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Analyst Forward Outlook

Research

Content index & key points

Bitcoin Model: High inverse S&P 500, DXY correlations indicate price floor

- High positive correlations with Bitcoin and the US Dollar Currency index have marked the top. High negative correlation has historically indicated a reversal. Currently, the correlation coefficient is at its highest negative value since June 2017, before Bitcoins bull run that year that put it on the world stage.

Ethereum: Lion's share of supply quietly awaiting 'The Merge'?

- 58% of Ether hasn't moved in over a year.
- Since peak exchange reserves in 2020, readily available supply for sale has dropped by 35%. As a percentage of circulating supply, this adds up to a 40% drop.
- By mid-2024, exchange reserves might be less than 10% of circulating supply assuming the trend continues.
- Staking yields alone unlikely to drop below 3% until 2025.

Bitcoin investors shift bear market dynamics in 2022

- Retail investors holding between 0-10 Bitcoins have invested more in 2022 than the last 5 years combined based on what has moved on-chain against the price at the time.
- So far this year, this cohort of investors have bought 50% more than what was mined this year. Even during 2017's bull run, this figure didn't break 95%.
- Larger investors holding between 10-100 BTC have returned to the table. Potentially, a floor of what is available for sale is met by these investors keeping over 4mn Bitcoins off the market.

Automated options protocols offer mixed bag of positive results

- With projected APY of 17% on covered call options for Bitcoin and 26% on Ethereum, automated options protocols are likely to gain a great deal more lime light should markets return in a positive direction. Two main protocols are offerings hands-off derivative trading and yields are proving that the algo's are indeed doing a fine job.

DeFi yield opportunities move at different speeds and risk

- Yields on DeFi stablecoins have been generally unappealing in the last year. While most variable rates will be arbitraged away with yield farming, there are other opportunities at play.
- Fixed income protocols have a range from 2-7%.
- Some partnerships are allowing investors to leverage up to 21 times their funds with a net return of 37%. But nothing comes without risk, especially in DeFi.

Market trend line offers new clue, potentially slow recovery

- Last week's market dip saw it touch a market trend line established between 2018 and 2022's year low.
- Should this be the bottom, history might indicate that a return to new highs could take a while. From 2019 until the Bitcoin rallied at the end of 2020, prices traded across this line for 96 weeks. Interestingly, the next reward cut is 91 weeks away.

Crypto artefacts quietly turn political in Machiavellian move

- On the surface it seems that Binance's auto-conversion of stablecoins competing with its own BUSD is a net positive for traders. But the move might be much deeper than meets the eye.
- Is this really a matter of liquidity? 78% of listed pairs on Binance have very little volume and contribute less than 10% in total trading activity.
- Are there regulatory concerns or is it a tit-for-tat play seeing as no US exchange has listed Binance's stablecoin which is also regulated under the NYDFS trust model?

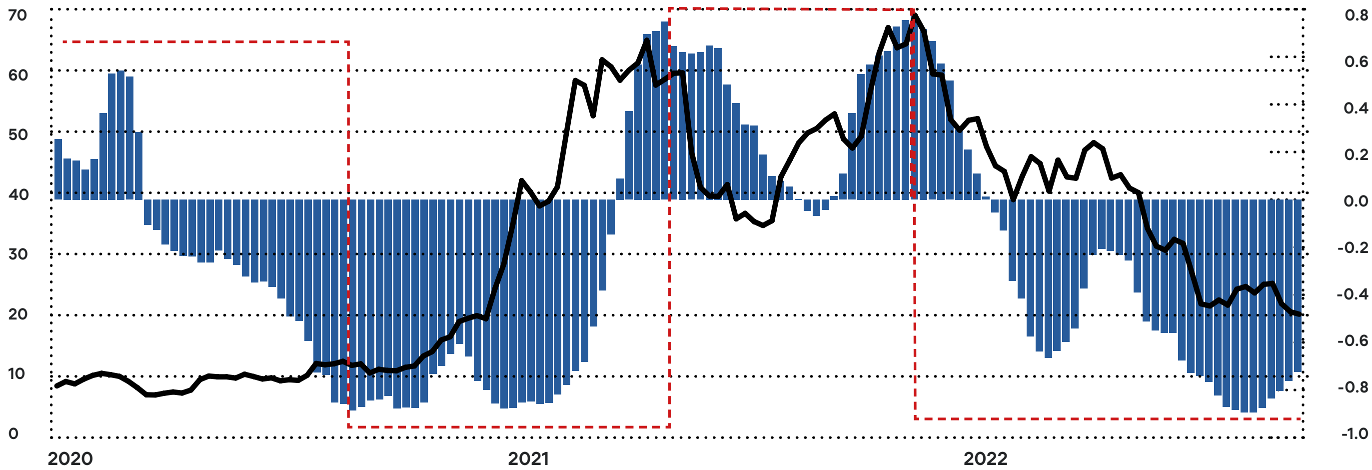
Data: Asia turns bullish, Dated futures remain unattractive

- Although volume being traded during Western stock market hours continue to dominate in crypto, Asian markets seem a great deal more upbeat.
- Dated futures are offering very little potential for good cash and carry plays.

