

DELPHI DIGITAL

Weekly Market Commentary - May 25, 2019



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## Total Public Market Value (ex-BTC)

12-Month Performance (Normalized)



6-Month Performance (Normalized)



30-Day Performance (Normalized)



## Lead Analyst



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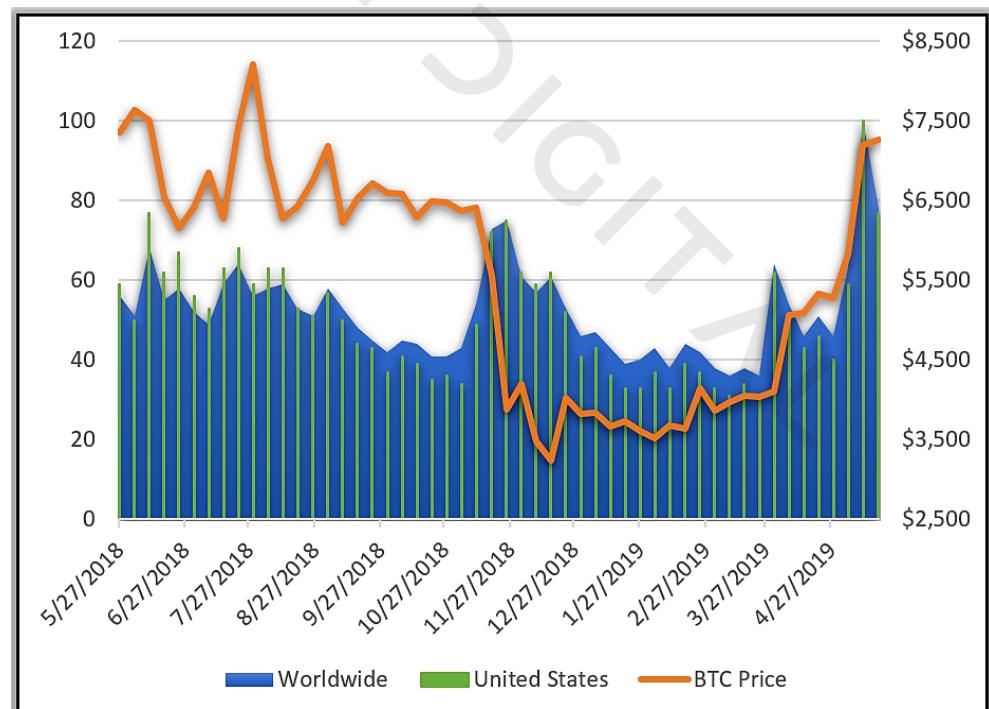


## Bitcoin Demand Grows as Market Volatility Returns

- After a long six months, bitcoin's year-over-year return has finally climbed its way back into positive territory. Notably, this comes at a time when rising geopolitical tensions and growing uncertainty around the fallout from intensifying trade disputes has taken a significant toll on global risk assets.
- Institutional demand for bitcoin continues to grow, sparked in part by BTC's more than 100% surge year-to-date. General interest in bitcoin has also turned higher in recent weeks, evident in worldwide search engine trends.
- The average 30-day correlation between some of the largest crypto assets and bitcoin has fallen to the lowest level this year. The breakdown of intra-market correlations has been a key theme we've been monitoring for signs of greater return dispersion among the broader crypto market.

## Chart of the Week

### 12-Month Google Search Trends for "Bitcoin" vs. BTC Price



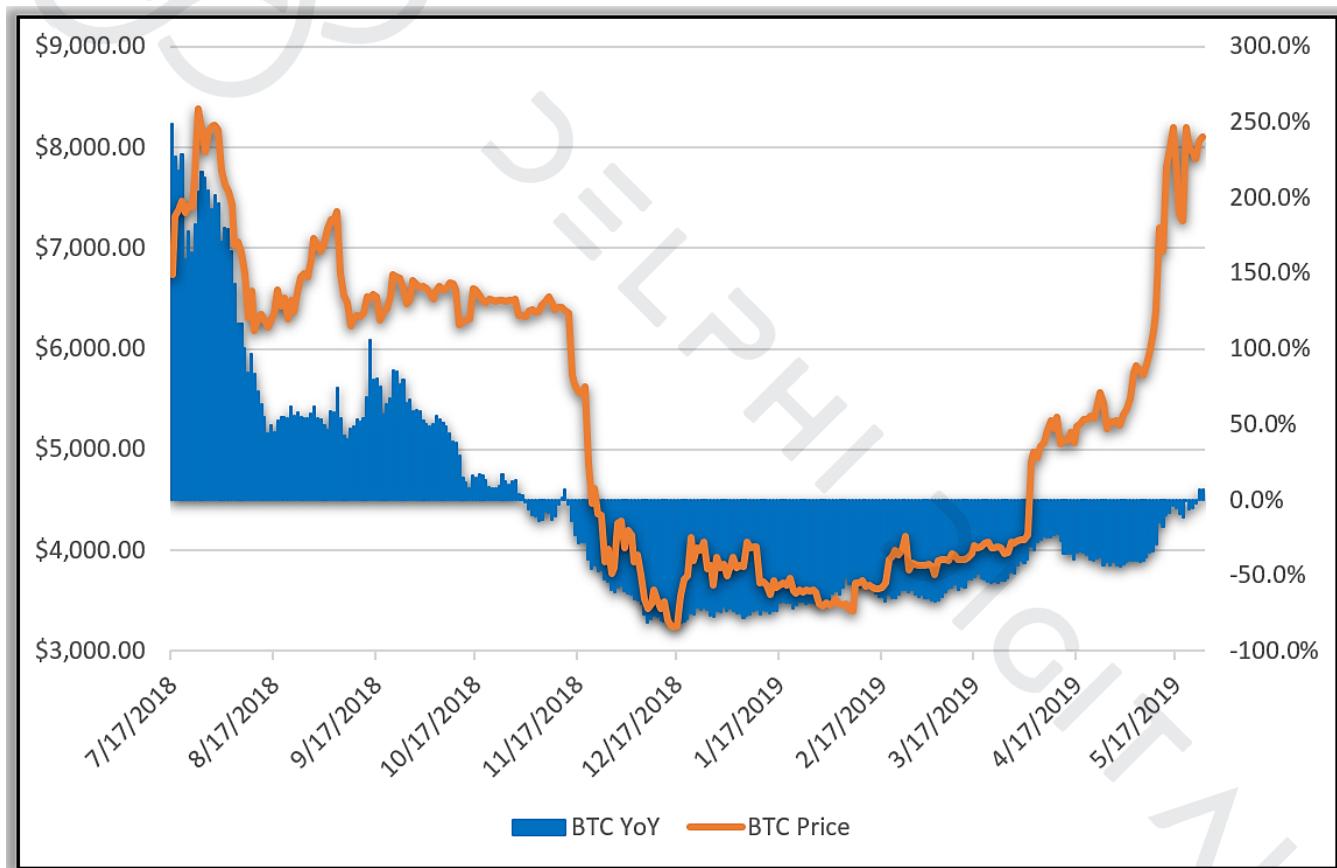


## Bitcoin Finally Positive Year-Over-Year

After a long six months, bitcoin's year-over-year return has finally climbed back into positive territory, a feat many crypto enthusiasts would argue is long overdue. Following a tumultuous 2018, bitcoin's price has turned around drastically since the start of the year, making it one of the best performing assets year-to-date. Although its run into a bit of resistance around \$8,300, bitcoin's recent run up has been its strongest since its peak at the end of 2017.

