

March 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

In March, the U.S. Federal Reserve finally began its interest rate hiking cycle in an attempt to curb inflation amid fears of slowing growth and a war-linked surge in commodities prices. Bitcoin continued to move in line with risk assets while trading activity continued its shift to U.S trading hours, a consistent trend over the past year. Despite the challenging macro and geopolitical environment, risk sentiment saw a recovery in March, with Ethereum on track for a strong reversal after underperforming Bitcoin over the past few months. However, most crypto assets ended the quarter in the red. Liquidity conditions exhibited strong volatility amid subdued spot and derivatives trade volumes.

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

## About Kaiko

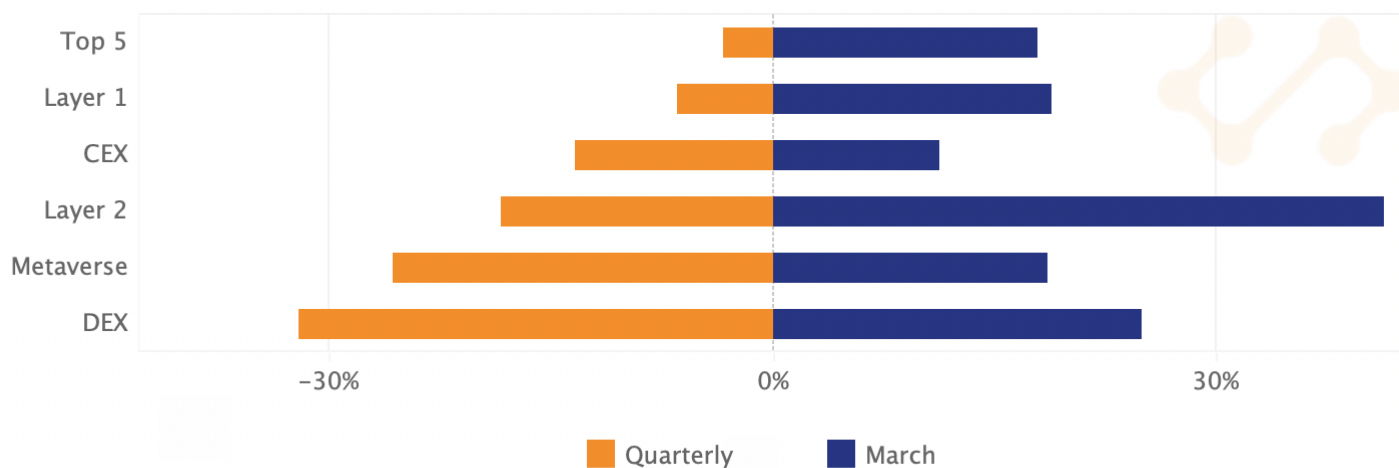
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# Bearish Q1 Despite March Recovery

Despite a strong recovery in March, all crypto sectors registered negative returns in the first quarter of the year as macro and geopolitical headwinds weighed on global risk sentiment. Below, we chart the returns of different segments of the market in Q1 and in March by compiling a portfolio of the five largest assets by market cap. The top five crypto assets fared best in Q1, while DEX tokens registered the worst returns, dropping by 32%, despite closing March up 26%. Tokens affiliated with Layer 2 scaling solutions led the market in March, outperforming both DEX and Layer 1 tokens.

## Market Performance Since the Start of Q1

Simulated portfolio index comprising the top 5 assets by market cap per segment



Ethereum outperformed Bitcoin over the past month, gaining 13.5% on bullish expectations around its forthcoming transition to proof-of-stake, which is expected to take place sometime in Q2. Bitcoin ended the month up 5.9%, benefitting from an improvement in risk sentiment and [news](#) that the Luna Foundation Guard would be purchasing up to \$10 billion BTC to create a "Forex Reserve" for Terra's algorithmic stablecoin, UST. As of publication, the Foundation has [purchased](#) over 30,000 bitcoin, likely contributing to the bullish reversal.

## Bitcoin and Ethereum Prices in March



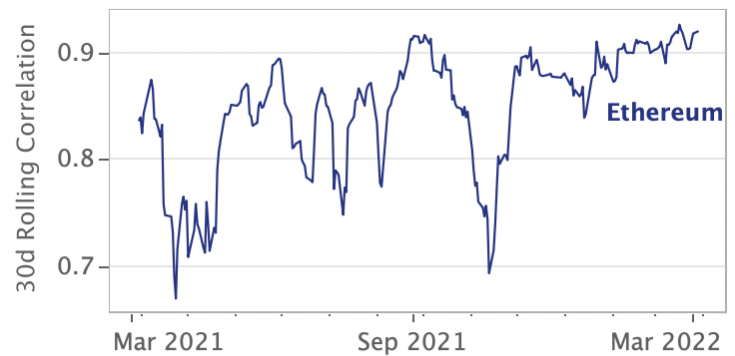
# Ethereum-Bitcoin Ratio Sees Reversal

Ethereum has underperformed Bitcoin since the start of the year following a prolonged period of deteriorating global risk sentiment, which has spilled into altcoin markets. Yet, we can observe a reversal in this trend at the end of March (red circle) when looking at the Ethereum-to-Bitcoin price ratio, which can be used as an indicator of Bitcoin's dominance relative to altcoin markets. The assets are also increasingly moving together, with the 30-day correlation between Ethereum and Bitcoin reaching its highest level since July 2020.