Bitcoin Model: High inverse S&P 500, DXY correlations indicate price floor

Weekly BTC/USD (k) BTC/DXY Correlation -- High Neg/Pos Market Cycles

Sources: Copper calculations, TradingView



A great deal of attention is given to the positive correlation of cryptocurrency markets and equities. And certainly attention is given to the correlation that Bitcoin has with the DXY, the US Dollar Currency Index.

The data suggests that a very high negative correlation with the DXY could indicate a market reversal. This year has seen the highest negative data point of -0.9 for BTC/DXY, a number that hasn't breached this level since June 2017, just before Bitcoin rallied to new highs.

High positive correlation pinpointed both of Bitcoin's peaks last year (see chart above). High negative correlation however shows more time may be needed for a reversal.

Then again, which came first, the chicken or the egg? This is a question that can only be answered in a speculative manner. What we can visibly see is that a corner has been turned in what appears to be a required correction and strong cyclical trend.

With that said, it would be remiss of this research team to just focus on visuals. As such, Copper back-tested what happened to Bitcoin's price in the past when both the S&P500 and the DXY had statistical correlation significance against Bitcoin.

Looking at weekly data, Copper found that since 2017, only 11% of the time were correlations with the S&P 500 above 0.8 and the DXY below -0.8 at the same time in relation to Bitcoin.

The data shows that, so long as both correlations are high enough in opposing directions, investors have a minimum 65% success rate, based on historical returns, to be in the green just a week later. This increases to 71% in two weeks.

More astoundingly is the fact that in all cases after 16, 32 and 52 weeks, Bitcoin showed a positive return (see table 1 on next page).

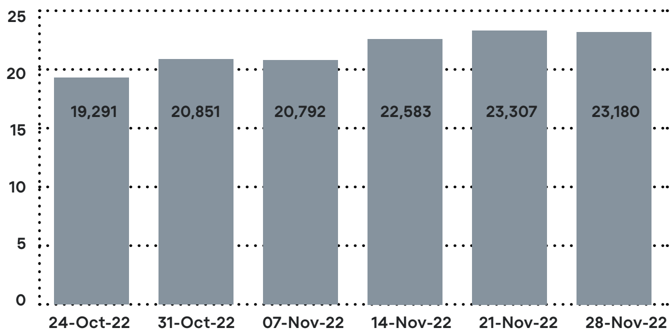
Opening the week of 4-July 2022, and relation to Bitcoin, S&P 500 correlation was at 0.93 while DXY correlation was at -0.82.

This implies that, for this 100% hit rate to continue, come the week of 24 October 2022, 16 weeks after the above date, Bitcoin's price would have to be open above $19,291. While this is lower than Bitcoin's price today, the forward-implied price for this success rate to continue would have to open above $23k the last week of November (see chart below).

Although there are no guarantees that this will continue, as of today at the very least, there is statistical significance. This model can still be true in July-23 and BTC would just have to be over 19k. Interim volatility is not accounted for.

However, returns a year out based on the dates the correlations hit high levels, are also quite remarkable. On average, the returns are a whopping 198%. Excluding 2021, were the returns for 2022 are assessed, this works out to 240% (see table 2 next page).

Implied BTC/USD minimum open price for 100% success rate to continue



Again, it should be stated that all models work until they don't, of course. There are caveats to everything.

Almost 20% of the negative returns seen in the results have come in 2022 (see table 1). But a cluster of negative returns were also seen in 2020 just before Bitcoin's rise to new all-time-highs.

Due to the fact that the S&P 500 and DXY have historically been inversely correlated, these data points alone cannot prove much more than what has happened in the past. Investors either moved further into risk assets or preferred cash that would strengthen the US dollar.

However, our parameters were very specific in this back-test, showcasing results only when both extreme correlation coefficients have been hit at the same time. And the results are certainly important to consider as they may indicate possible upcoming corrections based on market opportunities.

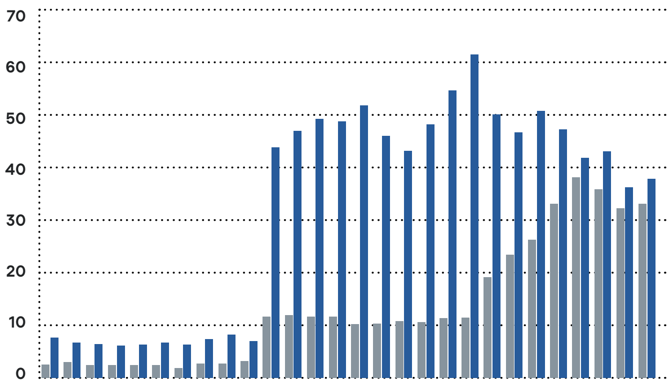
If equities are seen to be at a discount, Bitcoin has proved to be buoyed by upbeat markets at much faster pace. Which is why the cryptocurrency market remains highly volatile as it disconnects with overall market returns.

