



December 2020

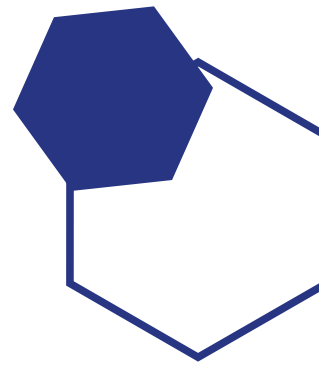
Kaiko Research

Monthly Market Report

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MONTHLY OVERVIEW



The final month of this tumultuous year best encapsulates both the triumphs and setbacks that the cryptocurrency industry is known for. Bitcoin shot to record highs above \$28k, thrusting anyone who has ever purchased the asset well into profitability, and Coinbase announced they had filed with the SEC in preparation for a public offering, the first time a cryptocurrency company of such size and influence has done so. Yet in the midst of the euphoria, the SEC filed a lawsuit against Ripple for failing to register XRP as a security, promptly triggering a wave of de-listings from exchanges and a price crash for the third biggest crypto-asset by market cap and traded volume. Security or not, XRP's spectacular downfall has harmed countless investors and should serve as a reminder that cryptocurrency markets are not invincible and that regulation is coming (which is not necessarily a bad thing if done properly). Despite some industry setbacks, 2020's economic uncertainty had the effect of spurring a monumental shift in sentiment for digital assets among traditional investors that appears to be more than just a passing investment trend.

This monthly report was written by Clara Medalie and Anastasia Melachrinou.

About Kaiko

Founded in 2014, Kaiko is a cryptocurrency market data provider, servicing professional investors, asset managers, funds, researchers, regulators, third-party platforms and exchanges. 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.

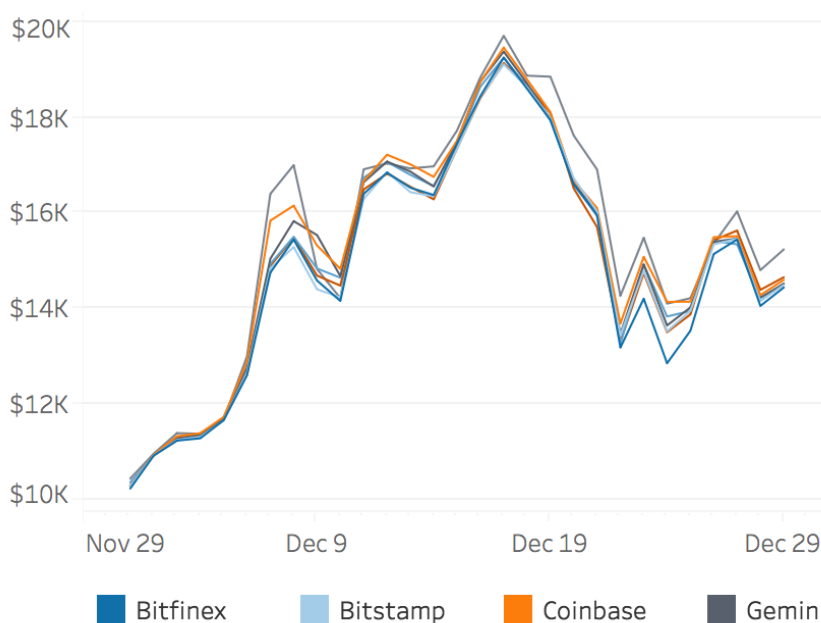
A Tale of Two Bull Runs

Bitcoin now trades in (literally) uncharted territory, more than \$8k higher than its 2017 All Time High, breaking price level after price level with no clear end in sight. What is different about this bull run compared with 2017's? By looking at price discrepancies across exchanges, we can observe that Bitcoin markets are far more efficient today than they were three years ago. Information asymmetries have lessened and markets are increasingly integrated, which indicates that traders are overall more informed and rational, a sign that the industry has matured.

