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CoinShares Bi-Weekly Digest

Market Summary

Our last Bi-Weekly noted 11 Spot BTC ETFs were finally approved. Net flows now show US$1bnm of inflows, with the biggest winners being Blackrock (+$2.4bn) and Fidelity (+$2.2bn), and the biggest losers being Grayscale (-$5.2bn).

Blackrock's spot ETH ETF proposals have been delayed by the SEC and will continue to be delayed sporadically over the next few months. In a similar repeat to the spot Bitcoin ETF playbook, it is anticipated that the SEC will use the full time at their disposal to come to a decision. The next important date is May 23rd for the filers, Ark and VanEck. Bloomberg Intelligence analysts place a ~60% chance of approval in 2024, whilst other market participants, such as TD Cowen, believe approval is unlikely to come before 2025 at least.

Hong Kong also received its first spot BTC ETF application. It is clear the UK is increasingly isolated in its stance on crypto policy.

Solana delivers its long-in-development 'token extensions' feature, which allows businesses to execute payments and tokenise assets on a public blockchain, while simultaneously maintaining regulatory compliance and composability with other Solana programs and data. This development is a disruptive force against permissioned blockchains in large institutions and connected to permissionless blockchains as a scaling approach.

The ETH-BTC ratio has dropped following its recent increase, partly because of Spot ETF delays and hawkish macro signals. It is unlikely that the ETH-BTC ratio will reach its previous highs this year. The upcoming Dencun & Prague/Electra upgrades are not expected to significantly boost prices in the long term, as significant past upgrades have only led to short-term gains or, in fact, negative returns. This is because prices are more driven by macro factors such as BTC correlation, interest rates and liquidity. Moreover, in the event of adverse macroeconomic developments, Bitcoin may emerge as a preferred hedge.

Continuing the macro front, it is clear some of the negative BTC price action can be attributed to its inverse correlation against the DXY and related monetary policy expectations, which has strengthened YTD. Considering the cautiousness of the Fed, slightly higher Core PCE numbers and upside shocks to jobless claims and employment data pushing back expectations for first easing to May, having negative effects on price.

Important Macro release dates this week:

- JOLTS Job Openings, Consumer Confidence
- Wednesday – Mortgage Applications, ADP Employments, Employment Cost Index, Chicago PMI, FOMC Announcement
- Thursday – Initial Jobless Claim, Productivity and Unit Labour Costs, Construction Spending, ISM Manufacturing index
- Friday – Nonfarm Payrolls, Factory Orders, Michigan Consumer Sentiment

Further Research.

Digital Asset Fund Flows

US$1.07bn inflows in US since 11th Jan ETF Launch

- Recent price declines prompted by the substantial outflows from Grayscale in the US totalling US$5.2bn.
- Data suggests outflows are beginning to subside as the daily total continues to subside.
- In stark contrast, newly issued US ETFs which have seen inflows totalling US$5.94bn of inflows since Jan 11th launch.
- We believe that much of the price falls, despite these positive flows, was due to Bitcoin seed capital being acquired prior to 11th January.

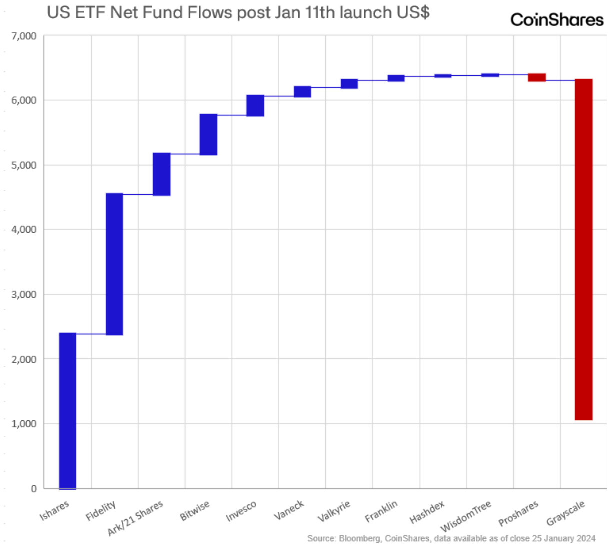
Full report here

US ETF Net Fund Flows post Jan 11th launch (US$m)

CoinShares

		AuM	Net flows since 11th Jan 2024	Net flows this week
IBIT US Equity	Ishares Bitcoin Trust	2,440	2,382	198
FBTC US Equity	Fidelity Wise Origin Bitcoin	2,201	2,154	208
ARKB US Equity	Ark 21Shares Bitcoin Etf	637	624	17
BITB US Equity	Bitwise Bitcoin Etf	605	611	20
BTCO US Equity	Invsco Glxy Btcn Etf	298	291	3
HODL US Equity	Vaneck Bitcoin Trust	127	130	0
BRRR US Equity	Valkyrie Bitcoin Fund	114	113	0
EZBC US Equity	Franklin Bitcoin Etf	59	62	0
DEFI US Equity	Hashdex Bitcoin Futures Etf	17	15	1
BTCW US Equity	Wisdomtree Bitcoin Fund	9	9	0
BITO US Equity	Proshares Bitcoin Strategy E	1,948	-92	4
GBTC US Equity	Grayscale Bitcoin Trust Btc	21,239	-5,233	-192
ex GBTC & BITO		**6,508**	**6,392**	**448**
Total		**29,695**	**1,067**	**260**

data as of close 30/01/2024



Flows by Provider (US$m)

CoinShares	*Week flows*	*MTD flows*	*YTD flows*	*AUM*
Grayscale Investments LLC/U	*-191.7*	*-5,232.9*	*-5,233*	*28,538*
iShares ETFs/USA	*198.4*	*2,382.2*	*2,382*	*2,440*
XBT Provider AB/Sweden	*-1.6*	*-37.5*	*-38*	*2,355*
Fidelity ETFs/USA	*208.2*	*2,154.1*	*2,154*	*2,201*
21Shares AG	*0.3*	*-51.4*	*-51*	*2,196*
ProShares ETFs/USA	*3.5*	*291.1*	*291*	*2,059*
Purpose Investments Inc ETF:	*-9.4*	*-119.7*	*-120*	*1,751*
ETC Issuance GmbH	*1.8*	*-108.6*	*-109*	*1,166*
Other	*39.7*	*1,840.4*	*1,840*	*9,840*
Total	***249.3***	***1,117.5***	***1,118***	***52,546***

