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Cryptocurrency Research

3/17/2022

Top 5 Charts/Stats of the Week

1. Our Current BTC Chart
2. Bitfinex BTC Longs
3. LUNA and UST's Continued Rise
4. What is the ETH Options Market Telling Us, Short Term?
5. Headwinds to Fed's Interest Rate Raises

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1) Our Current BTC Chart (picture taken 3/16)

Explanation: This is the Bitcoin chart (daily timeframe) that we've had open for the past month and a half or so. We find this chart helpful for keeping things in perspective - for instance, this chart made it easier to fight the urge to "buy the pump" when BTC was breaching $44.4k in early February and early March, since we never once got a daily close above the green zone. Some explanations of the lines/zones:

- *Orange line: Price level (~45.6k) that has not been seen since basically the start of the year, though it's been tested a couple times. Flipping this line would be a good sign of a larger trend change.*
- *Green zone: "No man's land", for us. Short term trades that were bought lower may get sold in here as we move higher in this zone, and, until we really breach that orange line, we try to avoid buying any meaningful amounts in here. Buying below here and selling in this zone has been relatively easy money recently, but nothing lasts forever. Basically, a more "hands-off" zone.*
- *Blue line: Historically a somewhat-important level - honestly don't pay much attention to this now.*
- *Red zone: Around here - slightly above, inside, and slightly below this zone - is where we **could** see a "capitulation candle" or two if the macro picture gets worse. So, it's not a bad place to leave some resting orders, and we'd be buying larger amounts of BTC and ETH if we get down here. Of course, it's possible to go lower than this (would be scary…), but we still like this range.*

Takeaway: *Nothing real special is going on, price-wise, with BTC right now. We still view it as a time to slowly accumulate without getting overly aggressive. And, using a chart like this can keep you patient and thinking big picture.*

2) Bitfinex BTC Longs

Explanation: Bitfinex is one of the larger crypto exchanges, and this chart shows the price of BTC (green/red candles) compared to BTC longs on Bitfinex, meaning traders who are going long (buying) Bitcoin on that market. You'll see that, over the past ~10 months, traders on Bitfinex have done a nice job growing their long positions when BTC is low and then selling on the way up. Over the past month or so, we've seen Bitfinex BTC longs begin growing to near where they were the last time we "found the bottom" when BTC was in the 30k's last summer. ***Takeaway:*** *Current prices represent a "value zone" if you're thinking longer-term. Although there is obviously the potential to go lower, and we view it as a higher-probability potential, that does not mean that current prices are not good places to buy if you've got a longer time horizon. Bitfinex long'ers appear to be, based on this chart, coming to that same conclusion; now may not be the time to "back up the truck" (as it appears occurred in the* ***yellow circle*** *above), but these are certainly not* ***bad*** *levels to be buying at.*

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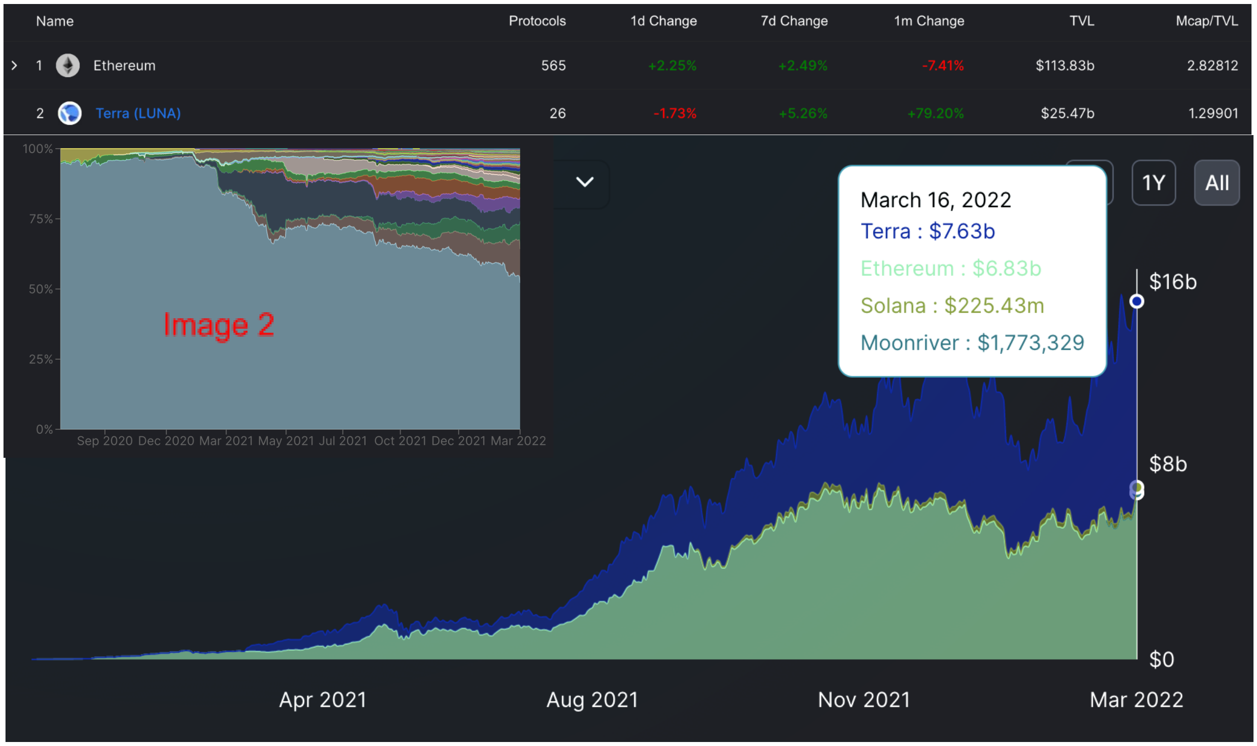
3) LUNA and UST's continued rise



