On BTC fundamentals and the push to $14k (Santiment Pro report)

It's been just over 7 days since Bitcoin breached $13k, a week marked with (expectedly) choppy price action and frequent, day-to-day shifts in market sentiment.

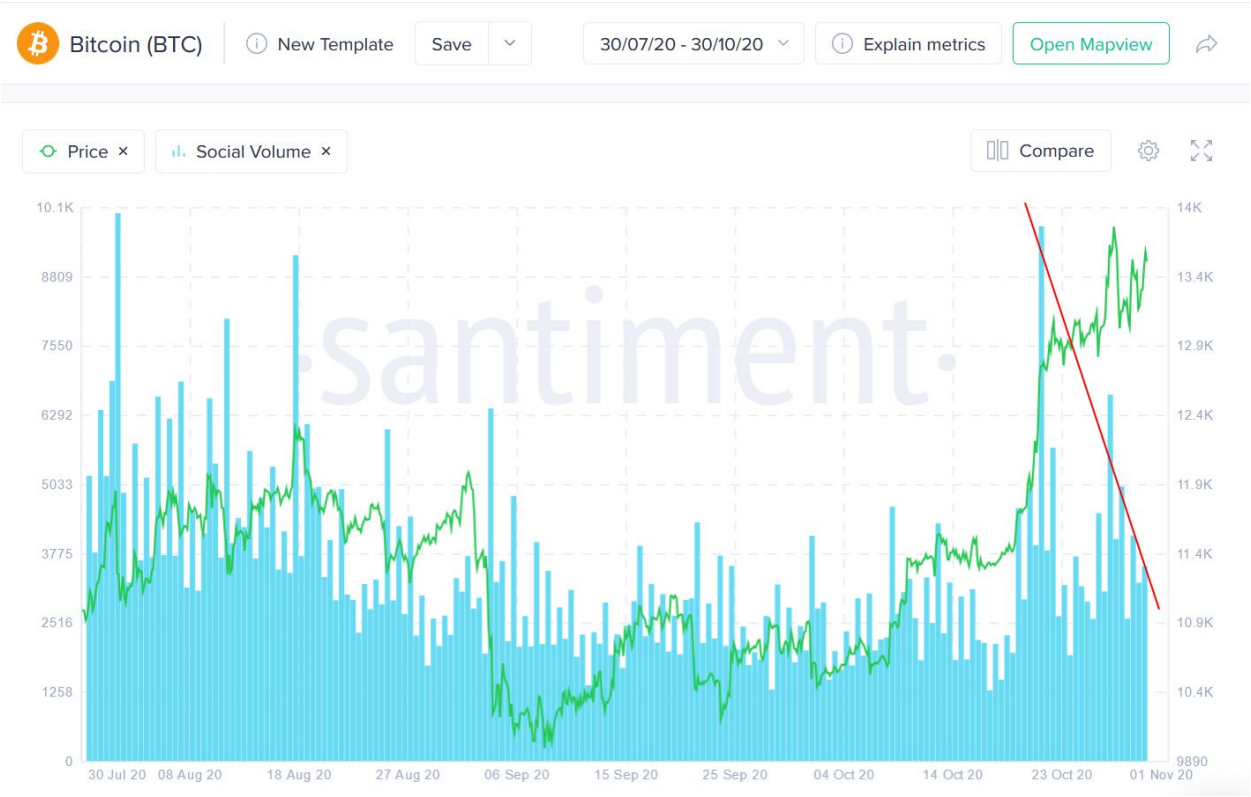
With the U.S. election right around the corner and the third wave of Covid-19 sweeping the globe, we wanted to take a deep look at the recent behavior of key Bitcoin stakeholders, and analyze the top coin's on-chain and social activity since the $13k push.

BTC's Social Activity Tapers Off

We have seen major jolts in Bitcoin's social activity over the last 10 days, suggesting an initial surge in community interest and bullish sentiment as BTC began to rally, followed by a **gradual and ongoing normalization** since.

Based on text data from 1000+ channels, the amount of Bitcoin-related *mentions* on crypto social media ballooned to a 3-month high on October 21st, as BTC broke $12,000 for the first time since September and was pummeling towards the $13k mark.

