

August 2021

 KAIKO | Research

# Monthly Market Report

A data-driven deep dive on the month's most significant market events.

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# MONTHLY OVERVIEW

This August, we saw a refreshing diversification of price action led by the L1 token sector and NFT space. This market-wide shift towards altcoins is well reflected in exchange microstructure, which continues to evolve away from trade volume exclusively dominated by Bitcoin. Both Bitcoin and Ethereum still posted high returns of 14% and 35%, respectively, in the strongest performance since early Spring. Ethereum's long-awaited London Hard Fork upgrade came into effect on August 5th, which could increase ETH's appeal as a deflationary asset and promises to ameliorate high transaction fees and wait times. Across the board, ETH liquidity on exchanges is improving in a sign that large traders are increasingly investing in the crypto asset. In the exchange space, the regulatory crackdown persisted while FTX continued to position itself as a market leader with a new acquisition and flashy marketing initiatives. On the macro front, the Fed re-affirmed its short-term dovish monetary policy at the annual Jackson Hole meeting, which temporarily placated tapering jitters and led to new all time highs for equities.

*This monthly report was written by Clara Medalie, Dessislava Aubert, Arun Vignesh and the Kaiko team.*

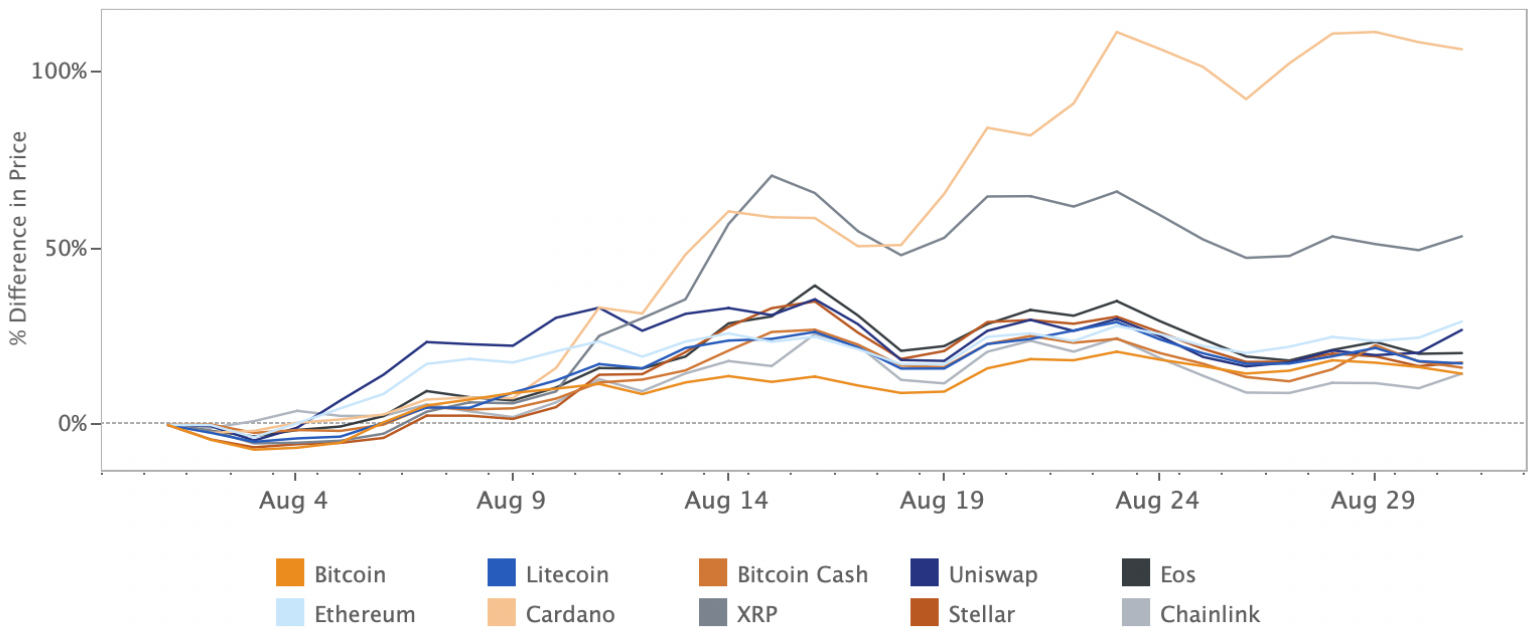
## About Kaiko

Kaiko is the leading cryptocurrency market data provider for institutional investors and enterprises. We empower market participants with accurate, transparent, and actionable financial data to be leveraged for a range of market activities. Our institutional grade data services enable seamless connectivity to historical and live data feeds across 100+ spot and derivatives exchanges. Contact us at [hello@kaiko.com](mailto:hello@kaiko.com) to learn more about our data and research services.

