De-Coding

Crypto

Enigma Weekly

17th March 2021

Written by Joseph Edwards, Head of Research at Enigma Securities.

Our Market View

May you live in interesting times. Another one of those weeks where we end in the green, but it almost doesn't feel like it. Set a new all-time high over the weekend as we broke through $62,000, immediately slipped back heavily at the start of the week, and have moved up significantly in the last few hours after hovering around technical support for most of the week prior to that. As usual: outlook is generally positive, we don't see a lot of impetus towards the downside at the moment, there may be a lack of serious momentum until we get out of the March doldrums but we still skew towards higher at the moment.

Not too much to say about alts – most have just held position, the odd mid-cap outlier (CHZ probably the most notable one as the fan token sector has managed to draft off the hype around NFTs etc., even though said tokens are not themselves NFTs…), and ADA making a decent push to the upside. Much of this week's issue is about the conditions around that push; to put it very briefly here, ADA jumped significantly yesterday on the basis of the announcement that it would be listed on Coinbase Pro (and hence in short order on Coinbase) on Thursday, and there is a perception in the industry in general about there being a 'Coinbase effect' re: rapid price appreciation after listing.

We go into detail with regards to the origins of that perception, and the reality of that effect, but executive summary: nothing is ever impossible, but the act of listing itself has rarely been materially positive for price even in the short-term recently, the only outliers in that regard have been brand new projects, ADA isn't that, and we tend to think that we're at or might as well be at a medium-term top for ADA as a result (note that we are talking in BTC terms in all instances here).

Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	57610	2.7%	20.5%	421.4%	830.8%	1.075T
ETH	1827.26	-1.0%	2.4%	372.8%	1265.0%	210.3B
LTC	203.60	-0.5%	-2.2%	318.8%	433.3%	13.58B
BCH	536.96	-4.9%	-25.4%	129.0%	149.0%	10.29B
EOS	4.043	-1.0%	-14.3%	49.3%	83.2%	3.85B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.256	7.1%	45.2%	1266.0%	4139.0%	40.15B
DOT	35.79	-8.6%	100.9%	861.9%	2097.0%	40.50B
LINK	30.96	1.2%	-5.9%	202.6%	1254.0%	12.77B

Reassessing the 'Coinbase effect'

When talking about financial markets, there's always an unending stream of clichés to be found here and there. You know the type - "Be greedy when others are fearful". "What is comfortable is rarely profitable". "Never start a land war in Asia". Maybe not the last one. In any case: the financial lexicon is one stuffed to the absolute brim with such truisms and similar phrases.

