



CRYPTO MARKET PULSE

FEBRUARY 13, 2023

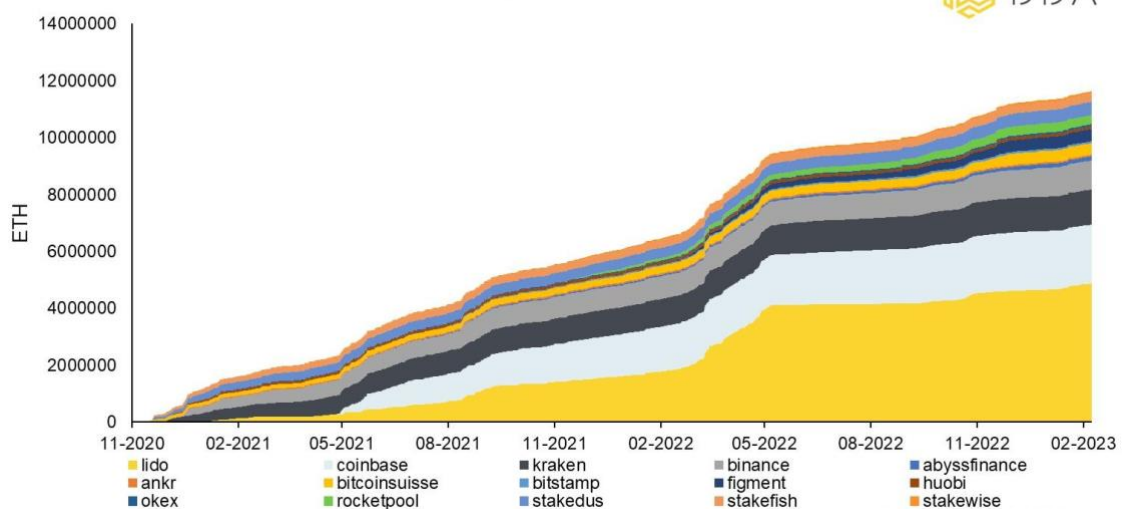
Key Takeaways

by André Dragosch, Head of Research

- ◆ Cryptoasset performances were mostly negative, due to technical factors and increased regulatory scrutiny on the crypto industry in the US
- ◆ Our in-house Crypto Sentiment Index has continued to decrease last week as the short-term exuberance is further coming down
- ◆ SEC's fine of exchange operator Kraken increases regulatory uncertainty in the US with respect to Ethereum and Proof-of-Stake cryptoassets

Chart of the Week

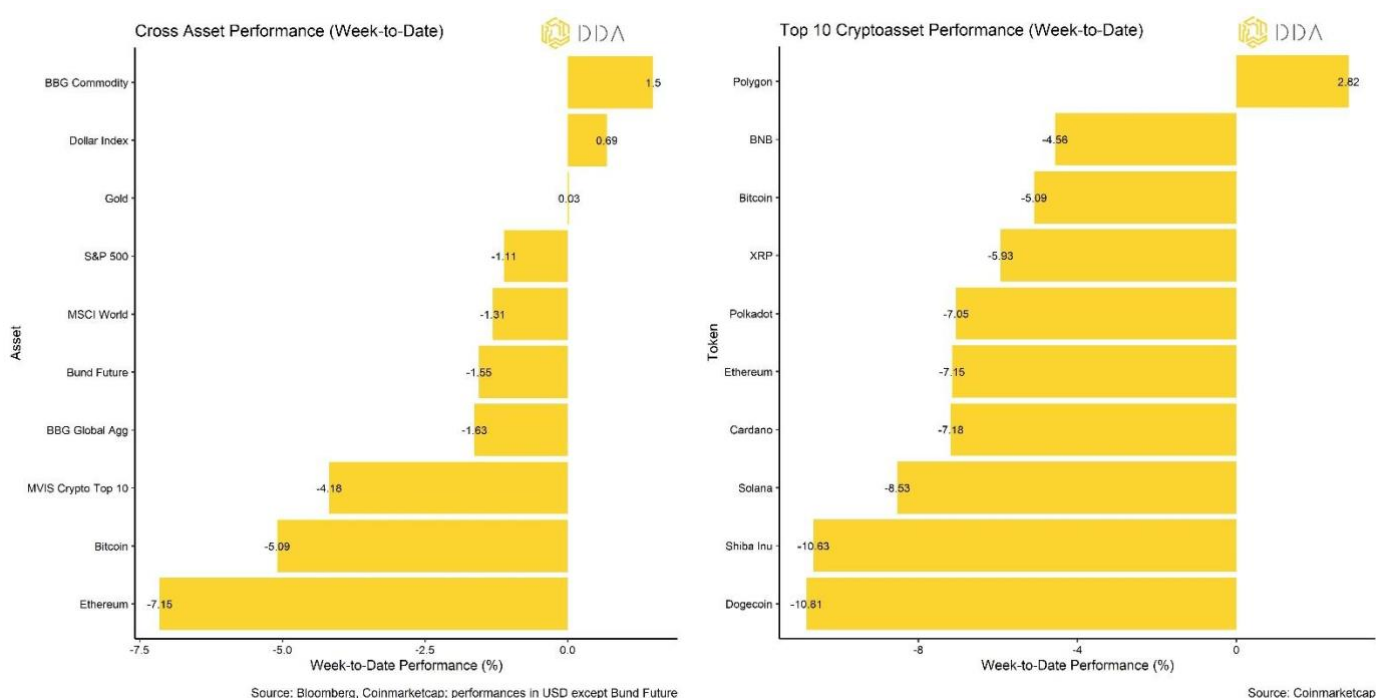
Ethereum: ETH 2.0 Total Value Staked by Provider



Performance

Last week, cryptoasset performances were mostly negative, due to technical factors and increased regulatory scrutiny on the crypto industry in the US.

A major positive catalyst for the negative performance was the fact that the SEC fined crypto exchange operator Kraken with 30 mn USD on account of its "Staking-as-a-Service" offering. This has generally increased regulatory uncertainty in the US with respect to Ethereum and Proof-of-Stake cryptoassets.



Among the major cryptoassets, Polygon, BNB, and Bitcoin were the relative outperformers.

However, overall Altcoin outperformance remains low based on our in-house "Altseason Index" which tracks the outperformance of Altcoins vis-à-vis Bitcoin over the last 3 months. At the same time, cryptoassets appear to be mostly driven by coin-specific factors rather than systemic factors judging by the relatively high level of statistical dispersion among cryptoassets, although dispersion has recently decreased slightly.

Sentiment

Our in-house Crypto Sentiment Index has further decreased compared to last week but is still in positive territory. 11 out of 15 indicators are still above their short-term trend. Nonetheless, the reversals were quite pronounced last week.

We saw major reversals in BTC funding rates for perpetual futures contracts as well as put-call volume ratios for Bitcoin options as traders started to bid more for put options relative to calls. There were also some major reversals in on-chain indicators.

