# Dispatch #16 -2021

May 21st, 2021

The lead story this week is the crypto downdraft, which reminded participants about the downside of volatility. The action reinforces the importance of positioning size to be able to absorb volatility: Bitcoin had the first ever $10K daily move on May 19th! The Musk tweet, highlighted in Dispatch #15, began the soggy price action, then Tether reserve worries, China crypto restrictions and US regulatory measures added further pressure. On a positive note, Wells Fargo aims to offer crypto to clients. Following is this week's discussion line up:

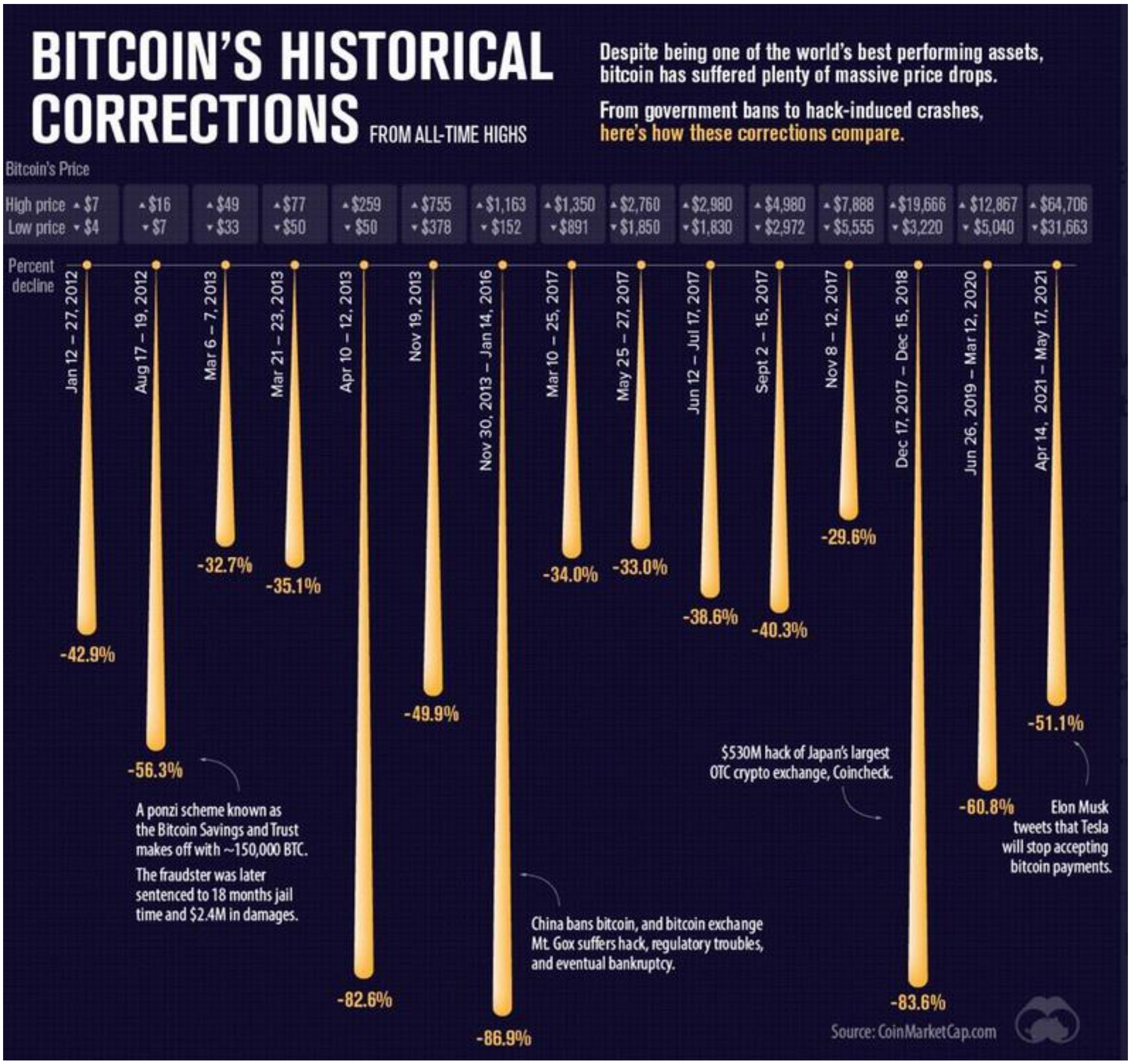
- Tether reserve release highlights worries
- China reiterates crypto restrictions
- OCC turns less crypto friendly & form inter-agency crypto group?
- Treasury Dept. plans to enforce crypto reporting rules
- FDIC seeks comment on banks' crypto activity
- Wells Fargo to offer active crypto fund to wealth clients
- BITCOIN SCHOOL: Charts of the crypto downdraft

