

Q3 2023

Kaiko Research

# Quarterly Market Report

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# Q3 Timeline

## July

- July 1**  
Celsius begins converting its altcoin holdings into BTC and ETH
- July 11**  
SEC delays ARK 21Shares BTC spot ETF
- July 13**  
SEC/Ripple court ruling, U.S. exchanges re-list XRP
- July 24**  
Worldcoin launch
- July 30**  
Curve protocol \$64mn exploit

## August

- August 7**  
PayPal launches USD stablecoin
- August 17**  
BTC price slump leads to largest liquidation event since FTX collapse
- August 29**  
Grayscale/SEC court ruling
- August 31**  
SEC delays decision for seven spot BTC ETF applicants

## September

- September 6**  
ARK and 21Shares file for spot ETH ETF
- September 7**  
Binance reinstates taker fees for BTC-TUSD
- September 13**  
FTX receives court approval to liquidate its crypto assets
- September 23**  
Hong Kong crypto firm Mixin suffers \$200mn hack
- September 26**  
SEC delays several BTC spot ETF applications ahead of deadline

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# Analyst Commentary

**Clara Medalie**[@Clara\\_Medalie](#)

## FTX Continues To Loom Large

It was a mostly quiet summer in crypto markets, with low trade volumes and even lower volatility. Yet, this is largely a result of the ongoing impact of FTX's collapse. Traders and market makers are still hesitant to re-enter markets and regulators in the U.S. have

continued to crack down on centralized crypto platforms, dampening the overall mood. In September, the FTX estate got approval to begin liquidating some \$3bn in crypto assets, which could significantly pressure altcoin markets, many of which are far less liquid than pre FTX-collapse. As we enter Q4, all eyes have shifted to SBF's trial, which could at best be cathartic for the industry, and at worst remind everyone that crypto trading is a risky business.

**Dessislava Aubert**[@DessislavaIane2](#)

## Macro Still Matters

Q3 saw a historic surge in global bonds yields due to a rebalancing in the supply of U.S. bonds after the debt-ceiling deal, in addition to an important repricing in rate expectations for next year. This has added uncertainty to the market and weighed on risk assets

spilling into crypto markets. Bitcoin witnessed its largest one-day drop since March in an otherwise low-volatility period, causing more than \$500mn in liquidations on Aug 17. While BTC has since recovered some of its losses, closing September in the green for the first time in six years, macro uncertainty remains high, especially as political turmoil worsens in the U.S. This will weigh on broader market participation and adoption as traders remain on the sidelines.

**Riyad Carey**[@riyad\\_carey](#)

## Things Are Broken

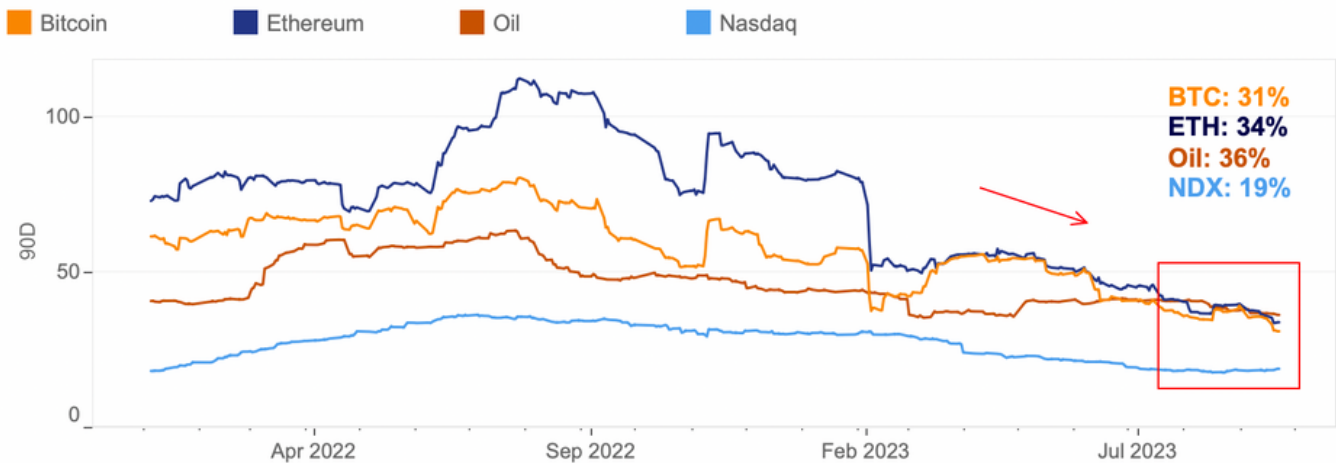
The stablecoin market is broken: Binance has moved on from BUSD and is now promoting a rotating cast of unreliable stablecoins, first TUSD, now FDUSD. USDT's 0.1% redemption fee continues to prop up its supply at the expense of more transparent

stablecoins like USDC. On the exchange side, things aren't any better. Wash trading continues unabated and in some instances has escalated. New exchanges are being even more blatant in their spoofing of liquidity. And, even after FTT, exchange tokens continue to carry high market caps with extremely poor liquidity. In DeFi, liquidity risks associated with liquid staking tokens are escalating as their supply grows and liquidity dwindles.

# Bitcoin's Summer Doldrums

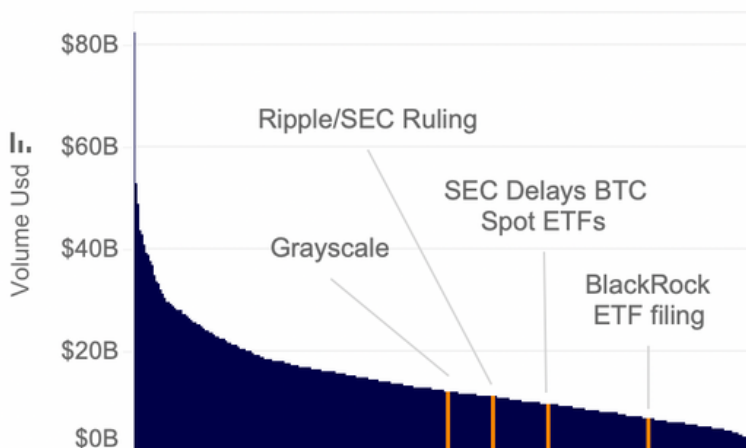
**Crypto Volatility Hits Multi-Year Low**

## 90-Day Historical Volatility



Crypto volatility continued declining throughout Q3, hitting a multi-year low in September. Interestingly, even the Grayscale ruling at the end of August — which requires the SEC to review Grayscale's application and is believed to increase the odds for a spot BTC ETF approval — did not cause any significant price movements. Crypto volatility has been steadily decreasing since mid-2022, suggesting the asset class is either maturing or that overall, there is less activity. While crypto assets continue to exhibit more volatility than most traditional assets, the gap has been narrowing, with both BTC and ETH closing the quarter slightly less volatile than oil.