As one may expect, BTC has spent a large majority of its time boasting positive year-over-year gains since 2013, evident in its 12-month median return of 160%. Similar claims can be made for shorter time horizons as well, though the percentage of time bitcoin spends in positive territory decreases the shorter the period we examine. Logically, this makes sense as BTC is still considered to be a relatively volatile asset, but it's worth noting to emphasize the importance of having a longer-term time horizon in this market.

Bitcoin Price vs. Year-Over-Year Performance



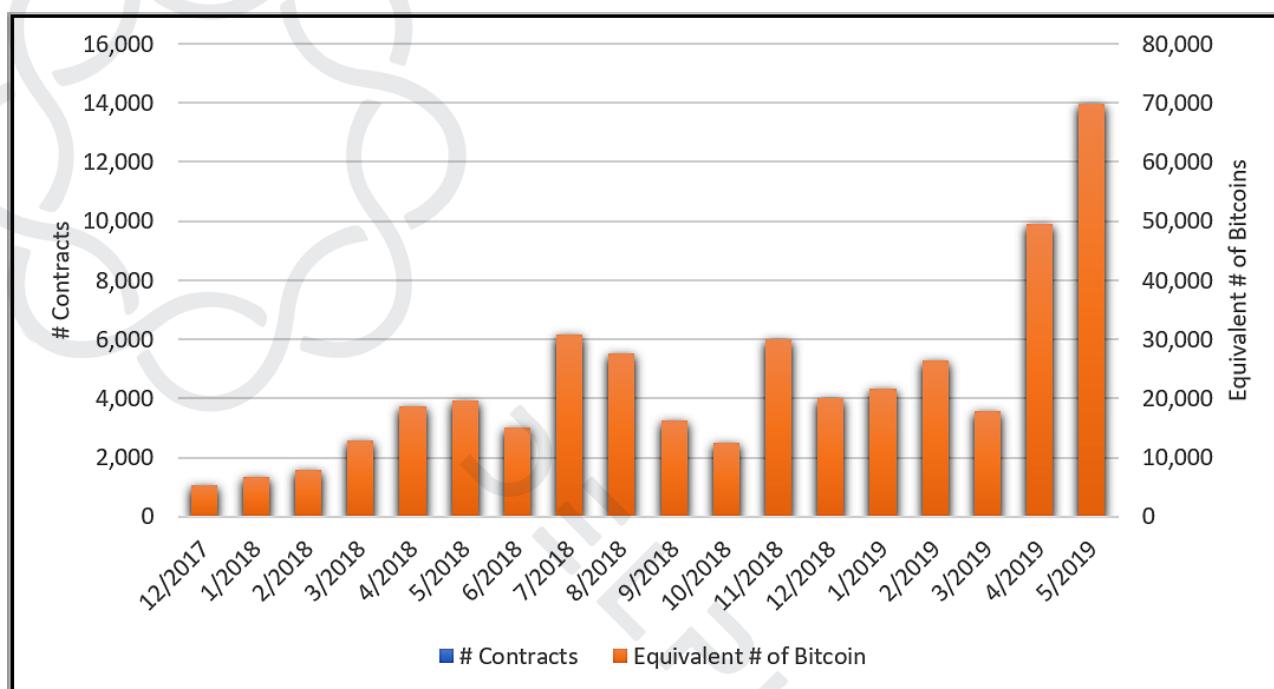
| Bitcoin Returns Since 2013 | 12 Months | 6 Months | 30 Days |
|----------------------------|-----------|----------|---------|
| Median Return              | 160.36%   | 46.73%   | 4.16%   |
| % Days Negative            | 24.83%    | 35.53%   | 41.65%  |
| % Days Positive            | 75.21%    | 64.51%   | 58.39%  |



## Institutional Demand Rising

Institutional demand continues to show signs of strength, evident in the most recent data released by CME Group earlier this week. The firm disclosed it recorded a new daily high for the number of bitcoin futures contracts traded (over 33,000 on May 13th) with May shaping up to be its "strongest month ever." The team also disclosed that since the start of 2019, "almost 50% of our volume is traded outside the U.S. with ~28% coming from APAC and 22% coming from EMEA."

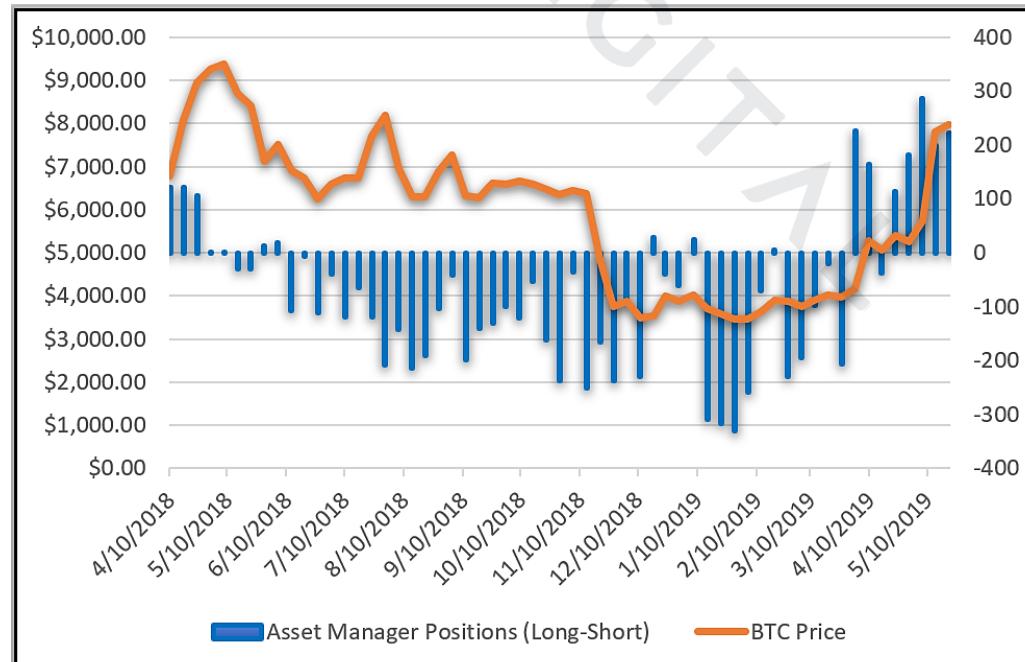
CME Bitcoin Futures Average Daily Volume by Month



*"Our improved market quality and increased ADV has attracted new institutional flow and the number of LOIHs has consistently remained above 40 holders since November 2018 (a LOIH is any entity that holds at least 25 BTC contracts). The number of LOIHs in Q2 2019 is averaging ~45 holders, an 89% improvement over Q1 2018."*

Asset Manager Positioning (CME Bitcoin Futures)

Additionally, the positioning of asset managers (which are classified by the CFTC as institutional investors like pension funds, endowments, insurance companies, etc.) flipped net long for CME bitcoin futures at the beginning of April, just as bitcoin's price began its recent surge higher, jumping from roughly \$3,900 to over \$8,000 today.

