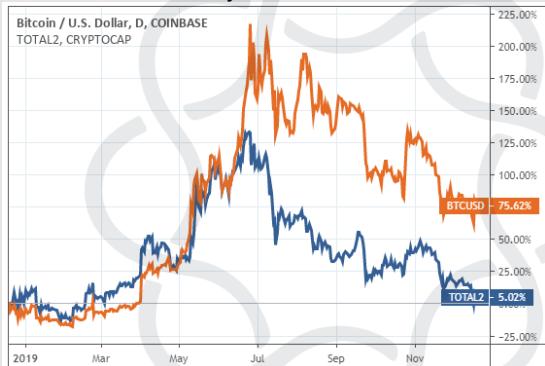


Weekly Market Commentary - December 18, 2019

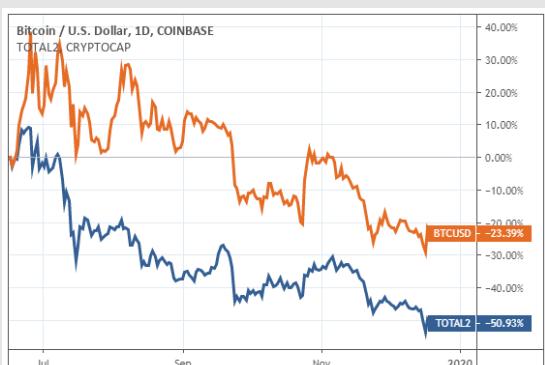
Kevin Kelly, CFA | Chief Market Strategist | kevin@delphidigital.io | [Kevin Kelly II](#)

Total Public Market Value (ex-BTC)

12-Month Performance (Normalized)



6-Month Performance (Normalized)



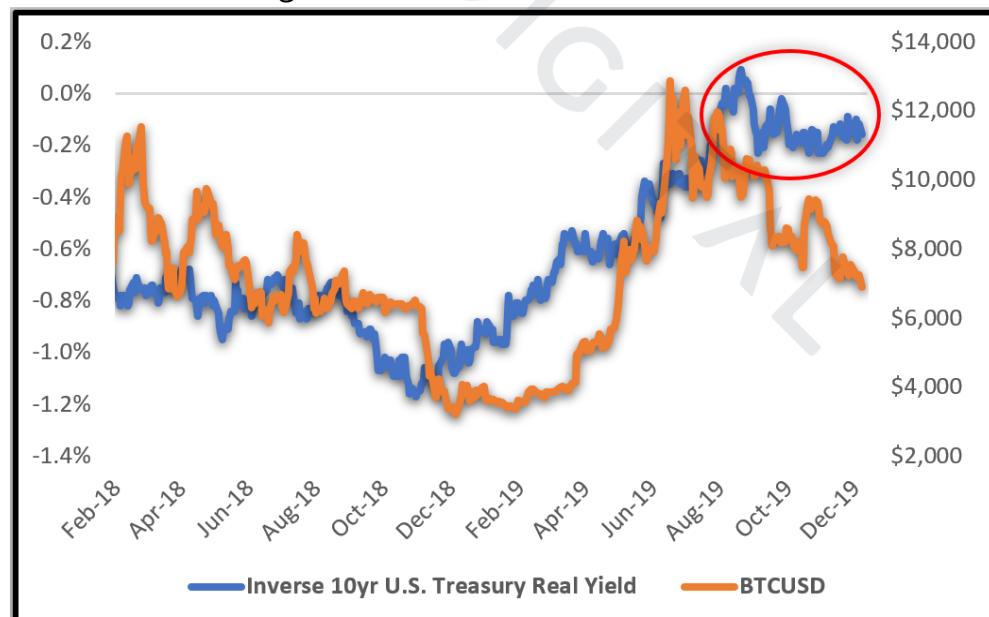
30-Day Performance (Normalized)

Lead Analyst

Kevin Kelly, CFA
kevin@delphidigital.io

Holders Reminisce as Bitcoin Loses More Ground

- This week marked the two-year anniversary of bitcoin's late 2017 all-time high, which in hindsight capped one of the greatest parabolic price moves any asset has ever experienced. This year has been a tale of two storylines: the first half characterized by an explosion in the "digital gold" narrative amid growing demand for apolitical assets and safe havens while the latter has struggled to cope with its unwind. Bitcoin's two-year return recently turned negative for the first time since 2016 as its latest price drawdown worsens. Fortunately, \$6,500 has proven to be strong support so far, though an extended break below these levels could spell more trouble ahead.
- Overall, global monetary policy remains accommodative, but recent commentary from several key central banks - most notably the Fed - has signaled a potential shift away from more aggressive stimulus measures that have defined much of this cycle, adding another headwind for scarce assets like bitcoin and gold.
- Starting this week, we'll be providing key takeaways from the latest episodes of Delphi's Chain Reaction podcast, hosted by Tom Shaughnessy, featuring the top thought leaders in crypto.

