



September 2020

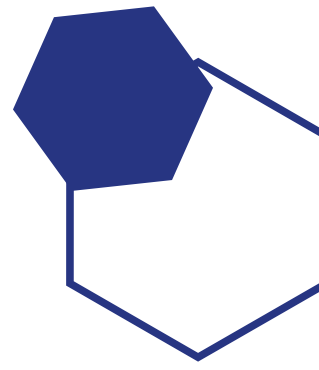
Kaiko Research

Monthly Market Report

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MONTHLY OVERVIEW



Historically, cryptocurrency markets have performed weakly in the month of September and this year proved no different. Bitcoin, Ethereum, and altcoins struggled to maintain momentum following August's brief bull run that propelled many cryptoassets to multi-year highs. After a summer of unfettered growth for decentralized financial markets, prices corrected sharply with top ranked DeFi tokens losing from 20% to 60% of their value since August. The DeFi turbulence caused Ethereum's price volatility to double compared with that of Bitcoin's, continuing a pattern of divergence for the two top-ranked assets. The correlation between Bitcoin and equities weakened slightly this month but still remains higher than their historical average, indicating that cryptoassets remain susceptible to macroeconomic market forces and economic shocks. While overall monthly returns were deep in the red, institutional interest continued to grow as Q3 closed in the green. Bloomberg hailed crypto as "2020's Top Asset So Far" due to exceptional yearly returns, public company Microstrategy announced another large Bitcoin purchase, and Kraken got approved for a U.S. banking license.

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.

September in the Red

Bitcoin and Ethereum ended the month down ~7% following a bullish August that propelled many cryptoassets to multi-year highs. Trading volumes fell in tandem with prices, with BTC/USD volumes down **18.31%** and ETH/USD volumes down **8.03%**. In traditional financial markets, the S&P 500 ended the month down 4%, its worst month since March. Despite poor September returns, financial markets closed Q3 in the green.

Monthly Returns: -7.19%

Monthly Close: \$10,780

Monthly High: \$12,055

Monthly Low: \$9,955

BTC faced continued resistance at the \$11k price level throughout the month of September although the asset has successfully maintained its position above \$10k for more than 2 months. The stabilization above 5 digits has resulted in a prolonged drop in volatility, which comes amidst news that Bitcoin balances on exchanges have hit their lowest levels since November 2018. The drop in BTC on exchanges could indicate that investors are choosing to hold their assets in the longterm.

Monthly Returns: -7.06%

Monthly Close: \$359.82

Monthly High: \$388.09

Monthly Low: \$320.70

Ethereum volatility remained high as the asset bounced between \$320 and \$390, failing to breach the \$400 price level throughout the month. Price movements this month were largely influenced by events in the DeFi industry. The number of on-chain transactions reached an all-time high following Uniswap's surprise token drop, heightening urgency surrounding scalability as record-high transaction fees continued to affect the network.

