

## Crypto-currencies Movements on Entering a Faster Rate Hike Cycle

WEEKLY SUMMARY | 5 MARCH

### Overall market situation

The crypto-currency market showed diverse movements alongside a week of mild equity market correction, with BTC and Bitcoin Cash saw more appreciable rebounds.

With the pro-rate hike statements of Powell, the newly appointed Federal Reserves' Chairman, and Trump's pledge on trade war, Dow Jones Industrial Average went down by 3.4%. Meanwhile, Nikkei 225 slipped by as much as 5% in the week alongside stronger local rate hike view of the Japanese Central Bank.

In response to the stock market volatility, BTC, which is dominated by USD and JPY (each currency accounts for roughly 40% of the BTC trading volume) trades, bounced back by 16% in USD or 14% in JPY this week. Similar to the development in early February, BTC was again being regarded as an alternative asset class during equity market sell-off (Figure 1 and 2). Resistance was found at around \$10,000. Bitcoin Cash, which largely follows the price movement of BTC, also went up by 6% in USD terms over the same period. Meanwhile, other major digital currencies (ETH, Litecoin, and Ripple) fluctuated mildly within the range of +/- 2%.

### Near-to-medium term outlook

The global stock and cryptocurrency markets will be trading at similar ranges in the coming weeks, barring any abrupt negative shocks. Although the inflationary pressure should not give equity markets too many compelling reasons to correct, it may not be realistic to assume the equity market will stay as bullish as late 2017. Market players may short the market if the Federal Reserve raise the target rate for more than 4 times this year.

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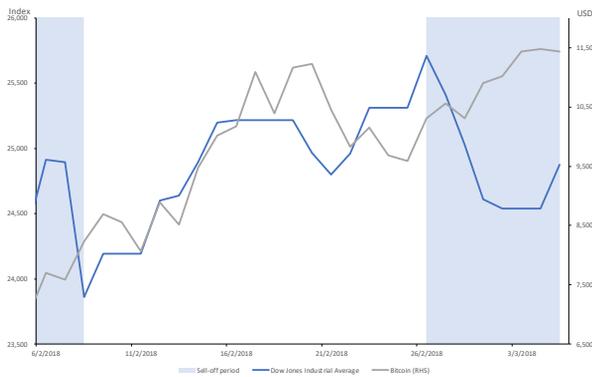
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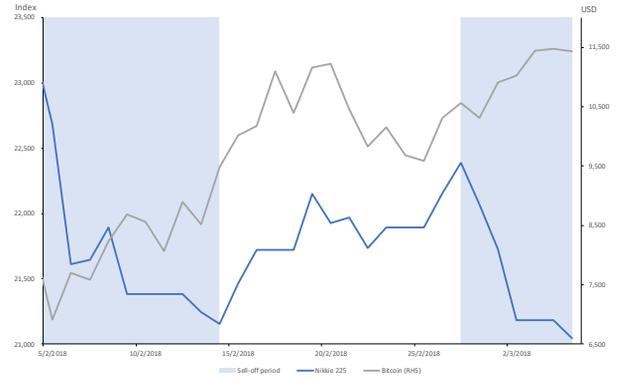
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**Figure 1. US stock market and BTC/USD**



**Figure 2. Japanese stock market and BTC/USD**



**Source: Bloomberg; Coindesk**

Also, EU has announced a retaliation plan against US's tariff. Although the impact on real economy is expected to be muted, these developments will pose a short term downward pressure on equity markets. Hence, we expect there will be rooms for cryptocurrencies' further rebound.

## Market development

In the longer term, digital currencies, especially BTC, will continue to develop as a hedging asset class against conventional investment products alongside the stronger participation of institutional investors.

For instance, Wellington Management Co., the Boston-based firm with \$1 trillion AUM is looking into including cryptocurrencies in some portfolios. Meanwhile, Circle, a Goldman Sachs-backed Fintech startup, was reported to acquire a cryptocurrency exchange. These developments will fuel the market development in the coming months. We foresee the trading volume of major equity indices and BTC will enter a more synchronized trend just as early February. As such, the stronger negative correlation between the two asset classes during equity market sell-off will be increased.

On sovereign level, The Republic of Marshall Island is issuing her cryptocurrency as a legal tender that will be accepted along the native USD. Dubai, the forward looking crypto-nation, has been democratizing its tourism sector (which accounts for over 10% the nation's GDP). Other global regulators and central banks such as Bank of England are looking to impose risk-appropriate regulatory framework the market. We expect a regulated market will pave a straighter way of market development.

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