Chart of the WeekBTCUSD (Orange) vs. Inverse Real Yield on 10YR U.S. Treasuries



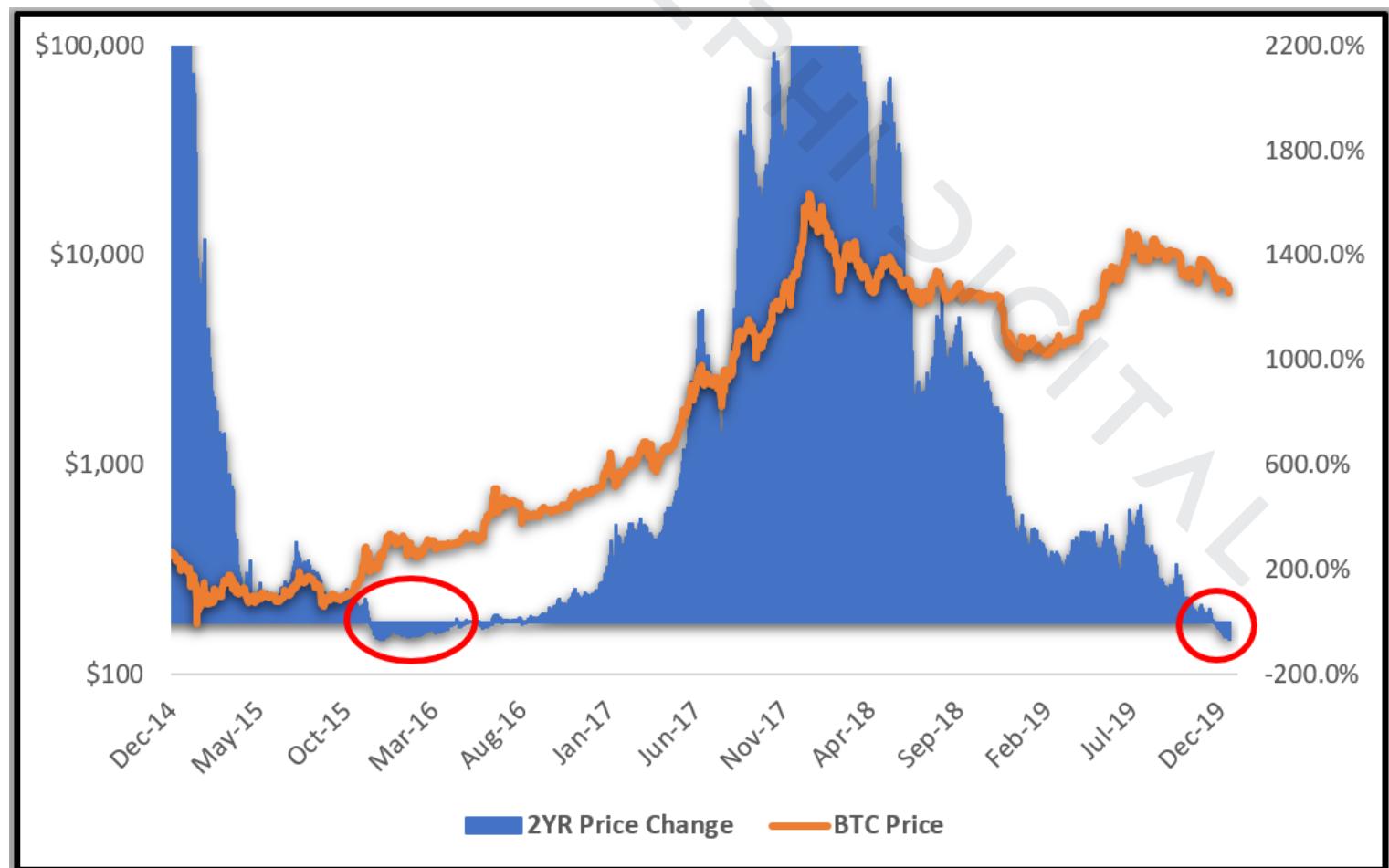
Two-Year Anniversary of BTC's All-Time High

This week marked the two-year anniversary of bitcoin's late 2017 all-time high, which in hindsight capped one of the greatest parabolic price moves any asset has ever experienced. Funny enough, I still have vivid memories of the 24-48 hour period leading up to its top; we watched BTC jump a couple hundred dollars in an hour just to turn around and watch it add another couple hundred bucks the next.

That trip down memory lane causes mixed feelings for many. Some get depressed thinking about the "good old days" while others find solace in bitcoin's struggle since it came within striking distance of \$20,000. After all, it stole the limelight from every other conventional asset class at the time, so it makes sense why many investors, analysts, and market pundits wanted to see BTC dragged through the streets covered in the blood of its "dumb money" proponents.

Our emotions are certainly mixed, but more importantly, this week's significance caused us to reexamine how we got here and the possible paths for this market going forward. Notably, **BTC's two-year return is now negative for the first time since August 2016, which was roughly nine months after it fell into negative territory for the first time following bitcoin's late 2013 peak.** However, unlike the prior period, BTC is currently trending lower in desperate need of a shot in the arm.

Bitcoin Price vs. 2-Year Return





Bitcoin Drawdown Worsens

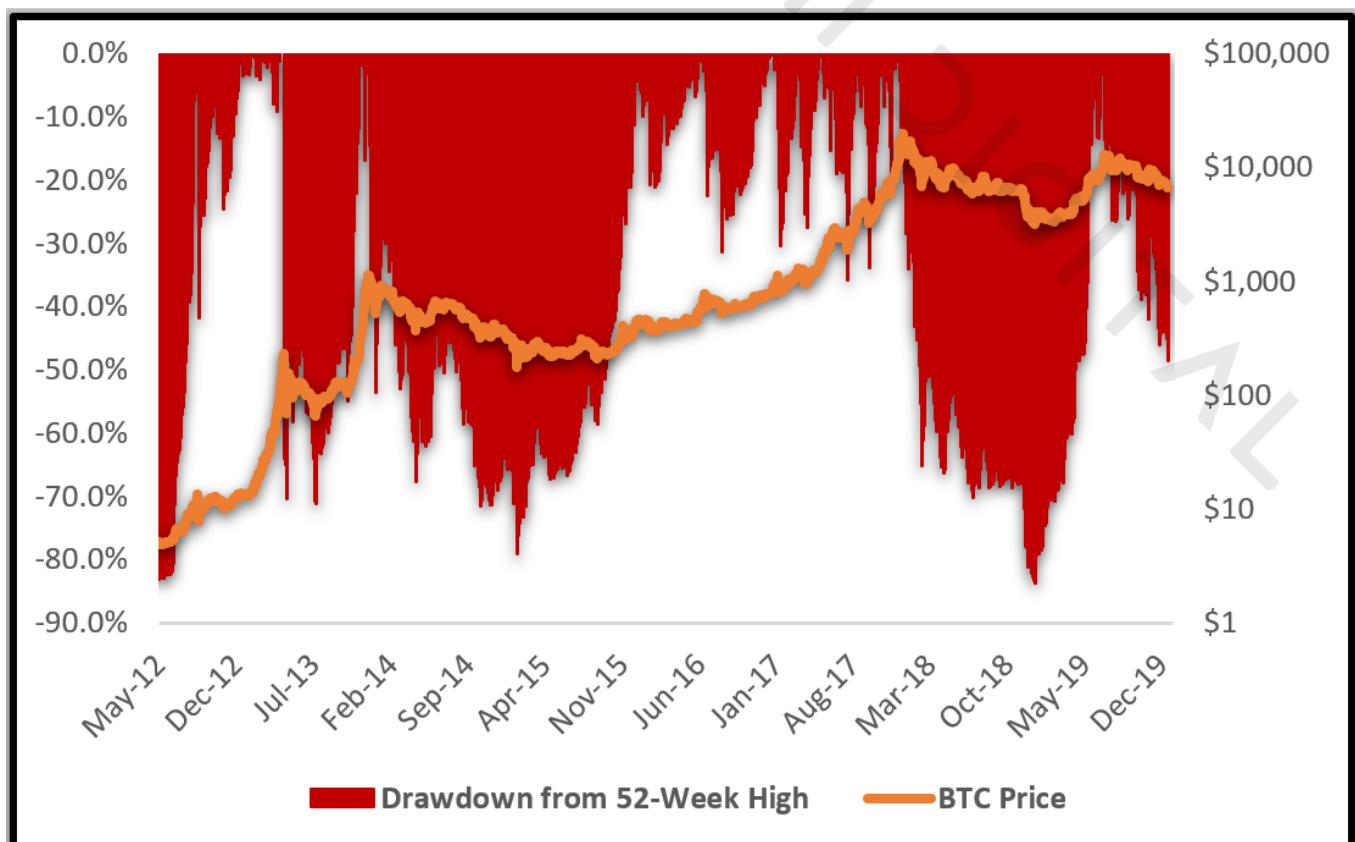
This year has quite literally been a tale of two storylines: the first half characterized by an explosion in the “digital gold” narrative amid growing demand for apolitical assets and safe havens while the latter has struggled with its unwind. **BTC surged more than 250% through its late June peak; it's lost roughly half its value since.** In fact, just this morning BTC was trading at almost the exact same price that preceded its November 2018 collapse. Fortunately, \$6,500 has proven to be strong support, though an extended break below these levels could spell more trouble ahead.

