coinmotion

TURBULENCE AHEAD

AS BANKS RUSH TO ALIGN THEIR POLICIES

2020 q3

quarterly report

in collaboration with dcresearch

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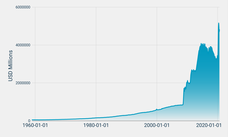
MARKET INSIGHTS

TURBULENCE AHEAD

In order to stabilize the economy amid the COVID-19 disease, central bank policies have radically aligned towards quantitative easing and expansive monetary policies. The total monetary base of the United States has increased to 4,8 billion dollars in August. Representing 1,4 trillion USD increase in 2020 alone, rising from January 3,4 trillion and peaking at 5,1 trillion in May. 22 percent of the total dollar amount in circulation was created during 2020 alone. [1]

> *"Flooding markets with freshly printed fiat money will create artificial value and make markets more volatile."*
>
> - Anna Svahn, Antiloop Hedge

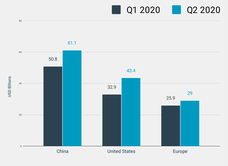
Total USD Monetary Base
Data source: FRED.



The quantitative easing has been a successful hedge to keep financial markets afloat and S&P 500 Index, mirroring the stock market performance, is over **7%** up year-to-date (YTD), despite the March COVID-19-related crash. However, there's a significant and growing divergence between financial and "real" economies. Many industries, including travel, retail, and real estate, have suffered notably from corona-induced demand drop.

While central banks are trying to control the situation by flooding the market with fresh currency, the underlying infrastructure is under increasing stress. Bad debt, or uncollectible accounts expense, accumulated in the banking industry increased significantly from the first to second quarter of 2020.

Bad Debt (Uncollectible Accounts Expense) of the Banking Industry
Data source: CoinDesk.



China is in its own class in terms of bad debt, and saw uncollectible accounts expense to climb from $50,8 billion to $61,1 billion, representing a 20,28 percent increase from quarter to quarter. Measured in percentages, the amount of bad debt increased even more in the United States, rising **31,9%** from Q1 $32,9 billion to Q2 $43,4 billion. Europe saw a relatively modest increase in comparison, rising **12%** from $25,9B to $29B QoQ.

> *"But why*
>
> *a) do we have an inflation goal of (at least) 2%*
>
> *and*
>
> *b) why would the government want to manipulate the numbers into looking lower than they in reality are?*
>
> *The short answer is debt. "*
>
> - Anna Svahn, Antiloop Hedge

There's no end in sight for global money creation. In the year 2019 alone, the calculated total money supply relative to each individual person was 852,95 dollars (USD). We compared the global money supply to bitcoins, silver, and gold produced, using data sources from Visual Capitalist and dcresearch. [2] [3]

Global Money Creation in 2019, Total Production per Person (USD)
Data sources: Visual Capitalist, dcresearch.

The increase of global money supply for 2019 was immensely enormous, 852,95 dollars for each person. Compared with bitcoin's proxy, 0,49, the global money supply increase is over 1740x the bitcoin's increase for a single person. Silver's and gold's proxies, 0,21 and 1,42, are also minuscule compared with the global money supply increase. The graph attached clearly mirrors two big paradigms: The scarceness of bitcoin and precious metals, and the huge trend of printing new money. **The most prevailing single factor for increasing money supply is controlling underlying debt.**

The total global money supply increase is a proxy based on data from U.S., China, EU, Japan, and UK. Bitcoins produced are calculated using 2019 proof-of-work mining data. Silver and gold coins proxies are based on mining data, respectively.

EMERGING MARKET CURRENCIES CRUSHED AGAINST BITCOIN

While expansive monetary policies have kept the stock market (mainly S&P 500 Index) afloat, especially emerging markets are suffering. Emerging market national currencies are seeing increasing inflation, their relative weakness is clearly mirrored comparing these currencies against bitcoin (BTC), or U.S. dollar (USD).

BITCOIN'S (BTC) STRENGTH AGAINST TURKISH LIRA (TRY)

2016 - 2017 YOY:	177,6%
2017-2018 YOY:	1419,36%
2018-2019 YOY:	-66,73%
2019-2020 YOY:	140,72%
2016-2020 YTD:	6588,29%

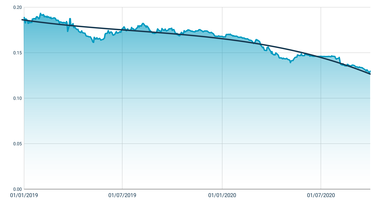
When exploring the weakness of Turkish lira (TRY) against bitcoin (BTC) from 2016 onwards, we can see that bitcoin has strengthened 6588,29 percent against TRY. In the bullish updraught of 2017, bitcoin strengthened **1419,39%** against TRY.

BTC / TRY
Data source: CoinGecko.

In addition to bitcoin, the Turkish lira (TRY) has parallelly weakened against the U.S. dollar (USD), dropping 31,48 percent from 2019 into 2020 so far. Investors are worried about the risk of rising inflation and even a balance-of-payment crisis. Concerns are also mounting about depleted currency reserves, costly foreign-currency interventions and a trend of Turks buying foreign currencies.

Moreover, the lira sell-off comes as the country is earning fewer dollars and euros due to a massive drop in tourism and slumping exports amid the virus pandemic. According to an estimate by US investment bank Goldman Sachs, the country has spent $65 billion (€55.2 billion) this year on managing its currency. As a result, its gross currency buffers have dropped by more than a third this year to $49.2 billion as of July 17. Including gold, they stand at $89.5 billion.

