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CoinShares Bi-Weekly Digest

Market Summary

Crypto rallied across the board this week amid ongoing speculation over SEC approval for a Bitcoin and Ethereum spot ETF. The ETH/BTC ratio bounced from the technical low last seen in June 2022, ETH has outperformed Bitcoin by 5.19% over the last week. On the 9th of November, BlackRock filed to create an Ethereum Trust, registering the “iShares Ethereum Trust”. ETH surged 9% on this news, with over \$24bn volume as optimism for an institutional investment vehicle soared. BlackRock later filed a 19b-4 on Thursday, confirming their intention to launch a spot Ether ETF. According to the filing, BlackRock intends to use Coinbase Custody Trust as a custodian. It remains to be seen whether the SEC will approve the filing.

Further green shoots of institutional activity is evident in the CME surpassing Binance as the largest bitcoin futures exchange, signifying the growing spot

ETF approval excitement.

Mark Uyeda, an SEC Commissioner, has voiced his concerns about the SEC's current strategy of using enforcement actions to regulate the crypto and digital asset space. He points out that these actions, being reactive, don't guide market players effectively. Uyeda suggests that the SEC should instead focus on setting out clear rules or offering interpretive guidance specifically for digital assets. This, he believes, would provide much-needed clarity, especially on which digital assets fall under securities legislation. His critique underlines a key issue in crypto regulation: the ongoing uncertainty due to the SEC's case-by-case approach, which can delay establishing clear legal standards.

A US government shutdown starting at midnight on Friday is likely unless House

Republicans coalesce around a funding plan that could pass the senate. Further, the jump in 5-10 year inflation expectations was unwelcome. Fed officials are likely unhappy and will be even more so if the trend does not reverse prior to the December reports – a few days prior to the FOMC meeting.

Watch out for:

- Tuesday: NFIB Small Business Survey, Consumer Prices, Redbook Chain Store Sales.
- Wednesday: Mortgage Applications, Producer Prices, Retail Sales, Empire State Manufacturing Index, Business Inventories.
- Thursday: Initial Jobless Claims, Philly Fed Manufacturing Index, Import Prices, Industrial Production, NAHB Housing Market Index.
- Friday: Housing Starts.

ETH Turns Deflationary (7 Day)

Over the last week we have seen high demand to use the Ethereum blockchain. Following the 9% surge in light of the BlackRock Spot Ether ETF filing, Gas Price spiked to as high as 250 gwei, and as a function of the last 7 days, ETH is deflationary, with a -0.4% annualized inflation rate.

While it is not expected that this level of deflation persists over a long period of time, a prolonged period of high demand for Ethereum blockspace yields *some* deflation, which in general is viewed as a positive for token holders. Basic economic principles tell us that with consistent demand and a reduction of supply, there is positive pressure on price.

On a 30-day timeframe, the ETH inflation rate annualizes to +0.03% and is on the brink of also turning negative following a strong month in terms of network usage.

Annualized Supply Change



Issuance
861k ETH
\$1.7B



Burn
1.3M ETH
\$2.7B



-439k ETH*
\$1B Burn/Profit*

Source: ultrasound.money

*Based on a 7d trailing figure annualized

The Value of Ether: Part 4 – It's All About L1 Burn

Under what we believe to be reasonable assumptions, a scenario of moderate growth in Ethereum transaction demand could offer appealing returns for investors over a five-year time horizon.

Our adoption-based investment case for the Ether token is dependent on the demand for L1 use cases generating a level of fee spend necessary to justify a higher Ether price.

Our model uses a discounted cash flow approach based on assumptions about future Ethereum US\$ fee demand, staking rates, equilibrium between issuance and burn, and a set investment timeline.

[\(See our research here\).](#)

Ether Valuation Model, Summarised

	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Total Network Fee Spend (US\$)</i>	<i>\$2.2 bn</i>	<i>\$3.2 bn</i>	<i>\$4.6 bn</i>	<i>\$6.8 bn</i>	<i>\$10 bn</i>
ETH Price (US\$)	\$2,367	\$3,176	\$4,320	\$5,935	\$8,219
Staking Reward (US\$)	\$100	\$120	\$148	\$187	\$241
Discounted Staking Reward (US\$)	\$96	\$111	\$131	\$160	\$198
Discounted Capital Return (US\$)	\$545	\$1,272	\$2,240	\$3,535	\$5,276

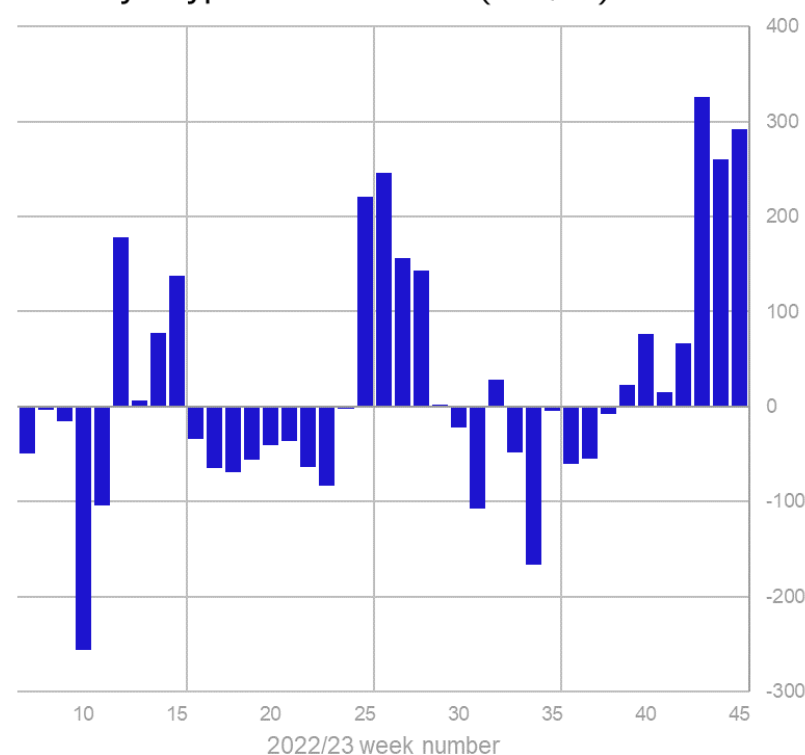
Source: CoinShares Research

Digital Asset Fund Flows

ETP inflows push past the US\$1bn mark this year, with US\$293m inflows last week

