RIVEMONT

Rivemont - Weekly Update #190

August 4th, 2021

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

The week that ended yesterday for the fund concludes with a slight decline for bitcoin and a modest rise for ethereum. While the numbers may lead one to believe that the market is uneventful, in reality the opposite is true. We'll take a closer look at the various technical indicators and what is currently reflected in the phrase of the day: "supply illiquidity". However, let's start this letter with an overview of the news of the last seven days.

Despite a paper loss of $424.8M on its bitcoin positions in the 2nd quarter, Michael Saylor and his company MicroStrategy are sticking to their guns. Saylor has indeed committed to continue adding quantities of the crypto asset to the corporate treasury. It must be said that despite the spring downturn, the bet continues to be highly profitable for the company. Indeed, the BTC cost base is $2.741 billion but its market value is $3.653 billion, based on an average cost per BTC at $26,080 and a market price of $34,763 as of June 30th.

New York-based asset management firm GoldenTree has reportedly added bitcoin to its balance sheet, although the amount of that investment remains unknown at this time. Indeed, according to a report published Friday by the financial media outlet The Street, the company, which manages about $45 billion in assets, recently purchased bitcoins. However, it has reportedly not acquired any other cryptoassets at this time.

Web giant Google has lifted its ban on certain cryptocurrency-related ads, allowing centralized exchanges and digital wallets to promote their services on its platform in the United States. “Beginning August 3rd, advertisers offering Cryptocurrency Exchanges and Wallets targeting the United States may advertise those products and services when they meet the following requirements and are certified by Google.” While this is certainly a step forward for the industry, the company is proceeding with caution. Indeed, advertisements for decentralized exchanges and Initial Coin Offerings (ICOs) remain prohibited.

Bitcoin Cash's fork - Bitcoin SV - fell victim to a 51% attack yesterday. Recall that this chain is the creation of Craig Wright, the man who continues to claim to be, despite much evidence to the contrary, Satoshi Nakamoto. A 51% attack occurs when more than half of the computer work pointed to a chain is malicious, allowing in simple terms to take control of the network. This includes the ability to exclude transactions, change their order and most importantly, possibly reverse transactions or allow double spending, resulting in stolen tokens. While these attacks are nearly impossible on large chains, they are a threat to small or fading projects.

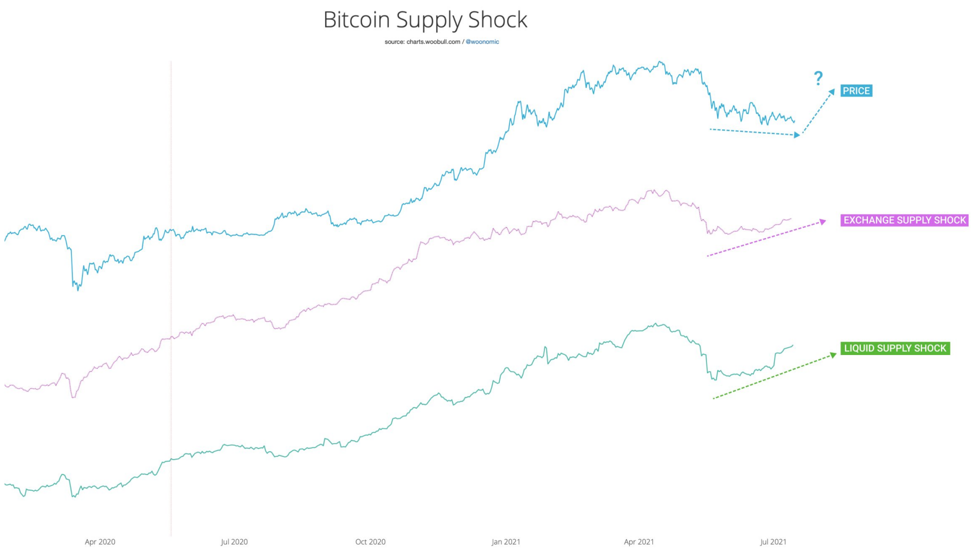
While some decry such attacks as a disadvantage of cryptocurrencies, it is actually by design that they exist. Such attacks are simply the result of the slow death of failed projects or those without enough miners in a decentralized network to ensure its survival. It is, in a way, the natural selection of the cryptocurrency industry. For investors, it is also a reminder of the importance of focusing on serious projects with tangible development and, most importantly, a sufficient level of adoption.