TRY / USD
Data source: Investing.com.

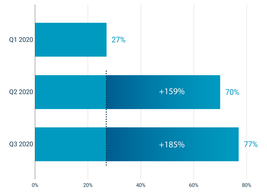


What's making matters even worse is the central bank wasn't using only its own reserves, but dollars borrowed from domestic banks, to buy the lira. As a result, it now owes more foreign currency to the banks than it currently has in its coffers.

INSTITUTIONAL ADOPTION ON THE RISE

Institutional growth has been one of the main driving forces behind the developing digital asset industry. In 2020 institutions are holding more bitcoins than ever and institutions like Grayscale LLC are estimated to own up to 3,4 percent of all bitcoins by 2021. [4]

Grayscale Bitcoin Trust (GBTC) Inflows as a Proportion of Mined Bitcoins
Data source: Grayscale Investments LLC

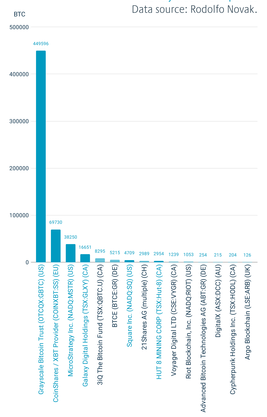


One practical metric to measure the impact of institutional investors on the broader market is comparing its inflows as a proportion of mined bitcoins. Grayscale's inflows as a proportion to mined bitcoins has tripled from the first quarter of 2020, rising from Q1 27% into 77% in the third quarter.

Grayscale has experienced a distinctively successful year, raising over 1 billion dollars (USD) intro their family of products in Q3. The Grayscale Bitcoin Trust (GBTC) alone saw $719,3 million worth of inflows in Q3 and the total AUM (assets under management) escalated to 5,9 billion dollars.

Bitcoin allocation of publicly traded companies are on a steady climb too. As mentioned above, Grayscale is forecasted to own a whopping 3,4 percent of all bitcoins by 2021. The current estimated amount of bitcoins in Grayscale's Bitcoin Trust (GBTC) is 449 596 ($5,18 billion), making Grayscale the leader in terms of bitcoin holdings in the U.S. and worldwide. CoinShares is the second largest institutional bitcoin holder with 69730 BTC ($803,43 million), mainly operating within EU jurisdiction.

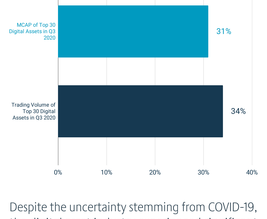
Institutional Adoption: Bitcoin Treasuries of Publicly Traded Companies
Data source: Rodolfo Novak.



The third largest public company holding bitcoin is MicroStrategy Inc., an US-based business intelligence company, currently holding 38250 bitcoins ($440,72 million). MicroStrategy recently made it to mainstream headline news by converting large tranches of their treasury cash reserves into bitcoin. [5]

Galaxy Digital (GLXY), managed by famous Michael Novogratz, has the fourth largest bitcoin treasury holdings, amounting to 16651 bitcoins ($191,85 million). Other notable large companies with bitcoin-related treasury holdings include Square Inc., guided by Jack Dorsey of Twitter, with 4709 bitcoins ($54,26 million). And Canadian HUT 8 Mining Corp (HUT) with 2954 bitcoins ($34,04 million).

Growth of Digital Asset MCAP and Trading Volume
Data source: CoinGecko.



Despite the uncertainty stemming from COVID-19, the digital asset industry experienced significant growth during the third quarter of 2020. According to data by CoinGecko, the combined market cap (MCAP) of to 30 digital assets grew by 31 percent in the third quarter alone. In addition to the market cap, trading volume grew by 34% in Q3 2020 as well.

"Bitcoin is a swarm of cyber hornets serving the goddess of wisdom, feeding on the fire of truth, exponentially growing ever smarter, faster, and stronger behind a wall of encrypted energy."

- Michael J. Saylor

BITCOIN'S VALUE PROPOSITION TO INVESTORS

GROWTH

The pioneering blockchain industry is developing with escalating pace and new projects are constantly gaining traction. The mass adoption in bitcoin & blockchain tech and tokenization in general will continue to evolve rapidly in coming years.

DIVERSIFICATION

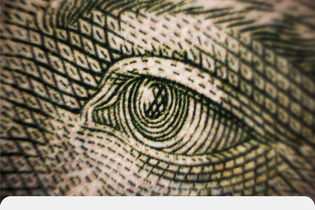
Bitcoin with a low historical correlation to traditional markets, is an emerging asset class to consider as a part of the portfolio diversification. Even just 1-5% allocation to bitcoin has been historically impacting portfolio performance favorably.

HEDGE

Bitcoin can be seen as a potential hedge to traditional asset classes. Built-in features like 21 million hard cap, inflation-free structure, and antifragile blockchain make bitcoin a store of value.

DECENTRALIZED VALUE

Global, decentralized, censorship-resistant & programmable asset with proven 10-year track record, showing outstanding staying power. With 99,98% uptime since inception, every subsequent day online makes bitcoin more robust, secured by built-in incentive structure.

