

April 2022

 KAIKO | Research

Monthly Market Report

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

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MONTHLY OVERVIEW

April was one of the worst months for risk assets since the start of the pandemic, with Bitcoin, Nasdaq, and the S&P 500 closing the month down double digits. Despite the overall market downturn, crypto volatility has dropped markedly while equity volatility has surged. Both DEX and CEX trade volumes continued to slip throughout the month, although order book liquidity – as measured by price slippage – remains resilient.

Decentralized stablecoins were the talk of the industry this month after Terra USD overtook Binance USD as the third largest stablecoin by market cap, prompting several projects to announce their own algorithmic stablecoins, including TRON, which will offer a 30% yield on USDD. Overall, investment into the crypto space remained strong in April with several nine-figure fundraising rounds.

Written by Dessislava Aubert, Clara Medalie, Riyad Carey, Conor Ryder with help from the Kaiko team.

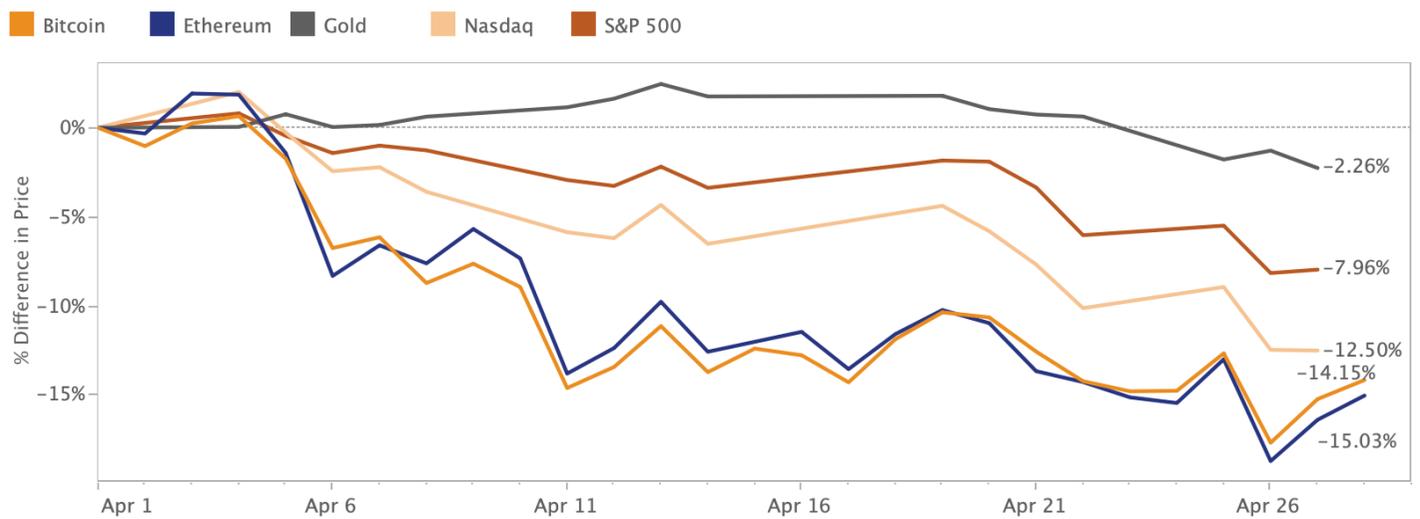
About Kaiko

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.

Macro Headwinds Hit Crypto Markets

Rising yields, a record CPI reading, and a strengthening US Dollar all combined to create the least attractive macro environment for risk assets in years, with most crypto assets closing the month down double digits. Ethereum underperformed Bitcoin, possibly influenced by news that the transition to proof of stake will be delayed until the second half of the year. While Bitcoin ended the month down 14%, that was only 1.5% worse than the Nasdaq's performance, as plenty of growth stocks missed in a poor earnings season.

