# DELPHI DIGITAL

# Monthly Bitcoin Outlook
# December 2019

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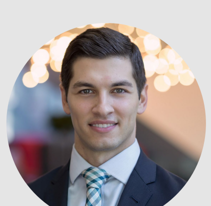
**Lead Analysts**

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# Executive Summary

## Key Themes & Trends

### Bitcoin Volume Continues To Be Muted

In November, month over month total volume dropped by ~9.4% across 13 exchanges we examined. Declining volume has been the trend since the high back in June, a symptom of a general slow down in new money entering the space.

### Liquid Supply Continues to Decline

Liquid supply continues to decline in line with volatility, with the circulating supply moved within the last 3 months reaching levels not seen since April earlier this year.

### Long-Term Holders Stay Strong

Long term holders continue to hold with the amount of coins that haven't moved in at least a year currently making up 59% of total supply. Additionally, roughly 220K bitcoin that was picked up in November 2017 hasn't moved since then.

### Exchange Flows

Bitcoin exchange flows have flipped back to being net inflows after October finally reversed a multi-month trend net inflows. Stablecoin inflows to exchanges have also slowed down.

## Macro Backdrop

### Shifting Macro Tides for Bitcoin

Bitcoin's sell-off in November marked its worst monthly decline since its collapse in the same month last year as fading catalysts and the lack of new buyer demand have investors and traders alike searching for BTC's next major catalyst. A few parallels can be drawn between bitcoin's drawdown and the pullback in gold prices as both face similar headwinds, the back up in real yields being one of the most notable. **Concerns over a "synchronized global slowdown" and the growing amount of negative yielding debt globally were two key macro drivers supporting bitcoin** and precious metals earlier this year. However, both tailwinds have abated over the last couple months, causing a modest shift in the near term outlook for global monetary policy.

The Federal Reserve, for example, has shifted its stance with Friday's impressive jobs report putting the nail in the coffin for policymakers' decision to pause further rate cuts at next week's FOMC meeting. However, a breakdown in trade talks could invoke the Fed to revisit its neutral stance, though **recent signs of modest strength despite ongoing trade disputes may hurt the chances of more accommodative actions if the fundamental backdrop for economic activity improves.**

***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.***

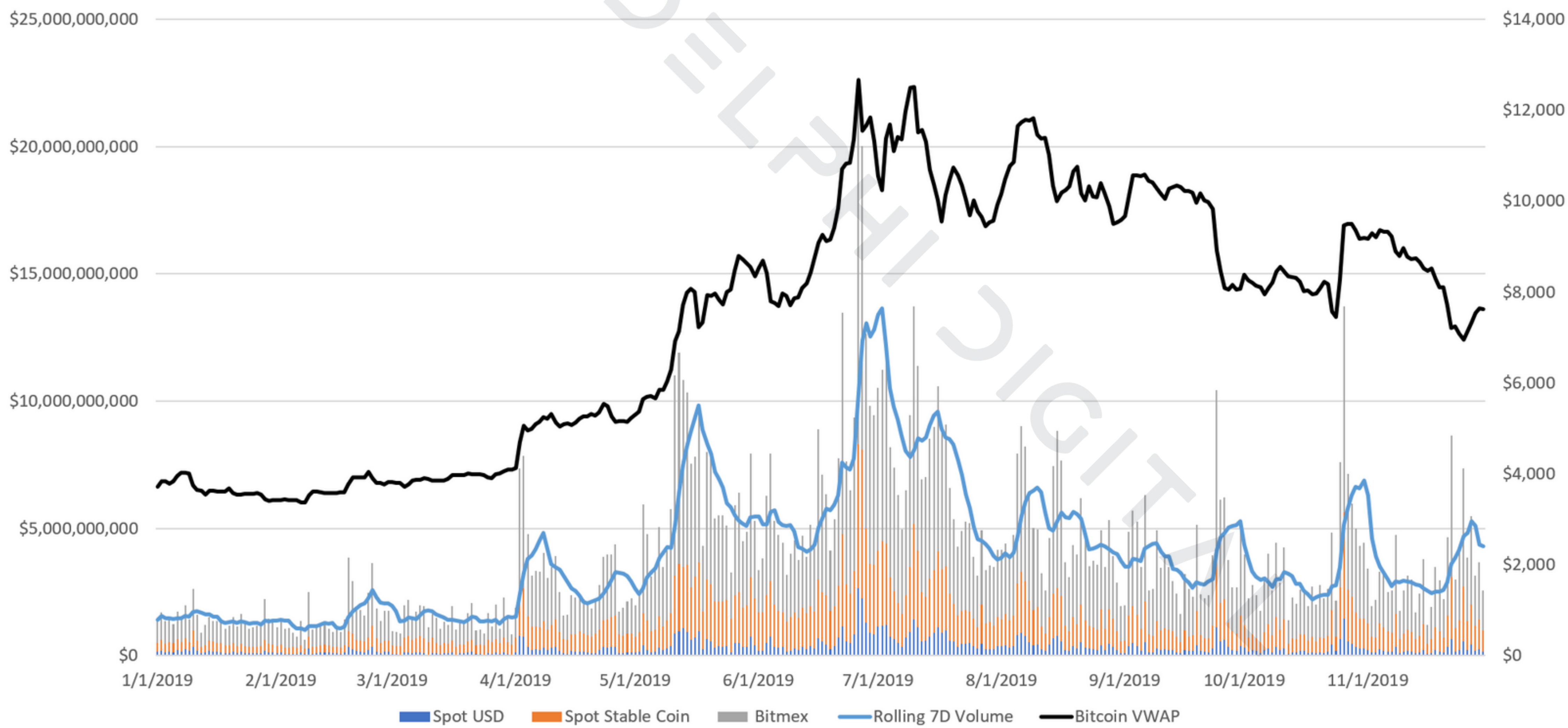
# Volume Continues to Decline

- **Bitcoin volume continues to be relatively muted**. Volume spiked at the end of October when price rallied above 9,000, but fell right back down to pre-spike levels in the beginning of November.

- Price managed to hold up above 9,000 for the first week of November despite the volume decline, but then followed suit shortly afterwards eventually reaching 6 month lows near the end of the month.

- **Declining volume has been the trend since the high back in June, a symptom of a general decrease in new money entering the space.**

| Exchange | Spot | Spot Stable Coin | Derivatives |
|---|---|---|---|
| Binance | | USDT TUSD USDC PAX | |
| Bitfinex | USD | USDT | |
| BitFlyer | USD | | |
| Bitmex | | | XBT Perp |
| Bitstamp | USD | | |
| Bittrex | USD | USDT | |
| Coinbase | USD | USDC | |
| Gemini | USD | | |
| Huobi | | USDT HUSD | |
| itBit | USD | | |
| Kraken | USD | | |
| Okex | | USDT USDK | |
| Poloniex | | USDT USDC | |




*Data as of November 30th, 2019 | Sources: Kaiko, Digital Assets Data*

# Volume Decline

- Month over month total volume dropped by 9.4% across the exchanges we reference in the previous slide.
- The largest decline came from spot USD markets, suggesting there's possibly less capital entering and exiting the space.
- At the same time, spot stable coin market volume held flat, potentially suggesting it's more so trader driven.