## The crypto downdraft in context

The crypto downdraft this week led to the first ever $10K single-day move in the Bitcoin price, and it happened in both directions, as the chart below from TradingView illustrates.

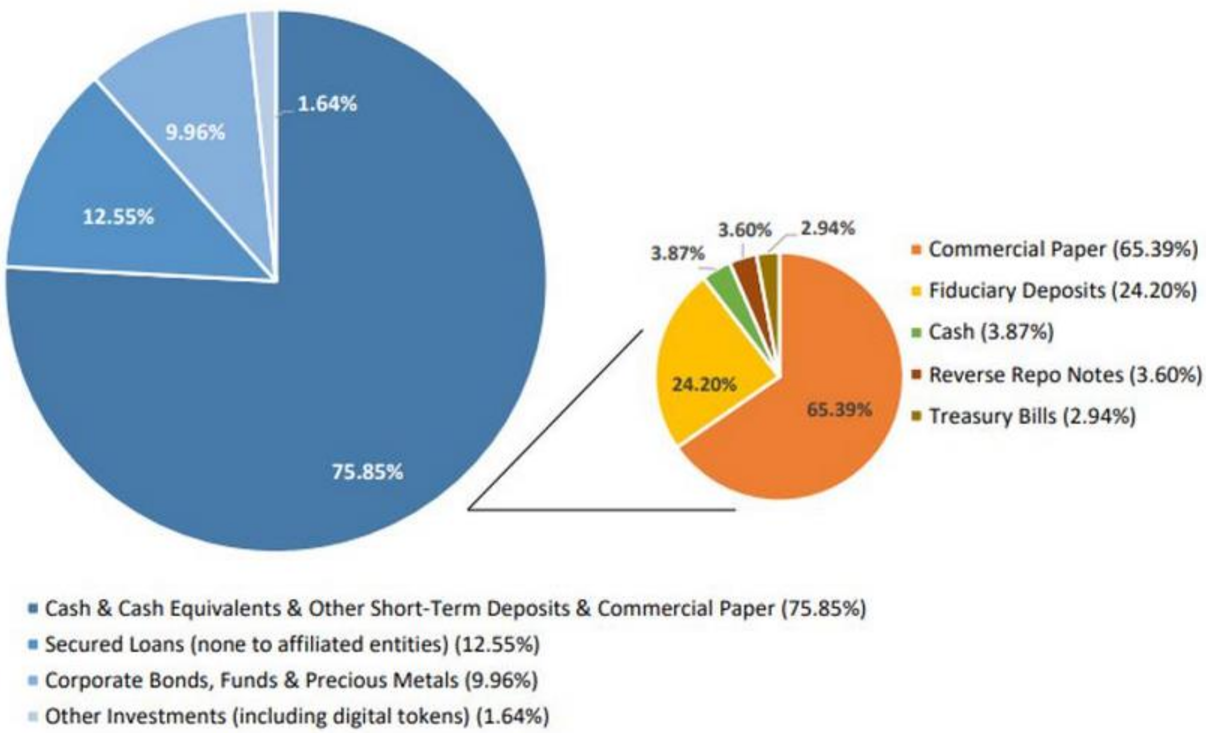
The surge in trading activity led to some exchanges going down, adding to the retail panic. Recurring exchange outages at times of stress, illustrates fragility in exchange services, as this Bloomberg article argues.

**However, the chart below from Visual Capitalist puts the price action this week in historical context**: Pull backs have been a feature of this 12-year-old asset, but that high volatility has also brought substantial gains over longer periods of time. Two key factors that help to realize the potential long-term upside is to **keep position sizes small and investment horizon long**.