BTC/USD Price



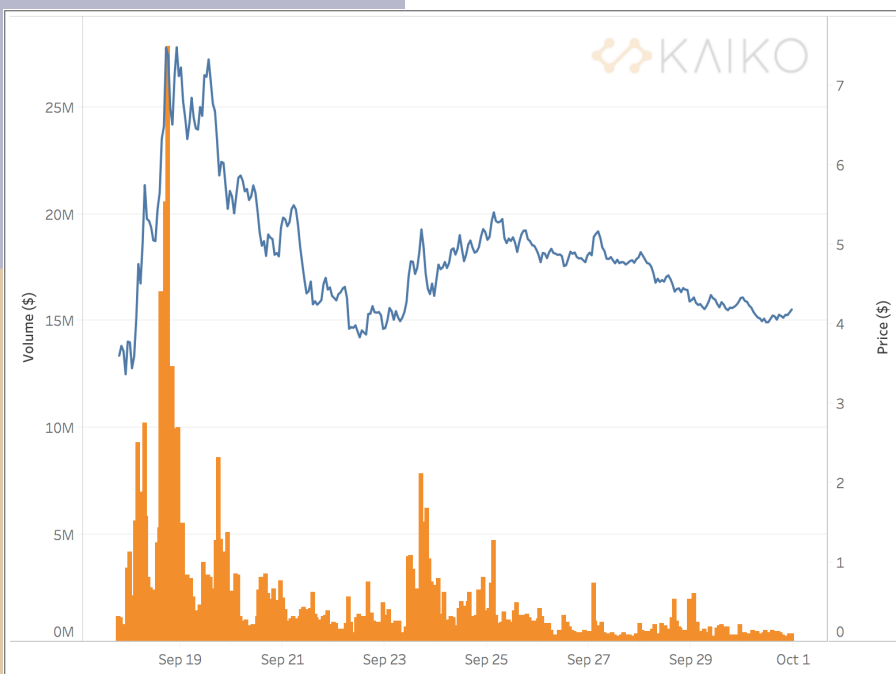
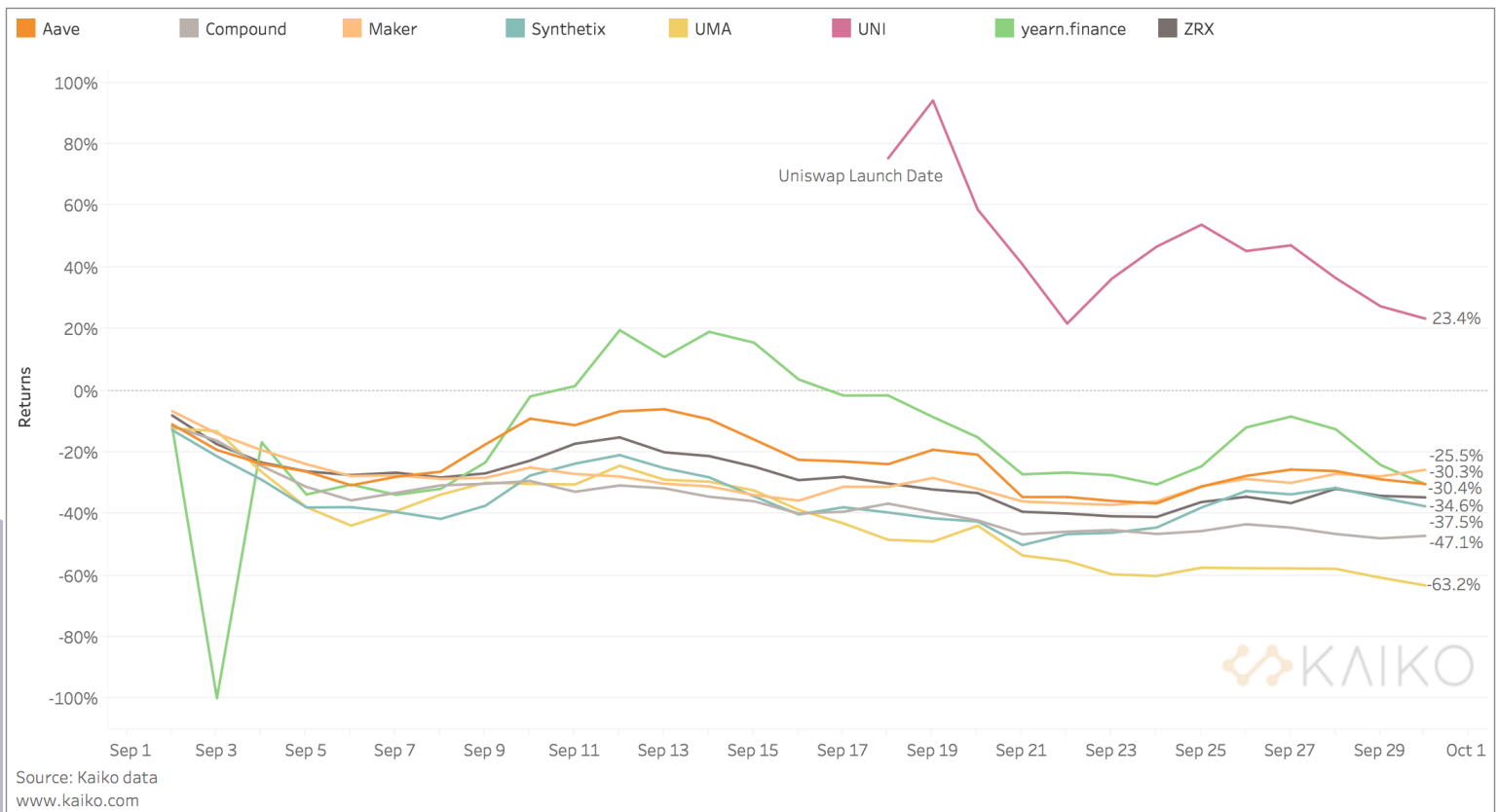
ETH/USD Price