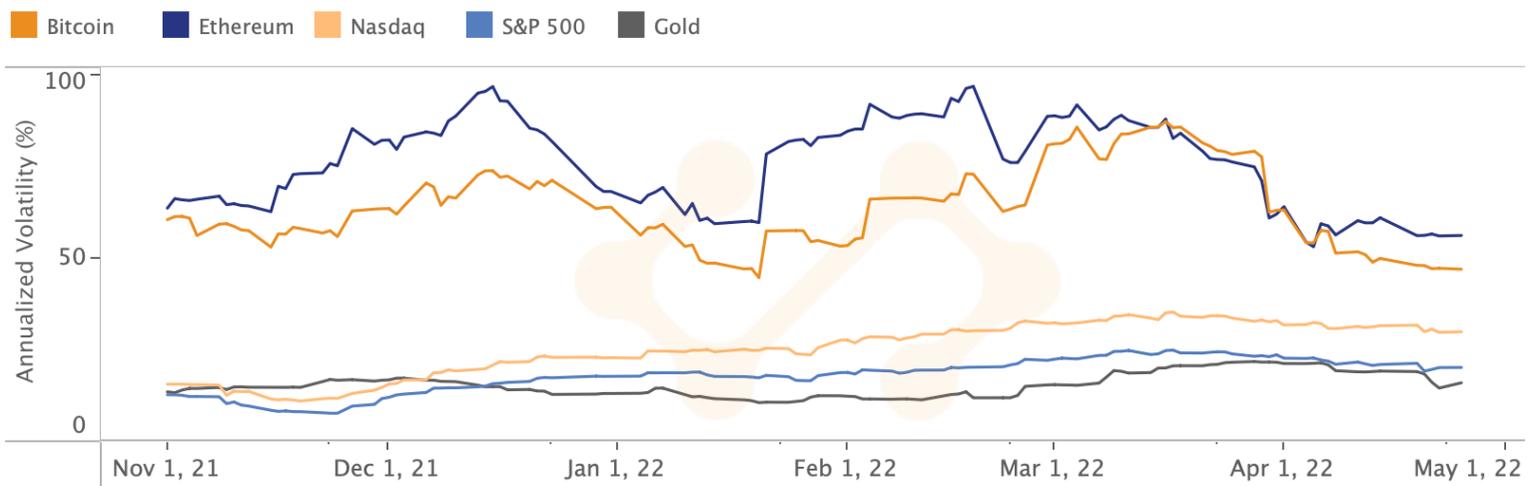
April Market Performance



Data source: Refinitiv

Despite the mutual market downturn, the volatility gap between crypto and the stock market is at its lowest since October 2020. Crypto markets have traded in an increasingly tight range while equities have experienced abnormally steep sell-offs due to macro uncertainty. The U.S. Federal Reserve has become more aggressive in their tightening of financial conditions and are now clearly favoring the fight against record levels of inflation over market growth. The big question for the remainder of the year is whether they can find the right balance between inflation, raising rates, and economic health.

Crypto Volatility Decreasing While Stock Volatility Increases

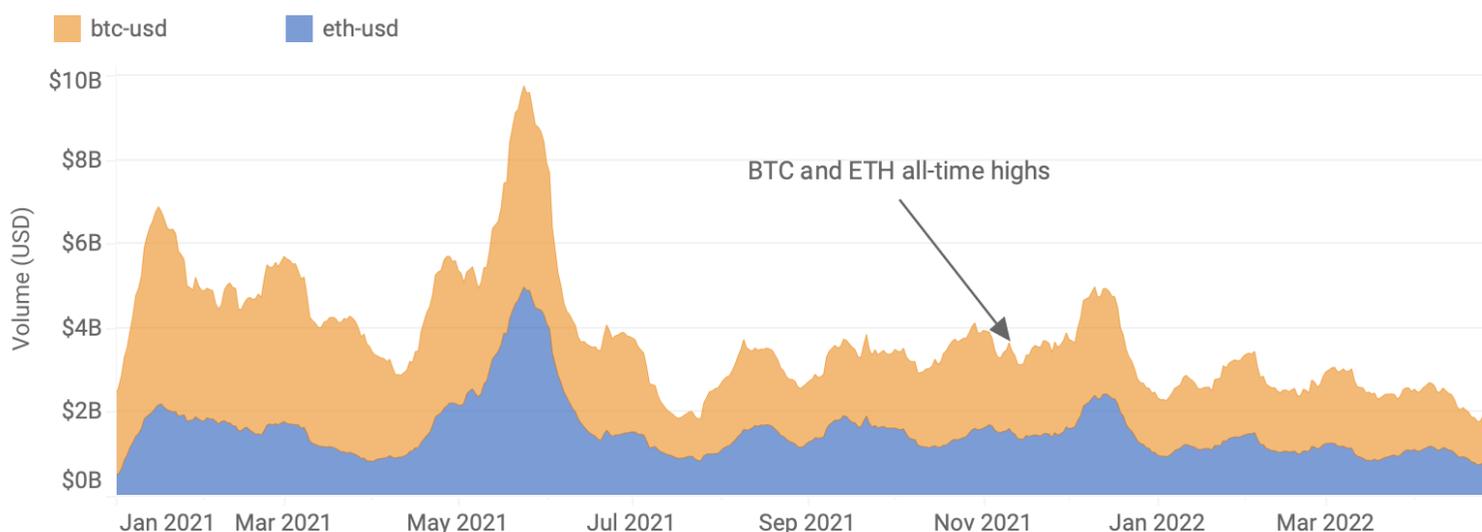


DEX and CEX Volumes Continue to Fall

Bitcoin and Ethereum volumes on centralized exchanges have continued to fall this year and are currently at their lowest level since last July. Daily USD-denominated BTC volumes have declined from about \$1.4bn to \$1bn this month, while ETH volumes have declined from \$1bn to \$800mn. The drop-off in trading activity comes amid falling market volatility, with Bitcoin and Ethereum trading in an increasingly tight range.

