



THE WEEKLY UPDATE

2020 SUMMARY



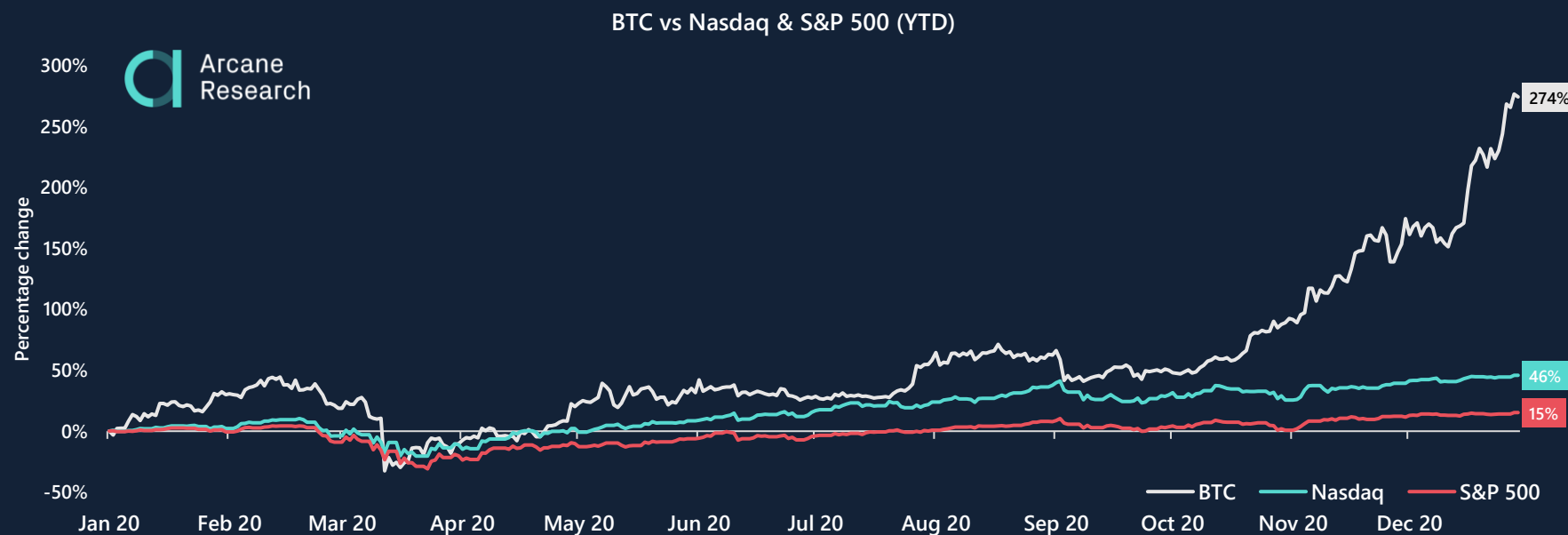
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The year of the institutions

In 2020, bitcoin finally got the attention of institutional investors. The broad financial markets have been volatile amid the COVID-pandemic, but the central banks have intervened pushing monetary stimulus and governments have launched large fiscal stimulus packages. The backdrop of the intervention has been a sharp increase in M2 (+25%) and looming fears of inflation. This in turn brought institutional attention to Bitcoin, due to its store of value properties.

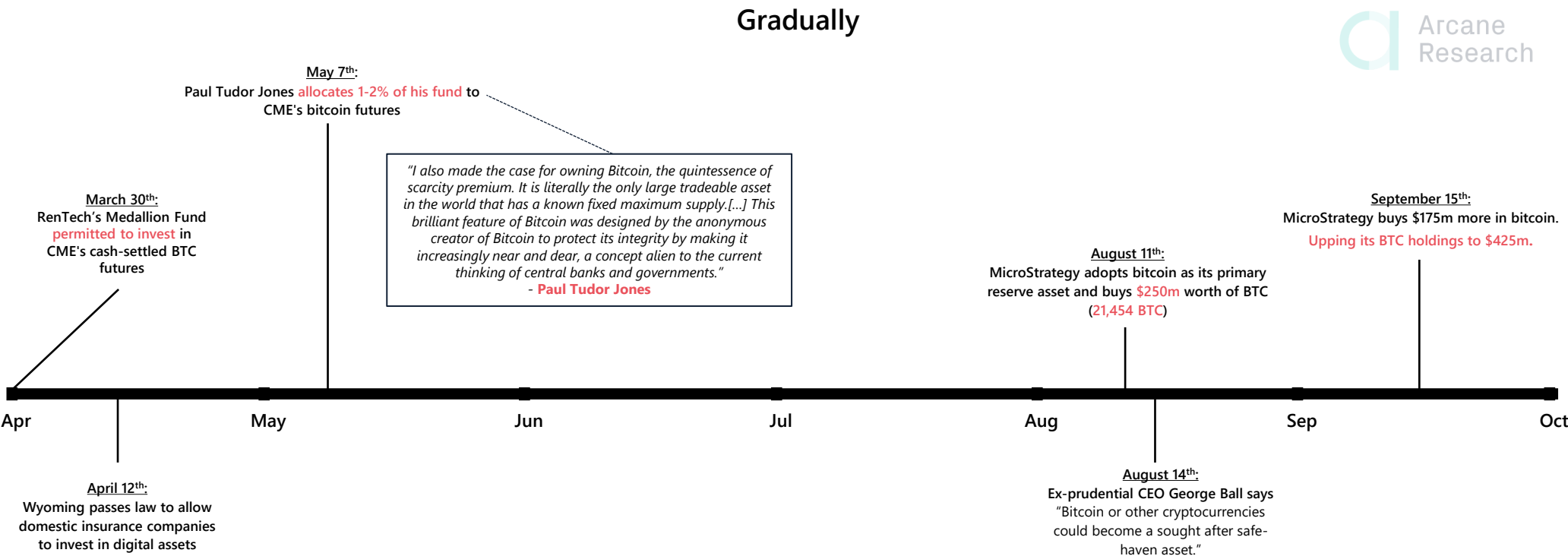
The increased institutional presence is clear. Both in terms of esteemed investors publicly commenting on bitcoin allocations to hedge against inflation, but also in terms of market data, most notably the rise of CME's Bitcoin futures. As of December 29th, CME is now the largest contributor to the open interest in the BTC futures market.

However, 2020 has been volatile including for bitcoin. The broad financial market crash had a heavy impact on bitcoin in March, as bitcoin fell 50% over the span of two days during one of the heaviest sell-offs ever seen in bitcoin. The sell-off was followed by a sustained period of unusually high correlation with the stock markets, but at last, the correlation returned to normal levels, bitcoin decoupled and started its path towards and beyond its former ATH.