Flows by Asset (US$m)

CoinShares	*Week flows*	*MTD flows*	*YTD flows*	*AUM*
Bitcoin	*249.6*	*1,051.2*	*1,051*	*37,844*
Ethereum	*-1.6*	*1.3*	*1*	*9,819*
Multi-asset	*-0.5*	*27.5*	*27*	*3,259*
Solana	*1.6*	*-7.5*	*-7*	*775*
Binance	*-*	*0.3*	*0*	*313*
Litecoin	*-*	*0.4*	*0*	*111*
Short Bitcoin	*-*	*26.6*	*27*	*102*
XRP	*-*	*3.2*	*3*	*68*
Cardano	*0.0*	*4.8*	*5*	*60*
Tron	*-*	*-*	*-*	*33*
Other	*0.2*	*9.8*	*10*	*162*
Total	***249.3***	***1,117.5***	***1,118***	***52,546***

Source: Bloomberg, CoinShares, data available as at 30 Jan 2024

** Independent daily attestation by The Network Firm*

Flows by Exchange Country (US$m)

CoinShares	*Week flows*	*MTD flows*	*YTD flows*	*AUM*
Australia	*0.2*	*4.5*	*4*	*31*
Brazil	*-0.4*	*27.3*	*27*	*475*
Canada	*-7.8*	*-217.6*	*-218*	*3,376*
France	*-0.1*	*1.7*	*2*	*19*
Germany	*3.0*	*-121.5*	*-122*	*2,815*
Sweden	*-1.6*	*-35.8*	*-36*	*2,366*
Switzerland	*0.3*	*-20.0*	*-20*	*3,211*
United States	*255.7*	*1,471.6*	*1,472*	*38,832*
Other	*-0.0*	*7.5*	*8*	*1,421*
Total	***249.3***	***1,117.5***	***1,118***	***52,546***

CoinShares 2024 Outlook

- Macro and its impact on bitcoin prices: Bitcoin typically exhibits a negative correlation with the US Dollar, which is understandable given its role as an alternative store of value. However, its correlation has recently increased, a trend often seen during periods of monetary policy shifts or market stress, when investors flock to more stable assets. We anticipate that this pattern is temporary and expect Bitcoin to revert to trading inversely to the US Dollar over the next 12 months.

- Blockchain equities: In 2024, blockchain equities are at risk from either a potential recession or a return of inflation. Since monetary policy changes usually impact the economy after 12 to 18 months, the effects of the last rate hike in July 2023 are still unfolding. If the economy worsens, leading to deflation and higher unemployment, corporate earnings could suffer before the Fed can lower interest rates. Alternatively, premature rate cuts by the Fed might cause inflation to spike, driving up commodity prices and spending, forcing the Fed to restart rate hikes. Balancing these economic risks is vital for the blockchain industry's performance this year.

- The Mining Cycle Remains in Rebalancing Phase: 2024 could be a dual cycle year. The network may enter the year still firmly in a Rebalancing phase (price and hashrate move in balance), and that the network will remain in this phase until some time after the halving. Then, if as expected, price starts to outpace miners' ability to deploy new hashrate, we will reenter the Mining Gold Rush (the bitcoin price is rising rapidly, outpacing hashrate growth). If that indeed happens, mining margins will again be astronomical, causing them to restrict the already halving-restricted flow of new supply entering the market, right as demand accelerates.

- If the Mempool Fails to Clear, the Stage is Finally Set for Bitcoin Plugins: Increasing on-chain fees caused by the clogged up mempool will create fertile ground for Bitcoin Plugins. We expect the usage of these L2s and sidechains to grow at a healthy pace, and to see an increasing amount of services make use of their ability to materially reduce on-chain footprint.

- EIP 4844 – A Crucial Piece in Ethereum's Scaling Roadmap: 2024 will mark an important year for Ethereum to begin achieving its scaling roadmap, and the decreases in fees for users transacting using Layer 2 solutions such as Optimism and Arbitrum, as well as the increase in TPS are set to vastly optimise the networks ability to capture value in the Smart Contract Platform market.

Read more

CoinShares 2024 Outlook Cont.

- Solana poised to eat into Ethereum's market share for DeFi Apps and Data Availability: Solana's solidified re-emergence as a formidable competitor indicates a shifting tide in the crypto ecosystem due to its arguably better infrastructure as a DeFi platform and data availability layer.

- Developer Activity Set to Rebound in 2024: We are expecting a significant pickup in developer activity for Bitcoin, Ethereum, Solana. The rising popularity of using Layer 2 solutions to optimise payment settlement and explore alternative use cases will drive the creation of new and innovative projects on Bitcoin. For Ethereum, EIP-4844 will spark an increase in activity and creation for Layer 2's and underlying applications, as well as a strong return of the network in H2, which was a laggard all throughout 2023. Lastly, for Solana, its propulsion as one of the top performers of 2023 as well as a successful implementation of Firedancer will spark huge developer interest to build applications that can handle scale

- Ethereum Sentiment Likely to Improve: Fund flows data suggest that Ethereum faced stiff competition from Solana, which has garnered more than double Ethereum's inflows, at US$167 million compared to Ethereum's US$78 million. Ethereum Foundation has demonstrated a growing proficiency in successfully rolling out major network upgrades, as evidenced by the seamless execution of both Shanghai and The Merge, although consistent delays may be frustrating investors. The lack of enthusiasm appears unwarranted, especially considering that Ethereum is the only digital asset currently offering an attractive yield, with its net issuance being slightly negative. Furthermore, issuers are already applying for a spot-based ETF in the US, improving sentiment and the launch of these ETFs are likely to see Ethereum's share of flow recover in the second half of 2024.

