

Q2 2024

Kaiko Research

# Quarterly Market Report

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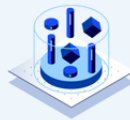
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# Q2 Timeline

## April

**April 10**  
Uniswap receives a Wells notice from the SEC

**April 20**  
Bitcoin undergoes its fourth halving, reducing mining rewards to 3.125 BTC per block

**April 30**  
Launch of six spot BTC and ETH ETFs in Hong-Kong

## May

**May 6**  
Robinhood receives a Wells notice from the SEC

**May 16**  
US Senate votes to overturn SEC's SAB 121 crypto custody accounting rule

**May 22**  
US House passes comprehensive digital asset market structure legislation (FIT21)

**May 23**  
US SEC approve spot ETH ETFs

## June

**June 5**  
Paxos International launches USDL, a yield-bearing stablecoin

**June 6**  
Robinhood acquires Bitsamp for \$200mn

**June 27**  
VanEck files for spot SOL ETF

**June 26**  
Mt Gox announces creditors will start receiving payments in July

21Shares files for spot SOL ETF

**June 28**  
SEC sues Consensus over MetaMask swaps and staking products

**June 30**  
MiCA regulations come into effect

# Table of Contents

Analyst Commentary - 4

## **Bitcoin's Supply Overhang**

*Bitcoin Halving : Miners Feel the Heat - 5*

*Mt Gox Repayments Fears- 7*

## **Institutional Flows**

*The Flipping: BlackRock Surpasses GBTC- 8*

*BTC ETFs' Impact on Market Structure - 9*

*ETF Filings Aren't What They Used to Be - 10*

*TradFi Dominates Tokenization Trend - 11*

## **Could MiCA Be a Boon for EUR Stablecoins?**

*Tether's Dwindling Dominance - 12*

*What MiCA Means for Stablecoins? - 13*

## **Volumes Dwindle As Sentiment Shifts**

*Bybit Push For Dominance - 14*

*Derivative Market Lacks Direction- 15*

# Analyst Commentary



**Anastasia Melachrinos**

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## A New Era of Institutional Demand

After a record-breaking quarter for crypto, the past few months have left a bitter taste. Bitcoin ETFs are losing momentum, and even the announcement of SOL's Spot ETF filings hasn't revived the market as expected. It's worth noting that this announcement

seemed premature, as SOL lacks futures contracts offerings on major exchanges. Fortunately, institutional demand for crypto extends beyond ETFs, with the issuance of tokenized funds growing in recent months, appearing to be the next big trend. Lastly, MiCAR's first implementation phase is fostering a USDT-USDC duality that may significantly impact the future of crypto markets structure, making it an intriguing development to follow.



**Dessislava Aubert**

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## Crypto's Growing Use in Emerging Markets

In Q2, the US Fed reduced its projected rate cuts from three to one due to persistent inflation. This, along with miner sales, volatile US spot ETF inflows, and concerns over Mt. Gox repayments, led to selloffs

and a double-digit drop in crypto trade volumes compared to Q1. Despite this, trading involving emerging market currencies showed resilience. The Turkish Lira surpassed the Euro as the third-largest fiat currency in crypto after the US Dollar and Korean Won. Exchanges have responded to local demand by adding more trading pairs in TRY and Latin American currencies, highlighting the ongoing steady crypto adoption in emerging markets.



**Adam McCarthy**

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## A Fundamentally Different Cycle

After a rip-roaring start to the year the crypto market failed to kick-on in Q2. And that lull could persist in Q3 as we appear to be in a fundamentally different cycle. Previous crypto cycles have been driven by short-lived hype around solutions in search of a

problem. Not this one. Only BNB clocked a record high during the Q2, while most other altcoins are fast approaching three years below previous record highs. Ether came close, driven by ETF hype, and the approval of S-1's — expected in the third quarter — could see it test \$4,000 again, but spot ETH ETFs are unlikely to have the impact on ETH that we saw following BTC approval. With this in mind, the market can't rely on ETF hype alone to push it higher and we likely need to see some real innovation soon.

# Bitcoin Halving: Miners Feel the Heat

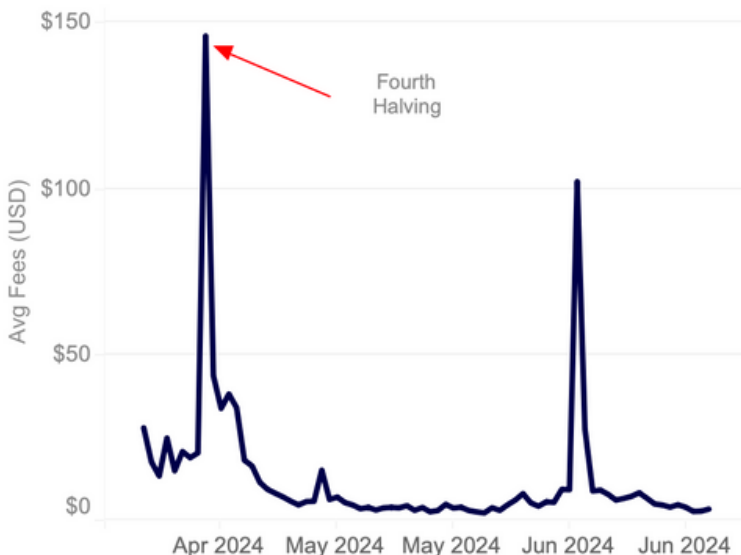
## BTC Price 75-Days After the Halving



Bitcoin's fourth halving took place on April 20, and so far, the market impact has been tracking previous cycles. The latest halving cut miner rewards from 12.5 BTC to 6.25 BTC. Several miners sold BTC in May, following the drop in rewards and dwindling fees.

75 days after the halving, BTC is trading below its April 20 price, having whipsawed throughout the quarter. BTC experienced similar fluctuations following the 2016 halving, but had rebounded higher after 75 days. Continued price pressure could further impact miners and weigh on the market in the coming months.

