Axion Global
Asset Management

State of the Crypto Market 2022:

The havoc, the shock and the future

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Forward

Experiencing a bear market for the first time can be a shock, and it's hard to make rational decisions when emotions are running high. The 2022 crypto market caused many investors to question their investment strategies and, in some cases, even abandon cryptocurrencies altogether.

To make sense of it all, we've put together this report that details what caused the crash, how it unfolded, and what the future might hold for crypto markets.

Table of Content

Executive Summary

In the years leading up to the crash, crypto markets had been on a tear. Prices had been rising steadily, and there was a general feeling of optimism in the air. With exciting:

- In 2022, the crypto markets went through their version of a credit crunch as it became evident that **excess leverage is the main culprit behind the crypto meltdown** (page 3).
- The fall came as a result of many factors, including **too much leverage** at a time of tightening monetary conditions, the fall of TerraUSD and the **fear for other stablecoins**, and **lower trading volumes leading to higher volatility** (page 5).
- **The crash wiped out $2.1 trillion from the crypto market** since its November highest, drawing it to its lowest point since 2020. The prices of BTC and ETH slid below $18k and $1k respectively before rebounding slightly (page 7).
- Judging by the fear-and-greed sentiment, the Bitcoin 200-day and 200-week MA, the Mayer Multiple, and the Stablecoin Supply Ratio, **the current market condition is at extreme levels we haven't seen in a while** (page 9).
- While the current bear market might last for a while longer, we believe that **the underlying fundamentals of cryptocurrencies are strong enough to weather the storm** (page 14).
- A **regularly rebalanced portfolio** of the top cryptocurrencies that is managed by a **regulated manager is a powerful tool in the time of turmoil**, as they provide exposure to a variety of projects with different use cases, which helps mitigate some of the risk (page 15).

How did we end up here?

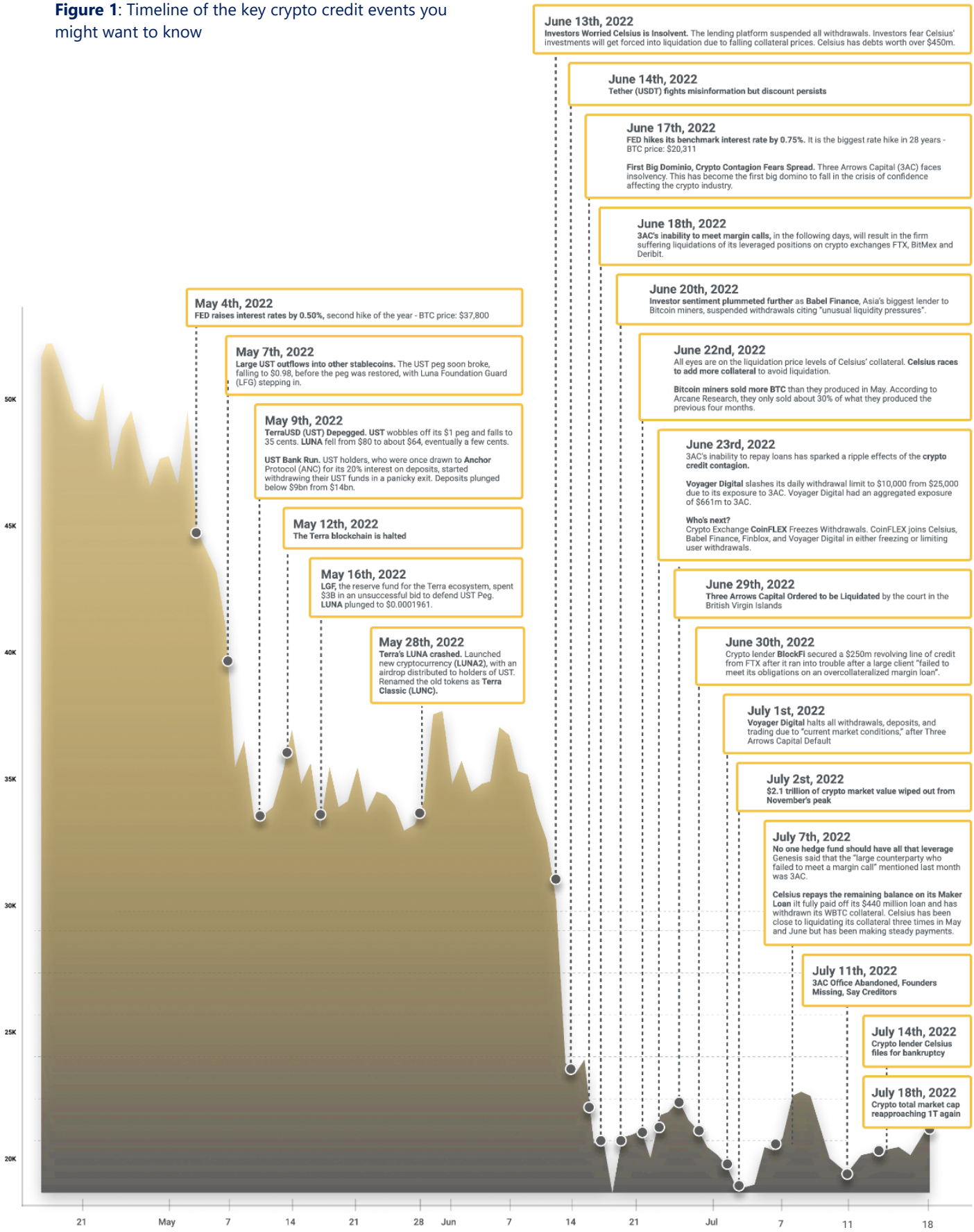
In the years leading up to the crash, crypto markets had been on a tear. Prices had been rising steadily, and there was a general feeling of optimism in the air. With exciting new tech, algorithms and projects being developed every day, it's no wonder that people were getting excited.

