RIVEMONT

Rivemont - Weekly Update #208

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

The floor collapsed for the price of bitcoin early last Friday night, with the price losing more than $10,000 in less than three hours, before obviously rebounding, at least partially. So what happened? Bad news causing panic? Network fraud? None of the above. If history doesn't quite repeat itself, it certainly has a way of rhyming. As we had already experienced in April and September of this year, it was a cascade of liquidations in a temporary low liquidity environment that led to this fall.

Let's clarify. The stock market was down on Friday following the Fed's comments on inflation and renewed fears about the Omicron variant, the first case of which had been officially spotted in the United States. Bitcoin has been correlated to the stock market throughout the day, acting as a risk asset rather than a hedge against inflation. The price went from around $57,000 to its support between $53,000 and $54,000.

While the price remained in this area for a few hours at the close of trading, it was in the late evening, Eastern time, that the real downward cascade began. This was a consequence of different elements coming together at the same time. The trigger was undoubtedly the low liquidity conditions typical of both weekends and time of day. In other words, the order book was very thin on the exchanges, so few sales were enough to cause large price swings. What followed was the result of all the long leveraged positions accumulated since the fall. In possibly strange-sounding terms, we could say that when the market wants to go down, it doesn't always want to go down as much as it actually does. The reason is the cascade of margin calls, forcing the closing of long positions with forced sales at market prices. As a result, $100 million worth of positions were liquidated in less than ten minutes. Once the storm had completely passed, $2.5 billion of positions were closed. In short, a cleanup of margin positions like of the air after a strong storm.

Note that a similar size liquidation took place in September, after reaching $10 billion in April. In short, we are far from being in uncharted territory.

We mentioned two weeks ago that juries were deliberating in the trial between the estate of Dave Kleiman and Craig Wright, the self-proclaimed Satoshi Nakamoto. At the center of the dispute, the fate of a portfolio of one million BTCs. A verdict was finally given on Monday. It's rare that being ordered to pay $100M could be seen as a victory, but that's position Wright is in today. In their verdict, juries ultimately found Wright not liable on any of the counts except for conversion, defined as "the conversion of another's property for one's own use". The estate was seeking approximately $170 billion in damages - far beyond the actual value of the bitcoins involved, as it included intellectual property related to the network as well as punitive damages.

The Kleiman estate was also pleased despite the apparent loss. It's a safe bet that they weren't expecting billions of dollars regardless of the verdict, and the $100M is a nice consolation prize. Wright says he will not appeal. If he keeps his word, this will end a long legal chapter that hasn't provided clear answers as to who Satoshi Nakamoto is. However, for investors, it removes the uncertainty about the potential movement and required sale of a massive bitcoin portfolio. At this level, therefore, it is the status quo.

The growing popularity of non-fungible tokens and their integration into the world of video games has just taken another step forward. The giant Ubisoft has become the first major company in the industry to implement NFT objects in its games, starting with Tom Clancy's Ghost Recon Breakpoint. Ubisoft was already the first video game publisher to take an interest in the blockchain space, experimenting with cryptocurrency game prototypes and supporting startups in the space over the past few years. Now it's taking things to the next level, unveiling Ubisoft Quartz, a platform that allows players to earn and purchase in-game items that are symbolized by NFTs on the Tezos blockchain.

Will the Metaverse be centralized or decentralized? This question, which may seem like something out of a science fiction movie, is actually quite tangible right now with Facebook's efforts to maintain its giant status and build this virtual universe. In that vein, the company last week announced it was lifting the ban on most cryptocurrency-related ads on the site. "We are doing this because the cryptocurrency landscape has continued to mature and stabilize in recent years and has seen more government regulations that set clearer rules for their industry," the company said in a statement. Whatever one thinks of the honesty of the statement or the company in general, it goes without saying that it's a positive for the industry to gain such a mainstream showcase.

Of note, a new update will be integrated into the Ethereum network this week. Unlike the importance of the London Hard Fork a few months ago, the Arrow Glacier update is secondary and has only one objective, which is to delay the implementation of the "difficulty bomb". It consequently gives developers more time to transition to the Ethereum 2.0 network with its proof-of-stake consensus mode. Without it, the current network could become less usable.