Daily BTC and ETH Volumes

14-Day Moving Average



Decentralized exchange volumes have also trended downwards this year following a January surge. Uniswap V3, the top DEX on the Ethereum network, has had daily volumes slip from around \$2bn to less than \$1.5bn. The top 5 tokens associated with CEXs (BNB, CRO, LEO, FTT, and OKB) and DEXs (UNI, RUNE, CAKE, SNX, and CRV) had registered similar returns this year prior to the final sell-off of the month. Both CEXs and DEXs derive most of their revenues from transaction fees, which suggests that the drop in trade volume, along with the broader macro picture, has influenced the value of their tokens.

Daily Ethereum DEX Volume



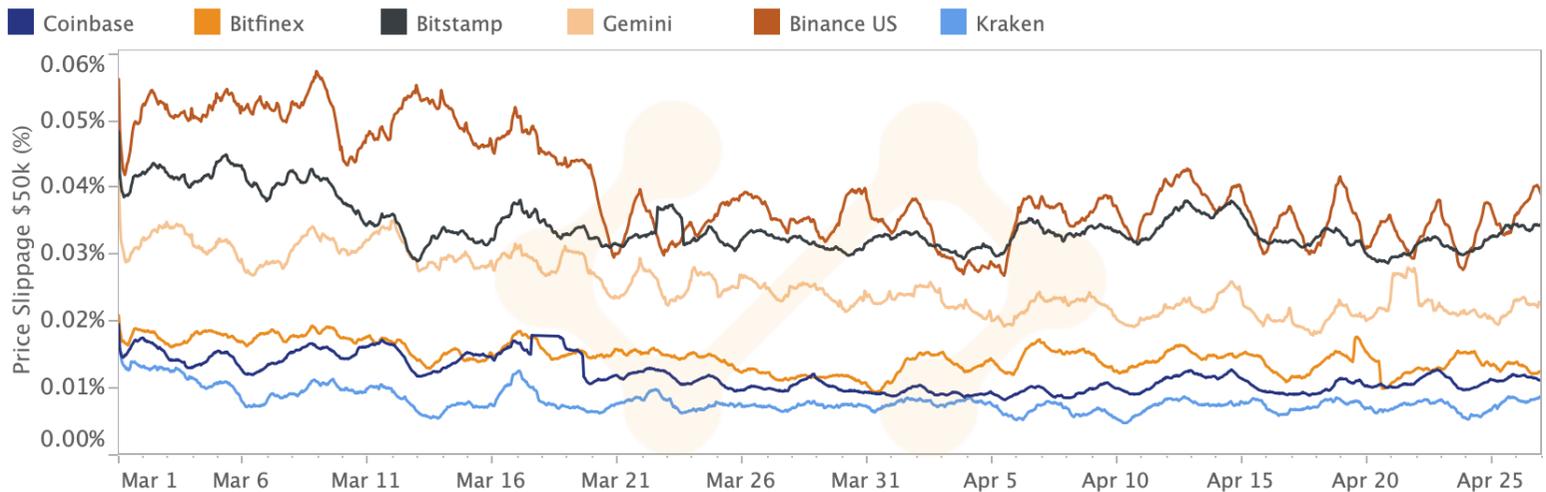
CEX vs. DEX Token YTD Returns



Liquidity is Resilient Despite Low Spot Volumes

Despite the market downturn, price slippage has been improving since March, suggesting liquidity is resilient despite falling volumes and prices. Our price slippage measure simulates a \$50k market sell order on the most liquid BTC-USD trading pairs, and we can observe an improvement across exchanges. Gemini and Bitstamp have had the most notable improvement, decreasing from 0.04% at the beginning of March, to 0.02% and 0.03% respectively at the end of April.

