DELPHI DIGITAL

Monthly Bitcoin Outlook
June 2019

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Key Updates

Short-Term Outlook

Long-Term Holders Not Budging
This has been a recurring theme throughout these reports, but the remaining long term holders are still keeping their coins, with minimal activity coming out of those owners.

Liquid Supply Increases
We've seen a gradual increase in the liquid supply, which we categorize as coins that have moved within the last 3 months. However, this increase is coming from 3-6 month holders, which more so falls in the category traders. We shared our opinion on that strategy and we use other fundamental metrics to illustrate why we believe they're the ones contributing to liquid supply.

Exchange Flows
We analyze exchange flows throughout the year, how they change during a period of significant price appreciation, and what current flows suggest.

Network Value to Transaction Signal (NVTS)
Even using our UTXO adjusted variation of the NVT Signal, which is intended to adjusted the upward bias of these metrics, the ratio suggests that price has extended well beyond fundamentals.

Macro Backdrop

Bitcoin Thrives as Geopolitical Risks Escalate Amid Slowing Global Economy
Bitcoin is one of the best performing assets globally year-to-date, gaining over 220% since the beginning of the year. Its outperformance accelerated this quarter as BTC surged nearly 190% since the end of March, the best quarter-over-quarter gain since Q4 2017. While its price cannot go parabolic indefinitely, we believe current macro conditions provide a very favorable backdrop for bitcoin to continue gaining traction among both retail and institutional investors.

The Federal Reserve's June FOMC meeting confirmed the shift among global central banks back towards more accomodative monetary policy. This shift has both boosted risk assets and pushed down yields on much of the world's sovereign debt. The latter is one of the key drivers behind gold's recent run up as the opportunity cost of holding non-income producing assets falls, which naturally serves as a catalyst for bitcoin as well.

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.

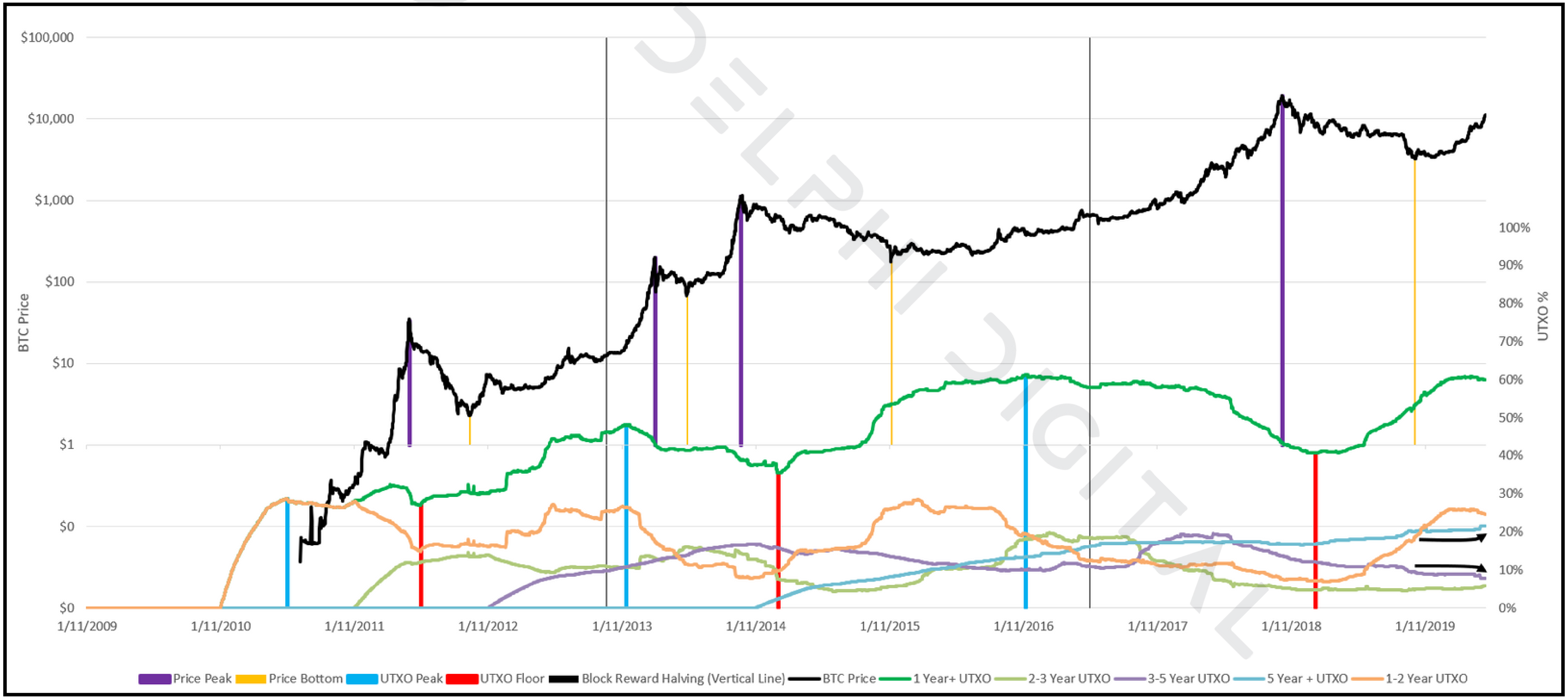
Adjustment Overview

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.

UTXO Analysis & Market Cycles

June picked up where May left off with Bitcoin continuing its rally. It's safe to say that we're out of the bear market, while also being in uncharted territory with a **recovery that's playing out considerably faster than previous cycles**. We expand on the pace of this recovery later on in this report.

Despite the rally, we still h**aven't seen any unexpected shifts in the underlying holder base**. The portion of coins that haven't moved in at least one year continues to **hold flat at 60%**. We don't illustrate it in this chart to reduce clutter, but coins also continue to shift from the 12-18 month band to the 18-24 month band, suggesting that many **individuals who bought right around the all time high in 2017 are also still holding**. This could strengthen the resistance we'll likely see at those price levels, as some individuals look to exit their positions now that they're finally no longer in the red. The 1-2 year band as a whole seems unphased by the rally as coins are now beginning to shift into the 2-3 year band. There's also a sizable shift of slightly more than 140,000 coins from the 3-5 year band to 5 year+ group, implying these coins have not been touched since June 2014. They were worth $85 million at the time, but would fetch you almost $1.7 billion at today's prices. It's difficult to know if they are lost or who they belong to, but it now means that **over 21.5% of coins have not moved in at least 5 years**. This naturally leads us to wonder who the current sellers are in this market.