## ETH to BTC Ratio



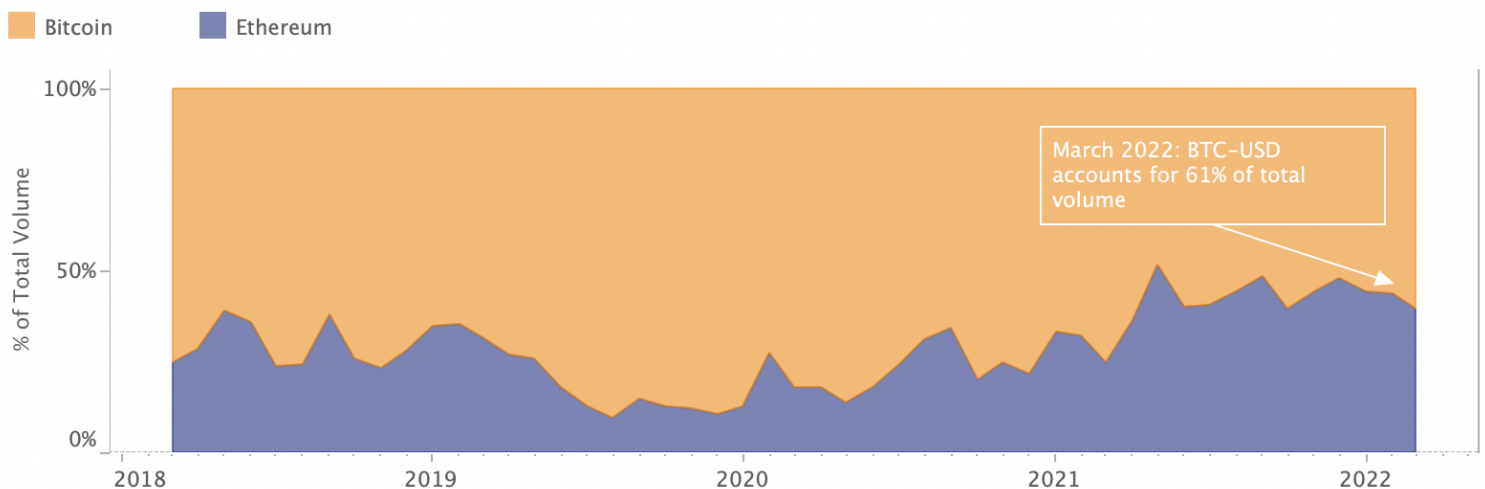
## Bitcoin's Correlation With Ethereum



However, throughout Q1, Bitcoin has been more resilient than Ethereum due to geopolitical tensions and global risk-off sentiment. Typically in bull markets, Ethereum's market share increases relative to Bitcoin as traders search for higher risk and return. In times of uncertainty, traders rotate funds back into Bitcoin, considered a crypto "safe haven." Since 2020, trade volume for Ethereum has surged relative to Bitcoin amid the biggest bull market in crypto history. Yet over the past month, Bitcoin's percentage of total volume has surged to 61%, its highest level in nearly a year.

## Bitcoin vs. Ethereum: Percentage of Total Volume

USD pairs on a selection of liquid exchanges

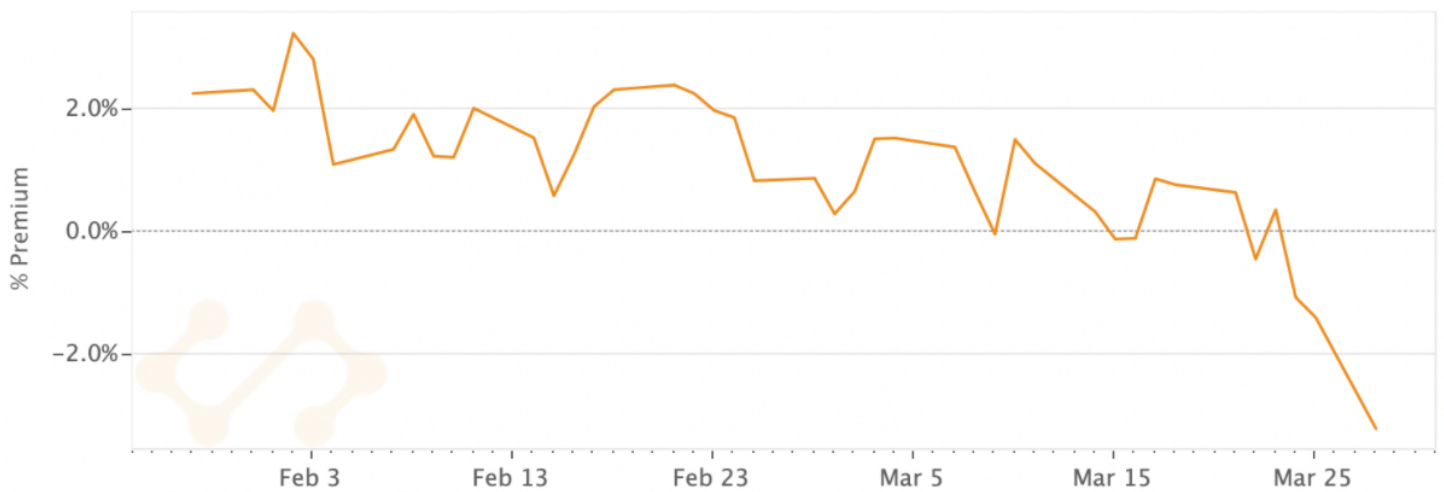


# Bitcoin Discount Emerges on Korean Markets

For the first time in years, Bitcoin traded at a discount of 3.2% relative to the U.S. Dollar on Korean markets after the entry into force of new crypto regulation on March 25th. South Korea’s unique regulatory framework, restricting cross-border capital transfers for foreigners, resulted in the so-called “Kimchi Premium” – a gap between Bitcoin prices on Korean markets and other global exchanges, which at times has been as high as 20%. The discount suggests Korean traders are cautious amid an increasingly restrictive regulatory environment.

