

Bitcoin vs. Receding Tide

- A lower plateau is needed to halt the crypto bear market
- Bitcoin should continue to shine vs. broader market
- Bitcoin evolution to `digital gold' gaining further credence
- Tethered to receding crypto tide, stability should prevail
- Bitcoin-gold price convergence accelerating

Overview	1
Broad Example - Tether	2
Why Bitcoin Decline	3
Becoming Digital Gold	3
Ethereum Breaking Buck	5
Bitcoin Bear History	5

Note - Click on graphics to get to the Bloomberg terminal

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[BI.COMD](#) (the commodity dashboard)

Most data as of Feb. 4

Performance: Bloomberg Galaxy Crypto Index (BGCI)
January -11.8%, 2019 -12.2%
Bitcoin: January -7.0%, 2019 -7.0%

Lower Crypto Plateau Needed for Bitcoin to Become `Digital Gold'

(Bloomberg Intelligence) -- A lower plateau is needed to halt the crypto bear market, yet the purging of speculative excesses is advancing Bitcoin's evolution to a digital form of gold, in our view. Volatility, which is still too high, fuels speculation but smothers Bitcoin's store-of-value and medium-of-exchange attributes. Bitcoin, like gold, is a standout among peers as evidenced by its relative outperformance in the receding tide. Ethereum is ripe to "break the buck" on the back of a bear-market bounce.

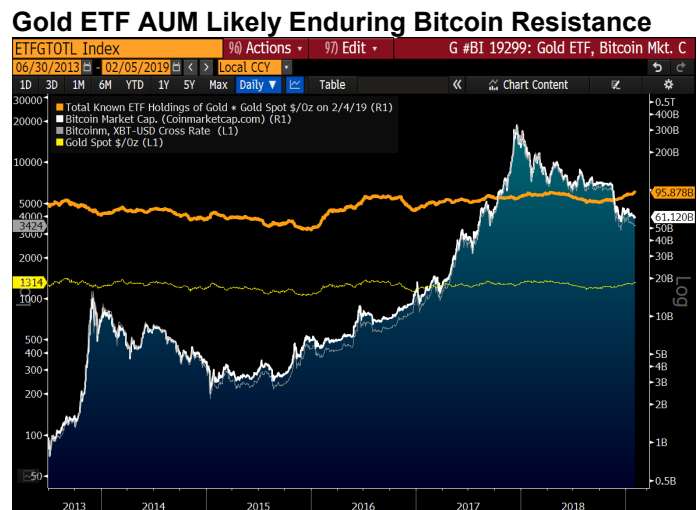
A peak dollar and recovering stock-market volatility should support Bitcoin this year. Mean reversion from the 50-year low in the S&P 500's 200-day volatility measure reached in 2017, coincident with the apex of the crypto-buying frenzy, remain primary macroeconomic trends.

[Bitcoin Limited by Gold ETFs](#)

Gold ETFs' AUM a Key Limit to Bitcoin's Market Capitalization. The market cap of relative asset-class newcomer Bitcoin (started in 2009) should remain below the total for ETFs (2004) with a direct link to gold. Bitcoin is looking more like a digital form of gold, yet similar to the metal, it's unlikely to evolve as primary global currency for payments.

Bitcoin Unlikely to Top Gold ETFs Market Cap. Bitcoin's market capitalization is unlikely to exceed the level for gold ETFs, in our view. ETFs are a recent, more efficient vehicle for gold exposure, similar to what newcomer Bitcoin is as a cryptographic store-of-value. Unlike gold, which is widely used as a portfolio and

currency diversifier, Bitcoin can be stored on a thumbnail drive. Intended to be used as peer-to-peer currency, Bitcoin should continue to act more like gold and less a speculative asset.