DeFi Faces a Sharp Correction

DeFi token prices did not maintain their upwards momentum into September, with nearly all top tokens except for UNI, which launched mid-September, experiencing negative returns ranging from -20% to -60% for the month. The sharp correction comes after record levels of capital flowed into DeFi protocols beginning late July. This may be a case of profit-taking as traders anticipate waning exuberance after months of unfettered growth. However, September trading volumes on decentralized exchanges (DEXs) were far higher than August volumes and Total Value Locked, or the total value of assets in liquidity pools, reached a milestone above \$2 billion on Uniswap.

DeFi Token Returns Since September 1st



UNI Trading Volume

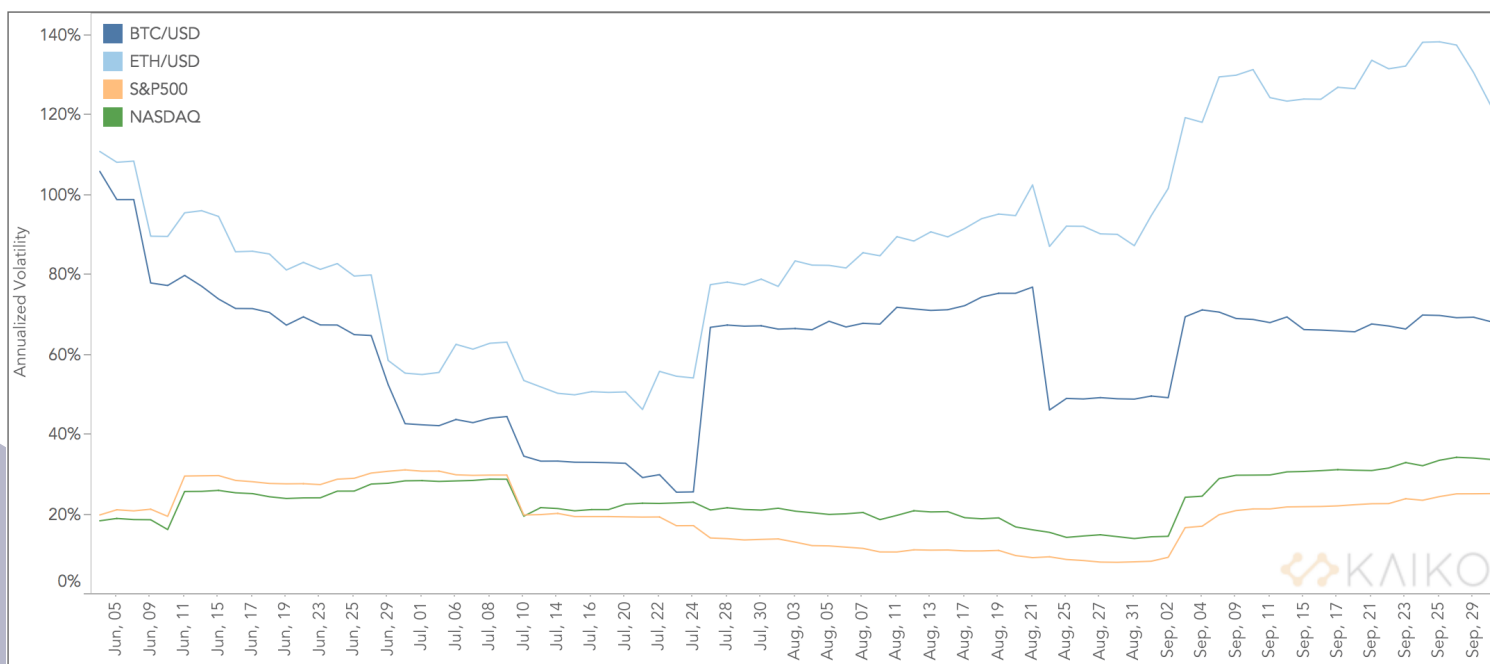
Hourly Price and Volume for UNI/USD on Coinbase

