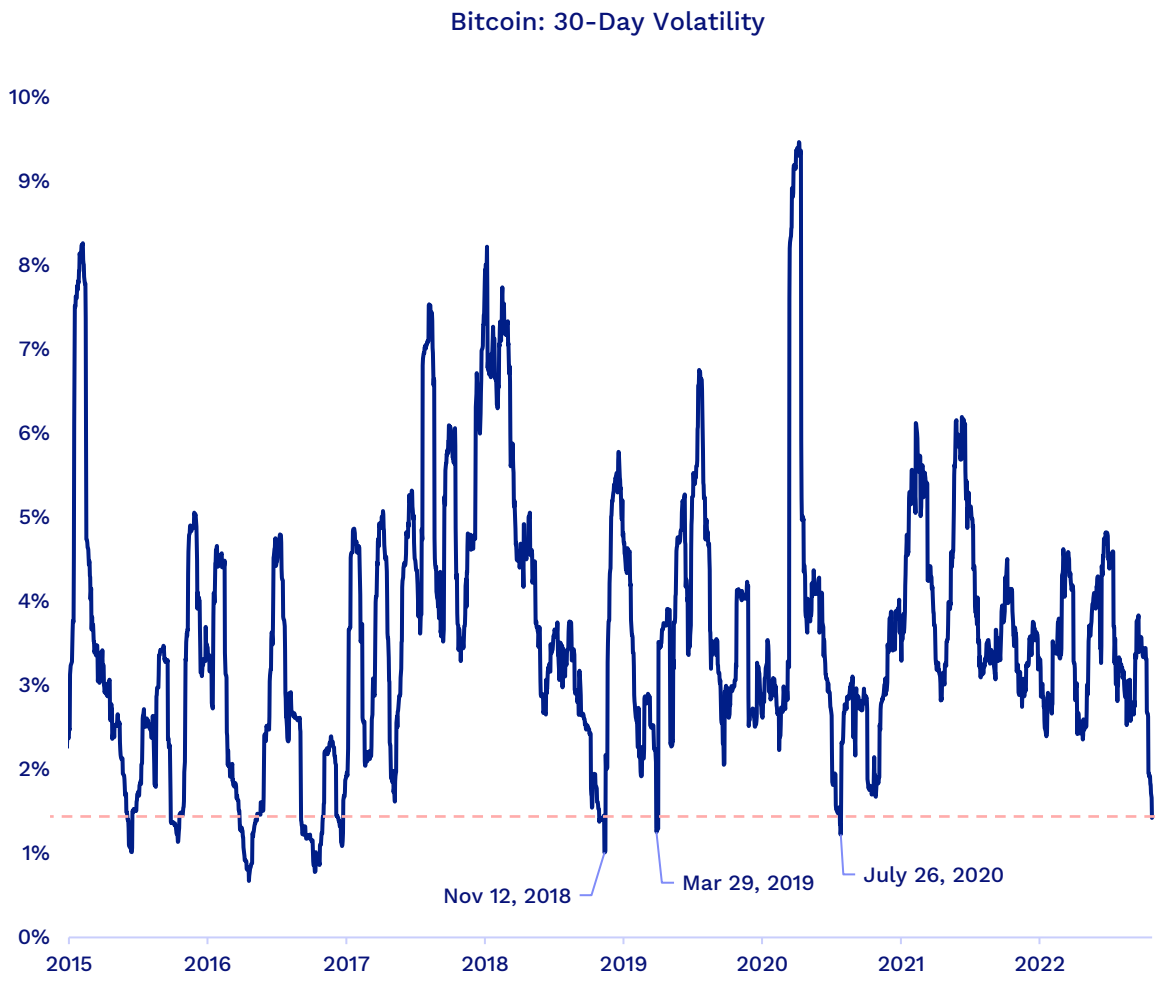


Source: Tradingview (Coinbase)

Bitcoin's 30-day volatility through longer lenses

Bitcoin's 30-day volatility sits at levels rarely visited for long.

- Bitcoin's 30-day volatility is currently very near a 6-year-low, sitting slightly higher than low levels recorded in 2018, 2019, and 2020.
- From previous price history, we know that BTC rarely stays long at contracted volatility levels, and traders should not expect the current regime to represent a new norm.
- The summer of 2020 was the last time volatility reached similar lows as those of today. BTC maintained levels below the current levels **for 4 days** before the price exploded up. Volatility then fell again as BTC reverted toward its consolidation range.
- In March 2019, BTC's 30-day volatility maintained levels lower than the current levels **for 6 days** before the price exploded up, as BTC recovered from its bear market bottom.
- In November 2018, the 30-day volatility trailed at lower levels **for 17 days** before BTC's volatility exploded as BTC's $6k support was shattered and BTC reached lows of $3k.
- You may utilize options to bet on growing volatility. The current volatility regime is unusually low compared to the previous history while also sitting at levels that rarely last for long. Historic volatility tends to impact options prices due to backward-looking volatility expectations. Currently, implied volatilities for longer-dated expiries sit near 2-year lows, making straddle strategies appealing.