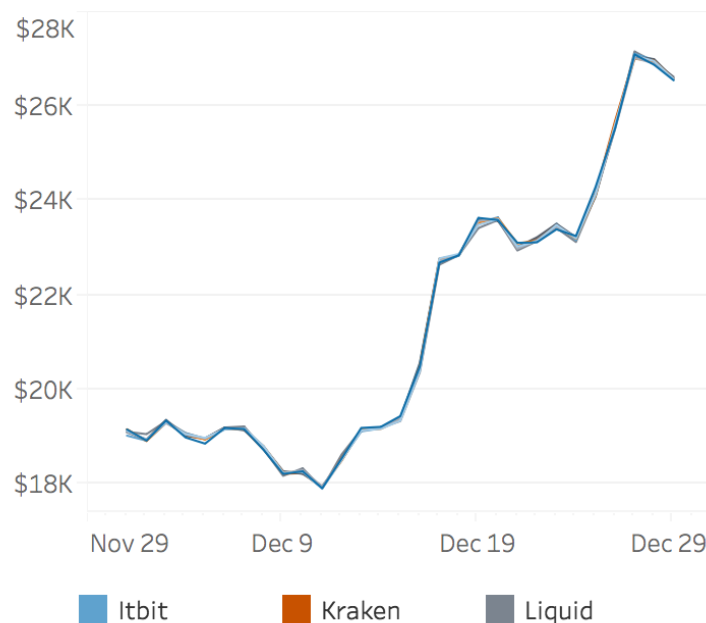
BTC Market Efficiency: 2017 vs. 2020

Daily VWAP of BTC-USD on 7 exchanges

December 2017



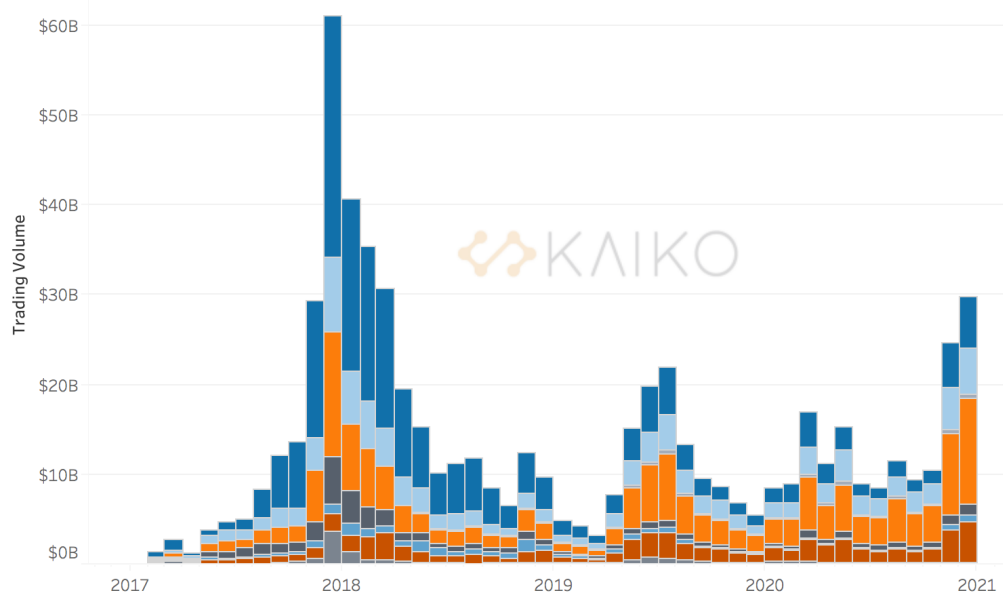
December 2020



Legend: Bitfinex, Bitstamp, Coinbase, Gemini, Itbit, Kraken, Liquid

Monthly Trading Volume: 2017-2020

BTC-USD on 7 exchanges



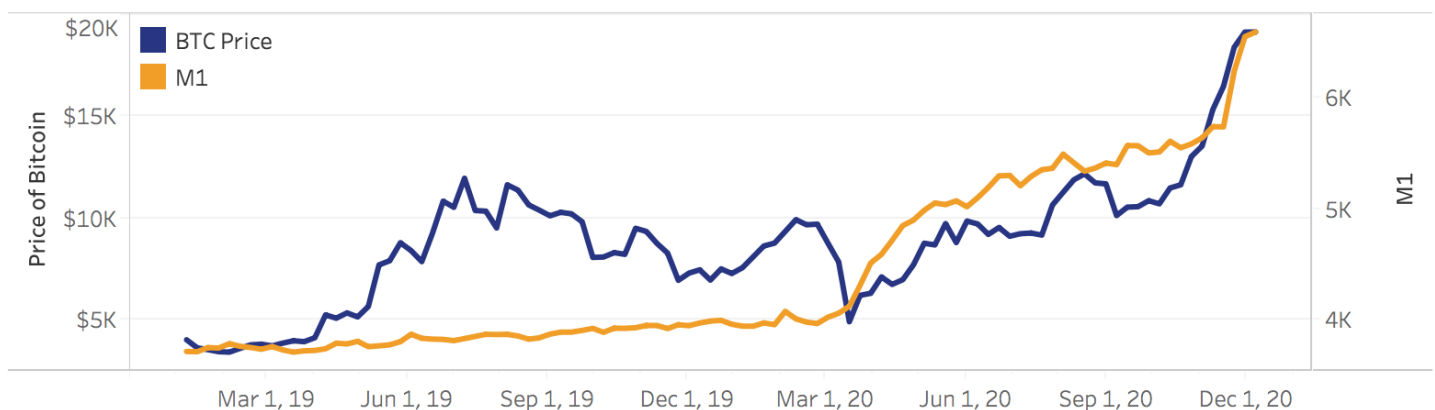
Although ATH's were broken numerous times this month, BTC-USD volumes have not topped 2017 highs. The seeming absence of bubble-like euphoria and the dispersion of trading volume across different Bitcoin pairs, in particular BTC-USDT, are likely explanations for the relative drop in USD volume. Additionally, institutions are largely credited with initiating this bull run, and they tend to purchase Bitcoin over-the-counter, which would not be reflected in exchange volumes.

