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# Analyst Retrospective October 2021

# Bitcoin markets: Always in regression toward the mean?

In our previous analyst retrospective, Copper made some price assessments for cryptocurrency markets. A series of events derailed Copper's price estimation for Bitcoin on the higher bound, but met the lower bound range. A flash crash from \$52,000, a China debt crisis that rippled through global markets, and a China cryptocurrency ban all made their mark quite visibly in a difficult month for cryptocurrencies. Fundamentally speaking, however, Copper still sees market strength moving forward (barring other unfavourable events) as supply continues to dwindle across spot and derivative markets. We look at the data.

At the risk of sounding crypto-utopian, as far as basic economics, Bitcoin really is the simplest form of supply and demand. But it's never priced that way.

This aforementioned simplicity takes shape from the very fact that we can see what is happening on marketplaces that allow people to exchange their assets for other assets or back into fiat. It's really not much more complicated. Are exchange balances going up? More people are looking to sell. Are they going down? Less people are looking to sell at current prices.

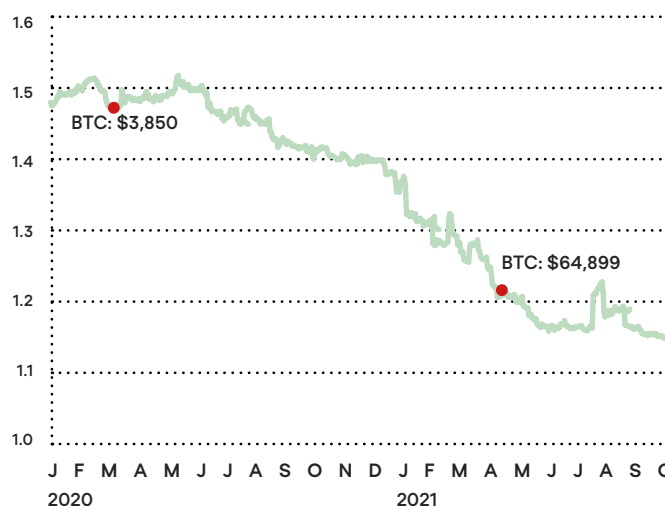
It's the very nature of public blockchain data that reveals a great deal about market dynamics that traditional finance doesn't offer. For 2021, the additional layer and growth of stablecoins gives plenty of other clues. It's highly likely that as more investors and traders become aware of this data, volatility, theoretically, should subside outside of large disparities and 'black swan' events.

Now, there are these scenarios of course where supply and demand dynamics break this basic logic. And for Bitcoin, it's more likely to be the norm when assessing price and looking at basic supply (and the dwindling amount of new supply).

As with any investors and trader, assumptions can be made in crypto just as they can for every financial market. For example, China banning Bitcoin (again) should have seen lots of supply shift into exchanges for sale. But that wasn't the case and still markets dropped like a brick (see charts 1 & 2).

Which ultimately means that Bitcoin's price is rarely at equilibrium - i.e. fair value. Instead, Bitcoin trades either at levels which are extremely overvalued (see Copper's RSI report on overbought scenarios) or the price is undervalued, although, Bitcoin doesn't generally spend too much time in the oversold area.

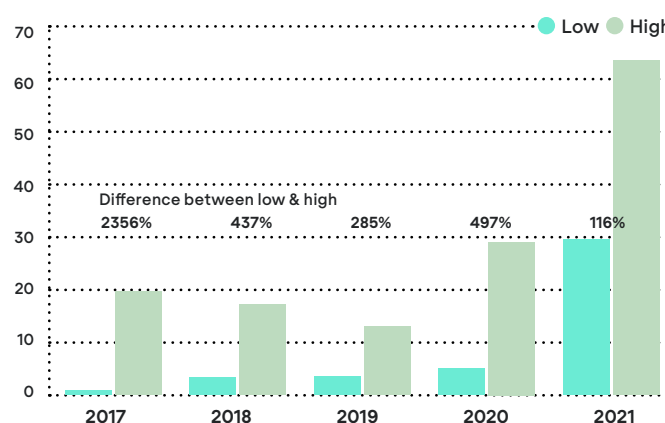
1: Bitcoin spot market supplies in decline regardless of price (mn btc)



2: Bitcoin trading either way above or way below trendline (BTC/USD)



3: Large price disparity between high & low a rule of thumb? (BTCUSD)





## Demand dimensions expand

We often find ourselves saying that hindsight is a beautiful thing in our reports. There is good reason that we keep looking back at historical data. There are plenty of clues to see whether or not markets are being efficient by assessing new trends within cryptocurrency and whether or not investors should be taking notice of a particular change.