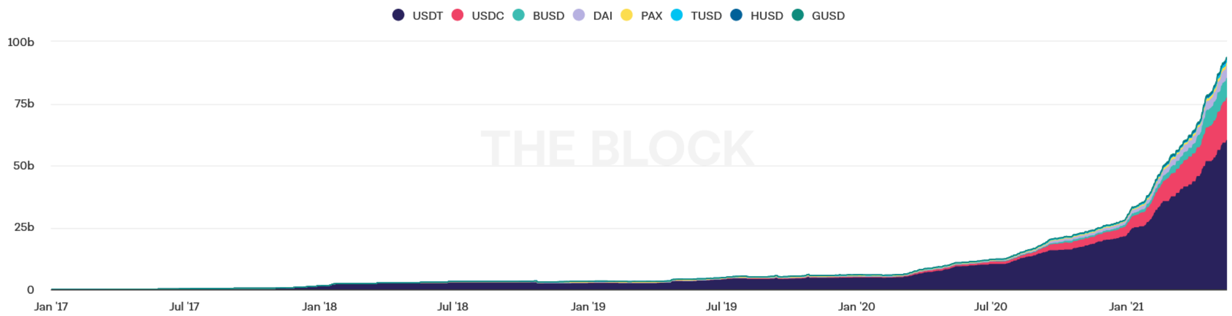
## Tether reserve release

Tether, the largest stablecoin issuer, released (on May 13th) a breakdown of the reserves backing the $42bn of Tether outstanding as of March 31, 2021. This release was part of the agreement with the NY Attorney General, which was covered in Dispatch #6. The release shows that the bulk of the reserves are in commercial paper and NOT cash or high-quality securities like treasuries. Tether is the dominant trading currency in the crypto echo system, and the higher-risk reserve backing should worry institutional trading entities using Tether as collateral. This tweet thread from a thoughtful insider, goes through the bear argument. Less thoughtful crypto fans spin this event positively, claiming that it clears up the cloud over Tether's reserves. The Dispatch leans to the cautious interpretation. This Coindesk article provides additional color.




*Source: Tether*

The next chart illustrates Tether's dominant position among stablecoins and how balances have risen quickly. It is the "USDT" in the chart from The Block.




## China reiterates crypto ban

Many pundits attribute Wednesday's price move to this story that was first reported by Reuters. While the warning primarily reiterates existing rules against crypto activity, it does include new language to close loopholes that have allowed Chinese citizens to access crypto markets. This Blockworks article provides good background and the current state of China's crypto market.

## OCC turns less crypto friendly?

The Office of the Comptroller of the Currency (OCC), which is housed within the Department of the Treasury, regulates national banks and credit unions. The recently appointed head of the OCC, Michael Hsu, has said that he will review some of the approvals made by the prior head Brian Brooks. The OCC under Brooks had issued national banking license to a handful of crypto custodians. Brooks, prior to the OCC role, had been the legal counsel at Coinbase and had been supportive of crypto assets. This Decrypt article provides more details.

In addition, Michael Hsu told the House Financial Services Committee that he has discussed forming a task force on crypto with the Fed and FDIC about. This Coindesk article goes into more details and provides evidence that federal authorities are planning to enact more rules and regulation to the crypto market.

## Treasury Dept. to enforce reporting on crypto transaction larger than $10K

Banks are currently required to report US$ transactions larger than $10K, so extending that rule to the crypto market is levelling the playing field. This measure (really more of a goal) was included within the 24-page document released this week, as part of the Biden administration's proposed American Families Plan Act. This Blockworks article goes into more detail.

## FDIC calls for comment on digital assets

The Federal Deposit Insurance Corporation (FDIC), which is a banking regulator and deposit insurer, is calling for public comments on banks' activity regarding cypto assets. The comment period ends on July 16, 2021. The Dispatch believes that this action further legitimizes the emerging digital asset sector. However, the FDIC could throw a wrench in banks' plans to offer crypto, which was highlighted in a NYDIG story in Dispatch #14. The release can be read here

