

Key Takeaways

- Ethereum continues to show strong trading interest into the protocol merge
- OFAC sanctioning Tornado Cash has consequences for the DeFi ecosystem
- Technicals dating back to Bitcoin's inception show price maintaining key levels

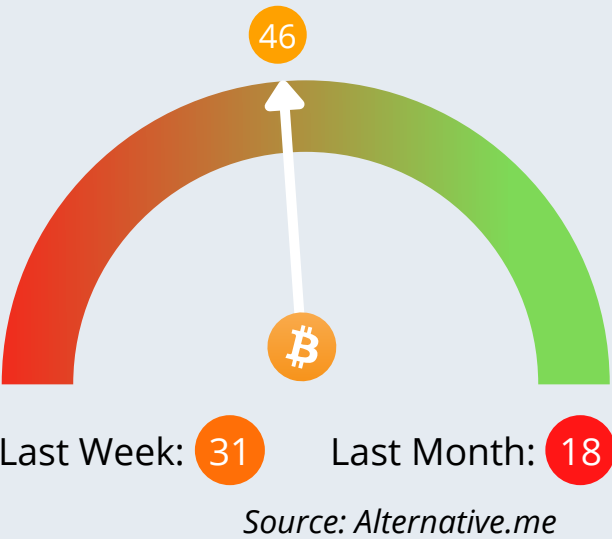
On-Chain Commentary

Ethereum continues to garner increasing trading interest in spot, futures, and options markets leading into the Proof-of-Work to Proof-of-Stake protocol change. The Merge is now scheduled for mid-September after the successful test last week. Additionally, the US treasury also announced sanctions against the digital asset mixer Tornado Cash thanks to it's involvement in illicit finance. This privacy-enhancing code remains running, despite harsh consequences for interacting with the mixer. Other digital assets, such as Binance Coin, Polygon, Solana, Cosmos, and Near, have also been significantly buoyed by Ethereum mania.

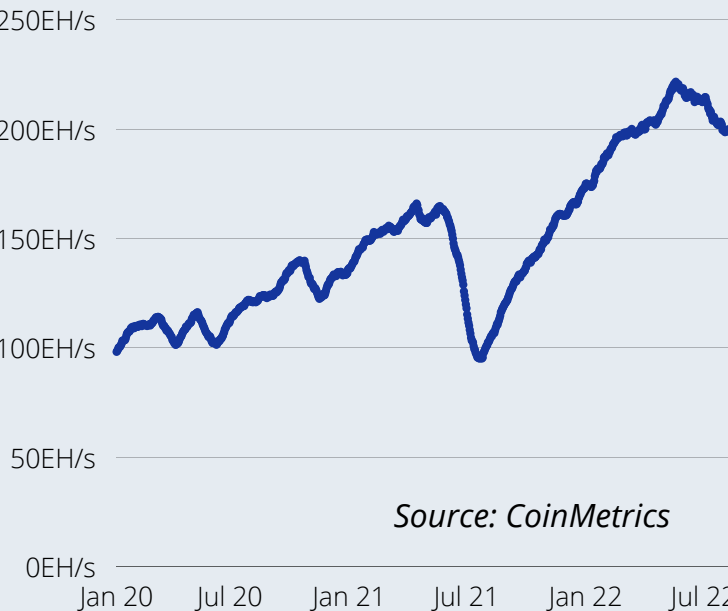
On a technical basis, Bitcoin continues to hold near the 200-week moving average, previous all-time high, and realized price, or aggregate average price of all coins moved on-chain. Historically, both the 200-week moving average and realized price have acted as a multi-month accumulation zone on Bitcoin for market participants in prior bear market lows. Over the next few weeks, so long as no lower price lows beyond the June and July lows are achieved, the likelihood of a mean reversion attempt to 200-day moving average at \$31,000 continues to increase. The opportunity for this bullish reversal will also likely be limited to any significant downside in Ethereum price.

