

June 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

Crypto markets continued their downtrend into June as China's crackdown on mining activities and general bearish sentiment weighed on prices. Bitcoin again ended the month in the red, registering its third monthly decline in a row. Trade volumes remained well below May's all-time highs despite persistent volatility, although total volumes are still magnitudes greater than they were one year ago.

Despite the sell-off, acceptance of crypto at the global level continued to make gains. El Salvador officially adopted Bitcoin as legal tender, A16Z raised a \$2.2 billion crypto fund, Citi Group launched their digital asset unit, and the first Latin American crypto ETF began trading in Brazil.

On the macro front, all eyes were on the Fed this month amid rising inflation fears. At their June meeting, the Fed indicated a sooner-than-expected rate tightening which was perceived as a hawkish shift by investors, sending jitters throughout both traditional and crypto markets. Traditional equities continued to break record highs as crypto assets dipped, a sharp divergence from the previous year's trends.

This monthly report was written by Clara Medalie with help from Dessislava Aubert and the Kaiko team.

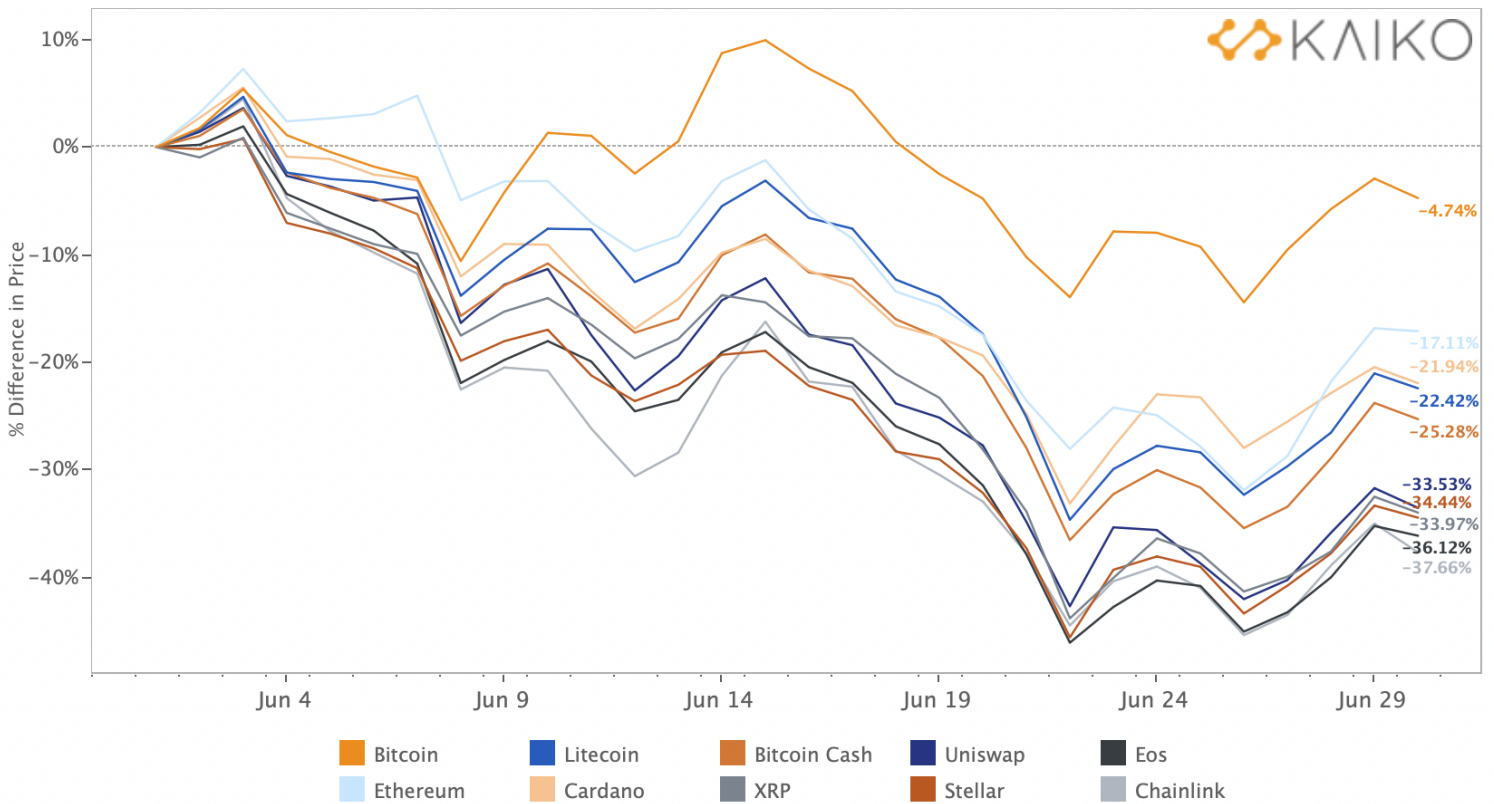
About Kaiko

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 to learn more about our data and research services.

