



# CRYPTO MARKET PULSE

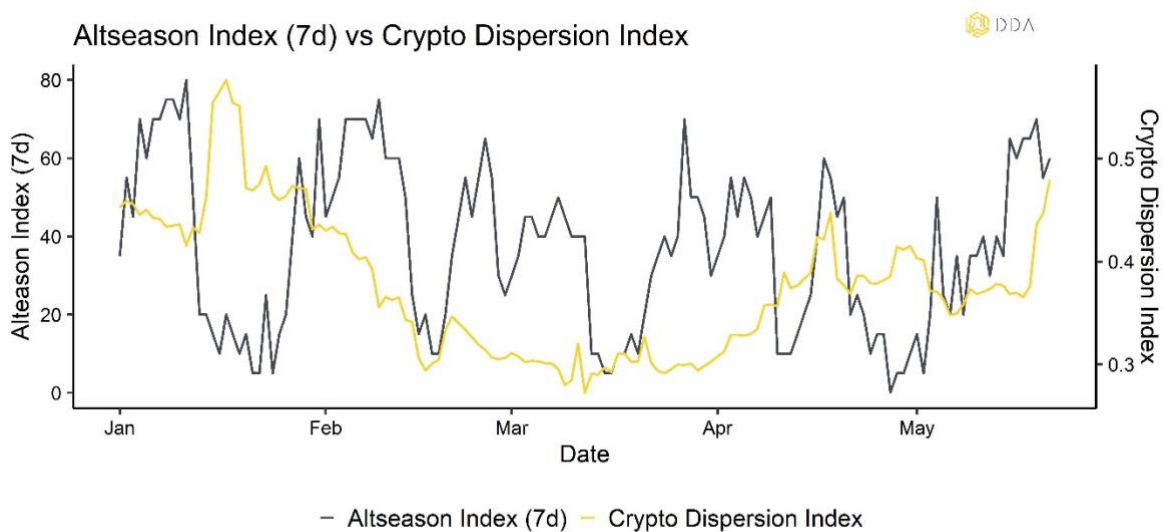
MAY 22, 2023

## Key Takeaways

by André Dragosch, Head of Research

- ◆ Altcoin outperformance has started to pick up while performance dispersion among cryptoassets has also been increasing
- ◆ Despite the weak BTC performance, our in-house Crypto Sentiment Index has increased throughout last week and is now slightly positive again
- ◆ Tether says it will buy Bitcoin for stablecoin reserves using realized profits

## Chart of the Week

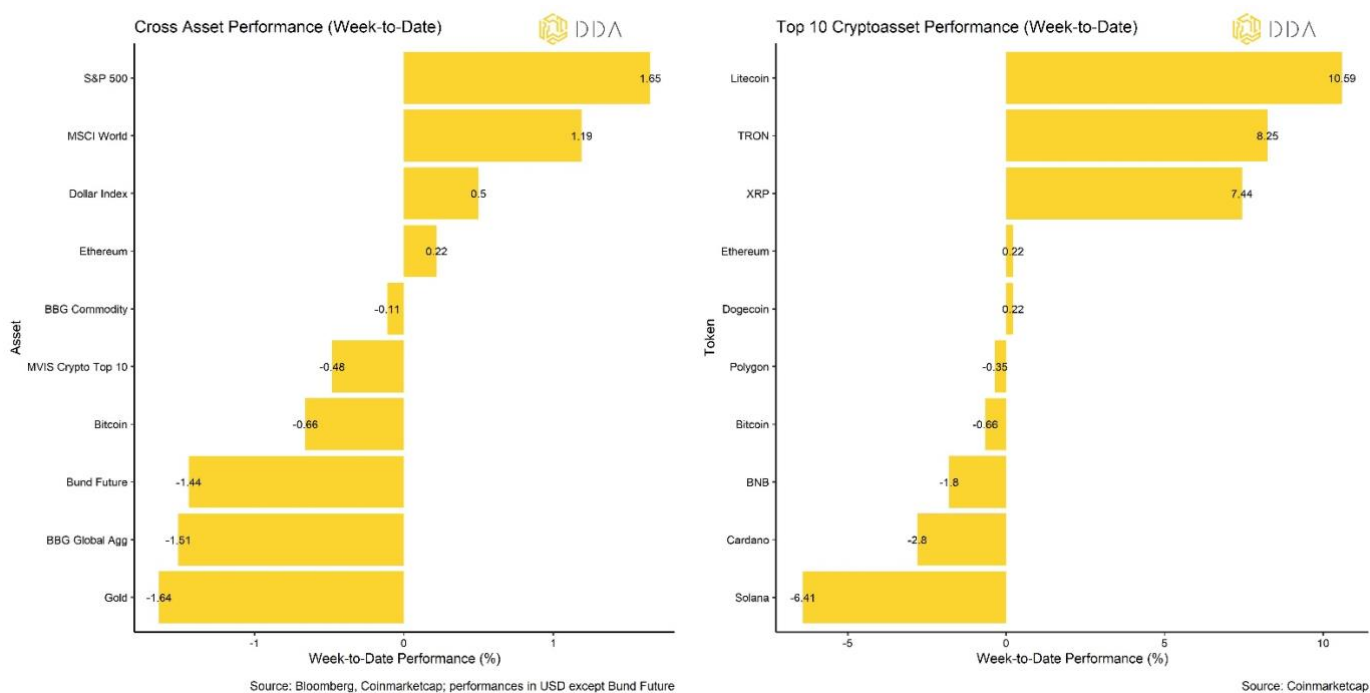


Source: Glassnode, Deutsche Digital Assets

# Performance

Last week, cryptoasset performances were mostly trading to the downside although the degree of network congestion in the Bitcoin network continued to decline. At the same time, Altcoin outperformance vis-à-vis Bitcoin has started to pick up on a weekly basis while performance dispersion among cryptoassets has also been increasing (**Chart-of-the Week**). Similarly, the correlation between Ethereum and Bitcoin hit a 2-year low.

In comparison, traditional financial assets like equities outperformed although this was mostly driven by mega cap outperformance and a weak market breadth. Rate-sensitive assets such as bonds and gold were under pressure as the Fed pushed back against rate cut expectations amid weak labour market and inflation data.



Among the major cryptoassets, Litecoin, TRON and XRP were the relative outperformers. As mentioned above, Altcoin outperformance vis-à-vis Bitcoin has started to pick up last week, with more than 50% of tracked Altcoins outperforming Bitcoin on a weekly basis.