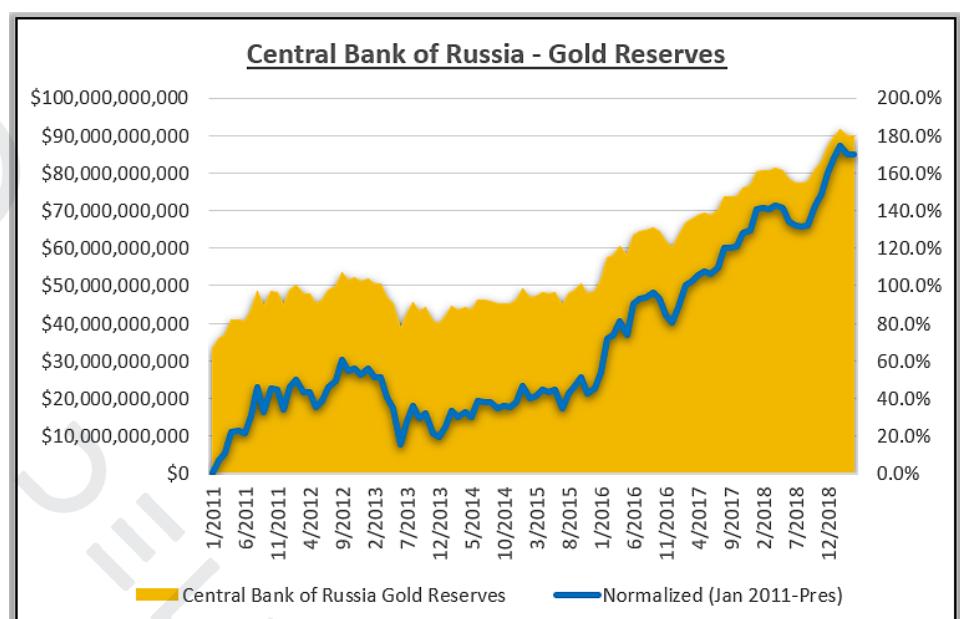




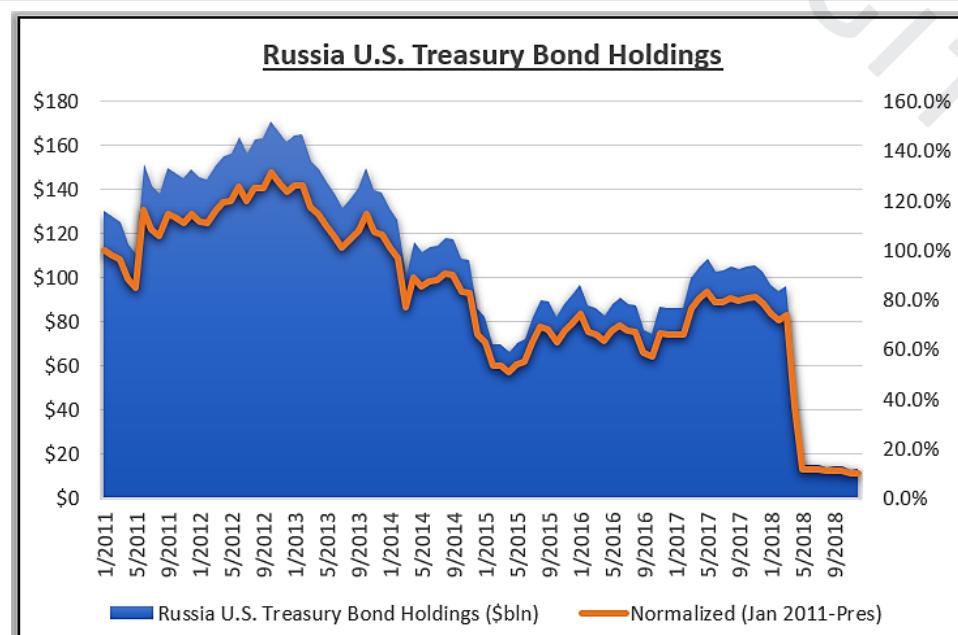
## Russia Moves Further From the Dollar

News surfaced this week that Russia was considering the proposal for a gold-backed digital asset that could be used for mutual settlements with other countries. Importantly, the governor of the Bank of Russia, Elvira Nabiullina, made it clear they are focused on settlements to be denominated in national currencies, stating they are "generally opposed to cryptocurrencies being launched into our monetary system" and that they "do not see the possibility that cryptocurrencies could act as monetary surrogates."

While it is still too early to make assumptions about its possible consequences, the move is not entirely surprising given Russia intense anti-dollar rhetoric in recent years. Despite the dismissive tone towards broader cryptocurrencies, the pursuit of a gold-backed digital asset is notable. Central banks have been gobbling up gold at a near record pace recently, fueled in part by growing geopolitical tensions amid a late-cycle economic backdrop for some of the world's largest economies.



Russia, on the other hand, has another motivation: dethrone the U.S. dollar's hegemony in the global financial system. And its putting its money where its mouth is, purchasing more gold than any other central bank in 2018. The value of Russia's gold reserves have nearly doubled in just three years. At the same time, Russia has been dumping its holdings of U.S. Treasury bonds at a feverish pace over the same period, reducing its overall position by 85% since the start of 2016.





