

July 2023

# Bitcoin in the Fastlane

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The Digital Investor



## Table of Contents

TL;DR	2
Introduction	3
Macro	4
Technical Outlook	5
Bitcoin	6
Ethereum	6
Cardano	6
Polygon	7
Chainlink	7
Aave	7
Uniswap	7
Conclusion	7

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## TL;DR

- A few major events impacted the cryptocurrency market in June, including the SEC's clashes with Binance and Coinbase, concerns over USDT depegging, and BlackRock's filing for a Bitcoin ETF.
- The decoupling of Bitcoin's correlation with the Nasdaq 100 presents a positive long-term outlook for the crypto industry, indicating potential diversification and independent growth prospects.
- Bitcoin's market capitalization dominance has consistently increased month-on-month and currently stands at 51.2%, solidifying its position as the leading cryptocurrency.
- Ethereum has made notable progress with Consensus and Execution layer upgrades aligned with its roadmap, accompanied by positive on-chain metrics.
- Regulatory challenges have emerged for Polygon, Solana, and Cardano since the US SEC labeled them as securities. The impending sale of these tokens' holdings by major entities such as Robinhood and Celsius raises price concerns.
- Chainlink continues to dominate the crypto oracles space, forging partnerships with the SWIFT network and 23 additional protocols in June. However, token centralization remains a cause for concern.
- The decentralized finance (DeFi) protocol Uniswap announced Uniswap v4, offering developers new functionalities and customization options. Their 4-year Business Source License aims to protect Uniswap's innovations from easy replication by other protocols.



## Introduction

The global cryptocurrency market capitalization has reached USD 1.26 trillion, representing a 5.2% growth from the previous month. Bitcoin maintains a market cap dominance of 51.2%, exhibiting month-on-month increases and outperforming altcoins. While spot trade volumes declined notably in Q2 2023, hitting their lowest point since 2020, the primary focus in June revolved around regulatory matters. Despite ongoing concerns, we will delve into the developments within the global digital asset space and offer our constructive viewpoint on the crypto market.

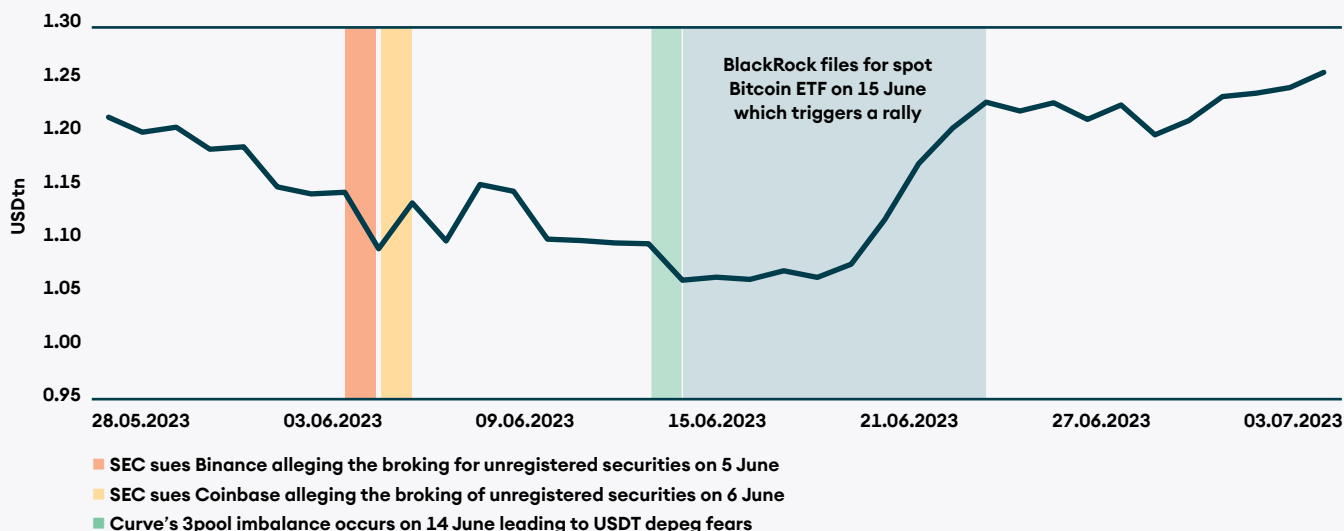
In June, the cryptocurrency market experienced four notable events.

