DELPHI DIGITAL

Monthly Bitcoin Outlook

May 2019

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Key Updates

Short-Term Outlook

Bottom is In
We continue to believe the bottom is in based on our UTXO analysis and other long-term indicators.

Long-Term Holders Stay Strong
Despite a price jump of $3,000 MoM, we've seen virtually no selling come from long-term holders. This conveys the idea that many of them are content with continuing to hold despite sizable profit taking opportunities.

Accumulation Continues
The 1 year + UTXO remains flat and will likely stay in that range for the coming months. As we approach the halving, we might see some selloff from long-term holders depending on how priced in the halving becomes.

Certain Fundamental Metrics Suggest Prices are Overextended
Both NVTS and UTXO adjusted NVTS suggest that prices have extended well beyond fundamentals. New entrants purchasing Bitcoin with the mindset that it's an option on digital gold causes metrics to naturally skew higher.

Macro Backdrop

Favorable Macro Backdrop for Bitcoin
Bitcoin has surged more than 150% since its December 2018 cycle-low (~$3,100), making it one of the best performing assets globally year-to-date. The swift recovery in BTC has taken many by surprise, especially those using prior cycles as a rough guide for bitcoin's trajectory. While we remain cautiously optimistic on bitcoin's short-term outlook, the longer-term trajectory for BTC remains strong as we grow more confident the bottom for this cycle has been put in.

Notably, bitcoin has decoupled from conventional risk assets in recent weeks as global equities struggle to combat escalating trade war tensions and the uncertainty surrounding its consequences. Bitcoin serves as a logical alternative for those looking to store a portion of their wealth in an asset insulated from the fallout of rising geopolitical tensions.

We will delve into each section individually while providing the necessary data analysis to support our opinions. It is important to note that investing in Bitcoin is risky and any decision made should be evaluated in the context of an individual investor's capability and appetite to take risk.

Prelude to UTXO Analysis

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This section of the report serves as the most recent update of the UTXO Analysis from the short term outlook we provided within "The State of Bitcoin". We utilize this analysis to identify when selling pressures will likely wane to forecast the timing of upcoming market cycles. Below you can find the key takeaways we provide rationale and support for throughout this packet.

Function of UTXOs In Our Analysis

UTXO stands for the unspent transaction output from bitcoin transactions. Every transaction creates a new UTXO, and the age of the UTXO indicates the block that it was first included in. In other words, the UTXO age indicates the last time bitcoin was moved. Analyzing Bitcoin's aggregate UTXO age distribution over time provides insight into the buying and selling patterns of previous market cycles. This allows us to forecast where we are in relation to prior cycles and what we can likely expect going forward.

Adjustment Overview

In our first refresh of the UTXO analysis we had to adjust for a hiccup caused by Coinbase, through no fault of their own, which we further expand on below. Our analysis will permanently incorporate this adjustment to ensure the consistency over time. In early December 2018 there were several concerns surrounding the intentions of a large holder that was moving 856,000 bitcoin, a valid concern given this was ~5% of the total circulating supply. It turns out this large holder was likely Coinbase, based on a handful of factors, one of which being a scheduled maintenance announcement they issued on November 29th. Coinbase indicated the maintenance may cause movement on all Coinbase-supported blockchains over the next seven days. The issue is that a large portion of this movement came from UTXOs that haven't been moved in at least 1 year, with a concentration in UTXOs that haven't moved in 3-5 years, which would distort our aggregate analysis if left unadjusted. However, we were able to adjust for most of the shift, allowing the analysis to continue to function in its intended form. Another silver lining of the maintenance driven UTXO shift is that lost coins will make up a larger percent of the 5 year+ band, making the analysis more accurate in the long run.

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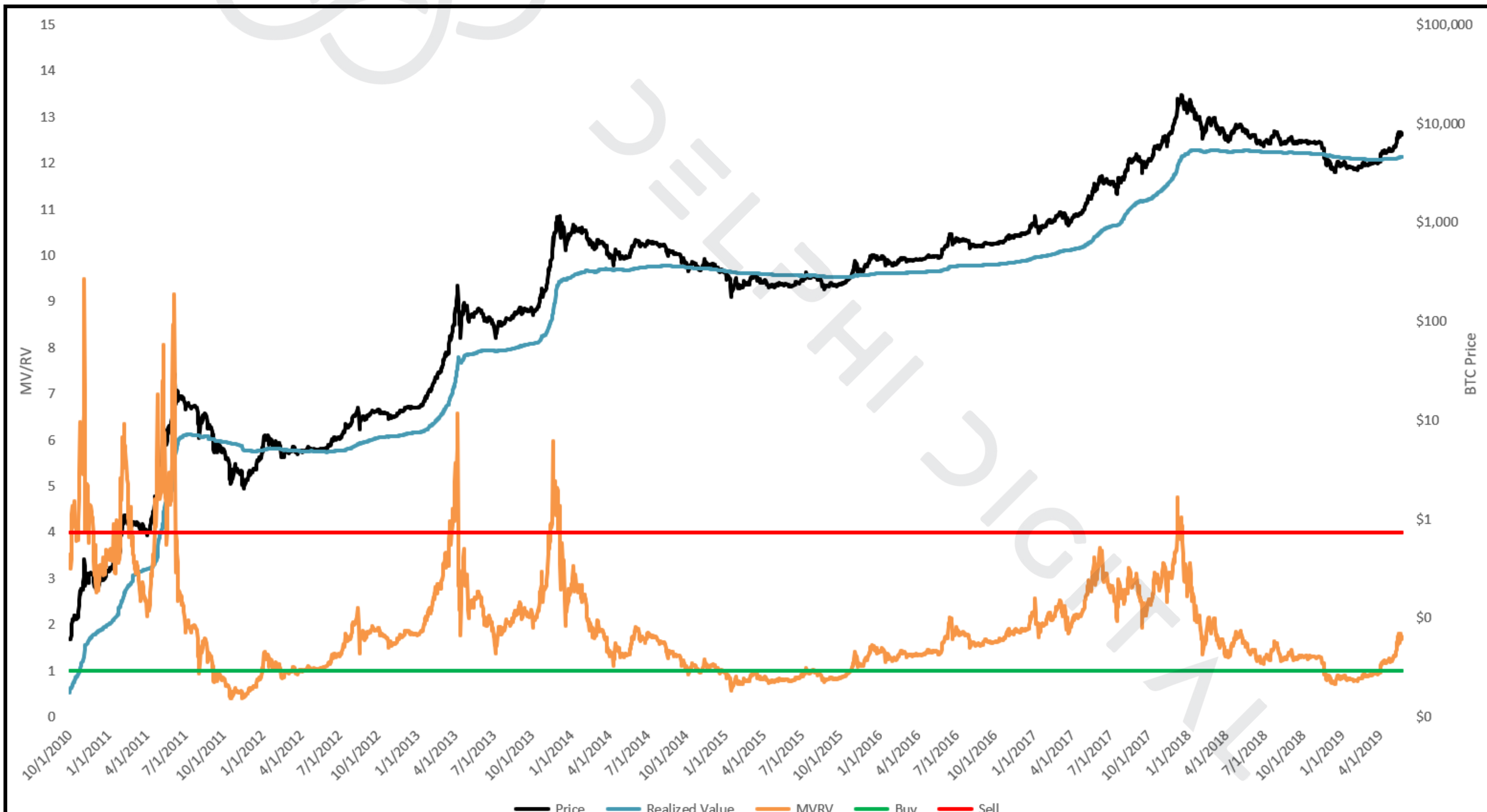
Market Value to Realized Value (MVRV)

