

June 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

June was one of the most volatile months in crypto's recent history as the industry experienced its own version of a credit crisis and contagion fears spread across the ecosystem. Popular crypto lender Celsius paused withdrawals due to liquidity issues while BlockFi and the broker Voyager Digital were handed crucial lines of credit from FTX. Hedge fund Three Arrows Capital went from managing more than \$10bn in assets to filing for bankruptcy as it became apparent they were taking on an exorbitant amount of risk. Meanwhile, the SEC rejected Grayscale's attempt to convert its Bitcoin Trust into a spot ETF, resulting in the GBTC discount widening to all time highs. Bitcoin closed the month under the key support level of \$20k as selling pressure mounted amid a record unwinding of leverage.

By Dessislava Aubert, Riyad Carey, Clara Medalie, and Conor Ryder, CFA.

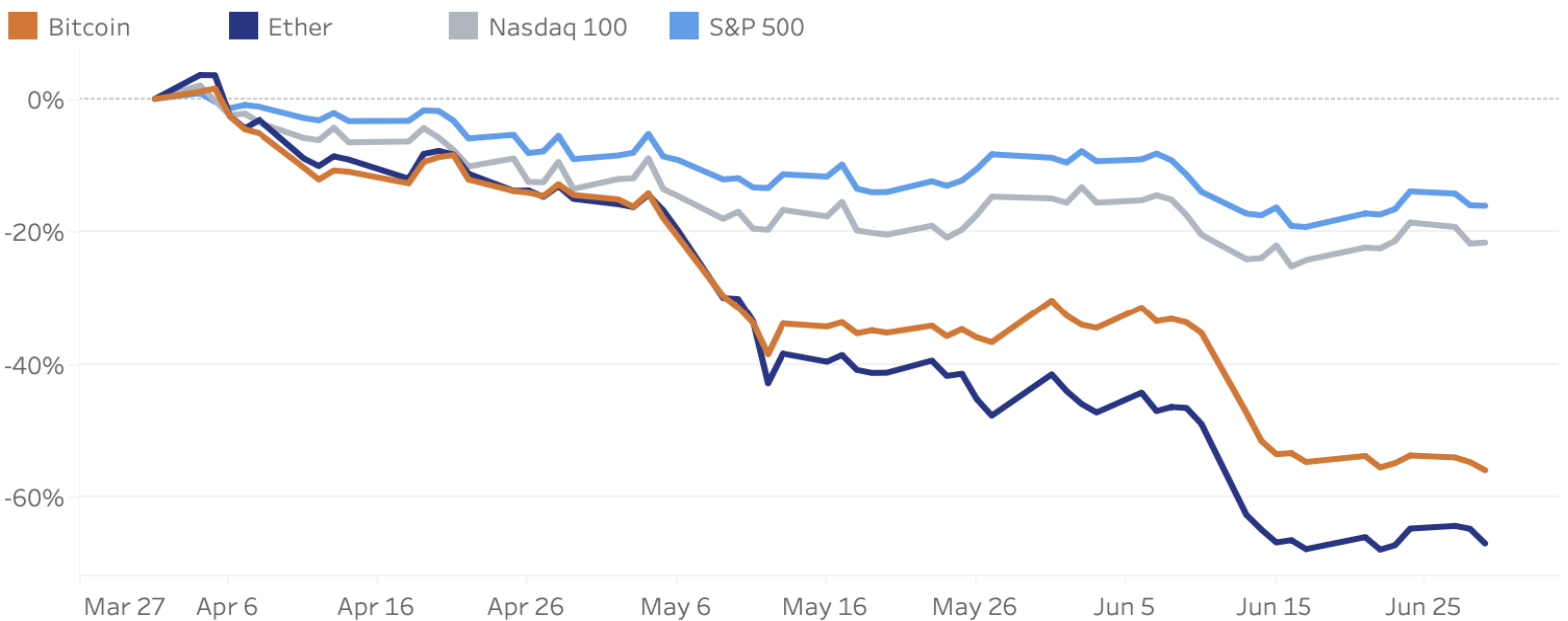
About Kaiko

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+ centralized and decentralized exchanges. Contact us at [here](#) to learn more about our data and research services.

Crypto Markets Underperform Equities

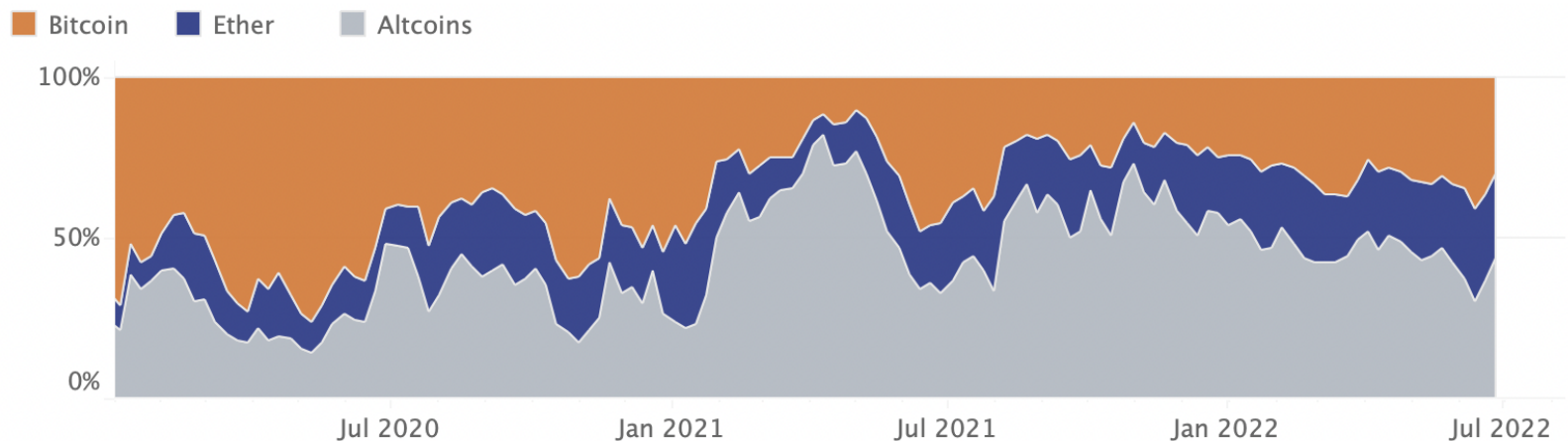
Throughout Q2, crypto markets significantly underperformed equities, including the tech-heavy Nasdaq-100, despite Bitcoin's correlation with equities reaching record highs in early May. The divergence arose due to two significant events: the collapse of Terra in mid-May and the liquidity troubles of Celsius and other platforms in mid-June. While the macro landscape has created a difficult environment for all risk assets, crypto has faced specific challenges that have not been present for equities. Lower prices have exposed systemic risks in the crypto ecosystem, including the unwinding of Three Arrows Capital, which has had significant ripple effects across the industry.