Investors were piling into crypto assets, driving prices to new all-time highs. By late 2021, Bitcoin had surged past $60,000 and Ethereum was well on its way to $3,500. New investors were coming in droves, lured by the promise of quick and easy profits.

In 2022, the crypto markets went through their version of a credit crunch as it became evident that excess leverage is the main culprit behind the crypto meltdown. A lot has happened, so we prepared a timeline of the key crypto credit events you might want to know (see Figure 1).

So how did we end up where we are?

Figure 1: Timeline of the key crypto credit events you might want to know



Source: Orichal

Too much leverage at a time of tightening monetary conditions

The crypto boom of the 2010s led to the proliferation of leveraged trading, which can amplify their returns — but they can also amplify their losses when times get rough. And that's exactly what happened.

In early 2022, facing a deteriorating geopolitical situation and economic outlook, the U.S. Federal Reserve hiked interest rates for the first time in nearly four years, and by a 28-year high increment of 75 basis points. This was followed by similar actions from other major central banks, along with asset sales and other policy tightening measures.

In addition, the equity market, especially tech stocks, which had been growing for years, started to come under pressure as valuations became stretched and concerns about inflation and interest rates grew. All of these led to investors' pulling out of risk assets, and cryptocurrencies were among the first to be sold off.

The fall of TerraUSD and the fear for other stablecoins

For the last few years, stablecoins were considered to be a safe haven in the crypto world, so when TerraUSD went down to almost zero in value in a matter of days, the event sent shockwaves through the crypto world.

Being an "algorithmic" stablecoin, TerraUSD tried to algorithmically stabilize its peg to the US dollar through the liquidity of LUNA, its ecosystem's token, instead of relying on a reserve of assets, such as in the case of USDT and USDC.

When LUNA's value started to fall sharply in early May due to the aforementioned circumstances, this triggered a domino effect that led to TerraUSD losing its peg and subsequently crashing in value.

