CAPTUR
RESEARCH

ALPHA BOOK

MAY 2023

LEAVING LOS CRYPTOS

MONTHLY MARKET ANALYSIS – READING TIME: 9 MINUTES
By Sander Kok

Figure 1: The S&P sits at an eight month high and is breaking out. In the current macro environment it is fair to wonder: who is the marginal buyer here and why isn't he in an asylum?

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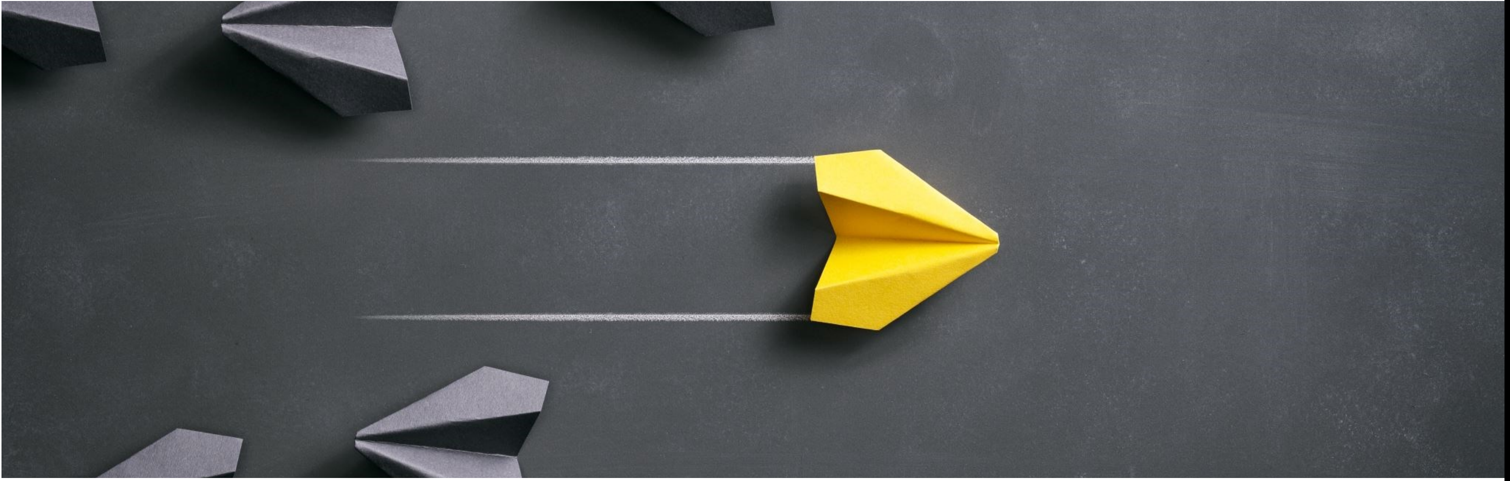


NICE AND LEAN

This month's edition is nice and lean. When you don't have much to say, don't. The gist of this Alpha Book can be expressed in two words: be careful. We took profit, and if we were in the business of giving financial advice, we'd say you should, too. But we won't. We'll just give you our thoughts on the market for educational and entertainment purposes.

