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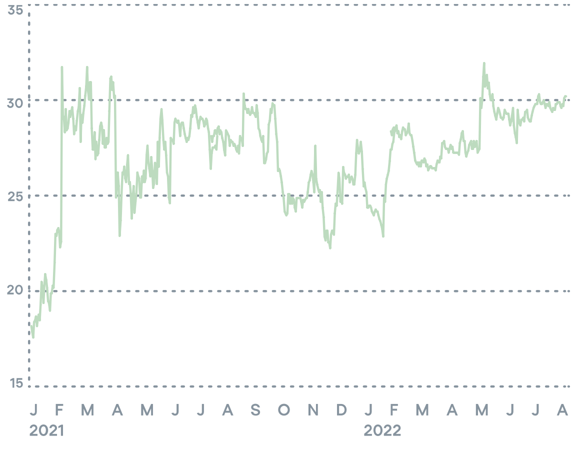
Market trends & risk assessments

from Copper Prime

Stablecoin flows

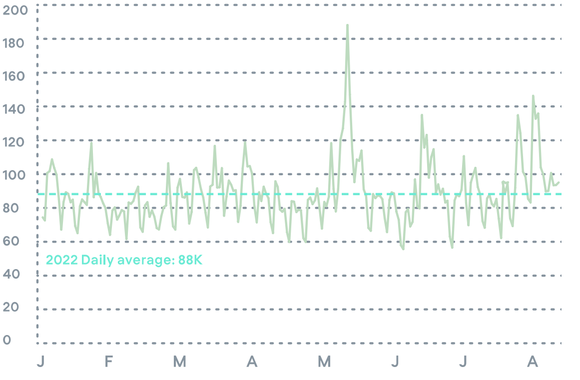
With over $26bn in stablecoins reserves on exchanges and less than 2.4mn in Bitcoin reserves, markets have a great deal of fire power. This point alone provides no real direction as there has been seemingly plenty of funds to buoy markets this year. But more and more stablecoins as a percentage of circulating supply are moving back to the exchanges. This is also the highest rate since 2021. Stablecoins moving back into exchanges could indicate higher market participation from investors who have not, despite the massive dip, exited the market (see chart 1).

1: Stablecoin reserves vs circulating supply (%)



Active addresses of stablecoins have turned a slight corner, showing increased activity by investors' appetite to self-custody their funds (see chart 2). The number of active addresses hit the second highest number at the start of August. An important distinction however should be noted: spot stablecoin reserves are downtrending, while derivative markets are seeing an uptrend. Meanwhile, smart contracts have seen a 15% increase of USDC's circulating supply.

2: 2022 Active Stablecoin addresses (k)



Ethereum: A classic repeat?

Developers have finally agreed that Ethereum will 'Merge' in mid-September moving the blockchain from Proof-of-Work over to Proof-of-Stake.

But a key Chinese cryptocurrency figure, Chandler Guo, is pushing for POW Ethereum fork (ETHW) as the network gets close to launching ETH2. If created, ETHW would be an entirely distinct network and cryptocurrency from Ethereum, with no assumed value, infrastructure or utility.

When ETHW splits from the canonical chain (ETH2), all major stablecoins (USDC, USDT, etc.) on the fork will be worthless; no institution will honour them. The same goes for wrapped tokens.

The ETHPoW chain may have many technical challenges and its long-term viability is in question, which may have influenced the futures market. Potentially due to the Merge effect, the ETH September futures contract is trading positive at 0.33% implied yield, whilst the December contract is trading negative at -1.5%.

Is the only argument for ETHW to hold its value is if The Merge goes wrong? What would this mean for the NFT intellectual property rights?

Many seem to have a short-term memory of previous forks that have sky-rocketed in the short-term, only to become moot platforms within years, if not months after launch.

After the Ethereum DAO hack that resulted in Ethereum having two chains, Ethereum Classic remained as the original chain, and a Trust was setup by Digital Currency Group (DCG).

While optics showed huge support from the mammoth investment company, it was in fact another Chinese-based firm, Digital Finance Group (DFG) that ploughed money in to support the chain, and then attempted a hostile takeover of their reddit account.

Bitcoin's most controversial fork can be traced back to 2017, when Bitcoin was split into two camps – debating over block size and resulting in Bitcoin Cash. BCH was the fourth cryptocurrency that Coinbase listed, marking a watershed moment for the crypto community. Even Ethereum's Vitalik Buterin had weighed-in with congratulations to the opposing camp at the time.

But after a short-lived rally, within 6 months Bitcoin Cash went into a downtrend against the original chain. Would ETHW share the same fate as BCH?

As of 16/08/2022, 1 BCH = 0.0057 BTC.

How would a 'Hard Fork' affect other market segments?

CME Group and CF Benchmarks have been transparent with their fork language for index, futures and options products.

CF have stated that they will determine if they need to disseminate a new index for the hard fork if it meets two of the following criteria in its first 7 days:

1. The New Token Pair must be available to trade on at least 2 constituent exchanges.
2. There must be at least 100 trades in the New Token Pair across all constituent exchanges.
3. The New Token Pair trades at a price greater than or equal to 10% of the combined Price of both the Original Token Pair and the New Token Pair.
4. The trading volume of the New Token Pair must be greater than or equal to 10% of the combined trading volume of the Original Token Pair and the New Token Pair.

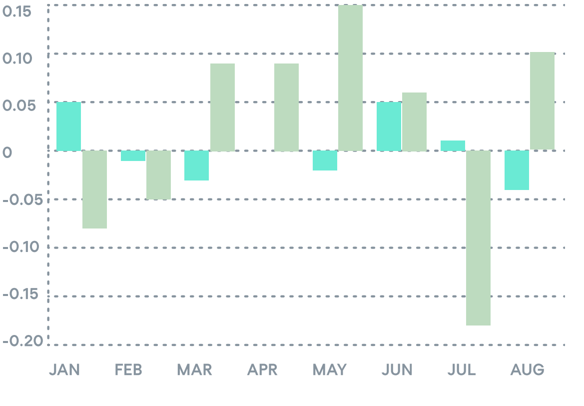
Source: cfbenchmarks

Overnight & weekend risk

Average hourly price change for Bitcoin during US stock market hours have so far returned to a positive in August after a very rough July (see chart 3).

Notable, is the decrease in average hourly volatility overnight and weekends after markets ring the bell on Wall Street. Should such a trend continue, it could create a more stable environment for held positions. Meanwhile, 30-day rolling volatility for the major cryptocurrency has fallen to levels not seen since September 2021 standing at just over 1% peaking at 3.7% in 2022.

3: Average hourly % change during US trading hours – Overnight/Weekends



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