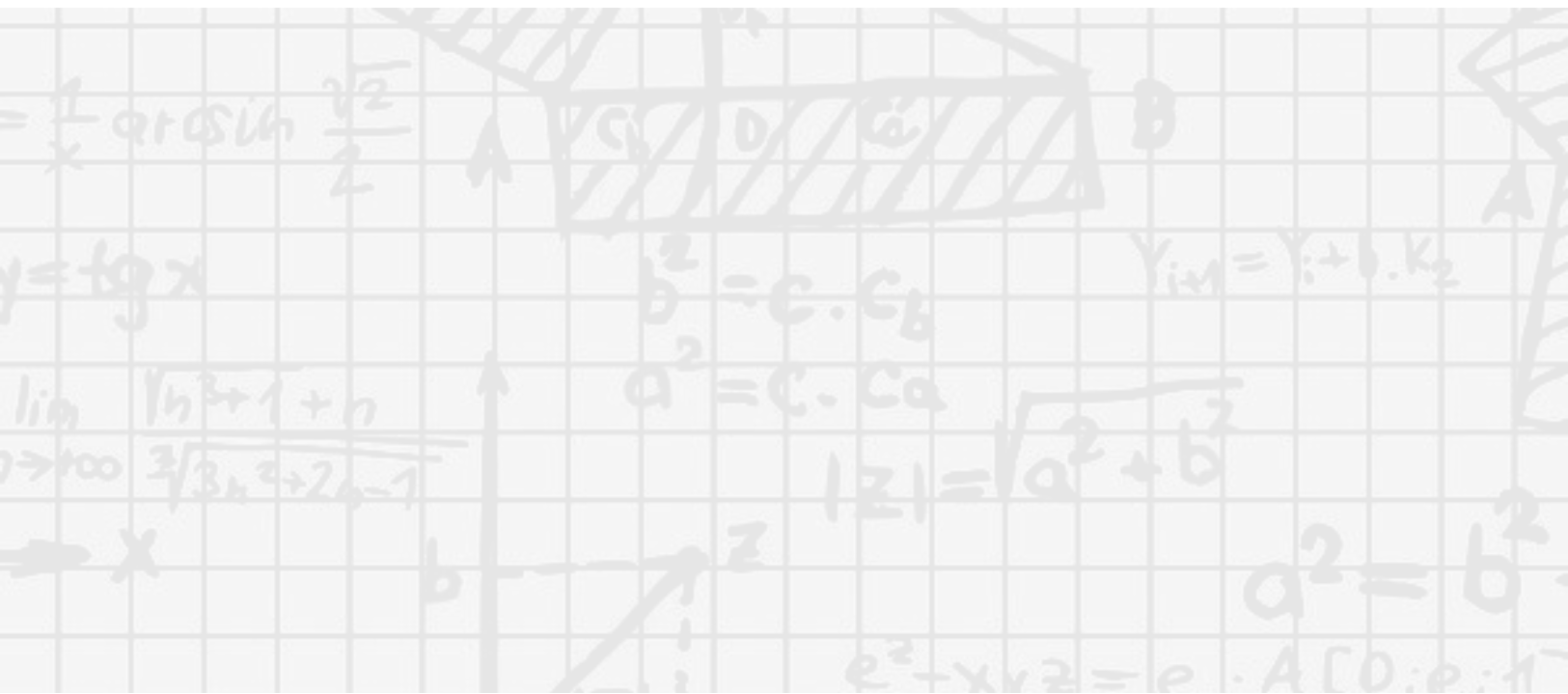


# Digital Asset Markets Report

June 2023



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 seek to identify opportunities while navigating uncertain market conditions.

## Macro Overview

- S&P500 and Dow indices are currently +17.3% and +3.5% YTD, respectively while the NASDAQ is up 21.6%.
- Final revision data for U.S. Q1 GDP featured an upside correction from its previous 1.3% estimate to 2.0% by the Bureau of Economic Analysis - Q4 GDP was also revised to the upside from 1.9% to 2.6%.
- May Core PCE data (Y/Y) was 4.6%, just below economists' estimates of 4.7%. Headline PCE data (Y/Y) was in line with forecasts at 3.8%, while last month's April (Y/Y) data was revised lower from 4.4% to 4.3%.
- Fed paused interest rate hikes at June's FOMC while the Fed SEP showed an upside revision from 5.1% to 5.6% for the year-end median funds rate. CME markets forecast a 85.6% likelihood of an additional 25 bps hike at the July FOMC.

## Macro Performance

Page 1

- Digital assets' total market cap remains below its March yearly highs - closing June at \$1.15tn.
- GLD (Gold ETF) saw a slight drawdown in price on the month but remains in positive territory at +4.2% YTD.
- OPEC production cuts were offset by increased production from Iraq and Nigeria -- price decreased slightly to \$71.40/barrel.
- The GSG commodity index slightly recovered this month but remains in negative territory at -5.3% YTD.