*Month over Month Daily Volume Change*

| | Bitmex | Spot USD | Spot Stable Coin | Total Spot | Total |
|---|---|---|---|---|---|
| February | 15.0% | -4.2% | 6.2% | 3.0% | 10.8% |
| March | -15.7% | -35.4% | 21.9% | 5.8% | -8.7% |
| April | 120.5% | 160.1% | 100.1% | 110.4% | 116.7% |
| May | 97.0% | 91.3% | 89.8% | 90.1% | 94.5% |
| June | 15.5% | 34.4% | 26.9% | 28.5% | 20.1% |
| July | -1.4% | 8.0% | -10.7% | -6.5% | -3.4% |
| August | -27.1% | -39.3% | -35.8% | -36.7% | -30.6% |
| September | -19.2% | -26.5% | -23.4% | -24.1% | -20.8% |
| October | -7.2% | -6.9% | 2.1% | -0.1% | -4.9% |
| November | -11.5% | -21.5% | -0.8% | -5.5% | -9.4% |

*Monthly Volume Distribution*

| | Bitmex | Spot USD | Spot Stable Coin | Total Spot |
|---|---|---|---|---|
| January | 65.2% | 10.5% | 24.3% | 34.8% |
| February | 67.6% | 9.1% | 23.3% | 32.4% |
| March | 62.5% | 6.5% | 31.1% | 37.5% |
| April | 63.6% | 7.7% | 28.7% | 36.4% |
| May | 64.4% | 7.6% | 28.0% | 35.6% |
| June | 61.9% | 8.5% | 29.6% | 38.1% |
| July | 63.1% | 9.5% | 27.3% | 36.9% |
| August | 66.4% | 8.3% | 25.3% | 33.6% |
| September | 67.8% | 7.7% | 24.5% | 32.2% |
| October | 66.2% | 7.6% | 26.3% | 33.8% |
| November | 64.7% | 6.6% | 28.8% | 35.3% |

It's still important to note that spot markets, and in particular spot USD, represent a small portion of overall volume. **Liquidity and taxes are among the multiple reasons for this difference.**

Liquidity begets liquidity, and a derivatives exchange like Bitmex certainly has more of it. Exchanges that offer USD markets will typically also require KYC, while many with USDT or other stable coin markets do not. This implies that those who trade and want to avoid taxes (something we obviously don't condone) are more likely to trade on the latter. **November's spot USD volume represented it's lowest share of total volume since March.**



*Data as of November 30th, 2019, Sources: Bitmex, Digital Assets Data*

# Bitcoin Exchange Flows

**October was the first month where BTC outflows to exchanges outpaced inflows since April.** In November we're back to our usual inflow dominant distribution.

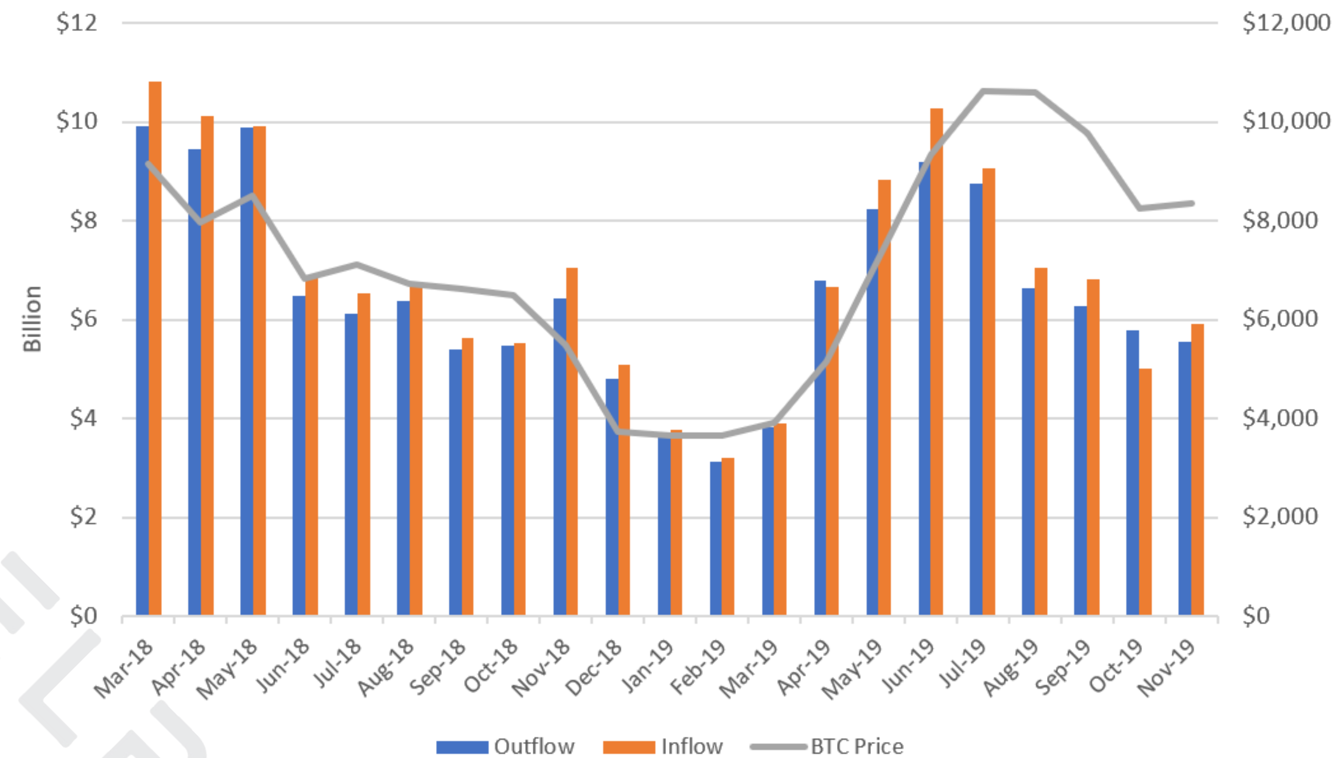
Unlike some of the previous selloffs, there weren't any individual outsized inflows that could be could be attributable to specific price moves. Instead, inflows appeared to be reactionary and arbitrary, with the largest one coming at the tail end of the sell off in the second half of November.

**Binance and Huobi continue to be dominant venues for BTC inflows, accounting for over 50% of BTC inflows every month since August.** Huobi and OKex in particular have seen strong increases in flows since the beginning of August. Ergo's research into the Plus Token scam shows us that a portion of the increased flow to Huobi is actually a byproduct of some of the stolen funds being moved around. We take a look at the aftereffects of the Plus Token scam later on in this report.

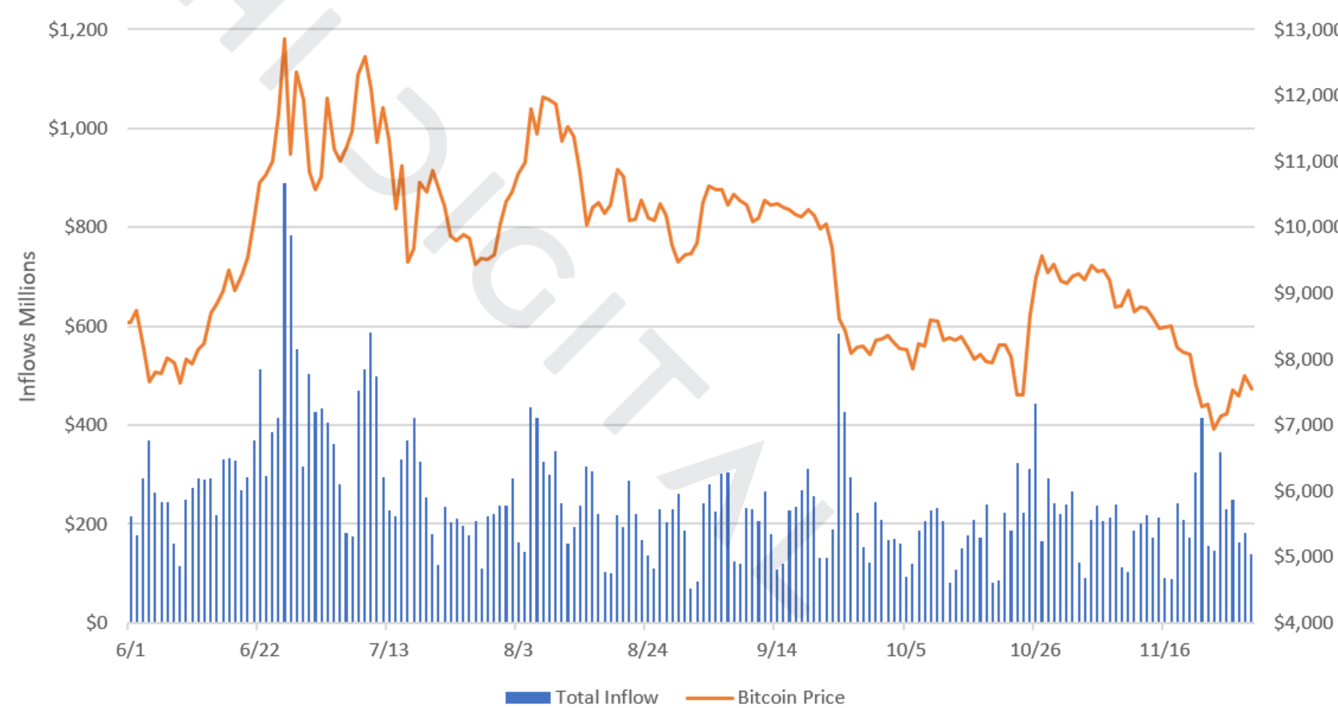
## Distribution of Monthly Inflows to Exchanges

