

Q3 2024

Kaiko Research

Quarterly Market Report

A data-driven recap of the most significant events in cryptocurrency markets.

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Q3 Timeline

July

- July 5**
Mt Gox starts repayments to customers
- July 11**
The SEC drops its investigations into Paxos and BUSD
- July 23**
Spot ETH ETFs start trading in the US
- July 19**
South Korea's crypto law (VAUPA) comes into effect
- July 31**
The Bank of Japan raised its short-term interest rate to 0.25%

August

- Aug 2**
Weak US Jobs report sparks a selloff in risk assets
- Aug 4**
Jump Trading moves 17.6K ETH on-chain to centralized exchanges
- Aug 7**
US judge fines Ripple \$125M, and bans future securities violations in SEC case
- Aug 25**
Telegram founder Pavel Durov was arrested in France
- Aug 16**
CBOE removes SOL ETF filing from its website

September

- Sept 4**
The Fed issues cease and desist order to crypto-friendly Texas bank
- Sept 4**
Uniswap Labs settles charges with the CFTC over illegal margined and leveraged trading
- Sept 12**
eToro reaches a \$1.5M settlement with the US SEC
- Sept 12**
Grayscale launches a closed-end XRP trust in the US
- Sept 18**
The US Fed cuts rates by 50bps
- Sept 20**
The US SEC approves BlackRock's spot BTC ETF IBIT options listing
- Sept 26**
BNY Mellon gets SEC approval to expand crypto custody beyond ETFs

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Analyst Commentary



Anastasia Melachrinou

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A Challenging Quarter for ETH

In Q3, the crypto market displayed notable resilience and liquidity, withstanding significant external challenges and economic shifts impacting risky assets globally. However, Ethereum (ETH) dynamics

were predictably influenced by Grayscale's ETH ETF exodus, experiencing substantial selling pressure akin to Bitcoin in January. The unfavorable timing of the ETF launch constrained ETH's price performance throughout the quarter. As Q3 ended, improving macro indicators bolstered crypto optimism. With global political shifts and continued adoption, volatility has returned, signaling a dynamic market ahead.



Dessislava Aubert

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Central Banks Actions Fuel Volatility

The crypto market experienced notable volatility in Q3, primarily driven by actions taken by central banks. In September, the long-awaited onset of monetary policy easing in the U.S. and a new round of stimulus from China triggered a risk-on rally.

Altcoins, which had lagged Bitcoin throughout the quarter, saw their volume dominance rebound to its highest level since March. Derivative markets welcomed fresh capital inflows, and funding rates turned positive in response to rising bullish demand. While traders are optimistic about transitioning to a bullish market regime in Q4, ongoing uncertainty regarding the pace of U.S. rate cuts and the upcoming U.S. elections will likely continue fuelling market volatility.



Adam McCarthy

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Testing new highs in Q4?

In November 2021, BTC reached a then record high above \$69k after peaking above \$60k in the first half of the year. Some of the positioning in options markets towards the end Q3 suggests traders see a possibility of a similar outcome this year.

However, the set up isn't too similar this time around. How does the old adage go, history doesn't repeat itself but it often rhymes? BTC did indeed rocket above \$69k in 2021, but its fall was just as specular—ending the year below \$50k. Meanwhile, in 2024, traders are piling into bets on BTC surpassing \$100K shortly after Christmas Day. The shifting macroeconomic backdrop and geopolitical tensions, coupled with market structure developments related to ETFs make this cycle wholly different to 2021.

Quarterly Price Performance

BTC Closes Quarter Marginally Higher

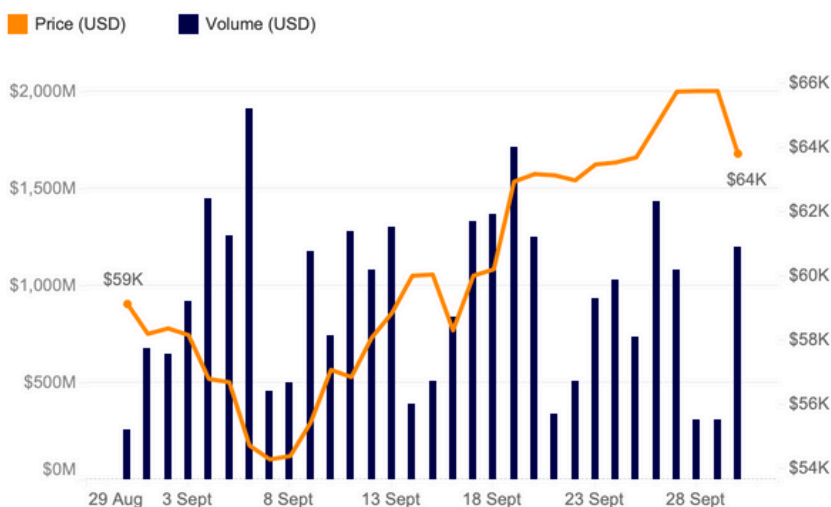


Source: Kaiko Robust Price Data for BTC-USD pairs.