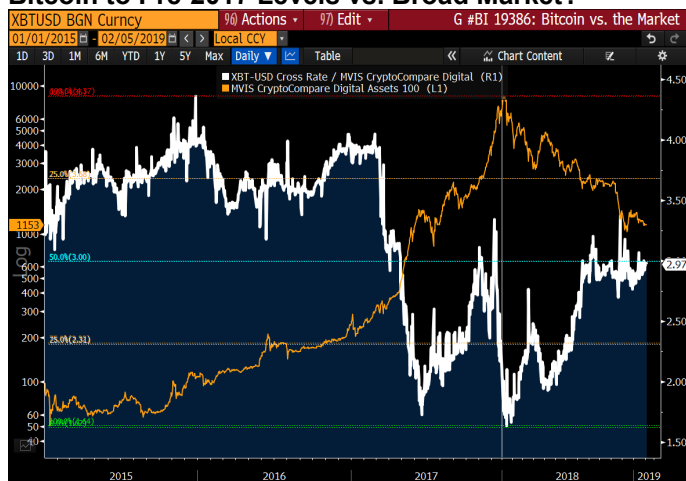
Bitcoin is impractical for day-to-day payments, as evidenced by numerous alt-coins. Our graphic depicts the extent of the 2017 buying frenzy, as Bitcoin's market cap spiked above the level in gold ETFs. According to coinmarketcap.com, Bitcoin's market cap was \$61 billion on Feb. 1. vs. \$97 billion for gold ETFs, the latter in-line with the top 10 cryptos.

Bitcoin Should Continue to Shine vs. Broader Market. Bitcoin should continue to outperform the crypto market, likely returning to pre-2017 levels. Bitcoin, at about a 3x ratio vs. the MVIS CryptoCompare Digital Assets 100 Index, is up from the 1.63 low at the start of 2018. In 2015-16, the gauge averaged 3.69. There's little to prevent a return to this level as speculative excesses diminish. Bitcoin isn't free from the continuing purge, but is gaining credence as the most robust blockchain with digital-gold attributes. It's impractical for small peer-to-

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peer transactions, but is gaining store-of-value distinction with declining volatility.

Bitcoin to Pre-2017 Levels vs. Broad Market?

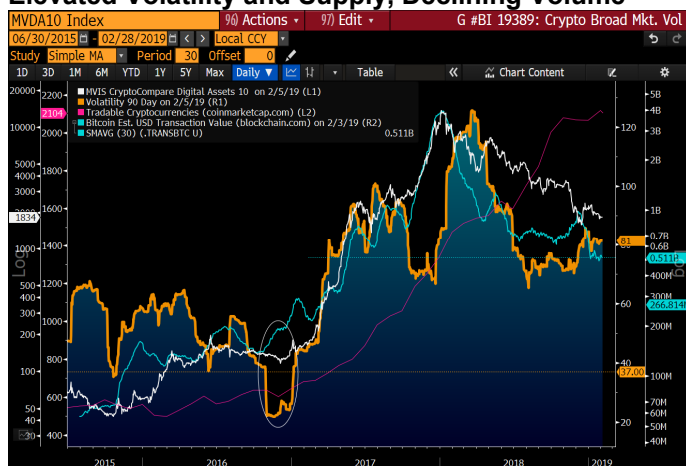


If Bitcoin holds flat and the broader market declines about 20%, the ratio would reach pre-2017 levels.

Broad Market Example, Tether

Tethered to Receding Crypto Tide, Stability Should Prevail. Tether should continue its advance from the No. 6 cryptocurrency ranking by market capitalization while others recede with the tide, in our view. Volatility, supply and transactions indicate lower prices, as Tether may be teaching the marketplace a lesson -- stability is a prerequisite for currencies.

Elevated Volatility and Supply, Declining Volume



Volatility, Supply Too High for Crypto Bottom. The crypto market should continue to decline, as we see it, based on volatility, transaction and supply indicators. Near 80%, 90-day volatility on the MVIS CryptoCompare Digital Assets 10 Index is too high, more than double

levels from 2015 that initially coincided with recovering prices. Maturation should continue to pressure volatility, notably in a market vying to become more like currency, where stability is a prerequisite. Rapidly increasing supply of tradable cryptos from Coinmarketcap.com is a price overhang, indicative of increasing competition, which should suppress volatility.