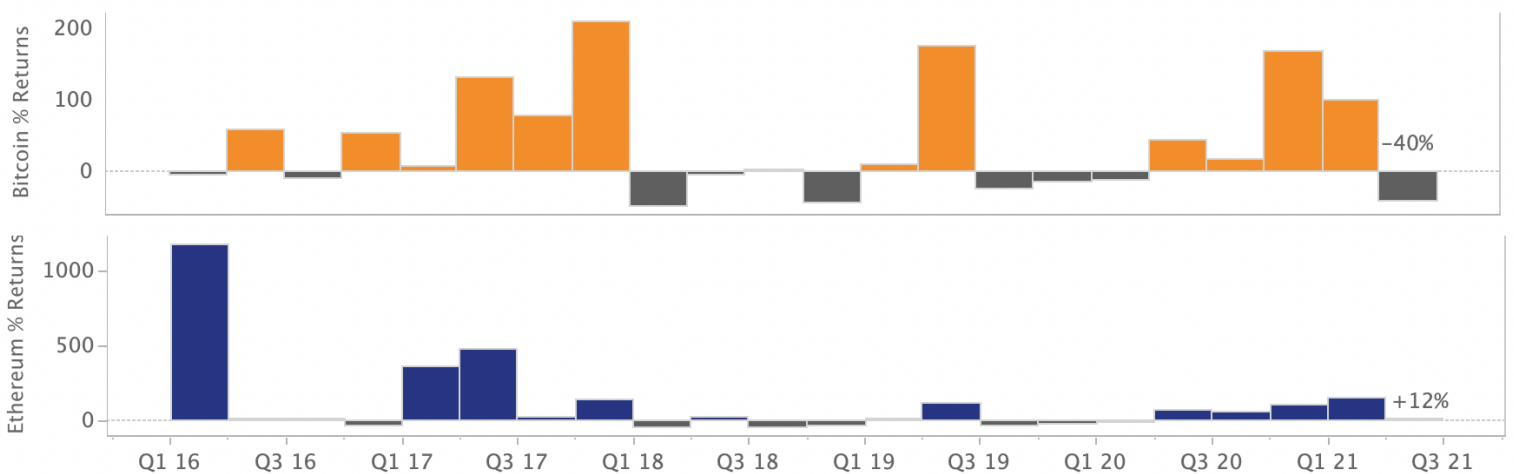
Market Sell-Off Continues

All of the top ten cryptocurrencies closed June in the red. It is difficult to link a market-wide sell-off to one cause, but fear stemming from China's miner crackdown and general macro worries over monetary tightening likely drove the recent bearish sentiment. Bitcoin briefly fell below \$30K for the first time since January and Ethereum traded below \$2k for most of the month before rebounding slightly in the final days. Uniswap, the largest DeFi asset by market cap, plunged 33% MTD, a similar range as other top DeFi assets. EOS and Chainlink registered the steepest monthly declines of more than 36%. Overall, Bitcoin experienced the worst quarterly returns since 2018, down 40%, a sharp turnaround from Q1's record breaking highs.