Since April's outlook, the price of bitcoin has gone up ~$3,000. We continue to believe that the bottom is in, with continued confirmation from multiple on chain metrics. Realized Cap, represented by the blue line below, is an alternative more tangible measure to market cap that provides a unique perspective on the aggregate price entry of current holders while also reducing the impact of lost coins. Dividng the market cap by the realized cap creates the Market Value to Realized Value (MVRV) ratio. It's a way to quantify and normalize the magnitude of a particular move, allowing the MVRV multiple to help identify potential market tops and bottoms. This ratio reversed back above one in early April and remained there, a strong signal that we are no longer in a bear market. We use an upper bound of 4 for the multiple as a sell indicator, but we expect the upper-bound of this multiple to decrease over time as the market increases in size and matures, leading to less extreme movements in both directions.



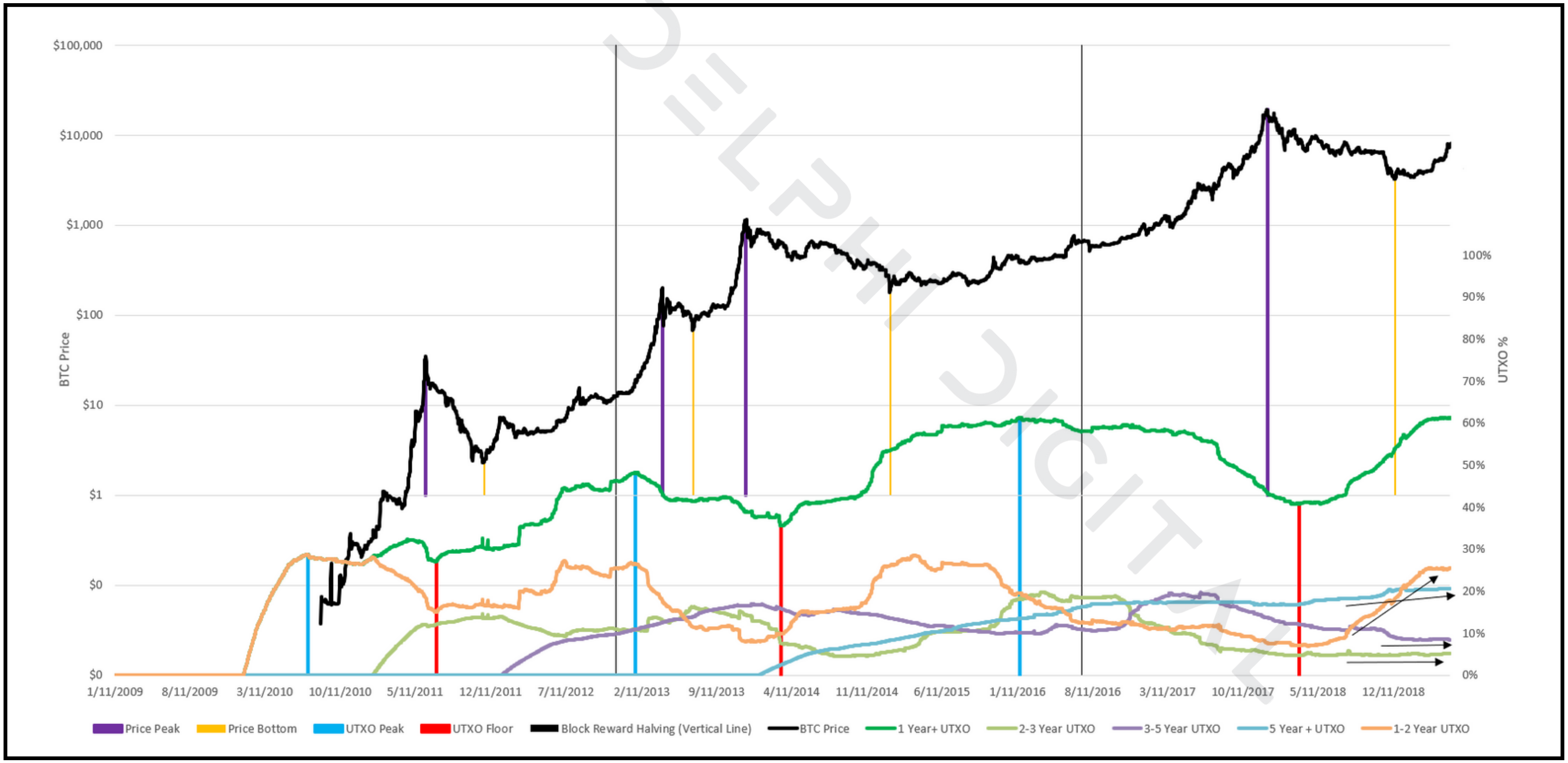
Data as of May 28th, 2019

Sources: Coinmetrics.io

UTXO Analysis & Market Cycles

UTXO data continues to track in line with what you would expect leading up to a bull market. The 1 year+ holder rate remained flat month over month, even with prices rallying quickly and significantly off the bottom, which is a positive because it indicates that these individuals are not looking to quickly sell for short term profits. All long term bands continue to hold flat even while the aggregate holder base is now above water. This holder environment of reduced liquid supply will likely continue leading into the halving, exacerbating the upward impact of new demand on price.

However, this cycle has been progressing a lot faster than the previous one, so there might be room for pause. We're currently 528 days past the ATH in December 2017, and prices, on a rolling 7 day basis, have bounced back to 42% of the all time high. That's a lot faster than the previous cycle where 528 days after the previous all time high in late 2013, the price of bitcoin was just 21% of its high. It took a total of 912 days for last cycle's prices to match the current rise. It makes sense for this cycle to be accelerated considering the relative circumstances. One cycle concluded because the exchange handling 70% of volume got hacked, while the other was the result of excessive speculation that brought a lot of new capital and interest to the space, some of which naturally stayed behind. A byproduct of this new interest is rapid growth in infrastructure and on-ramps, making the asset more accessible than ever.

