This week:

In this week's issue we discuss the correction in Bitcoin/Dollar and outline the significance of technical support at $33000. We also discuss Ethereum with reference to its choppy BTC pair and outline supports in the USD pair with price still reasonably close to all-time highs.

For altcoins, our focus this week is on a similar basket of DeFi pairs. We provide a framework for trend trading, comment on the resilience of some of these instruments during the market-wide correction, and offer updated views on SushiSwap and Yearn.finance.

New entrants this week are from legacy markets. We discuss EUR/USD (and thus the implications of a Dollar recovery) and look to Tesla for some hints about parabolic price action.

Bitcoin	BTC	$648,555,080,684	$34,871.48	18,598,437 BTC	$82,650,920,651	1.30%	12.22%	6.76%
Litecoin	LTC	$9,144,711,878	$138.04	66,245,618 LTC	$13,414,646,775	-1.44%	16.50%	-11.64%
Bitcoin Cash	BCH	$8,726,238,265	$469.13	18,600,863 BCH	$10,206,112,031	-0.94%	12.85%	13.60%
Chainlink	LINK	$5,850,980,155	$14.61	400,509,556 LINK *	$2,374,003,555	-0.24%	12.89%	-0.83%
EOS	EOS	$2,499,254,233	$2.66	939,414,356 EOS *	$3,928,148,316	0.01%	7.86%	-8.79%
yearn.finance	YFI	$950,085,179	$31,702.49	29,969 YFI *	$799,740,710	5.45%	19.22%	30.52%
SushiSwap	SUSHI	$580,910,661	$4.57	127,244,443 SUSHI *	$506,934,601	6.99%	34.15%	15.04%

https://coinmarketcap.com/coins/views/all/

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Dear reader,

Thank you for subscribing to TechnicalRoundup. We are grateful for your readership and hope that you stay with us for many future issues.

The premise behind this newsletter is simple: you get all your high time frame charts for the most important digital assets in one place. Same place, same time, every week.

Whether you are a short-term trader looking for a bias heading into the week, or a cautious investor trying to get a sense for this new asset class, we are confident that there is something you will find valuable in the coming pages.

We are not a signals service. That much is obvious. What we can offer you, however, is something better: a logical framework, a consistent method, and robust analysis. Every week.

We are not perfect. We will get things wrong. When we do, you will know because we will discuss them thoroughly. If the markets are unclear or uninteresting, we will not force out analysis that we do not believe to be compelling. Whilst we can not promise perfection, we will do our utmost to be honest and transparent.

Enough text, you must want to see some charts at this point!

We hope you enjoy TechnicalRoundup.

If for any reason you do not, or have feedback for us of any kind, it will be graciously received via email at letters@technicalroundup.com.

1. Bitcoin - Trend Test

https://www.tradingview.com/x/adDTi0v5/

During the ‘up only’ period of Bitcoin’s rally, a common point of contention was whether the market would pull back 30% or more as it did during previous bull markets. Newer participants underwent this initiation experience on Monday, with the market pulling back around 28% from high to low. A great welcoming gift indeed.

In typical crypto fashion, futures traders led the way with nearly $3bn in long position liquidations across the market[1]. Of additional interest is the fact that Coinbase also had a record day, with over $9.56bn in daily volume (which, in one day, eclipsed its total volume for Q1 2019)[2].

Our view since October has been ‘continuation until proven otherwise’. This has served us well and the market has yet to prove otherwise. Nonetheless, as evidenced by the number of liquidations as well as panicked texts from friends and family, being prepared for that invalidation rather than being complacent, is well-advised. This is especially applicable at the parabolic phase of a market, where breakdown events often take the market well beyond the 30% orthodoxy.

The argument of ‘continuation until proven otherwise’ has been largely predicated on daily support structures remaining intact. Should that behaviour shift, that in itself would be strong evidence of reversal. At the time of writing, price is retesting the daily support cluster at $33000. It has held thus far on a daily closing basis.

Should it fail, we would expect a larger correction in the direction of the next daily cluster at $24000.

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2. Ethereum - All-Time High Mirage?

https://www.tradingview.com/x/Qbx8OjDl/

https://www.tradingview.com/x/e3KeXSrN/

One of the more popular price-based narratives for bullishness in Ethereum is a copycat Bitcoin trade. That is to say, Bitcoin broke its all-time high and doubled, therefore Ethereum will do something similar.

In contrast with Bitcoin/Dollar, which built somewhat usable support structures on the way up in the form of daily ranges turned clusters, Ethereum/Dollar did no such thing. A quick glance at the daily chart reflects this; a straight line up following the $750 break with little built along the way.

The weekly time frame is where we can gain some perspective.

