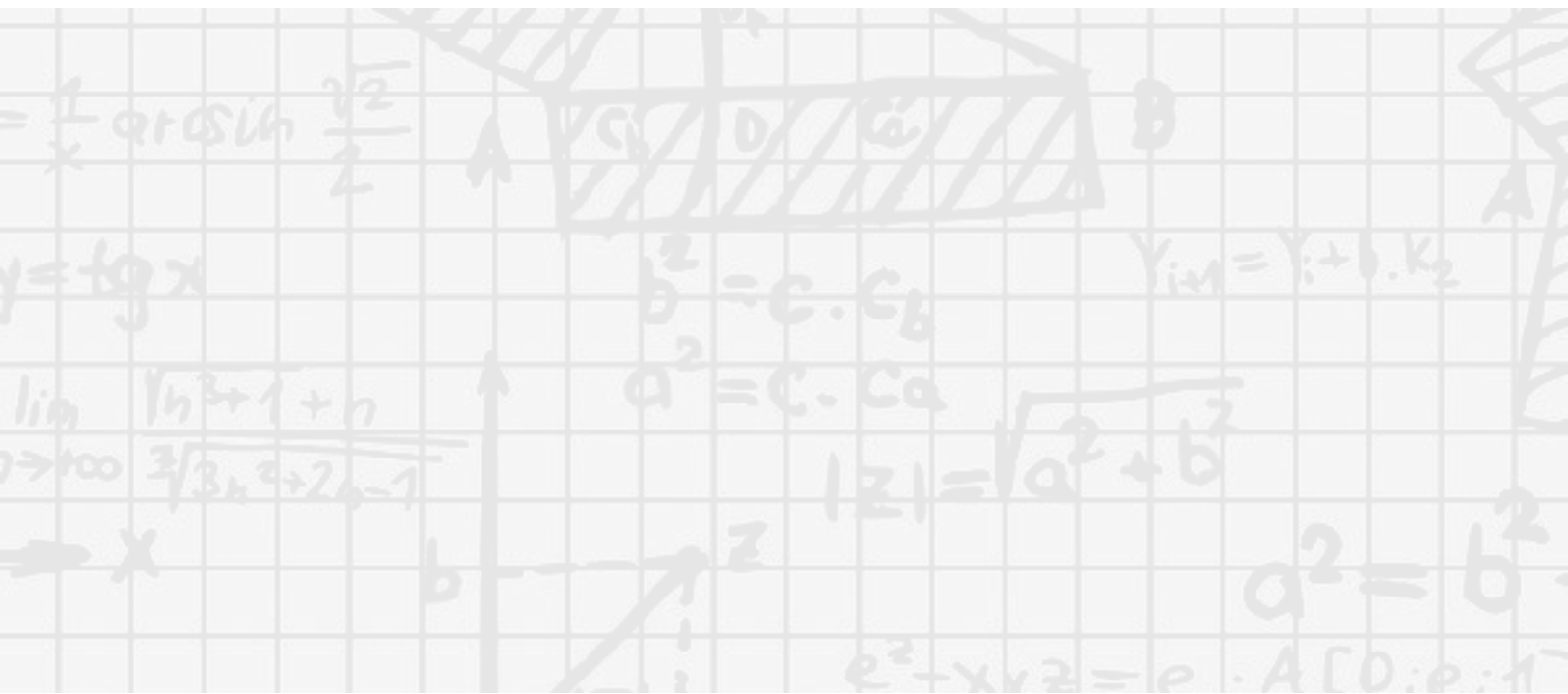


Digital Asset Markets Report

2H March 2022



The S2F Intelligence report examines network fundamentals using on-chain analysis, technical tools, and proprietary indicators. We aim to provide insight into how digital assets perform during these unprecedented times. By recognizing trends in both momentum and volatility, we can identify opportunities while properly navigating uncertain market conditions.



Macro Overview

- Since the release of S2F's 1H March Intelligence report, the Russia and Ukraine conflict continues to rage on. Still, there is optimism on the horizon as Russian and Ukrainian delegates will meet for additional rounds of peace talks. A resolution could ease commodity supply constraints and stabilize the region, which would bode well for global markets.
- The FOMC March minutes indicated the Federal Reserve's plan to reduce the balance at a pace of **\$95b** per month. At the March FOMC meeting, the fed increased its Federal Funds rate by 25 basis points, marking the first-rate increase since December 2018. Some committee members have signaled the need for more aggressive hikes of 50 basis points. Markets have begun to price in the potential for a **50 basis point** increase at the May meeting. During the last FOMC meeting, Chairmen Powell stated that he sees little probability of a recession over the next year. However, maturities on the yield curve were briefly inverted, which raised investors' concerns about a potential recession.
- Digital markets have been keeping an eye on European regulations surrounding transaction anonymity. The government voted to require exchanges to identify the recipients of digital asset transfers, including self-hosted wallets. This ruling could provide insight into what may be coming to the U.S. Although the market has received better clarity from the fed, uncertainty lingers. Nevertheless, we remain optimistic despite macro headwinds and geopolitical uncertainty.



