

DELPHI DIGITAL

## Weekly Market Commentary - February 7th, 2020



### Digital & Physical Gold Gain Amid Geopolitical Unrest

- Momentum for the world's largest crypto asset appears to be strengthening once again following last week's mini-consolidation. BTC's break of its 200-day MA coupled with its latest move above \$9,600 coincide with improving strength in several key momentum indicators. ETH is back in the limelight following its latest price surge, pushing its year-to-date gain over 70% (35% in the last two weeks alone). Its latest jump also caused a price breakout against both USD and BTC.
- Global central banks and European investors continue to support gold's latest uptrend; the former purchased a net 650 tonnes of gold in 2019, the second highest annual total in the last 50 years. Rising demand for hedging assets and growing concerns over U.S. dollar hegemony remain key underpinnings of this trend.
- After last week's mild sell-off, the U.S. equity market is back again trading at all-time highs. Market participants, however, still appear uneasy about the outlook going forward, evident in the sector performance of the S&P 500, which shows strong demand for both growth and income strategies - notably technology and utilities.



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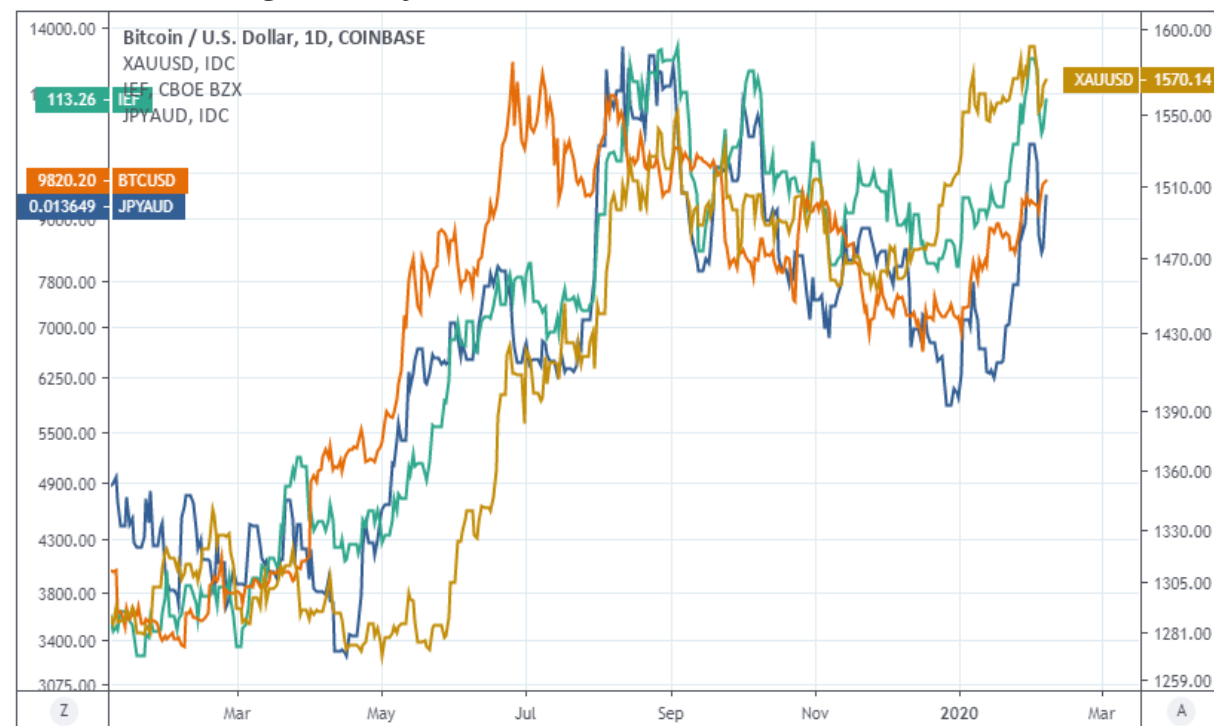
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### Chart of the Week

The correlation between bitcoin and traditional risk-off assets has once again strengthened amid the latest bout of market uncertainty, most of which is linked to the worsening coronavirus situation. The Japanese yen (JPY), for example, has strengthened considerably against the Australian dollar (AUD) since the beginning of the year, as markets digest growing concerns over the economic fallout of the outbreak. The latest rollover in yields - both nominal and real - remain supportive of non-income producing assets like BTC and gold.