In the case of stablecoins, exchange balances have increased by a fair amount (see chart). As indicated in our previous report, this is a good indication for whether or not investors are cashing out into banks (redeeming tokens for fiat) or not. What we are left with is an indication if investors are exiting, on the side-lines or re-entering a position.

Now it might be early to be very emphatic about correlations between the price of Bitcoin and the stablecoin reserves for a simple reason. The rise of stablecoin use is fairly new and so a positive correlation between price increase and stablecoin increase doesn't indicate very much.

Having said that however, there does seem to be an interesting pattern occurring (see chart 5). Bitcoin has once again hit the lowest negative 30-day rolling correlation with stablecoin reserves since the start of the year before the price began to skyrocket up to it's all-time-high. Markets have also seen a sharp rise from the low \$40k to past the \$50k mark at the start of October.

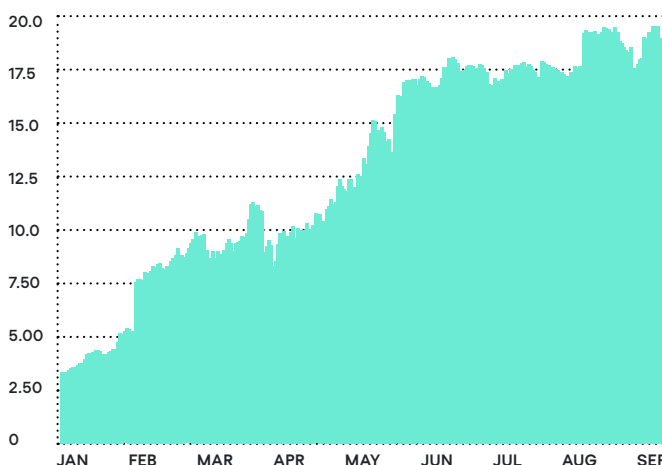
Can this be a new clue? Possibly. With every market cycle, new information is learned. But what we can tell as of today, is that the two are either positively or negatively correlated, and seldom neutral.

## Back to basics

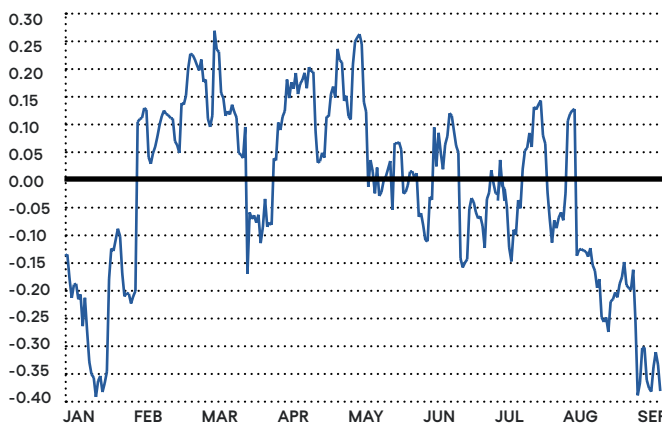
The volatility and short-term perspectives can really throw off new entrants. But for Bitcoin the assessments that need to be made are fairly basic ones. Is there a demand for the cryptocurrency? The answer, based on what is available for sale, is yes. Over half a million Bitcoins have been removed from cryptocurrency exchanges since the start of 2020.

What might happen next, can be fairly scary, however. Should Bitcoin continue to trade just as it has in the past, this could very well mean that in a bullish market, the cryptocurrency can hit high levels of overvaluations resulting in very large corrections too. But hopefully investors will be looking at the very transparent blockchain data to assess what is really happening. after all, it will only take 100k of new Bitcoin demand to take spot market reserves below 1mn coins (less than 5% of total supply).