Bitcoin transactions, a proxy for broad-market prices, remain in negative territory. The 30-day average of this metric from Blockchain.com has dropped below last year's lows and is on par with May 2017 levels.

Stability Like Tether -- the Future of Cryptos. There's little to stop Tether's advance among the top 10 cryptos by market cap. Other than some form of controversy, the top stable coin's \$2 billion market value is a stone's throw from EOS and Bitcoin Cash (both about \$2.1 billion). Stability is a key attribute of dollar-pegged Tether, which is one of the few cryptocurrencies (of 2,100) that's actually used primarily for transactions and storing value, albeit mostly from other cryptos.

Tether Remains Market Cap. Appreciation Standout

Top Ten Cryptocurrencies By Market Capitalization									
End of 2017			Feb. 4, 2019			Chg. from 2017	2-month Change	Rank Chg Since 2017	
Mkt Cap. \$ Billions	% of Top 10		Mkt Cap. \$	% of Top 10					
1	Bitcoin	216.3	45.1%	Bitcoin	61.1	62.6%	-72%	-12%	-
2	XRP (Ripple)	81.2	16.9%	XRP (Ripple)	12.7	13.0%	-84%	-11%	-
3	Ethereum	68.9	14.4%	Ethereum	11.2	11.5%	-84%	-8%	-
4	Bitcoin Cash	40.1	8.4%	EOS	2.1	2.2%	-56%	-8%	+7
5	Cardano	16.7	3.5%	Bitcoin Cash	2.1	2.1%	-99%	-24%	-1
6	Litecoin	11.8	2.5%	Tether	2.0	2.1%	45%	9%	+10
7	IOTA	9.2	1.9%	Litecoin	2.0	2.0%	-83%	6%	-1
8	DASH	7.8	1.6%	TRON	1.8	1.8%	-26%	82%	+7
9	Stellar	5.7	1.2%	Stellar	1.6	1.6%	-72%	-46%	-
10	Monero	5.1	1.1%	Bitcoin SV	1.1	1.2%	na	-30%	na
Total			462.8	Total			97.7	-79%	-11%

Sources: Bloomberg Intelligence, Coinmarketcap.com. 2-month change is from Dec. 4

Decentralized platforms Ethereum, EOS and TRON have some valuation advantages vs. basic cryptos such as Litecoin, but are volatile and more synonymous with speculative excess. Most stable coins are pegged to the dollar, exemplifying the greenback's global-reserve status. On a stand-alone basis, Bitcoin remains the most likely to achieve attributes that are similar to gold.

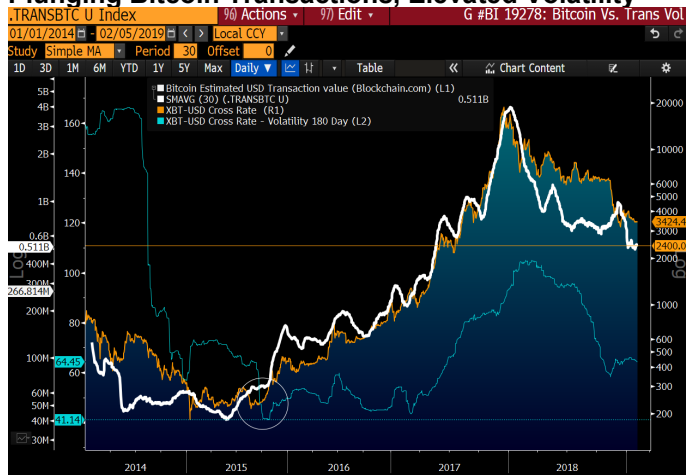
Why Bitcoin Should Decline

Having Lost \$15,000, Bitcoin Has \$2,000 More to Go; Here's Why. The Bitcoin price has fallen by about \$15,000 since its Dec. 18, 2017 peak, hovering around \$3,400, and key indicators give us reason to believe it has another \$2,000 or so to slide. There's little to stop it from revisiting the \$1,000 range, about where the 2017 frenzy began.

