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Bitcoin: Overnight & weekend risks



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In this report, Copper deviates from the standard technical indicators and looks at overnight and weekend risk for US traders during traditional stock exchange hours. This demographic accounts for 30% of all spot market volumes year-on-year. As more major institutions continue to enter the digital asset space, their options are to either keep positions open and risk massive swings in both directions, or close all trades, adding price pressures heading into the weekend. In this report, we assess whether the final hours of trading on US stock exchange market vary to other days. We look at probabilities and risks for holding weekend or overnight positions. And we finally look at potential on-chain shifts that may cause large price movements.

On the average, 2021 data shows that overnight risk is at its highest point since 2018 by quite some margin (see chart 1). But zooming out, Copper finds that overnight risk on the negative side has been in decline since May.

In terms of probabilities, however, things are proving to be fairly interesting for traders. Based on historical data, there has been a 61% chance that markets actually close higher in overnight trading, up from under 50% in 2018 (see chart 2).

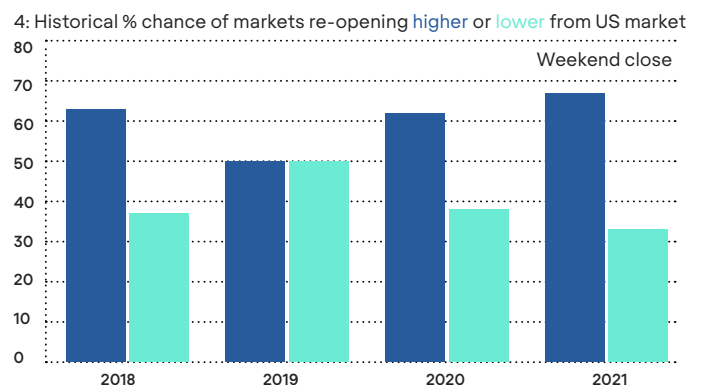
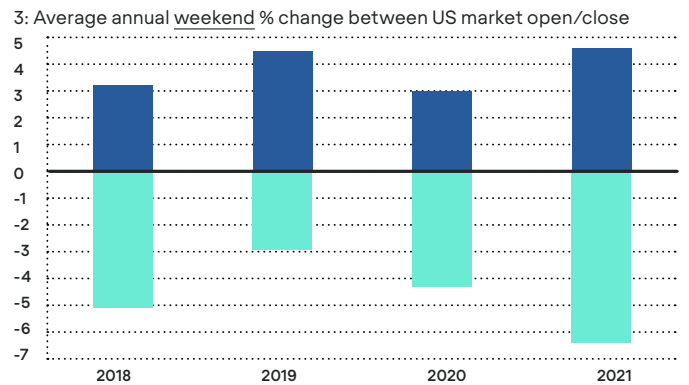
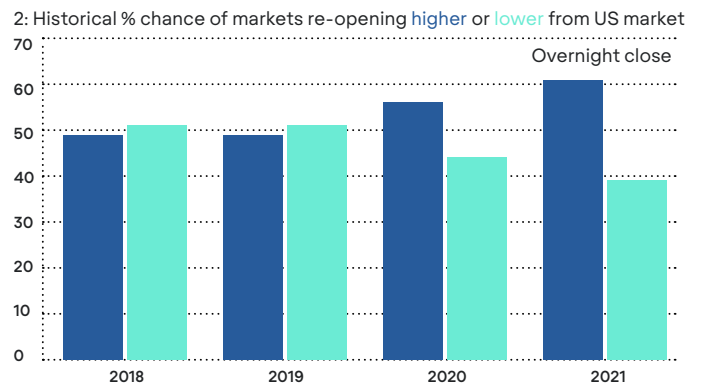
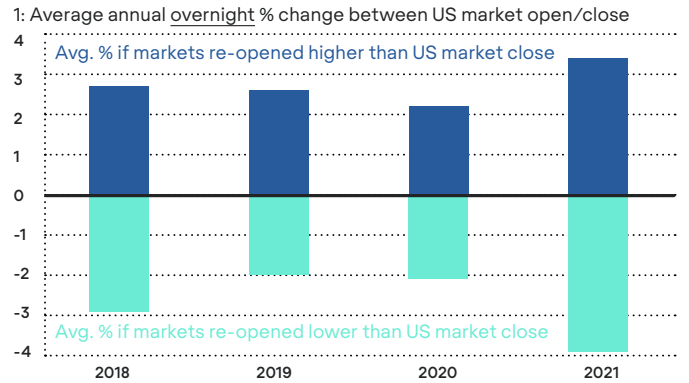
Love to hate Mondays

Weekend results follow very similar patterns to overnight volatility. Caught on the wrong side, average losses have exceeded a whopping 6%. The upside is also proving to be lucrative at nearly 5% average for the year so far – the highest it’s been since 2018.

Again, historically speaking, the data shows that markets between the US market closing bell and opening on Monday morning had seen a higher price of Bitcoin 67% of the time, despite markets being bearish for more than half the year now.