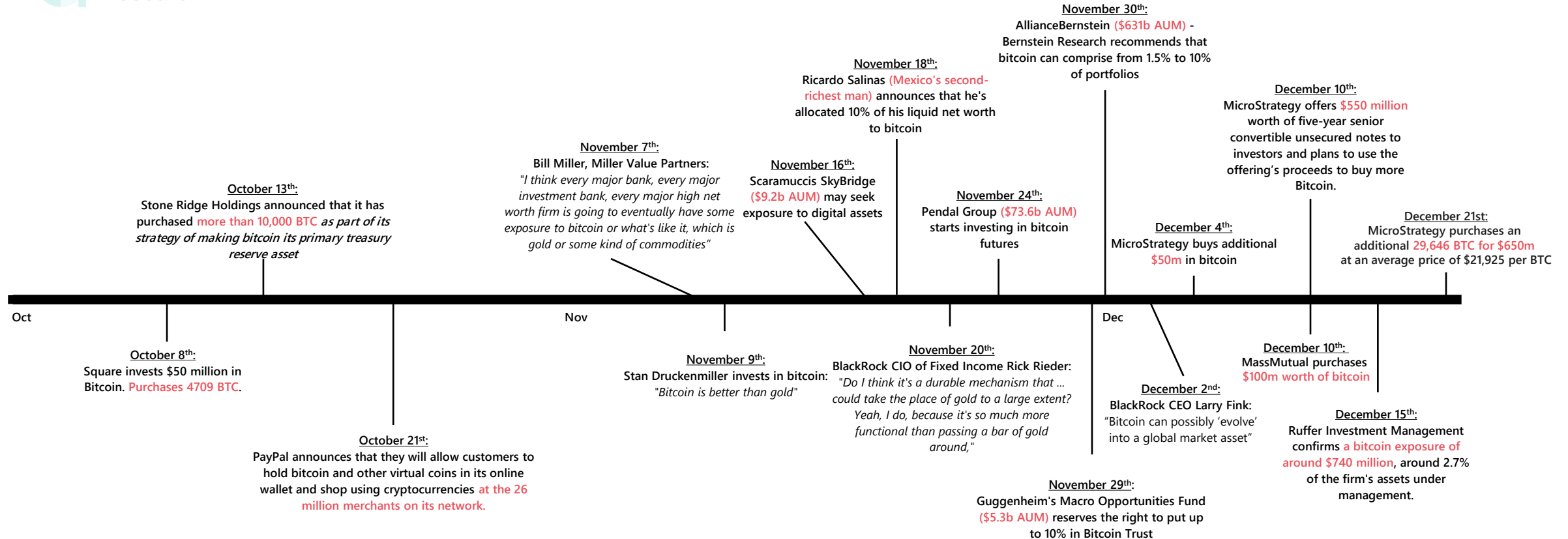


Institutional investors have been making headlines this year

Gradually, then suddenly



Then suddenly



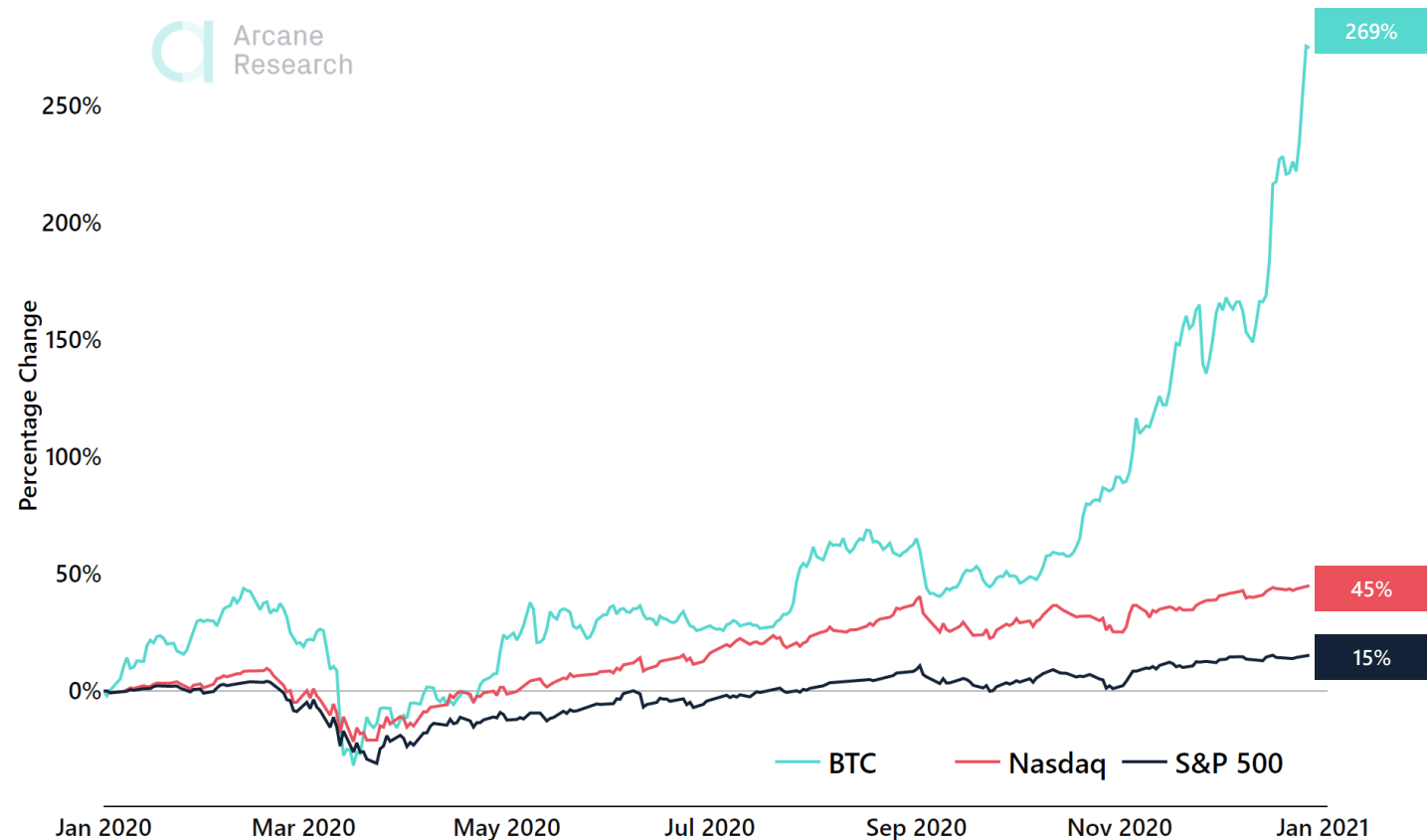
Bitcoin crushed the stock markets this year

Without a doubt a volatile year across all financial markets, but bitcoin ends up as the big winner of 2020.

- After a rough start to the year with the massive sell-off in March, bitcoin struggled with outperforming the stock market.
- However, after some impressive months ahead of the halving in May, bitcoin never looked back.
- It's been a great year in the stock market as well, with Nasdaq gaining over 45%. But with bitcoin's recent bull run, these gains look insignificant compared to bitcoin's increase of 269%.

2021 prediction: Bitcoin's gains will make the stock market look insignificant next year too

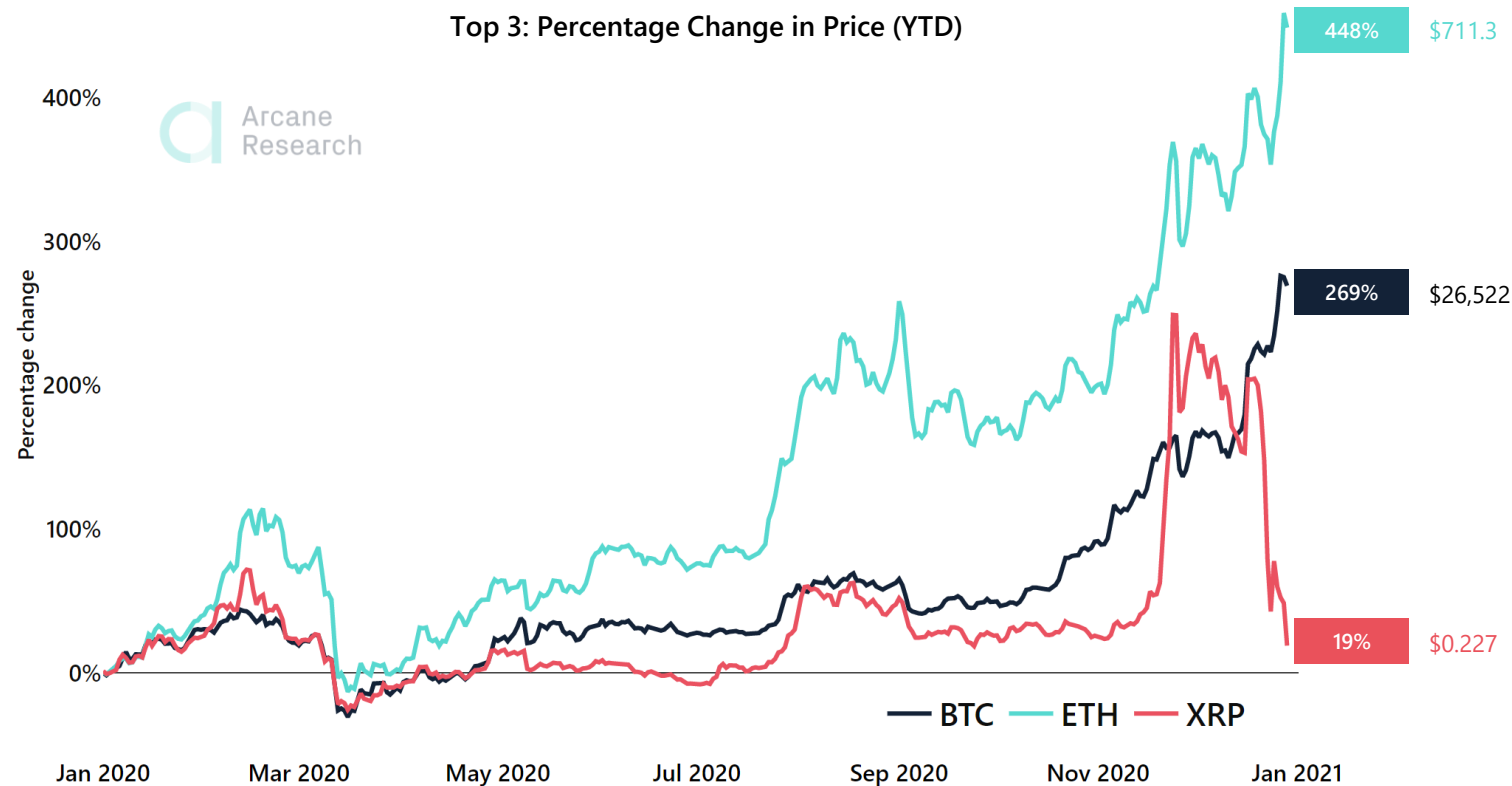
BTC vs. Nasdaq & S&P 500 (YTD)



Source: Digital Assets Data

Ether (ETH) the winner of 2020

With the publicity and hype around bitcoin this year, it is easy to forget the rest of the crypto market. Ether (ETH) has quietly outperformed bitcoin, gaining almost 450% in 2020. XRP has experienced terrible volatility lately with the SEC charges against Ripple, leaving late investors with big losses. XRP is about to erase all gains of 2020.