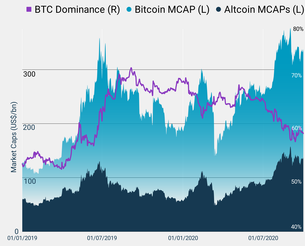


INDUSTRY OUTLOOK

MARKET CAPITALIZATIONS

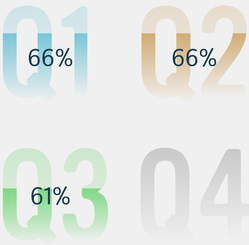
The relative bitcoin "dominance", bitcoin's market cap compared with altcoins, saw a decline in the third quarter of 2020. While the early 2020 saw over 70 percent bitcoin dominance values, the market cap of the leading digital asset has been on a steady decline since then.

BITCOIN & ALTCOIN MCAPS & BTC DOMINANCE (SINCE 2019)
Data source: coin.dance. 30.9.2020.



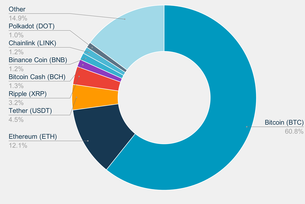
The key variable behind bitcoin's declining market capitalization is the growth of DeFi-based tokens, which are usually built on Ethereum's (ETH) ERC-20 protocol. It's still too early to say whether DeFi tokens can actually pose a credible threat to bitcoin's dominance. Furthermore bitcoin is considered as a scarce leading reserve currency for digital assets, while Ethereum is more like a platform for decentralized applications. Both BTC and ETH serve their own niche and will likely complement each other, rather than compete directly.

Average quarterly bitcoin dominance:



The average bitcoin dominance in the third quarter dropped to 61 percent, down from Q1 and Q2 66%. By the end of Q3, bitcoin's relative dominance momentarily dropped to 60,8%, while Ethereum's climbed to 12,1%. Other notable altcoins in market cap terms were dollar-based Tether (USDT) (4,5%), digital currency Ripple (XRP) (3,2%), and Binance Coin (BNB) (1,2%). Compared to earlier quarters, Q3 saw notable MCAP growth for DeFi-based platforms like Chainlink (LINK) (1,2%) and Polkadot (DOT) (1%).

Cryptocurrencies by MCAP
Data source: Coin Dance.



As mentioned above, Bitcoin and Ethereum both serve their own purpose, Bitcoin as a Store-of-Value (SOV) and Ethereum as a decentralized application platform. While Ethereum and potential bitcoin replacements are gaining traction, the fundamental reasons behind bitcoin's dominant position are its first first-mover advantage as the pioneering cryptocurrency. Bitcoin also attracts the most liquidity across industry.

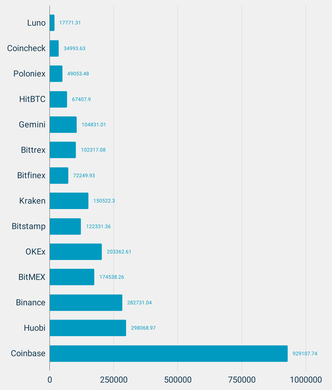
While exploring the market cap data we should always remember that MCAP is only a relevant metric when it's supported by volume relative to MCAP, and when volume comes from a broad group of participants that are representative of market demand. Many altcoins don't fit the criteria above, so the real (organic) bitcoin dominance is well over the said percent.

INDUSTRY OUTLOOK

EXCHANGES

The amount of Bitcoin sitting in exchange wallets has fallen to its lowest value since November 2018. Meanwhile, the number of BTC circulating as wrapped assets, mainly WBTC) on other blockchains has multiplied more than ten-fold in three months.

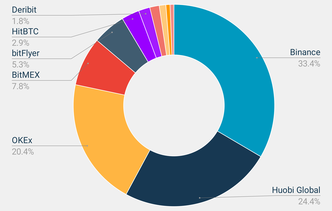
Bitcoin Balances on Exchanges
Data source: Glassnode.



Since cryptocurrency exchanges are notorious for being breached on a regular basis, it appears that Bitcoin holders are beginning to prioritize self-custody over liquidity, and are instead opting to manage their own private keys. This could also signal an increase in long-term holders, as people increasingly look to withdraw their assets from cryptocurrency exchange coffers to sit on it for the long haul.

Likewise, the number of BTC being tokenized on Ethereum has skyrocketed in recent months as more people than ever before look to push their BTC through the growing number of Ethereum DeFi apps. There is now a total of 92,583 BTC wrapped as ERC-20 tokens on Ethereum—a number that has increased tenfold since July.

Exchanges by Transactional Volume
Data source: Nomics.



Binance continued to lead the exchange market during the third quarter with reported $6,38 billion daily volume. Huobi global reached $4,66 billion daily volume, making it the second biggest digital asset exchange. OKEx, which was recently placed under police investigation, reached $3,89 billion in daily transaction volume. BitMEX announced $1,49 billion daily volume and Kraken $203,25 million.