- Digital Art & Culture on blockchains: birth of an asset class? Our mid case scenario, and in the event that digital art on blockchains secures a 3% share of the art and collectibles owned by High Net Worth Individuals (HNWIs) by 2030, its market value could ascend to US$100 billion, which would signify a remarkable 15-fold increase compared to present valuations.

- 2024 Regulatory Outlook: 2024 is also an election year in the UK. So, unless the required legislation can be introduced and passed by parliament early in 2024 there is a real risk that there will be a delay in the implementation of the UK's proposals to regulate digital assets within its existing financial regulation framework.

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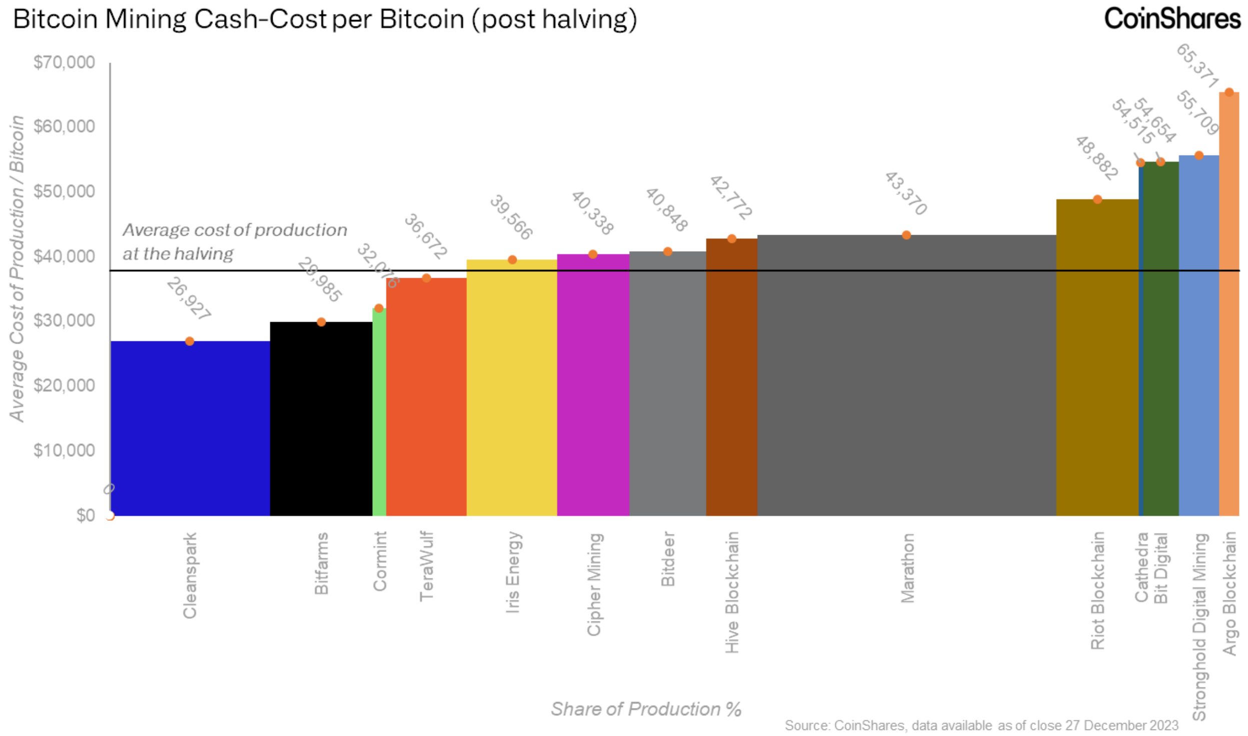
CoinShares Mining Report

- Growth and Sustainability Concerns: The Bitcoin mining network has grown by 90% in 2023, raising questions about its environmental sustainability and profitability, particularly the efficiency and energy cost of the network.
- Mining Dynamics and Hashrate Trends: Bitcoin mining's "difficulty" adjustment mechanism ensures supply inelasticity. Post-halving, higher-cost miners may struggle due to decreased immediate income. This document assesses the average cost of production per Bitcoin post-halving, with findings showing an average cost of US$37,856.
- Efficiency Improvements in the Mining Network: Despite the increasing power demand of the network, there have been significant improvements in efficiency. Using nonce data has helped analyse different mining models' efficiency. Currently, the network's average efficiency is 34W/T, with projections showing a potential drop to 10W/T by mid-2026.
- Bitcoin Mining and Environmental Impact: Bitcoin mining often utilises stranded energy, typically in remote locations. Approximately 53% of Bitcoin mining energy is now sustainably sourced according to Daniel Batten. Bitcoin mining could significantly reduce emissions caused by gas flaring, a major environmental concern.
- Conclusion and Miner Positioning: Most miners will face challenges from high SG&A costs, necessitating cost reductions to remain profitable. Only a handful of miners are expected to operate profitably if Bitcoin prices remain above $40,000.