- Digital asset investment products saw inflows totalling US\$293m last week, bringing this 7-week run of inflows past the US\$1bn mark.
- Bitcoin ETP trading volumes made up as much as 19.5% of total Bitcoin trading volumes, suggesting ETP investors are participating much more in this rally compared to 2020/21.
- Ethereum, saw its largest inflows since August 2022 of US\$49m, with the last 2 weeks signifying a real turn around in sentiment.
- Full report [here](#)

Weekly Crypto Asset Flows (US\$m) CoinShares



Source: Bloomberg, CoinShares, data available as of close 10 November 2023

Flows by Provider (US\$m)

CoinShares	Week flows	MTD flows	YTD flows	AUM
Grayscale Investments LLC/L	-	-	-0	29,826
CoinShares XBT*	1.7	0.1	-96	2,144
21Shares AG	44.9	70.2	267	1,675
ProShares ETFs/USA	72.8	216.5	488	1,490
Purpose Investments Inc ETF:	89.7	99.3	259	1,404
ETC Issuance GmbH	29.0	50.1	290	985
Coinshares Digital Securities	22.0	23.1	91	727
Bitwise 10 Crypto Index Fund/	-	-	-	615
Other	32.5	89.1	-156	5,478
Total	292.5	548.3	1,142	44,343

Flows by Asset (US\$m)

CoinShares	Week flows	MTD flows	YTD flows	AUM
Bitcoin	240.0	470.1	1,083	31,320
Ethereum	49.1	62.7	-58	8,828
Multi-asset	-0.6	-2.3	-41	3,088
Solana	12.4	23.1	121	365
Binance	-	-	-1	254
Litecoin	-0.3	-0.3	4	119
Short Bitcoin	-7.0	-4.8	59	89
XRP	-3.1	-3.1	12	74
Cardano	0.8	0.8	8	37
Tron	-	-	-51	30
Other	1.1	2.0	7	138
Total	292.5	548.3	1,142	44,343

Source: Bloomberg, CoinShares, data available as at 10 Nov 2023

* Independent daily attestation by The Network Firm

Flows by Exchange Country (US\$m)

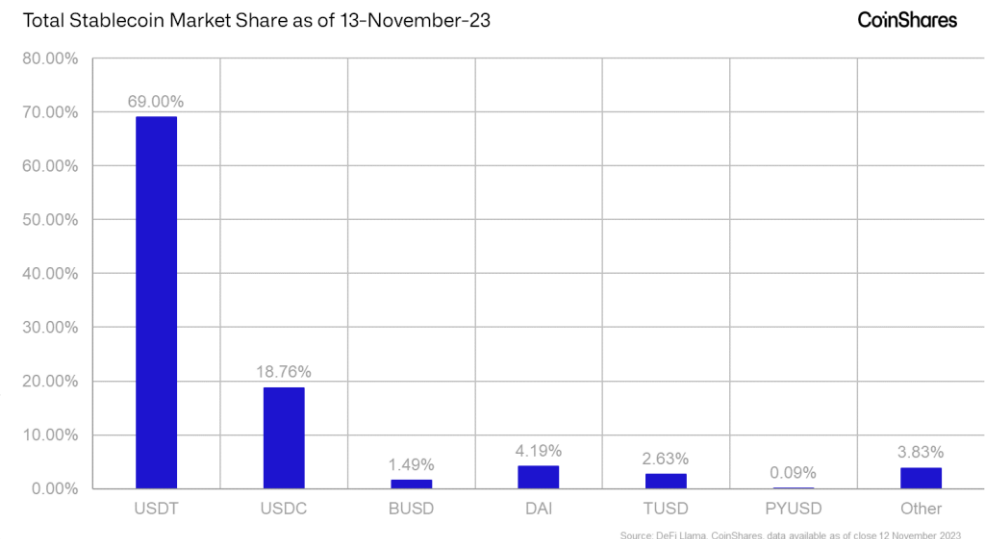
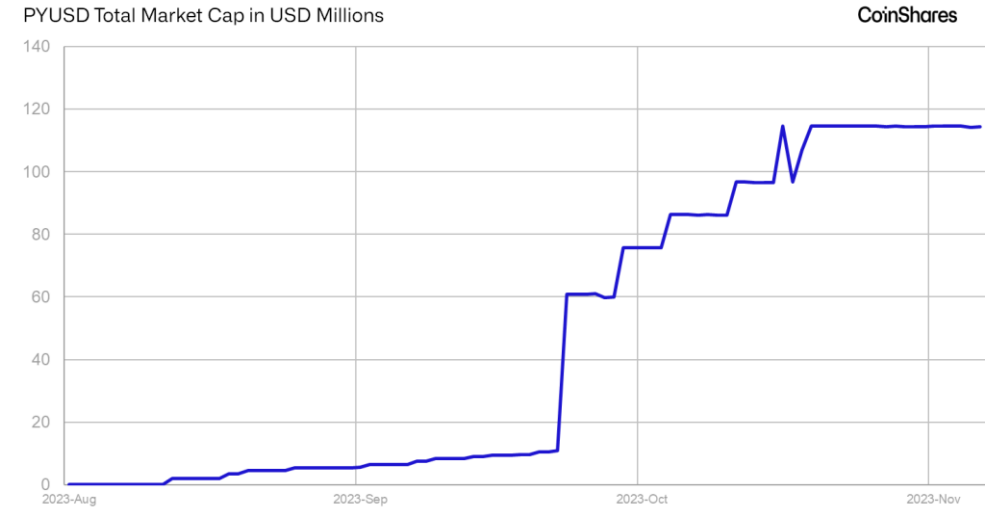
CoinShares	Week flows	MTD flows	YTD flows	AUM
Australia	0.8	0.8	5	19
Brazil	-3.5	-4.5	-50	379
Canada	105.7	131.6	80	2,699
France	0.3	0.4	3	13
Germany	52.9	98.0	354	2,241
Sweden	2.0	0.2	-92	2,149
Switzerland	50.3	78.2	305	2,597
United States	81.1	238.8	574	32,755
Other	2.9	4.8	-38	1,490
Total	292.5	548.3	1,142	44,343

Blockchain Equities

PayPal's stablecoin, PYUSD, achieved a rapid market cap growth of US\$114 million in under four months. The SEC initiated legal investigations on the premise that PYUSD is an unregistered security offering, raising concerns about potential risks and the unease among US policymakers regarding the foray of large tech firms into the crypto space.