The exchange market is clearly moving towards increasing regulation, leading to more KYC and AML processes to be implemented in practice. Exchanges like OKEx and BitMEX were approached by authorities recently and there's more and more pressure towards compliance globally. In long-term perspective, exchanges that invested into compliance early, are the ones most likely to continue operations well into the future. [6]

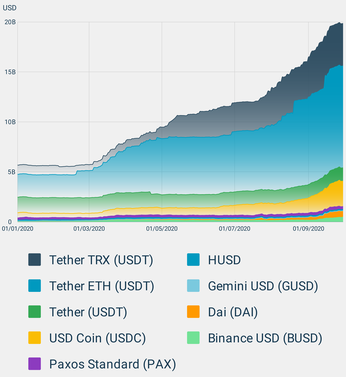
INDUSTRY OUTLOOK

STABLECOIN MARKET

ESCALATING GROWTH FOR STABLECOINS

Stablecoins have experienced incremental growth through 2020, with their combined market cap rising from $6 billion to $18 billion. Most of these stablecoins can be called “cryptodollars” as they derive their value from U.S. dollar (USD). Most of stablecoins are built on Ethereum-based (ETH) ERC-20 protocol, making stablecoins one of the “killer apps” of Ethereum, in addition to decentralized finance (DeFi) applications.

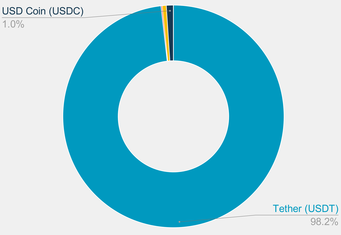
Stablecoin MCAPs
Data source: Coin Metrics.



The main function of stablecoins is to provide liquidity to the market & help facilitate price discovery. Additionally, stablecoins move at the speed of the blockchain which allows quant trading firms like FTX to arbitrage between exchanges.

Somewhat unsurprisingly, Tether (USDT) continues as the leading stablecoin in terms of market capitalization, volume, and network effects. In fact Tether has gained such an inherent position, it can be considered as the de facto digital asset reserve currency, alongside bitcoin. In addition to it’s Ethereum-based version of Tether there are versions of USDT that work on Algorand, Ethereum, EOS, Liquid Network, Omni and Tron (TRX).

Stablecoin Volumes
Data source: Messari.



Let’s look at 24h trailing trading volumes. Tether (USDT) recorded an enormous $37,25 billion in the tail-end of the third quarter. Tether, originally created by Bitfinex exchange as a dollar alternative, currently represents 98,2 percent of the global stablecoin volume. USD Coin (USDC), a stablecoin backed by Circle and Coinbase, reported second largest stablecoin volume with $388,57 million of daily trailing volume. Paxos Standard (PAX) was the third traded stablecoin in Q3 with $227,29 million volume. In addition to Paxos Standard, Paxos governs a gold-pegged stablecoin Paxos Gold (PAXG). The daily volume of PAXG was $2,53 million in late Q3. [7]

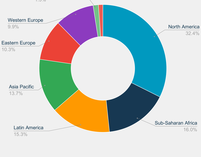
INDUSTRY OUTLOOK

P2P MARKET

NORTH AMERICA LEAD GLOBAL OTC VOLUME, LATIN AMERICA GROWING

North American markets continued to lead the global OTC volume, however percentually its share dropped 5,6 percent from Q2 **38%** into Q3 **32,4%**. North American markets have been a strong area for Paxful by default. Latin American markets grew from **12,3%** of global volume into **15,3%**. LocalBitcoins has been strengthening its positions particularly in Latin America. The markets in Western Europe (**8,6%** -> **9,9%**) and Asia Pacific (**12%** -> **13,7%**) grew slightly QoQ.

Global OTC Volume
Data sources: LocalBitcoins, Paxful.



On the last report, OTC data showed a huge shift in OTC market composition, Paxful momentarily overtook its long-term rival LocalBitcoins in terms of global OTC volume. However, in Q3 tables turned once again, showing average daily volume of $41,27M for LocalBitcoins, and $38,47M for Paxful, respectively. Looking more broadly, the total average OTC volume in 2020 has been $36,43M for LocalBitcoins and $31,18M for Paxful. As a recap, Paxful briefly eclipsed LocalBitcoins, but LBC was able to regain its leading position. The competition remains high and this setting will be extremely interesting to follow in future.

Average Daily OTC Volume:

LocalBitcoins Q3:	$41,27M
LocalBitcoins 2020:	$36,43M
Paxful Q3:	$38,47M
Paxful 2020:	$31,18M

LocalBitcoins.com

The famous Finland-based OTC platform LocalBitcoins performed relatively well in third quarter of 2020. Although LBC experienced a trend of incrementally dropping trading volume from 2019 Q2 into 2020 Q2, it was able to regain its strength and gain momentum again in Q3. Q3 2020 represents an inflection point for LocalBitcoins after a whole year of diminishing volume.

LocalBitcoins Weekly Volume
Data source: Coin Dance.

Eastern Europe and especially Russia have traditionally been strong markets for LocalBitcoins, yet the 2020 quarters have represented a declining trend for Eastern European transactions. LocalBitcoins has been upgrading its service to align with new EU regulations and compliance, 5AMLD and the upcoming 6AMLD. While regulatory compliance is mandatory for companies, the feedback from traders has not always been so positive. However LBC's increasing volume in Q3 stems mainly from growth in Latin America which accounted for $11,15 million of the platform's daily transaction volume in the tail end of Q3.

bisq

The average weekly volume of third OTC exchange rival Bisq stayed at $8,6M during the third quarter of 2020, increasing **10%** from the 2020 average of $7,84M. While Bisq's volume is only a fraction compared with bigger institutions like LocalBitcoins and Paxful, it is likely to be inclined for growth as the demand for more decentralized platforms grows.