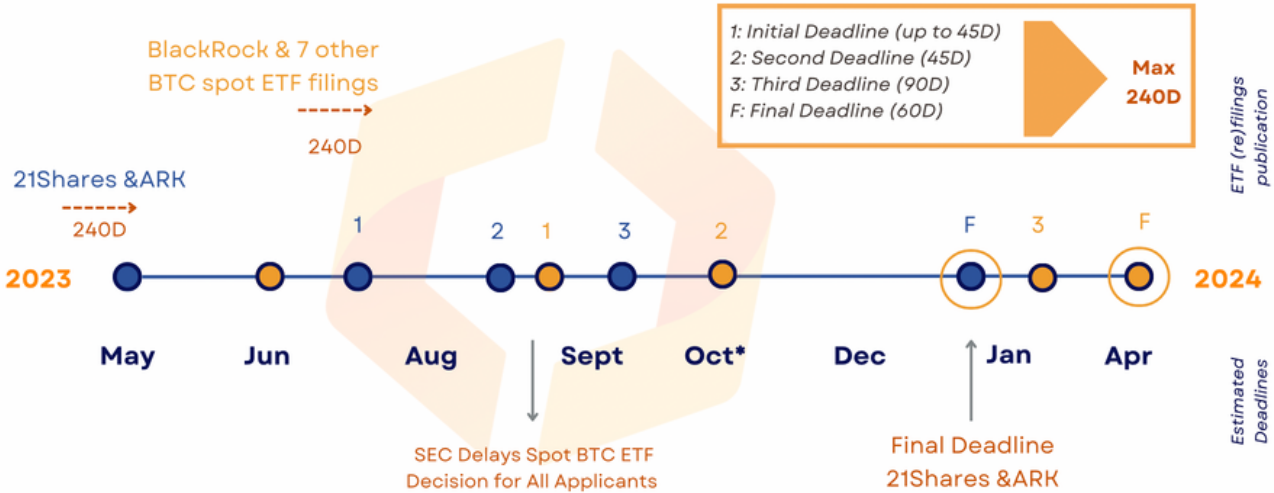
## Bitcoin Ranked Daily Volume Since 2021



This low volatility regime has deterred advanced traders from active participation in the market, contributing to what some call the "summer doldrums." While BTC spot volume spiked to \$12bn after the Grayscale ruling, it averaged just \$6bn in Q3, down from \$7bn in Q2 and \$13bn in Q1.

# BTC Underperforms Despite Rising ETF Hopes

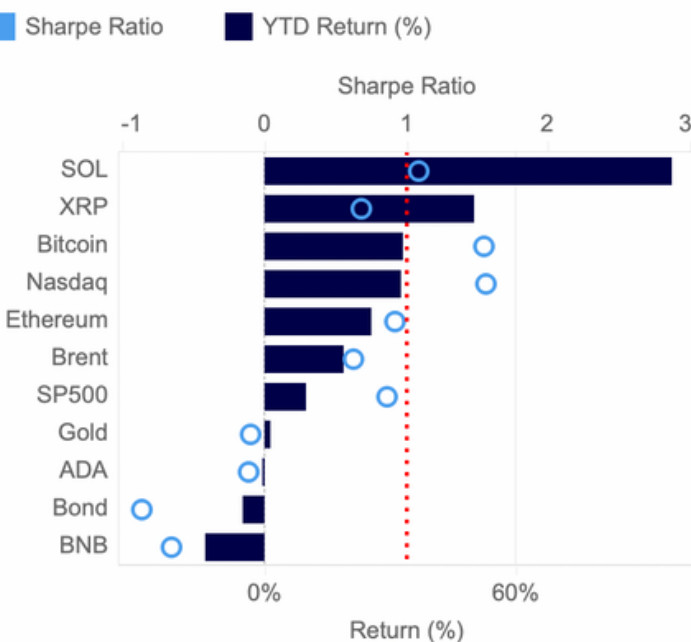
## Bitcoin Spot ETF Timeline



Source: Bloomberg estimates. 7 other include ETF re-filings from: Bitwise, VanEck, Wisdomtree, Invesco & Galaxy, Fidelity, Valyrie, Global X;  
 \*Nearly a dozen companies have filed for futures ETH ETFs including Volatility Shares, Bitwise, Roundhill and ProShares, listings expected in Oct.

The potential approval of a spot Bitcoin ETF is expected to boost adoption, as it would offer an easier and more efficient way for investors to gain exposure to the crypto asset. The U.S. SEC has 240 days to make a final decision on several ETF applications. The first such decision is expected in January 2024 for ARK and 21Shares, who started the ETF race in April, roughly two months earlier than BlackRock and seven other asset managers. Even though the Grayscale win in August may have increased odds for ETF approval, BTC lost traction in Q3 as the ETF enthusiasm proved short-lived and failed to provide a significant catalyst.