## Tech Stocks Take Another Hit

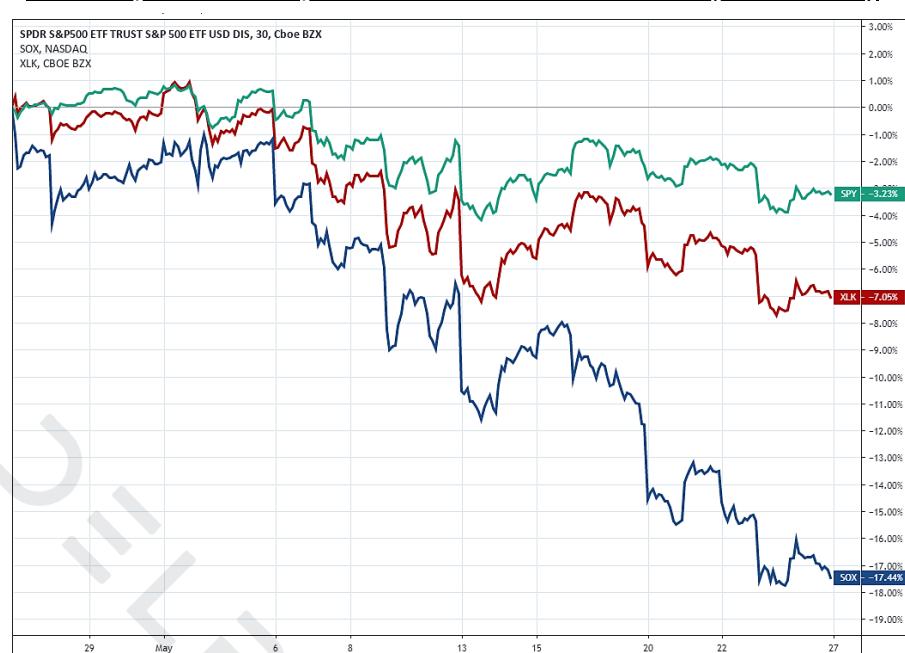
Trade disputes between the U.S. and China are becoming more intense by the week it seems as both sides have dug themselves in with their most recent round of increased tariffs. The equity markets are showing signs that an extended trade war is starting to become the base case rather than the bear case. Technology stocks, notably semiconductors, have been hit hard this last month as analyst downgrades and general sentiment on many top names has soured.

Rising tariffs are not only affecting technology stocks, however.

Consumer goods companies and retailers are also feeling the squeeze, highlighted in the commentary from Walmart's CFO Brett Biggs during the retailing giant's most recent earnings call:

*"We're going to continue to do everything we can to keep prices low. That's who we are. However, increased tariffs will lead to increased prices, we believe, for our customers."*

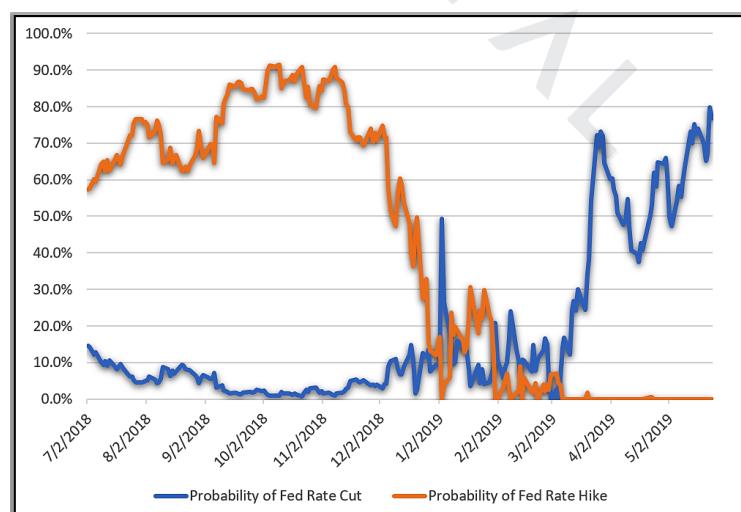
S&P 500, Tech Stocks, & PHLX Semiconductor Index (One Month)



A recent [study](#) by the International Monetary Fund (IMF) used data from the Bureau of Labor Statistics to analyze prices on imports from China and found that tariff revenue collected has been borne almost entirely by US importers. While the trickle down effects to consumers are still modest, an extended trade dispute between the U.S. and China has the potential to both spark inflationary pressures while eating into corporate profit margins, the latter of which will adversely effect stock prices. We've already begun to see large multinationals express concerns over the potential repercussions of increased tariffs as well, a trend likely to continue unless the discussions between the U.S. and China turn back around.

The release of the Fed minutes on Wednesday also gave the market a bit of pause as it appears the FOMC is more comfortable than most expected with their current "do-nothing" policy stance. If the economic data in the U.S. takes a turn for the worst it's more than likely the Fed would begin to seriously consider easier monetary policy. Bitcoin has served as a hedge against the sell-off in risk assets recently, but a reversal in central bank policy could certainly provide a sizable boost.