## Average Bitcoin Fees Fall After Ordinals Spike



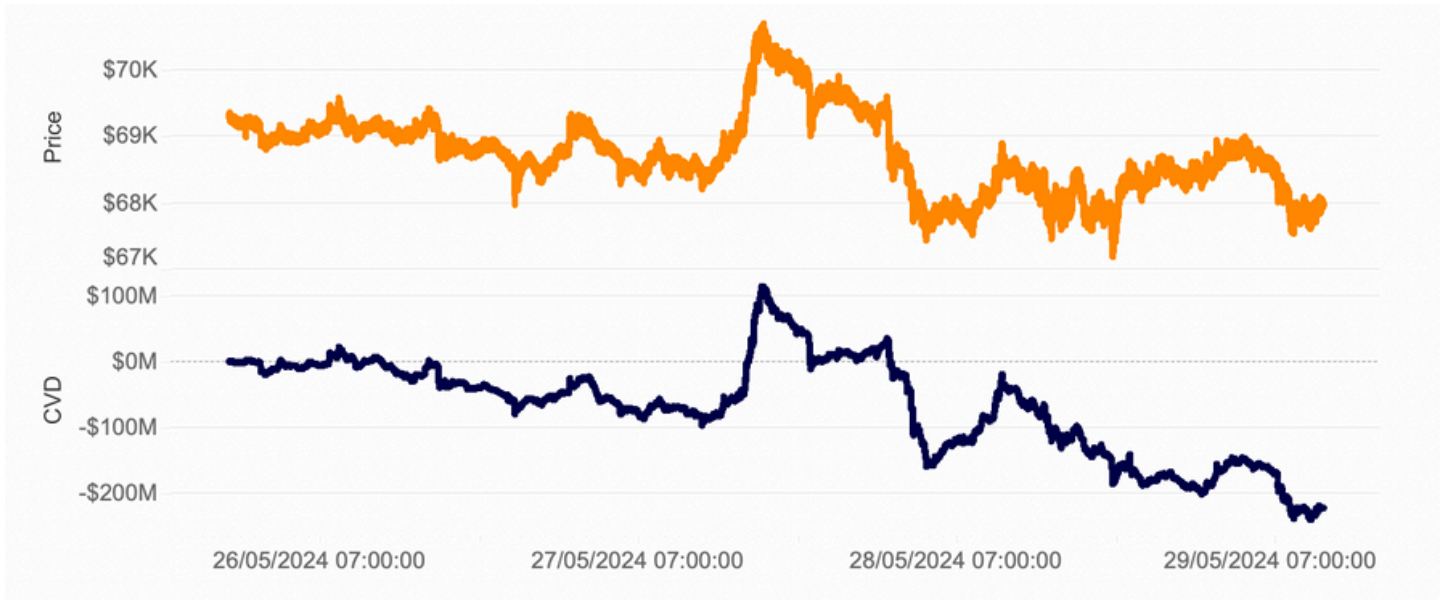
Bitcoin miners came under pressure following the fourth halving. Although daily average network fees rose to record highs due to the launch of Ordinals on April 20, the surge was short-lived.

Fees have fallen steadily since then, despite one spike. This, combined with lower block rewards, has led to forced selling from Bitcoin miners.



# Mt. Gox Repayments Rear Its Head

## BTC CVD Turns Negative on Supply Shock Fears



At the end of May, wallets linked to the defunct crypto exchange Mt. Gox initiated transfers of 140,000 BTC, valued at around \$9.2 billion. The movements sent markets lower as participants feared that the holdings would be redistributed and sold.

The unexpected activity from dormant accounts triggered a wave of selling pressure in the market. A reliable indicator of such selling pressure is the cumulative volume delta (CVD), which for BTC recorded a total of negative \$120 million between May 26 and 29. This indicates a higher number of sellers than buyers.

## BCH Liquidity Profile

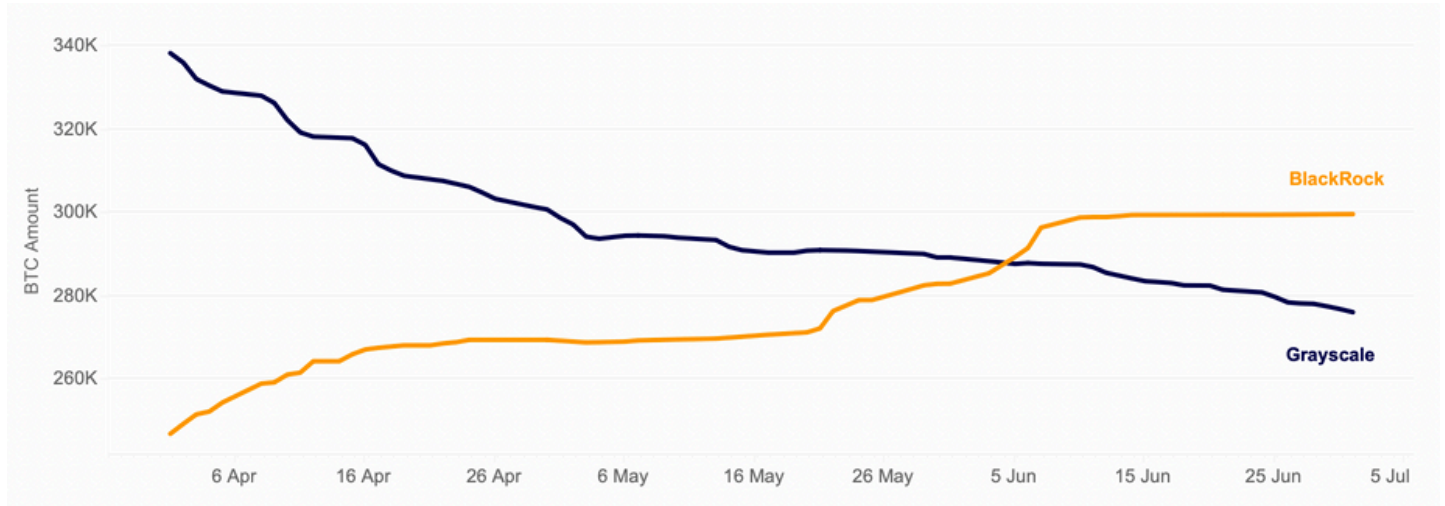


Mt. Gox has since confirmed that repayments will be made imminently. A portion of the repayments will be made in BCH, which is less liquid than BTC by some margin.

Interestingly, the news didn't have an outsized impact on the less liquid BCH. CVD dipped negative on the news but quickly rebounded to turn positive. Whether this holds up is yet to be seen.