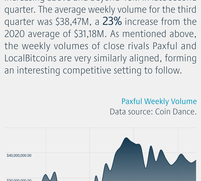
BISQ Weekly Volume
Data source: Coin Dance.

Bisq is an open-source, peer-to-peer application that allows you to buy and sell cryptocurrencies in exchange for national currencies. Bisq can also be classified as a decentralized exchange (DEX), although the definition is somewhat abstract.

PAXFUL

Paxful's volume grew relatively well through 2020, oscillating between 20M and 30M levels in Q1 and Q2, momentarily dropping in early May, and increasing above and beyond 40M in late second quarter. The average weekly volume for the third quarter was $38,47M, a **23%** increase from the 2020 average of $31,18M. As mentioned above, the weekly volumes of close rivals Paxful and LocalBitcoins are very similarly aligned, forming an interesting competitive setting to follow.

Paxful Weekly Volume
Data source: Coin Dance.



Paxful is especially focused on transactions with gift cards, including partners as Amazon, Apple, eBay, and Google. Paxful's volume has increased across markets with significant presence in North America, where Paxful has historically been well-positioned.

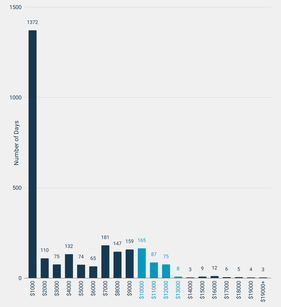
INDUSTRY OUTLOOK

DIGITAL AND TRADITIONAL ASSETS

BITCOIN'S UPSIDE POTENTIAL

When looking from a more historical perspective, bitcoin's price, 10 779,60 dollars on the last day of Q3, falls into a somewhat rare segment.

Number of Days for Bitcoin Price Ranges
Data source: Coin Metrics.

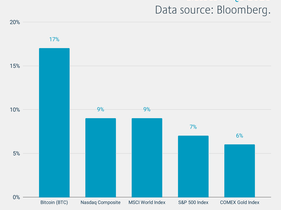


Looking back at its price data, to early 2009, bitcoin has only spent **165 days** in the $10K price range. In the tail-end of Q3 and early Q4, bitcoin's price seemed inclined to rise further. When exploring price ranges further, bitcoin has spent even less days on price levels 11 000 **(87d)**, 12 000 **(75d)**, and 13 000 **(8 days)**. Given the parabolic advances before, there's still huge room for the price performance to grow.

BITCOIN AND TRADITIONAL MARKET

Bitcoin clearly over-performed all traditional asset classes during the third quarter of 2020. Bitcoin reached 1700 basis point growth during Q3, eclipsing asset classes and indices including Nasdaq **(9%)**, MSCI World Index **(9%)**, S&P 500 Index **(7%)**, and COMEX Gold Index **(6%)**.

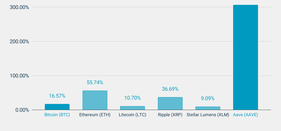
Performance of Bitcoin and Traditional Asset Classes in Q3 2020
Data source: Bloomberg.



While many traditional asset classes have been inflated by expansive monetary policies, bitcoin has been able to hold its own in the quickly shifting landscape. Bitcoin's significant performance might also indicate the growing demand for alternative investments, in order to hedge the future uncertainty.

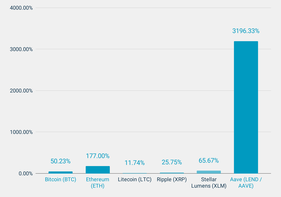
DEFI UNMATCHED IN PRICE PERFORMANCE

Digital Asset Class Performance Q3 2020
Data source: Coin Metrics.



When exploring price performance of the digital asset class for the third quarter of 2020, decentralized finance (DeFi) seems to eclipse, at least momentarily, all other existing assets. Possibly the most well-known DeFi platform in Finland, Aave, climbed 305,98 percent in Q3. Ethereum, uplifted by ERC-20-based projects, zoomed up 55,74 during Q3. Bitcoin's performance was also brilliant, especially benchmarked against the stock market, rising **16,57%** in last quarter.

Digital Asset Class Performance 2020 YTD
Data source: Coin Metrics.



When looking at broader data for the year 2020, decentralized finance stands out even more. **Aave**, for example, grew **3196,33 percent** in price during the first three quarters of 2020. **Ethereum**, deriving its strength from decentralized finance, grew **177%** so far this year. **Bitcoin's** performance was strong as well, up **50,23%** year-to-date.

INDUSTRY OUTLOOK

DECENTRALIZED FINANCE (DEFI)

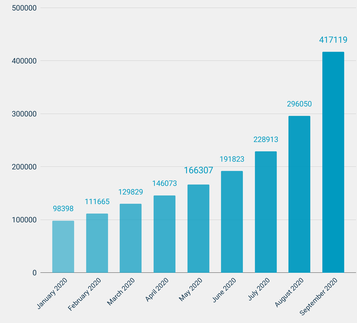
AN EVOLVING MARKET

Decentralized Finance, abbreviated as DeFi, has emerged as the leading contemporary blockchain-related paradigm. DeFi can be described as the cluster of applications and companies offering financial services based on decentralized blockchain technology.

Compared with the traditional centralized financial service sector, DeFi's main value proposition is to solve the inherent challenges related to the old finance industry. The most notable drawbacks of "old finance" are considered to be single points of failure and control, monopolizing power, and bureaucracy.