However, with the Federal Reserve only a few days away from announcing their next rate hike, markets are going to be on edge. On the other hand, post Powell's latest speech at Jackson Hole, markets dropped and lost over $1.25T. Perhaps the rate hike now has been priced in and markets will remain muted.

In any case, macro headwinds are going to affect all markets as inflation remains high, and recession bells continue to ring.

For Bitcoin, the growth path might slow, as previously seen (see report on page 8). Or perhaps fundamentals will become factored in further as supplies continue to decline (see report page 6). The data shows investors may need to be cautiously optimistic.

Starting price of BTC week that BTC/S&P 500 (+0.8) and BTC/DXY (-0.8)
Price of BTC/USD (k) after 52-weeks



In order of dates seen in table + 52 weeks

Table 1: Back-tested returns after correlations with Bitcoin/S&P 500 are above 0.8 AND Bitcoin/DXY are below -0.8. Based on weekly open price.

	Returns after number of weeks						
Week of	1	2	4	8	16	32	52
05-Jun-17	18.9	-0.2	-0.2	8.0	45.5	441.6	205.6
12-Jun-17	-16.1	-16.5	-16.4	7.4	46.5	284.1	125.8
19-Jun-17	-0.4	0.0	-24.0	61.4	83.0	358.6	156.3
26-Jun-17	0.4	0.1	10.0	61.7	127.2	226.0	145.4
03-Jul-17	-0.3	-24.0	8.3	72.7	138.5	220.9	152.4
10-Jul-17	-23.8	9.9	28.5	84.5	144.8	313.9	167.2
17-Jul-17	44.1	42.5	112.4	122.4	286.7	402.1	232.1
24-Jul-17	-1.1	17.0	47.0	35.0	113.6	316.3	168.6
31-Jul-17	18.3	49.1	59.5	34.7	194.9	250.0	201.6
07-Aug-17	26.0	25.7	43.6	36.4	191.8	154.2	118.2
10-Aug-20	2.0	-0.3	-12.2	-8.7	55.7	390.9	275.0
17-Aug-20	-2.3	-1.7	-13.3	-4.6	62.6	368.0	294.5
24-Aug-20	0.6	-11.9	-6.3	-1.2	64.5	399.7	323.0
31-Aug-20	-12.4	-11.8	-8.0	11.3	100.4	412.0	316.5
07-Sep-20	0.8	6.5	4.0	34.2	155.9	448.5	404.8
14-Sep-20	5.7	4.3	10.0	49.8	220.1	375.2	345.3
28-Sep-20	-1.0	5.5	21.0	71.0	232.3	441.0	300.5
05-Oct-20	6.6	7.9	29.1	70.6	202.7	335.3	352.1
12-Oct-20	1.2	14.7	36.1	70.3	191.3	205.6	380.8
19-Oct-20	13.3	19.6	38.7	66.5	237.6	209.8	434.4
14-Dec-20	22.5	37.0	99.1	102.8	203.7	84.8	161.3
21-Dec-20	11.8	40.9	52.6	107.3	155.5	69.8	98.9
28-Dec-20	26.0	45.4	23.0	119.0	114.3	66.9	93.5
04-Jan-21	15.4	8.3	0.2	36.7	48.5	42.1	43.0
11-Jan-21	-6.2	-15.4	1.8	33.6	48.4	29.1	9.7
18-Jan-21	-9.8	-7.5	35.9	64.6	62.8	36.2	20.3
25-Jan-21	2.6	20.4	78.0	77.7	43.8	60.4	12.3
01-Feb-21	17.3	46.9	36.5	68.3	4.9	38.9	14.4
04-Jul-22	8.1	7.8	20.8	1.4			
11-Jul-22	-0.3	8.3	11.2	-4.1			
18-Jul-22	8.6	12.1	17.0	4.2			
25-Jul-22	3.2	2.6	-4.7				
01-Aug-22	-0.5	4.3	-16.1				
08-Aug-22	4.9	-7.2	-13.7				

Table 2: Overall results of back-tested data

	Results after number of weeks						
Period	1	2	4	8	16	32	52
Success Rate %	65	71	69	90	100	100	100
Avg. Return %	5.4	10.0	20.9	49.7	127.8	249.4	198.3
Min Return %	-23.8	-24.0	-24.0	-8.7	4.9	29.1	9.7
Max Return %	44	49	112	122	286	448	434

Sources: Copper calc, Coinbase, TradingView Correlation Coeeficient

Ethereum: Lion's share of supply quietly awaiting 'The Merge'?

Daily supply pressures of approximately 13k ETH is about to be removed from markets as Ethereum moves to Proof-of-Stake.

Since exchange reserves peaked in June 2020, daily withdrawals exceeded 14,700 ETH on average. Demand, at least in relation to what can be seen from supplies removed from exchanges, has exceeded the newly-issued tokens for over two years.