#### BTC (Orange) vs. 10yr Treasuries (Green) vs. JPYAUD (Blue) vs. Gold



Sources: TradingView, Coinbase, Cboe

# Bitcoin Gains Momentum

Momentum for the world's largest crypto asset appears to be strengthening once again following last week's mini-consolidation. We discussed the **significance of BTC's breakout above its 200-day MA** at the end of January, noting \$9,500-9,600 as the next level we were watching. Bitcoin has managed to **break above \$9,600 and appears to be maintaining the strength of its latest move**, at least so far. Key momentum indicators like the daily MACD and 14-day RSI support further strength in BTC barring a drastic shift in sentiment or rapid unwind of leveraged positions; **open interest on BitMEX has jumped above \$1 billion, a historical sell-signal for BTC**.

*BTC vs. Daily Moving Averages (Top) & MACD (Middle) & 14-Day RSI (Bottom).*



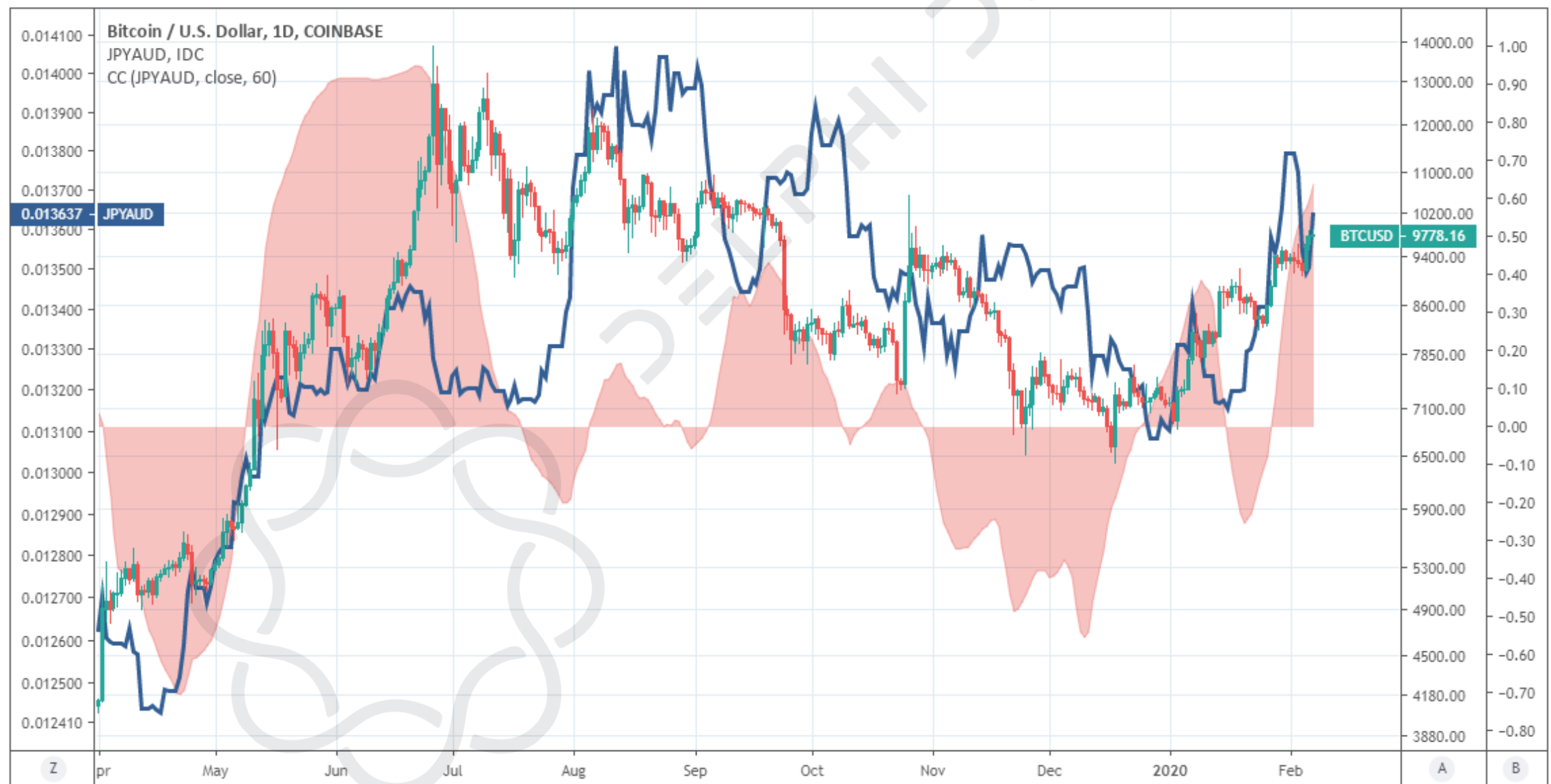
Data as of February 7th, 2020

Source: TradingView, Coinbase

# Bitcoin's Risk-Off Move

The **correlation between bitcoin and traditional risk-off assets has once again strengthened** amid the latest bout of market uncertainty, most of which is linked to the worsening coronavirus situation. The Japanese yen (JPY), for example, has strengthened considerably against the Australian dollar (AUD) since the beginning of the year, as markets digest growing concerns over global economic activity, most notably China. Demand from the world's