

# Prolonged Hangover Transition

- Bitcoin base-building expected in 2019, but from lower levels
- Short-term price indicators are bullish, but volatility remains too high
- Fundamental Indicators set to bottom in 2019
- How to tame bitcoin bear in 2019: A responsive traders market
- Crypto reshuffling and culling likely with lower prices

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Note - Click on graphics to get to the Bloomberg terminal

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

Most data as of Dec. 31

**Performance:** Bloomberg Galaxy Crypto Index (BGCI)  
December -1.7%, 2018 -82.7%  
**Bitcoin:** December -6.5%, 2018 -73.0%

## Bitcoin and Cryptos Should See Bounces Along Road to Lower Base

((Bloomberg Intelligence) -- A repeat of the velocity of 2017's rally in Bitcoin and cryptocurrencies is unlikely, in our view, as lower prices, declining volatility and the proliferation of stable coins should dominate in 2019. The prior year's parabolic surge should mark the peak of speculative excesses in cryptographic assets, which are in the early days of evolving into proper currencies. Volatility remains too high, along with supply.

The "Digital Gold" case for Bitcoin is good and for a few others, but only a minority. Similar to gold, portfolio-diversification benefits should favor Bitcoin. The precious metal appears to be in an early recovery vs. a potentially much lower foundation in Bitcoin. Extremely oversold at the end of 2018, sharp crypto rallies should be expected but are likely to fail.

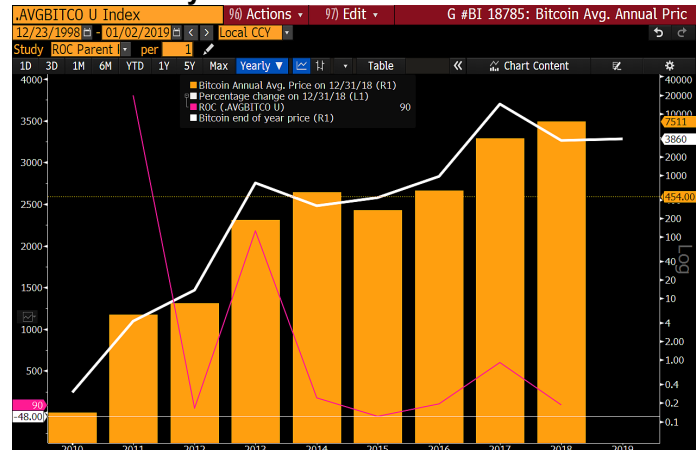
### Lower Bitcoin Foundation

**Bitcoin Base-Building Expected in 2019, But From Lower Levels.** Reversion to a lower mean should remain Bitcoin's predominant direction in 2019. The average annual price is set for its greatest decline, in our view, after reaching a record high in 2018. We anticipate a \$1,500-\$6,500 range.

**Bitcoin Average Price Likely to Be Halved in 2019.** The average annual price for Bitcoin is set for its worst decline ever in 2019, in our view. Despite the bear market, 2018's average price of \$7,511 is Bitcoin's highest ever. It's likely to decline more than 50% in 2019, exceeding the 48% drop in 2015. Nearing the end of 2018 below 2017's average price of \$3,952 is an

indication of weakness and elevated mean-reversion risk. The mean just below \$500 from 2014-15 should be considered the low end of the potential 2019 range. The 2018 average of \$7,643 is probably the more extreme upper end. The most traded area (about \$6,500) is a more realistic resistance level.

### Bitcoin History Elevates Mean-Reversion Risk



**Basing Expected in 2019 From Lower Levels.** Further Bitcoin and cryptocurrency maturation is expected, favoring more of the same from 2018, but with some base building. The continuous mean of about \$1,500 is a good support level. Some combination of unforeseen bullish factors should be necessary to sustain above a \$6,500 resistance level (the most traded area of 2018). The launch of ETFs in the U.S. would be supportive, but Bitcoin's unlikely to breach \$6,500. A peak in the supply of tradable cryptos would be an indication for bottoming prices.

This process appears to be in the early stages. The launch of futures in December 2017 and the Bloomberg Galaxy Crypto Index in May indicated a transition toward more regulation and mass adoption from a market of the select few. With Bitcoin near \$3,400, the continuous mean in a year would be about \$1,800.