## BTC Discount on KRW Markets

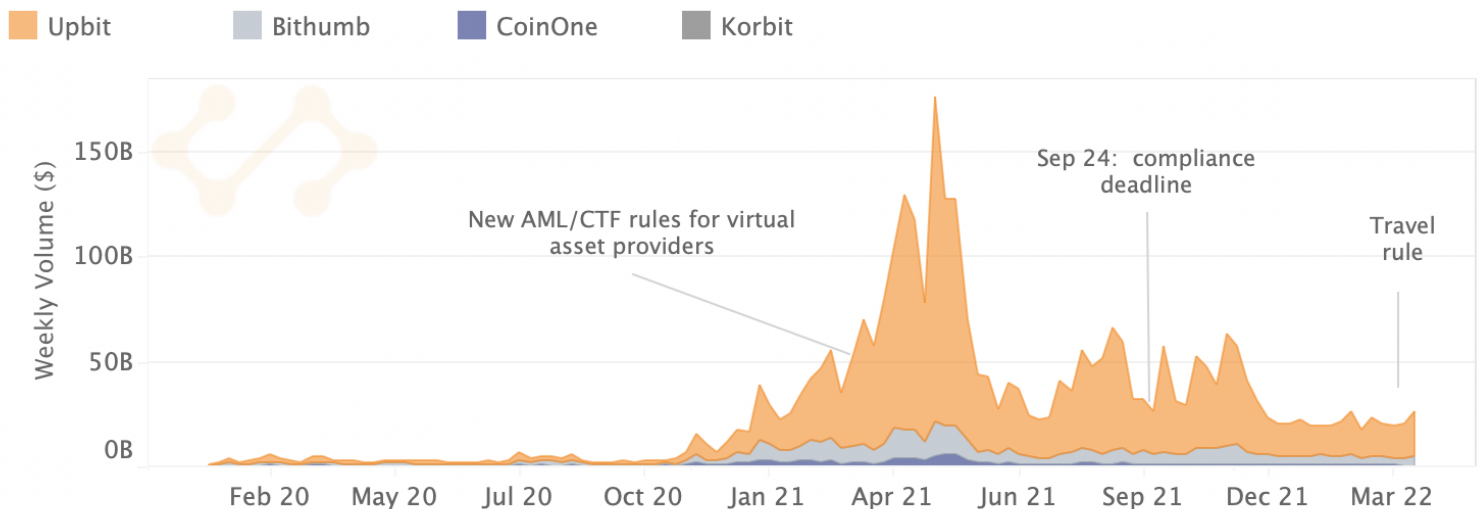
Spread between BTC-USD and BTC-KRW pairs



The growing cost of compliance with crypto regulations and stringent reporting requirements has led to a consolidation of the Korean crypto market and the withdrawal of major exchanges such as Binance and Okex. Stricter regulations may also be impacting trade volume over the past few months: weekly trade volume on the “Big Four” exchanges dominating the Korean market – Upbit, Bithumb, Coinone and Korbit– are down more than 140% relative to the November average.