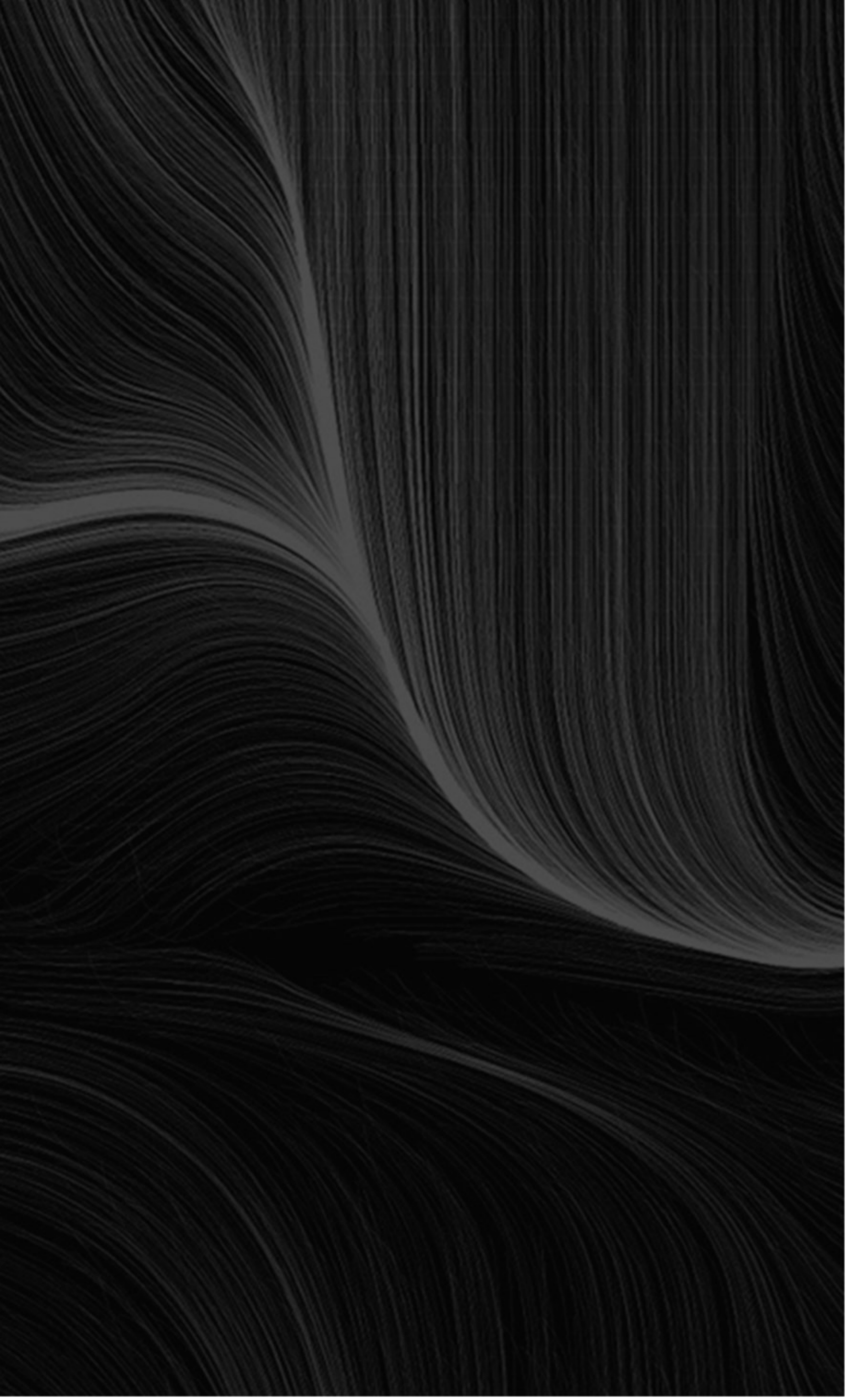
Sander Kok has many reasons to be bearish and only one to be bullish. This is not the time to try to make money, he writes; the coming weeks are for capital protection. With Bitcoin and all correlated macro markets pushing resistance in low liquidity conditions and slowly deteriorating economic numbers, it is even fair to wonder: why not go short?

Well, here's one reason. Our data reveals many Bitcoins changed from weaker to stronger hands during the past two months. We shouldn't expect much selling pressure from their new owners. But as for the other data? Anyone with an interest in navigating these perilous times should read this report.

CAPTUR RESEARCH

KEY INSIGHTS

- Bitcoin sits at $30,000 and looks wildly bullish. But we are confident it isn't. We took profit at $30,600 and even opened a small short.
- With yet another bank failing, the bailout-is-good-for-Bitcoin narrative seems set to make a comeback. The last time this happened, Bitcoin bulls and Gold bugs benefited. However, today's charts all look wildly different. Toppy-looking BTC remains correlated (though less so than before Gold took the stage) with the likewise toppy-looking S&P500 and Nasdaq, while the inversely correlated DXY looks so weak it may have a few too many shorts to squeeze if things turn out different than expected. It will take a strong narrative indeed to break out above last year's breakdown levels – this goes for BTC and for SPX and for QQ.
- Regarding market structure, BTC faked out above $30,000 on lower timeframes than the weekly. This structural break is cause for concern.
- The CIV (Cumulative Inflow Volume), along with other data, suggests large amounts of Bitcoins changed from weaker to stronger hands during the past two months. We should not expect much selling pressure from their new owners. However, in light of a plethora of reasons to be bearish, this bullish fact is not enough for us to reconsider our bias.
- It is a reason for bears to be cautious, though. The entities who bought around $27,000-$29,000 are less price-sensitive, and spot buys are hard to squeeze. Also, those who sold around those same levels are more likely to have only been bearish on a medium timeframe and are thus more likely to buy in again higher if the price breaks the top of the range.
- We should not expect an alt season any time soon. There is hardly any new money entering the market, nor are there many new retail participants to be seen.
- A debt-ceiling increase would lead to sharply decreasing liquidity, which is bearish for all risk assets. With risk assets sitting at eight-month highs, there is ample reason to believe this is not priced in.