These statistical probabilities are good for traders to be aware of. With volatility being on the high side, the increased risks on large positions, especially on leveraged traders, can be fairly devastating if on the wrong side.

With that said, trading volumes across timezones have remained extremely steady with US trading hours accounting for 30% of the total year-on-year.





On-chain changes

As US markets closed for the weekend, Copper examined on-chain movement of Bitcoin until they reopened on Monday. Since 2020, there has been a significant shift of moving Bitcoin back into exchanges during US market hours indicating a higher level of traders in the market (see chart 5).

With crypto markets seeing positive momentum since July, there has been an increase of such activity.

But as far as outflows in comparison to exchange balances are concerned, this has been a fairly steady rate from day-to-day (see chart 6). Weekends see nearly half of such activity, again indicating that more funds and larger traders have come into the market this year.

Liquidity, or lack thereof, alongside a likely retail crowd are good indications as to why markets move quite abruptly over the weekends.

Weekend prep

Giving some attention to the market effects of funds and traders who move back into their custody solutions can also give some interesting clues. A look at price changes by time and day during US stock market hours can indicate whether or not there are increased pressures to offload.

On the average, Friday has shown to have a negative percentage change between hourly open-and-close prices. Thursday doesn't fare much better either.

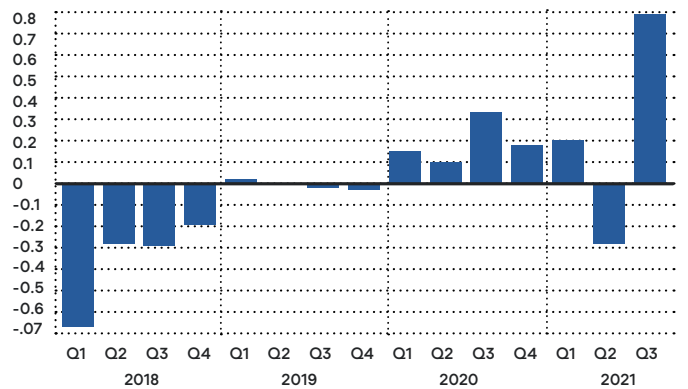
And traders seem to be content with taking profits early on Fridays. The peak percentage change for hourly closing rates was significantly lower than the rest of the week (see chart 8).

There is also an interesting trend between the average percentage change and the maximum too. Looking at the data shows that Monday through Wednesdays have a significant upward trend reverting back to lows on Friday.

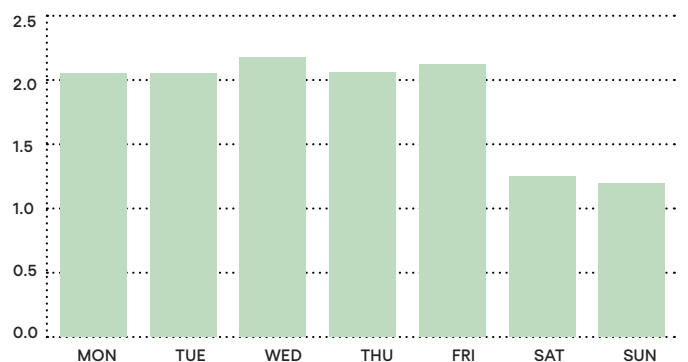
Effectively, the data reveals that few large traders are willing to take on overnight or weekend risks at this point in time adding to price pressures and volatility as the week comes to an end. There is however some on-chain movement suggesting that some funds stand ready to take on the risk.

Historically, this seems to potentially be fairly punishing for traders who sell, with 2020 and 2021 seeing north of a 60% chance of having to buy Bitcoin at a higher price.

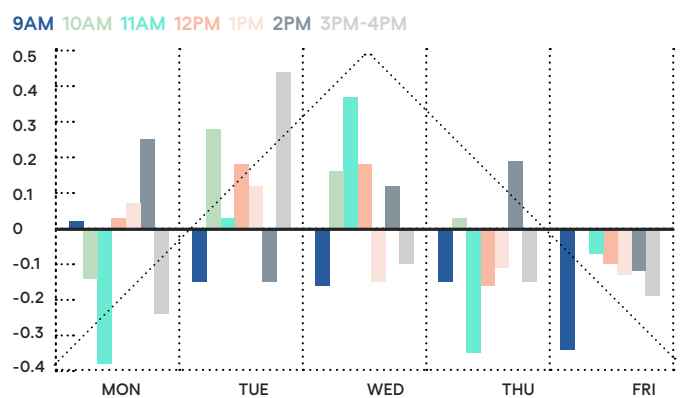
5: Average % change in exchange balances between US market Close (Fri) to Open (Mon) (i.e. % exch. balance increase on Mon)