Data as of June 26th, 2019

Sources: Unchained Capital

UTXO Analysis & Market Cycles

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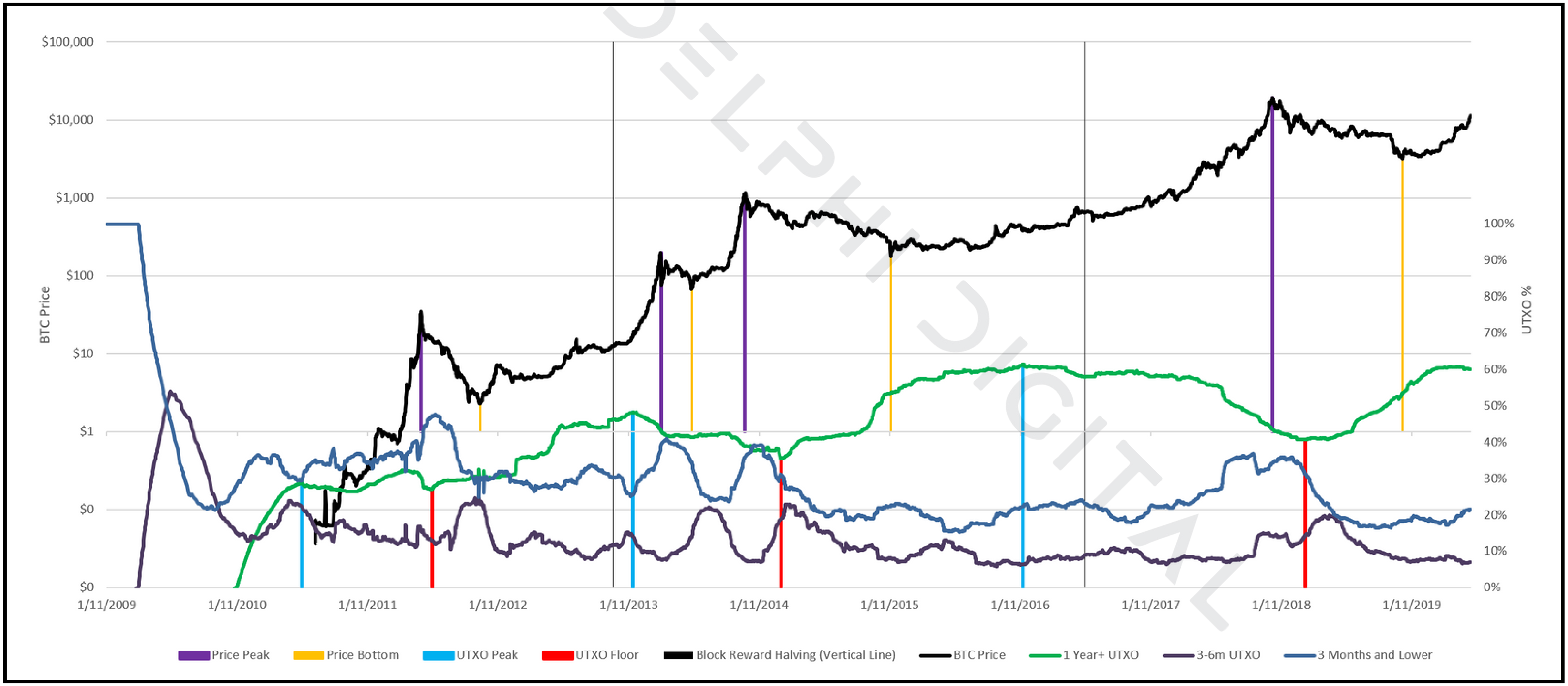
The **active portion of supply**, which we categorize as the coins that have moved within the last 3 months, is **beginning to slightly increase**. The increase is mild relative to historic periods where there was significant price appreciation (parabolic price rallies that lead to cycle highs), but it's actually the highest it's been since May of 2018. This reduced active supply is typical for bottom formation and subsequent price appreciation periods, as it allows incremental demand to have a larger impact on price.

Regardless, the active supply is increasing, implying new sellers are entering the market. The **new sellers are actually mostly individuals who've been holding for 3-6 months**. This type of selling from "intermediate" holders was also typical in previous build ups, as it took place well before prices even got close to cyclical highs. **Long term holders are continuing to do just that**, as they wait for significant price appreciation. In the interim, you have the 3-6 month holders that have made a handsome profit, but are likely looking to sell to buy back on a dip. **This type of environment creates higher lows and higher highs** as sellers don't leave the market, but continue to act as dry powder on the sidelines hoping to out trade their counterparts and buy back on dips. In these situations, it makes sense to just continue to hold unless you're an experienced trader. More often than not, individuals will get greedy and end up having to buy back higher.



Data as of June 25th, 2019

Sources: Unchained Capital

Market Value to Realized Value (MVRV)

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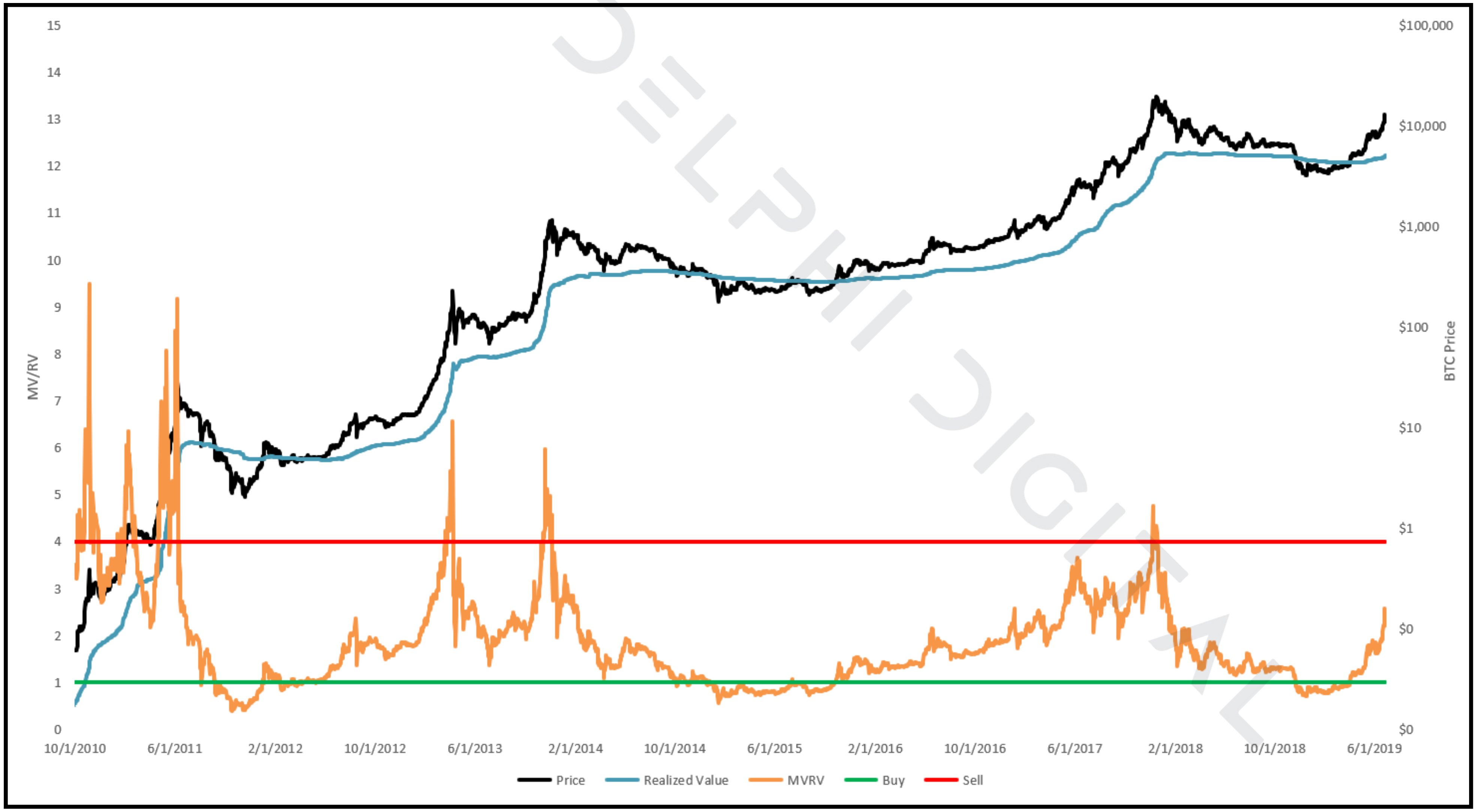
This dynamic is, inadvertently, well illustrated using the MVRV ratio. To quickly recap, realized cap, represented by the blue line below, is an alternative more tangible measure to market cap that provides a unique perspective on the aggregate price entry of current holders, while also reducing the impact of lost coins. Dividing the market cap by the realized cap creates the Market Value to Realized Value (MVRV) ratio.

