coinmotion

2020 q4 quarterly report

THE DIGITAL GOLD

in collaboration with dcresearch

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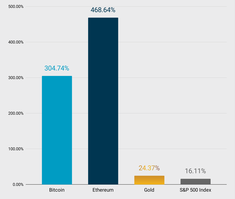
MARKET INSIGHTS

BITCOIN GOES PARABOLIC

Bitcoin, the leading digital asset, has been showcasing incredible performance over the year 2020 and into 2021. Bitcoin's price ascended **304,7%** during 2020, clearly eclipsing other comparable asset classes, like gold and S&P 500 Index (stock market).

Cross-Asset Performance in 2020
Data source: Coin Metrics.



Bitcoin has established its position as one of the leading alternative investments, alongside gold. Bitcoin's elevated position also makes it a somewhat direct rival to the gold asset class. As JPMorgan mentioned (following quote), bitcoin's rise in mainstream finance might come at the expense of gold. JPMorgan argued that institutions have just begun the adoption of bitcoin, while gold is already very established in institutional allocations. Consequently institutional bitcoin has more room to grow, while the institutional gold market is more saturated.

BTCUSD (Linear Scale)
Data source: Coin Metrics.

The second biggest digital asset (measured in market cap) Ethereum (ETH), ascended even more than bitcoin during 2020. Ethereum climbed **468,64%** during 2020, clearly outperforming bitcoin. While digital assets have historically been closely correlated, many other altcoins did not directly follow bitcoin's ascend.

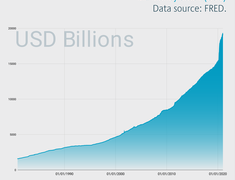
"The rise of cryptocurrencies in mainstream finance is coming at the expense of gold. The adoption of bitcoin by institutional investors has only begun, while for gold its adoption by institutional investors is very advanced. If this medium to longer term thesis proves right, the price of gold would suffer from a structural flow headwind over the coming years."

- JPMorgan

BITCOIN AS A HEDGE TO INFLATION

Bitcoin acts as an alternative investment and it's considered as a hedge to inflation. As central banks have increasingly continued to expand the money supply, the measure of broad-based money supply, called M2, has jumped by a sharp 24 percent. The money supply surge in 2020 is exceptional on a historical scale.

M2 Money Stock (USD)
Data source: FRED.



The radically expanding money supply is expected to increase inflation. What differs the current situation from previous QEs, is that the money created by FED is not going only into excess reserves of the banking system. It is going directly into the bank accounts of individuals and firms through the U.S. Paycheck Protection Program, stimulus cheques, and grants to state and local governments.

Finnish politician and Bank of Finland Governor Olli Rehn has estimated the inflation to rise to 10 percent and above. He sees that the aging of population is lowering the savings rate, raising long-term real interest rates and increasing price pressure. Therefore, accelerating inflation stems from the primary challenge of monetary policy. The aging of China's population and the shift in the economic model from forced austerity to stimulating consumption are reinforcing this trend reversal. Additionally Rehn thinks central banks have not yet either understood or acknowledged that a big inflationary turnaround is at hand. [1]

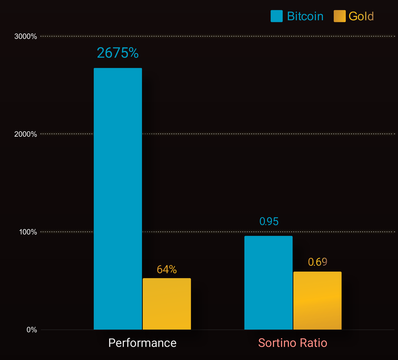
"If you look back historically, over the past century we had two very inflationary decades: 1940s and 1970s. And both of those decades saw a big increase in the broad money supply. 2020s are starting to look like those decades."

- Lyn Alden

THE DIGITAL GOLD

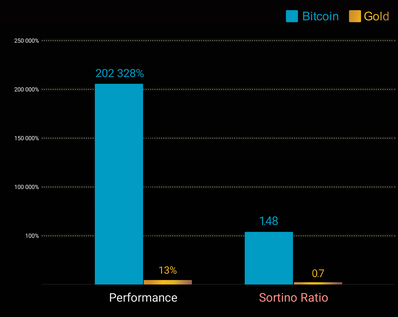
Bitcoin, often described as the "digital gold" has implicitly outperformed its rival physical gold over short and long timeframes. Bitcoin's price performance shows 2675 percent ascent during the last four years, while gold has only grown by a modest 64%.

Bitcoin and Gold: Performance and Sortino Ratio over 4Y
Data source: Coin Metrics, Yahoo Finance.