The TerraUSD fiasco led to investors losing confidence in other stablecoins. Tether (USDT), the world's biggest stablecoin by market value, has seen its market cap fall to $68 billion, its lowest level since October last year, and briefly lost its peg down to 0.97 USD.

Although USDC, the second-biggest stablecoin, has retained its peg throughout the crash, the TerraUSD debacle still has led to a lot of soul-searching in the stablecoin space and also put pressure on stablecoin issuers to be more transparent about their reserves.

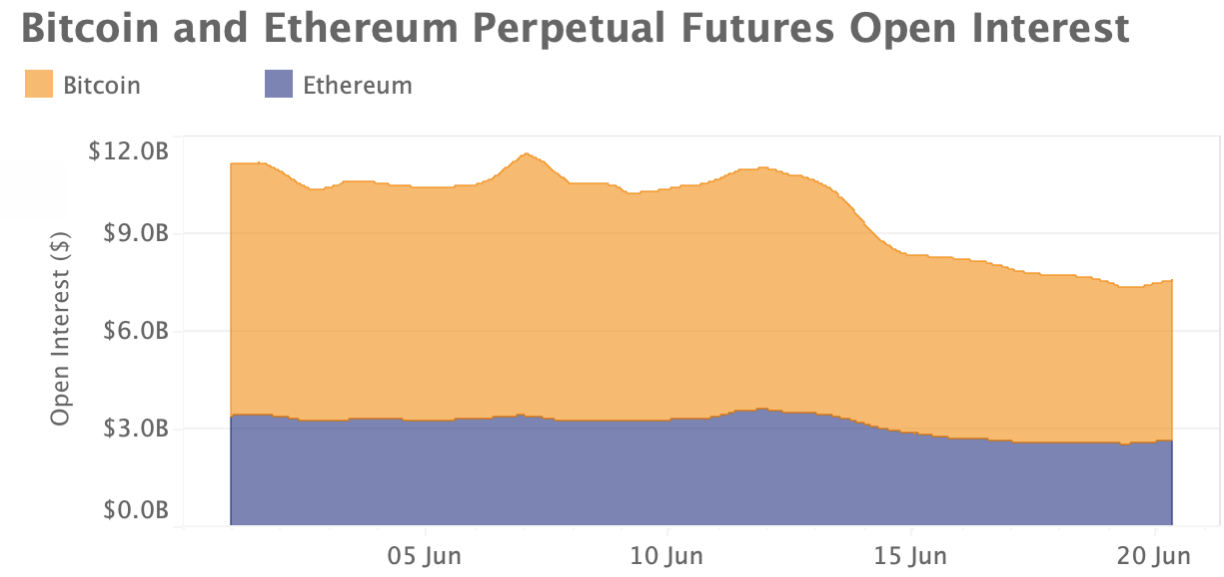
Lower volume leading to higher volatility

With all the commotion that was going on, trading volumes were down sharply. This led to even more volatility as prices gyrated wildly with every large buy or sell order.

With the macro backdrop and continued deleveraging of the markets, interest in crypto declined to sobering levels. The average crypto spot trading volume dropped by half compared to 2021. Open contracts on Bitcoin and Ethereum markets saw a monthly drop of 34% and 27% respectively (see Figure 2), sending spikes in volatility in June to its highest level in nearly a year.

BTC's open interest climbed roughly 20% since July 1st as the capital flowed back into the crypto futures market. However, it is still not at a high level based on a 12-month historical basis (see Figure 3).

Figure 2: Crypto Derivatives: Open interest plummeted since June 12



Source: Kaiko derivative data, aggregated on Binance, Bybit, Deribit and FTX

Figure 3: Bitcoin: Open interest — all exchanges

Source: CryptoQuant, data as of June 18th 2022

Where are we now?