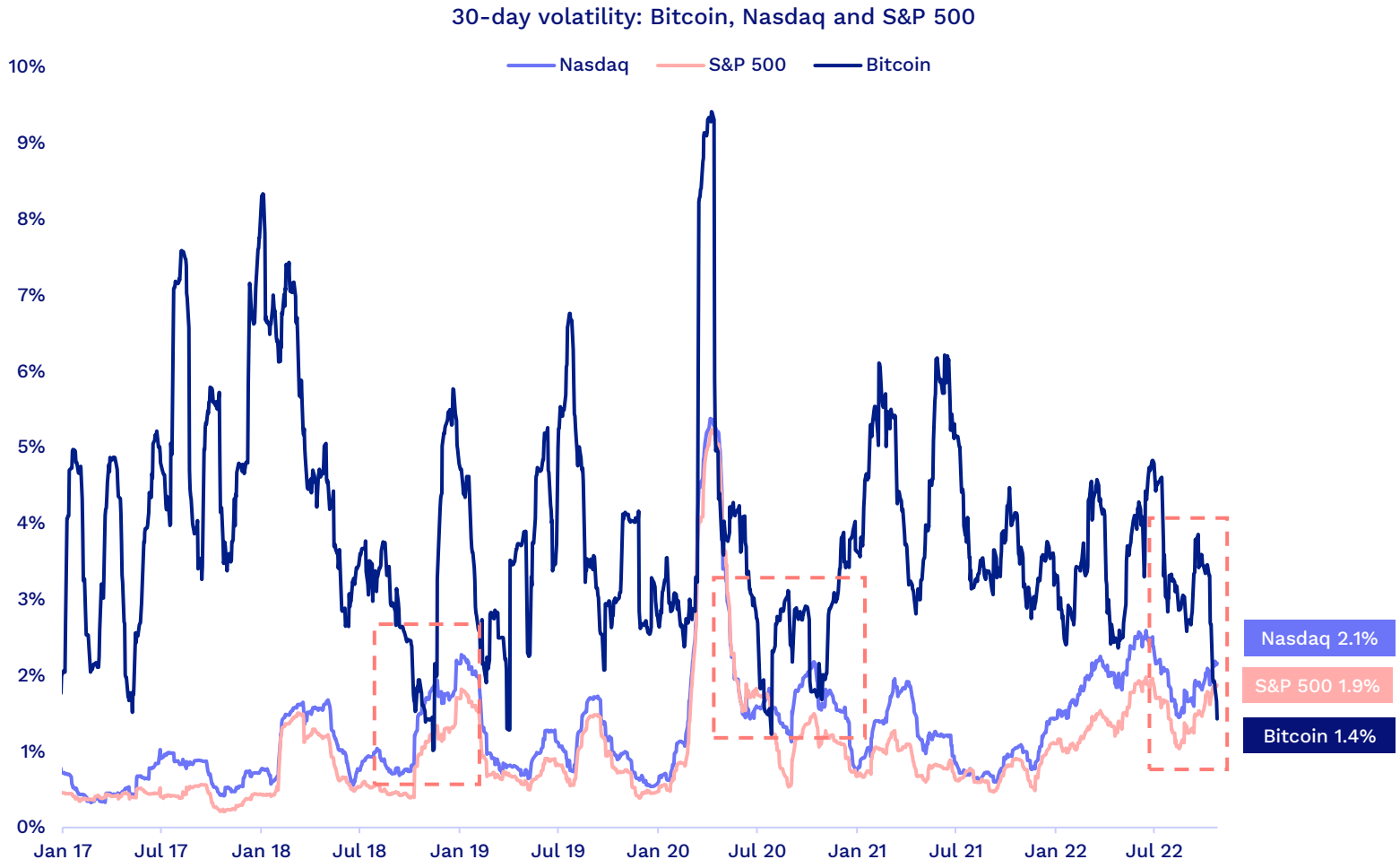


Source: Tradingview

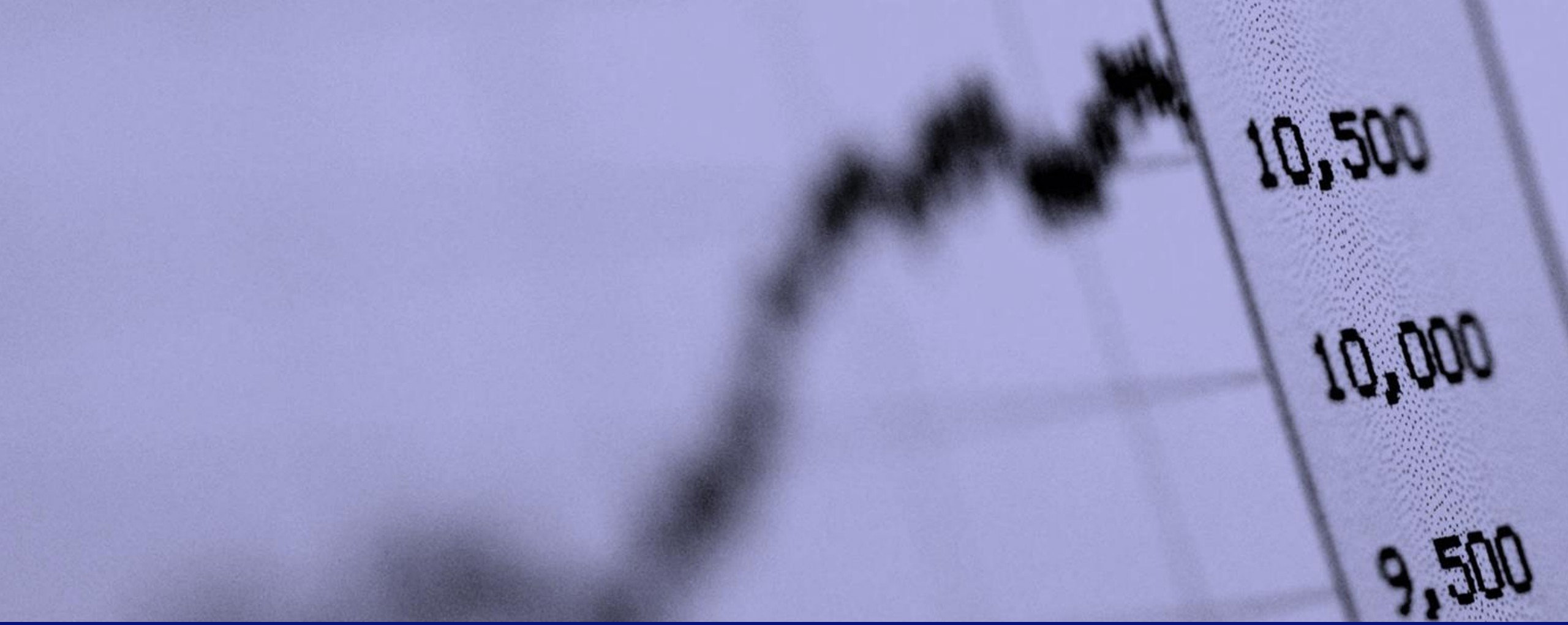
Bitcoin price currently more stable than Nasdaq and S&P 500

More action in equity indexes than in BTC.

- Bitcoin's 30-day volatility is currently lower than that of the Nasdaq and S&P 500.
- Nasdaq's 30-day volatility sits at 2.1%, S&Ps at 1.9% compared to BTCs 1.4%.
- This has only happened twice since 2017, analogous to topics covered in the last slide.
- Interestingly, BTC's volatility has plunged lately, while the 30-day volatility of the S&P 500 and Nasdaq has seen a steady uptrend.
- Structurally, BTC's declining volatility vs. the rising U.S. equity volatility bears a stronger resemblance to November 2018 than July 2020.
- November 2018 saw volatility rising in equities, while BTC's volatility dried off, whereas the summer of 2020 saw volatility flattening across asset classes.



Source: Tradingview