Q2 Crypto Performance



Since November 2021, Bitcoin's market share of volume has doubled from 14% to nearly 30% in mid-June. Over this same timeframe, Ether's market share increased from 12% to 28%, while altcoins dipped from highs of 73% to lows of 30%. This reflects the usual bear market narrative, in which investors and traders move away from altcoins and towards more established cryptocurrencies. However, in the past couple weeks, altcoin market share has begun to tick upwards as BTC and ETH continue to underperform.

Volume Market Share

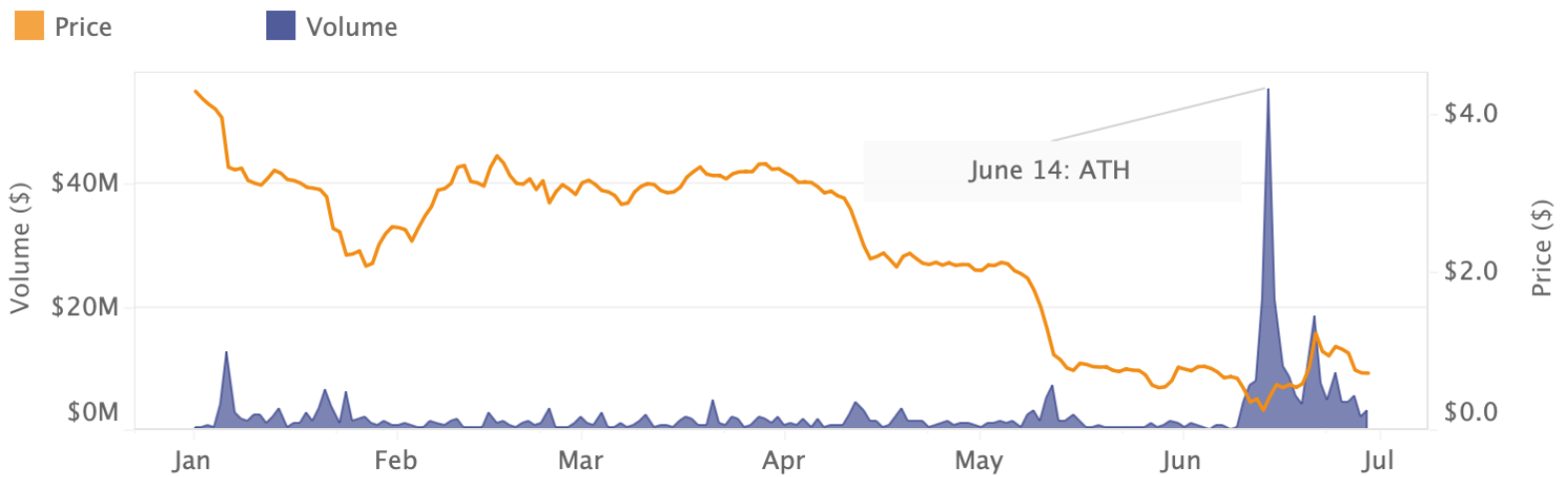


Source: Kaiko exchange volume data for Binance, Bitstamp, Bitfinex, BinanceUS, Coinbase, FTX, Gemini, Huobi and Kraken.

Celsius Faces Liquidity Pressure

On June 13th, Celsius, one of the largest centralized crypto lenders that managed roughly \$12bn in assets, announced it was pausing all withdrawals due to “extreme market conditions.” The platform had been facing an increased level of customer withdrawals for weeks prior to the announcement following rumours about potential insolvency and its exposure to Terra's collapse. Celsius’ token CEL - which is offered as a reward to users - plummeted to \$0.17 while trade volumes for the token hit all-time highs.

CEL Price and Volume



Celsius' liquidity situation deteriorated rapidly due to a combination of poor risk management and bearish market conditions (for more in-depth analysis see our Celsius [deep-dive](#)). In particular, the company invested a large portion of its clients' funds in staked ether (stETH), a token received when staking an equivalent amount of ether on Ethereum's Beacon chain. The understanding was that the stETH token was a liquid alternative to staking on Ethereum directly, however this assumption was challenged after stETH began trading at a discount of about 5%, resulting in losses for anyone trying to liquidate their stETH holdings. When Celsius halted withdrawals, markets reacted swiftly and bearish contagion spread throughout other lending platforms and large crypto institutions, which suffered similar liquidity problems.

