Coronavirus and Bitcoin: What Happened?

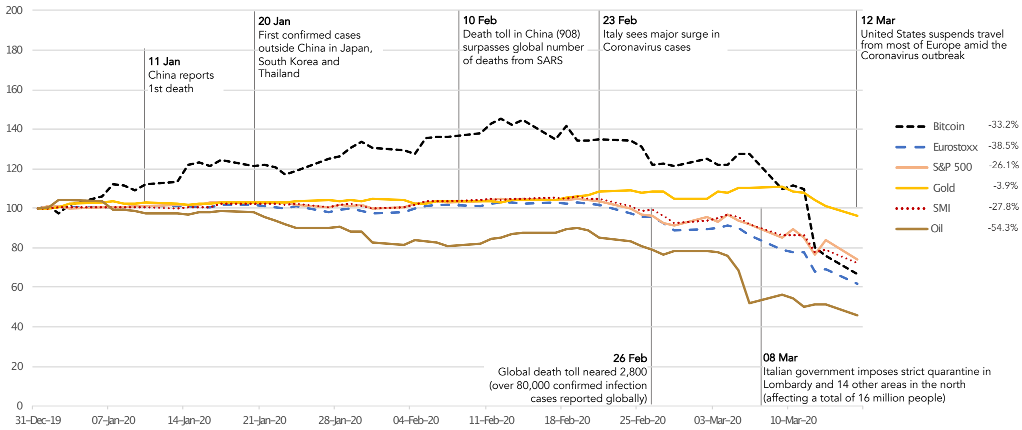
INTRODUCTION

The last two weeks have been extremely difficult for the global economy, governments, communities, and the capital markets. The ongoing spread of the **Coronavirus** has begun to extract a real human toil whilst at the same time incurring second-order impacts on various parts of the economy — the supply chain, the global energy market, the transport sector, and the hospitality industry. For these reasons it makes sense that both traditional financial assets — equities, commodities, bonds — as well as the crypto asset market have been hit hard. Since the start of the year Bitcoin is down around **33%**, the S&P500 is down over **26%** and oil is down nearly **55%**. In this research piece we will help demonstrate how the Bitcoin market is likely oversold due to the current **flight-to-cash** environment we are in. This was exacerbated by the large amount of leverage within the system which deleveraged quickly; the market will likely be buttressed by continuing strong retail demand for Bitcoin.

FIGURE 1

Year-to-date Performance of Major Asset Classes

Source: 21Shares



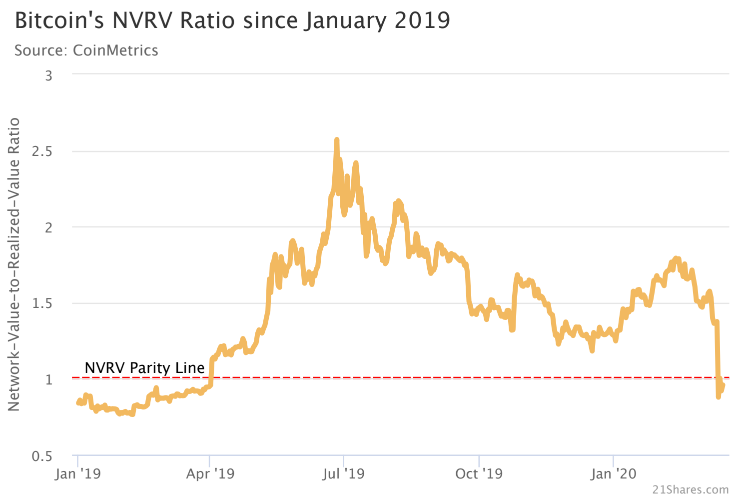
UNDERSTANDING THE BOTTOM

Bitcoin suffered its worst day in years last Thursday (12 March), however, we can use fundamental Bitcoin blockchain data to better understand how the market likely oversold — driven by the deleveraging of fund managers and derivative exchanges, as well as miners reaching their short-term cash needs. Bitcoin's **Network-Value-to-Realized-Value (NVRV)** ratio measures the ratio between Bitcoin's current price and its estimated average cost-basis. Given that investors are seldom willing to sell an asset at a price lower than that at which they bought it, this ratio rarely stays below 1; in fact, the last time the NVRV ratio was below 1 was at the bottom of the 2019 bear market. As of Monday 16 March, Bitcoin's NVRV ratio was around **0.9** but, based on historical data, there is good reason to believe that it is unlikely to remain there for long.