Bitcoin Fear and Greed Index

Multifactorial Market Sentiment Analysis



Bitcoin Monthly Average Hashrate



Bitcoin 30-Day Rolling Volatility



Bitcoin Moving Averages



Crypto	Ticker	Price (\$)	Returns (%)						Annualized			
			1 week	1 month	3 month	YTD	1 year	M Cap (bn)	Issuance (%)	Stake Yield (%)	Volatility	Sharpe
Bitcoin	BTC	24567.08	5.69	5.12	-18.45	-46.98	-48.78	468.46	1.77	N/A	0.68	-0.65
Ethereum	ETH	1985.19	16.86	18.36	-3.20	-45.93	-40.21	242.40	4.13*	N/A*	0.88	-0.24
Binance Coin	BNB	327.27	0.71	14.66	9.75	-36.45	-20.86	52.48	0.00	4.88	0.80	0.26
Solana	SOL	46.89	15.6	10.81	-10.37	-72.38	4.61	16.37	4.03	5.36	1.20	0.57
Polkadot	DOT	9.42	7.65	7.94	-17.14	-65.04	-59.00	10.32	7.44	14.07	1.13	-0.14
Avalanche	AVAX	29.49	4.68	23.16	-13.67	-73.31	61.92	8.33	5.46	9.08	1.42	1.18
Polygon	MATIC	1.00	13.34	10.66	50.29	-59.32	-32.00	8.26	1.67	5.21	1.29	0.49
Tron	TRX	0.07	0.71	1.50	-2.80	-7.08	-22.11	6.47	1.18	3.48	0.85	0.41
Near	NEAR	5.95	18.81	39.73	-11.09	-59.76	76.93	4.49	3.89	10.64	1.58	1.22
Cosmos	ATOM	12.08	5.26	15.32	11.09	-63.12	-21.43	3.42	10.57	17.77	1.36	0.58
Algorand	ALGO	0.37	4.1	10.07	-19.97	-77.68	-61.26	2.55	3.36	7.42	1.22	-0.06
Helium	HNT	8.62	-3.3	-7.14	-12.86	-77.32	-49.62	1.06	Variable	6.16	1.30	0.31
Fantom	FTM	0.41	8.18	22.19	6.83	-82.14	16.55	1.02	5.61	16.00	1.66	1.02
Zilliqa	ZIL	0.05	4.57	10.76	-9.58	-36.19	-55.26	0.63	4.67	14.20	1.72	0.26

Stablecoin Origins & Purpose

Stablecoins are a sector of cryptocurrencies which attempt to peg value to \$1, typically using an external reference, such as USD or EUR. The main types of stablecoins include; fiat-backed, crypto-backed, algorithmic, or hybrid collateralization.

Tether (USDT) was initially created in 2014 to act as a potential hedge against market volatility, as well as increasing the transferability and convertibility of fiat currencies to cryptocurrencies. Tether’s usage and supply grew substantially throughout the 2017 Bitcoin bull run, which significantly increased adoption of USDT trading pairs on crypto exchanges. As scrutiny increased over Tether’s reserves, competing projects like Circle’s USD Coin (USDC) arose with a focus on increased transparency. Today, most fiat-backed stablecoins, including Tether, release monthly reserve attestations.

Fiat-Backed

The two largest stablecoins by circulating supply, USDT and USDC, are both backed by USD reserves and/or USD equivalents held in third-party financial institutions. Issuing these types of stablecoins directly from the servicer also requires KYC/AML compliance and minimum capital requirements.

Crypto-Backed

Crypto-collateralized stablecoins require on-chain management with the use of smart contracts, which also allows for 100% transparency of reserves and collateralization levels. Most crypto-backed stablecoins do not have KYC/AML or minimum capital requirements for initialization but do require overcollateralization of loans to buffer against market volatility. If these loans fall below the required collateralization level, they are liquidated.

