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# Analyst Retrospective September 2021



# Bitcoin spot markets in driving seat

Markets have recovered and both exchange flows and on-chain data show instrumental signals. As Bitcoin increased from the under \$30k lows of at the end of June at quick pace, so have the exchange reserves on derivative exchanges. Meanwhile, spot markets continue to see a decline in supply. The bullish sentiment has also crossed over on lending markets which have seen total outstanding debt increase by more than 50% in August. In this Analyst Retrospective, Copper takes a look at where markets are, and where things can go from here.

On-chain data can really help investors find subtle clues early in time. Assets hit the blockchain first, providing investors plentiful time to assess market conditions before exchanges credit traders accounts. And in many cases, exchanges require multiple block confirmations.

This arbitrage is unlikely to last and those who take notice will come out ahead. Copper indicated these fundamental clues in our [July Analyst Retrospective](#) just before markets rallied.

At the start of 2021, many looked at Bitcoin's reserves for the year past and that saw the price increase was closely linked to exchange reserves that were consistently dwindling. Hindsight isn't going to help our readers though.

Accounting for supplies on all exchanges, reserves are actually even Steven. But for spot, they continue to decline, seeing a 17% drop this year with a daily average change of -0.06%.

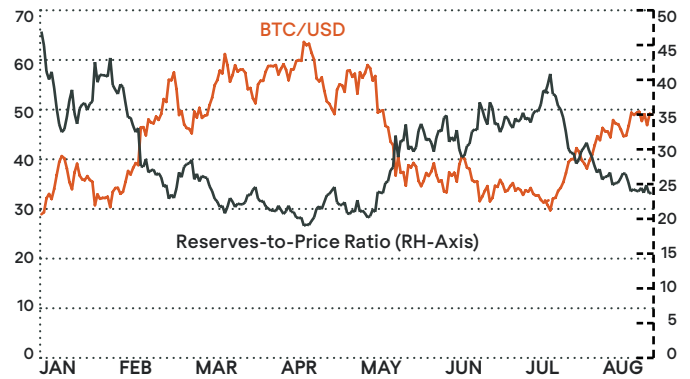
Markets are proving to be extremely efficient in pricing Bitcoin relative to spot supplies. Looking at a Reserves-to-Price Ratio, Bitcoin has hovered between \$49-56k mark (see chart 2) with a standard deviation of just 4.5%. Average value at current spot reserves would imply a \$51k Bitcoin, below current prices.

But traders still seem hesitant. Whilst the rise of stablecoin issuance is no real surprise, the purchasing power of markets has dramatically shifted versus the start of this year.

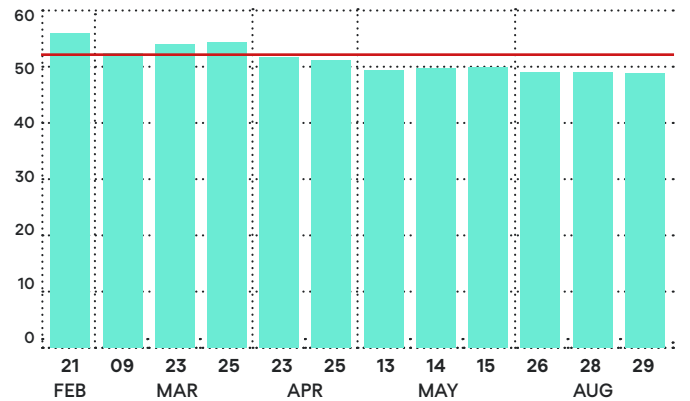
With the Reserves-to-Price ratio in mind, current levels show that the purchasing power of traders on spot exchanges relative to the supply of stablecoins are well over double what it was at the start of the year.

The outstanding stablecoin market has shot up from \$20bn up to \$80bn year-to-date. 27% of the total new issued stablecoins found their way into exchanges. On the total that is a huge \$16bn increase now residing on exchanges. More than five times than the start of the year.