Read more

Blockchain Equities

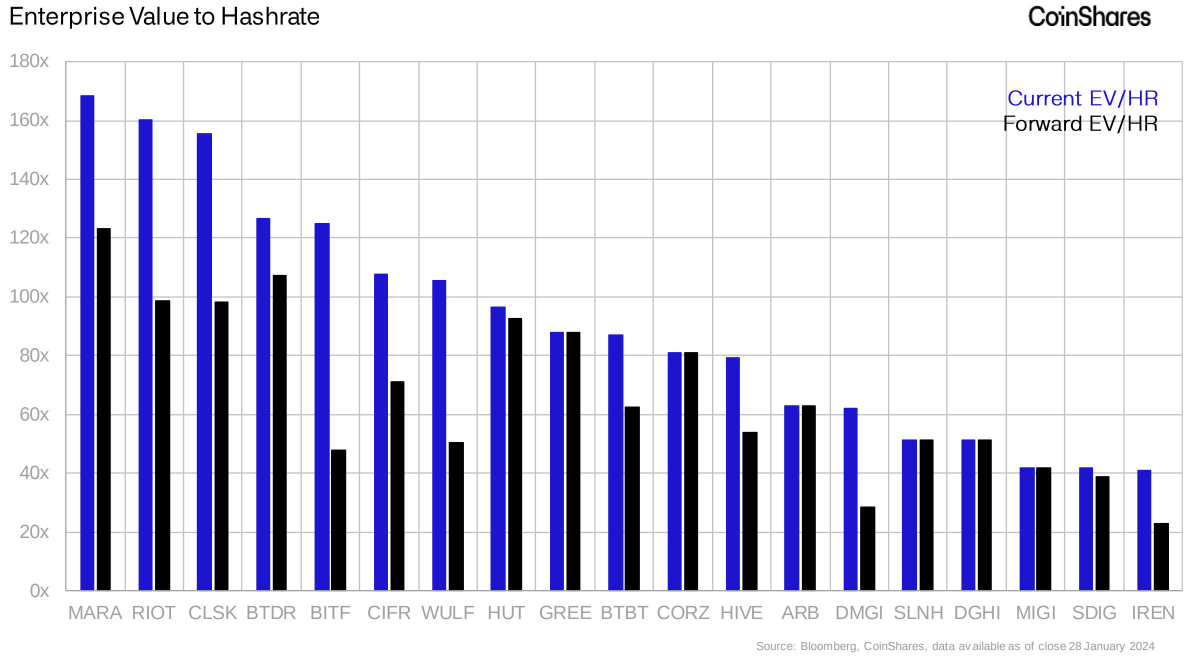
- The Enterprise Value to Hashrate ratio (EV/HR) is a crucial indicator for assessing the value of miners based on their current mining capacity.

- Current EV/HR differs from forward EV/HR as it doesn't account for projected growth rates, especially concerning challenges like the halving.

- Companies like Riot, Marathon, and Cleanspark on the left side have a premium compared to Digihost, Mawson, and Core Scientific on the right.

- Discrepancies in premiums can be due to factors like stronger balance sheets, better mining economics, access to capital markets and enhanced liquidity.

- Notably, a discount would signify structural issues such as high indebtedness, high cost to mine and/or an inefficient fleet.



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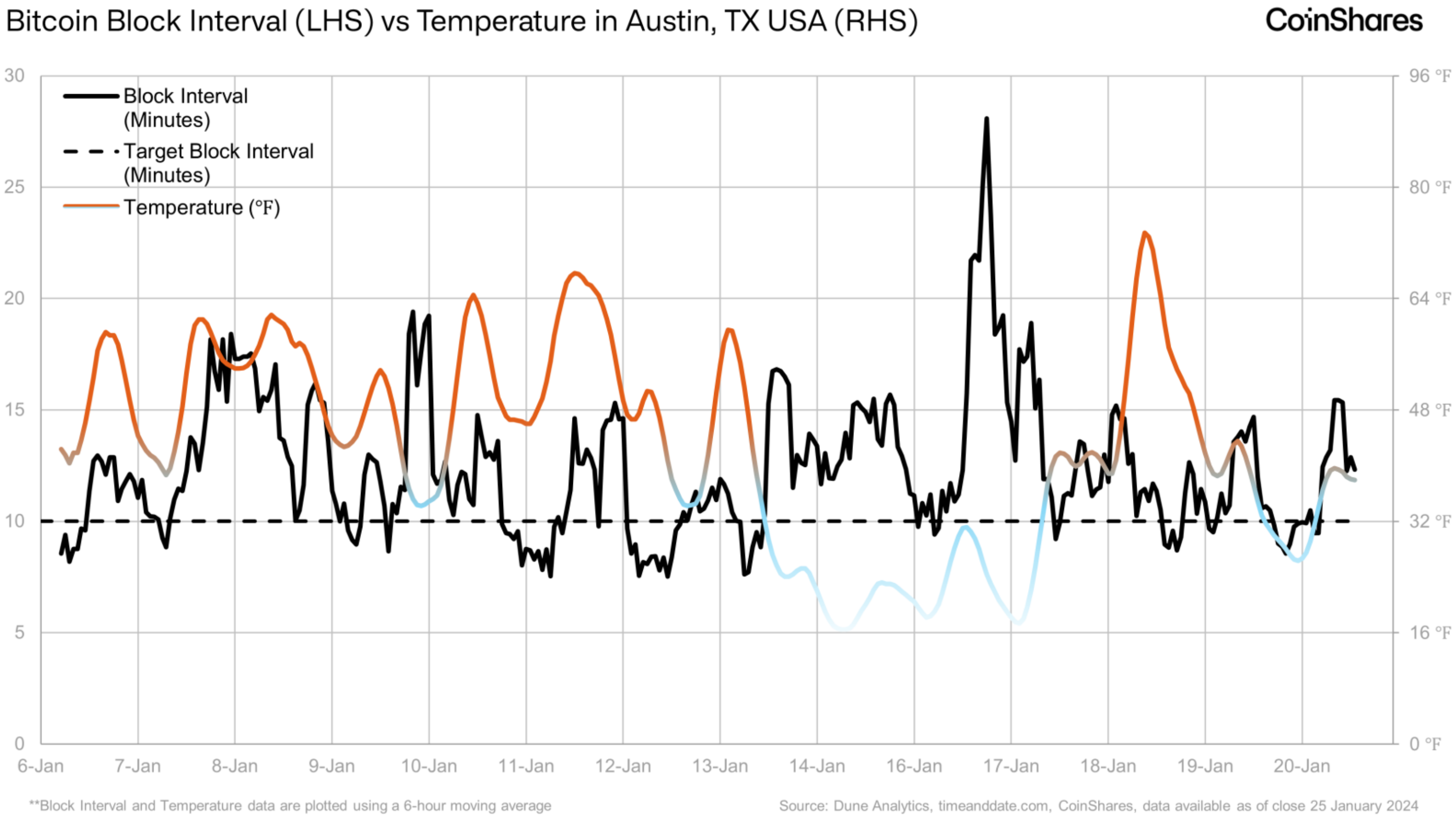
Bitcoin Fundamentals

In recent weeks, temperatures in Texas have dropped below freezing, causing households to crank up their heating systems and sending electricity consumption to unusually high levels.

