



A Look at Geographic Drivers of Returns

Research + Insights

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JANUARY 27, 2021



EXECUTIVE SUMMARY

Throughout the recent rally of bitcoin, one of the questions we have been consistently asked by investors is: who is driving the market? To answer this question, we looked at cumulative price returns during the hours that North America, Europe, and Asia are typically trading. The results of our analysis show that since 2020 and through the beginning of 2021, positive returns have been greatest during the trading hours most associated with North America. This matches with the price premium we have seen for bitcoin traded on US-based spot exchanges over bitcoin traded on exchanges based in Asia. It also aligns squarely with our direct experience that North America based institutions, family offices, and high net worth individuals are the investors spurring on the rally in bitcoin.

HISTORICAL BACKDROP

Bitcoin trading is a global market that occurs 24 hours a day, 7 days a week, 365 days a year. Throughout bitcoin's history, various geographies have been critically important for its adoption and trading. While North America and the US have been important for much of bitcoin's history, Asia has been the other dominant geography. The first major exchange (Mt Gox), was based in Japan. The 2013 rally was aided in large part by an influx of new China-based investors, who at times, drove prices to 30% premiums for Yuan-quoted bitcoin. In 2017, we saw a similar phenomenon occur for South Korean Won-quoted bitcoin as South Korea became a major factor during that rally. While bitcoin trading continues to expand to new geographies, this rally has not yet seen a new country take up investing in bitcoin en masse, like we did the previous two cycles. What we have, we argue, is uptake from a new investors class, the US-based institutional investor.

A Look at Returns by Trading Session

2015-Present | Bitcoin Returns – North America, Europe, Asia Hours



To better understand the geographic of returns, we divided the day into 3 trading sessions: North America (9 a.m. – 5 p.m. ET), Asia (5 p.m. – 1 a.m. ET), and Europe (1 a.m. – 9 a.m. ET). The preceding graph is the cumulative simple return during the those hours since 2015. It should come as no surprise that returns through the market peak in 2017 were dominated by trading during Asia hours. The subsequent drop after that peak appears to be mostly Asia-driven as well. Also, in mid-2019, when the price of bitcoin went from \$3,400 to \$13,000, Asia trading appears to be responsible for the move. However, it is the light green line, North America, which appears to be the main driver throughout 2020. The following chart breaks down annual returns by geography and quarter. (Note: to convert session simple returns to quarterly/annual returns, add 1 to each quarter/year, multiply them together, and subtract 1.)

| 2015 (%) | | | | 2016 (%) | | | | 2017 (%) | | | |
|----------|--------|--------|---------------|----------|-------|--------|---------------|----------|--------|--------|---------------|
| | ASIA | EUROPE | NORTH AMERICA | | ASIA | EUROPE | NORTH AMERICA | | ASIA | EUROPE | NORTH AMERICA |
| Q1 | -8.64 | -29.77 | 10.46 | Q1 | -3.76 | 1.42 | -2.15 | Q1 | 34.36 | -11.10 | -6.03 |
| Q2 | -3.84 | -1.96 | 13.74 | Q2 | 44.71 | -1.82 | 15.75 | Q2 | 117.01 | 29.44 | -20.19 |
| Q3 | -13.81 | -3.54 | 9.24 | Q3 | -7.24 | 3.08 | -6.61 | Q3 | 16.50 | 44.85 | 4.50 |
| Q4 | 36.78 | 45.15 | -7.75 | Q4 | 32.75 | 14.75 | 4.06 | Q4 | 25.86 | 48.10 | 70.25 |
| 2015 | 3.57 | -3.59 | 26.60 | 2016 | 71.50 | 17.60 | 10.07 | 2017 | 327.52 | 146.86 | 33.42 |