## Korean Exchange Volume

Total volume denominated in USD

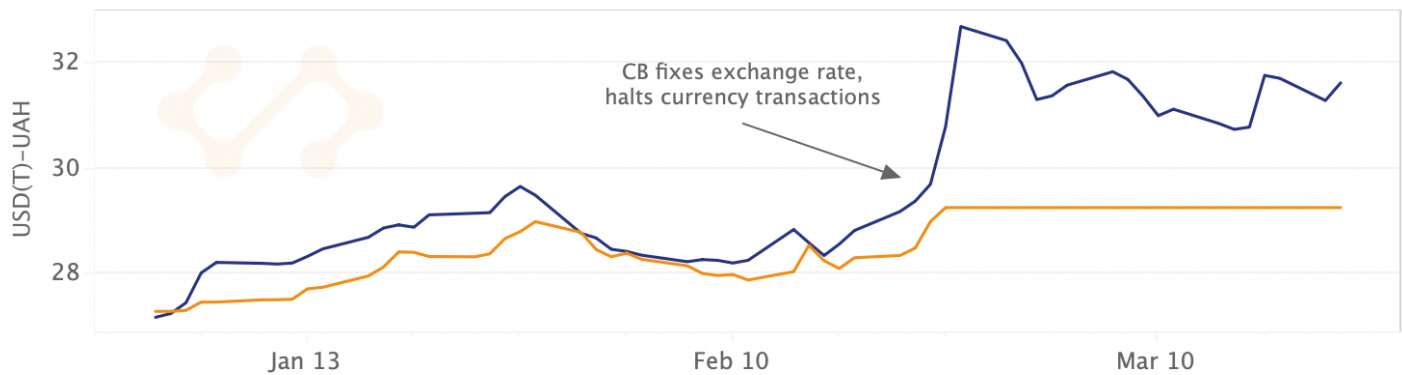


# Crypto and Fiat Ukrainian Markets Diverge

Ukrainian currency markets have experienced strong disruptions since the start of the war, with UAH plummeting to all-time lows against USD. The Ukrainian central bank has since halted currency transactions, limited cross-border transfers, and fixed the exchange rate at around 29 UAH for one USD in an attempt to defend its currency and limit bank runs. By contrast, crypto markets continue to operate 24/7 and have emerged as a source of liquidity, enabling a form of artificial market for USD through the stablecoin Tether. Since the onset of the central bank's currency restrictions, we have observed a strong divergence between the exchange rate for UAH to USDT and actual UAH-USD forex markets, which remain fixed.

## Hryvnia Exchange Rate

Official USD-UAH Exchange Rate    USDT-UAH

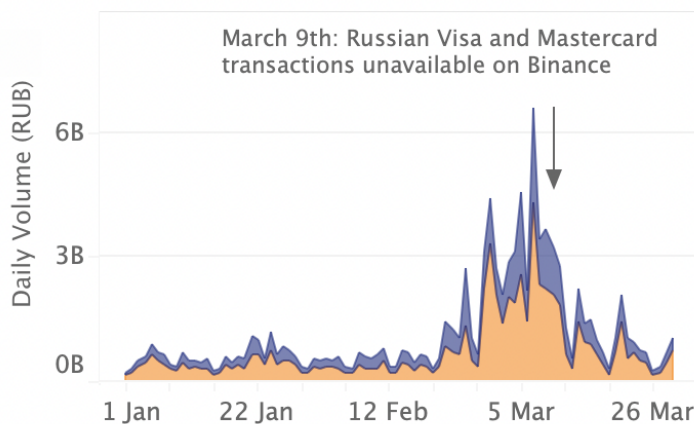


Source: Kaiko asset prices. National Bank of Ukraine <https://bank.gov.ua/>

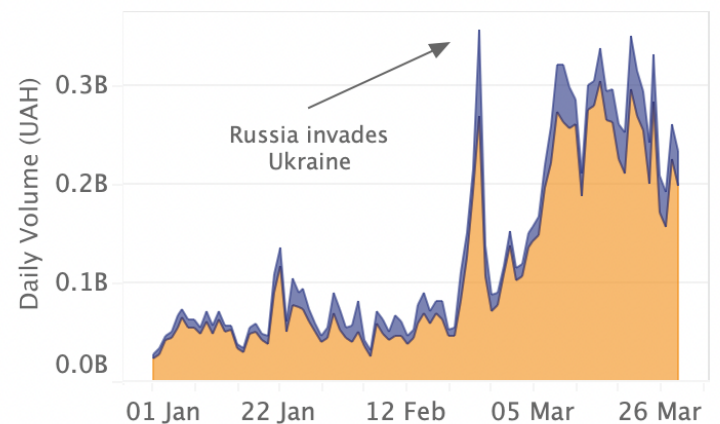
Both Ruble and Hryvnia trade volumes spiked to multi-month highs following the start of the war on the back of increased local demand. However, Ruble volumes have returned to their pre-war levels following the imposition of sanctions against Russia. By contrast, Hryvnia trade volumes have remained robust despite the largest commercial bank in Ukraine suspending UAH deposits to cryptocurrency exchanges in an attempt to reduce currency outflows.

## Ruble and Hryvnia Trade Volume

btc-rub    usdt-rub



btc-uah    usdt-uah



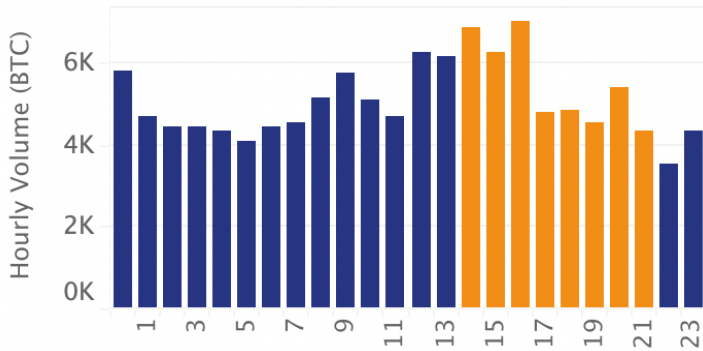
# Bitcoin Activity is Concentrated in U.S. Hours

Bitcoin's trading activity is increasingly concentrated during U.S. trading hours, which is in line with the asset's rising correlation with U.S. equities. We chart hourly average BTC-USD(T) trade volumes in Q1 2021 and 2022, and can observe that the variance in average hourly volume in 2021 was slightly lower than in 2022. Volume appears to be increasingly concentrated at the overlap between US and EU hours: volume between 8-10am EST is nearly double all other hours. We can also observe that average hourly volumes are around 50% lower compared to last year following a drop in risk appetite.