- There is currently not much firepower left on exchanges to buy crypto with, as stablecoin reserves on centralized exchanges are depleted.
- We expect increased selling pressure in May due to the US government's rumored selling of BTC in batches and possibly also due to the Mt. Gox estate overhang.
- We remain long-term bullish. The next twelve months we expect Bitcoin and Ether to go either up or sideways. Our bearish setup should play out in a timeframe of weeks or months.

PERFORMANCE CHECK: HOW DID WE DO?

Each month, we look back at the calls from our previous issue. So far, we are the only public analysts to do so, hoping more will follow.

- We wrote at $27,600 that we were staying in our December longs but with less conviction than before. For now, we seem to have been right to take profit at $30,600.
- We were also right to not short $29,000 yet – prices went up, and the past month has been exceptionally volatile due to decreasing liquidity. Both new longs and new shorts got squeezed.
- ETH indeed kept falling due to the Shanghai upgrade and Bitcoin's continued strength. Particularly what we wrote about the latter was correct: "If [BTC] goes up, ETH goes down, as it sucks away liquidity. If it stalls, ETH will go up in relative terms. If it falls, ETH will fall deeper. But if it falls and then finds stable ground, ETH will fly. This dynamic has proven true in the previous six years and will probably hold true again." It did hold true again.
- Gold did break its all-time highs, as we had expected, but then fell back. Although we did not say anything about potential continuation, the reader may have assumed we had expected that (and we had).

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It's not looking good, fellas.

While Bitcoin still looks bullish above the surface, we felt confident enough to sell and even short a bit. The R:R has flipped, and all correlated markets are at resistance. The time for making money is over; the coming weeks will be about capital preservation. So, we cashed out our chips at the teller and left the casino. Leaving Los Cryptos, I couldn't help but feel sorry for new people coming into crypto and buying here. (Oh well, there aren't many newcomers – that's one of the problems.)

What looks like a healthy pullback on the weekly is, in fact, a fake-out on the daily. And this happens with the S&P, Nasdaq, and Gold at resistance and a rapidly increasing number of trapped longs. Only a strong bullish narrative can save them. More on that later.

Last month, I wrote we were holding onto our longs like a bank robber to his sack of Gold – willing to toss it away if he needs to run. With price action making its intentions crystal clear, there was no need to run, but we still tossed our $15,900 longs for a handsome 94% profit as Bitcoin started looking weak at $30,600. We did so publicly; see the screenshot on page 5 under Performance Check for proof.

To be fair, this "weakness" was somewhat correctly viewed as strength by most Twitter analysts. It was a mixed bag. Bitcoin looked strong as it pierced through the $30k ranks and stayed there. But then alts started popping up left and right; people started buying dog coins again and shouted alt season was near. With almost no new retail participants entering the market and relatively low liquidity to go around, this was like summoning the apocalypse, so we prepared ourselves to sell. When, a day later, an Elon-induced Doge pump was sold into with tremendous force, shattering any hope of a true alt season happening soon, we started considering shorting. As Bitcoin broke out one last time at the back of ETH's Shanghai, hitting $31k and falling back below its pre-breakout level, we thought it wise to tell our friends and loyal readers on Twitter that it was time to take profit (see the same image on page 5). We also opened that short.

We tweeted this at $30,600. The price is now $29,300. I expect continuation downwards and feel confident that will happen soon. There is one thing that concerns me – and that is the CIV.

Figure 2: Scipio Pro's CIV measures the inflow of Bitcoin to exchanges. It tells an interesting story.