FIGURE 2

Bitcoin's NVRV Ratio since January 2019 vs. NVRV Parity Line

Source: CoinMetrics



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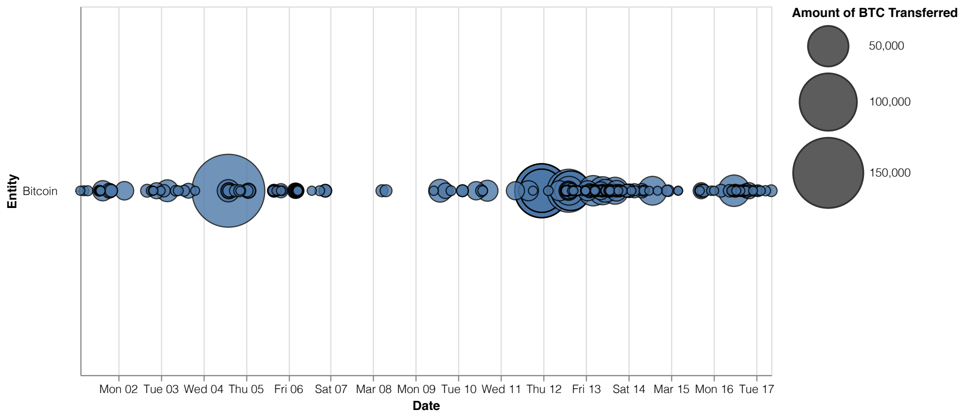
RETAIL VERSUS INSTITUTIONAL

One promising feature of Bitcoin's downturn is the fact that it was likely solely driven by institutional investors of Bitcoin. The heightened correlation between Bitcoin and the equity market following particular news events (i.e. Fed Rate tightening) suggests that institutional investors experienced a **flight-to-cash** where all assets perceived as risky were sold off in the last two weeks. Given that Bitcoin has always been a retail-first asset, demand for the asset can still increase even in a prolonged institutional flight-to-cash environment. The chart below looks at Bitcoin's blockchain data to highlight periods of time where large amounts of BTC were transferred. We saw clusters of large transactions between last Thursday and Friday driven by whales moving to sell their holdings.

FIGURE 3

Largest Bitcoin Transfers since Start of March 2020

Source: 21Shares



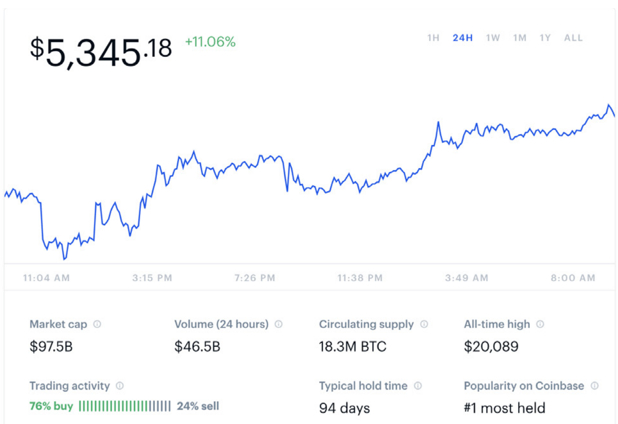
RETAIL SENTIMENT

Coinbase's trading activity data suggests that there is still retail demand for Bitcoin. According to Coinbase, **76%** of Coinbase's customers increased their net position in BTC over the last 24 hours of trading. As Coinbase's online platform is overwhelmingly retail-focused, this suggests that retail investors are more bullish than bearish despite the recent downward price movement. While these factors do not necessarily mean that Bitcoin will perform well over the next few weeks they do signal that there has not been an existential shift in investors' perception of the asset as **digital gold** and an alternative **store of value** asset. We believe that, while the next few months are likely to be difficult for all asset classes, the long term implications of the economic crisis — such as the continued excessive use of quantitative easing — will help improve the value proposition of Bitcoin in the long term.

FIGURE 4

Screenshot from Coinbase's Bitcoin Data Profile

Source: Coinbase



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