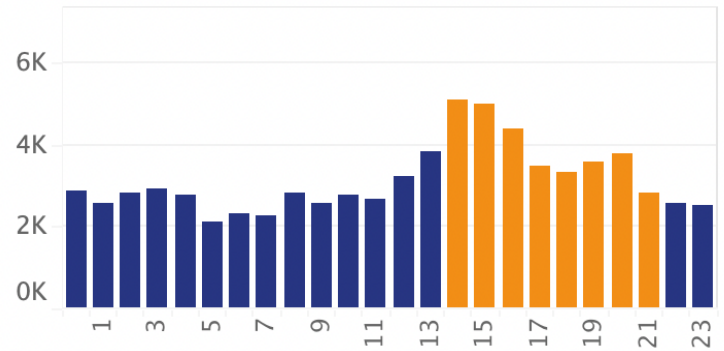
## Bitcoin Hourly Trade Volume

All BTC-USD and BTC-USDT trading pairs, U.S. trading hours (UTC time) highlighted

Q1 2021



Q1 2022

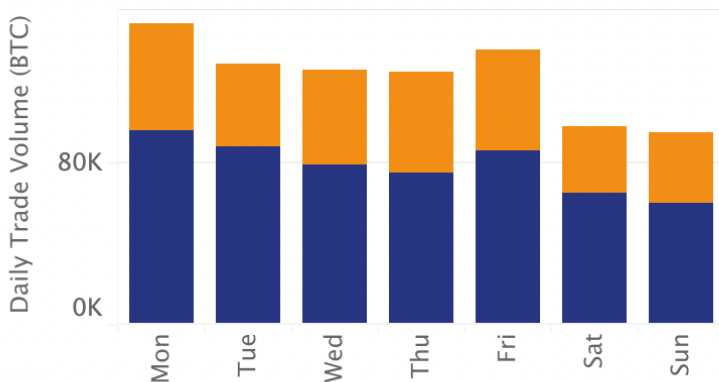


Trading activity remains concentrated during weekdays, with a slight shift towards the end of the week in 2022 compared with 2021. The trend is interesting because research suggests that more macro announcements are made on Thursdays and Fridays, which tend to cause strong market reactions. Another trend shows that the share of average daily volumes executed on weekdays vs. weekends has increased to 44% in 2022 from 36% a year ago, which suggests fewer weekend traders.

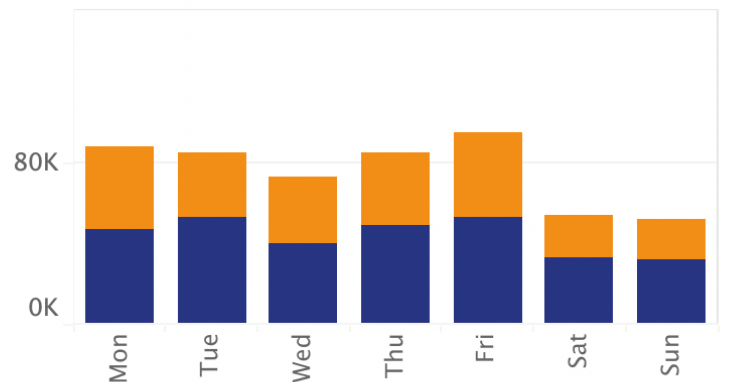
## Bitcoin Weekday Trade Volume

BTC-USD pairs, U.S. opening hours highlighted

Q1 2021



Q1 2022

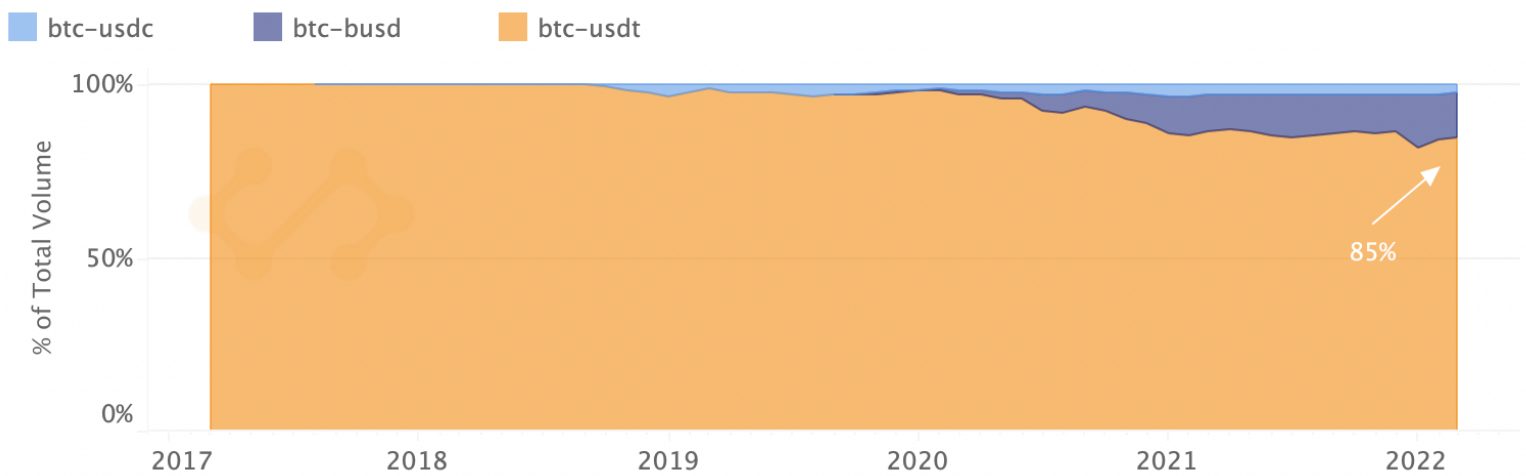


# Tether Remains the Dominant Stablecoin on CEXs

The past few weeks have demonstrated the utility of stablecoins amid market volatility and fiat currency devaluation. We chart the market share of Bitcoin volume executed against the three largest stablecoins by market cap - Tether's USDT (market cap of \$80bn), Circle's USD Coin (\$52bn) and Binance USD (\$18bn). USDT remains by far the most popular stablecoin on centralized exchanges, comprising 85% of BTC volume. However, Binance USD, issued by Binance in partnership with Paxos, has grown significantly over the past two years, now accounting for around 13% of BTC-stablecoin volume.