The decentralized exchange Uniswap surprised their loyal followers this month with the launch of their own token, UNI. The token triggered a turn of fortune after rival protocol SushiSwap siphoned away valuable liquidity on September 10th. On the first full day of trading after UNI's listing on Coinbase, volumes exceeded \$200 million for the UNI/USD trading pair causing prices to soar above \$7 before stabilizing between \$4-\$5. UNI trading volumes on centralized exchanges have since fallen.

Volatility Increases Across Financial Markets

20-Day Realized Volatility

Volatility rose across financial markets throughout September as anticipation builds around additional economic recovery measures in the United States ahead of the November presidential elections. Yet, Bitcoin's volatility is historically lower than average following several months of anemic price action. Bitcoin and Ethereum's volatility curves used to be closely aligned, moving mostly in parallel with a small spread. Since August, the spread between the two curves has widened significantly, with BTC's volatility hovering around 60% while ETH's has surpassed 100%.



Ethereum Volatility

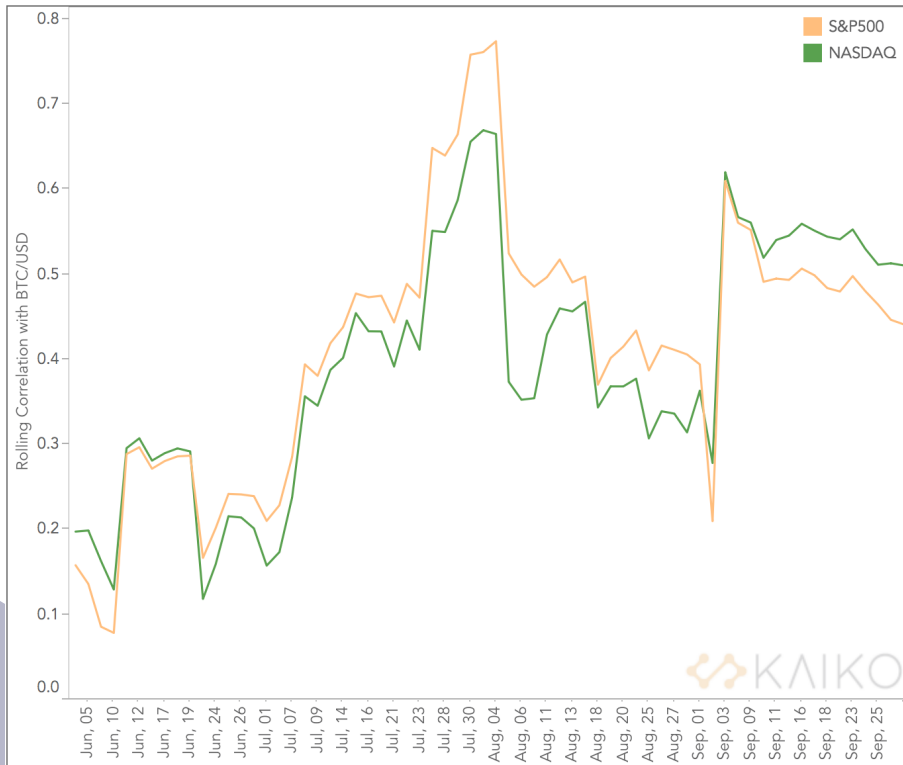
Bollinger Bands

What has caused this extreme divergence in price behavior between the two top-ranked assets? Bitcoin's price action has been subdued amidst the DeFi hype that has demonstrated the wide range of use cases for the Ethereum