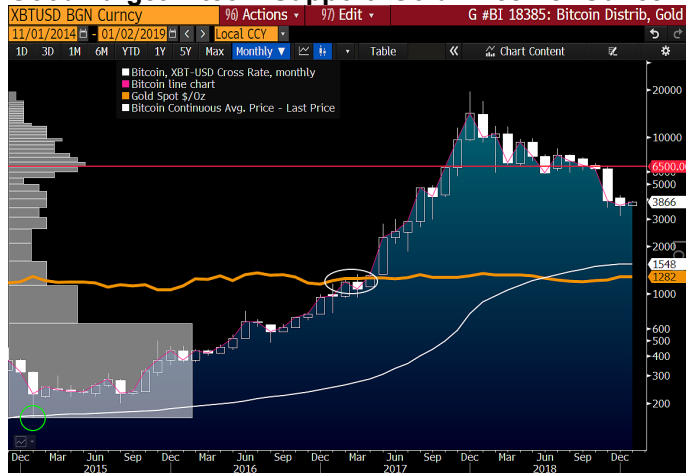
# Bloomberg Crypto Outlook – January 2019 Edition

## Bitcoin Likely to Stabilize Lower in 2019



'Digital Gold' Risks Returning to Physical Price. There are several indications that Bitcoin, often dubbed "digital gold," will gravitate toward the cost of an ounce of the precious metal. In breaking above this key resistance level in 2017 after marking the peak in 2013, Bitcoin ushered in accelerated speculation, and possibly the final stage of the bull market. At about \$1,280 an ounce, the current price of gold isn't far below Bitcoin's continuous mean -- a prime target-support level in past corrections.

## Good Target Bitcoin Support: Gold Price Per Ounce



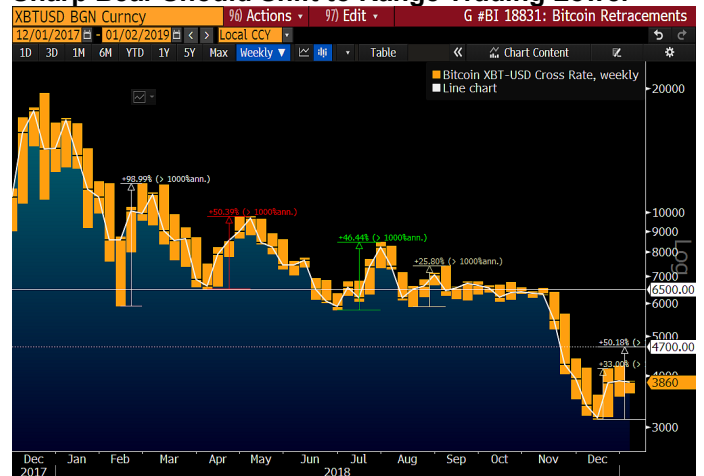
The severity of the recent buying frenzy heightens the potential for 2017 to mark an enduring peak. Bitcoin is unlikely to ever revisit \$20,000, but the market capitalization of the entire crypto market has strong potential to follow the lead of Tether, the largest "stable coin." It should continue to increase, notably if dominated by stable coins.

**How to Tame Bitcoin Bear in 2019: A Responsive Traders Market.** Bitcoin is likely to transition to more of a two-way traders market in 2019 from the "sell rallies" mantra of 2018. Its maturation from a highly speculative asset toward "digital gold," particularly with a peak dollar,

should continue. The best of parabolic appreciation should be over, and a bear-market V bottom is unlikely.

**Responsive Trading Transitions From Sell Rallies.** Matching the sharpest retracement rally of 2018 would allow Bitcoin to revisit good resistance near \$6,500 in 2019. The initial 33% recovery from this year's low to Dec. 31 should be considered a normal bear-market bounce. Since the initial trough-to-peak pop of about 100% in February, retracements haven't exceeded 50%. About \$4,700 would mark 50% from the low of \$3,136. Retracement rallies are necessary to alleviate extremely oversold conditions, but a V-shaped bottom is unlikely, given the extent of the frenzy and rapid maturation process into the mainstream, with increasing regulation and trading vehicles.