## BTC-Stablecoin Market Share

Stablecoin pairs trading across all exchanges



With increasing use comes a renewed round of volatility and speculation around the composition of reserves for issuers, with some hedge funds taking an interest in shorting Tether. Tether's 20D volatility climbed to its highest level in more than a year as markets rallied and then sold-off at one of their quickest rates ever. By contrast, USDC maintained its 1:1 USD peg throughout the volatility.

## 20D Rolling Volatility

Computed using returns for stablecoin-USD trading pairs



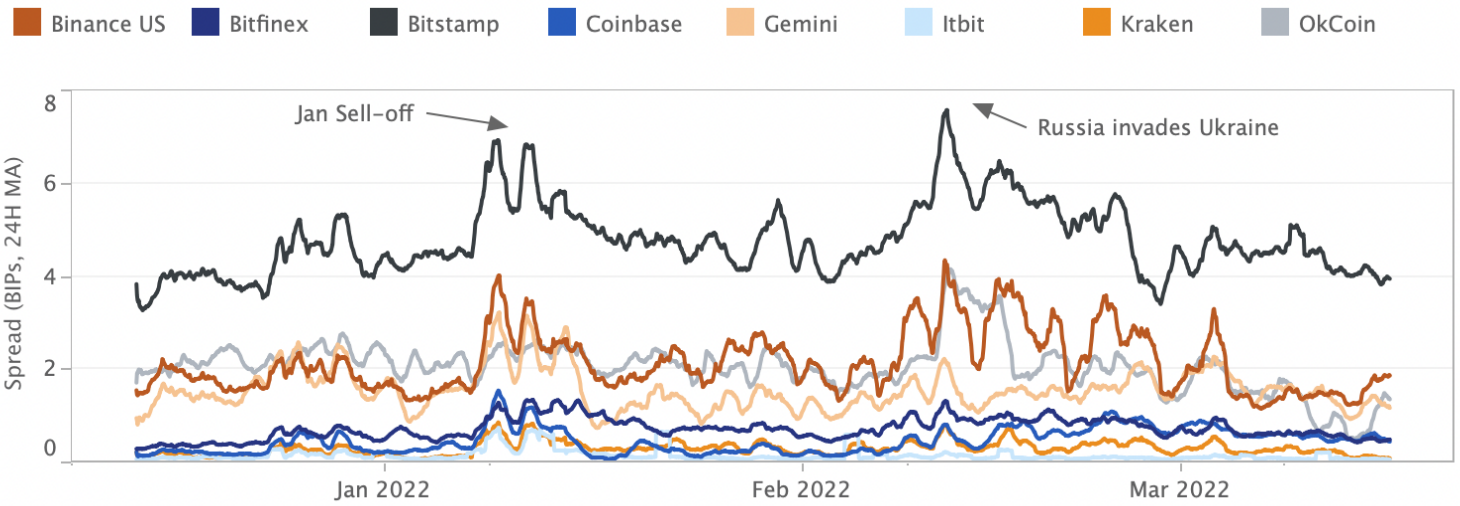


# Liquidity Stabilizes in March

Over the past three months liquidity conditions have been more volatile than average, with a sharp spike in the bid-ask spread on all exchanges at the onset of geopolitical tension. Spreads fluctuated between 3.4 and 7.5 bps on Bitstamp and between 0.1 and 1.5 bps on Coinbase. Throughout March, liquidity returned to stable levels on most exchanges, but underwent a slight spike towards the end of the month during Bitcoin's bullish reversal.