Valuation

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Bitcoin price flat at $19k

Another week of flat prices sees BTC's trading range narrowing even more. Prepare for volatility.

- Our analysis and technical levels have now stayed unchanged for a month, with the bitcoin price laying flat at $19k.
- We note that within the tight trading range between $19 and $20k, we're seeing lower highs and higher lows.
- One can argue that the trading range has evolved to a symmetric triangle; technically, we can expect a breakout and volatility by the end of October.
- Bear in mind that technical analysis and patterns like these are nothing more than predicting future movements based on historical observations and no true science.
- Either way, the crypto market is remarkably flat right now, and we still expect volatility sooner rather than later.

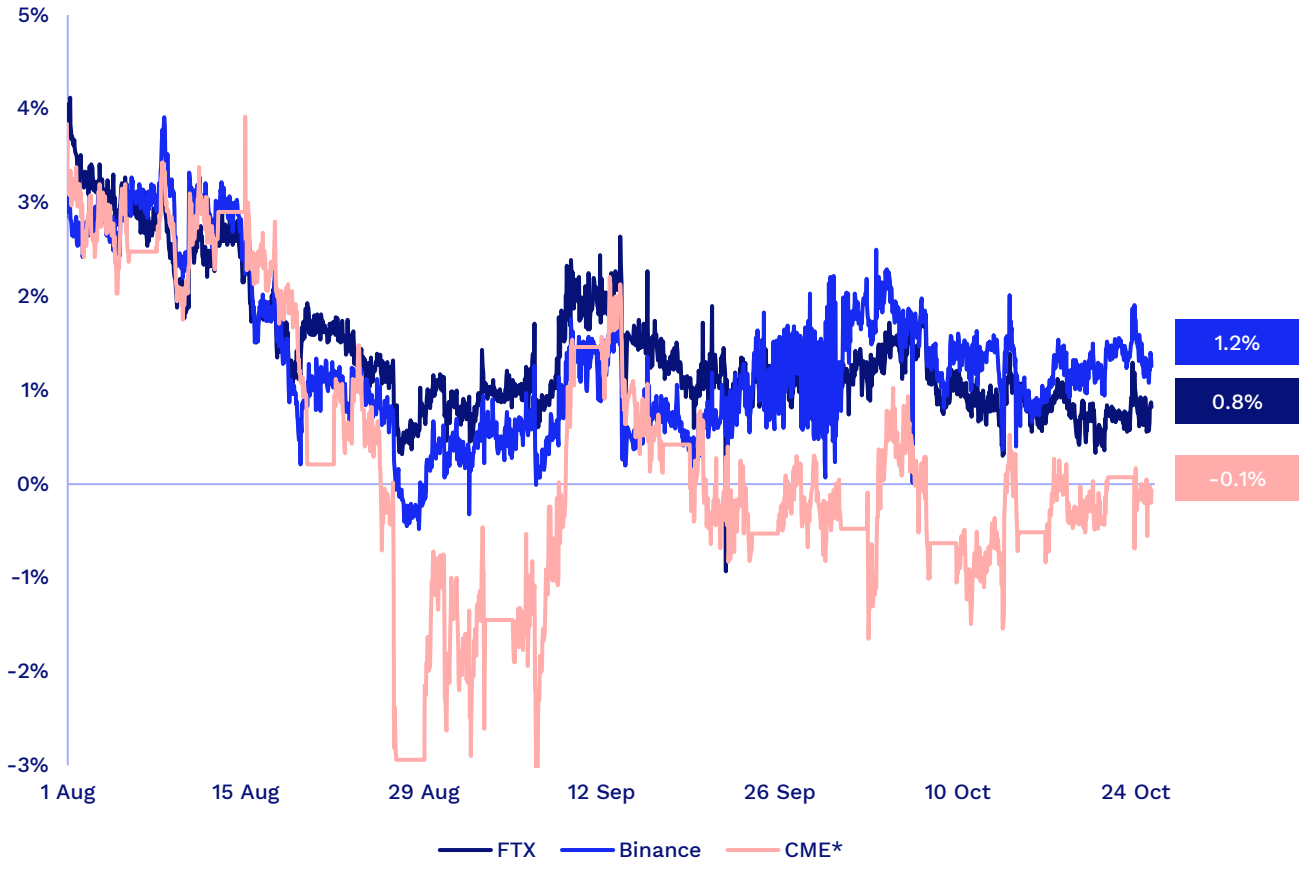
Source: Tradingview (Coinbase)