stETH-ETH Discount



Tether Continues to Trade at a Discount

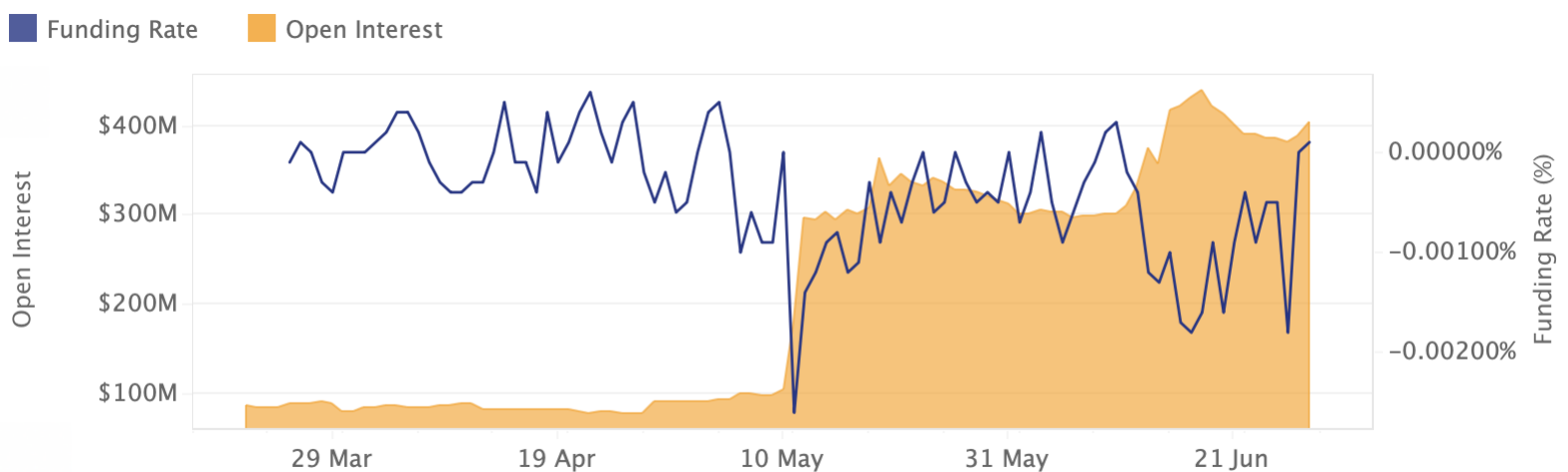
Tether's USDT has seen its market cap tumble by over 20% following Terra's collapse, falling from \$83bn to \$64bn. The steady outflows over the past few weeks have created persistent price dislocations, likely because spot markets remain the easiest way for many smaller traders to redeem their holdings. USDT traded at a discount for 63 days so far in 2022, up from 48 days during the whole 2021. This has fuelled speculations that professional traders are shorting USDT, doubting the quality of its reserves and anticipating a worsening environment for risk assets.

USDT-USD Price



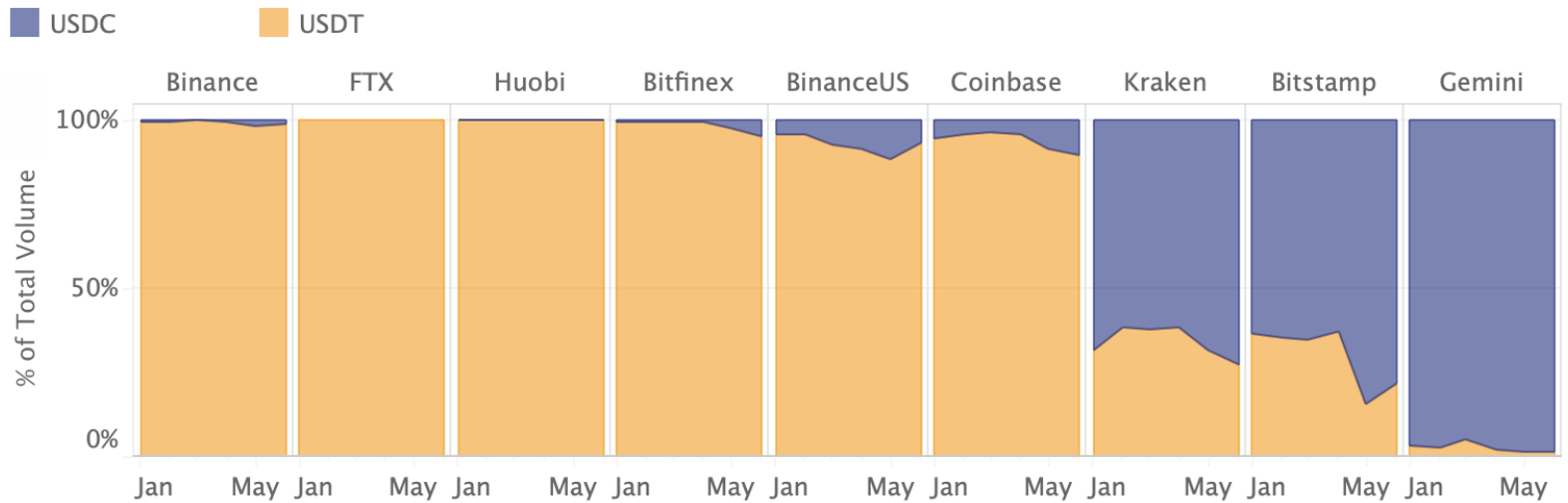
One of the easiest ways to bet against Tether is through the perpetual futures market. Below we chart the USDT-USD funding rate and open interest on FTX. We observe that the amount of open interest has surged four-fold since May while funding rates have been mostly negative, signalling bearish bias among traders.

USDT-USD Perpetual Futures on FTX



Outflows from USDT have benefited its main competitor, Circle's USD Coin (USDC), which has seen its market cap increase from \$49bn to \$56bn between May and June. While USDT remains the dominant stablecoin on centralised exchanges with around 98% of total trade volumes, USDC's market share on regulated exchanges has risen since May. On Kraken the share of USDC spiked from 62% to 73%, on Bitfinex it rose from nearly zero to around 5% and on Bitstamp from 63% to 78%. The share of USDC on Coinbase remains relatively small despite the exchange listing Tether just a year ago. This may change, however, as Coinbase announced it is merging its USD and USDC order books mid-July.