network, which is the backbone of most decentralized financial protocols. The divergence may ultimately be good for cryptocurrency markets because it signals that the two assets are considered unique by investors and not as a single indicator for the health of the markets.



Bitcoin's Correlation With Equities is Historically High

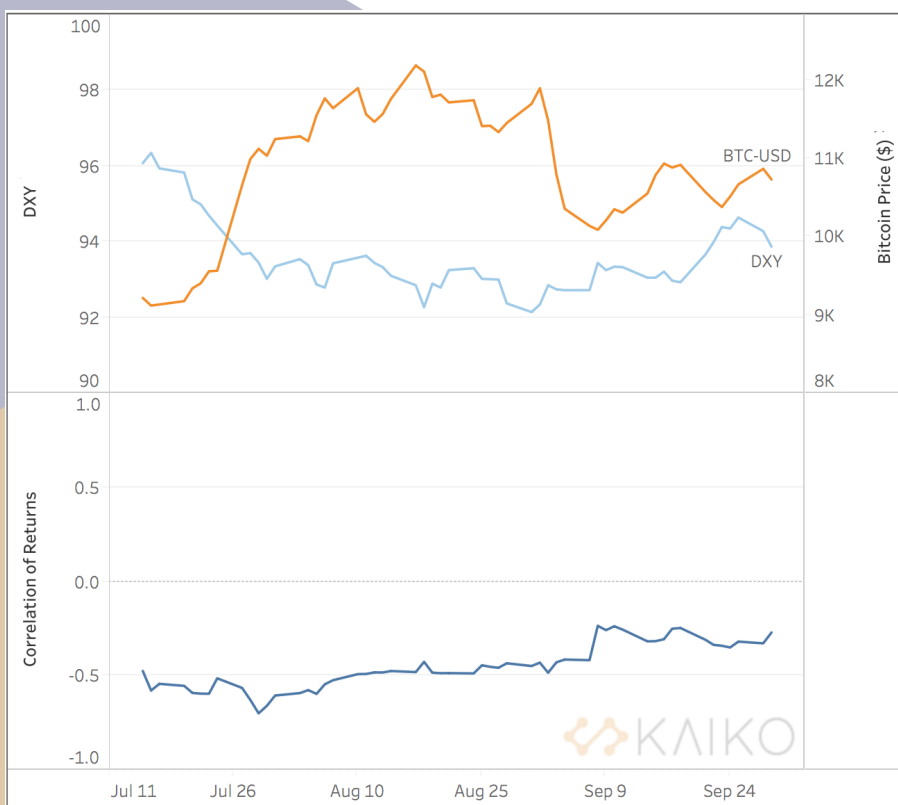
Financial markets could be entering a risk-off period triggered by growing uneasiness surrounding the November election and policies targeting the economic effects of Covid-19. If Bitcoin's correlation with equities remains positive, this could negatively impact the cryptoasset in the short-term as investors move to safe havens. On the other hand, Bitcoin's continuing inverse correlation with the dollar paints a conflicting bullish outlook if the dollar weakens further.



Bitcoin's Correlation with Equities

30-Day Rolling Correlation of Returns

Bitcoin's correlation with equities has been higher than average over the past few months indicating that the cryptoasset remains susceptible to market forces that affect traditional financial markets. Since June, the correlation has more than doubled to levels above .45 for both Nasdaq and the S&P 500. Prior to the market shocks caused by Covid-19, Bitcoin enjoyed a loose correlation to assets like equities and gold. The change in behavior could mean Bitcoin is increasingly being treated as a store of value by investors.