## YTD Return and Sharpe Ratio



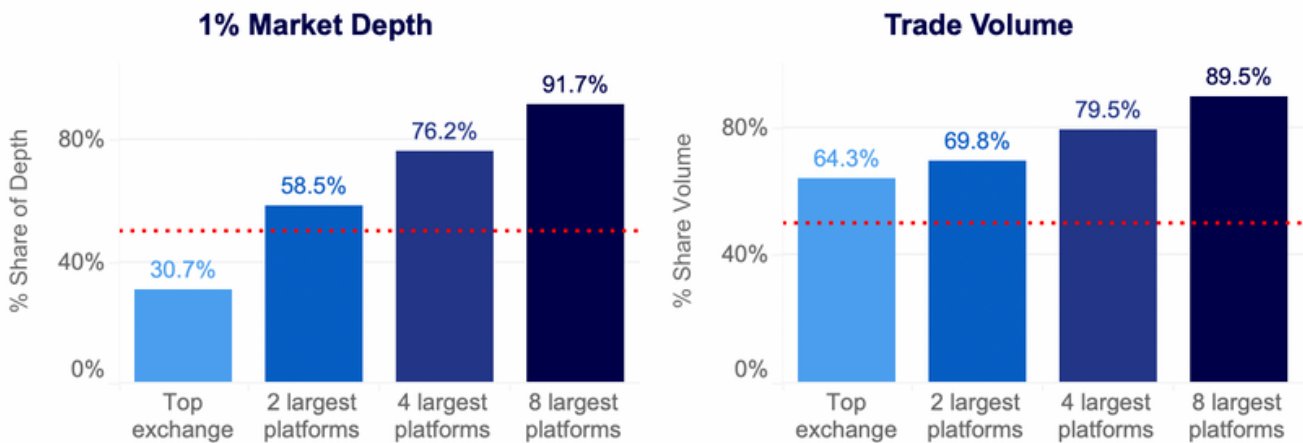
According to the Sharpe Ratio, which measures risk-adjusted returns, BTC continues to outperform the S&P 500 index and other crypto assets YTD. However, it lags behind tech equities, which rallied in August, defying surging bond yields. While some altcoins such as XRP and SOL have had strong price returns this year, boosted by the Ripple/SEC court ruling in July, they have underperformed in risk adjusted terms, suggesting that investors are not adequately compensated for the risk taken.



# Increasingly Concentrated Liquidity

## Crypto Market Concentration

Percentage Share of 1% Market Depth and Trade Volume Across Global Exchanges



As volume falls and traders wait on the sidelines for better market conditions, liquidity on centralized exchanges is becoming increasingly concentrated. In 2023, the top exchange, Binance, accounted for 30.7% of global market depth — which measures the quantity of orders on an order book — and 64.3% of global trade volume. The top 8 largest platforms account for a whopping 91.7% of depth and 89.5% of volume. Liquidity concentration is a natural phenomenon that ultimately benefits individual traders, giving them better prices for their orders. However, because crypto markets by nature emphasize decentralization, liquidity concentration, especially on centralized exchanges, is worrying.

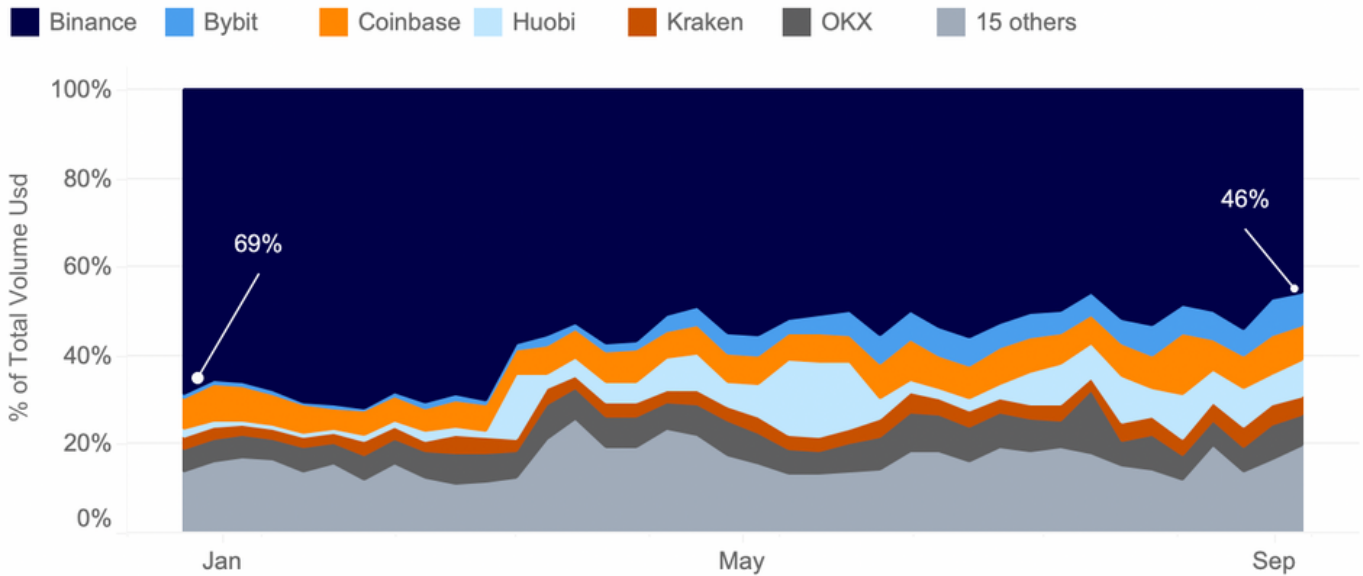
		Market Depth							
2021	Rank	Binance	Coinbase	Huobi	OKX	CoinEX	KuCoin	ZB (shut down)	Binance.US
2023	Rank	Binance	Coinbase	Kraken	OKX	KuCoin	Bybit	Binance.US	Bitfinex
		Spot Volume							
2021	Rank	Binance	OKX	Huobi	Bitfinex	Upbit	Coinbase	ZB	FTX
2023	Rank	Binance	OKX	Coinbase	Upbit	Bybit	KuCoin	Huobi	Kraken

Binance holds the top spot for both market depth and volume in 2021 and 2023. Coinbase has the second deepest order books, while OKX has maintained its spot for second highest volumes. Notably, Huobi has fallen considerably, for both market depth and spot volume.