The decentralization of financial services can be achieved in practice through smart contracts where rules are embedded in a computer code and enforced automatically, and all the transaction-related data is stored in a distributed ledger. This process ensures that no party has a complete control over transactions, thus preventing censorship or intervention.

Amount of DeFi Users
Data source: Dune Analytics.

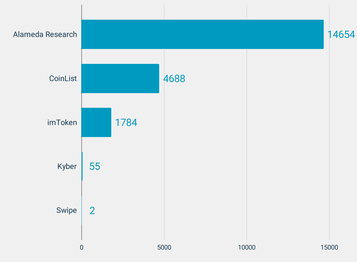


The decentralized finance user base has been in steady growth since early 2020, rising from January 98 398 users to September 417 119 users. It's easy to estimate huge future potential for the DeFi industry, considering the latent demand for new decentralized applications and scaling digital economy as a whole.

INSTITUTIONAL DEFI

Decentralized finance protocols are receiving increasing interest from the direction of institutional investors. Quantitative trading firm Alameda Research has been accumulating Wrapped Bitcoin (WBTC), minting 14 654 WBTC in August Q3 alone. Alameda announced WBTC would diversify the assets used for collateral on the platform and increase interoperability between Compound and MakerDAO, which also supports WBTC as collateral. Alameda's sister company, exchange FTX, supports conversion between bitcoin and WBTC on its derivatives platform. [8] [9]

Wrapped Bitcoin (WBTC) Minted per Merchant in August 2020
Data source: Wrapped Bitcoin.



Wrapped Bitcoin (WBTC) is acting as an onramp to make bitcoin more available for use on trustless DeFi protocols. WBTC aims to bridge the Bitcoin and Ethereum ecosystems and bring more liquidity to decentralized applications. [10]

INDUSTRY OUTLOOK

EMERGING MARKETS

WEAKENING FIATS

Emerging markets have by default been the most interesting locations for digital asset adoption. Emerging markets usually lack economic stability and/or critical infrastructure for transactions and financial services. The strength of the U.S. dollar (USD) often correlates negatively with weaker national (fiat) currencies in the developing world. USD can even be considered a "safe haven asset", backed by the most dominant economic and military authority globally. In addition to the U.S. dollar, gold and bitcoin (BTC) can also be considered as safe haven assets for emerging markets.

Argentina has a history of failed governmental & monetary politics, suffering great depressions during 1974–1990 and 1998–2002. Argentina is a prime example of growing bitcoin adoption in a low-trust environment. By LocalBitcoins data, the OTC volume has been steadily growing within the last few years.

BTC / ARS
Data source: CoinGecko.

Argentine peso has been weakening significantly against bitcoin since 2016. Bitcoin's price has grown 14 545,44 percent in Argentine pesos since early 2016. In the year 2020 alone, bitcoin has strengthened 91,60% against ARS. We're expecting the ARS to continue weakening against BTC, effectively forming a negative spiral that is difficult to correct.

BTC / RUB
Data source: CoinGecko.

Bitcoin has strengthened 14 566,66 percent against the Russian rouble (RUB) since 2016 and 91,60% 2020 year-to-date (YTD). While developing and rich with raw materials and talent, Russia copes with challenges within local politics and corruption. With a population of 145 million people, Russia represents a huge market for bitcoin adoption.

Russia has traditionally been a location for strong bitcoin growth, especially within OTC (over the counter) market. The popularity of OTC transactions stems partially from the lack of proper Russian exchanges. Russia has been one of the biggest single markets for the bitcoin OTC giant LocalBitcoins.

The weakening emerging market currencies usually follow a default pattern, which is described below:

→ EM currencies suffer from supply and demand shock and money outflows.

→ Emerging markets nations have expansionary monetary (fiscal) policies in general.

→ EM currencies will be exchanged into USD in an escalating manner, creating a negative feedback loop.

→ EM nations implement capital controls while trying to control currency weakness.

The described negative pattern of EM currencies is propitious to bitcoin as masses are using the cryptocurrency as an alternative investment, and instrument to avoid capital controls.

INDUSTRY OUTLOOK

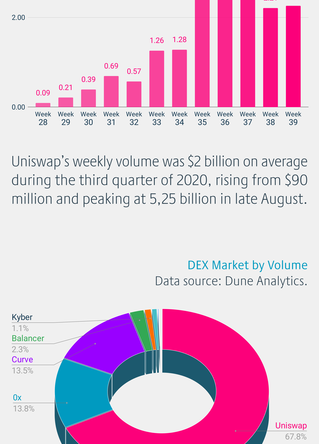
DECENTRALIZED EXCHANGES

"DEX" has evolved into one of the most prominent concepts of the digital asset industry in 2020. But what is a decentralized exchange exactly? The DEX evades the traditional order-books used by most exchanges. Instead, trading prices are decided by a deterministic algorithm, an "automated market maker" (AMM) which automatically sets and balances the value depending on how much demand there is.

UNISWAP

Decentralized Exchange (DEX) Uniswap has emerged as one of the focal points of DeFi growth in the third quarter of 2020. Uniswap's reported liquidity climbed past $2 billion in late August and towards $2.5 billion in late Q3. Uniswap is not an exchange in the traditional sense. Instead it's a protocol, manifested by a series of smart contracts on the Ethereum's (ETH) blockchain. [11]

Uniswap Liquidity
Data source: Uniswap.