Macro Performance

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- In the 2H March report, U.S. crude oil peaked at \$115 per barrel but has retreated to below \$102 per barrel. The U.S. release of up to 180 million barrels from strategic reserves over several months. However, that did little to curb prices.
- Gold is up 5.65% on a YTD basis. Gold is set to have its biggest quarterly gain since September 2020 as the Russia-Ukraine conflict continues to lift demand for the safe-haven metal.
- The U.S. Dollar fell below the 98.00 level, a significant level of support as GDP came in at 6.9% on an expected 7.0%.
- Treasury yield spreads inverted briefly, causing concern of a pending recession but have since corrected yet continue to trend lower.



On-Chain Analysis

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- **1+ Year Change:** The percent of BTC supply last active 1+ years ago is almost 63.4% of the total supply (ATH), signaling on-chain accumulation as more coins purchased in Q1 2021 graduate to long-term holder status.
- **Ethereum Scarcity:** 11 million+ ETH is locked in the staking contract. We saw one of the largest volume spikes in ETH 2.0 deposits in mid-March. (*500,000+ ETH*). **Only 18% of ETH's supply** is available on exchanges (levels not seen since 2017-2018).



Technical Levels

Page 3

- **Bitcoin:** broke out before its initial rejection at the 200d MA. We await to see if upper resistance can now become support or if it will retest the 50d MA.
- **Ethereum:** is currently showing greater strength in price action than BTC. However, despite the recent breakout in price, the 200d MA resistance has not yet flipped to high-time frame support.



Momentum & Sentiment

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- **pMV momentum indicator:** indicator is long both BTC and ETH but heavier weighted to ETH.
- **Alt-season indicator:** the model shows that we are currently above the alt-season indicator line.
- **On-Chain Accumulation Oscillator:** indicator shows a pause in on-chain accumulation as price determines direction.
- **Delta Rotation:** we observed alt-season conditions which have rotated back to ETH/BTC.



Money Flows & Themes

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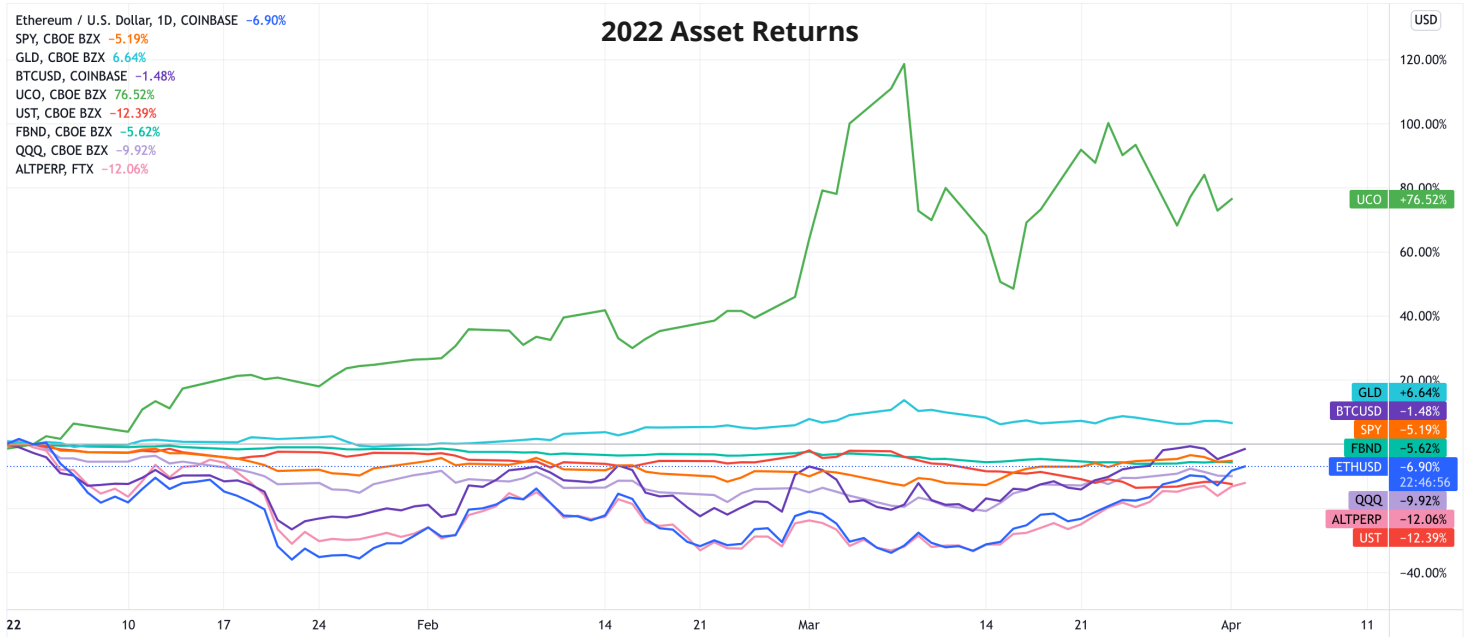
- Demand for **Terra's algorithmic stablecoin** has led to a **10x increase in UST's market cap** since Q1 2021. The Luna Foundation Guard is creating a Bitcoin Forex reserve to defend the stablecoin peg.
- The **Luna Foundation Guard plans to purchase \$3B in Bitcoin** over the next 3-months with a **long-term goal to reach \$10B**. They have an estimated \$8.2B left to deploy.