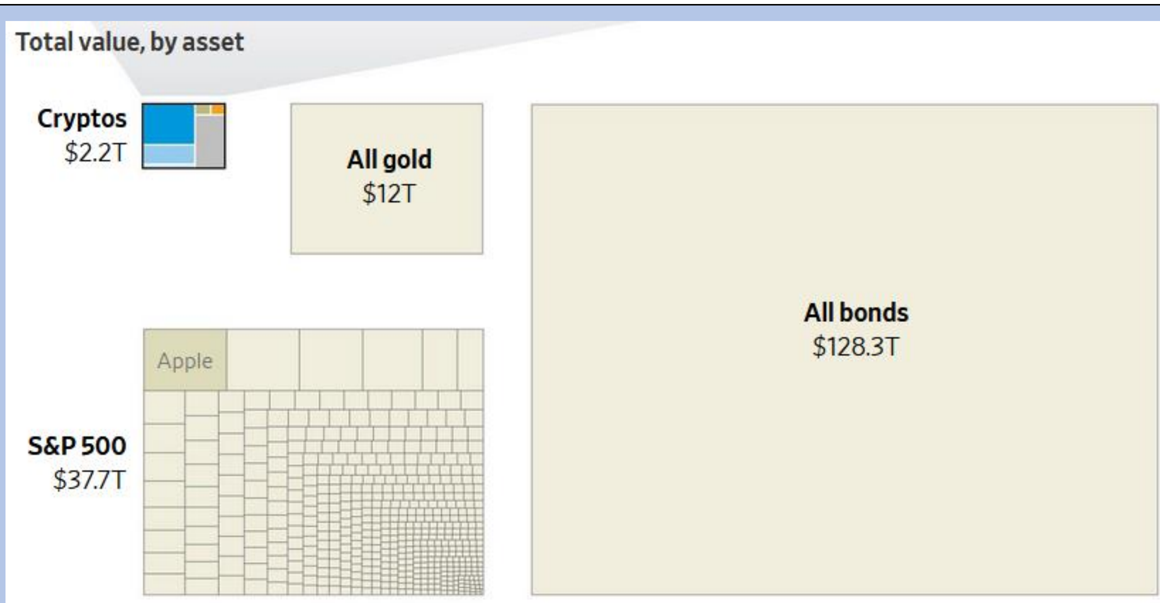
## Well Fargo to offer active crypto strategy to clients

In this Business Insider interview, the President of Wells Fargo Investment Institute lays out what went into the decision to offer digital assets to wealthy clients. This is one more sign that the largest wealth management firms continue to push into digital assets. These flows will take time to materialize as firm like Wells Fargo will need to first educate an army of brokers and advisors on the asset class before they can then advise clients.

## BITCOIN SCHOOL

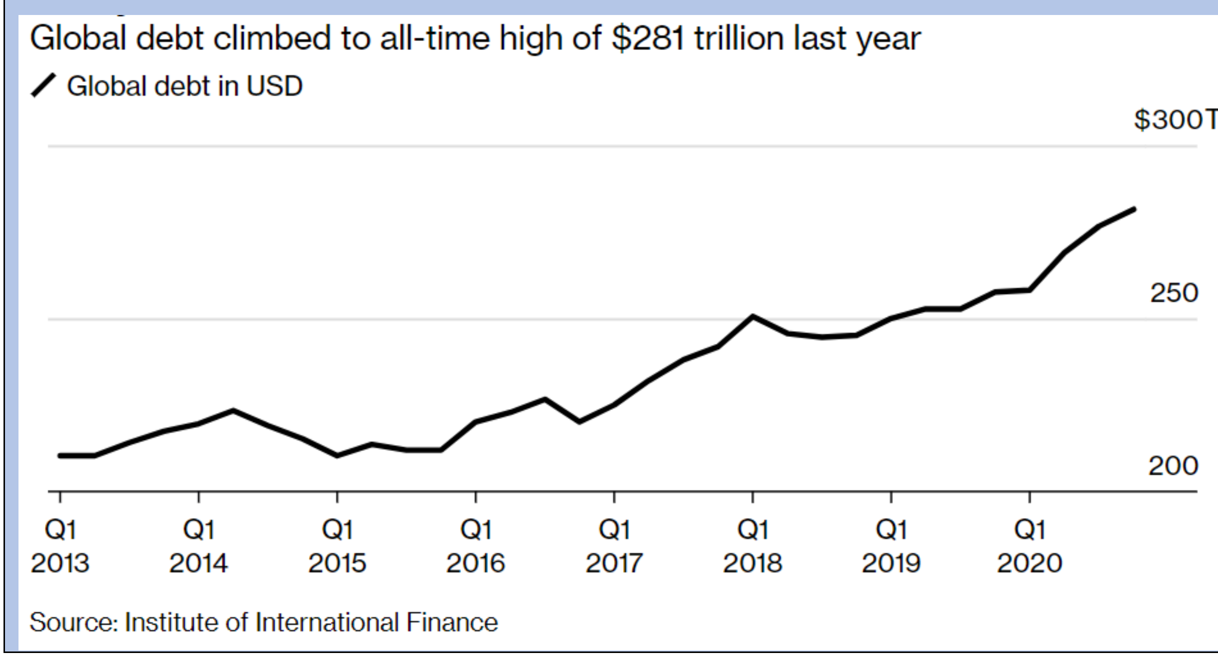
### Crypto markets relative size + charts on the selloff this week

