Bitcoin remains robust despite a plunge in gold

Thursday 13 August 2020

Key highlights

» Decline in gold price to have minimal impact on Bitcoin
» Mixed correlation metric between Bitcoin, equities and gold
» Bitcoin – A risk on hedging asset?

Bitcoin swings lower than gold

A week of pullback for the markets after the recent record-breaking performance of Bitcoin and gold. The precious metal broke below its 20 daily EMA to $1,864 almost erasing 9 sessions of gains in 3 days after achieving its all-time high level of $2,000 last week. Silver, on the other hand, parred losses of 15% on Tuesday falling to $24 but still well above its 2016 highs.

On the other hand, the impact of Bitcoin took much less of a hit with a decline of 2.7% as compared to 9% of gold. Currently, the digital asset is trading around the $11,500 handle with a 1.618 fib support at $11,200. A retest of the $12,000 level is in a sight as the formation of a bull flag crystallize. Stack believes that the current market structure will continue to remain intact unless the $10,500 level is breached. Given the current economic backdrop coupled with the weakening dollar weakening, we should continue to see bullish momentum moving forward for Bitcoin.

7 Day Performance

<table>
<thead>
<tr>
<th>Name</th>
<th>Price</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bitcoin</td>
<td>$11438</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Ethereum</td>
<td>$385</td>
<td>-3.7%</td>
</tr>
<tr>
<td>XRP</td>
<td>$0.28</td>
<td>-8.7%</td>
</tr>
<tr>
<td>Bitcoin Cash</td>
<td>$277</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Litecoin</td>
<td>$53.5</td>
<td>-9.1%</td>
</tr>
<tr>
<td>Bitcoin SV</td>
<td>$201</td>
<td>-13.4%</td>
</tr>
<tr>
<td>EOS</td>
<td>$2.98</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Binance Coin</td>
<td>$20.93</td>
<td>-10%</td>
</tr>
<tr>
<td>Tezos</td>
<td>$4.16</td>
<td>33%</td>
</tr>
</tbody>
</table>

Bitcoin swings lower than gold
Bitcoin – A risk on hedging asset?

**Bitcoin correlation with equity and gold looks mixed as gold retreats from its high**

After breaking a record high over $2,000 per ounce, gold immense rally was halted. The precious metal posted its largest decline in 7 years driving prices down 9% to below $1,900. This comes on the back of Trump’s comments on potential tax cuts, strong Chinese data and Russia clearing the world’s first COVID vaccine. Despite that, several analysts are still bullish on the metal, citing the rally has only come to a ‘pause’ with $3,000 per ounce target still in sight.

Circling back into Bitcoin, it has been a month plus since we last look at correlations between the digital asset and its traditional market counterparts. Correlations were trading close to zero mid-June and have widened significantly between across the various assets. The BTC-Bond correlation has remained in negative territory, which should come as no surprise given the inverse risk nature of both assets.

On the other hand, correlations between Bitcoin, gold and equities are portraying an interesting delineation – When gold was trading range-bound during the bulk of May and Jun, Bitcoin behaved more like equities, posting similar returns structure during these 2 months and created a spike in BTC-S&P 500 correlations that went above March highs.

This was immediately met with resistance when gold’s bid momentum began taking off on 20 Jul. Even though equities retreated slightly, Bitcoin rally continues to accelerate, from $9,100 to touch $12,000, causing an abrupt shift in its correlation towards gold. The unique characteristics displayed led us to suggest Bitcoin could be a “risk on hedging type asset”, where it performs relatively well in thriving markets, yet acting as a hedge to global uncertainties, displaying financial attributes that fall in between that of equity and gold.

That being said, despite the recent spike in BTC-Gold correlation touching March highs, the record decline in gold this week has not impacted Bitcoin price significantly, as the digital asset catches back on to the equity-like relationship to maintain its upward price trajectory.
About the Analyst

Lennard Neo, CFA - Head of Research, Stack Funds
Lennard specializes in fundamental and technical analysis in digital asset investments. He became acquainted with blockchain, cryptocurrency and ICOs in 2016, and recently decided to take a meaningful step away from traditional banking to join this industry.

Previously, Lennard spent 3 years with an investment bank in Forex and Debt Capital Markets. Companies he worked for include Commerzbank AG, DBS Bank, Bloomberg, and Fidelity. Prior to this, he also had entrepreneurship experience with an e-commerce startup and a local social enterprise.

Lennard completed the CFA program and graduated with a master's degree in Applied Finance. He is fluent in English, Chinese with a basic in Korean.

**With assistance from Travis Chua

About Stack Funds

Stack Funds is an issuer of Cryptocurrency Access Products (CAPs) including trackers, indexes and structured vehicles for institutions.

Our investment funds have been structured according to institutional standards, taking into account the highest degree of security, flexibility and compliance in our delivery of digital asset based products.

Contact Stack Funds

Singapore Office: 30 Cecil St, #19-08 Prudential Tower, Singapore 049712
Website: www.stackfunds.com
Email: admin@stackfunds.com
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