

RIVEMONT

Rivemont - Weekly Update #189

July 28th, 2021

Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.

This has been a particularly positive week for the cryptocurrency market and especially for bitcoin. Indeed, after starting the week below \$30,000 last Wednesday, the price has gone so far as to surpass the \$40,000 mark twice in the last few days. That's the level it's fighting for at the time of writing. What's behind this rebound?

We mentioned in our communication last week that "The ß Word" conference was coming up, where Elon Musk and Jack Dorsey were going to share the stage to promote the adoption of cryptocurrencies. While the markets did not immediately react to the event, it certainly helped with a positive reversal of

sentiment. There, we learned that Musk's other firm, SpaceX, also had bitcoins in its treasury. Musk also hinted that Tesla may soon resume accepting cryptocurrency payments for its vehicles following encouraging energy-efficient reviews of mining activities following China's ban on the industry.

“I do own Bitcoin; Tesla owns Bitcoin; SpaceX owns Bitcoin,” Musk said unambiguously. “I do personally own a bit of Ethereum, and Dogecoin of course,” he added.

The catalyst that really propelled the markets, however, was instead the rumor that Amazon was about to get into cryptocurrency payments. This speculation began after a job posting on their website for the position of Digital Currency and Blockchain Product Lead. Specifically, the ad is looking for someone who can “leverage domain expertise in blockchain, distributed ledger, central bank digital currencies and cryptocurrency”. This was followed by echoes of a supposed insider claiming that the company was ready to accept bitcoin payments by the end of 2021 and that it would furthermore consider launching its own token in 2022.

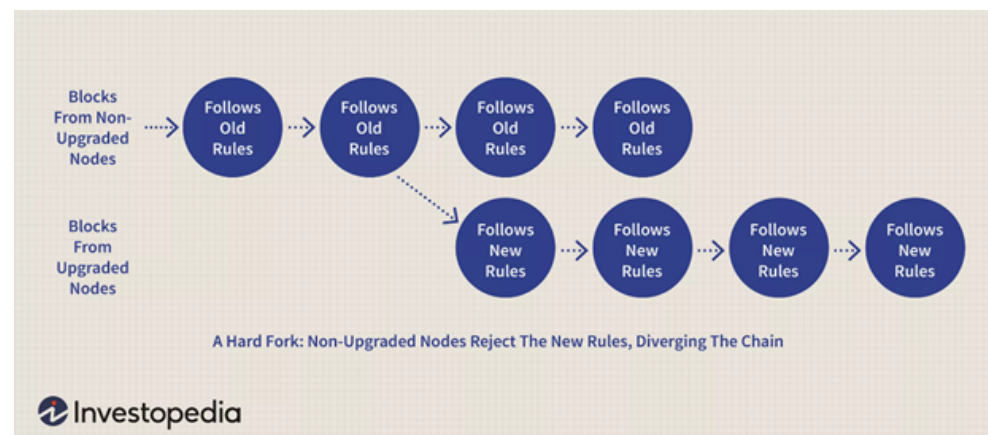
The company softly denied those rumors on Monday. “Notwithstanding our interest in the space, the speculation that has ensued around our specific plans for cryptocurrencies is not true,” said a spokesperson from Amazon. “We remain focused on exploring what this could look like for customers shopping on Amazon.”

Nevertheless, the excitement over the possibility has provided enough of a push to create a technical scenario that seems to be on everyone's lips in 2021 - a short squeeze. In simple terms, the rise in price has forced many short sellers to close their positions, resulting in a mandatory purchase of bitcoins at market price. This in turn creates upward price pressure beyond the simple interest of buying at the spot price.

According to data from Bybt.com, more than a billion dollars of short positions were liquidated over the weekend. Ex-banker and analyst Alex Kruger

explained, "It was a simple short squeeze of epic proportions," adding that "bitcoin experiences such squeezes about once a year". "The market had gotten obscenely short, and traders continued to pile on shorts even as [the] price reversed higher." he adds to explain the context that allowed such a scenario to occur.

We are now less than ten days away from the Ethereum network's "London" hard fork. The latter will not require any action from the simple holders of ETH. Remember that a fork occurs when a group, majority or not, establishes a new framework of rules on the network, creating technically speaking a new parallel chain. If this is not contested, as is currently expected, the old chain with the old rules simply dies, no more computer work being pointed to it and no relevant blocks being created. During contested forks, two chains coexist. Here is a simple illustration showing the principle of a fork:



This update is not the major one, however, changing the consensus mode from proof-of-work to proof-of-stake. The central change is EIP-1559, a Fee market change for ETH 1.0 chain - A transaction pricing mechanism that includes fixed-per-block network fee that is burned and dynamically expands/contracts block sizes to deal with transient congestion. EIP-3554 also delays the "difficulty bomb" which will make it harder for network miners to discover a block.

We mentioned last week that we were in caution mode with the fund's assets. One of the reasons for this positioning was the systematic rejection of the 50-day moving average (blue line on the chart) since its clear breakout in May.



It should be noted that we have now moved back north of the 50-day moving average, which was one of the main requirements for a real trend reversal. It was also a signal to deploy capital on our side, as positions were taken up in the area between \$33,000 and \$35,000. All capital is now exposed.

Technically speaking, while the \$40,000 area is obviously psychologically important, it is rather the technical resistance around \$42,000 that interests us. In our view, breaking through the latter could create a new major surge following the one this week. As at the end of each month, the expiration of many futures contracts could increase volatility. The price level at which the weekend begins and the subsequent weekend action will therefore be particularly telling.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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