Uniswap supports transactions for any ERC-20 token. Rather than setting the price you want to buy or sell at, you contribute, or "pool" an amount of both Ethereum's token ETH and a token which you are willing to either buy or sell.

Uniswap's AMM balances out the value of tokens and the swapping of them, based on how much people want to buy and sell them. Pool contributors are rewarded with fees for each swap which, in theory, helps the market stay more liquid.

Uniswap Weekly Volume
Data source: Uniswap.

Uniswap's weekly volume was $2 billion on average during the third quarter of 2020, rising from $90 million and peaking at 5,25 billion in late August.

DEX Market by Volume
Data source: Dune Analytics.

Uniswap clearly leads the DEX market with 67,8 percent of the overall volume, followed by 0x (13,8%), Curve (13,5%), and Balancer (2,3%).

BITCOIN ASSET SUMMARY

CORRELATIONS

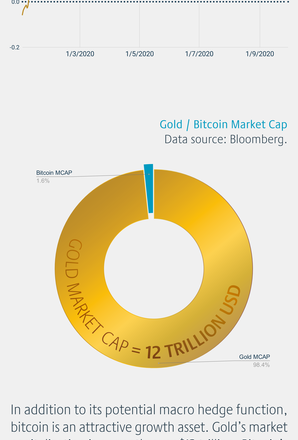
BITCOIN - S&P 500 INDEX

Average bitcoin - S&P 500 Index correlation
2020 YTD: 0,29
2020 Q3: 0,37

The S&P 500 Index can be considered as an indicator of how well America's top companies are performing. Despite the previous divergence of bitcoin and the S&P 500, the two asset classes reached a historical correlation during the COVID-19 pandemic. The average correlation for bitcoin and S&P 500 Index in 2020 was 0,29, while the correlation increased to 0,37 in the third quarter.

BTC / S&P 500 Correlation
Data source: Coin Metrics. Arithmetic chart, Pearson correlation, 90D.

The main fundamental reason for increasing convergence of bitcoin and the leading U.S. stock market indicator is the increasingly expansive monetary policy, by the Federal Reserve. The "cheap" U.S. dollar (USD) flowing into the market will find its way to asset classes including bitcoin, gold, and stocks. However the market is in current motion and relatively high bitcoin / S&P 500 might be transitory.



BITCOIN - GOLD

Average bitcoin - gold correlation
2020 YTD: 0,29
2020 Q3: 0,35

By traditional perspective, bitcoin (BTC) and gold can be considered as related asset classes, both sharing many similar key features. Bitcoin and gold are both scarce assets, significantly limited in quantity. Additionally the stock-to-flow model of bitcoin (58,9) and gold (62) are currently mirroring each other, although bitcoin's stock-to-flow will eclipse gold's after 2024 halving.

Correlation: Bitcoin - Gold
Data source: Coin Metrics. Arithmetic chart, Pearson correlation, 90D.

Gold / Bitcoin Market Cap
Data source: Bloomberg.

In addition to its potential macro hedge function, bitcoin is an attractive growth asset. Gold's market capitalization is currently over $12 trillion. Bitcoin's value, on the other hand, is currently around $200 billion, less than 2% of the gold market. That presents a potential greater than 60x market expansion opportunity if bitcoin grows to gold's level as an alternative, digital store of value asset.

BITCOIN ASSET SUMMARY

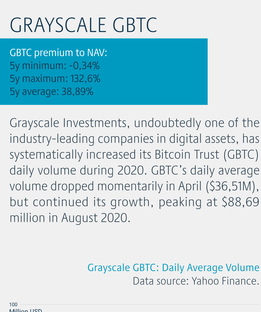
INVESTMENT PRODUCTS

GLXY OUTPERFORMS BTC, ETH

GLXY performance:
2020 YTD: 217,92%
2020 Q3: 106,75%

Galaxy Digital (GLXY) a diversified digital asset financial services firm, has clearly outperformed the main cryptocurrencies, including bitcoin (BTC) and Ethereum (ETH) in 2020. GLXY is up 217,92 percent 2020 year-to-date (YTD) and reached **106,75%** in the third quarter alone. [12]

Galaxy Digital (GLXY)
Data source: Bloomberg.



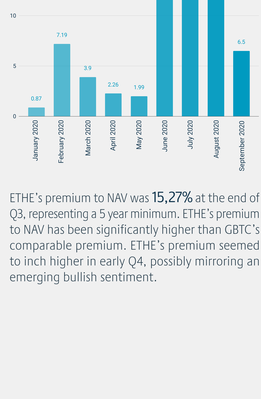
Galaxy Digital is specialized in multiple cryptocurrency-related services including: Trading (arbitrage, macro, market making/OTC), asset management (passive and active strategies, including venture capital), principal investing, and investment banking services (capital markets and M&A). Galaxy Digital's CEO and founder Michael Novogratz is well-knownnin the industry and often considered as a "thought leader" [13]

GRAYSCALE GBTC

GBTC premium to NAV:
5y minimum: -0,34%
5y maximum: 132,6%
5y average: 38,89%

Grayscale Investments, undoubtedly one of the industry-leading companies in digital assets, has systematically increased its Bitcoin Trust (GBTC) daily volume during 2020. GBTC's daily average volume dropped momentarily in April ($36,51M), but continued its growth, peaking at $88,69 million in August 2020.