Bitcoin's Correlation with the Dollar Index

30-Day Rolling Correlation of Returns

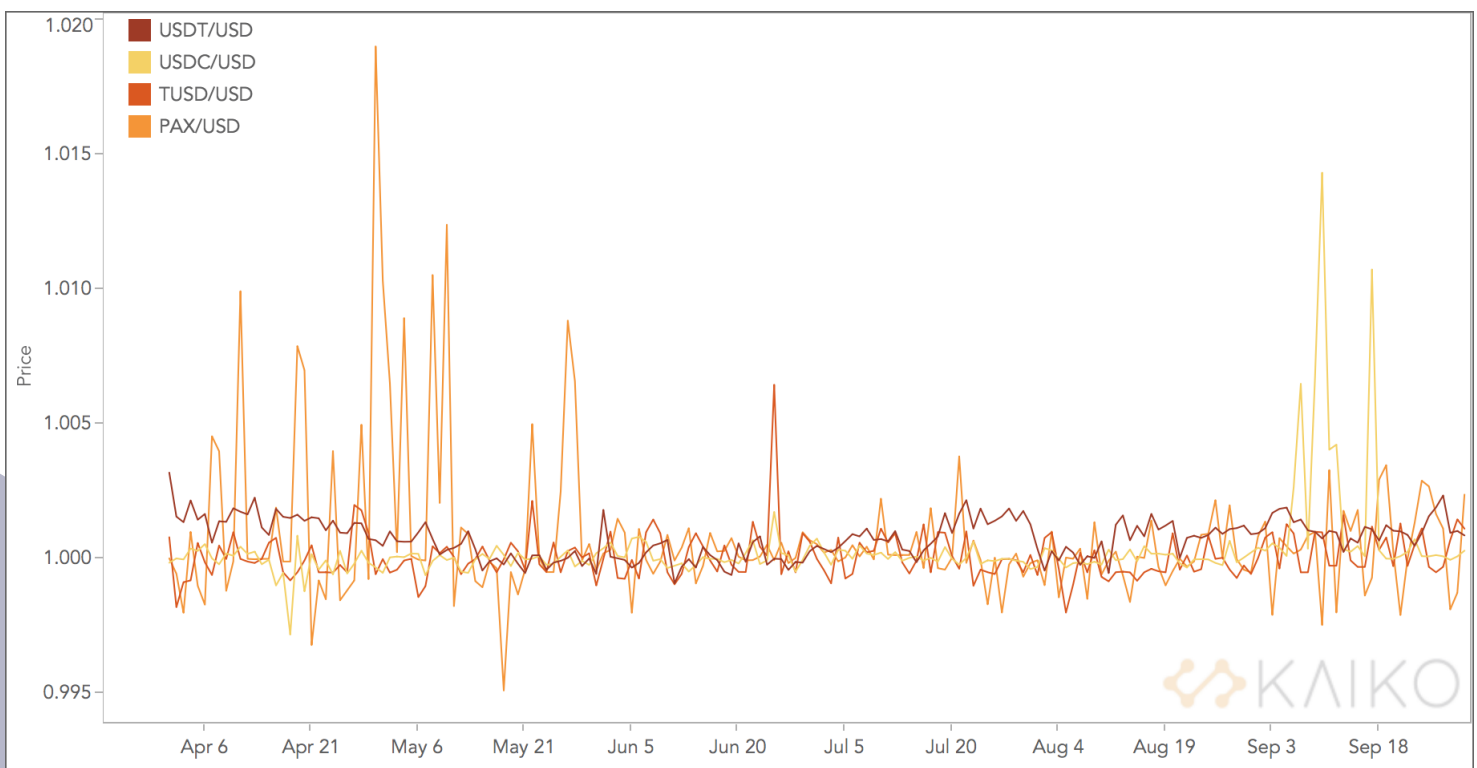
The U.S. dollar gained slightly this month against a basket of foreign currencies, but its future remains uncertain with the Federal Reserve's new monetary policy targeting inflation, which proposes looser longterm targets. The inverse correlation between the dollar index (DX) and Bitcoin held throughout September, which could be a bullish signal for Bitcoin if the dollar weakens in the coming months. Historically, the dollar has been the world's reserve currency and if this position is threatened, Bitcoin becomes more attractive as a hedge.