June Returns for Top Crypto Assets



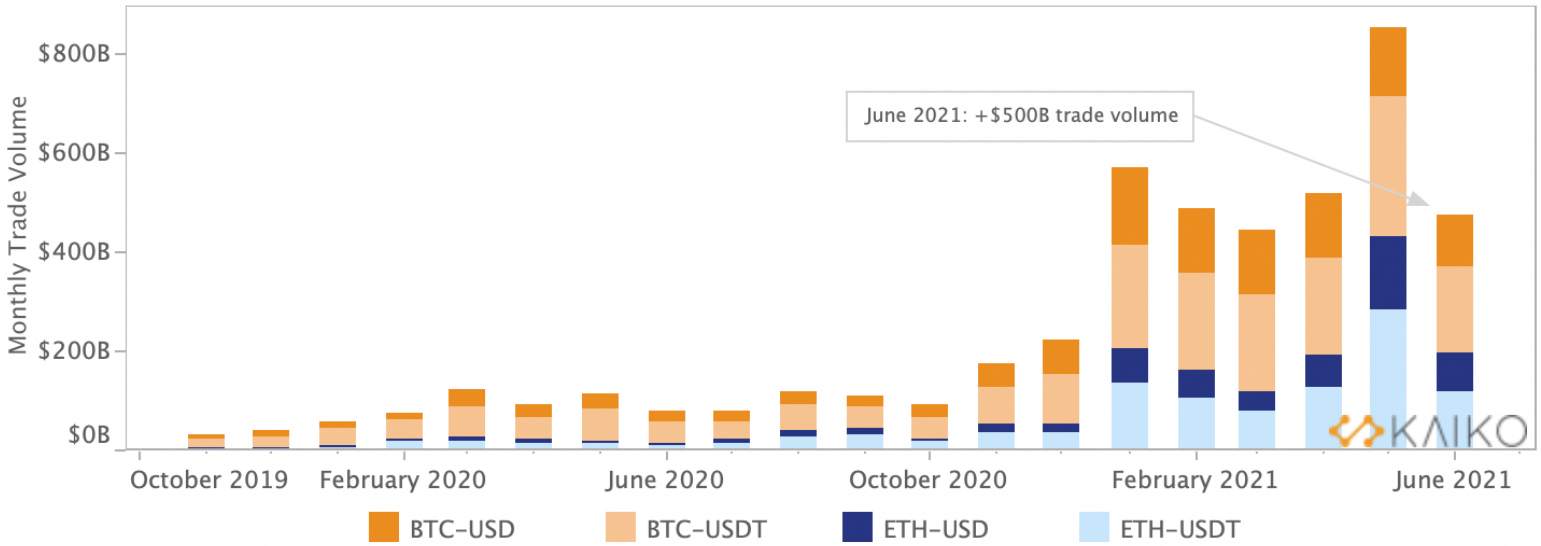
Historical Quarterly Returns



Monthly Trade Volume

Top four traded pairs aggregated across 20 exchanges

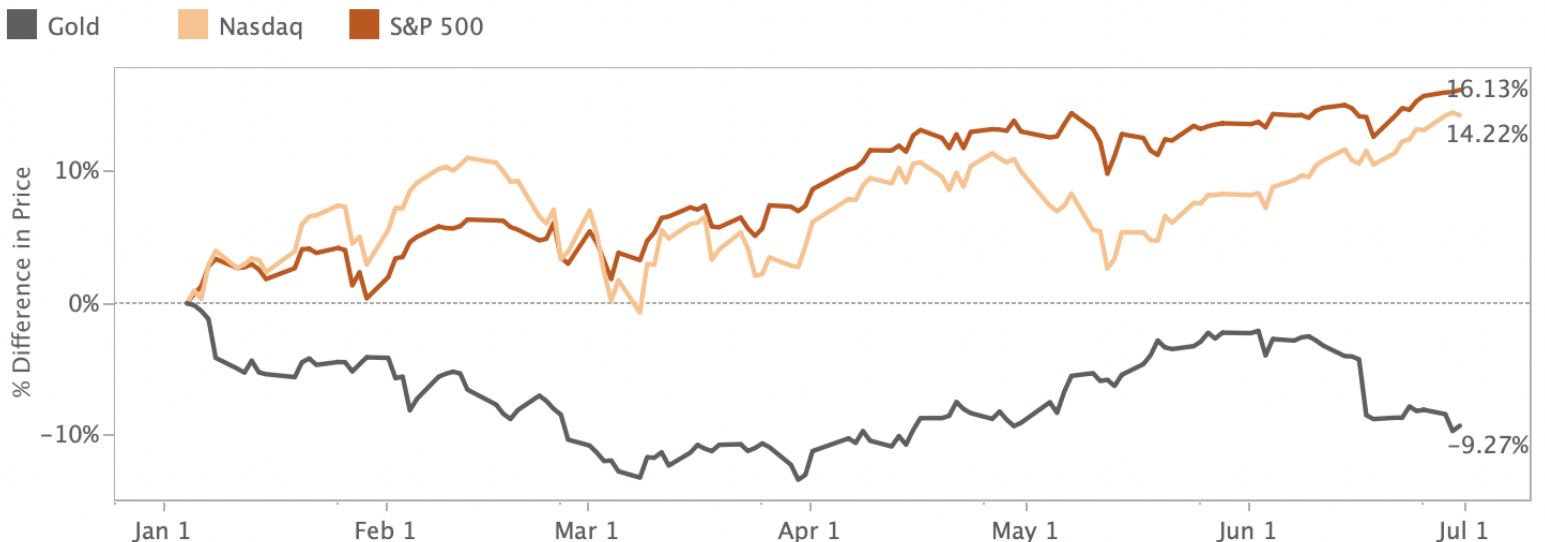
Although June trade volume fell from May's all time highs, it still ranks in the top five months ever recorded. Overall, volumes have surged in 2021 to levels more than five times greater than previous years. This has generated massive profits for exchanges, while also demonstrating the infrastructural challenges that come with processing an unprecedented number of transactions. This month, more than \$500 billion of volume was executed for the top four trading pairs aggregated across 20 of the industry's largest exchanges.



