



CRYPTO MARKET PULSE

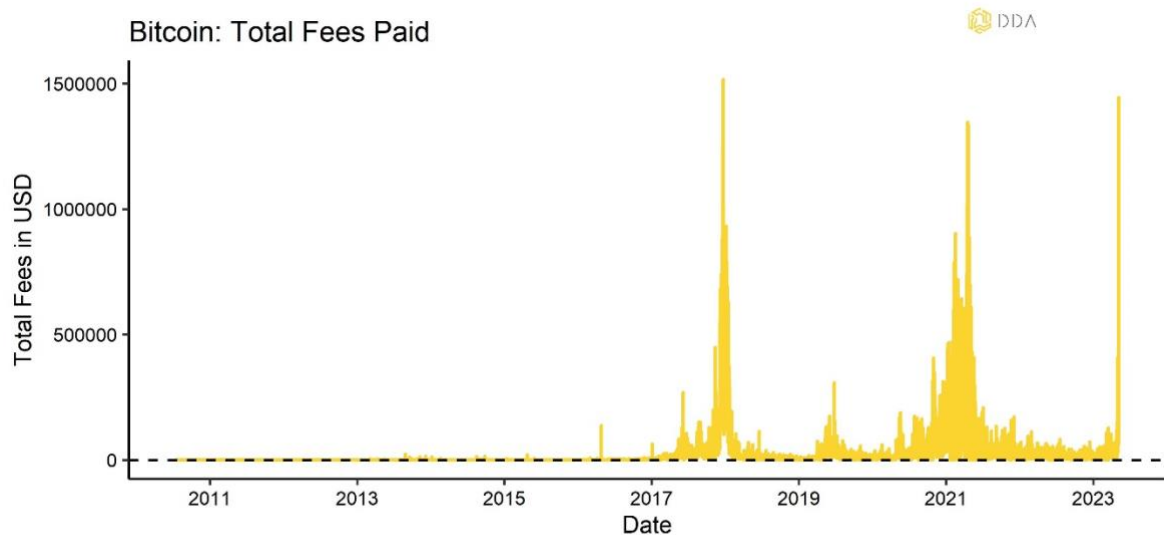
MAY 8, 2023

Key Takeaways

by André Dragosch, Head of Research

- ◆ Cryptoasset prices are under pressure due to ongoing congestion in the Bitcoin network and the fact that Binance has halted BTC withdrawals twice in the last 24 hours
- ◆ Our in-house Crypto Sentiment Index still remains neutral so far
- ◆ Total fees paid for Bitcoin transactions have reached the highest since December 2017

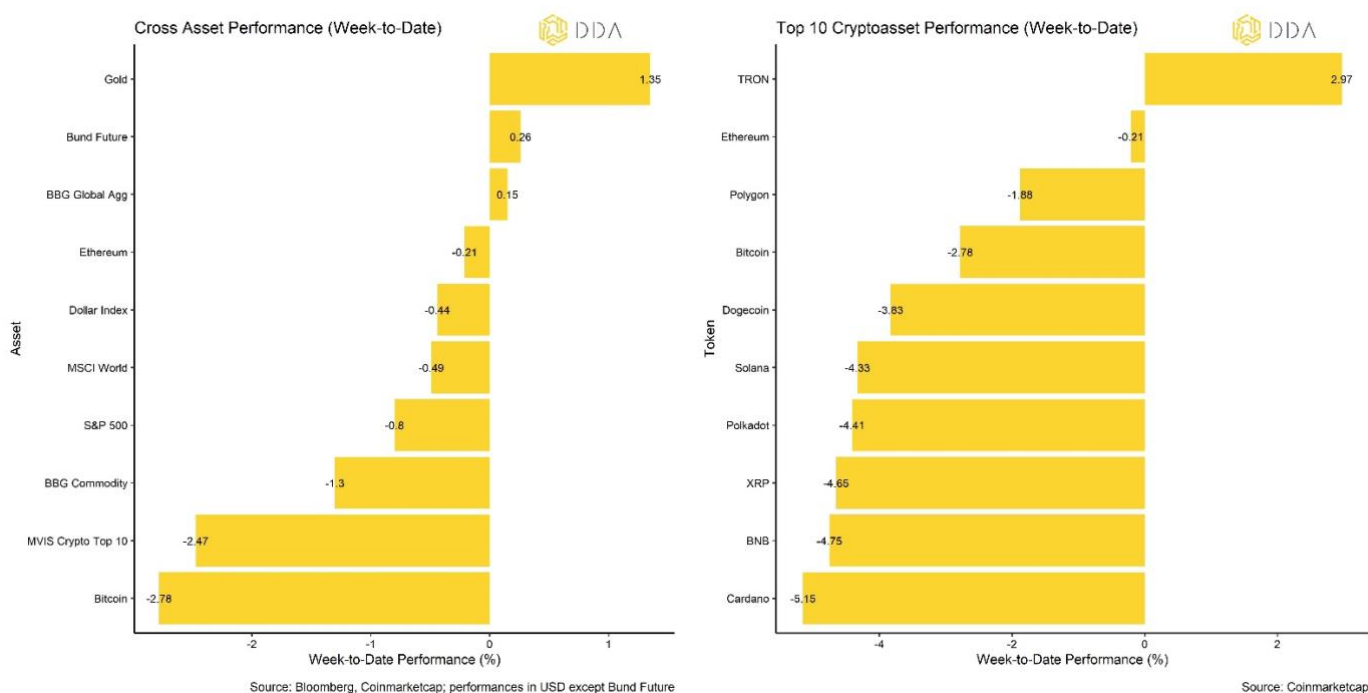
Chart of the Week



Performance

Last week, cryptoasset performances have mostly traded sideways and have just recently come under pressure due to increasing network congestion in the Bitcoin network and the fact that exchange behemoth Binance has halted withdrawals twice in the last 24 hours. Another rate hike by the Fed and continuing banking stress in the US also weighed on overall market risk sentiment of traditional financial assets.

In comparison to traditional financial assets, cryptoassets were the main underperformers last week. Global equities also performed negatively while global bonds and gold advanced.



Among the major cryptoassets, TRON, Ethereum and Polygon were the relative outperformers. In general, Altcoin outperformance of Bitcoin have recently started to pick up again, albeit from low levels.