As long term holders continue to hold, their realized price is effectively locked in, which weighs down realized cap. The short term traders are the ones shuffling bitcoin around, which has a relatively muted impact on aggregate realized cap because it's a lot of the same coins being passed back and forth. This is where you begin to see rapid spikes in the MVRV. As market cap increases while only a small portion of the supply exchanges hands, market cap will rapidly deviate from realized cap. **It's only when you really begin to see realized cap increase that you know some long term holders are finally beginning to sell.** If you were to overlay the green 1 year+ UTXO line from the previous slide over this chart, the strong inverse relationship between that line (a representation of long term holders) and realized cap would be even more apparent. **This suggests that we're likely still at the beginning of this current cycle, and existing bitcoin owners have every intention to hold on to their assets until a considerably higher price.**

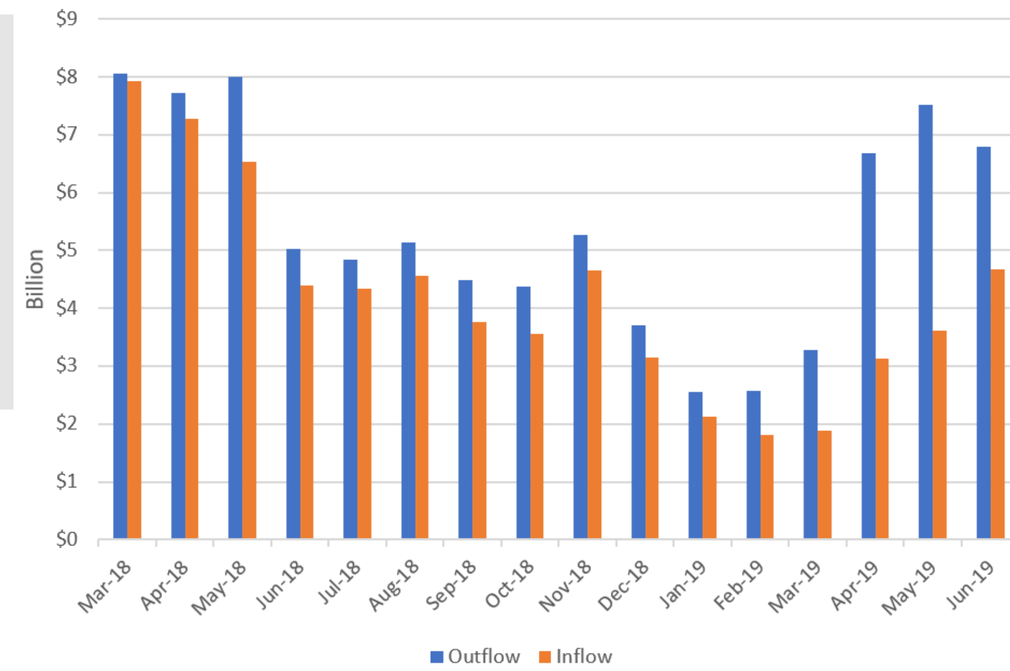


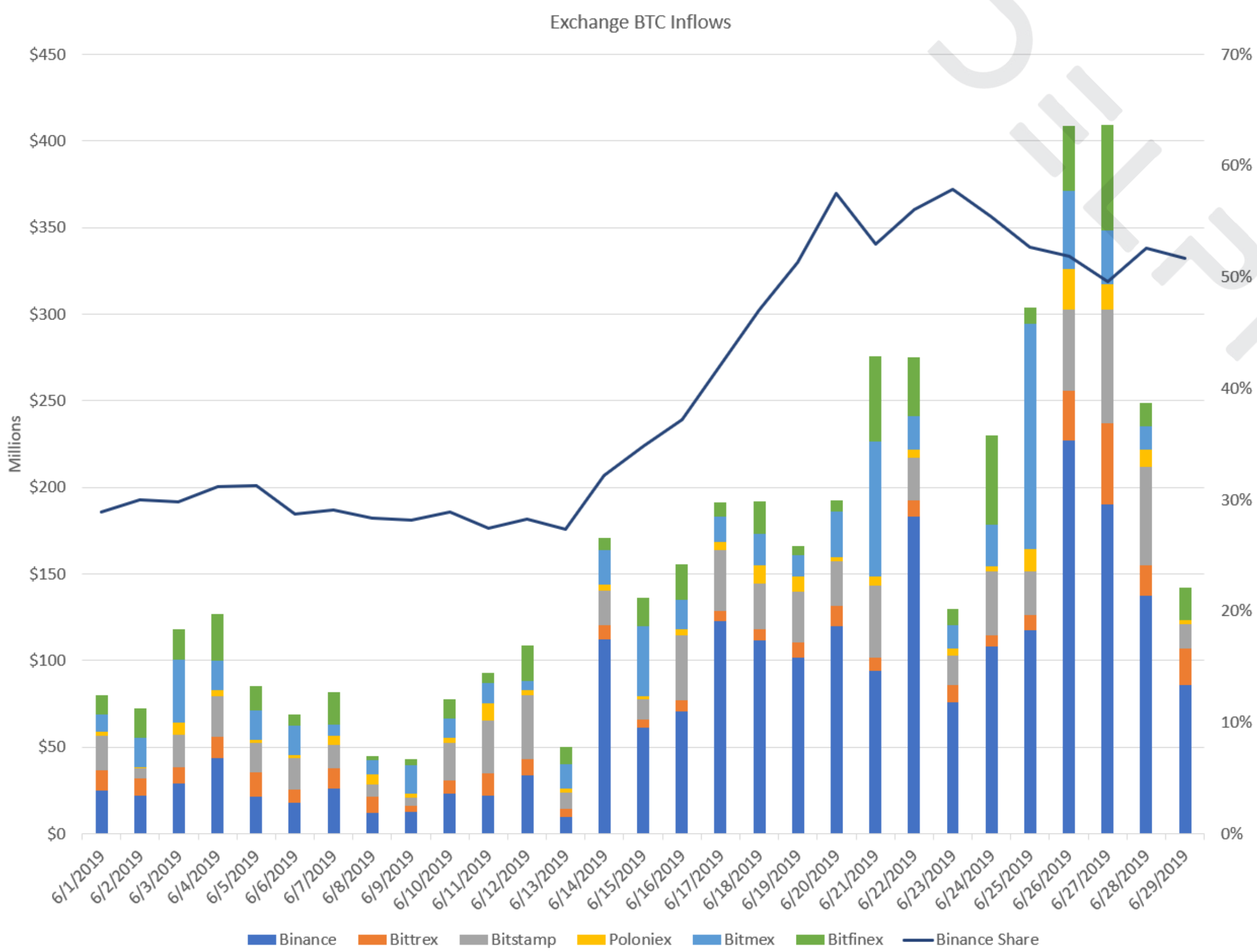
Data as of June 28th, 2019

Sources: Coinmetrics.io

Exchange Flows

Flows in and out of exchanges can provide useful color on market sentiment. We aggregate inflows and outflows of Bitcoin across Binance, Bittrex, Bitstamp, Poloniex, Bitmex and Bitfinex in the chart on the right. The significant increase in outflows makes sense in the early stages of this recovery as individuals are moving their Bitcoin off the exchange in preparation to hold. **The growth in outflows coincides with the beginning of the price rally in April.**





From the beginning of January through the end of May, Binance constituted 24% of BTC exchange inflows across these exchanges. In June, however, that volume has picked up considerably, making up 47% of the inflows for the month**.** Their inflow metrics were especially dominant in the last week, as seen in the chart on the left.