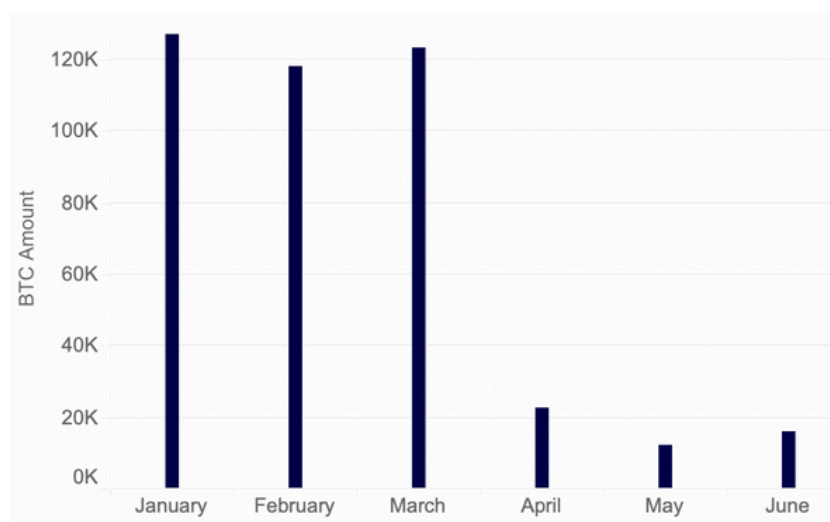
# The BTC ETF Flipping

## BlackRock Surpasses Grayscale in Assets Under Management



BlackRock overtook Grayscale's GBTC in terms of assets under management during Q2. The \$10 trillion asset manager now holds the title of the world's largest spot Bitcoin ETF, having leapfrogged the crypto-native incumbent. Grayscale's higher fee model is likely the main driver behind the exodus from the fund, as well as investors shifting to trusted traditional alternatives with longer track records of managing assets.

## Net Flows Fell Dramatically in Q2



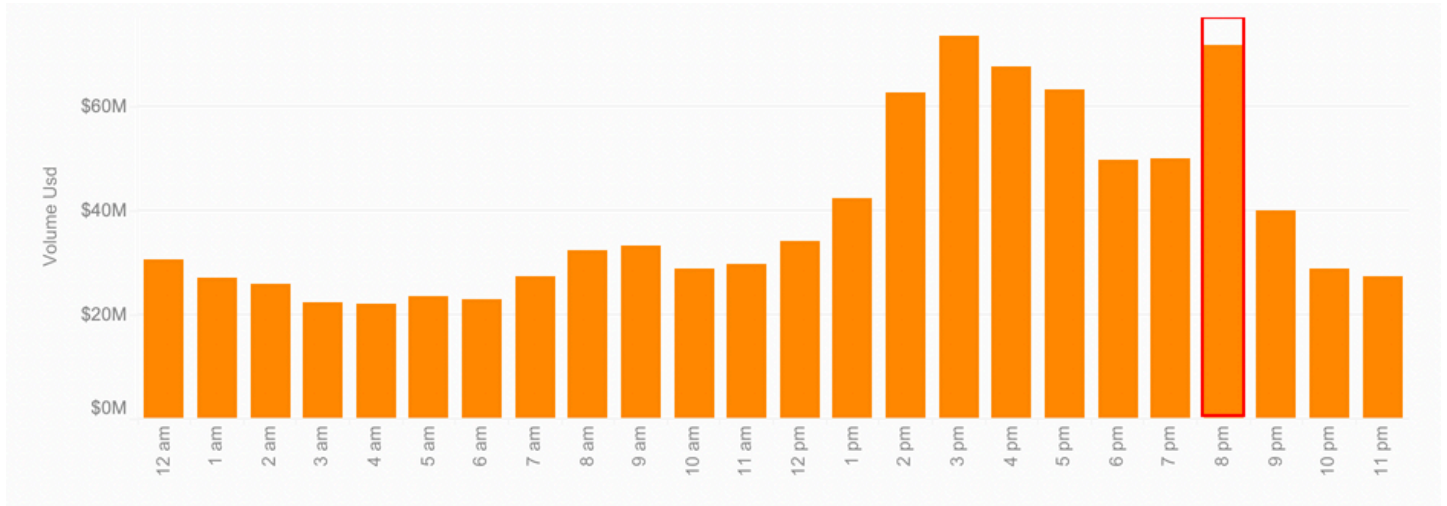
Despite registering the longest consecutive days of inflows between May and June, volumes were far lower than in Q1. Net inflows took a hit in Q2. Most ETFs experienced outflows for the first time — including BlackRock's IBIT.

Trading typically slows over the summer months, and liquidity tends to dry up. Issuers expect volumes to rebound in Q4 as more advisors offer clients BTC ETFs.