To support Texas electrical grid performance, regional Bitcoin miners shut off their operations. Such miners' partner with grid operators, opting to receive higher payments for supporting grid reliability rather than from Bitcoin.

The reduction in mining led to slightly slower Bitcoin block production.



Bitcoin in a Portfolio

A portfolio weighting of 4% achieves a Sharpe ratio of 1.17 (0.67>benchmark), a correlation fall of 7% and an increase in maximum drawdown of 1.6% 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)	4.1% Bitcoin	4.0% Bitcoin (no rebalancing)	4.1% Ethereum	4.1% Gold	4.1% HFRX	4.1% CRB	4.1% REITs
annualised returns	7.5%	14.9%	42.1%	16.5%	7.7%	7.3%	7.4%	7.6%
max drawdown	21.4%	23.0%	67.2%	22.4%	20.8%	20.6%	20.7%	21.7%
volatility	9.2%	10.2%	41.9%	10.3%	8.9%	8.8%	8.8%	9.4%
correlation	-	92.8%	37.1%	90.9%	99.8%	100.0%	100.0%	99.8%
tracking error	-	3.8%	39.2%	4.3%	0.6%	0.4%	0.4%	0.6%
beta	-	1.03	1.50	1.02	0.97	0.96	0.96	1.03
Sharpe (vs cash)	0.50	1.17	0.93	1.32	0.52	0.49	0.50	0.49
Sortino	-	1.49	1.21	1.69	0.65	0.61	0.62	0.60

Source: Bloomberg, CoinShares, data available as of close 29 January 2024

- Data derived from a balanced 60/40 equity/bond portfolio, with an equal weight detraction 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

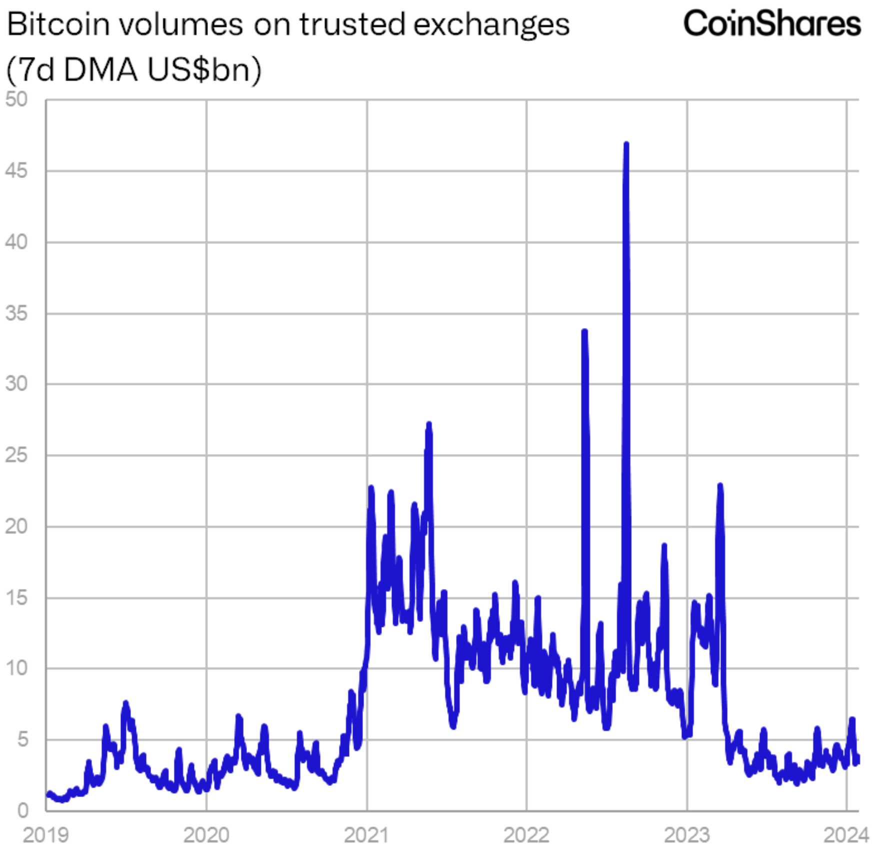
- Rebalanced per calendar quarter

We have written a detailed portfolio analysis here

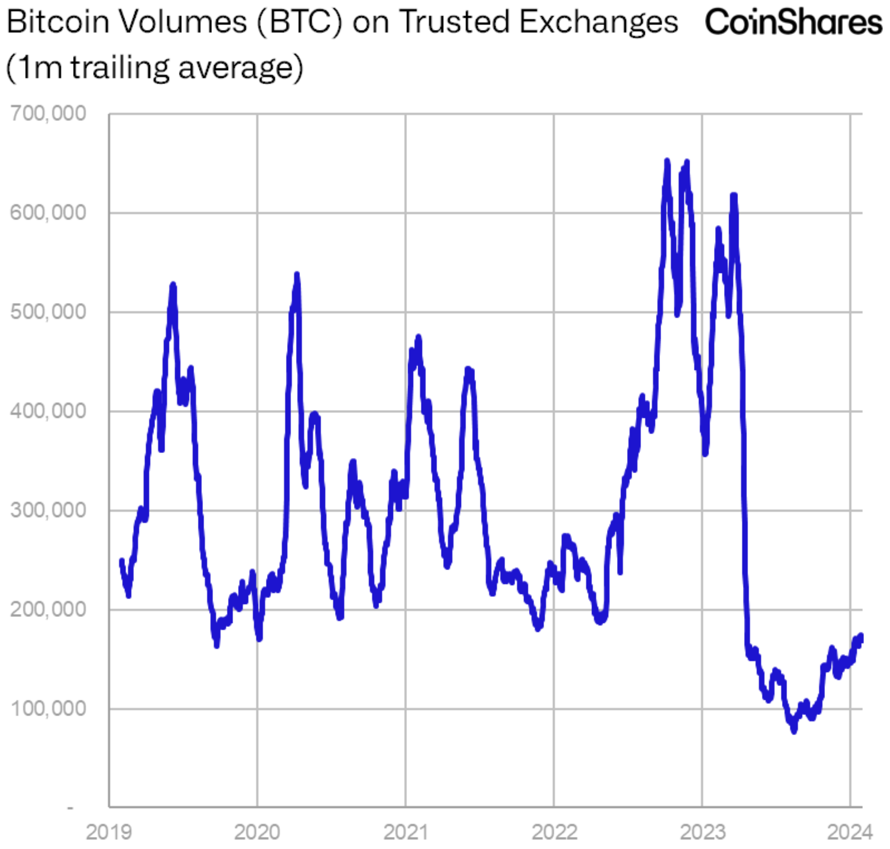
Crypto Volumes

Volumes are rising this year but remain remarkably low given the increase ETF activity. Coinbase has had its second largest OTC volumes in history recently.