YTD Returns for Traditional Financial Assets

Gold, Nasdaq, and S&P 500

Accommodative monetary policy has pushed both traditional and crypto assets to all time highs throughout 2020-21. However, over the past few months, crypto assets have de-correlated from traditional financial gains, registering losses as the S&P 500 again broke all time highs. Despite inflation concerns, Gold still registers negative YTD returns. Following the Fed's hawkish shift mid-June, traditional equities briefly dipped before rebounding on growing optimism around a steady economic recovery and robust corporate earnings.



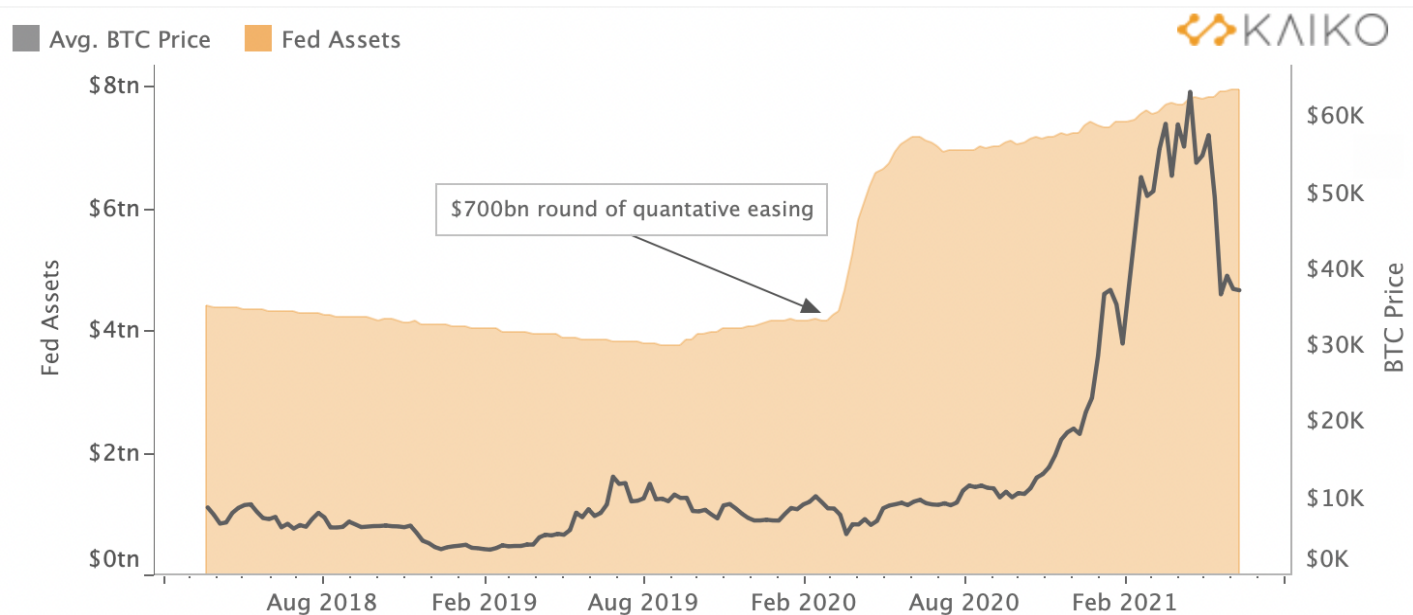
Data source: Refinitiv

Bitcoin and the Fed

As the economy reopens, inflation expectations have hit record high levels. The breakeven inflation rate, a market based measure of expected inflation over the next 5 years, remains well above the Fed's target rate of 2%. During its June meeting, the U.S. Central Bank indicated a sooner-than-expected tightening of interest rates while admitting that measures for inflation were higher than anticipated. Over the past year, the Fed has injected trillions of dollars into the economy which has coincided with the largest run-up in traditional equities and crypto assets ever recorded. All eyes are now on the Fed's annual meeting this August for further hints of tapering. Additionally, any sign that higher inflation is more than just a temporary after-effect of the past year's quantitative easing could contribute to market volatility.