## On-Chain Analysis

Page 2

- **UTXO Realized Price Distribution (URDP):** June price action led to a test of our April report's low-volume target range (\$24.7K - \$26.1K) before its recent recovery. As a result, the current price has built 11.8% of the total on-chain volume support.
- **Relative LTH Realized Loss/Profit:** Capitulation events are marked by a sharp spike in LTH losses but not realized profits, while a high-volume signal contains a spike in both metrics. The recent high-volume spike could signal an upside for price.

## Technical Levels

Page 3

- **Bitcoin:** BTC rose by +13.7% in June and successfully reclaimed high timeframe support at its 200w SMA (\$26.8K) - the 50d SMA (\$27.8K) remains a crucial area of support in the short term.
- **Ethereum:** ETH price action recovered +3.9% in June after finding support at the 200d MA (\$1,693). While the 50d SMA (\$1,835) rises, the ETH/BTC ratio maintained its underperformance -13.1% YTD.

## Momentum & Sentiment

Pages 4-5

- **S2F Momentum Model:** The model rebalanced to a risk-on allocation (ETH/BTC) in late June.
- **Alt-season Indicator:** While the altcoin index is gradually rising, the indicator shows greater strength in BTC.
- **Delta Risk:** The indicator is signaling risk-on conditions for both ETH and BTC.

## Market Radar

Pages 6-7

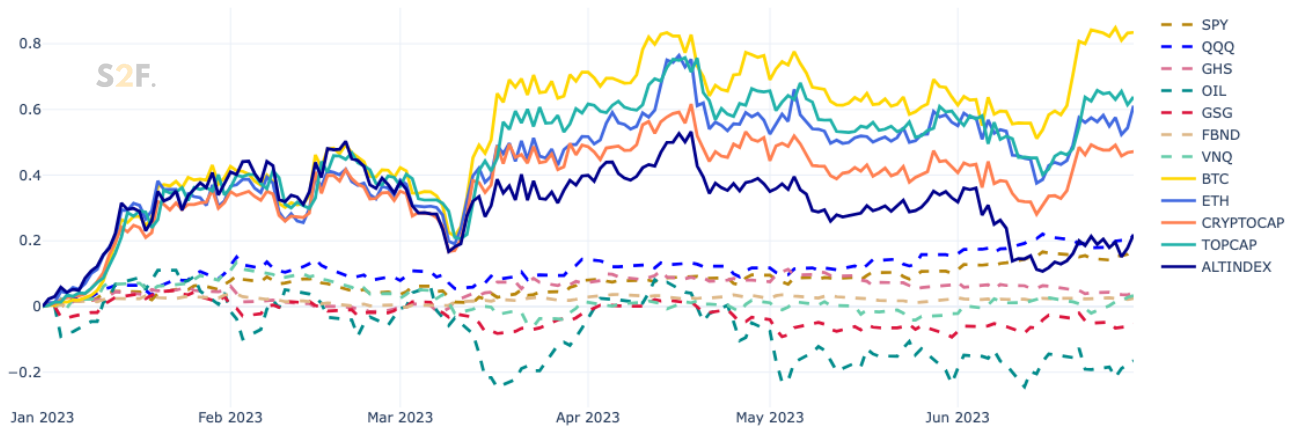
- **Historical TradFi Drawdowns for BTC:** While recent developments surrounding interest in BTC from traditional institutions have contributed to positive investor sentiment, they have historically resulted in an average drawdown of 31.67%.
- **On-Chain Momentum Correlation:** Current on-chain conditions resemble the VanEck ETF filings in 2018 and the launch of BAKKT futures in 2019 - both events resulted in a rejection by the 0.00 line for the 30d EMA oscillator.
- **BlackRock iShares ETF Timeline:** BlackRock's approval record of ETF applications by the SEC is 575-1, but while markets await the decision, we review critical dates to watch for in the coming months, which may align with the 2024 halving event.