| | Binance | Bittrex | Bitstamp | Poloniex | Bitmex | Bitfinex | Kraken | Huobi | OKex |
|---|---|---|---|---|---|---|---|---|---|
| November | 27.1% | 1.6% | 7.5% | 1.8% | 6.3% | 4.2% | 12.2% | 26.9% | 12.5% |
| October | 25.3% | 2.8% | 10.2% | 1.9% | 5.9% | 5.0% | 11.4% | 25.3% | 12.3% |
| September | 26.1% | 1.7% | 7.9% | 1.4% | 6.5% | 4.2% | 10.8% | 30.0% | 11.4% |
| August | 25.8% | 2.1% | 10.7% | 1.5% | 7.7% | 5.7% | 11.1% | 24.4% | 11.0% |
| July | 24.3% | 2.6% | 12.2% | 1.7% | 12.2% | 6.7% | 11.2% | 20.5% | 8.6% |
| June | 25.6% | 3.5% | 10.0% | 2.2% | 8.3% | 6.5% | 10.3% | 25.4% | 8.2% |
| May | 18.3% | 4.1% | 10.7% | 2.4% | 8.8% | 14.0% | 10.0% | 23.2% | 8.6% |
| April | 21.7% | 4.7% | 8.7% | 2.0% | 5.8% | 20.7% | 8.6% | 17.5% | 10.4% |
| March | 22.5% | 5.0% | 8.4% | 2.0% | 5.4% | 14.6% | 8.7% | 16.4% | 17.0% |

## Monthly Bitcoin Flow to Exchanges




## Daily Inflows to Exchanges




*Data as of November 30th, 2019 | Sources: TokenAnalyst*

# Stable Coin Exchange Flows

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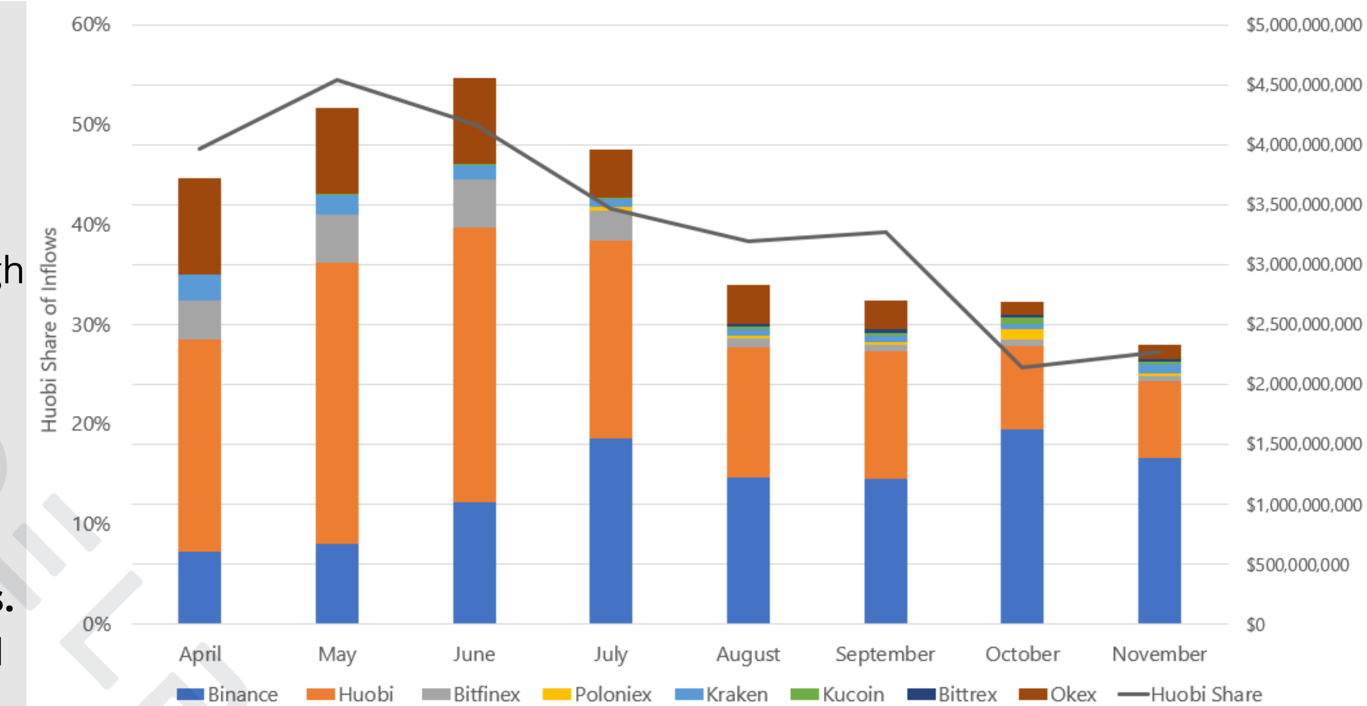
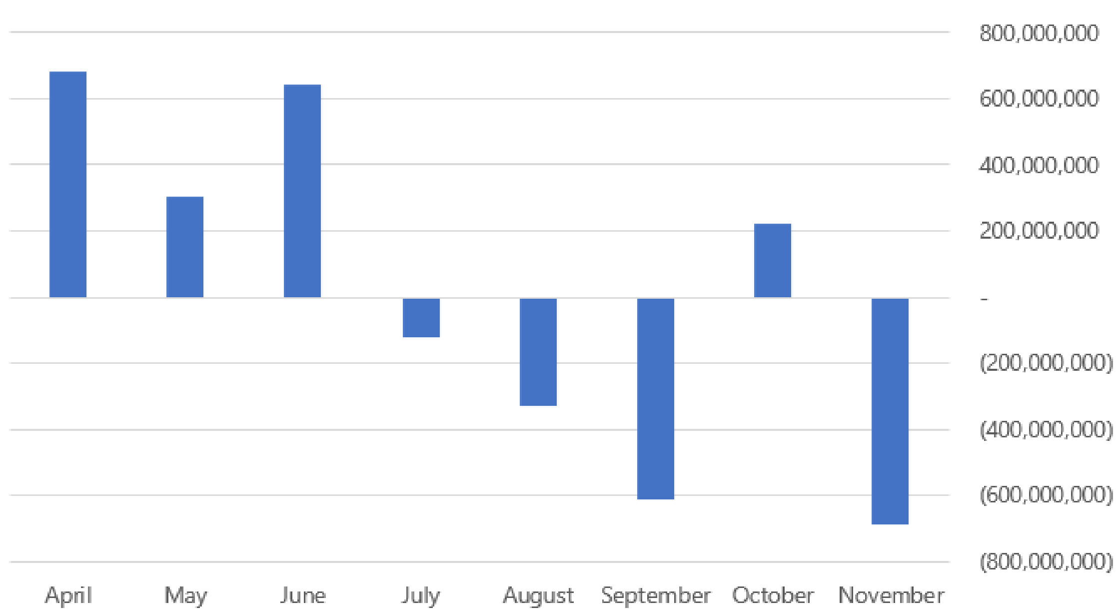
**Stable coin inflows can be thought of as potential demand on the sidelines that's ready to be deployed.** The market saw net inflows from the beginning of the rally in April to peak in June. Afterwards, net flows were largely outbound with November showing the largest amount of net outflows. Although this is certainly concerning, general flows in November were light, more so indicative of a generally anemic market.