## Sentiment

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Despite the fact that Bitcoin was mostly trading to the downside last week, our in-house Crypto Sentiment Index has increased. However, only 6 out of 15 indicators are above their short-term trend.

Compared to last week, we saw major reversals in the Crypto Dispersion Index and indicators across the BTC derivatives space including the Put-Call Volume Ratio and implied volatilities.

The Crypto Fear & Greed Index has decreased only slightly and still remains in "Neutral" territory as of this morning.

As mentioned above, performance dispersion among cryptoassets has recently picked up as correlations among cryptoassets have decreased which means that cryptoassets are increasingly trading on coin-specific factors. The 30-days correlation between Ethereum and Bitcoin has decreased below 80% to a 2-year low. At the same time, altcoin outperformance has continued to increase last week and is now above 50% of Altcoins outperforming Bitcoin on a weekly 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 increasing risk appetite.

## Flows

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Last week saw major net fund outflows of cryptoassets again.

In aggregate, we saw net fund outflows in the amount of -55.1 mn USD (week ending Friday) - the highest net outflows since more than a month - with the very large majority of outflows flowing out of Bitcoin funds (-49.4 mn USD). Ethereum funds only experienced minor net outflows of -4.7 mn USD. In contrast, Altcoin funds ex Ethereum attracted some net inflows again (+1.1 mn USD) while basket & thematic cryptoasset funds experienced some net outflows during the week (-2.2 mn USD).

Besides, the NAV discount of the biggest Bitcoin fund in the world - Grayscale Bitcoin Trust (GBTC) - has widened again which implies some minor net outflows out of this fund vehicle.

Meanwhile, the beta of global Hedge Funds to Bitcoin over the last 20 trading days has continued to decrease, implying that global hedge funds continue to reduce their exposure to cryptoassets.

## On-Chain

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Following the latest congestion of the Bitcoin network, core on-chain metrics such as active and new addresses have started to recover again, albeit from low levels. Address growth was recently held back significantly because high fees deterred users to transact via the Bitcoin blockchain. Weak core on-chain metrics for Bitcoin continue to be the weak spot for the market as a whole and should be closely monitored in the coming weeks.

That being said, Bitcoin exchange balances have decreased significantly at the start of last week as some larger buyers seem to have utilized the recent price correction for accumulation. In fact, we saw the highest net exchange outflow by large wallet cohorts since November 2022. In general, we are starting to see increased accumulation activity again based on our analysis of the different BTC wallet cohorts. At the same time, there was a pick-up in OTC desk balances for BTC which implies increased institutional buying interest. Meanwhile, on-chain measures of illiquid supply provided by Glassnode have hit a new all-time high for Bitcoin. According to Glassnode, 15.1 mn Bitcoins are "illiquid" which represents 77.9% of circulating supply. An increase in illiquid supply is usually associated with higher prices as it implies an increase in supply scarcity on exchanges.

On a similar note, exchange balances for Ethereum have continued to decrease to fresh multi-year lows which is also a bullish sign. At the same time, the growth of new validators on the Ethereum blockchain continues to be very high with approximately 3900 new validators entering the validator pool daily. The amount of ETH active validators continues to trend higher and is now at an all-time high of ~580k active validators.

Another positive development was the announcement by Tether, the issuer of the USDT stablecoin, to buy Bitcoin for stablecoin reserves using realized profits. Tether has issued 82 bn USD-equivalent of USDT, reported net profits of 1.48 bn USD in Q1 2023 and revealed 1.5 bn USD in Bitcoin holdings in its latest filings.

## Derivatives

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Over the last week, implied volatilities continued to trade lower despite the negative price action. Bitcoin 1-month implied volatilities have decreased to the lowest levels since January 2023 again. The 1-month 25-delta option skew continued to trade in favour of put options which implies a negative bias among Bitcoin

option traders. That being said, the open interest of BTC put options versus call options has decreased significantly last week. However, options open interest has generally been decreasing in BTC-terms since mid-March 2023. On the other hand, futures and perpetual open interest have increased in the latest price correction which implies that traders have increased their short positions pro-cyclically into weakness. This could create a set-up for a potential short squeeze if the market turns positive again. The 3-months annualized BTC futures basis rate continues to hover sideways and is now slightly below 2% p.a.