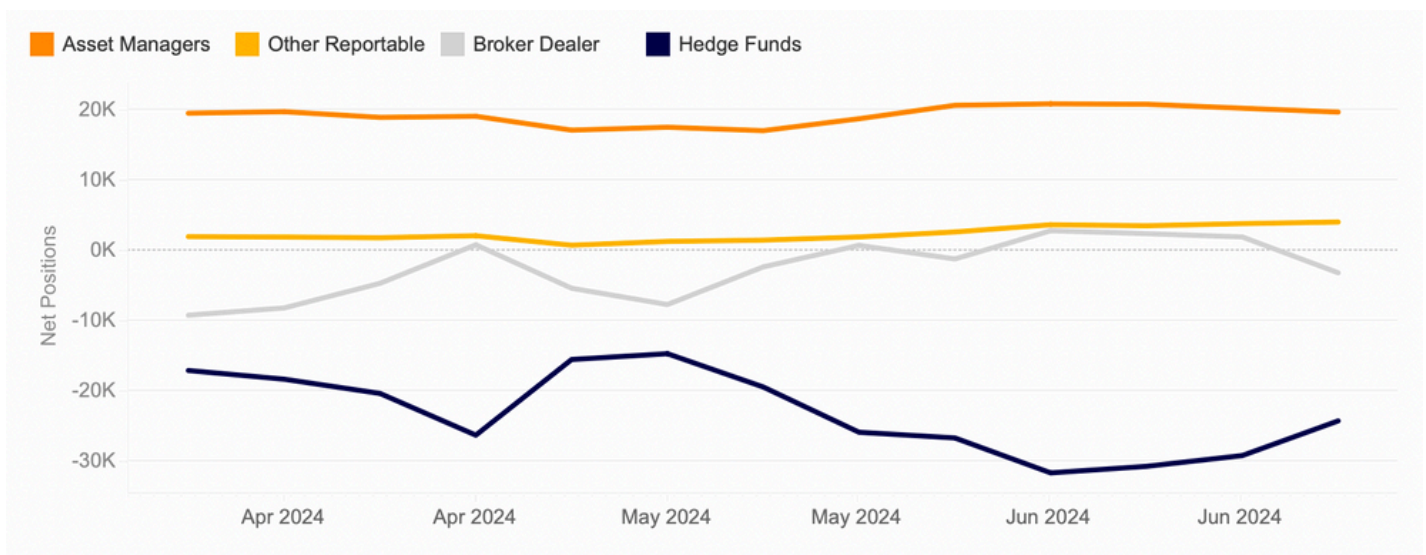
# ETF Impact on Market Structure

## BTC Trade Volume Focuses on US Market Hours



The advent of BTC ETFs in the US has begun to have an impact on the spot BTC market structure. Since their approval and subsequent launch in January, trade activity has become more clustered around US market hours, and liquidity has improved. In particular, the final hour before market close — when data is collected to calculate the net asset value of the ETFs — has seen a significant uptick in activity.

## Hedge Funds Go Net Short on BTC Futures

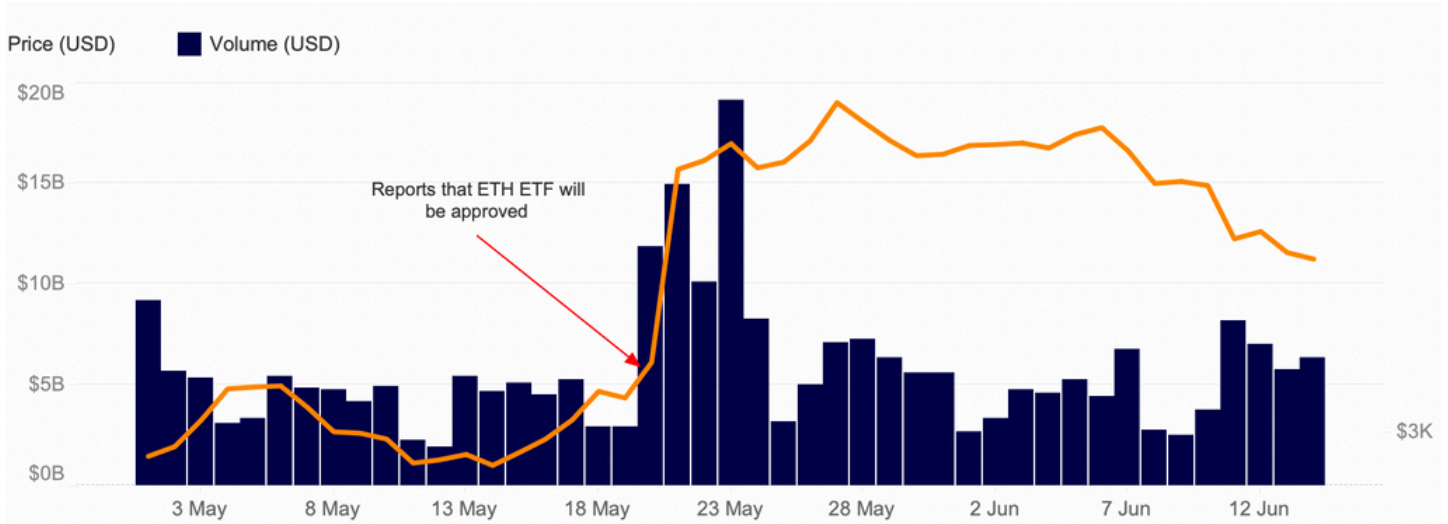


The approval of spot BTC ETFs also opened up new trading strategies for institutional players. As seen above, hedge funds were net short across BTC futures on the CME during the second quarter of the year. However, this doesn't necessarily mean these funds were bearish on crypto; it's more likely they were engaging in the basis trade.

The basis trade is a type of arbitrage strategy that exploits the price difference between two similar assets. In this case, the price difference is between a BTC spot and futures contract. Hedge funds are likely “long basis,” which means they sold futures short while holding spot BTC. This protects against price moves and guarantees a specific sale price in the event of volatility in the underlying asset.

# ETF News is Short-Lived

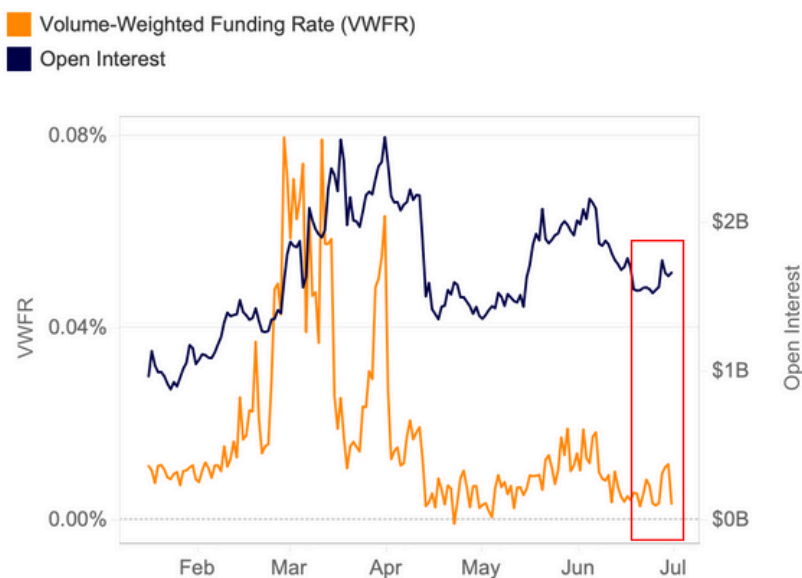
## ETH ETF Filing



Ahead of the de facto deadline for spot ETH ETFs on May 20, reports broke that suggested the US Securities and Exchange Commission would approve the products. These reports took the market by surprise, as hopes of approval had dwindled throughout Q2.

Prices and volumes spiked following the reports, with ETH pushing towards \$4,000 for the first time since March. The euphoria has since waned as the SEC mulls over S-1 filings, and investors wait for the funds to actually launch. The market impact of these ETFs is most likely priced in.