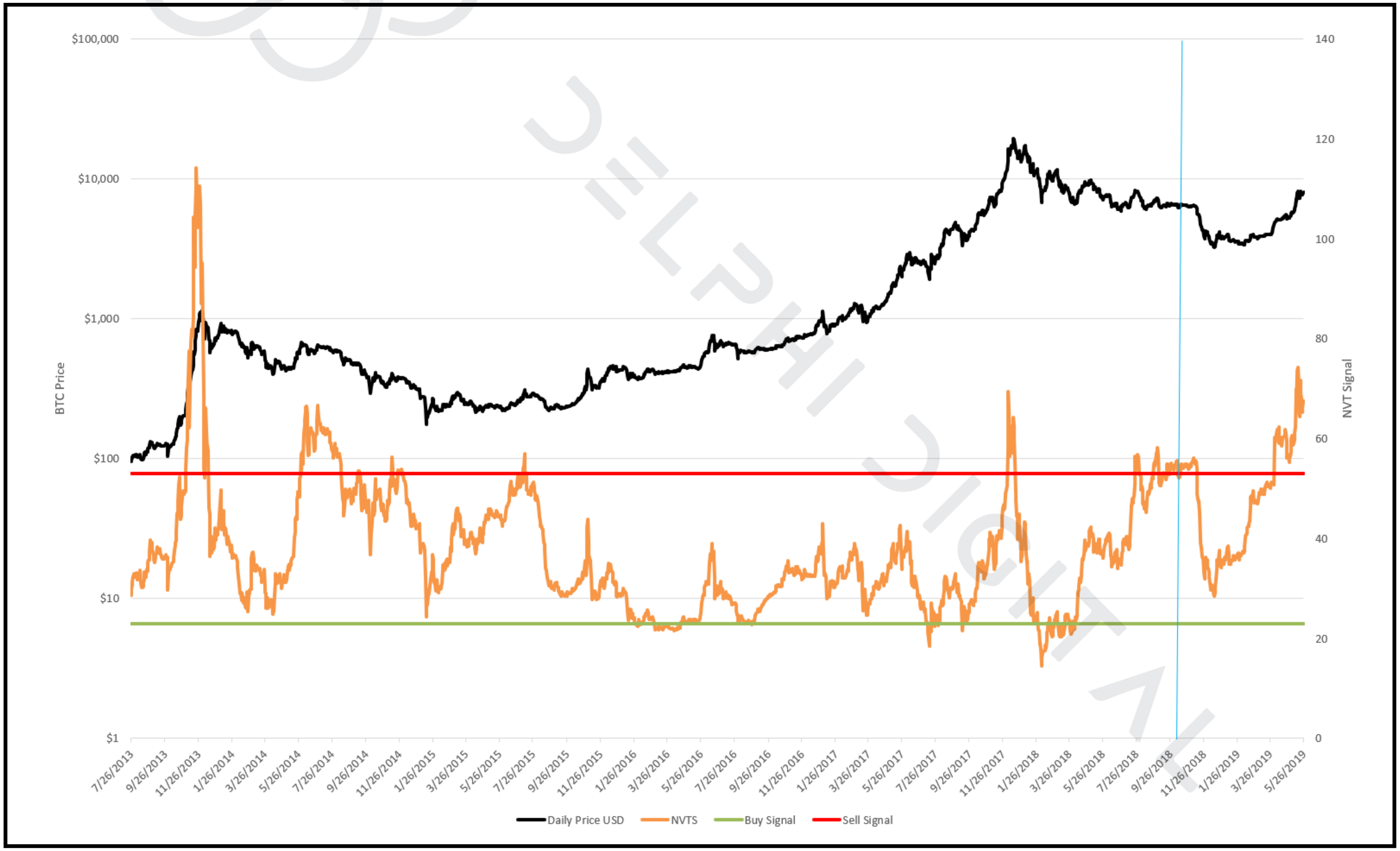


Data as of May 28th, 2019

Sources: Unchained Capital

NVTS

Other on chain metrics are implying that price is somewhat running away from fundamentals. The Network Value to Transactions Signal (NVTS) has risen considerably on the recent price rally, surpassing the highs of December 2017. Just to recap, this a modified version of the NVT ratio that uses the 90 day moving average of on chain volume in the denominator to mitigate the speculation driven increase in on chain volume that accompanies a price rally from individuals moving their coins to an exchange. On-chain volume has remained fairly muted throughout the first quarter, with some pick up in May. We believe these metrics will gradually trend higher in the short to medium term based on the assumption that, on average, new entrants buying bitcoin for speculative reasons will transact less on chain than the existing userbase. This is in part due to the gradual shift in Bitcoin's narrative from a peer-to-peer currency to an option on digital gold. This will likely be the narrative that institutional investors can quantifiably justify, and those investors will likely put their bitcoin away into cold storage. It was for this reason that we decided to make an adjustment to the existing NVTS.