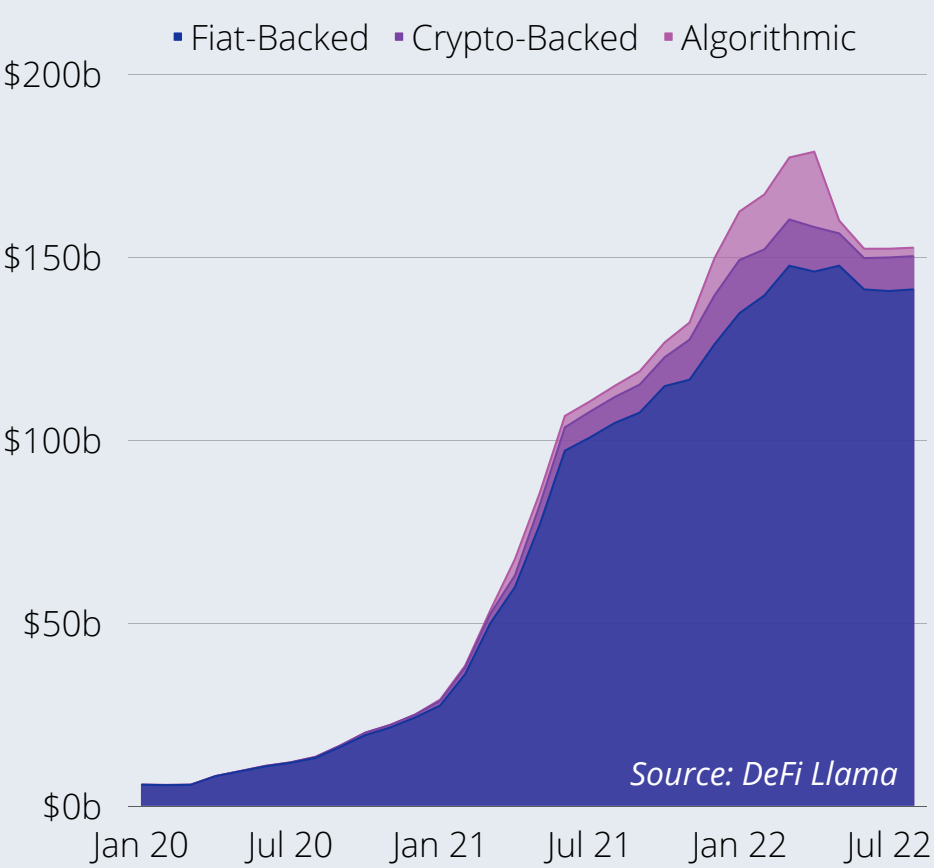
Algorithmic

Of all stablecoin types, algorithmic or seigniorage-style stablecoins have had the most difficulty maintaining a \$1 peg, historically. This stablecoin type does not require collateral and are managed on-chain via smart contracts. Algorithmic stablecoins *will* increase or decrease the circulating supply to maintain stablecoin value.

