BKCoin Capital

Market Commentary: December 2020

2020 could certainly be considered an "outlier" year as the world encountered a global pandemic, heightened geopolitical tensions, social unrest and a financial crisis. Despite the fear, uncertainty and doubt (FUD) that enwrapped 2020, cryptocurrency markets had their best year since 2017 gaining $538B in market capitalization, a +289% YTD increase. Meanwhile, bitcoin ended the year gaining 279%, finally eclipsing its previous all time high of ~$19,800 set in December 2017. However, it was not all "smooth sailing" for cryptocurrency markets in 2020 as the market saw its early gains evaporate in just several days during the climax of the Covid-19 pandemic. Yet this was only one of many instances that tested the durability of the cryptocurrency market in 2020. Here is an end of the year recap remembering the highs and lows of the 2020 cryptocurrency bull market.

Q1 2020

Cryptocurrency markets were off to a strong start to begin the year. On January 3rd, the assassination of Iranian major general, Qasem Solemani, threw markets into a tailspin as global political tensions heated up between Iran and the United States. As a result, market participants fled to safe haven assets causing bitcoin and gold to gain 5.44% and 1.59%, respectively, on the day of the assassination (**Forbes**). Bitcoin, now supplanting itself as "digital gold" by investors, was also finding its way into the institutional world. Grayscale recorded a record breaking $600 million in inflows with ~70% of the inflows coming from institutions (**Decrypt**). Meanwhile, CME's release of bitcoin options, geared toward institutional investors, was doing a respectable $5.3 million in daily volume a week after its launch (**Cryptoslate**). Bitcoin was up as much as 42.76% to start off Q1, with the alt-market leading the charge gaining as much as 120.48% (Chart 1.0):

Bitcoin (Cyan) and alt-market (Orange) off to a strong 2020 start.As the Covid pandemic started to materialize in late February, cryptocurrency markets along with global markets would give back all the gains they had previously made at the start of the year. Bitcoin and the alt-market would eventually lose as much as -53.52% and -64.12%, respectively, from its Q1 highs made on February 14th (Chart 2.0).Chart 2.0: Bitcoin (Cyan) and alt-market (Orange) off to a strong 2020 start.

Q2 2020

To start off the second quarter, bitcoin along with the alt-market rebounded +30% in April as the Federal Reserve unprecedentedly increased its balance sheet by nearly $2 trillion, a +57% increase, from the start of March into the end of April (**FRED**). However, the market remained relatively flat for the rest of the quarter as bitcoin's 3rd halving, which took place at the start of May, turned out to be a "buy the rumor and sell the news" event. Nevertheless, institutional interest continued to steadily increase as Renaissance Technologies' most famous investment fund, the Medallion Fund, got approved by the SEC to trade CME bitcoin futures (**Crowd Fund Insider**). Likewise, Paul Tudor Jones, one of the most famous traditional hedge fund managers, revealed that he had a bet on bitcoin, dubbing the digital asset the "fastest horse" in the investment universe (CNBC).

Lastly, and the most notable development in the digital asset market in Q2, came at the end of the quarter when Compound Finance's release of its governance token paved the way for the crypto investment fad of the year… "yield farming" (**Forbes**).

Q3 2020

Seeing Compound's token gain over 330% with the introduction of a new "tokenomics" model, dubbed liquidity mining, the floodgates for DeFi markets were now opened. Akin to the ICO boom, DeFi projects, good and bad, were now popping up by the day all utilizing this new "tokenomics" model. In Q3, the total value locked (TVL) in DeFi would swell from \$2.07B to \$10.6B, a quarter over quarter (QoQ) increase of ~400%, as investors flocked to DeFi protocols to earn annual percentage returns (APRs) on their crypto holdings in excess of triple digits (Chart 3.0). Likewise, the DeFI mania would also be a boon to Ethereum miners as Ethereum would see over \$350M in fees paid out to its miners rendering this the first time Ethereum's cumulative network fees would outpace bitcoin's since the start of a year (**News.Bitcoin**).

Although DeFi markets stole the spotlight in the cryptocurrency space in Q3, the institutional activity occurring in the quarter would set the stage for the deluge of institutional adoption of crypto in Q4. Microstrategy, a publicly traded business intelligence firm, converted \$425M of its cash into bitcoin to hold as a reserve asset on its balance sheets (**Decrypt**). Meanwhile, Grayscale Investments would amass ~2.4% of the total supply of bitcoin to end the quarter (**TokenPost**).

Q4 2020

To begin Q4, Paypal (**Paypal**) and Square (**Cointelegraph**) both announced they were integrating cryptocurrency into their platforms causing the price of bitcoin and the price of several other tokens to "moon." Meanwhile, JP Morgan Chase, would soon announce the official release of its own stablecoin solidifying the entrance of the traditional investment banking world into the digital currency space (**Cryptopotato**). In October alone, bitcoin would increase nearly 30% MoM. However, the price of bitcoin would more than triple those gains in the following two months as institutional and retail "FOMO" would cause a demand shock for bitcoin (Chart 4.0).To end the year, strong retail demand for bitcoin via Paypal's and Square's recent digital currency integration would force both firm's to buy more than 100% of all newly issued bitcoins. This alone was causing a supply scarcity of bitcoin (**Business Insider**). Meanwhile, on the institutional front, investment magnate, Stanley Druckenmiller, admitted he was betting on bitcoin causing even more institutional investors to ponder why they were not investing in the digital currency space (**The Block**). Several well-known multi-billionaire dollar investment management funds would also enter into the cryptocurrency space. Guggenheim Partners, the \$200B asset manager, is now seeking to allocate up to 10% of the fund's net asset value (NAV) to cryptocurrency (**The Block**) in 2021, while Skybridge Capital, a \$7.7B hedge fund, has launched a bitcoin fund expecting an “Avalanche of Institutional Investors” to come in the new year (**News.Bitcoin**).

IN CONCLUSION

Despite the cryptocurrency market starting off 2020 with triple digit gains and bitcoin being dubbed as “digital gold”, a safe haven alternative to gold, the Covid pandemic caused the cryptocurrency market to erase all of its gains going into Q2. However, the cryptocurrency market rebounded strongly in Q2 with traders bidding up bitcoin ahead of its May halving. Paul Tudor Jones also gave credibility to the space stating that bitcoin could be the “fastest horse” of 2020. Then, as we entered into the second half of the year, DeFi markets experienced a mania as yield farmers flocked to Ethereum based DeFi protocols to earn astonishingly high yields on their crypto assets. This gave birth to the now almost $15B DeFi market. Lastly, to end the year institutional and retail investors would “FOMO” into bitcoin causing the price of bitcoin to rise +150% in Q4.

Now, with institutional interest in the space at an all-time high, decentralized finance continuing to innovate their product offerings and tech companies integrating cryptocurrency onto their platforms, it appears that the “Roaring 20’s” has just begun for the digital asset space as we head into 2021.