## **Bottom Line**

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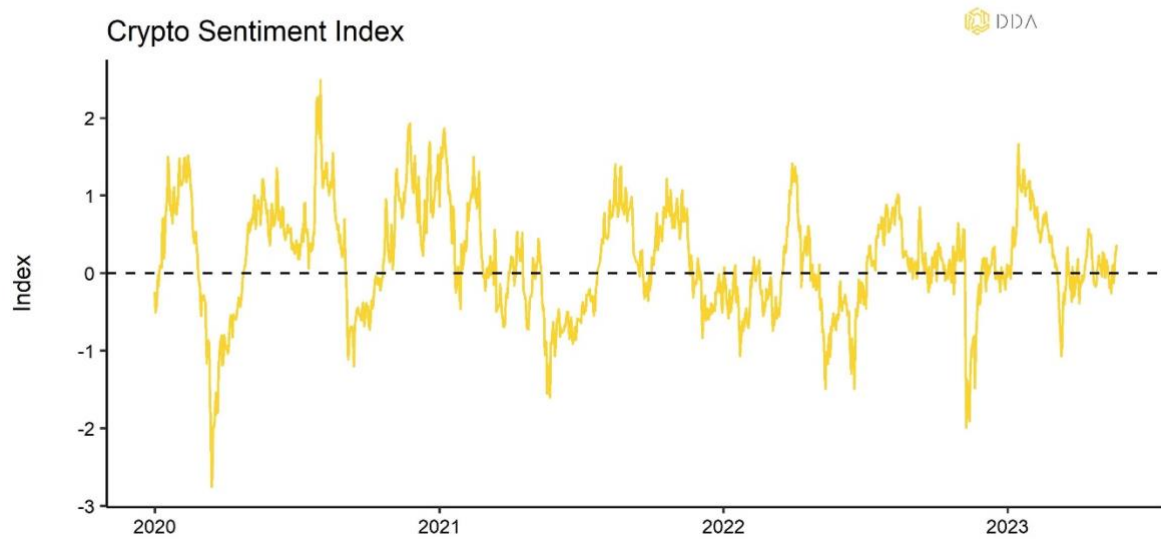
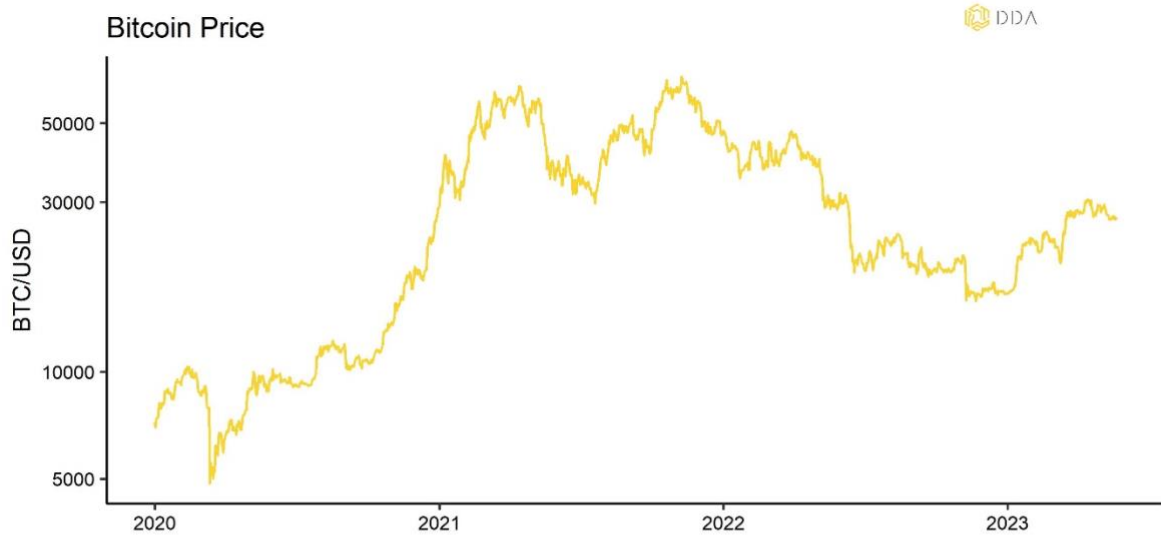
**Altcoin outperformance has started to pick up while performance dispersion among cryptoassets has also been increasing.**

**Despite the weak BTC performance, our in-house Crypto Sentiment Index has increased throughout last week and is now slightly positive again.**

**Tether says it will buy Bitcoin for stablecoin reserves using realized profits.**

# Appendix

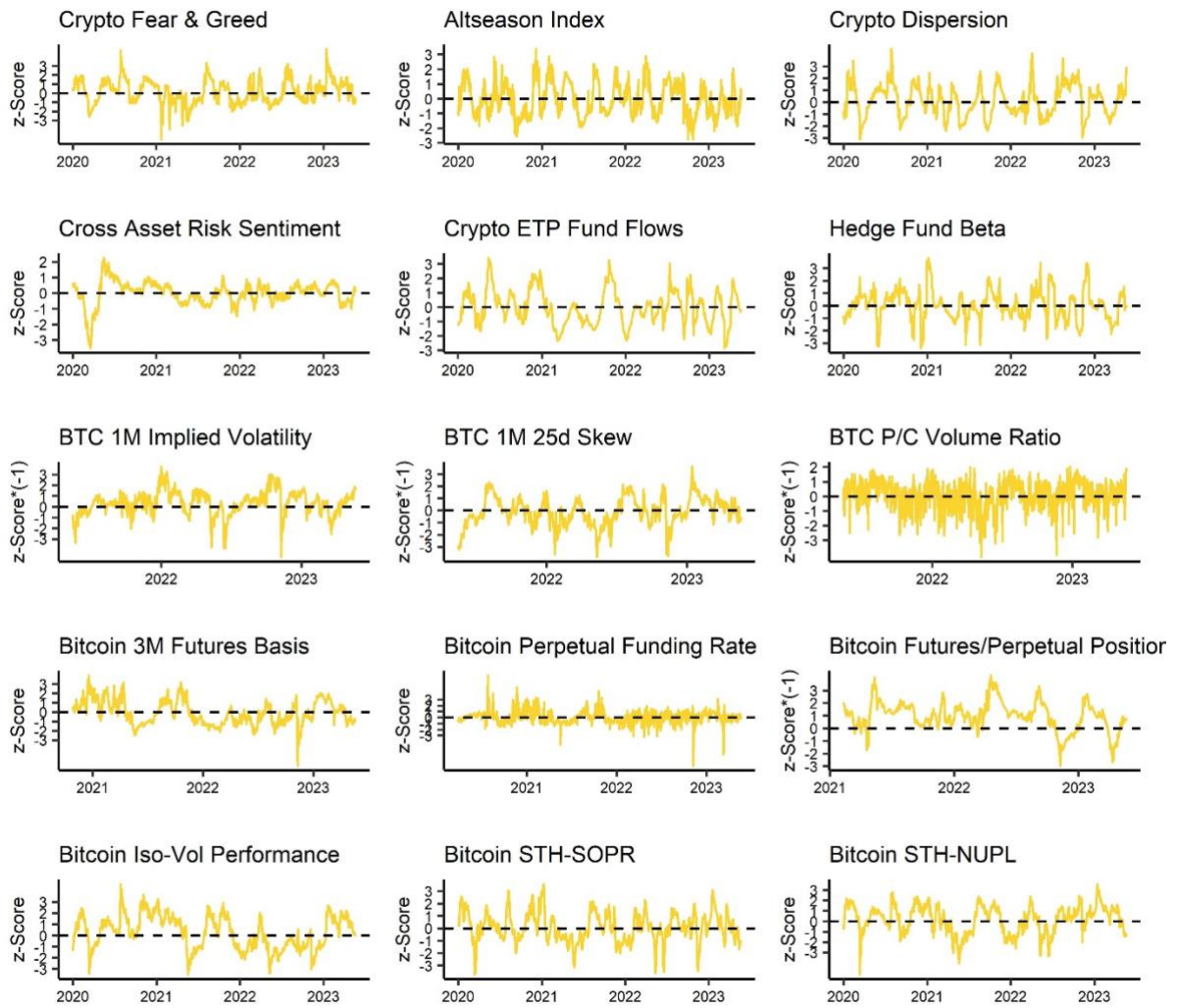
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Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