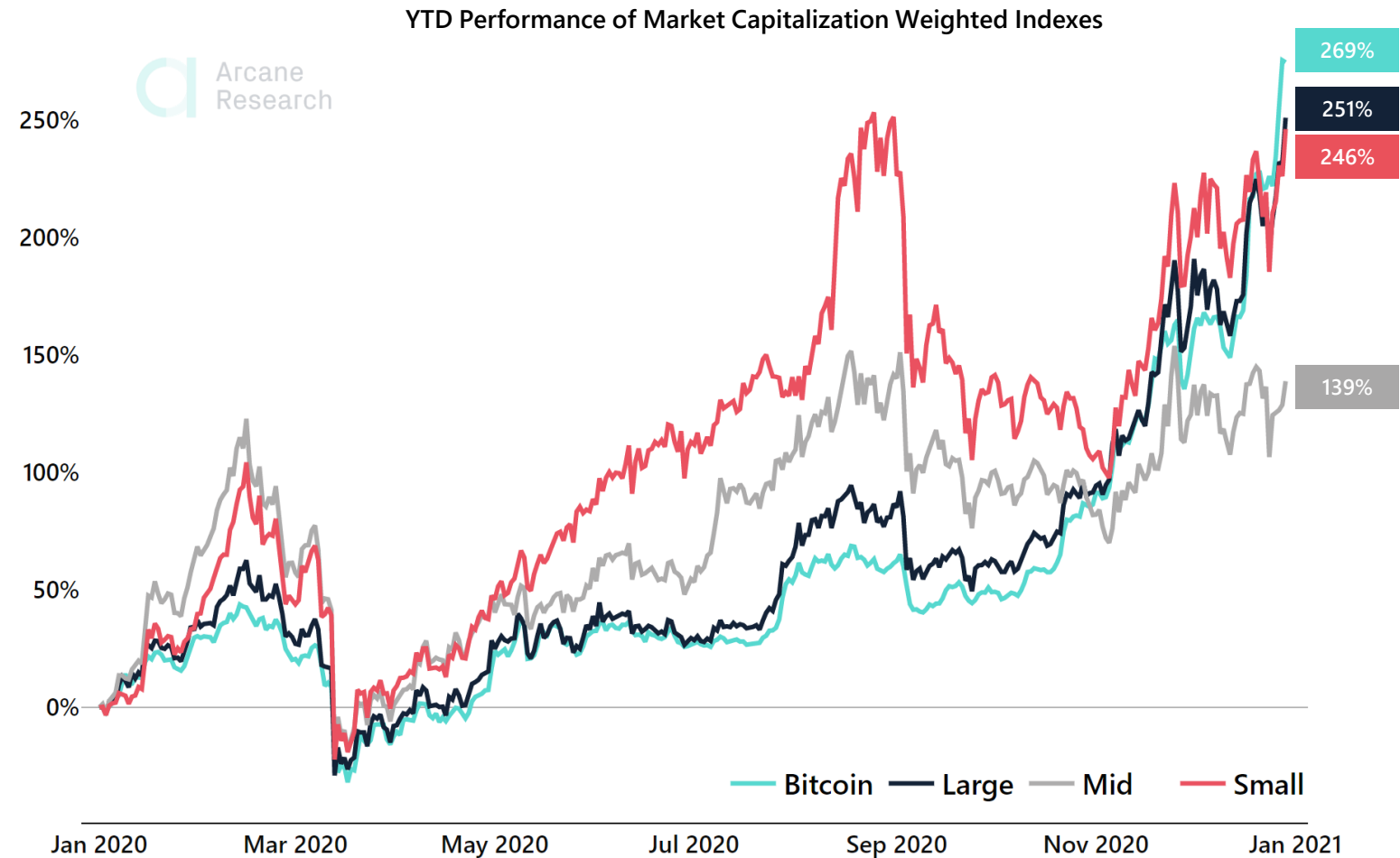


2021 prediction: ETH will reach a new ATH next year and XRP will drop out of the top 10.

A great year in the crypto market

It's been a great year for most cryptocurrency investors. A bumpy ride, but strong hands have been rewarded. However, a fairly disappointing second half of 2020 for many altcoins, as both Mid Caps and Small Caps are ending the year lower than the peak of this summer.

2021 prediction: Small Caps will be the winner of 2021

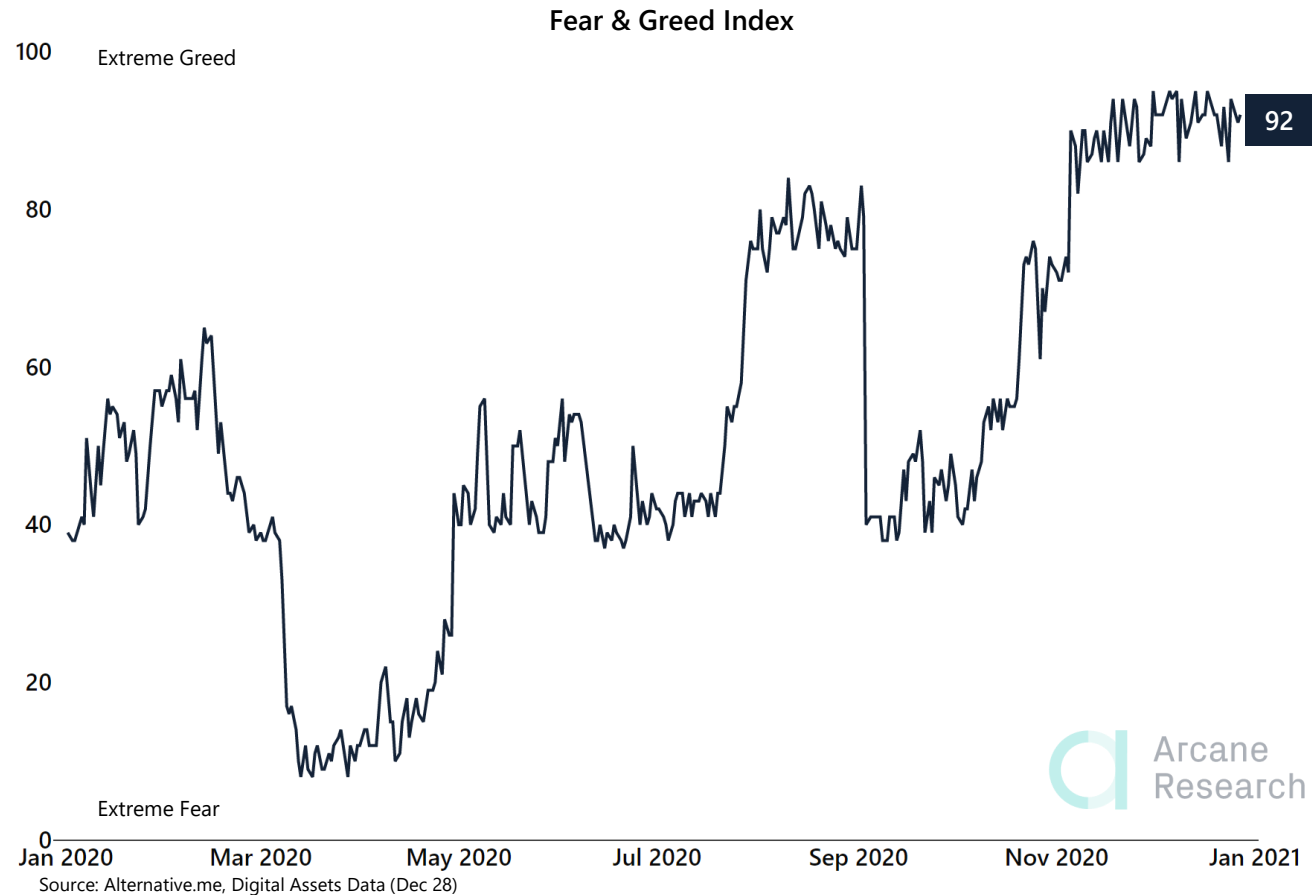


Source: Digital Assets Data, Bletchleyindexes.com (Dec 28)