USDT vs. USDC Market Share of Volume

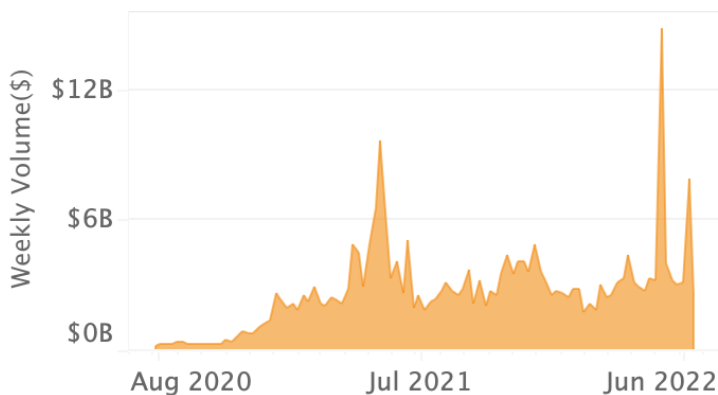


Source: Kaiko exchange volume data for all pairs with usdt/usdc with base and quote assets, excluding stablecoins pairs.

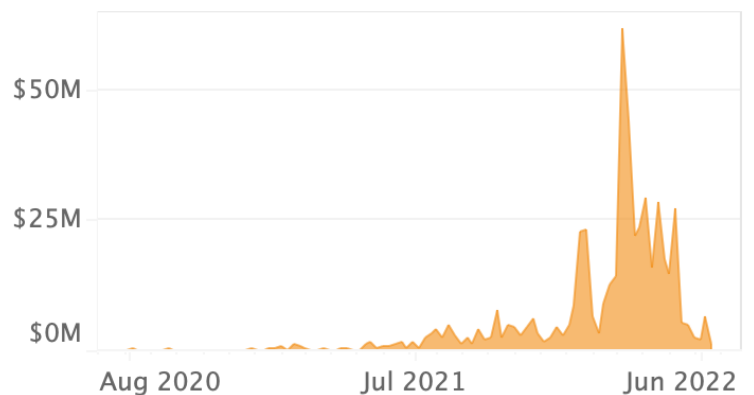
The competition between stablecoin issuers is also heating up on global markets, with Circle announcing the launch of a Euro-backed stablecoin and Tether launching a British Pound-backed stablecoin. USD-backed stablecoins have dominated cryptocurrency market activity for years, with weekly trade volumes magnitudes higher than their euro-backed counterparts (Circle's euro stablecoin launched on June 30th, thus volumes are not included). However, this could change as the ECB announced it will end its multi-year long negative interest policy which has penalized savers across the Eurozone.

USD vs. EUR Stablecoin Trade Volume

USD



EUR

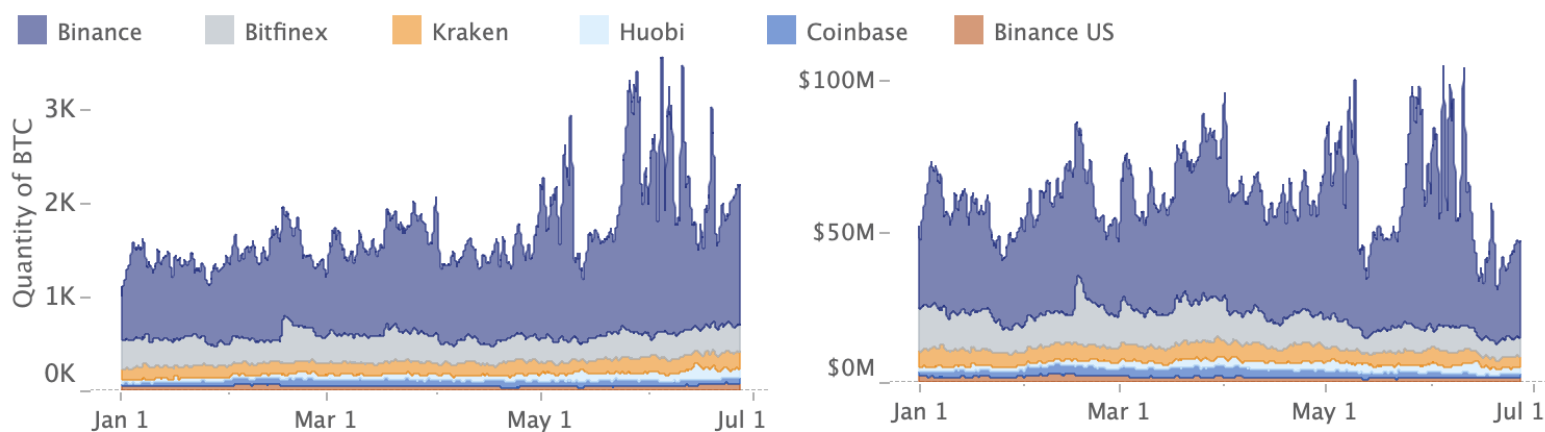


Source: Kaiko asset prices for EUR: eurs-usd, eurt-usd and USD: btc-usd, usdc-usd, usdt-usd pairs.

Bitcoin Experiences Liquidity Volatility

Expressed in native units, bitcoin market depth has been on an upwards trajectory throughout Q2's extreme volatility. However, when expressed in USD, Bitcoin's market depth has been decreasing steadily since the beginning of the year. This has been especially pronounced on Bitfinex, which has decreased from \$14mn at the beginning of the year to \$6mn now. As the bear market continues and liquidity becomes an increasing concern investors will be examining this metric closely.