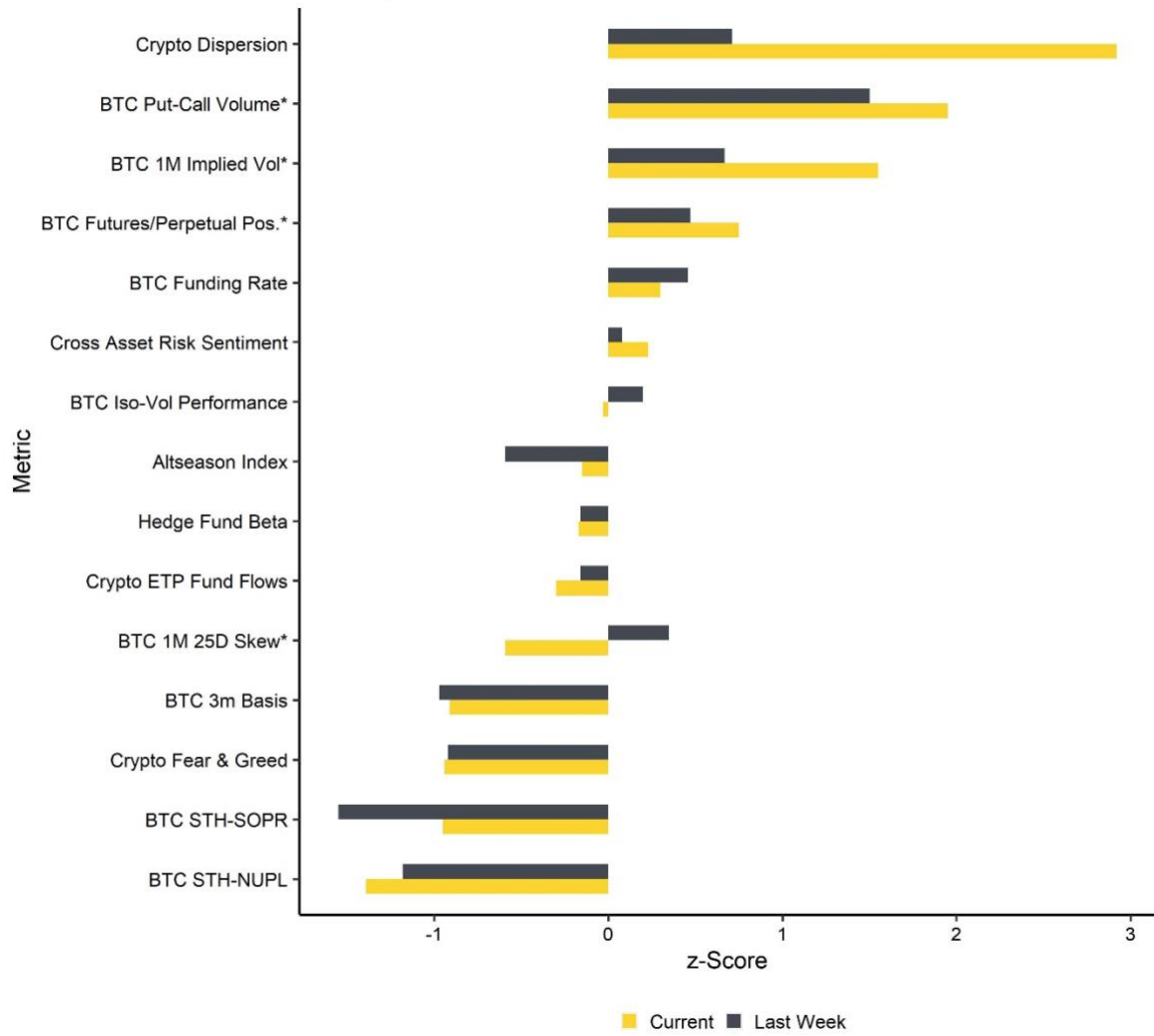
# Crypto Sentiment Index

## Subcomponents, 90-day rolling z-Scores



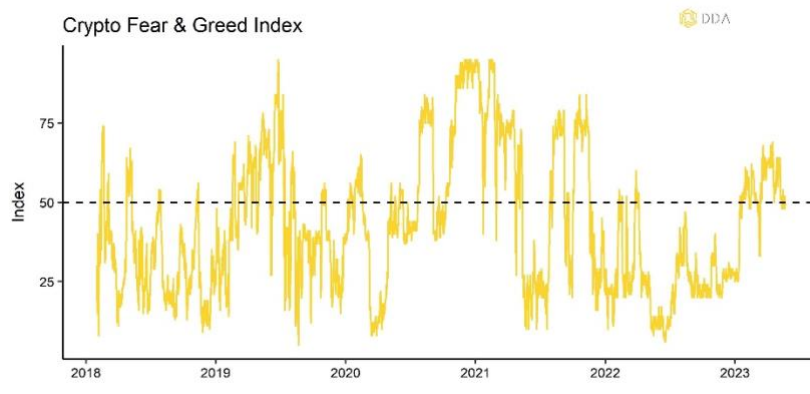
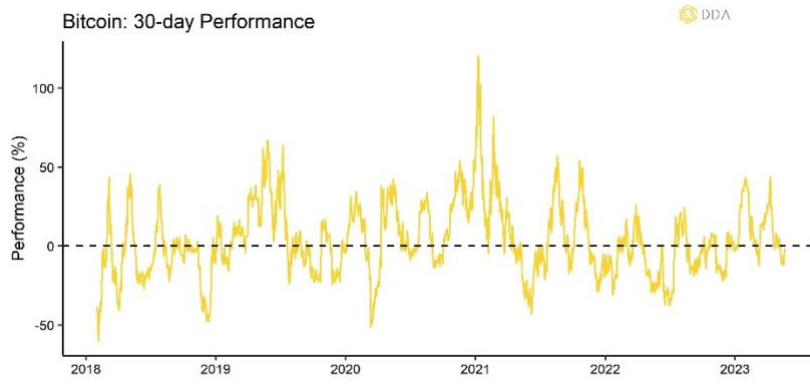
Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