The data in the chart immediately below is pre-selloff, but it still drives home the point of the small size of the digital asset sector compared to traditional assets. Digital assets with scarcity and/or network effect may attract the vast pools of capital currently invested in high-valuation stocks or bonds exposed to inflation.



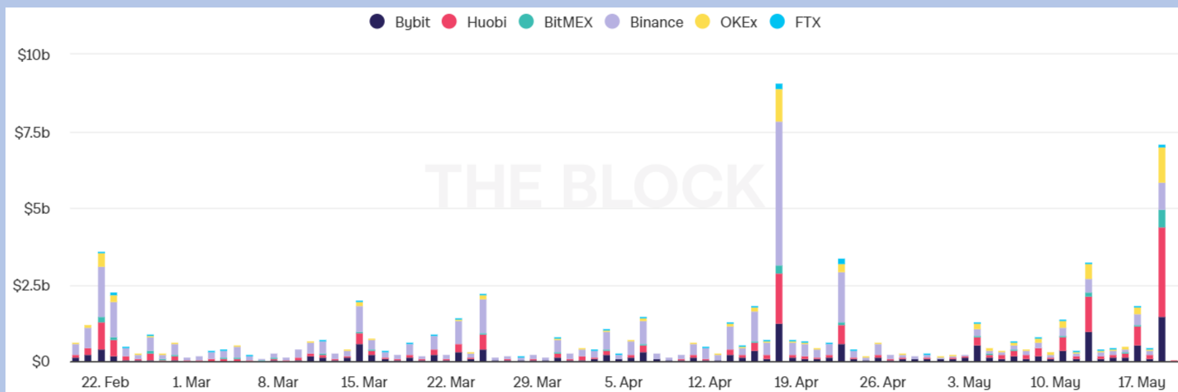

*Source: WSJ article*

The world added $24tn of incremental debt just in 2020, taking debt to 355% of global GDP. It's tough to argue that the US$24tn, much of it stimulus payments, will generate a high economic return to pay back the borrowing. Total global debt is US$281 trillion now, according to the Institute of International Finance, which is shown in the chart from this Bloomberg article. Current low GDP growth makes the payoff math close to impossible, which is one reason capital could flow to scarce assets like Bitcoin.