Weekend volume in futures hits 1-year low

The state of BTC futures remains unchanged from last week.

- Futures premiums stay flat, with no noteworthy changes from last month.
- The market is remarkably drowsy with no momentum. This has been reflected in low trading volumes. Per Laevitas, this weekend saw the lowest daily trading volume in offshore futures in the past 365 days.
- Last week saw no inflows nor outflows to BITO and very stale flows into the short BTC ETF BITI, further illustrating the low activity in the market. This week, U.S. BTC ETFs will roll over their October exposure.

Bitcoin Futures Annualized Rolling 3-Month Basis



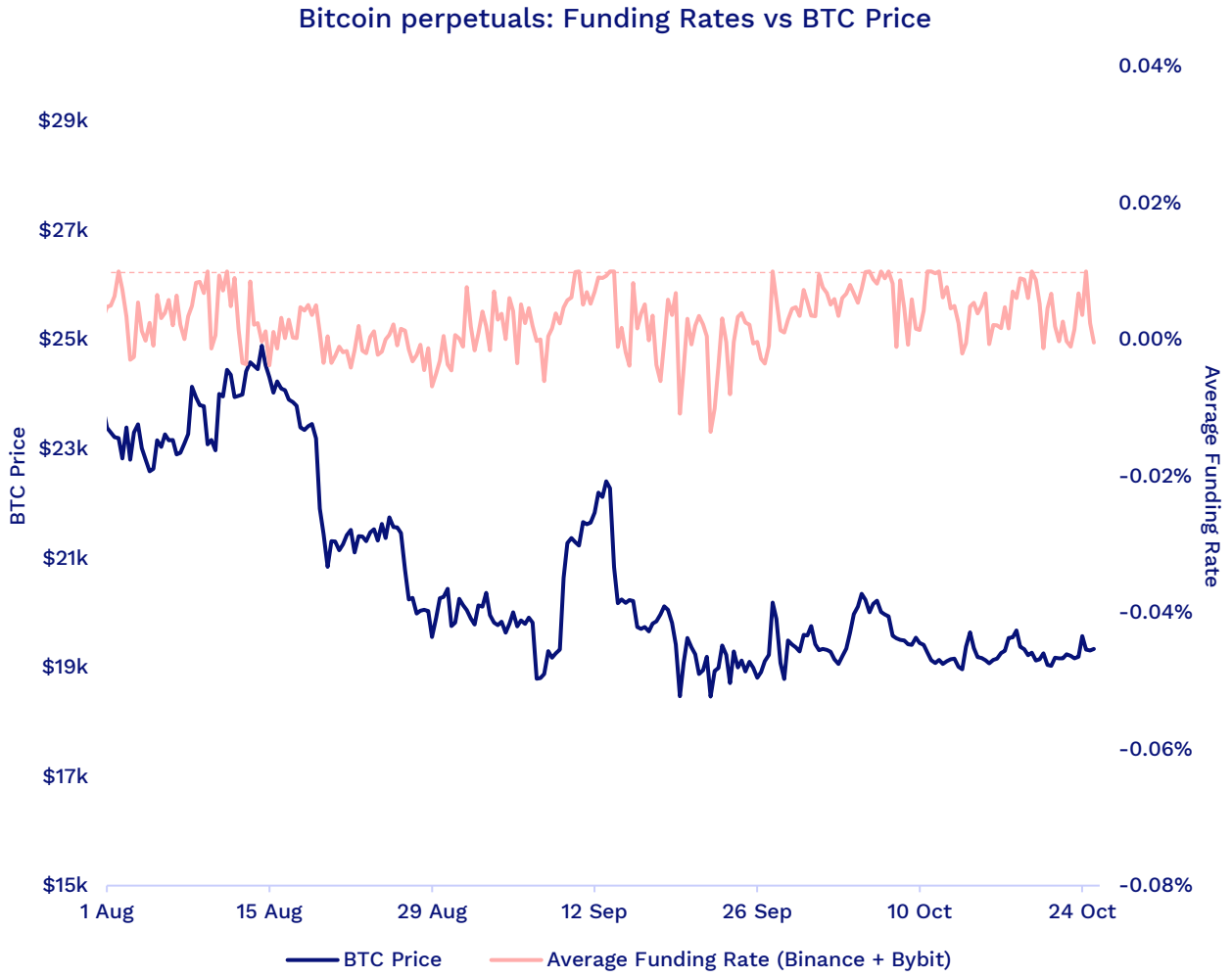
Source: Skew, Laevitas, Tradingview, CME