The Crypto Fear & Greed Index also reversed from "Greed" into "Neutral" territory. Sentiment measured on Bitcoin Twitter remained bearish throughout last week.

As mentioned previously, dispersion among cryptoassets continued to be high, although dispersion has recently decreased as well. At the same time, altcoins mostly underperformed Bitcoin on a 1-month and 3-months basis. On a 1-month basis, only 15% of tracked altcoins have outperformed Bitcoin. Altcoin outperformance is usually a sign of increased risk appetite and low altcoin outperformance is currently indicative of a rather cautious market sentiment.

Flows

Last week, cryptoasset and especially Bitcoin fund flows appear to have abated.

In aggregate, we saw net fund outflows in the amount of -32.3 mn USD. Fund outflows were mostly concentrated in BTC-based products (-25.8 mn USD) and Basket & Thematics products (-14.1 mn USD). In contrast, altcoin-based products experienced net inflows throughout the week (ETH +3.6 mn USD and Altcoins ex ETH +4.0 mn USD) although this is probably more of a catch-up from the previous week.

In this context, the NAV discount of the biggest Bitcoin fund in the world - Grayscale Bitcoin Trust (GBTC) - continued to decrease again which signals that institutional demand has continued to decrease.

The Beta of global Hedge Funds to Bitcoin over the last 20 trading days continued to decrease slightly, implying that hedge funds might have further decreased their exposure to cryptoassets during the last 20 days.

Bitcoin prices traded on Coinbase vis-à-vis those traded on Binance (Coinbase-Binance premium) were mostly flat throughout the week which is indicative of neutral buying interest from institutional investors vis-à-vis retail investors.

On Chain

The SEC's fine on exchange operator Kraken has increased regulatory uncertainty in the US with respect to Ethereum and Proof-of-Stake cryptoassets.

Currently, around 1.2 mn ETH are staked through Kraken which represents the 3rd biggest pool of staked Ethereum. Coinbase and Binance also host another 2.06 mn ETH and 1.01 mn ETH in staked Ethereum on their exchanges as shown in our **Chart-of-the-Week**.

These staked ETH are at risk of being withdrawn from these exchanges once the upcoming "Shanghai Upgrade" will allow validators to withdraw their staked Ethereum, which is currently not possible. This is anticipated to become live sometime around March or April this year.

The SEC's proceedings against "Staking-as-a-Service" providers such as Kraken comes at a time when crypto experts in the US have recently warned of a potential crackdown on the industry which was recently dubbed as "Operation Chokepoint 2.0".¹ So, we should generally expect more negative news flow with respect to US crypto regulation in the coming weeks.

Because of the increased regulatory uncertainty, we have lately seen an increase in Ethereum exchange outflows, especially on Friday last week which saw the highest outflows since December last year. In contrast, Bitcoin did not see any unusual exchange trading activity although we saw a slight uptick in whale exchange deposits which are usually indicative of increased selling volume by large investors.

Another aspect is that short-term traders appear to be taking losses again judging by the negative Short-term Holder Spent-Output-Profit Ratio (STH-SOPR). This could induce more volatility into the market in the short term as traders could be more inclined to sell and their positions. However, short-term traders overall remain in the profit-zone based on the STH-NUPL metric.

Derivatives

¹ <https://www.piratewires.com/p/crypto-choke-point>

In general, the higher degree of uncertainty has not yet led to an increase in risk aversion in derivatives markets. Implied volatilities on 1-month Bitcoin options continued to grind lower which implies a decrease in risk aversion among option traders. However, the 25-delta skew has recently decreased and is now negative again implying that option traders value put options more than delta-equivalent call options. Although put-call volume ratios have recently picked up, Bitcoin option traders remain firmly positioned in call options based on the relative open interest.

On the other hand, both Bitcoin perpetual funding rates and futures basis rate have recently decreased which implies that demand for short contracts relative to long contracts has recently picked up again.