# Altcoins Gain Market Share

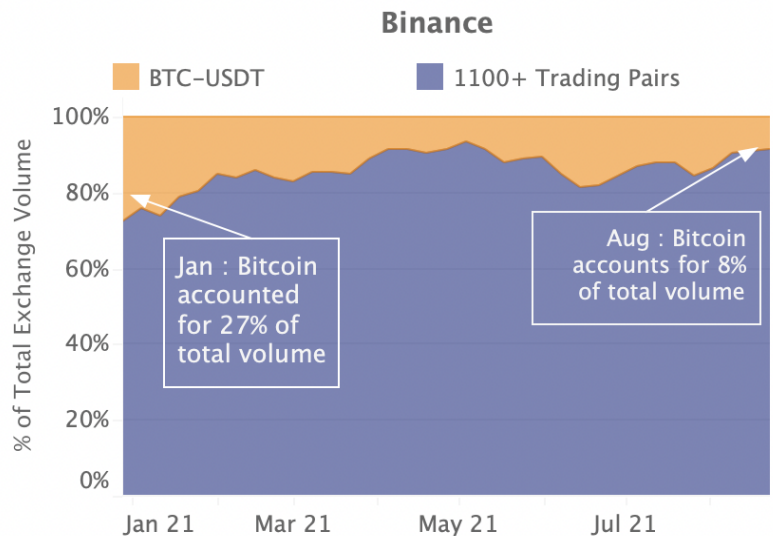
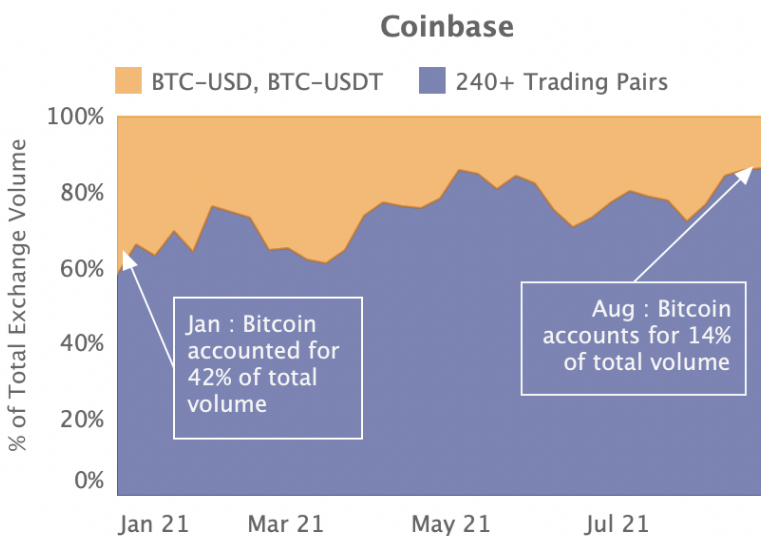
Altcoins have undeniably driven the recent crypto-wide rally and are outperforming Bitcoin by a longshot. Cardano was this month's market leader, up +106% and breaking into the top three assets by market cap. Bitcoin closed the month up a (relatively) paltry 14% and Ethereum closed +35%. We can best observe the rise of altcoins when analyzing the breakdown of trading volume on Coinbase and Binance. Below, we chart the volumes of BTC-USD(T) pairs relative to total exchange volume and observe that the share of Bitcoin volume has plummeted since the start of this year. On Coinbase, BTC volume has drastically fallen from 42% of total volume in January to just 14% in August, signalling a growing institutional appetite towards altcoins. On the retail-dominated Binance, the shift is also apparent, with BTC dropping from 27% to 8% of total volume. The similar shift in market structure across multiple exchanges suggests that this phenomenon has been driven by both retail and institutional investors.

## August Returns for Top Crypto Assets



## Bitcoin vs. Altcoin Volume on Coinbase and Binance

Daily USD volume calculated for all trading pairs

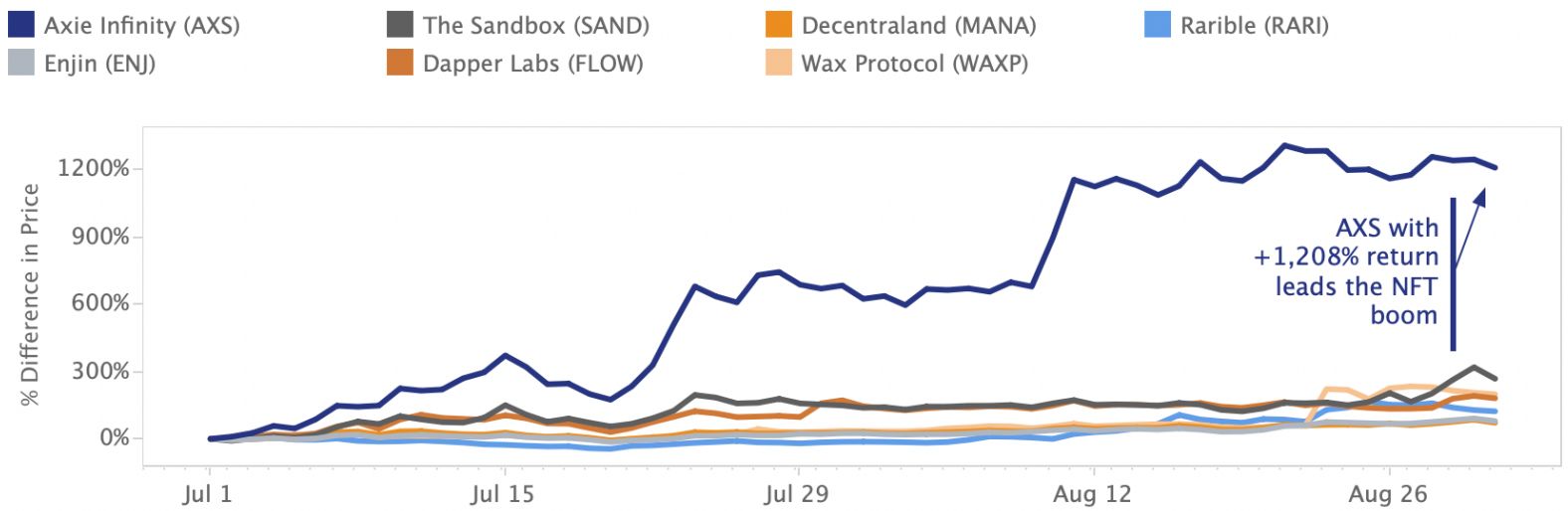


# Axie Infinity Leads NFT Fervour

Non-fungible tokens are revolutionizing the multi-billion dollar collectibles and entertainment industries and over the past year have caught the eye of industry heavyweights like Sony, Visa, several luxury fashion brands and scores of celebrities. Monthly volumes on the largest NFT marketplace, OpenSea, exceeded \$3.5 Billion in August while all-time sales of art collectibles Axie Infinity and CryptoPunks soared above the billion-dollar mark. Tokens affiliated with NFT marketplaces have tangentially benefitted from the mania. Axie Infinity's in-game token AXS tops the returns chart, up a whopping 1,208% in Q3 alone. Other projects working in the NFT space such as Dapper Labs (creator of NBA Top Shot), Decentraland (a popular decentralized NFT game), and Rarible (an NFT marketplace) are also well in-the-green this August.