*Closed Saturday - Sunday

Weekend volume in perpetual swaps hits 1-year low

Funding rates have mostly trailed below neutral in the last week.

- Perps stay flat this week as activity is falling. Similarly to what we saw in futures, this weekend saw the lowest trading volume in BTC perps in the last 365 days.
- Open interest is still near all-time highs but has seen a slight decline to 490k BTC this week. Traders seem to maintain open positions, while few seem willing to open new positions.
- Summarized, neither futures nor perps offer any directional clues, and market activity has dwindled. Open interest remains concerningly high and will likely exaggerate volatility once BTC finds substantial momentum.



Source: Skew, Bybit, Binance

3-month IVs pushing towards 2-year lows

The non-existent volatility in bitcoin of late has been reflected in options, as implied volatilities (IVs) are pushing lower, leading volatility-based trading strategies to become cheaper. Straddle strategies in further dated options expiries are an interesting trade given the prevailing market conditions. The 3-month IV sits presently below 60, near 2-year lows. In October 2020, IVs trailed at current levels for 1.5 months before volatility again pushed higher.

In our opinion, in the current ambiguous market, dollar cost averaging and straddles represent the two soundest methods for approaching the directionless crypto market.

BTC Options: Implied Volatility (24h MA)

Source: Laevitas, Skew

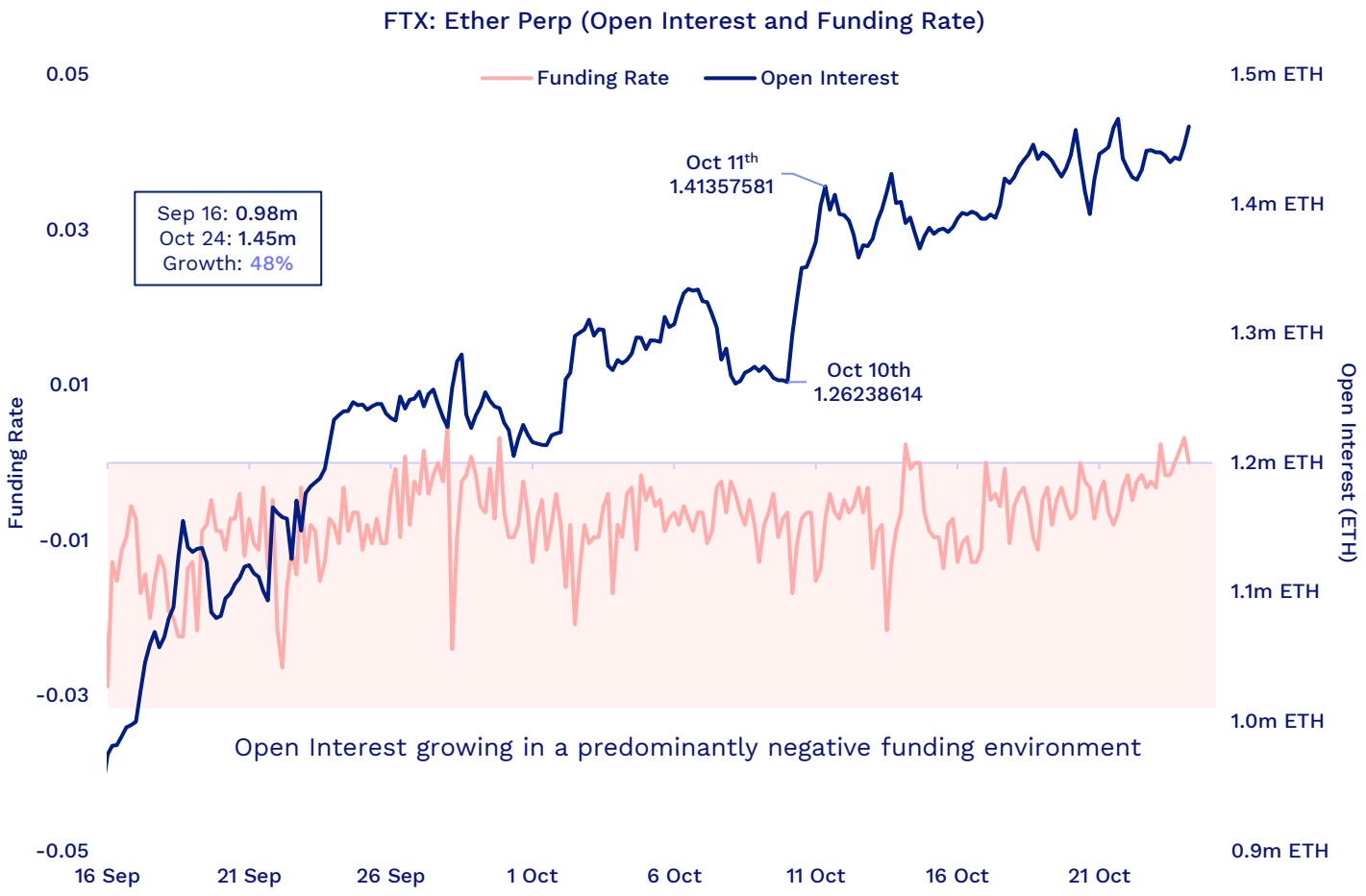
1mth ATM Vol — 3mth ATM Vol

Massive growth in FTX's ether perp in negative funding environment

Hedging or naked shorting?

Open interest in the ether (ETH) perp on FTX surged by 48% since the merge. Hedging?

- Since the Ethereum merge, FTX's ether perp have seen surging open interest in a negative funding rate environment, suggesting shorts are the key aggressor.
- Open interest on FTX's ether perp spiked in early October as funding rates reached deep negative levels. Since, open interest has stabilized while funding rates have normalized.
- From September 1st, FTX's market dominance in ether perps has increased from 25% to 30%, leading FTX to approach and temporarily surpass Binance's ETH perp open interest.
- The spiking open interest on days with deep negative funding suggests that growth is driven by shorts, either pure-play naked shorting or hedging related.
