Bloomberg Intelligence: Crypto Outlook

Booms, Busts and Bitcoin

- Is the Flush Done? Booms, Busts and Bitcoin vs. Gold, Bonds, Oil
- Extreme Bitcoin, T-Bond Discounts May Tilt Crypto Performance
- Bitcoin vs. Commodities May Be Great Reversion of 2022
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Is the Flush Done? Booms, Busts and Bitcoin vs. Gold, Bonds, Oil

Performance: Bloomberg Galaxy Crypto Index (BGCI)
July +44%, 2022 to Aug 2: -56%
Bloomberg Galaxy DeFi Index (DeFi)
July +65%, 2022 to Aug 2: -59%
Bitcoin July +27%, 2022 to Aug 2: -50%
Ethereum July +70%, 2022 to Aug 2: -55%

(Bloomberg Intelligence) -- Whether the ebbing tide has subsided for most assets is the top binary issue for 2H, and in most scenarios, Bitcoin and Ethereum appear poised to come out ahead. Tightening markets and plunging global growth support the Federal Reserve’s shift to a "meeting by meeting" bias in July, which may help pivot Bitcoin toward a directional tilt more like US Treasury bonds than stocks. We see the dump-following-pump nature of commodities and receding bond yields indicating the rising probability of bonds, gold and Bitcoin being buoyed by returning deflation. The Bloomberg Galaxy Crypto Index is primed for more of the same -- outperformance -- if equities have bottomed. But it’s the scenario of a more enduring bear market that may highlight Bitcoin’s emerging value. The sharp drawdown and merge support Ethereum base building.

Fastest Horse In the Race

Extreme Bitcoin, T-Bond Discounts May Tilt Crypto Performance. Normal forces of mean reversion may tilt performance against commodities and toward US Treasury bonds, gold and Bitcoin in 2H. That the crypto reached the greatest-ever discount vs. its 100-week moving average in July may be overshadowed by Treasury futures dropping to a similar extreme vs. a record premium in WTI crude oil futures in 1H.

Bitcoin Has Never Been Lower vs. 200-Week Mean. It’s abnormal for Bitcoin to hold much below its 200-week moving average, and July marked the greatest-ever discount. Our graphic shows a top reason for the swoon -- the rapid pace of Fed rate hikes -- which is reverting rapidly. The one-year federal funds future spread leaped from about 10 bps in 4Q, as Bitcoin was peaking, to a 2Q crest near 250 bps as the crypto was bottoming. But that dropped closer to 40 bps by Aug. 2. We see risk vs. reward tilted favorably for one of the greatest bull markets in history, potentially starting a revival after a sharp retreat.

If the Fed swings the sledgehammer again, Bitcoin is likely to suffer along with the stock market. But rapidly declining Treasury-bond yields and commodities point toward forces of disinflation and recession.

A Little Unwind of 2H Favors Bitcoin and T-Bonds. Just a little reversion in the US Treasury bond future from its biggest discount vs. its 100-week moving average since 1982 may have similar recovery implications for Bitcoin. The mantra that the Fed will hike rates until something breaks has played out in bond futures, and our graphic shows the Treasury bond looking optimistically beyond the July 75-bp hike. The 2H view for what have been enduring bull markets in Bitcoin and bond futures could come down to the fact that they just don’t get much colder.

Implications of Being Too Cold for Bitcoin, Bonds

Bitcoin has been one of the best-performing assets since its inception about a decade ago, and we think more of the same is ahead, particularly as it may be transitioning toward global collateral, with results more aligned with Treasury bonds or gold.
Normal Backup Risks vs. Upside Measured in X’s. The fact that at the start of August Bitcoin is about 70% below its peak and still 5x above the March 2020 low shows its potential. Whether such performance can continue is a key question, and our bias is risk vs. reward is tilted favorably. Dropping another 50% would set new extreme discounts vs. most means, notably as supply is declining and adoption rising, as shown by robust on-chain metrics. The graphic shows Bitcoin’s initial resistance likely about $36,000, the halfway mark of the 2020 low to 2021 peak. The $20,000 area is a key support and we expect a base is building, akin to about $5,000 in 2018-19.

Bitcoin May be Gaining Upside vs. Nasdaq

Risks may lean less favorably for the Nasdaq 100. It has bottomed around the halfway mark. A strong stock market and sticky inflation could portend a Fed more likely to keep swinging its sledgehammer.