Grayscale GBTC: Daily Average Volume
Data source: Yahoo Finance.



GBTC's premium to NAV (Net Asset Value) has been declining in 2020, dropping to **6,88%** at the end of the third quarter. The 5 year average for GBTC premium is **38,89%**.

Grayscale premiums can be used as leading indicators for bitcoin's price (BTCUSD). Premiums also mirror institutional appetite for digital assets.

GRAYSCALE ETHE

ETHE premium to NAV:
5y minimum: 15,27%
5y maximum: 986,9%
5y average: 302%

Grayscale's Ethereum Trust (ETHE) also increased its daily average volume through 2020, peaking at $15,2 million in August 2020. ETHE's volume data correlates with growing decentralized finance (DeFi) sector, as Ethereum is an ecosystem for decentralized applications and majority projects are based on Ethereum's ERC-20 protocol.

Grayscale ETHE: Daily Average Volume
Data source: Yahoo Finance.

ETHE's premium to NAV was **15,27%** at the end of Q3, representing a 5 year minimum. ETHE's premium to NAV has been significantly higher than GBTC's comparable premium. ETHE's premium seemed to inch higher in early Q4, possibly mirroring an emerging bullish sentiment.

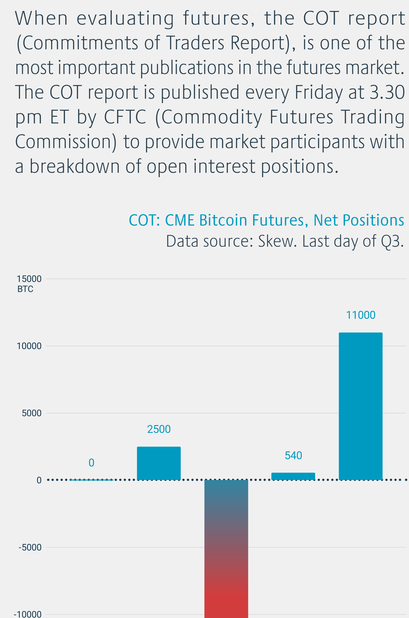
BITCOIN ASSET SUMMARY

DERIVATIVES

BINANCE LEADING DERIVATIVES VOLUME

When exploring daily derivatives data for bitcoin futures, Binance stands out as the leading exchange with $1,6 billion daily volume. OKEx and Huobi were relatively close to Binance with $1,4 billion and $1,2 billion volumes, respectively. Bakkt, known for their launch of physically delivered bitcoin futures, reached $110 million worth of futures volume.

Aggregated Daily Volumes for Bitcoin Futures
Data source: Skew. Last day of Q3.



COT: HEDGE FUNDS SHORT, OTHERS LONG

When evaluating futures, the COT report (Commitments of Traders Report), is one of the most important publications in the futures market. The COT report is published every Friday at 3.30 pm ET by CFTC (Commodity Futures Trading Commission) to provide market participants with a breakdown of open interest positions.

COT: CME Bitcoin Futures, Net Positions
Data source: Skew. Last day of Q3.

A snapshot into COT (Commitments Of Traders) data shows hedge funds (leveraged funds) being heavily net short with -13 600 net contracts at the end of third quarter 2020. On the contrary, non-reportable positions were heavily net long with 11 000 contracts. Institutional investors also indicated bullish views with 2500 net positions.

BITCOIN ASSET SUMMARY

INDICES

LARGE CAPS GAINING NEW GROUND

Bletchley 10 Index performance:
2020 YTD: 63,20%
2020 Q3: 26,76%

Bletchley 10 Index, composed of 10 most valuable digital assets by nominal market cap, doubled its value after March drop from below 500 levels into above 1000 in quarter three. Bletchley 10 Index's performance has been mainly driven by the fast recovery of digital assets, bitcoin's (BTC) status as leading SoV (Store-of-Value) asset, and the growth of Ethereum-derived (ETH) ERC-20 tokens.

Bletchley 10 Index
Data source: Bletchley Indexes.

ETHEREUM TOKEN INDEX UPLIFTED BY DEFI

Bletchley Ethereum Token Index performance:
2020 YTD: 191,90%
2020 Q3: 64,84%

Ethereum Token Index eclipsed Bletchley 10 in performance when assessing both 2020 YTD and 2020 Q3 timeframes. While Bletchley 10 grew 63,20 percent 2020 YTD, Bletchley Ethereum Token Index grew **191,90%**.

Bletchley Ethereum Token Index
Data source: Bletchley Indexes.

The divergence continued in the third quarter of 2020, as Bletchley Ethereum Token Index was up **64,84%** and Bletchley 10 just **26,76%**. The Ethereum Token Index is clearly uplifted by the growing decentralized finance (DeFi) industry and tokens based on ERC-20 protocol.

BLETCHLEY INDEX METHODOLOGY

Bletchley 10 Index: Market cap weighted index composed of 10 of most valuable digital assets by nominal MCAP.

Bletchley 20 Index: Market cap weighted index composed of 20 medium-sized digital assets by nominal MCAP.

Bletchley 40 Index: Market cap weighted index composed of 40 small-sized digital assets by MCAP.

Bletchley Ethereum Token Index: Market cap weighted index of a variable number of assets that are run on the Ethereum platform, mostly ERC-20 protocol tokens

The market capitalization of each asset in indexes is calculated off of the expected total supply in 2050, using OnChainFX data.

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