Bitcoin and the Economy

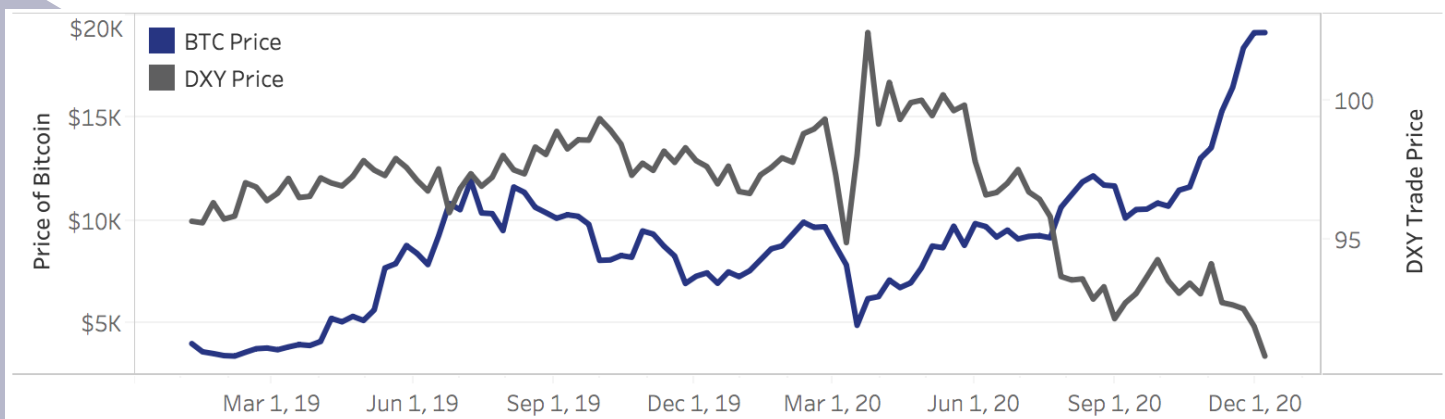
The pandemic generated the perfect market conditions to test Bitcoin's resilience as a hedge against economic uncertainty. A surface-level interpretation of economic trends are quite clear: Bitcoin's value increased as the money supply and inflation expectations grew. At the same time, the dollar depreciated to multi-year lows, resulting in an inverse correlation between the government-backed fiat and decentralized digital asset. These three trends bolster a cozy narrative that Bitcoin is the perfect hedge against economic shocks (and corresponding government responses), but the reality is a bit more complicated. For example, increases in the money supply do not necessarily cause inflation (proved during the 2008 crisis) and inflation expectations today are still lower than they were in 2018. There is no doubt, though, that institutions are recognizing the benefits of adding Bitcoin to their balance sheets as a hedge against economic uncertainty, and these broad economic trends only strengthen this narrative.