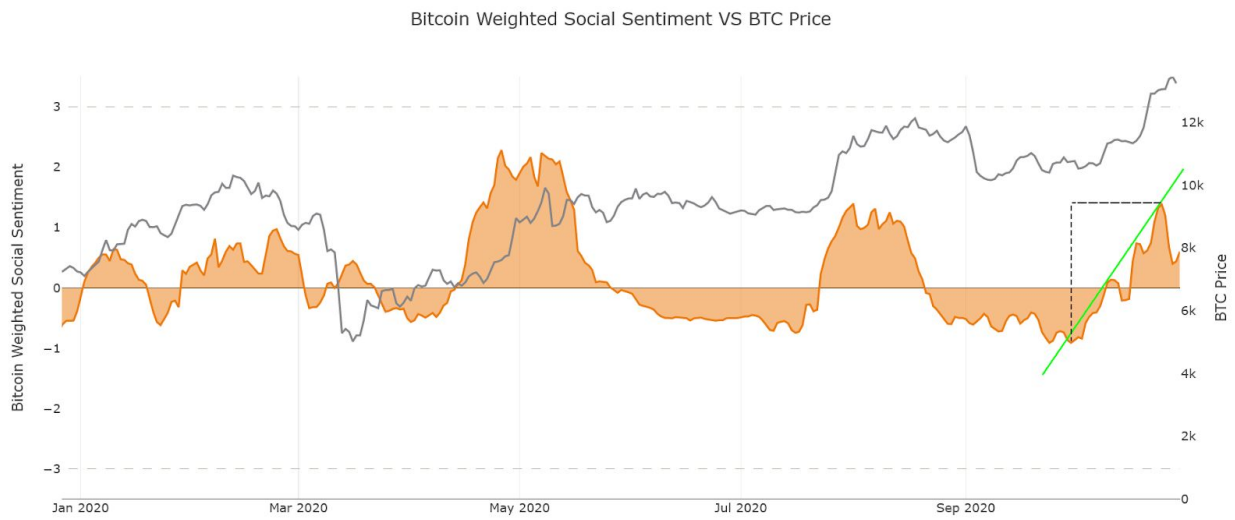
Santiment has recorded more than 13,000 BTC-related mentions on October 21st, marking a **+167% increase** compared to Bitcoin's average daily mentions in the month prior:



Amount of BTC-related mentions on crypto social media, last 3 months (Source: Sanbase)

Aside from this spike in social mentions, Bitcoin's initial push towards $13k has also prompted a complete pivot in crowd *sentiment* towards the top coin.

According to our social sentiment algorithm, the average mood towards BTC on crypto social media had shifted from **predominantly bearish to overwhelmingly bullish** in a span of 48 hours after Bitcoin first broke $13k. The bullish sentiment reached its peak on Sunday, October 25th, recording its highest level since Bitcoin's May halvening:



Bitcoin-related sentiment on ‘crypto twitter’, YTD (Source: Sanbase)

In a word, the preliminary $13k push has quickly revamped the speculative interest in Bitcoin’s price action, and has spurred a wave of mostly bullish chatter and FOMO-laden predictions.

Over the last week, however, Bitcoin’s social activity has taken a complete U-turn. The amount of daily BTC mentions on social media had shrunk by -50.9% since October 21st, pointing to a **waning crowd interest** and speculative vigor in Bitcoin’s short-term PA. A short-lived spike in BTC mentions *was* recorded on Tuesday amid its push to $13.8k, but has failed to capture the same intensity as the original and has quickly dissipated since.

As a result, we are now seeing a **forming divergence** between Bitcoin’s price action (trending sideways) and its social volume (quickly declining), which could pose an obstacle to a sustained price rally in days and weeks to come.

Similar to a coin’s trading volume, declining social mentions can point to most market observers already being *‘in’ the trade*, and suggest a lack of ‘new money’ needed to propel the price further. We have seen this happen a number of times in the past - both in Bitcoin and other cryptocurrencies alike.

Most recently, Bitcoin’s push above $10k in late July was clearly mirrored by a strong and sustained surge in its social volume. Since breaking the $10k barrier, however, Bitcoin-related mentions gradually started to decline, coinciding with Bitcoin’s price consolidation and eventual drop below $10k:

Amount of BTC-related mentions on crypto social media, last 2 years (Source: Sanbase)

Santiment's founder Maksim Balashevich has covered this idea of price-volume divergences in the past - especially in cases when the coin's trading, social and on-chain volumes **all move opposite of price:**

`As long as the price keeps growing on the growing volume (healthy zone), the trend will likely continue. Once we see clear signs of price-volume divergence (unhealthy zone), you should be aware - the top is near.`

And speaking of Bitcoin's on-chain activity:

Network Activity Falters

In most cases, sustained price rallies will require a high level of network activity to propel the price forward and provide the necessary fundamental support.