In addition to price performance, bitcoin also eclipses gold in terms of risk adjusted returns. Sortino ratio has been 0,95 for bitcoin and 0,69 for gold over a four year time frame. Sortino ratio measures risk adjusted returns by comparing the average return to the variation of the negative returns over a given period. A larger the Sortino ratio indicates the better the risk adjusted returns of an asset.

Bitcoin and Gold: Performance and Sortino Ratio over 8Y
Data source: Coin Metrics, Yahoo Finance.



An eight year timeframe gives even a larger edge to bitcoin. Bitcoin's price has increased an incredible 202 328% over the last 8 years while gold is only up 13%. 8 year Sortino ratio for bitcoin is 1,48 and a minuscule 0,07 for gold. Although gold has served well as a stable store-of-value (SoV) asset, bitcoin's price performance and risk adjusted returns clearly outperform it.

SHIFTING NARRATIVES

The mainstream media and traditional financial institutions have been relatively sceptical towards bitcoin by default. We've clearly witnessed a paradigm shift in the way bitcoin is perceived among the larger audience.

We collected some of the most important announcements by traditional finance and technology companies during December 2020:

1st Dec

- **Blackrock** CEO says "Bitcoin can possibly evolve into a **global asset**".

2nd Dec

- **Visa** partners with Circle to integrate stablecoin payments capability for its card issuers.

3rd Dec

- **S&P Dow Jones** Indices will launch cryptocurrency indexes in **2021**.
- **Paul Tudor Jones** says that the market cap of bitcoin is **too low**.

4th Dec

- **Spotify** is looking to hire director to lead its payment business to **receive crypto/digital assets**.
- **Bloomberg report** "Bitcoin price could hit **$50 000 in 2021**".
- **MicroStrategy** buys additional **$50M in Bitcoin**.

7th Dec

- **SBI Holdings** teams up with Swiss stock exchange to **offer crypto service in Singapore**.
- **Wells Fargo** publishes a seven-page report devoting a **full page to bitcoin**.

8th Dec

- **Microstrategy** plans to raise **$400M** to buy more bitcoin.
- **Square** will put **$10M** toward the Bitcoin ecosystem.

9th Dec

- **Ray Dalio**, founder of Bridgewater, calls bitcoin an "interesting" alternative to gold.

10th Dec

- **S&P Global** and **State Street** backed crypto data firm **Lukka**.
- Chinese internet giant **DiDi** is participating in the latest DC/EP (China's national digital currency) trial in Suzhou.
- **JPMorgan** executes a blockchain-based repo transaction using **JPMCoin**.
- **MassMutual** (Massachusetts Mutual Life Insurance) buys **$100M** worth of bitcoin.

14th Dec

- **Fidelity's** bitcoin custody business has been "**incredibly successful**".

15th Dec

- **SBI Holdings**, Japanese financial conglomerate, **acquires** UK-based crypto trading firm **B2C2**.
- **Ruffer**, multi-billion dollar investment firm, **buys bitcoin**.

16th Dec

- **CME launches Ethereum (ETH) futures.**
- **American Express invests in FalconX**, crypto trading platform.
- **Alan Howard is backing a 1billion crypto hedge fund.**
- **Guggenheim** CIO says "Our fundamental work shows that Bitcoin should be worth about **$400 000**".
- **Carlyle David Rubenstein** invested in Paypal's crypto partner Paxos (**PAX**).

17th Dec

- **Goldman Sachs says bitcoin and gold can co-exist.**
- **Jefferies** global head of equity strategy **cuts exposure in gold** for bitcoin.

19th Dec

- **Goldman Sachs** picked to lead IPO plans for **Coinbase**, crypto exchange in U.S.

21st Dec

- Ric Edelman: "**Upside Potential Remains Very Big for Bitcoin**".
- **Microstrategy** has purchased additional bitcoins for **$650 million** at an average price of $21 925.

22nd Dec

- **SkyBridge Capital plans to launch a bitcoin fund.**

23rd Dec

- **Mogo**, Nasdaq listed fintech company, announced its plans to make **corporate investment in bitcoin**.

28th Dec

- **BlackRock** is hiring **blockchain lead** to drive demand for firm's crypto offerings.

29th Dec

- **Greenpro concepts bitcoin fund as large as $100 million.**

31st Dec

- **VanEck plans another attempt at launching a Bitcoin ETF during 2021.**

Possibly the most clear change of tone came from Jamie Dimon, CEO of JPMorgan, who previously expressed sceptical views on bitcoin:

"Bitcoin is a fraud that will eventually blow up."

- Jamie Dimon, JPMorgan (2017)

"Bitcoin has the potential to reach $146 000 in the long term as it competes with gold as an asset class."