Source: Kaiko, FRED

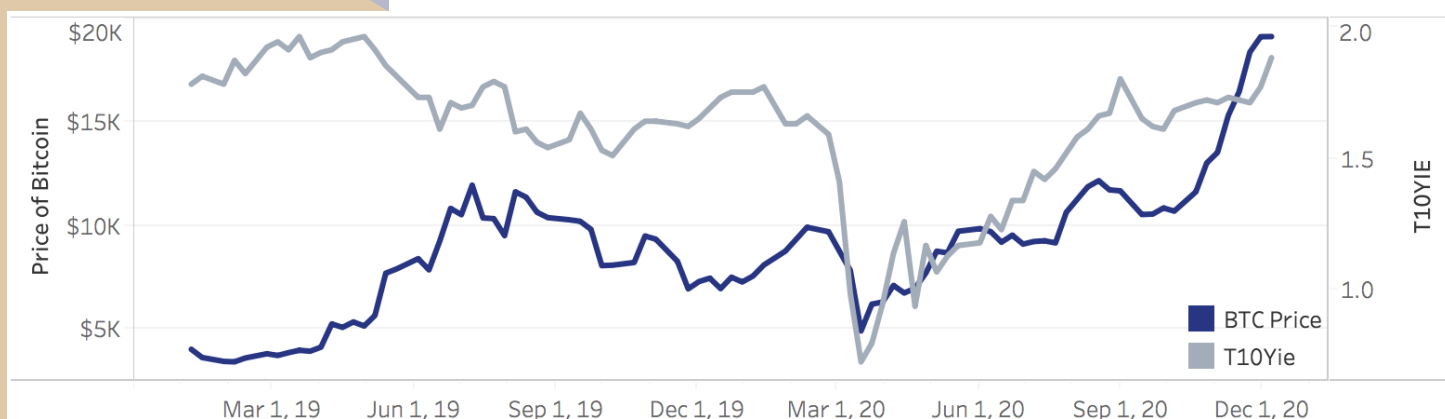
M1 (Money Supply)



DXY (Dollar Index)