- We view hedging as the most plausible explanation. One example of entities that might be looking to hedge in size in the current market is FTX themselves. The FTX acquisition of Voyager is making progress, and per the bid, FTX will recover 72% of the crypto held by Voyager uses before the bankruptcy filings. This is a large transaction, and FTX might be hedging in advance of this.



Source: Laevitas

Blockchain Activity

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Fees increasing as block production rate normalizes

And is Russia behind the recent hashrate increase?

We note that Bitcoin miner fees have increased 10% this week as the block production rate falls back to its intended level. The Bitcoin hashrate has found its peak for now – was Russia behind the recent increase?

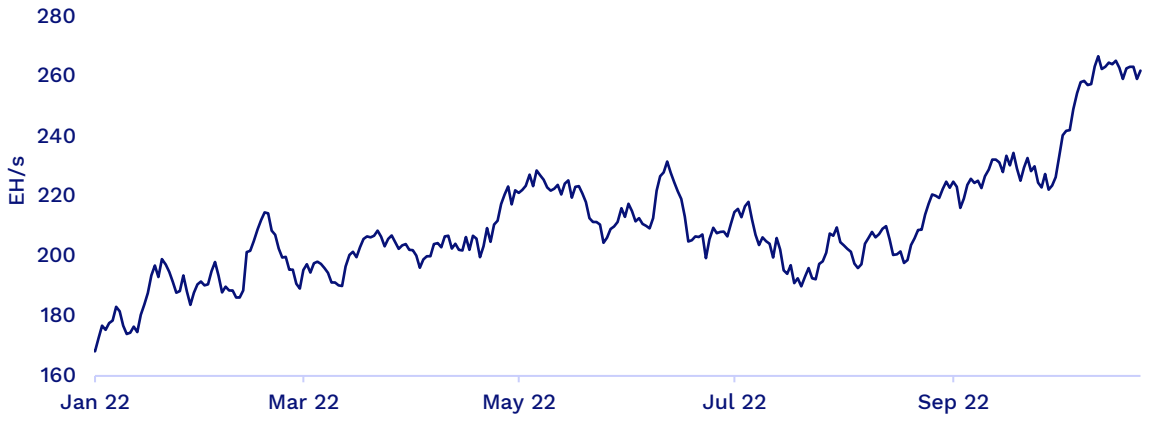
- While miner revenues have declined this week, the fees collected by miners are up by 10%.
- This results from the blocks produced per hour falling back to the intended level of 6, after two significant difficulty adjustments this month. These difficulty adjustments came after the exploding hashrate increase.
- Many have speculated about who's been turning on new miners lately. Theories have ranged from public miners in the US finally getting more miners online to Russia leveraging its stranded gas after the Nord Stream 2 pipeline got damaged recently, blocking gas delivery to Europe.
- We see the planned expansions from public miners as the most likely reason behind the hashrate increase, in addition to unused space in data centers being filled up by Bitcoin miners after Ethereum miners unplugged, as they became redundant after the Ethereum merge.
- We've seen discussions about Russia and stranded gas, but these are very unlikely - at least on a large scale. Russia's revenue from gas export to the EU exceeded several hundred million dollars per day in 2021. As seen from the table, Russia could get a daily revenue of less than $20 million if they had all the mining machines in the world. In addition, it would take time for Russia to get hold of new miners and the investment cost is also significant.
- We do not see any reason why Russia, on a national level, would even think about bitcoin mining at this time and find the theory unlikely. What could be a more probable theory is some profit-seeking local gas operators in Russia plugging in more machines, but this would not explain the recent hashrate increase as it would only slightly impact the total.