BTCUSD Bounces Off \$6,500



The current drawdown is certainly one of the more painful corrections we've seen, but it's far from the worst. Naturally, there has been a rise in speculation around the causes of both the run up and subsequent plunge in bitcoin's price, **much of which has centered around PlusToken (though our partner Yan Liberman is far from convinced this is the sole driver as some have proclaimed).**

Bitcoin vs. Historical Drawdowns



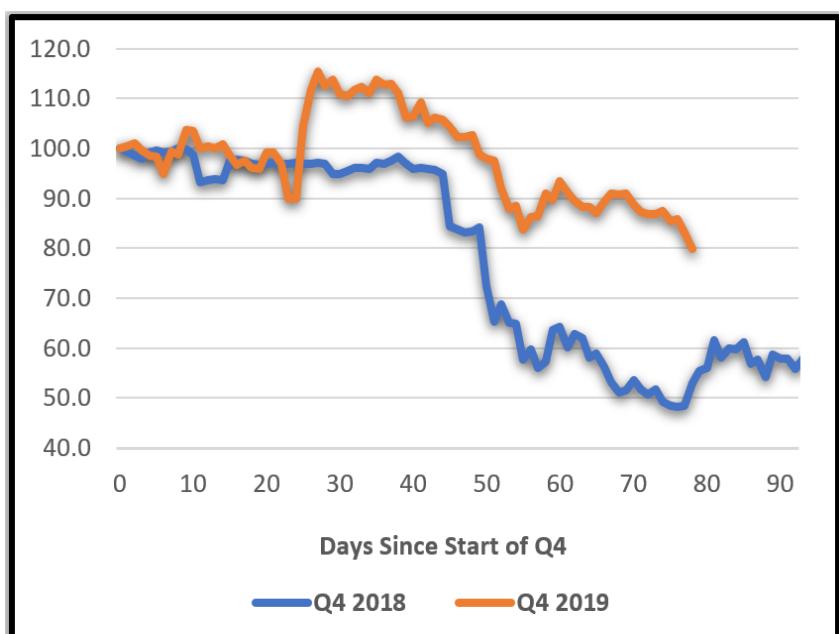


Bitcoin's Q4 Massacre

The crypto market has a very love-hate relationship with the final calendar quarter of the year, and rightfully so given its unpredictable nature. For instance, bitcoin soared over 200% in the last three months of 2017, at one point boasting a quarter-to-date gain of 350%. The last two years, however, have turned out drastically different; BTC tumbled nearly 45% in Q4 2018 and is on pace for a 15-20% loss this quarter depending on how the next two weeks shake out.

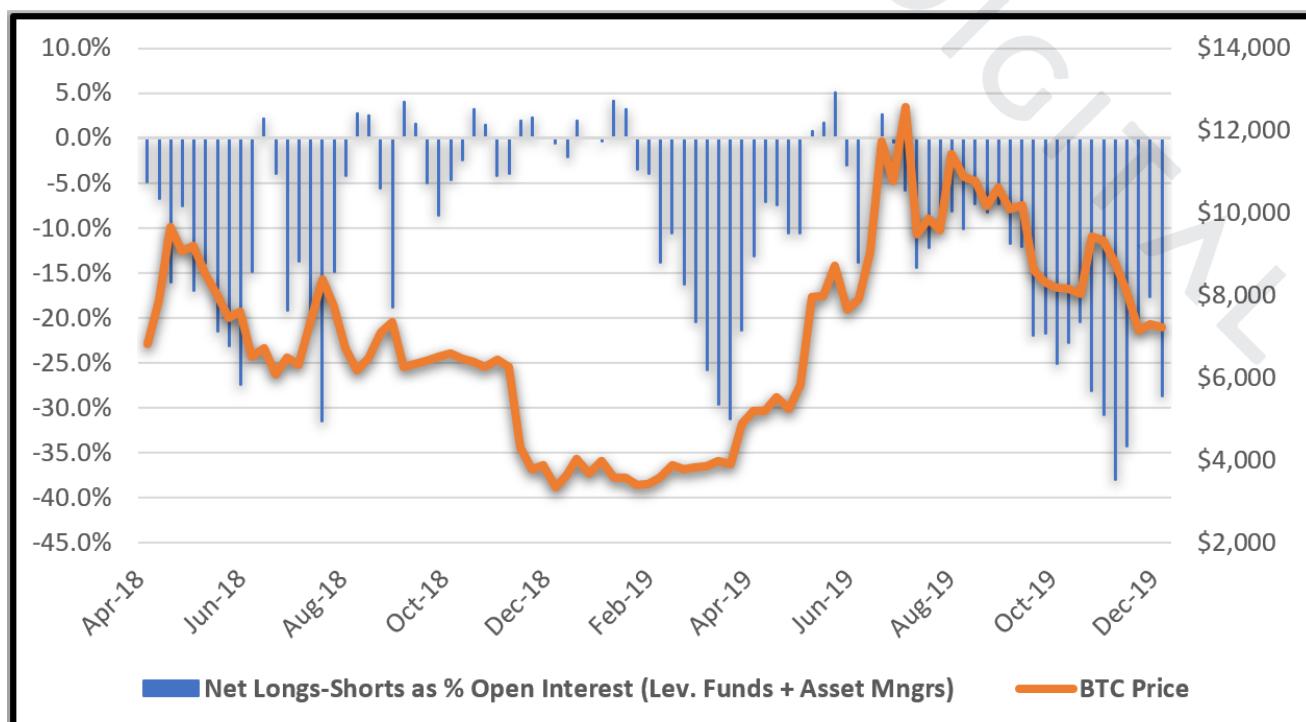
Speculative positioning for CME's Bitcoin futures denotes how apprehensive investors currently are towards BTC.