Ethereum/Dollar pulled back to weekly structure at $800-$900. This is our high time frame support. Any bullish continuation is predicated on that structure holding.

As for resistances or trouble areas ahead of all-time highs, the only one worth being aware of is the highest monthly close around $1100 (not shown). It has been good resistance thus far and is reasonably analogous to Bitcoin/Dollar's slowdown at the highest weekly close before its all-time high breakout.

'Continuation until proven otherwise' is still applicable, with a break of weekly support ($800-$900) proving otherwise.

This range may seem unreasonably large for a support, but the following points must be considered. First, as always, the upper boundary and lower boundary are the levels within the range that bear the most significance. Second, a 10% area is more reasonable when you consider that the last couple of weeks have seen 40%-50% moves. Lastly, if this area fails, the next high time frame support is closer to $500. Accordingly, there's a lot of space to work with.

The BTC pair has continued to chop following a short period of outperformance. Our focus will be on the USD pairs in Bitcoin and Ethereum, as they are clearer for now.

3. DeFi Dips

Trading DeFi Trends

A common qualm among newer participants trading the DeFi pairs is taking profit too early or exiting a trend at an inopportune moment. Even more experienced traders, grizzled by the mean-reverting nature of the past few years, have struggled with trend-following these newer instruments.

In these circumstances, where the underlying trend is strong and often the instrument is in price discovery to the upside (having never undergone a full market cycle), reframing the price action may be helpful.

If a strong trend is characterised by X, and X stops working, that in itself is usually a good sign to exit or at least reduce risk (take profit, trail stops, and so on). For example, if every broken resistance turns to support, or if every higher high forms a higher low in a similar area, those types of behaviours are worth monitoring. When something that has worked so reliably stops working, that in itself is very valuable information.

However, as long as that same pattern (on which continuation is predicated) remains intact, changing one's bias or deriving strong views via other means is likely premature. Actively seeking a reason to exit a market in the absence of good reasons for doing so can be costly. It is always easier, at least psychologically, to manage a trade from a position of strength rather than dealing with the discomfort of buying back higher after your exit. There's nothing wrong with that, but it's a trading 'wisdom' that's much easier said than done. Feelings of regret over a premature exit often override the otherwise level-headed decision to reenter.

The risk is not in exiting a trend prematurely. There's almost always a chance for a reentry, egos aside. The risk with altcoins is ignoring the aforementioned changes in behaviour and continuing to buy following the completion of a market cycle. All the stories of traders turned bagholders are derived from never cutting the trade, as opposed to cutting it too early.

Despite strong correlations, there are many opportunities in crypto markets. As one instrument completes its market cycle, another instrument may be beginning one.

If you're purely interesting in trading these cycles, the following framework may be useful. Hold on to your winners, until they stop winning. Then, abandon them without hesitation. If they turn into winners again, do not be influenced by your previous decision to exit.

Finally, not to beat this same drum for the nth time, but it's still important to look at the DeFi/BTC pairing. This applies to altcoins across the board. In a strong Bitcoin market where you hold Bitcoin, it essentially acts as the index or the 'risk-free' rate. Even if your altcoin is doing well against USD, if it's underperforming BTC, you're (arguably) taking on extra risk for no good reason.

SushiSwap Ignores Volatility

https://www.tradingview.com/x/FiPa0c35/

SushiSwap/USD doubled from our bullish view expressed at daily support ($2.328-$2.462).

During the market-wide correction, SushiSwap/USD retested a new level of daily support at $3.20-$3.30 and bounced.

This bounce is particularly impressive; moving sideways during a pullback in the majors of 30% or so is exactly what we mean by relative strength in altcoins during corrections.

As before, 'continuation until proven otherwise' is applicable here. Losing the newly-established daily support at $3.20-$3.30 would be a sign of a deeper pullback towards $2.328-$2.462.

Barring that, there are no resistance levels for this instrument given it is forming new all-time highs, but the market seems to be responding well to round numbers, with the recent high coming in at $5. This framework is probably a reasonable guide for resistance structures until such a time that support fails.

Yearn.finance Daily Range

https://www.tradingview.com/x/w6DaB14F/

Buyers stepped in at a crucial juncture in YFI/USD, sending the market from range low ($22200) to range high ($34830) largely within one daily candle.

This is an important technical development in the USD pair, as failing at support would have likely meant a deeper pullback of around 30% to the next level at $15680 or thereabouts.

We're left with a daily range, with reasonably well-defined boundaries.

As before, the range low is at $22200 and the range high is at $34830. We also have a support/resistance structure at around $27000. This level falls in the middle of the range but it also has significance from a market structure perspective; it was the high which preceded a lower low and is now acting as support.