Bitcoin (BTC) rose slightly by the end of the third quarter, gaining nearly 1% since June. This was despite strong selling pressure in July and August, as the German government sold \$4 billion in BTC, and Mt. Gox started its repayment process. However, the strong performance of U.S. spot BTC ETFs helped offset some selling pressure.

Along with market sell-off pressure, crypto markets had a major crash due to economic uncertainty, especially the partial reversal of the Japanese Yen carry trade. On August 5th, the day of the crash, Bitcoin fell over 23%. The crisis lasted for 5 days.

BTC Bucks September Blues

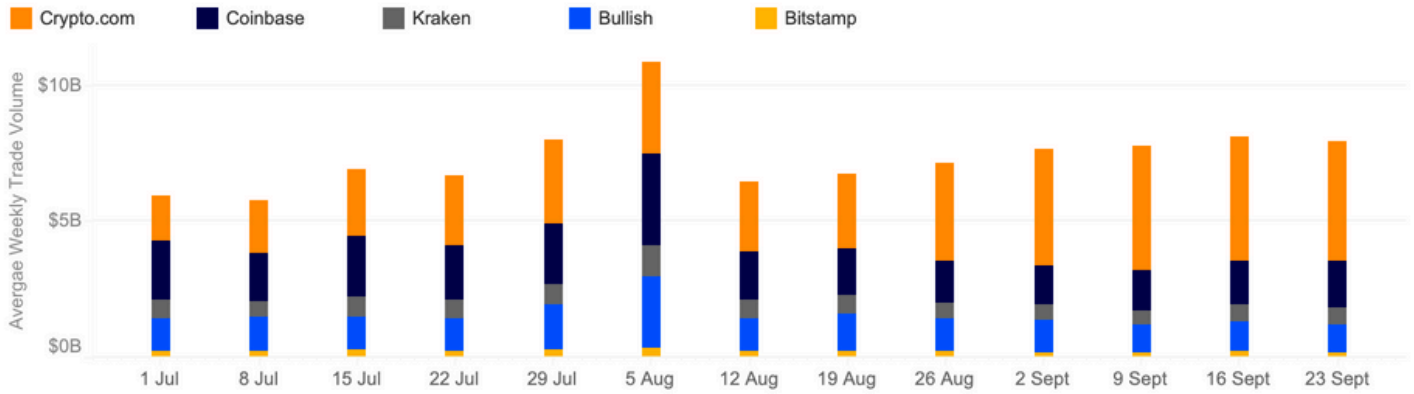


Source: Kaiko Robust Price data for BTC-USD pairs only.

BTC recorded its best September on record this year, returning just over 8.4%. Price action was largely driven by improved sentiment as markets reacted positively to monetary policy shifts around the globe. Interestingly, trade volumes didn't increase at the same rate as prices, signaling that some participants are still in a wait-and-see mode.