Name	Protocols	1d Change	7d Change	1m Change	TVL	Mcap/TVL
1 Ethereum	565	+2.25%	+2.49%	-7.41%	$113.83b	2.82812
2 Terra (LUNA)	26	-1.73%	+5.26%	+79.20%	$25.47b	1.29901

Explanation: The Terra blockchain features two main tokens: LUNA (which hit an all-time high last week, and has outperformed most other major tokens lately) and UST, an algorithmic stablecoin that can be created by burning LUNA. Terra is also home to Anchor protocol, a borrowing/lending market that offers depositors 19-20% yield on their dollars (UST deposits). Unsurprisingly, the thirst for stable yield during this down market has spurred demand for UST sky-high. Let's go over the above images and one other recent point:

- *In the past month, the Terra blockchain has seen a 79.2% increase (see **top image**) in total value locked (TVL), and it sits at second to only Ethereum in terms of TVL (you can see Ethereum's TVL trending downwards above - it's the blue-ish color in **image 2**). Avalanche is ranked third. Terra is obviously on the rise and has a good narrative / trend / attention going for it.*
- *Anchor itself has seen a 53% increase in TVL in the past month - in the same time period, UST's market cap has gone from $11.5b to about $15b. Lido, a liquid staking protocol that is used by Anchor (if you want to borrow against LUNA or ETH on Anchor, you first stake them through Lido), has seen an almost 40% gain in TVL in the past month (see **green/blue chart**), likely driven by increased Anchor usage and, obviously, increased staking of ETH and LUNA to earn yield.*
- *Do Kwon, the founder of Luna, bet two Twitter users/traders (GCR and Algod) a total of $11 million this week that the price of LUNA would be higher a year from now than it is now.*

Takeaways: *(1) LUNA is thriving during this down market, in no small part due to UST's fast rise which has been driven largely by Anchor offering 19-20% yield. Using Anchor to earn that 19-20% yield on your dollars, as we've mentioned before, is an appealing opportunity so long as you understand the risks, which we mentioned back in our "How to Earn Yield on Your Stablecoins"*

(2) However, there are obviously people like GCR and Algod betting that this will not last. It will be interesting - on one hand, Anchor's 19-20% yield is not technically sustainable and Anchor makes up about half of Terra's TVL, but on the other hand Do Kwon and the Terra foundation have been building up reserves to protect UST's peg to the dollar and there are ongoing efforts to make Anchor more long-term sustainable. We tend to fall more on GCR and Algod's side here - we do not think LUNA and UST's dominance/rise can sustain this strength over time as Anchor's yield will (likely) be forced to drop. What this would mean for Terra (how far does Anchor's yield drop? how many depositors rush out of Anchor? does UST's peg get stressed? or does Terra's TVL just drop over time?) is unclear. However, short-term, we are still using Anchor and expect LUNA to continue doing at least okay, if not continue to outperform as stablecoin demand is high and UST adoption is growing rapidly. But this is something to keep an eye on closely for signs of issues.