At Santiment, we typically use daily active addresses (DAA for short) as a proxy for the coin's on-chain activity and day-to-day interaction with the network. With that in mind, it's notable that Bitcoin's daily active addresses have **recorded a strong decline** since the start of the week, dropping by 22.5% over the last 5 days:

Bitcoin's daily active addresses, last 30 days (Source: Sanbase)

The ongoing downtrend in Bitcoin's network activity has prompted a string of red signals in Santiment's Price-DAA divergence model, which tracks the relationship between Bitcoin's price and the number of addresses interacting with BTC daily.

Historically, strong divergences in these two metrics often earmarked opportune Buy/Sell levels — when the price goes up while the amount of active addresses declines, the model triggers a 'Sell' signal, and vice versa.

In the past week, Bitcoin's Price-DAA divergence has been **turning increasingly red**, pointing to the fact that its daily active addresses are struggling to 'keep up' with the latest market action. As a result - according to the model - a considerable uptick in Bitcoin's DAA will be needed in days to come to provide the necessary fundamental support and help propel the price of Bitcoin further:

Bitcoin's price-DAA divergence, past year (Source: Sanbase)

The initial $13k push has also had a significant **impact on Bitcoin's daily circulation** (the amount of unique BTC transferred on-chain), which surged to 312,000 on October 22nd - its highest level since the day Bitcoin last pushed above $8k:

Daily circulation of unique BTC tokens, past 10 months (Source: Sanbase)

Some on-chain analysts believe that spikes in Bitcoin's circulation often signal short-term trend reversals, as highlighted on the above chart. Since the October 22nd spike, Bitcoin's daily circulation has largely shifted back to normal, hovering at ~174,000 for the past 24 hours.

HODLers vs Swing Traders

Coinciding with its first breach above $13k, Bitcoin's on-chain data has suggested a sudden **surge in the activity of long-term BTC investors** and so-called HODLers.

On October 23rd, Bitcoin's Age Consumed has recorded its largest uptick in over 8 months, indicating that a significant amount of previously idle BTC were moving on chain:

Bitcoin's Age Consumed, YTD (Source: Sanbase)