Emerging Trends in US Markets

US-Available Exchanges' Market Share of Volume

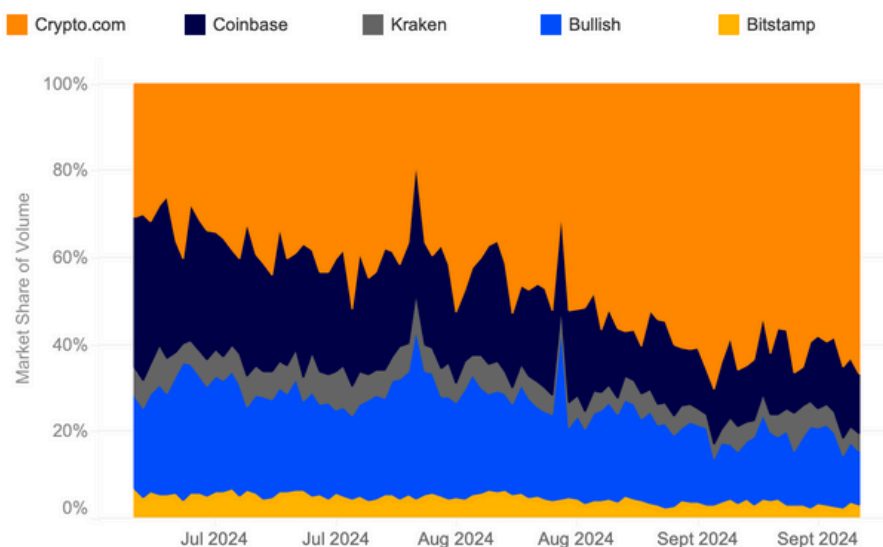


Source: Kaiko Exchange Metrics data. This provides USD spot trade volumes for all trading pairs listed on the named exchanges.

Over the past quarter, the cryptocurrency exchange landscape in the United States has seen significant changes. Crypto.com's market share of volume increased over the quarter, reaching over 50% among competing USD-compatible exchanges. It eclipsed Coinbase in the process, whose summer slump eroded its market share.

A robust liquidity situation and competitive fee structures are two key drivers behind Crypto.com's growing share. The exchange currently charges zero maker fees for VIP-tier customers, among other promotions. Additionally, fees on Crypto.com are generally quite competitive compared to other US-based exchanges.

Crypto.com's Share of BTC Trade Volume Soars



Source: Kaiko Asset Metrics for BTC on USD compatible exchanges.

When it comes to BTC trade volume, the changing market dynamics are particularly stark. Crypto.com more than doubled its market share of BTC trade volume during the quarter. It now commands just over 66% of BTC trade volume among the largest US exchanges. Coinbase's share fell from 34% to 13% between June and October.

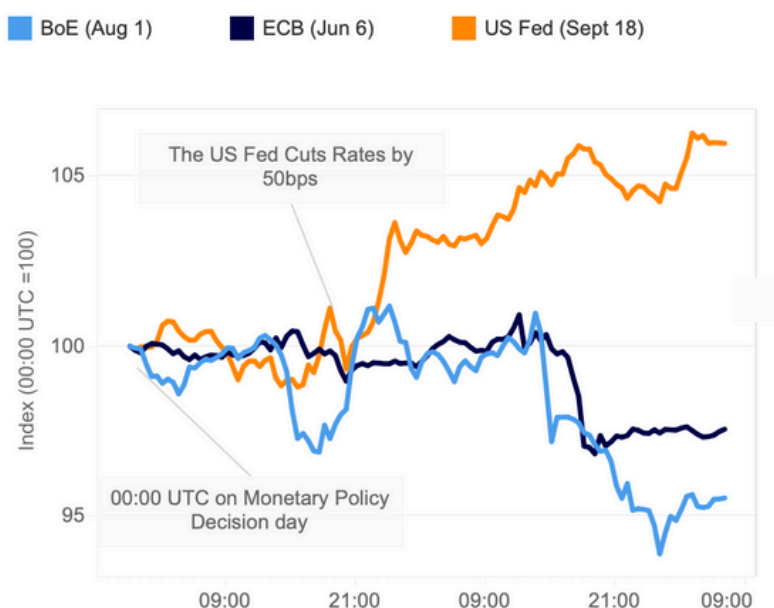
The Fed Pivot Arrives

Central Bank Rate Moves in 2024



In the third quarter, central banks worldwide made notable adjustments. The Bank of Japan raised interest rates in July for only the second time since 2007 to counter inflation. In September, the US Federal Reserve initiated easing with a 50 basis point rate cut, and China unveiled its largest stimulus package since the COVID pandemic. Although these actions led to short-term market volatility, the shift towards global easing is anticipated to enhance liquidity in Q4. This is expected to benefit crypto assets by fostering a more risk-tolerant environment.