second largest economy is vital for many of Australia's largest commodity-dependent industries, including metals and mineral mining. Conversely, **investors tend to flock to the yen when uncertainty rises or turmoil strikes.**

*60-Day Correlation (Shaded Area) - BTC vs. JPYUSD (Blue).*



Data as of February 7th, 2020

Source: TradingView, Coinbase

# ETH Surges After Breakout

ETH is back in the limelight following its latest surge, which has pushed its price back above \$220 for the first time since September. The world's second largest crypto asset has **gained more than 70% since the beginning of the year and is up 35% in the last two weeks alone**. Several of ETH's prior rallies proved to be short-lived, but this one may have some legs to it; the latest jump caused its price to **breakout** of a descending broadening wedge, a bullish technical pattern that often times indicates a trend reversal.

*ETHUSD Breakout vs. 14-Day RSI (Bottom)*



Data as of February 6th, 2020

Source: TradingView, Kraken



# ETH Gains Ground on Bitcoin

ETH isn't only breaking out against USD either; **ETHBTC is gaining momentum too following its breakout above key downward resistance levels**. In the near term, we wouldn't be surprised if ETH pulled back a bit given its current **extreme overbought conditions**. However, if it can hold onto most of its recent gains over the next couple weeks, it may signal a new uptrend is in store for Ethereum's native asset.