- JPMorgan (2021)

INSTITUTIONS ACCUMULATE BITCOIN

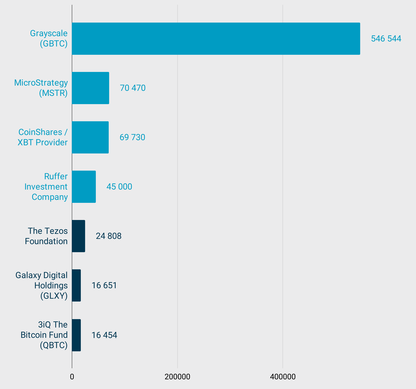
The current market cycle, emerging in 2020, has been characterized by growing institutional demand. Perhaps the most famous bitcoin allocation was made by **MicroStrategy (MSTR)**, an US-based business intelligence company. MicroStrategy's CEO Michael Saylor has distinctively positioned himself as a "bitcoiner", allocating his own wealth vis-à-vis MicroStrategy's resources.

"Most of the floodgates are open. Because there's a lot more institutional buying, some of the holding periods could be a lot longer. When you have bitcoin accumulated by Grayscale or other institution, there's a good chance it will not be sold within a year, for example."

- Lyn Alden

Saylor sees Bitcoin as "hard money" and a store of value (SoV). Additionally he's mainly indicating using Bitcoin as an instrument to hedge global currency devaluation, technology disruption, social dislocation & political uncertainty. MicroStrategy has made such a pronounced pivot into bitcoin, one could consider MSTR as an unofficial "Bitcoin ETF". However, for an investor looking to gain linear bitcoin exposure, products like **Grayscale's GBTC** might make more sense.

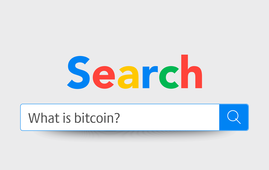
Institutional Bitcoin Treasuries



In addition to MicroStrategy's huge allocations, companies like Guggenheim Partners and Ruffer Investment Company are entering the space. Guggenheim Partners has reserved the right to set aside as much as **10 percent** from its $5,3 billion Macro Opportunities Fund to invest in Grayscale Bitcoin Trust (GBTC). Ruffer Investments Company allocated **2,5%** of its $20 billion portfolio into Bitcoin in November 2020.

"The mental shift that's happening is that it used to be extremely risky to have exposure to crypto, now it's risky not to have exposure to crypto."

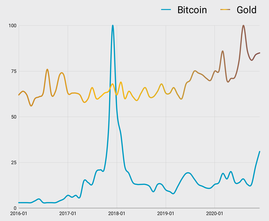
- Matt Hougan, Bitwise



GROWING RETAIL INTEREST

Although the current market cycle is largely estimated to be driven by institutional investors, retail demand is surging as well.

Search Engine Data: Bitcoin and Gold
Data source: Google Trends.

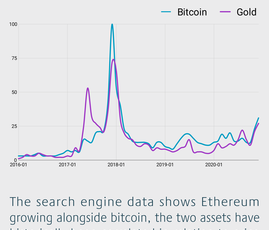


Search engine data compiled by Google shows definite growth in bitcoin-related search queries, rising to highest levels since late 2017 ascent. [2]

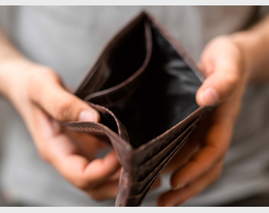
"This is the one asset in modern history, where average people have had a shot at it before companies and before hedge funds and before billionaires. That window may be ending."

- Andy Edstrom

Search Engine Data: Bitcoin and Ethereum
Data source: Google Trends.



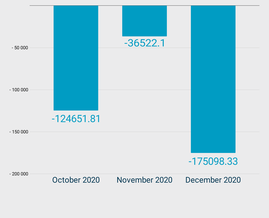
The search engine data shows Ethereum growing alongside bitcoin, the two assets have historically been correlated in relation to price performance. Ethereum's growth might indicate an emerging "altseason", where bitcoin's alternative cryptocurrencies rise, usually slightly lagging bitcoin's price action.



BITCOIN SUPPLY SHORTAGE

One of the definitive drivers behind bitcoin's ascent above $30K and even $40K levels is a so-called supply shortage. In late Q4 institutions like PayPal and Cash App bought over 100 percent of bitcoin's new supply. When institutions like Grayscale (AUM $28,1 billion in early 2021) and Microstrategy (MSTR) are added to the equation, supply shortage is clear. Bitcoin was originally built to be extremely scarce, even scarcer than gold, leading to an escalating supply-based demand. [3]

Liquid Supply Change of Bitcoin
Data source: Glassnode



"In the last seven months, we've had two huge shifts - one in demand, one in supply - both upwards. On the demand side, we've had public companies like PayPal enter the market.

