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What Moves the Cryptocurrency Market? A Causality and Wavelet Coherence Analysis

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ABSTRACT

This paper analyzes the traditional asset markets, to verify if these markets have the capacity to impact the cryptocurrency market. This paper also analyses the relation between the investor's attention and the cryptocurrency market. To do this, a proxy for the complete cryptocurrency market with more than 6 thousand cryptocurrencies was utilized. First, a VAR(1) model was estimated to verify how the shock of the traditional market, the internal shocks, and the investors' attention shocks impact the market. Second, the Granger causality test and Wavelet Coherence were used to test impact for each variable. The results showed that the Bitcoin price and the average price of the coins have a mild impact in a short time in the cryptocurrency market, between 1 and 4 weeks. In addition, it was possible to verify that investors' attention is generated by market growth. About the traditional asset market, it was possible to verify that the commodity has a leading relation to the cryptocurrency market in the long term. The results found in this paper reinforce the thesis of the independence of the cryptocurrency market presented by other authors and brings new information that this is a market that is most influenced by its internal dynamics and has few impacts on investors.

KEYWORDS Cryptocurrency; Investors' Attention; Wavelet Coherence; Granger Causality