# Binance's Tough Quarter

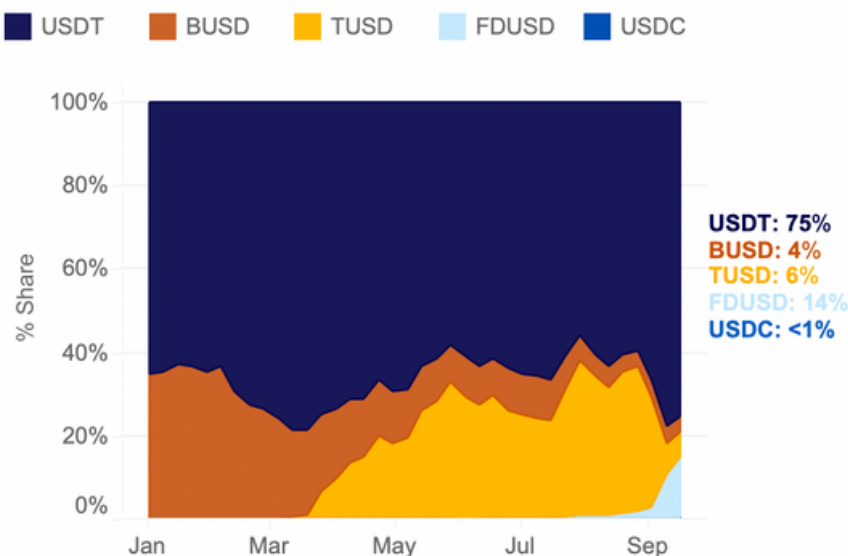
## Spot Volume Market Share on CEXs



While liquidity concentration remains high, Binance's market share has continued its downtrend this year amidst increased regulatory pressures. After withdrawing from Australia, the UK, and the Netherlands earlier this year, the exchange also exited Germany and Russia in Q3 (though there are questions about Binance's close ties to the exchange to which it sold its Russian business unit).

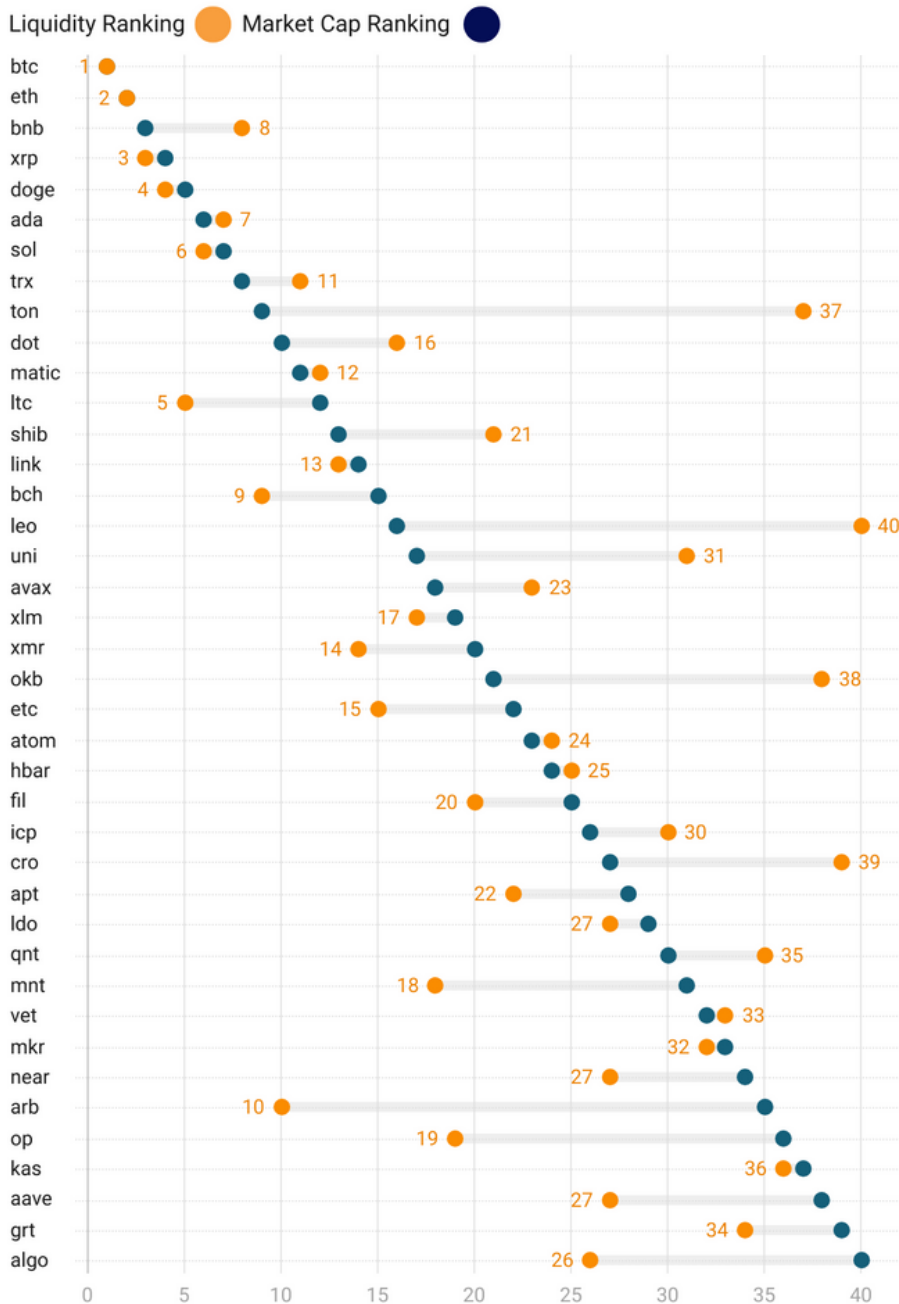
The U.S. Justice Department is reportedly investigating whether Binance was used to allow Russians to evade U.S. sanctions. Interestingly, other offshore markets such as Bybit appear to be the main winners from Binance's troubles.

## Stablecoin Market Share on Binance



The decline in Binance's market share was exacerbated by the reinstatement of BTC-TUSD taker fees in September, which led to a drop in TUSD's trading volume. In contrast, a previously unknown stablecoin - FDUSD - emerged as the second-largest stablecoin by trade volume after Binance waived both maker and taker fees. USDT's market share also surged, hitting its highest level since April 2022.