That shifts the demand curve much higher. At the same time, the supply of newly issued BTC was cut in half in May - as part of the every-four years Halving of bitcoin issuance. Fewer BTC are available. We titled our previous investor letter, Bitcoin Shortage. The price acts like there's a shortage."

- Dan Morehead, Pantera Capital

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

Average quarterly bitcoin dominance:

Q1 66%

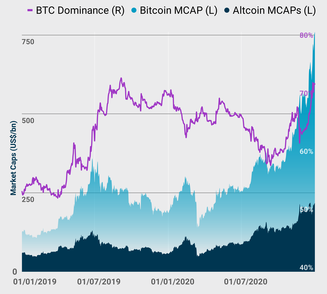
Q2 66%

Q3 61%

Q4 64%

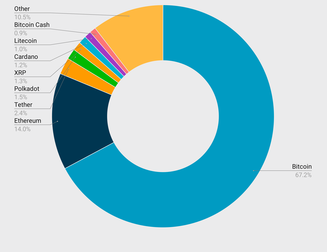
The relative bitcoin (BTC) "dominance", bitcoin's market cap compared with altcoins, saw a decline in the third quarter of 2020. While the early 2020 saw over 70 percent bitcoin dominance values, the market cap of the leading digital asset has been on a steady decline since then.

BITCOIN & ALTCOIN MCAPS & BTC DOMINANCE (SINCE 2019)
Data source: coin.dance. 31.12.2020.



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.

Cryptocurrencies by MCAP
Data source: Coin Dance.



The average bitcoin dominance in the fourth quarter increased to 64%, up from Q3 61%. By the end of Q3, bitcoin's relative dominance momentarily dropped to 60,8%, while Ethereum's climbed to 14% from previous quarter 12,1%. Other notable altcoins in market cap terms were dollar-based Tether (USDT) (2,4%), Polkadot (DOT) (1,5%), Ripple (XRP) (1,3%), and Cardano (ADA) (1,2%).

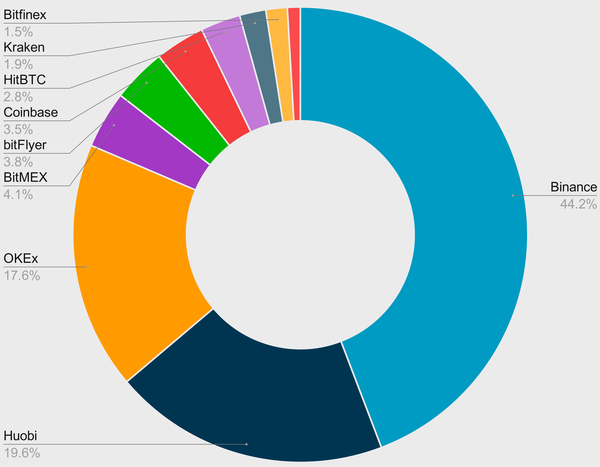
While exploring the market cap data we should always remember that MCAP is only a relevant metric when it's supported by volume relative to MCAP, and when volume comes from a broad group of participants that are representative of market demand. Many altcoins don't fit the criteria above, so the real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

INDUSTRY OUTLOOK

EXCHANGES

Somewhat unsurprisingly, Binance kept its position as the leading cryptocurrency exchange, with **44,2 percent** of transactional volume compared with leading exchanges. Binance reported >$35 billion Q4 daily volume, a significant increase from $6,38 billion in last quarter three.

Exchanges by Transactional Volume
Data source: Nomics.



Huobi maintained its second position with close to $16 billion in daily volume, rising notably from last quarter $4,66 billion. OKEx, reached close to $14 billion in daily volume, multiplying from Q3 $3,89 billion. BitMEX announced $3,2 billion daily volume and Kraken $1,5 billion.

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.

INDUSTRY OUTLOOK

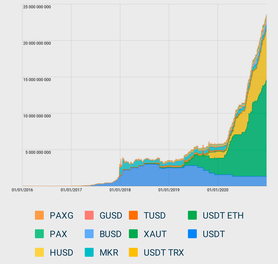
STABLECOIN MARKET

STABLECOIN MARKET CAPITALIZATIONS:

TETHER USDT:	$21,47B
USD COIN (USDC):	$3,68B
DAI (DAI):	$1,14B
TRUEUSD (TUSD):	$275,08M
PAXOS (PAX):	$245,51M
PAXOS GOLD (PAXG):	$76,22M

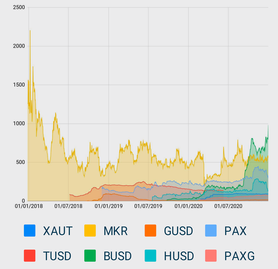
Tether (USDT) continues to lead the stablecoin industry as the undisputed global U.S. dollar (USD) alternative. In addition to it's Ethereum-based version of Tether there are versions of USDT that work on Algorand, Bitcoin Cash, EOS, Liquid Network, Omni and Tron (TRX). Tether's market cap has exceeded $21,47 billion and there's no end in sight. 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 Market Capitalizations 2016-2020
Data source: Coin Metrics.