The Growth of Stablecoins

The growth of DeFi has coincided with an increase in the issuance of stablecoins as users deposit record sums in liquidity pools to earn yields. As of September 30th, three of the top five tokens used in Uniswap liquidity pools were stablecoins, accounting for more than \$500 million in Total Value Locked. The rise in demand for stablecoins has resulted in an increase in both trading volume and the market capitalization for Tether (USDT), Coinbase's USDC, trueUSD, and Dai.

Stablecoin Prices

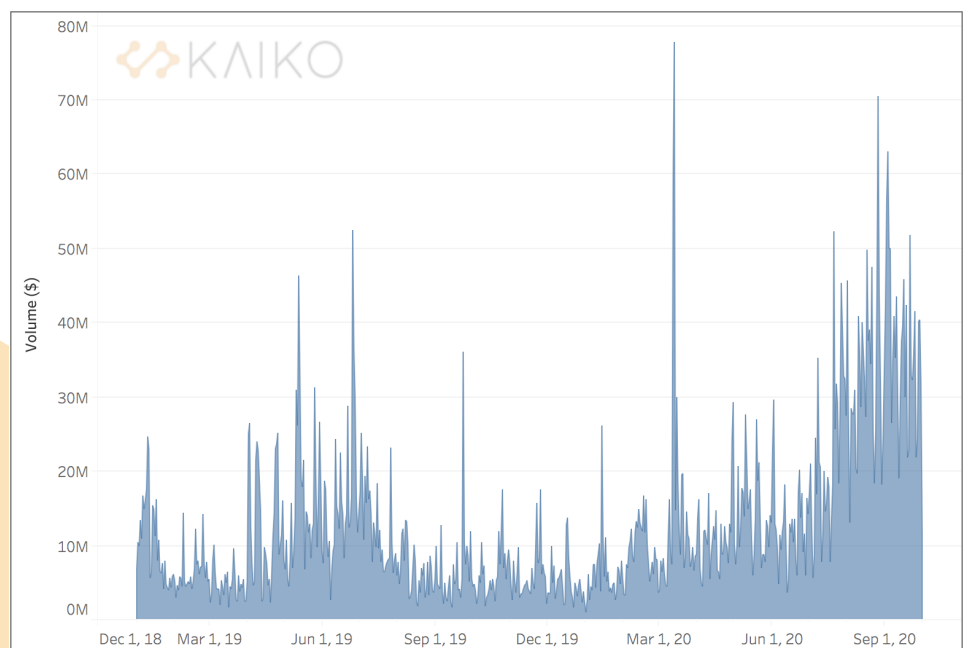
For much of the summer, dollar-pegged stablecoins remained relatively...stable. However, throughout September volatility has been on the rise, with daily prices for USDC, PAX, and TUSD diverging ever so slightly from their 1-to-1 dollar peg. Typically, stablecoin prices fluctuate when wider cryptocurrency markets experience periods of volatility.



Tether Trading Volume

USDT/USD Trading Volume

Tether trading volumes are on the rise, reaching their highest sustained levels this year. The rise in volume corresponds with Tether's swelling market cap driven largely by the growth of DeFi markets. On September 17th, Tether announced that they had surpassed a \$15 billion market capitalization, minting \$3 billion USDT in just 1 month. Tether also announced a transfer of 1 billion USDT from the Tron blockchain to Ethereum.



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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 is passionate about new market trends, data analyses, and financial instruments.



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As a Data and Research Analyst, Anastasia contributes to Kaiko research initiatives by designing metrics and models for observing and understanding cryptocurrency markets. She frequently writes research articles on relevant trends in the cryptocurrency industry. Her main interests are stablecoins, central bank digital currencies, and crypto market forecasting.



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