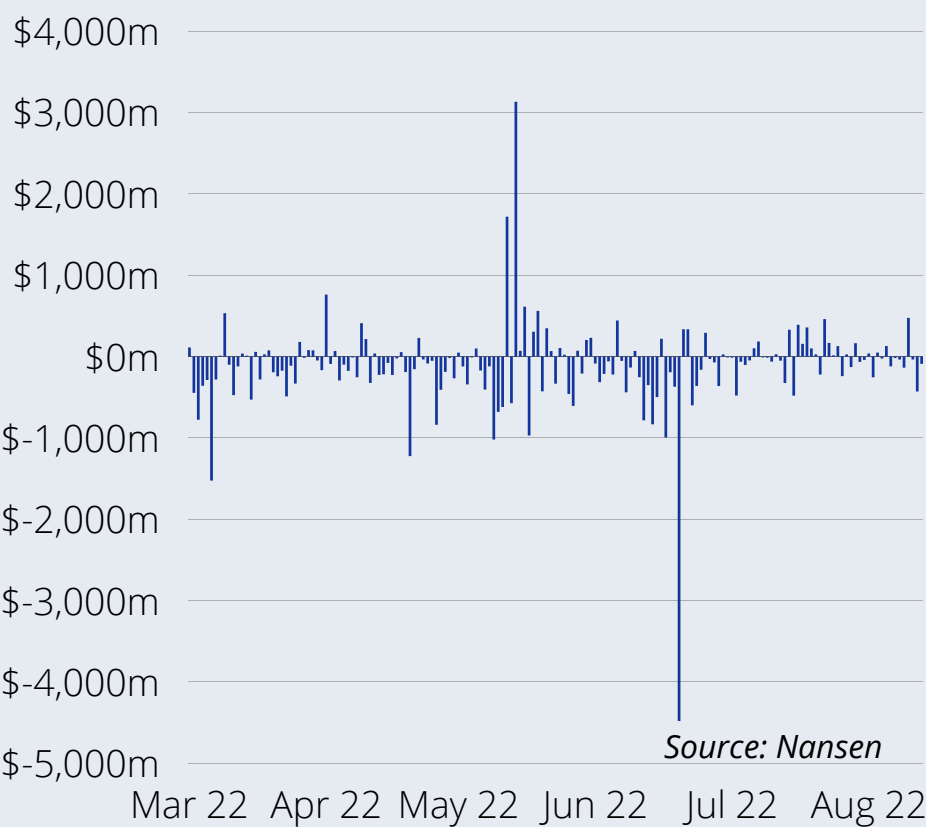
Tether Redemptions & Reserves








Tether has now experienced about \$19 billion in redemptions, approximately 20% from the peak, since the Terra and UST algorithmic stablecoin implosion in mid-May. Based on asset holdings from March 31st, 2022, the \$4 billion balance in cash and bank deposits, the almost \$7 billion balance in money markets, could have been used for those redemptions. On July 1st, the company released an assurance of holdings report from an independent accounting firm and announced a further reduction of commercial paper by 58%, to \$8.5 billion, which could have all been used for redemptions. A further \$5 billion in Tether’s commercial paper holdings are set to expire on July 31st. The July 1st report also revealed an increase in money market funds and U.S. treasury bills from \$34.5 billion to \$39.2 billion. Tether has also reduced exposure to secured loans by \$1 billion and denied any exposure to crypto firm Three Arrows Capital.






Stablecoin Circulating Supply







Stablecoin Net Exchange Flow



	Fiat-Backed	Ticker	Supply (\$, bn)	Launch	Chain
	<b>Tether</b>	USDT	67.74	Sept '14	Multi
	<b>Circle</b>	USDC	53.08	Sept '18	Multi
	<b>Binance</b>	BUSD	17.73	Sept '19	Multi
	<b>TrueUSD</b>	TUSD	1.26	Jan '18	Multi
	<b>Paxos</b>	USDP	0.86	Sept '18	ETH, BSC
	<b>Gemini</b>	GUSD	0.32	Sept '18	ETH
	<b>Huobi</b>	HUSD	0.16	Nov '18	ETH, SOL

Crypto-Backed					
	<b>MakerDAO</b>	DAI	6.86	Dec '17	Multi
	<b>Abracadabra</b>	MIM	1.81	May '21	Multi
	<b>Synthetix</b>	sUSD	0.19	Dec '18	ETH, FTM
	<b>Liquity</b>	LUSD	0.19	Apr '21	ETH
	<b>mStable</b>	mUSD	0.05	May '20	ETH

Algorithmic					
	<b>Frax</b>	FRAX	1.43	Dec '20	Multi
	<b>Neutrino</b>	USDN	0.69	Oct '19	Multi
	<b>Fei USD</b>	FEI	0.18	Dec '20	ETH
	<b>TerraUSD</b>	UST	0.00*	Sept '20	Multi



Key Takeaways

- Investors met the latest CPI print with exuberance despite other factors
- A 75bp hike at the September FOMC meeting continues to decline
- The Fed's hawkish moves have aided a strong dollar against the Euro

Traditional Market Commentary

Investors and consumers celebrated a much needed reprieve on inflation metrics when the year over year consumer price index fell to 8.5% from 9.1%, with related core and monthly CPI indications declining as well. All producers price index indications also fell mainly due to the recent drop in gas prices, which declined below the \$4 per gallon national average level for the first time since early March of this year. Friday's University of Michigan consumer sentiment capped off an eventful week as it continued to trend higher off of June historic lows. Equities kept the party going gaining just over 3% last week, adding to the positive ~13% quarter to date. But is it too early to pop the champagne? Some politicians are already claiming victory. Interest rates may keep reality in check with the 2/10 year treasury yield spread still at decade lows below -40 basis points, after reaching the -50 basis point level mid-week. The 10 year treasury finished unchanged for the week, with the front end of the yield curve slightly up week to week.