## Crypto Sentiment Index Subcomponents



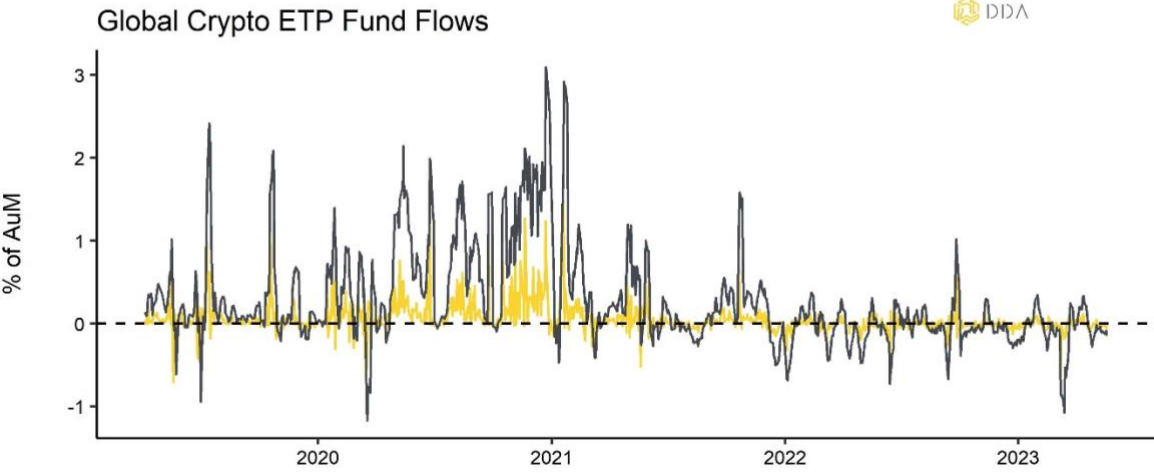
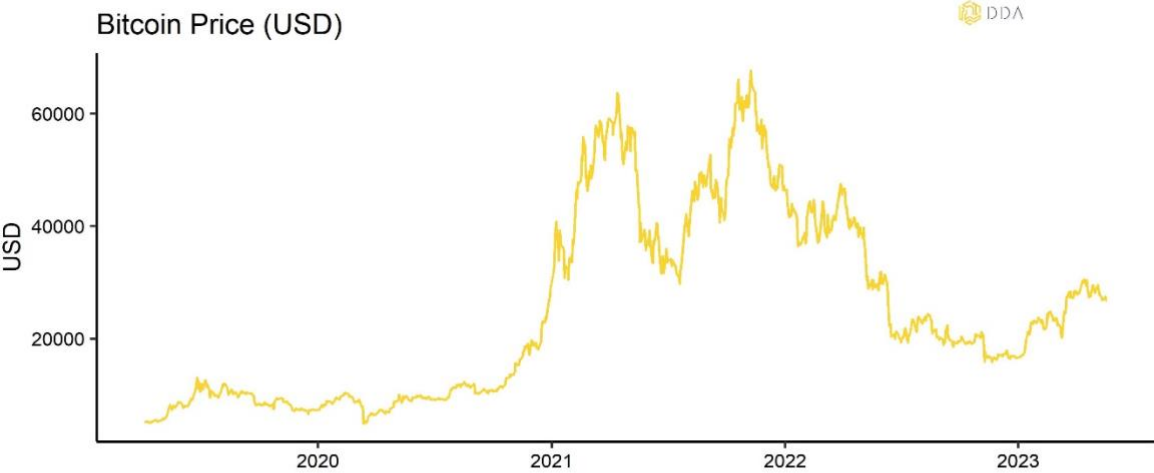
Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; \*multiplied by (-1)





Source: alternative.me, Coinmarketcap, Deutsche Digital Assets

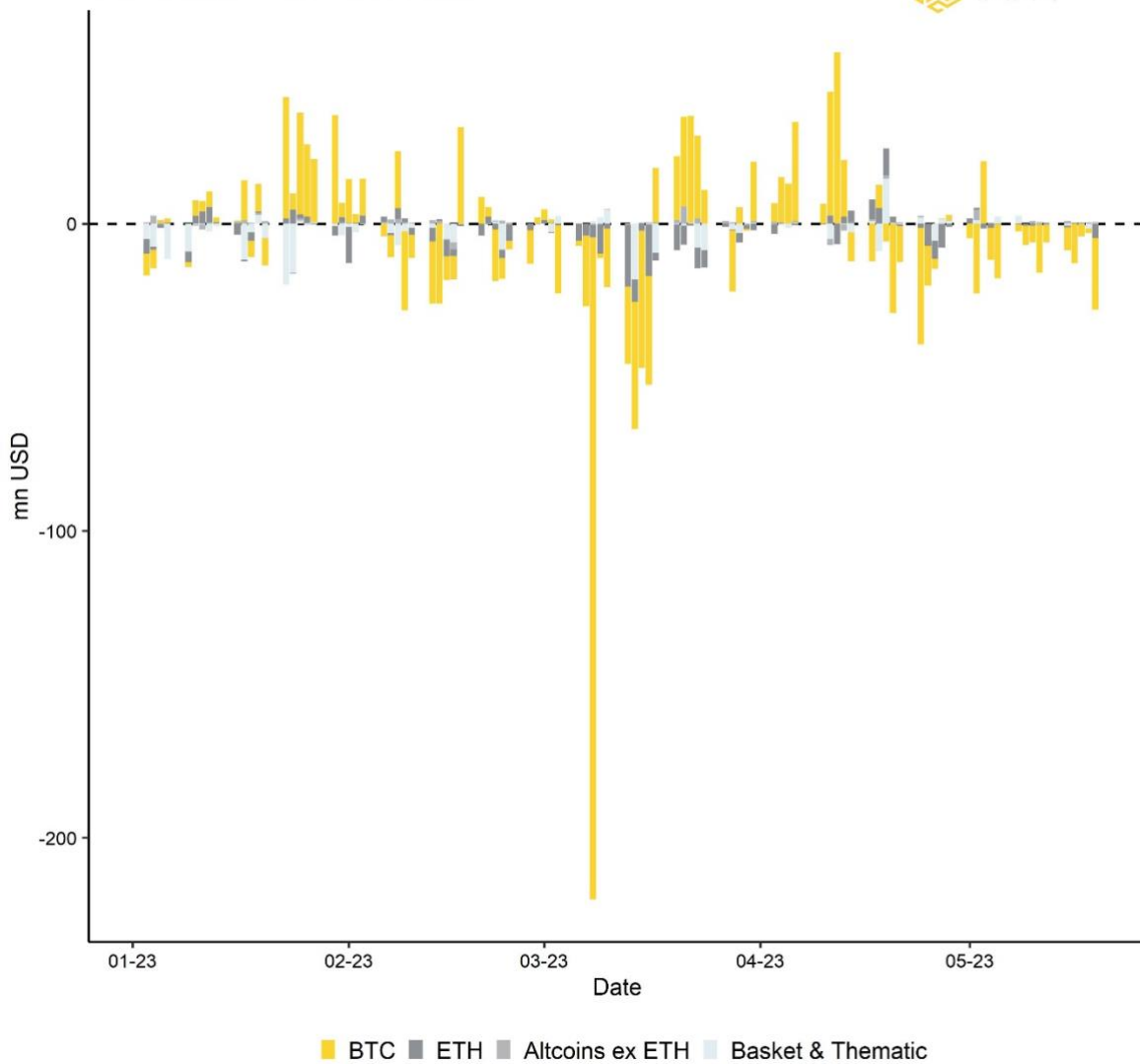
# Bitcoin vs Global Crypto ETP Fund Flows



