Crypto markets hit by physical selling pressure and liquidation of synthetic leveraged positions

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What Happened on Crypto Markets?

- Most of the largest digital assets are down 25-35% on the 12th of March, and down more than 50% from year-to-date (YTD) highs.
- The YTD performance is still relatively “normal” on crypto standards, with some assets still having a positive YTD performance.

Source: WisdomTree, CoinGecko. Excluding stablecoins. As of 13 March 2020, 9:00 UTC. Historical performance is not an indication of future performance and any investments may go down in value.

- Bitcoin (BTC) price went from a high a little over $10,400 on the 13th of February to just under $3,800 on the 13th of March around 2:00 UTC (Binance spot market).
  (This low is not visible on the chart as it shows daily data points at 9:00 UTC).

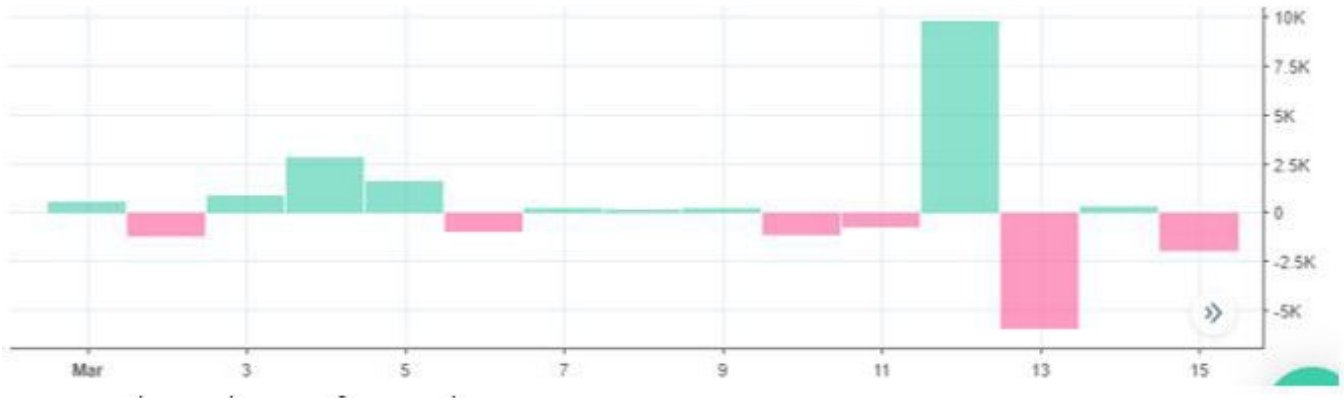
Source: WisdomTree, CoinGecko. Excluding stablecoins. As of 13 March 2020, 9:00 UTC. Historical performance is not an indication of future performance and any investments may go down in value.

- Digital assets have shown that they can fall like the rest of the risky assets in times of intense stress, i.e. they become highly correlated to one another.
  Notice how the average pairwise correlation[1] shot up during the last few days, and even more so on the 12th of March to 0.9.

Why did the market fall by this extent?

Trading is still dominated by retail investors. Less sophisticated investors are more prone to fear and greed behaviour and were probably prone to intense panic selling as the price was dropping quickly. Furthermore, large amounts of digital assets have been sent to exchanges to be traded, as shown in the chart in figure 4. Other exchanges also show a large net inflow on that day.

Figure 4: Net BTC flows to Binance, in BTC



Furthermore, the derivatives market has become much more active than the spot market over the past couple of years. These leveraged positions get liquidated in the case of strong inverse movements. This tends to create a cascade effect were liquidations add to the selling pressure, sending the price lower, prompting more liquidations, etc… USD loans backed by BTC have suffered a similar fate and have been liquidated, which mechanically added to the selling pressure.

Source: Skew. As of 12 March 2020. BitMEX one of the leading exchanges in the derivative market. XBTUSD: bitcoin-USD market. Historical performance is not an indication of future performance and any investments may go down in value.

[1] Pairwise correlation refers to the correlation of all possible pairs amongst the 10 selected assets.

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