December '19 Fed Futures Probabilities

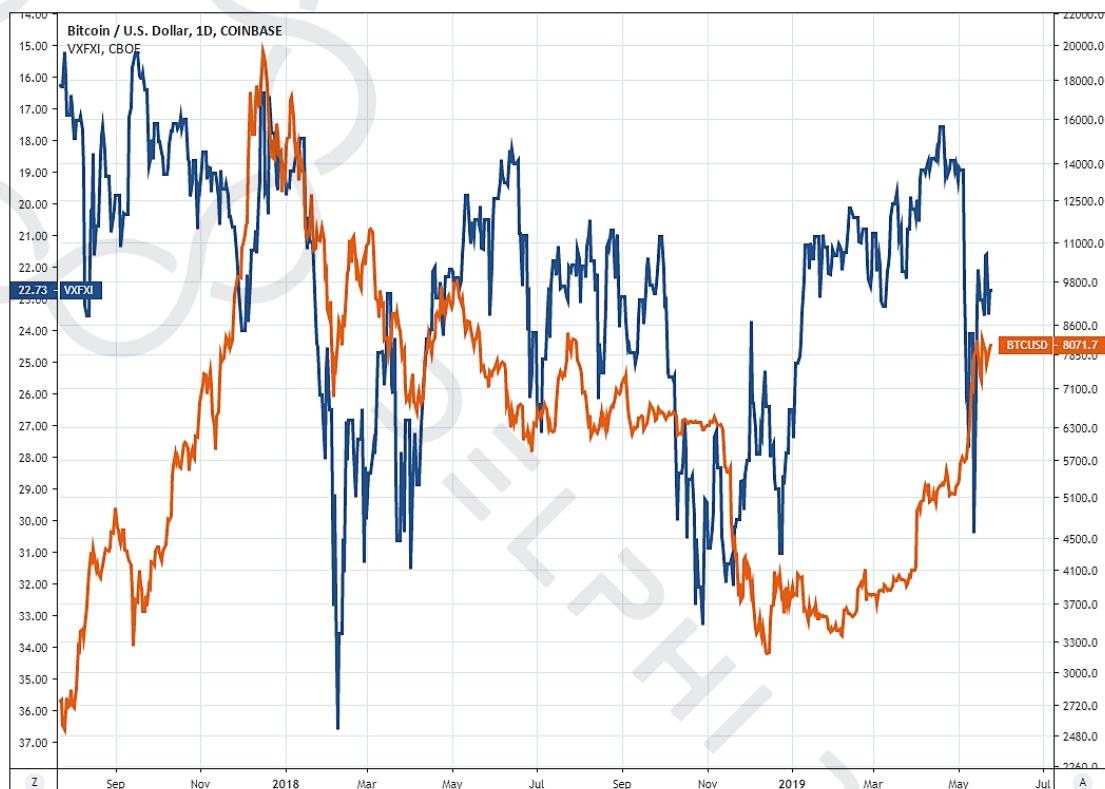




## Volatility Strikes China

We noted last week bitcoin typically tends to perform rather poorly following large spikes in equity market volatility. Its recent strength has been a pleasant surprise to say the least, but it's still important to put additional context around the current macro environment as uncertainty in other asset classes rises. Chinese equities, for example, have seen a significant jump in expected volatility in recent weeks. China is a crucial market for crypto, and historically a surge in volatility has resulted in relatively muted performance from BTC in the short-term.

Bitcoin Price vs. VXXFI Index Spikes



Similar to the analysis we ran on the VIX Index, bitcoin tends to decline modestly in the two weeks following a spike above 30 for the Cboe China ETF Volatility Index (VXXFI). Interestingly, bitcoin is up over 15% since this volatility indicator closed above 30 almost two weeks ago, so it appears the recent demand for BTC may be in part driven by capital flight from Chinese assets.

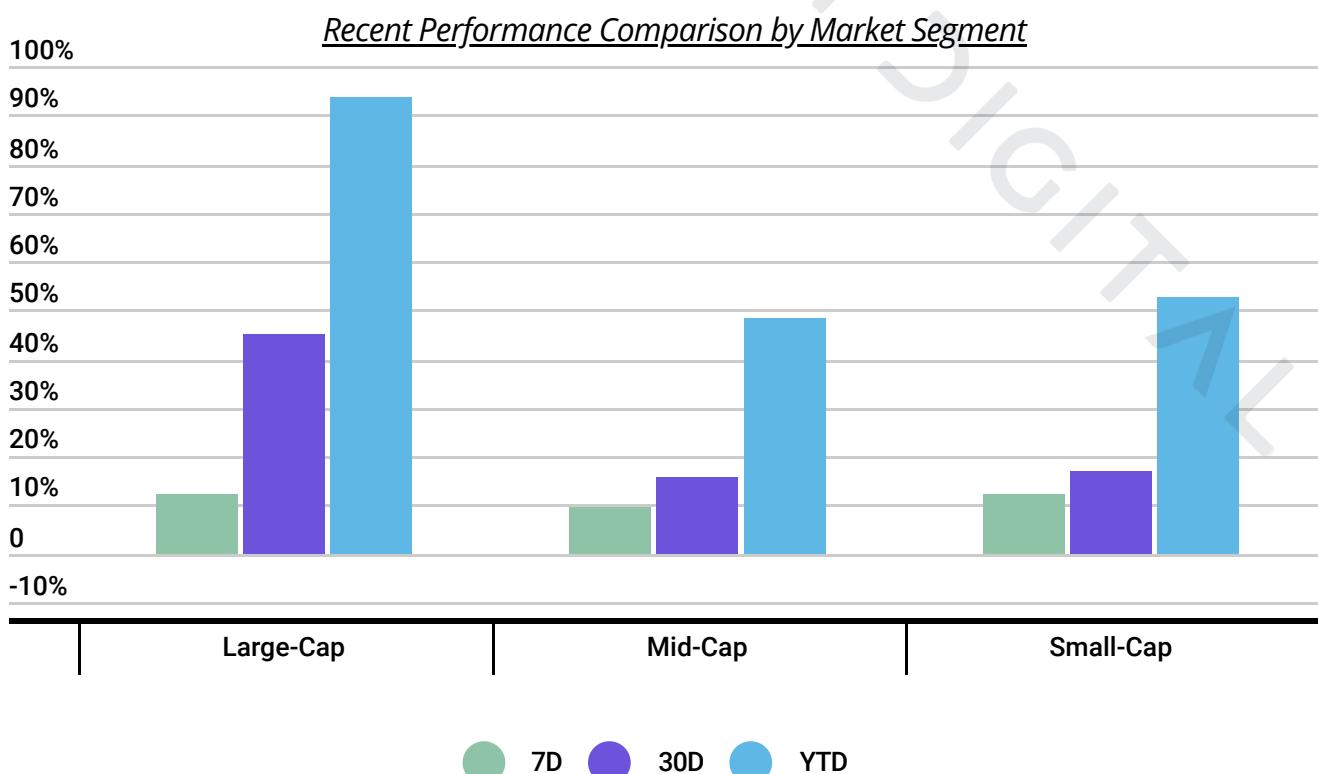
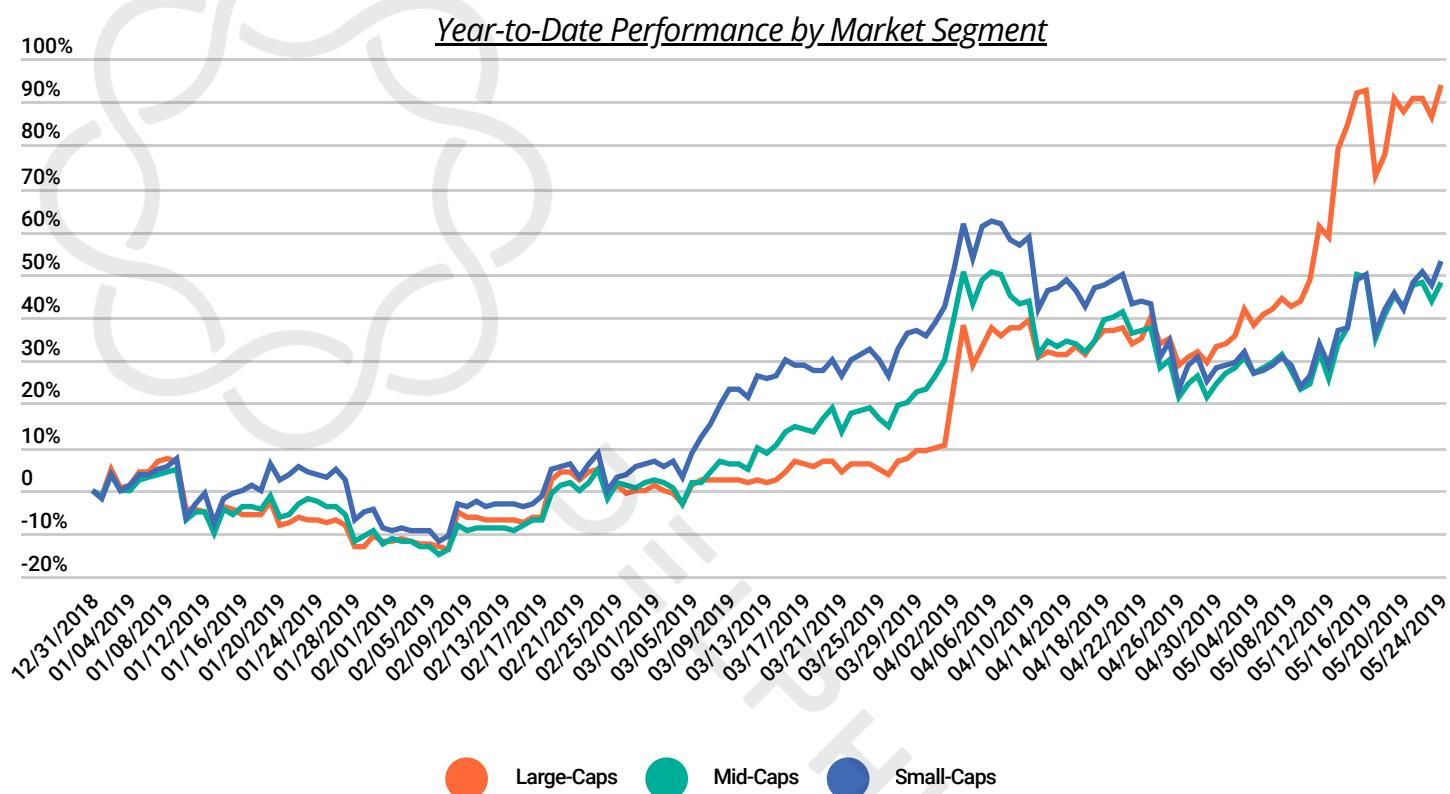
Bitcoin Performance Post-VXXFI > 30