## Notable News

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

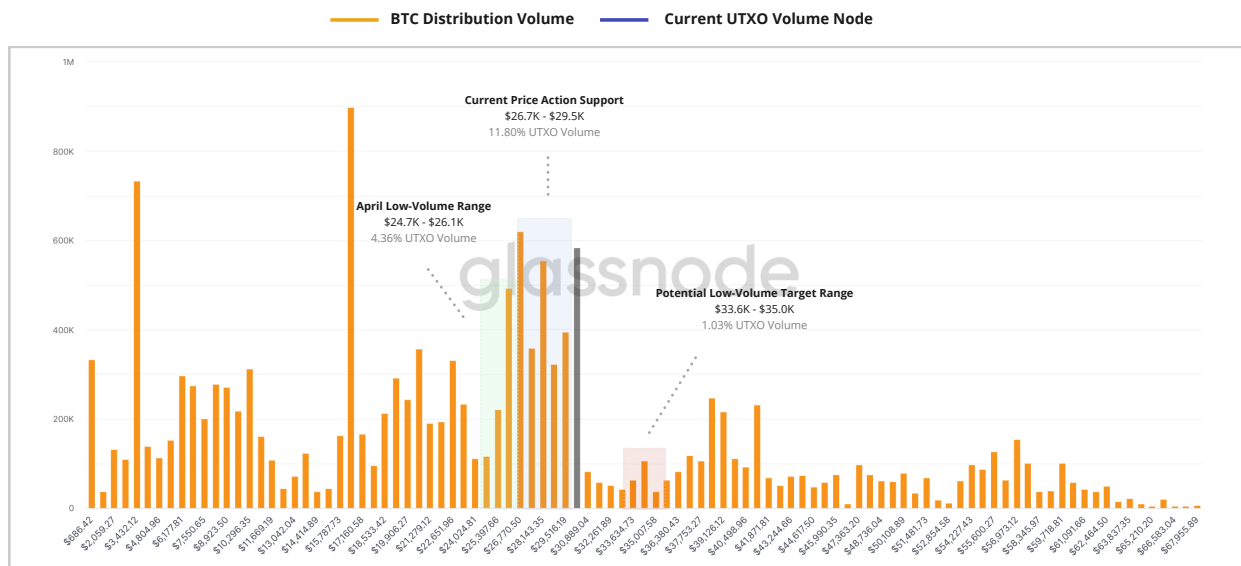
2023 Asset Returns



Asset	MtD*	QtD	YtD	Volatility (annualized)*	Sharpe (annualized)*	Correlation (to Bitcoin)**
Bitcoin	13.7%	7.1%	83.4%	0.41	0.96	1.00
Ethereum	3.9%	6.2%	61.1%	0.45	0.76	0.72
Altcoin Index	-7.5%	-12.9%	21.9%	0.42	-1.15	0.34
TopCap	4.3%	1.4%	63.8%	0.40	0.57	0.76
CryptoCap	4.6%	-1.0%	47.2%	0.42	0.19	0.87
SPY	5.5%	8.3%	17.3%	17.3	2.22	-0.04
QQQ	4.8%	6.8%	21.6%	0.16	1.75	-0.10
GLD	-3.0%	-3.4%	4.2%	0.15	0.79	0.02
UCO	2.8%	-18.5%	-16.5%	0.64	-0.16	0.35
FBND	-0.1%	-0.7%	2.5%	0.06	0.48	0.44
VNQ	5.6%	2.6%	3.3%	0.20	-0.32	0.22
GSG	2.6%	-5.7%	-5.3%	0.21	-0.48	0.42

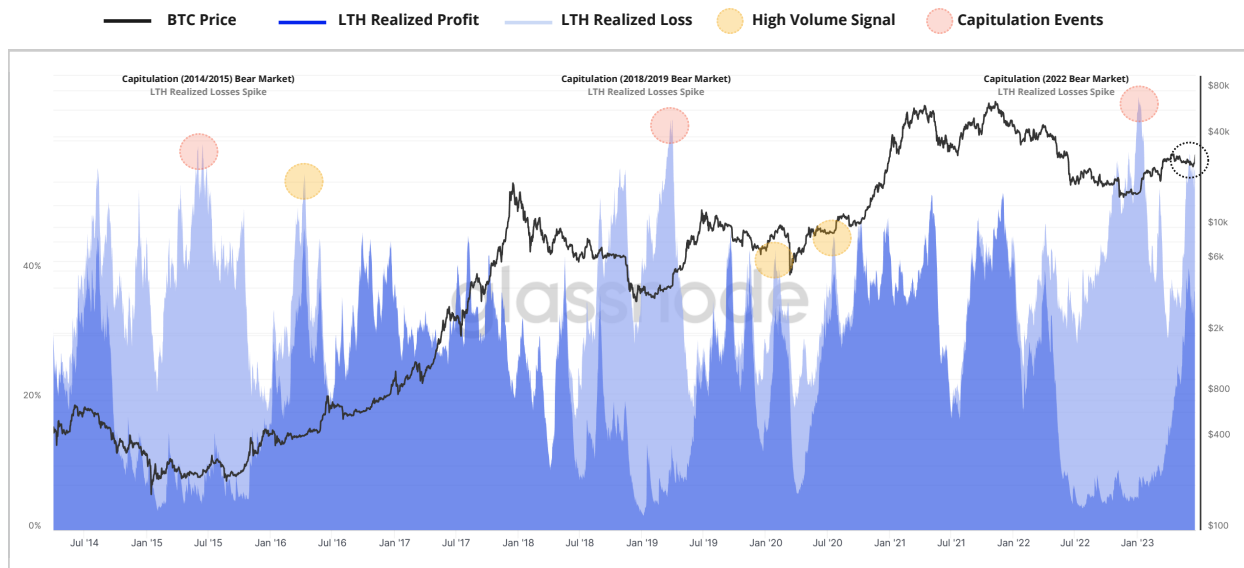
Sources: AlphaVantage, TradingView  
 Assets: SPY = S&P500, QQQ = NASDAQ, GLD = Gold, UCO = Crude Oil, FBND = Total Bond Market, VNQ = Vanguard Real Estate Index Fund ETF, GSG = S&P Commodity Indexed-Trust, S2FALTINDEX = Altcoin Index, TopCap = Marketcap of top 20 coins excluding stablecoins and wrapped tokens, CryptoCap = total crypto sector  
 \*as of June 30, 2023 - last 90 days

## UTXO Realized Price Distribution (URPD)



- In our April report, we highlighted the UTXO Realized Price Distribution (URPD) which featured the **BTC Distribution Volume** (orange) and the price of BTC created at each level. April revealed a potential low-volume range target (\$24.7K - \$26.1K).
- June's initial price action led to a test of the April downside range. However, as BTC's price recovered, on-chain volumes increased from **0.52% to 4.36%**, while an additional **11.80% of total on-chain volume** (\$26.7K - \$29.5K) now supports current price action.