**Two consistent trends that have taken place are Huobi representing a decreasing share of monthly inflows and Binance exhibiting an increasing share of monthly outflows. These trends are potential indicative of decreasing demand from the primarily Asian markets they serve.**

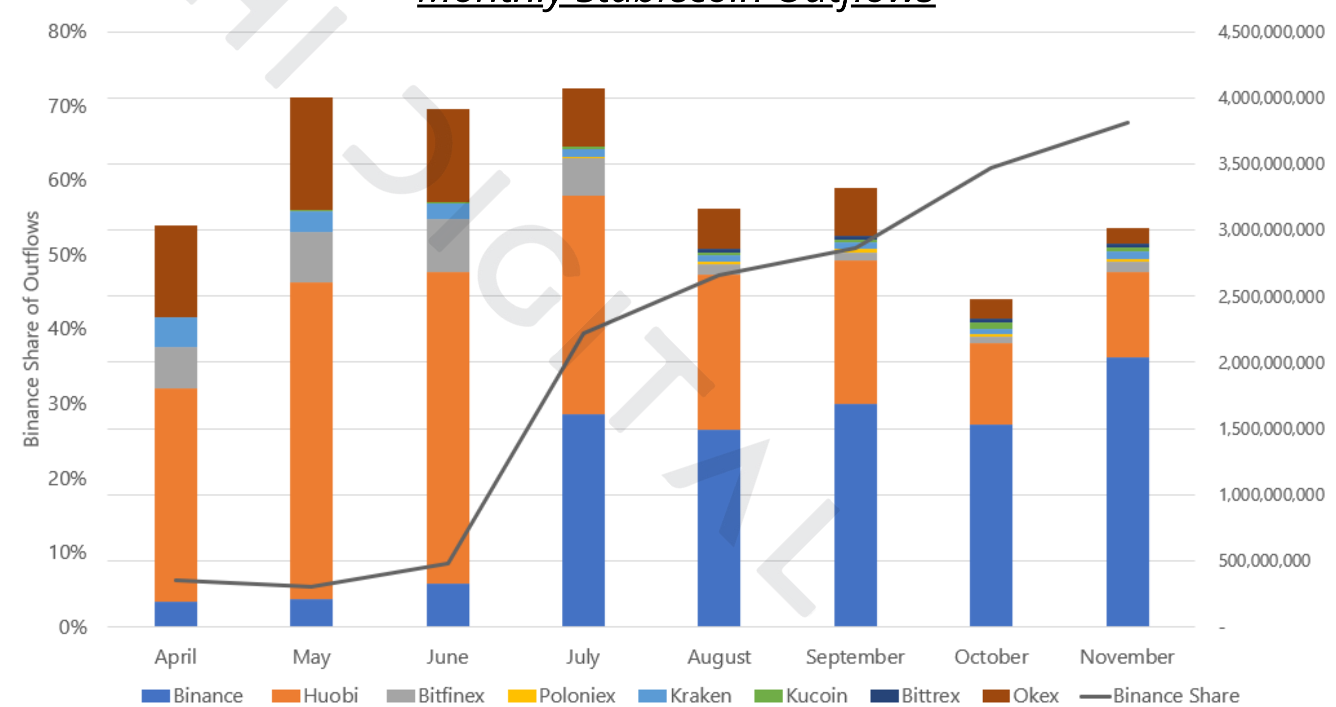
*Monthly Stablecoin Inflows*




*Net Stablecoin Inflows (Outflows)*




*Monthly Stablecoin Outflows*

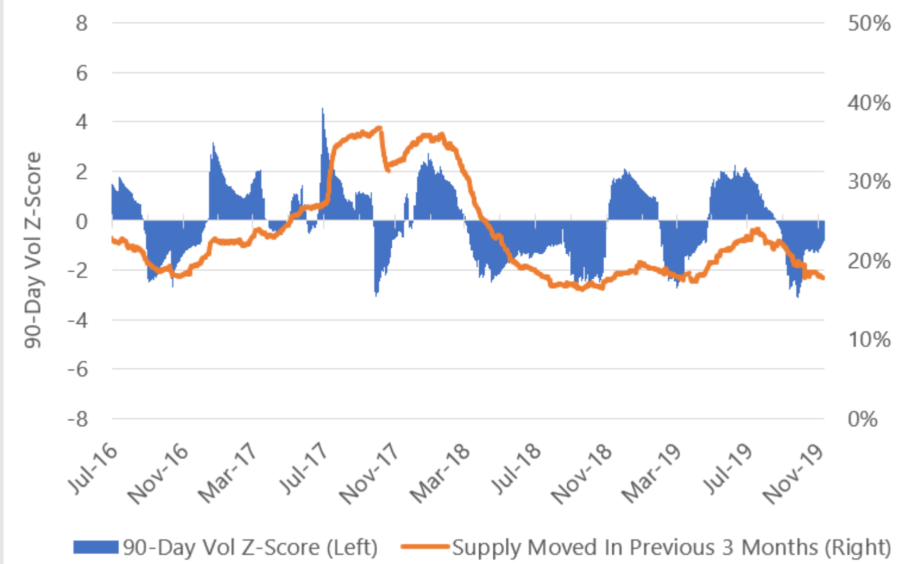


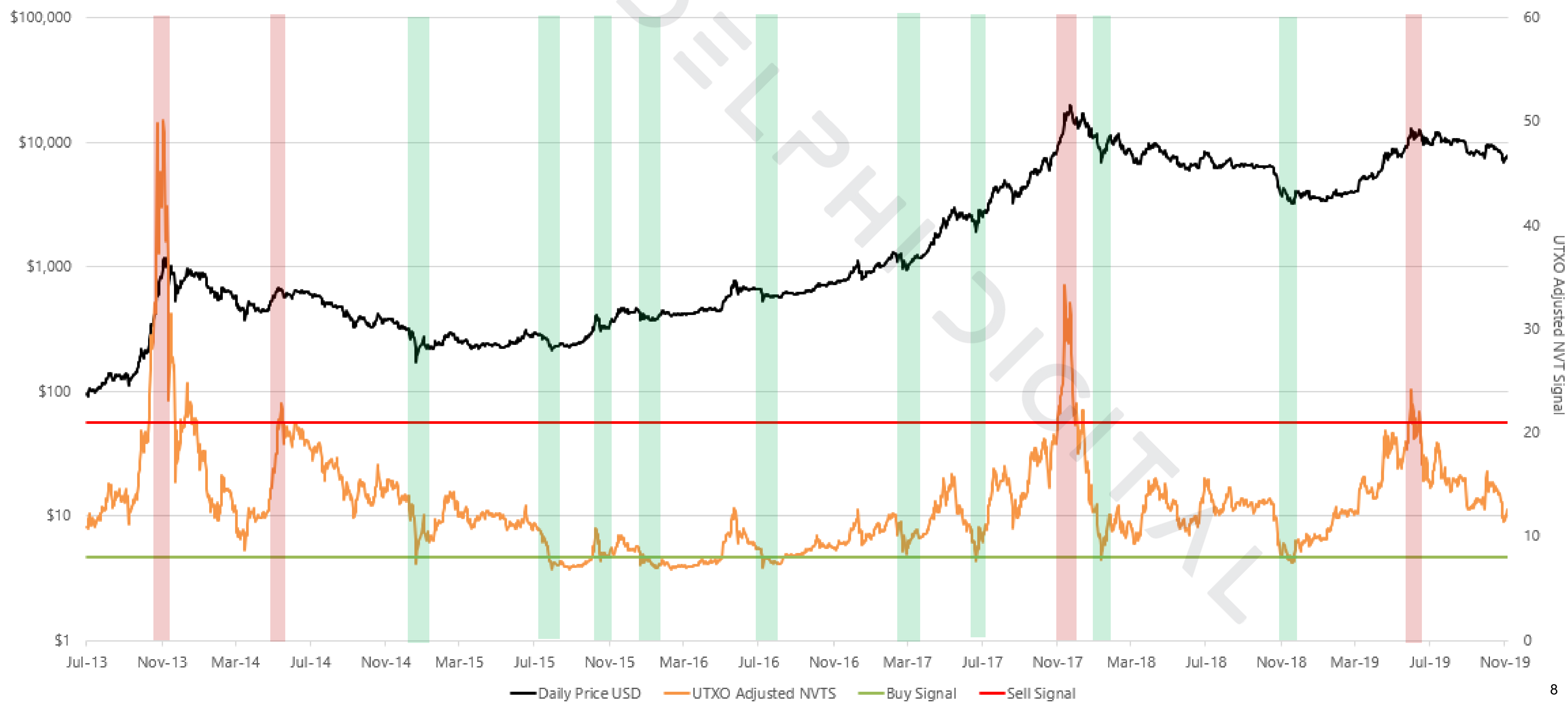

*Data as of November 30th, 2019 | Sources: TokenAnalyst*

# UTXO Adjusted NVTS

The UTXO Adjusted NVTS adjusts the market cap to only account for the liquid portion that's being used to support on-chain activity (orange line on the right). It's currently at 12.2 meaning it **isn't in clear buy or sell territory**.

**Part of its recent decline hasn't been a function of on chain volume growth, but rather a decrease in liquid supply.** Supply often moves during periods of high volatility or notable price peaks, neither of which we've been experiencing lately. After peaking along with price in late June, the signal hasn't provided any clear result. It wouldn't be surprising to see this ratio come down a bit more with the help of a continually low volatility environment.



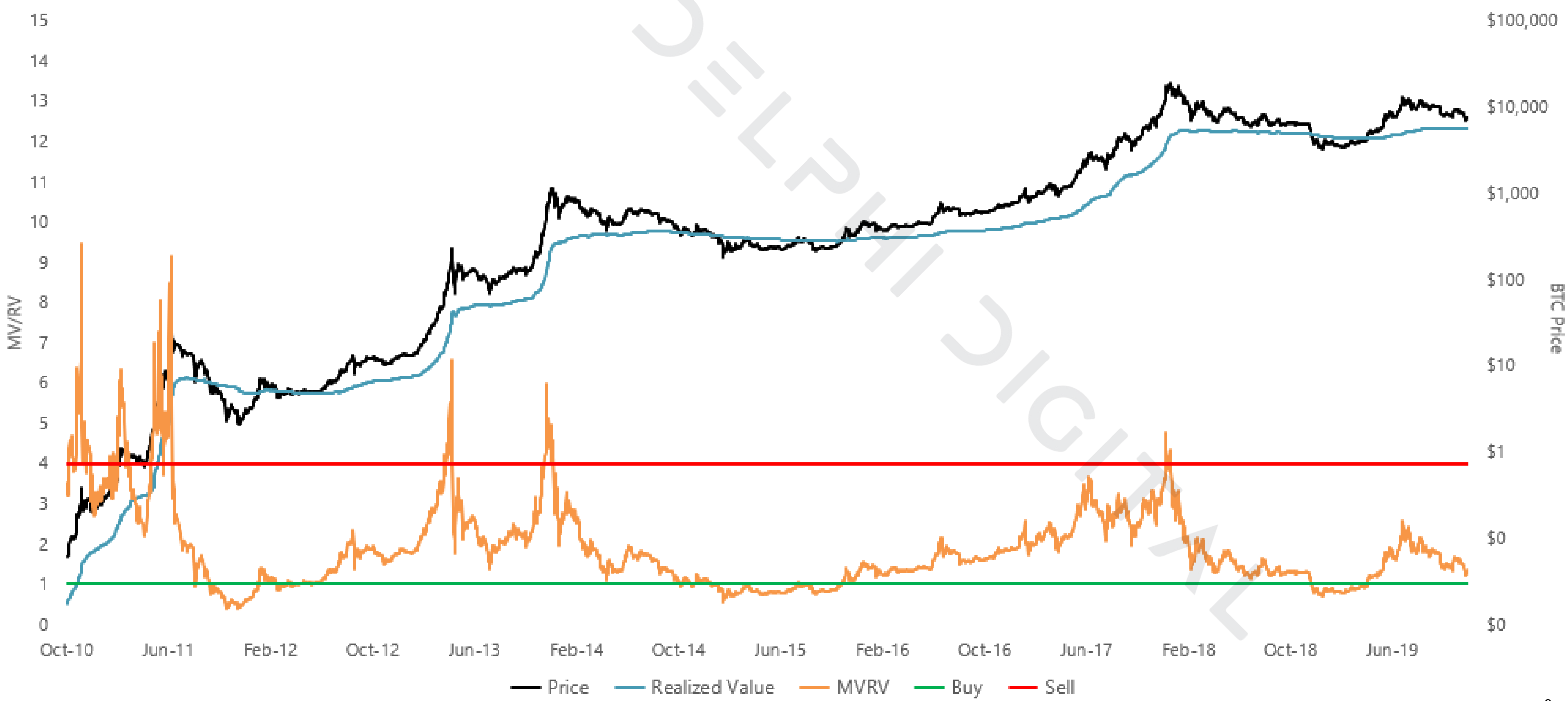



*Data as of November 30th, 2019 | Source: Digital Assets Data, CoinMetrics*

# Market Value to Realized Value (MVRV)

Realized Value represents the sum of all coin values based on the last time they were moved. It's an alternative measure to market cap that provides a unique perspective on the aggregate price entry of current holders. Dividing the Market Value by Realized Value creates this ratio, which is represented by the orange line below.

This ratio is useful as a long term trend indicator. As market price increases, so does the ratio, indicating a growing level of unrealized gains for the market. Significant expansion of this multiple has usually been a strong top indicator. At the same time, compression of this ratio has usually been a strong bottoming indicator with most gains being realized and a new holder base establishing themselves. The ratio typically oscillates by cycle, however this is the first time we've seen such a strong reversal in the indicator despite the lack of a complete standard cycle bull/bear cycle. **The value's current low suggests we're approaching bottom territory.**