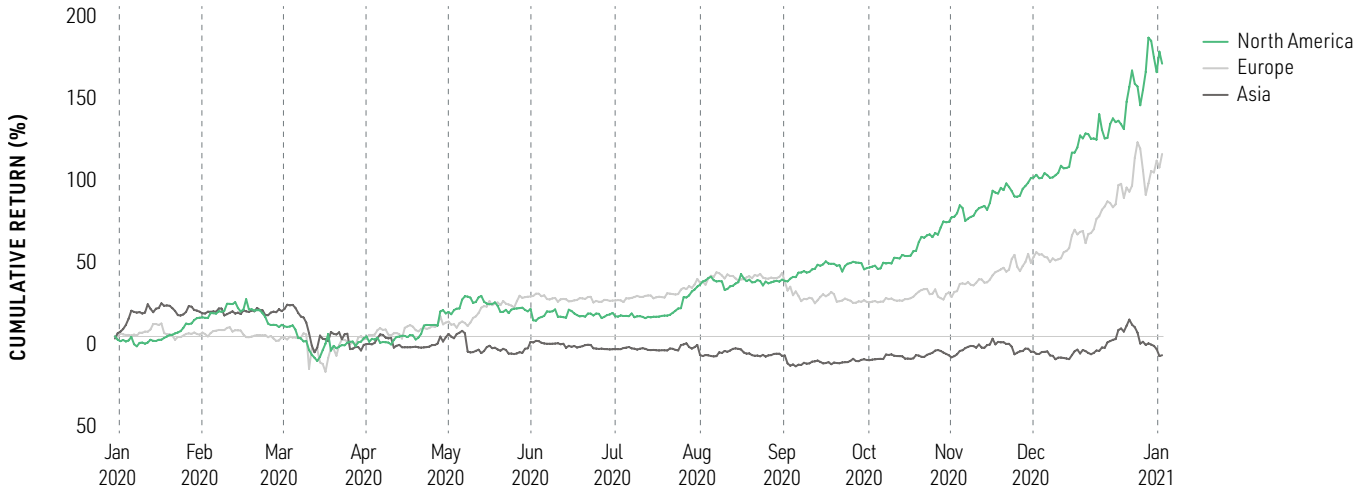
| 2018 (%) | | | | 2019 (%) | | | | 2020 (%) | | | |
|----------|--------|--------|---------------|----------|--------|--------|---------------|----------|-------|--------|---------------|
| | ASIA | EUROPE | NORTH AMERICA | | ASIA | EUROPE | NORTH AMERICA | | ASIA | EUROPE | NORTH AMERICA |
| Q1 | -35.84 | -2.47 | -18.71 | Q1 | 6.53 | 8.81 | -3.00 | Q1 | -8.53 | 0.17 | -3.14 |
| Q2 | -5.83 | 2.45 | -5.19 | Q2 | 85.03 | 10.41 | 31.31 | Q2 | 0.71 | 21.48 | 17.11 |
| Q3 | -6.96 | 6.29 | 5.55 | Q3 | -10.53 | -14.24 | -0.90 | Q3 | -6.87 | -0.46 | 27.54 |
| Q4 | -10.52 | 2.00 | -39.16 | Q4 | -17.64 | -13.45 | 19.74 | Q4 | 14.21 | 47.52 | 60.63 |
| 2018 | -49.70 | 8.33 | -50.50 | 2019 | 45.00 | -10.82 | 51.15 | 2020 | -2.03 | 78.68 | 132.83 |

Source: NYDIG

North America Takes Over the Driver's Seat in 2020

If we look at the past 12 months, a new story emerges, one where North America has driven returns. This is something we have observed based on price premiums for bitcoins traded on US-based exchanges versus bitcoins traded on international exchanges, but the phenomenon is even more apparent by looking at returns. Investors in North America and Europe are driving the lion's share of returns while returns during Asia trading hours have trailed in 2020 and 2021.

2020-Present | Bitcoin Returns – North America, Europe, Asia Hours



Source: NYDIG

| | 2020 (%) | | | 2021 (%) | | | |
|------|----------|--------|---------------|----------|--------|---------------|-------|
| | ASIA | EUROPE | NORTH AMERICA | ASIA | EUROPE | NORTH AMERICA | |
| Q1 | -8.53 | 0.17 | -3.14 | Q1 | 12.41 | 20.25 | |
| Q2 | 0.71 | 21.48 | 17.11 | | | | |
| Q3 | -6.87 | -0.46 | 27.54 | | | | |
| Q4 | 14.21 | 47.52 | 60.93 | | | | |
| 2020 | -2.03 | 78.68 | 132.83 | 2021 | -1.18 | 12.41 | 20.25 |

Source: NYDIG

Conclusion

The analysis we have presented here paints a clear narrative that the investors driving bitcoin returns have shifted from Asia to North America over the past year. This squarely matches our direct experience of increasing appetite for bitcoin from our institutional client base, who have come to appreciate bitcoin's asymmetric risk and return profile in a current macro-economic backdrop.

Let's get started

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