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Bitcoin Transactions Indicate \$1,000 Decline. Highly correlated to Bitcoin (BTC), estimated dollar-transaction value has declined to levels last when the cryptocurrency's price was about \$2,400. For most of 2018, the measure flashed warnings that BTC was priced too high. It still is. May 2017, when BTC first traded above \$2,400, was the last time the 30-day average of dollar-based transactions from Blockchain.com was at current levels. Despite this average measure of past transactions, the scale of our graphic shows it acts as a leading indicator.

Plunging Bitcoin Transactions, Elevated Volatility



Clearly in a downtrend, with prices briefly dipping below the white transactions line in December, BTC should drop a further \$1,000 just to catch up with plunging transactions. When 180-day volatility bottomed in October 2015, transactions were in a clear uptrend. We expect new lows in volatility for a similar indication.

Addresses Indicate Full Retracement of 2017 Rally



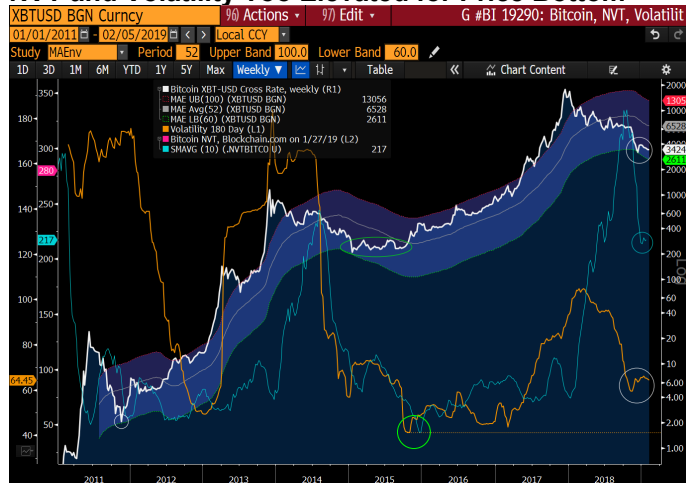
Addresses Consistent With Price at About \$1,000.

Unique Bitcoin addresses used may be stabilizing, but they're at levels last associated with much lower prices. One of the most consistent BTC overvalued indicators last year, addresses used remain close to the 2018 lows that were previously associated with 4Q16's price range of \$700-\$1,000. The 30-day average of Bitcoin unique addresses used from Blockchain.com showing comfort below the 2017 lows indicates the crypto's winter is unlikely to be over until that full rally is retraced. Bitcoin began 2017 at \$952.

Volatility and NVT Indicate Lower Bitcoin Price.

Elevated levels for volatility and the network value-to-transactions (NVT) ratio -- akin to stock-market P/E ratio, but for Bitcoin -- indicate lower prices. Both are heading down, but remain far-above the levels that have typically marked price bottoms. The end of 2015 was the last time these measures marked a nadir. That near-simultaneous trough set the stage for the bull market, when prices surged to \$19,000 from about \$300. The indicators should breach the 2015 low, if history is a guide, notably volatility.

NVT and Volatility Too Elevated for Price Bottom



Natural maturation of the nascent asset class, and increasing ways to participate, should pressure 180-day volatility to new lows this year. At about 200, the 10-week average of network value-to-transactions from Blockchain.com is more than double the average since 2010 and well-above the 2015 bottom of about 40.

Transitioning to Digital Gold

Bitcoin Evolution to 'Digital Gold' Gaining Further

Credence. Bitcoin's nadir in the same week of December that the trade-weighted broad dollar hit a 16-year high contributes to our view that the cryptocurrency will shake its speculative-asset qualities and evolve into the digital

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version of gold. We expect a continued inverse pattern vs. the dollar, though Bitcoin's volatility remains too high.