## SOL Open Interest and Funding Rate

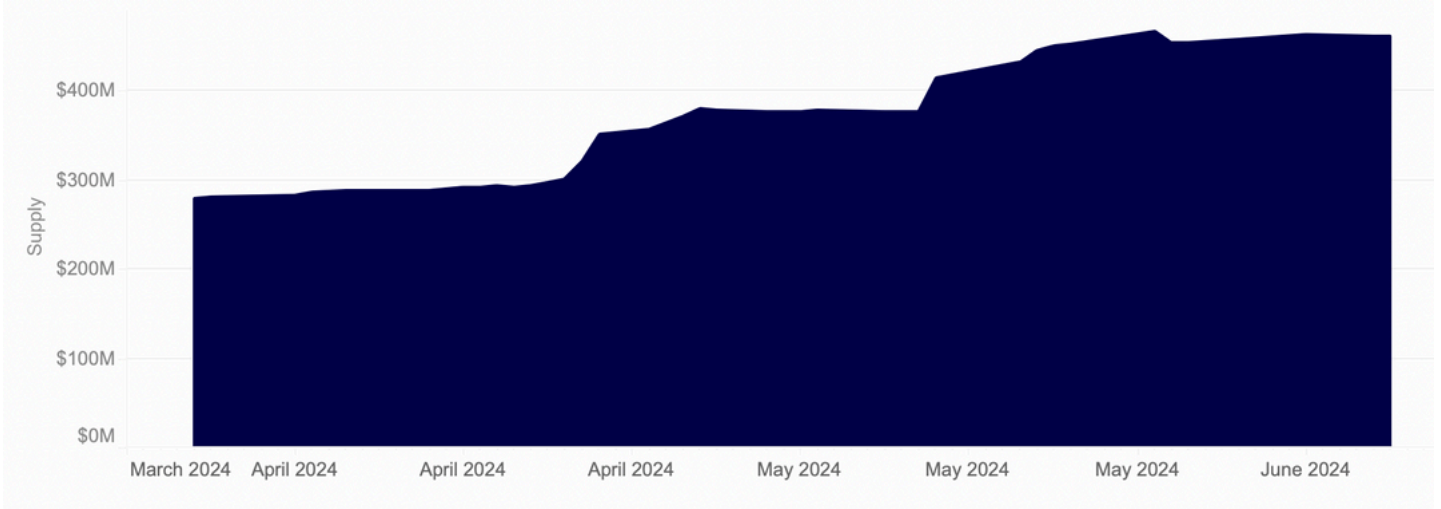


The impact of SOL's ETF news was even more muted. There was a small reaction in the derivative markets, but this fizzled out in the days after the announcement.

SOL's volume-weighted funding rate rose slightly on June 27, but it has since reset to more neutral levels, indicating an overall lack of bullish demand. Open interest barely moved and is currently still 20% below its early June levels.

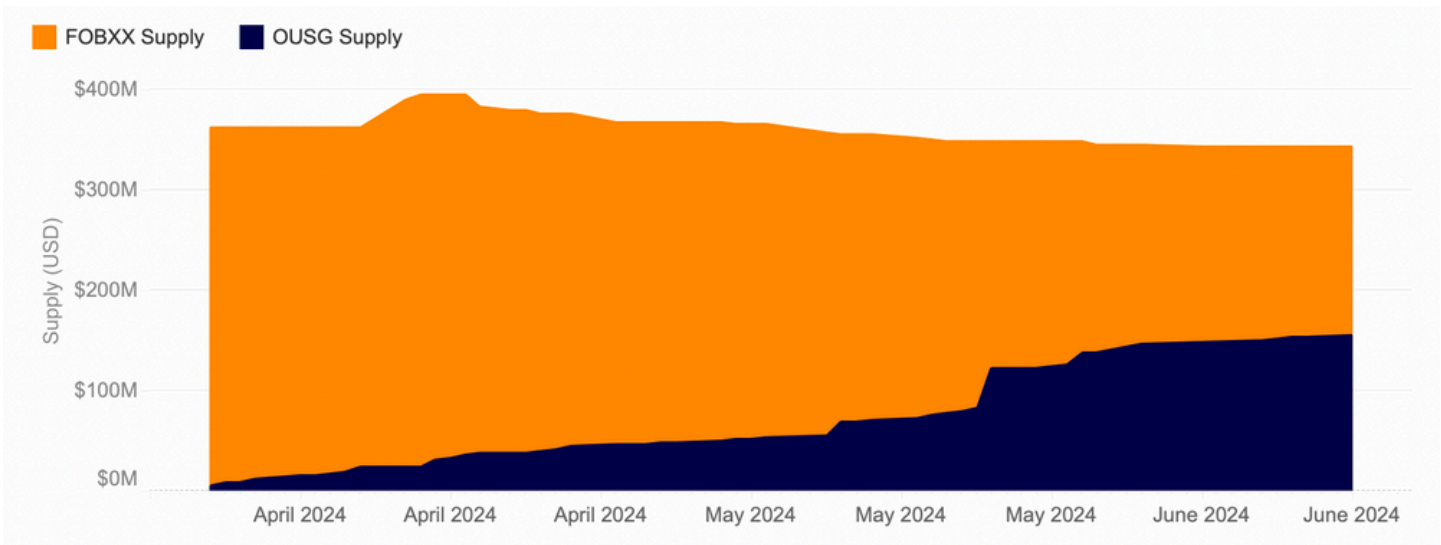
# TradFi Dominates Tokenization

## BlackRock's BUIDL Tops Tokenized Funds



BlackRock's BUIDL, its tokenized liquidity fund, continues to grow and has now accumulated over \$460 million. Since its launch in March, BlackRock's fund has outpaced several crypto-native firms, as well as Wall Street rival Franklin Templeton. It's not just BlackRock and Franklin Templeton, though. Fidelity International became the latest institutional player when it joined JP Morgan's tokenized network. In total, tokenized funds have now attracted over \$1 billion in assets under management as investor demand for on-chain yield-bearing funds grows.