## Relative Long-Term Holder Realized Profit/Loss



- Relative distribution measures the total profits and losses when LTH coins move. A 21d-EMA is applied to LTH profit/loss to identify conditions that align with prior cycles. BTC cycle conclusions feature a two-part signal - high volume and capitulation events.
- Capitulation events (red circle) are marked by a large spike in **realized loss** (light blue) with low activity in LTH **realized profit** (dark blue) while high volume signals (orange circle) occur during a sudden parabolic spike in both LTH realized profit and loss.
- High-volume signals follow a capitulation event which could mark the start of a new Bitcoin cycle. We currently observe the first high-volume signal (gray circle) spike since July 2020.

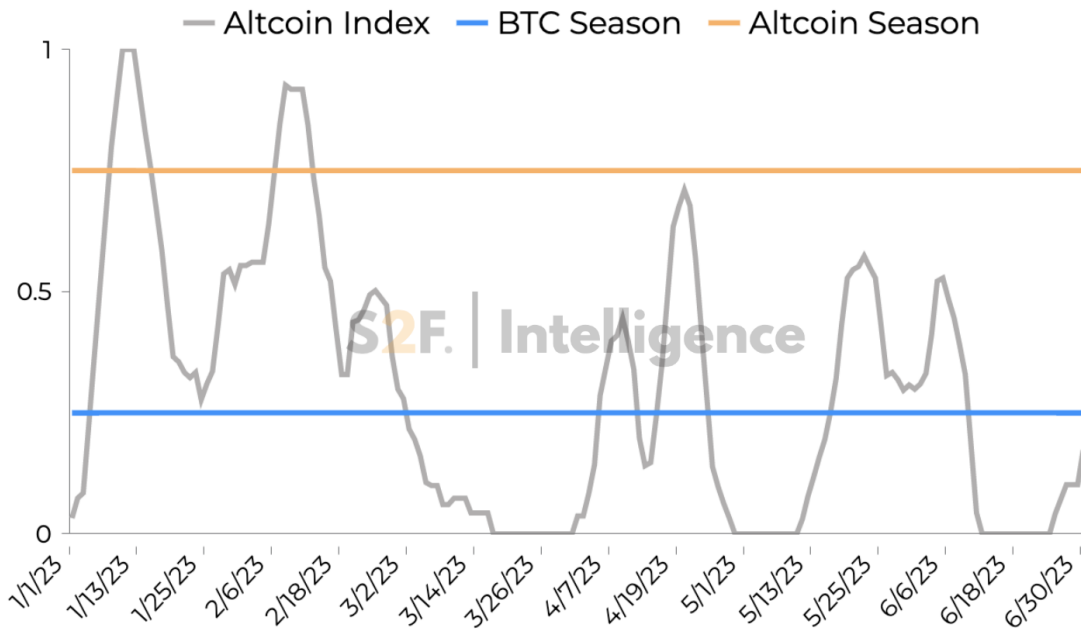
- Bitcoin price recovered in June, rising +13.7%, extending its YTD performance +83.4%.
- Price action came close to testing its 200d MA (\$25.0k) before reclaimed the 50d MA (\$27.8k).
- BTC is consolidating at previous monthly resistance while low timeframe support levels remain around the 50d MA.



- Ethereum recovered its 50d MA as price consolidates around the \$1.8k range.
- The upper resistance level of \$2k has only been tested once this year and remains a long-term target.
- The ETH/BTC ratio continues its underperformance -13.1% YTD.