	10 Yr %	GDP	CPI	Unemployment
USA	2.83	(0.90)	8.50	3.50
Europe	0.99	4.00	8.90	6.60
Japan	0.19	(0.50)	2.40	2.60
UK	2.11	2.90	9.40	3.80
Canada	2.74	3.05	8.10	4.90
Australia	3.43	3.30	6.10	3.50
New Zealand	3.52	0.40	7.30	3.30

Weekly Market Review - August 15th, 2022

Traditional Market Commentary Cont.

The Fed's next move in September now looks like only 50 basis points as probability muted a 75 basis point hike after the latest CPI print. Where does the US now stand in comparison to other countries? The Fed has already hiked interest rates over 200 basis points this year. Comparing the 10 year equivalent reference rate, only Australia and New Zealand have a higher rate, then the UK about 75 basis points lower. Europe has delayed rate hikes in response to their inflation situation keeping them at a disadvantage compared to CPI equivalent and unemployment figures. The US could be leading the economic recovery effort, while Europe and the UK are facing some challenges considering the current delicate balance of low interest rates and higher inflation and unemployment. Too early to call. As the Fed has commented, more data points are needed, and perhaps a clearer picture could be shown early fall.

Indices	Ticker	Price (\$)	Returns (%)				
			1 week	1 month	3 month	YTD	1 year
S&P 500	SPX	4280	3.26	10.79	6.37	-10.20	-4.20
Nasdaq 100	NDX	13525	2.71	13.20	9.51	-16.88	-10.38
Russell 2000	RUT	2016	4.93	15.61	12.49	-10.19	-9.29
Dow Jones Ind.	DJI	33761	2.92	7.90	4.86	-7.09	-4.94

Commodities							
Crude Oil	CL1	91.88	3.78	-5.83	-16.61	21.78	35.06
Brent Crude	BRN00	98.01	3.54	-3.09	-11.88	25.75	39.52
Natural Gas	NG00	8.78	9.68	24.66	13.70	144.64	128.11
Unleaded Gas	RB00	3.04	6.89	-4.75	-22.81	37.46	35.30
Gold	GC00	1818.90	1.48	6.59	0.48	-0.63	2.10
Silver	SI00	20.83	4.91	11.66	-1.37	-10.79	-12.24
Copper	HG00	3.67	3.62	13.39	-11.65	-17.50	-15.61
Corn	C00	639.50	5.01	5.66	-18.20	7.93	11.70
Wheat	W00	804.50	3.64	3.01	-31.82	4.45	5.61
Bloomberg Commodity Index	BCOM	123.2	4.54	8.58	-3.98	24.23	29.45
Bitcoin	BTC	24567.08	5.69	5.12	-18.45	-46.98	-48.78

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Please see important disclosures on next page.

News Review

- [BlackRock, Fresh off Coinbase Tie-Up, Offers Direct Bitcoin Exposure](#)
- [Citigroup is Hiring a DeFi and Stablecoin Risk Manager as Part of Crypto Push](#)
- [Morgan Stanley Job Posting Points to Wide-ranging Crypto Plans](#)
- [Interactive Brokers Offers 24/7 Crypto Trading, Adds New Coins](#)
- [Regulators Weigh Asking Hedge Funds to Report Crypto Exposure](#)
- [Ethereum Protocol Merge May Be Coming Sooner Than Expected - September 15th](#)
- [Vitalik Buterin Sees Role Diminishing as Ethereum Blockchain Becomes Increasingly Decentralized](#)
- [Tether and Circle Both Announce Support of Ethereum’s Proof-of-Stake Transition](#)
- [OFAC Sanctions Popular Ethereum Mixer Tornado Cash for Laundering Crypto Stolen by North Korea’s Lazarus Group](#)
- [US Treasury Sanction of Privacy Tools Places Sweeping Restrictions on All Americans](#)
- [MakerDAO Founder Calls on DAI to Drop Dollar Peg Amid Tornado Cash Fallout](#)
- [Curve ‘Strongly Suggests’ Domain Migration to Ethereum Name Service After \\$570K Frontend Hack](#)
- [Solana-based Project Eluüne: StarGarden to launch on Polygon](#)