Notable News

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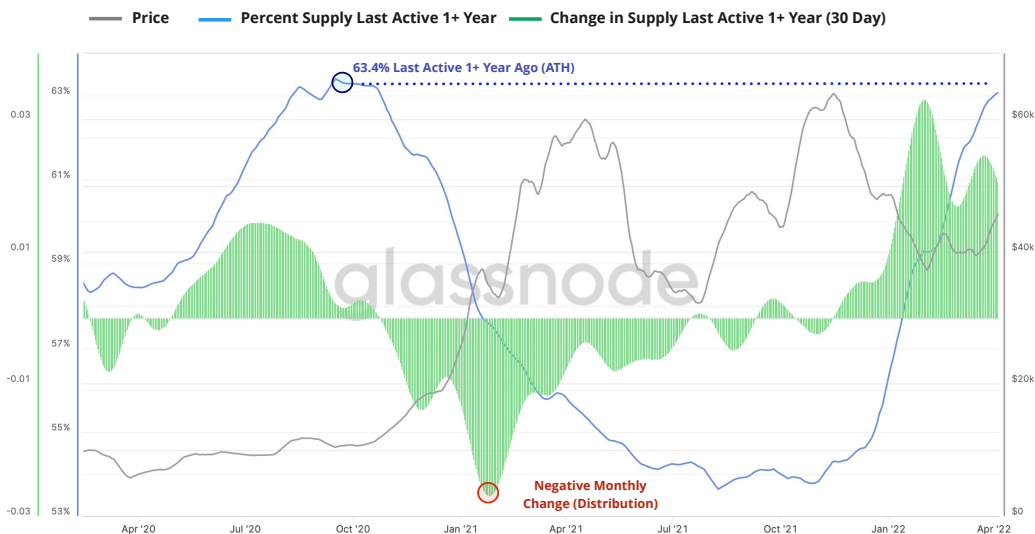
- Bitcoin, Ethereum, Layer One, and Other Headlines.



Asset	MtD*	QtD	YtD	Volatility (annualized)*	Sharpe (annualized)*	Correlation (to Bitcoin)**
Bitcoin	2.7%	-4.3%	-1.48%	67.87%	0.00	1.00
Ethereum	10.5%	-12.8%	-6.90%	78.89%	-0.38	0.89
Altcoin Index	10.0%	-16.1%	-12.06%	72.81%	-0.57	0.77
SPY	5.0%	-5.5%	-5.19%	21.41%	-0.95	0.61
QQQ	4.1%	-9.2%	-9.92%	29.46%	-1.27	0.55
GLD	-5.0%	7.3%	6.64%	16.13%	1.90	0.02
UCO	-5.4%	72.9%	76.52%	89.33%	3.02	0.03
FBND	-3.3%	-5.5%	-5.62%	5.89%	-4.13	-0.14
UST	-10.0%	-11.7%	-12.39%	16.94%	-3.02	-0.28