## NFT Token Q3 Returns

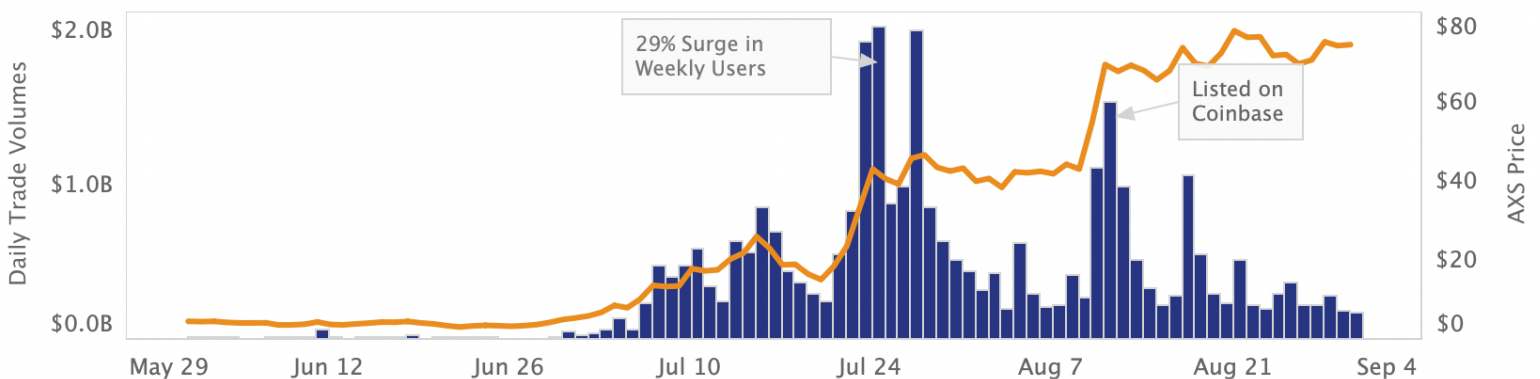
Tokens related to NFT games, marketplaces, or applications



What drove AXS's exponential August price rally? Axie Infinity has gained a large following in the Philippines, with players flocking to earn real monetary rewards through gameplay in a time of widespread economic distress. Daily trade volumes for the in-game token surged past the \$2 Billion mark in late July, although volumes have since stabilized even as prices scale to new highs. The ability to convert in-game tokens like AXS into fiat currencies has given hundreds of thousands of players the opportunity to augment their regular earnings, although the game has started attracting attention from Philippine regulators.

## AXS Price vs. Trade Volume

AXS-USDT pairs aggregated across Binance and Huobi

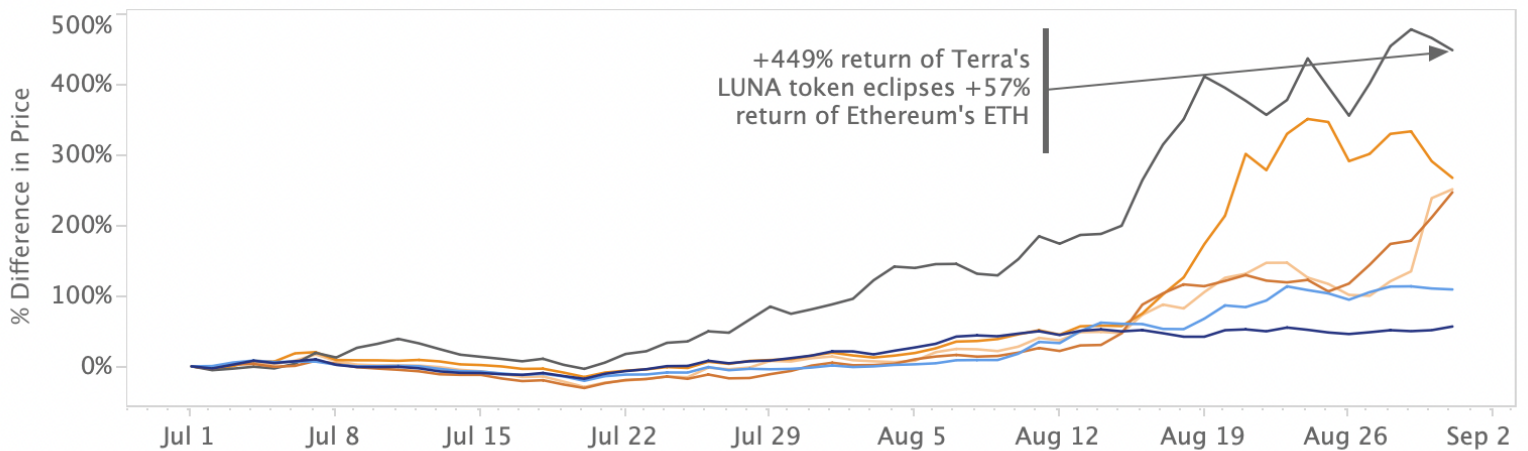


# It's L1 Season

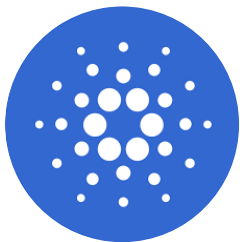
Ethereum's exponential growth in usage has raised legitimate concerns regarding the network's high fees and slow transaction times. Despite a series of upgrades that promise to ameliorate network congestion, other Layer 1 protocols such as Cardano and Solana have emerged as increasingly viable alternatives. Tokens native to Layer 1 protocols underwent an unprecedented surge in August: Terra's native Luna token is up 449%, Solana (SOL) is up 247%, and Cardano (ADA) is up 109% since the start of Q3. Surging demand for decentralized finance applications and NFT's has undeniably contributed to the L1 bull run. Total Value Locked, representing the amount of assets locked in a DeFi application, is well beyond the billion-dollar market on both Solana and Avalanche as DeFi developers search for low fees and quicker processing times. L1 season may be upon us, but it appears that interoperability may be the end-goal rather than finding a "winner take all" blockchain network.