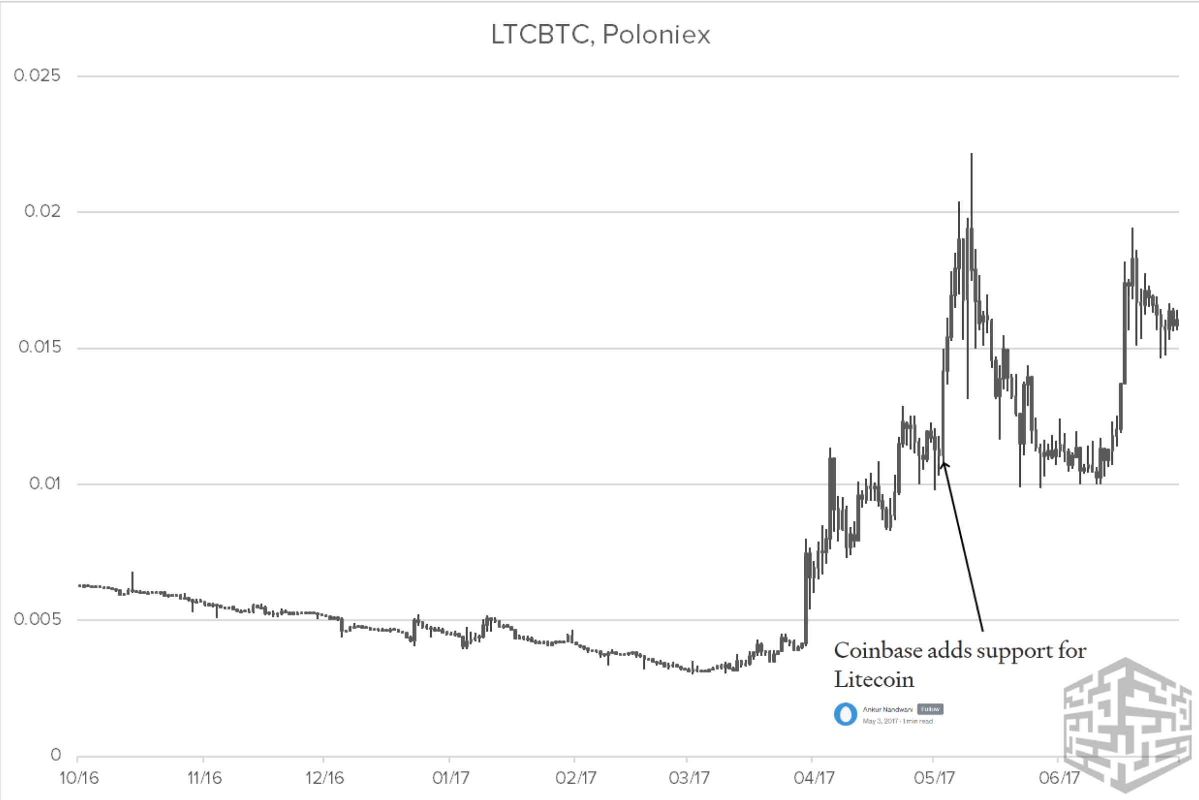
Of course, there is a reason that truisms develop. It's because, at one point, they were true. Let's take one such truism - the "Coinbase effect". The basic idea here is simple: that any crypto asset, once listed on Coinbase, will see significant gains in the near-term. Where does this truism come from? The following table (from March 2019) gives some clue to that:

Asset	Date Announced	Market Cap At Time	1d Excess Return	7d Excess Return
Ripple (XRP)	2/25/19	$ 12,978,443,332.00	6.79%	N/A
Golem (GNT)	12/18/18	$ 62,418,918.00	2.74%	-7.48%
MakerDAO (MKR)	12/18/18	$ 319,023,818.00	7.41%	-3.49%
Zilliqa (ZIL)	12/18/18	$ 142,324,553.00	5.12%	11.75%
Civic (CVC)	12/7/18	$ 21,033,234.00	5.23%	-1.78%
District0x (DNT)	12/7/18	$ 7,554,523.00	21.77%	14.37%
LoomNetwork (LOOM)	12/7/18	$ 23,997,322.00	13.69%	3.41%
Decentraland (MANA)	12/7/18	$ 60,344,003.00	4.12%	-4.89%
Zcash (ZEC)	11/29/18	$ 424,448,772.00	11.65%	-2.97%
Basic Attention Token (BAT)	11/2/18	$ 252,816,200.00	18.96%	16.52%
0x Protocol (ZRX)	10/11/18	$ 429,525,888.00	11.23%	24.46%
Ethereum Classic (ETC)	6/11/18	$ 1,317,345,534.00	16.41%	15.42%
Bitcoin Cash (BCH)	12/19/17	$ 41,773,287,883.00	27.63%	45.74%
Litecoin (LTC)	5/3/17	$ 1,071,743,437.00	37.08%	100.05%
Ethereum (ETH)	5/24/16	$ 989,969,742.00	-1.03%	2.90%

Source: Wave Financial.

