August was characterized by a bullish trend in cryptocurrency markets that propelled most top-ranked cryptoassets to yearly (if not multi-year) highs. Bitcoin briefly touched $12k, Ethereum reached a two-year high above $400, and decentralized finance (DeFi) tokens soared to unbelievable levels. As global economic uncertainty continued, traditional financial actors expressed growing interest in cryptocurrencies, including acclaimed investor Paul Tudor Jones’ praise of Bitcoin as a hedge, public company Microstrategy’s purchase of $250 million BTC, and an SEC filing revealing that Fidelity is preparing to launch a digital asset fund. Ethereum and the DeFi tokens operating on the network closed the month stronger than ever, generating record levels of interest and capital inflow for the nascent ecosystem (and record high transaction fees). Overall, August was bursting with market activity after a prolonged period of abnormally low trading volume and price volatility during the early summer months.

About Kaiko

Founded in 2014, Kaiko is a market data provider in the blockchain-based digital assets space, providing institutional investors and market participants with enterprise-grade data infrastructure. We collect, normalize, store, and distribute digital assets market data via a livestream WebSocket, REST API, and cloud-based flat file (.csv) Data Feed, to which clients connect to build data-driven applications. Our raw trade data, order books, and aggregates cover 35,000+ currency pairs across 85+ exchanges, with new markets added every day. With over five years of historical data, Kaiko provides the most extensive digital asset datasets in the industry. Kaiko caters for the market data needs of professional investors, asset managers, funds, researchers, regulators, third-party platforms and exchanges.
Bitcoin and Ethereum: Renewed Momentum

After a quiet start to the summer, Bitcoin was propelled to steady levels above $10k for the first time in a year, buoyed by what many hopefuls predict to be the start of a new cryptocurrency bull run. Ethereum was propelled upwards on the tail of the latest craze in the industry: Decentralized Finance (DeFi).

BTC/USD Price

BTC hovered between $11k and $12k for much of the month of August, only once making a strong push past $12k, only to crash below the following day. While no convincing moves were made in either direction, Bitcoin proved it could trade consistently above the psychological level of $10k, which it has struggled to reach for the past year. The top-ranked cryptoasset was bolstered by positive news coverage and overall market sentiment.

ETH/USD Price

Ethereum had one of its best month’s ever, closing the summer more than double its value since May. Mid-August brought a slight pullback below $400, only to quickly reverse and re-ascend to the asset’s highest level in two years. Ethereum gained record-levels of interest this month for its seemingly endless possibilities for decentralized financial innovation.
The Summer of DeFi

Decentralized finance was impossible to ignore this summer, with every week bringing headlines more eye-opening than the last. From yield farming to the YAM protocol bug to yearn.finance trading higher than a single Bitcoin, many DeFi tokens went from "valueless" governance token to highly speculative asset in just one short month. Below, we chart the returns for 7 DeFi tokens since August 1st, and they do not disappoint—yearn.finance came in first with a whopping 643.1% gain since the start of the month. DeFi tokens continue to soar into September...but for how much longer?

DeFi Token Returns Since August 1st

Ethereum Daily Returns

Ethereum has benefitted from the exuberance over DeFi tokens, which has showcased the wide range of use cases and innovation possible for protocols operating on the network. ETH daily returns in August regularly surpassed +/- 4% as the markets reacted to the flurry of renewed interest. Yet, as overall Ethereum network usage increased, widespread congestion emerged causing transaction fees to climb to new highs. The most pressing problem for Ethereum right now is quickly reducing pressure on the network.
Ethereum Volatility: Bollinger Bands

Ethereum has had a volatile month. Bollinger Bands depict how prices are dispersed around the average value and they adjust based on volatility swings. In periods of low volatility, Bollinger Bands contract and in periods of high volatility they expand. As can be observed, August volatility reached levels not present since the March market collapse. The daily price briefly crossed above the upper bound of the Bollinger Bands—an indicator that an asset is oversold—after which the price crashed below $400 before re-ascending. It remains to be seen whether Ethereum's momentum will hold should DeFi token markets burst.

Ethereum Liquidity: Bid-Ask Spread

The bid-ask spread can be used as an indicator of a market’s liquidity. Typically, the narrower the spreads, the more liquid the market and the easier it is to exchange an asset at stable prices. Yet, spreads often widen in times of volatility as market makers account for more risk. For the first half of the summer, spreads narrowed considerably for most ETH/USD markets due to low price volatility. At the end of July, as ETH markets heated up and daily price volatility increased, spreads widened and have since remained more volatile than normal.
The Dollar and Gold: Cryptomarkets Watch Closely

Bitcoin’s correlation with the price of Gold grabbed headlines this month after it rapidly ascended to levels above 60%, one of its highest points this year. Meanwhile, an inverse correlation with the U.S. Dollar Index appeared as the dollar depreciated to two-year lows (and BTC to yearly highs). Gold’s rise and the Dollar’s fall paints a tidy narrative about sentiment surrounding traditional financial markets. Yet, it remains to be seen whether these correlations hold amidst an economy that has upended all expected beliefs about market behaviors.

**BTC Correlation with Gold**

30-Day Rolling Correlation of Returns

For years, analysts have drawn comparisons between Gold and BTC because they are both seen as alternatives to government-backed fiat currencies, thus suitable hedges against inflation. When the correlation strengthens, cryptocurrency markets pay attention because this bolsters BTC’s core narrative as an inflation-resistant store of value. BTC-Gold’s correlation turned positive for the first time in months during Gold’s record-breaking climb above $2,000 an ounce. It appears that the strong correlation was short lived, though, lasting only two weeks before falling below 30%.

**BTC Correlation with the Dollar Index (DXY)**

30-Day Rolling Correlation of Returns

The U.S. Dollar has struggled since June amidst bleak economic indicators in the United States, including high unemployment, falling interest rates, and a surging deficit. The Dollar has depreciated considerably against a basket of foreign currencies while BTC has climbed to yearly highs, highlighting a potential inverse correlation. It is a compelling idea that Bitcoin and the Dollar are inversely correlated as the cryptoasset is considered an alternative to fiat currencies, much like how a positive Gold / BTC correlation is seen as a positive signal for Bitcoin’s value proposition.
Trading Volume Surges With Increased Volatility

Trading volume for both Bitcoin and Ethereum surged in August as traders poured in to take advantage of the price swings. Compared with July, BTC/USD volume grew by 34% and ETH/USD volume by 99.72%. Bitcoin and Ethereum’s volatility curves are typically closely aligned, yet this summer saw the spread between the curves widen as ETH posted record-setting returns.

Realized 20-Day Volatility

The spread between Bitcoin and Ethereum’s volatility curves widened in August as Ethereum gained 26.03% over the month compared with Bitcoin’s +3.52%. Volatility remains far above that of the S&P500, NASDAQ and Gold, which ended the month at 8%, 14%, and 26%, respectively.
Kaiko Research
Monthly Market Report

Want to test our data services?

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Clara is on the business team at Kaiko and writes the weekly data-driven market commentary for the Monday morning newsletter. Since 2017, she has written about the cryptocurrency industry (starting with her senior thesis on the political ideology of Bitcoin), and loves learning about new market trends, data analyses, and financial instruments.

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