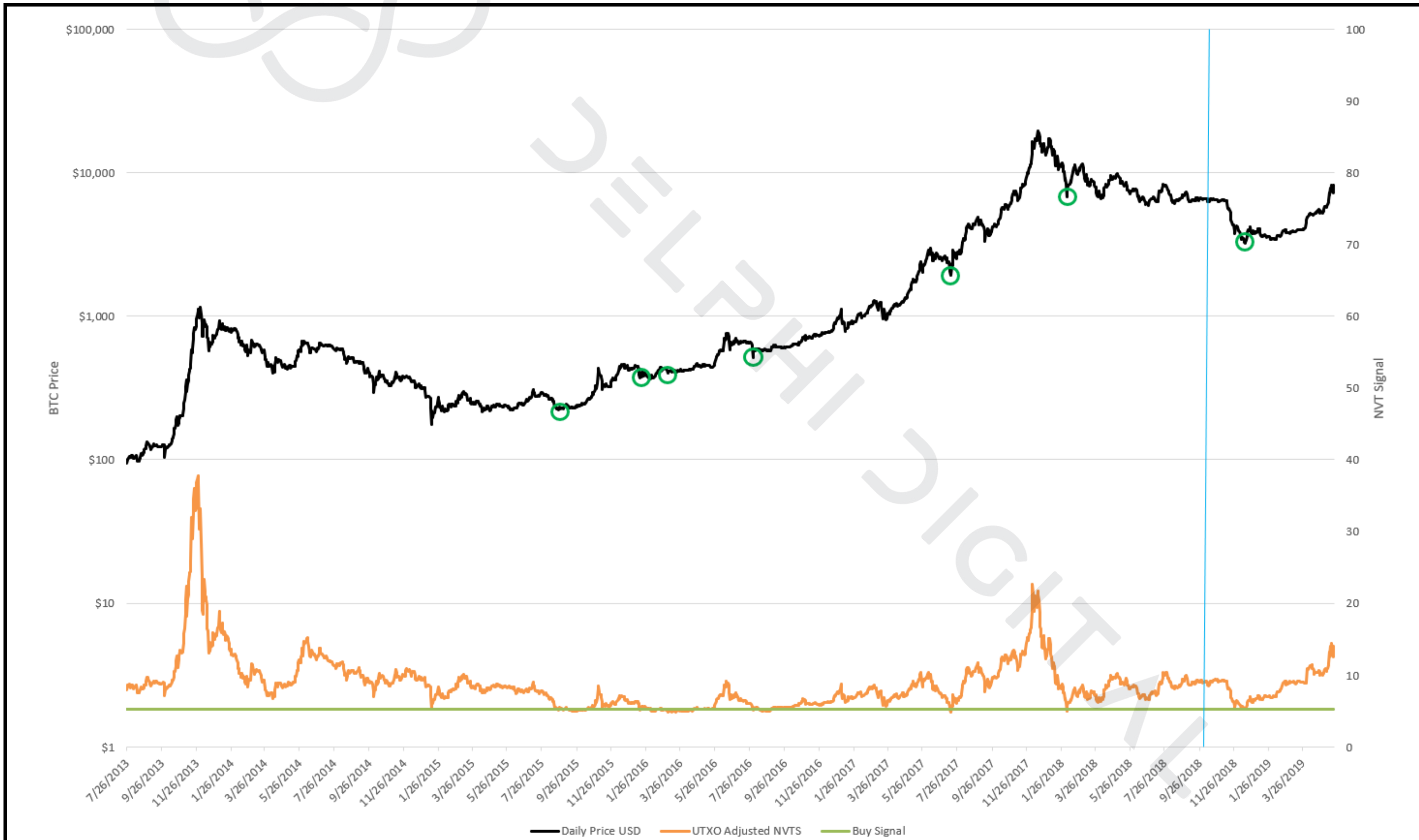


Data as of May 28th, 2019

Sources: Coinmetrics.io

UTXO Adjusted NVTS

Our UTXO Adjusted NVTS metric attempts to address the issues that cause this drift. Adjusting the market cap by the portion of supply that's been active during the last 3 months optimizes the ratio to properly leverage the segment of the network that's being used to support on chain volume. Even with the adjustment, we're still seeing the multiple expand to levels not experienced since late 2017. This leaves us with some conflicting signals, creating an opportunity for pause. On one hand, you have liquid supply continuing to be limited even with price running up, suggesting the current holder base is not taking profits off the table despite the network on aggregate being in the black. On the other, you have an accelerated pricing cycle creating a sizable disconnect between fundamentals and price. Fundamental traders will likely play this opportunity apprehensively, creating an opportunity for a pause or very mild pull back. However, every dip has been bought up immediately, suggesting their still might be ample capital on the sidelines looking to take advantage of any favorable entry.