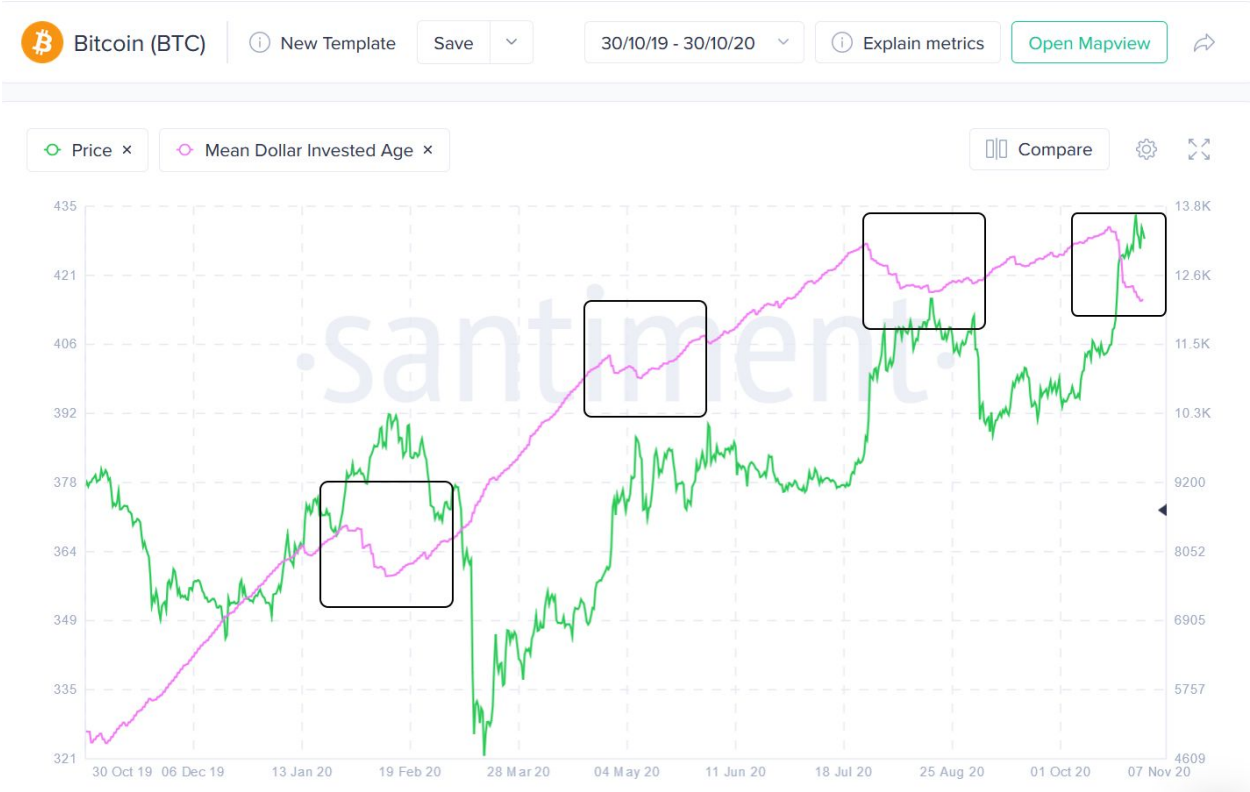
This is further reinforced in the activity of those Bitcoin that have previously remained dormant for at least a year. Roughly 80,000 BTC that fits this criteria changed addresses last Friday, pointing to a strong paradigm shift among veteran BTC traders:

Bitcoin's 365-day dormant circulation, YTD (Source: Sanbase)

Long-term investors rarely make rash decisions, and instead tend to execute trades based on extensive analysis and/or intimate market knowledge. Because of this, renewed activity among Bitcoin's HODLers tends to coincide with **shifts in market conditions** and periods of upcoming price volatility.

The renewed activity on Bitcoin's network since the $13k push can also be seen on its Mean Dollar Invested Age, or MDIA for short. As a rule of thumb, a rising MDIA slope signals a network-wide accumulation trend, while drop-offs indicate increased movement of BTC tokens between addresses.

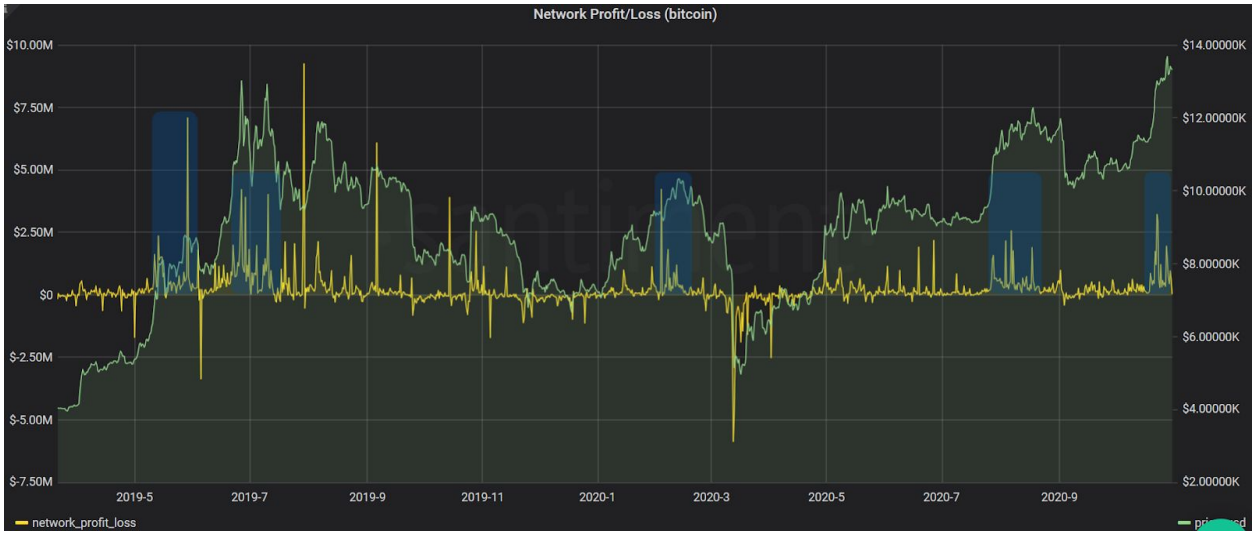
We mentioned in last week's report that Bitcoin's Mean Dollar Invested Age (MDIA for short) has started to trend downwards for the first time in over a month, suggesting short-term distribution and potential profit taking by some long-term investors. While slightly more curved, Bitcoin's MDIA has **continued to decline** throughout last week, indicating that redistribution is still ongoing:



Bitcoin's Mean Dollar Invested Age, past year (Source: Sanbase)

Profit-taking activities are also visible on Bitcoin's Network Profit/Loss (NPL for short), which computes the average profit or loss of all coins that change addresses daily. For each coin that moves on-chain, NPL takes the price at which it was last moved and assumes this to be its acquisition price. Once it changes addresses again, NPL assumes that the coin was sold.

Bitcoin's NPL has recorded a **string of pronounced spikes i**n the past 10 days, suggesting that Bitcoin's investors have - on average - been selling their BTC at significant profit. As you'll see below, similar profit-taking periods have earmarked local price tops or the beginning of consolidation for the benchmark cryptocurrency in the past:



Bitcoin's Network Profit/Loss, past 2 years (Source: Sanbase)

After an initial surge, Bitcoin's HODLers have largely laid low over the past week according to BTC's Age Consumed and Dormant Circulation, indicating that most of the above **profit-taking has been spearheaded by swing traders** and short-term holders. Still, it will be prudent to keep an eye on Bitcoin's Network Profit/Loss in days to come - continuous profit-taking spikes may point to sustained sell pressure which, in turn, could curb a sustained Bitcoin rally.

Inflated MVRV ratio

Finally, we should take a look at the average ROI of Bitcoin's short-term and long-term holders to gauge the likelihood of increased sell pressure in days to come.

For this purpose we use the MVRV ratio, an on-chain indicator that calculates the **average profit or loss** of a certain group of holders, in an effort to evaluate how likely they are to sell based on their current ROI.

As a rule of thumb, the higher the MVRV ratio, the more likely it is that BTC holders will begin to exit their positions and take profit. Because of this, analyzing MVRV levels around **previous price tops** can reveal at which profit margins BTC's holders were comfortable selling in the past.

Bitcoin's 30-day MVRV - which calculates the average ROI of all addresses that have acquired BTC in the past 30 days - has taken a tumble in the past few days and **currently hovers at +8.61%.**

Bitcoin's 30-day MVRV ratio, past year (Source: Sanbase)

Over the past two years, Bitcoin's 30-day MVRV ratio has typically peaked between +11% and +19%, establishing this as a proverbial 'danger zone' for its short-term price action. Most recently, Bitcoin's 30-day MVRV ratio peaked on October 21st at +13.2%, suggesting increased risk of price consolidation.

While out of the obvious danger zone, Bitcoin's current 30-day MVRV ratio still remains positive, suggesting that short-term holders are (on average) up +8.6% on their initial investment. This means **there's still *relatively high* incentive to sell and take profit** - especially if swing traders show growing concern about the potential impact of upcoming US elections and the new wave of Covid-19 on the price of BTC.

This is even more pronounced on Bitcoin's 365-day MVRV ratio, which is currently **the highest it's been since the start of 2020** at a solid +33.1%:

Bitcoin's 365-day MVRV ratio, past year (Source: Sanbase)

Similar as above, the average profit of long-term holders (those that acquired BTC in the past 365 days) shows they're certainly in a position to sell assuming the market turns skeptical on the world's largest cryptocurrency.

In conclusion, Bitcoin's on-chain and social data has been showing **some concerning signals** over the past 7 days, including bearish divergences in the coin's daily addresses and social volume, profit-taking activities by short-term holders and relatively high MVRV ratios across the board.

Keep an eye on these indicators ahead and directly after the US elections, as an increased sell-side pressure paired with progressively lower on-chain activity *could* put a pin on Bitcoin's $14k+ hopes for the time being.

For more on-chain, social and other information on Bitcoin and 1000+ cryptocurrencies, visit app.santiment.net