4: 2021 Stablecoins on exchanges offer a new indicator of cash flows (\$bn)



5: Correlation between change in stablecoin reserves and Bitcoin price



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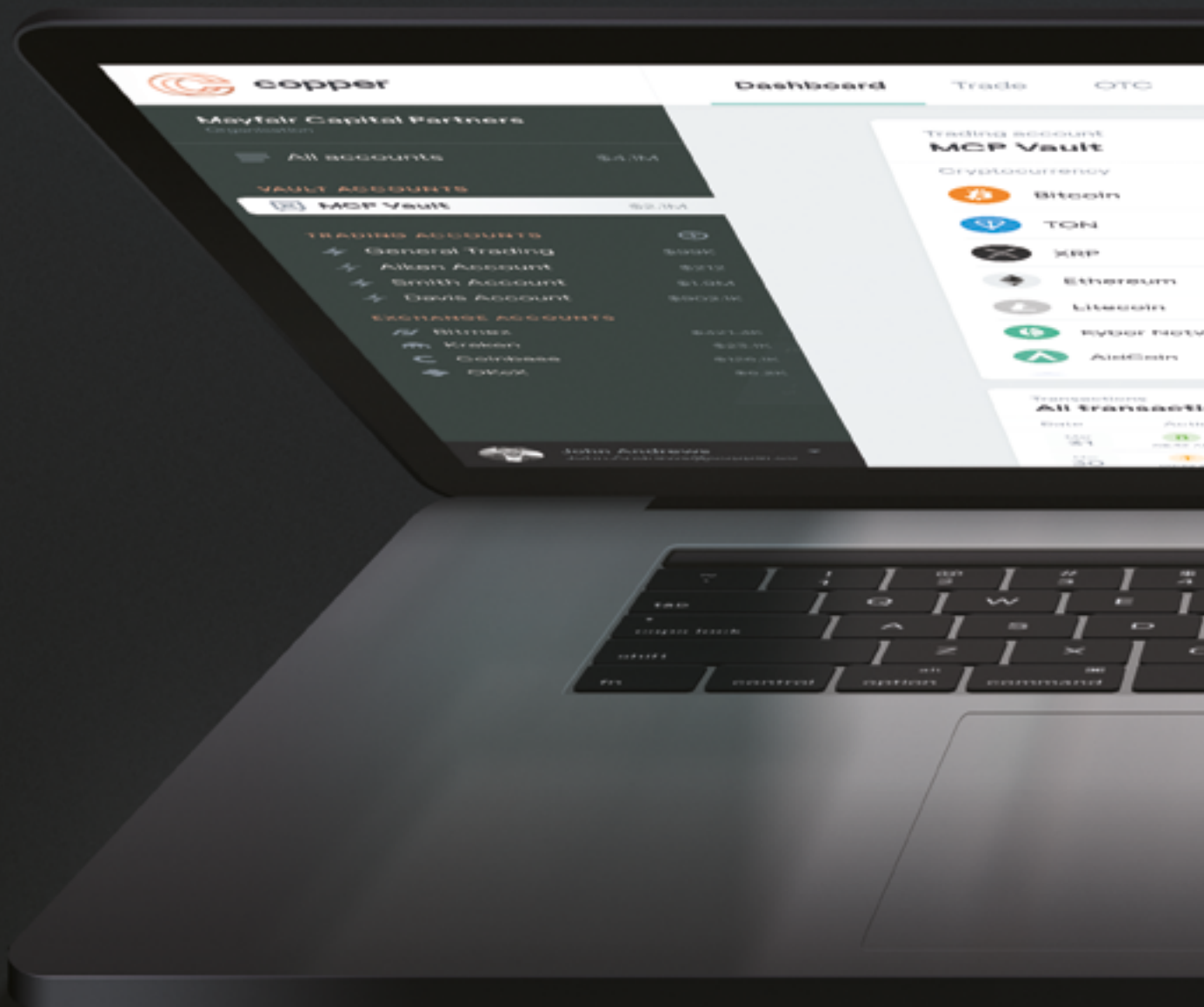


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