Powered by: BYTETREE

	Bitcoin Network Data				
		10/24/2022	7d prior	7d Change	30d Trend
Network	Daily Miner Revenues	$ 17,765,769	$ 18,064,561	-1.65%	
	Fees per day	$ 238,792	$ 216,296	10.40%	
	Fees % Revenues	1.34%	1.20%	0.15%	
	Daily TX Volume ($M)	$ 2,715	$ 2,868	-5.34%	
	Transactions per day	252,588	258,362	-2.23%	
Utility	Avg TX value $	$ 10,748	$ 11,101	-3.18%	
	# Blocks per hour	6.07	6.18	-1.92%	
	Avg. # TX per block	1,735	1,775	-2.23%	

Source: Bytetree

Bitcoin Hashrate (7-day average)

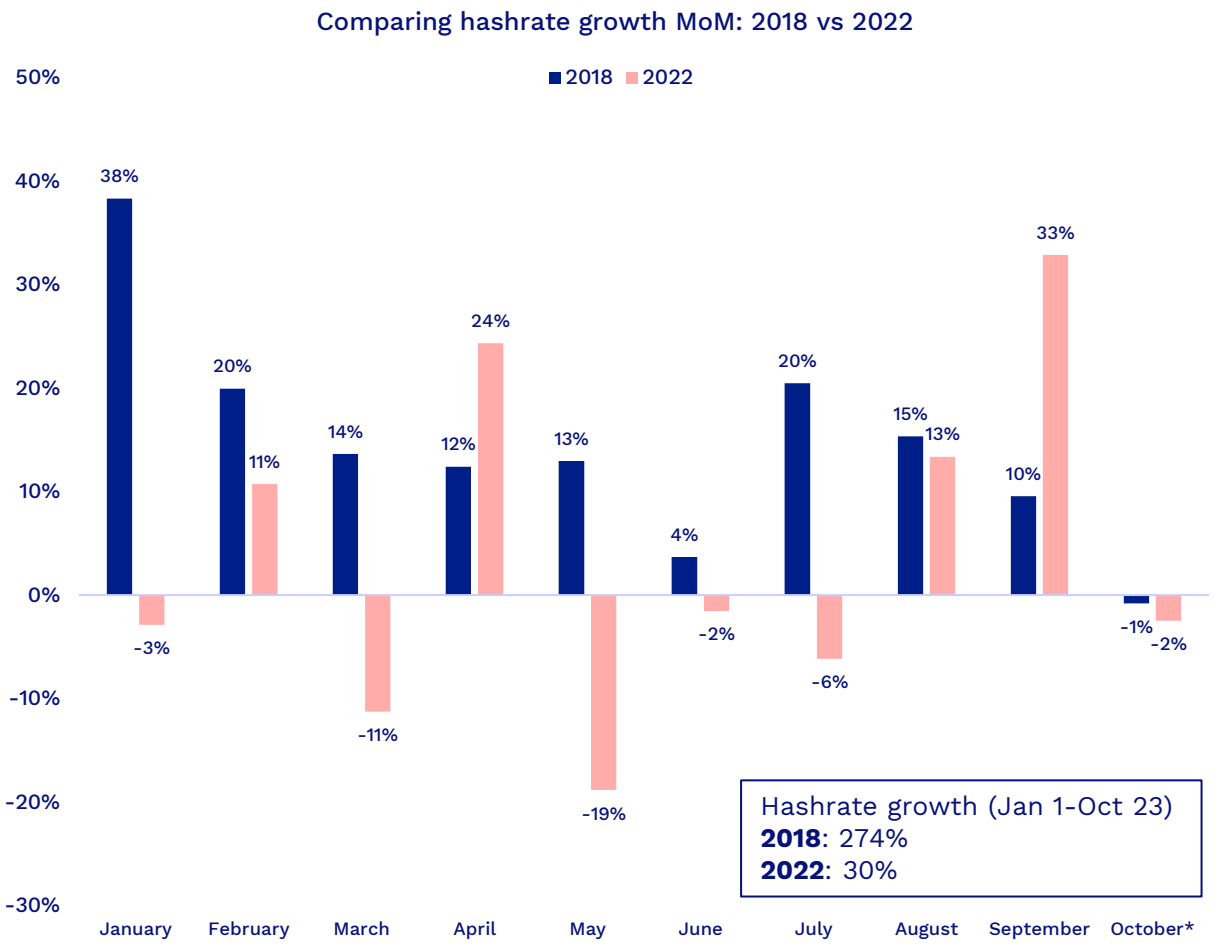


Source: Blockchain.com

Miner capitulation ala 2018 is highly unlikely

Fears of a miner capitulation ala 2018, due to growing hashrate, are overestimated. The hashrate has grown at a predictable rate in 2022. There has already been a miner capitulation this summer, and there is no fork war.