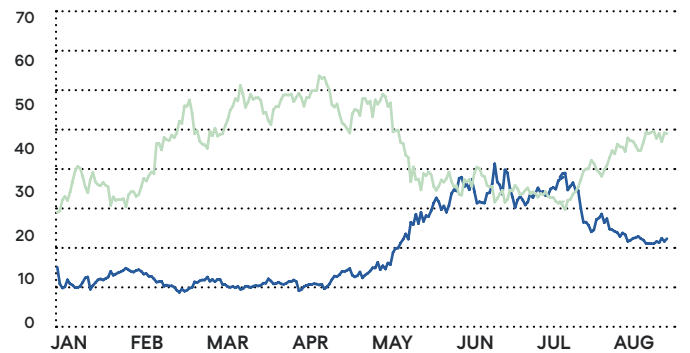
1: BTC/USD negative correlation with Reserves-to-Price Ratio



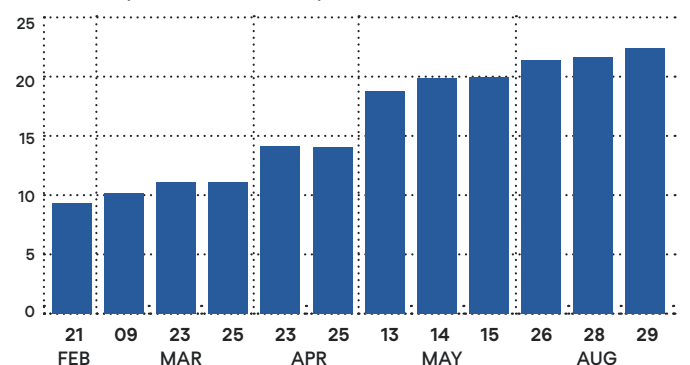
2: BTC/USD prices seen previously at current Reserves-to-Price ratio (\$k)



3: Spot exchange stablecoin purchasing power relative to BTC/USD (k)



4: Purchasing power of spot exchange stablecoin supply previously seen at reserves-to-price ratio at current price levels of \$48-50k





Most of the stablecoin reserves reside on derivative exchanges. Whilst spot markets had 13% of the total stablecoin exchange reserves at the start of the year, this has now dropped to 6%. But spot reserves in dollar value has more than doubled (see chart 4).

With the stablecoin market growth, and the reserve-to-price ratio as key metrics in our assessment, Bitcoin could very well likely see a rebound to the \$60-64k bracket by the start of October. Any large withdrawals would push this forward (see chart 5).

While the reserves-to-price is a moving metric as it is relative to price, what we are able to find is a range where Bitcoin trades at. There is very good symmetry being proven in markets. While the upper-bound of the range overlap with other price-range groups, the lower-bound doesn't. This allows us to extrapolate when Bitcoin would have to break past the \$60k mark in order to stay within this range.

## Back to leverage

Fundamentals aside, the general market direction has other indicators. Key to them in fact is the amount of Bitcoin on derivative exchanges.

Bitcoin has an almost self-fulfilling prophecy with leveraged traders finding them forced to buy more Bitcoin when volatility liquidates their accounts.

While the bull market in 2020 was driven by pure fundamentals on terms of supply, 2021 saw a different trend. Bullish traders began moving their Bitcoin as collateral into derivative exchanges. This went into a decline at the end of May. But they're back. Bitcoin is making its way back into traders' accounts (see chart 7).

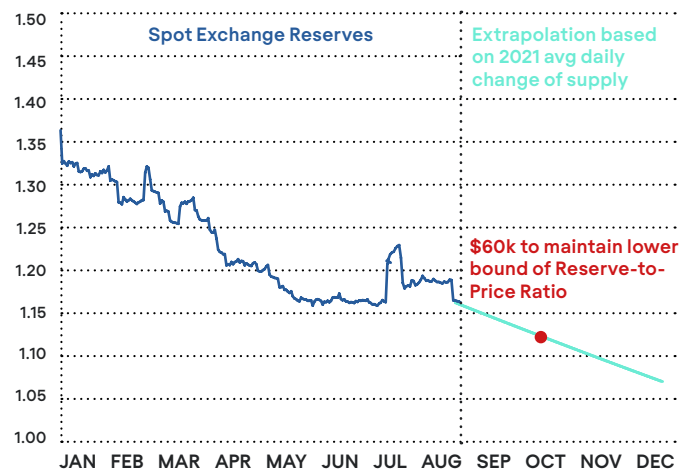
But leverage on exchanges is now only one of many indicators that investors can look at.