In Bitcoin terms, volumes are rising sharply, but remain below the long term average.



Source: Compass, CoinShares, data available as of close 29 January 2024



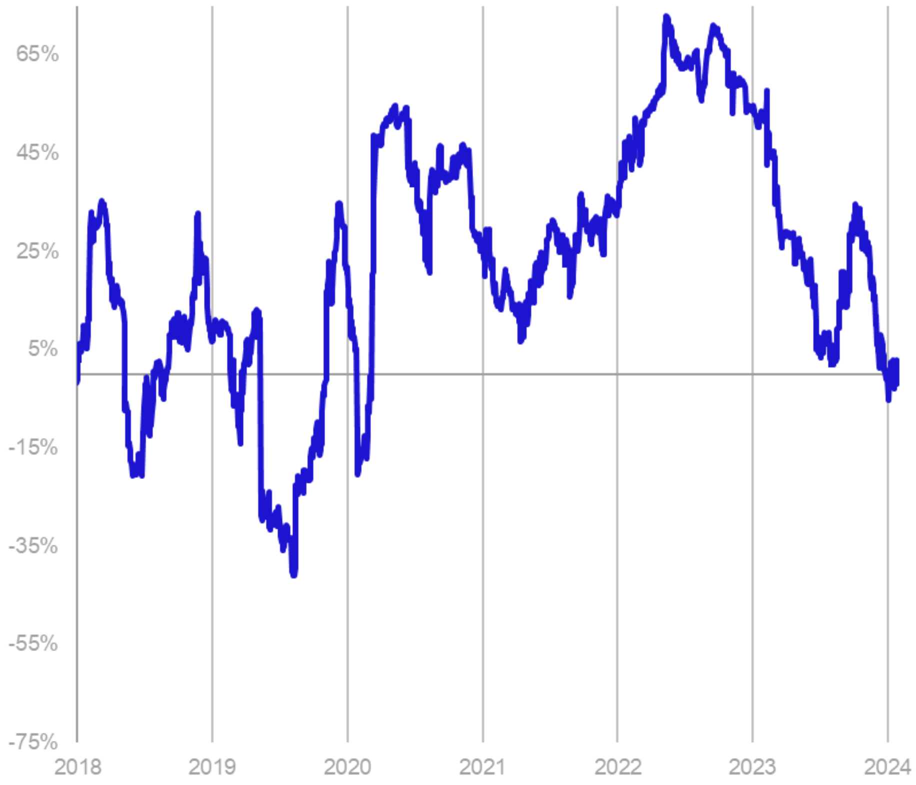
Source: Bloomberg, CoinShares, data available as of close 29 January 2024

Market Correlations

Bitcoin's correlation to the Nasdaq is staying within its long term historical norms having recently fallen to just 1.9%

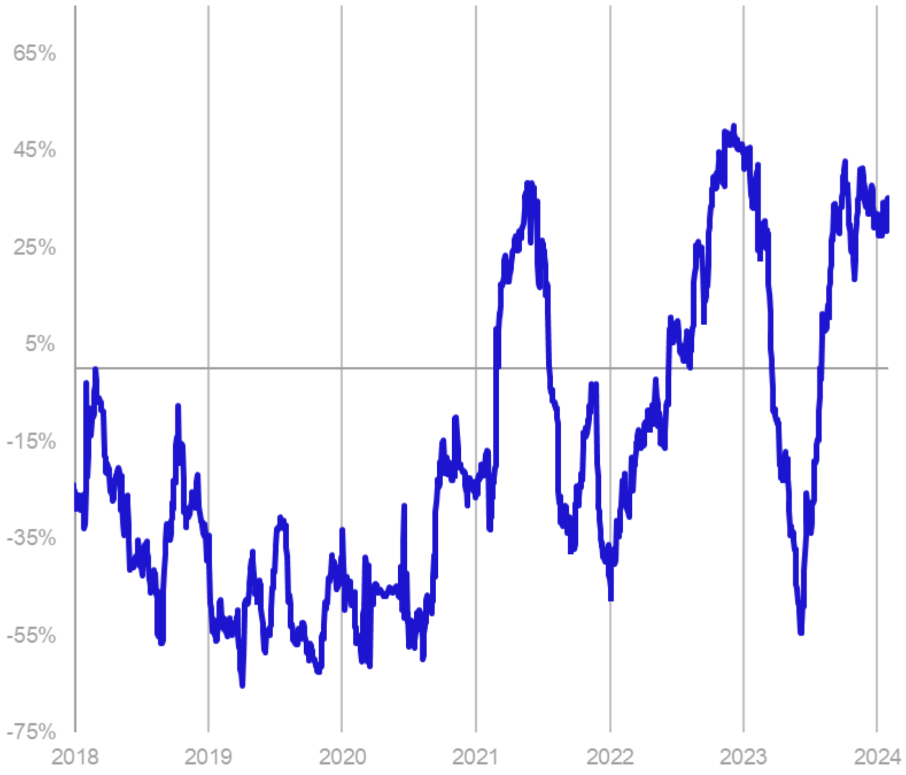
While Equity/Bond volumes remain alarmingly high at 35%, this is likely to drive the need for alternative, diversifying assets.