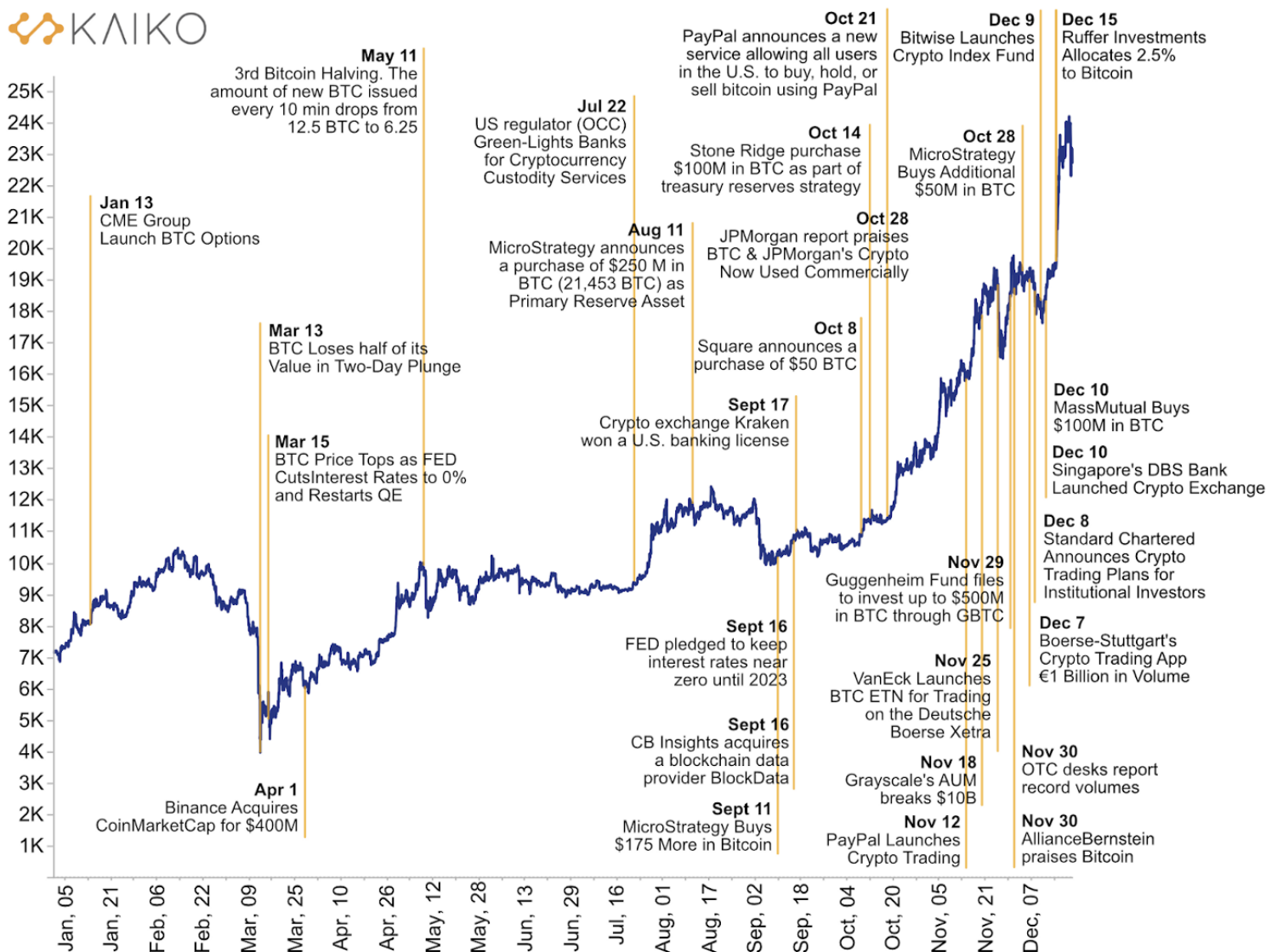


10-Year Breakeven Inflation Rate

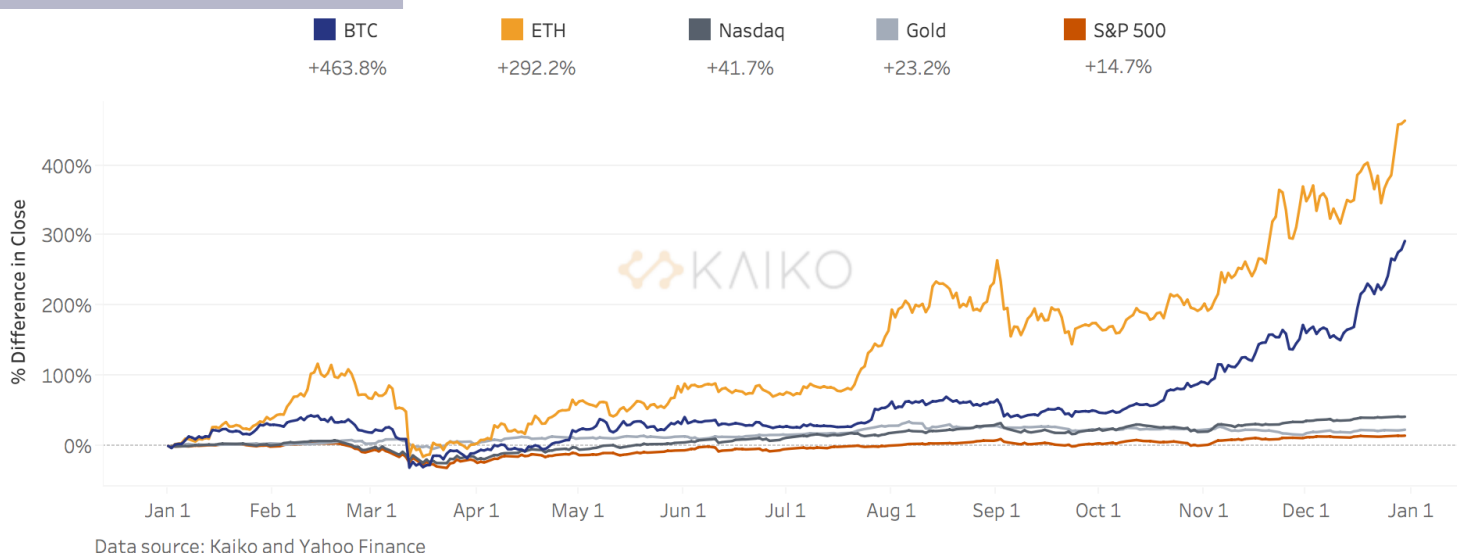


Institutions Are Here

Institutions have largely been credited with initiating Bitcoin's current bull run. We created a timeline of the biggest institutional events in cryptocurrency markets, which are notably concentrated during the last three months of the year. With every new announcement that a company was adding Bitcoin to their balance sheet, momentum gained increasingly quickly, resulting in YTD returns greater than 460%, with traditional financial assets paling in comparison.