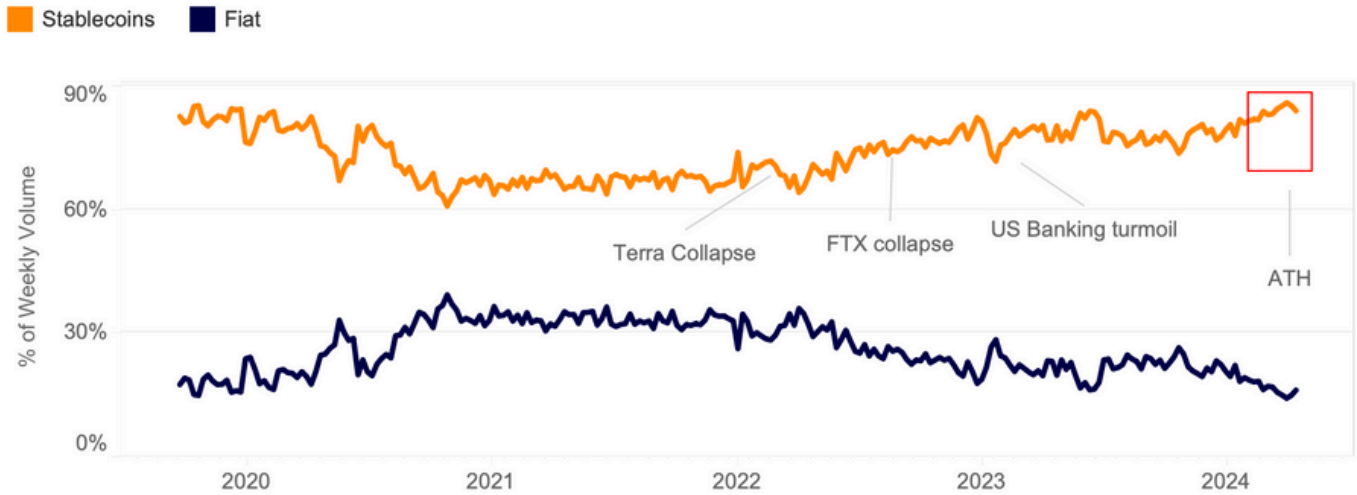
## FBOXX Holds Off Contenders



While Franklin Templeton's FBOXX, which surpassed \$270 million in assets under management in April 2023, was surpassed by BUIDL in Q2, it remains the second largest tokenized fund. Challengers such as Ondo Finance's OUSG have made up for lost time, but are still less than half the size of FBOXX. Even Ondo Finance itself could be considered a traditional play on crypto, with most of its executive team coming from Wall Street firms, and its two largest clients being BlackRock and PIMCO.

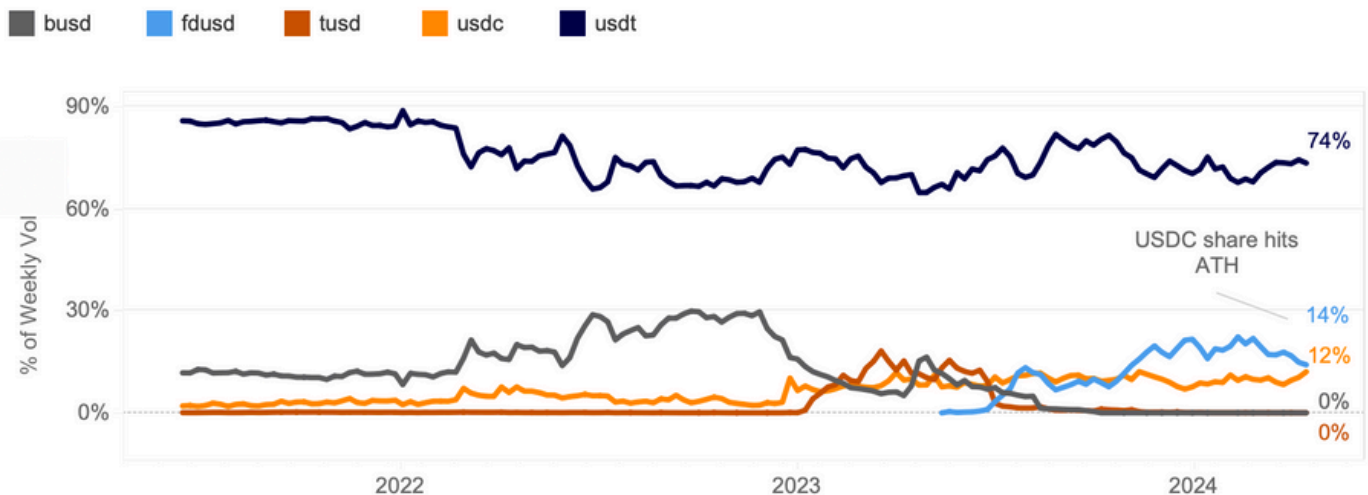
# Tether Loses Market Share

## Stablecoins vs. Fiat Market Share of Volume



Despite several high-profile collapses and de-pegging events in recent years, stablecoins have continued to gain market share over fiat, indicating strong demand. At the end of the quarter, the share of the top USD and EUR-pegged stablecoins hit an all-time high of 84%, while fiat currencies accounted for just 16% of all crypto transactions. Although the stablecoin market remains highly concentrated, with Tether's USDT leading the way, its dominance has been weakening over the past two years.