Introducing STVPU Metric: Transaction Value Per User

Contributing Analysts Jamie Douglas Coutts (Market Structure)

Despite the contraction in active addresses, proportional economic value transacted has shown steady expansion since inception. The metric used to capture this phenomenon, STVPU, measures transaction value in dollar per active address (ie active user). While not a perfect corollary, this would be akin to the average revenue per unit (ARPU) metric used by technology companies to value their users.

Bitcoin $TVPU Metric vs. Price Performance

Bitcoin’s current $TVPU of $84,000 (pink) remains more than double the value from the last bull-market peak’s $35,000 in 2017 and 13x higher than the $6,000 trough in last bear market of 2018. Untangling the impact of price from the equation, if we measure $TVPU gains relative to price performance, the metric has outstripped the later by a factor of two.

Bitcoin Commodities Flip Time?

Bitcoin vs. Commodities May Be Great Reversion of 2022.

There’s little doubt the revolutionary asset that never stops trading and is no one’s project or liability is gaining status as a leading risk indicator. It’s a question of what Bitcoin will signal, and our bias is that the crypto is transitioning toward a store of value with potential to act as a high-beta version of US Treasury bonds or gold. (08/03/22)

Inflate, Deflate or Revert? Bitcoin vs. Commodities.

Potential recovery from lowest-ever Bitcoin volatility vs. the Bloomberg Commodity Spot Index (BCOM) may signal a resumption of the crypto’s propensity to outperform. Our graphic showing the elongated upward trajectory of Bitcoin’s price vs. the BCOM is typical compared with most assets. But what’s unique relative to commodities is 260-day volatility of the crypto potentially bottoming from new lows reached in July. If history is a guide, Bitcoin volatility is more likely to recover vs. commodities when the crypto rallies.
Bitcoin Outperforming With Declining Risk

The unwinding of 1H long commodities positions may have fuel to continue, notably from the normal forces of supply and demand elasticity, and with impetus from the most aggressive Fed rate hikes since 1980. Declining commodities signal deflation, which is a support for bonds, gold and Bitcoin.

Bitcoin Is Gaining Leading-Indicator Status. The July bounce in most assets outside of commodities may have been the start of the battle of endurance in 2H, and stores of value like gold, Treasury bonds and Bitcoin could come out ahead. If the equity drawdown is done, the crypto is more likely to resume outperforming. Our bias is for an extended reversion period for risk assets, with deflationary implications buoying bonds and gold to resume their elongated upward trajectories. The graphic shows Bitcoin’s leading-indicator tendency -- if it peaks, the Nasdaq 100 stock index appears more vulnerable.

A 2H Question of Recovery, Divergence Potential

Bitcoin’s potential to become digital collateral in a world going that way is exemplified on weekends: It never stops trading and is no one’s project or liability.

Extreme Bitcoin Discount vs. Crude Oil Premium. The dichotomy is narrowing between historically extended WTI crude oil and extremely discounted Bitcoin, with implications for reversion. That crude rose at the highest velocity vs. its 100-week moving average in futures history (1983) is a reason the Fed hiked 150 bps in about 40 days to July 27, the most since the 1980s. It’s a question of sustainability, and our view is that it’s a matter of time for something to break from central-bank restraint and normal reversion. The graphic shows the juxtaposition of Bitcoin dipping to the most ever below its 100-week mean, which has marked foundation-building support zones in the past.

Profound Implications of a Little Reversion

Sustained price appreciation for supply-demand elastic crude oil may be limited vs. nascent Bitcoin, with increasing adoption and diminishing supply.

Cryptos, Equities and the Buck

Fastest Horse Cryptos vs. Equities and Dominating Dollar Tokens. The fact that the Bloomberg Galaxy Crypto Index (BGCI) has corrected about 70% and is still outperforming the Nasdaq 100 stock index by about 2.5x since BGCI’s inception may underscore cryptos’ risk vs. reward. The tokenization of most assets may be unstoppable as evidenced by crypto dollars -- the most widely traded crypto assets.

Proliferation of Crypto Dollars Showing the Way?
The tendency for digital assets to outperform most others and the proliferation of crypto dollars have been predominant trends. It’s a question of endurance, and our view leans toward more of the same once the 2022 risk-off swoon fades. A top indicator of crypto utilization is the rising market capitalization of dollar tokens. Some call them stable coins, but with the vast majority tracking the buck, we see parallels to eurodollars. The graphic shows the top crypto dollars listed on CoinMarketCap totaling about $150 billion vs. closer to $300 million when the Bloomberg Galaxy Crypto Index (BGCI) was launched in August 2018.
BGCI Corrected 70%, Yet Still About 2.5x Nasdaq

That the BGCI has corrected about 70% from its high to Aug. 2 and is still outperforming the Nasdaq 100 stock index by about 2.5x portends what to expect in crypto performance, we believe.