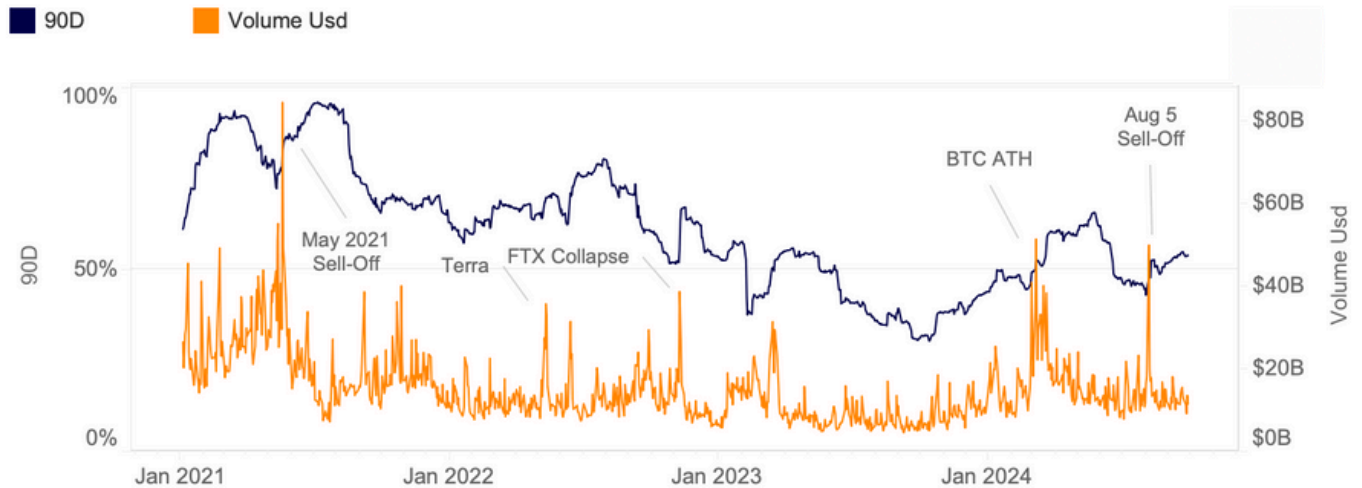
Bitcoin Post Rate Cut Price Performance



The market responded robustly to the Fed's 50 basis point rate cut, while reactions to the ECB's June cut and the Bank of England's August cut were more subdued, with Bitcoin prices declining after both announcements. This stark difference may be attributed to the historically negative correlation between the USD and Bitcoin, as well as the significant uncertainty surrounding the Fed's decision, which left the market divided ahead of the FOMC meeting.

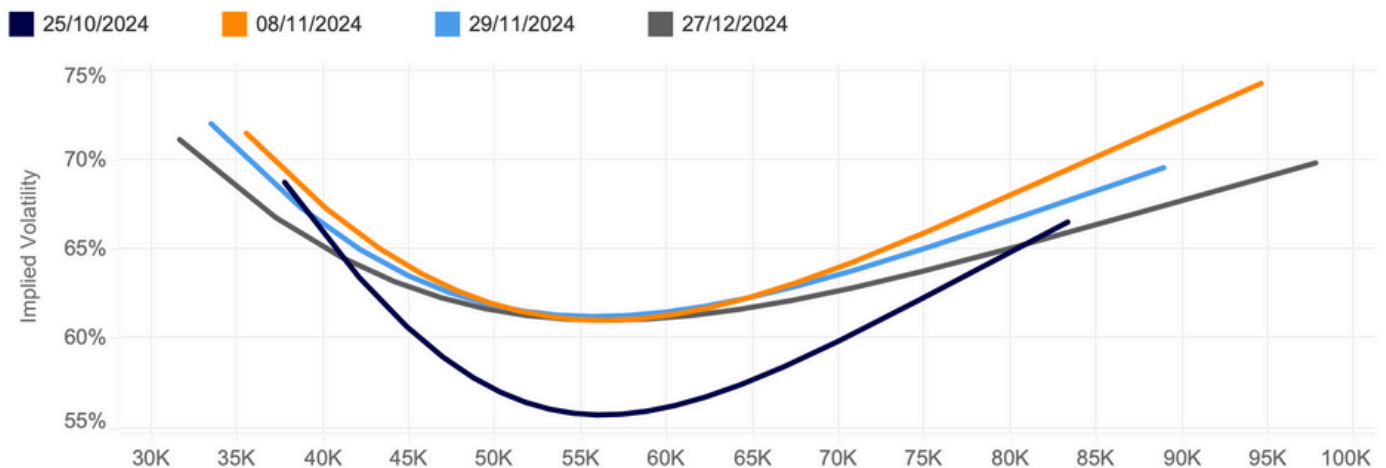
Macro-Induced Volatility

BTC 90D Realized Volatility and Trade Volume



In August, Bitcoin underwent one of its sharpest selloffs in recent years, with daily trade volumes reaching their highest levels since March, when BTC hit an all-time high. The selloff was triggered by a sharp reversal in global risk sentiment, driven by US recession fears and the unwinding of the Yen (JPY) carry trade following the Bank of Japan's rate hike in July. Interestingly, during the peak of the selloff, Bitcoin saw net buying on US platforms, indicating that some investors were capitalizing on the dip.