# Q3 Token Liquidity Ranking

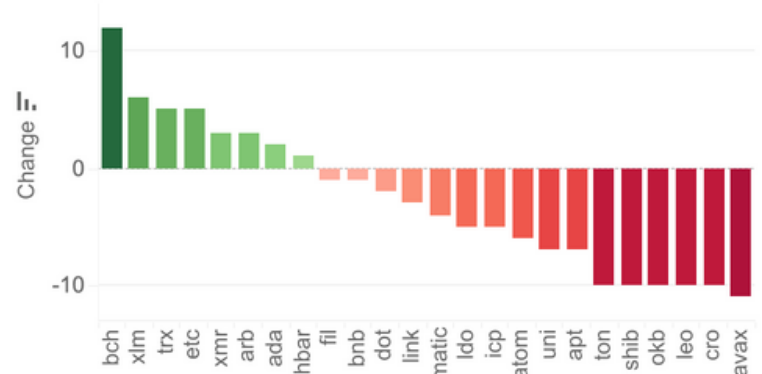


Kaiko Research’s Q3 token liquidity ranking was updated to include two different market depth measures, spreads, volumes, and “tradable” exchanges; we shared the rationale and explanation behind each metric in the associated [Deep Dive](#). Here are some of the top takeaways:

- Exchange tokens, including BNB, continue to have poor liquidity.
- TON had the worst underperformance, as most of its volume is on HTX, which was removed for suspected artificial volumes; the token was not considered liquid on any exchange.
- DOT, SHIB, UNI, AVAX, ICP, and QNT performed poorly.
- ARB was the top over-performance, breaking the top ten in our ranking.
- LTC, BCH, XMR, ETC, FIL, APT, MNT, NEAR, OP, AAVE, GRT, and ALGO all scored well relative to their market caps.

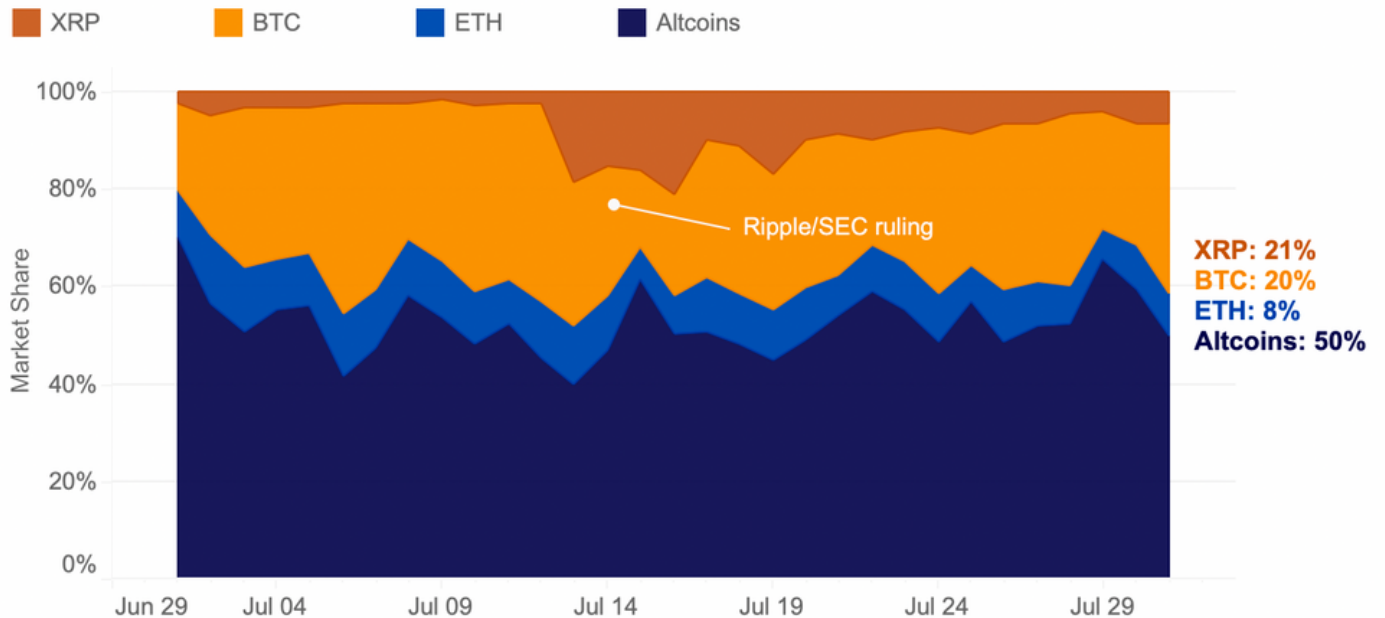
## Change in Ranking Since Q2

BCH improved the most since Q2, jumping more than 10 places as its price nearly tripled. XML, TRX, and ETC also improved. BTC, ETH, XRP, DOGE, SOL, and LTC registered no change while BNB fell one spot. AVAX fell more than 10 spots while OKB, LEO, CRO, SHIB, and TON fell 10 places.



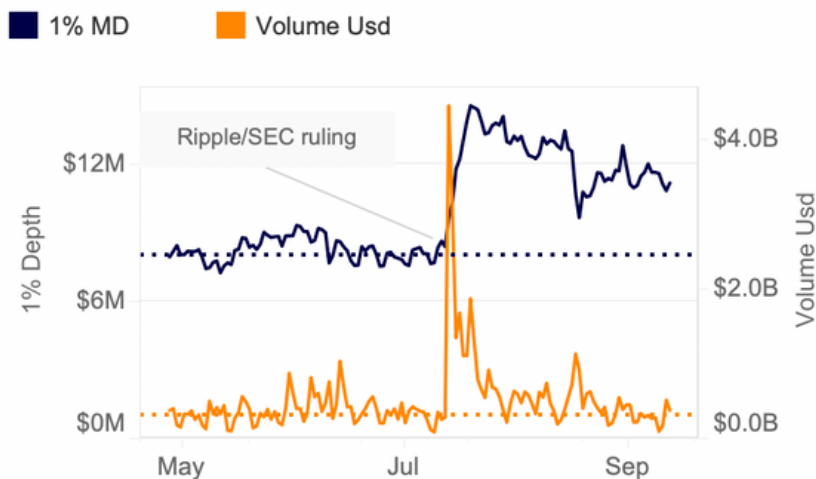
# XRP Surges After Landmark Ruling

## Market Share of Spot Trade Volume



After years of waiting, Ripple finally got a ruling in their highly anticipated lawsuit with the SEC in July; the company did not violate federal securities law by selling its XRP token on public exchanges. Almost immediately after the ruling was announced XRP trade volume and price surged, with the token briefly surpassing BTC and ETH in market share. However, it lost most of its price gains and its trade volume declined significantly in August.