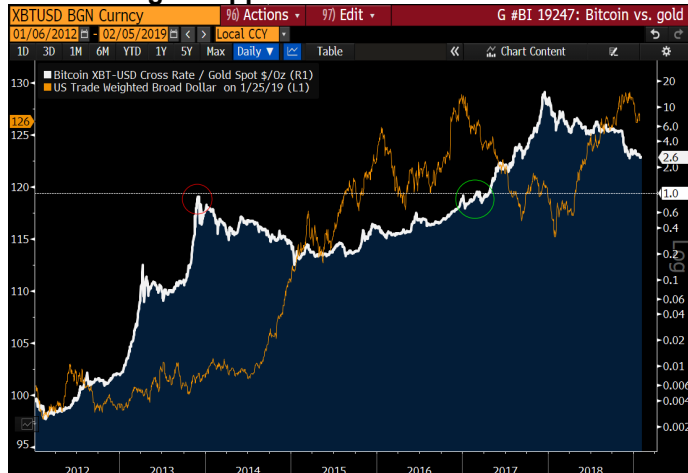
Increasingly Inverse Tendency vs. the Dollar. Bitcoin's evolution to "digital gold" from a speculative asset is just starting. Bitcoin's price is moving similar to gold and shows an increasingly inverse tendency vs. the dollar. The crypto's bottom in December was in the same week that the trade-weighted broad dollar peaked at a 16-year high. The dollar had bottomed about a month after Bitcoin's peak, then the crypto's decline accelerated as the greenback rallied. With mean-reversion risks elevated for the dollar, along with wobbling U.S. stocks and the rate-hike cycle, a declining dollar would help form a Bitcoin foundation.

Dollar Peak Should Be a Good Test for Digital Gold



Since the Federal Reserve's December 2015 rate increase, Bitcoin, gold and the dollar are up 660%, 21% and 4%. Bitcoin has plenty more to give back, but if the dollar adds distance from 2018's peak, gold and Bitcoin should be primary beneficiaries.

Bitcoin Target Support -- Per Ounce Price of Gold



Bitcoin-Gold Price Convergence Accelerating. What was resistance for Bitcoin in the past -- the per-ounce price of gold -- remains good target support. The Bitcoin-to-gold cross rate (2.8x) is about half the 3Q average and on course to revisit parity, in our view. Gold's price marked a 2013 peak. Breaching this level in April 2017 after a four-month resistance battle marked the historic Bitcoin-buying frenzy. There's little to arrest the reversion process back to old resistance.

A potential dollar peak should force gold prices higher, lifting the support level for Bitcoin, which should also get a boost from a declining greenback. Gold is about as ready as it gets to break higher from its narrow range vs. newcomer Bitcoin, which is in a clear mean-reversion downtrend. Since the November 2013 peak, Bitcoin has gained about 250%, gold 5% and the dollar 24%.

Still-High Bitcoin Volatility Should Ease. Bitcoin's 180-day volatility level is heading in the right direction, but has a long way to go before indicating a typical price bottom and store-of-value that's similar to gold. It's now about 65%, though we expect the low near 41% (October 2015) to be breached before a price foundation is set. It's unlikely that Bitcoin volatility level will approach gold's 9%. Yet some convergence is likely, as gold's risk of volatility-reversion to its mean is the most elevated since 1999.

Bitcoin Volatility in Decline, Gold Set to Recover



Gold's current volatility level is about half the 20-year average (17%). This is an initial target when gold volatility rebounds. Volatility gauges are always mean reverting, except in the maturation process of a new asset class such as Bitcoin. The first-born crypto's volatility should continue to decline as it gains mainstream status.

Ethereum Breaking the Buck

Breaking the Buck, Ethereum Is Poised to Sustain Below \$100. Ethereum, the benchmark decentralized platform and primary broad-market indicator, is poised to break the \$100 support level. Volatility is too high, competition is rising, and the near-100% recovery smacks of a bear-market bounce, on top of the 51% hack of Ethereum Classic increasing market fears.

Ethereum's Downtrend Should Prevail. Ethereum is poised to break below its initial support level of about \$100, in our view. Elevated volatility, increasing competition and a near-100% bounce from its lows indicate Ethereum's 2018 downtrend should prevail. Appearing to be a typical bear-market bounce, the recovery to \$160 from about \$80 was similar to last year's (\$400 to \$800). Volatility remains too high for a typical low. The 90-day measure is more than double 2016's low.