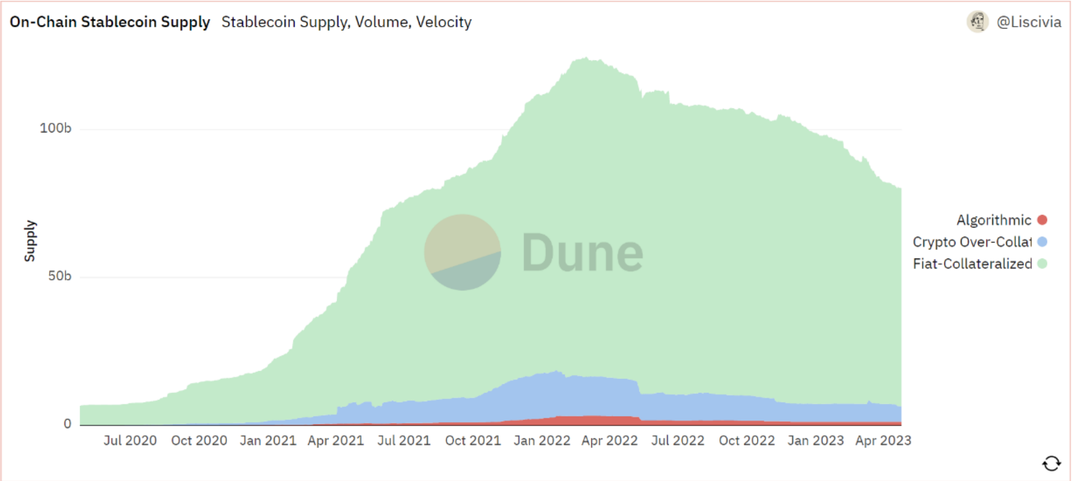


Figure 3: Money keeps flowing out of crypto, which is the wrong direction if you want prices to go up.

The CIV (Cumulative Inflow Volume) is one of Scipio Pro's fine tools; it measures the inflow of Bitcoins to exchanges. As you can see, there has been capitulation-style inflow in March, when confidence collapsed and then blew up (Fig. 2). Not only did people send boatloads of Bitcoin into exchanges out of panic, they sent even bigger boatloads as the panic subsided. I'm guessing the latter was smart money. These coins were meant for distribution below the $30k resistance everyone had on their chart. In the following weeks, the inflow was low, which makes sense, as the sellers had run out of supply. It typically takes not long for coins to distribute when the CIV peaks, especially if times are eventful, as in March and April. So we can assume the coins went from relatively weak hands into arguably stronger hands. We can't tell if they are really strong hands. I would guess yes, but then again, we haven't seen much new money flowing into crypto (Fig. 3).