Tether has a rather notorious reputation due to controversies regarding its dollar reserves. The company has been battling with Attorney General Letitia James' office over alleged loss of $850 million worth of client and corporate funds. Recently Tether announced that both Bitfinex and Tether are financially sustainable and the company plans to fully co-operate with authorities.

Stablecoin Market Capitalizations USD billions
(Excluding Tether & USDC)
Data source: Coin Metrics.



Whereas Tether leads the market as the undisputed de facto stablecoin, other stablecoin products are growing as well. USD Coin, heavily used by digital asset exchanges, has grown into a $3,68 billion market cap. Maker's Dai stablecoin crossed $1 billion market cap in late 2020. The stablecoin industry is also seeing other emerging solutions, like gold-backed Paxos Gold (PAXG), that derives its value from physical gold. Paxos Gold's market cap is over $76 million.

RICE TRON

RICETRON, A NEW COMMODITY STABLECOIN

In addition to gold-related stablecoins, there's a new Indonesian project offering stablecoins that derive their value from a commodity: Organic rice. Ricetron aims to offer a solution to Indonesia's huge amount of wasted rice resources, estimated to be 30 000 tons per annum. Indonesia currently uses a system called BULOG, which has proved to be inefficient. Ricetron's total supply is 269 000 RET with only 190 000 RET minted through staking. 1 RET cryptocurrency equals 1 kg of premium grade rice, and more rice stablecoin will be launched in the future with different rice grades. Ricetron is built on Tron's TRC-20 protocol. [4]

Ricetron is a prime example of finding new creative solutions for cryptocurrencies. We expect these kind of new blockchain-based products to increase in long-term future.

INDUSTRY OUTLOOK

P2P MARKET

LocalBitcoins.com

AVERAGE WEEKLY VOLUME IN 2020:
$37,18M

LocalBitcoins, a famous Finnish OTC platform, has regained some market share during the fourth quarter of 2020. LocalBitcoins lost a notable slice of its volume and market share to Paxful in early 2020, however it has been able to regain its position during Q3 and Q4. LocalBitcoins' average weekly volume for 2020 was $37,18 million and volume ascended above $40M level in late quarter four.

LocalBitcoins 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.

PAXFUL

AVERAGE WEEKLY VOLUME IN 2020:
$31,38M

The bitcoin OTC market remains highly competitive and Paxful is fighting for the same client segment with LocalBitcoins. The volumes of two leading OTC exchanges have been closely aligned, however Paxful has been losing some market share to LocalBitcoins in late 2020. Paxful's average weekly volume for 2020 was $31,38 million.

Paxful Weekly Volume
Data source: Coin Dance.

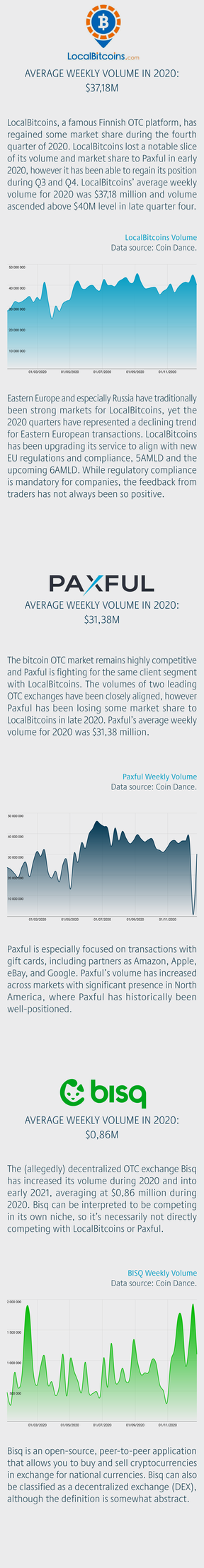
Paxful is especially focused on transactions with gift cards, including partners as Amazon, Apple, eBay, and Google. Paxful's volume has increased across markets with significant presence in North America, where Paxful has historically been well-positioned.

bisq

AVERAGE WEEKLY VOLUME IN 2020:
$0,86M

The (allegedly) decentralized OTC exchange Bisq has increased its volume during 2020 and into early 2021, averaging at $0,86 million during 2020. Bisq can be interpreted to be competing in its own niche, so it's necessarily not directly competing with LocalBitcoins or Paxful.

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.