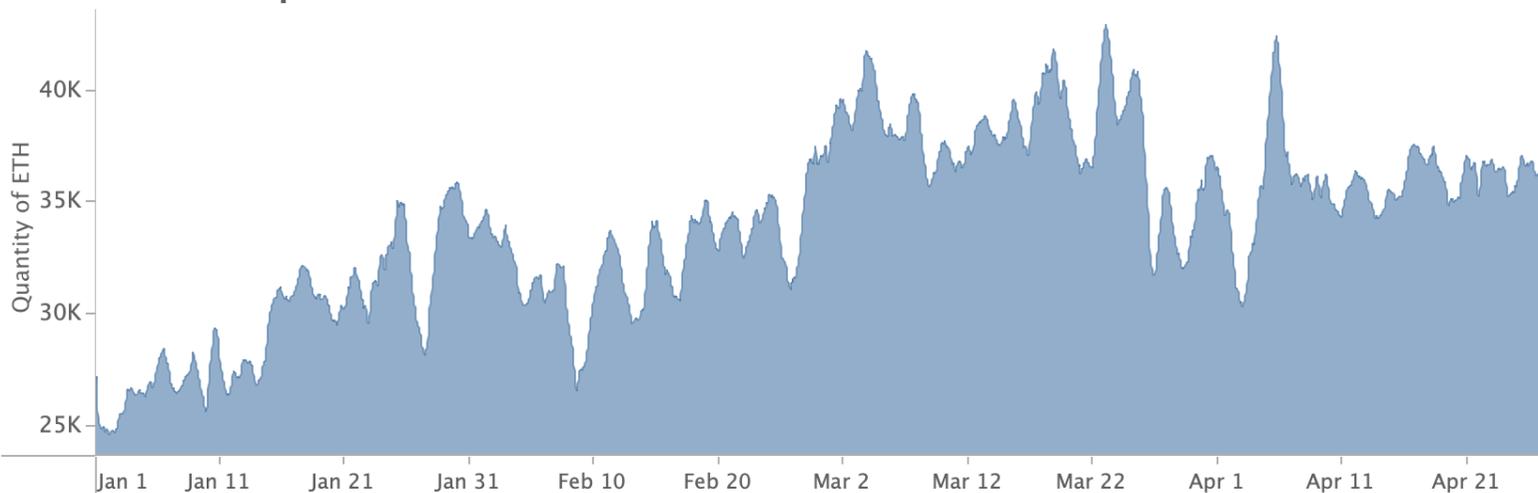
BTC-USD Price Slippage



Data Source: Hourly average market depth, bid-ask spread, price slippage

Ethereum's 2% market depth — measuring the quantity of bids and asks within 2% of the mid price aggregated across the most liquid USD pairs — has increased by 32% since the start of the year from around 25K ETH to 36K. Overall, however, Ethereum market depth in both native ETH units and denominated in USD has more than halved since 2020, in line with a general decline in Ethereum's supply held on centralized exchanges. The decrease in exchange liquidity could be related to investors opting to lock up their Ethereum in anticipation of the merge, earning around 4% APR on their deposits. The proof of stake ETH contract now holds over 11 million ETH, worth over \$36bn.

ETH 2% Market Depth



Aggregated across Binance US, Bitfinex, Bitstamp, Bittrex, Coinbase, Gemini, Itbit, Kraken

Worsening Environment For Risk Assets

Another hot inflation print and hawkish comments from the Fed boosted U.S. real yields, which flirted with positive territory in April for the first time in two years. Typically, an increase in real yields is seen as negative for risk assets such as tech stocks and crypto because it lessens their appeal relative to safe-haven bonds. Below, we chart the 10-year U.S. real inflation-adjusted yields (TIPS) alongside Bitcoin's price. Despite remaining low relative to historic averages, U.S. real yields surged at the fastest pace since the start of the pandemic.

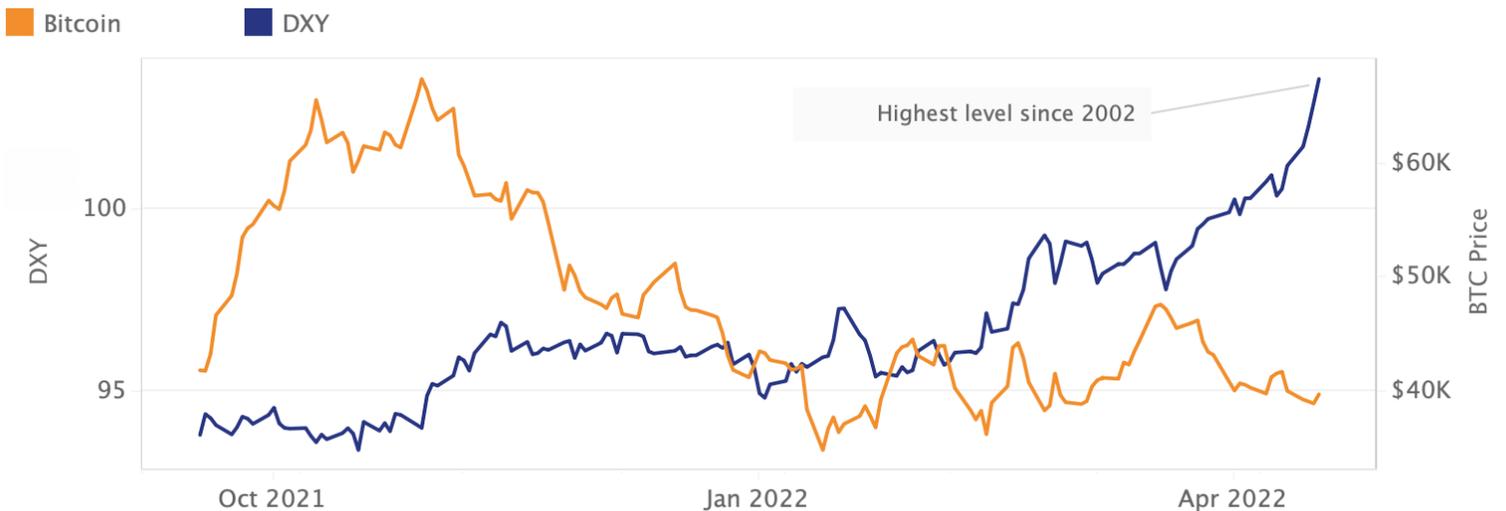
Bitcoin vs. U.S. Real Yields

10-year inflation-adjusted treasuries (TIPS)



The growing hawkish divergence between the U.S. Fed and other major central banks, the war in Ukraine, and a worsening growth outlook in China boosted the appeal of the U.S. Dollar over the past months. Below we chart the U.S. Dollar Index (DXY) alongside the price of Bitcoin. While the inverse correlation between Bitcoin and the U.S. Dollar has mostly dissipated over the past year, the trend recently re-emerged. The DXY hit its highest level in 20 years at the end of April while Bitcoin fell by 5% last month. The 30-day correlation between the two assets fell to a 16-month low of a negative 0.6 before bouncing back slightly.