# Weekly Market Review - August 15th, 2022

Weekly Thoughts: Source: Valkyrie Investments, Inc.

Stablecoin Origins & Purpose, Fiat-Backed, Crypto-Backed, Algorithmic, Tether Redemptions & Reserves: Valkyrie Investments, Inc., Tether Operations, CoinMetrics, Circle, and Paxos

Macro Commentary: Source: Valkyrie Investments, Inc.

Coin Prices, Market Capitalizations, and Returns: Source: Valkyrie Investments, Inc., TradingView, Messari. All returns represent total return for stated period. Coin Logos: Source: cryptologos.cc

Annualized Issuance, Staking Yield, Volatility, and Sharpe Ratio: Source: Valkyrie Investments, Inc., Messari, StakingRewards.com. \*ETH's EIP-1559 token burn and ETH-2 staking not included.

Bitcoin Fear and Greed Index Source: Valkyrie Investments, Inc., alternative.me and represents a multifactorial sentiment analysis index of volatility, market momentum and volume, social media, bitcoin market cap dominance, and Google trends

Bitcoin Monthly Average Hashrate, Bitcoin 30-Day Rolling Volatility: Source: Valkyrie Investments, Inc., CoinMetrics

Bitcoin Weekly Moving Averages: Source: Valkyrie Investments, Inc., TradingView - INDEX:BTCUSD

Stablecoin Circulating Supply: Source: Valkyrie Investments, DeFi Llama

Stablecoin Net Exchange Flow: Source: Valkyrie Investments, Inc., Nansen and represent wallet inflows and outflows of Tether, USD Coin, Binance USD, PAX, and Huobi USD through crypto exchanges, including but not limited to; Binance, Curve.fi, AnySwap, Crypto.com, Uniswap, Hop Protocol, OKEx, Kucoin, dYdX, Coinbase, Kraken, Huobi, FTX, Gemini, FTX US, CoinList, SushiSwap, Gate.io, Balancer, BitMEX, Bitfinex, Bittrex, Binance US, Bitstamp, BlockFi, Paxos, Celsius, Alameda OTC, Poloniex, HitBTC, Bancor, Kyber, and ShibaSwap.

List and examples shown in the Stablecoin table are non-exhaustive, intended for illustrative purposes only. Chain data sourced from CoinMarketCap. "Multi" description can include Ethereum, Solana, Binance Smart Chain, Algorand, Tron, Fantom, Polygon, Avalanche, Arbitrum, Secret, Terra, Moonriver, Velas, and Harmony. Coin Logos: Source: cryptologos.cc

"Indicies" prices and returns: Source: Valkyrie Investments, Inc., MarketWatch. "S&P 500" provided by Standard & Poor’s and is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States, "Nasdaq 100" provided by NASDAQ OMX Group and includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. "Russell 2000" provided by FTSE Russell and is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. "Dow Jones Ind." provided by S&P Dow Jones Indices and is a price-weighted measurement stock market index of 30 prominent companies listed on stock exchanges in the United States. "Gold" provided by NYMEX - CME Group and is a continuous futures product. All returns represent total return for stated period.

"Commodities" prices and returns: Source: Valkyrie Investments, Inc., Wall Street Journal. Bloomberg Commodity Index provided by Bloomberg and tracks prices of futures contracts on physical commodities on the commodity markets. All returns represent total return for stated period.

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