## Layer 1 Tokens Q3 Returns

■ Ethereum (ETH)   
 ■ Cardano (ADA)   
 ■ Solana (SOL)   
 ■ Terra (LUNA)   
 ■ Avalanche (AVAX)   
 ■ Fantom (FTM)



## Ethereum vs. Alternative L1 Protocols



### Cardano ADA

- Designed for scalability
- Proof of stake algorithm
- Doesn't yet support smart contracts
- Lower and more stable transaction fees
- Dual-layer design

### Solana SOL

- High throughput: 50,000 transactions per second
- Unique consensus algorithm: proof of history (PoH)
- Supports smart contracts and optimized for DeFi/NFTs

### Terra LUNA

- Native stablecoin optimized for real-world payments
- Lower latency due to fewer nodes
- Low fees
- Used mostly in Korea

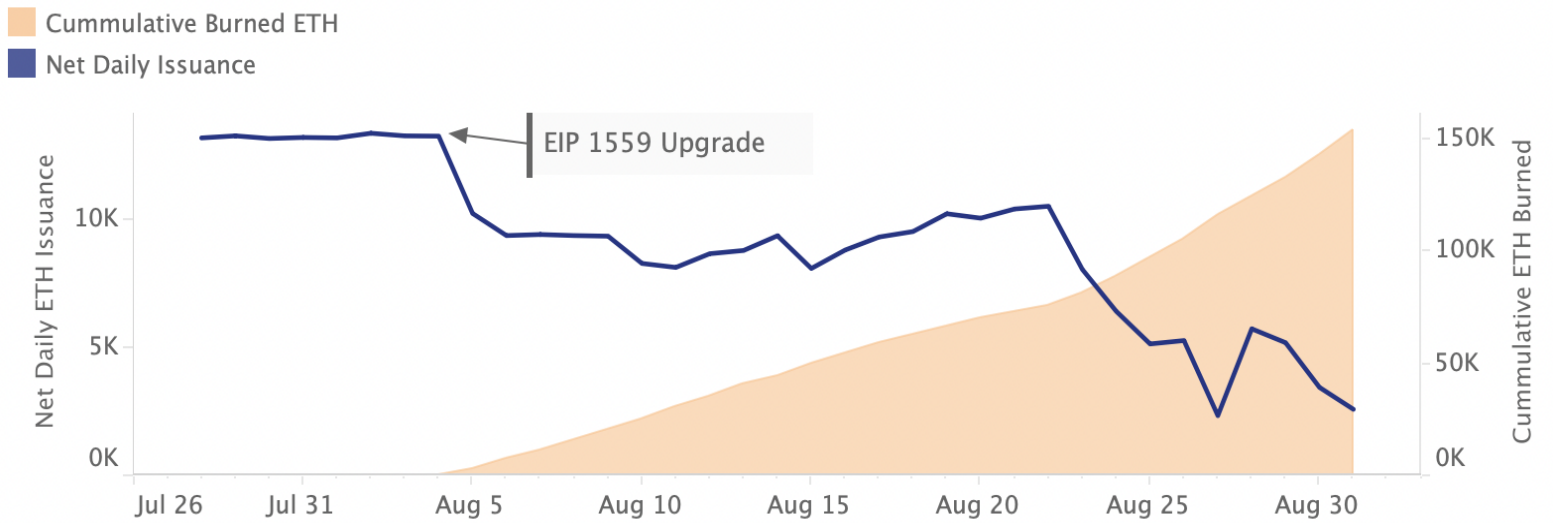
### Avalanche AVAX

- Optimized for DeFi apps and smart contracts
- Designed for speed and quick processing times
- Enables interoperability with Ethereum
- Proof of Stake

# August Upgrade Shifts Ethereum Narrative

On August 5th, Ethereum underwent the long-awaited London Hard Fork upgrade which instituted five new improvement proposals designed to ameliorate network congestion and transaction fees. One of the upgrades, EIP 1559, introduced a fee burning mechanism that takes a portion of ETH supply out of circulation and makes transaction fees more predictable. This feature is expected to boost ETH's appeal for traditional investors by introducing a Bitcoin-like deflationary narrative. Below, we chart the net daily amount of newly issued ETH, which is calculated by subtracting the amount of ETH burned from total issuance. We can observe that +40% of newly issued ETH has been burned since the upgrade, causing the annual issuance rate (inflation) to fall from 3% to 2.7%.

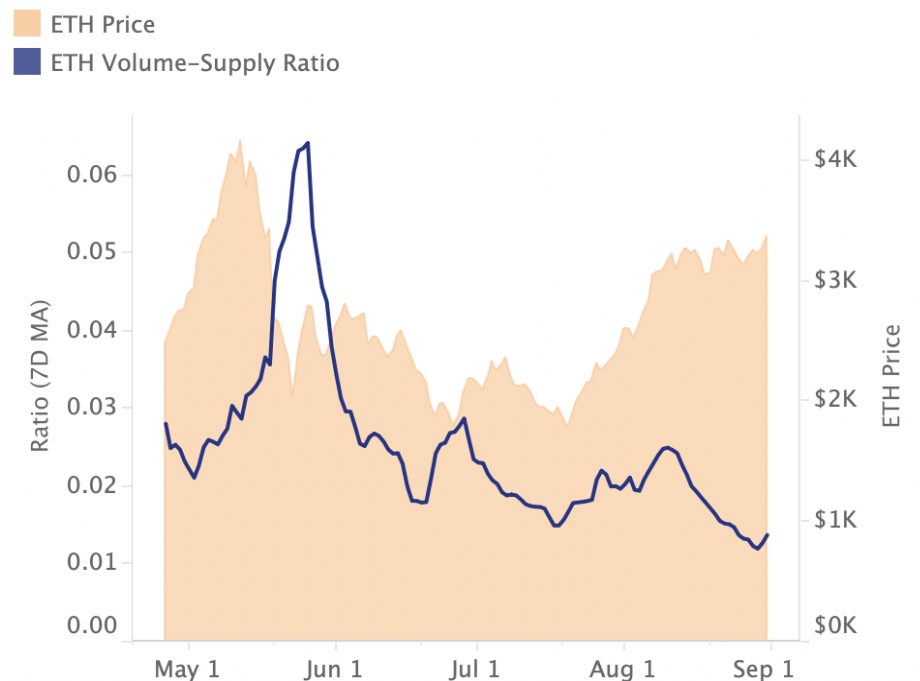
## ETH NET Daily Issuance vs. ETH Burned After EIP 1559



Source: Kaiko's calculations based on data from Etherscan and the Block.