As of the end of June, around the time Bitcoin saw its low, lending on Decentralised Finance (DeFi) protocols Compound and Aave began to increase.

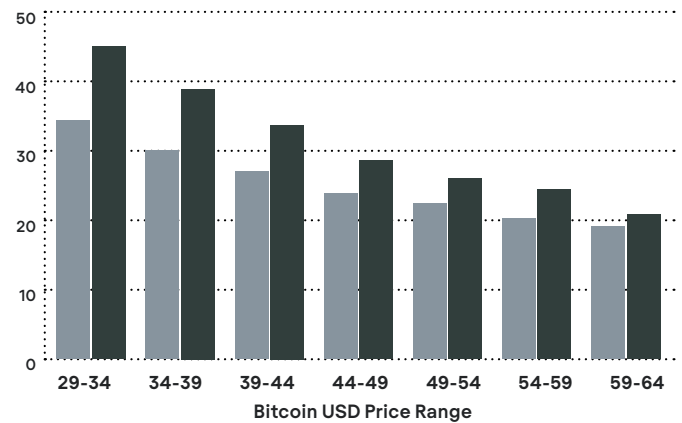
There is now over \$16bn in outstanding loans with investors having put their collateral to take out said loans. This indicates that borrowers expect their assets to appreciate, and their trading activities to cover their interest expenses.

All in all, cryptocurrency markets are making sense. And they're also finding symmetry alongside massive growth. With cash positioned on the sideline's of exchanges, and more and more institutional products coming online every month, it's not that hard to see how the little over 1mn Bitcoins on spot exchanges might not actually be all that much.

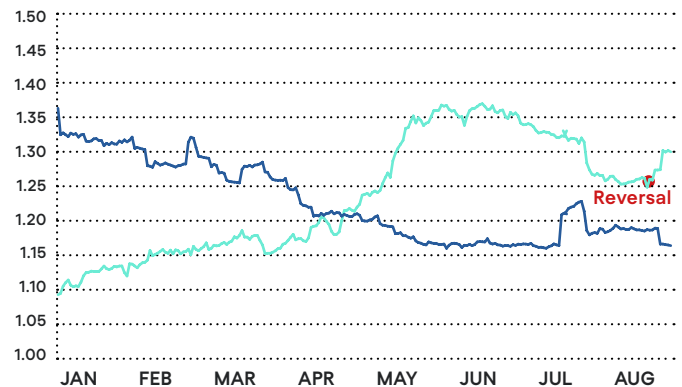
5: Spot markets indicate \$60k Bitcoin should supply reduce at avg. rate



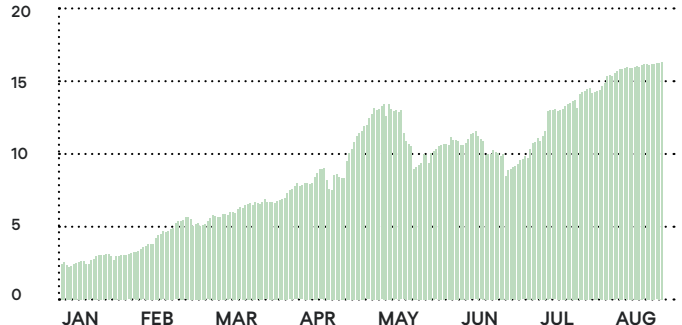
6: 2021 Bitcoin Spot Reserves-to-Price Upper and Lower Range



7: Bitcoin reserves on spot vs derivative exchanges (mn BTC)