## XRP Market Depth and Trade Volume

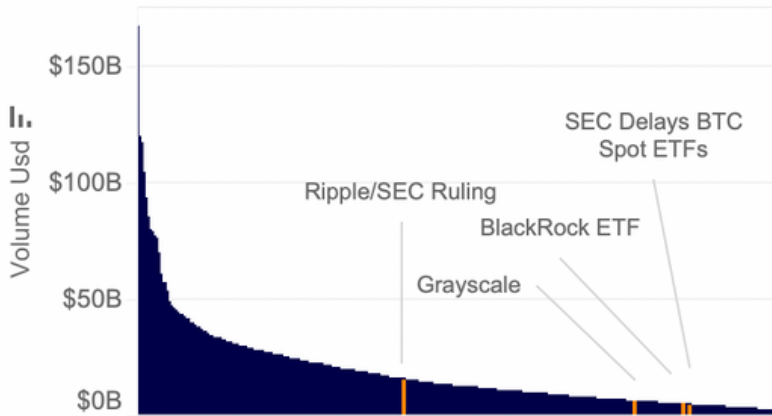


XRP's liquidity has improved significantly since July's court ruling. The aggregated 1% market depth across all trading pairs and exchanges in Kaiko's coverage rose from an average of \$8mn in June to \$12mn in early September. The trend could suggest that the outlook for the token has improved after the ruling, with more exchanges offering the token and market makers engaged in the market.

# Altcoin Trade Volume Remains Low

## Ranked Daily Trade Volume Since 2021

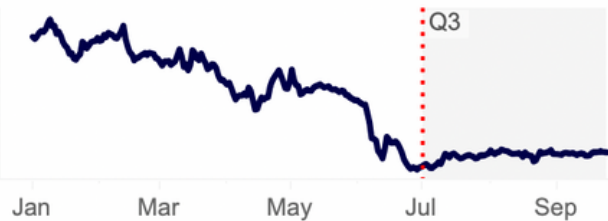
### Top 30 Altcoins



Even though many hoped that a win in the Ripple/SEC case would spur a market-wide altcoin rally, altcoin volume did not significantly increase. The top 30 altcoins' average daily trade volume was \$5bn in Q3, down from \$6bn in Q2 and \$7bn in Q1. However, some altcoins performed well compared to BTC this quarter. SOL and XRP were the top performers relative to BTC, while BNB, DOGE, ADA, and ETH struggled.