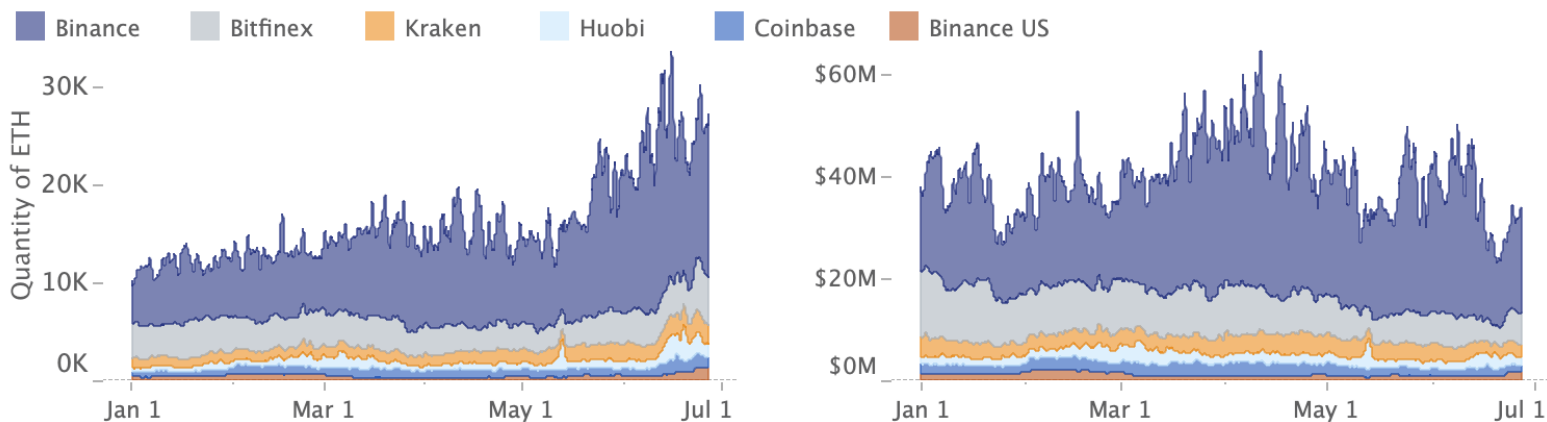
Bitcoin 2% Market Depth



Source: Kaiko market depth data

Meanwhile, ether market depth expressed in native units has been on a much clearer uptrend since the beginning of the year, with Binance tripling from from under 5k to over 15k. Binance.US's market depth has also grown significantly, from under 400 to over 1,400 now. However, denominated in USD, we can observe an overall decline in market depth, although not as extreme as Bitcoin's.