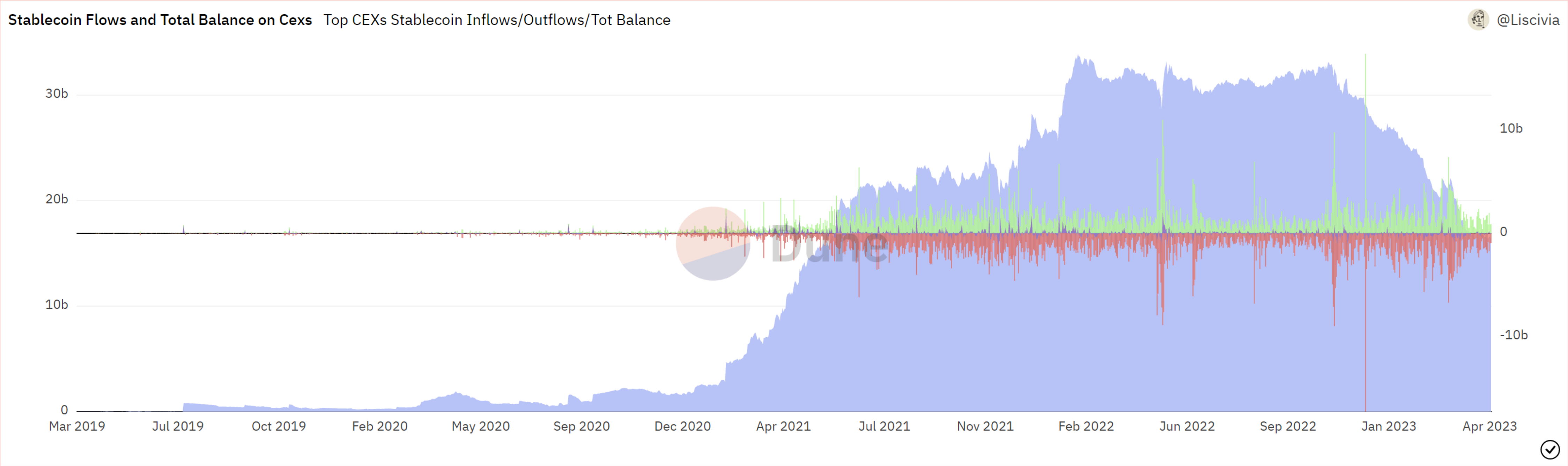


Figure 4: A zoomed-out view on stablecoins moving in and out of centralized exchanges. While the total balance has dropped off significantly, the inflow and outflow volumes have not.

This was one of the most bearish signs of the past months – the only bearish sign, in fact. So we mustn't think big institutions with long investment horizons stepped in. It must have been crypto-native funds and crypto-native retail who bought, betting on Bitcoin to eventually break $30k. But now that the price got rejected at that level, now that the banks-get-bailouts narrative seems a tad overblown, now that correlated indices look toppy, now that debt-ceiling worries are back, now that the specter of recession looms larger in front of us, what will they do? Strong hands can tremble, too. And when they do, the whole world wobbles.

We must, however, consider two important facts. One – these are spot buys. If they were longs, the story would have been much bleaker for bulls. Spots are hard to squeeze. Besides, they will partly have been hedged with shorts, which can actually provide fuel for bulls. Second – since these are spot buys, the investment horizon of the entities behind them can be expected to be longer than if they were longs.

In summary, it is safe to say many coins changed from weak to stronger hands, though, as always, the strength of these hands remains untested. That is – and you can tell I'm thinking out loud here; this is, after all, an essay

– are they really untested? Isn't there a more than decent chance the majority of the coins went into the hands of those who know the drill and are *very tested*? It's typically newcomers that are weak-handed; veterans know you should be prepared to accept 40% drawdowns if you want to invest profitably in a volatile asset that you expect will go up 5x. If you buy $28k, your horizon is probably long, and if your horizon is long, your hands are more likely to have been tested for strength repeatedly.

The Exchange Supply Ratio for stablecoins is revealing with regard to the dynamics around this big coin shuffle. As you can see on the CIV, the amount of BTC flowing into exchanges peaks between March 10-17, while the red-hot ESR for stablecoins dropped off around the same time (Fig. 5). This drop means the stables were turned into Bitcoins (and Ether). You can also see there is currently not much firepower left on exchanges to buy crypto with, as the sellers quickly moved their new stablecoins off exchanges.

The fact that the newly-acquired stablecoins moved off-exchange resulting in a lower supply ratio than before the runup indicates sellers were probably convinced of $30k being a good level to sell in the longer-term, just like the longer-term-minded Bitcoin buyers who believed $30k would eventually break. Since so much Bitcoin has moved hands, one should wonder: which of the two groups is more likely to give up when things don't go as planned? The longer-term-minded spot buyers or the similarly longer-term-minded spot sellers?

It seems logical that the spot sellers will be more likely to flinch first. After all, $30k may be the most important technical level on the chart, it is still that – a level. A good narrative can break it, as well as improved liquidity conditions, and improve they most likely will, eventually, even if it takes a year. Besides, these sellers, of which I am one, know Bitcoin bull runs usually provide the