At peak, 30% of Ethereum's supply sat on exchanges. This has now dwindled to around 18 % (see chart 2). Assuming this trend continues, and for the sake of simplicity assuming no new supply between burned Ether and staking yield, readily available supply for sale would drop to just 10% of ETH in circulation by mid-2024.

However, this view might not only be oversimplifying possibilities, but perhaps discounting the fact that Ethereum might simply not be an attractive asset in terms of yields generated by staking.

Currently, just under 15mn ETH has been staked earning around 4%. As staked Ether continues to increase, so does the issuance. Yield also drops (see table). This however discounts pro-rata income from fees. By some estimates, staked Ether could potentially earn between 10-15%. This however would require growth in ecosystem demand as gas fees will remain high.

Ethereum's price drop the past few months has made a visible dent on the amount staked (see chart 3). The last three months saw the lowest amount committed to validating the network post 'Merge'. August however has seen a slight recovery possibly suggesting that those side-lined are returning to the table.

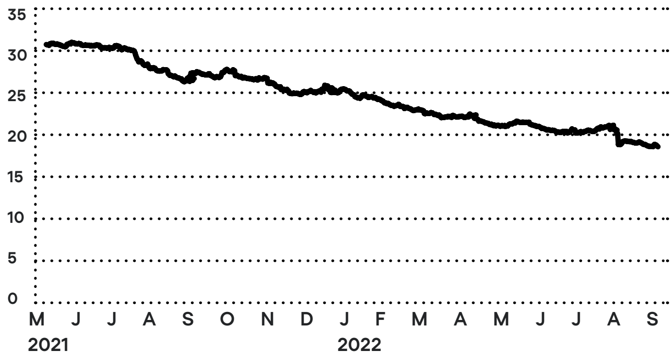
On average since 2021, just over 500k ETH has been staked on a monthly basis. Back of the envelope calculations, should such staking levels continue, would indicate that yields will unlikely drop below 3% before mid-2025. But this could be accelerated.

Notably, free-floating Ether is still be a whopping 69mn - over half the supply. However, nearly 60 % of all Ether hasn't actually moved since its last transaction in over a year (see chart 1, 4). These investors clearly saw Ethereum to be worth more than it was at peak and continue to hold on. Which begs the question: what exactly are they waiting for?

With synthetic staked Ether having a difficult time maintaining its peg, investors might be waiting for the network to successfully transition. But given the bonding period required, they may await the 'Shanghai' upgrade that would allow them to move in and out of staking on demand. But growth will continue to be hampered by gas fees until scalability improvements take shape.

1: Ether supply distribution (Estimates)

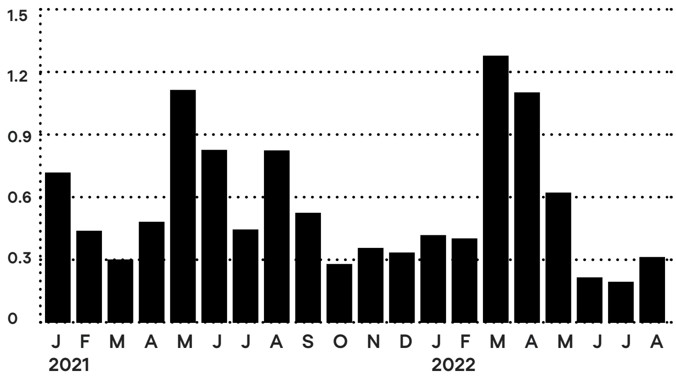
2: % of Ether's circulating supply sitting on centralised exchanges



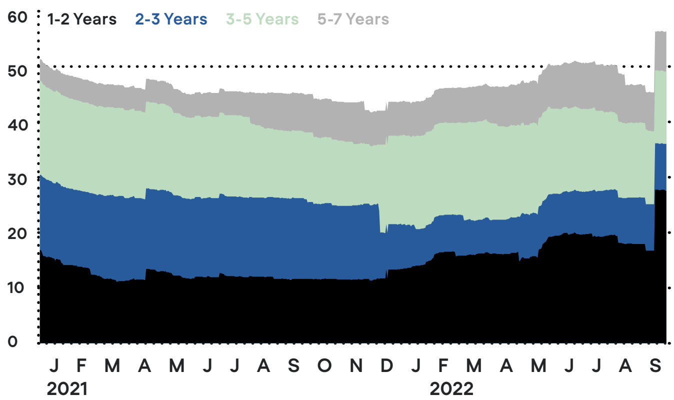
Ethereum staked yield schedule

ETH validating	Max annual issuance	Max annual issuance %	Max annual return rate
1,000,000	181,019	0.17%	18.10%
3,000,000	313,534	0.30%	10.45%
10,000,000	572,433	0.54%	5.72%
30,000,000	991,483	0.94%	3.30%
100,000,000	1,810,193	1.71%	1.81%

3: Monthly addition of Ether staked (mn)



4: % Ether that has not made any transactions by period



Sources: Copper calculations, Glassnode, CryptoQuant, Ethereum Foundation

Bitcoin investors shift bear market dynamics in 2022

Retail investors with holdings from 0-10 BTC have spent more in dollar terms accumulating Bitcoin so far this year than the previous 5 years combined (see chart 1). The implied cost of acquisition is just shy of breaching the $10bn mark.