Stablecoins have seen exponential growth despite dropping 34% in total market cap from its 2022 high of \$188bn, outpacing traditional payment platforms. Tether (USDT) dominates market share at approximately 69%, purportedly earning over a billion quarterly, according to Mike Novogratz of Galaxy during their latest earnings call which highlights the revenue potential from these projects. The investigation underscores the pressing need for enhanced transparency and reporting standards for stablecoins and their reserve assets. While PayPal, enjoys greater trust than other stablecoin issuers, it must comply with SEC regulations.

Investors are closely monitoring the developments in this case, as a positive outcome for PayPal is likely to spur further investments into this space.



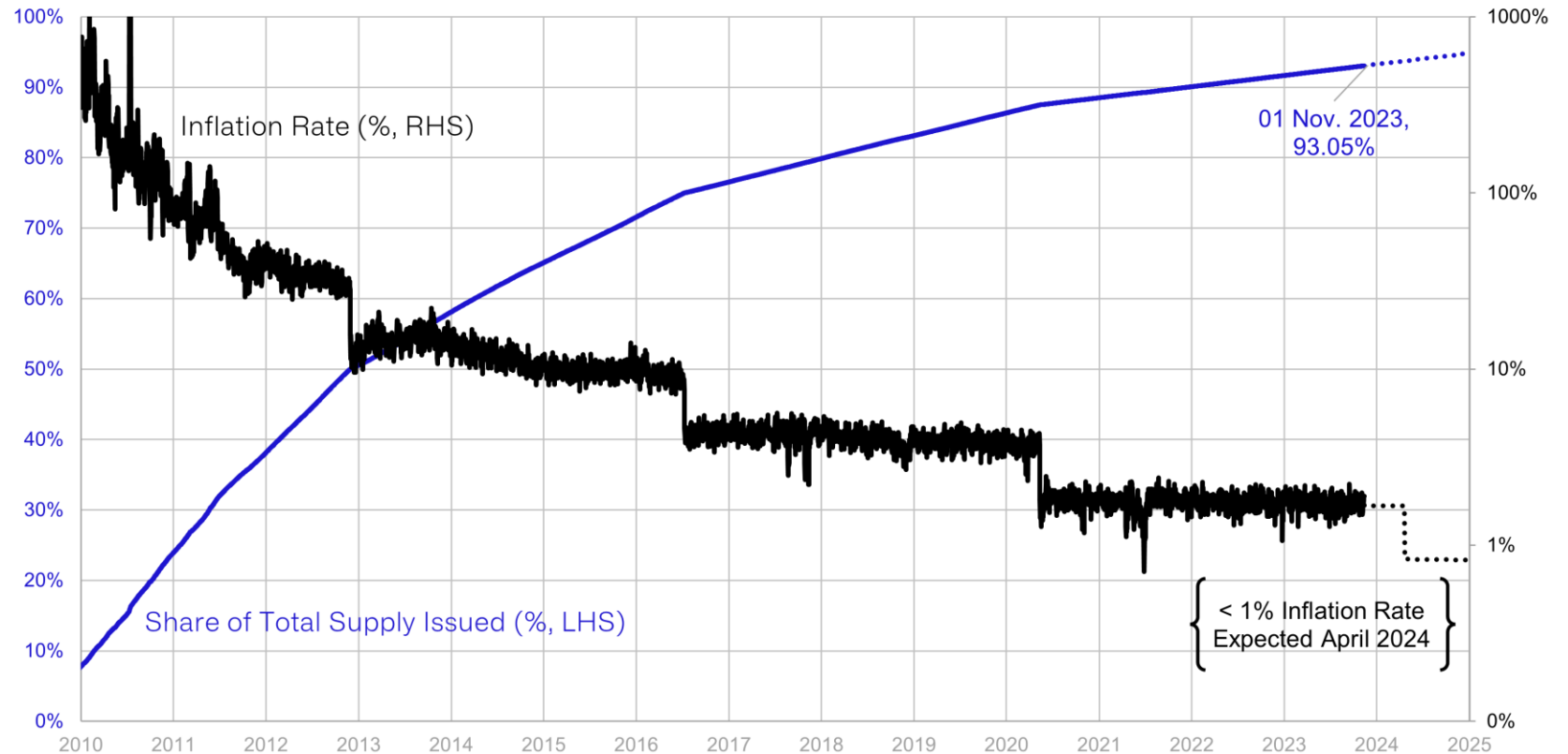
Bitcoin Fundamentals

Perhaps the most well-known aspect of bitcoin is its scarcity; there will only ever be 21 million bitcoin.

The distribution of coins through the mining process has just reached 93% completion, with 19.54m in circulation.

Expected in April next year, the halving will once again decrease the number of coins being issued. At which point, bitcoin's annual inflation rate will fall below 1%.

Bitcoin Supply Reaches 93% of Maximum Limit



Source: Glassnode, CoinShares, data available as of close 11 November 2023

Bitcoin in a Portfolio

A portfolio weighting of 4% achieves a Sharpe ratio of 1.07 (0.65>benchmark), a correlation fall of 7.3% and an increase in maximum drawdown of 1.5% when compared to a 60/40 equity/bond portfolio.

Various asset Classes Performance in a balanced portfolio (since Oct 2015)

CoinShares	60%/40% benchmark (Equities/Bonds)	4.0% Bitcoin	4.0% Bitcoin (no rebalancing)	4.0% Ethereum	4.0% Gold	4.0% HFRX	4.0% CRB	4.0% REITs
annualised returns	6.7%	13.8%	41.0%	15.4%	6.8%	6.4%	6.6%	6.7%
max drawdown	21.4%	22.9%	67.2%	22.4%	20.9%	20.6%	20.7%	21.7%
volatility	9.3%	10.3%	42.2%	10.4%	9.0%	8.9%	9.0%	9.5%
correlation	-	92.7%	37.1%	90.9%	99.8%	100.0%	100.0%	99.8%
tracking error	-	3.9%	39.6%	4.3%	0.6%	0.4%	0.4%	0.6%
beta	-	0.83	0.09	0.81	1.03	1.04	1.04	0.97
Sharpe (vs cash)	0.41	1.07	0.90	1.22	0.44	0.41	0.42	0.41
Sortino	-	1.35	1.18	1.55	0.54	0.50	0.52	0.50

Source: Bloomberg, CoinShares, data available as of close 13 November 2023

- Data derived from a balanced 60/40 equity/bond portfolio, with an equal weight deduction to allocate to Bitcoin, Gold, HFRX Global, CRB, REITs Top 5 Crypto

- MSCI World total return, Bloomberg Total Return 7-10 year bond, XBTUSD, Gold, HFRXGL Index, CRB & REIT indices are used