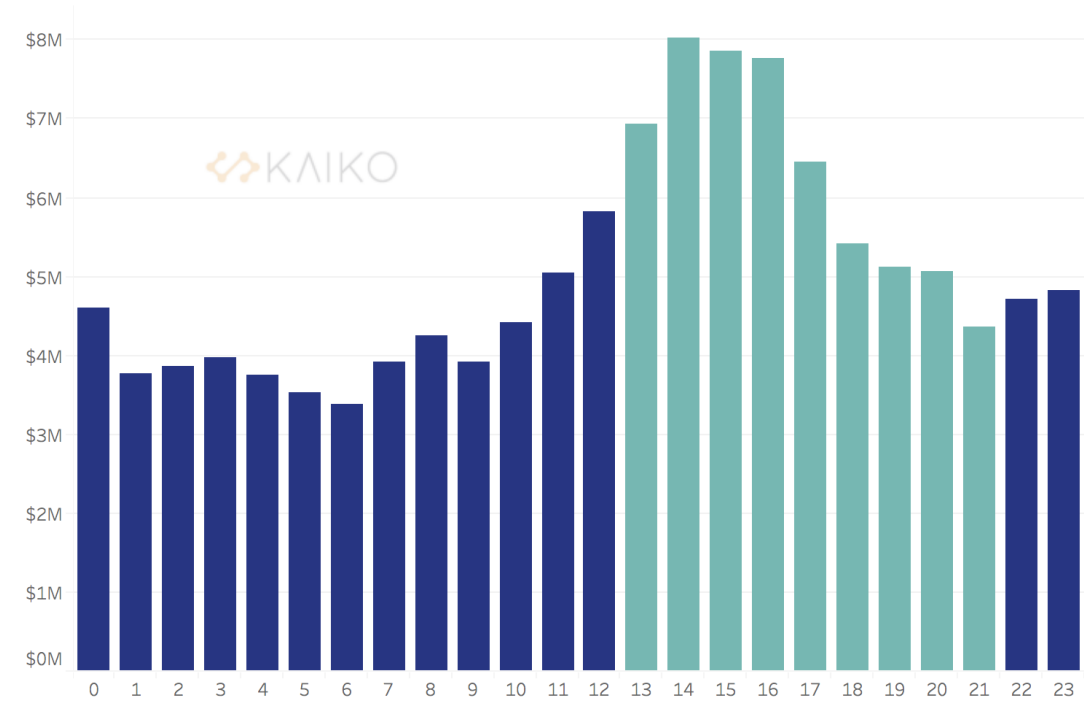


YTD Returns



Volume Reveals Heavy U.S. Presence

Average BTC-USD Volume per Hour of Day (UTC)



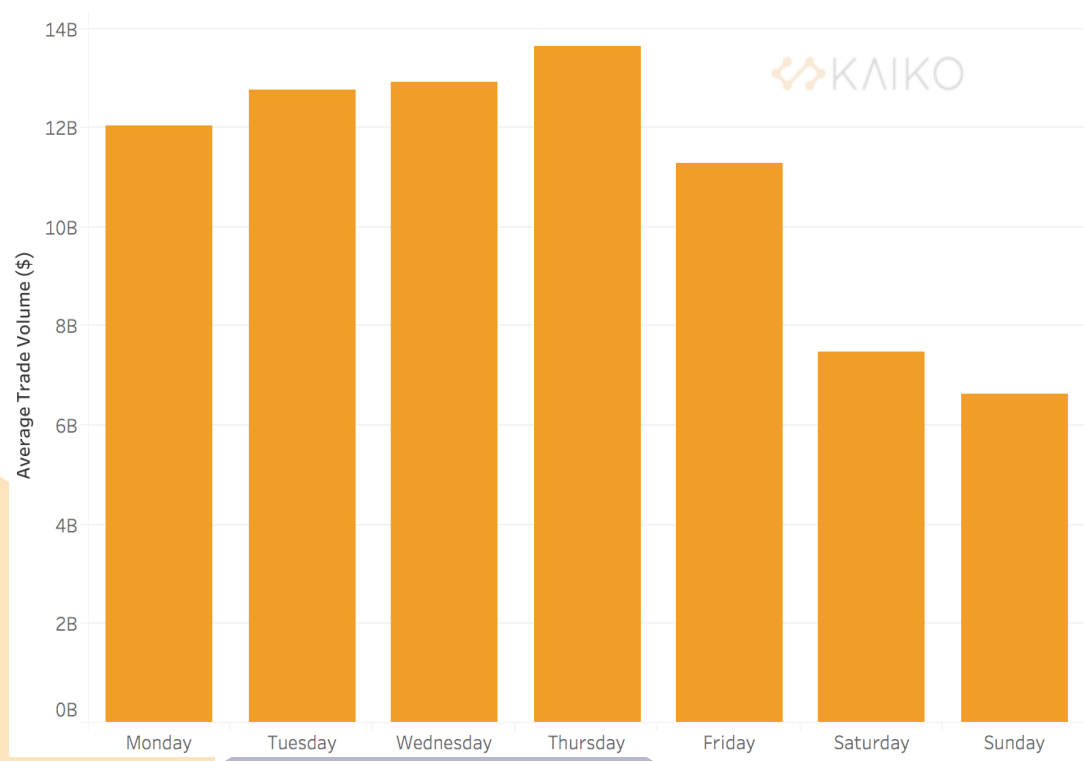
6-months of aggregated data on Coinbase, Bitstamp, Bitfinex, Kraken, Gemini, Bittrex, Bitflyer, and Itbit

Average trading volume over the past 6 months peaks during New York trading hours, highlighted in blue. Overall, the most activity occurs during the overlap between U.K. and New York trading hours, between 13:00 and 16:00 UTC (8am and 11am EST). During Asia and Australia hours, volumes are approximately half, which could indicate that the majority of Bitcoin-Dollar traders are concentrated in the U.S.