Record accumulation in BTC terms was seen in 2017 when this cohort of investors usurped over 650k Bitcoins (see chart 2). 2022 comes in second place with 345k Bitcoins moved into these addresses with nearly four months left on the calendar year.

It terms of percentage of supply, however, this represents a whopping 151% of the newly mined coins in 2022. In 2017, it was less than 94% (see chart 3).

During the 2018 downturn, net accumulation was a mere 25k Bitcoins, less than 4% of the supply that entered markets that year.

Clearly, this is a very different bear market. Investors are visibly more confident in this downturn than previously seen at record levels.

The average daily increase by these investors in 2022 has been 1380 Bitcoins. Should this remain consistent till the end of the year, another 159k Bitcoins will move into these addresses alone. This would be over 50% more Bitcoins than will be mined till the end of the year.

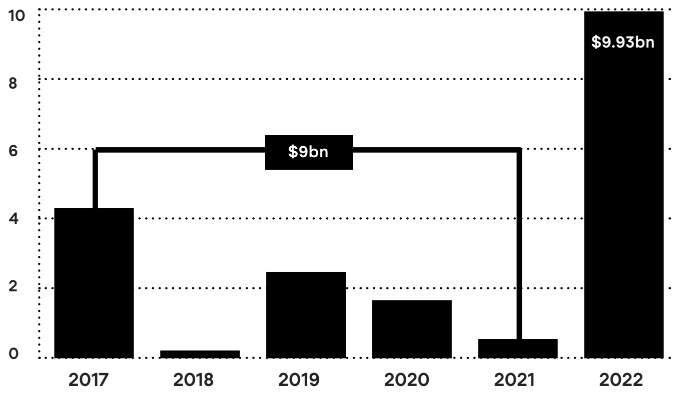
While the price slump for the king of cryptocurrencies seems paradoxical in the sense that demand is outstripping new supply, there have been significant headwinds this year.

Beyond the distressed global macro environment, the cryptocurrency industry has faced large brokers go insolvent, a treasury sell-off by Tesla, stablecoin platforms backed by Bitcoin blow-up, billions lost in smart contract breaches, and sky-rocketing energy demands that has likely pushed miners to sell at fast rate.

But as Copper's research team has consistently said, Bitcoin is an asset class that purely moves on supply and demand dynamics. It's evident that despite the bear market, retail investors alone have gobbled up well over what has been minted. What we don't know, of course, is what is happening with the 2mn+ Bitcoin reserves siting on centralised exchanges.

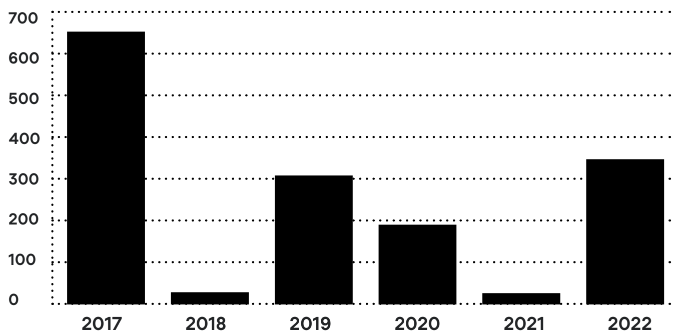
The question becomes whether retail can continue powering through the pain if markets turn even bearish still. Seemingly, larger investors are finding this is an opportunity (see chart 4).

1: Implied cost* of Bitcoins moved into addresses holding 0-10 BTC ($bn)

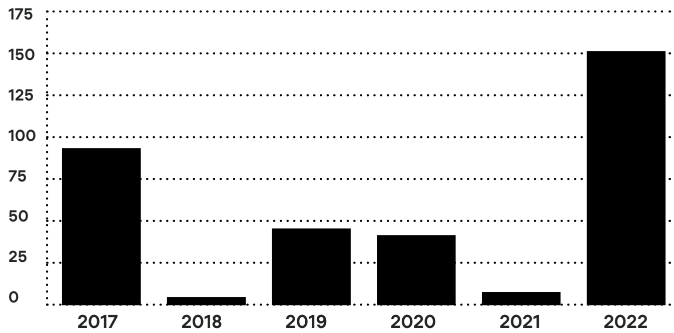


* It should be noted that this is an implied cost at the time the Bitcoins moved into these addresses. The Bitcoins may have been purchased years ago on an exchange, but only moved on-chain at a later time.