8: Outstanding loans on Compound & Aave hit all-time-high (\$bn)



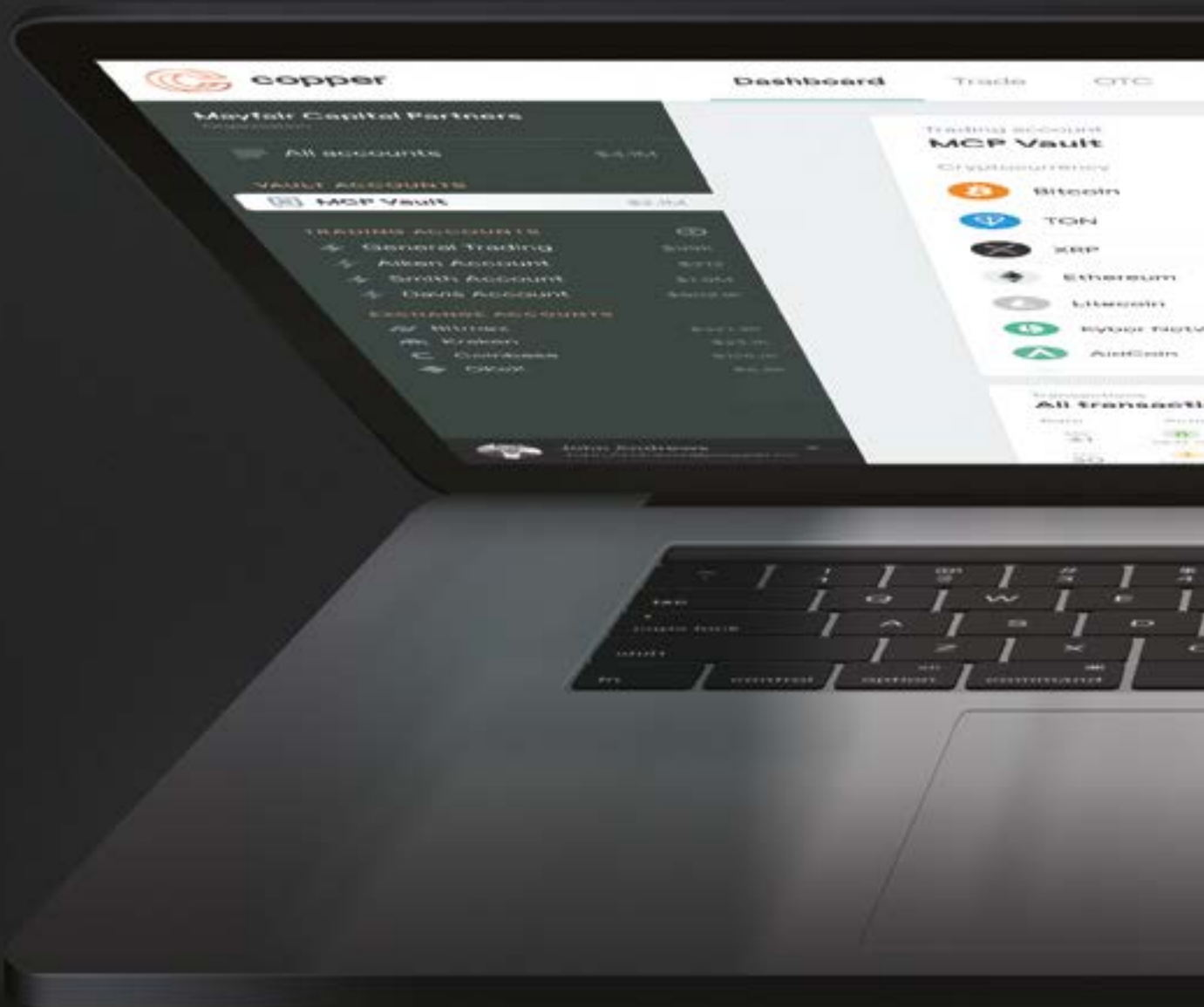


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