First, the US Securities and Exchange Commission (SEC) sued Binance for allegedly operating as an unregistered securities exchange, resulting in a 5.5% market cap drop. Secondly, Coinbase faced similar allegations from the SEC which was, however, followed by the market rising 3%.

Thirdly, an imbalance in Curve Finance's 3pool led to fears of USDT de-pegging. Curve Finance is a decentralised cryptocurrency exchange (DEX), and the 3pool is a stablecoin liquidity pool on this DEX comprising Circle's USDC, Maker's DAI, and Tether's USDT. Under normal market conditions, the pool holds roughly 33% of each of these stablecoins to ensure balance. At times, there is a significant rise in the weightage of a particular stablecoin in this pool which is a sign of heavy asset selling. On 15 June, USDT weightage in this pool rose above 70%. This pool imbalance led to depeg concerns for USDT, which indicated market participants getting rid of their USDT holdings. Increased exchange volumes and panic prevailed in the market during that time.

The fourth major event was BlackRock filing for a Spot Bitcoin ETF. The market witnessed a positive turn, causing a 12% surge in total crypto market capitalization.

Figure 1: Major crypto events for June 2023



Source: SEBA Bank

**Table 1: Coins Performance as on 30 June 2023**

Coin	1M	3M	YTD	1Y	30D Beta over BTC
<b>BTC</b>	11%	7%	82%	48%	1.00
<b>ETH</b>	-2%	2%	53%	60%	0.89
<b>ADA</b>	-29%	-29%	9%	-43%	1.06
<b>LTC</b>	-8%	-7%	18%	58%	1.13
<b>XLM</b>	9%	-6%	41%	-12%	0.77
<b>LINK</b>	-10%	-20%	4%	-8%	1.10
<b>UNI</b>	-4%	-18%	-6%	-2%	0.80
<b>SNX</b>	-13%	-16%	42%	-18%	1.13
<b>YFI</b>	-6%	-30%	20%	8%	1.12
<b>DOT</b>	-8%	-20%	13%	-33%	0.80
<b>AAVE</b>	-7%	-17%	14%	-1%	0.96
<b>XTZ</b>	-16%	-31%	6%	-50%	0.89
<b>SOL</b>	-23%	-22%	60%	-55%	1.20
<b>AVAX</b>	-13%	-28%	13%	-32%	1.30
<b>MATIC</b>	-31%	-44%	-19%	20%	1.05
<b>MANA</b>	-22%	-38%	21%	-59%	1.26
<b>ENJIN</b>	-15%	-29%	15%	-48%	1.27
<b>APE</b>	-30%	-46%	-40%	-55%	1.70

## Macro

In June 2023, the stock market showed positive performance with gains in the S&P (4.25%) and the NASDAQ (4.48%) due to the excitement around developments in Artificial Intelligence (AI). The world is currently experiencing an AI revolution of comparable magnitude to the internet revolution or the industrial revolution, with Nvidia's earnings witnessing a significant surge. Despite this positivity, various recession indicators, including the inverted yield curve and indicators like manufacturing activity and tight lending standards, continue to signal a potential economic downturn. However, considering that the markets are forward-looking, it is believed that a recession that is delayed until 2024 is, in reality, front-run by investors.

On the inflation front, there are notable improvements, as CPI peaked at 9.1% in June last year to reach the current better-than-expected 4%. This improvement is largely due to the decline in oil prices. Additionally, consumer inflation expectations have also declined during this period. The main fear of inflation remains the substantial 6% wage growth. However, there are indications that the labor market is starting to loosen, which could impact wage growth as we advance.

Regarding the labor market, initial jobless claims are consistently high at 260k+ throughout June. If the Non-Farm Payrolls (NFP) and Job Openings and Labor Turnover Survey (JOLTS) reflect this trend, the Federal Reserve may take steps to ease monetary policy. Historically, expansionary monetary policy often leads to increased liquidity and lower interest rates, which can favor riskier assets like stocks and crypto.