A move of this size and concentration to any exchange would suggest selling, but because it's Binance, it leaves open the possibility that individuals are looking to move into alts now. Since Bitcoin took off in the beginning of April, most alts have significantly underpeformed Bitcoin. Some may view the recent run up and pull back as a blow off top, with the expectation that Bitcoin moves sideways for some time, creating an opportunity for an "alt season."

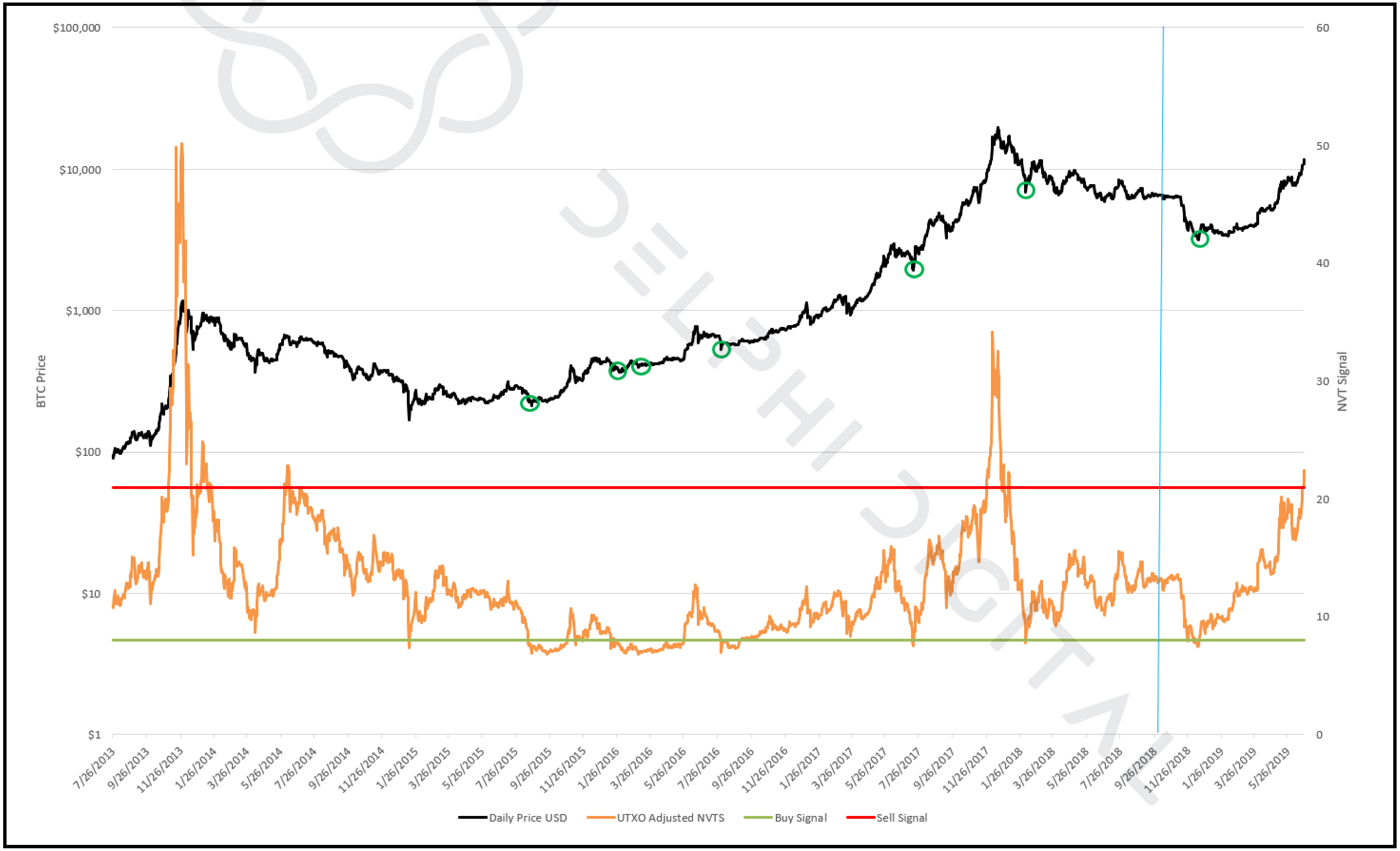
Bitcoin Dominance has gone from 50% in the beginning of April to topping off at 63% as of June 28th. Bitcoin is certainly still in the driver's seat, so trying to time an alt rally could leave you catching a falling knife. It makes more sense to instead forgo some early upside on alts and wait for a strong confirmation

Data as of June 29th, 2019

Sources: TokenAnalyst

UTXO Adjusted NVTS

On-chain metrics have been implying that Bitcoin is overbought throughout most of this rally. We continue to believe that these metrics will trend higher in the short to medium term for a handful of reasons, an important one being that on average, new entrants buying bitcoin for speculative reasons will transact less on chain than the existing userbase. To offset this natural skew, we created a UTXO adjusted NVTS calculation that optimizes the ratio to properly leverage the segment of the network that's being used to support on chain volume. However, even with our adjustment, the ratio is seeing its highest levels in 18 months. During these types of parabolic moves, on-chain metrics lose some of their utility because buyers are no longer cognizant of where they stand.