Ethereum's total supply is increasing faster than trade volume on centralized exchanges. We chart the ratio between Ethereum trade volume aggregated across 17 top exchanges in native ETH units and the total ETH supply. The ratio can be used as a measure of off-chain velocity, which looks at how often Ethereum changes hands on centralized exchanges. When the ratio falls, this means that Ethereum supply is growing faster than trade volume, and vice versa. Lackluster volumes and increasing supply suggest that supply outstrips demand. Despite rebounding slightly in early August after the London Hard Fork, the ratio has fallen significantly since May's record high volumes.

## Ethereum Volume/Supply Ratio vs. Price



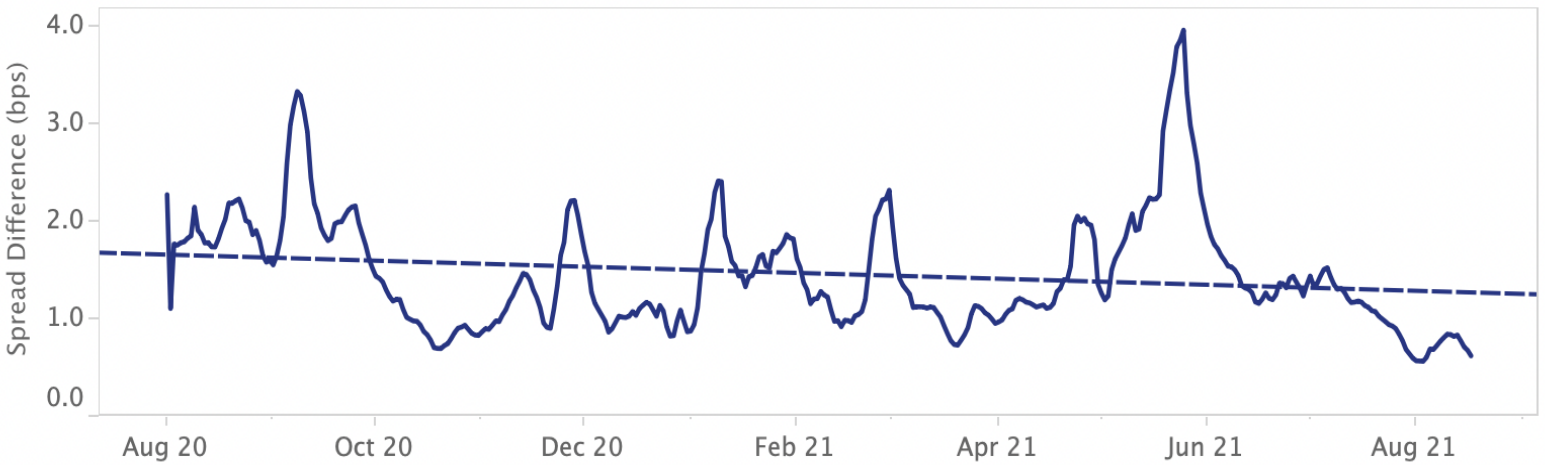
Source: Kaiko reference data for ETH-USD and ETH-USDT pairs on Binance, Binance US, Bitfinex, Bitstamp, Bittrex, Coinbase, FTX, Gemini, HiBTC, Huobi, Itbit, Kraken, KuCoin, LmaxDigital, Okex, Poloniex, OkCoin; Etherscan.

# Ethereum Liquidity Shows Improvement

Ethereum market liquidity, as measured by the bid-ask spread, has improved significantly over the last twelve months and is now comparable to Bitcoin's. Typically, tighter bid-ask spreads indicate higher liquidity for a trading pair while wider spreads mean that liquidity is weaker. Above, we chart the "spread of spreads" averaged across top fiat exchanges by subtracting BTC-USD spreads from ETH-USD spreads. We can observe that the difference in spreads has dropped from a yearly high of 3.9bps in March to just .6bps in early August. If the spread of spreads approaches zero, this would mean that BTC-USD and ETH-USD markets have the same spread.