- BTC production per TH in 2018 was highly unpredictable. This was mainly due to the very high hashrate growth. The hashrate increased close to 300% in 2018, while it has "only" increased 30 % so far this year.
- We've already experienced a miner capitulation. This summer, miners sold way more BTC than what they generated, drawing down on their inventories. Selling more than they produced is what marked the capitulation in 2018 (see next slide).
- There are no current reasons for bitcoin miners to engage in costly blockchain politics. In 2018, some bitcoin miners incurred tens of millions of dollars in losses from participating in the BCH-BSV fork war. The two camps competed over having the most hashing power as a symbol of presumed strength. BTC inventories were drawn down to finance this meaningless war.



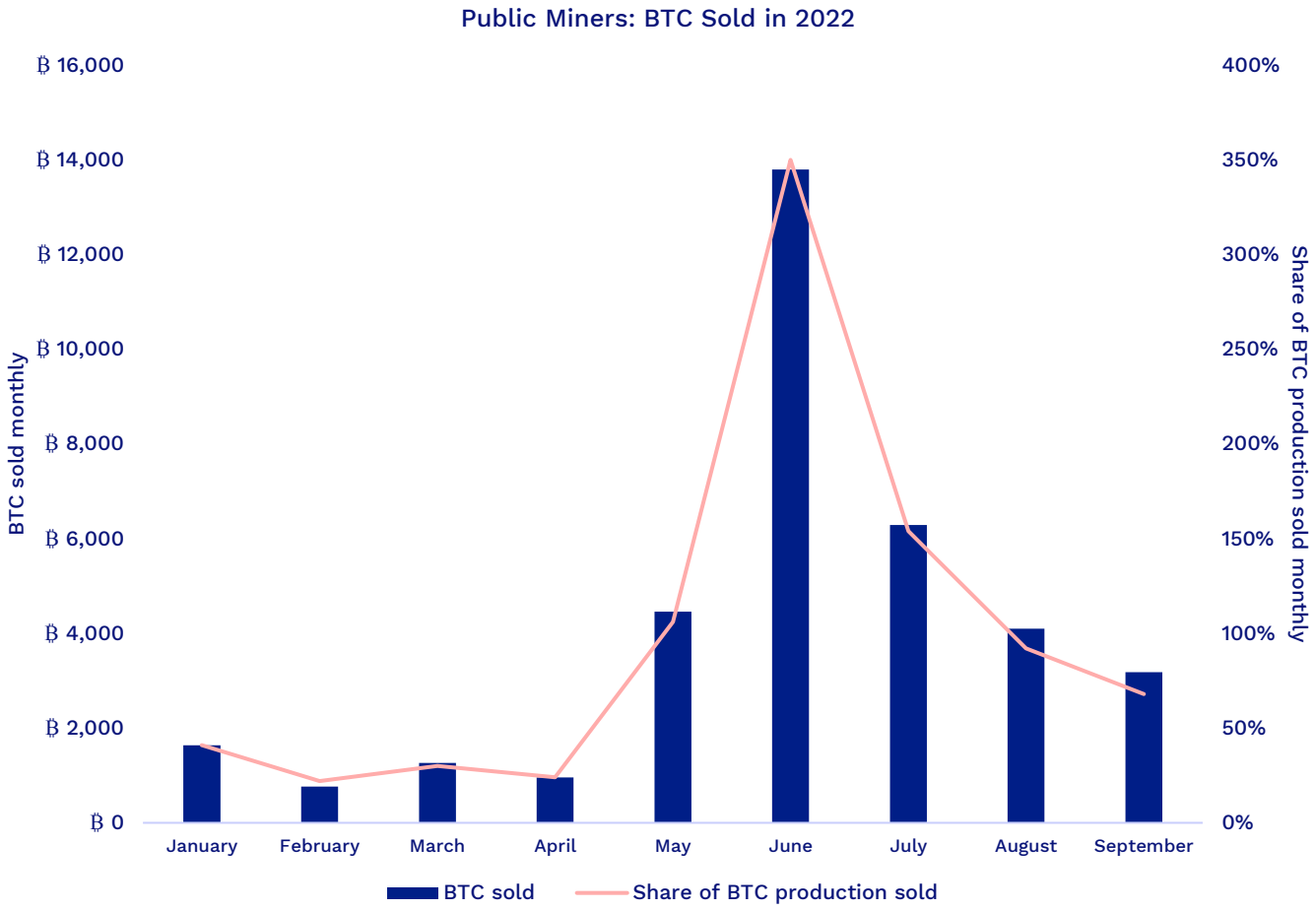
Source: Blockchain.com

*As of Oct 23 (both 2018 and 2022)

Public miners back to expanding their BTC balances

Miner's financial conditions show signs of improving as public miners have resumed expanding their BTC inventories.

- Public bitcoin miners sold 68% of their monthly BTC production in September, suggesting that financial conditions are improving for public miners.
- Public miners were in a state of capitulation this summer. In this period, they sold far more BTC than they produced, peaking in June as public miners sold 350% of their monthly BTC production.
- These funds were funds set aside for long-term exposure in BTC. In each month this year up until May, miners held onto more than 50% of their BTC production. Thus, miners were forced to sell in pressured markets at a far lower price than the production price.
- Miners spent the summer improving their debt situation. We've seen mining companies restructuring their debts and bolstering their balance sheets, most notably with Stronghold slashing its debts by more than 60% in August.
- The market is currently less exposed to massive selling pressure from public miners. Public miners hold near 37,000 BTC today, down from 46,000 BTC by the end of April.



Source: Luxor

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