Market sentiment ends 2020 at historical highs

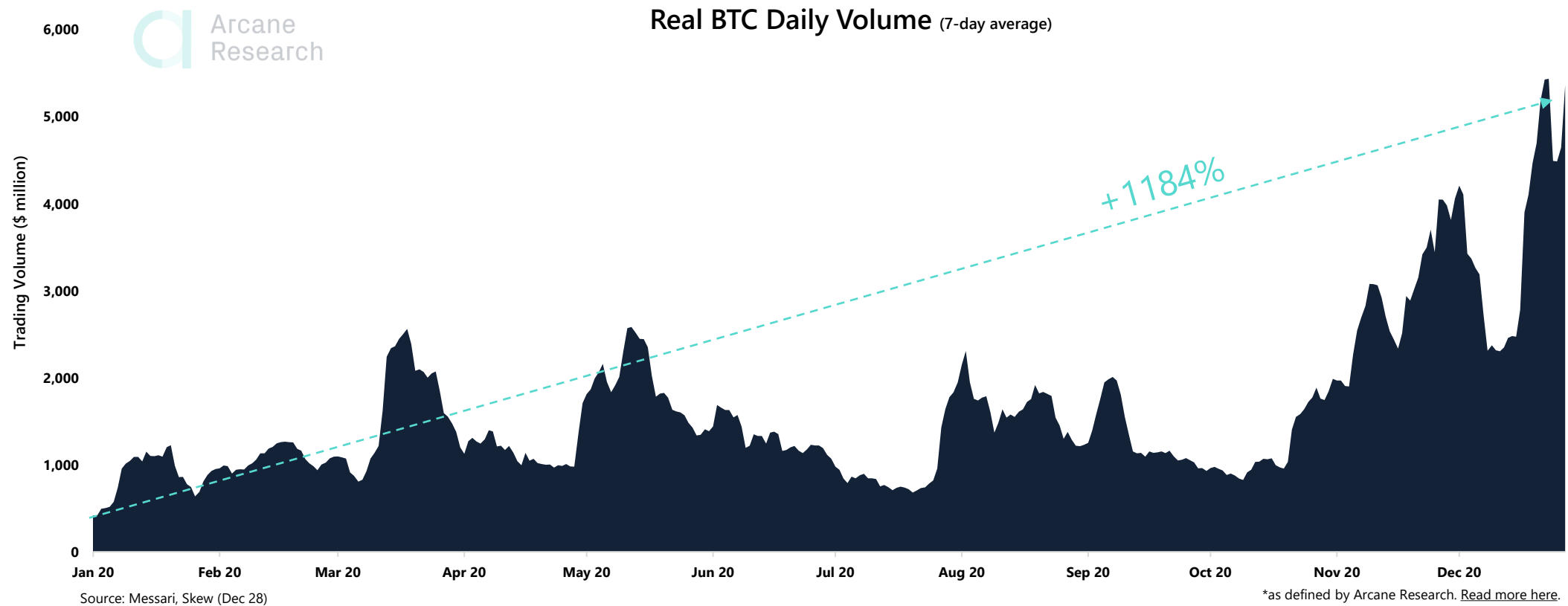
A year full of emotions. From extreme fear in March to extreme greed in December. The current market sentiment at historically high levels screams “sell”, but the last month has shown that these kinds of metrics can’t be used as trading signals alone. Since the Fear and Greed Index touched 90 on Nov 6th and signaled an overly confident market, BTC has gained almost 70%. This metric has worked better in signaling bottoms than tops historically.

2021 prediction: The Index will give investors some great “buy the dip” opportunities next year.



Bitcoin volume has increased more than 1,000% this year

The 7-day average real bitcoin volume* is about to end 2020 around \$5 billion, which is more than 1000% higher than where the year started. Retail traders are certainly back in the market after bitcoin pushed towards its ATH from December 2017.



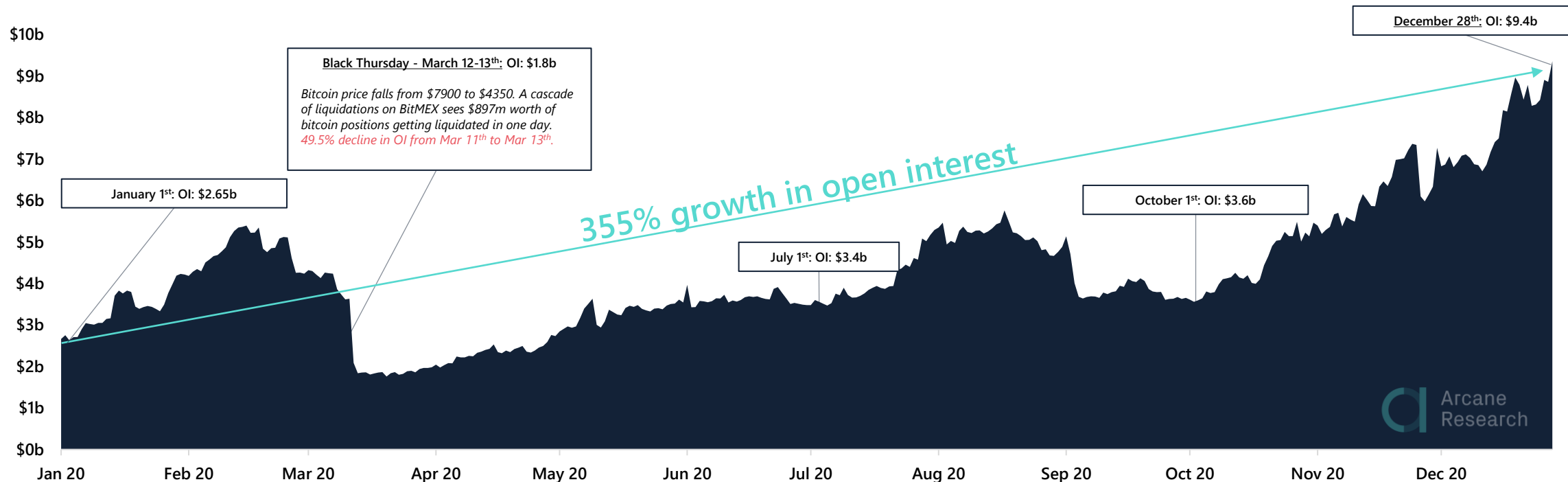


THE FUTURES MARKET

A growing futures market

2020 has been eventful in the BTC futures market, *to put it mildly*. The year started with a total open interest of \$2.65b, and will end the year with around \$9b in open interest. For a while, the open interest steadily fluctuated between \$3 billion and \$5 billion, but as bitcoin's rally up and towards its former ATH started in October, the open interest has reached levels never before seen.

BTC futures market: Open interest

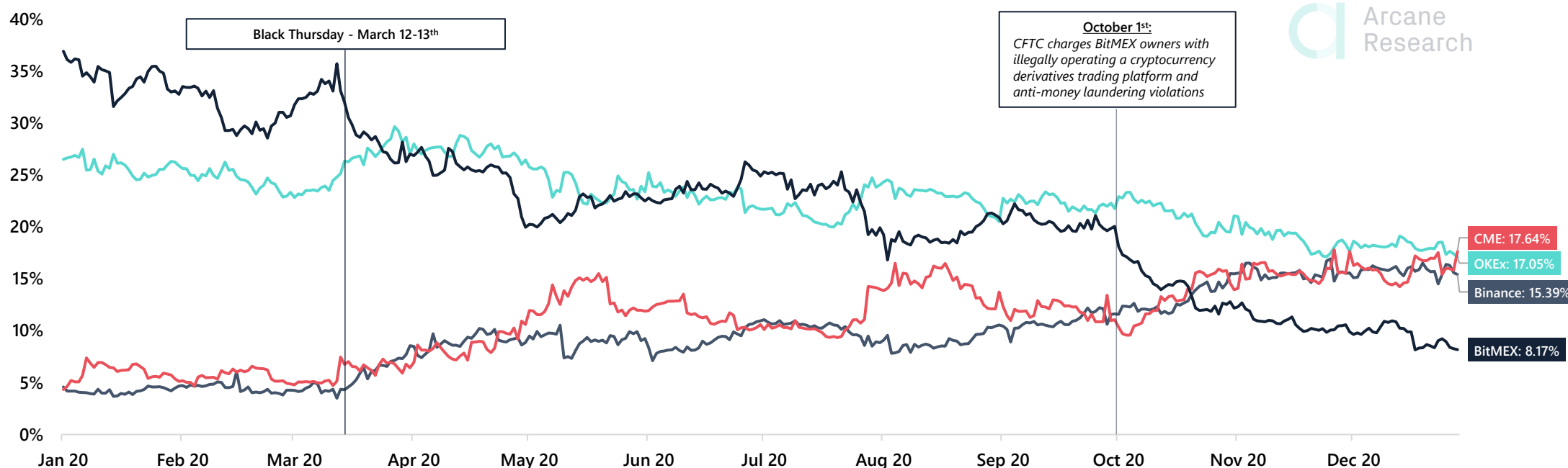


2021 prediction: Cash-settled futures will dominate the futures market in 2021.

BitMEX has abdicated while the regulated futures market has grown

This year has seen great developments in the bitcoin futures market. BitMEX has lost its reign as the leading platform in the market following the liquidation loop of March, with the final nail in the coffin being the CFTC charge in October. Meanwhile, Binance and CME have seen substantial growth throughout the year. Lurking in the shadows below are platforms such as Bybit, Deribit, and FTX, also seeing noteworthy growth within their niches.