The recent divergence in the correlation between Bitcoin and the Nasdaq 100 (sitting at a 3-year low of 3% according to Kaiko research), primarily due to regulatory headwinds in the US, has created a constructive outlook for crypto in the long term. As cryptocurrencies are global assets and not restricted to the US, they have the potential to thrive and gain strength despite regulatory challenges in specific jurisdictions. This divergence highlights cryptocurrencies' resilience and international nature, allowing them to tap into a broader user base and expand their influence beyond any single country or region.

## Technical Outlook

According to a trend-based analysis, the technical outlook for Bitcoin, Ethereum, Litecoin, Stellar Lumens, Uniswap and Yearn Finance in July is bullish.

**Table 2: Technical Outlook**

Ticker	Price(USD) as on 30 June 2023	Support (USD)	Resistance (USD)	Spot to 50DMA	Spot to 100DMA	Spot to 200DMA	Overall
<b>BTC</b>	30471	27000	33500	1.12	1.09	1.25	Bullish
<b>ETH</b>	1882	1600	2150	1.03	1.02	1.13	Bullish
<b>LTC</b>	88	70	103	1.02	1.00	1.02	Bullish
<b>ADA</b>	0.28	0.24	0.35	0.85	0.78	0.81	Bearish
<b>DOT</b>	5.10	4	6	1.00	0.91	0.90	Neutral
<b>AVAX</b>	13.34	10.9	15.8	0.97	0.85	0.84	Neutral
<b>XLM</b>	0.097	0.082	0.11	1.11	1.05	1.10	Bullish
<b>XTZ</b>	0.80	0.65	0.93	0.96	0.84	0.81	Neutral
<b>SOL</b>	16.65	12.3	20	0.89	0.82	0.84	Bearish
<b>MATIC</b>	0.66	0.5	0.75	0.85	0.72	0.67	Bearish
<b>ATOM</b>	9.25	7.3	10.8	0.93	0.87	0.82	Bearish
<b>AAVE</b>	64.36	50	81	1.06	0.95	0.91	Neutral
<b>LINK</b>	6.22	5	7.5	1.02	0.93	0.93	Neutral
<b>UNI</b>	5.31	4	6.3	1.09	0.99	0.92	Bullish
<b>YFI</b>	6444	5400	7400	1.02	0.87	0.88	Bullish
<b>SNX</b>	2.12	1.6	3	0.99	0.90	0.92	Bearish
<b>MANA</b>	0.38	0.3	0.5	0.90	0.77	0.73	Bearish
<b>ENJ</b>	0.29	0.24	0.35	0.95	0.83	0.80	Bearish
<b>APE</b>	2.32	1.8	2.85	0.81	0.67	0.56	Bearish

Source: SEBA Bank

## Bitcoin

Bitcoin performed well in June 2023, as its price surged by 11.3%, propelling its market capitalization above USD 600 billion for the first time since May 2022. Bitcoin network activity recorded an impressive uptick thanks to the Taproot upgrade, which introduced new functionalities. In early February, Ordinals entered the crypto world, bringing NFTs to the Bitcoin blockchain and pushing transaction fees to unprecedented levels. Following that, BRC-20s replicated Ethereum's ERC-20 token standard on the Bitcoin blockchain, coinciding with the meme coin mania on Ethereum in May, resulting in skyrocketing Bitcoin fees, with average users paying over USD 30 per transaction.

The long-term viability of Bitcoin miners depends on higher transaction fees and growing demand for blockspace. As successive halvings reduce block incentives, miners increasingly rely on transaction fee revenues to cover operational costs. Currently, high transaction fees have temporarily boosted miner profitability. With the recent upgrade and Bitcoin participating in trends of NFTs and memes, new use cases will inevitably emerge, triggering increased transaction fees and reducing miner reliance on Bitcoin inflation.

Simultaneously, the regulatory landscape is further bolstering Bitcoin's price action. Numerous ETF applications from traditional finance giants, including Blackrock, Fidelity, ARK Invest, and Invesco, led to a decline in the Grayscale BTC (GBTC) discount from 41.3% to 29.29% in June.