Bitcoin vs. The U.S. Dollar

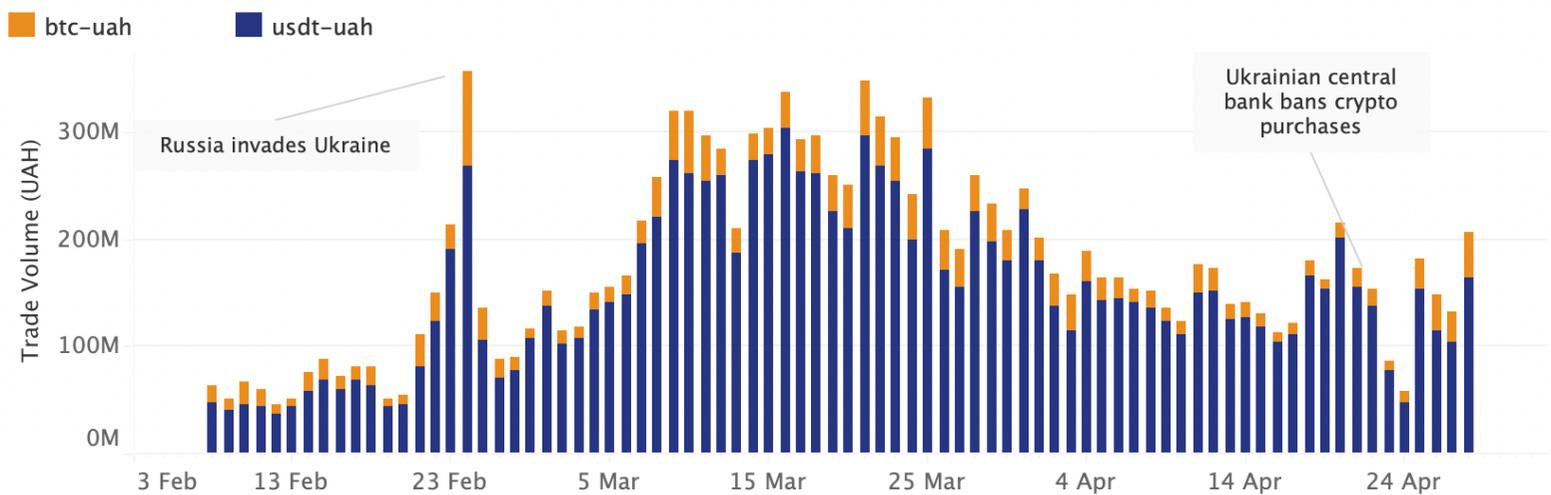


Ukrainian Crypto Volume Recovers Following Ban

On April 22, the Ukrainian central bank [strictly limited](#) the purchase of crypto using local currency to “prevent unproductive outflow of capital from the country.” The effect on Hryvnia-denominated trade volume was nearly instantaneous, with BTC and USDT trade volume on Binance dropping to their lowest levels since before Russia’s invasion. Yet, after the initial fall, volume surged back up, posing questions about the efficacy of the ban and the ability to monitor transactions. Overall, Ukraine has embraced crypto throughout the war, formerly legalizing its use last month and receiving more than \$50 million in BTC and ETH donations.