## Altcoin to Bitcoin Price Ratio

### ETH



### ADA



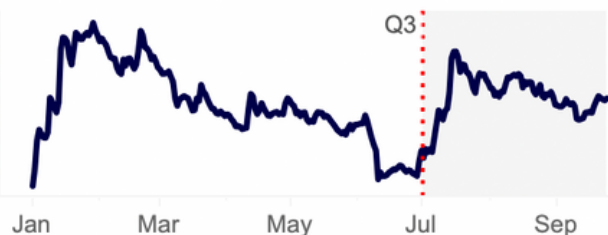
### BNB



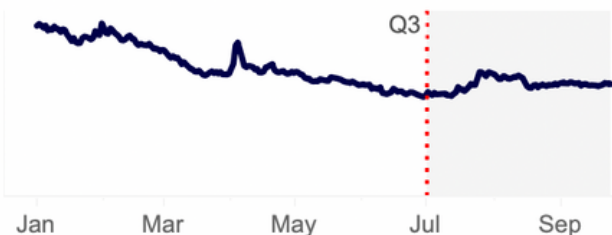
### XRP



### SOL

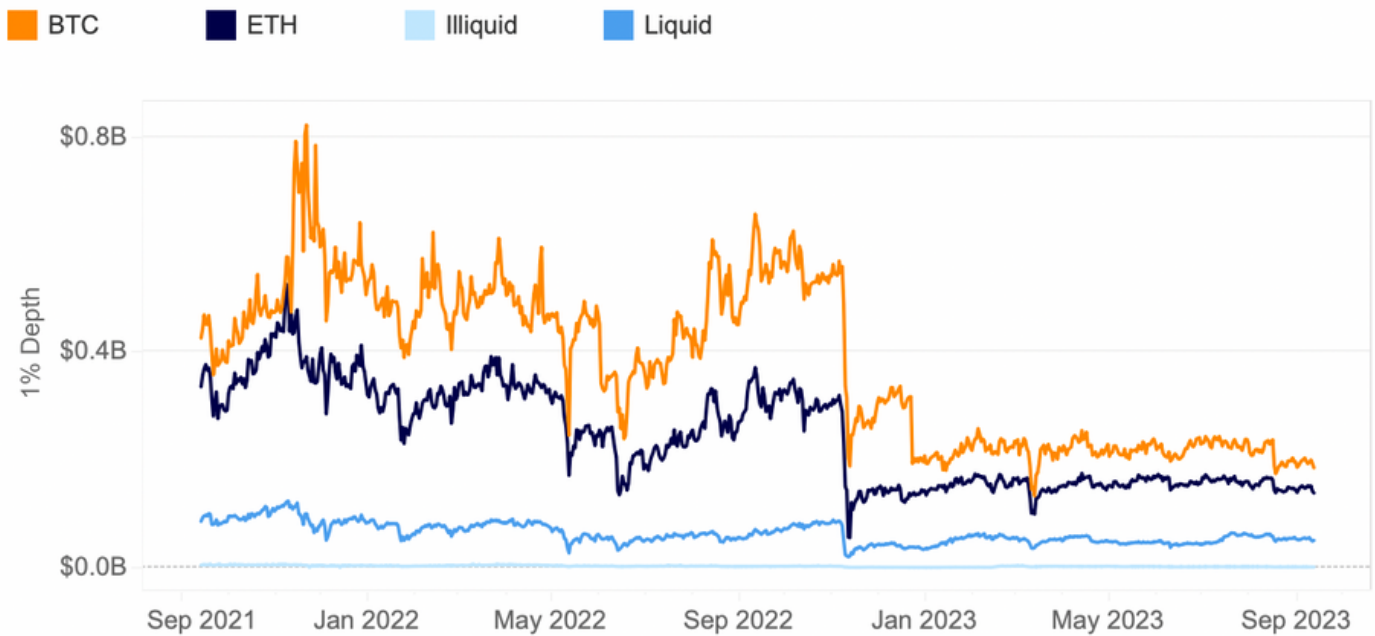


### DOGE



# FTX Gets Approval to Sell Holdings

## FTX Crypto Holdings Market Depth on CEXs

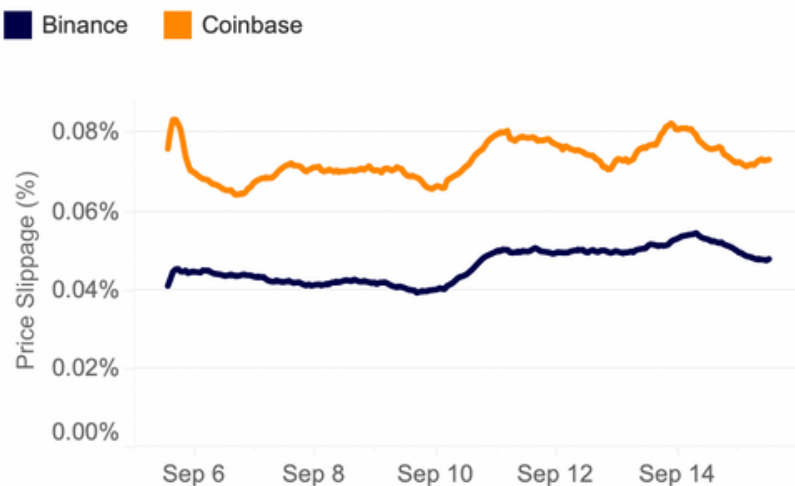


In September, FTX was granted court approval to begin liquidating its crypto holdings, valued at \$3.4bn. The sales are capped to \$100mn per week. It is unclear whether FTX management, which has enlisted Galaxy to assist with the sales, will offload its holdings on centralized exchanges or OTC.

However, in both cases the market impact could be significant, as altcoin volumes and liquidity remain at multi-year lows. All of FTX's crypto holdings have seen a significant drop in liquidity over the past year.

## SOL Price Slippage

For a Simulated \$100k Sell Order



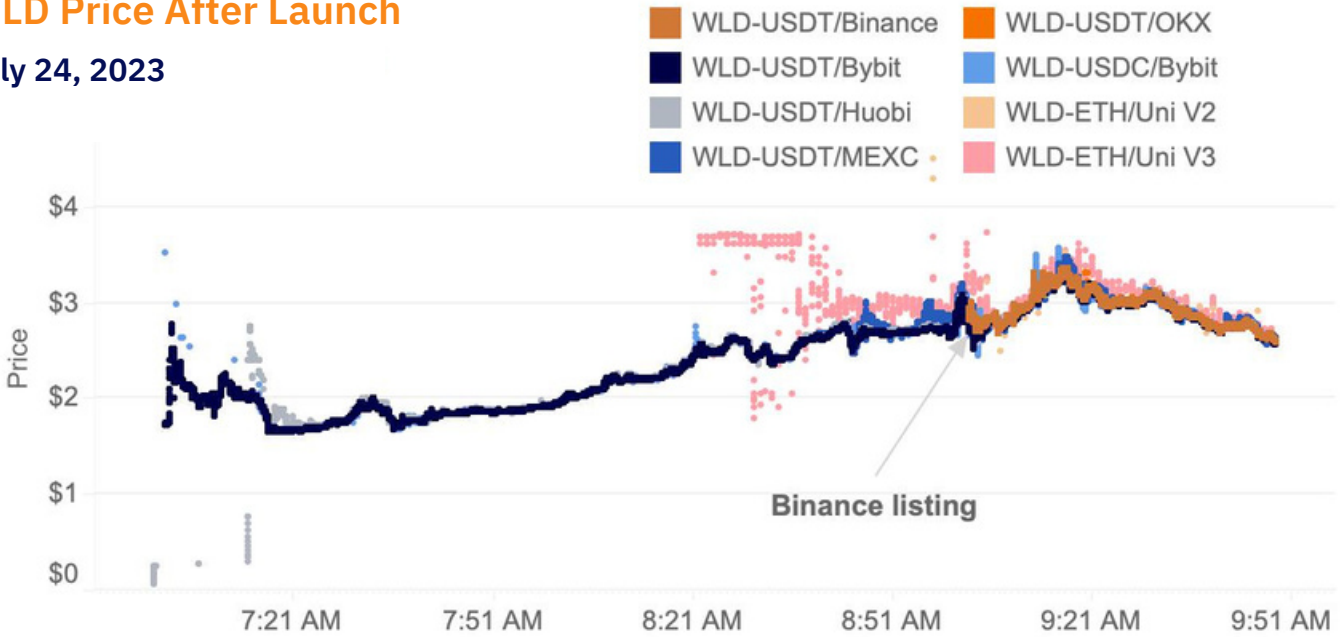
Nearly 60% of market depth for FTX's holdings is concentrated on offshore exchanges, making selling these assets on U.S. markets costlier. For example, a simulated \$100k market sell order for FTX's largest holding, SOL shows considerably higher slippage on Coinbase than on Binance. Price slippage refers to the difference between the expected price and the execution price.