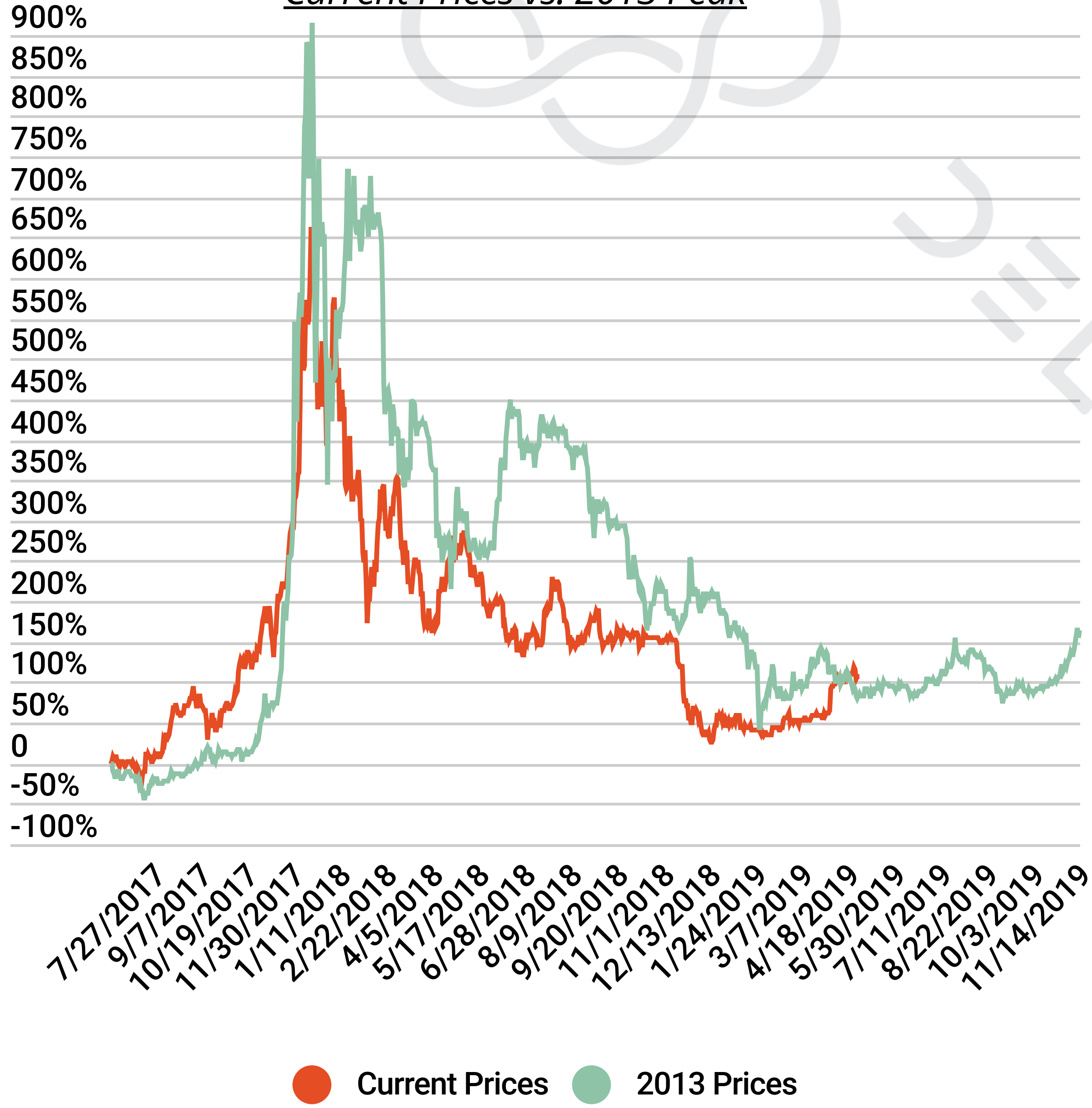
Data as of May 28th, 2019

Sources: Unchained Capital, Coinmetrics.io

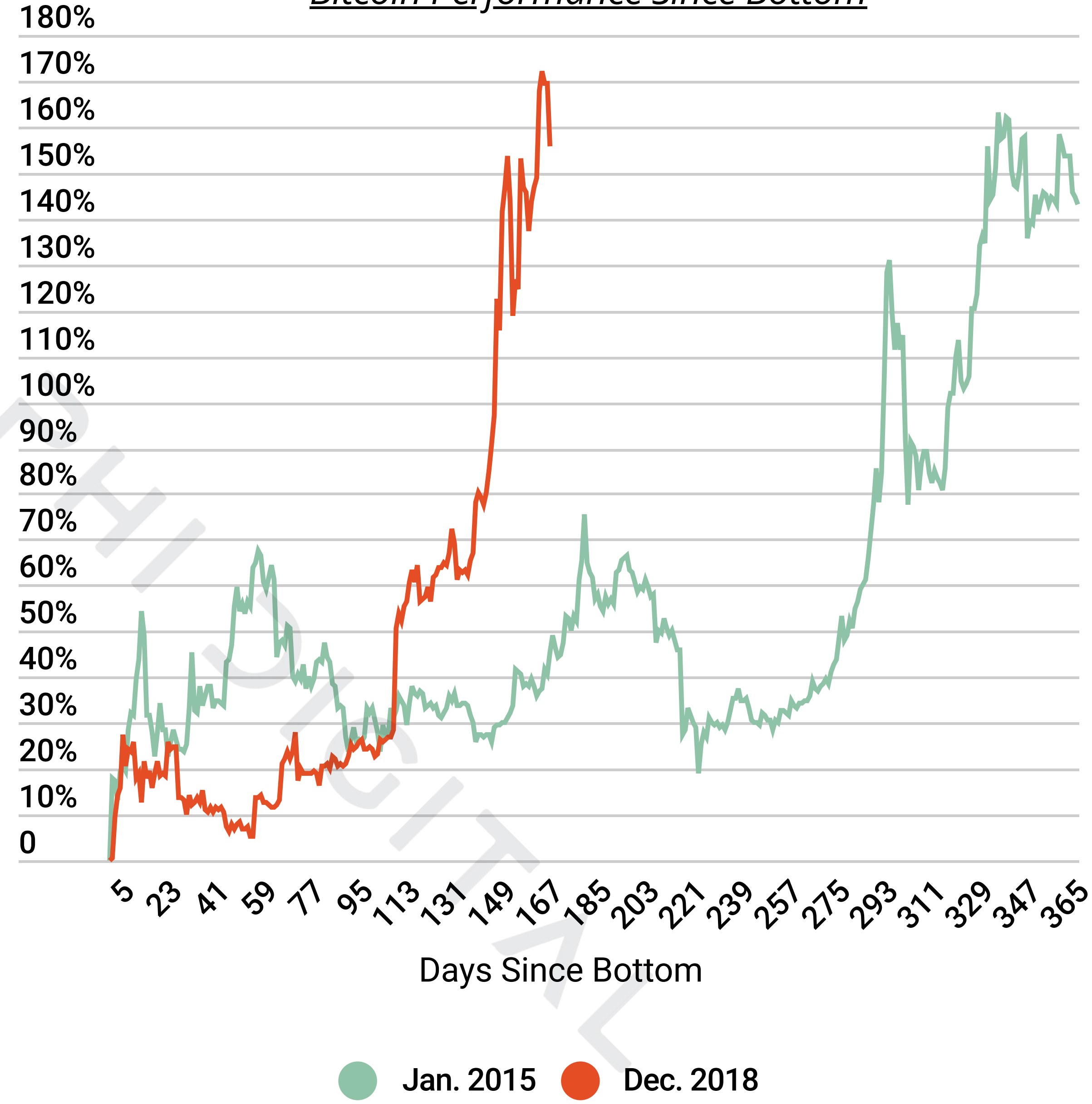
History Rhymes

Bitcoin has surged more than 150% since its December 2018 cycle-low (~$3,100), making it one of the best performing assets globally year-to-date. The swift recovery in BTC has taken many by surprise, especially those using prior cycles as a rough guide for bitcoin's trajectory. For example, following the fallout of its 2013 peak, bitcoin finally found a bottom in January 2015. At this point in its recovery, bitcoin was up just 45% from its cycle-low, a stark difference compared to BTC's recent performance. Bitcoin's price did not double until nearly 300 days after its 2015 bottom was put in; this time around it took less than half the time.

Current Prices vs. 2013 Peak



Bitcoin Performance Since Bottom



Data as of May 30th, 2019

Source: Coinmetrics.io, Blockchain.com

Bitcoin Historical Drawdowns

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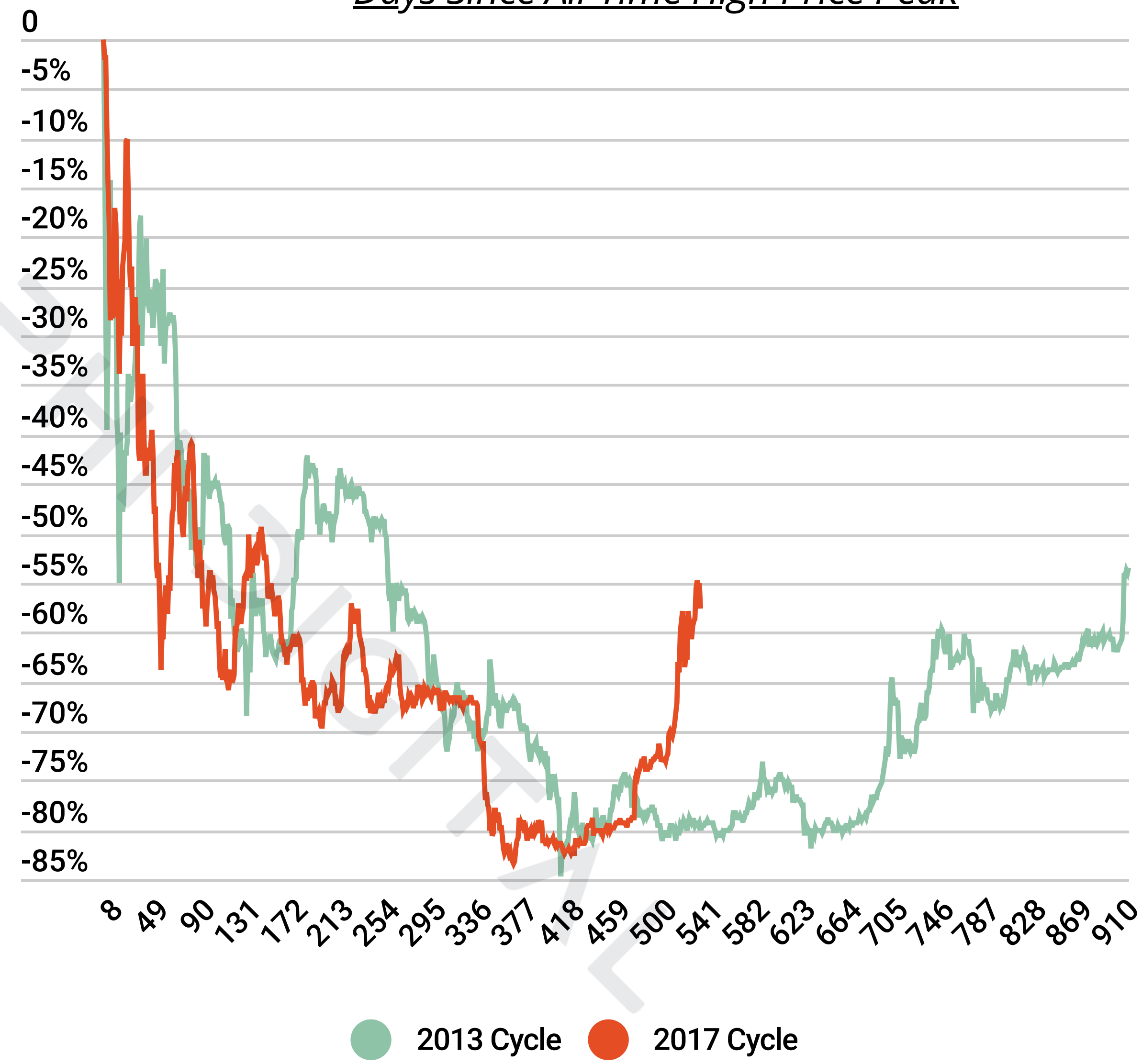
Looking at the same period from a different perspective, we see bitcoin's recovery following its +80% drawdown from its all-time high has also been much faster than the prior cycle. Assuming this cycle's price low is in, it took bitcoin almost exactly a year to go from peak to trough. The same occurrence took just over 400 days before bitcoin put in its January 2015 bottom. The sizable Q4 2018 sell-off, however, pushed bitcoin's drawdown to a greater extreme than the same point in the 2013-2015 cycle, which is one of the reasons we considered this move one of the final signs of capitulation. Bitcoin is currently trading 57% below its all-time high, a level it did not break above for roughly 500 days after its January 2015 bottom; it took a little over 150 days this time around. This is, in part, why we remain cautiously optimistic on BTC in the near-term and believe its appreciation will be relatively modest compared to this year's rapid gains.