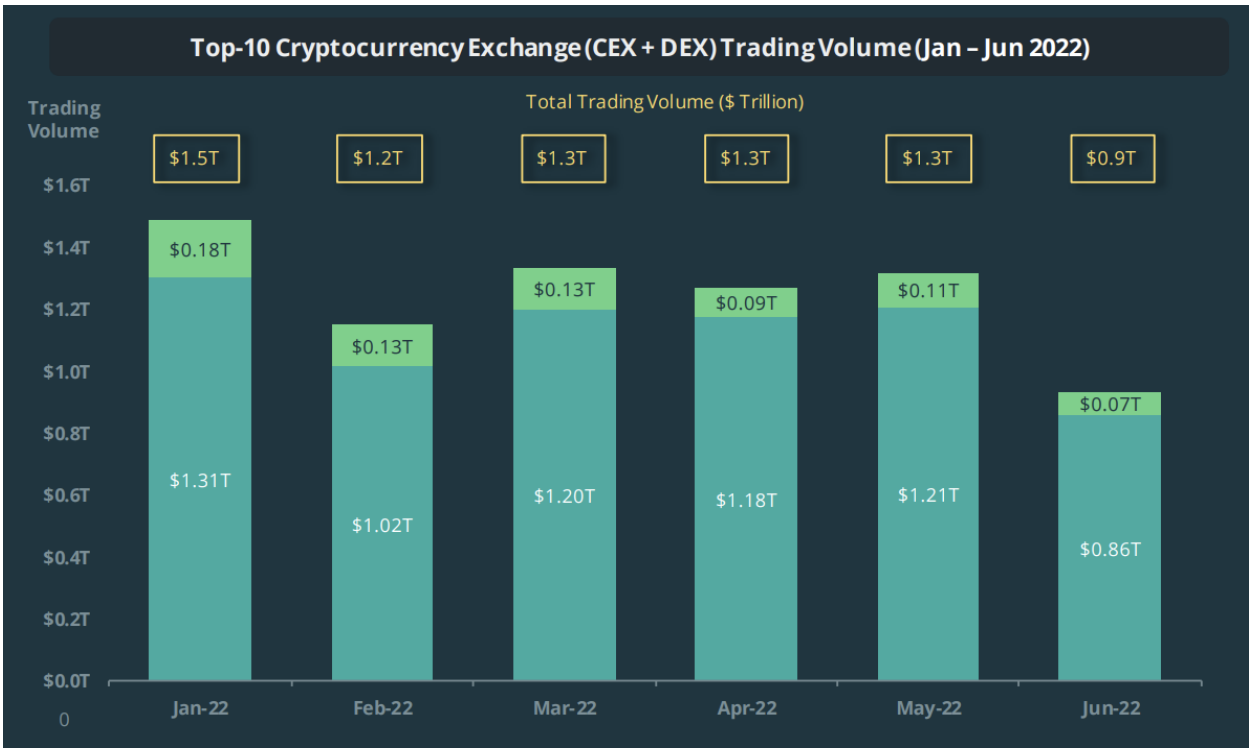
Q2 monthly trading spot volumes fell to $0.9T in June 2022. The drop below $1T has not occurred since the beginning of the bull market at the start of 2021 (see Figure 4).

All things combined, the crash wiped out $2.1 trillion from the crypto market since the November high, drawing it to its lowest point since 2020. The prices of Bitcoin and Ethereum slid below $18k and $1k respectively over one of the weekends in June, before rebounding slightly.

This caused a domino of liquidations as investors were forced to sell their assets at a loss to meet margin calls. One of the largest casualties was Three Arrows Capital, a once $10 billion hedge fund that reportedly underwent $400 million in liquidations and eventually collapsed.

What happened can be described as a perfect storm, with a myriad of market forces coming together to drive down the seemingly unstoppable crypto market.

Figure 4: Monthly spot trading volume dropped below $1T for the first time since Q1 2022



Source: CoinGecko

Have we been here before?