## Sharp Bear Should Shift to Range Trading Lower



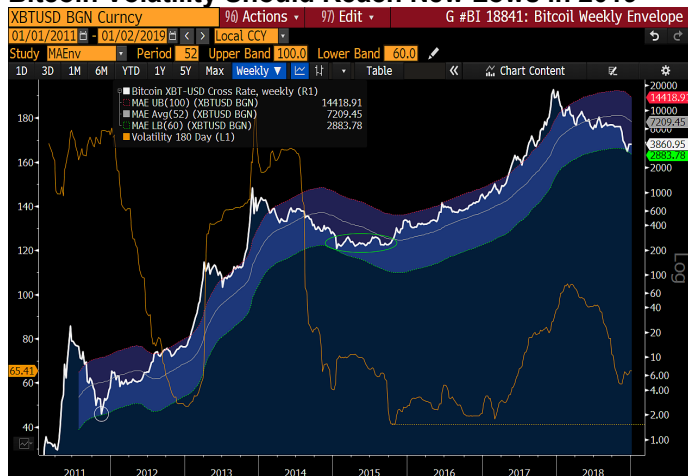
Our wide range for 2019 is \$1,500-\$6,500. Macroeconomic conditions are poised to turn favorable for a test of Bitcoin's evolution toward "digital gold," due to elevated mean-reversion risks in the strong-dollar trend.

**Natural Maturation: Prolonged Correction, Consolidation.** Bitcoin is likely entering an extended period of reduced volatility and continued retracement of its parabolic price appreciation. The end-of-2018 bounce from oversold conditions is part of the maturation process and should mark the beginning of a time correction, similar to 2015, but more enduring, with greater downside pressure. The first significant correction in 2011 was resolved with a V-shaped bottom. The second (2014-15) was more enduring. Mainstream adoption, regulation and the extent of the global frenzy in 2017 suggests a long hangover is in order.

The lower tide of 2018 exposed many of the excesses of speculative buying, unlikely to be repeated with such velocity. Declining volatility is an indication of the path to a viable gold-like digital currency. Increasing volatility indicates greater speculation.

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## Bitcoin Volatility Should Reach New Lows in 2019



## Technical Indicators Indicate Lower Base

**Bitcoin-Bottom Indicators: Record-High Shorts and Low Volatility.** Bitcoin should form a base for recovery in 2019, but from lower levels, in our view. Sharp rallies should be expected, based on shorter-term indicators, though volatility is likely to reach new lows for a solid foundation. Ending 2018 below 2017's average price of \$3,950 is an indication of further weakness.

**Ripe for Bounces, Bitcoin's Basing Lower.** Technical indicators for a solidifying Bitcoin foundation should coincide with some combination of new highs in shorts and lows in volatility and price momentum. The achievement of two thirds -- record shorts and a step discount below the 50-week average -- indicates sharp rallies should be expected. For a more sustained basing process, 180-day volatility has a long way to go to new lows. If history is a guide, low volatility is a primary bottom indicator, given the maturation process.

## Bullish Price Indicators, But Volatility Too High



Our measure of Bitcoin shorts, which includes CME and CBOE futures and Tradingview.com data, has reached a new record. Combined with the steepest price discount to the annual mean since the January 2015 bottom, the market is quite oversold. The 41% discount of Dec. 14 about matched the bottoms in 2011 and 2015.

**Volatility Set to Reach New Lows in 2019.** Bitcoin volatility should continue to set new lows in 2019, supporting its store-of-value attributes, in our view. The 180-day measure of about 64% in mid-December is well above the historical low of 41% from October 2015. Bitcoin rallied 36% that month, the best of the year as the volatility trough marked the beginning of the bull market culminating in 2017. The velocity of that run is unlikely to be repeated as Bitcoin matures into the mainstream with numerous new trading vehicles, including futures and OTC.