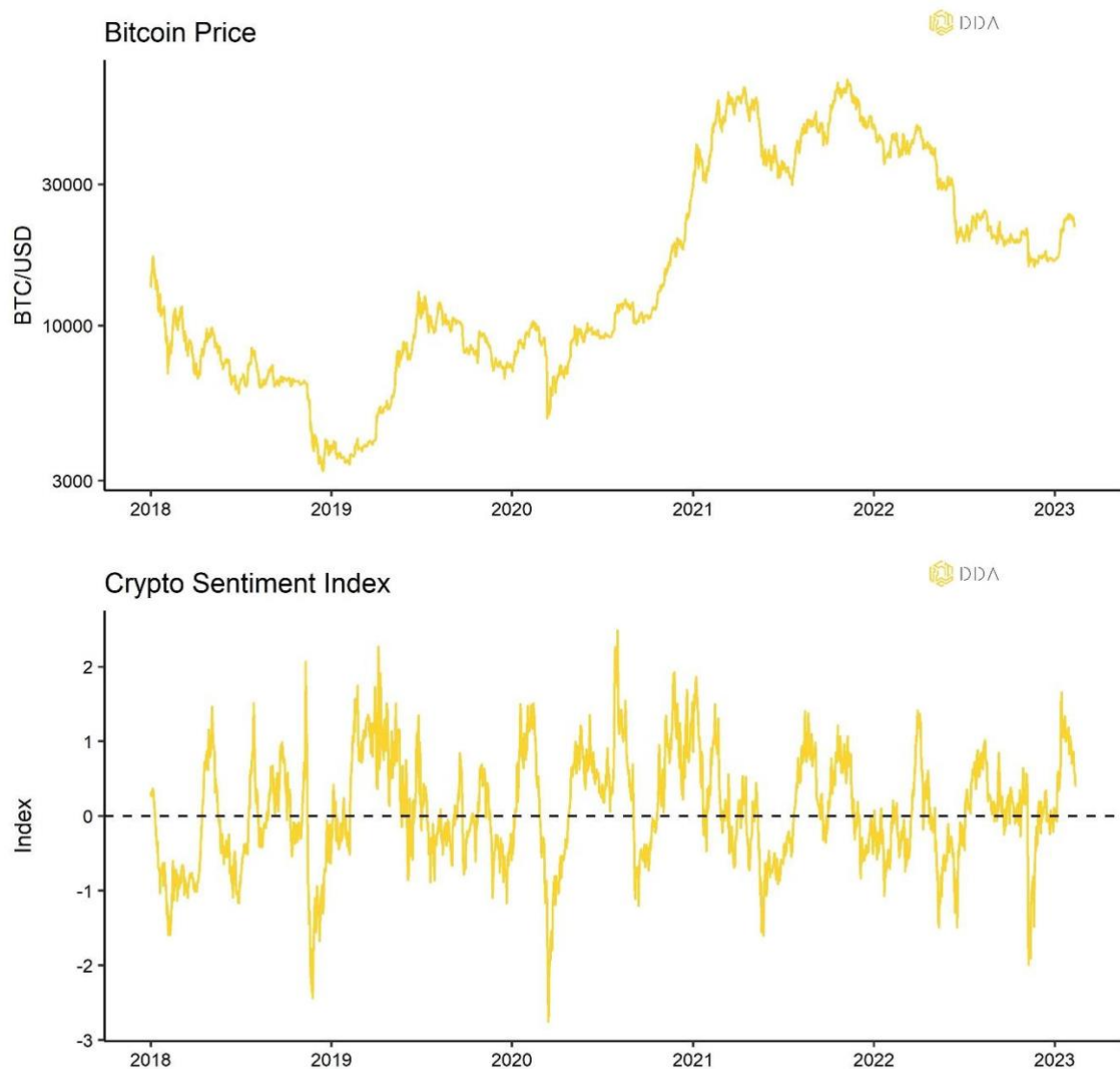
Bottom Line

Cryptoasset performances were mostly negative, due to technical factors and increased regulatory scrutiny on the crypto industry in the US.

Our in-house Crypto Sentiment Index has continued to decrease last week as the short-term exuberance is further coming down.

SEC's fine of exchange operator Kraken increases regulatory uncertainty in the US with respect to Ethereum and Proof-of-Stake cryptoassets.