## Difference between ETH-USD and BTC-USD Bid-Ask Spreads

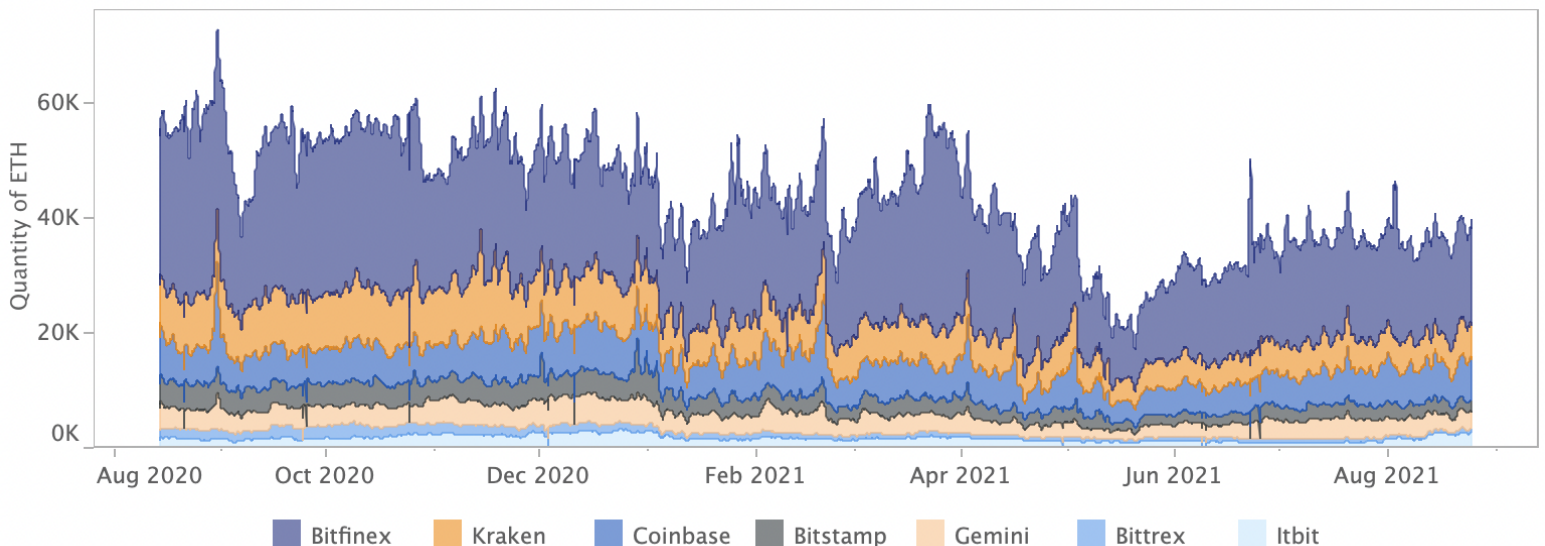
Rolling 7-Day Average across Coinbase, Kraken, Bitfinex, Gemini and Bitstamp



In late May as crypto markets spiralled downwards, market depth – as measured by the quantity of bids and asks on ETH-USD order books – dropped to yearly lows across most major exchanges. Market makers were struck by unusually high volatility following a series of liquidation spirals that caused Ethereum to drop precipitously from all time highs. Volatility often causes market makers to pull limit orders so as to avoid being caught in an unfavourable price swing. Since May's volatility, depth has since recovered and now sits near Jan-March levels.

## Ethereum Market Depth

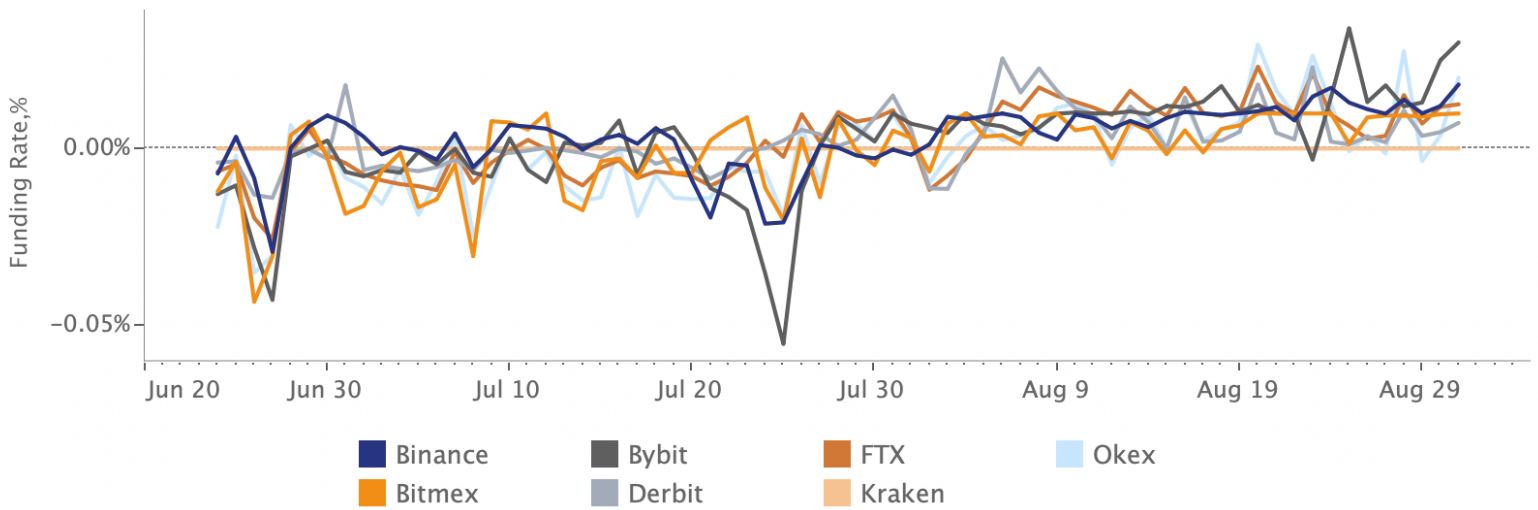
Quantity of bids and asks placed within 2% of midprice for ETH-USD pairs