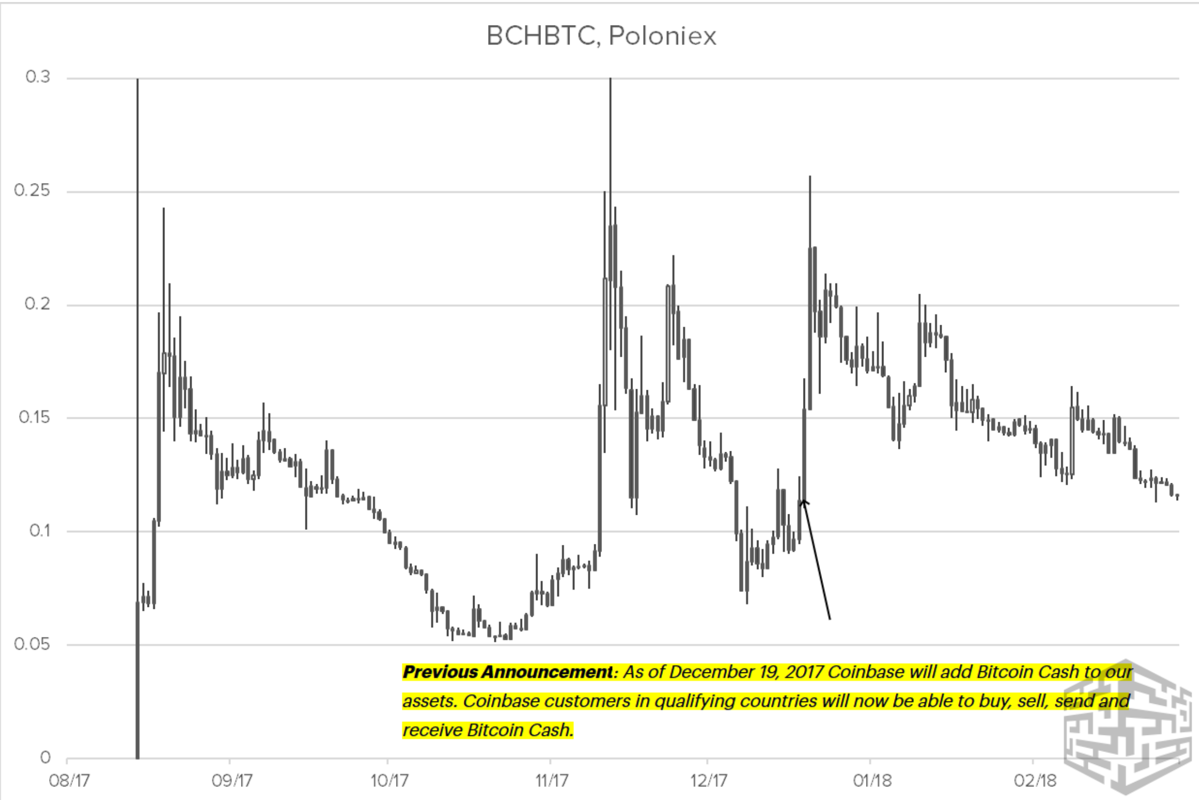
We could just point to the fact that every single asset listed (bar ETH in 2016) returned positively over the next day (compared to BTC/ETH) and call it a day there. However, let's look a little deeper. Notice that, until November 2018, only four assets were ever listed on Coinbase - BTC (from the get-go), ETH, LTC, and BCH.

The act of achieving listing in the first place was no small feat - and, in the cases of both LTC and BCH, it had an absolutely seismic effect on the asset's fortunes as a whole. The LTCBTC graph (note that we will measure assets throughout against BTC since it does ultimately remain the baseline, even if some newer assets are more literally ETH-denominated) for instance looks like this:



Data via Tradingview.

For BCH:



Data via Tradingview.

These two surges are essentially what the truism of "the Coinbase effect" was built upon. Intuitively, it of course makes sense; listing to Coinbase, particularly at that time, meant immediate access to a far larger client base than could be achieved anywhere else, even in aggregate, and with listing being so rare, it was easy to see how it would become a market-altering event in its own right.