BTC Normalized Q4 2018 & 2019



There's nothing that says bitcoin's performance will continue to follow a similar path as last year's, but without a material catalyst it wouldn't be surprising if we ended the year relatively close to current levels. We also haven't seen a similar capitulation among long-term BTC holders like we did at the end of 2018. In fact, as we noted in our latest Bitcoin Monthly Outlook, the amount of coins that haven't moved in at least a year currently make up 59% of total supply. Additionally, **approximately 220,000 bitcoin, worth nearly \$1.6 billion at current prices, that was picked up in November 2017 hasn't moved since then**. Maybe the weak hands will prove to be stronger this time around.

BTC Price vs. CME Bitcoin Futures Positioning



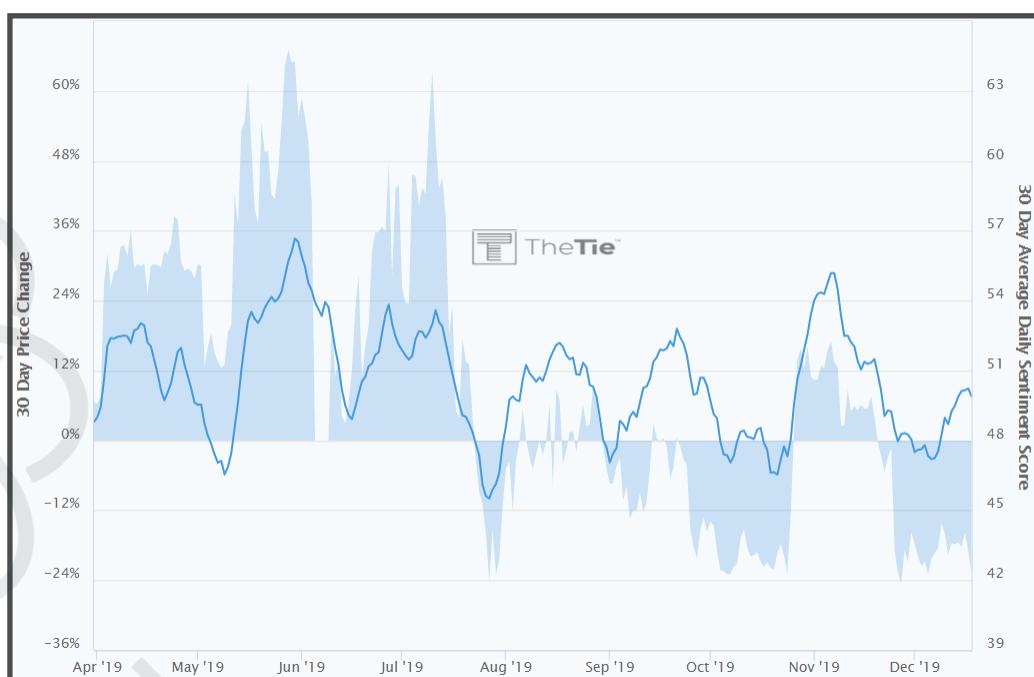


Pessimism Grows

Enthusiasm for bitcoin remains relatively weak compared to its popularity this summer, though it's not entirely surprising given a sizable portion of crypto assets are down more than 50% in just the last few months.

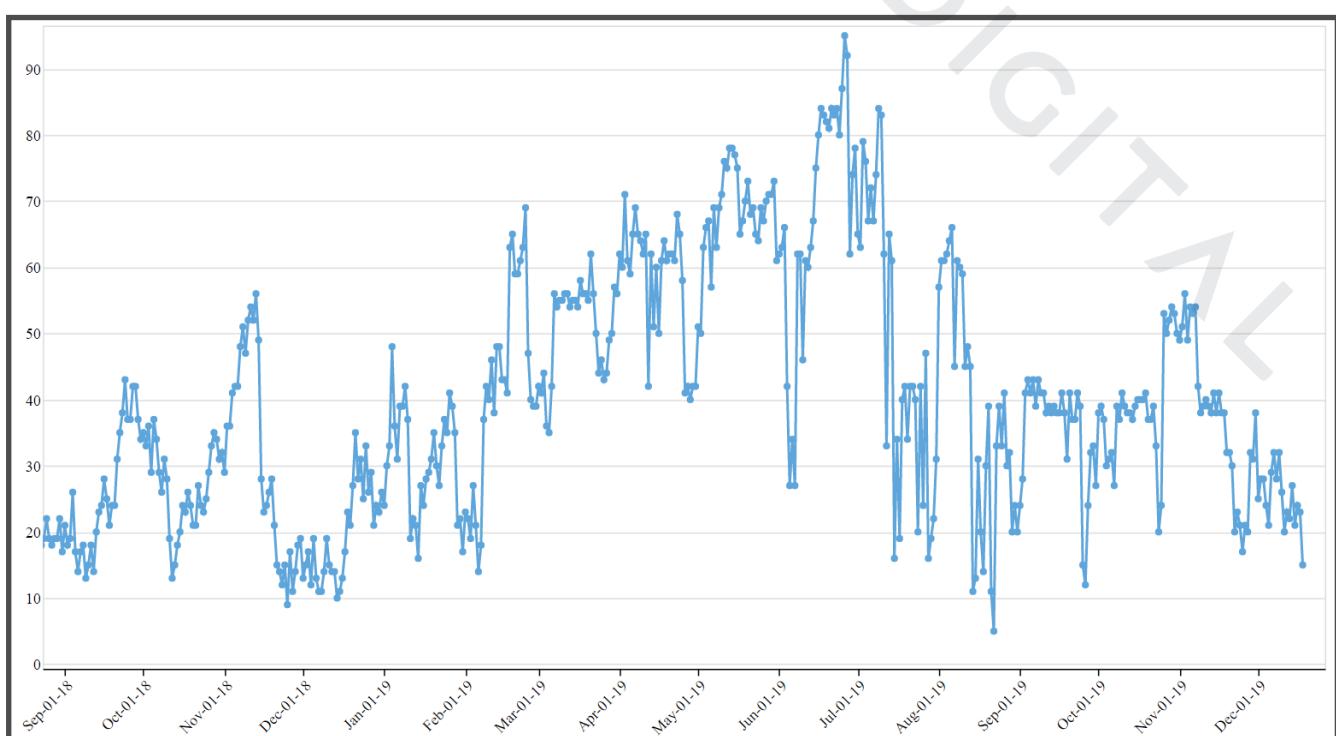
Key sentiment indicators we monitor for bitcoin also appear to be rolling over, which historically has been bearish for BTC in the short term.