— Fund Flows — 5d rolling sum

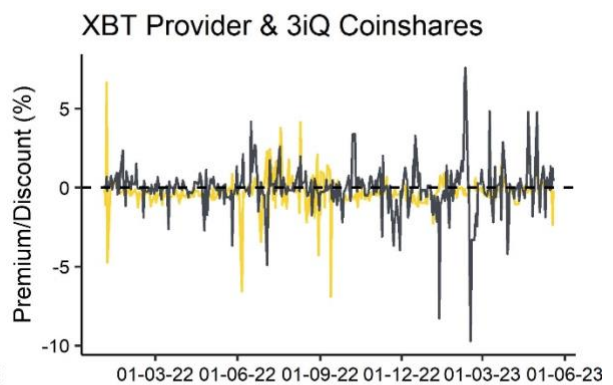
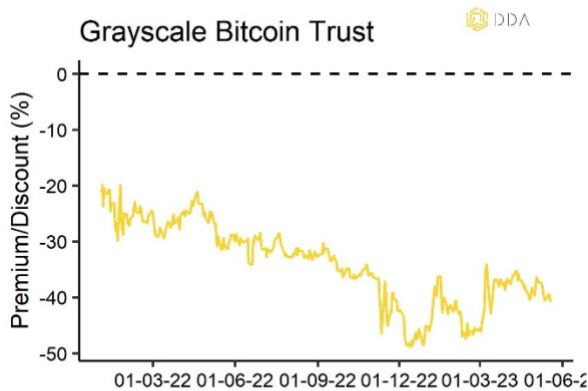
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

### Global Crypto ETP Fund Flows



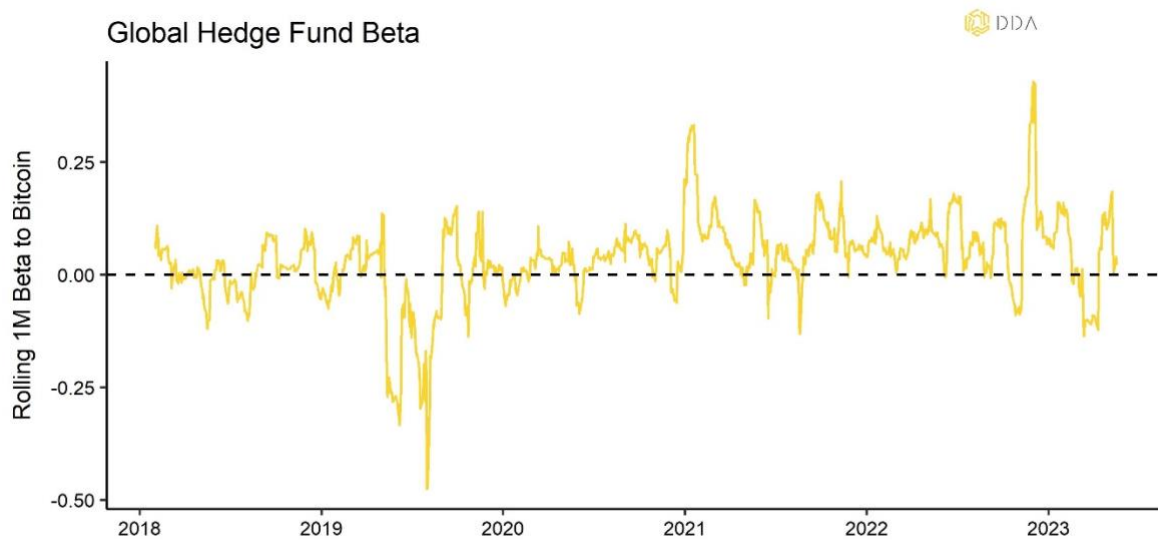
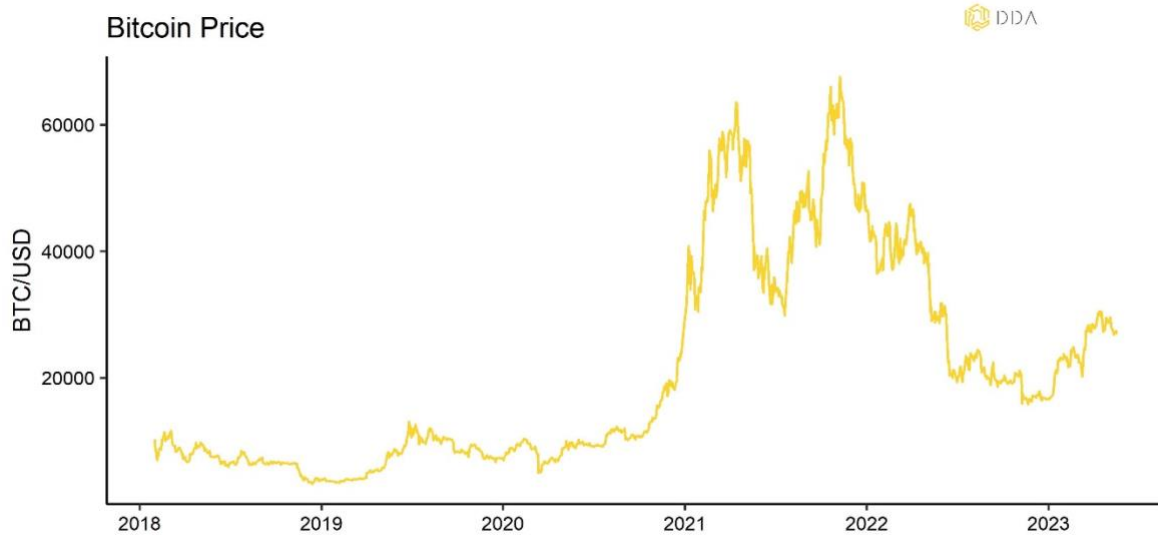
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