- Rebalanced per calendar quarter

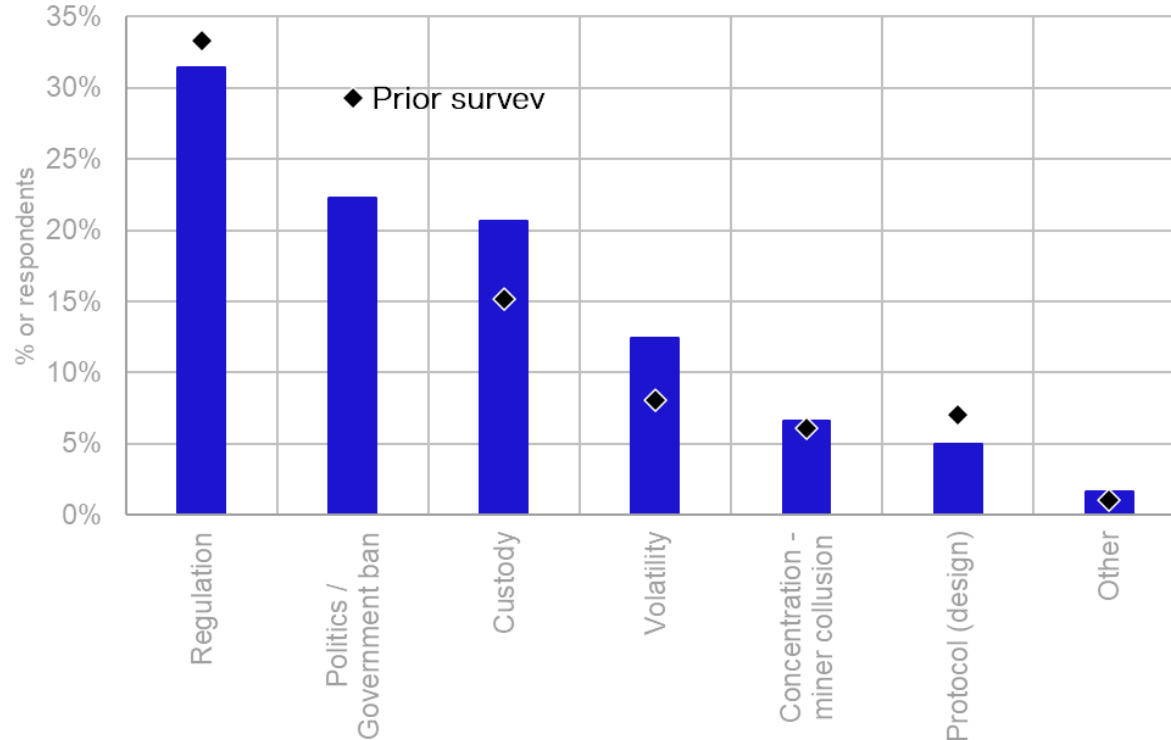
We have written a detailed portfolio analysis [here](#)

Fund Manager Survey

Our recent fund manager survey highlights a large fall in concerns over a government ban. While concerns surrounding regulation remain high, they too are falling. Bitcoin and Ethereum remain the most favoured digital assets. See [here](#).

What are the key risks for digital assets at present?

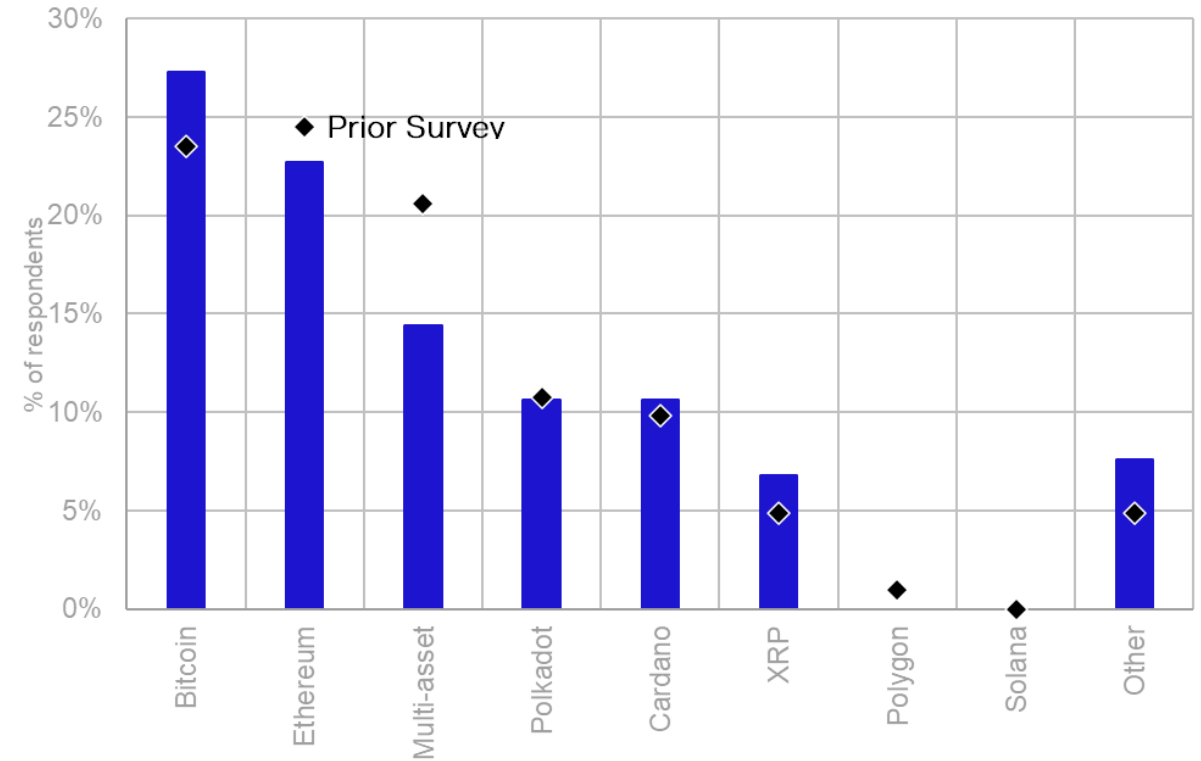
CoinShares



Source: CoinShares, data available as of close 18 October 2023

Which digital assets have you invested into?