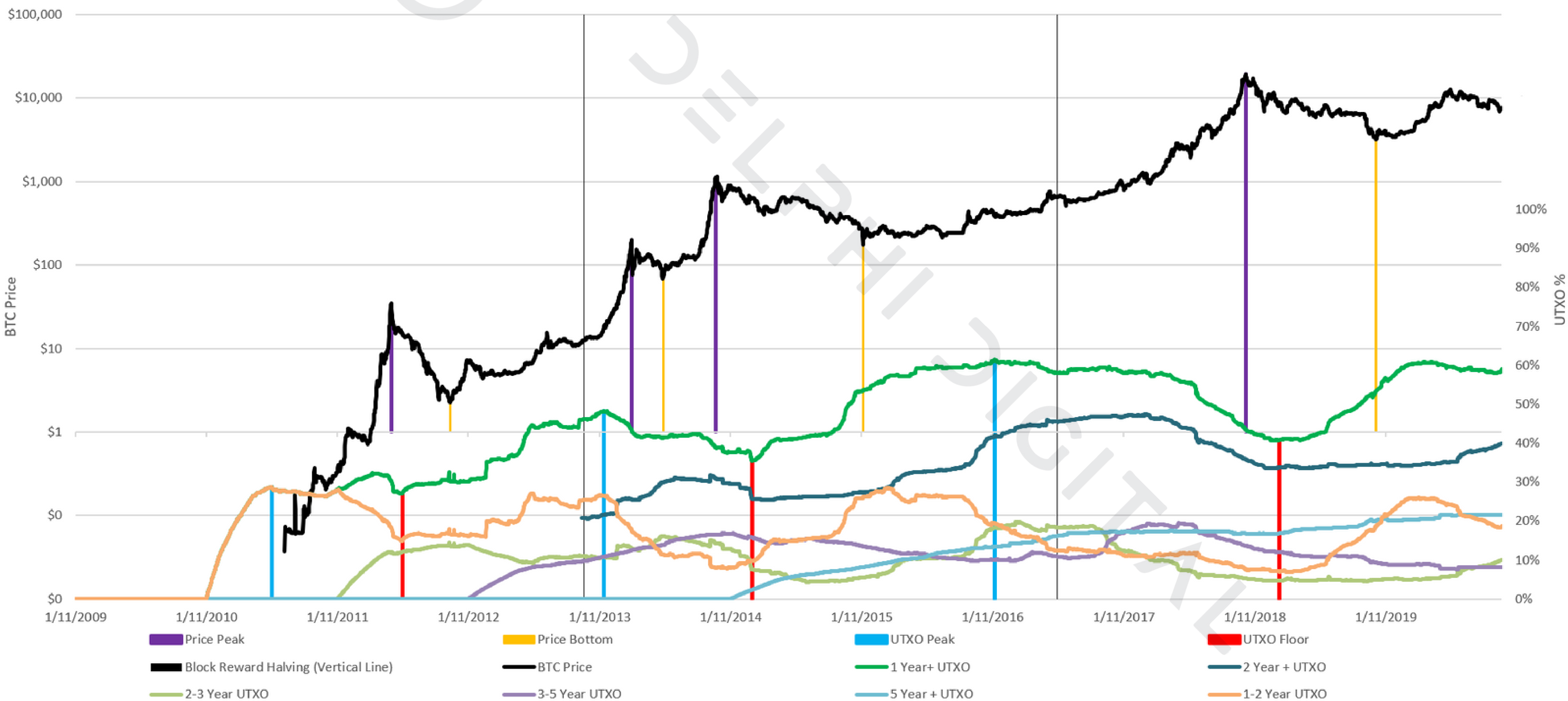



*Data as of November 30th, 2019 | Source: Digital Assets Data, CoinMetrics*

# UTXO Analysis & Market Cycles

Long term holders continue to hold with **the amount of coins that haven't moved in at least a year currently making up 59% of total supply**. As we're making our way through the months leading up to the peak of the previous bull run, we're starting to see some interesting trends. **Roughly 220k bitcoin, about $1.6 billion worth at current prices, that was picked up in November 2017 hasn't moved since then.**

**The muted volatility has also decreased liquid supply with coins that haven't moved in the past 3 months dropping below 18% and reaching levels not seen since the April earlier this year**. It's intuitive to see liquid supply decrease with volume as less individuals are trading. This does create an environment where the impact of supply and demand influxes can lead to significant volatility.






*Data as of November 30th, 2019 | Source: Digital Assets Data*

# Bitcoin's Life After "Death Cross"

In last month's outlook, we examined **BTC's "death cross"** – a technical term when its 50-day moving average crosses below its 200-day equivalent – and how any short-term gains could be short-lived (though the results of prior examples were certainly mixed). As fate would have it, **BTC fell more than 15% in November, marking its worst calendar month decline since its collapse in November of last year;** at one point it was down almost 30%.

*BTCUSD vs. October "Death Cross"*


*BTCUSD vs. 100-Day MA (Green)*


*Data as of December 6th, 2019*
*Source: TradingView, Coinbase*

# Key Technicals

The worst monthly decline since the same month last year definitely added insult to injury to the crypto market's ongoing drawdown. Fading catalysts and sentiment are partially to blame, but one of the real culprits is the **lack of new buyer demand.** Often times, it seems as if capital is just being reshuffled among existing player who can ignite violent market moves given the minuscule size of this market, so a renewed enthusiasm among investors is going to be required for bitcoin (and crypto at large) to reverse its downward trend. We believed there to be relatively strong support around $7,500, though bitcoin's quick sell-off to $6,500 at the end of last month proves one can never be certain.

*BTC vs. 14-Day RSI*


*BTC vs. 50, 100, 200-Week MA*


We don't foresee a sizable move below late-November's bottom on the horizon, but **BTC likely needs to break back above $8,000 for us to consider its next leg higher remotely sustainable.** Bitcoin recently dropped back into oversold territory (as measured by its 14-day RSI) but has failed to gain any real momentum since. Waning enthusiasm and shifting sentiment towards the "central banks' race to the bottom on interest rates" narrative certainly hasn't helped as investors and traders alike search for BTC's next major catalyst. On a brighter note, bitcoin's longer term moving averages are trending higher with its **50-week MA sitting right at its crossover point with its 100-week equivalent.** This market will need more than a few bullish technical indicators to power its recovery though.

*Data as of December 6th, 2019*

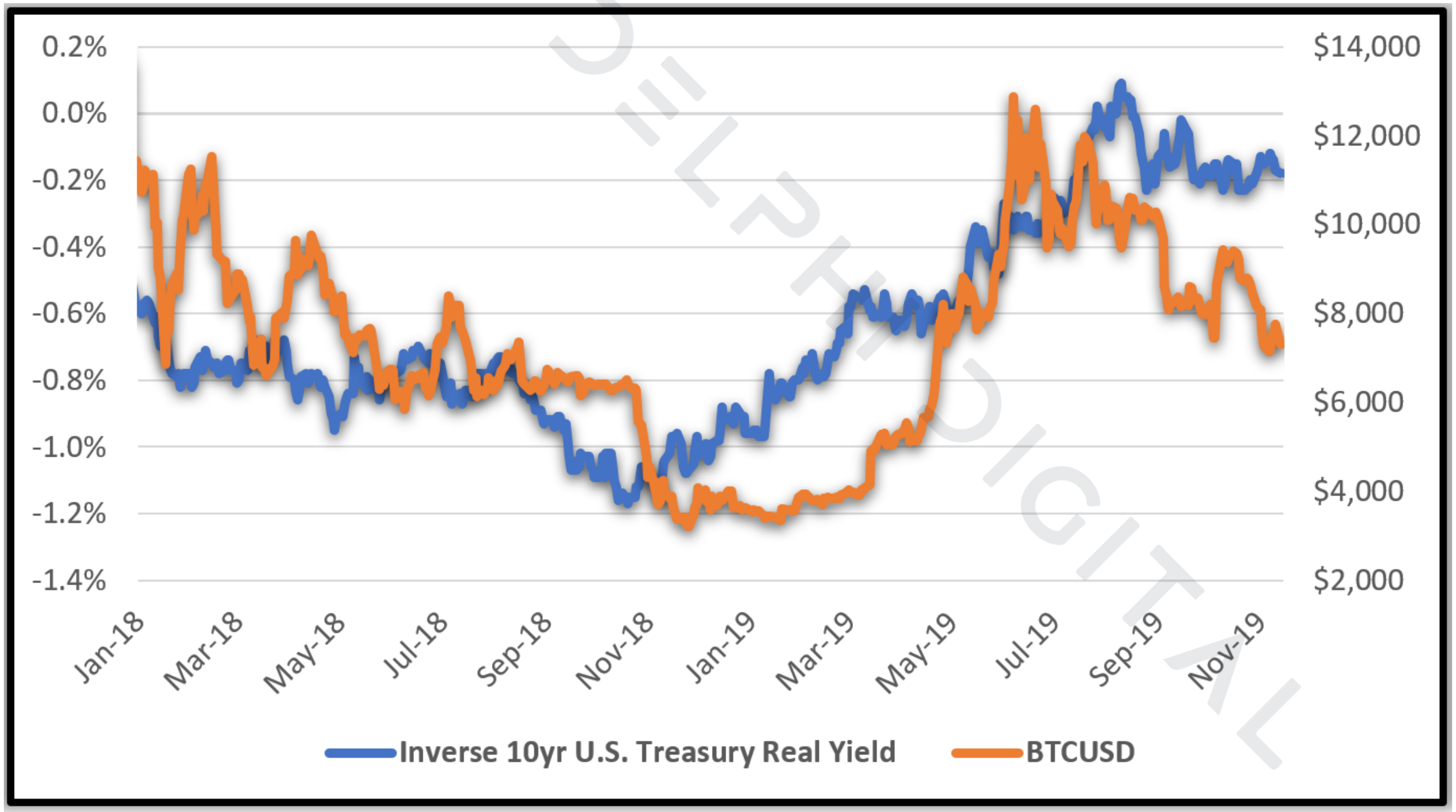
*Source: Coinbase, TradingView, Brave New Coin*