### BTC Funds NAV Premia/Discounts



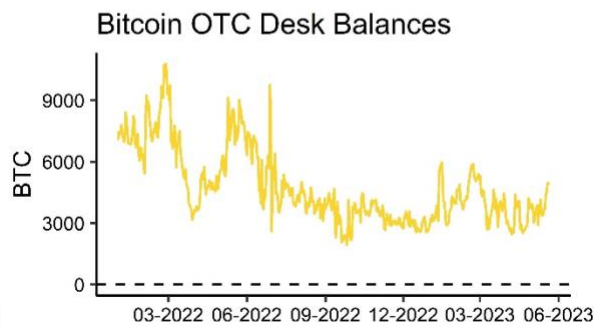
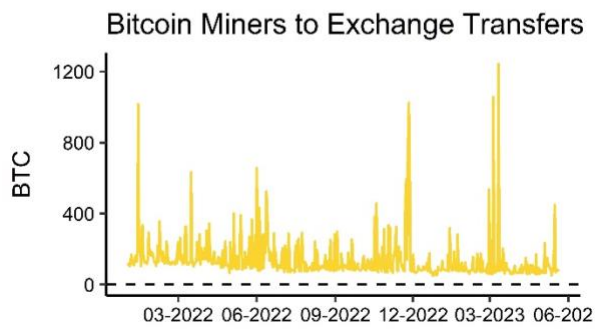
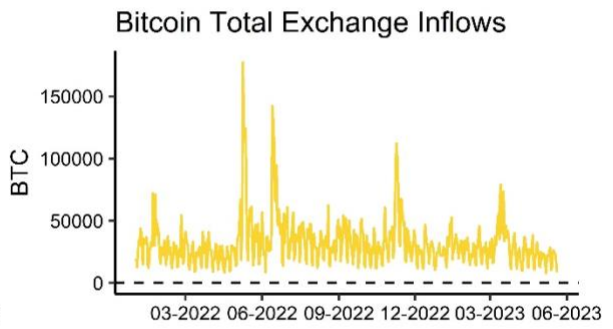
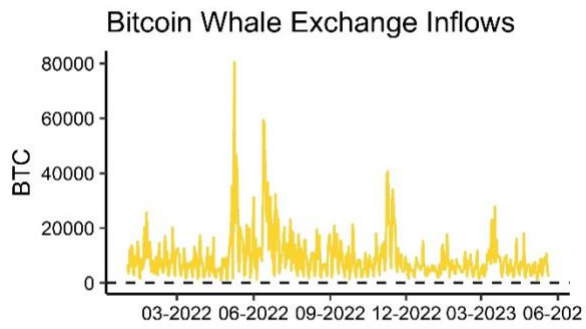
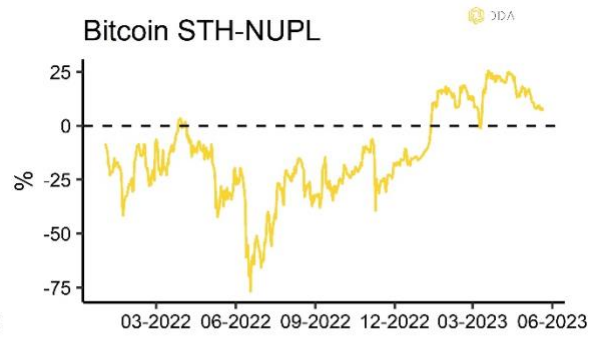
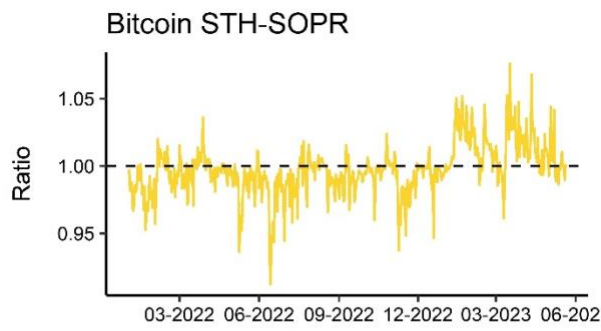
— XBT Provider — 3iQ Coinshares (Canada)