CoinShares

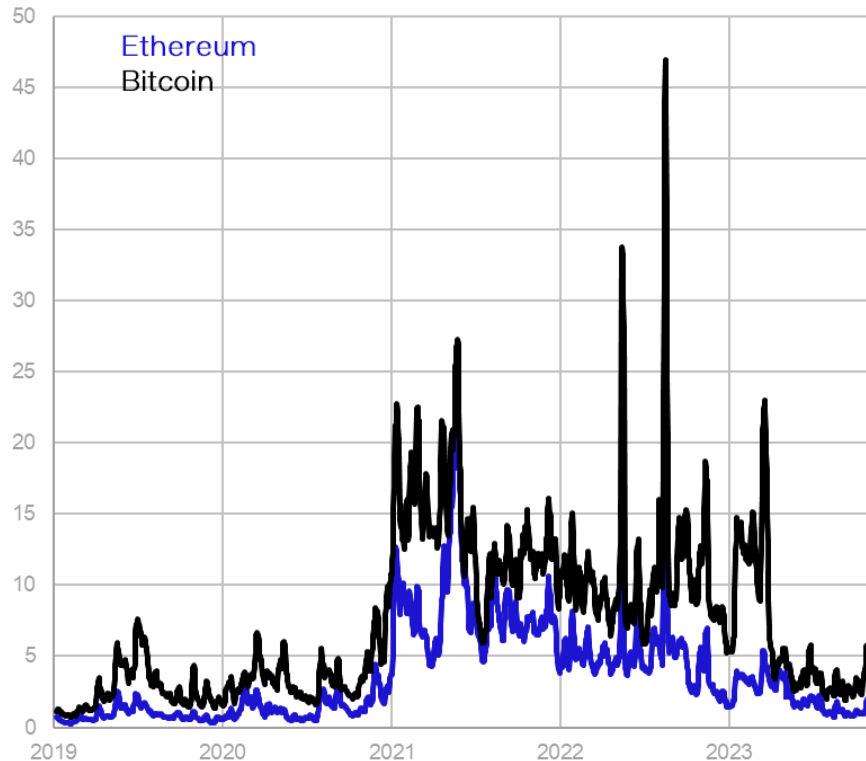


Source: CoinShares, data available as of close 18 October 2023

Crypto Volumes

While Bitcoin volumes have picked up sharply in recent weeks – Ethereum volumes are finally beginning to rise

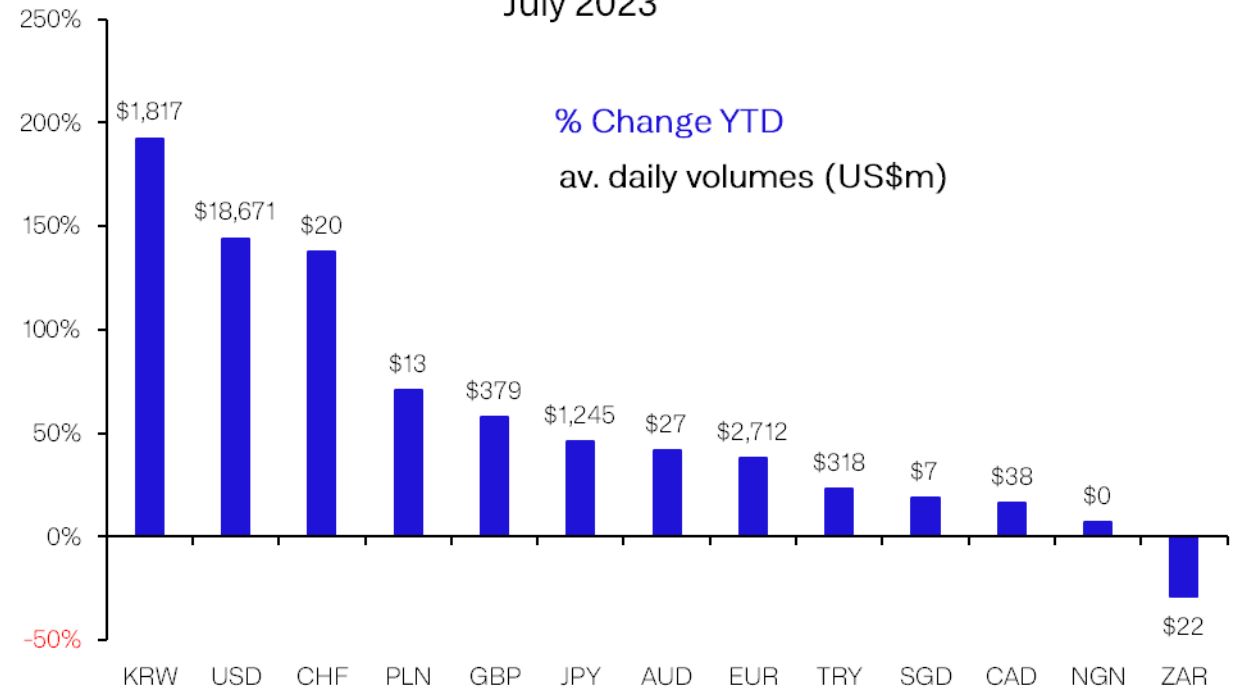
Trading volumes on trusted exchanges
(7d DMA US\$bn)



Source: Compass, CoinShares, data available as of close 12 November 2023

Korea, the US and Switzerland is leading the growth in volumes

Bitcoin Spot Volume Growth on trusted exchanges – since
July 2023



Source: Compass, CoinShares, data available as of close 12 November 2023

CoinShares

Market Correlations

Bitcoin's correlation to the Nasdaq is staying within its long term historical norms at 24%.

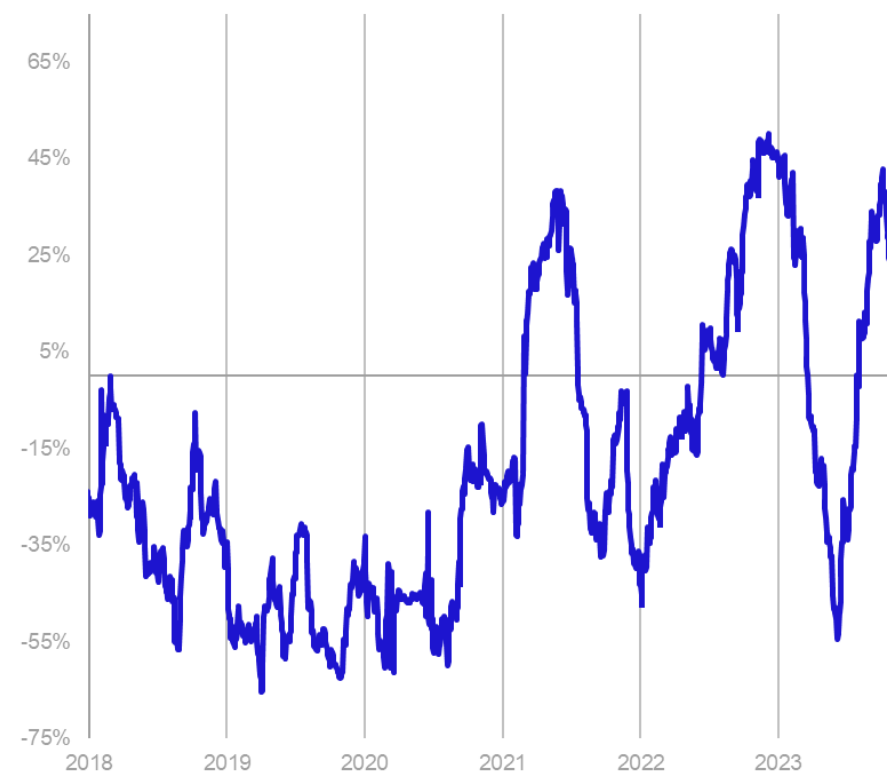
Nasdaq vs Bitcoin correlation of daily returns **CoinShares**
(3m trail)