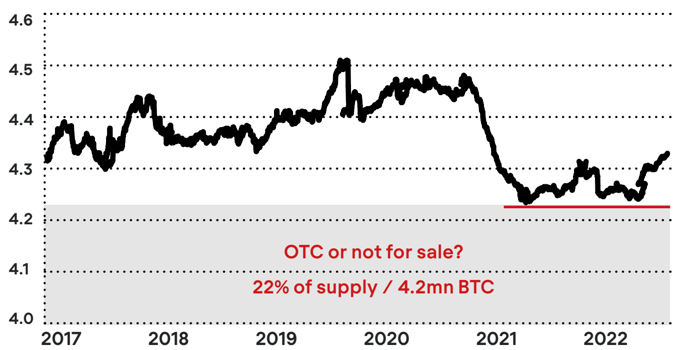
2: Number of Bitcoins accumulated into addresses holding 0-10 BTC (k)



3: % of new supply accumulated by addresses holding 0-10 BTC



4: 10-100 BTC addresses: Larger investors come back (mn BTC)



Sources: Copper calculations, Glassnode

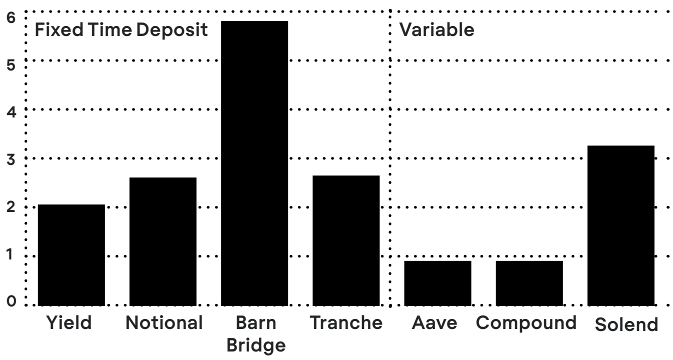
DeFi yield opportunities move at different speeds and risk

Cross-chain opportunities are more than likely going to gain more attention than they are today. With ecosystems growing at different rates, so is the liquidity available on bridged cryptocurrencies that sit in the vaults of DeFi protocols.

Take for example Polychain-backed SuperStable Finance, which offers a fixed rate of return on Solana. The protocols pays out a pretty huge 7% return on USDC, paid in the stablecoin, for a lock-up period of 90 days. The protocol itself uses the deposits to move cross-chain finding the best yielding opportunities. Of course this isn't without considerable risk considering most major hacks in DeFi occur on cross-chain bridges and wormholes.

For the risk averse, there are certainly other opportnities on the market to make a fixed yield. In fact, there are probably more options than one realizes, however, all with different parameters and considerations.

% Return on USDC deposits *Barn Bridge on Dai



If these rates don't wet the appetite, there are a few more options on the table as crypto is never short of cunning ideas.

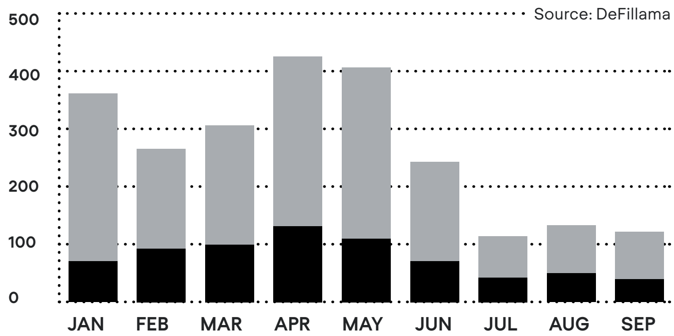
Solend, which mints cUSD against its USDC deposits is a token the appreciates in value, earning at 3.25%. A partnership with 0% interest protocol Hedge, which Copper has previously mentioned, allows for the leveraging of that token up to 21 times. Unlike other debt troves however, this vault charges a 1.25% rate.

But what the maths adds up to is nothing short of stunning and scary. With the use of leverage on a stablecoin, the returns can currently net 37% after interest and fees, but carries the risk of liquidation should USDC depeg even slightly.

However, this is a first come first serve type of product as the vault has a limit as to not completely blow up the market that is pinned to what effectively boils down to three different stablecoins, USDC, cUSDC and USH, Hedge's own stablecoin.

Automated options protocols offer mixed bag of positive results

2022 TVL: Ribbon and Friktion (mn USD)



Take off of decentralised option markets has been relatively slow. There are only two main protocols that are offering automated option yielding strategies, both of which have less than $150mn tucked away in their vaults.

They have however deployed yielding strategies only to be upset in terms of USD returns as markets tanked this year. Projected annual returns are worth taking a look at (see tables below).

Although the the protocols are both using covered call strategies, there are some very visible differences in yields from the two main protocols, Ribbon Finance on Ethereum and Friktion on Solana.

Friktion returns on Bitcoin and Solana options are well over double. With a projected APY of nearly 17% on Bitcoin, the returns are nothing to scoff at. Ribbon Finance returns on AVAX are at par with Friktion, while ETH returns are higher, as is the projected APY.

At any rate, the two protocols that offer hands-off options trading are ultimately generating good yields. Certainly these are DeFi options worth keeping an eye on.