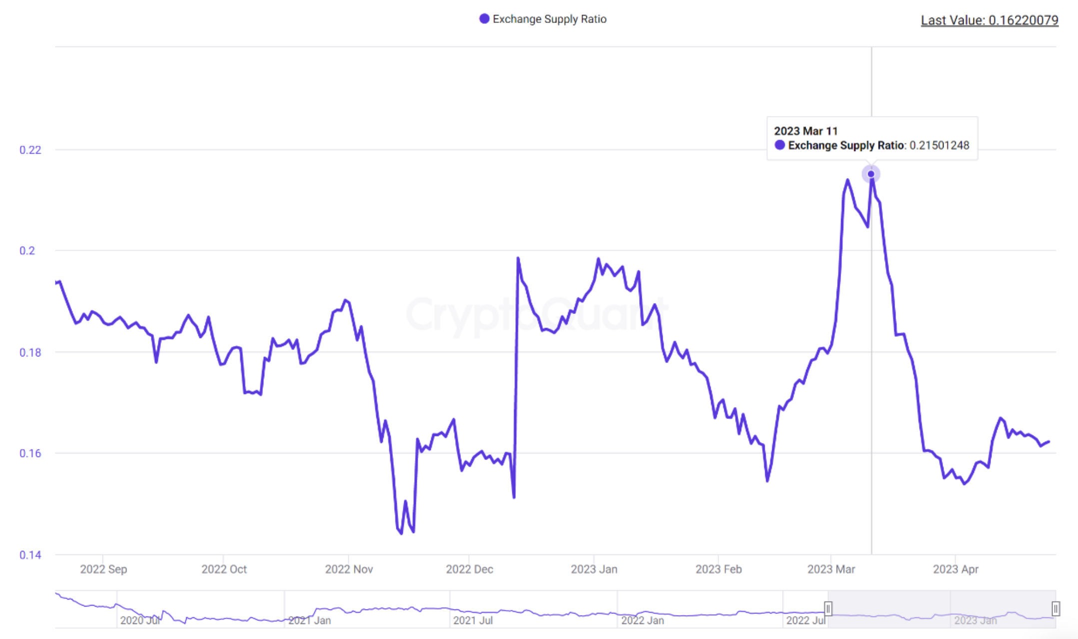


Figure 5: The Exchange Supply Ratio for stablecoins indicates a lack of imminent firepower.

patient investor with one or two 40% drops, during which he can ruefully re-enter. There is no harm in selling at $30k if you can probably re-enter just a bit higher after a drop from, say, $50k. I am betting most $30k sellers are not long-term bearish – they just don't want the risk that comes with that level, especially in the conditions I described in the opening paragraphs. On the other side are spot buyers who, arguably for a large part, would knowingly accept a big drawdown just so they don't miss the big runup whenever that comes. They seem to be the more patient group when push comes to shove. They invested with a longer time horizon in mind.

Figure 6: Fast falling liquidity due to the upcoming debt-ceiling raise does not appear to be priced-in, with the S&P breaking out from eight month highs.

So, in conclusion, the big coin shuffle revealed by the CIV is probably a reason for concern for bears like me. It is just not enough, for now, to let me review my bear bias, considering the plethora of other data, a few of which I discussed in the first pages.

Another conclusion of my musings should be that there is a high probability that the current drop, though probably leading to a true correction, does not lead to new lows or retests of the November 2022 lows. (The important psychological $20k level may even be too much asked.) A few months ago, I described my base case for Bitcoin in 2022, ranging between $20k and $30k. I stick with that, though for now $22k-$24k seems like a decent level to buy back some spot.

Let's talk about last week's events. With First Republic Bank suddenly failing again, the old yet fertile bailout narrative might make a comeback. The last time this happened, Bitcoin bulls and Gold bugs benefited. This time something similar may happen. However, today's charts all look wildly different. Toppy-looking BTC remains correlated (though less so than before Gold took the stage) with the likewise toppy-looking S&P500 and Nasdaq, while the inversely correlated DXY looks so weak it may have a few too many shorts to squeeze if things turn out different than expected. It will take a strong narrative indeed to break out above last year's breakdown levels – this goes for BTC and for SPX and for QQ. While the money supply looks set to grow soon, macro worries have become even more urgent, with the soft landing scenario still less plausible than the hard landing one. This is one of those environments where you have to play it week by week. No one can look a month ahead with any certainty. Still, conjuring up scenarios and their probabilities of playing out is sensible. One thing seems likely: if the SPX sells off as it did before, I don't expect risk asset BTC to do well – definitely in the short term and probably in the medium term. (In the long-term, BTC still seems a decent bet.)