Data as of June 29th, 2019

Sources: Unchained Capital, Coinmetrics.io

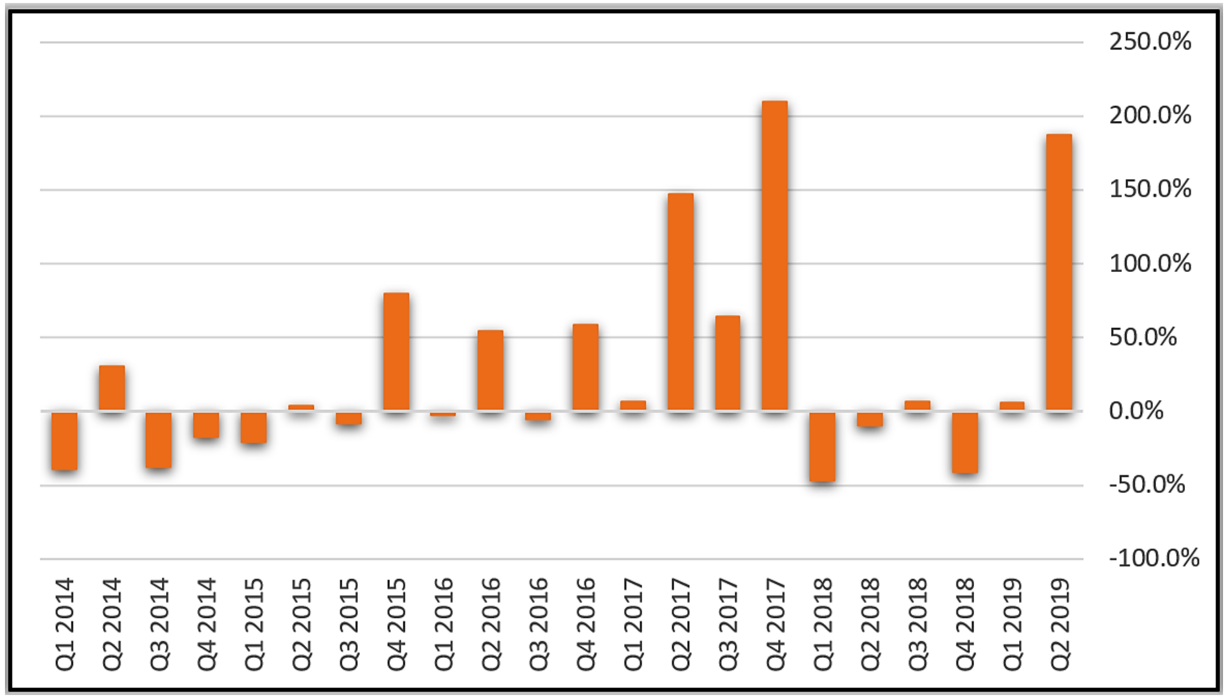
Bitcoin Goes Parabolic

Bitcoin is one of the best performing assets globally year-to-date, gaining over 220% since the beginning of the year. Its outperformance accelerated this quarter as **BTC surged nearly 190% since the end of March**, the best quarter-over-quarter gain since Q4 2017. Bitcoin briefly broke above $13,000 for the first time in almost 18 months before pulling back to its current trading range.

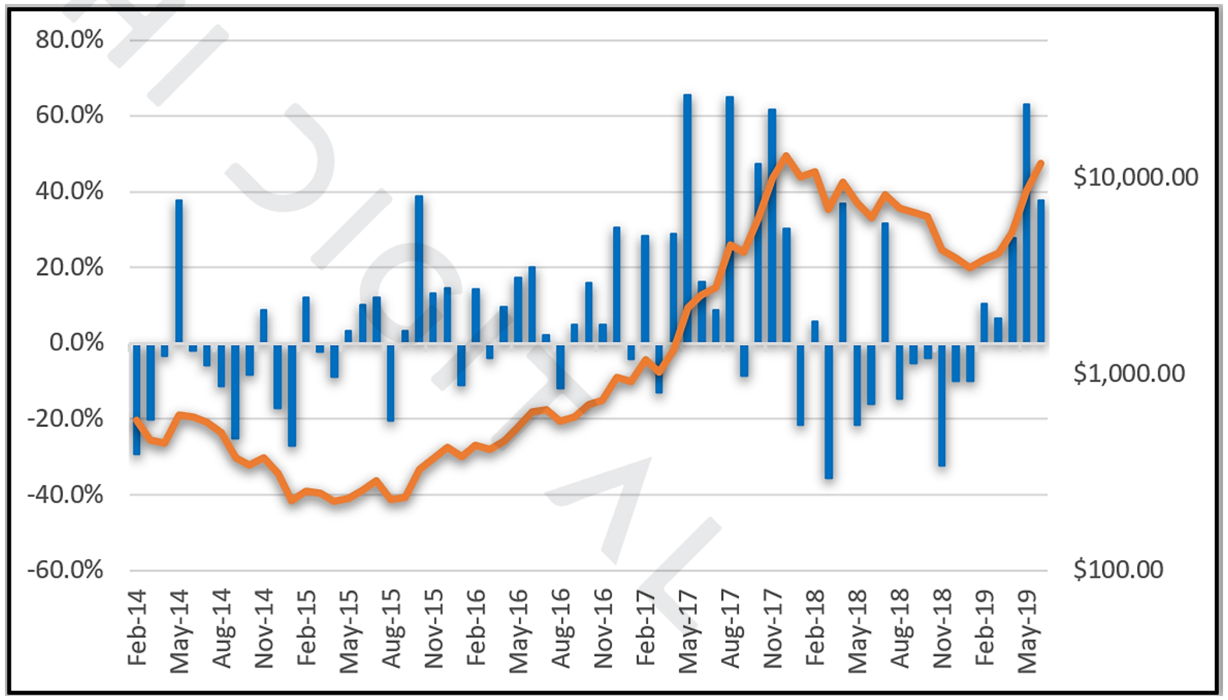
June was kind to crypto investors, especially those who stuck with the world's most valuable crypto asset, with bitcoin adding roughly 40% to its already stellar year-to-date performance. **June marked the 5th straight month of positive returns for BTC, the longest streak in almost two years.**

Bitcoin Performance Since Bottom

BTC Quarter-Over-Quarter Return



BTC Price (Orange) vs. Month-Over-Month Return



Data as of June 29th, 2019

Source: Coinmetrics.io, Coinbase, TradingView

Bitcoin & Gold Rally

The second quarter marked a bit of a turning point for the way bitcoin is viewed among traditional investors. Institutional investors have begun to wake up to the various ways BTC can be used either by hedging against rising geopolitical tensions or as a longer-term investible asset decoupled from much of the current financial system. It's no coincidence gold also broke out in June given the overlapping qualities it has with bitcoin. **The risk of currency devaluation in major advanced economies continues to rise as global central banks pivot away from tighter monetary policies to one's more conducive to extending the current economic expansion.** The Federal Reserve's June FOMC meeting confirmed such a stance from arguably the world's most important financial institution. Fed funds futures are currently pricing in a 100% chance of a 25 bps rate cut next month and a 60% chance the Fed will cut rates three times by the end of the year. This shift has both boosted risk assets and pushed down yields on U.S. Treasuries. **The latter is one of the key drivers behind gold's recent run up as the opportunity cost of holding non-income producing assets falls.**