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



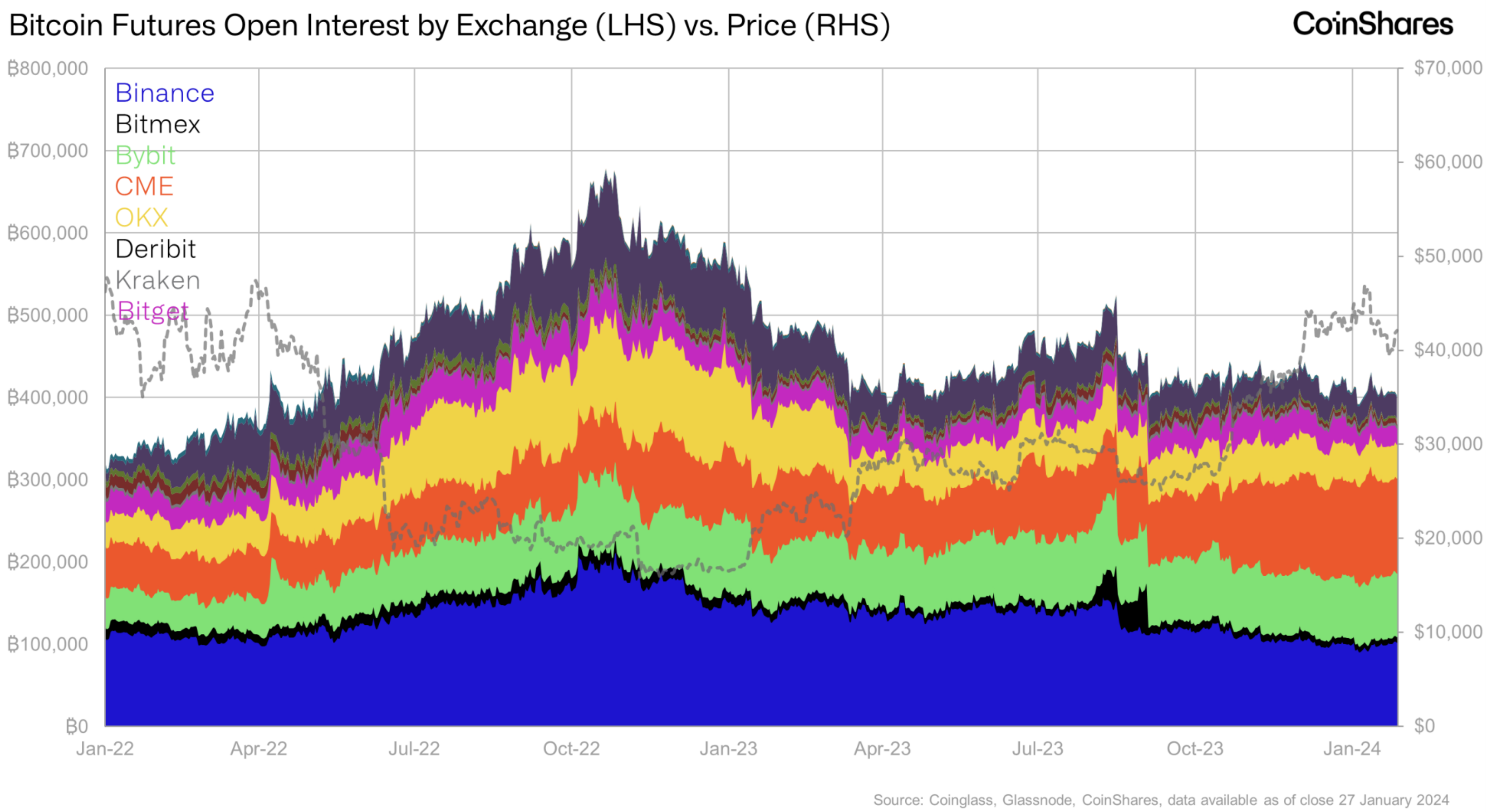
Source: Bloomberg, CoinShares, data available as of close 29 January 2024