*ETHBTC Breakout vs. 14-Day RSI (Bottom)*



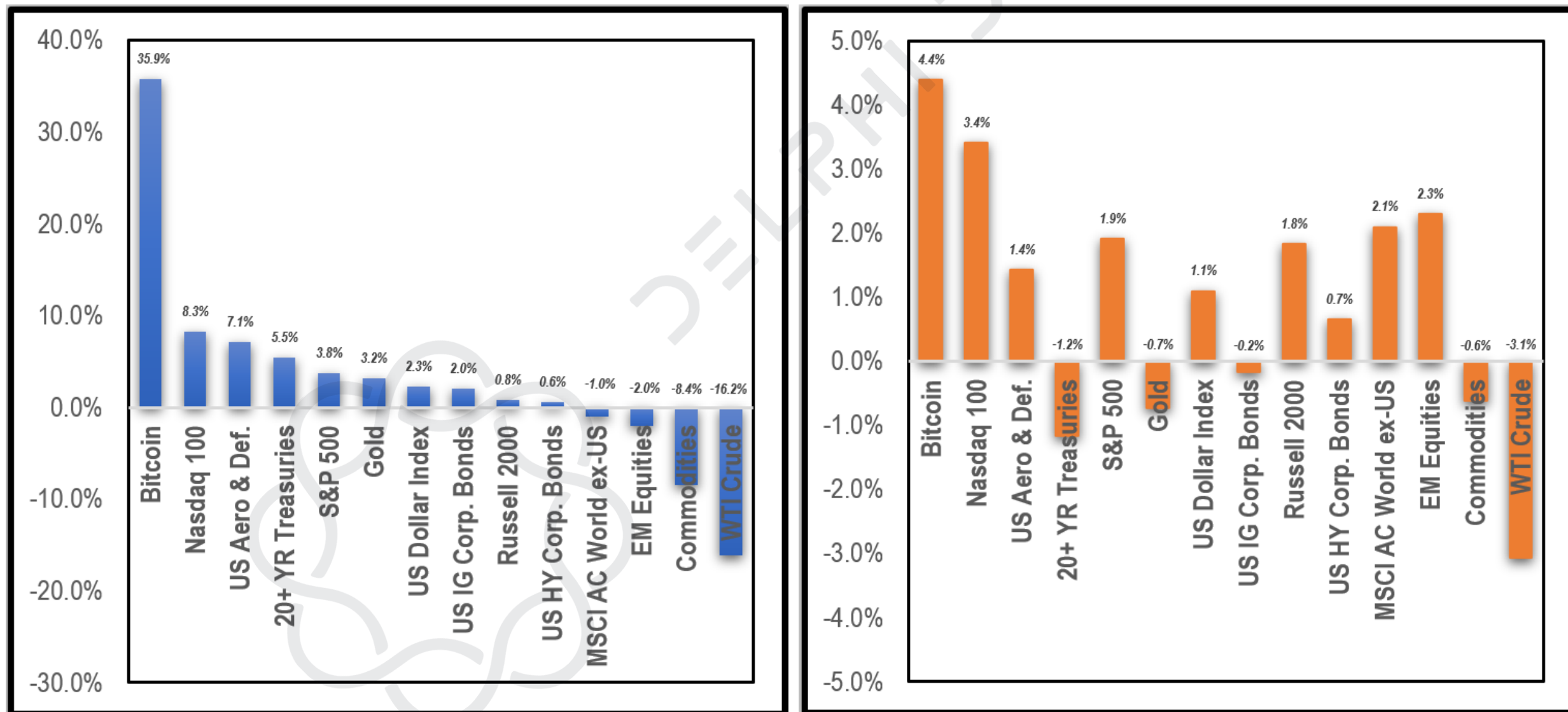
Data as of February 6th, 2020

Source: TradingView, Coinbase

# Risk Appetite Subtly Returns

The spreading coronavirus has been front and center in financial media for most of the new year, turning market pundits into epidemiologists seemingly overnight. However, fears over the fallout from the outbreak appear to be waning a bit with investors' risk appetite showing signs of improvement. News of an antiviral drug in testing helped alleviate some of the uncertainty surrounding the virus' potential reach, though the **economic damage (notably to global demand and supply chain disruption) is still far from certain**; market participants may be too quick to disregard some of the more dire scenarios many are still predicting.