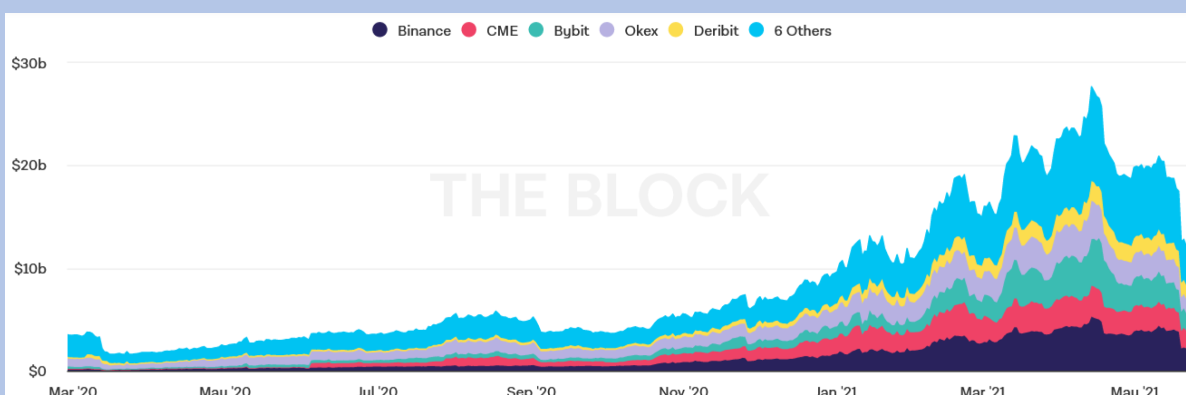
## The Charts on this week's selloff

Futures liquidation was high this week, but not as high as the April 19th liquidation. This points to spot selling as significant contributor to the downside move this week. Long liquidation chart below

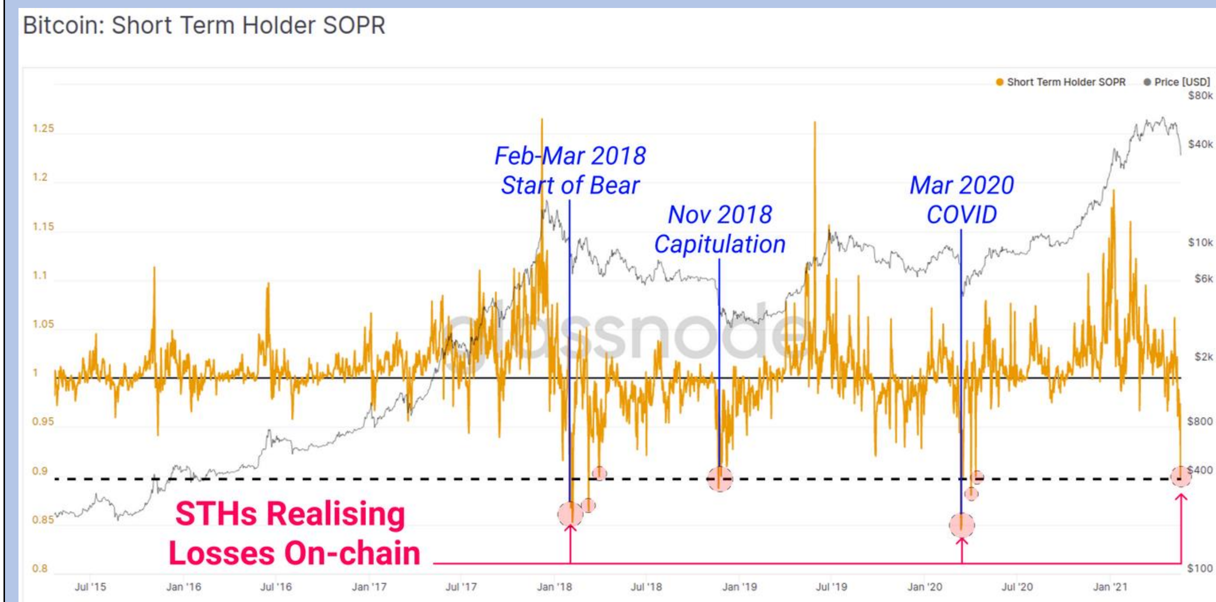



*Source: The Block*

Futures open interest has decline 56% from the peak on April 13th to $12.1bn balance on May 21st. The only other larger decline was during the Covid crash in March 2020.