Ukrainian Hryvnia Crypto Volume

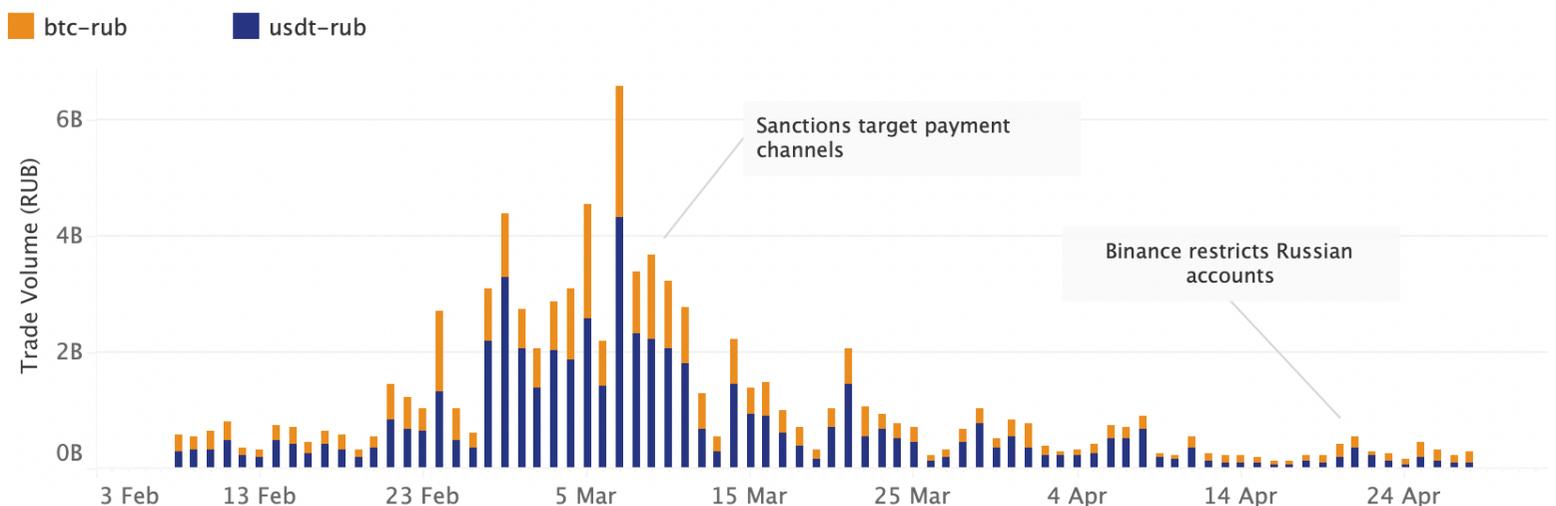
Aggregated BTC-UAH and USDT-UAH volume



Meanwhile, Russian Ruble-denominated crypto activity has plummeted following the implementation of sanctions, restrictions on payment networks such as Visa and Mastercard, and Binance's own efforts to restrict Russian accounts. Initially, the exchange had resisted any censorship, but in April began curbing services offered in Russia, banning accounts that hold more than €10k from making future deposits or trading.

Russian Ruble Trade Volume

Aggregated BTC-RUB and USDT-RUB volume



Decentralized Stablecoin Competition Heats Up

The decentralized stablecoin space heated up this month after US Terra surpassed BUSD as the third largest stablecoin by market cap. Several projects also announced new stablecoins, including TRON (USDD) and Near Protocol (USDN), which both use a similar peg mechanism as Terra's UST. The rising popularity is linked to the attractive yields that decentralized stablecoins offer through lending protocols. For example, UST holders can make about 18% APY through Anchor Protocol on the Terra blockchain. Yet, these types of stablecoins have proven to be at greater risk of de-pegging, compared with their centralized counterparts like USDT and USDC. Below we chart two recent de-pegging events: USDN de-pegged early April and has struggled to hold its peg since. UST de-pegged during the May 2021 crash but has since been relatively stable.