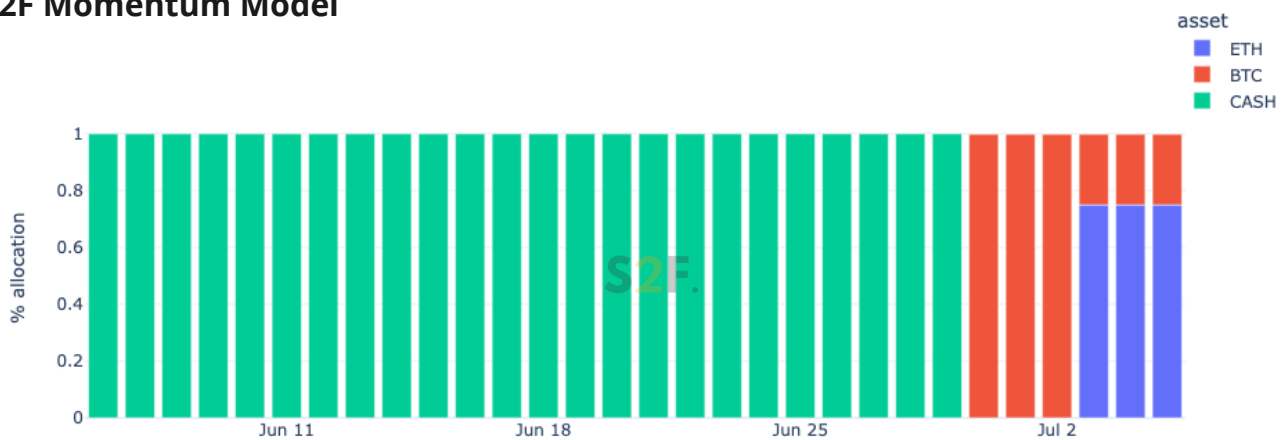


## S2F Alt-Season Indicator



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 potentially indicate what may happen next. When the Index line (gray) is below the orange line, it generally signals strong momentum favoring Bitcoin vs. Altcoins.

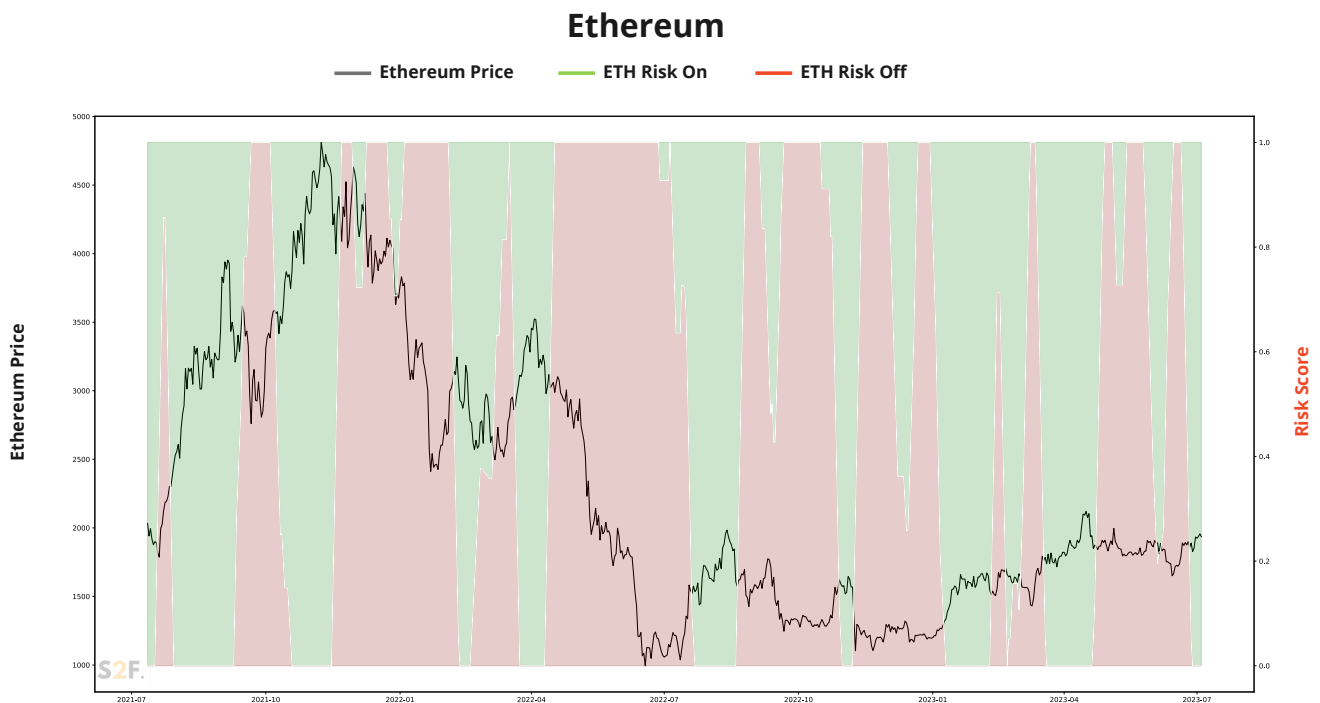
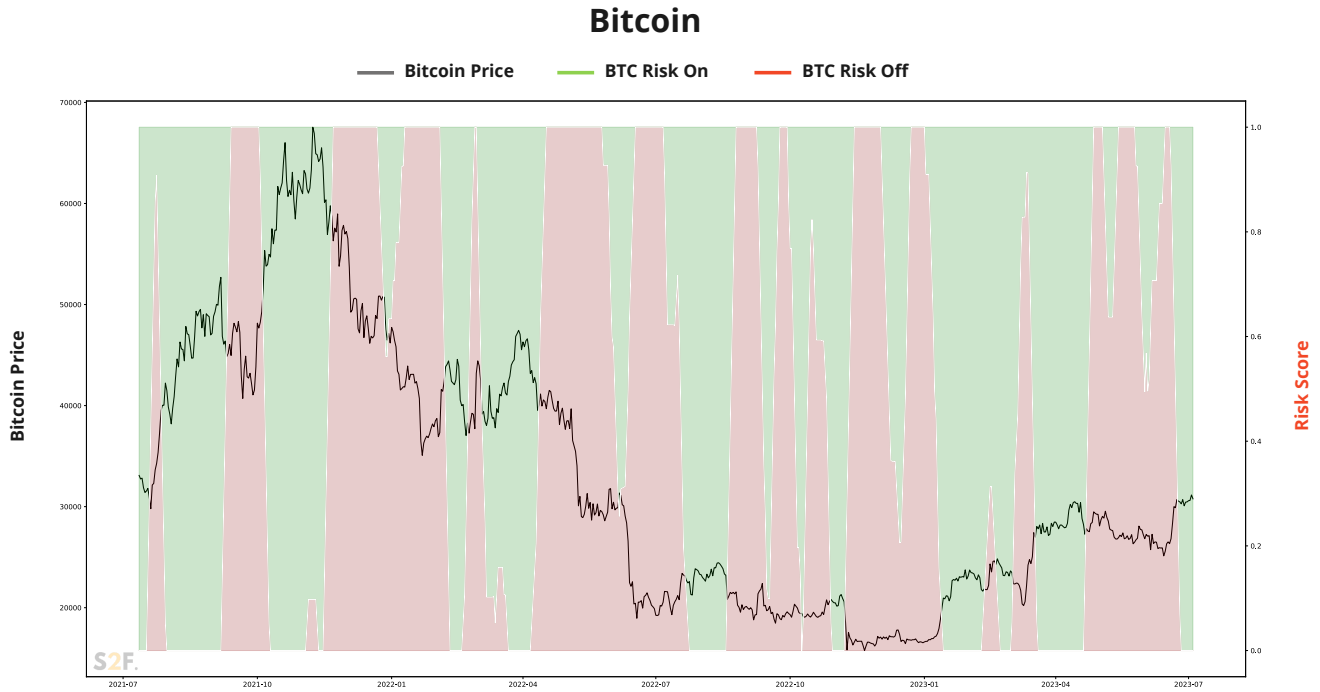
## S2F Momentum Model