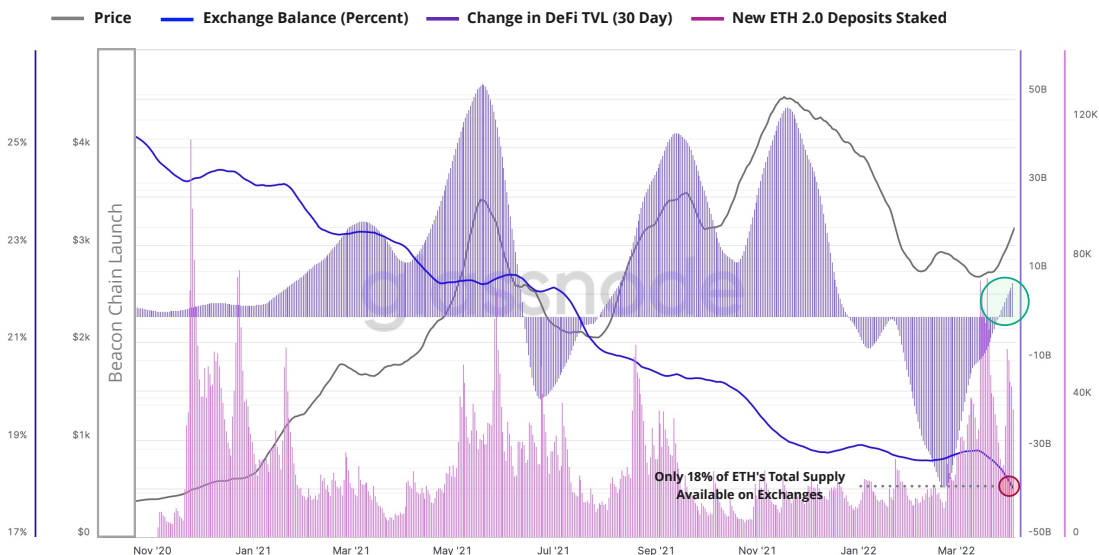
Sources: Glassnode, AlphaVantage
 Assets: SPY = S&P500, QQQ = NASDAQ, GLD = Gold, UCO = Crude Oil, FBND = Total Bond Market, UST = 7-10 YR Treasury, Alt-Perp (FTX) = Altcoin Index
 *as of March 31, 2022
 **last 90 days

Monthly Change in Percent Supply Last Active 1+ Year



- The net position change in supply last active a year ago (green) identifies long-term holder accumulation and distribution periods. As the percent of supply last active 1+ years ago (blue) increases, the net position change will also be positive.
- The **percentage of supply last active 1+ years ago is inching closer to 63.4% of the total supply (previous ATH)**, signaling accumulation as more coins purchased in Q1 2021 graduate to long-term holder status.
- In Q1 2021, the net position change flipped negative. Under these conditions, the likelihood of distribution and sell-side pressure increases. Almost 3% of Bitcoin's circulating supply was sold by long-term holders monthly (red), contributing to a decline in price.
- In Q1 2020, **supply growth last active 1+ years ago increased by 2-3% on a monthly (30-day) timeframe. Currently, on-chain is signaling similar accumulation patterns**; historically, price trends to the upside under these conditions.

Ethereum Scarcity Accelerating



- Since the Dec 2020 launch of Ethereum's Beacon Chain, the balance of ETH on exchanges (blue) continues to decline. **Currently, only 18% of ETH's circulating supply is available on exchanges.**
- The Beacon Chain required ~525,000 ETH at launch for staking to begin. There is **now more than 11 million ETH locked** in the staking contract, and we saw one of the **largest volume spikes in ETH 2.0 deposits (pink) in mid-March. (Another 500,000+ ETH)**
- We also can see a correlation between Ethereum's price and the net monthly change in total value locked (TVL) in the DeFi ecosystem (purple). This trend has been negative since December 2021 but recently flipped positive for the first time in 2022.
- As Ethereum inches closer to the proof of stake merge, ETH's scarcity is accelerating. The token utility to generate yield in the 2.0 staking contract or as collateral in DeFi applies price pressure to the upside.