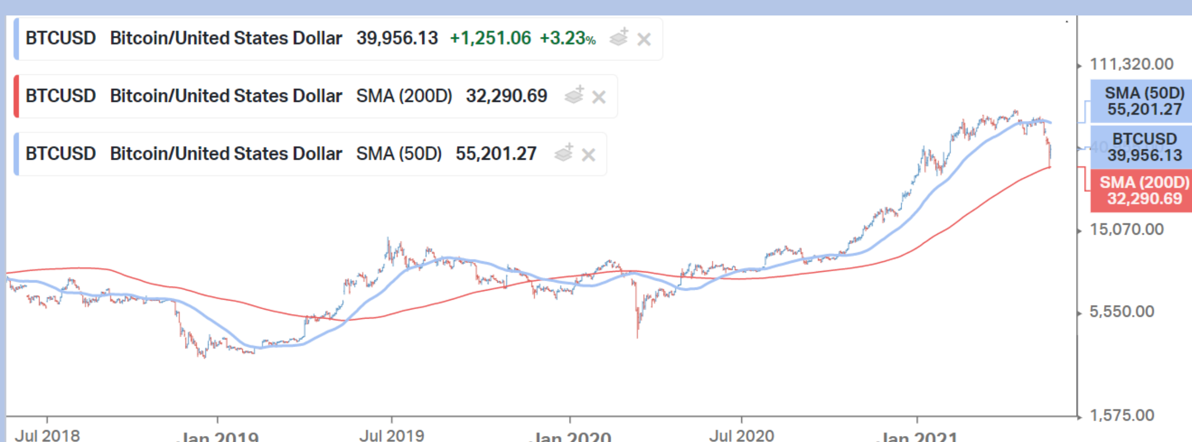


Coins purchased less than 6 months ago (aka short-term holders) are now near prior peak loss levels. Just note that some of the prior points were hit into the start of a multi-year down cycle.




*Source: Glassnode*

For technical analysts, the chart below shows the 50 day and 200 day moving average. The 200DMA will provide support, as of this Friday evening, while the 50DMA will become resistance for further upward moves.

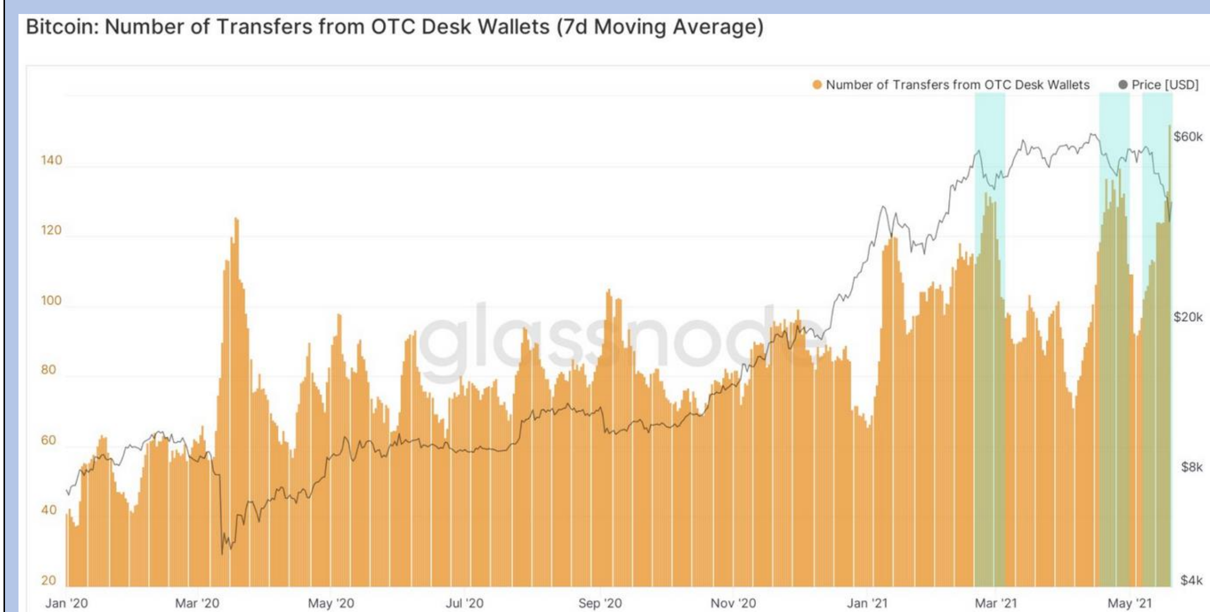



*Source: Koyfin*

However, there are signs of large investor buying this dip. Here's my cherry-picked example of a GOAT in action! GOAT = Greatest of All Time.


Source: [Tom Brady via Twitter]()

And, flows from OTC desks point to large investors buying last week. OTC stands for over the counter, which is often how miners sell their coins, and also how large volumes are transacted.




Source: Glassnode

Stay safe and do reach out if you have any questions or comments about the material in this Dispatch.

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**Important Disclosures**