## Bitcoin Nears Support, Volatility Should Decline

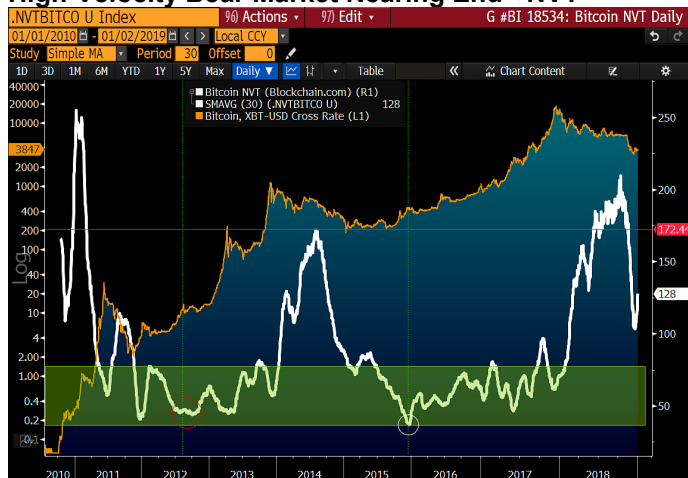


The three-year high in this volatility measure was in 1Q, near the bull-market peak, accompanying rampant speculation. Declining volatility is an indication of maturation from a highly speculative cryptographic asset toward a viable global store of value.

## Fundamentals Stabilizing Lower

**Bitcoin, Cryptos' Fundamental Indicators Set to Bottom in 2019.** More fundamental-based Bitcoin and broad crypto-market indicators point to stabilization in 2019, albeit from lower levels. Addresses used are sustaining below 2017 lows, which along with the still-elevated network value-to-transaction (NVT) ratio indicates continued price pressure.

**High-Velocity Bear Market Nearing End - NVT**



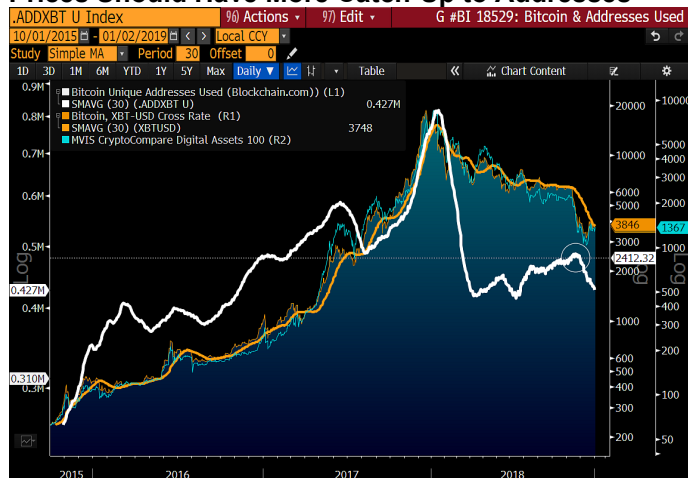
**NVT Set to Dip Into Bottoming Zone in 2019.** The NVT ratio is on pace to reach levels in 1Q19 that should mark Bitcoin's transition away from a bear market. The pace of the plunge in the 30-day average of Bitcoin's market capitalization, divided by the estimated transaction value from Blockchain.com, was last seen in the latter stages of the 2014-15 price decline. That nadir was reached in January, but the recovery didn't begin until October. Due to normal market maturation and the crypto-supply overhang, the velocity of price recovery is unlikely to be repeated. The duration of the base-building process stands to be more enduring.

An NVT near 130 is below a 200-plus peak in October, but well above typical post-bear-market lows of about 40. The extremity of the 2016-17 parabolic rally promised reciprocal retracement.

**Bitcoin-Address Demand Proxy Stabilizing Lower.** The inability to sustain above 2017 lows in unique Bitcoin addresses used is an indication of lower prices in 2019. The 30-day average of these addresses from Blockchain.com has recovered from the sharpest decline in the database since 2009, but its failure to breach key resistance levels portends more mean reversion. The consistency of this demand measure in 2018 indicates that prices were just too elevated.

The 4Q price plunge reduced much of the disparity in the typical relationship to relative address levels for most of 2018. The Bitcoin price and the MVIS CryptoCompare Digital Assets 100 index are likely reverting to a more sustained period at a closer parity to addresses, a demand proxy for the broad market.