Sentiment

Our in-house Crypto Sentiment Index has continued to stay at neutral levels although some measures improved compared to last week. 10 out of 15 indicators are above their short-term trend.

Compared to last week, we saw major reversals in the BTC short-term holder Spent-Output-Profit-Ratio (STH-SOPR) and the BTC 1-month 25-delta option skew.

The Crypto Fear & Greed Index still remains in "Greed" territory as of this morning.

Performance dispersion among cryptoassets has recently declined as correlations among cryptoassets have increased which means that cryptoassets are increasingly trading on systematic factors. At the same time, altcoin outperformance has started to pick up again last week but is still relatively low on a 1-week and 1-month basis.

In general, altcoin outperformance goes hand in hand with an increase in crypto dispersion, i.e. Bitcoin and altcoins are generally trading up during "altseason" with altcoins outperforming Bitcoin.

Broader altcoin outperformance is usually a sign of increased risk appetite and low altcoin outperformance is indicative of a rather cautious market sentiment. However, very low levels of altcoin outperformance should rather be considered a countercyclical buying opportunity.

Flows

Last week saw net fund outflows of cryptoassets again.

In aggregate, we saw net fund outflows in the amount of -29.4 mn USD (week ending Friday) with the very large majority of outflows flowing out of Bitcoin funds (-35.9 mn USD). Ethereum funds only experienced minor net outflows of -0.7 mn USD. In contrast, both Altcoin funds ex Ethereum as well as Basket & Thematic Cryptoasset funds attracted some net inflows (+3.6 mn USD and +3.7 mn USD, respectively).

Last week's net fund flows support the notion of a potential "Altseason" in the making, i.e. an environment where altcoins tend to outperform Bitcoin more sustainably.

Besides, the NAV discount of the biggest Bitcoin fund in the world - Grayscale Bitcoin Trust (GBTC) - has narrowed a bit which implies some minor net inflows into this fund vehicle.

Meanwhile, the beta of global Hedge Funds to Bitcoin over the last 20 trading days continued to be positive, implying that global hedge funds continue to have a long bias to cryptoassets.

On-Chain

On-chain metrics suggest that network activity is very high which is why total fees paid for Bitcoin transactions have reached the highest since December 2017 (see **Chart-of-the-Week**).

The reason is that the Bitcoin network has experienced a high level of congestion. For instance, this can be seen at the number of transactions waiting in the so-called mempool which are the number of transactions waiting to be validated by Bitcoin miners. At the time of writing, those transactions have reached 160k - the highest level this year.

In consequence, users have been paying up to ~35 USD per transaction on the Bitcoin blockchain.

Some observers have associated this increase in network congestion and transaction fees to a significant pick-up in inscriptions on the Bitcoin blockchain. In this context, there has been increased spamming of the network with what appears to be nonsense inscriptions (see [here](#)). Moreover, there has been an increase in so-called "dust" transactions where transaction fees paid are more than 3 times larger than the value transacted which do not make sense from an economic point of view. This has led some observers to assume that a hostile actor might perform a Distributed-Denial-of-Service (DDOS) attack on the Bitcoin network, hence the negative price reaction. The negative price reaction was reinforced by the fact that exchange behemoth Binance halted Bitcoin withdrawals twice in the last 24 hours.

Although the network will be slowed down somewhat in the short term, most observers assume that these kinds of attacks will not be sustainable as they are relatively costly to perform on a continuing basis and eventually just subsidize miners to secure the network.

We rather think that further price corrections could pose another good opportunity for investors to increase their exposure, especially if our in-house crypto sentiment index turns bearish.

That being said, the number of active addresses in the Bitcoin blockchain has recently decreased to the lowest level year-to-date despite the high level of congestion which is somewhat concerning in the broader context of genuine network activity.

Derivatives

Over the last week, implied volatilities mostly continued to trade lower due to the sideways trading range and the 1-month 25-delta option skew continued to trade in favour of call options which implies a positive

bias among Bitcoin option traders.

What is more is that our in-house Bitcoin futures & perpetual positioning proxy has signalled a significant increase in BTC exposure via futures and perpetual contracts over the last week. Similar observations can be made with respect to the Put-Call ratio that decreased significantly over the last week, too. However, the 3-months basis rate continued to trade lower (albeit positive) and the perpetual funding rate recently turned slightly negative implying a preference of short over long contracts among perpetual traders.