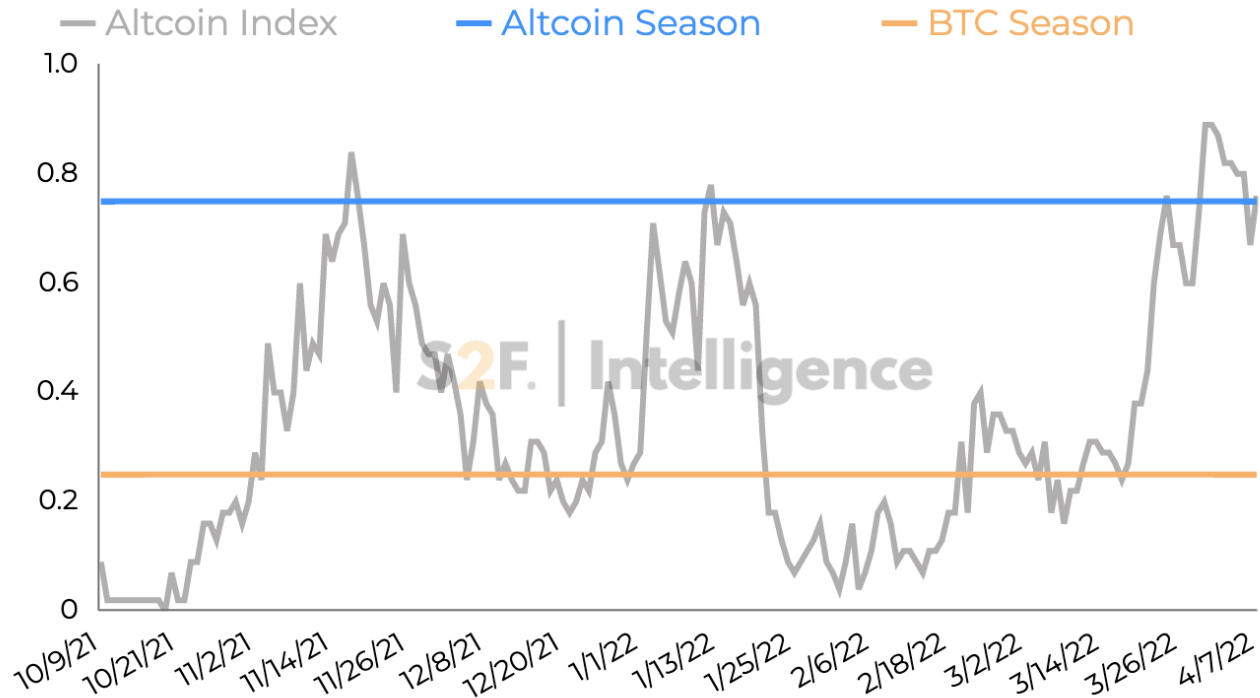
- **Bitcoin recently broke out of its 3-month range to the upside. Price action is currently battling to establish support.**
- BTC broke above the upper resistance level before its initial rejection at the **200d MA (gold)**. The consolidation pattern resulted in a breakout to the upside, and we await to see if upper resistance can now become support or if it will retest the **50d MA (blue)**.
- On-chain accumulation paired with buying pressure from the Luna Guard Foundation offers upside despite ongoing macro uncertainty.



- **ETH is displaying greater strength in price action than Bitcoin, but both assets have yet to recapture their yearly open levels.**
- Ethereum price action followed the BTC breakout before also finding resistance at the **200d MA (gold)**. We expect Ethereum to maintain support above the **50d MA (blue)** if the **200d MA** is lost.
- Ethereum's 2.0 staking contract continues to see significant inflows of ETH as exchange balances are near their lowest levels in 5-years. Additionally, the ESG-accommodating narrative surrounding the "merge" creates upside momentum, positively impacting the price.