**Prices Should Have More Catch-Up to Addresses**



**Survivor Guide Stabilizing**

**Crypto Reshuffling and Culling Likely With Lower Prices in 2019.** The 2018 trend in cryptocurrencies toward lower prices and volatility and stable coins sets the stage for more of the same in 2019, in our view. Tether, leading the top 10 with rising market capitalization, is indicative of the stability needed for proper currencies and stores of value.

**Trend Is Your Friend; Cryptos Stabilizing.** The average price of Bitcoin is set for its steepest plunge in 2019 as the supply of cryptos is reduced, in our view. It would be a first. The only year with a lower price was 2015, when the number of tradable cryptocurrencies increased, albeit by the least amount, based on coinmarketcap.com data. The elimination of weaker cryptos is expected in a natural maturation process, reducing the still-wide disparity between speculative hype and technology.

**Top Ten Shuffle Volatility Should Continue**

Top Ten Cryptocurrencies By Market Capitalization						
	2013	2014	2015	2016	2017	2018
1	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin	Bitcoin
2	Litecoin	XRP	XRP	Ethereum	XRP	XRP
3	XRP	PayCoin	Litecoin	XRP	Ethereum	Ethereum
4	Omni	Litecoin	Ethereum	Litecoin	Bitcoin Cash	EOS
5	Peercoin	BitShares	Dash	Monero	Cardano	Stellar
6	Nxt	MaidSafeCoin	Dogecoin	Ethereum Classic	Litecoin	Tether
7	Namecoin	Stellar	Peercoin	Dash	IOTA	Litecoin
8	Quark	Dogecoin	BitShares	MaidSafeCoin	NEM	Bitcoin Cash
9	BitShares PTS	Nxt	Stellar	NEM	Dash	Bitcoin SV
10	WorldCoin	Peercoin	MaidSafeCoin	Augur	Stellar	TRON
Total	66	506	562	644	1335	2070
Change		+440	+56	+82	+691	+735
Bitcoin avg. price	\$189	\$525	\$273	\$566	\$3,952	\$7,643
% Chg.	+2177%	+178%	-48%	+107%	+598%	+93%

Sources: Bloomberg Intelligence, Coinmarketcap.com. End of the year snapshots. 2018 is as of Dec. 18.

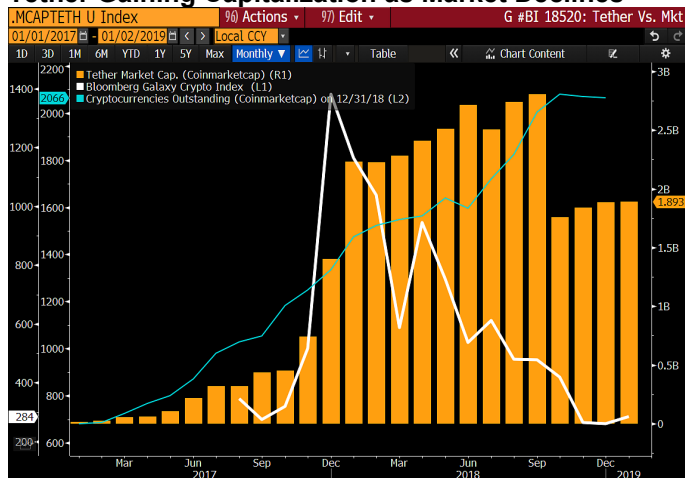


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Bitcoin, XRP and Litecoin are the only ones still in the top 10 vs. five years ago. Half of last year's elite remain. Only a small portion of the more than 2,000 cryptos at the end of 2019 are likely to evolve. Primarily speculative cryptographic assets should fade.

**Tether Controversial But Is Crypto Future.** The success of Tether is indicative of a crypto market that continues to mature. Digital assets should move further away from rampant speculation and toward cryptographic currencies with practical uses. The controversial Tether's primary use is for trading among cryptos, but stability is what's missing in many other coins with supposed uses as currency.

### Tether Gaining Capitalization as Market Declines



Tether's peg to the greenback shows a limit of the current global monetary system based on dollars. A primary alternative is gold, a unique and neutral store of value that's no country's liability but is clunky as a currency. There's ample opportunity for proper gold-like cryptocurrencies that facilitate fluent and low-cost peer-to-peer monetary payments on a global scale.