## Average Hourly Bid-Ask Spread

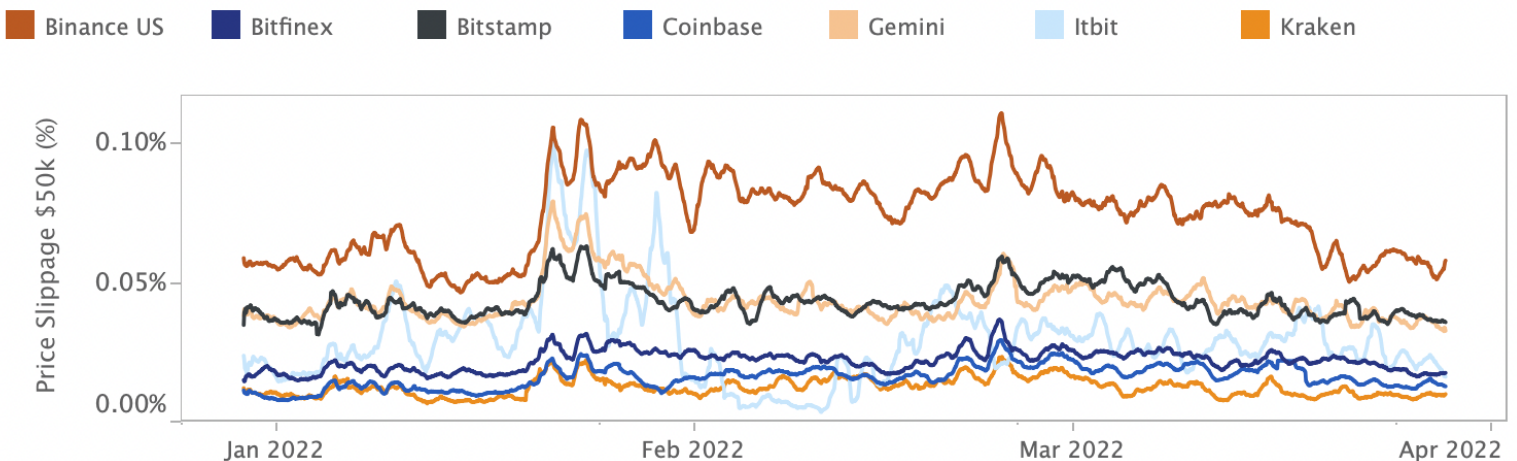
BTC-USD trading pairs



Price slippage, defined as the difference between the expected price of a trade and the price at which the trade is fully executed, also underwent sharp spikes and a surge in volatility. Below, we chart the average BTC-USD slippage for a simulated \$50k sell order over the past three months and can observe high slippage as markets entered bearish territory. Much like spreads, slippage has since stabilized.

## Average BTC-USD Price Slippage

Simulated slippage for a \$100k market sell order



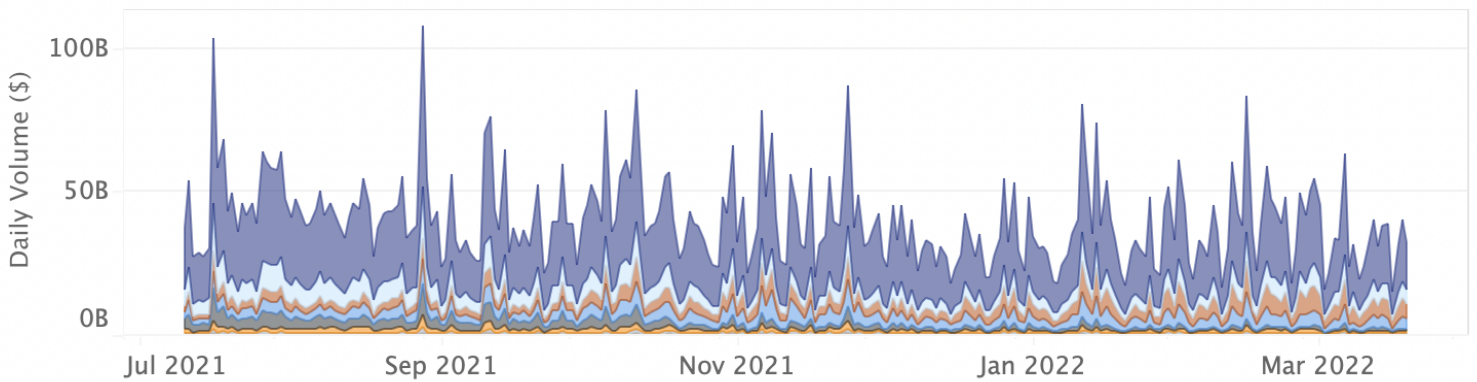
# Derivative Volume Remains Subdued

Bitcoin perpetual futures average daily volumes remained lackluster over the past month despite a bullish reversal. Overall, the average daily volume in March was 11% lower than the November average, with Kraken and Huobi registering the strongest decline in volume. Okex and Bybit were the only exchanges which saw an increase in trading activity as Okex's market share in total perpetual volumes has increased from 10% to 16% since November. Despite open interest (not charted) increasing slightly in March, funding rates remain muted on most exchanges, suggesting weak bullish demand.

## Daily Perpetual Futures Volume

BTC-USD, BTC-USDT and BTC-BUSD instruments

■ Binance 
 ■ Bybit 
 ■ Okex 
 ■ FTX 
 ■ Huobi 
 ■ Bitmex 
 ■ Derbit 
 ■ Kraken



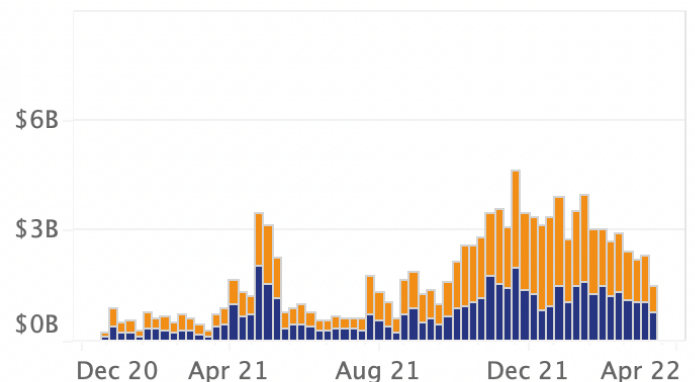
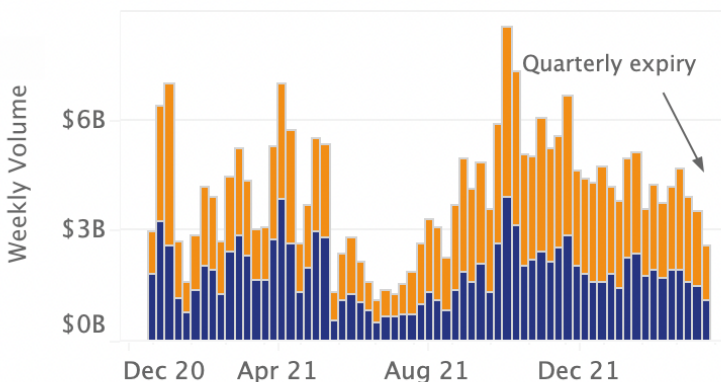
March marked one of the biggest quarterly options expiry for Bitcoin and Ethereum, with \$5B of options contracts expiring on March 25. Despite traders rolling their positions post-expiration, overall option volumes remained subdued. We can observe that Ethereum and Bitcoin weekly trade volumes totalled around \$3B and \$1B, respectively, which is below February's weekly average.