BTC Price vs. Gold

BTC Price vs. Inverted 2-Year Yield

Data as of June 29th, 2019

Source: Coinmetrics.io, Coinbase, TradingView

History Rhymes

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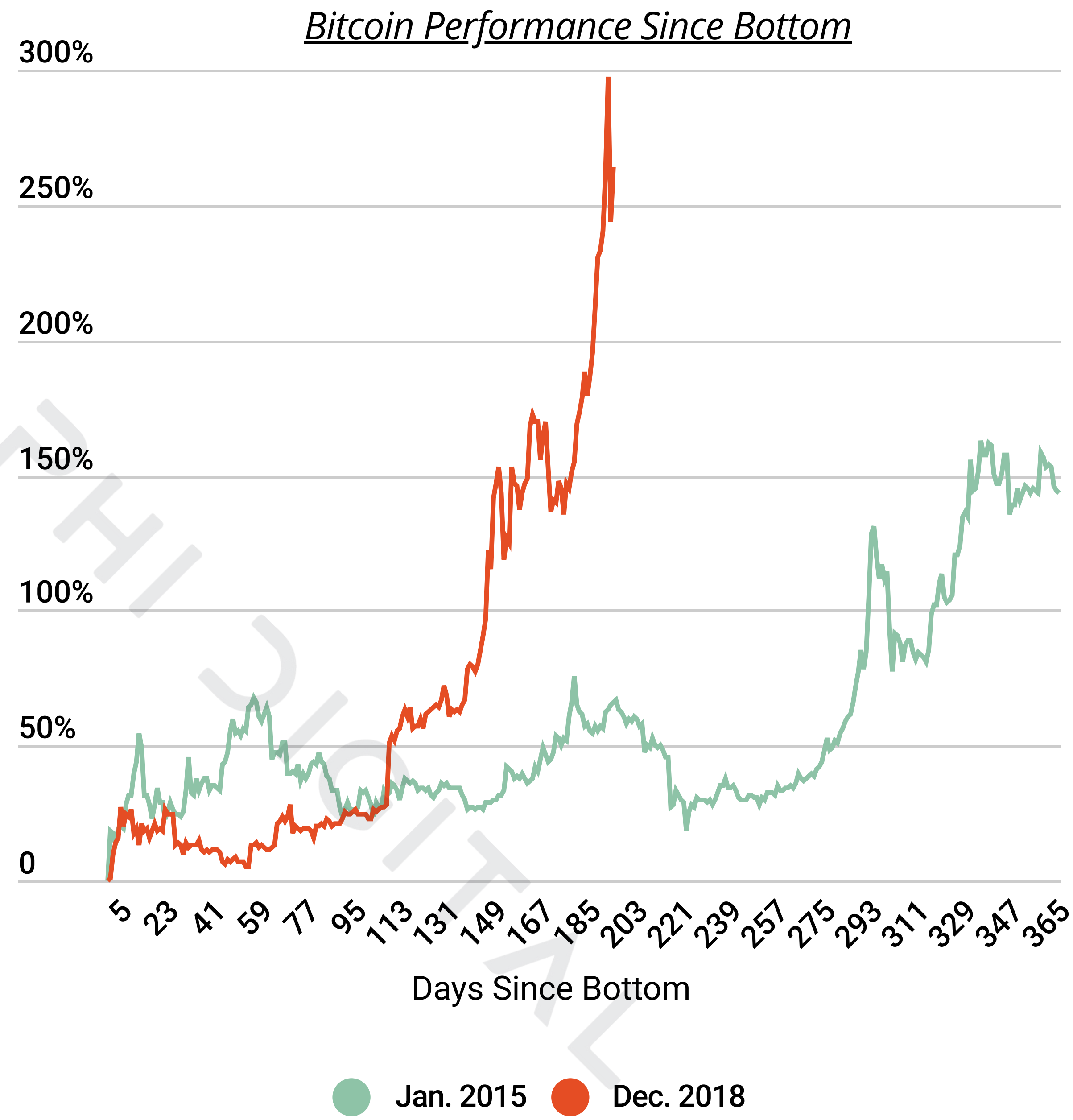
Bitcoin has surged more than 260% since its December 2018 cycle-low (~$3,100), making it one of the best performing assets globally year-to-date. As we noted in our May Outlook, the swift recovery in BTC has taken many by surprise, especially those using prior cycles as a rough guide for bitcoin's trajectory. Despite the quicker-than-expected advance through the end of May, bitcoin picked up June right where it left off, **adding another $62 billion to bring its total market value to roughly $215 billion.** At this point in its 2013-15 cycle recovery, **BTC was up just 66% from its cycle-low**, a drastic difference compared to bitcoin's recent performance.