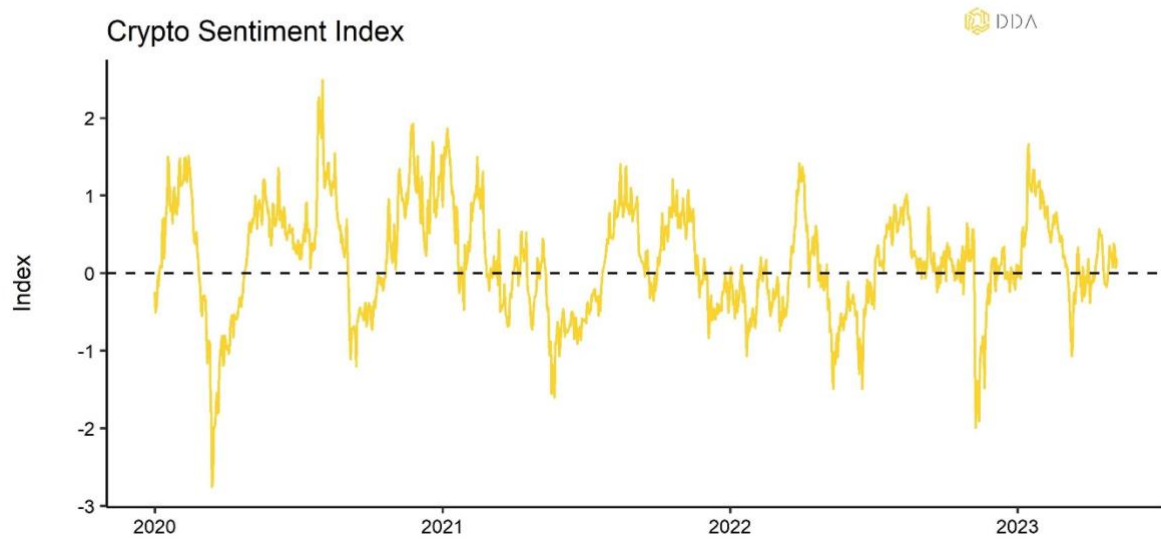
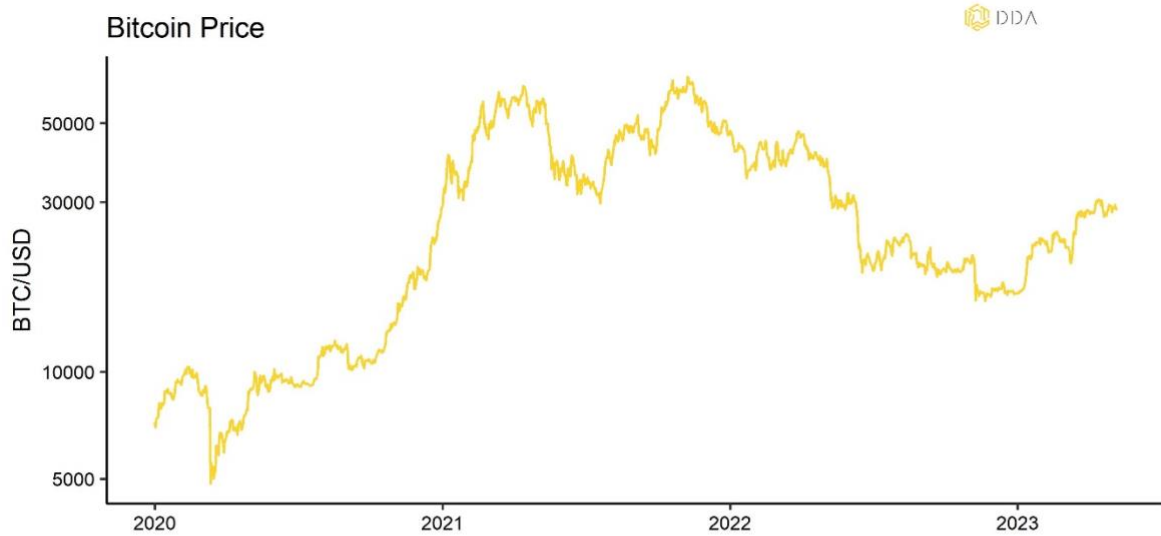
Bottom Line

Cryptoasset prices are under pressure due to ongoing congestion in the Bitcoin network and the fact that Binance has halted BTC withdrawals twice in the last 24 hours.

Our in-house Crypto Sentiment Index still remains neutral so far.

Total fees paid for Bitcoin transactions have reached the highest since December 2017.