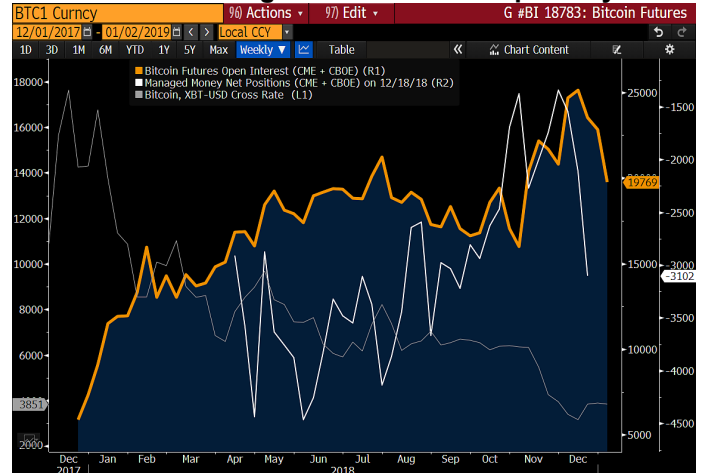
### Pros are Embracing Futures

**Bitcoin Futures Supporting Greater Professional Participation.** Rapidly increasing futures open interest and volume signal increasing institutional participation in Bitcoin and cryptocurrency. CME-traded futures are gaining the upper hand as diminishing net shorts indicate a transition away from just shorting and hedging

**Increasing Institutional Participation: Futures.** Rapidly increasing Bitcoin futures open interest is indicative of institutional participation. Indifferent to long or short positions, futures improve transparency and price discovery. Diminishing managed-money net shorts are notable in the futures-evolution process, indicating a transition away from being used for just hedging and

shorting. Combined CME and CBOE net positions (negative 3,102 as of Dec. 31) are about one third the summer measure.

### Futures -- Increasing Interest and Transparency

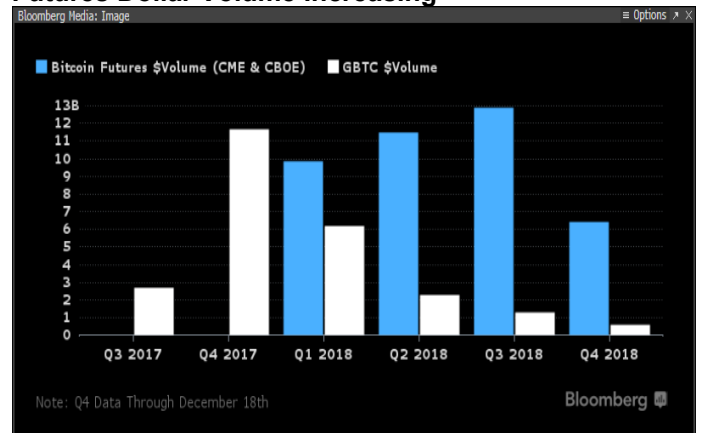


Futures provide exposure without many of the risks in Bitcoin, notably custody. Their launch coincided with the market peak as aggressive speculators bought into the hype. Futures are a primary part of the migration process in cryptos from a market of the select few toward the masses in a more-regulated environment.

### Volume: Slow But Steady Institutional Adoption.

Bitcoin-futures dollar volume has increased each quarter since launch, with growth of 17% in 2Q and 12% in 3Q reflecting wider adoption by traditional financial institutions. The advance is particularly positive for this market. As a result of the continued decline in Bitcoin, 4Q is likely to be the first down quarter since the futures launched. Bitcoin futures have traded 1.3 million of BTC in 4Q, worth about \$6.4 billion.