Bitcoin Historical Drawdowns from All-Time Highs

Days Since All-Time High Price Peak



Data as of May 30th, 2019

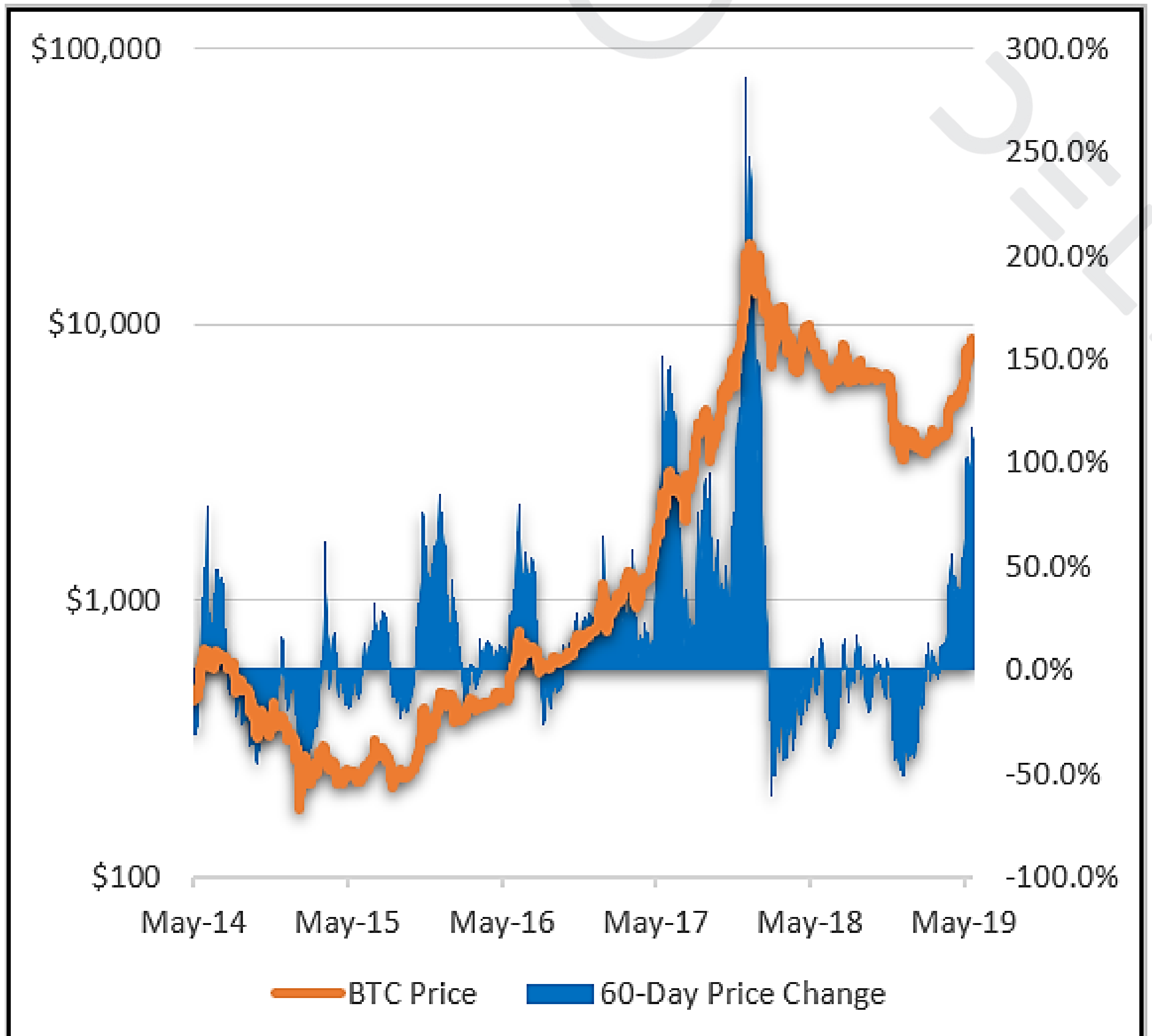
Source: Coinmetrics.io, Blockchain.com

Bitcoin's Rapid Ascent

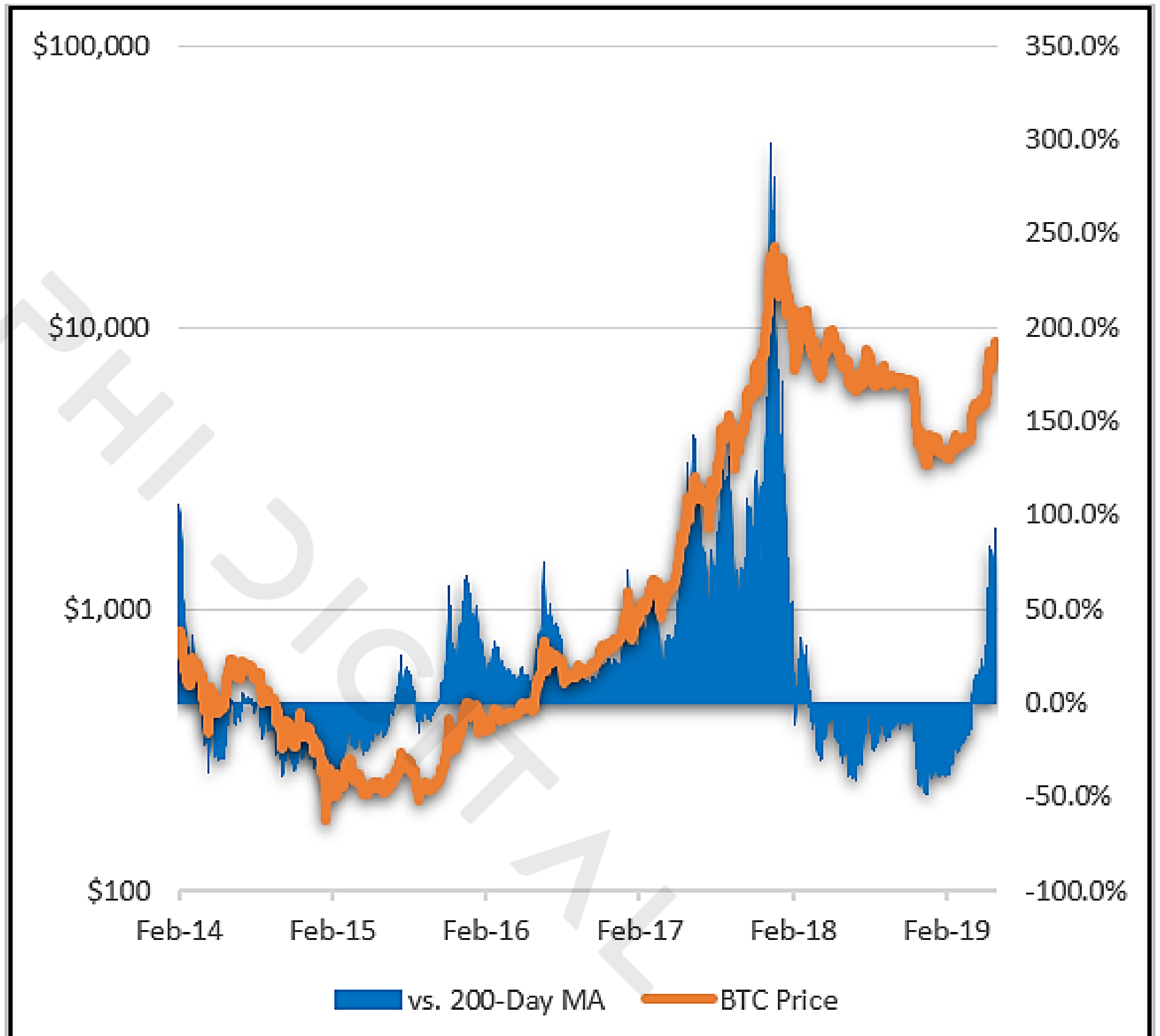
Bitcoin is now trading 90% above its 200-day moving average after breaking above this key level just two months ago. While the size of this gap is not entirely abnormal for bitcoin, the speed at which the gap has widened is substantial. Bitcoin's recent rally is the strongest we've seen since mid-2017 judging by rolling 60-day returns for BTC.