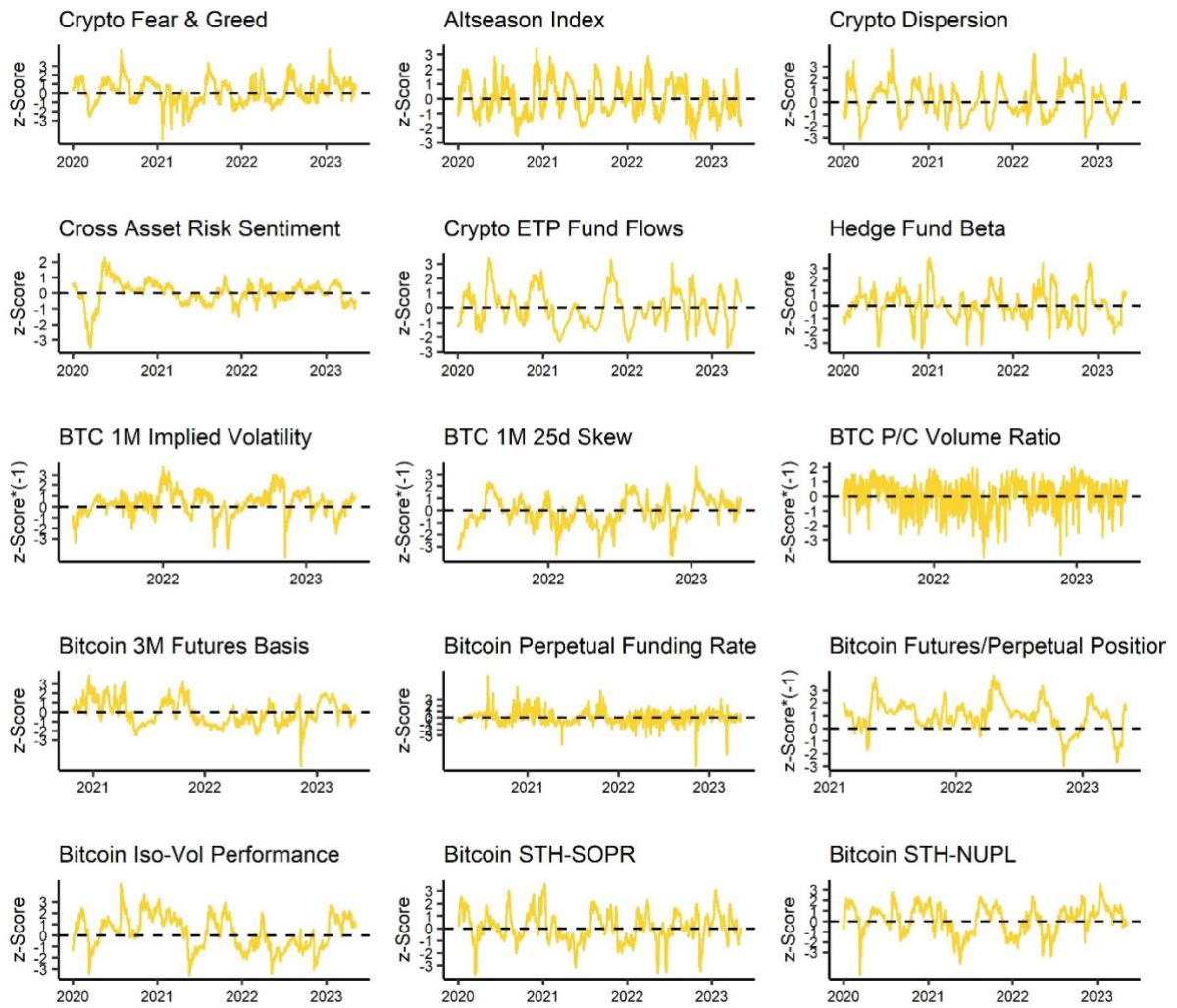
Appendix



Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

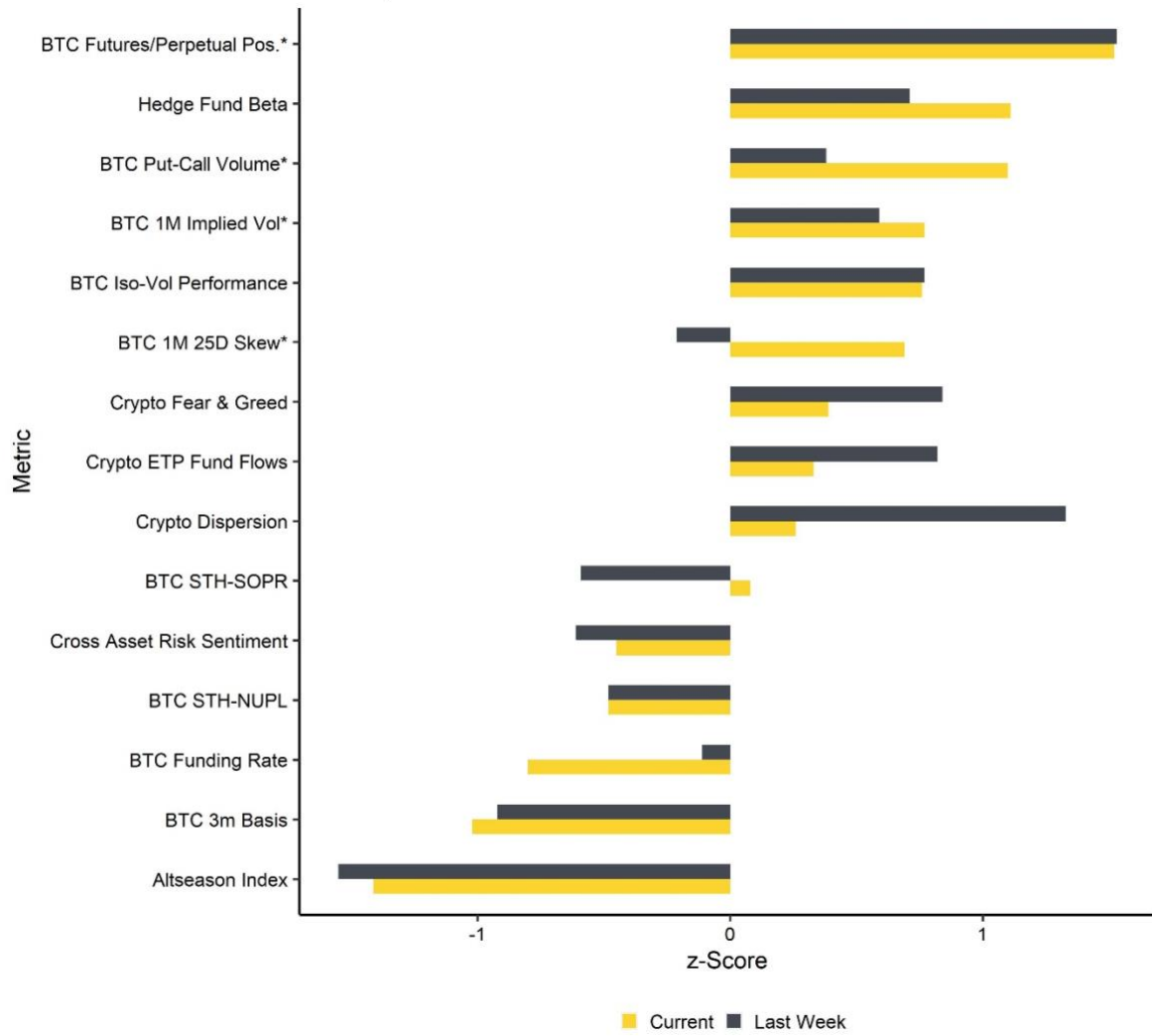
Crypto Sentiment Index

Subcomponents, 90-day rolling z-Scores

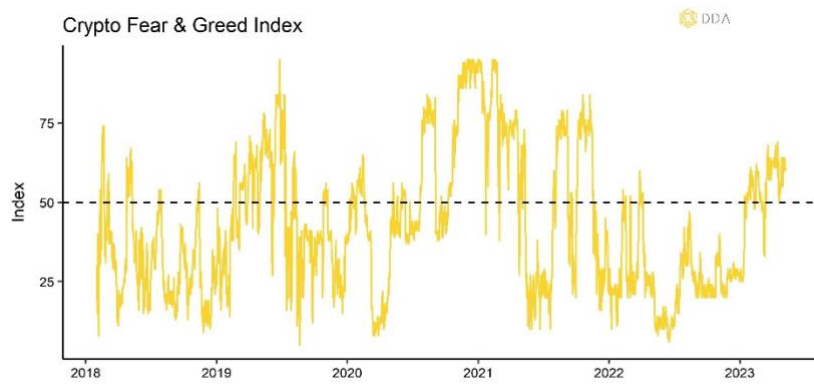
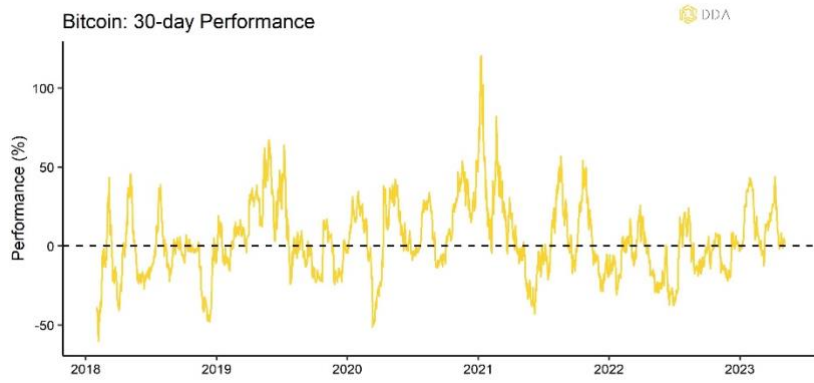