Data as of June 29th, 2019

Source: Coinmetrics.io

Bitcoin Historical Drawdowns

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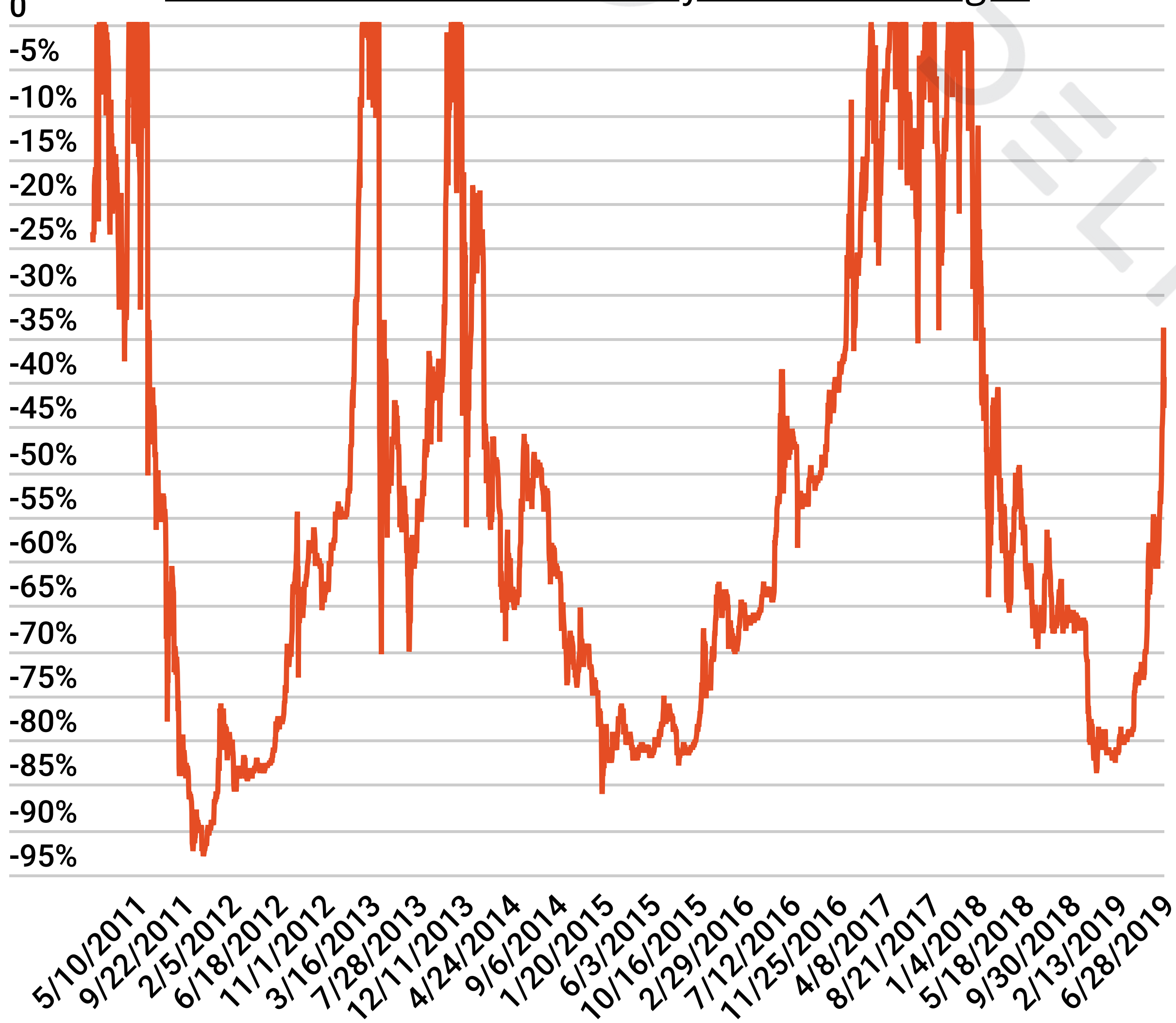
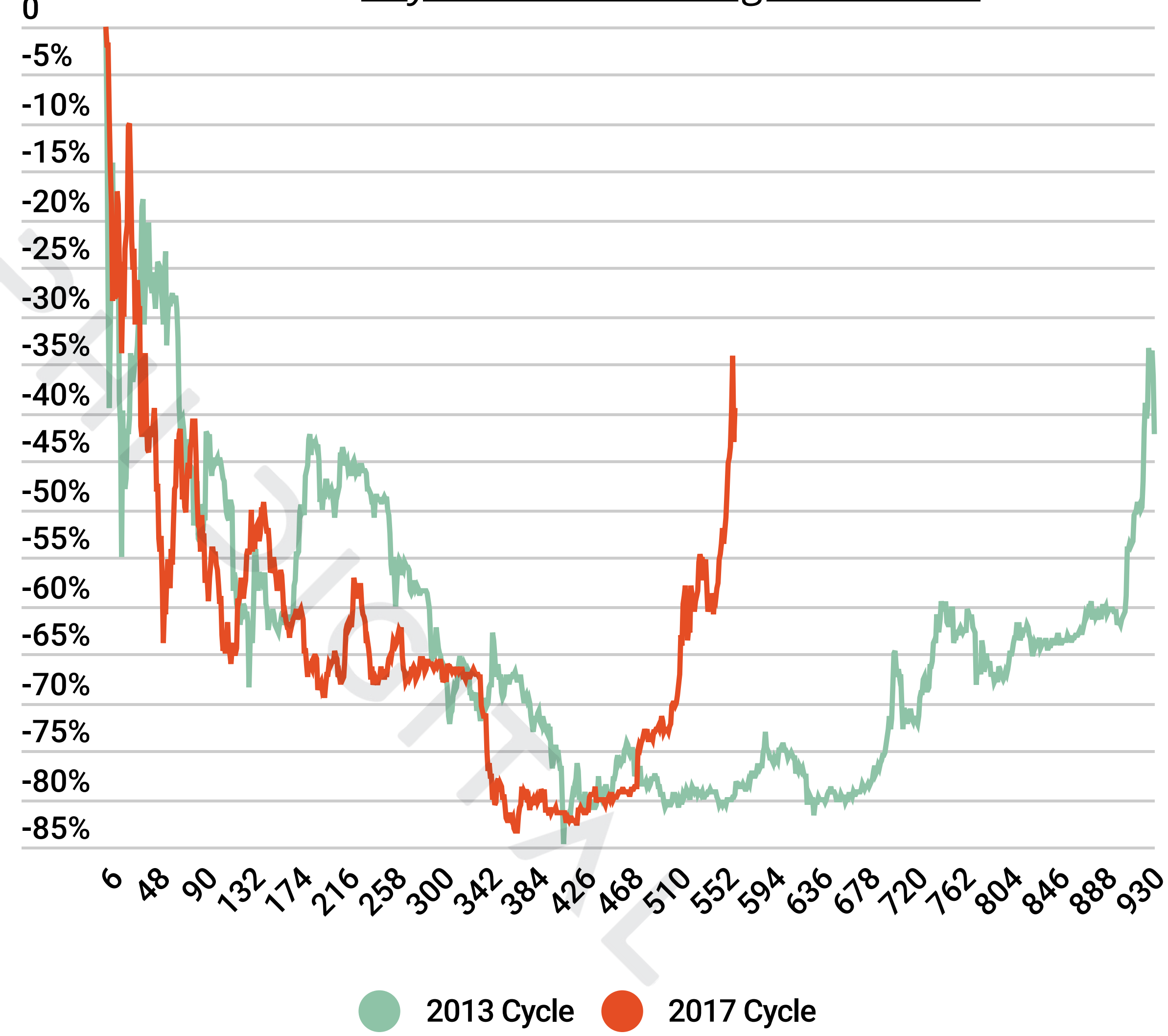
The recovery for bitcoin following its +80% drawdown from all-time highs continues to outpace its recovery last cycle by a substantial rate. **Bitcoin is now just 40% off its all-time high in December 2017, a feat that took over 2.5 years in the prior cycle to surpass.** There are a few reasons why this cycle's recovery may be abbreviated relative to its last. Global awareness continues to grow for bitcoin and the broader crypto market. The investor landscape is shifting dramatically compared to a few years ago with institutions making up a larger portion of market participants (albeit this market is still heavily driven by retail investors). **Finally, the macro backdrop is currently primed for bitcoin to gain significant traction.** There were pockets of economic or political turmoil during BTC's last recovery phase, but those were more isolated than the current conditions weighing on the global economy today. **Escalating trade tensions, slowing economic growth, and rapidly expanding debt levels are just a few reasons we believe the outlook for bitcoin remains extremely favorable.**