# Key Macro Drivers Fade



A few parallels can drawn between bitcoin's drawdown and the pullback in gold prices as **both face similar headwinds, the back up in real yields being one of the most notable.** Concerns over a **"synchronized global slowdown" and the growing amount of negative yielding debt globally were two key macro drivers supporting bitcoin** and precious metals earlier this year. However, **both tailwinds have abated** over the last couple months, leading to a tick up in both nominal and real yields; the latter tends to imply improving expectations for economic activity and greater investor optimism. Inflation expectations, measured by 10-year breakevens, have also risen modestly after hitting their lowest level in three years almost a month ago. Bitcoin is viewed as a uncorrelated asset over long time horizons but the **52-week correlation between bitcoin and gold is just off its highest level on record,** largely driven by this summer's flood into safe haven assets.

*Bitcoin vs. 10-Year U.S. Treasury Real Yield (Inverse)*

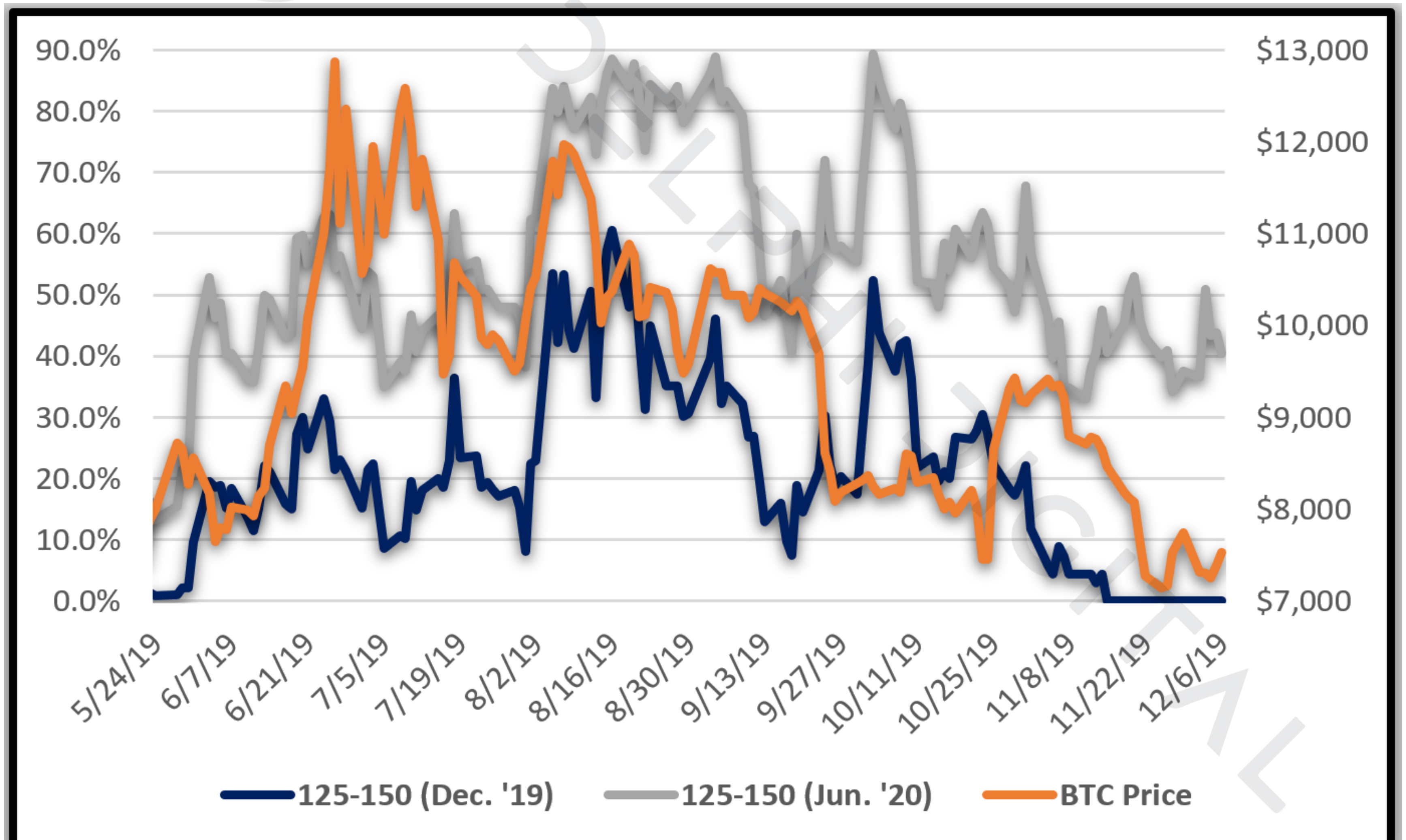



*Data as of December 6th, 2019*
*Source: Digital Assets Data, U.S. Treasury Department*

# Federal Reserve Turns Neutral

Speaking of monetary policy, there are early signs we may see further divergence among major central banks when it comes to future rate decisions, at least in the near term. **The Federal Reserve, for example, has shifted its stance on rates and appears content with current levels,** citing the lagged effects of this year's three rate cuts still working their way through the financial system. If the decision wasn't already made to pause further rate cuts at next week's FOMC meeting, this Friday's impressive jobs report put the nail in the coffin. The market indicates no chance of a rate cut at the Fed's final meeting of the year, marking a substantial change from just a couple months ago when the odds were closer to 40%. The probability for additional rate cuts in mid-2020, however, have picked up slightly over the last week or so, largely driven by the latest bout of uncertainty around tariffs and global trade.