\$100 in Ethereum - A Key Pivot for Broader Market



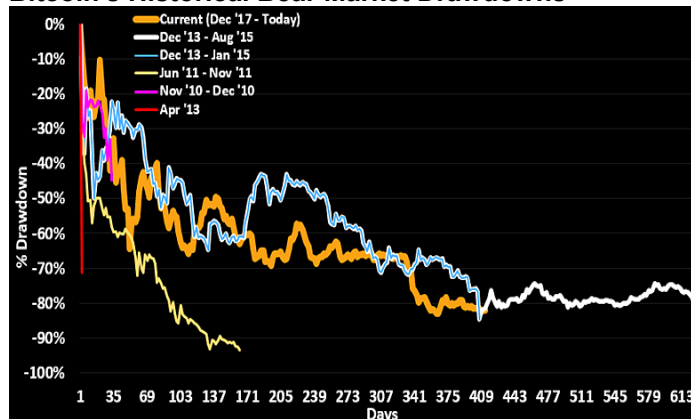
Competition from EOS and market evolution, with new trading vehicles (futures, OTC) and the enduring bear market in cryptos, indicate volatility and Ethereum's price should continue to decline. The continuous mean near \$200 is significant resistance. This average marked the December 2016 low (about \$7). The popular decentralized platform is a broad-market barometer.

Bitcoin Bear Market History

Bitcoin's Current Drawdown Isn't the Longest, or Its Steepest. If recent history is any guide, Bitcoin will have at least a few more months of downward to sideways trading before entering any form of a sustained uptrend. In the highly unlikely event of a 2011-style collapse (about 94%), Bitcoin's price would be as low as \$1,200 vs. \$3,140 in December at the bottom of a bear market.

Bitcoin's 85% Drop Might Not Be Over. Bitcoin may have already found its bottom in this bear market (about \$3,140) in December, but it's unlikely to resume an uptrend soon. In the prior bear market (December 2013-January 2015), Bitcoin decreased 85% and the peak to trough took 407 days. What's often overlooked is the additional 220 days of sideways trading before any semblance of an uptrend returned. The consolidation and building of a base in 2015 is likely to occur again through 2019.

Bitcoin's Historical Bear Market Drawdowns



Bitcoin is still far from its worst drawdown (almost a 94% decline in 2011). Such a collapse would signal a price as low as \$1,200.

{CRYPT} Page on the Bloomberg Terminal

Cryptocurrency Monitor									
Index	Last	Net Chg	% Chg	Open	Yest Close	2 Day Chart	30D Range	Time	
BGCI Bloomberg Galaxy	227.74	-1.11	-0.49%	227.34	228.85			07:28	
Base USD									
Coins	Last	Net Chg	% Chg	Bid	Ask	2 Day Chart	30D Range	Time	
11 Bitcoin	3423.01	+5.98	0.18%	3422.68	3423.33			07:28	
12 BitcoinCash	117.25	-0.59	-0.50%	117.20	117.30			07:28	
13 Dash	67.605	+0.083	0.12%	67.510	67.700			07:28	
14 EOS	2.4168	-0.0077	-0.32%	2.4157	2.4179			07:28	
15 Ethereum	106.208	-0.349	-0.33%	106.200	106.215			07:28	
16 Ethereum Classic	3.884	+0.003	0.08%	3.882	3.885			07:17	
17 Litecoin	33.855	-0.025	-0.07%	33.840	33.870			07:28	
18 Monero	43.351	+0.556	1.30%	43.084	43.618			07:27	
19 XRP	0.2944	-0.0025	-0.84%	0.2941	0.2946			07:28	
20 Zcash	48.801	-0.032	-0.07%	48.734	48.868			07:27	
Futures	Last	Net Chg	Volume	Open	Settle	2 Day Chart	30D Range	Time	
21 CBOE Bitcoin	3410.00	+7.50	151.00	3395.00	3402.50			07:15	
22 CME Bitcoin	3400	+5	1032	3390	3395			07:14	

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 - 45) Ethereum World: Ethereum Price Analysis: ETH Bearish Below \$135 Despite Development Progress NS1 07:16
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As of the morning of February 5, 2019 EDT

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