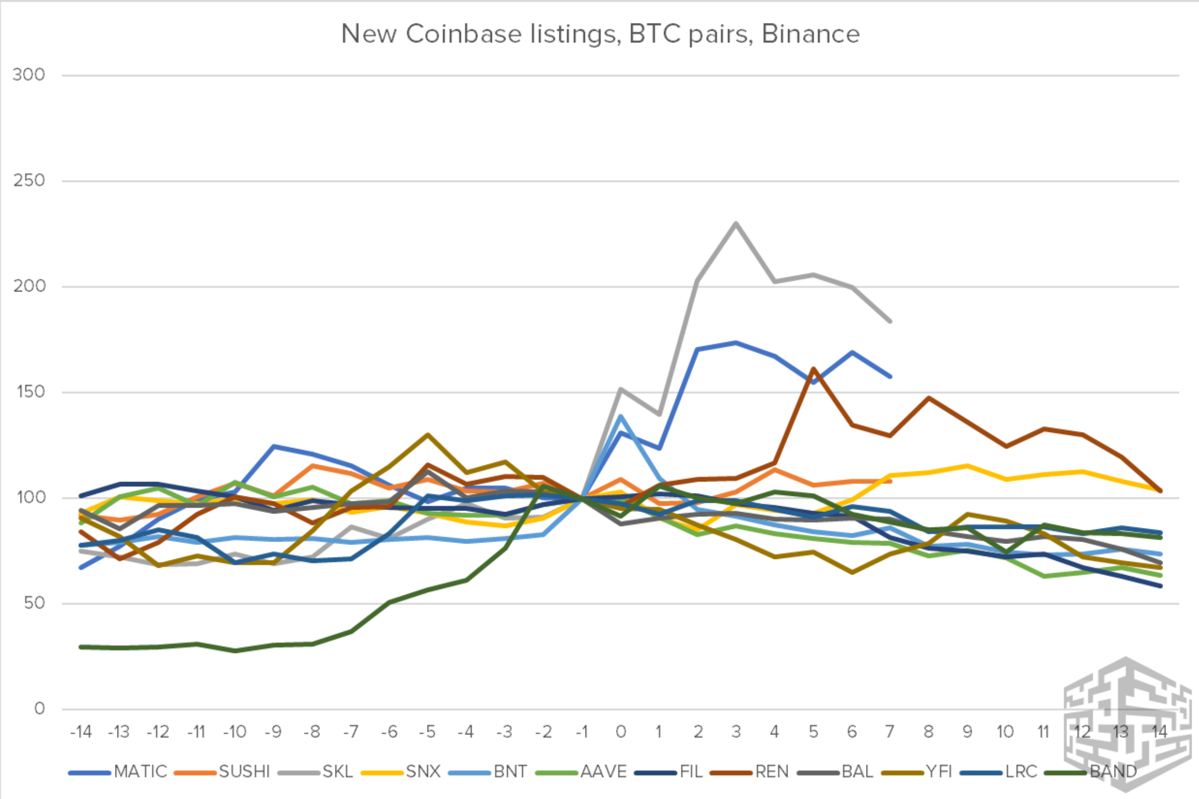
Of course, you can already see on that same table: that scarcity of listing did not remain the case forever. As of today, Coinbase (or more specifically, Coinbase Pro, essentially at this point the exchange extension of Coinbase itself) has 40 active markets against USD alone; that will soon become 41 with ADA, which circles us back to the very reason that we are writing about this now. ADA (Cardano), which has been one of the more notable omissions from the Coinbase Hall of Fame (as it were) over the last year or two, was finally announced for listing on Tuesday, and has spiked dramatically since (albeit still finding itself considerably below its February peak):

Data via Tradingview.

It does seem clear that the listing announcement has directly led to an increase price. However, it also should be pointed out here: trading has not begun yet, and 'buy the rumour, sell the news' is itself an extremely common truism both in broader markets and in crypto for a reason. Hence: what should we expect when trading does go live tomorrow? Is the 'Coinbase effect' of old still in play?