Bitcoin Historical Drawdowns from All-Time Highs



Days Since All-Time High Price Peak



Data as of June 29th, 2019

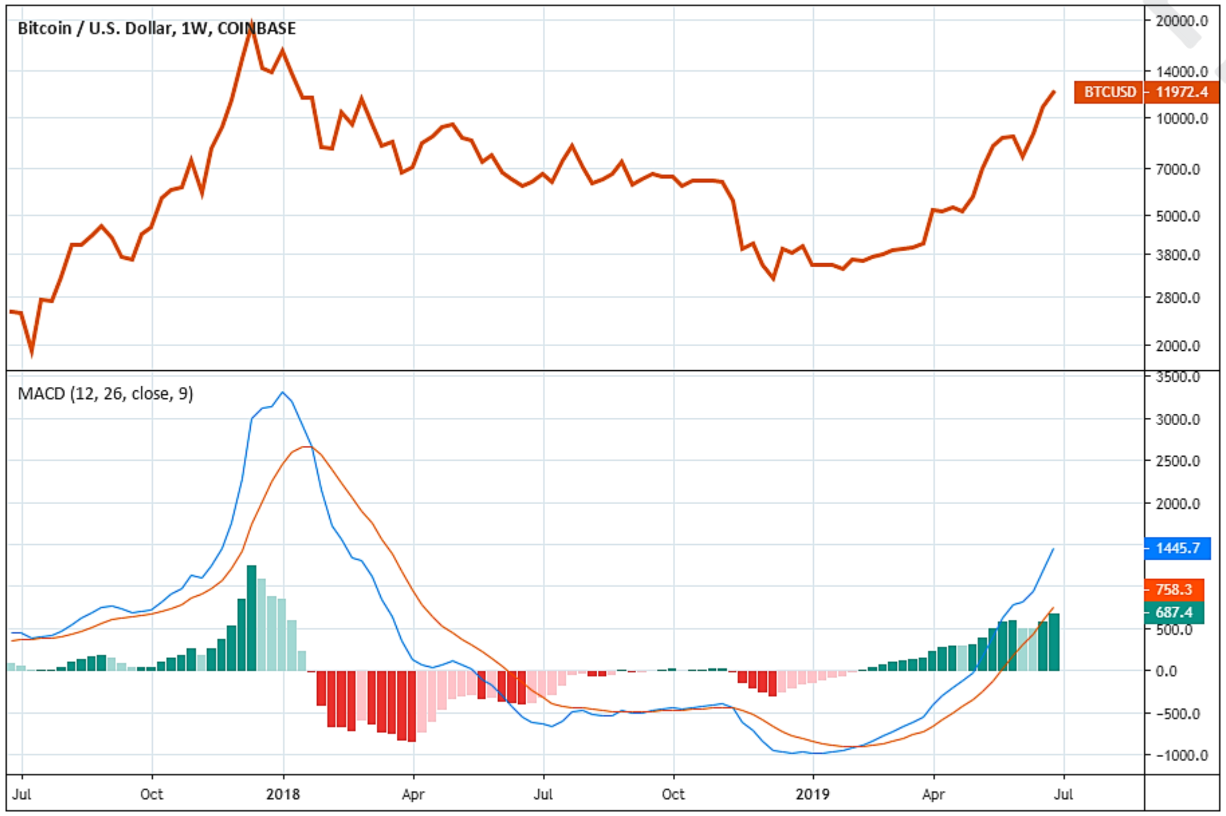
Source: Coinmetrics.io

Key Technicals

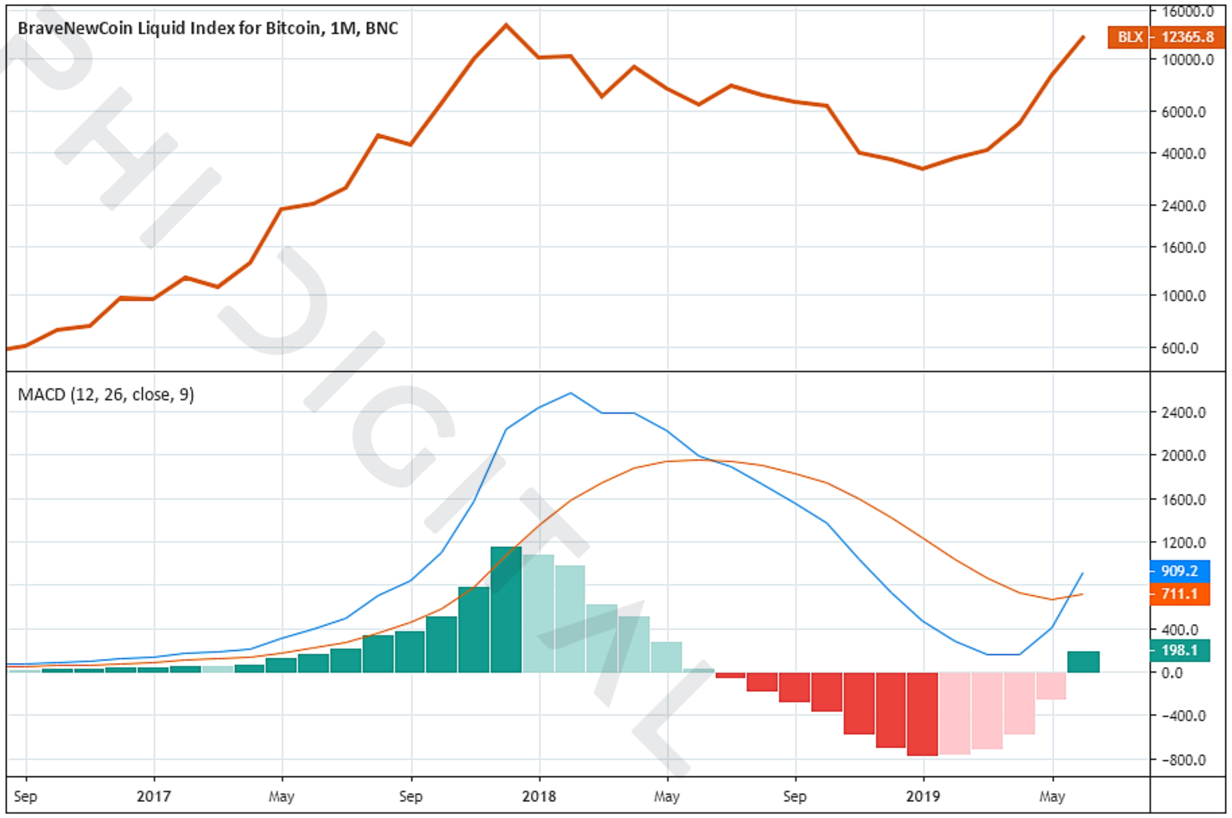
Momentum has also been a key driver of bitcoin's performance in recent months as BTC is heavily tied to changes in market sentiment. We noted a divergence in momentum a couple weeks ago as an indicator to watch closely, but **bitcoin's most recent leg higher turned many short-term momentum readings around as BTC jumped to new year-to-date highs.** Bitcoin struggled to gain much momentum in 2018 (as shown in the top chart), but a sharp reversal at the beginning of the year has caused momentum to trend upward, providing further confirmation for bitcoin's price strength. **The recent bullish crossover in BTC's monthly moving-average-convergence-divergence (MACD) indicator also offers further support for bitcoin's recent trend higher.** This was the first bullish crossover for the indicator since December 2015.

BTC vs. 30-Day RSI

BTC vs. Weekly MACD



BTC vs. Monthly MACD



Data as of June 29th, 2019

Source: Coinbase, Brave New Coin, TradingView

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