*Notable Asset Class Returns YTD (Left Chart) vs. Last 5 Days (Right Chart).*



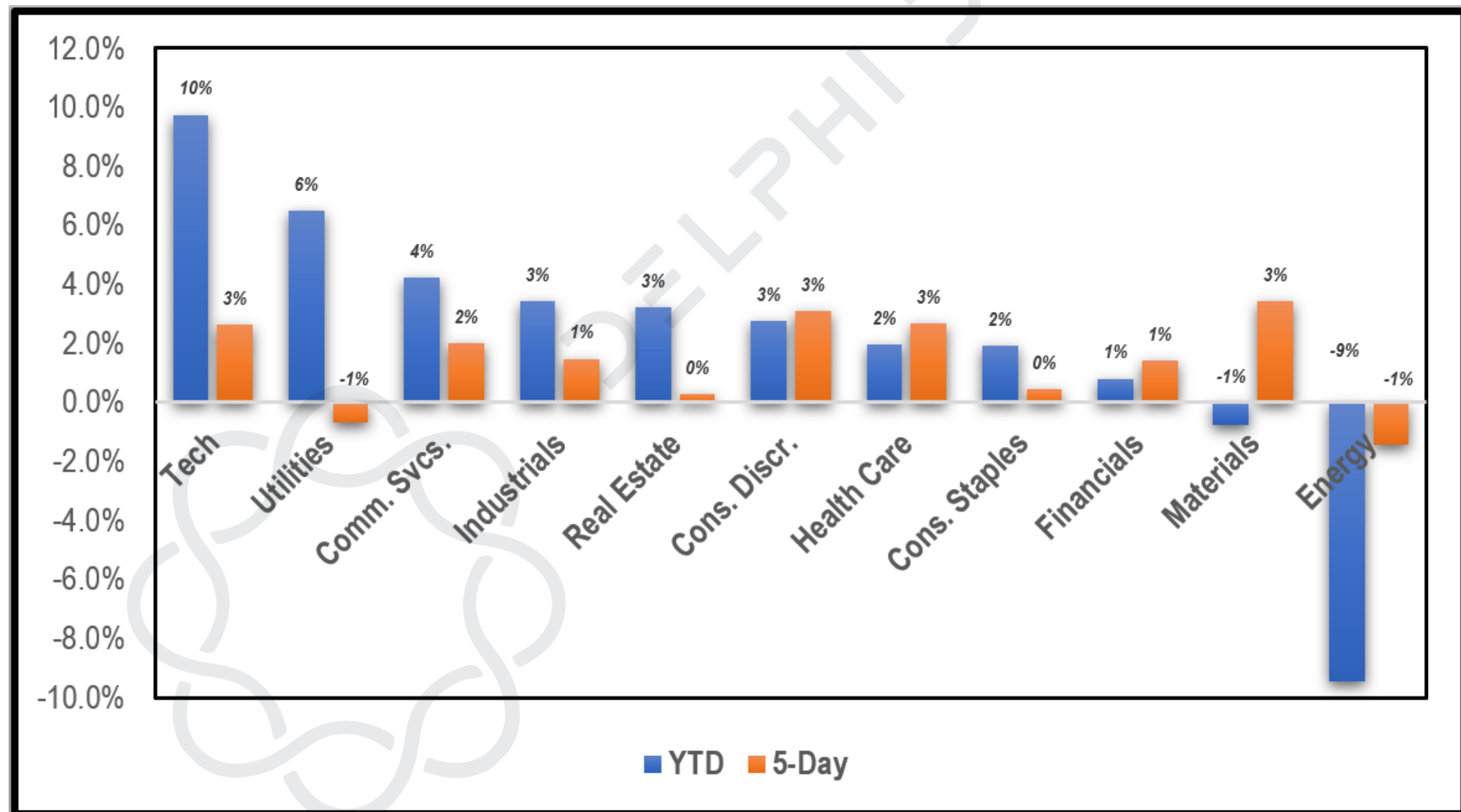
Data as of February 6th, 2020

Source: Digital Assets Data, Bespoke Investment Group

# Growth & Income Still Top Priority

After last week's mild sell-off, the U.S. equity market is back again trading at all-time highs. Market participants, however, still appear uneasy about the outlook going forward. The sector performance of the S&P 500 indicates **strong demand for both growth and income strategies**, similar to the trend we saw last year when technology, real estate, and utilities led the market through the first three quarters. Investors seem to be caught between a rock and hard place **wanting the upside of high-flying growth names (enter Tesla, stage left) and the income stream offered by "bond proxies" like utility stocks**, the latter of which have been bid up as Treasury yields fall. The U.S. still appears to be one of the best places for investors seeking a decent return without outsize risk. **No wonder the S&P 500, gold, Treasuries, and the U.S. dollar are all up year-to-date.**