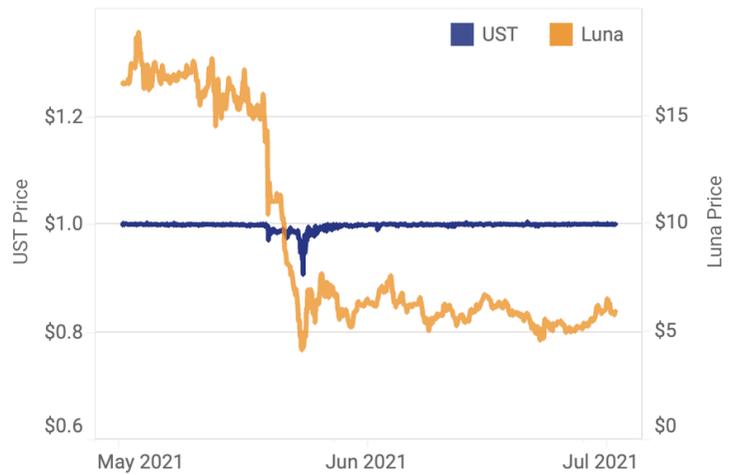
Waves and USDN

March 2022 to May 2022



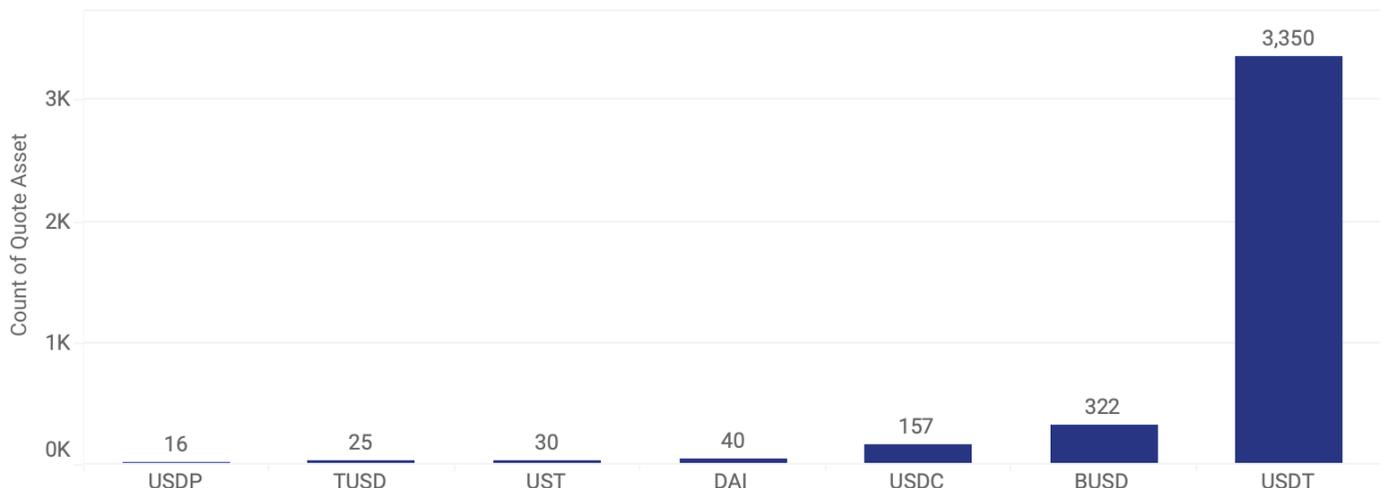
Luna and UST

May 2021 to July 2021



Ultimately, Tether (USDT) is still the most popular stablecoin. We can observe that on centralized exchanges, USDT is the quote asset for nearly 3,500 pairs, while the next closest, Binance USD (BUSD) is the quote asset for fewer than 350. However, USDT's top competitor, USDC, and other decentralized stablecoins such as DAI and UST have a much stronger foothold in DeFi, highlighting the growing divergence in use cases.

Number of Stablecoin Pairs on Centralized Exchanges

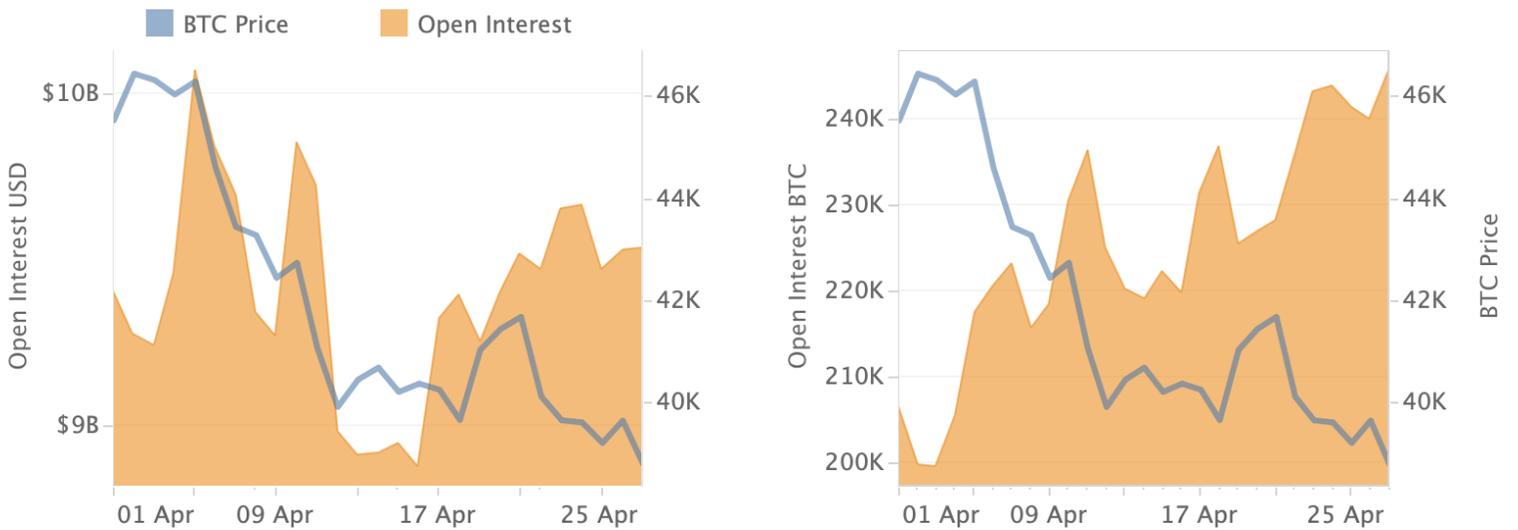


Neutral Derivatives Markets

BTC Open Interest reached its highest level this year when denominated in BTC, largely due to an increase in April. However, as charted below, when denominated in USD, open interest is mostly flat over the last month. This may suggest that due to BTC falling in price this last month, traders active in perpetual futures markets are adding to their positions, whether long or short, to bring their USD exposure back to target.