There are a number of catalysts that could push bitcoin well passed $10,000 in the short-term, especially given how small the size of the crypto market still is, but barring any substantial news we foresee bitcoin's moves to remain more subdued in the short-term. Nonetheless, the longer-term outlook for BTC remains strong as we grow more confident the bottom for this cycle has been put in.

BTC Price vs. 60-Day Rolling Returns



BTC Price vs. % Above/Below 200-Day Moving Averages



Data as of May 30th, 2019

Source: Coinmetrics.io

'Golden Cross' Lives Up To Hype

In our April Bitcoin Outlook, we noted the inevitable 'golden cross' that was bound to take place as bitcoin's 50-day moving average crossed above its 200-day equivalent, an event historically revered as a bullish indicator. Since then, bitcoin has gained nearly 50%, pushing its 100-day moving average above its 200-day as well. All three standard moving averages (50, 100, 200-day) are trending higher, adding further support for the longer-term trajectory of bitcoin's price. The trend remains our friend, at least for the time being.

BTC Price vs. 50, 100, 200-Day Moving Averages

Data as of May 31st, 2019

Source: Brave New Coin, TradingView

Momentum Still Strong

The recent surge in bitcoin's price is also evident in how overbought BTC became in mid-May. Its 14-week relative strength index (RSI) breached 80 for the first time since December 2017 as bitcoin broke above $7,000 for the first time in seven months. This is a bullish sign for the long-term trajectory of bitcoin as it confirms the strength of its most recent price run up, and is an indicator we've been watching closely. However, historically BTC has taken a bit of a breather following such a rapid rise.

Bitcoin's 30-day RSI also jumped towards more extreme overbought levels over the last couple weeks after breaking above 70 for the first time in over 15 months back in March. Momentum has strengthened considerably for bitcoin this year, but it is worth noting we are watching for a potential divergence on the shorter-term 14-day RSI.

BTC Price vs. 14-Week RSI & 50-Week MA

BTC Price vs. 30-Day RSI

Data as of May 31st, 2019

Source: Brave New Coin, TradingView

Bitcoin Breaks Away from Risk Assets

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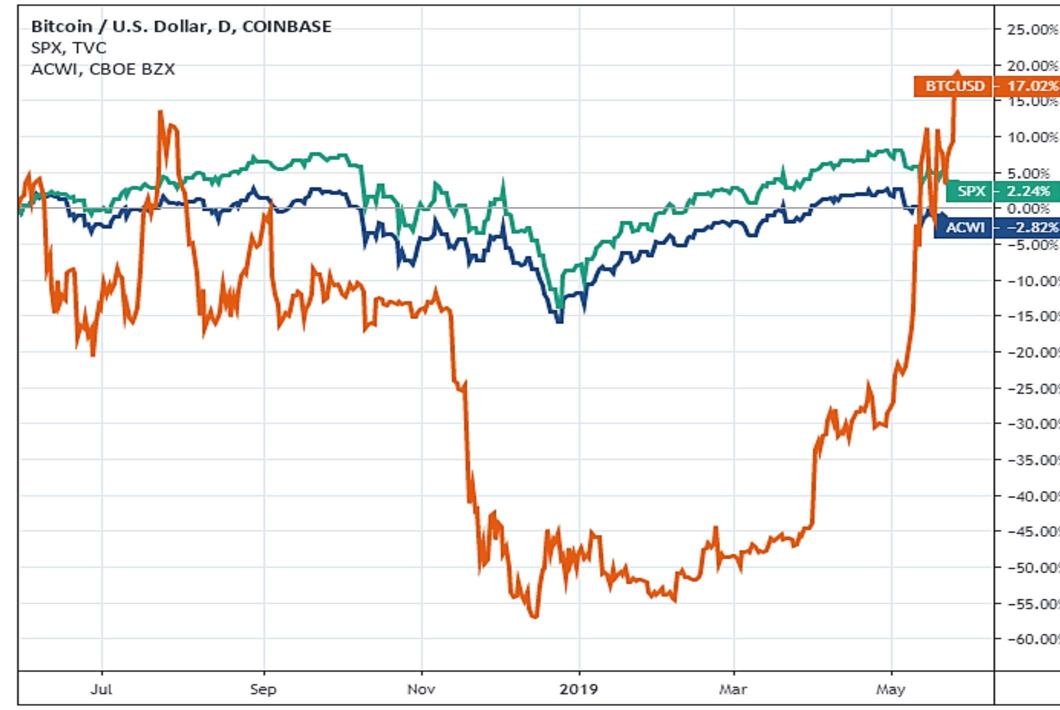
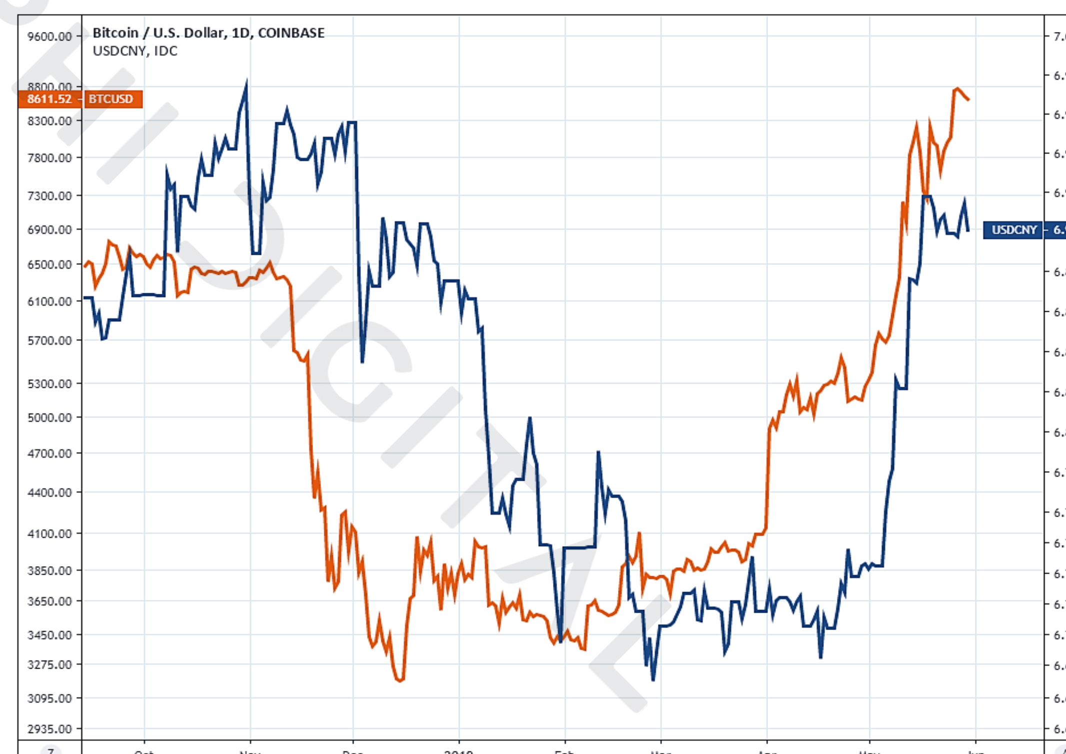
Interestingly, bitcoin has decoupled from conventional risk assets in recent weeks even as global equities struggle to combat escalating trade war tensions and the uncertainty surrounding its consequences. We touched on this trend a few weeks ago in our weekly market commentary, highlighting the parallels between gold and bitcoin's price reaction to the news of China's retaliatory tariffs against the United States. The Chinese yuan has weakened considerably over the last couple months as a result, which we'd argue played some part in BTC's most recent leg higher as capital flows away from assets exposed to trade dispute crossfire. Given the country's stern capital controls, bitcoin serves as a logical alternative for those looking to store portions of wealth outside the potential fallout from rising geopolitical tensions.