Bitcoin Futures Market: Distribution of Open Interest



Source: Skew

2021 prediction: A further growth of the regulated BTC futures (CME), accompanied by more regulatory scrutiny of unregulated exchanges. *This will eventually lead to the acceptance of a bitcoin ETF by the SEC.*



INSTITUTIONAL DEMAND

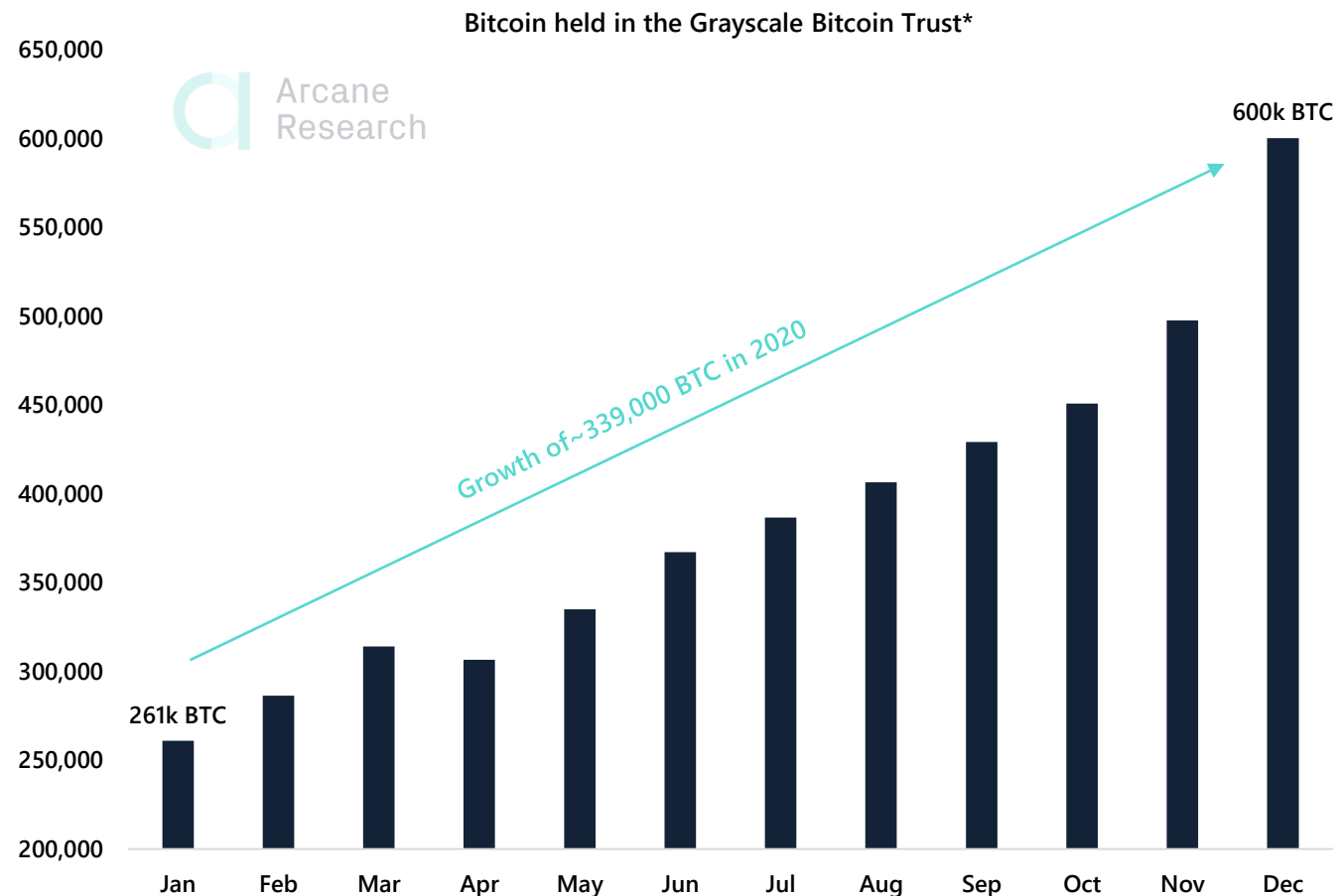


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Grayscale has absorbed 1.5% of the circulating BTC supply this year

Grayscale's Bitcoin Trust is a good proxy of the increased institutional demand for bitcoin, as accredited investors are the only ones that are allowed to buy into the trusts in the primary market. The company is currently absorbing more BTC than what's being issued and has more than doubled their BTC holdings this year.

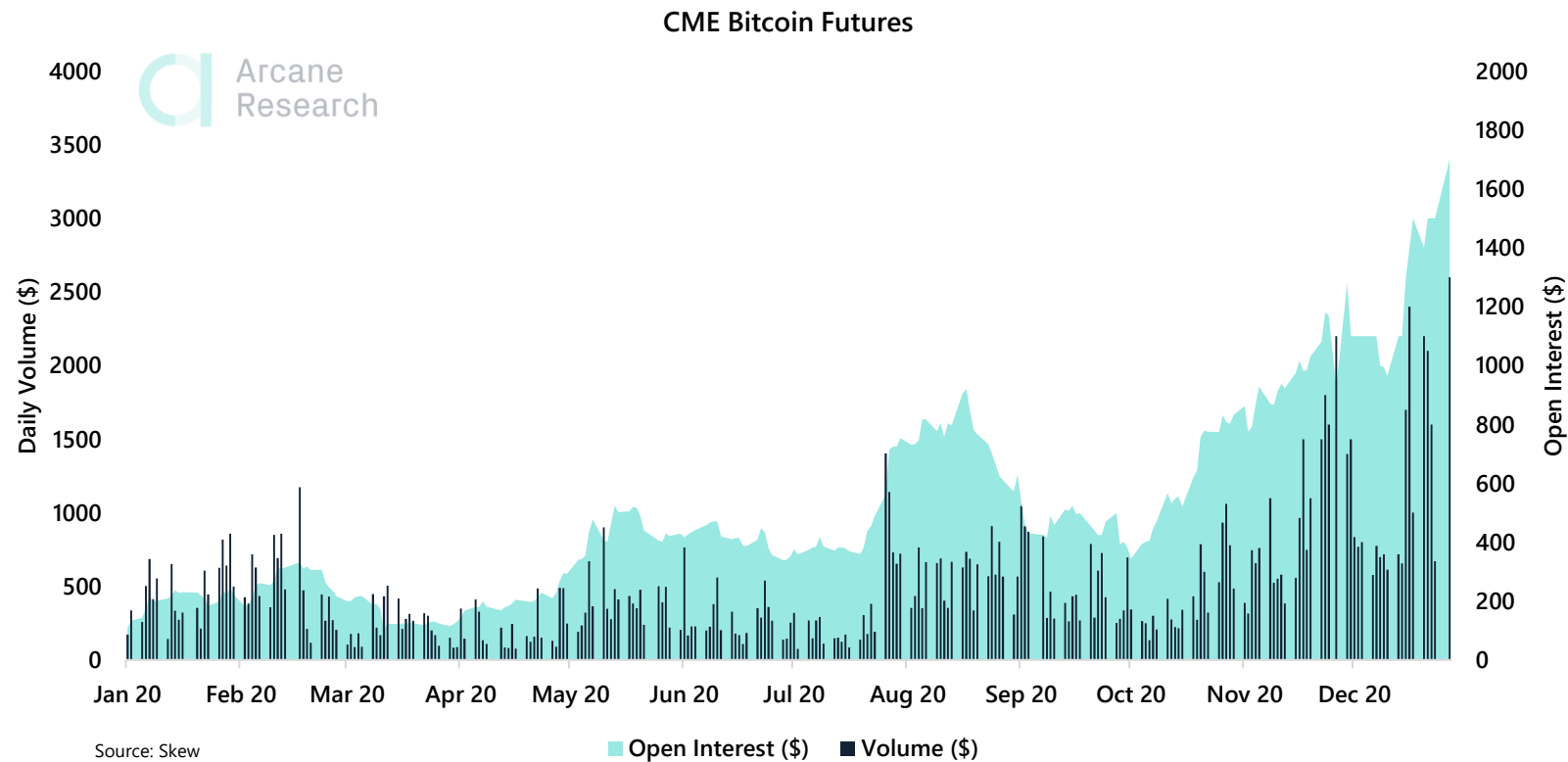
2021 prediction: Grayscale will hold 1 million BTC by the end of next year.