Bitcoin vs. The Fed's Balance Sheet

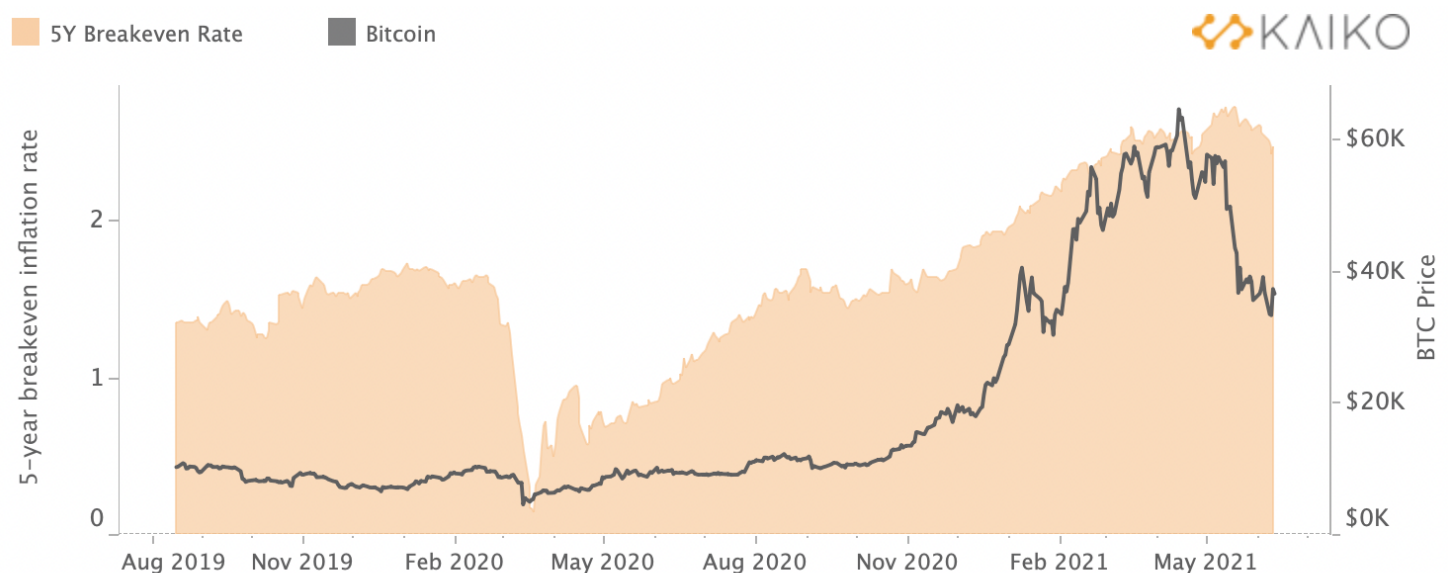
The U.S. Federal Reserve's balance sheet measures the total quantity of assets and liabilities