The S2F Momentum Model is a proprietary model for portfolio optimization. The entry and exit signals rely on a risk indicator, while the ETH and BTC weights are based on price momentum. The chart above shows the suggested daily allocation over the last 30 days.

## Delta Risk Score

The Delta Risk Score is a proprietary model that measures the probability of an imminent retracement in price. The indicator's value oscillates between 0 and 1, with the former signaling low-risk (green) while the latter determines high-risk conditions (red). The chart below shows both indicators and the underlying asset's price (black line) since Q3 2021.



## BTC and Traditional Finance's Impact

Digital asset markets experienced a dramatic shift in sentiment following the recent wave of interest from traditional financial participants. Following the confirmation that the prominent global asset manager BlackRock had submitted their iShares proposal for a spot-based Bitcoin ETF, the wave of positive news continued including Deutsche Bank's application for a crypto custody license, and both Valkyrie Investments and WisdomTree had also filed applications for BTC ETF products. Furthermore, the launch of the digital asset platform EDX Markets which aims to service traditional market participants, whose founding investors included Charles Schwab, Citadel Securities, Fidelity Digital Assets, and Sequoia Capital, has driven positive momentum for the sector. As a result of recent developments, we investigate some historical impacts traditional financial news had on Bitcoin price action.

### Traditional Finance (TradFi) Events & Bitcoin's Reaction



### Bitcoin Price Drawdown

90-days (Post-Event)

TradFi Event	CME Group Futures Listing	VanEck ETF Filings	BAKKT Futures Futures Launch	Purpose BTCC ETF Trading Launch	ProShares BITO ETF Trading Launch	BTC Average Drawdown
BTC Price (Daily Close)	<b>\$19,039</b> (Daily Close)	<b>\$7,612</b> (Daily Close)	<b>\$9,693</b> (Daily Close)	<b>\$51,601</b> (Daily Close)	<b>\$64,303</b> (Daily Close)	
BTC Price Drawdown (90d Post Event)	<b>\$8,188</b> (Daily Close) March 18, 2018	<b>\$6,406</b> (Daily Close) October 22, 2018	<b>\$7,510</b> (Daily Close) Dec 22, 2019	<b>\$36,780</b> (Daily Close) May 19, 2021	<b>\$42,255</b> (Daily Close) Jan 17 2022	<b>-31.67%</b>
Percentage Change	<b>-56.99%</b>	<b>-15.84%</b>	<b>-22.52%</b>	<b>-28.72%</b>	<b>-34.28%</b>	