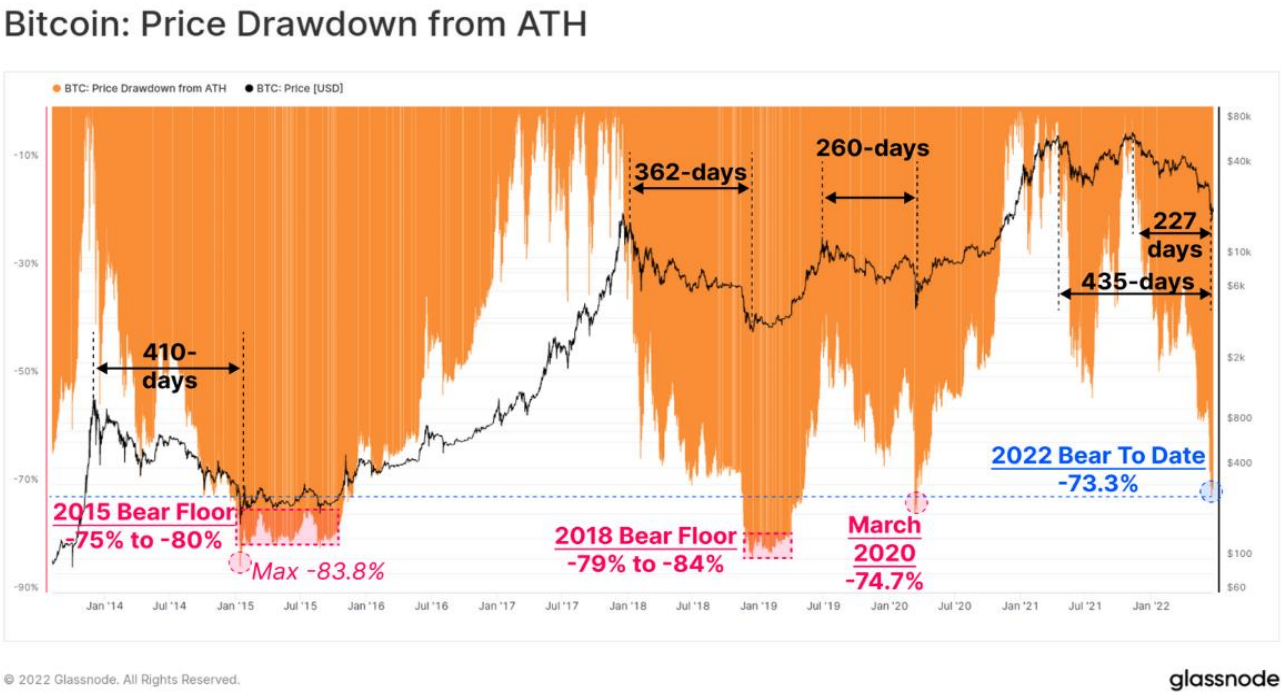
Every bear market feels unique, and, in a way, they all are. From geopolitical tensions to federal interest rate hikes, to global signs of economic slowdown, the current market conditions are unprecedented. This backdrop will make it difficult for most of the risk assets to experience meaningful upside in the short term.

However, the cyclical nature of the markets suggests that, the tide will turn sooner or later. After all, we've been through cycles like this before. In fact, if you look at the historical data, the peak-to-trough cycle is 117 days on average, and the longest bear market on record lasted for 343 days during the 2018 "crypto winter."

Bitcoin's all-time high occurred more than 240 days ago on November 10th, 2021 (see Figure 5) and while the current bear market cycle has already lasted longer than average, we are not out of the woods yet as this bear market is still within historical norms and magnitudes. At current levels, the market has declined, in percentage terms from peak-to-trough, by 70%, compared with over 80% in the 2018 bear market (see Figure 5).

If we are to assume that this cycle will resemble 2018, we can expect the market to find a bottom around late Q3/Q4.