Ribbon Finance: Covered call strategy returns

Product	Returns	Peak Yield	Projected APY
AVAX	11.49%	11.49%	44.10%
SOL	10.12%	10.12%	23.50%
WBTC	6.97%	6.97%	11.13%
ETH	4.56%	14.66%	26.30%

Friktion: Covered call strategy returns

Product	Returns	Peak Yield	Projected APY
SOL	20%	20%	29%
WBTC	15.30%	15.30%	16.90%
AVAX	11%	11%	28.90%
ETH	2.95%	9.28%	19.80%

Market trend line offers new clue, potentially slow recovery

At the start of this year, Copper published a report titled "Bitcoin teeters on brink of trend line range." Due to its popularity, our research team delved a little deeper and followed-up with a cross-trend study of markets and on-chain data.

Technical indicators and trends are certainly not sure-fire metrics to rely on. However, traders and algorithms are all attempting to find out what everyone else is looking at.

Trend lines in Bitcoin have proven to be important. Many major moves have either broken above or below various established trendline based on key lows and highs.

While this year has been very haphazard in this regard, Bitcoin has just given us a new touch point (see chart below).

A trendline drawn between Bitcoin's low in 2018 and its 2020 low that took place in June seems to be a key line to hold. The drop to $18,550 during the first week of September touched exactly on this line before markets began to go up again.

If the past holds any wisdom, Bitcoin may be entering a very slow growth phase seen between 2019-2021 which took 96 weeks before seeing a massive breakout. This would also fall near Bitcoin's reward halving in 91 weeks. Coincidence?

Weekly BTC/USD (k)

Crypto artefacts quietly turn political in Machiavellian move

A storm could be brewing in a teacup with moves made by Binance last week that could be much more than meets the eye.

Th major exchange unilaterally auto-converted USDC, USDP and TUSD into it's own stablecoin, BUSD.

Data provider Kaiko's research director Clara Medalie highlighted some very important points in relation to demand.

"While controversial, this move will likely improve price discovery and overall liquidity on Binance" as volumes from trading pairs with the removed stablecoins had been very poor in comparison to Tether's USDT which contributes the lions share of trading on the exchange.

It's clear that Binance's move to consolidate is seemingly a benefit for its traders. Circle, Paxos and Trust, the issuers of the delisted stableocoins, all chimed into the conversation voicing their opinion that the move will, generally speaking, be a net positive for industry participants. But not without some apprehension.

But is this really a question of liquidity? 78% of the 1400 pairs on Binance contribute less than 0.01% of trading volume each.

Is this perhaps not about liquidity and stablecoins but maybe *which* stablecoins? All delisted coins are US regulated entities which strictly adhere to demands from watchdogs - including freezing accounts. Indeed, Binance USD also abides by the NYFDS which protects stablecoin holders under a trust model.

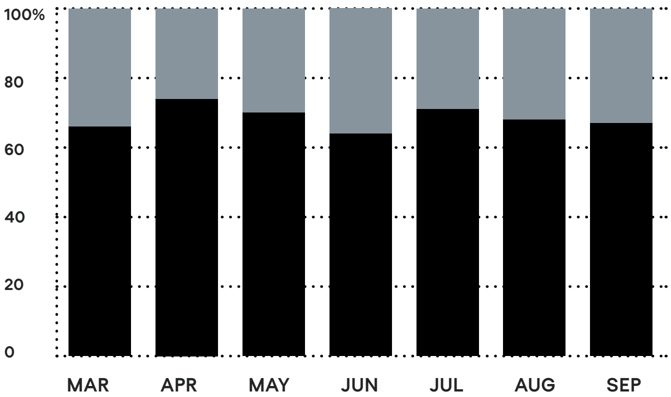
Is it possible that Binance is concerned about regulators and adjusting its own risk management parameters? The move has closed all the windows by removing potential harm that might come from other stablecoin issuers to its platform, but has left the door open with it's own regulated stablecoin.

Or is the move perhaps tit-for-tat? No US exchange has BUSD trading pairs. Considering the volume that Binance churns, wouldn't US exchanges want to open such a transaction corridor? After all, moving from one exchange to another takes a few clicks of a button. And BUSD is regulated. *So what's the real issue?*