BTC Price vs. Global Stocks (1-Year Normalized)



BTC Price vs. SPDR Gold Shares ETF

BTC Price vs. CNYUSD (Chinese Yuan)



Data as of May 30th, 2019

Source: SPDR State Street Global Advisors, MSCI, BlackRock, Binance, Brave New Coin

Bitcoin Sentiment Positive

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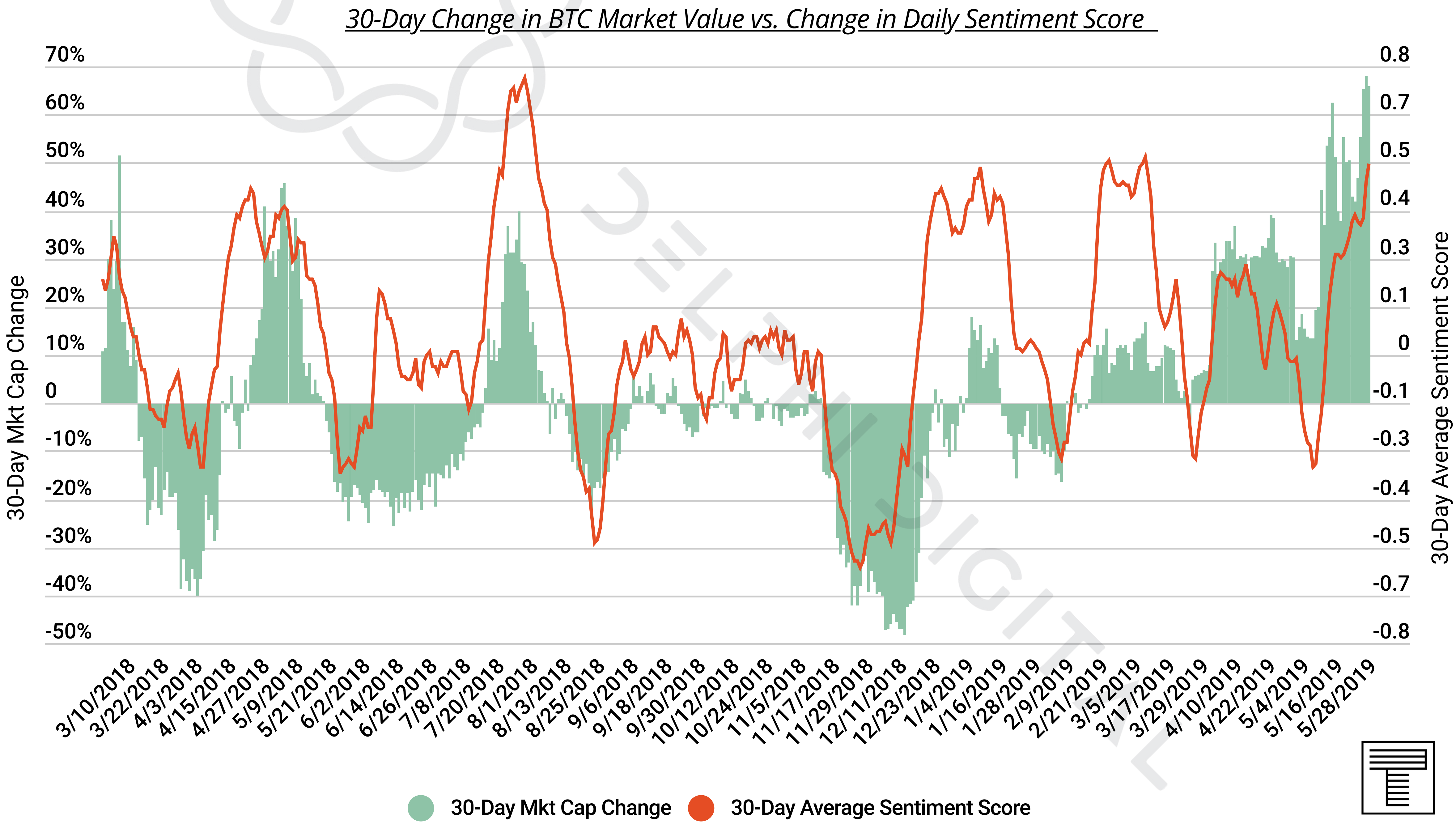
As we've noted, sentiment has led price in almost all of BTC's moves since December 2017. Recently, average sentiment score has been trending higher for Bitcoin given BTC's rapid price appreciation, according to data and analysis conducted by TheTie.io. Sentiment plays a significant role in the price fluctuations for bitcoin and the broader crypto market, so it's important to note how quickly it can change. As of now, though, sentiment remains strong for the world's largest crypto asset.



TheTie

Data as of May 28th, 2019

Source: TheTie.io

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