Figure 5: Comparison of historical bear markets for Bitcoin



Source: Glassnode

Nevertheless, the current market condition is at extreme level we haven't seen in a while. Below are some noteworthy references:

"Fear and Greed" Sentiment Index

The sentiment took a U-turn from full-on optimism of 6 months ago to fearing the industry could go down into a total meltdown. The crypto fear and greed index was at 10 at the end of June, and at 20 on July 18th, which suggests the market is still at the extremely fearful territory (see Figure 6). The current streak of extreme fear is already the longest ever in crypto history and still counting.

Figure 6: The current streak of extreme fear is the longest ever in crypto history and still counting

Source: Coinglass

Bitcoin 200-day and 200-week moving average

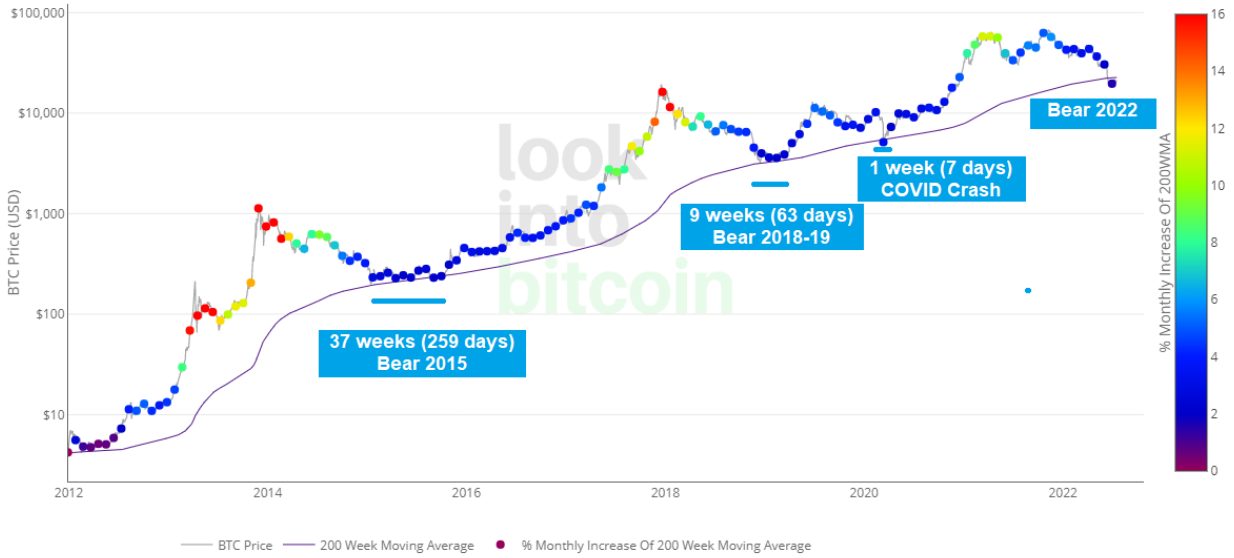
The **200-day moving averages (200 DMA)** has acted as an important historical support line. Interestingly, Bitcoin price has breached its 200-day moving average (MA). This is only the fifth time it has done so since the beginning of its price history (see blue arrows in Figure 7). Over the course of Bitcoin's price history, any touches of that moving average have led to market bottoms in the near term.

Figure 7: Historical crossings of the 200 DMA line

Source: TradingView, Orichal

For over more than ten years, BTC has spent very little time below the **200-week moving average (200 WMA)**, which is another notable support line for the long-term price of Bitcoin (see Figure 8). On a historical basis, it does seem like we are currently oversold and that the current Bitcoin price may be at attractive levels for the long-term investors.

Figure 8: 200WMA heatmap shows on a historical basis whether the current price is oversold and may be good value (purple or blue dots).



Source: Look into Bitcoin, Orichal

Mayer Multiple (MM)

Warning: Since the dataset is based on historical data, it is purely for educational and research purposes and should not be relied on as the basis of any financial decision. It does NOT tell whether to buy, sell or hold. The Mayer Multiple helps investors understand the probabilities of price multiples and what normal and abnormal levels are from a historical context.