When there's volatility, YFI/USD is an absolute dream to trade on lower time frames. It's liquid and behaves very well technically. For higher time frame traders or those more oriented towards trend-following systems, a breakout through the range high ($34830) would likely lead to new highs.

One final thing to note is that Yearn.finance is yet to catch up on the BTC pair. That pair still looks weak, which means underperformance relative to Bitcoin is likely. This is in strong contrast to other DeFi pairs (e.g. SushiSwap) which looked good against BTC and showed that relative strength we mentioned during the correction. This is yet another reason to use the BTC pair in conjunction with the USD pair; relative strength in BTC correlates positively with a strong showing in the USD pair.

4. Wisdom From Boomer Markets

EUR/USD

https://www.tradingview.com/x/VE3pAGF3/

Given the institutional-driven spot bid in Bitcoin, it's worth poking our noses into 'their' world to see what the macro bullish view is based on.

One of the driving narratives (among several) is Bitcoin as an inflation hedge/digital gold. The argument takes some variant of the following form. USD is being debased via fiscal deficits and easy monetary policy. These policies are inflationary. As USD's purchasing power decreases, its holders will look for assets that will preserve their purchasing power. Bitcoin, which is deflationary, is one such asset. Its properties serve a similar function to gold, but it is technically (and fundamentally) superior by virtue of being digital/programmable.

The argument relies on Dollar debasement (or weakness) over time. Accordingly, if/when USD underperforms relative to other global currencies, this lends credibility to the narrative in the short-term, as the thesis and price movements or valuations become aligned.

On a side note: one of the most dangerous points in a market cycle is when macro narratives align closely with short-term price movements. This gives a sense of full validation to those speculating on the narrative and they often take on even more risk, expecting their long-term narrative to become reality in a matter of weeks. When the market almost inevitably unwinds, this short-term correlation between the validity of the thesis and valuations is broken. Those with conviction or a longer-term outlook add to their positions, while speculators expecting 1:1 parity for an entire market cycle, get washed out.

Back to the Dollar. To gain a sense of how USD is performing relative to other currencies, speculators (especially in currency markets) will look at DXY, or the Dollar Index. This is essentially USD against a basket of other global currencies. Alternatively, they will also look at EUR/USD, which is inversely correlated with DXY. DXY up, EUR/USD weakness expected and DXY down, EUR/USD strength expected.

The bearish USD trade paid dividends since last March as DXY tumbled and EUR/USD went vertical. This certainly vindicated the bullish Bitcoin macro narrative as well.

At the time of writing, EUR/USD has reached strong technical resistance at 1.21-1.23. This is probably one of the better technical levels on the chart. We're not currency traders, but we can at least map this thing to get an idea of where strength/weakness is likely to take shape.

With a new administration taking the reins in the U.S. and EUR/USD reaching an inflection point, we'll be on the lookout for a USD bounce this year. Should that take form, a stronger USD may cause some shakiness in equities as well as in Bitcoin.

We're not experts, but this narrative is worth keeping on your radar.

Tesla

https://www.tradingview.com/x/WUxokNo8/

Can’t talk about risk assets without mentioning Tesla.

One bit of practical trading ‘wisdom’ that has taken shape too many times to count is the following. Whenever those with no skin in the game call a fast-moving asset a ‘bubble’, it usually has at least another leg left to the upside.

Crypto traders have a love-hate relationship with Tesla. On the one hand, the CEO loves memes, it’s volatile, it carries similar rags or riches stories from participants on either side of the volatility, and it gives boomers something else to call a bubble. On the other hand, it feels like the Robinhood ‘stimmy check’ punters were distracted with Tesla and U.S. equities rather than gambling on altcoins last year.

No asset embodies ‘dance while the music is playing’ better than Tesla. The last high time frame pullback was during the March liquidity crisis, and it has been in full send mode since then.

As you’ll often see in a strong trend, pullbacks have been replaced with consolidations before continuing higher.

At the time of writing, the nearest high time frame pullback support is a casual 40%-50% away, at $500 and $388 respectively.

If you think Bitcoin is crazy, Tesla is a good example of how much prices can exceed expectations (and, arguably, reasonable valuations).

The lesson there is to align yourself with the market, no matter how ‘unreasonable’ you think it is being. Even if you’re ultimately correct, the likelihood is that the music will keep playing for much longer than you can stay solvent if you’re trying to impose your view on the market.

For contrarians, the executional edge comes not from predicting the top, but rather acting on the complacency in the market once the top is in.

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1. https://coinalyze.net/futures-data/global-charts/ ↩
2. https://twitter.com/lawmaster/status/1348895884315156481 ↩