Source: Kaiko reference rates, FRED

Bitcoin vs. The Breakeven Inflation Rate

The 5-year breakeven inflation rate is a market-based expectation of inflation



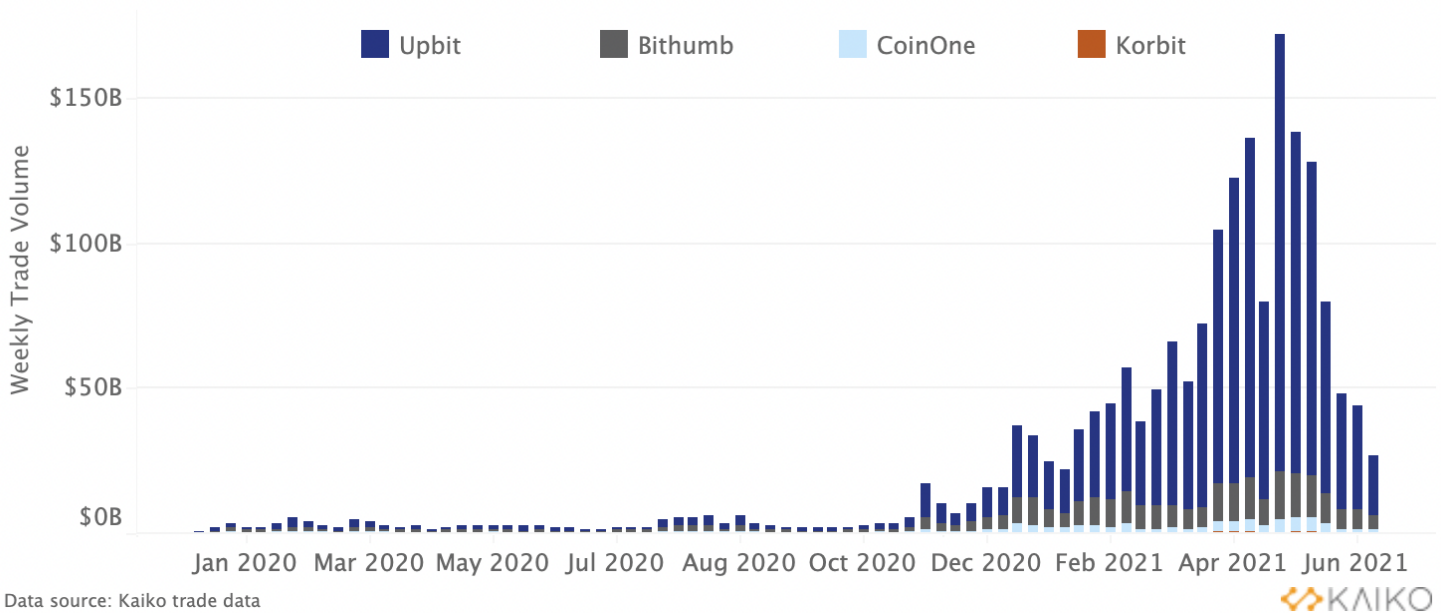
Source: Kaiko Reference Rates, FRED

Regional Growth in South Korea and South America

Regional hubs have gained significant market share over the past year as crypto becomes an increasingly global asset class. South Korea has long been a vibrant microcosm of the crypto industry, separate from global crypto markets due to a unique regulatory environment that restricts cross-border capital transfers. Upbit, one of the "big four" South Korean exchanges, today boasts some of the largest trade volumes in the industry, processing more than \$100B weekly. Latin America is also a high-growth crypto region, with surging volumes on Bitso, the largest regional exchange, which recently closed a \$250 million funding round. Bitso now frequently processes more than \$200m in weekly volume, more than double the sum one year ago today. Despite regulatory challenges, growing acceptance of crypto at the global level could pave the way for a more diverse range of crypto service providers and financial use cases.