BTC's 30-Day Price Change (Area) vs. 30-Day Avg. Daily Sentiment Score



We caught up with Joshua Frank, Co-Founder & CEO of [TheTie](#), an alternative data provider for digital assets, who disclosed they are seeing **negative sentiment (and news) drive asset prices downwards much more significantly than the price boost from positive sentiment**. Similarly, the Crypto Fear & Greed Index just hit its lowest level since late September following bitcoin's +15% drop. We've found this indicator to be spotty at best when examined in isolation, but it does support the notion that sentiment is heavily skewed to the downside as we're seeing in other gauges as well.

Crypto Fear & Greed Index





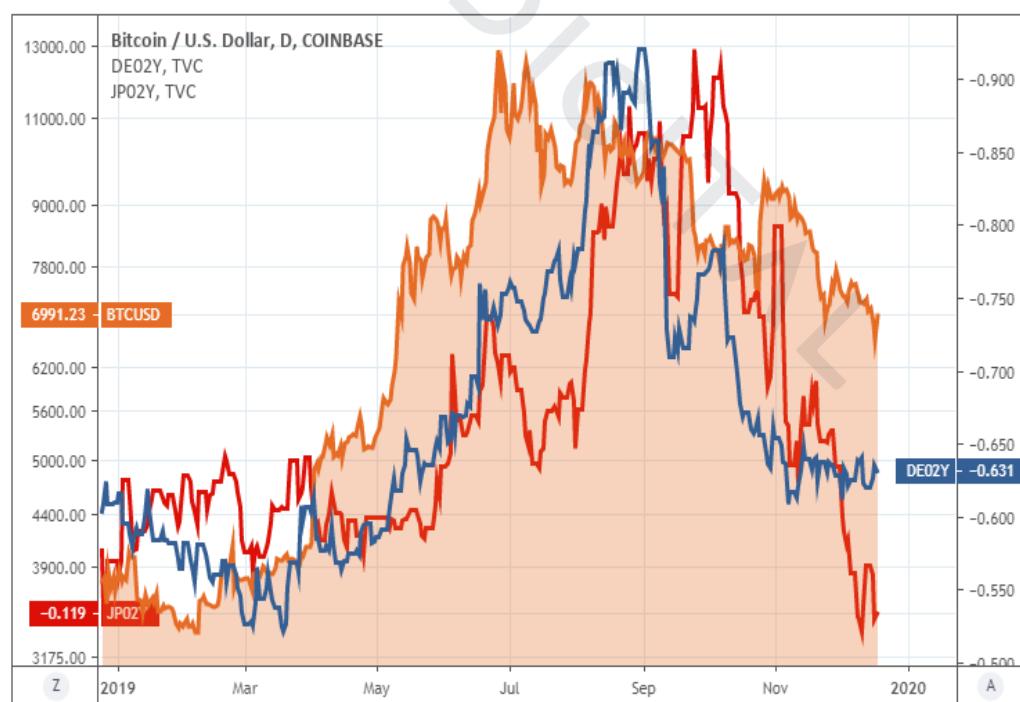
Shifting Central Bank Outlooks

Several major central banks are beginning to hint at a **shift away from the more accommodative policies** they enacted earlier this year, **adding another potential headwind for assets like bitcoin and gold**. We recently discussed the precious metal's pullback in the wake of rising real yields on government bonds like U.S. Treasuries despite rising inflation expectations have ticked higher. **Incoming economic data continues to show signs of improvement**, which began even before the recent progress on a "phase one" deal between the U.S. and China, taking the wind out of the sails of the "doom and gloom" trade. **One of the key reasons bitcoin has historically traded more in line with the relative performance of risk assets is the turn towards "unconventional" monetary policies that have defined this cycle, notably large-scale asset purchase programs by major central banks**. The Fed's decision to **keep interest rates unchanged** at its final FOMC meeting of the year last week marks a shift in the future path of rates heading into 2020 compared to just a couple months ago. Other major central banks, notably the ECB, still have their foot on the gas pedal when it comes to monetary stimulus, which, combined with the Fed's latest balance sheet expansion, could support higher asset prices, including those in the crypto market. In her first monetary policy meeting as leader of the ECB, **Christine Lagarde assured markets that rates will remain low and its newly instated asset purchase program (roughly \$22 billion per month) will continue "as long as necessary"**, stressing its accommodative policy stance.

However, the prospects for further stimulus are waning elsewhere. For example, the Bank of Japan has been one of the most active central banks when it comes to asset purchases and market intervention, but the latest commentary from its leader, Governor Kuroda, regarding the **"relatively bright" outlook for 2020 signals a potential shift away from additional stimulus measures**.

Part of this renewed optimism stems from Prime Minister Shinzo Abe's recently announced fiscal stimulus package, which aims to kickstart a Japanese economy that's lagged for decades. In fact, **consensus among just about every economist tracked by Bloomberg believes the next move by the BOJ will be towards a tighter**, not easier, policy stance. The BOJ's next monetary policy meeting will take place tomorrow, which we'll be tuning into for more insight on its updated outlook.

BTC vs. Inverted 2YR German & Japanese Gov't Bond Yields





NEAR Protocol

Guests: Co-Founders Alexander Skidanov and Illia Polosukhin

- Alex and Illia are two of the smartest co-founders in the space, demonstrated clearly through their white papers, NEAR's protocol design, white boarding sessions and their pedigree of being ICPC medalists and finalists.
- The team mentioned how most new chains have very limited testnets and mainnets, and NEAR's testnet is a full fledged one and their coming mainnet will be a legitimate, fully functioning chain.
- Given the massive competition all layer 1's have to contend with (existing and new launches), NEAR is attempting to attract developers through better usability, a very helpful team, community owned apps and a more advanced chain. We believe layer-1 competition will increase significantly in 2020 and NEAR is differentiating on its technical prowess.
- While NEAR is one of the most technologically sophisticated protocols in the space, we are undecided as to whether better technology will attract developer mindshare as in the past developers have gravitated to the best community (ETH's network effects). When zooming out to the entire world, better technology may attract more developers over time, especially if NEAR enables better functionality that can drive new use cases and attract more stakeholders to the space.