BTC IV Smiles for Near-Term Deribit Contracts Signal Q4 Bullishness

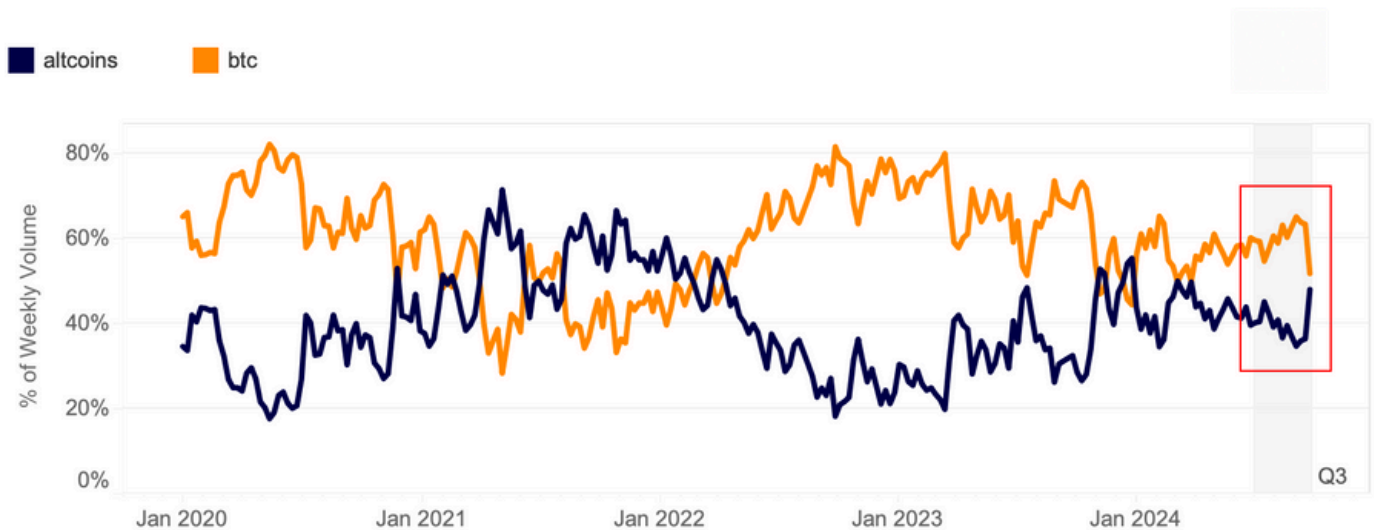


Source: Kaiko Monthly Implied Volatility Data. Snapshot of IV smile on September 8.

In early September, sentiment shifted as market participants began anticipating bullish price action in Q4. The BTC IV smile from Kaiko's Implied Volatility Data shows a slight curve, indicating a higher probability of price moves in either direction. However, a steeper right skew on the November 8 expiry (orange) suggests increased demand for call options and expectations of rising prices.