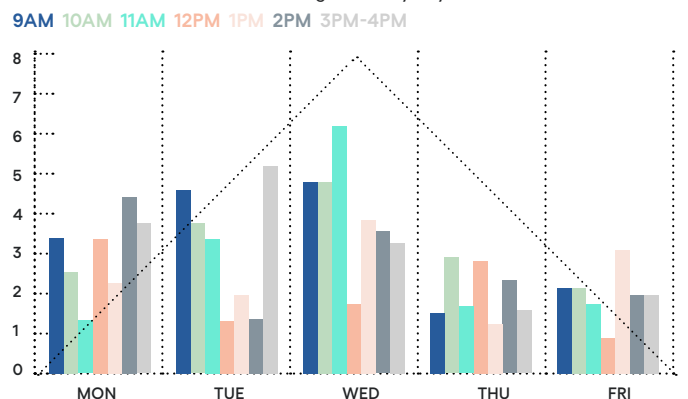
6: Exchange Outflow-to-Exchange balance ratio by day



7: 2021 BTC/USD average % change by day/hour during US market hours



8: 2021 BTC/USD maximum % change seen by day/hour US market hours



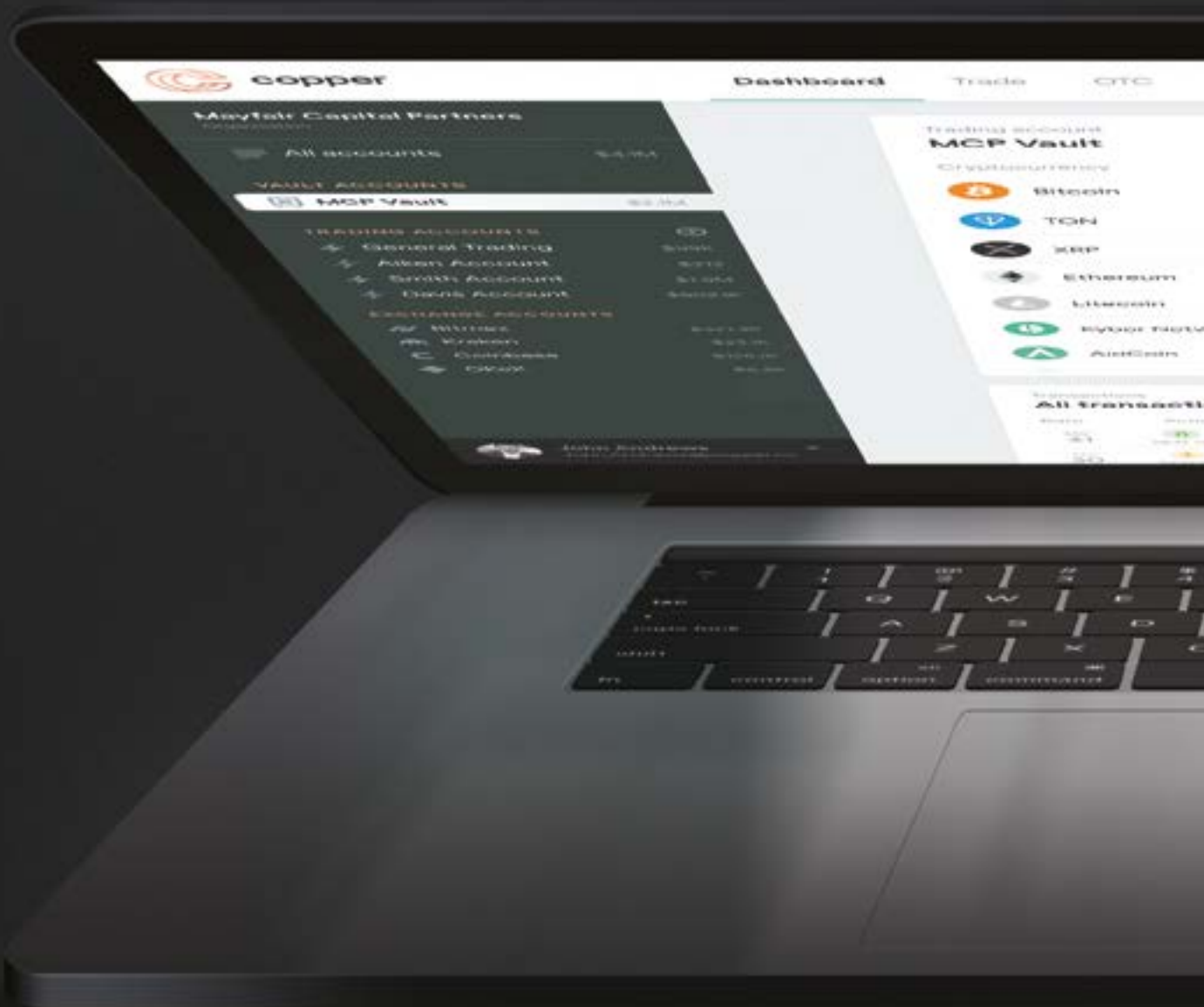


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