Let's get back to the main theme of today's paper, which is the illiquidity of bitcoin's current supply. After bitcoin went from under $30,000 to over $40,000 in a series of ten consecutive green days, it was both normal and healthy for profit taking to exert downward pressure. Technically speaking, by the way, the important thing here is to create a new "higher low" above the 50-day moving average to serve as a springboard. There are many reasons to be optimistic and the first is precisely the supply illiquidity.

Indeed, data collected by Glassnode shows that portfolios of illiquid entities have surpassed the highs of those reached during the move north of $60,000 earlier this year. While the correlation was broken between this metric and price in the spring, it has historically been quite evident. More importantly, it appears to be materializing again during the current rally.

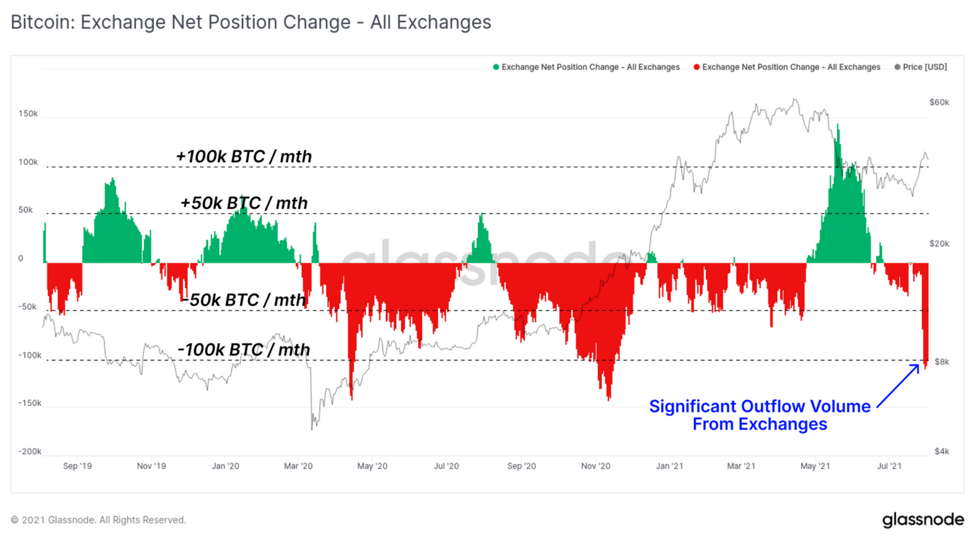
The Lex Moskovski analysis from the same firm adds that it took 600 days in order to touch the 2017 highs again after the last cycle. This time it took only 108.

Other data, this time collected by analyst Willy Woo, abound in the same direction. Here we see the correlation between the price and the quantity of bitcoins available on the exchanges. Above all, we see a current divergence that suggests a new price surge is imminent.