*Bitcoin vs. Fed Funds Rate Probabilities (Dec.'19 & Jun.'20 FOMC Meetings)*



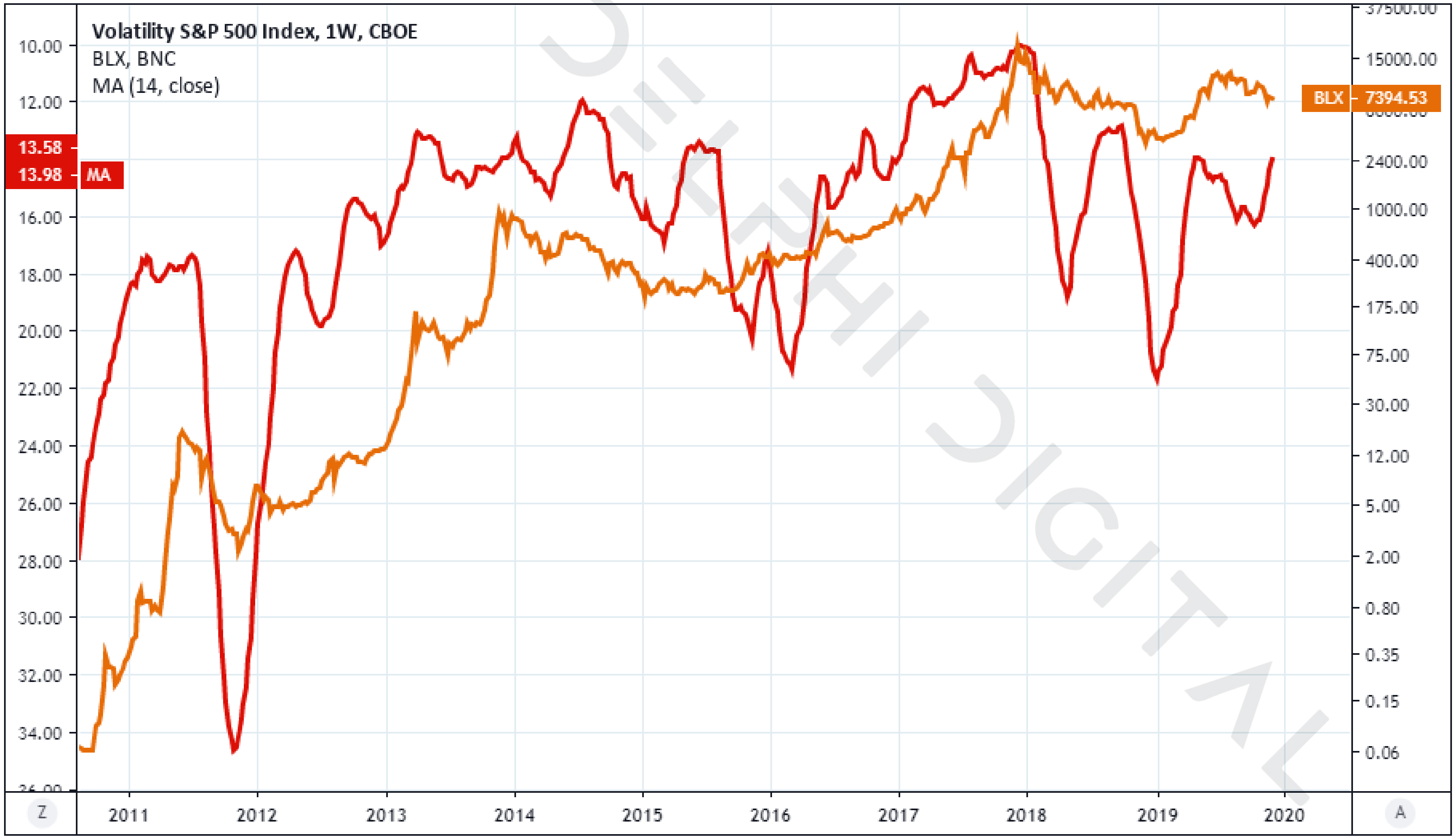

*Data as of December 5th, 2019*
*Source: CME, The Federal Reserve Bank of St. Louis, Digital Assets Data*

# Keep Calm So Drawdown Moves On



As with most things, it's not quite that simple, but major moves in BTC have often coincided (and sometimes even led) large spikes in equity market volatility. Last year right around this time is a prime example as bitcoin tumbled a couple weeks before stocks sold off, sending the VIX Index surging above 35. More recently, market volatility picked back up in August, which coincided with further weakness in BTC. We've discussed bitcoin's historical relationship with the relative performance of risk assets (i.e. stocks) over the last few BTC cycles, hence why we monitor such markets closely. However, it's important to differentiate between a **risk-on rally driven by sentiment and more accommodative monetary policies versus one characterized by improving fundamentals or outlook for economic growth; the former is much more conducive for bitcoin in our view** as monetary easing increases the probability of currency weakness and the demand for scarce assets.

*BTCUSD (Orange) vs. 14-Week MA of VIX Index (Inverted)*




*Data as of December 6th, 2019*

*Source: Brave New Coin, TradingView, Cboe*

# Central Bank Asset Growth Declines

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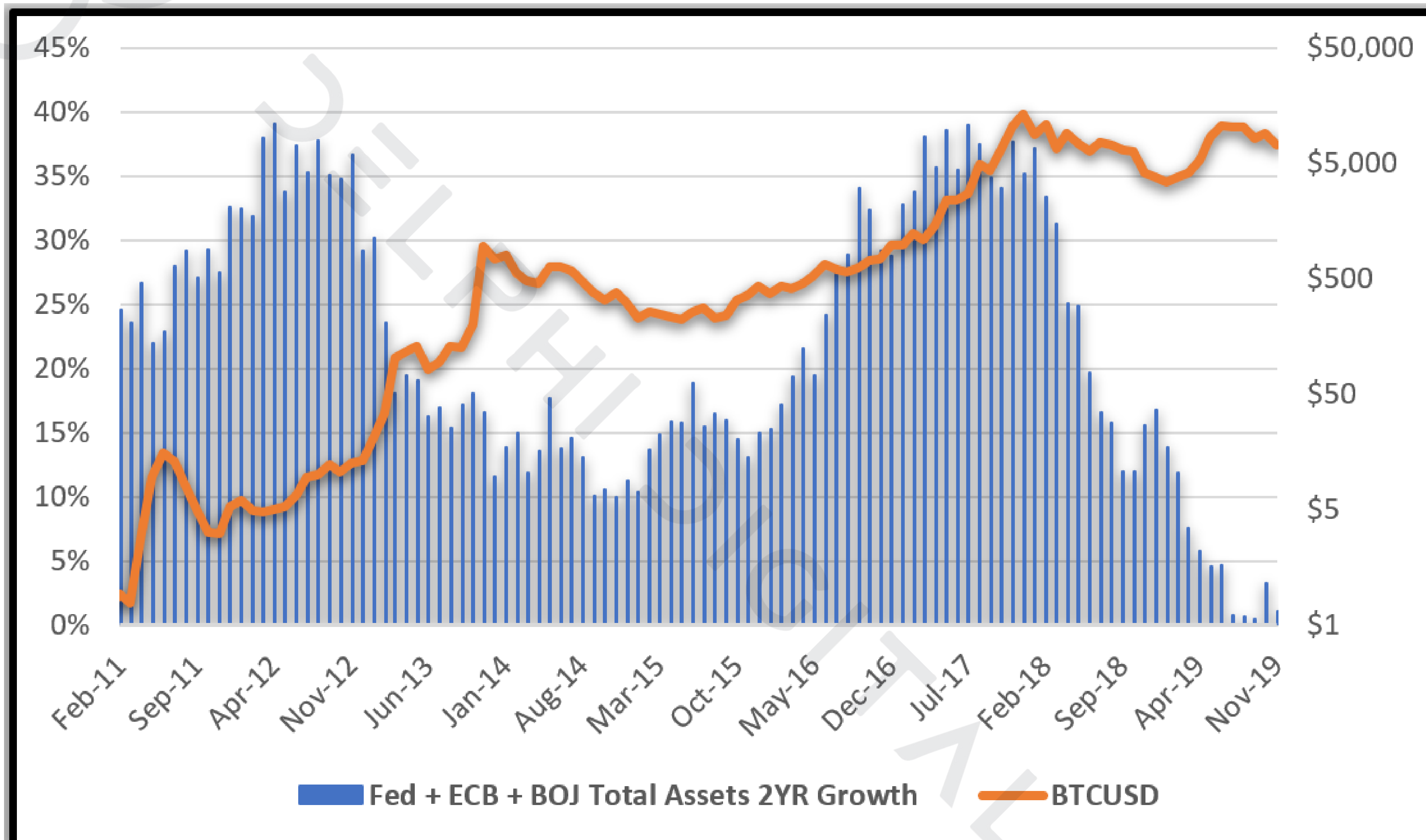
In last month's outlook, we talked about the effect monetary stimulus has had on various asset classes this cycle, including bitcoin. Generally, **periods of aggregate balance sheet expansion have coincided with strong returns for the world's largest crypto asset.** Conversely, bitcoin's top in the final weeks of 2017 was marked by a reversal in monetary easing, specifically the Fed's decision to let its massive balance sheet begin to runoff. The subsequent **slowdown in central bank asset growth removed a notable tailwind for BTC** (and crypto at large), which struggled immensely in 2018.

The **drastic pivot earlier this year towards more accommodative polices, however, bolstered the argument for bitcoin** and scarce assets like precious metals as investors began to price in lower rates and potential for asset purchases.

Recently, the Fed has altered its course, at least in the near term, but **other major central banks (i.e. the ECB) continue to lobby for greater stimulus measures as their economies wrestle with disappointing growth and subdued inflationary pressures.**

*Bitcoin vs. Major Developed Central Bank Assets*




*Data as of December 6th, 2019*

*Source: Coin Metrics, The Federal Reserve, Bank of Japan, European Central Bank*

# Disclosures

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