Add to that the return of debt ceiling worries. To my surprise, many commentators still seem to assume that raising the ceiling will turn out great for risk assets, as a higher ceiling means more space to spend. But this is wrong. If the Fed continues to reduce its balance sheet while the Treasury refills its General Account by issuing new bonds, it should in fact extract liquidity from the market. The debt ceiling will likely be raised but is currently still in an impasse, which is why net liquidity isn't moving much. But once passed in the Senate, net liquidity should be expected to fall – and fall maybe deeper than the market is currently pricing in.

Why do I think the market is currently not pricing it in? 1) Because of the widespread, erroneous assumption described above and 2) because the market is at its highest point in eight months (Fig. 6). I want to see a decent-sized pullback to at least 3915 before even considering becoming bullish again. And even then. I think the easy part of the Bitcoin trade is over. Things are more convoluted than they were in November, when there was simply nothing good to expect for the coming months, meaning everyone who wanted to sell had already sold. Back then, there was only one way, which was up. (And we said as much in the issues from that period.) Now is very different. The path of least resistance is down. Not just in the US markets either. European stock markets are close to all-time highs. Who is the marginal buyer here, and why isn't he in an asylum?

I'm signing off with a quick summary of my biases. Long-term, I'm not bearish. In the coming twelve months, we'll probably go up or sideways. Medium-term, I'm so bearish it itches. And short-term, I've grown so bearish I started developing fur.

Investing is hard. Trading is hard. But I play by the following two rules, which are easy. Doom ahead while markets are making new lows means most sellers have probably already sold and could thus be bullish. Doom ahead while markets are making new highs means there are probably still many who did not sell – which is bearish. The current situation falls in this second category. The first category is what we saw in November and is why we bought. Now we're in the second. We'd feel irresponsible not to sell.

UPCOMING EVENT RISK FOR MAY

May 3

FOMC, RATE, AND ISM SERVICES PMI

Federal Open Market Committee Statement
Funds rate (previous: 5.00%; expected: 5.25%)
PMI services print released (previous: 55.2; expected: 51.8)

May 5

US EARNINGS AND EMPLOYMENT

US Unemployment Rate released (previous: 3.5%; expected: 3.6%)
US Average Hourly Earnings m/m (previous: 0.3%; expected: 0.3%)

May 10

US CPI

US consumer price inflation (data pending)

May 11

US PPI

US producer price inflation (data pending)

May 16

US RETAIL SALES

US Retail Sales (data pending)

May
24

US FOMC MEETING MINUTES

Federal Open Market Committee Meeting Minutes

May
25

US PRELIMINARY GDP

US Preliminary GDP (data pending)

May
26

US CORE PCE

US Core PCE Price Index m/m (data pending)

CRYPTO TWITTER SAYS

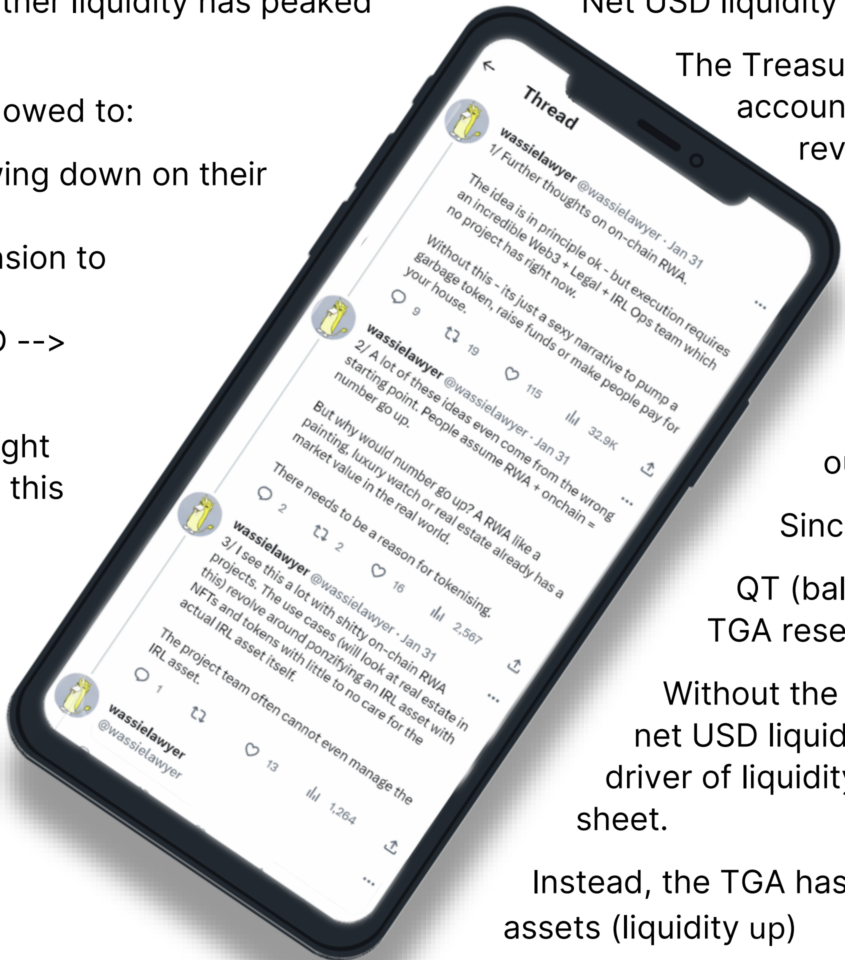
"While most data is lagging, what tends to lead price is monetary + fiscal liquidity... Let's quickly investigate whether liquidity has peaked or if new highs are to come.