# Worldcoin's Unusual Launch

## WLD Price After Launch

July 24, 2023

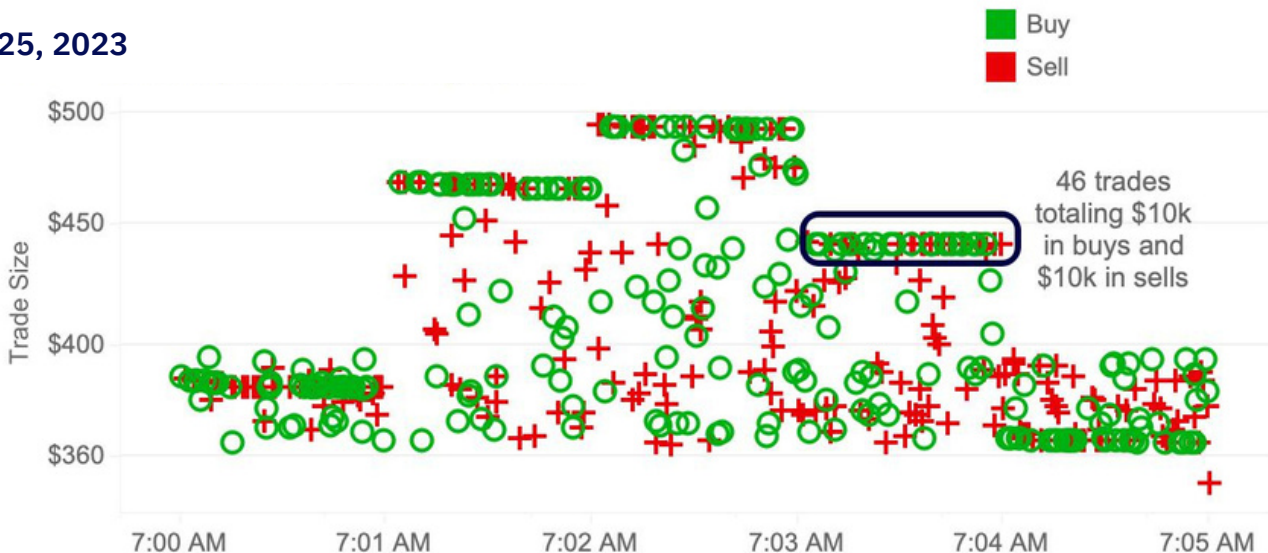


Worldcoin's July launch was one of the most unique and controversial in recent years, with 100mn of the 143mn circulating supply at launch loaned to market makers operating outside the U.S. These loaned tokens are due to be returned on October 24 or the market makers can opt to purchase them for  $\$2 + (\$0.04 * X)$  where X is the number of tokens being purchased divided by 1mn.

The significant portion of supply loaned to market makers also meant that the launch was much more efficient than usual, with very few major price divergences between exchanges, as shown above. This was also the first time that we noticed suspicious volumes on Huobi (now HTX), with large groups of matching buys and sells (shown below).

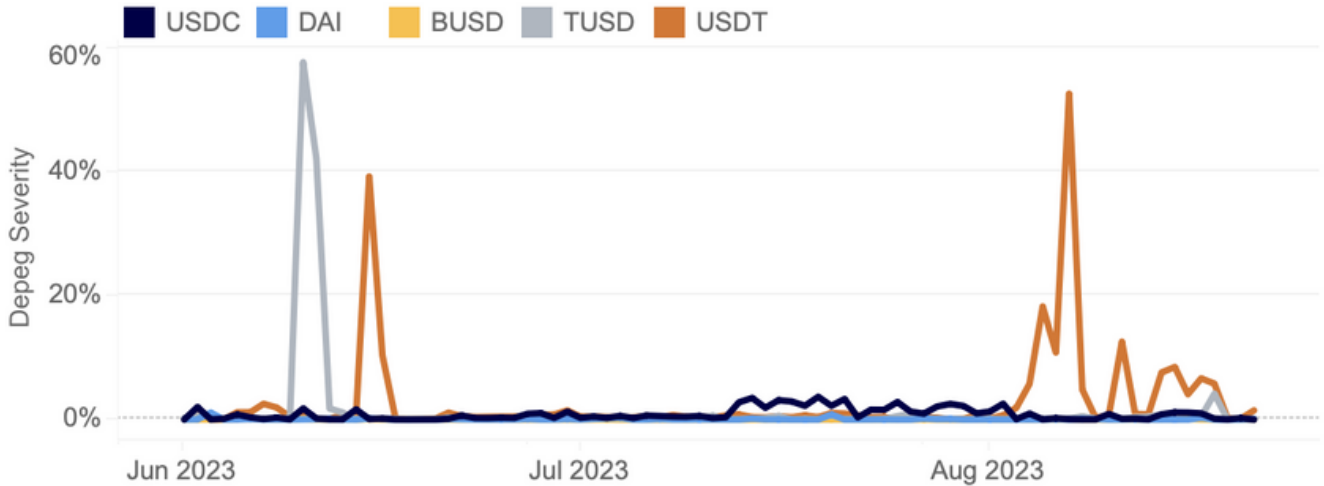
## WLD Trades on HTX After Launch

July 25, 2023



# Tether's Peg Stability Problem

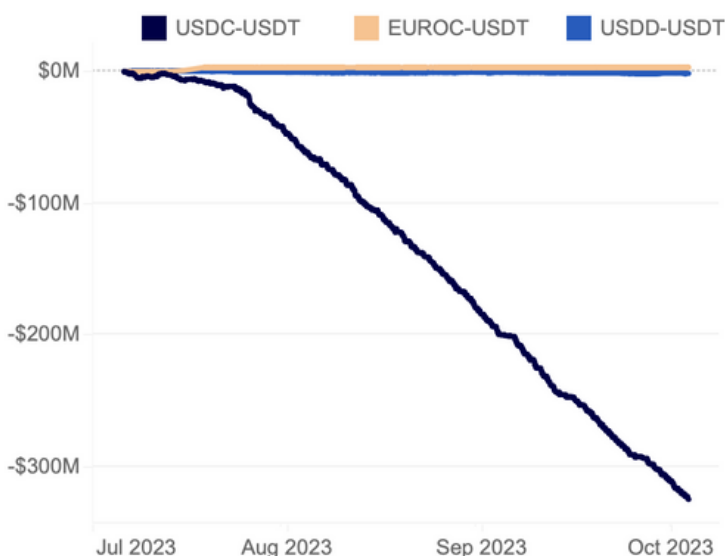
## Stablecoin Depogs in Q3



There were no dramatic depegs — like USDC and DAI’s — this quarter, but there were still some significant depegs, this time involving the largest stablecoin by market cap (USDT) and one promoted by Binance (TUSD). TUSD’s 60% depeg — measured using our depeg severity methodology — came in mid-June as it paused minting because of problems with its issuer, Prime Trust. USDT followed this with a brief 40% depeg of unclear origins.

However, the more concerning depeg came in August, as USDT registered a 55% depeg and then remained slightly depegged for the rest of the month. USDT’s 0.1% redemption fee has made it more likely that holders will sell the stablecoin on the market rather than redeem it directly; as liquidity has deteriorated this has weakened USDT’s peg. Our methodology for assessing depeg severity is discussed in a [Deep Dive](#).

## HTX Stablecoin-Stablecoin CVD



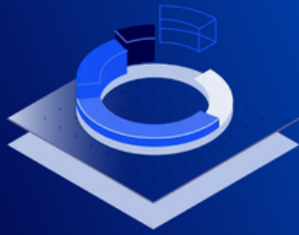
HTX (formerly Huobi) was one of the top contributors to USDT’s depeg throughout August. Cumulative volume delta (CVD) makes it clear why. Since mid-July, a net of \$325mn USDT has been systematically sold for USDC. Such a consistent and steady CVD indicates that a large holder is moving from USDT to USDC; given concerns about HTX adviser Justin Sun’s stUSDT token and potential rehypothecation of HTX’s USDT, this pattern is worrying.





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