S&P 500 Sector Performance



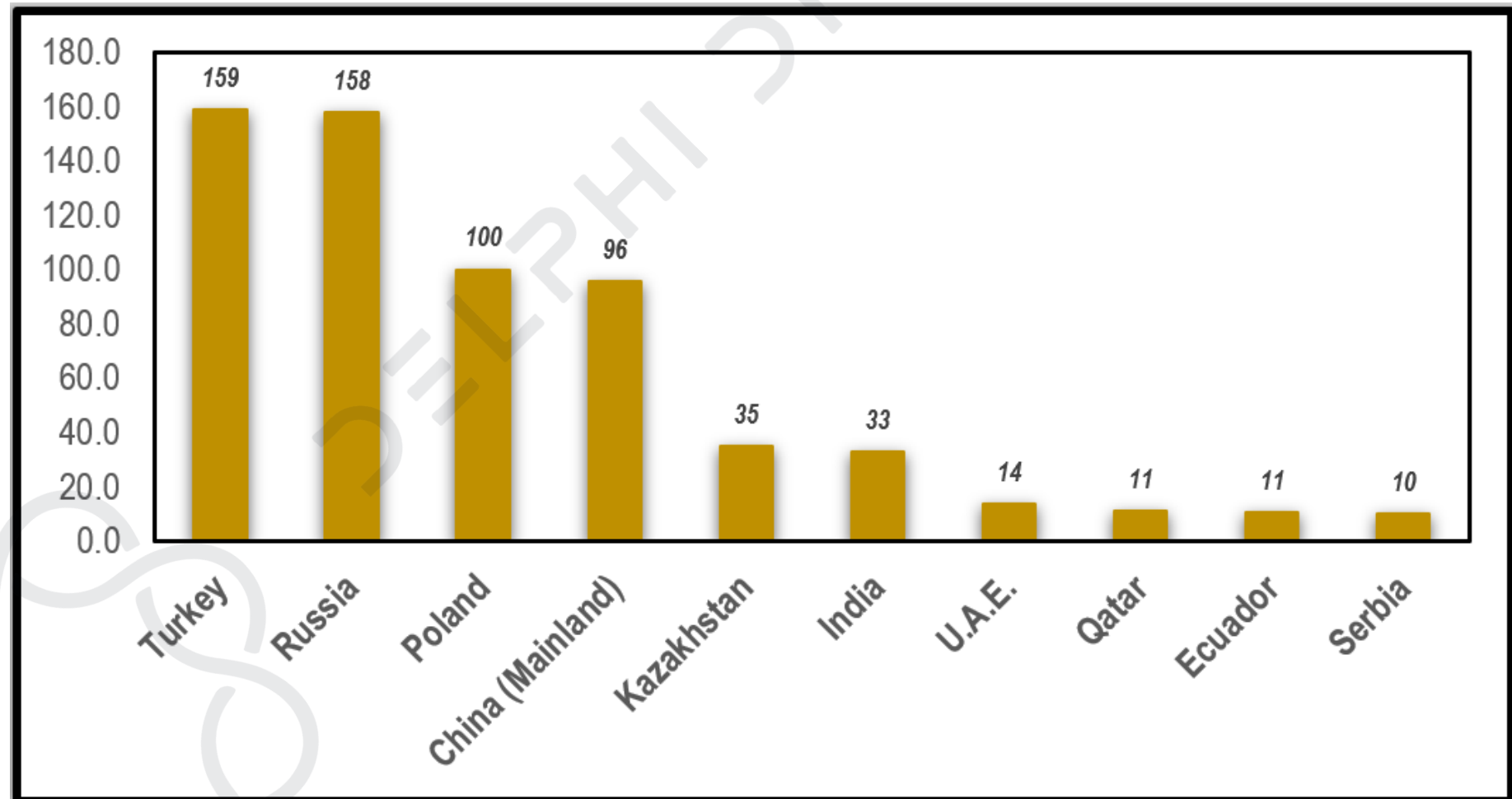
Data as of February 6th, 2020

Source: S&P Dow Jones

# Follow the Gold Money

Do as I say, not as I do. Fitting words for some policymakers downplaying the potential ramifications from a decade of monetary experimentation that sent central bank balance sheets surging and rates to record lows. As we know, the dance doesn't end until the music finally stops, but it appears some of the world's most powerful institutions are already preparing for the lights to come on. **Global central banks purchased a net positive 650 tonnes of gold in 2019, the second highest annual total in the last 50 years;** 2018 saw the largest net increase since 1967, according to data from the World Gold Council.