### Futures Dollar Volume Increasing



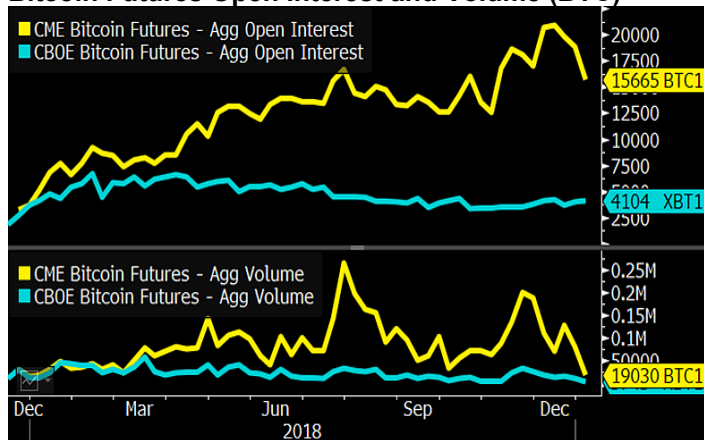
At the least, volume growth shows that more traders are using futures vs. Bitcoin Investment Trust (GBTC). Before futures existed, many funds and institutions were

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restricted from accessing Bitcoin directly and used GBTC for that purpose.

**CME Widens Lead in U.S. Bitcoin-Futures Race.** The CME leads CBOE in the race to become the standard for Bitcoin (BTC) futures, when measured by open interest and volume. The CME leads in open interest by more than 17,000 BTC. Its futures are also more heavily traded than CBOE's. In times of peak trading at the end of July and November, CME futures dominated, with a respective 300,000 and 200,000 BTC of futures changing hands.

## Bitcoin Futures Open Interest and Volume (BTC)



The underlying contract size is a major difference between the two. CME's has five Bitcoins, whereas each CBOE contract is directly matched with one BTC. CME futures are based on the Bitcoin Reference Rate, disseminated by a number of exchanges. CBOE futures are based on Bitcoin trading on the Gemini exchange.

## {CRYP} Page on the Bloomberg Terminal

Index	Last	Net Chg	% Chg	Open	Yest Close	2 Day Chart	30D Range	Time
1) BGC1 Bloomberg Galaxy	284.92	+24.33	9.34%	269.91	260.59			16:15

Coins	Last	Net Chg	% Chg	Bid	Ask	2 Day Chart	30D Range	Time
11) Bitcoin	3873.22	+152.62	4.10%	3872.54	3873.90			16:17
12) BitcoinCash	166.46	+6.97	4.37%	165.30	167.61			16:17
13) Dash	85.455	+4.735	5.87%	85.090	85.820			16:17
14) EOS	2.8890	+0.2543	9.65%	2.8868	2.8912			16:17
15) Ethereum	152.055	+14.315	10.39%	151.990	152.120			16:17
16) Ethereum Classic	5.508	+0.246	4.68%	5.487	5.529			16:17
17) Litecoin	32.795	+1.615	5.18%	32.770	32.820			16:17
18) Monero	53.685	+5.850	12.23%	53.657	53.712			16:17
19) XRP	0.3713	+0.0155	4.36%	0.3708	0.3718			16:17
20) Zcash	63.008	+3.739	6.31%	62.673	63.343			16:17

Futures	Last	Net Chg	Volume	Open	Settle	2 Day Chart	30D Range	Time
21) CBOE Bitcoin	3835.00	+182.50	3619.00	3690.00	3652.50			16:14
22) CME Bitcoin	3825	+175	3037	3720	3830			16:15

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- 41) Novogratz Increases Stake in Galaxy in Wake of Meltdown (1) BN 15:21
- 42) Crypto Technicals Flashing 'Buy' as Digital Diehards Begin Anew FOR 12:31
- 43) Forbes: 'Dark Overlord' Hacker Demands Bitcoin In Alleged 9/11 Insurance Megaleak FOR 12:32
- 47) 'Normally people would be pulling their hair out': How are Bitcoin backers handling the crash? SYH 16:16
- 44) Bitcoin Rises 3.9% to \$3,867; Ethereum Up 11% BN 16:15
- 45) Hacked: U.S. Stocks Overcome Volatile Start to Finish Higher; Bitcoin Eyes Return to \$4,000 BLG 16:08
- 46) Forbes: Stormy Daniels My Top Tax Story Of 2018 - Almost FOR 16:03
- 47) Bitcoinist: Lamassu, The Oldest Bitcoin ATM Company, Moves to 'Crypto Valley' Switzerland BLG 16:01

As of the afternoon of January 2, 2019 EDT

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