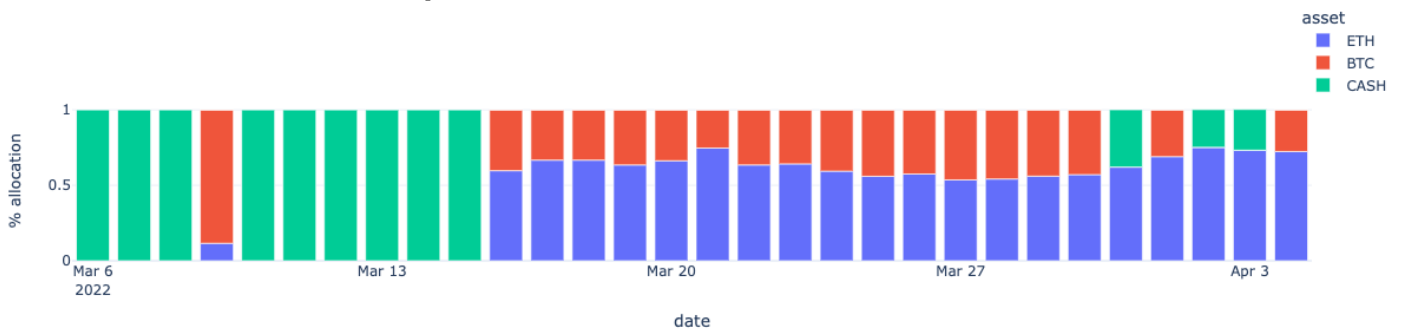


S2F Alt-Season Indicator



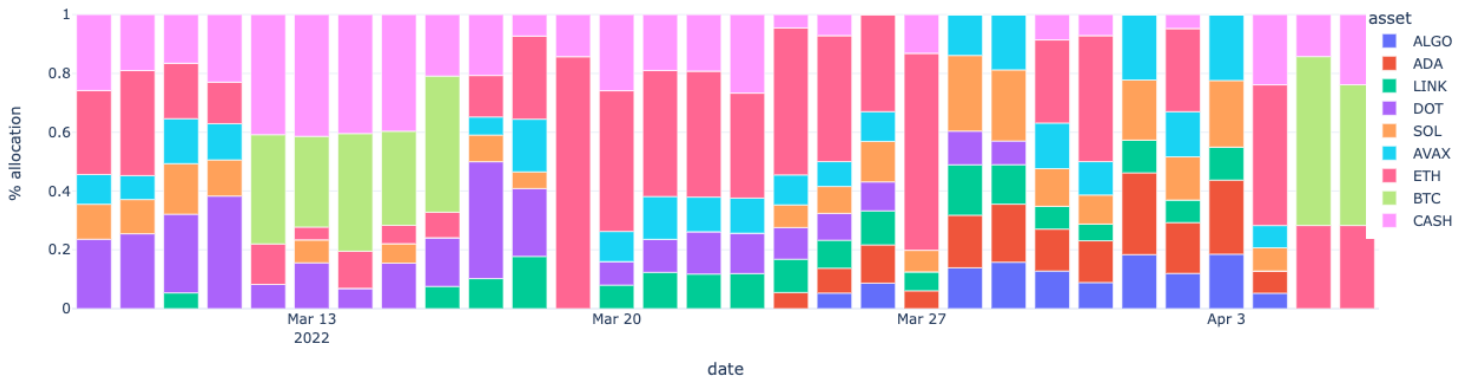
- The S2F Alt-Season Indicator is a proprietary model that measures the capital flows between Bitcoin and a basket of major Altcoins. This indicator is especially helpful in **identifying where strength resides** in the cycle and can **indicate what may happen next**.
- When the Index line (gray) is below the **orange line**, it signals relatively strong momentum favoring Bitcoin vs. Altcoins.
- Currently, the model indicates significant strength in Altcoins vs. Bitcoin.

S2F Momentum Model (pMV)



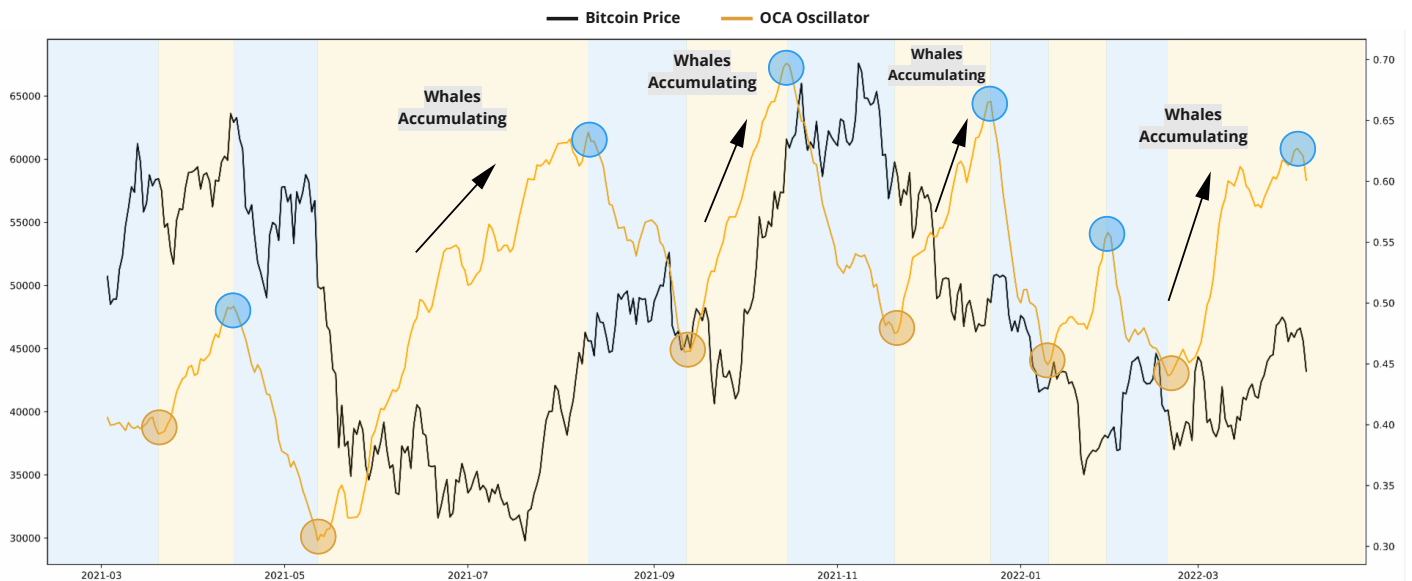
- The S2F Momentum Model is a proprietary model that **compares the price momentum of BTC vs. ETH vs. USD** over a rolling window to suggest an optimal allocation of capital to each of these three assets.
- The entry and exit signals rely on two momentum indicators, one slow and one fast, to help determine portfolio over-or underweight-ness in each of the three assets.
- The chart above shows the suggested daily allocation over the last 30 days.