INDUSTRY OUTLOOK

DECENTRALIZED FINANCE (DEFI)

"DeFi is the new financial system. It is the "internet of money". It is open and permissionless. It is built from the ground up by entrepreneurs around the globe. It is the new frontier where 2 people in a garage can change the world."

- Fred Ehrsam

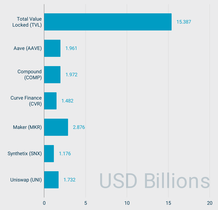
Decentralized Finance, abbreviated as DeFi, has emerged as the leading contemporary blockchain-related paradigm. DeFi can be described as the cluster of applications and companies offering financial services based on decentralized blockchain technology.

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 user base of decentralized finance has been heavily uplifted during 2020, rising from January 103 466 users into above **one million** in late 2020.

Decentralized Finance (DeFi) User Base
Data source: Dune Analytics.

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.

Value Locked in Decentralized Finance (DeFi)
Data source: DeFi Pulse.

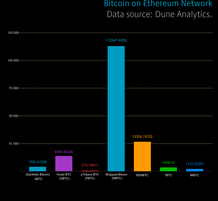


Value locked in decentralized finance climbed into $15,39 billion during 2020. A DeFi project with Finnish roots, Aave (LEND) crossed $1,96 billion in total value locked (TVL) this late quarter four and has continued to grow since. Aave is an Ethereum-based DeFi platform, which started its journey as ETHLend. The platform focuses on lending and recently launched undercollateralized lending based solely on social reputation. Aave is managed by CEO Stani Kulechov, currently residing in London. Stani has a Finnish background and the name "Aave" means ghost in Finnish, mirroring his relationship with Finland. [5] [6]

BITCOINS ON ETHEREUM ECOSYSTEM

Wrapped Bitcoin (WBTC) continued to act as the main channel for representing bitcoin on the Ethereum network. Wrapped bitcoin currently holds 112947,69 bitcoins in the form of ERC-20 tokens. WBTC's key advantage of WBTC is its integration into the world of Ethereum wallets, dapps, and smart contracts. Wrapped Bitcoin was created to allow bitcoin holders to participate in decentralized finance ("DeFi") apps that are popular on Ethereum. The BTC that backs WBTC is transparently verifiable through a "proof of reserve" system that verifies the 1:1 backing between minted WBTC tokens and bitcoin stored by custodians. WBTC is maintained by a group called the WBTC DAO that now consists of over 30 members. [7]

Bitcoin on Ethereum Network
Data source: Dune Analytics.



"Crypto strengthens in 2021 as a supermassive blackhole for both capital and talent. Bitcoin becomes consensus. Ethereum/DeFi sees renewed interest from traditional tech entrepreneurs and investors."

- Matt Huang, Paradigm

BITCOIN ASSET SUMMARY

CORRELATIONS

BITCOIN - S&P 500 INDEX

Average bitcoin - S&P 500 Index correlation
Q4: 0,366

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 Q4 correlation between bitcoin and S&P 500 Index was **0,37**, dropping from early quarter above 0,4 into below 0,2 in late Q4.

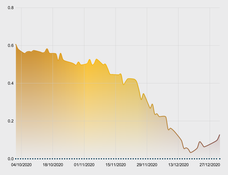
BTC / S&P 500 Correlation
Data source: Coin Metrics. 60D Spearman correlation.

BITCOIN - GOLD

Average bitcoin - gold correlation
Q4: 0,374

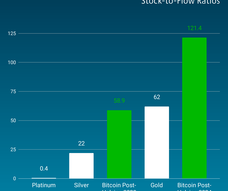
Bitcoin and gold are considered as related asset classes by default, as they are both scarce assets, significantly limited in quantity. Similar features have made the two asset classes closely correlated when looking at historical data, however the tables turned in quarter four as bitcoin ascended heavily while gold mostly stayed flat. As bitcoin matures as a scarce asset, investors are increasingly seeing both as rival allocations. This indicates that money flowing out from one, finds its way to the other, and vice versa.

Correlation: Bitcoin - Gold
Data source: Coin Metrics. 60D Spearman correlation.



When comparing bitcoin and gold, Stock-to-Flow (S2F) offers an uncluttered perspective into asset scarcity. Stock-to-Flow is defined as a relationship between production and current stock of an asset. Platinum currently has a 0,4 S2F, which is relatively low.

Stock-to-Flow Ratios



Silver however has 22 S2F, which is closer to bitcoin's current S2F of 58,9. Gold's current stock-to-flow is 62. The estimated S2F for bitcoin after 2025 halving will be 121,4, making Bitcoin extremely scarce. Let's remember, only 21 million bitcoin units will ever exist.