Source: Bloomberg, Deutsche Digital Assets



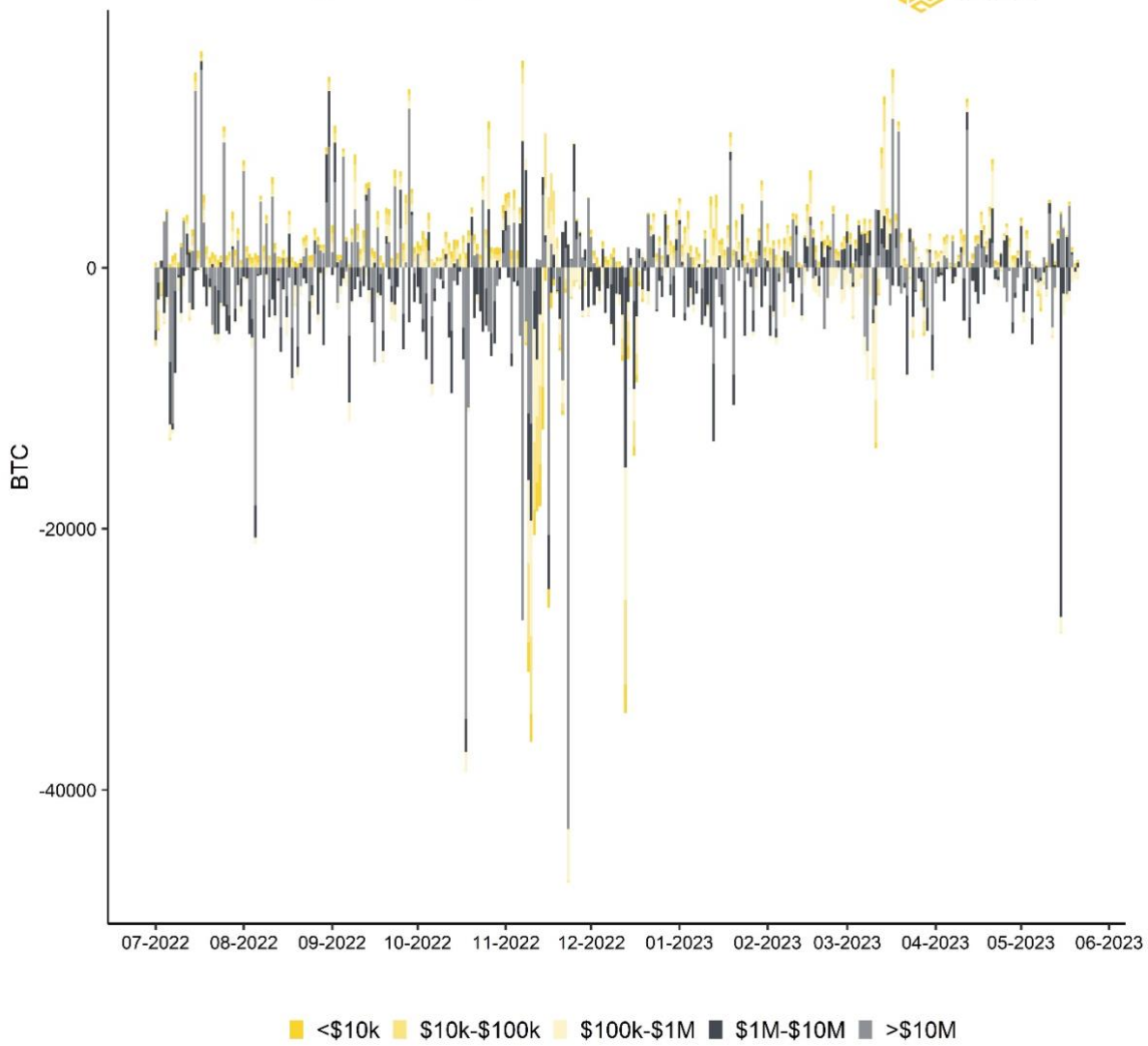
Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets

## Bitcoin On-Chain Indicators



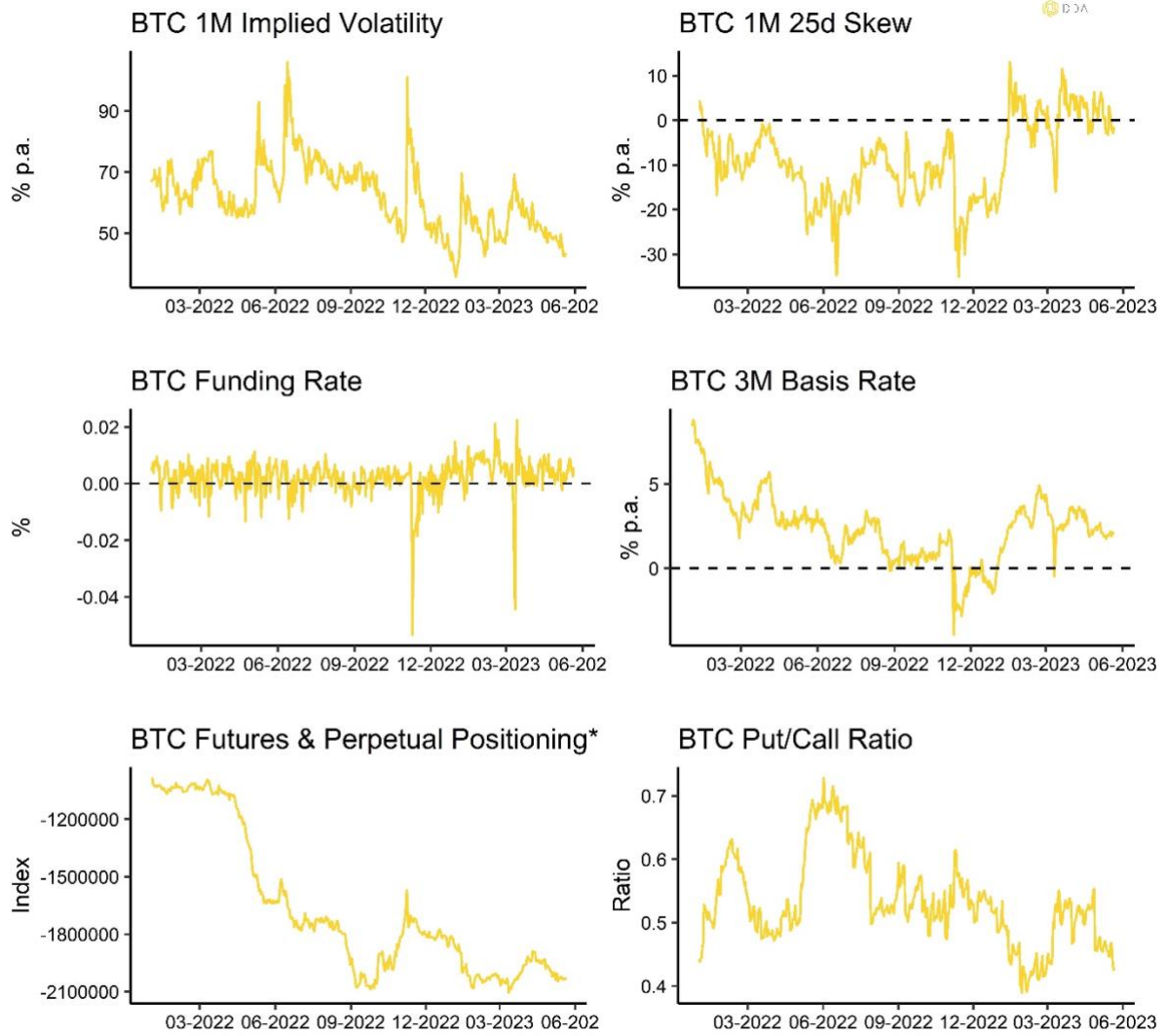
Source: Glassnode, Deutsche Digital Assets

# 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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