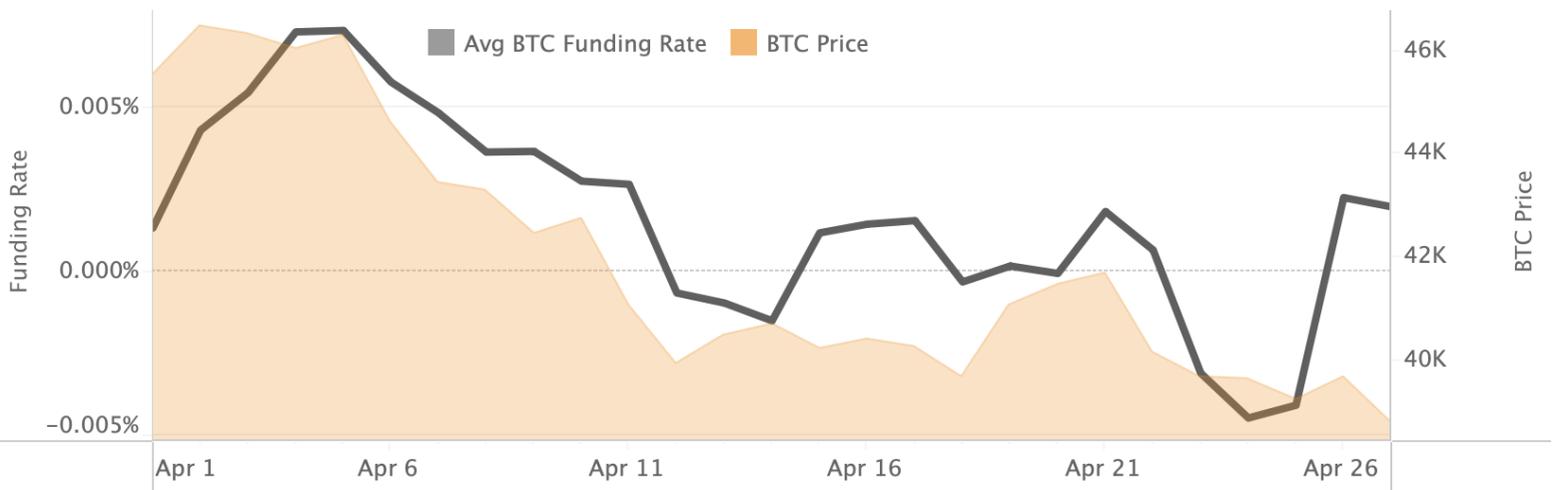
BTC Open Interest

Denominated in BTC (left) and USD (right)



BTC funding rates by design move very close to the price of BTC, as charted below. In April, funding rates dipped negative twice as BTC hit new monthly lows. However, it is worth noting that towards the end of the month we saw a slight divergence between the funding rate and BTC price action, as funding rates across exchanges went positive while BTC continued to set new lows. This could be due to spot markets selling off faster than futures, leaving the spot price lower than the futures price, creating positive funding rates, or could be indicative of bullish sentiment among futures traders hoping for a market bounce.

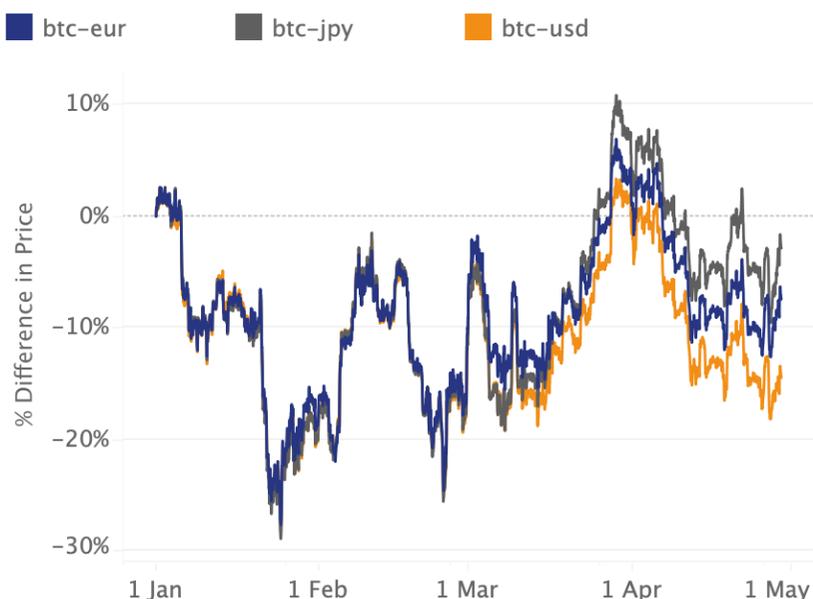
BTC Funding Rates



FX Volatility Spills Into Crypto Markets

FX market volatility rose sharply over the past few months with the Japanese yen (JPY) hitting its lowest level against the U.S. Dollar in 20 years. According to JP Morgan's global FX volatility index, volatility is at 2 year highs. This has exacerbated market inefficiencies and created arbitrage opportunities. Examining YTD changes in Bitcoin prices expressed in JPY, EUR, and USD, we see that the divergence in prices has risen markedly since March. BTC-fiat pairs traded mostly in line with one another until late February, when market dislocations emerged.

Bitcoin-Fiat YTD Returns



April Market Report

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