(3) Lido is a liquid staking protocol that we discussed during our 2022 predictions as an infrastructure play to watch. LDO token unlocks and lack of token utility have hurt the price over the past few months (and unlocks are still ongoing), but it is something we're keeping a close eye on especially as ETH's move to proof of stake grows closer. LDO is up 37% this week to about $2.70, and it is still well below its all-time high of about $6.30.

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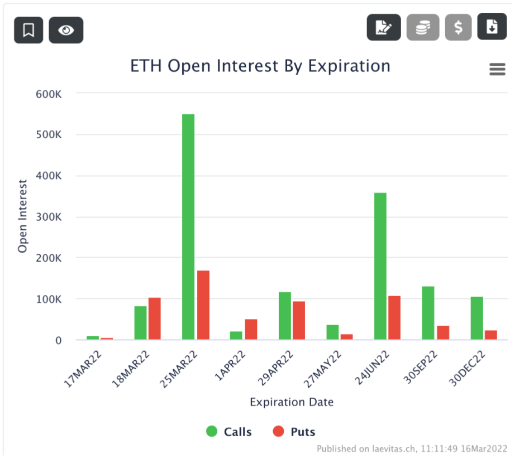
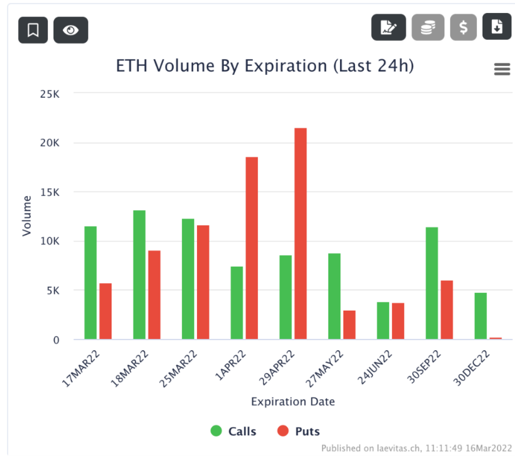
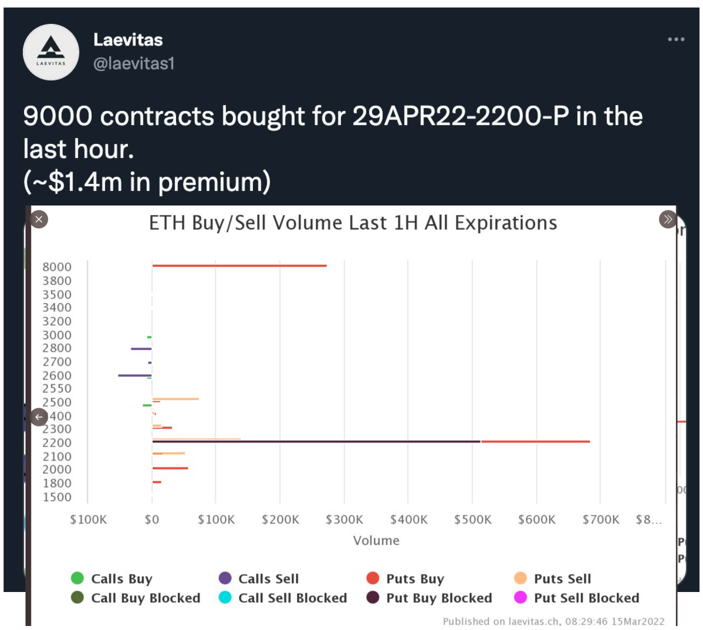
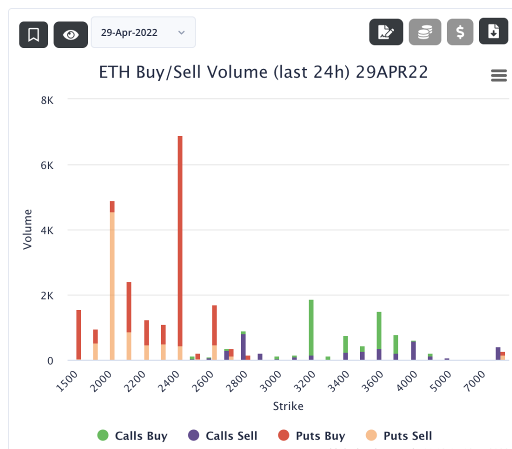
4) What is the ETH Options Market Telling Us, Short Term?