Source: Bloomberg, CoinShares, data available as of close 13 November 2023

While Equity/Bond volumes remain alarmingly high

Equities vs Government Bonds correlation of daily returns (3m trail) **CoinShares**

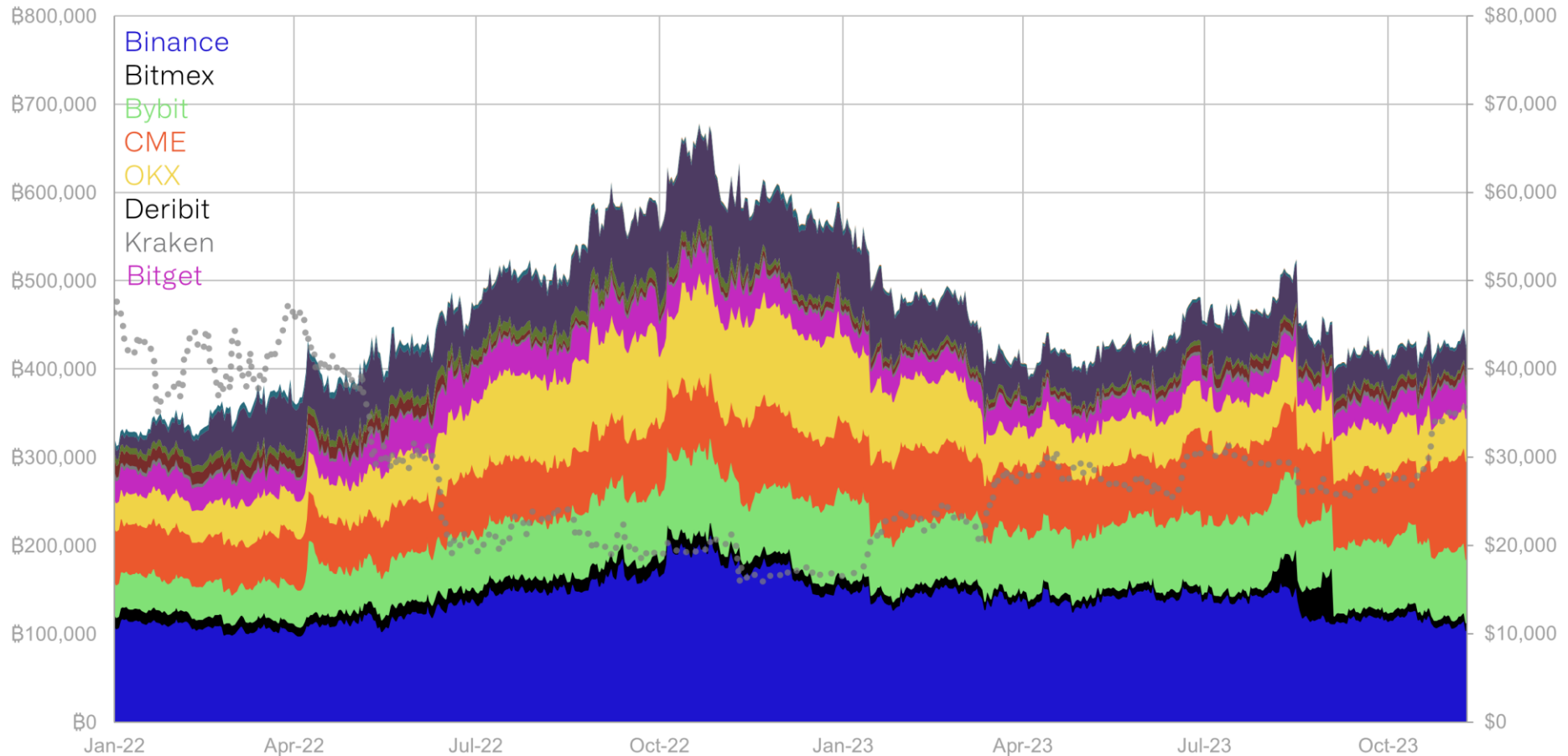


Source: Bloomberg, CoinShares, data available as of close 13 November 2023

Bitcoin Futures Overview

Bitcoin Futures Open Interest by Exchange (LHS) vs. Price (RHS)

CoinShares



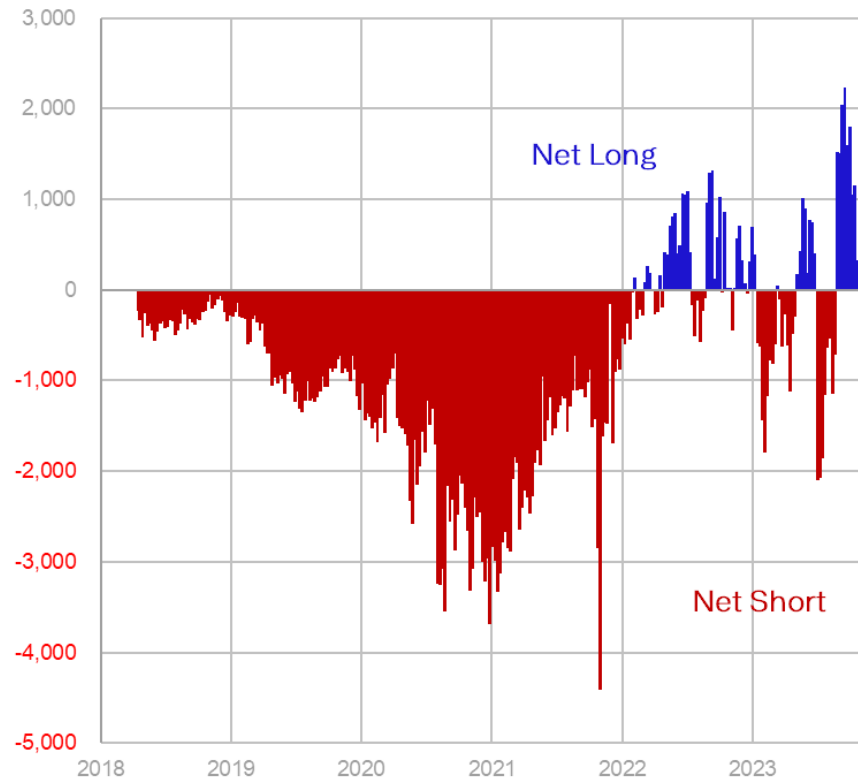
Source: Coinglass, Glassnode, CoinShares, data available as of close 09 November 2023