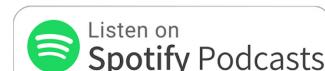
The image shows a podcast player interface for the "Chain Reaction" podcast. The title of the episode is "NEAR's Alex and Illia: Since 2018 Everything Has C...". It features a play button, a progress bar at 0:00, and a volume slider. The interface includes the Delphi Digital logo and the PodBean logo.

Matic Network

Guests: Co-Founder and COO Sandeep Nailwal

- Given how many layer-2 scaling solutions there are (dozens) across payment channels, state channels, plasma, sidechains and more, Sandeep dove into why the team chose to use a plasma framework with proof-of-stake consensus built on top of tendermint to scale Ethereum. Matic has a focus on a smooth developer experience and has attracted key partners.
- Despite the layer-1 scaling benefits of sharding on Ethereum, Sandeep believes layer-2 solutions will still be required given congestion on the main chain and increasing fees.
- One of the main concerns that stuck out to us is generalizable optimistic rollups (i.e. just deploy the tech on Ethereum) and the issues around mass exits on Plasma where everyone withdraws at once. The former is mitigated in part since layer 2's can leverage optimistic rollups. The latter is mitigated in part through Matic's idea of issuing NFTs to users who wish to exit which represent their tokens which are then posted to NUO as collateral. NUO checks the validity and releases the tokens after taking a small fee. After the challenge period, the NFT is redeemed and tokens inside are credited to NUO's reserves.

The image shows a podcast player interface for the "Chain Reaction" podcast. The title of the episode is "Matic's Sandeep Nailwal: Leveraging Plasma To Top...". It features a play button, a progress bar at 0:00, and a volume slider. The interface includes the Delphi Digital logo and the PodBean logo.





Crypto Asset Movers & Shakers

Once again, this week was characterized by a sea of red in the crypto market. Many large-cap names were down 5-10% while others saw double digit percentage declines. Bitcoin dropped almost 10% while ETH, the second largest crypto asset by market value, fell more than 15% week-over-week. **Several assets have lost more than half their value this year**, including ZEC and XEM. XLM and XRP were two of this week's worst performers, though our team hasn't had a favorable view on either so their underperformance this year is not entirely surprising.

Notably, **intra-market correlations among large-cap crypto assets are near their highest level all year as few names have been able to escape the gravity of the broad market sell-off**.

Top Crypto Asset Returns

	7D	30D	90D	YTD
MKR	-4.51%	-20.91%	-13.89%	5.49%
NEO	-7.39%	-34.33%	-21.73%	-0.17%
ZEC	-7.60%	-22.33%	-47.36%	-52.55%
ETC	-8.26%	-25.00%	-45.75%	-33.38%
XEM	-8.38%	-23.31%	-35.60%	-52.97%
BTC	-8.50%	-22.48%	-35.11%	73.16%
TRX	-11.96%	-33.75%	-30.71%	-36.43%
ADA	-12.74%	-29.49%	-40.27%	-25.25%
XMR	-14.02%	-26.35%	-43.95%	-3.97%
BCH	-14.50%	-33.49%	-45.41%	10.04%
EOS	-15.75%	-35.46%	-46.32%	-16.59%
LTC	-16.23%	-37.62%	-52.53%	17.60%
BNB	-16.34%	-38.59%	-44.18%	111.00%
ETH	-16.34%	-33.76%	-42.09%	-11.61%
DASH	-17.26%	-38.93%	-57.83%	-48.25%
XRP	-17.69%	-30.32%	-41.56%	-49.61%
XLM	-18.55%	-39.51%	-47.67%	-62.39%
MIOTA	-21.04%	-39.19%	-47.54%	-55.11%