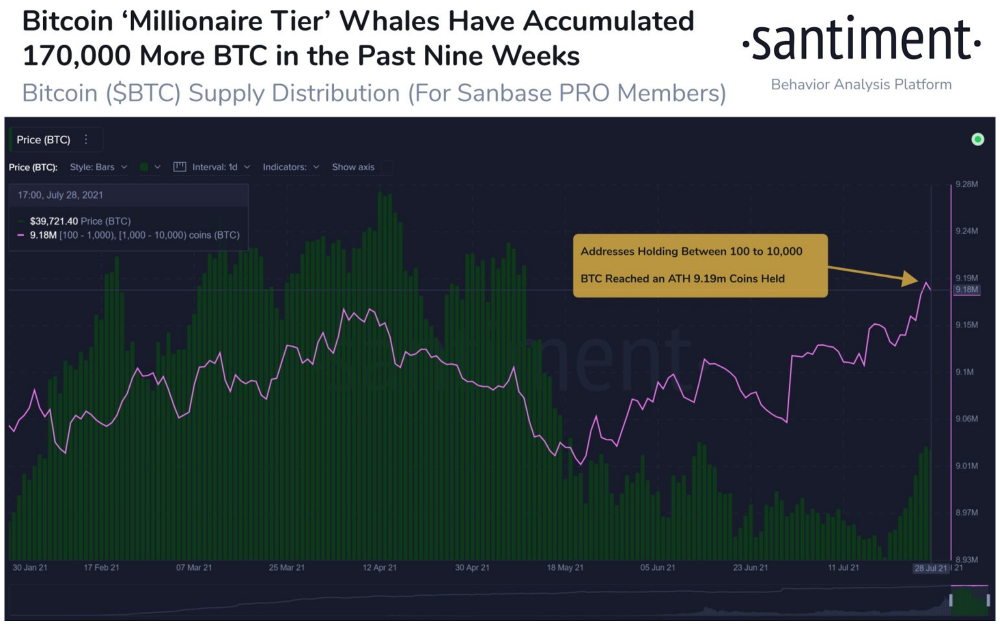


Still on the same theme, let's point out that the data collected by analyst Will Clemente also shows a "supply shock". He explains: “Illiquid Supply Ratio has taken yet another leg up. Bitcoin supply shock is now at levels that previously priced Bitcoin at $53K. Consolidation after 10 straight green days is very reasonable but still remain bullish over the coming weeks.”

If we look at the net position change data for bitcoin volume on the various exchanges, we can actually see that we have reached an outflow volume this week that has not been seen since November 2020. If we affix the price metric, this level had been a trigger for the subsequent significant surge.



Data collected by Santiment further shows that bitcoin whales have taken advantage of the current bull market low to accumulate an impressive amount of BTC. “Bitcoin’s whales have been staying busy, and addresses holding between 100 and 10,000 BTC just reached a combined all-time high 9.19 million coins held. They have added 170,000 more BTC since May 22nd, and a staggering 130,000 BTC in the past 4 weeks alone.” We're talking about $5.2 billion in value here.



Finally, it should be noted that the gradual return of miners following their ban from China has led to an increase in the difficulty of the network of 6%. It is still 48% easier to discover a block than exactly one month ago. This is another encouraging data to financially motivate this sector of the market players.

Despite all of these positive indicators, ETH had the best week of the largest capitalization crypto duo. This push is definitely in line with the London Fork now scheduled for tomorrow. To learn on the ins and outs of this update, you can read our [communication from last week](). Once implemented, a portion of the ETH fee associated with each transaction will be burned, decreasing the rate of increase in the supply of tokens and potentially putting upward pressure on prices. While this addition will not make the asset deflationary overnight, it is another step towards the future transition to ETH 2.0 where the full consensus mode will change.

To that end, Pantera Capital CEO Dan Morehead believes that this update will allow ETH to eventually overtake bitcoin as the dominant cryptocurrency. You'll see a transition of people who want to store wealth, doing it in Ether rather than just Bitcoin," Morehead predicted, adding that the cryptocurrency's shift to Ethereum 2.0 will significantly reduce Ether's mining energy consumption levels compared with the one of Bitcoin. Ethereum's wide implementation in decentralized finance applications would also help Ether grow bigger than Bitcoin, he said.

Despite predicting a brighter future for Ether, Morehead is still optimistic about Bitcoin's growth in the future. The CEO reportedly predicted that Bitcoin would trade between $80,000 and $90,000 by the end of 2021, rising above $120,000 within a year. Surging mainstream adoption could further drive Bitcoin's price to as high as $700,000 in the next decade, Morehead noted.

The Rivemont crypto fund's capital is fully exposed, with a large majority of it in ETH. It was therefore a positive week for investors, the returns clearly beating the price of bitcoin.

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