*Largest Net Gold Purchases by Central Banks & Institutions in 2019*



Part of this trend is driven by select institutions who have been outspoken about the **growing threat the U.S. dollar poses to the global financial system** (e.g. Russia, China) but the latest growth in gold demand may also indicate central bankers are **anticipating easier monetary conditions** either via additional rate cuts or stimulus measures.

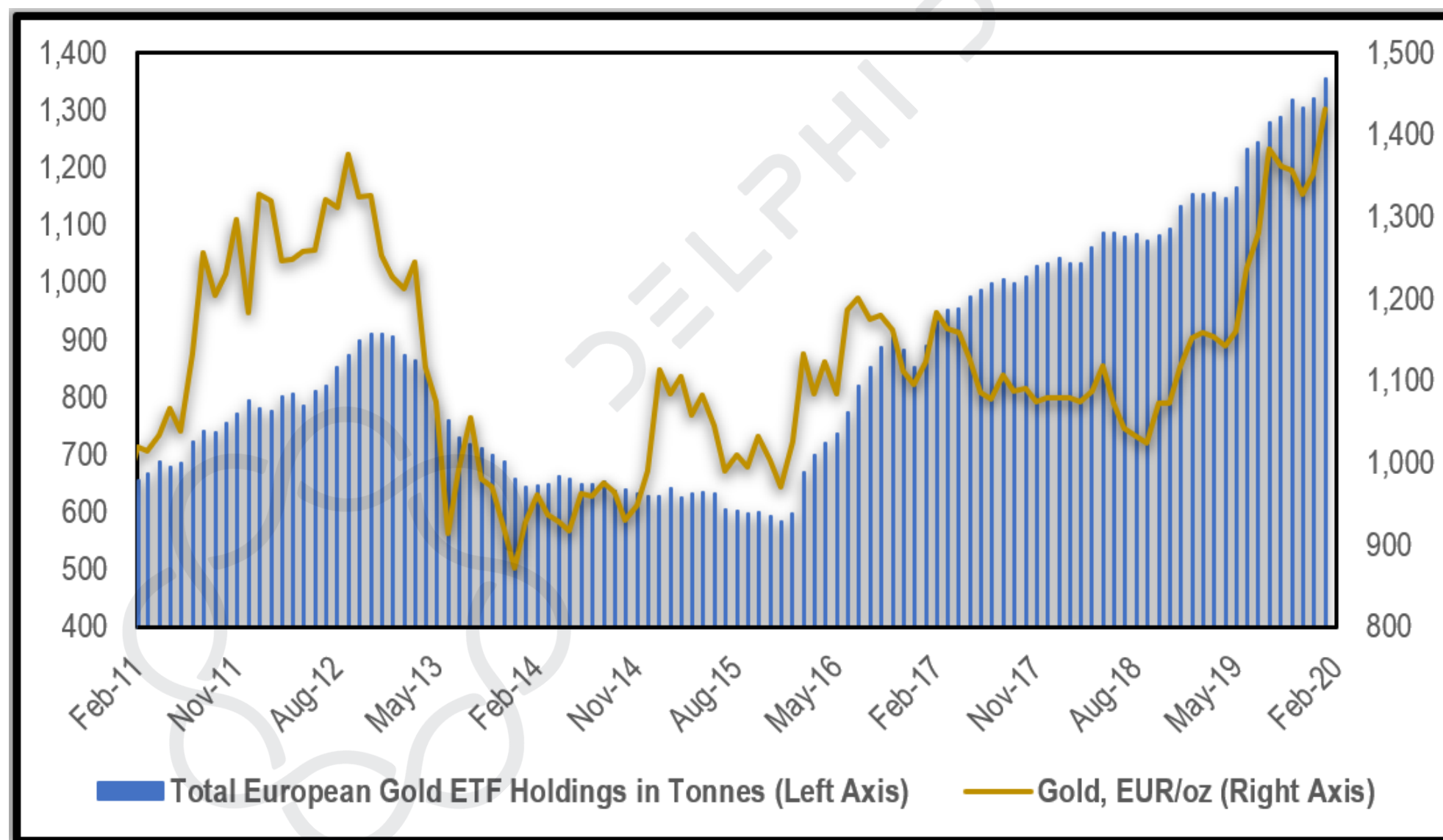
*"Gold is the "most reserve" of reserve assets: it diversifies geopolitical risk and provides a kind of anchor of trust, especially in times of stress and crisis."*  
- National Bank of Poland (July 2019)