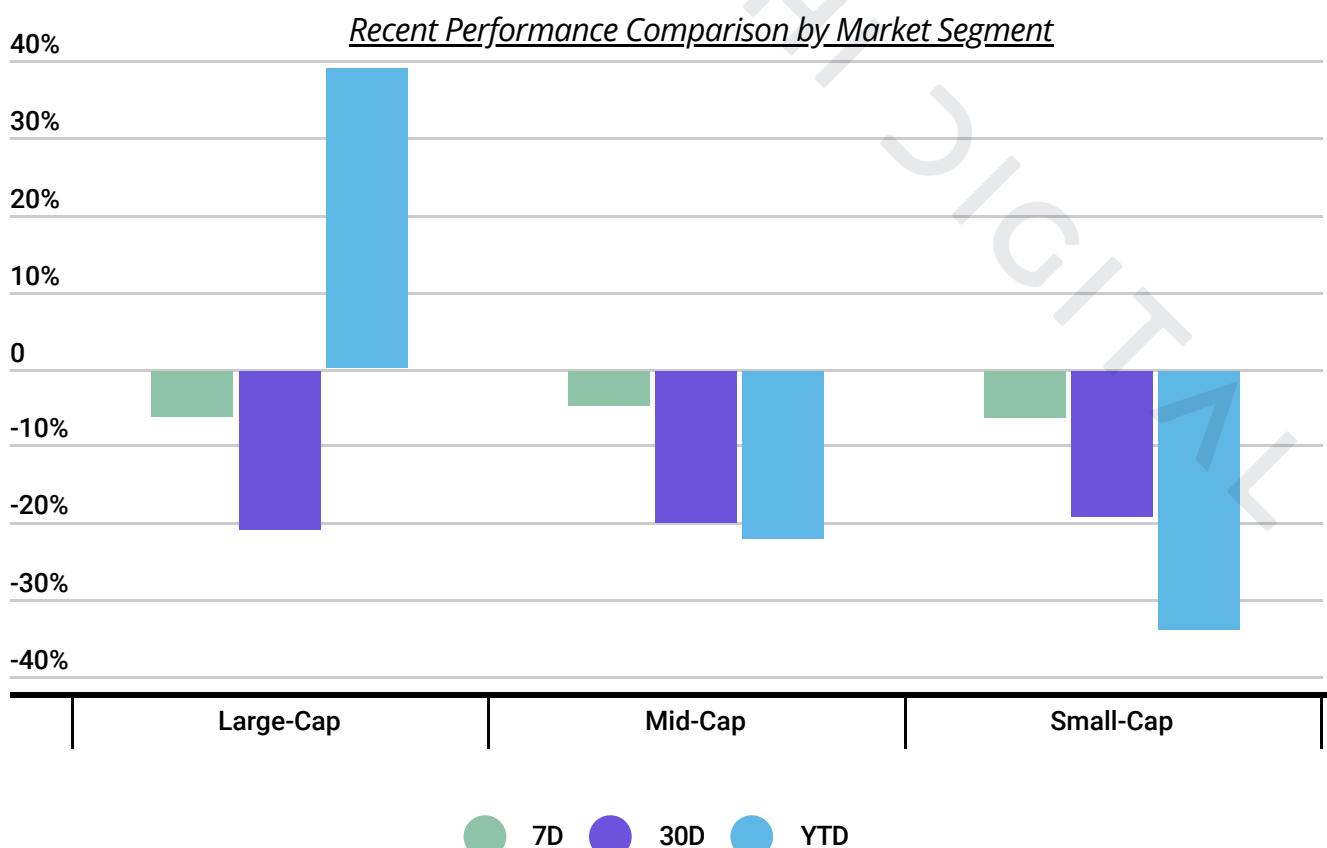
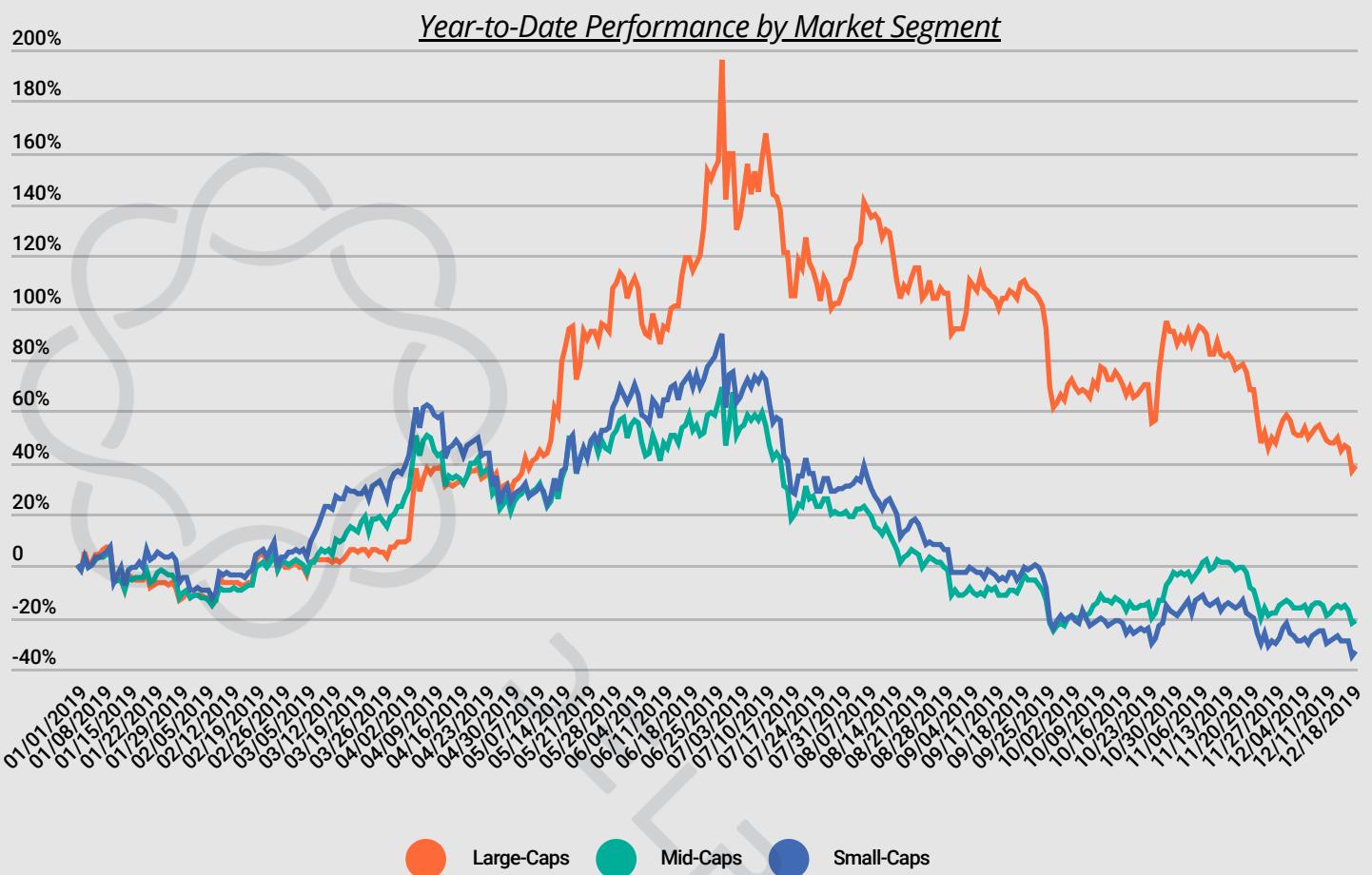
Data as of 12/17/19

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





Crypto Market Drawdown Widens



*See Source link below for detail on large, mid, and small-cap index constituents.