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

Crypto Sentiment Index Subcomponents

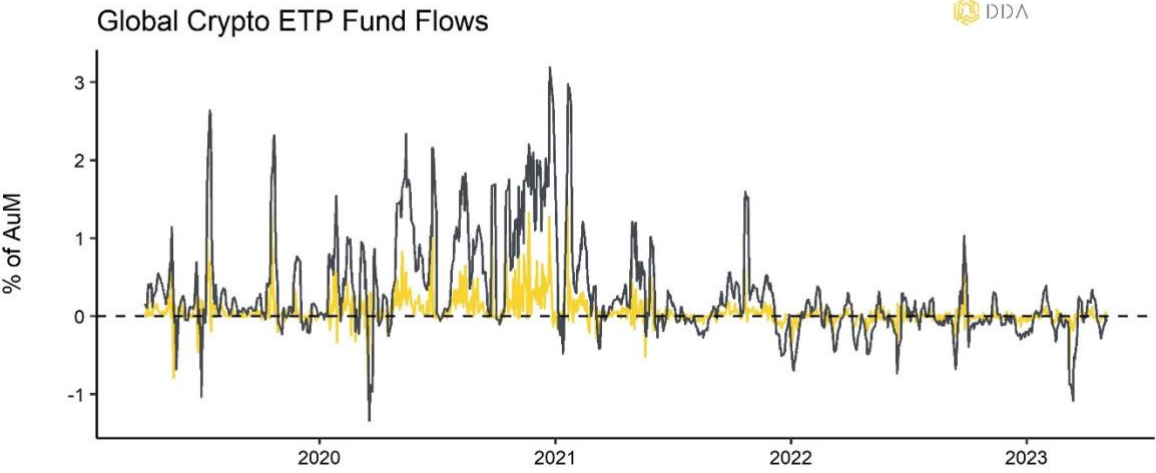
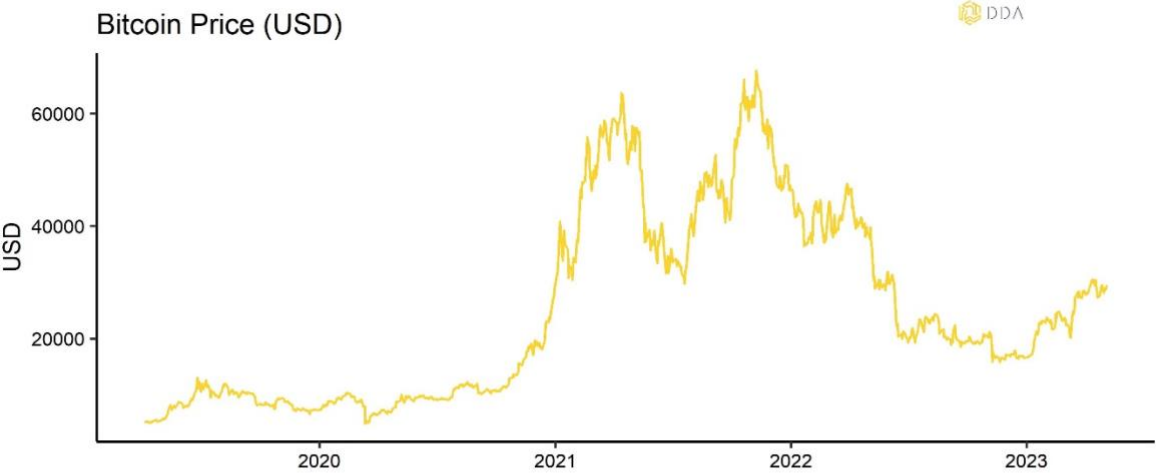


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; *multiplied by (-1)