Dollar Dominance, an Enduring Crypto Trend. A leading metric showing the extent of the digital-asset bear market is dollar tokens migrating toward the top of the assets listed on CoinGecko. Tether and USD Coin are the leading stable coins and represent a majority of the about $150 billion of crypto dollars. That they were made possible notably by Ethereum implies the value of the technology. Akin to futures being a better way to mitigate risk and obtain asset exposure, we see little to stop the tokenization of all assets.

Bitcoin, Ethereum and Crypto Dollars

The 2022 crypto bear market is a rounding error compared with the near $25 trillion wipe-out in global stock markets, but with the highest beta, cryptos had the farthest to fall. We see Bitcoin, Ethereum and crypto dollars continuing to outperform.

Bottom Line in Cryptos: The Dollar Is Dominant. Dollar dominance is evident when sorting by volume on CoinMarketCap, with Tether on top. Not without controversy, the market cap and volume of the world’s most widely traded crypto is migrating to the next-best option -- USD Coin. We see the digital-asset drop of 2022 akin to the early days of the internet and evolutionary period from 2000-02.

Cryptos are purging the excess of 2020-21, which was fueled by one of the greatest global liquidity pumps in history. The fastest horse in the race is taking a break and the proliferation of dollar trading may provide guidance for the legitimacy of the technology.

Tether Losing Ground to USD Coin, but Both Dollars

We ask what stops the tokenization of all assets, and expect there will be technological and regulatory bumps in the road. But cryptos appear to be on a path to follow the trajectory of futures and ETFs in financial markets.

Ethereum On-Chain Intelligence

Ethereum Fundamentals Shine as Bottom Likely in, Prior to Merge

Contributing Analysts Jamie Douglas Coutts (Market Structure)

With a more accommodating macro backdrop, Ethereum appears to have bottomed, solidified by improved activity resilience than the previous bear cycle, and broadening use cases. Looking forward, the ambitious transition to Proof of Stake (the Merge) due in September, outlined in earlier reports, is an event catalyst that has the potential to recast Ether as a global institutional-grade asset.

Ethereum Activity Weathers Bear Market. Our fundamental dashboard shows that the network has recovered strongly since the May 21 peak, indicating that the asset could be mispriced. Key adoption metrics highlighted in previous Bitcoin on-chain intelligence reports that have a high correlation with price (signal); active users, non-zero balance addresses and transactions have outperformed in absolute terms to the last bear market and relative to Bitcoin.
Non-zero balance addresses are all-time highs (3-year 100% percentile), almost double that of the Bitcoin network. While active addresses are flat year-on-year (+5%), they are 113% higher than three years ago, again outperforming Bitcoin, which was down 30% over the same period. Transaction count has remained firm YoY, with transfer volumes down only 7% despite a price fall of 29%.

**NFTs Flip DeFi, Stables for Smart Contract Usage.** Ethereum’s success will be predicated on its utility for engaging in economic and social activity. Stablecoins, DeFi, NFTs, have emerged as the first smart contract use cases (primitives) which are driving blockspace demand. While Ether locked into smart contracts was flat YoY at 27.43% of the total, the 1.4x increase over three years, demonstrates robust growth over a full bull/bear cycle, despite fierce competition from alternative Layer-1s.

Tightening liquidity conditions have predictably impacted the two financial primitives, Stables and DeFi. Despite the mania moderating in the past three months, NFT’s picked up the smart contract slack and we are optimistic that the social primitives could be the largest source of future adoption, diversifying activity away from financial drivers (Stables, DeFi).

**Active Addresses Surge Showing Basing Pattern.** Active addresses, a core driver of blockchain asset valuation, may have bottomed over the past quarter, which given the historical correlation (green), supports the rapid price recovery off the June lows. As of July 26, active addresses (7-day average), a proxy for active users, surged 46% over the past month, adding more than 180,000 addresses. The resurgence follows the ecosystem’s second recession since inception. However, this cycle, Ethereum fared significantly better as activity only fell 45% fall vs. 73% in 2018-19 (red).

**Active Addresses, Max Drawdown & Price**

Whilst, mean reversion is likely short-term, the upcoming Merge, and the re-engineered supply/demand dynamics, tilt risk to further upside. We expect that by the end of 2022, Ethereum could have a staking yield of 6-9%, with a slightly deflationary issuance schedule.
## Crypto Assets

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## Cryptocurrency News

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(6:00am NY, August 3)
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