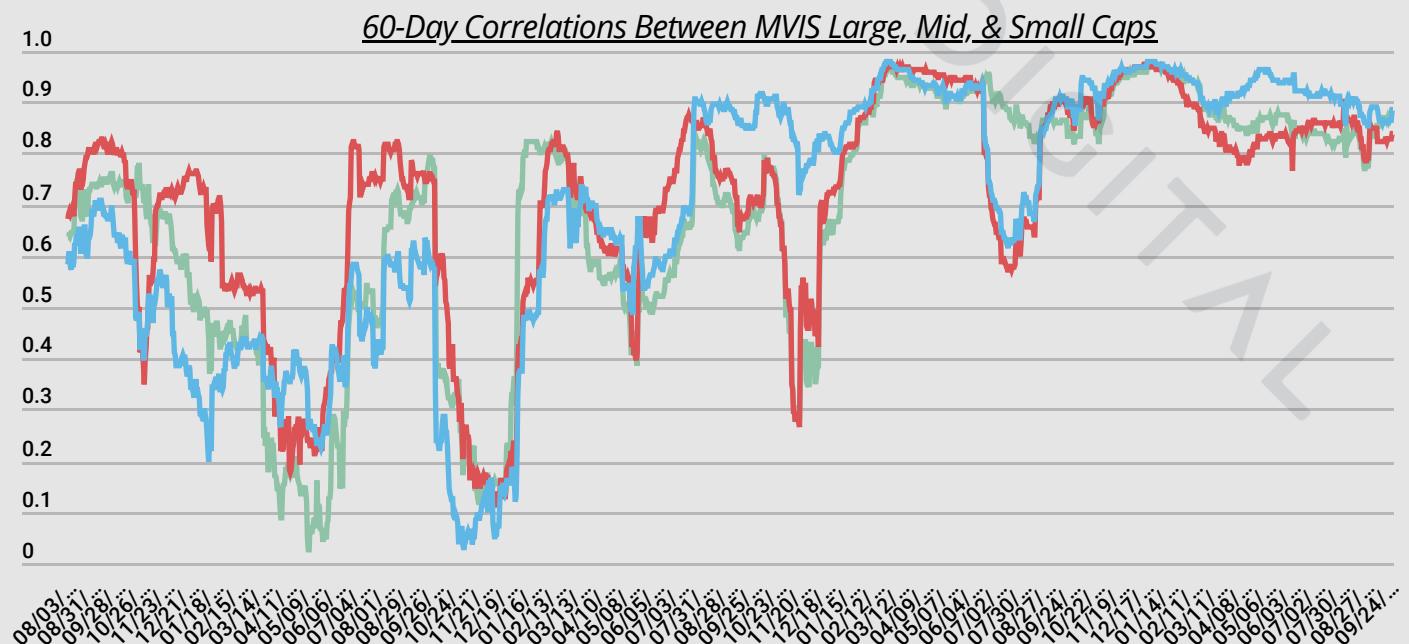


Intra-Market Correlations

30-Day Correlations Between Top Crypto Assets

	ADA	BCH	BNB	BTC	DASH	EOS	ETC	ETH	LTC	MIOTA	MKR	NEO	TRX	XEM	XLM	XMR	XRP	ZEC
ADA	1.00	0.71	0.59	0.70	0.70	0.79	0.67	0.83	0.80	0.75	0.59	0.77	0.77	0.65	0.79	0.71	0.76	0.72
BCH	0.71	1.00	0.46	0.71	0.63	0.69	0.59	0.73	0.72	0.61	0.51	0.62	0.56	0.50	0.57	0.60	0.60	0.55
BNB	0.59	0.46	1.00	0.53	0.56	0.56	0.51	0.62	0.60	0.55	0.48	0.56	0.54	0.44	0.52	0.57	0.49	0.56
BTC	0.70	0.71	0.53	1.00	0.61	0.71	0.62	0.81	0.77	0.62	0.62	0.70	0.60	0.48	0.61	0.66	0.60	0.62
DASH	0.70	0.63	0.56	0.61	1.00	0.65	0.59	0.70	0.65	0.68	0.47	0.67	0.60	0.58	0.62	0.72	0.61	0.69
EOS	0.79	0.69	0.56	0.71	0.65	1.00	0.65	0.82	0.80	0.72	0.57	0.74	0.68	0.58	0.67	0.66	0.71	0.62
ETC	0.67	0.59	0.51	0.62	0.59	0.65	1.00	0.73	0.65	0.63	0.52	0.61	0.59	0.54	0.60	0.60	0.60	0.59
ETH	0.83	0.73	0.62	0.81	0.70	0.82	0.73	1.00	0.83	0.75	0.68	0.77	0.72	0.61	0.71	0.75	0.69	
LTC	0.80	0.72	0.60	0.77	0.65	0.80	0.65	0.83	1.00	0.68	0.59	0.73	0.65	0.55	0.68	0.68	0.67	0.64
MIOTA	0.75	0.61	0.55	0.62	0.68	0.72	0.63	0.75	0.68	1.00	0.54	0.73	0.65	0.59	0.68	0.64	0.70	0.64
MKR	0.59	0.51	0.48	0.62	0.47	0.57	0.52	0.68	0.59	0.54	1.00	0.57	0.51	0.40	0.48	0.51	0.50	0.48
NEO	0.77	0.62	0.56	0.70	0.67	0.74	0.61	0.77	0.73	0.73	0.57	1.00	0.73	0.60	0.67	0.67	0.68	0.62
TRX	0.77	0.56	0.54	0.60	0.60	0.68	0.59	0.72	0.65	0.65	0.51	0.73	1.00	0.55	0.65	0.62	0.66	0.61
XEM	0.65	0.50	0.44	0.48	0.58	0.58	0.54	0.61	0.55	0.59	0.40	0.60	0.55	1.00	0.62	0.59	0.59	0.58
XLM	0.79	0.57	0.52	0.61	0.62	0.67	0.60	0.71	0.68	0.68	0.48	0.67	0.65	0.62	1.00	0.66	0.73	0.65
XMR	0.71	0.60	0.57	0.66	0.72	0.66	0.60	0.71	0.68	0.64	0.51	0.67	0.62	0.59	0.66	1.00	0.63	0.67
XRP	0.76	0.60	0.49	0.60	0.61	0.71	0.60	0.75	0.67	0.70	0.50	0.68	0.66	0.59	0.73	0.63	1.00	0.59
ZEC	0.72	0.55	0.56	0.62	0.69	0.62	0.59	0.69	0.64	0.64	0.48	0.62	0.61	0.58	0.65	0.67	0.59	1.00

60-Day Correlations Between MVIS Large, Mid, & Small Caps



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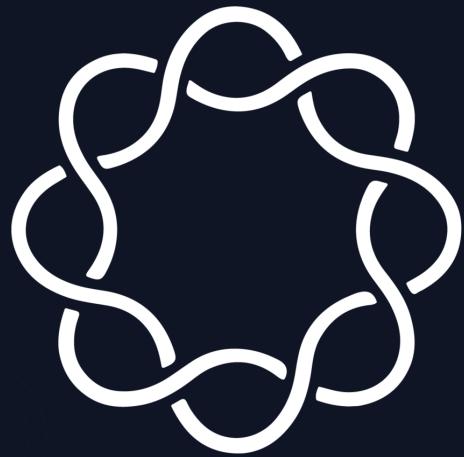
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