On the market side, it should be noted that the CME Group has just launched a micro Ether futures contract sized at 0.1 ETH, giving institutional and individual traders another product for Ether exposure. The cash-settled micro ETH derivatives offering is trading under the Globex code METZ1 and joins crypto derivatives products at the exchange including micro Bitcoin futures, Bitcoin futures, options on Bitcoin futures and Ether futures.

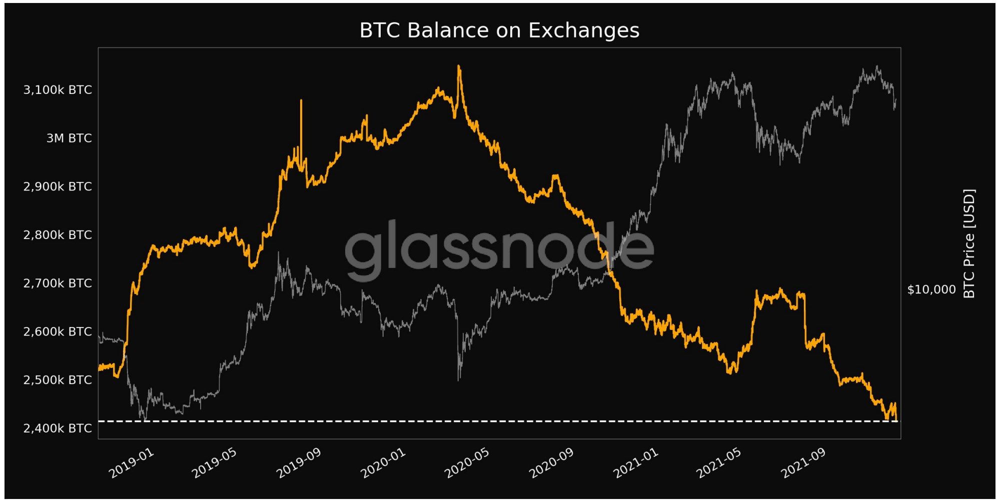
Ethereum continued to outperform bitcoin this week. Aggregate open interest across options market trading in the asset reached a record high, suggesting that many speculators are positioning themselves for a hoped-for major bullish move for the 2nd largest cryptocurrency. As for the positioning of the Rivemont crypto fund, it too continues to point in this direction. In a Dec. 3 tweet, this popular analyst's account reinforced bullish predictions for Ether, even suggesting that ETH/BTC is about to eclipse its already strong performance with a vertical move.

"I've been waiting and publicly charting ETH/BTC over the long term for years, and now we're finally here," he wrote alongside a predictive chart. "ETH is about to start moving into parabolic mode. Just wait and see how crazy things are about to get."

Bitcoin's return above the $50,000 mark on Tuesday was definitely seen as a strong buy signal by the holder of one of the largest wallets. After buying frequently since BTC/USD hit its all-time high of $69,000 last month, the wallet holder upped the ante this week with a one-time purchase of 2,700 BTC - bringing his total to 118,017 BTC. As observer "venturefounder" mentions via twitter, "this is officially the most bitcoins ever held in this wallet: 118,017 BTC. In total the whale invested $2.5 billion to buy BTC with an average cost of $21,160 per BTC."

Technically speaking, while local support was lost over the week, longer-term support demonstrating the overall health of the asset remains intact. Price is at an old resistance area that currently serves as support, which hopefully could become the reversal level for an uptrend. The important 200-day moving average, currently around $46,500, provides an additional level of support. Price has never stayed in the current price channel for long. Consequently, the next direction could be crucial for what happens next. We are looking at the $46,000 area to the downside, while we would need to close a day north of $53,000 in order to redraw a bullish picture in the near term.

Bitcoin reserves on the exchanges, meanwhile, are at a low not visited in three years.



Rivemont Investments, manager of the Rivemont Crypto Fund.

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