## USD Stablecoins Market Share of Volume

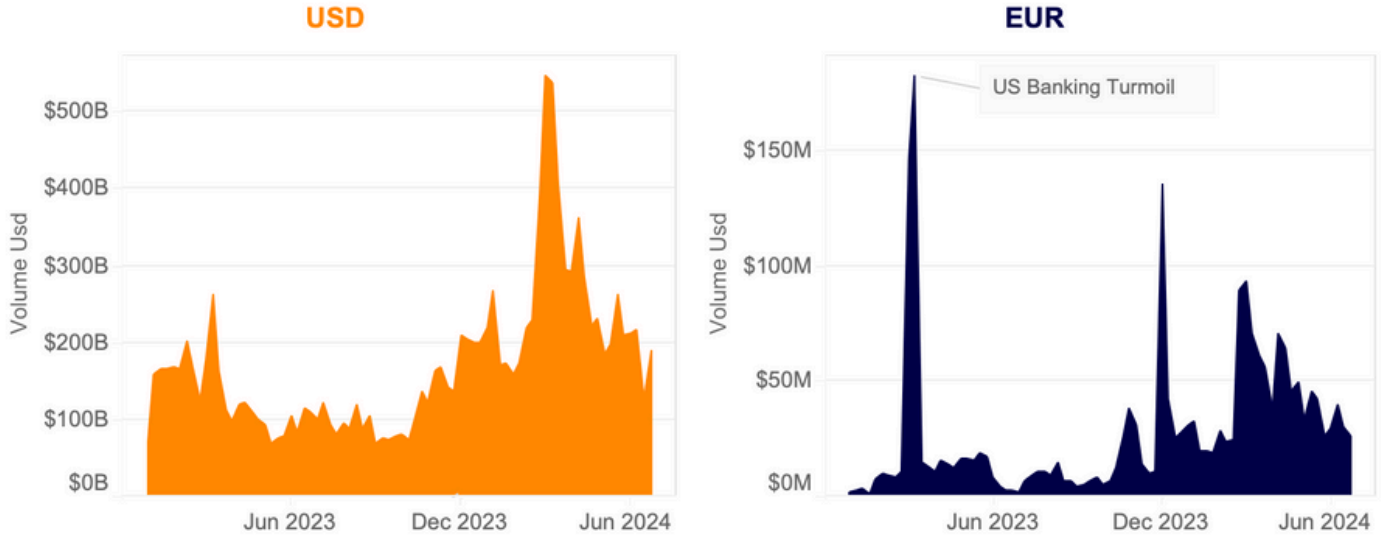


In 2024, USDT's market share on centralized exchanges (CEXs) fell from 82% to 74%, partly due to competition from stablecoins like FDUSD benefiting from Binance's zero-fee promotions and the rising demand for regulated alternatives like USDC. By the end of June, USDC's market share hit an all-time high of 12%, driven by volumes on Binance, Bybit, and OKX. Yield-bearing stablecoins also gained traction, with issuers like Paxos and Tether launching their own alternatives in Q2 to capture this demand.



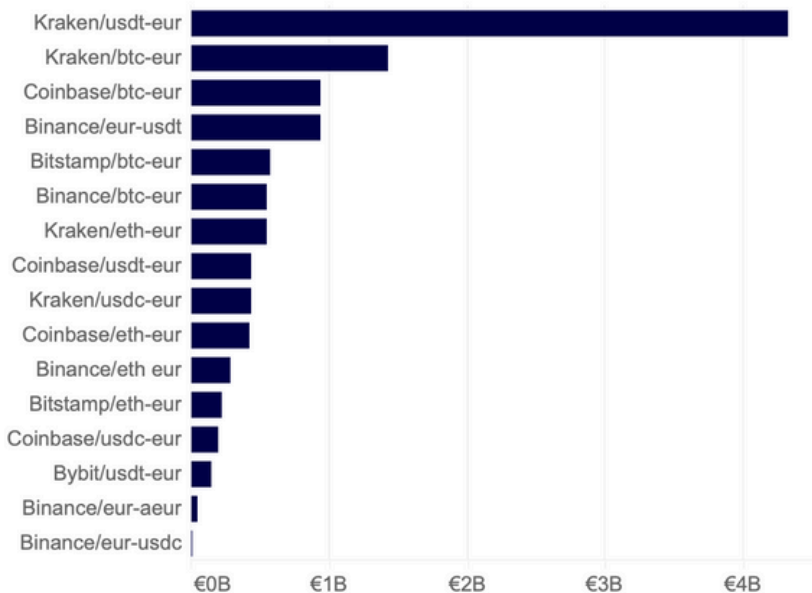
# What MiCA Means For Stablecoins?

## Share of BTC Weekend Trade Volume



At the end of June, the European regulation MiCA officially came into force and is expected to shake up the stablecoin market in the coming months. Several exchanges have already announced restrictions on trading stablecoins for European Economic Area (EEA) users and are considering delisting non-compliant ones. Despite traditionally lagging behind USD-backed stablecoins, EUR stablecoins have seen robust growth in volume since the beginning of the year, indicating rising demand in European markets. In Q2, the combined weekly volume of Tether's EURT, Stasis EURS, Société Générale's EURCV, Anchored's AEUR, and Circle's EUROCC averaged \$42 million, double the 2023 average.

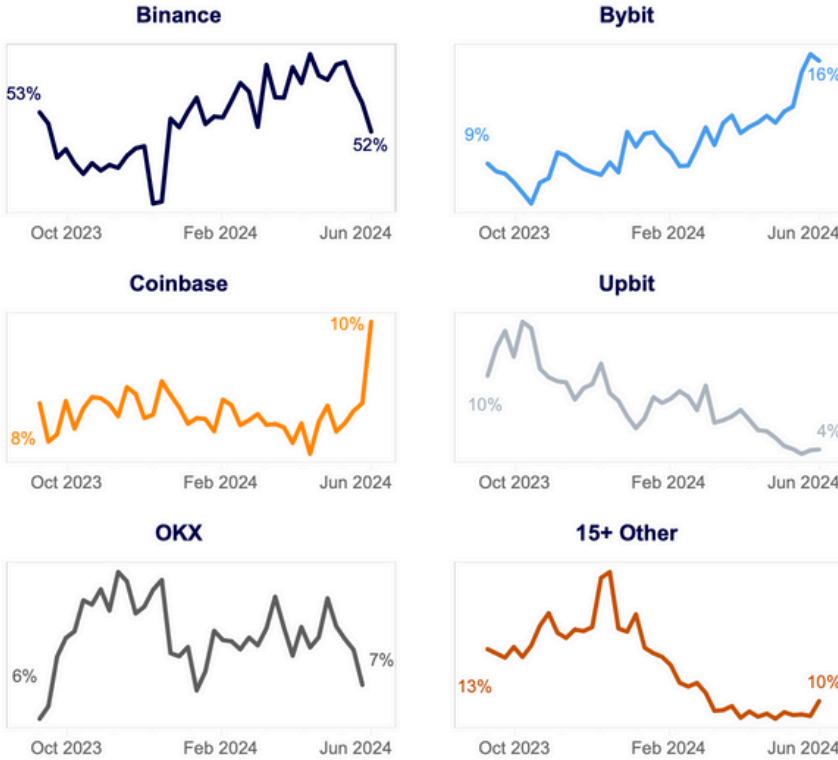
## Average Daily Volume



Exchanges have yet to announce which stablecoins will be considered unauthorized, but Tether's USDT will likely be included. USDT/EUR trading pairs currently have among the highest volumes, indicating that these exchanges are crucial fiat off-ramps for EU traders. While over-the-counter (OTC) trading will continue to provide USDT-EUR liquidity, many traders may switch to regulated alternatives like USDC.