BITCOIN / U.S. DOLLAR (USD)

Average bitcoin - US dollar correlation
Q4: -0,45

Interestingly, bitcoin has been negatively correlated with the U.S. dollar throughout 2020, dropping occasionally below **-0,5** in the fourth quarter. The correlation between bitcoin and USD reached a historical bottom during March 2020 at -0,61. Dollar is currently going through a massive monetary easing phase, making it prone to devaluation.

Bitcoin / Dollar (USD) / Correlation
Data source: Coin Metrics. 60D Spearman correlation.

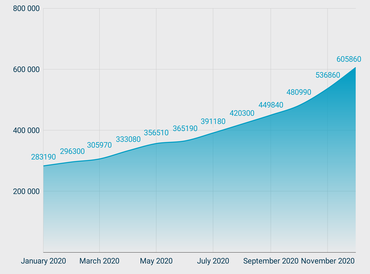
BITCOIN ASSET SUMMARY

INVESTMENT PRODUCTS

GRAYSCALE

Grayscale's Bitcoin Trust (GBTC) is one of the most explicit indicators of growing institutional appetite. GBTC's bitcoin (BTC) holdings have nearly doubled this year, rising from January 283190 bitcoins into 536860 in November. Institutional investors (hedge funds) represent 81 percent of Grayscale's investor base, other notable segments being accredited individuals (8%), and family offices (8%).

Grayscale GBTC Holdings
Data source: Grayscale.

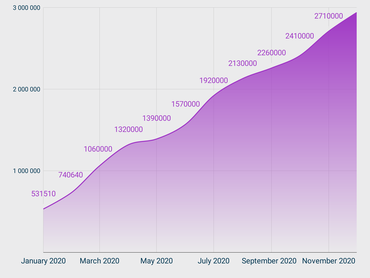


"Bitcoin is the reserve currency of the crypto ecosystem, which is very important. It's the flight to safety currency. Bitcoin's blockchain is the most secure of any other blockchain."

- Cathie Wood, Ark Investment Management

Grayscale's Ethereum Trust (ETHE) has grown even more, from January 531 510 ETH to >2,71M ETH in the tail-end of 2020. ETHE's growing popularity indicates Ethereum's established position as the de facto decentralized application platform.

Grayscale ETHE Holdings
Data source: Grayscale.



INCREASING PREMIUMS

Grayscale performance:
GBTC peak premium during Q4: 40,18%
ETHE peak premium during Q4: 269,80%

Premiums for Grayscale's GBTC and ETHE have both been increasing towards the end of 2020. Grayscale premiums can be considered as leading indicators to the market: Increasing premium (divergence between NAV and premium) is usually bullish for the market, and decreasing premium (convergence between NAV and premium) bearish, respectively.

"Buying Grayscale's GBTC at close to no premium allows retail investors to front-run smart money."

- Alex Krüger

MICROSTRATEGY, AN UNOFFICIAL BITCOIN ETF?

MSTR performance:
Q4: 160,84%

Coinbase, one of the leading cryptocurrency exchanges globally, executed MicroStrategy's (MSTR) 425 million dollar bitcoin (BTC) purchase in September. The purchase was implemented in multiple phases during approximately 5 days and there was no significant movement in the market.

MicroStrategy (MSTR)
Data source: Yahoo Finance.

MicroStrategy's recent purchase mirrors bitcoin's established liquidity, a relevant attribute for institutional investors entering the market. MicroStrategy's allocation into bitcoin clearly boosted MSTR stock, rising 160,84 percent from October to December. [8]

"The dominant trend of 2021 will continue to be Bitcoin becoming an increasingly attractive place to park wealth and use as collateral. Broader financial services on top of Bitcoin will begin to emerge as financial institutions slowly realize that money as we know it is fundamentally changing."

- Alexander Leishman,
River Financial

UPCOMING BITCOIN ETF?

Investment firm VanEck has filed another application to launch a Bitcoin exchange-traded fund (ETF) for trading at the CBOE BZX Exchange. The New York-based company has filed multiple applications for a Bitcoin ETF in the past, and its latest attempt comes at a time of surging Bitcoin (BTCUSD) prices and greater interest by institutional investors in the cryptocurrency.