Average BTC-USD Volume per Day of Week

6-months of aggregated data on Coinbase, Bitstamp, Bitfinex, Kraken, Gemini, Bittrex, Bitflyer, and Itbit

Bitcoin trading volume is largely concentrated during the weekdays, peaking on Thursday, according to 6 months of volume data. Average weekend trading volumes are only half of weekday volumes. These trends in volume are very similar to trends for traditional financial assets, which is notable considering crypto markets are open 24/7, while equities markets are only open for limited hours during the week, with exceptions for after hours trading.



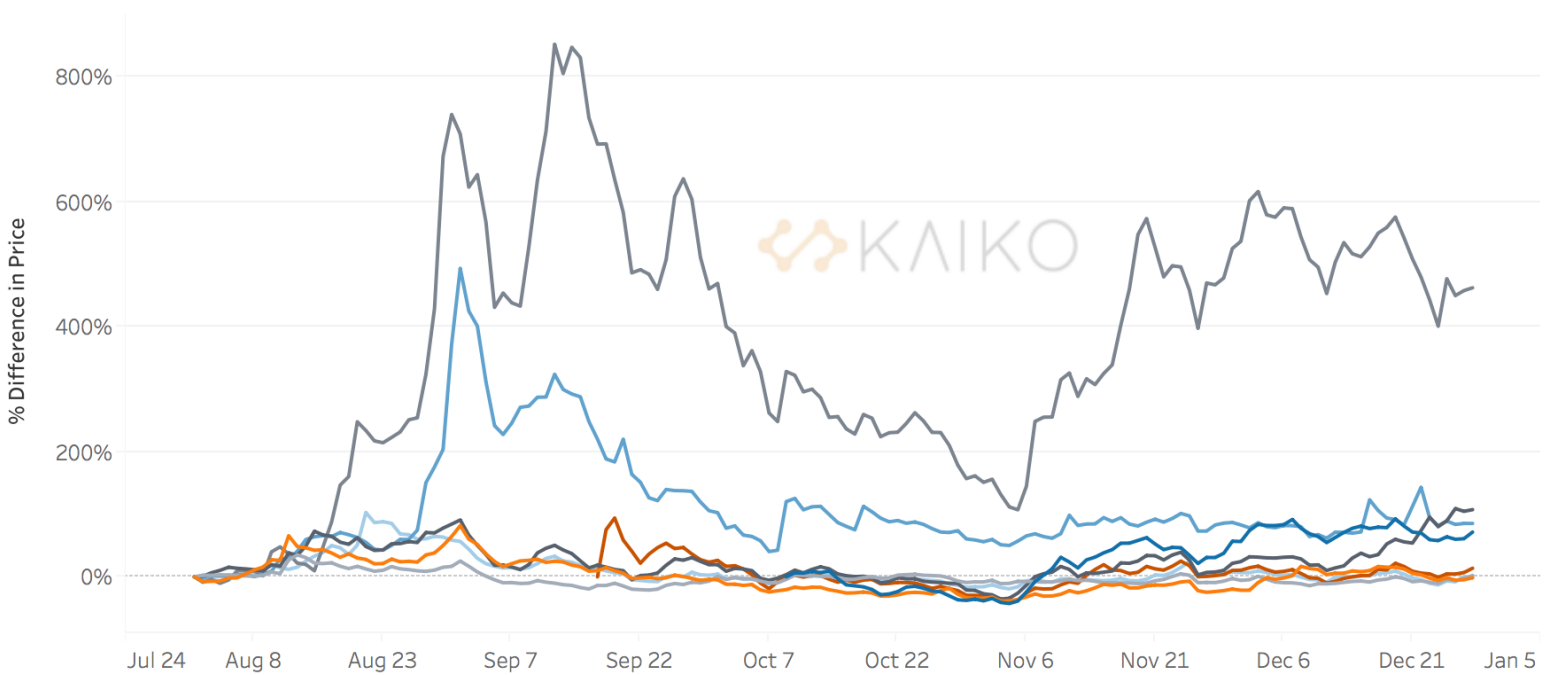
Ethereum's Record-Setting Year

Ethereum and the DeFi tokens operating on the network had a year for the books, with record levels of interest and capital inflow for the nascent ecosystem (and with it, record high transaction fees). Although the DeFi bubble burst hard this Fall, Bitcoin's rally has injected renewed enthusiasm, enabling most tokens to end the year well in the green compared with the start of the summer. Unfortunately, most tokens have not yet returned close to previous ATH's, and a new round of exploits hit the industry this month.