The Mayer Multiple (MM) is the multiple of the current Bitcoin price over the 200-day moving average.

The current value of the BTC Mayer Multiple is around 0.478. Any value below 1.0 means that the current BTC price is below its 200 DMA, which is rare. For the first time in history, the 2021–22 cycle has recorded an MM value (0.487) lower than the previous cycle's low (0.511).

As per the data released by the Glassnode analytics firm (see Figure 9), only 84 out of 4160 trading days (2%) have recorded a closing MM value below 0.5 (green line), and only a few days have been spent below it throughout history. It is also extremely rare to see the MM value fall below its two-year moving average (see Figure 10). Bitcoin has historically generated outsized returns when recovering from being below the 2-year MA (green line).

Figure 9: It was uncommon for the Mayer Multiple value of Bitcoin to record below 0.50, throughout its history

Source: Glassnode

Figure 10: Bitcoin has historically generated outsized returns when recovering from being below the 2-year MA Mayer Multiplier

Source: Look into Bitcoin

Stablecoin Supply Ration (SSR)

The stablecoin supply ratio (SSR) metric is the total market capitalization of BTC divided by the total market cap of all known stablecoins in circulation. According to Glassnode, a low SSR indicates that current stablecoin has more buying power to purchase BTC.

A low SSR indicates that the current stablecoin has more buying power to purchase BTC. The current state of the SSR indicator is leaning towards Bitcoin being significantly oversold (see Figure 11) as "Significant liquidity is sitting on the sidelines. It is a matter of when and not if capital is redeployed," said Happel and Allemman, co-founders of Glassnode.

Figure 11: SSR and 14-day RSI indicates that Bitcoin is at oversold territory

Source: Glassnode

What does the future hold?

Unfortunately, there is no easy answer as to when this bear market will bottom out. The best we can do is to look at the historical data to give us indications of what will happen in the future.

Since its inception, Bitcoin has seen peak-to-trough drops exceeding 80%. Although the current price levels might be attractive for bullish investors with a long-term outlook, an 80% loss from its all-time high around in November represents a potential entry point closer to $15,000 — should history repeat itself. There is current price forecast of Bitcoin bottoming out at as low as around $12,500 (Figure 12).

If Bitcoin were a traditional company, a drop in value of this magnitude would either present a tremendous opportunity or put its very ability to survive in question.

Figure 12: Where is the Bottom?

Analyst	Role	Date	Where is the Bottom?	Bitcoin Target
Historical Analysis	Historical Data	Current	Since inception, Bitcoin's peak to trough drop is -81%, with yearly drawdowns registering an average loss of -50% at the low. For bullish investors with a long-term outlook. the current discount might be attractive, but should history repeat, an 80% loss from the top represents a potential entry point closer to $15,000.	$15,000
Mark Newton	Technical strategist at Fundstrat	June 29th	said short-term technicals are pointing to an "above average chance" of a "final washout" style event that could take the top cryptocurrency as low as $12,500. This level, "should be an excellent place for intermediate-term buyers to add to longs," he wrote.	$12,500
Plan B	Popular Twitter price analyst with 1.8m followers	June 28th	surveyed his followers on where they believed the bottom would "be in" for Bitcoin. The most common prediction from the respondents' answers would be somewhere between $10,000 and $15,000.	$10,000 and $15,000
Michaël van de Poppe	Popular Dutch cryptocurrency analyst, with 650k Twitter followers	July 8th	Expecting to see bitcoin to test support again at USD 20,500 before removing resistance near USD 22,000 and rallying towards its target of USD 28,000. As for the Ethereum price, he believes ETH is bidding its time to rally towards its $1,500 target. "Expecting to see Bitcoin at $28,000, Ethereum at $1,500 or more #ETH FTM at $0.45-0.55 within the next 4 to 8 weeks. Summer relief time. #FTM"	$22,000 near resistance, then $28,000

Source: Fundstrat, PlanBTC.com, Eight Global, Orichal

So could it be that we are just heading to zero?