# Derivatives Markets at Firm Neutral

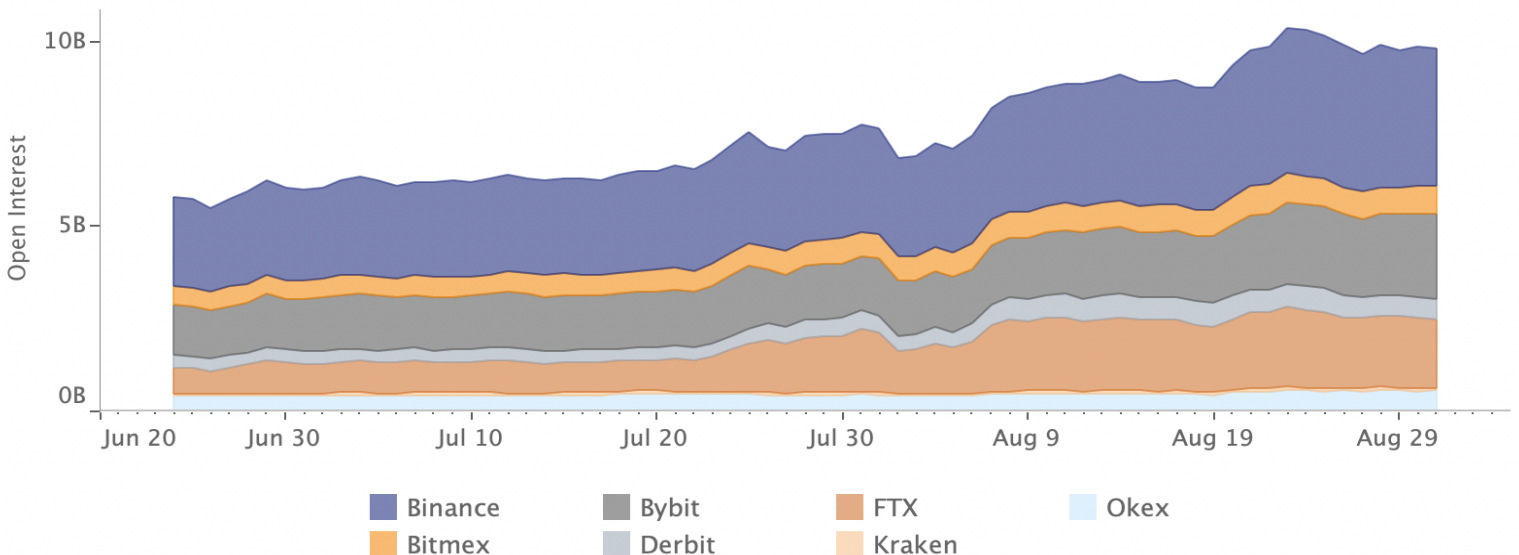
Derivatives market sentiment improved in August with average funding rates for Bitcoin perpetual futures remaining mostly positive throughout the month. The funding rate is the average cost of holding a long position and when positive means that perpetual swaps prices are higher than the index price, which suggests that more traders are entering long positions. Funding rates briefly turned negative on Okex and Bybit but closed the month in the green. Overall, funding rates remain muted compared to their levels from earlier this year which could be a result of less leveraged long positions.

## Bitcoin Perpetual Futures Funding Rates



Aggregated open interest for Bitcoin perpetual futures rose by 29% to \$9.8bn in August indicating that new money is flowing into derivatives markets. The increase was driven mainly by Bybit and Binance which saw the value of open futures contracts surge by 51% and 31% respectively. The current levels of open interest are roughly comparable to February's when Bitcoin price was averaging \$46K. The structure of open interest appears to be shifting with the share of linear contracts, where the margin and the profit and loss (PnL) are paid in the quote currency (stablecoins or USD), increasing relative to inverse contracts. The share of linear perpetuals in total open interest grew to 60% from 55% between June and August.

## Bitcoin Perpetual Futures Open Interest



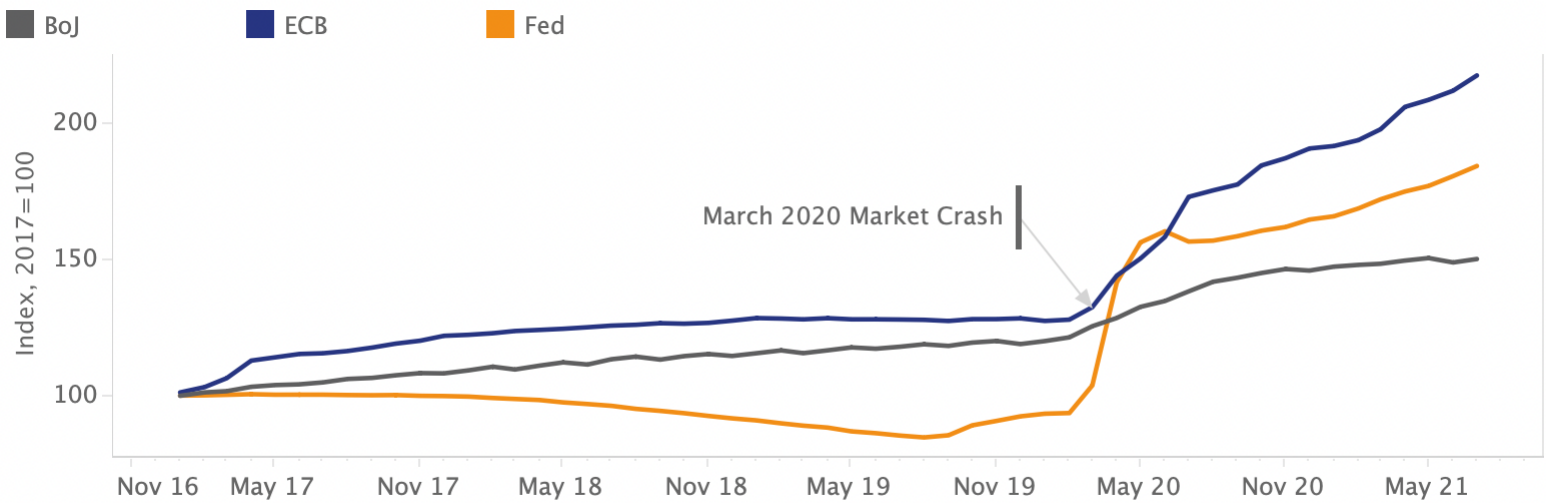


# Dovish Stance Relieves Tapering Jitters

Financial markets closed in August near record highs after the Fed re-affirmed its dovish monetary policy at their annual Jackson Hole meeting, temporarily relieving tapering jitters. Over the past few months, a growing number of global central banks have turned hawkish and started scaling back the unprecedented monetary stimulus adopted at the start of the pandemic. This is expected to negatively impact global tech stocks and risk-on assets such as cryptocurrencies which have been a major beneficiary of abundant global liquidity and low risk aversion. Below, we chart the balance sheets of the Fed, the European Central Bank (ECB) and the Bank of Japan (BoJ). Both the Fed's and the ECB's assets doubled between March 2020 and August 2021 reaching record highs of \$8.3tn and \$9.4tn, respectively. The Bank of Japan's total assets grew to \$6.5tn, about 1.3X the size of the country's economy.