# European Gold Bid

European investors, most notably those in the U.K., fueled the latest jump in gold demand among global investors ahead of the most contentious event in the region's history: Brexit. **Gold-backed ETF holdings (and similar products) globally hit a new all-time high in January with Europe leading regional inflows**, according to the latest data from the World Gold Council. The U.K. made up more than 60% of the region's inflows, though North American funds weren't far behind. Gold-backed funds in Asia were relatively flat last month despite the coronavirus outbreak, however, they're not nearly as popular in the region as they are in North America or Europe and represent just 3% of global AUM.

*European Gold-Backed ETF Holdings vs. Gold Price (EUR).*



Data as of February 7th, 2020

Source: World Gold Council

# Gold Momentum Divergence

Gold's run up at the end of 2019 pushed its price into extreme overbought territory on a short-term basis as measured by its 14-day RSI. Unsurprisingly, the precious metal saw a brief consolidation period to start the year but has strengthened the last couple weeks. However, a bearish divergence appears to be forming as gold's latest high coincided with a lower high in its 14-day RSI. We're seeing similar setups in other major currencies as well including GBP, EUR, and JPY.

*Gold in USD (Left Chart) & Gold in GBP (Right Chart) vs. 14-Day RSI (Bottom Panel).*



Data as of February 7th, 2020

Source: TradingView

# Long-Term Uptrend Intact

Despite the potential RSI divergence, several longer-term momentum indicators still support gold's latest uptrend. The weekly MACD, for example, recently exhibited a bullish crossover above its signal line for the first time since June. The precious metal rose nearly 15% over the following three months; gold is only up 2% since the latest occurrence a month ago.

Gold Price vs. 12-Week & 26-Week EMA (Top Panel) vs. Weekly MACD (Bottom).



Data as of February 7th, 2020

Source: TradingView

# Crypto Asset Movers & Shakers



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## Notable Large-Cap Crypto Asset Returns

	7D	30D	90D	YTD
XEM	42.47%	77.51%	47.50%	-13.97%
TRX	16.82%	58.13%	20.86%	3.72%
XRP	16.36%	33.00%	2.36%	-23.09%
ETH	15.57%	49.34%	15.69%	57.41%
BCH	13.55%	83.64%	60.36%	175.58%
XLM	13.37%	47.39%	-0.41%	-40.43%
MIOTA	13.17%	79.38%	24.11%	-4.16%
BNB	11.71%	37.82%	4.63%	253.38%
NEO	10.29%	32.34%	20.71%	54.63%
LTC	8.45%	58.96%	21.50%	138.45%
ADA	7.16%	62.44%	41.83%	43.77%
EOS	6.57%	61.62%	34.55%	75.83%
ZEC	6.11%	118.60%	91.60%	17.68%
MKR	5.24%	19.95%	-11.50%	27.90%
XMR	5.02%	34.98%	27.34%	61.38%
BTC	2.70%	19.46%	11.71%	160.94%
DASH	-1.21%	121.66%	72.44%	48.78%
ETC	-1.31%	150.51%	143.41%	137.60%

**\*Data as of 02/06/20**

**\*\*The above table is powered by Digital Assets Data, a fintech company building a knowledge platform to manage data and deploy investment models.**



Digital Assets Data

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