Delta Rotation



- The Delta Rotation is a new proprietary model that **leverages the price action of BTC, ETH, and a basket of alternative layer ones to extract as much upside volatility as possible** while reducing downside risk.
- The algorithmic model reallocates to layer one investments under risk-off conditions.
- It usually migrates to BTC, ETH, and CASH when the market shows uncertainty.

On-Chain Accumulation Oscillator



- The On-Chain Accumulation Oscillator is a proprietary model that helps **identify who is currently buying Bitcoin on-chain**. A **higher reading** of the indicator means that **whales and retail are accumulating** coins, while a **lower value** means that only **retail is buying**.
- The chart above shows where most whales start buying (**orange circles**) and slow down or sell (**blue circles**). When they slow down their buying habits, the indicator declines until they spot a local bottom and resume accumulation. Smart money stops accumulating before price peaks (**black line**), and retail FOMO provides them with their exit liquidity.
- **A reading above 0.5 indicates that whales might have returned** or that we may have passed a local bottom.

Luna Foundation Guard

- The Luna Foundation Guard (LFG) is an incorporated non-profit organization based in Singapore. The team oversees the development of the Terra ecosystem.
- LFG was founded by a council of experts committed to promoting the growth of the Terra ecosystem and supporting community-driven activities through grants and funding.
- Another mandate of the LFG is to **improve the sustainability and stability of Terra's algorithmic stablecoins.**
- This mandate includes building reserves that backstop and fortify the peg of algorithmic stablecoins amid market volatility.



Terra's Algorithmic Stablecoin - UST

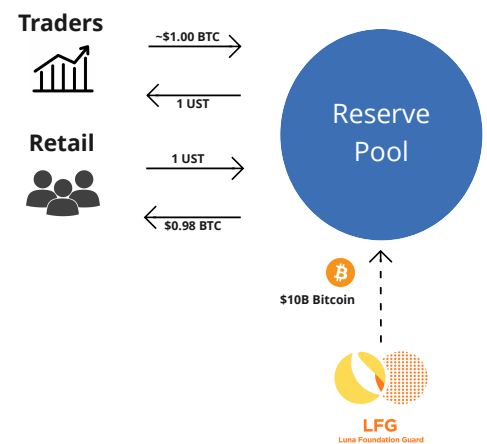
- Since 2017, the market cap for stablecoins has experienced parabolic growth. Fueled by the rise of DeFi and the utility stablecoins provide to users, the cumulative market cap for stables has exploded from \$100 million to more than \$180 billion.
- However, concerns surrounding token centralization and the ability to be confiscated have highlighted the need for a decentralized stablecoin. Terra's UST aims to solve the issue.
- UST uses a mint and burn mechanism to defend and maintain the 1:1 \$1.00 peg. For every \$1 UST minted, \$1 in the LUNA token is burned.
- If UST is > \$1.00, users can burn \$1 of LUNA and mint \$1 of UST to capture the profit. When UST < \$1.00, buyers can purchase UST at a discount and swap it for a \$1 LUNA token.
- Market **demand for Terra's native UST has resulted in a 10x increase in market cap** growth from \$1.6B to \$16.3B since Q1 2021. As a result, UST is the now 14th largest digital asset by market cap.



\$10 Billion Bitcoin Forex Reserve

- Recently, the LFG has begun the implementation of an additional mechanism to defend the UST 1:1 peg, adding Bitcoin.
- In **February, LFG sold \$1B in Luna** tokens to Jump Capital, Three Arrows Capital, and DeFiace Capital. The \$1B sale proceeds will help **establish a bitcoin-denominated forex reserve.**
- Jump capital recently proposed a \$2.5 billion Bitcoin reserve pool that would mirror the LUNA token's mint and burn mechanism.
- Users could initially redeem \$0.98 worth of wBTC for 1 UST. During a crisis, this reserve would provide a strong backdrop for UST.
- Terra's co-founder, Do Kwon, wants the UST stablecoin to be the first internet currency to adopt the "Bitcoin standard."
- To accomplish this, the **LFG has set a goal of purchasing \$10B in Bitcoin reserves.** They have accumulated 35,700 BTC so far (\$1.6B).