Ether 2% Market Depth

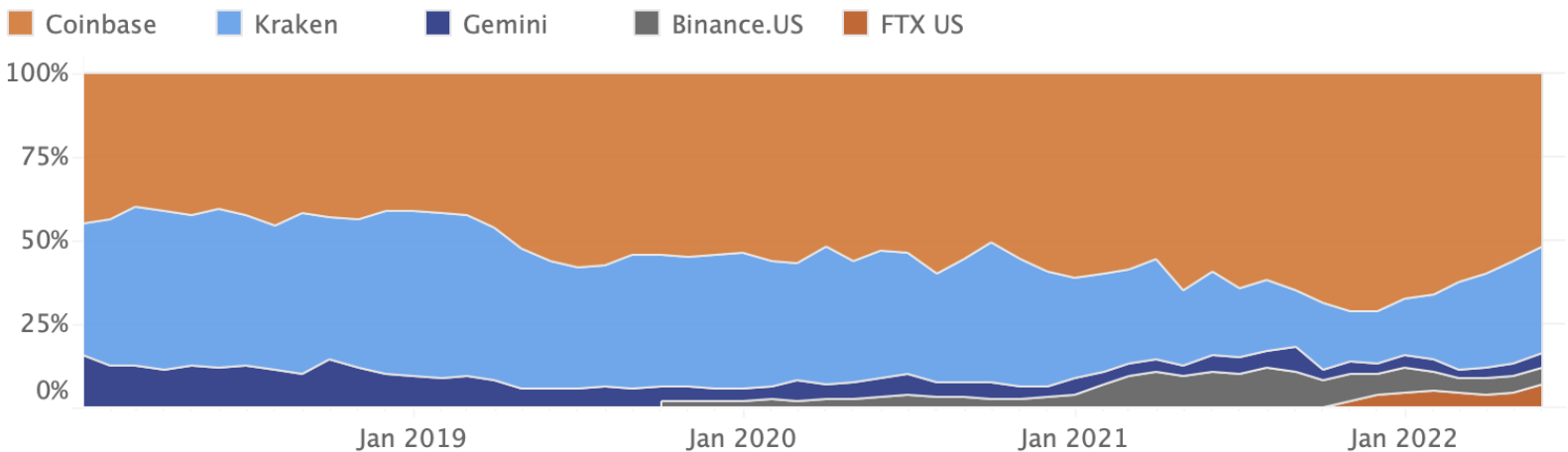


Source: Kaiko market depth data

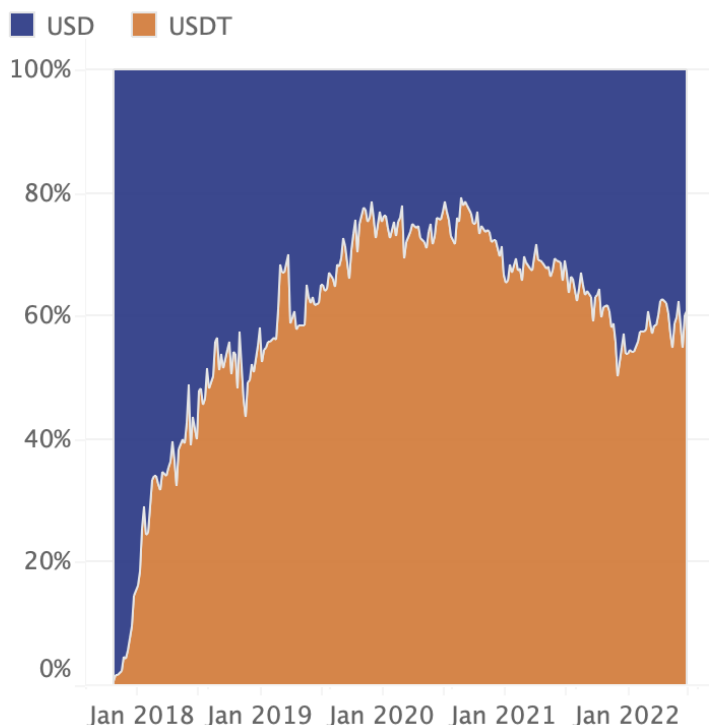
Exchange Competition Heats Up

This month, Binance.US announced that it was implementing 0% fees for Bitcoin trading against the U.S. Dollar and stablecoins, making clear the exchange's ambition to quickly expand its U.S. userbase. Shortly after, Coinbase announced that it was phasing out Coinbase Pro to create a unified exchange platform with a single fee structure. The U.S. market contains Coinbase's core userbase and the exchange still possesses the largest market share when compared to the top U.S.-based exchanges, peaking at over 70% in December 2021. However, market share has since declined to about 50%. Kraken (0.9% fee) reached a low of 15% in November 2021 but has since doubled to over 30%. Newcomer exchange subsidiaries FTX.US (0.2% fee) and Binance.US have thus far grown their market share at the expense of Gemini (1.49% fee), but Binance.US's announcement indicates that it will try to put pressure on Kraken and Coinbase.

U.S Exchange Market Share of Volume



USD vs. USDT Market Share



Since August 2020, Tether's market share as a percentage of volume for BTC and ETH USD/USDT-denominated pairs has declined from 80% to 50% in December 2021. However, since then, USDT's market share has remained relatively steady in the 60% range. This is reflective of the changing landscape of exchanges, as well as the growth of Binance and FTX. Binance introduced BUSD, which has seen increased volume. Meanwhile, FTX's most popular BTC pair is denominated in USD. Reflective of the changing landscape of stablecoins, Coinbase announced that it would be unifying its USD and USDC orderbooks with the stated goal of providing deeper liquidity.

Derivatives React to Volatility

Throughout Q2, Bitcoin and Ether perpetual future volumes spiked to their highest levels of 2022 in response to Terra's collapse and Celsius' liquidity crisis. Bitcoin perpetual futures volume remains roughly double that of Ether's. However, following the Celsius news, which involved Lido Staked Ether (stETH), Ether volumes increased disproportionately. Overall, Q2's market crash was largely spot driven, exacerbated by large entities liquidating their BTC and ETH reserves. Derivatives markets have been relatively muted since 2021, with mostly flat volumes.

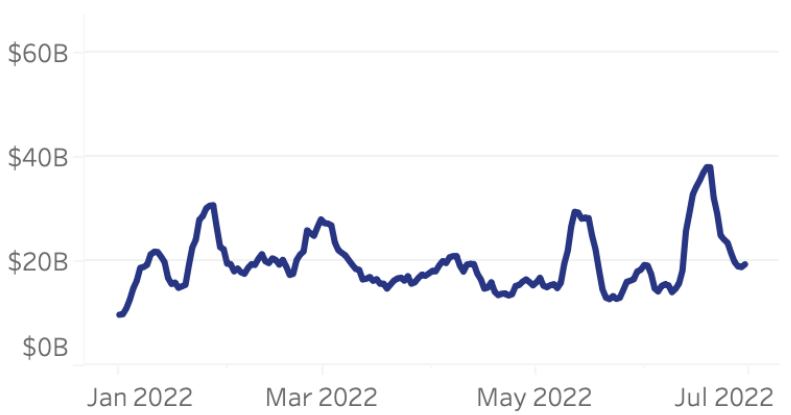
BTC Perpetual Futures Volumes

7 Day Moving Average



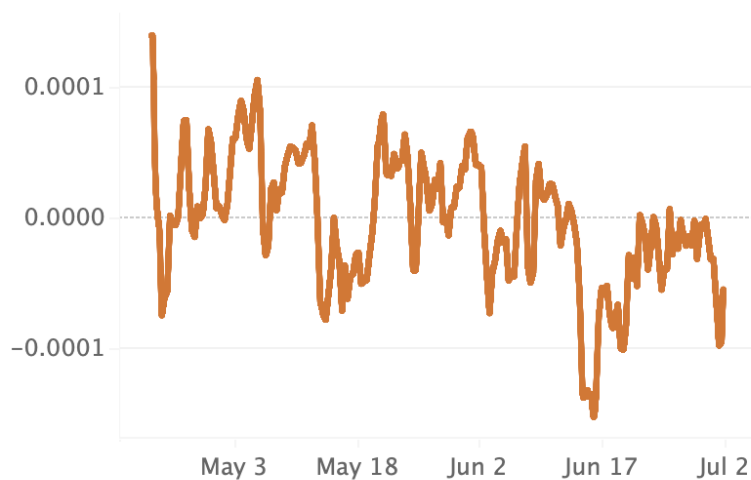
ETH Perpetual Futures Volumes

7 Day Moving Average



Funding rates have also painted an interesting story over the past two months. During the Terra collapse, BTC funding rates dropped as traders speculated that Luna Foundation Guard would be liquidating its large BTC holdings. However, during the same interval, ETH funding rates spiked. Throughout Celsius' liquidity crisis, ETH funding rates dropped further than BTC funding rates. Again, this is likely related to Celsius's troubles involving ETH and stETH rather than BTC.