| Post-VXXFI > 30 (Last 5yrs) | Fwd 14-Day | Fwd 30-Day | Fwd 60-Day |
|-----------------------------|------------|------------|------------|
| Median                      | -1.5%      | 1.4%       | -2.6%      |
| Average                     | -1.0%      | 1.8%       | 0.3%       |
| Max                         | 46.6%      | 33.0%      | 58.8%      |
| Min                         | -37.4%     | -46.6%     | -45.8%     |
| Batting Avg. (% Positive)   | 45.5%      | 54.5%      | 42.4%      |



## Large & Small-Caps Post Double Digit Gains

Small-caps kept pace with their large-cap peers this week as both size segments saw double digit gains, according to the MVIS CryptoCompare Digital Asset 100 Index. Leadership among large-caps shifted from bitcoin to other sizable crypto assets like Litecoin and Bitcoin Cash. Several smaller names made headlines this week after posting significant gains, contributing to the recent downward trend in intra-market correlations between crypto assets.



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



## Crypto Asset Movers & Shakers

Bitcoin found itself towards the middle of the pack this week among the top crypto assets, posting nearly another double digit gain. BSV surged more than 60%, though it is still one of the worst performers year-to-date. Binance Coin (BNB) also jumped more than 30% as the team teased its soon-to-be-released margin trading service. Historically higher beta names like Litecoin (LTC) and Bitcoin Cash (BCH) outperformed as some alternative crypto assets played a bit of catch up to BTC. Return dispersion was a bit more widespread while a few of last week's winners (NEM, XLM, ADA) ended this week in negative territory.

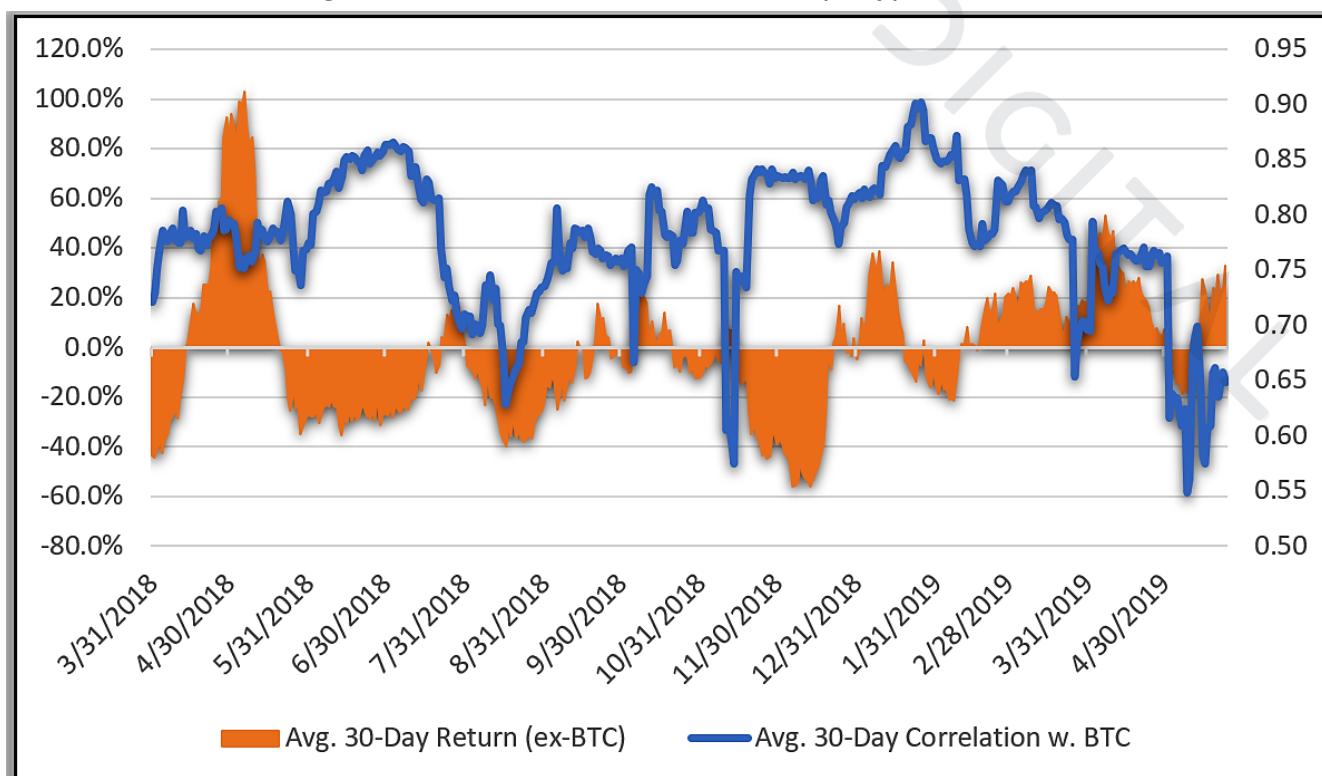
Interestingly, the average 30-day correlation between some of the largest crypto assets and bitcoin has fallen to the lowest level this year. The breakdown of intra-market correlations has been a key theme we've been monitoring for much of this year.