Source: alternative.me, Coinmarketcap, Deutsche Digital Assets

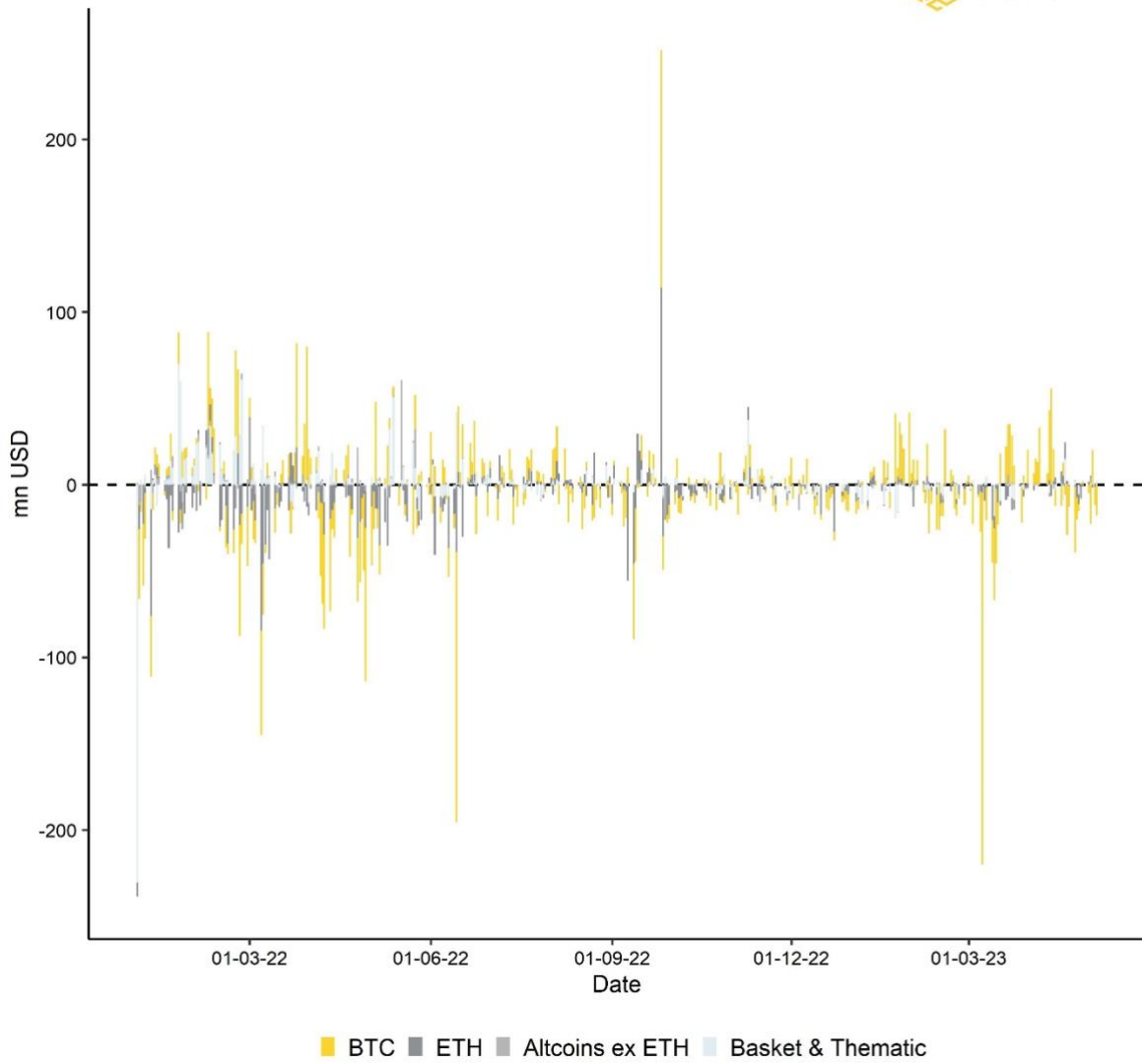
Bitcoin vs Global Crypto ETP Fund Flows



— Fund Flows — 5d rolling sum

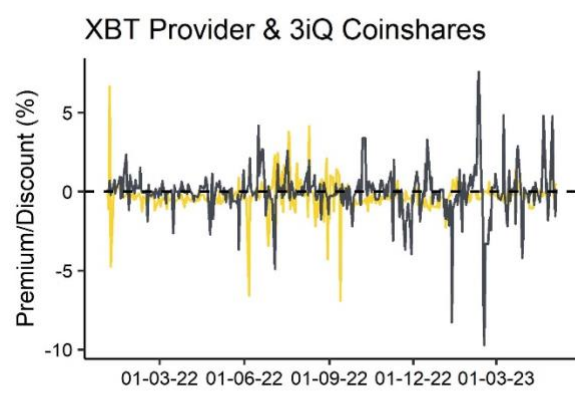
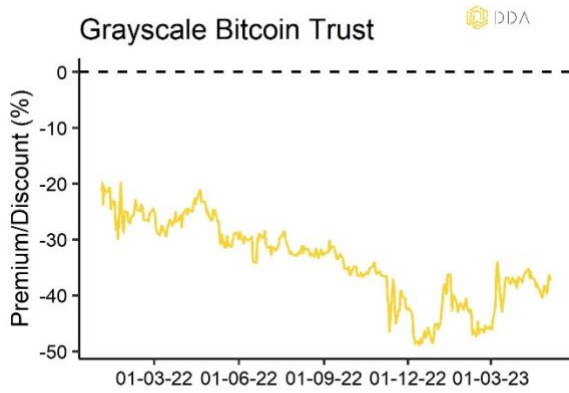
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

Global Crypto ETP Fund Flows



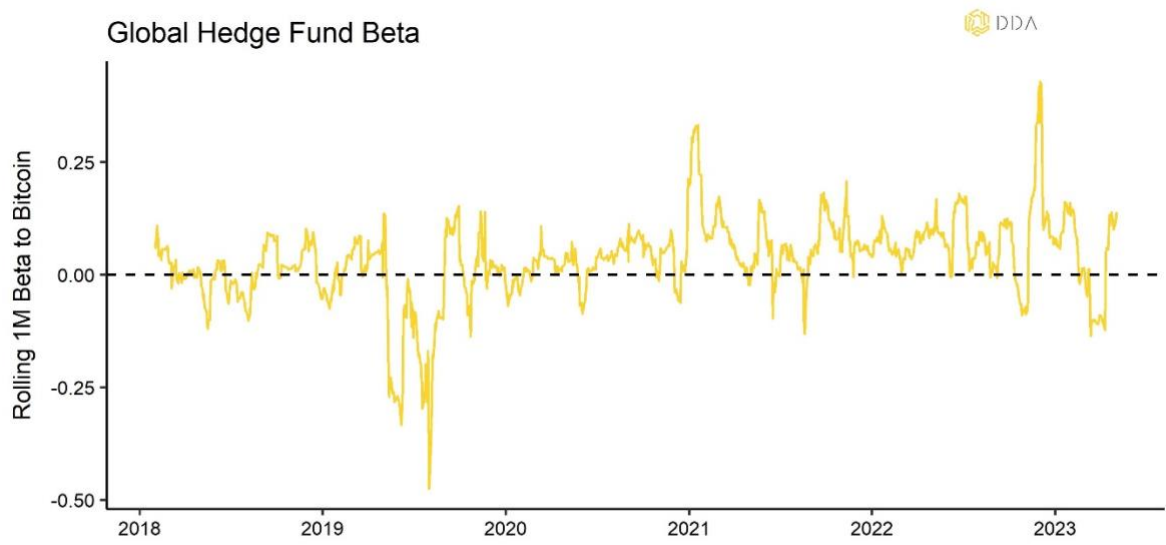
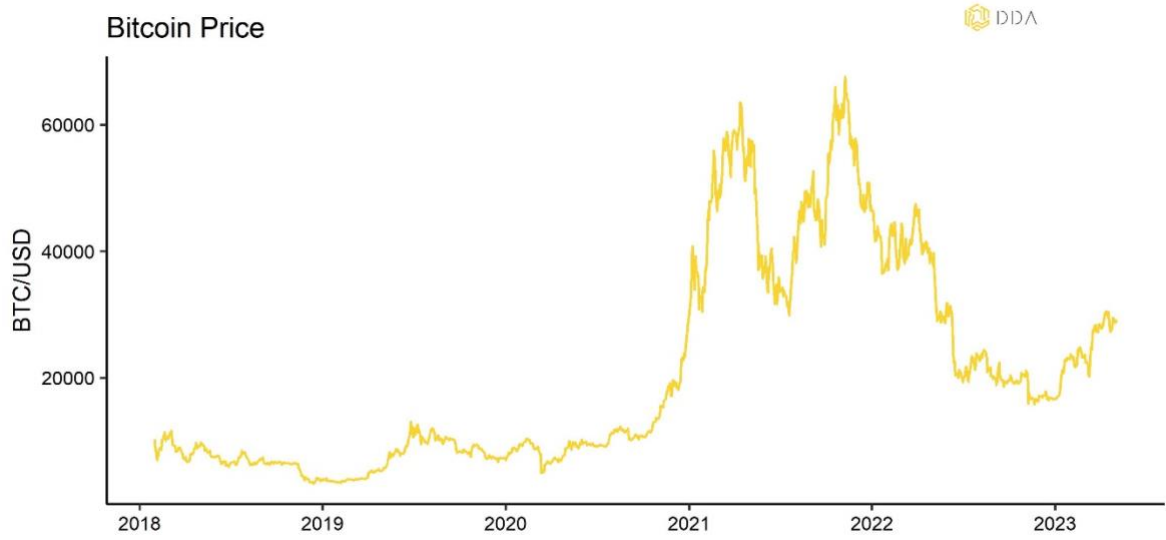
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