Average BTC Funding Rates



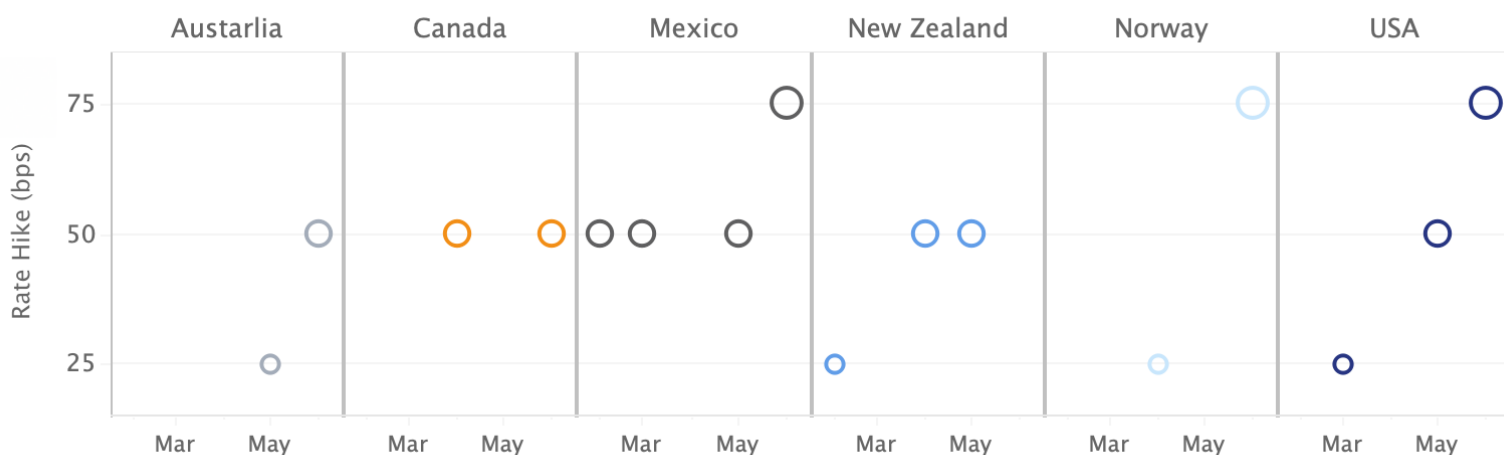
Average ETH Funding Rates



Central Banks Accelerate Tightening

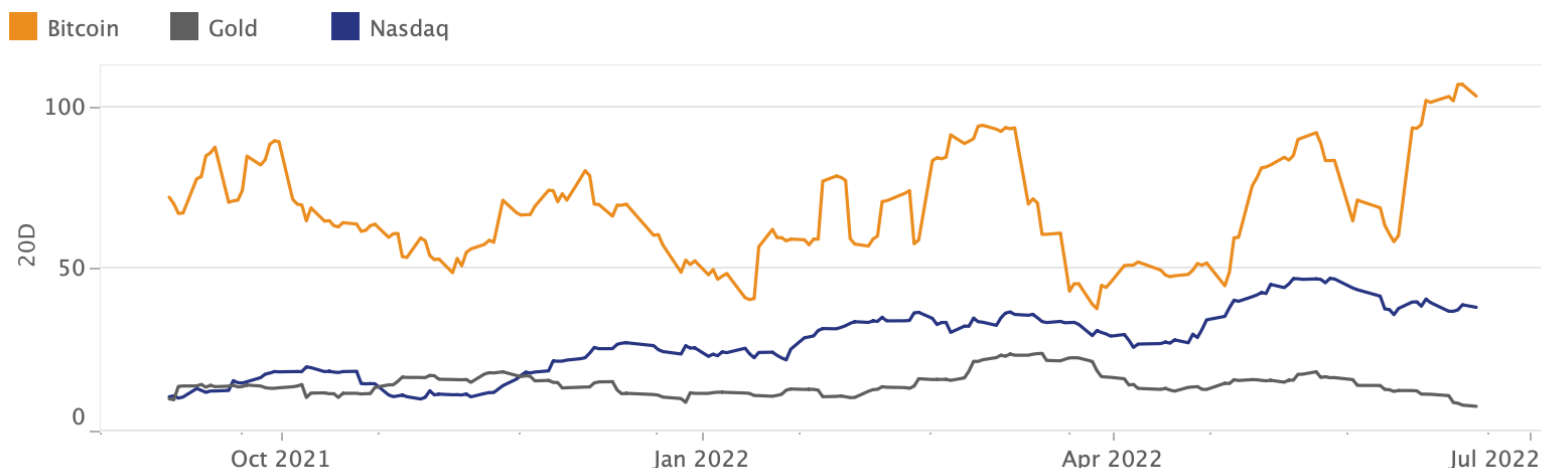
As inflation accelerated in May, global central banks stepped up monetary policy tightening with large policy moves becoming increasingly common (often of 50bps or more). The U.S. Fed surprisingly raised its benchmark interest rate by 75bps, its biggest increase in 28 years. Several other major central banks followed suit, adding to mounting recession fears. Risk sentiment remains fragile, dragged down by falling business activity, record low consumer sentiment and corporates announcing layoffs to curb costs.

Interest Rate Hikes in 2022



Overall, monetary policy uncertainty and contagion worries fuelled a surge in Bitcoin's volatility, which hit its highest level in a year in June. The gap between Bitcoin and Nasdaq's 20-day volatilities has widened again after touching its lowest level in 18 months in May. In contrast, safe-haven gold has seen its volatility decline well below its 2021 average.