| Top Crypto Asset Returns |       |       |        |        |
|--------------------------|-------|-------|--------|--------|
| Ticker                   | 7D    | 30D   | 90D    | YTD    |
| BSV                      | 64.2% | 83.1% | 44.1%  | 16.6%  |
| BNB                      | 31.8% | 46.3% | 213.9% | 449.4% |
| DASH                     | 13.4% | 35.5% | 73.6%  | 97.7%  |
| LTC                      | 12.2% | 36.3% | 93.3%  | 227.9% |
| BCH                      | 12.1% | 46.6% | 166.9% | 170.8% |
| BTC                      | 8.8%  | 46.2% | 92.8%  | 113.4% |
| MKR                      | 7.4%  | 17.6% | -8.1%  | 49.3%  |
| EOS                      | 6.3%  | 33.1% | 49.9%  | 149.0% |
| XMR                      | 4.4%  | 26.4% | 59.0%  | 85.1%  |
| TRON                     | 2.9%  | 19.6% | 10.0%  | 48.7%  |
| NEO                      | 2.8%  | 15.7% | 13.2%  | 53.0%  |
| ETH                      | 2.3%  | 50.4% | 57.1%  | 87.1%  |
| ETC                      | 1.0%  | 30.2% | 50.6%  | 44.4%  |
| XRP                      | -0.4% | 27.2% | 15.6%  | 9.0%   |
| XLM                      | -0.5% | 22.0% | 33.6%  | 11.6%  |
| ZEC                      | -0.6% | 11.2% | 27.3%  | 27.9%  |
| IOTA                     | -2.4% | 33.1% | 19.4%  | 7.7%   |
| ADA                      | -2.9% | 11.3% | 66.4%  | 96.9%  |
| NEM                      | -7.2% | 45.3% | 77.1%  | 32.0%  |

\*Returns in USD

Data as of 05/24/19

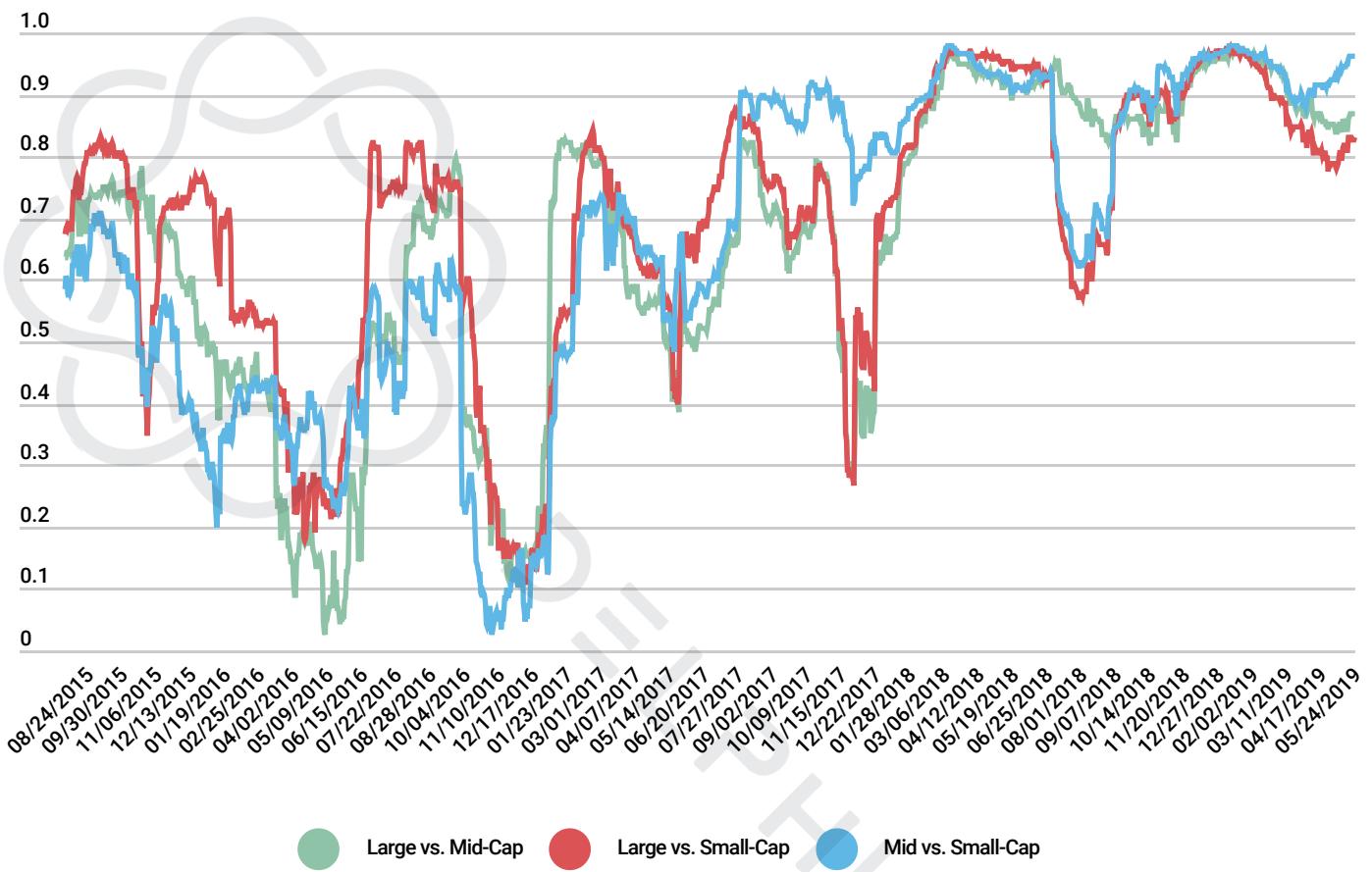
### Average Returns and Correlation w. BTC (Top Crypto Assets)