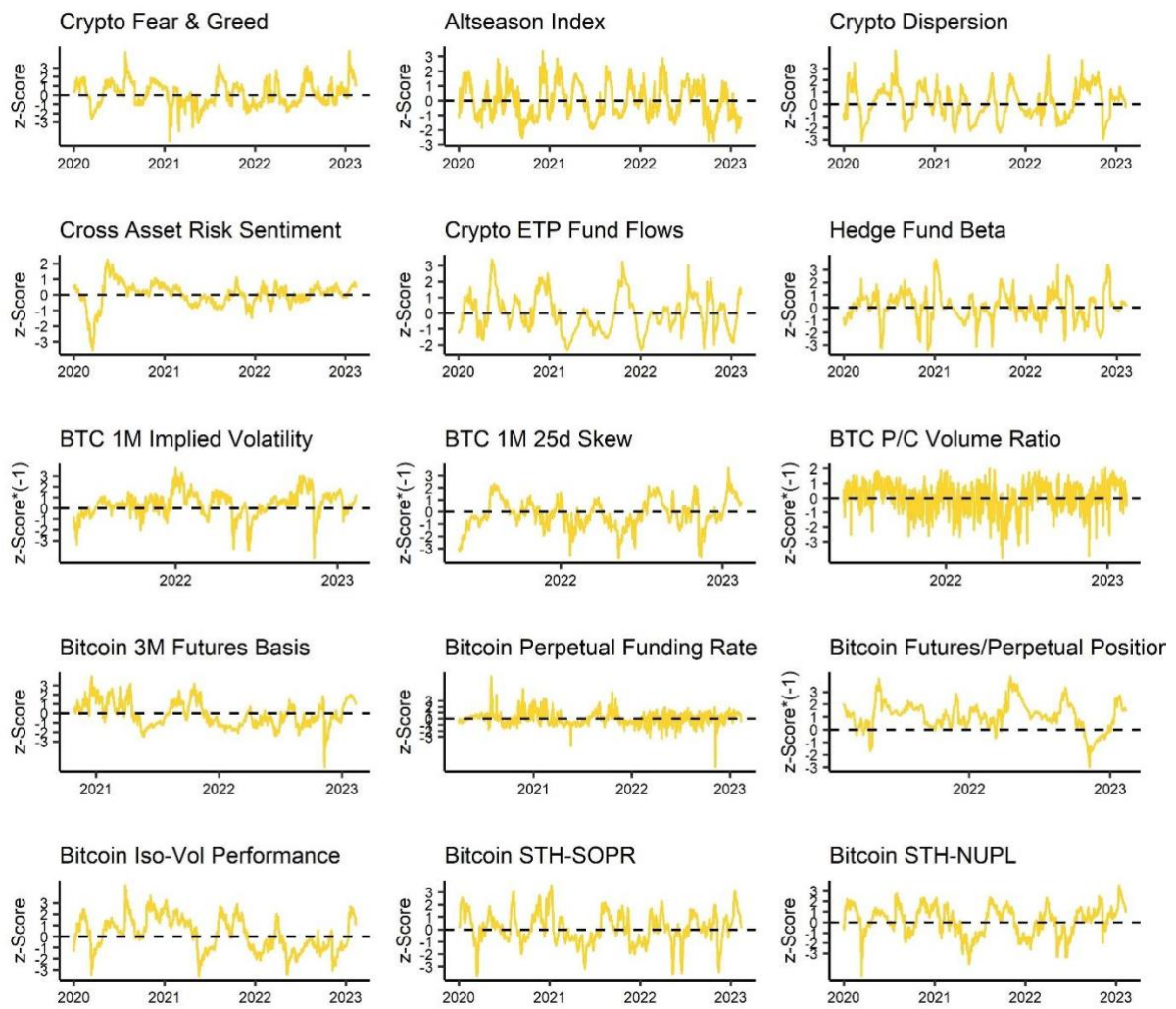
Appendix



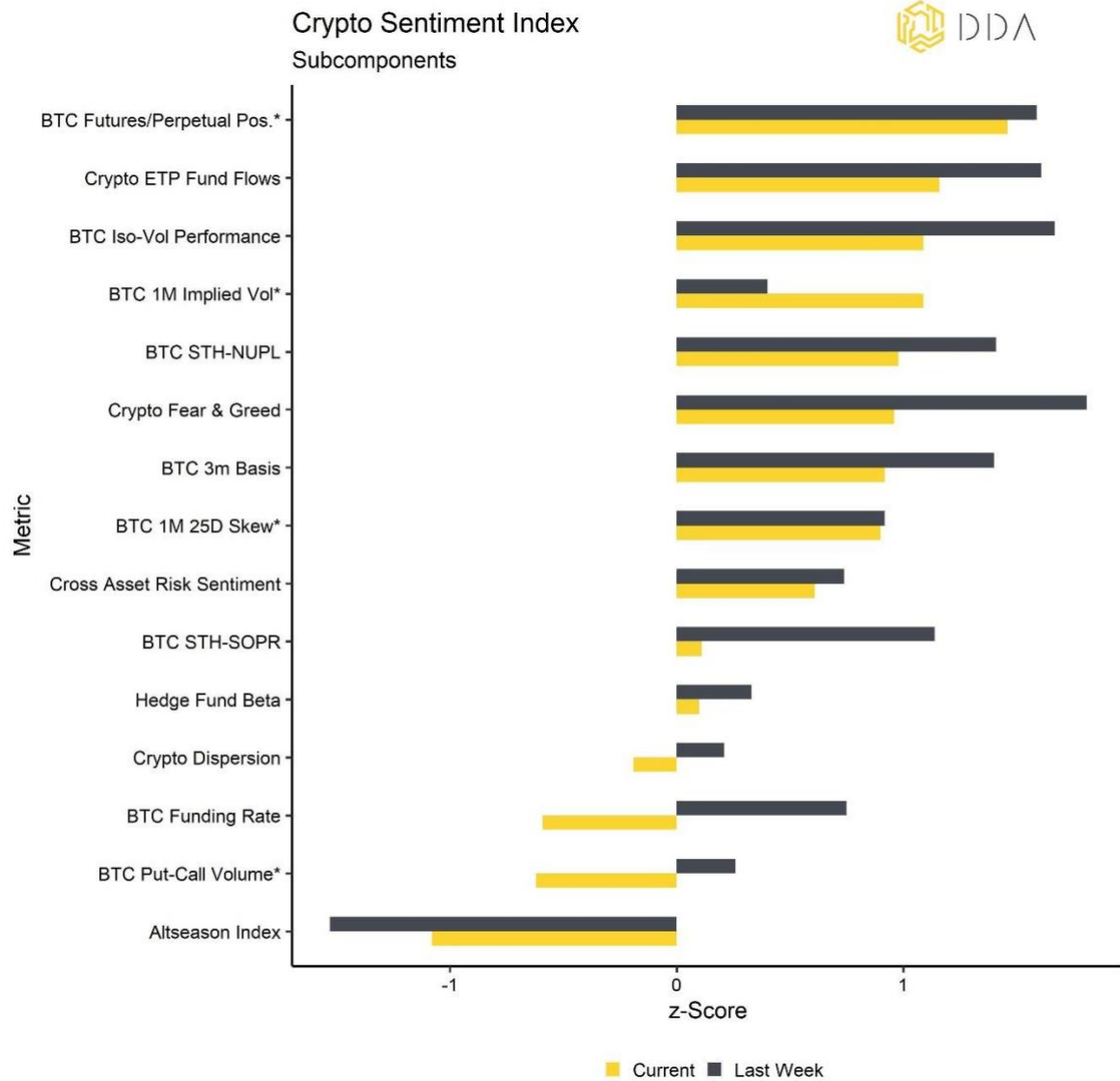
Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

Crypto Sentiment Index

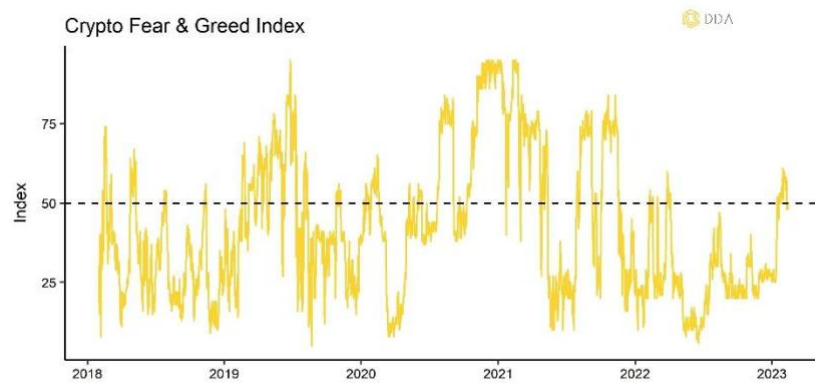
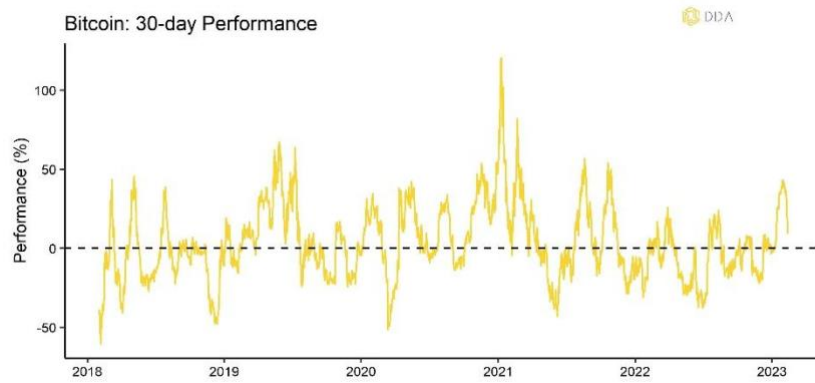
Subcomponents, 90-day rolling z-Scores



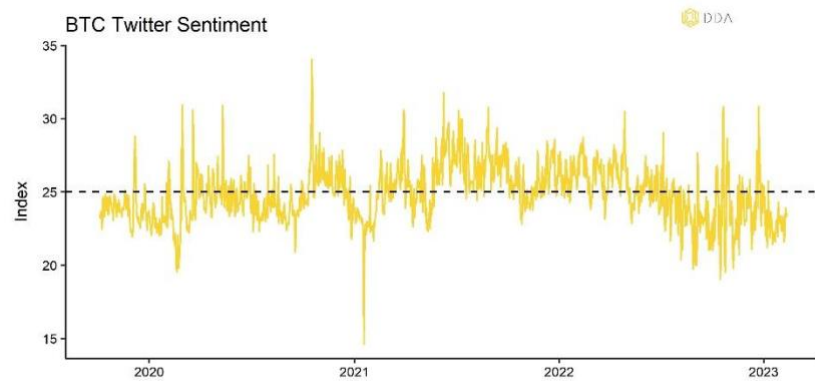
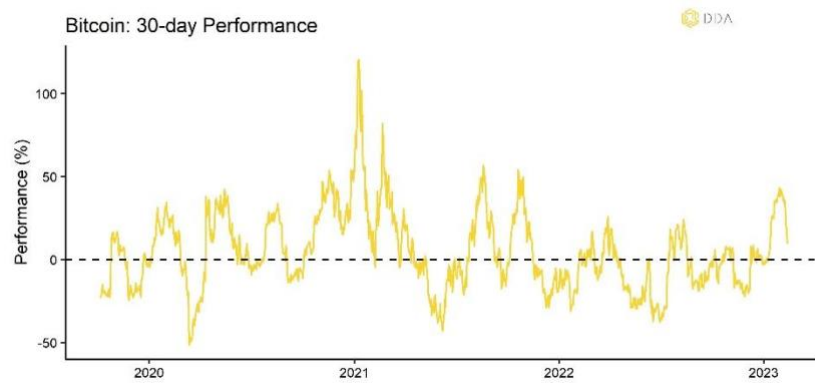
Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets



Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; *multiplied by (-1)