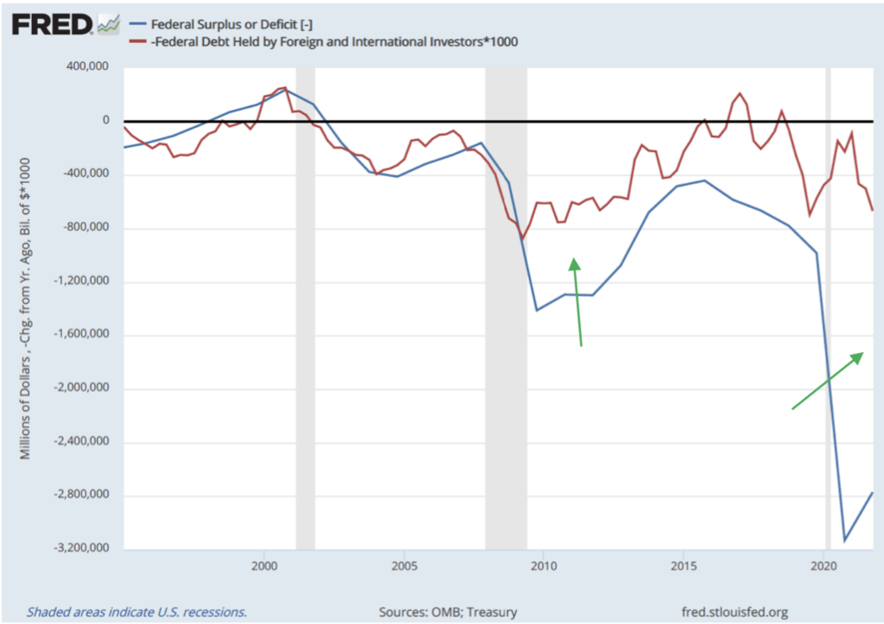
Explanation: Let's go row-by-row here, looking at the top two images then the bottom two.

- *Top two images: Unsurprisingly, the March 25th options expiry is a popular expiration date (it's a quarterly one) and, short term, April 29th is another one worth looking at. Disregarding that very large green candle for March 25th calls (there are/were huge $15k ETH call buyer(s) last year who are about to take an L on that trade) and looking more at the right side image, we can see that April 29th puts are becoming a popular trade. Let's look more closely in the second row.*
- *Bottom two images: We have seen large buys of ETH $2200 puts and $2400 puts over the last couple days.*

Takeaway**: Looking at naked options data is always tough because you can't tell the buyer/seller's exact intent. These large ETH put buys could be a hedge, a pure bearish bet, or a part of a variety of other more complex trades, but, regardless, they show concern about* *near-term (before April 29th) downside for ETH. Options do not play a* ***major *role in crypto markets yet (compared to the stock market), but they are still worth looking at, and their importance should grow over time. Basically, the trades that we're looking at here point to a large buyer showing special concern for ETH downside in the near term.*

We'll also note that these are just a couple (albeit large) trades, and we aren't even looking at the BTC options market here. We just found these interesting and worth pointing out.

5) Headwinds to Fed's Interest Rate Raises



Explanation: First, thanks to Luke Groman and [Tree Rings] for bringing this chart to our attention. What this chart is showing is two gaps (green arrows) between the US Federal deficit and US Federal debt held by foreign/international investors. The first gap was filled by Fed quantitative easing (QE, "money printing"). The second gap, the one we're now in, is much larger, and the Fed's recent QE just ended last week. Now, we're about to attempt to raise interest rates, which usually drives down both the red and blue lines. This chart/issue is just one of multiple that look to be economic headwinds. Supply chain issues, a flattening yield curve, the Russia/Ukraine situation, potential corporate credit market issues, FX reserve snatching, commodity export bans/commodity hoarding, high debt/GDP, calls for treasury buybacks in the midst of recent large deficits, more oil sales in non-dollar currencies, among other macro topics, are all related to other issues.

Takeaway: *The chart mentioned above, combined with other issues, point to a real possibility that the Fed will again be forced to expand its balance sheet sooner than later (to fill the gap in the chart and fix some other issues) and actually make a u-turn on raising interest rates. In our view, this would mean an eventual better macro environment for crypto to do well in, but it also likely means that things will have to get worse before they get better.*

*We'll also note that we're **not** trying to say "the world is ending" or that a recession is imminent. We're not seasoned macro experts, and it's possible that these issues wind up being fleeting, we've actually already bottomed, and we get a market recovery beginning in the coming weeks. We're just saying that our current judgment/forecast, based on the info we have, is that the probability of more downside before upside is higher than not, so that's the context within which we'll manage our portfolios. That is, until/unless evidence is presented that changes our minds.*

Disclaimer

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