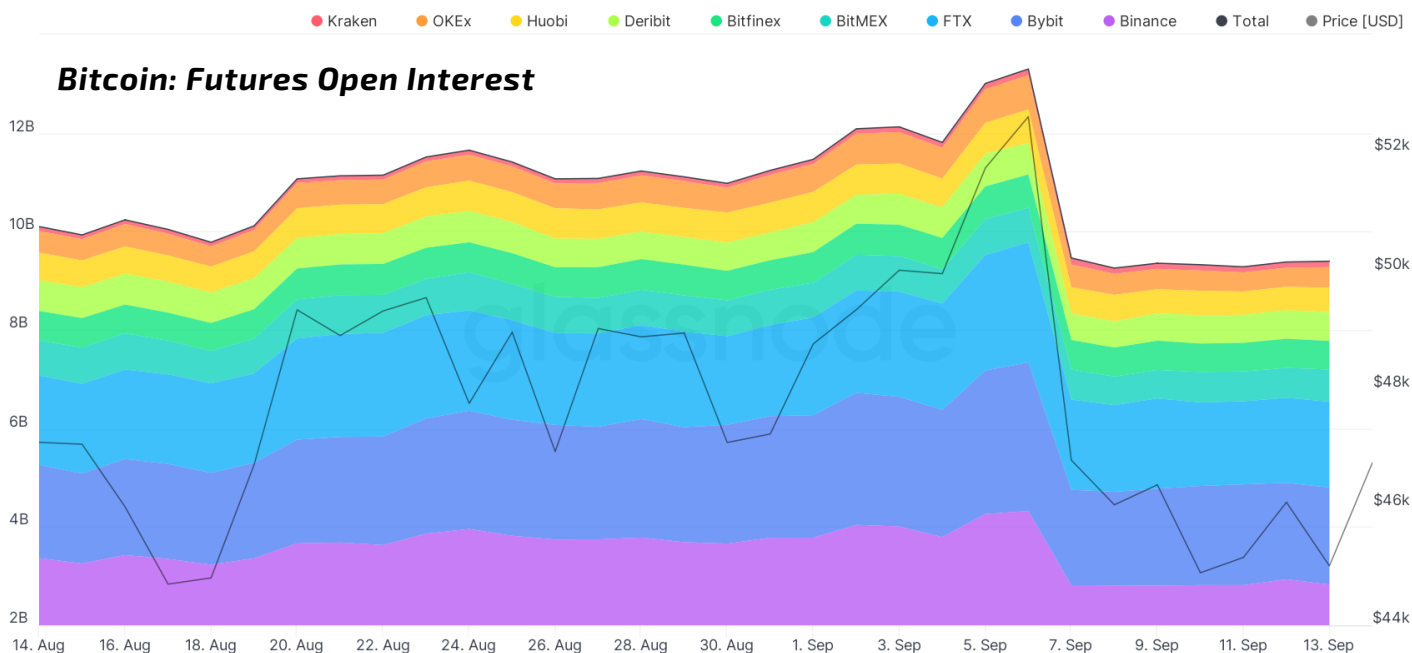


BITCOIN & LEVERAGE

September 7, 2021 marked a significant day of heightened volatility with the daily candle spanning a 25% range. In short, this volatility was the result of overleveraged speculators, as opposed to hodl'ers, who were forced to sell coins as they were liquidated. Despite the cascade of liquidations, September 7 was marked a significant day in crypto as Bitcoin was inaugurated as legal tender in El Salvador.

Bitcoin futures open interest increased >30% throughout the month of August to ~\$13.3b before crashing ~30% on September 7. This validates that market speculators were highly leveraged long as BTC's price ran from low \$30k to \$52k over the last month of trading. There was a total of \$4.4b in futures liquidations within this 24 hour period, including ~\$3.2b worth of long liquidations. This created increased downward pressure on the market as mass liquidations forced speculators to sell their coins, hence the oversized swing in Bitcoin's value.



To summarize the visualization above, mass forced selling via futures liquidations was the primary catalyst for Bitcoin's volatility on September 7. The underlying tipping point regarding this cascading leverage event may have been a consequence of the El Salvador news being 'baked in'. This is similar to equity markets, where earnings speculation drives prices to a premium before the data is released. Nevertheless, many on-chain indicators that fueled Bitcoin's rally over the past six weeks, including supply shock, hodl'er accumulation, and depleting exchange balances have maintained the same trend through the volatility. The ECI team expects the continuation of these trends will continue to apply upward pressure on BTC's price after this past week's deleveraging.

Following the expressed discontent from the World Bank and others, the day El Salvador introduced Bitcoin as legal tender, the market experienced aggressive selling. The ECI team does not believe that this is purely coincidental.