Source: Grayscale, Digital Assets Data

The year bitcoin went institutional

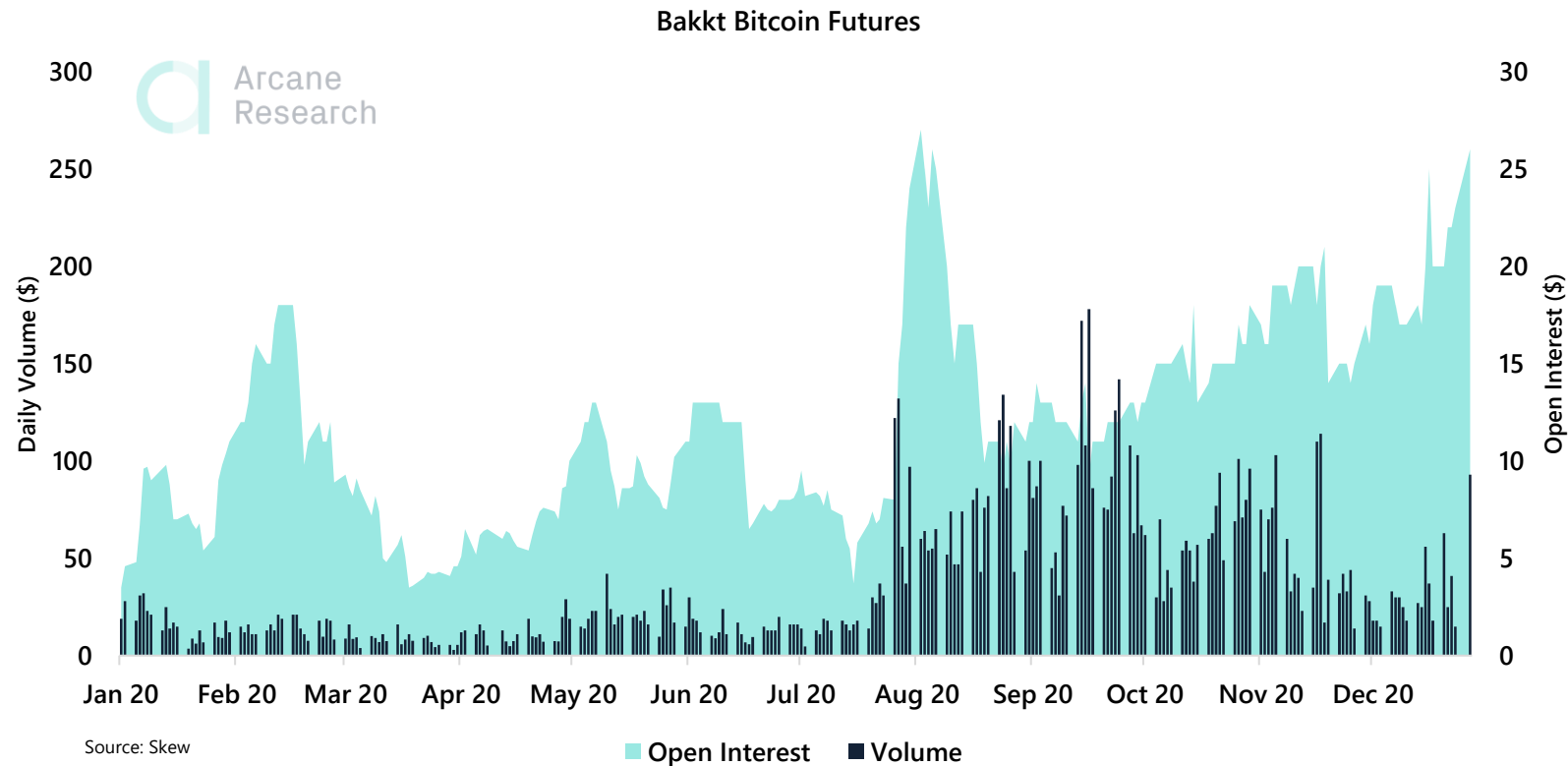
It is easy to see why 2020 will be remembered as the year of the institutional investors. CME is currently the largest BTC futures market in terms of open interest. Both the OI and the daily volume climbed to new all-time highs this Christmas.



2021 prediction: CME's bitcoin futures will outpace all other BTC futures in 2021 and end the year as the dominant market

Increased activity at Bakkt this year

The fairly new Bakkt platform that launched last year has not been hit by the same institutional wave as the CME. It seems like these investors are more interested in trading “paper” bitcoin, and not Bakkt’s physically-settled futures contracts. However, the activity on the platform has increased, with a clear trend shift in daily volume in August.



2021 prediction: Institutional investors will seek the most liquid market and Bakkt’s market share will stay low as institutional investors prioritize CME.



BLOCKCHAIN ACTIVITY



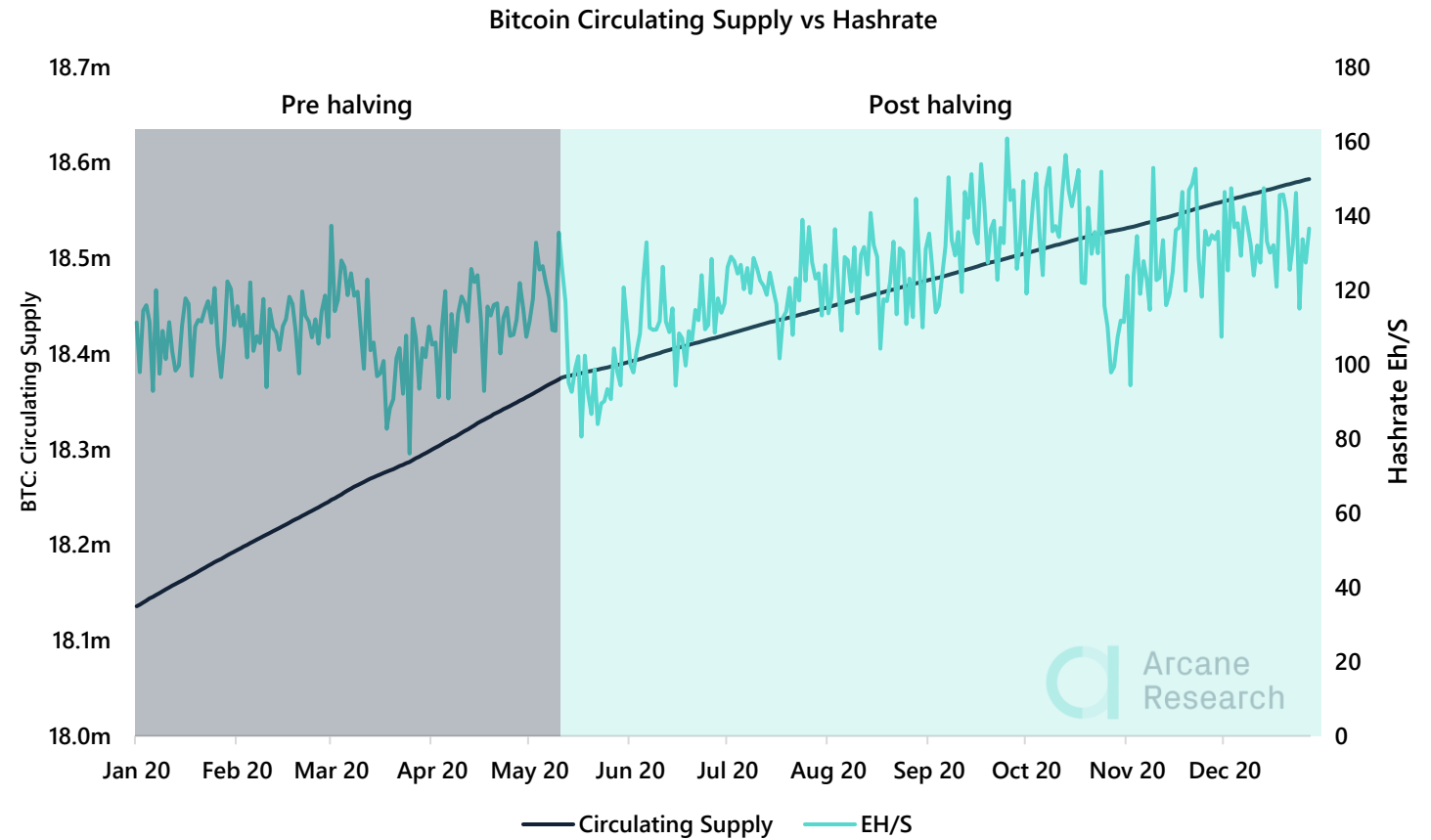
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The halving and the hashrate that persisted

Bitcoin went through its third halving this year, as the block subsidy fell from 12.5 BTC to 6.25 BTC per block on May 11th.

- As the miner rewards halved, many feared the impact of a potential decline in hashrate, leading to slow block generation, and reduced overall security on the bitcoin blockchain.
- We did in fact see a short decline in bitcoin's hashrate, leading to a 6% decline in mining difficulty. However, the hashrate quickly returned to – and surpassed – its former highs throughout the summer.
- The mining industry is complex, but miners will mine as long as it's deemed profitable. The initial rebound of the hashrate was likely driven by miners offloading their bitcoin holdings to remain competitive in the mining scene, in addition to low energy costs due to a particularly rainy wet season in China.
- The increasing value of BTC post halving has later contributed to offset the revenue impact of the halving.
- In addition, miners seem to have become more dependent on fees, as the average fee contribution to the miner revenue has risen from 1.8% before the halving to 9.4% post halving.

2021 prediction: The hashrate will surpass 200 EH/S in 2021.