VanEck's latest Bitcoin ETF SEC filing does not provide much detail about its product or the firm's partners for the ETF. While VanEck tied up with the The Bank of New York Mellon Corporation for custody services for proposed Bitcoin ETFs in the past, the current filing makes no mention of custodians or transfer agents or marketing agents for the ETF. [9]

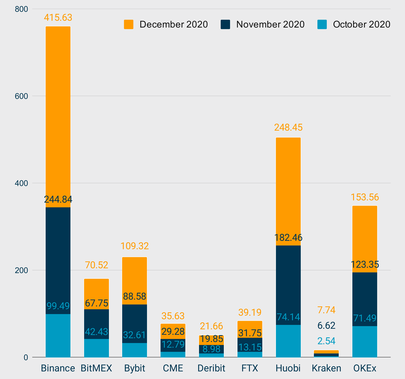
BITCOIN ASSET SUMMARY

DERIVATIVES

BINANCE LEADING DERIVATIVES VOLUME

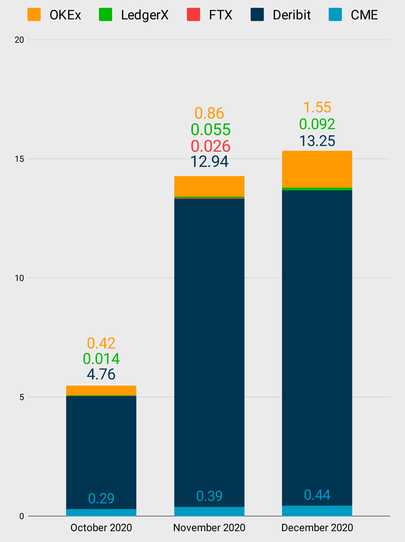
Bitcoin's derivative market looks healthier than ever, Binance is currently leading the market, rising from October $99,49 billion into December $415,63 billion, a 318 percent increase. Huobi had the second largest futures volume, rising from October $74,14 billion into December $248,45 billion. OKEx achieved the third position with $153,56 billion worth of futures volume during the last month of 2020.

Combined Volume of Bitcoin Futures
Data source: The Block.



Deribit, a Panama-based derivatives exchange, has greatly increased its share of the bitcoin options market during 2020.

Combined Volume of Bitcoin Options
Data source: The Block.



During 2020 all bitcoin options trading on Deribit totaled around $57 billion. According to data by Skew, Deribit accounts for over 85 percent of daily options volume. OKEx maintains the second largest options market with estimated 5% of the daily volume. [10]

"Options market volume will become 50% of all crypto derivatives markets."

- Su Zhu, Three Arrows Capital

BITCOIN ASSET SUMMARY

INDICES

LARGE-CAPS BULLISH

Bletchley 10 Index performance:
2020: 271,08%
2020 Q4: 128,41%

Bletchley 10 Index is composed of 10 most valuable digital assets. Bletchley 10 Index has ascended 128,41 percent during the fourth quarter alone and **271,08%** during 2020. Bletchley 10 is mainly pulled up by bitcoin and ethereum, the former rising **304,74%** and the latter **468,64%**. Top 10 altcoins are also called "oscillators" as they oscillate with bitcoin's performance, making them possibly more alluring to investors.

Bletchley 10 Index
Data source: Bletchley Indexes.

MID-CAPS STABLE

Bletchley Bletchley 20 Index performance:
2020: 136,04%
2020 Q4: 17,31%

Bletchley 20 index, composed of 20 medium-sized digital assets by nominal market cap, performed fairly well in 2020. Medium-sized cryptocurrencies ascended 136.04 percent during 2020, however their velocity decreased greatly in last quarter **(17,31%)**. As all cryptocurrencies are correlated with bitcoin, medium-sized followed bitcoin's price action, however their performance was weaker compared with leading cryptos. Bitcoin and Ethereum are both immensely popular among institutional and retail investors, possibly leading to decreasing allocations into medium-sized cryptocurrencies. Additionally, decentralized finance (DeFi) tokens are alluring to investors, and occupy an incremental part of the market.

Bletchley 20 Index
Data source: Bletchley Indexes.

SMALL-CAPS ASCEND

Bletchley Bletchley 40 Index performance:
2020: 237,73%
2020 Q4: 40,73%

Bletchley 40 index, composed of 40 small-sized digital assets, performed well through 2020, rising 237,78 percent during the year. In contrast their performance weakened in Q4 **(40,73%)** as Bitcoin and Ethereum ascended into new levels.

Bletchley 40 Index
Data source: Bletchley Indexes.

STRONG GROWTH FOR ETHEREUM TOKENS

Bletchley Ethereum Token Index performance:
2020: 289,98%
2020 Q4: 34,64%

The Bletchley Ethereum Token Index, composed of ERC-20 and decentralized finance tokens, outperformed Bletchley 10 in 2020 by rising 289,98 percent. Even so, Ethereum Token Index missed the late 2020 rally and ascended only **34,64%** in the last quarter. Ethereum Token Index is closely related to the performance of decentralized finance and acts as a mirror to the emerging industry.

Ethereum Token Index
Data source: Bletchley Indexes.

Bletchley Indexes, owned by Coin Metrics, provide an assortment of indices for tracking different tranches of the digital asset market. Bletchley Indexes are an essential tool for evaluating and understanding the digital asset environment. The methodology behind Bletchley Indexes is explained below. [11]

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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