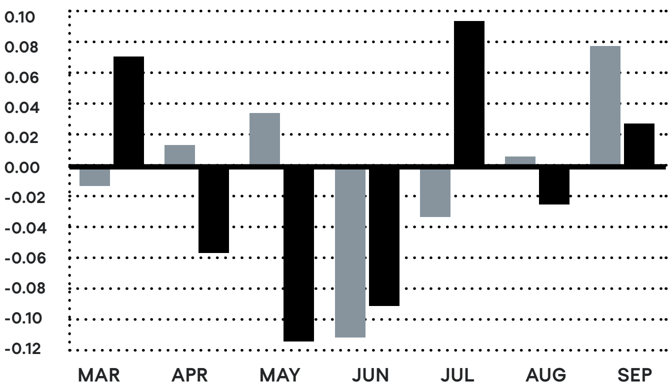
Asia turns bullish

Western trading hours Eastern trading hours

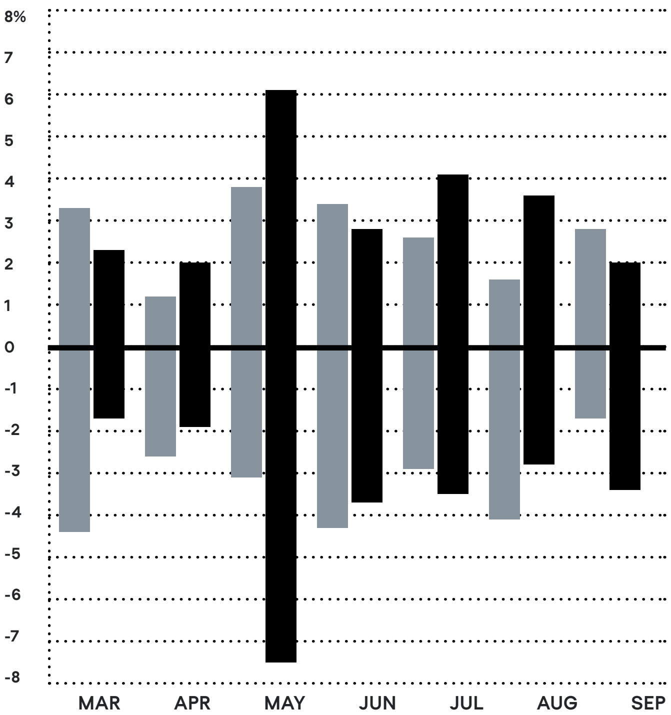
Although volumes traded during Western hours continue to dominate...



...Average hourly price change for Bitcoin is almost 3x during Asian hours...



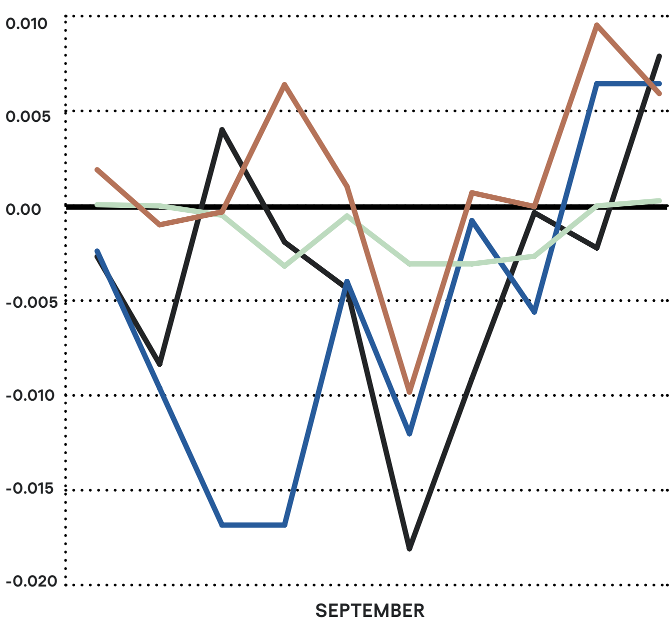
...And the Max/Min hourly price change are also higher/lower respectively



Dated future remain unattractive

Exchange	Contract / Type	Premium	Premium (a)
Bitmex	Sep-22	-0.3%	-5.9%
Bitmex	Dec-22	-0.2%	-0.7%
Bitmex	Mar-23	1.0%	1.9%
OKX	Weekly Sep 16	0.0%	-2.4%
OKX	Weekly Sep 16	0.0%	-1.3%
OKX	Bi-weekly Sep 23	0.0%	1.1%
OKX	Bi-weekly Sep 23	0.0%	0.9%
OKX	Sep-22	0.1%	1.1%
OKX	Sep-22	0.0%	-0.6%
OKX	Dec-22	0.5%	1.5%
OKX	Dec-22	0.4%	1.4%
Huobi	Weekly Sep 16	0.0%	0.2%
Huobi	Bi-weekly Sep 23	0.0%	-1.2%
Huobi	Sep-22	-0.1%	-1.1%
Binance	Sep-22	0.1%	1.3%
Binance	Sep-22	0.0%	0.4%
Binance	Dec-22	0.5%	1.5%
FTX	Sep-22	0.1%	1.2%
FTX	Dec-22	0.5%	1.8%
Deribit	Weekly Sep 16	0.1%	4.9%
Deribit	Bi-weekly Sep 23	-0.3%	-8.8%
Deribit	Sep-22	0.1%	2.4%
Deribit	Dec-22	0.2%	0.7%
Deribit	Mar-23	0.4%	0.8%
Kraken	Sep-22	-0.5%	-8.4%
Kraken	Dec-22	-0.2%	-0.7%

Hourly Perp funding rates turn positive (%) Kraken FTX Deribit Binance



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