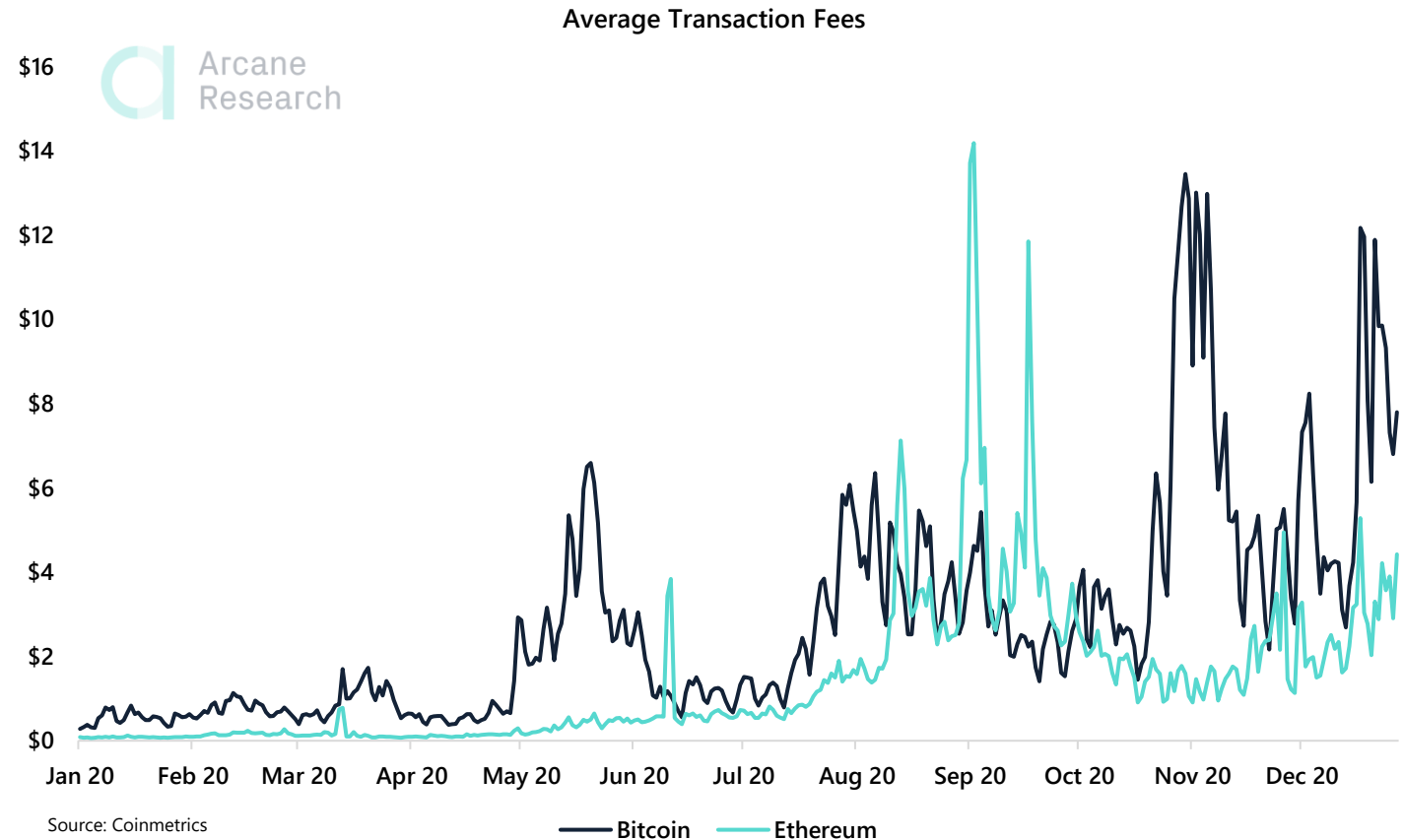
Source: Glassnode

Rising transaction fees on Bitcoin and Ethereum

Growing activity in Bitcoin and Ethereum has led the transaction fees to rise substantially in 2020.

- The average transaction fee on Bitcoin have risen substantially since the halving, and the fees have been exaggerated further by the recent bull market in bitcoin.
- The average transaction fee on Ethereum on the other hand has fluctuated more and reached its highs amid the peak of the DeFi craze of mid-September.
- With rising fees, small transactions become less attractive.

2021 prediction: Scaling debates will again be a hot topic in bitcoin, leading to increased adoption of the Lightning Network and other sidechain alternatives.

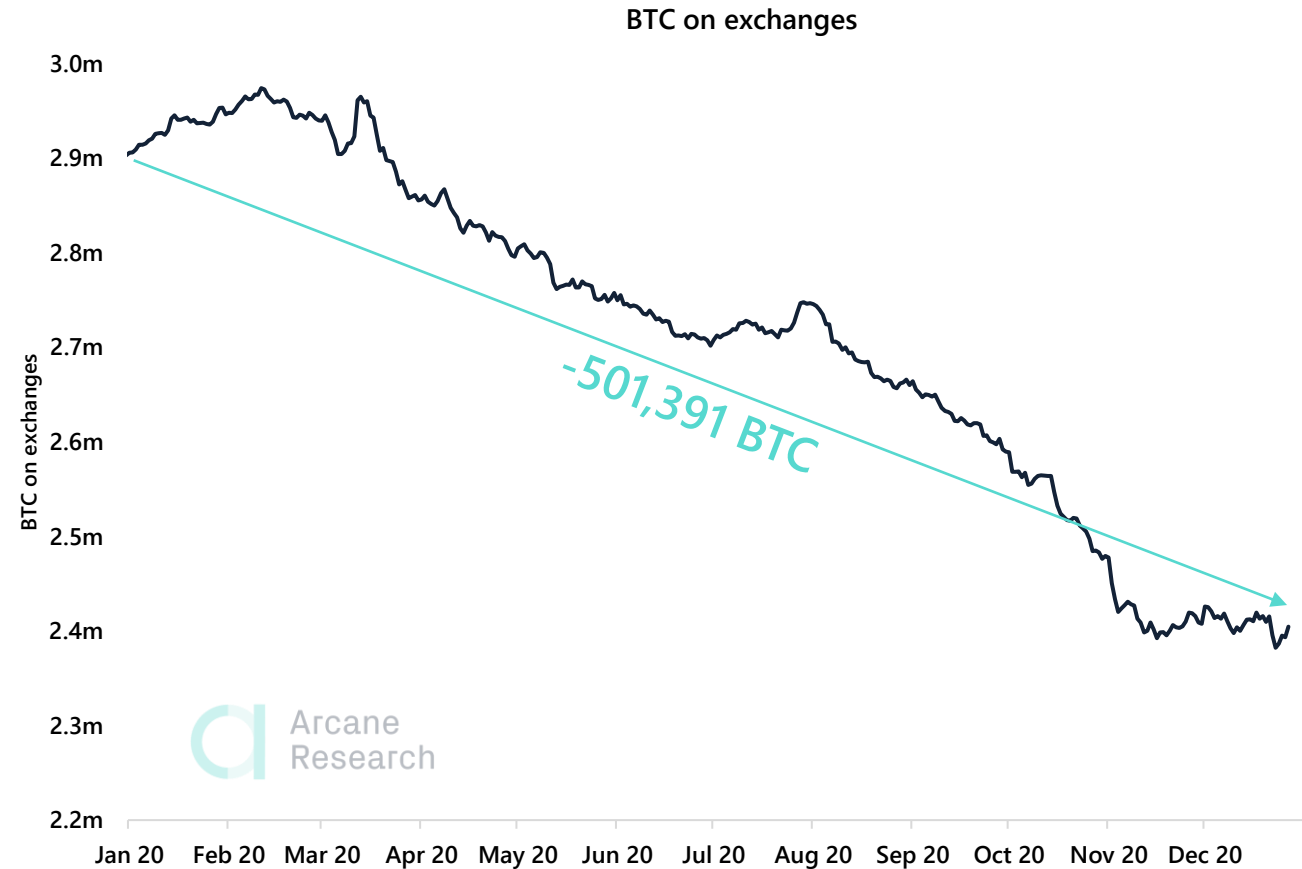


Bitcoin deposits on exchanges in freefall

The aggregated exchange balance has fallen throughout the year, and net more than 0.5 million BTC has been withdrawn from the major exchanges.

- It's likely that a significant sum of the withdrawn BTC has been moved to cold-storage wallets, evident by the increase of 10.5% in addresses holding more than 0.1 BTC.
- However, it is also fair to assume that these bitcoins have moved elsewhere to other custodians in the space.
- The most notable likely destination for the withdrawn BTC is found on the Ethereum blockchain, as there currently are 139,725 BTC on Ethereum with the Wrapped Bitcoin protocol alone holding 113,235 BTC.
- Another likely destination for BTC moved of exchanges are centralized lending providers such as BlockFi, Genesis, and Nexo – allowing holders of bitcoin to deposit funds and receive a yield while doing so.

2021 prediction: The aggregated BTC exchange balance will rise as more holders seek to realize profits or to trade other cryptocurrencies.



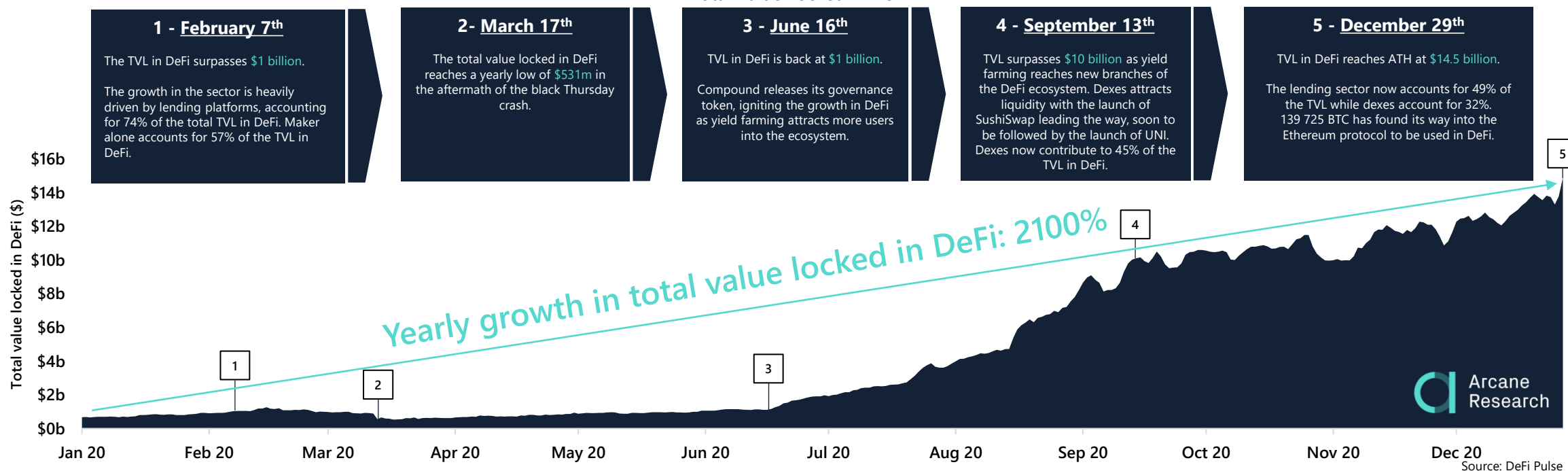
2020 - The breakthrough year for DeFi

The DeFi sector saw a moderate adoption during the first half of the year, with lending protocols dominating the space. At the time, the total value locked in DeFi was relatively stable, for the most part ranging between \$700m and \$1 billion. Then, on June 16th, Compound launched its governance token. The interest in the sector then exploded (quite literally), as yield farming attracted many new participants into the space.