# Bybit Push For Dominance

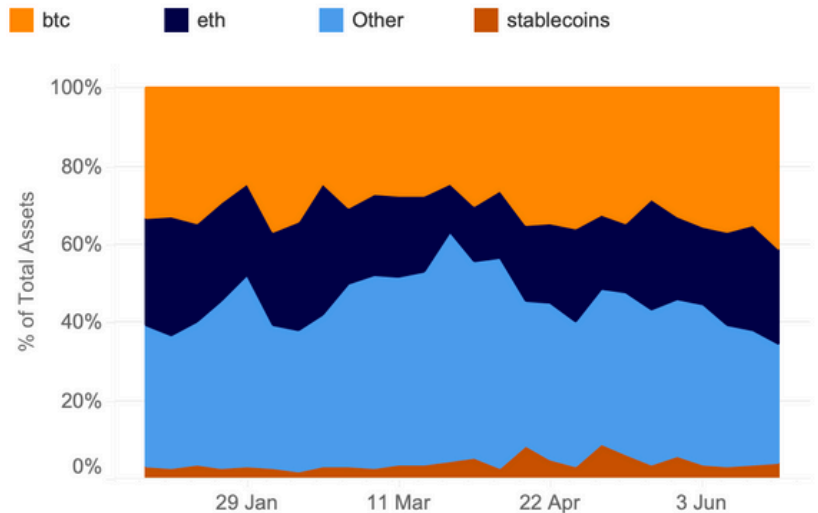
## Market Share of Volume



Crypto trading volumes declined across all exchanges in Q2 as risk sentiment soured and ETF inflows declined. However, some exchanges were impacted more than others. In Q2, Bybit emerged as the main winner, with its market share rising from 10% to 16%, surpassing Coinbase to become the second-largest exchange after Binance. Binance's market share peaked at 58% in May before dropping to 52% by June. Coinbase gained just 2% throughout the quarter, with most of the gains taking place in the last week of June.

## Bybit Market Share of Volume

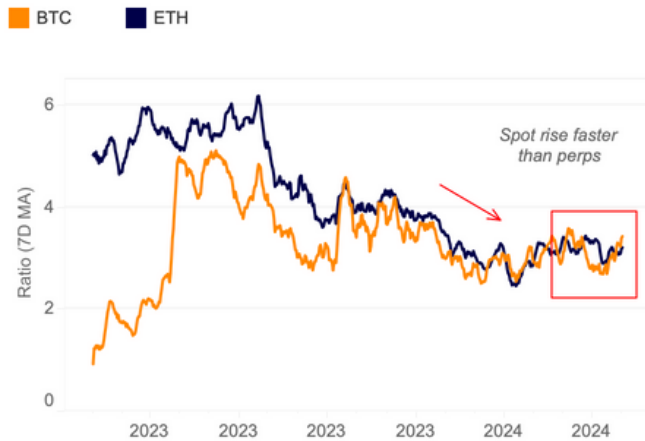
Analyzing spot trade volumes by asset reveals that Bybit's volume increase in Q2 has been driven by BTC, with its market share rising from 30% to 40% between April and June. In contrast, Binance saw a stronger increase in ETH and stablecoin volumes throughout the last quarter, while the share of BTC trading remained flat at around 30%.





# Derivative Market Lacks Direction

## Derivatives to Spot Volume Ratio



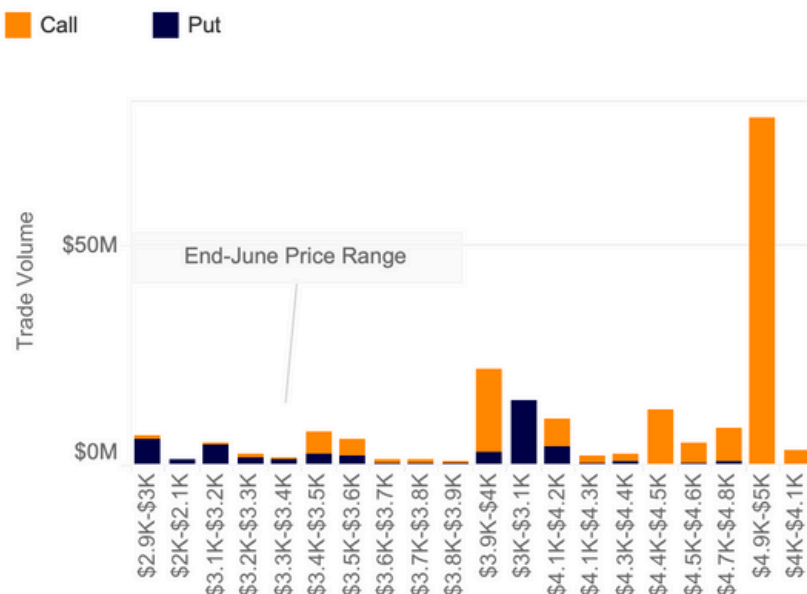
## Perpetual Futures Funding Rate



The shift in market sentiment in Q2 was also evident on derivative markets, with perpetual funding rates remaining neutral to slightly positive and significantly below March's multi-year highs. Although ETH open interest hit an all-time high of \$11 billion following the spot ETH ETF approvals at the end of May, bullish demand remained subdued.

Overall, the BTC derivatives-to-spot volume ratio, which measures the relative growth of perpetual to spot volumes, was mostly flat throughout the quarter. It has declined significantly from 6-7 in September 2023 to around 3 in June 2024, signaling the growing significance of spot markets.

## ETH Option Volume By Strike Price, Cumulative volume since ETH ETFs approval, Dec 2024 expiry



Despite short-term bearishness, traders remain optimistic about ETH's long-term prospects. ETH option volumes for December expiries show a trend of traders buying calls at prices higher than the current level, possibly due to the improving outlook around ETH. However, regulatory concerns are growing around ETH staking products. At the end of June, the SEC sued MetaMask wallet maker Consensys over its MetaMask swaps and staking products.

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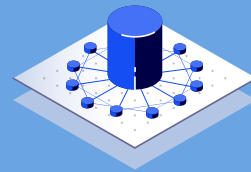
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