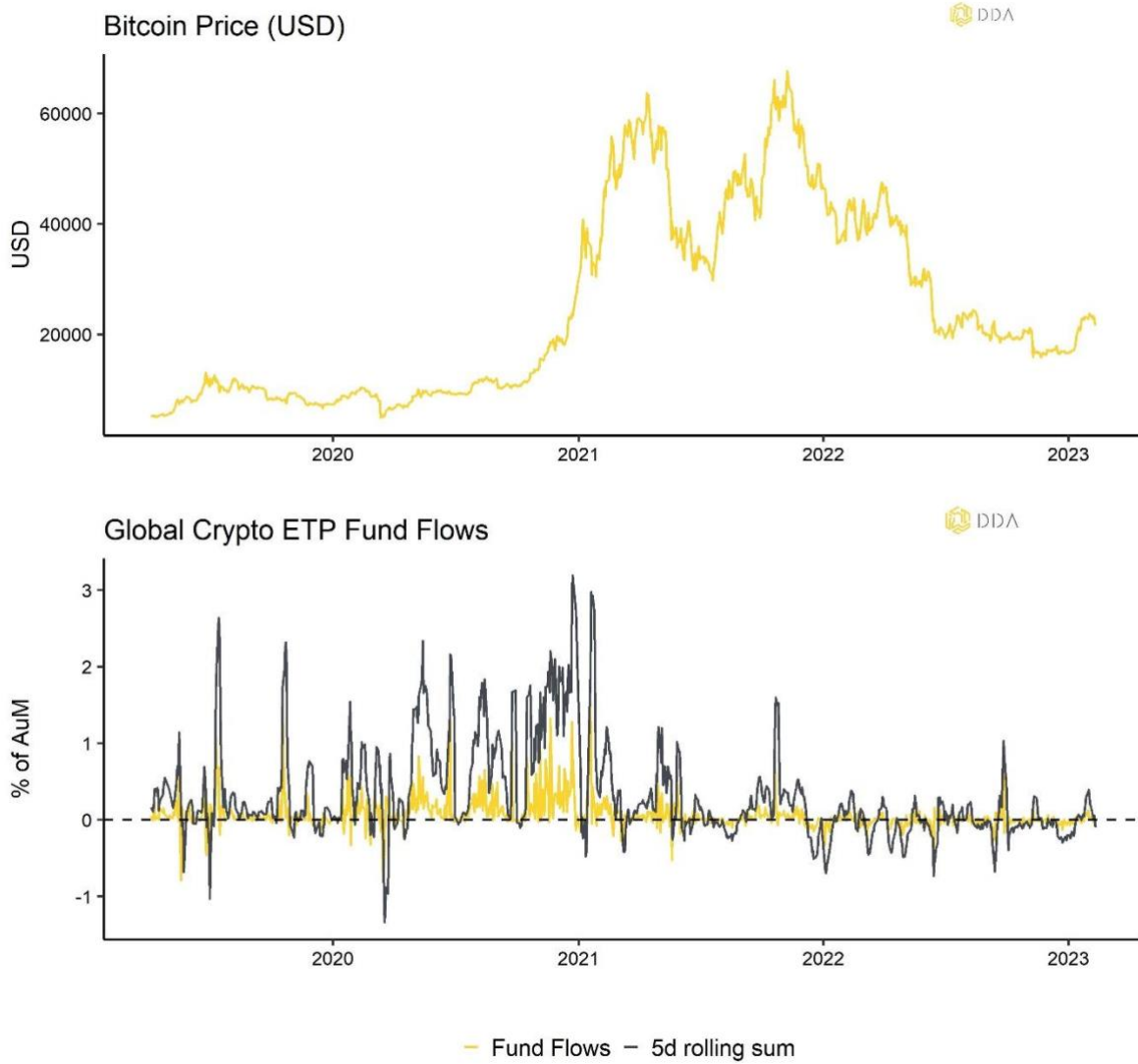


Source: alternative.me, Coinmarketcap, Deutsche Digital Assets

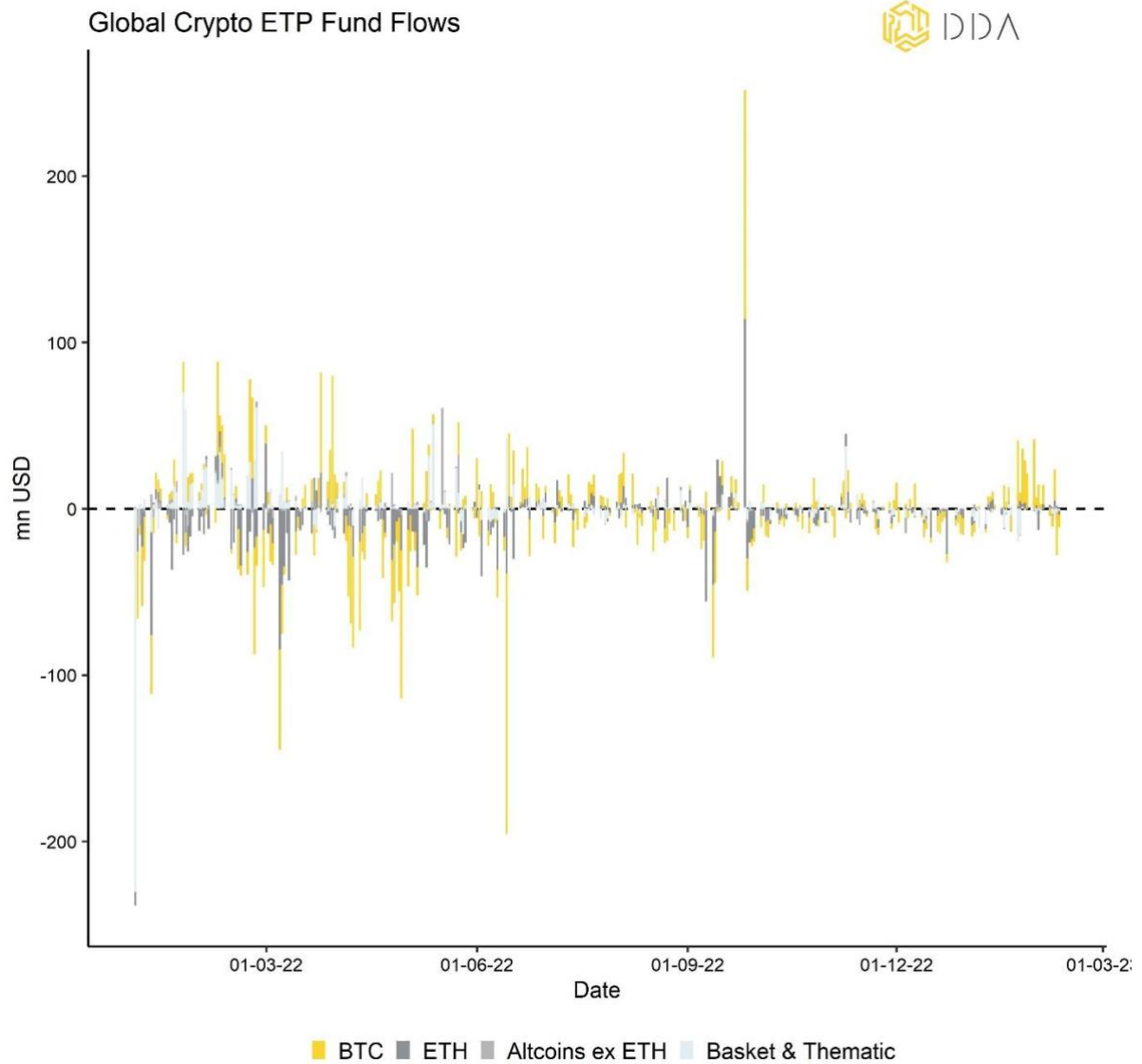


Source: btc sentiment.com, Coinmarketcap, Deutsche Digital Assets