DeFi Token Returns

Since August 1st

- Aave +71.5%
- Maker +2.1%
- UMA +85.4%
- YearnFinance +462%
- Compound -1.5%
- Synthetix +107%
- Uniswap +13%
- ZRX -1.9%



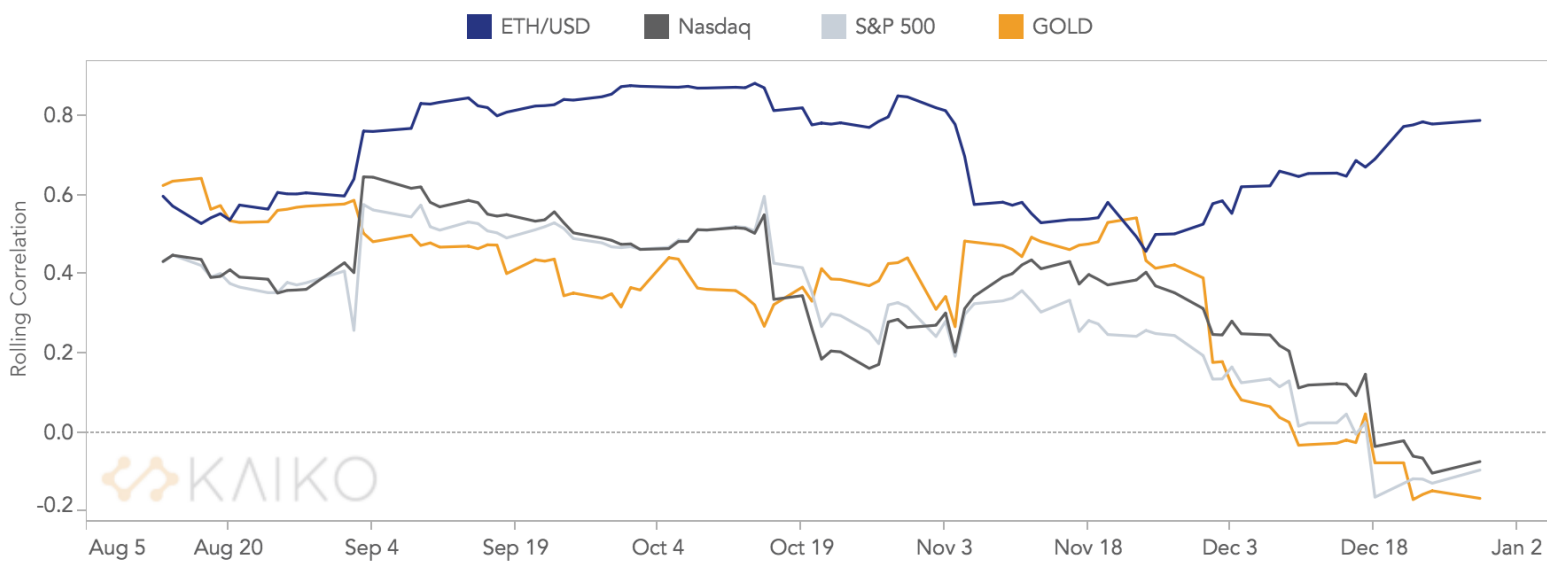
A Timeline of Key ETH Events

Bitcoin wasn't the only success of 2020. Ethereum saw renewed momentum following the launch of ETH 2.0, years in the making, marking the start of the biggest network upgrade ever. This month, CME announced they would list ETH futures and Grayscale revealed a growing number of institutional ETH investors. On the tail of BTC's bull run, ETH finally surpassed multi-year highs above \$700, but the asset still trades nearly 800 dollars below its ATH.



Bitcoin's Correlation with Traditional Assets is now Negative

Part of why Bitcoin has become more attractive to institutional investors over the past three months is because of its lack of correlation with traditional markets. When the stock market falls, investors search for uncorrelated or inversely-correlated hedges, qualities that Bitcoin currently holds. This wasn't always the case, though, and for most of the year since the March crash, Bitcoin was highly correlated with equities markets and gold.



Data source: Kaiko, FredR, Quandl

December Market Report

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