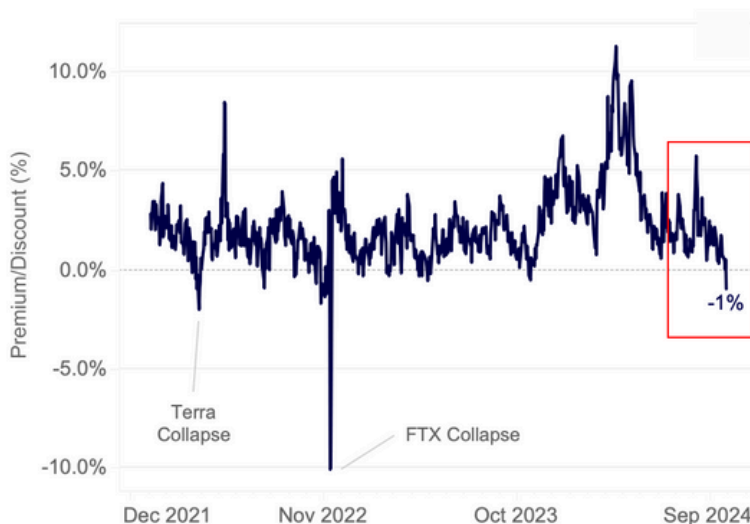
Altcoins Gain Traction in September

Bitcoin Volume Dominance Relative to the top 50 Altcoins



Altcoin dominance experienced significant volatility in Q3 amid abrupt sentiment shifts. The share of the top fifty altcoins relative to Bitcoin dropped to near yearly lows of 35% in early September before rebounding to 48% by the end of the month. While traders rotated into Bitcoin following the August sell-off, global central bank easing boosted risk-on demand.

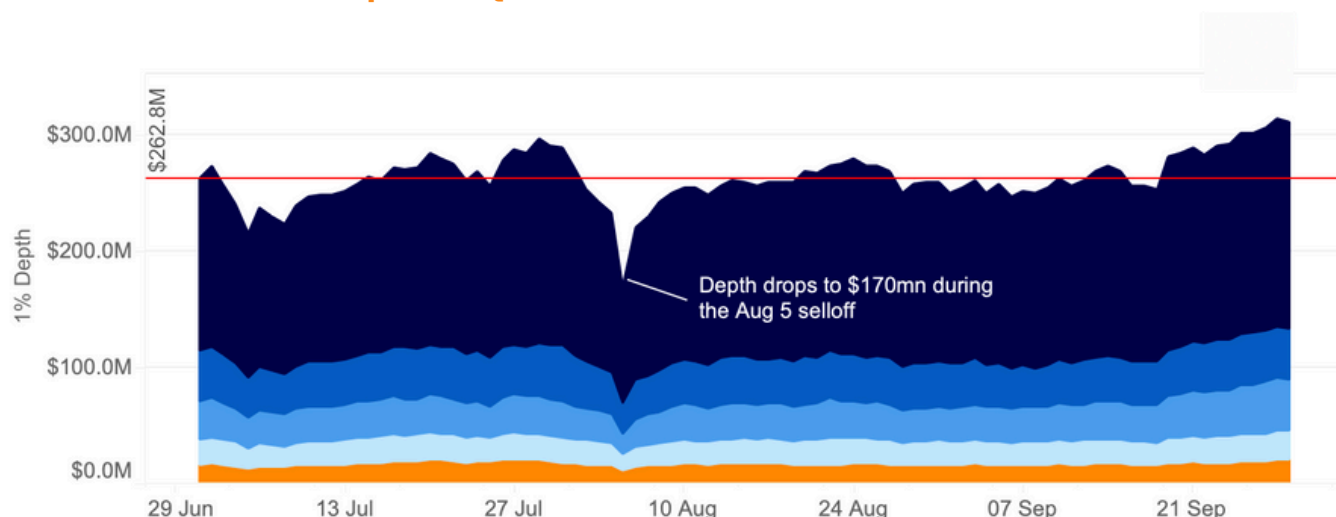
Altcoin Premium/Discount on Korean Markets



Despite an end-September rally, the average altcoin premium on Korean exchanges flipped into a discount, reaching its lowest level since the collapse of FTX. This trend suggests that Korean traders took profits after two months of downward price action. The altcoin premium has been trending downwards since hitting a multi-year high of 11% in March. This decline has been primarily driven by souring global risk sentiment. The entry into force of new crypto regulations also contributed to a cooling of speculative trading.