Bitcoin vs Global Crypto ETP Fund Flows

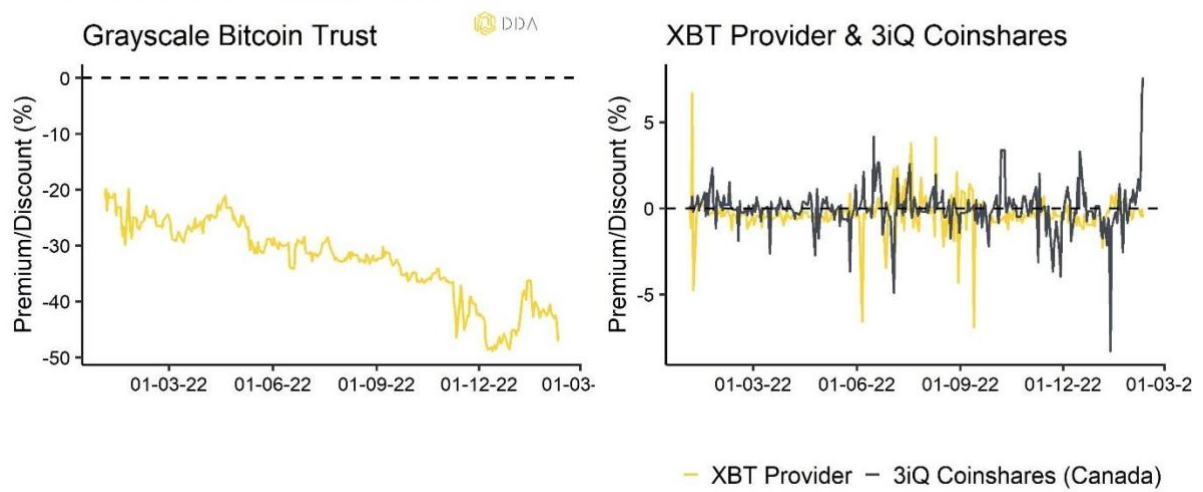


Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

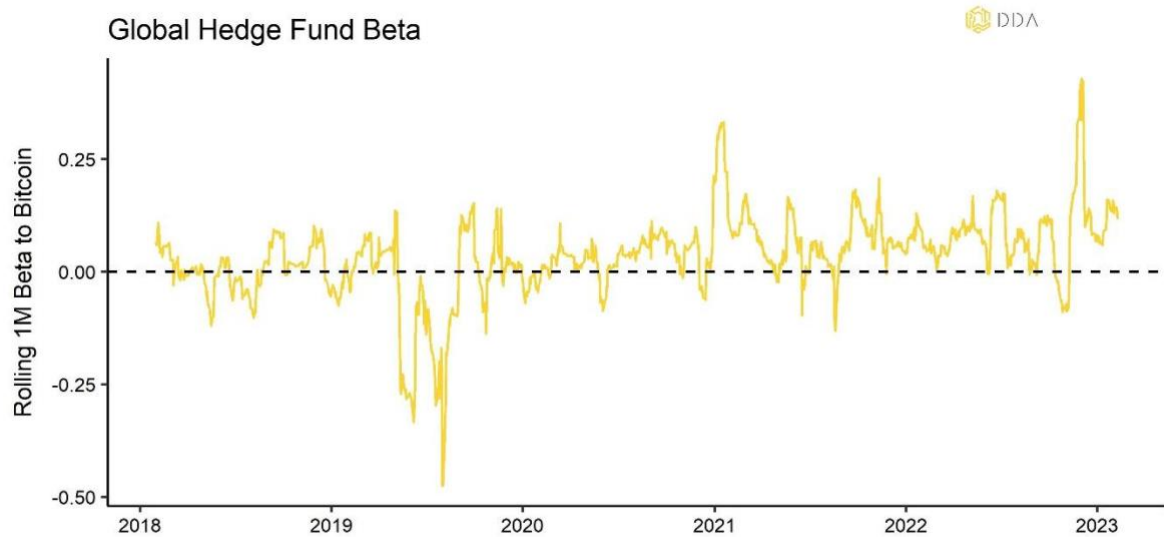
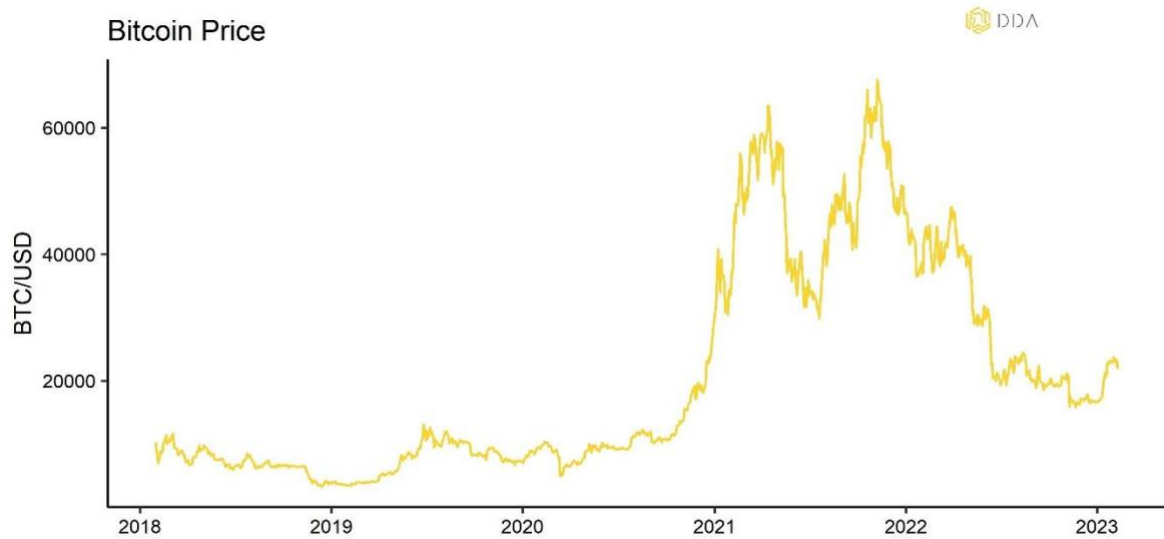


Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

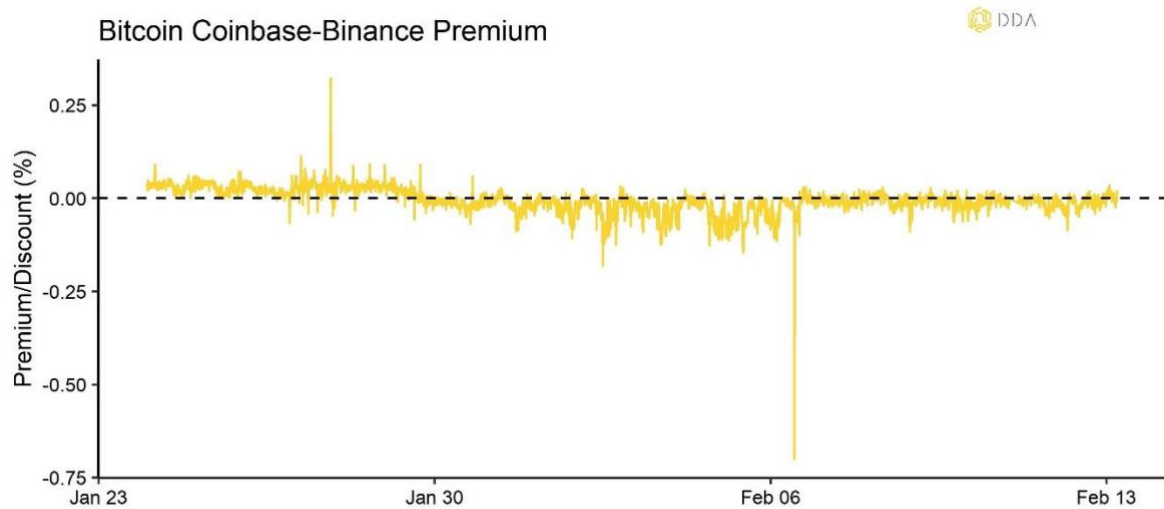
BTC Funds NAV Premia/Discounts



Source: Bloomberg, Deutsche Digital Assets

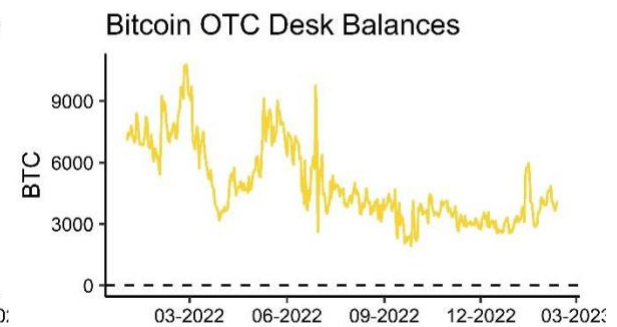
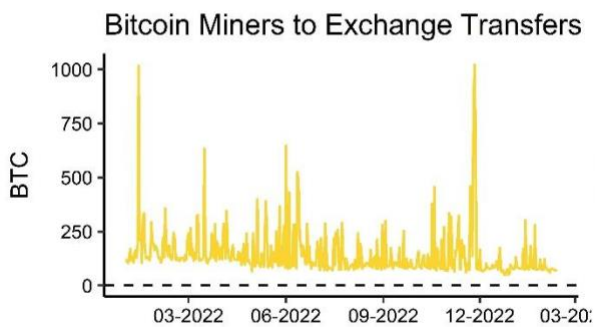
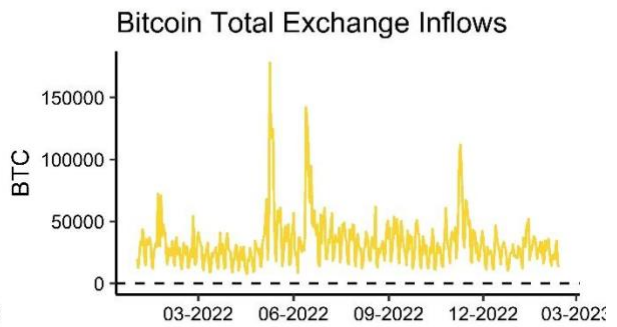
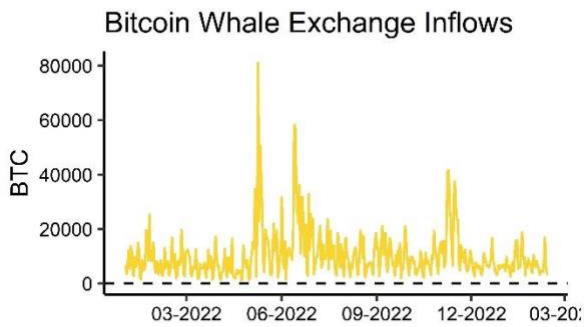
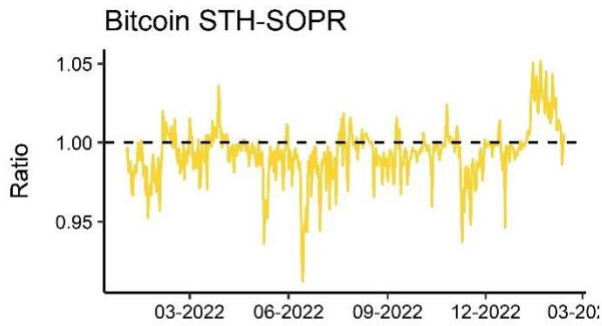


Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets



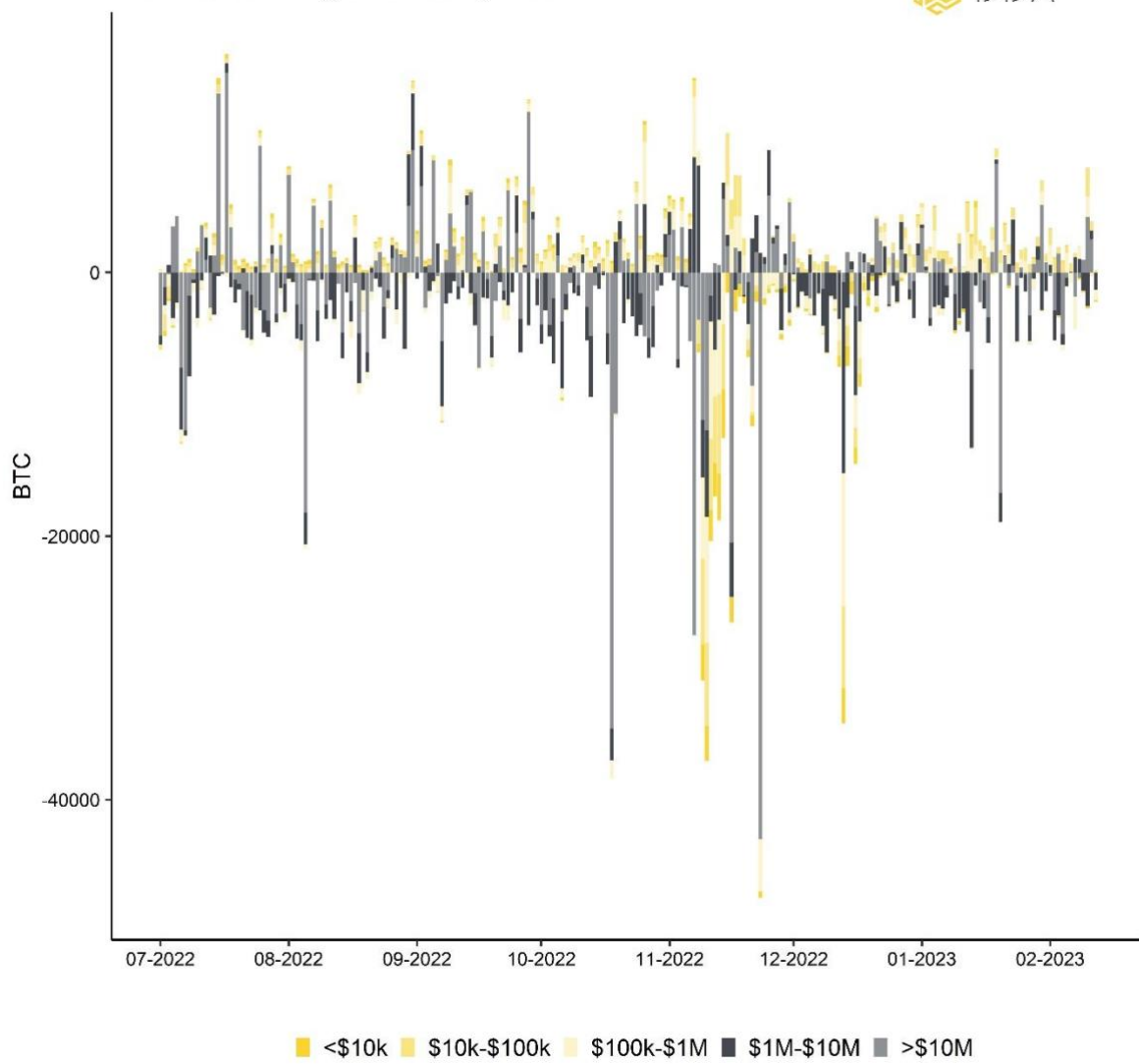
Source: Coinmarketcap, Deutsche Digital Assets

Bitcoin On-Chain Indicators



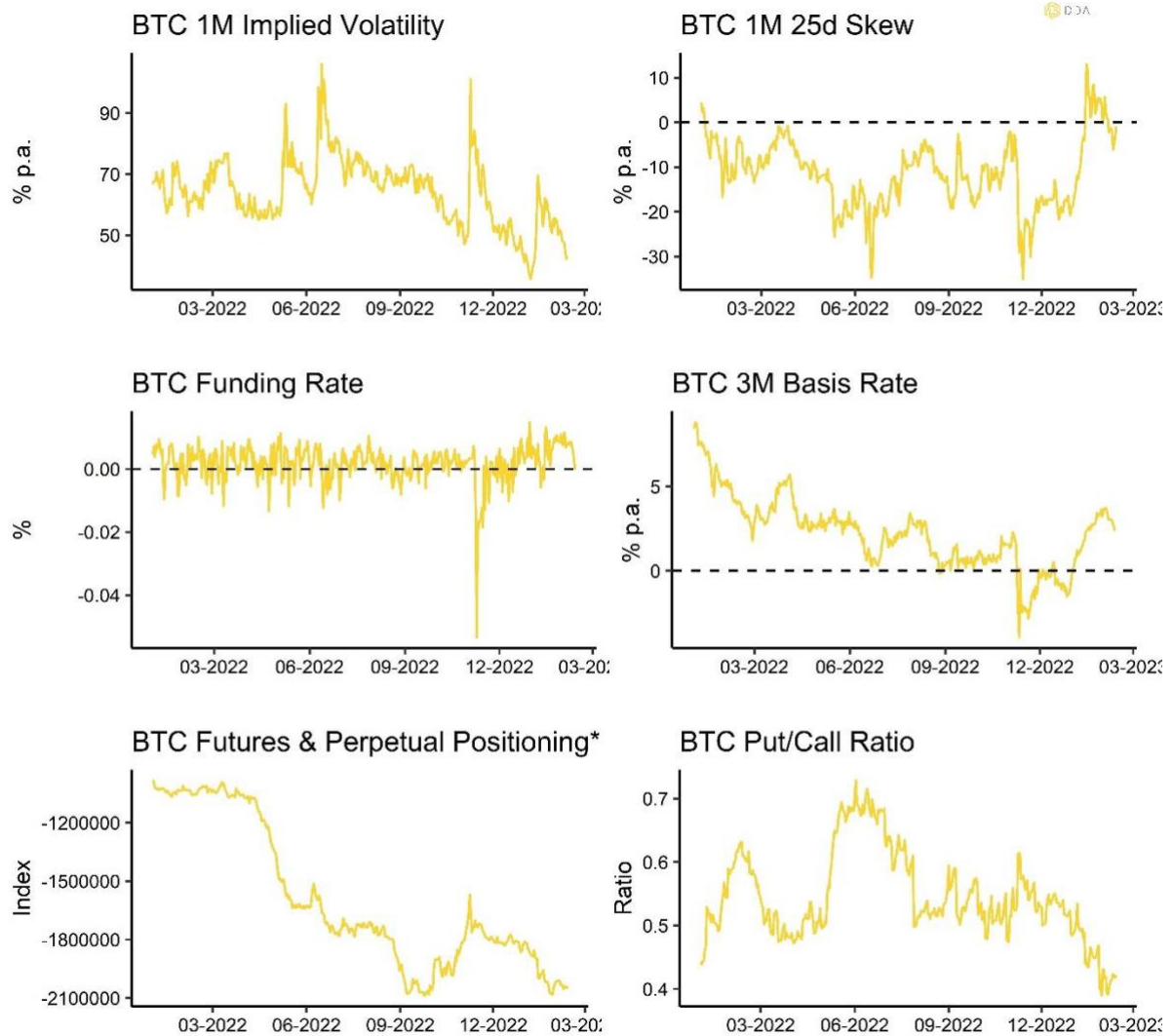
Source: Glassnode, Deutsche Digital Assets

BTC Net Exchange Volume by Size



Source: Glassnode, Deutsche Digital Assets

Bitcoin Derivatives Indicators



Source: Glassnode; *Cumulative daily absolute change in OI multiplied by sign of BTC price change

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