Rivemont - Weekly Update #245

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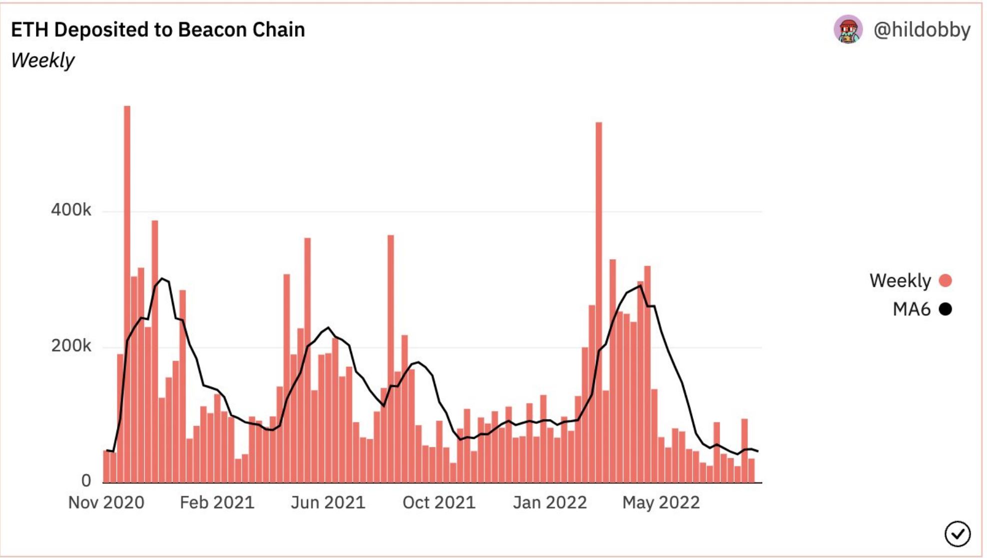
Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.

Another week closer to the highly anticipated Ethereum network migration, shifting the consensus mode from proof-of-work to proof-of-stake. The upcoming ETH merger is one of the most anticipated events in the crypto community for years. It is a major development of the project, but also a huge technical challenge. Many compare what awaits the developers to changing an airplane engine in mid-flight. The stakes are higher than ever!

Despite a recent technical glitch, the mid-September migration date remains in place. Yesterday, Péter Szilágyi, an Ethereum software developer, announced on Twitter that they have found a regression that results in a corrupted state. In a later update, the developer pointed out that the issue will likely affect users of the release by corrupting their database and causing data loss. Despite the issues, the developers were able to provide a fix after just one day. *Go Ethereum* released a hotfix to correct the bug. After the release of this fix, Szilágyi advised the community to wait until development is complete to ensure they will be on the "correct version." The developer apologized on Twitter for missing the issue during the testing phase and promised to figure out how to do better stress tests in preparation for the official migration.

It is interesting to observe that the amount of ETH deposits in staking contracts has reached a record weekly level... on the downside. One would expect the opposite! What explains this trend?



The most plausible hypothesis is that some investors might believe that short-term returns could be higher if they simply held on to their ETH tokens on the current blockchain in the hope of getting some ETHW - the alleged cryptocurrency that might emanate from a controversial attempt to resist the merger via an Ethereum hard fork. The most popular staking platform offers a 3.9% yield for staked Ethers. Many likely believe that the value of an ETHW token will be worth more. Moreover, it seems clear that those who wanted to place their Ethers in such contracts have already had ample time to do so, highlighting the fact that over 11% of the total outstanding Ethereum supply has already been staked. Finally, we shouldn't ignore investors who may simply want to wait until after the merger to make sure all is well. With just a few weeks to go, this actually makes a lot of sense.

The Beacon chain - the PoS-based coordination mechanism of the new network - has been running in parallel with the current Ethereum chain since December 2020, when investors were first invited to deposit their tokens to operate as validators. The total amount of ETH deposited on the Beacon chain currently stands at more than 13.3 million, which represents 11.2% of the outstanding Ethereum supply.

The CME Group seems to want to take advantage of a possible craze around Ethereum. Indeed, the derivative exchange is preparing to add ETH options, just ahead of the merger. The launch is scheduled for September 12. Recall that options give the holder the right - but not the obligation - to buy or sell the underlying asset at an agreed price at any time before the contract expires. These Ethereum option contracts would allow investors to bet on the future price of Ethereum with the ability to cash out at any time before the contract expires. "“As we approach the highly anticipated Ethereum merge next month, we continue to see market participants turn to CME Group to manage ether price risk.” commented Tim McCourt, Head of Equity and FX Products. “Our new Ether options will offer a wide array of clients greater flexibility and added precision to manage their ether exposure ahead of market moving events,”

The saga surrounding crypto lending platform Celsius shows no signs of slowing down, quite the contrary. The firm filed a countersuit in U.S. Bankruptcy Court on Tuesday against Jason Stone and his company KeyFi. In the complaint, Celsius claims that Stone falsely represented himself as a pioneer and expert in staking and decentralized financial investments. "Unfortunately, Defendants Stone and KeyFi, the corporate vehicle majority owned by Stone, have proven unable to deploy the tokens profitably and appear to have lost thousands of Celsius tokens due to their gross mismanagement," Celsius says. "But the Defendants were not only incompetent, they were also thieves." Stone, whose KeyFi was acquired by Celsius in 2020, sued Celsius in July for allegedly failing to honor its contract. In the lawsuit, KeyFi alleges that Celsius used customer funds to "manipulate the crypto asset markets, failing to institute basic accounting controls that put those same deposits at risk, and failing to keep its promises."

The Ontario Securities Commission today issued an alert flagging 13 crypto companies that "are not registered to trade or advise on trading securities in Ontario." Of the lot, the presence of the Kucoin exchange is notable. In a legal victory in June, the OSC successfully banned Kucoin from operating in Ontario and fined it just over $1.6 million for failing to register as a securities provider by the April 19, 2021 deadline. Binance also stopped offering its services to Ontario residents late last year.

A Coinbase customer is suing the exchange for $5 million for failing to properly secure customer accounts and "flouting" federal securities laws, among other allegations. The lawsuit, filed last week and representing more than 100 people, claims the largest cryptocurrency exchange in the U.S. locked users out of their accounts for long periods of time - hurting them financially. The plaintiffs allege that the exchange crashed during periods of market volatility - which is indeed all too common for cryptocurrency exchanges - making it difficult for users to withdraw money. In the second quarter of this year, Coinbase saw a 60% drop in revenue and reported a net loss of $1.1 billion.

At the risk of sounding like an old broken record, after a decline in the overall stock and crypto markets over the past seven days, investors seem to be waiting for Fed Chairman Jerome Powell's remarks scheduled for Friday. With inflation having finally, it seems, peaked, speculators are now waiting for the central bank's monetary policy direction. Is the Fed still concerned enough about inflation, but satisfied with the pace of the current economic slowdown, to maintain its aggressive monetary policy of raising rates by 75 basis points? Or will it be dovish and announce a more moderate 50 basis point increase? The markets can't agree on what's next for now.

Technically, bitcoin re-lost the important 200-week moving average at the week's close. However, the bullish recovery is not completely broken with a bounce on $20,800. A technical indicator could give investors a boost of optimism. Indeed, the 50-week moving average is about to cross the 100-week moving average upwards. As one analyst puts it, “Bitcoin 1-year moving average now crossing the 2-year moving average as per the corrective phase after a speculative run-up,” one can read, adding that “Looking good from a technical perspective.... no matter the sentiment. Those buying these levels have previously done well.”

Rivemont Investments, manager of the Rivemont Crypto Fund.

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