Lastly, relevant authorities worldwide have deliberately intended to provide greater regulatory clarity. Even negative crypto regulations could increase Bitcoin's adoption relative to other crypto assets, considering its haven status. Furthermore, in a recent hearing on monetary policy, Federal Reserve Chairman Jerome Powell expressed a positive outlook on the crypto industry, recognizing stablecoins as a form of money and acknowledging the staying power of cryptocurrencies like Bitcoin. Powell's remarks indicate a favorable stance toward cryptocurrency regulation and adoption, suggesting a potentially supportive environment for the industry's development.

## Ethereum

Valuation metrics for the Ethereum network have shown mixed results in recent months. The network's 30-day revenue dropped by a significant 63%, and the total value locked decreased by 6% in June. Although total NFT volumes increased by a modest 4.3%, wash trading increased by a substantial 48%. On a positive note, average active addresses witnessed an 18% rise, transaction count increased by 5%, and developer activity surged by an impressive 56%.

Ethereum has made progress with Consensus and Execution layer upgrades aligned with its roadmap, while new Layer 2 solutions like Eigen Layer are emerging to address scalability challenges. However, regulatory crackdowns and macroeconomic activities introduce potential uncertainties for the network.

## Cardano

Introducing Project Catalyst, a new governance initiative, brings added power to Cardano's governance system, particularly in efficiently deploying funds to support incubating innovative projects within the ecosystem. However, Cardano faces potential challenges that could impact its trajectory. A notable concern is the holdings of approximately USD 26 million by Celsius and USD 103 million by Robinhood in ADA, which may lead to possible sell-offs shortly due to it being labeled a security by the SEC. Moreover, Cardano's involvement in ongoing court battles following its classification as a security by the Securities and Exchange Commission (SEC) raises uncertainties that may impact market sentiment and the overall performance of the token.

## Conclusion

In conclusion, the increasing market dominance of Bitcoin highlights investors' growing preference for the cryptocurrency as a haven amidst regulatory uncertainties. The current state of the crypto market goes beyond mere speculation, as evidenced by the sustained inflow of funds into Bitcoin and the ongoing advancements in altcoin ecosystems. Despite potential obstacles stemming from macro uncertainties, these factors inspire confidence in a positive trajectory for the crypto industry. Although challenges persist, the inherent strength and potential of cryptocurrencies point towards a promising future ahead.

## Polygon

Polygon has unveiled Polygon 2.0, a transformative migration plan to transition its PoS sidechain into zkEVM Validium, offering enhanced cross-chain integration and reduced user fees. This initiative, expected to be deployed by Q1 2024, demonstrates Polygon's pioneering role in Ethereum scaling. However, challenges have emerged for the MATIC token, including its classification as a security by the SEC, resulting in price declines and delistings from eToro and Robinhood. Additionally, the decision by Celsius and Robinhood to sell their substantial MATIC holdings may exert further downward pressure on the token's price.

## Chainlink

Chainlink has achieved significant milestones recently. It partnered with SWIFT to test tokenized asset transfers and released a report on its one-year performance of Chainlink 2.0. Chainlink has integrated with seven blockchains and collaborated with 23 projects. It is a top 10 asset held by the Top 100 addresses on Ethereum. However, the concentration of token holdings among whale addresses hinders token price performance, with the top 100 addresses having 75% of the circulating supply.

## Aave

The decentralized lending platform Aave has recently made significant strides in its ecosystem. The proposal to launch GHO, Aave's native stablecoin, on the mainnet is now live, showcasing the platform's commitment to expanding its offerings. Aave has also introduced a new governance model through Lens to enhance community participation and decision-making processes. However, challenges persist, including the unclear path for CRV markets on Aave and the need to address slow governance procedures. Overcoming these challenges will be crucial for Aave's continued growth and success in decentralized finance (DeFi).

## Uniswap

Uniswap recently announced Uniswap v4, offering developers new functionalities and customization options. Implementing a 4-year Business Source License aims to protect Uniswap's innovations from being easily replicated by other protocols. However, Uniswap faced criticism over miscommunication surrounding its open-source code, which caused community backlash. Despite this, Uniswap v4 could bring further innovation to the protocol, although it may introduce increased complexity.

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