- The total value locked in DeFi has risen from \$670m to \$14.5b in 2020, a growth of 2100%.
- By December, 1 million unique addresses were affiliated with DeFi, a 10x growth from January 1st. Both lending protocols and decentralized exchanges (dexes) have seen particularly strong growth this year, while the derivative protocols have seen a more moderate (albeit strong) growth.

2021 prediction: DeFi derivative protocols will see a more substantial growth, with stricter regulations on the centralized derivative market leading traders to alternative markets.

Total Value Locked in DeFi





2021

Price path in 2021

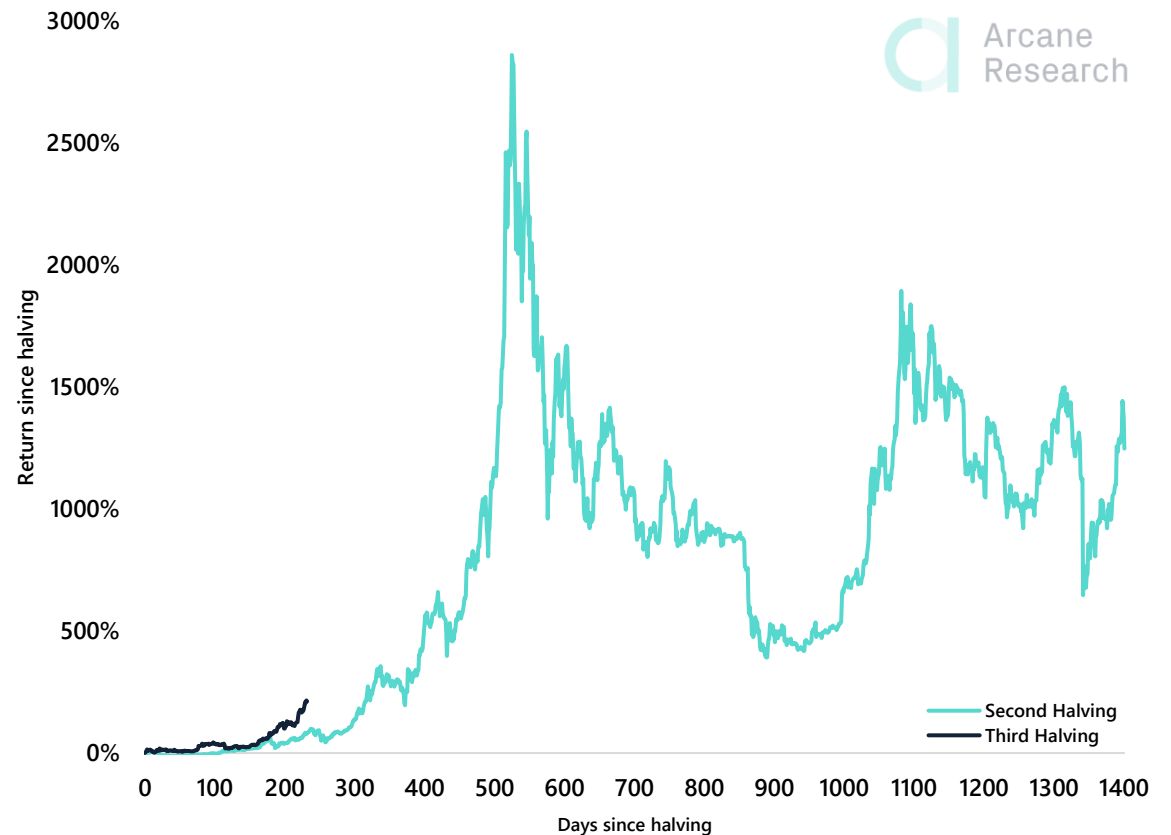
Will the history of the former halving cycles repeat itself?

In May 2020, Bitcoin went through its third halving. The price action following the former halvings has been remarkably similar to the price action following this halving, and if history is anything to go by, we can do some simple back of the envelope calculations to estimate the path onwards for bitcoin in 2021.

- The first halving occurred on November 28th, 2012. Following the halving, the bitcoin price soared and reached its peak 366 days later with a return since halving of 9164%.
- The second halving occurred on July 9th, 2016. Bitcoin once again showed strength in the aftermath of the second halving, reaching its peak 525 days after the halving, with a return of 2862% since the halving.
 - This is approximately 1/3 of the peak return of bitcoin following the first halving.
- Currently, the bitcoin returns since halving are higher than those following the second halving. Suggesting that a peak might come earlier, rather than later, than the peak of the second halving in terms of days.
- Given the already large market cap of bitcoin, the peak return following the halving will likely be lower than the peak of the 2016 halving. But how much lower?

2021 prediction: Assuming the maximum return peak follows the trajectory of the former halving (1/3 of the previous peak), the peak return could end up at around 900% since the day of halving – in other words with a bitcoin price around \$77,000.

Bitcoin return: Third halving vs Second halving



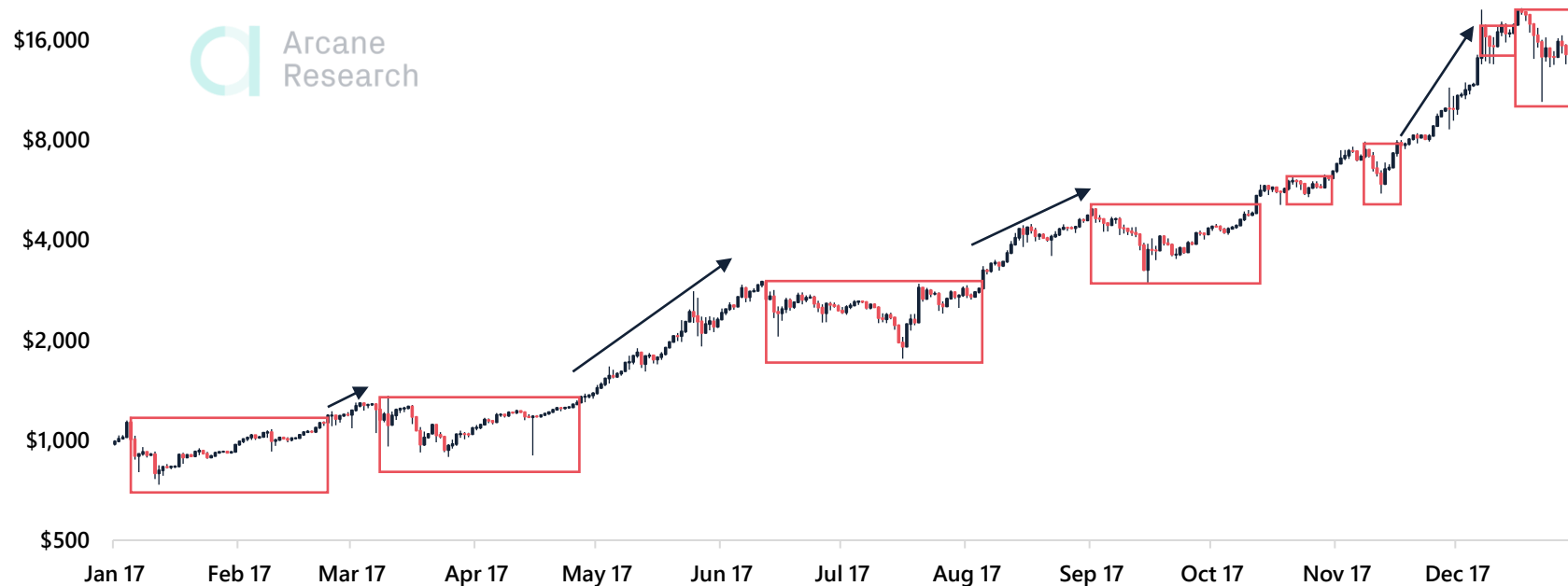
Source: Bitstamp, Tradingview

Time in the market > timing the market

At least 50% of the bull market of 2017 was sideways. Bitcoin's explosive moves to the upside normally happen over a short period of time, like we have seen these last months of 2020. If 2021 will end up similar to 2017, there is one important rule to remember for long-term investors:

Time in the market is more important than timing the market

BTC Price 2017 (Daily Candles)



Source: Tradingview, Coinbase

2021 advice: HODL



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