## Bitcoin and Ethereum Option Volume

■ Call Volumes 
 ■ Put Volumes

**Bitcoin**

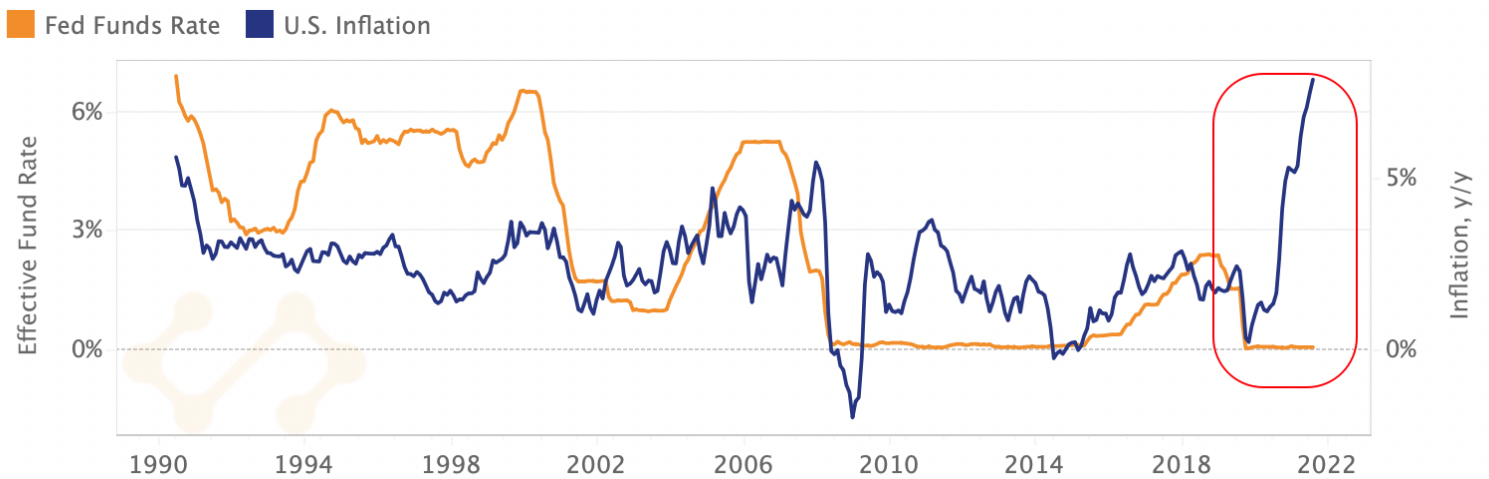
**Ethereum**



# U.S. Fed Kicks Off Hiking Cycle

The U.S. central bank lifted its key policy rate by a quarter percentage point mid-March, its first increase in more than three years, initiating a hiking cycle set to last through 2023. The Fed also signaled it will start reducing its massive \$9tn balance sheet “at a coming meeting” and that it is strongly [committed](#) to fight the highest inflation in forty years. The widely expected move could have an impact on risk assets, which have benefited heavily from the era of easy money. Below we chart the U.S. Fed’s funding rate alongside the consumer price index; the gap between the two is historically large and inflation is at nearly four times the Fed’s 2% target. This has fueled fears that the U.S. central bank has acted too [slowly](#) to combat inflation.

## U.S. Inflation vs. Fed Funds Rate



However, overly aggressive tightening of financial conditions can slow growth. Markets remain skeptical as to whether the Fed can engineer a soft landing by allowing inflationary pressures to cool down without pushing the economy into a recession and needing to cut rates again. Below, we chart the gap between 2- and 10-year U.S. Treasury yields - known as the yield curve. Typically, the curve tends to flatten when investors expect a slowdown in growth or a recession. The current tightening cycle started with the yield curve briefly [inverting](#) at the end of March, leaving the Fed in a very tight spot.

## The U.S. Yield Curve



# Risk Assets Show Resilience

Risk assets are off to one of the best rallies on record at the start of a monetary policy tightening cycle. We chart the real 10-year Treasury yields - or the returns investors can expect after inflation is taken into account - along with Bitcoin price returns. Typically, rising borrowing costs hurt risk assets such as tech stocks and crypto, which appear less attractive to investors than safe-haven bonds. However, both Bitcoin and the Nasdaq 100 have been resilient to the recent rise in real yields, gaining 8% and 7.6% throughout last month.

### Bitcoin vs. Real Yields



## March Market Report

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