The recent surge in global liquidity has been owed to:

- US debt ceiling situation --> Treasury drawing down on their cash reserves,
- Banking crisis --> Fed balance sheet expansion to backstop failing banks,
- China restarting their economy post-COVID --> stimulate with $$

Tracking liquidity would've kept you on the right side of the risk asset reversals + trend so far this year. Net USD liquidity is now greater than when the Fed commenced QT in April 2022! However, over the coming months, the US debt ceiling situation could quickly change that

To understand the significance of the debt ceiling situation, one must first understand the components that make-up 'net' USD liquidity. These are:



- Treasury general account
- Fed's balance sheet
- Reverse repo injections

Net USD liquidity = BS - TGA - RRP

The Treasury General Account (TGA) is the operational account of the US treasury. Cash raised via tax revenue, sales from treasuries are reflected here, as is their spending. When the TGA balance declines, the Treasury is said to be injecting liquidity (like recently).

The Treasury has mitigated the negative liquidity impact of the Fed's QT efforts to date --> total liquidity injected via the TGA has outpaced the total liquidity withdrawn by QT.

Since the commencement of QT:

QT (balance sheet) = -$644B in liq.
TGA reserves = +$780B in liq.

Without the rapid drawdown in cash reserves from the TGA, net USD liquidity would be headed south, fast --> as the main driver of liquidity would be QT, or a contracting Fed balance sheet.

Instead, the TGA has supported a market conducive to higher risk assets (liquidity up)

You should now understand that the key to the liquidity picture at this very moment, is to track the US treasury side of the liquidity equation --> as we know that the Fed are conducting QT until further notice!

If TGA drawdown < Fed QT, liquidity goes down.

The US gov. reached its borrowing limit (debt ceiling) in January and now needs to drawdown on reserves, rather than issue new debt, to fund its operations. Current limit = $31.4tln USD. As the limit has been exceeded, theoretically, there's an increased risk of default!

Recently, the default jitters are being expressed via the bond market, investors are now taking the debt ceiling situation more seriously than they had done previously. US credit default swaps + short-term yields have ripped higher on the uncertainty.

The TGA is quickly running out of cash to fund operations. If cash reserves are depleted + no ability to issue fresh debt, the risk of the US gov. defaulting will heighten (treasury spending > income). The only solution is to raise the debt ceiling, which likely comes very soon.

Lifting the debt ceiling will enable the US gov. to issue fresh treasury bills to raise cash to fund operations (instead of drawing down on precious cash reserves!) New debt issuance also provides opportunity to rebuild the TGA reserves, which are at historically low levels.

So while raising the debt ceiling will be a massive relief for the US government, it won't be so much for risk assets that have been buoyed by recent liquidity injections via the US treasury.

When the debt ceiling is inevitably raised, the main driver of US net liquidity will be the Fed's QT --> which points to lower liquidity through the middle of the year. And as we know, that should place downward pressure on risk assets like #Bitcoin and equities."

—tedtalksmacro (@tedtalksmacro)
A popular Twitter commentator, tedtalksmacro writes about his insights into cryptocurrency markets with a focus on macro-economic fundamentals.

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