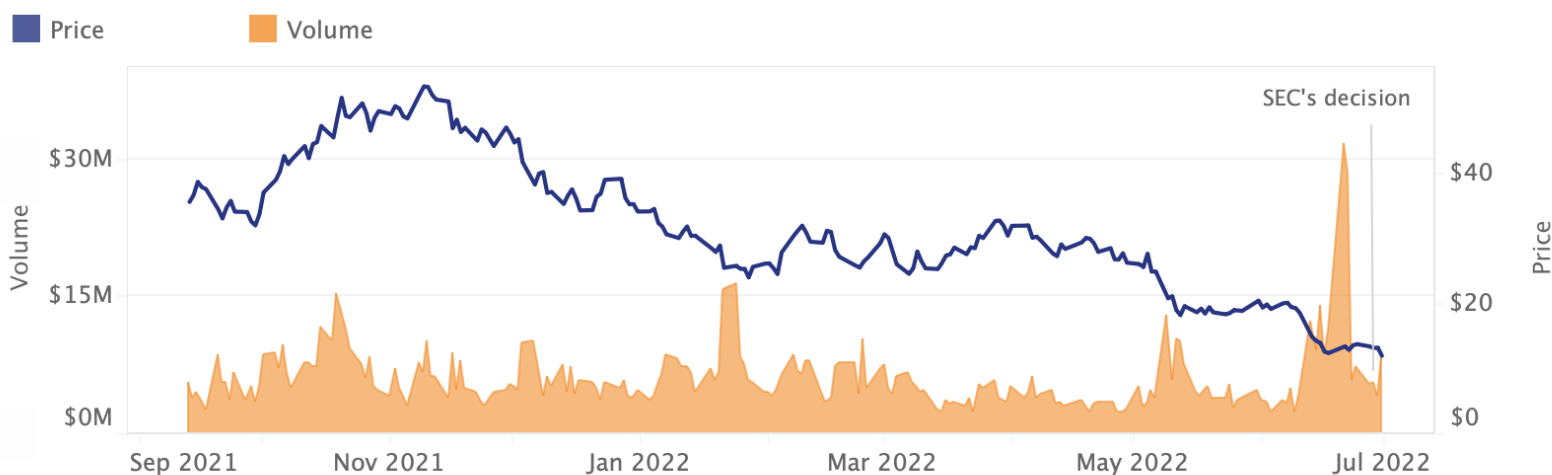
20D Rolling Volatility



GBTC Discount Hits Record Low

On June 28th, the US securities watchdog (SEC) **rejected** Grayscale's application to convert its Grayscale Bitcoin Trust's (GBTC) into a physically backed ETF, citing potential fraud and manipulation in the underlying BTC markets. The conversion was expected to help reduce the so-called GBTC discount which hit a record high of over 34% in June. The discount refers to the difference between GBTC's share price and the price of its underlying bitcoin holdings as traded on cryptocurrency exchanges. The SEC's decision comes days after one of the largest investors in GBTC, crypto hedge fund 3 Arrows Capital was **ordered** to liquidate.

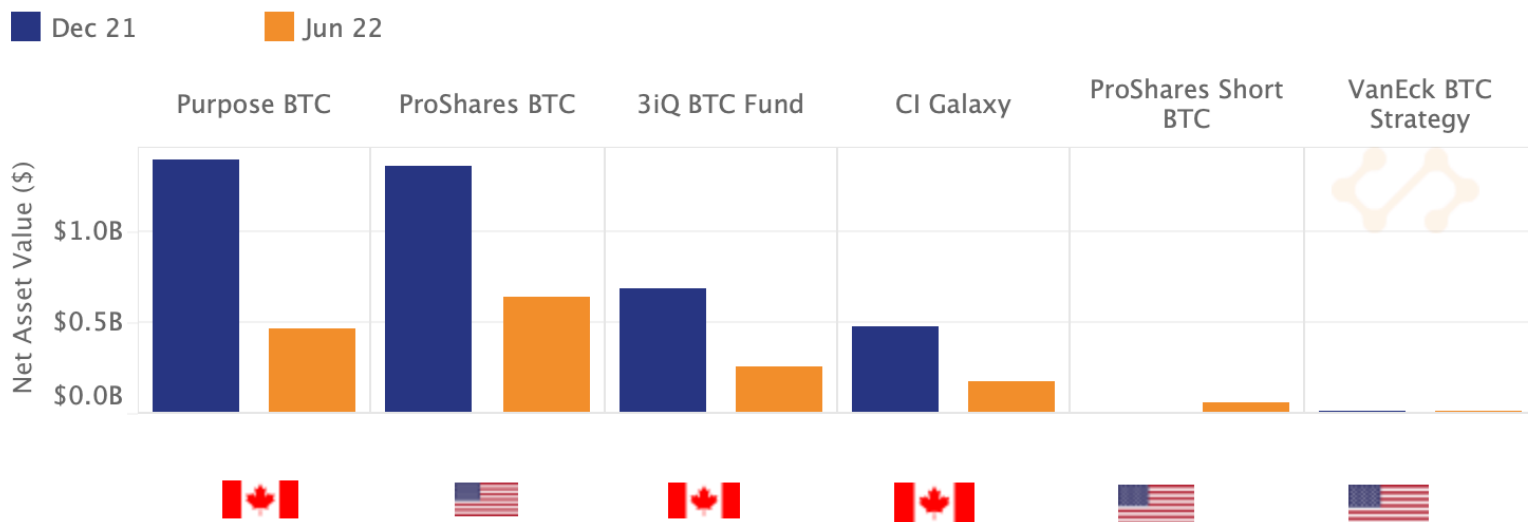
GBTC Share Price and Volume



Source: Refinitiv

Falling demand for GBTC coupled with bearish market conditions have benefited the newly launched ProShares Short Bitcoin ETF (BITI), which offers a way to gain short exposure to bitcoin via futures contracts. However, despite BITI becoming the second largest ETF on US markets just two weeks after its launch, it is still well behind its Canadian and US counterparts in terms of assets under management. Overall, Canadian spot-backed ETFs registered a larger decline in their net asset value (NAV) between December 2021 and June 2022 relative to futures-backed instruments.

NAV of Bitcoin Exchange Traded Funds



Data Source: As reported by each ETF as of Dec 3, 2021 and June 29, 2022.

MicroStrategy Under Scrutiny

The largest corporate holder of Bitcoin, business intelligence company MicroStrategy, has faced increased scrutiny over the past month on fears of mounting margin calls related to its investment. MicroStrategy started adding Bitcoin to its balance sheet back in August 2020 and has funded the rapid expansion of its BTC holdings with a \$200mn Bitcoin-backed loan. This fuelled speculation that the company may be forced to add collateral or face a margin call after BTC prices briefly dipped below \$18K mid-June. However, sentiment surrounding the company improved in the second half of the month and it has outperformed Bitcoin in June.

Bitcoin vs. MicroStrategy Share Price



June Market Report

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