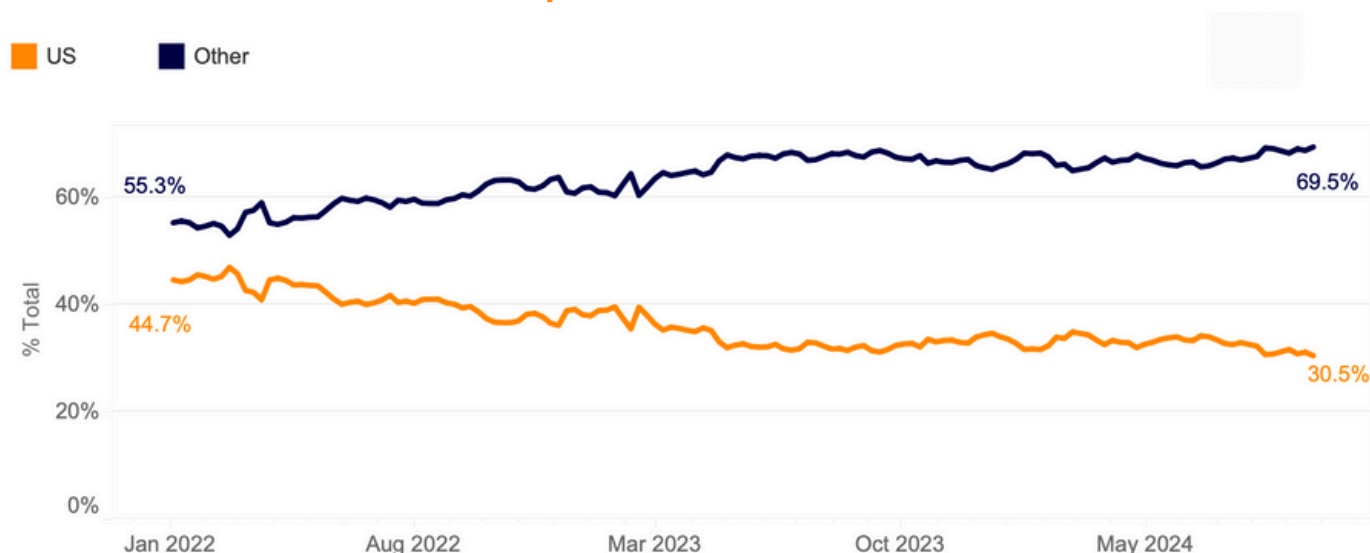
Altcoin Liquidity Remains Strong

Altcoin 1% Market Depth in Q3



The 1% altcoin market depth plunged 37%, from \$270 million to \$170 million, between August 1 and 5. It quickly recovered after the August 5 selloff, stabilizing near the quarterly average of \$260 million in August and early September, indicating that market makers maintained liquidity despite high volatility. The late-September market rally further boosted altcoin liquidity, exceeding the pre-FTX average of \$297 million for the first time since Q1. However, a breakdown by asset shows an uneven recovery, with liquidity increasingly concentrated in large-cap altcoins, to the detriment of smaller assets.

Altcoin Share of 1% Market Depth



Altcoin liquidity is also more concentrated on offshore exchanges, with their share of total altcoin depth rising from 55% in early 2022 to 70% now. This trend has been ongoing for several years and is primarily driven by large and mid-cap altcoins. In contrast, Bitcoin liquidity has shifted toward US exchanges, gaining market share over offshore platforms. This suggests that some market makers may have derisked their portfolios or rotated into Bitcoin, likely due to regulatory concerns.

Grayscale Outflows Weigh on ETH

Grayscale ETH versus BTC ETFs First 50 Days



Source: Wallet Data. Calculating the net change in token holdings of Grayscale's two legacy Trusts, GBTC and ETHE, which converted to spot ETFs in January and July, respectively.

ETH ETFs launched on July 23, just over two months after the US SEC approved the exchanges' rule change request. The nine approved ETFs have so far failed to attract investors' attention, according to on-chain flow data from the wallets of ETH ETF issuers, which hold the ETH tokens backing the assets under management by these financial vehicles. ETH ETFs have experienced net outflows of 150k ETH since July, with Grayscale's outflows again weighing on the market as the legacy fund maintained its high fees at 1.5%. Grayscale's flows weren't unexpected, as early investors who acquired their shares at a discount exited the fund to realize significant profits following the ETFs' approval and the subsequent switch from a closed-end trust to a spot ETF.