We broke down the data on every listing since August 2020 (17 in all), and we found that quite the odd picture emerges. We should start by saying that we had to remove five (NU, NMR, UMA, UNI, GRT) from the data set; four of these five did see significant nominal gains after listing (the largest being GRT, which spiked to +500% of its first close after a few days before settling back down to a mere +125% after 14 days), but the problem was that they were listed at the exact time that the token itself launched - something that does, ultimately, serve to make the early figures somewhere between difficult and useless as a point of comparison for any established token receiving a listing.

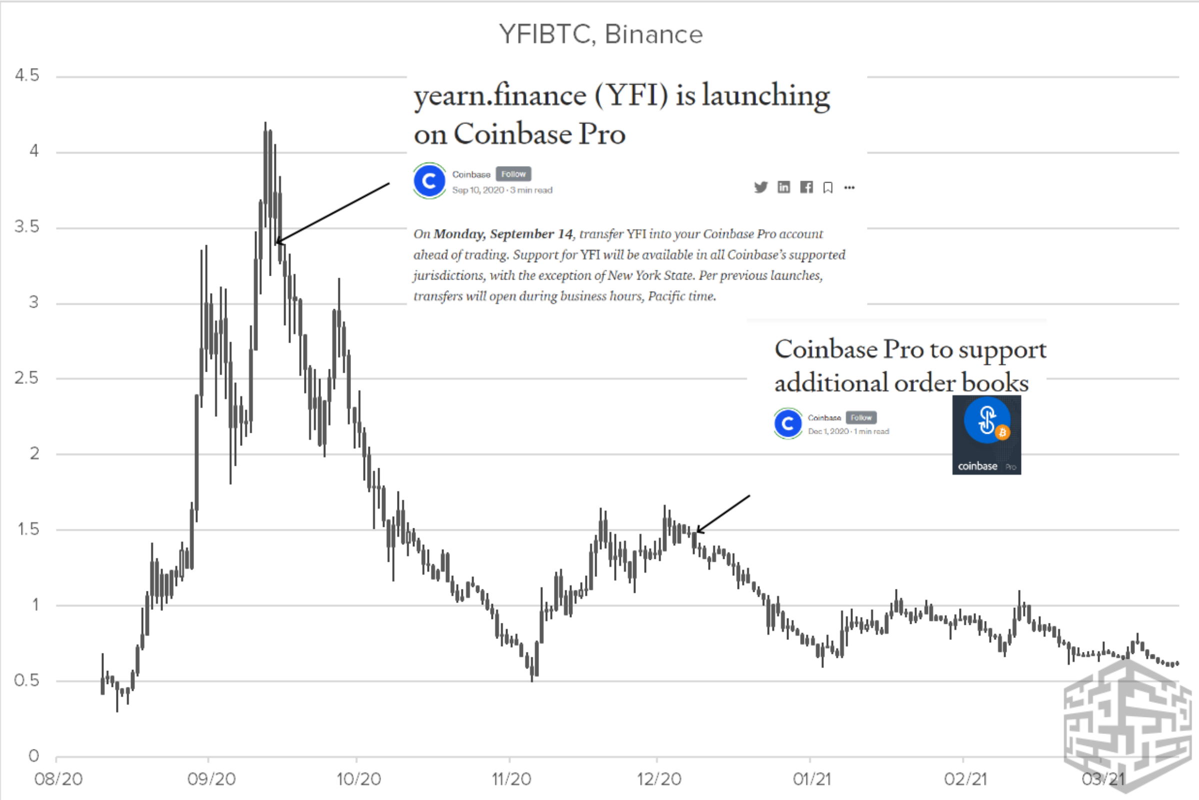
For the remaining 12, the overall chart looks like this (note that three assets (SUSHI, SKL, MATIC) are themselves only seven days out from listing):



Data via Tradingview. Indexed to the close of the day before trading went alive (i.e. day -1 = 100).