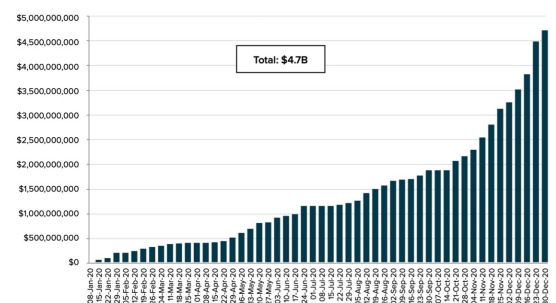
UST Bitcoin Reserve Model



Grayscale's Historic Purchasing Pressure - GBTC

- The Luna Foundation Guard plans to initially purchase \$3B in Bitcoin over the next 3-months with a longer-term goal to purchase \$10B. **They have an estimated \$8.2B left to deploy.**
- This buying pressure amounts to roughly \$125 million/day.
- We witnessed similar buying pressure for Bitcoin in 2020 when \$4.7B of annual inflows to Grayscale's GBTC Trust constrained the supply available on the open market.
- In **Q4 2020, Grayscale's GBTC Trust received \$2.8B in capital inflows.** Bitcoin returned 168% in Q4 2020.

2020 GBTC Capital Inflows



Bitcoin

- The US's top oil and gas producer, Exxon Mobile, discusses expanding its Bitcoin mining pilot program globally. While it does not reduce carbon emissions, excess natural gas energy can be used to provide security to the Bitcoin network rather than burned off and wasted.
- The Russian State Duma's Energy committee chair, Pavel Zavalny, discusses accepting Bitcoin as payment for energy exports.
- Rio de Janeiro announces it will accept Bitcoin for taxes related to urban real estate. The pro-crypto tax laws will be implemented starting in 2023.
- Grayscale has not ruled out an administrative procedure act lawsuit if SEC denies their application to convert Grayscale Bitcoin Trust (GBTC) into a Bitcoin ETF.

Ethereum

- Ethereum creator, Vitalik Buterin, is featured on the cover of TIME magazine. The article features Vitalik's life and discusses potential societal benefits he hopes the Ethereum protocol can achieve. This includes being a counterweight to authoritarian governments and disrupting Silicon Valley's control of peoples' digital lives.
- EIP 1559 has burned more than 2 million Ethereum, an aggregate value of over \$6.8 billion.
- GameStop's NFT marketplace beta goes live as total NFT sales volume on Ethereum surpasses \$51 billion.
- Popular blockchain game Axie Infinity's Ronin side-chain experiences a \$625 million bridge exploit. The hacker successfully siphoned 173,600 ETH, which has not yet been recovered.

Layer 1's

- The Luna Foundation Guard has accumulated more than 30,000 Bitcoin in reserves to maintain the \$1.00 stablecoin peg of \$UST. The co-founder of Terra, Do Kwon, implied they plan to purchase \$125 million/day for the next three months.
- AVAX plans to add native support for bridging Bitcoin directly into the Avalanche blockchain in Q2 2022; this will expand opportunities for BTC in AVAX's DeFi ecosystem.
- Grayscale is launching the Smart Contract Platform Ex-Ethereum Fund (GSCPxE) to offer investors exposure to alternative smart contract platforms. Currently, the fund will hold Cardano, Solana, Matic, Polkadot, Algorand, and Avalanche.
- Polkadot parachain project, Acala, launches a \$250 million ecosystem fund to boost the adoption of its stablecoin, aUSD.

Other Headlines

- Coinbase implements controversial requirements for user information when customers withdraw assets to an external wallet. Currently, these countries only include Canada, Japan, and Singapore.
- EU Parliament votes to pass a law that extends anti-money laundering requirements to outlaw anonymous crypto transactions. Transactions would need to be identified, including self-hosted wallets.
- Senator Warren introduces the Digital Asset Sanctions Compliance Enhancement Act bill. It aims to place sweeping restrictions on the cryptocurrency ecosystem under the guise of Russian economic sanctions.
- Australian bank ANZ is teaming up with blockchain infrastructure firm, Fireblocks to create an AUD stablecoin.
- Binance and FTX secure crypto asset service provider licenses to operate in Dubai.
- Katie Haun, the general partner at Andreessen Horowitz, leaves to start her own crypto fund. She recently raised \$1.5 billion, the largest debut fund ever by a female VC.
- In response to institutional clients' interest, CME Group launches micro BTC and ETH options products.

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