BTC Funds NAV Premia/Discounts



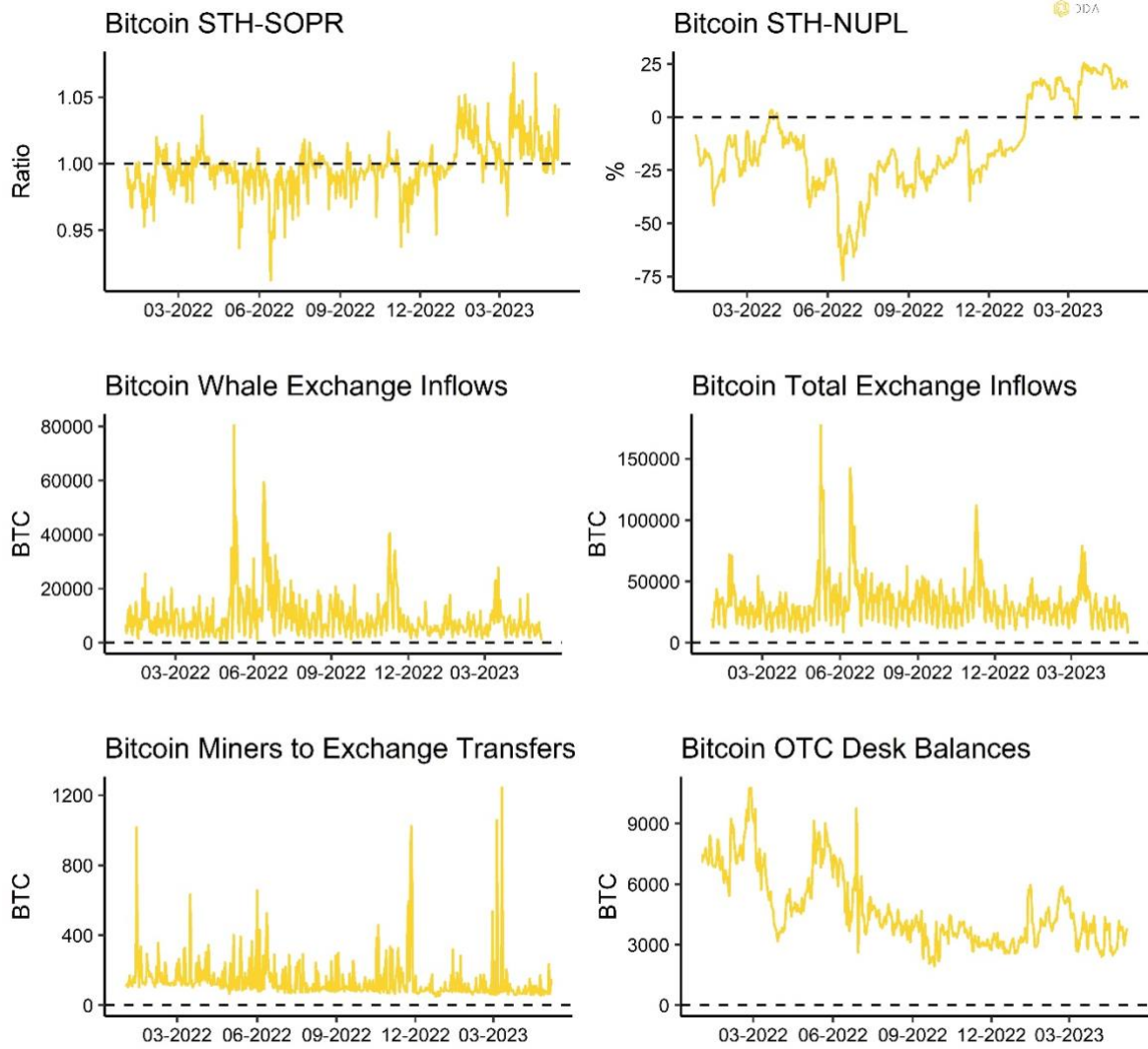
— XBT Provider — 3iQ Coinshares (Canada)