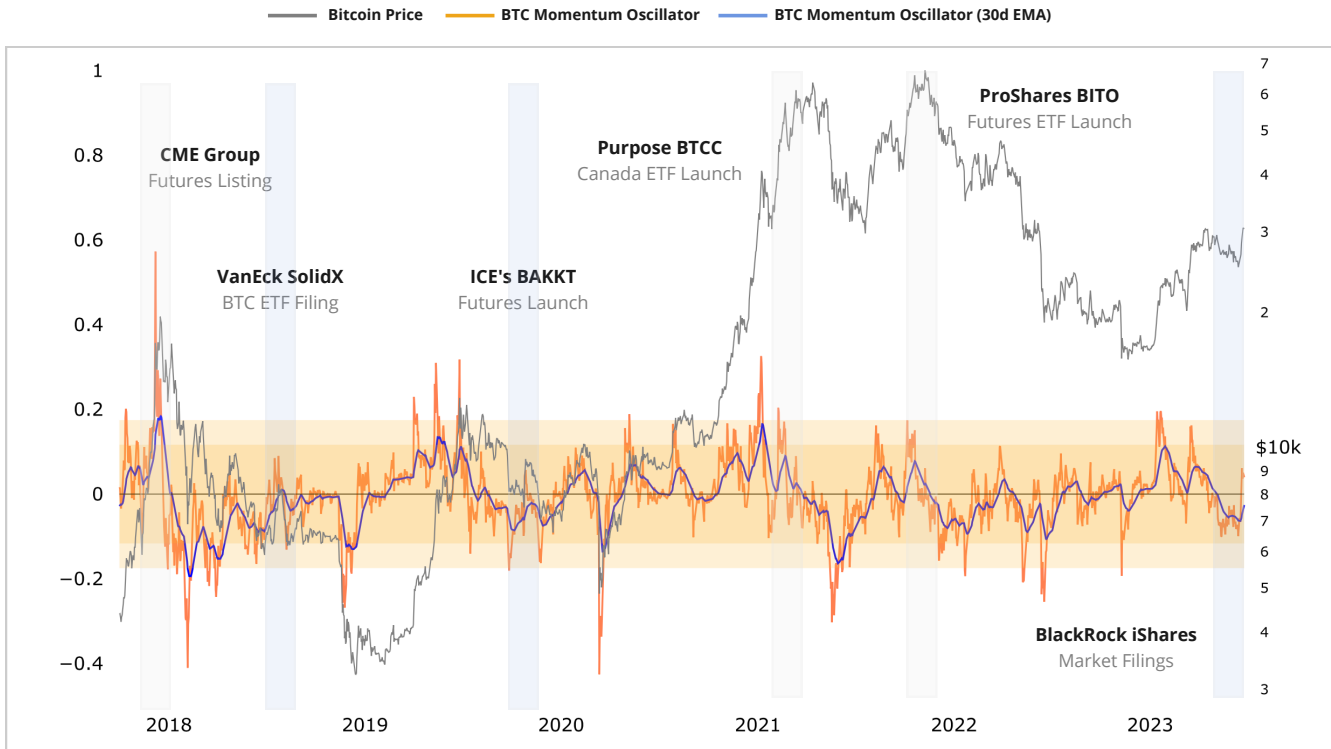
During past cycles, we identified conditions where institutional interest in BTC improved investor sentiment. Historically, these bullish catalysts produced temporary downside price action after the fact -- aka they were sell-the-news events. However, the filing for a spot Bitcoin ETF by the world's largest asset manager, BlackRock (\$8.6T AUM), represents a highly positive long-term catalyst for the industry. Post-launch corrections in price action offer opportunities to re-enter positions after capturing profits.



## On-Chain Momentum Correlation

Following the bitcoin price drawdown analysis (on previous page) we analyzed current on-chain market conditions using our BTC Momentum Oscillator to signal potential similarities.

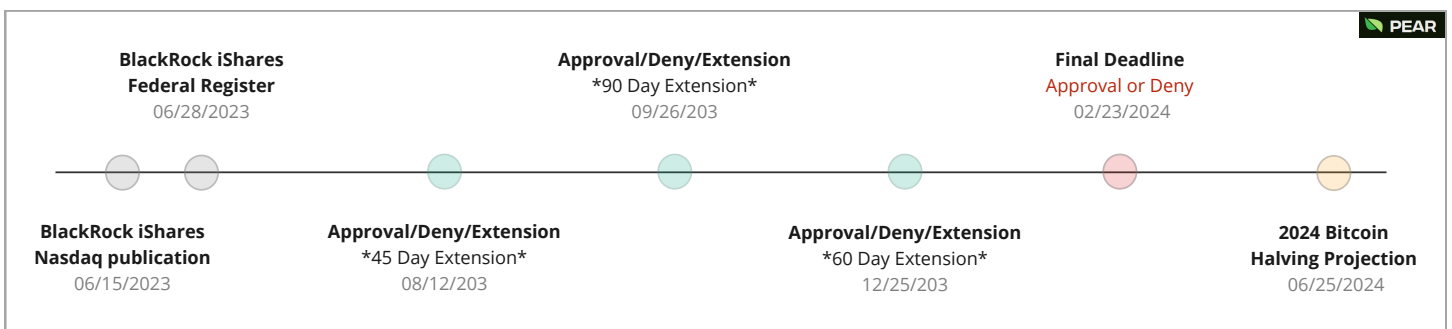
### S2F BTC Momentum Oscillator



- The BTC oscillator (orange) helps identify positive momentum in price action. Positive conditions occur when the BTC Oscillator crosses above both its 30d EMA oscillator (blue) and its 0.00 line.
- Current on-chain conditions share similarities with the VanEck/Bitwise ETF filings in 2018 and possibly the launch of BAKKT futures. The 2018 ETF filings and the BAKKT futures launch resulted in rejection at the 0.00 line for the 30d EMA oscillator.
- The model is signaling strength with the BTC Oscillator above both its 30d EMA and the 0.00 line.