Of the 12 assets, 6 saw a nominal gain (of an average of 22%) on the day-0 close, with 6 seeing losses (average -5%) - but extending through to the next two weeks, 8 out of 9 saw losses, with a median of -26%. A few of these could theoretically be blamed on general market conditions and the tendency for ETH small-caps to act as high-beta ETH (particularly thinking of YFI and its September 15th launch here), but even allowing for that, there does seem to have been a marked trend towards the downside, in spite of markets being generally in an uptrend (albeit a very slow one throughout Q3 in particular).

While the most recent batch has done well so far (albeit on very limited data), it does seem, in general, like the 'Coinbase effect' (insofar as it exists) has weakened significantly even on the basis of that one-day 'scalp'. Eagle-eyed readers may notice that in a few cases like BAND and LRC, price actually skyrocketed just before or at the point of announcement (typically 5-6 days before markets went live, though that has been reduced to an average of 2 on listings since December), and then immediately pivoted coming out of it. Indeed, in one case, YFI, it actually happened twice:



Data via Tradingview.

YFI was announced on September 10th, and launched September 15th; its all-time peak in BTC terms to date was on 12th September, but it still found room to draw down a solid 85% afterwards. It started to recover in November, but then on December 8th, it was 're-listed' - having been originally only available in YFIUSD, a YFIBTC market was added instead - and it went back into a slump that (in BTC terms) it has never again shown any real recovery from. Of course, the Coinbase listing was not the only thing going on in the DeFi/YFI stratosphere at both points, but it does still point to something being amiss.

Previous research (such as [Coinmetrics' excellent piece from last year]) already suggested that any Coinbase effect was becoming much more muted for the most part (with the odd outlier here and there). We actually tend to think at this point that it may have turned entirely. The simple fact is that while Coinbase may be having an excellent epoch, it is in some ways no longer the centre of the crypto retail world in the same way as it once was; the rise of Binance in 2017-2018, and in particular the recent shift of speculative attention from traditional CEXs entirely towards Uniswap and the like, has led to a situation where, to put it bluntly, the money that actually remains on Coinbase is not the sort of money that is interested in chasing microcap altcoins for the most part.

Simply put: while a Coinbase listing still puts you on the big stage, the crowd are now all disinterested and looking at their phones; and, while again there are always outliers (SKL is a particularly odd one), in general, a Coinbase listing quite possibly creates more downwards pressure than up (from large sellers using it as a means to sell their stock off).

It's not impossible that ADA is an outlier and manages to go further beyond, of course - few things are ever impossible in crypto - but we would be extremely sceptical of that. ADA is already a $40bn market cap asset, and is listed pretty much everywhere at this point except for on Binance. This is not some hidden gem that's underbought and underaccessible - if one wanted to buy ADA, there were a million venues at which one could have bought ADA already if one were inclined to buy ADA in the first place.

We would hence tend to urge caution on ADA at current level, and in general, urge caution on following Coinbase listings in general. The 'Coinbase effect', insofar as it does exist positively, is weak, and we think there's good reason to believe that it may be in the throes of a long-term shift towards meaning something close to the reverse of what it once did - a threat to price even in the short-term rather than a boon .

Until next week – thank you for reading.

ABOUT US

Enigma Securities is a leading, regulated liquidity provider, offering its clients bespoke liquidity solutions through the use of a proprietary electronic trading platform and API access.

The firm was founded in 2017 as a subsidiary of Makor Partners Limited (UK), amid growing institutional demand for digital asset trading. Looking to seize the new, exciting opportunities presented by cryptocurrencies and blockchain technology, Enigma became one of the first regulated brokerage firms to set up banking relationships and custody solutions to meet institutional standards.

Since its launch, the firm has expanded its capabilities to the broader Fintech arena, leading innovation while working to bridge the gap between the traditional financial services industry and cryptocurrency markets.