Source: Bloomberg, Deutsche Digital Assets



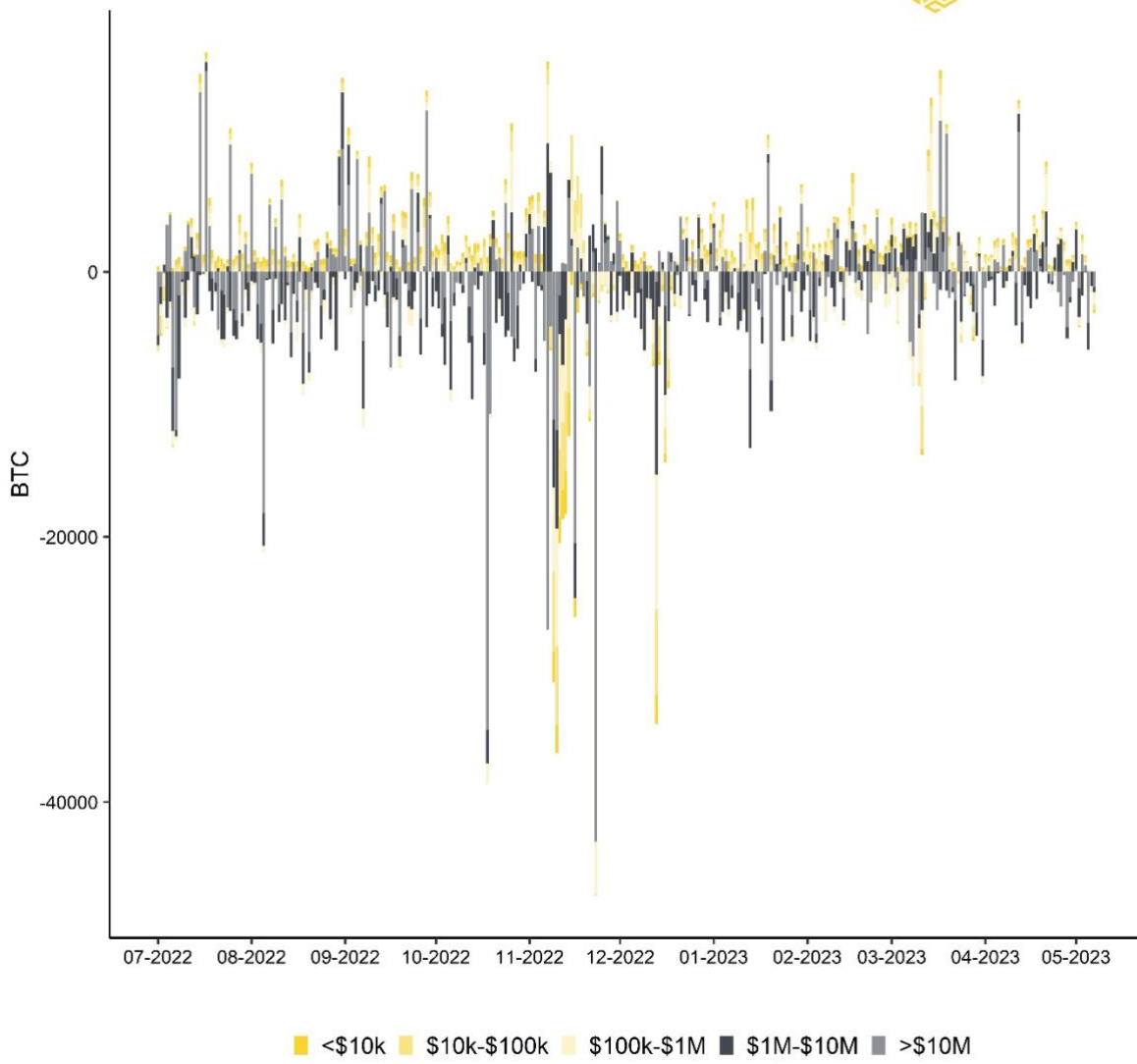
Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets

Bitcoin On-Chain Indicators



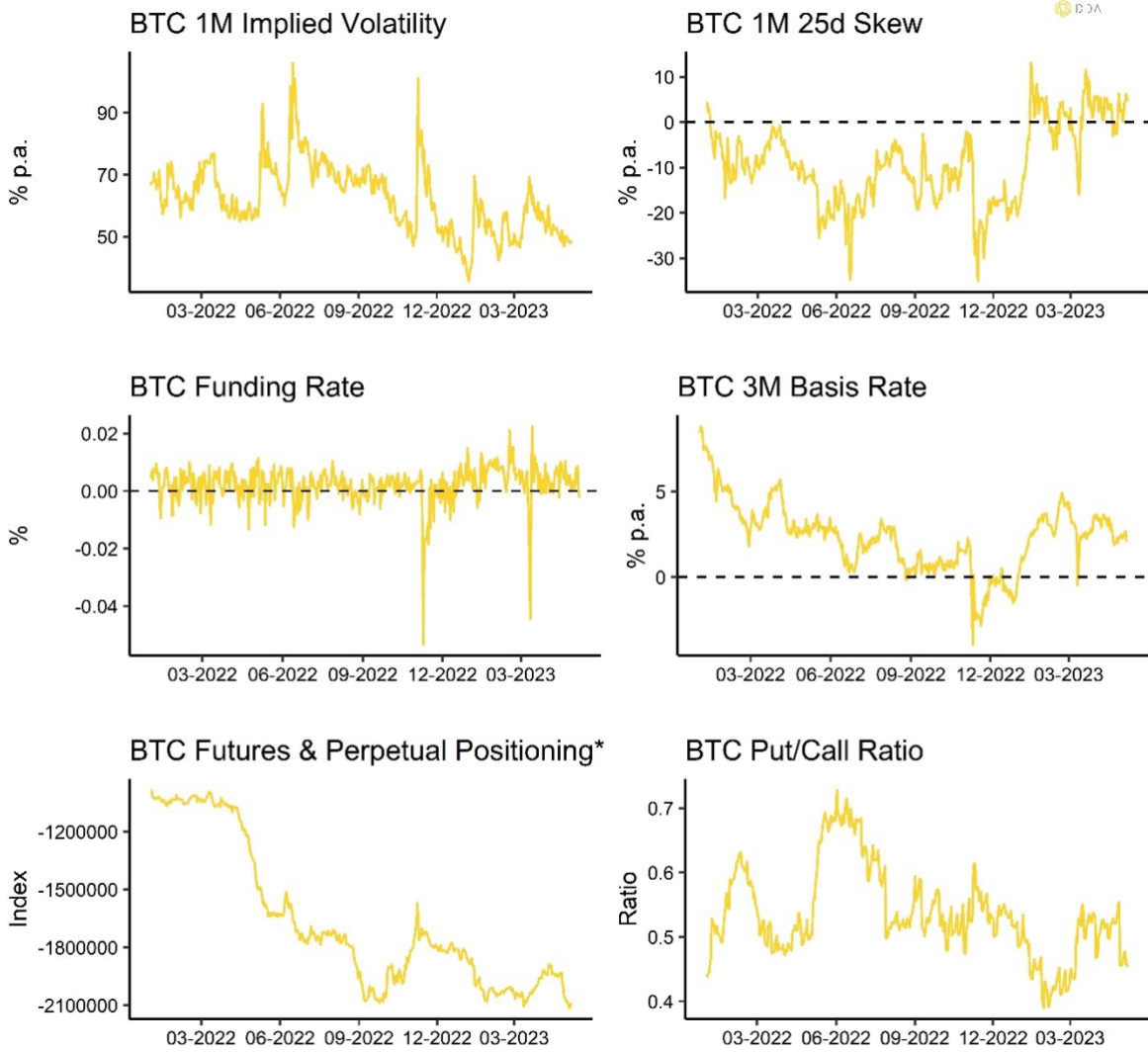
Source: Glassnode, Deutsche Digital Assets

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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