## Possible BlackRock Spot ETF Timeline

BlackRock's approval record of ETF applications by the SEC is 575-1. While markets await the SEC's decision regarding the iShares filing, we can use the timeline below to help identify critical dates to watch for in the coming months, which may align with the 2024 halving event.



## Bitcoin

- An institutional rush in BTC ETFs applications from WisdomTree, Valkyrie Investments, and Invesco followed news that Blackrock had submitted their iShares proposal for a spot-based Bitcoin ETF.
- SEC approves the first leveraged Bitcoin exchange-traded fund, Volatility Shares 2X Bitcoin Strategy ETF (BITX) which will begin trading at the end of the month.<sup>1</sup>
- MicroStrategy purchases an additional 12,333 BTC for \$347.0 million at an average price of \$28,136 - the company now holds 152,333 BTC acquired for ~\$4.52 billion with an average price of \$29,668.
- BTC Lightning Network surpasses 5,630 BTC (\$172 million) in capacity for the first time since April highs. The scaling protocol's BTC capacity (Y/Y) has increased by ~36.88%.

## Ethereum

- The total value locked in cbETH, Coinbase's liquid staking token, declined by more than 25% in June. In April, cbETH was responsible for nearly 14% of the total staked supply of ETH but is now below 10%.
- Ethereum restaking protocol EigenLayer deployed its initial guarded launch on Ethereum mainnet. The protocol supported stETH, rETH, cbETH and featured a deposit cap of 9,600 LSD tokens.<sup>2</sup>
- Core developers discuss increasing staking limitations for validators from 32 ETH to 2,048 ETH - the proposal could help curb inflation in the validator set and allow stakers to auto-compound their rewards.
- Arbitrum Offchain Labs released their Orbit software stack for developers to build customizable chains on top of the Layer 2 blockchain.

## Layer 1's

- Binance Smart Chain (BNB) introduces the network's new L2 blockchain, opBNB, to address scaling issues.
- Following SEC allegations against Binance and Coinbase, Robinhood announced the trading platform would delist Cardano (ADA), Solana (SOL), and Polygon (MATIC).<sup>3</sup>
- Token demand for BTC.B as collateral within the DeFi ecosystem on AVAX stabilized protocol TVL around \$700 million in June. Last March, the Avalanche blockchain bridged a record 2,000 BTC in a single day.
- The Near Foundation, a non-profit organization behind the NEAR blockchain, announces a partnership with Alibaba Cloud to help facilitate Web3 growth across Asia and the Middle East.

## Other Headlines

- EDX Markets, the crypto exchange that has the backing of Fidelity Digital Assets and Charles Schwab, goes live. The platform, which caters to institutional investors, is backed by market-maker Citadel Securities and offers trading exclusively for Bitcoin, Ethereum, Litecoin, and Bitcoin Cash.
- The SEC charges Coinbase with operating its trading platform as an unregistered national securities exchange while failing to register the offer and sale of its crypto asset staking-as-a-service program.<sup>4</sup>
- Nevada's Financial Institutions Division places Prime Trust into receivership after the crypto custodian reportedly lost access to its Bitcoin legacy wallet at the end of 2021.
- The largest bank in Hong Kong, Hong Kong and Shanghai Banking Corporation (HSBC), becomes the first bank to offer BTC and ETH ETF trading to customers - CSOP Bitcoin Futures ETF, CSOP Ethereum Futures ETF, and the Samsung Bitcoin Futures Active ETF.<sup>5</sup>

<sup>1</sup> Yahoo Finance, SEC Approves First Ever Leveraged Bitcoin Futures ETF <https://finance.yahoo.com/news/sec-approves-first-ever-leveraged-021620867.html>

<sup>2</sup> Blockworks, EigenLayer deploys restaking protocol on Ethereum mainnet <https://blockworks.co/news/eigenlayer-deploys-on-ethereum-mainnet>

<sup>3</sup> CoinDesk, Robinhood Ends Support for All Tokens Named in SEC Lawsuit as Securities <https://www.coindesk.com/markets/2023/06/09/robinhood-ends-support-for-some-tokens-named-in-sec-lawsuit-as-securities/>

<sup>4</sup> U.S. Securities and Exchange Commission, SEC Charges Coinbase for Operating as an Unregistered Securities Exchange, Broker, and Clearing Agency <https://www.sec.gov/news/press-release/2023-102>

<sup>5</sup> CoinTelegraph, HSBC rolls out cryptocurrency services in Hong Kong: Report <https://cointelegraph.com/news/hbsc-reportedly-rolls-out-cryptocurrency-services-in-hong-kong>

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