# Appendix



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



| 60-Day Correlations |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |             |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------------|
|                     | BTC  | XRP  | ETH  | EOS  | XLM  | LTC  | BCH  | TRON | ADA  | XMR  | IOTA | BNB  | DASH | NEM  | ETC  | NEO  | ZEC  | BSV  | MKR  |             |
| <b>BTC</b>          | 1.00 | 0.67 | 0.76 | 0.81 | 0.66 | 0.79 | 0.79 | 0.67 | 0.73 | 0.82 | 0.64 | 0.41 | 0.74 | 0.59 | 0.60 | 0.71 | 0.75 | 0.34 | 0.64 | <b>BTC</b>  |
| <b>XRP</b>          | 0.67 | 1.00 | 0.79 | 0.74 | 0.84 | 0.65 | 0.49 | 0.85 | 0.80 | 0.76 | 0.76 | 0.34 | 0.74 | 0.59 | 0.65 | 0.81 | 0.78 | 0.32 | 0.71 | <b>XRP</b>  |
| <b>ETH</b>          | 0.76 | 0.79 | 1.00 | 0.85 | 0.89 | 0.75 | 0.64 | 0.81 | 0.79 | 0.82 | 0.72 | 0.44 | 0.78 | 0.87 | 0.76 | 0.80 | 0.84 | 0.39 | 0.76 | <b>ETH</b>  |
| <b>EOS</b>          | 0.81 | 0.74 | 0.85 | 1.00 | 0.79 | 0.87 | 0.79 | 0.78 | 0.84 | 0.77 | 0.60 | 0.42 | 0.75 | 0.73 | 0.68 | 0.78 | 0.80 | 0.36 | 0.67 | <b>EOS</b>  |
| <b>XLM</b>          | 0.66 | 0.84 | 0.89 | 0.79 | 1.00 | 0.71 | 0.57 | 0.87 | 0.81 | 0.83 | 0.79 | 0.47 | 0.80 | 0.81 | 0.76 | 0.85 | 0.89 | 0.36 | 0.75 | <b>XLM</b>  |
| <b>LTC</b>          | 0.79 | 0.65 | 0.75 | 0.87 | 0.71 | 1.00 | 0.85 | 0.70 | 0.79 | 0.73 | 0.55 | 0.47 | 0.67 | 0.64 | 0.63 | 0.79 | 0.75 | 0.40 | 0.62 | <b>LTC</b>  |
| <b>BCH</b>          | 0.79 | 0.49 | 0.64 | 0.79 | 0.57 | 0.85 | 1.00 | 0.51 | 0.73 | 0.59 | 0.39 | 0.30 | 0.60 | 0.56 | 0.54 | 0.65 | 0.63 | 0.30 | 0.47 | <b>BCH</b>  |
| <b>TRON</b>         | 0.67 | 0.85 | 0.81 | 0.78 | 0.87 | 0.70 | 0.51 | 1.00 | 0.77 | 0.82 | 0.76 | 0.46 | 0.77 | 0.64 | 0.76 | 0.82 | 0.82 | 0.43 | 0.72 | <b>TRON</b> |
| <b>ADA</b>          | 0.73 | 0.80 | 0.79 | 0.84 | 0.81 | 0.79 | 0.73 | 0.77 | 1.00 | 0.76 | 0.66 | 0.35 | 0.70 | 0.67 | 0.62 | 0.88 | 0.83 | 0.35 | 0.69 | <b>ADA</b>  |
| <b>XMR</b>          | 0.82 | 0.76 | 0.82 | 0.77 | 0.83 | 0.73 | 0.59 | 0.82 | 0.76 | 1.00 | 0.79 | 0.50 | 0.85 | 0.66 | 0.66 | 0.78 | 0.91 | 0.42 | 0.76 | <b>XMR</b>  |
| <b>IOTA</b>         | 0.64 | 0.76 | 0.72 | 0.60 | 0.79 | 0.55 | 0.39 | 0.76 | 0.66 | 0.79 | 1.00 | 0.47 | 0.71 | 0.59 | 0.67 | 0.78 | 0.78 | 0.41 | 0.70 | <b>IOTA</b> |
| <b>BNB</b>          | 0.41 | 0.34 | 0.44 | 0.42 | 0.47 | 0.47 | 0.30 | 0.46 | 0.35 | 0.50 | 0.47 | 1.00 | 0.47 | 0.40 | 0.39 | 0.47 | 0.52 | 0.46 | 0.51 | <b>BNB</b>  |
| <b>DASH</b>         | 0.74 | 0.74 | 0.78 | 0.75 | 0.80 | 0.67 | 0.60 | 0.77 | 0.70 | 0.85 | 0.71 | 0.47 | 1.00 | 0.62 | 0.64 | 0.76 | 0.82 | 0.32 | 0.68 | <b>DASH</b> |
| <b>NEM</b>          | 0.59 | 0.59 | 0.87 | 0.73 | 0.81 | 0.64 | 0.56 | 0.64 | 0.67 | 0.66 | 0.59 | 0.40 | 0.62 | 1.00 | 0.64 | 0.68 | 0.75 | 0.25 | 0.59 | <b>NEM</b>  |
| <b>ETC</b>          | 0.60 | 0.65 | 0.76 | 0.68 | 0.76 | 0.63 | 0.54 | 0.76 | 0.62 | 0.66 | 0.67 | 0.39 | 0.64 | 0.64 | 1.00 | 0.64 | 0.76 | 0.35 | 0.63 | <b>ETC</b>  |
| <b>NEO</b>          | 0.71 | 0.81 | 0.80 | 0.78 | 0.85 | 0.79 | 0.65 | 0.82 | 0.88 | 0.78 | 0.78 | 0.47 | 0.76 | 0.68 | 0.64 | 1.00 | 0.83 | 0.43 | 0.76 | <b>NEO</b>  |
| <b>ZEC</b>          | 0.75 | 0.78 | 0.84 | 0.80 | 0.89 | 0.75 | 0.63 | 0.82 | 0.83 | 0.91 | 0.78 | 0.52 | 0.82 | 0.75 | 0.76 | 0.83 | 1.00 | 0.34 | 0.74 | <b>ZEC</b>  |
| <b>BSV</b>          | 0.34 | 0.32 | 0.39 | 0.36 | 0.36 | 0.40 | 0.30 | 0.43 | 0.35 | 0.42 | 0.41 | 0.46 | 0.32 | 0.25 | 0.35 | 0.43 | 0.34 | 1.00 | 0.42 | <b>BSV</b>  |
| <b>MKR</b>          | 0.64 | 0.71 | 0.76 | 0.67 | 0.75 | 0.62 | 0.47 | 0.72 | 0.69 | 0.76 | 0.70 | 0.51 | 0.68 | 0.59 | 0.63 | 0.76 | 0.74 | 0.42 | 1.00 | <b>MKR</b>  |

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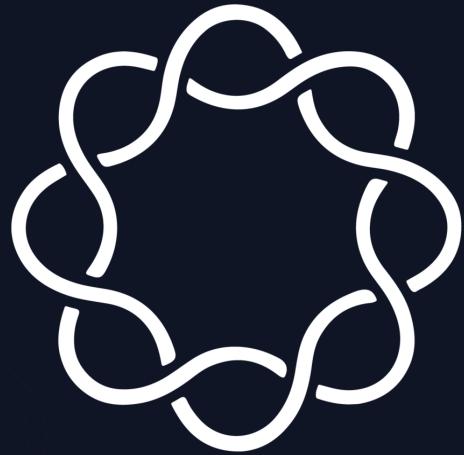
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