We don't think so. Despite any market conditions, Bitcoin and other cryptocurrencies will continue to exist as long as they have an intrinsic value. As we've seen in the past, this value is not always correlated with the price.

During the 2018 bear market, while prices were crashing, the underlying fundamentals of Bitcoin and other cryptocurrencies continued to improve.

In 2021, we saw a pivotal change in the **mainstream adoption** of crypto assets and an expanded set of use cases and applications, that increased the intrinsic value of the asset class. The accelerating acceptance of cryptocurrencies as a method payment and store of value alongside the inflow of talent building different types of new blockchain applications means it is highly unlikely that cryptocurrencies will suddenly turn into worthless pieces of code overnight. Bitcoin even outperformed gold thanks to its now-perceived divisibility, portability, storability, and authenticity (see Figure 13).

Moreover, we have been seeing strong growth in terms of real-world use cases for decentralized finance (DeFi) and other applications such as gaming and the metaverse. Despite a 75% drop in the market cap of cryptocurrencies, Decentralized Exchanges (DEX) saw a comparatively modest drop in the average daily DeFi users of 34.5% (June vs April 2022), according to CoinGecko.

Figure 13: Price of Bitcoin in Ounces of Gold

Source: Bloomberg, Messari, Syngum, Orichal

As the asset class matures from its nascent beginnings, primarily consisting of retail investors and crypto enthusiasts, to the onset of early institutional investors around the end of 2020, the asset class has managed to maintain a healthy level of holdings from institutional investors. The AUM of the most prominent passive investment products increased from $10bn in October 2020 to around $20bn by the end of 2020, to $40bn by mid-2021, and we are still maintaining around that level since (see Figure 14) which means outflows from institutional investors have not occurred. Further anticipated progress in regulatory clarity and the maturity of the asset class through market cycles will act as catalyst for more institutional adoption in the future.

Figure 14: Digital Asset ETP & Mutual Fund net new assets US$m

Source: CoinShares, Bloomberg, does not include all passive or actively managed funds, data as of July 8th 2022.

Therefore, while no one knows for certain on how long the current bear market will last for, we believe that the underlying fundamentals of cryptocurrencies are strong enough to weather current downturn, and this necessary deleveraging cycle will cleanse the market and open a new chapter for sustainable innovation.

We believe Bitcoin and Ethereum are here to stay; they will continue to be at the forefront since a vast network and infrastructure have already been established around it.

History tells us that when the selling does finally end, Bitcoin's price will likely quickly turn around. Historically, the cryptocurrency rallied by an average of 70% over the following six months after a cycle low.

How to capture the opportunity?

"Prediction is very difficult,
especially if it's about the future."
- Niels Bohr -

What should you do if you're looking to take advantage of the current market conditions?

Firstly, it's important to understand that you can never determine the bottom of a market cycle. The market could overshoot on the downside or rebound sooner than expected.

Secondly, several indicators point to the current levels as a close to market bottoms in the near term. The current market conditions could present an opportunity for value investors.

Thirdly, after the recent turmoil, it is expected that there will be more clarity on regulatory oversight. This is a necessary development for institutional investors to commit significant funds to any digital asset platforms or managers.

Finally, for investors contemplating exposure to cryptocurrencies, then investing in a basket makes a lot of sense.

As an illustration, imagine if 20 years ago, you realized that the Internet would become as big as it is today but invested in Yahoo and MySpace and held onto them instead of shifting your investment to Amazon and Facebook as they emerged. You would have gotten the big picture right but you had bet on the wrong companies.

That is why **having a diverse portfolio of the best tokens** over a period of time is so powerful. It provides exposure to the established projects with different use cases, which helps mitigate some of the risks as the industry evolves and grows.

The **Axion Global Smart Beta Liquidity Index** adopts this approach and is comprised of the ten most highly valued qualified cryptocurrencies weighted by proprietary investment factors.

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