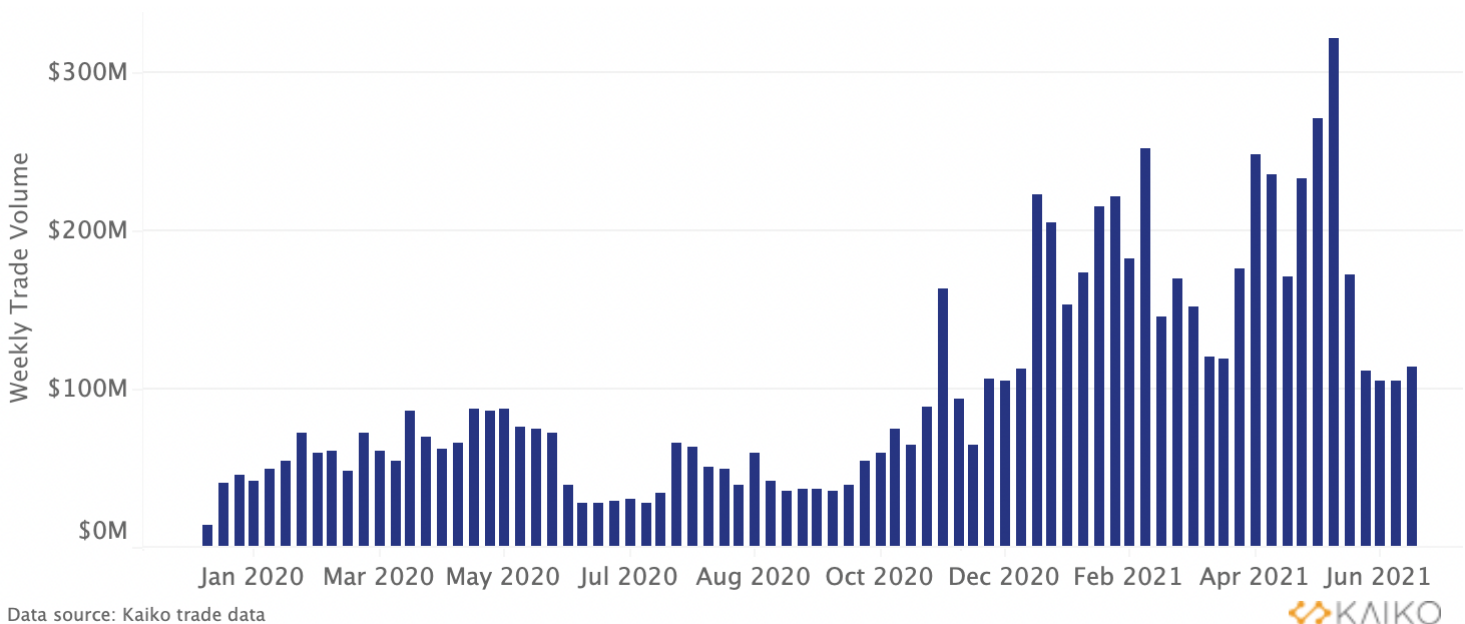
South Korean Exchange Weekly Volume

The "big four" exchanges in the region are Upbit, Bithumb, CoinOne, and Korbit



Bitso Weekly Volume

Bitso is the largest Latin American exchange

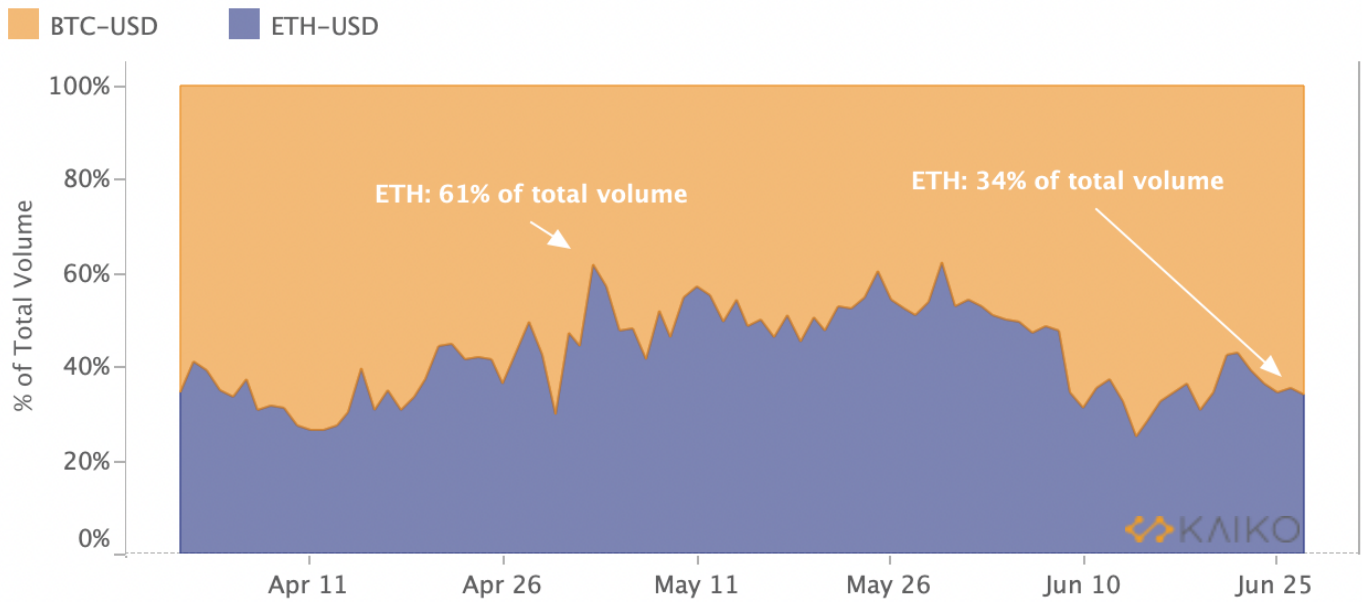


Ethereum's Quick Reversal

Throughout the history of crypto, Bitcoin has always been the highest volume asset, preferred by institutional and retail investors alike. In May, a sharp shift in market structure caused the ratio of Ethereum to Bitcoin volume to reach its highest levels ever recorded at well over 50%. This recent "altcoin season" saw investors pour funds into alternative crypto assets at an unprecedented rate, although it ultimately proved short-lived. From May to the end of June, the ratio of ETH to BTC volume fell from 61% to 34%, likely due to growing bearish sentiment. Market-wide sell-offs typically cause investors to rotate assets away from altcoins and into Bitcoin. We can observe that the average trade size for ETH-USD markets dipped sharply in June, an indicator that high-volume investors took a step back.