CFTC Bitcoin Futures

In the CME, futures contracts on Bitcoin have risen by 175% this year, while on a net basis moved sharply negative signifying increased exploitation of futures-spot arbitrage

CME Bitcoin Futures contracts net non-commercial outstanding

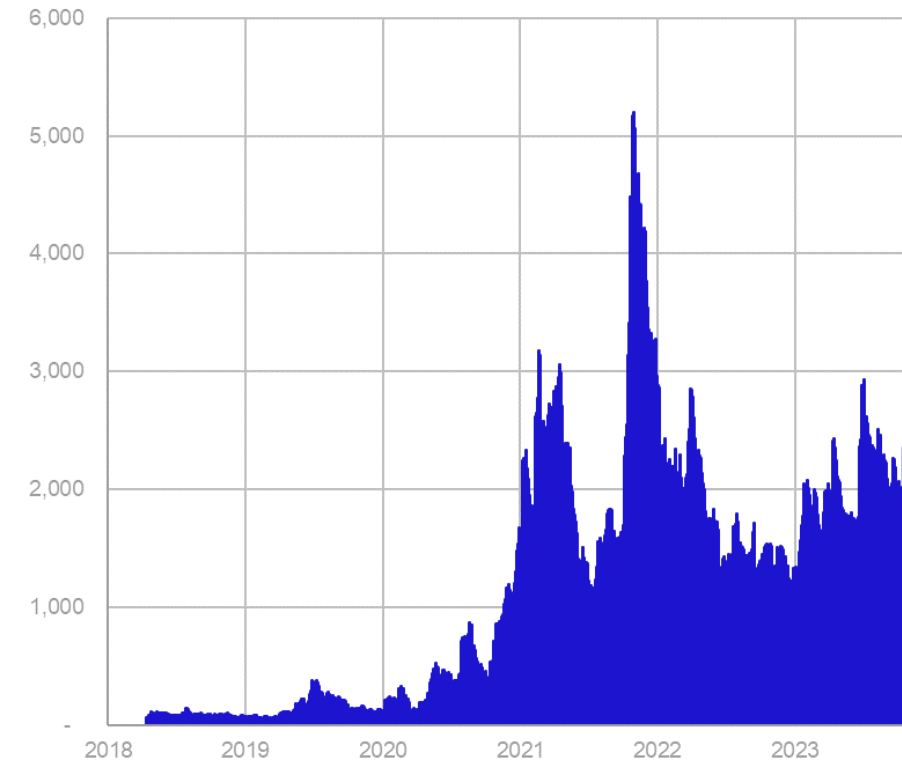
CoinShares



Source: Bloomberg, CoinShares, data available as of close 13 November 2023

CME Bitcoin Futures contracts total outstanding (US\$m)

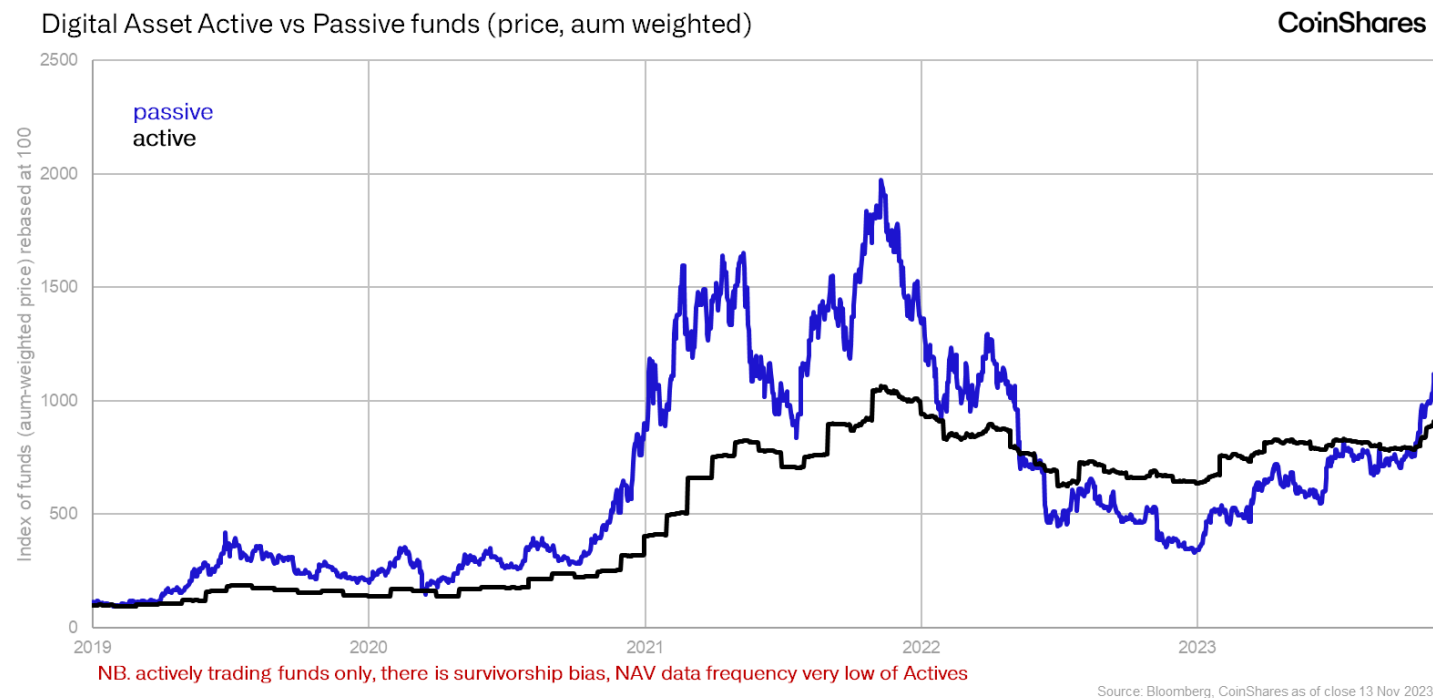
CoinShares



Source: Bloomberg, CoinShares, data available as of close 13 November 2023

Active vs Passive Crypto Investors

Passives tend to be higher beta, so have outperformed actives measurably in recent months