## Global Central Banks Balance Sheets

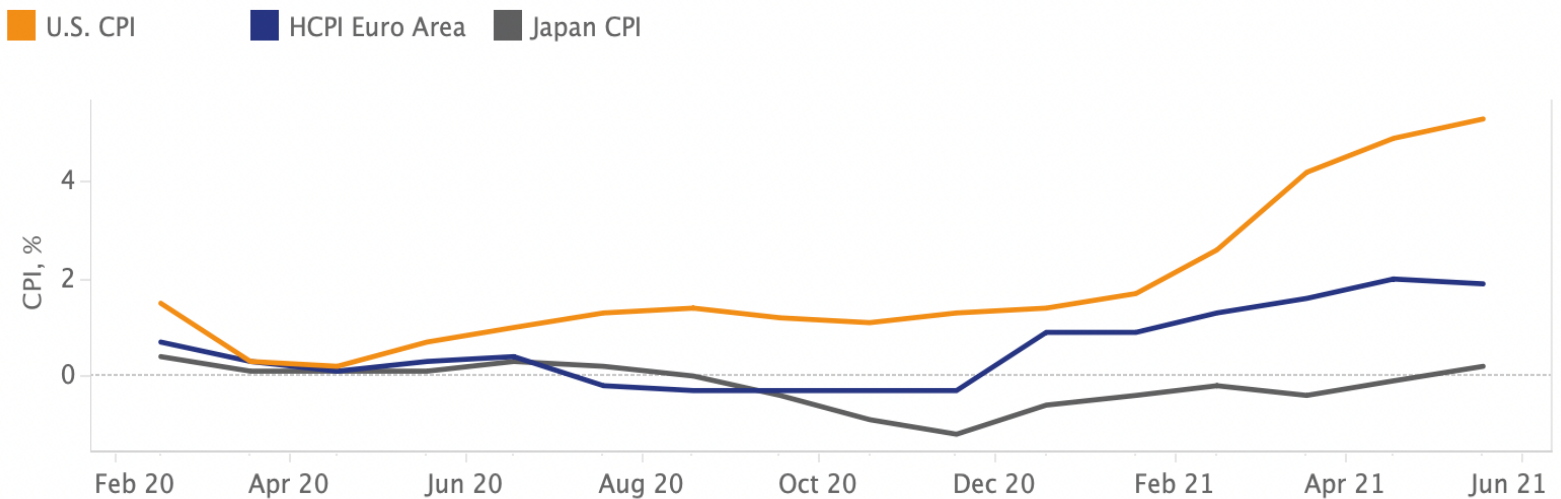
Central Banks Assets in Local Currencies, 2017=100



High inflation readings over the past few months have fueled fears that more major central banks could start dialling back monetary stimulus, signalling the “end of easy money”. However, the Fed reassured markets that the bank is not in a rush to hike its key interest rate. The ECB and the Bank of Japan have pledged to keep supporting their economies amid growing macro concerns around the spread of the Delta variant.

## Global Consumer Price Inflation

Year on Year % Change

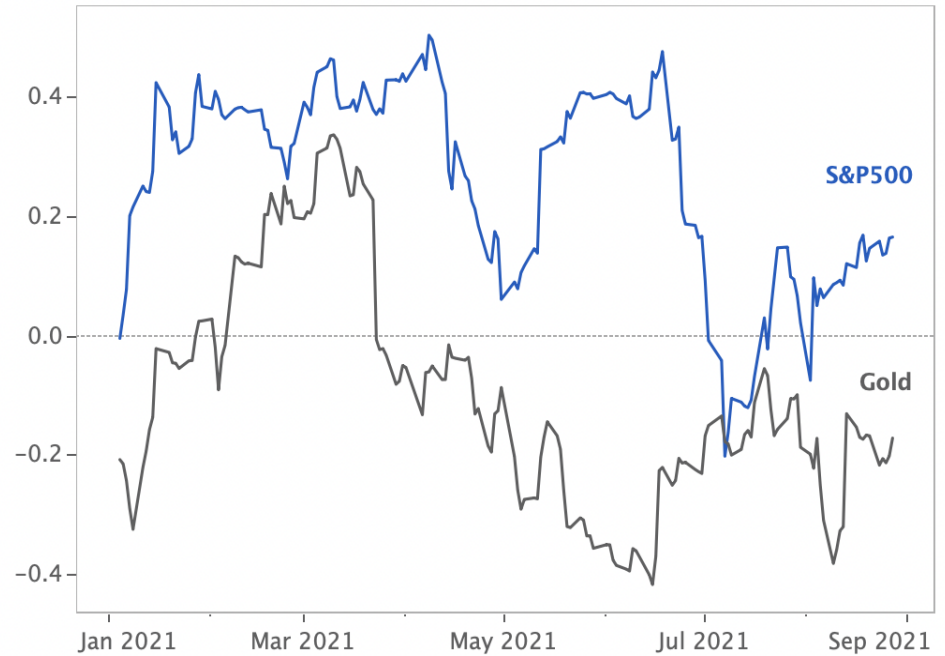


# Bitcoin's Correlation With Gold Remains negative

Bitcoin's correlation with Gold has been negative since March, hitting a low of  $-0.42$  in early June. This has been the longest period of negative correlation between the two assets since 2018, which suggests a lasting reversal in their relationship. A strengthening U.S. Dollar in August ( $+0.6$  m/m) put pressure on gold prices, which fell to a four-month low in early August, despite rising inflation. Gold is down 7% YTD while Bitcoin is up 60%. The crypto asset today is more aligned with the S&P 500 equities index, which is up 22% YTD and has continued to break record highs.

## Bitcoin's Correlation With Traditional Assets

Rolling 30D correlation of daily returns



## August Market Report

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