BTC vs. ETH: % of Total Volume

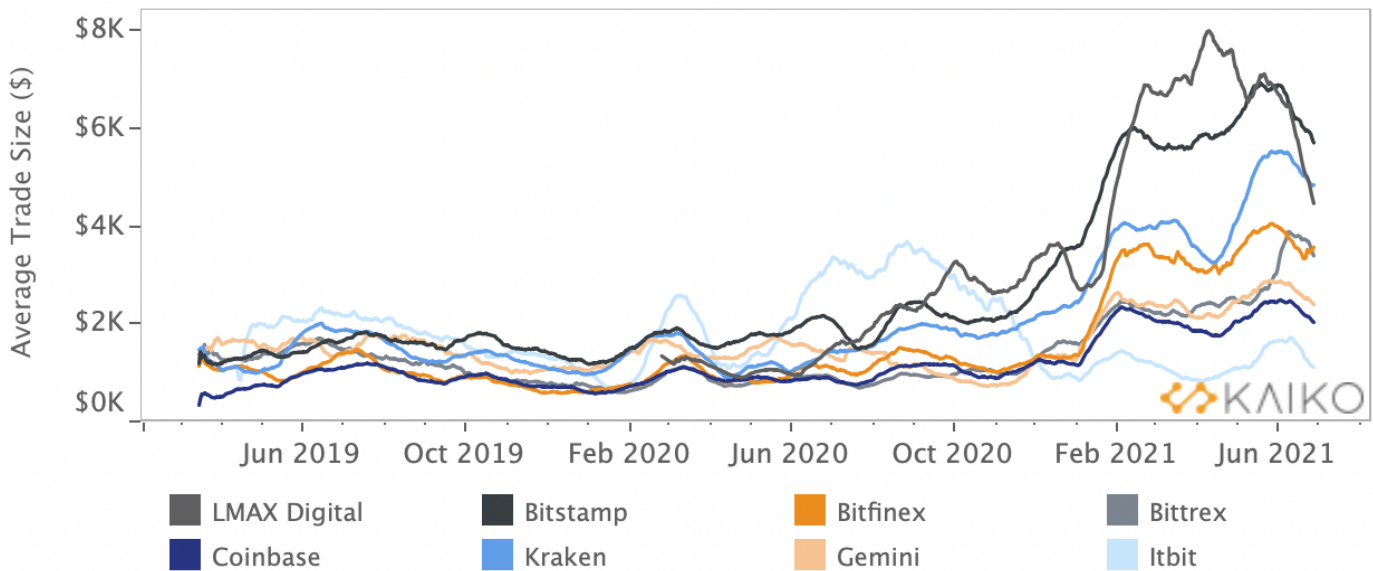
Bitcoin has reclaimed market share.



Data source: Kaiko trade data aggregated across top USD exchanges

Average Trade Size

Trade sizes fell in June, but are still near all time highs

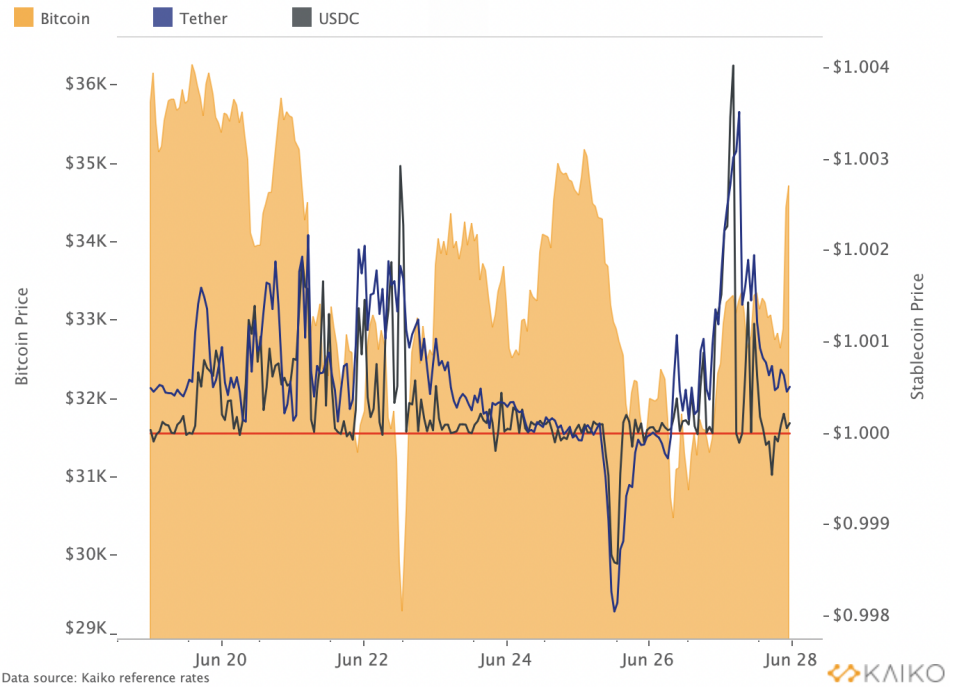


Data source: Kaiko trade data, 30D moving average

Stablecoins De-Peg During Sell-Off

Bitcoin crashed from \$35k to \$29k between June 21-22 prompting investors to rotate their assets into dollar-backed stablecoins, which are recognized as a safe haven amid extreme market volatility. The price of Tether (USDT), the largest and most systemically important stablecoin, rose to \$1.002, its highest value since May. USDC, an increasingly prominent stablecoin backed by Circle, also experienced a premium above \$1.001. Both Tether and USDC experience positive drift from their USD-pegs more frequently than negative drift, likely a result of their safe haven status during market-wide sell offs.

BTC Price vs. Stablecoins



June Market Report

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