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



Source: Bloomberg, CoinShares, data available as of close 29 January 2024

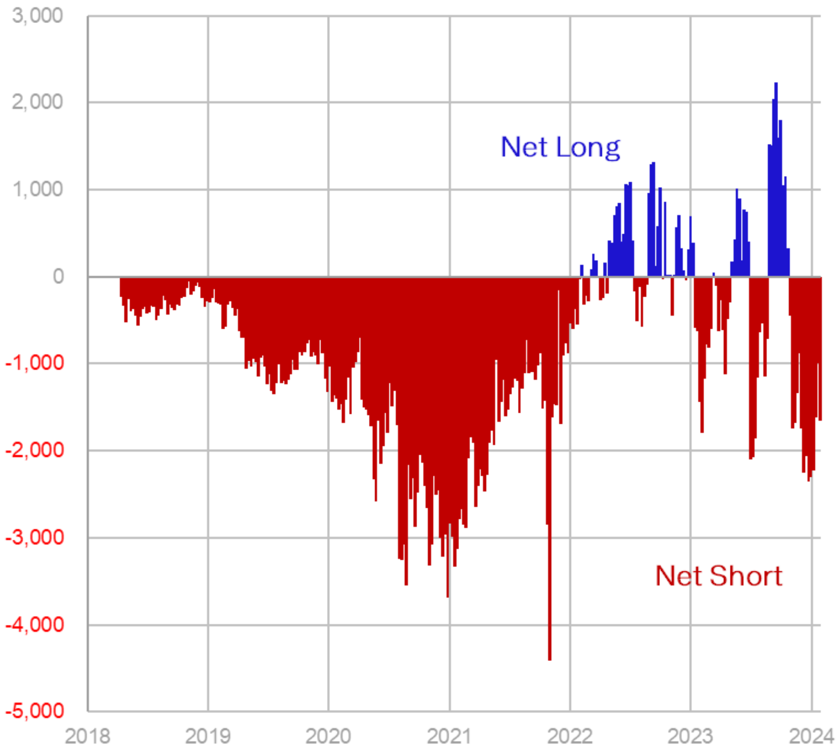
Bitcoin Futures Overview



CFTC Bitcoin Futures

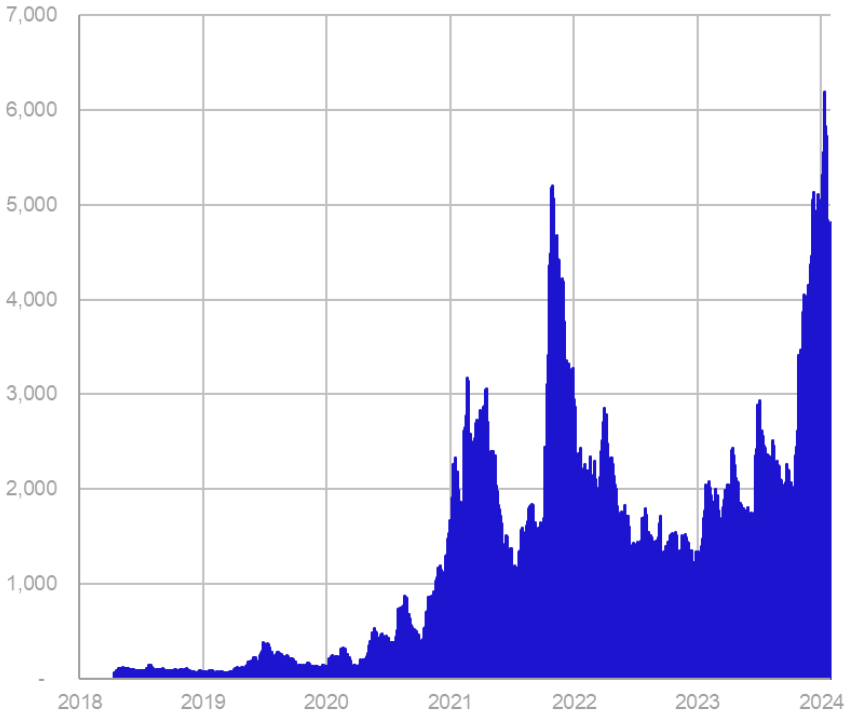
In the CME, futures contracts on Bitcoin have subside after the recent US$6bn all time high. Futures traders remain net short, often the case during positive price momentum environments as they exploit the basis trade.

CME Bitcoin Futures contracts net non-commercial oustanding



Source: Bloomberg, CoinShares, data available as of close 29 January 2024

CME Bitcoin Futures contracts total outstanding (US$m)



Source: Bloomberg, CoinShares, data available as of close 29 January 2024

Active vs Passive Crypto Investors

Passives tend to be higher beta, so have outperformed actives measurably in recent months. While active funds are relatively small in comparison to passive investments, they continue to have measurably lower volatility.

Digital Asset Active vs Passive funds (price, aum weighted)

NB. actively trading funds only, there is survivorship bias, NAV data frequency very low of Actives

Source: Bloomberg, CoinShares as of close 29 Jan 2024

Digital Asset fund Performance & Risk

CoinShares

	Passive	*Active*
1m	*3.9%*	*-1.5%*
3m	*37.8%*	*15.9%*
6m	*78.8%*	*28.1%*
1y	*161%*	*55%*
2Y	*39%*	*15%*
annualised returns (since 2019)	*50%*	*62%*
# actively trading	*188*	*28*
% actively trading (January)	*99%*	*57%*
assets under management (US$m)	*48,671*	*2,371*
Average annual fee (%)	*1.30*	*1.65*
max drawdown	*83.2%*	*41.5%*
volatility	*75.4%*	*40.6%*
return dispersion (weighted)	*5.3%*	*4.5%*
sharpe	*0.65*	*1.50*

Source: Bloomberg, CoinShares as of close 29 Jan 2024

Technical/Value Indicators

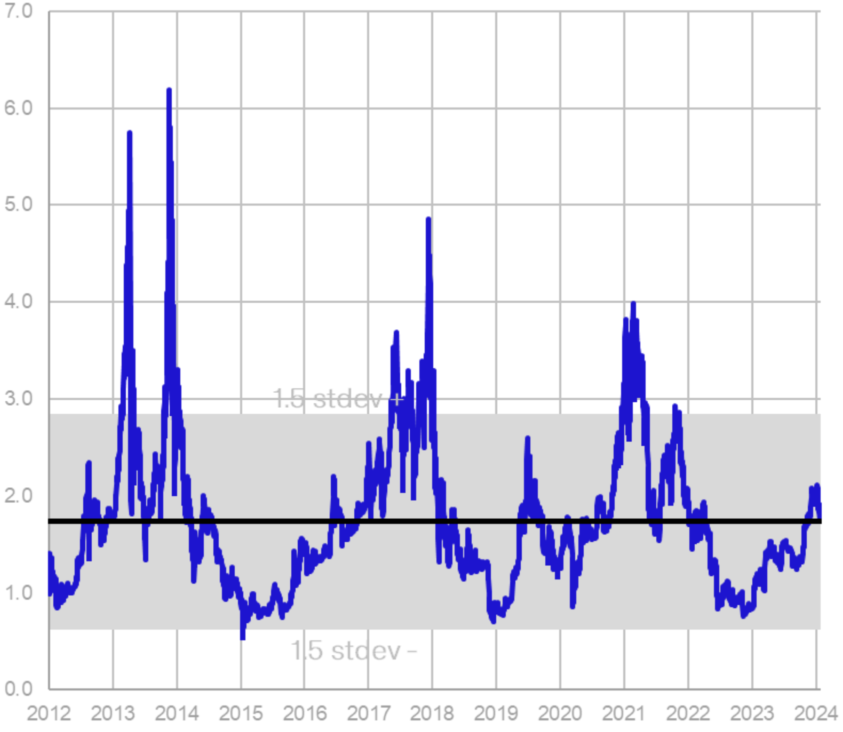
Recent price falls have corrected the overbought position signaled by the RSI falling back to the 50 level.

MVRV Value indicator is at the long term average at this point. More research on this indicator is available here.

Bitcoin Moving averages and Relative Strength Index

Source: Bloomberg, CoinShares, data available as of close 29 January 2024

Bitcoin Market Value / Realised Value (MVRV)



Source: Glassnode, CoinShares, data available as of close 29 January 2024

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