Grayscale's Mini Fund Fails to Stem Outflows

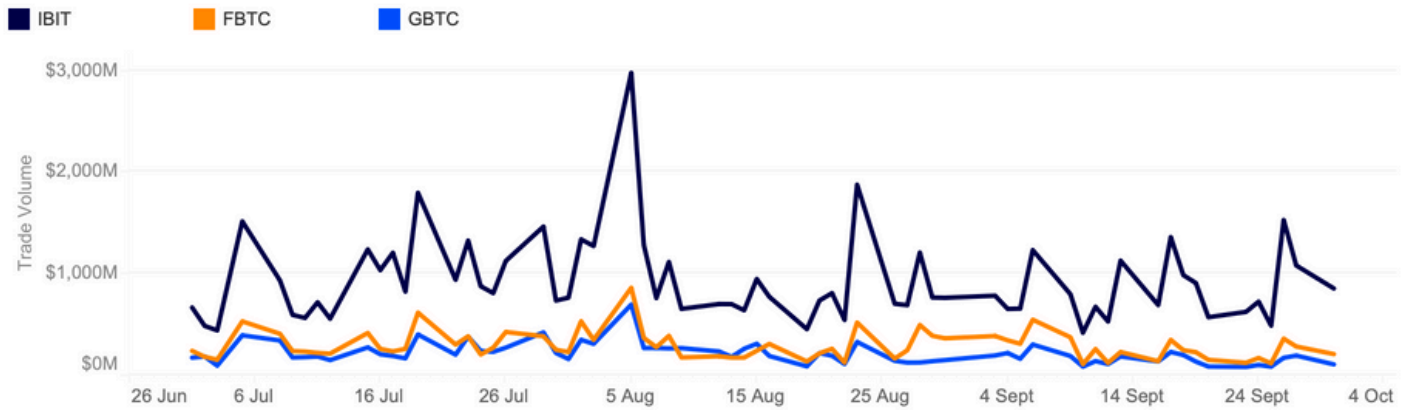


Source: Wallet Data. ETH Holdings of each ETF Issuer are extracted using the latest available ETH holdings of each of their underlying addresses, at each date.

To counter the selling pressure caused by the original trust, the digital asset manager launched a so-called Mini trust concurrently. The Grayscale mini trust was aimed at long-term investors and offers the lowest fees on the market (0.15% vs. 1.5% for the original Grayscale ETH trust). That new product was seeded with 10% of the assets from its ETHE fund—exactly 292,262.99 ETH. While it did attract some organic inflows following its launch, it failed to offset the massive exodus from the ETHE fund seen above.

Resilient Demand Despite Volatility

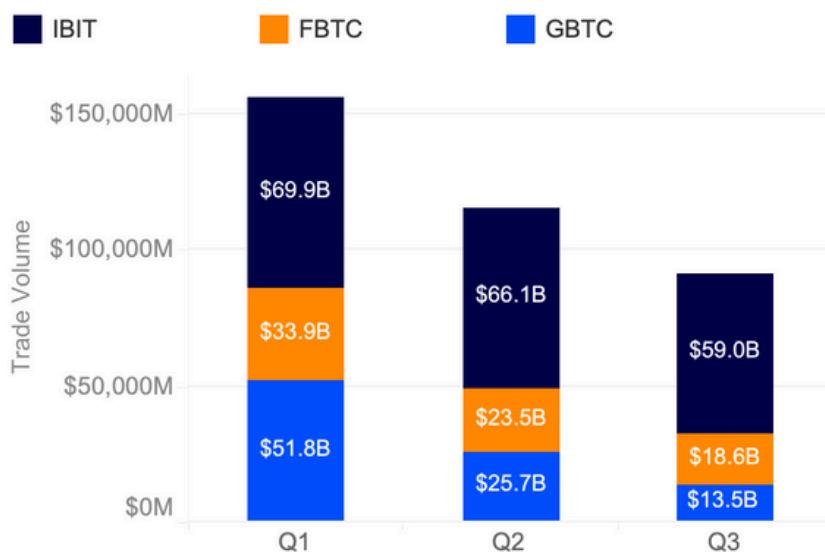
BTC ETF Robust Volumes



Source: Refinitiv Price Data.

For the most part, BTC ETF trading volumes were resilient in the third quarter. In particular, BlackRock’s fund had strong volumes, far eclipsing the next two largest funds—GTBC (Grayscale’s) and FBTC (Fidelity’s). All major BTC ETFs saw a spike in trading activity on Monday, August 5; however, outflows were less severe at just over \$85 million. During the first full trading week in September investors pulled \$370 million, but then over the next three weeks BTC ETFs saw combined inflows of \$1.3 billion.

Grayscale’s Dwindling Liquidity



Source: Refinitiv Price Data.

While Grayscale’s outflows might have eased quarter-on-quarter, its liquidity decline has escalated.

GBTC also had less trading volume than FBTC in the third quarter. The once-largest BTC ETF in the world rapidly fell behind BlackRock in Q2 but was still ahead of Fidelity’s fund. Despite maintaining more assets under management than FBTC in Q3, GBTC traded far less than the latter.

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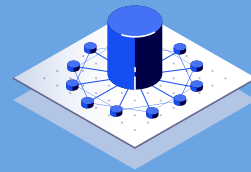
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