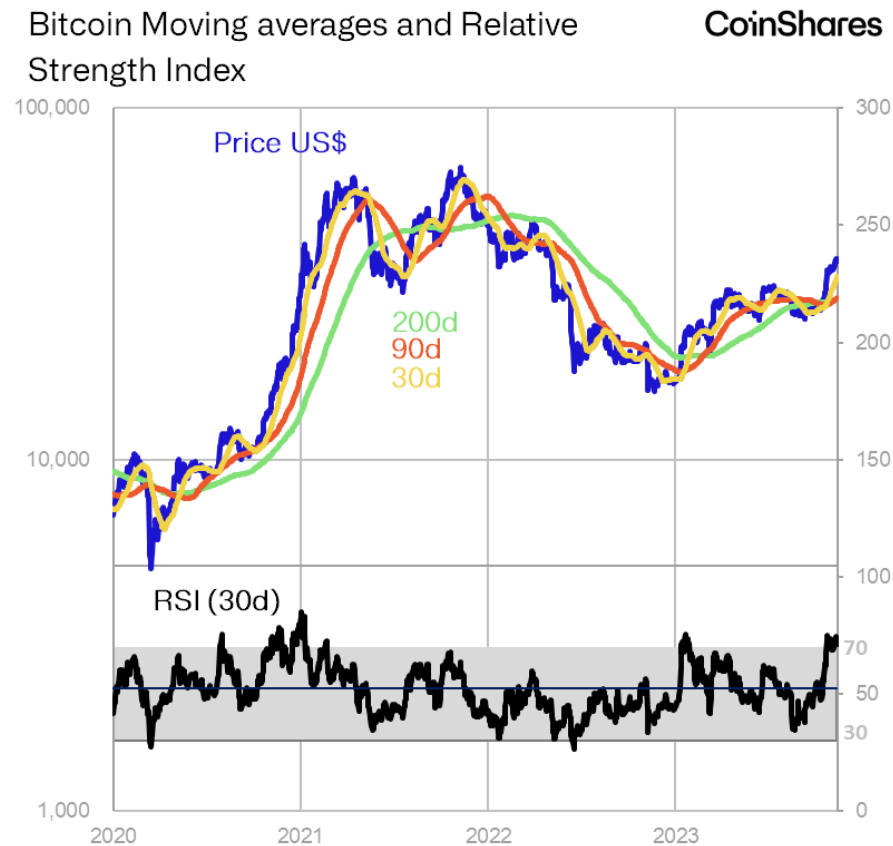
Digital Asset fund Performance & Risk		
CoinShares	Passive	Active
1m	47.5%	15.5%
3m	46.1%	11.4%
6m	81.0%	11.1%
1y	188%	35%
2Y	-41%	-14%
annualised returns (since 2019)	47%	63%
# actively trading	182	33
% actively trading (November)	100%	65%
assets under management (US\$m)	42,027	2,315
Average annual fee (%)	1.36	1.70
max drawdown	83.2%	41.5%
volatility	76.2%	41.2%
return dispersion (weighted)	4.1%	7.1%
sharpe	0.60	1.50

Source: Bloomberg, CoinShares as of close 13 Nov 2023

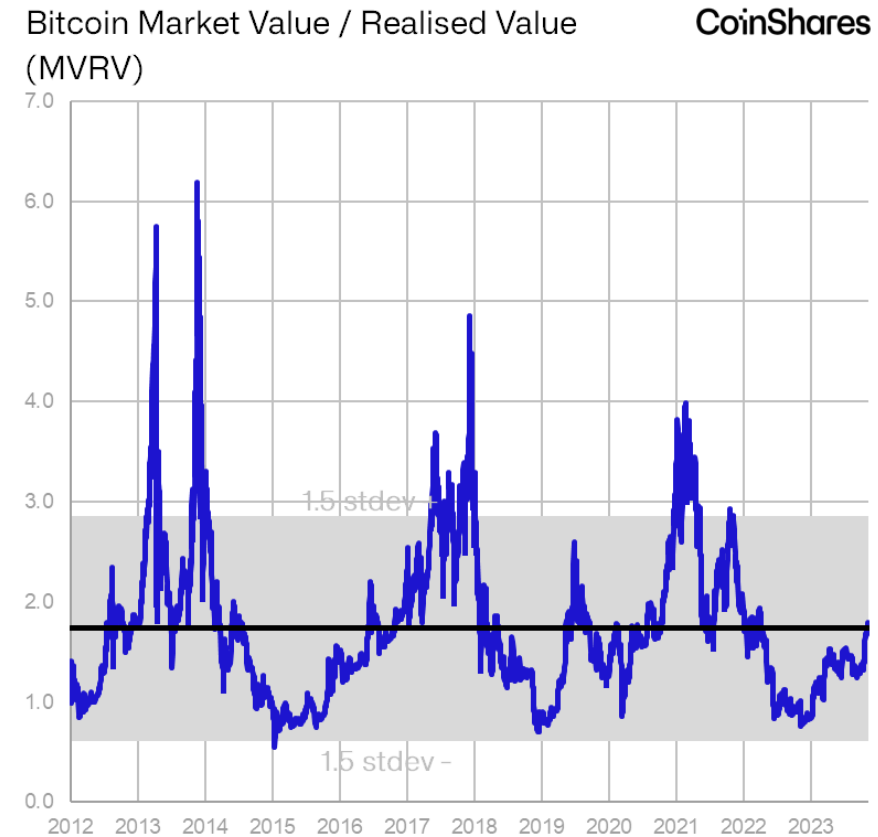
Technical/Value Indicators

Continued demand has left Bitcoin in overbought territory, with an RSI above 70.

MVRV Value indicator has risen to the longer term average for the first time since the prior bull market in 2021. More research on this indicator is available [here](#).



Source: Bloomberg, CoinShares, data available as of close 13 November 2023



Source: Glassnode, CoinShares, data available as of close 12 November 2023

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