

WisdomTree

Crypto Monthly

31 August 2023

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Cryptocurrencies can demonstrate higher volatility than other asset classes.**

Market Commentary

Crypto Market waiting for a catalyst

Since the re-emergence of positive sentiment in crypto around Blackrock's spot bitcoin ETF filing in June, the price of bitcoin has fallen back to almost where it was before the filing. There has been only 4% price advance since, although, at one point in June, the price of bitcoin was already up by 20%. This lacklustre price momentum is most likely due to continued denials by the Securities and Exchange Commission (SEC) of a spot bitcoin ETF product in the US. In early September, we got some positive news though, when a US federal court of appeals ruled in favour of Grayscale and ordered the SEC to reconsider Grayscale's spot bitcoin ETF conversion filing.

Finding new grounds for the denial of spot bitcoin ETF becoming more difficult

Our current thinking is that it has become more difficult for the SEC to find new grounds based on which it will continue to deny a spot bitcoin ETF in the US. Once a spot product launches in the US, it will immediately change the competitive landscape, and in our view, significant investment flows will move to these products at the expense of bitcoin futures, closed-end funds, individual companies with large bitcoin treasuries and even centralised exchanges. We expect to see an intense price war but also an expanded investor base, which will benefit the industry long-term. We wrote a blog post about the potential changes in competitive landscape and it can be found here: [Grayscale wins the SEC case – a spot bitcoin ETF just got a bit closer \[1\]](#).

Short-term technical outlook for crypto looks a bit weak

Short-term, the technical outlook for the sector looks a bit weak, unless a major catalyst emerges. The liquidity situation remains constrained and interest rates will potentially follow 'higher for longer' narrative. In this context, the prices of digital assets are likely to struggle to move significantly higher short-term. We expect the large-cap season to continue and large-cap assets (bitcoin, ethereum) to continue outperforming smaller coins and tokens in aggregate.

Integration of traditional fiat payment systems and crypto has started

In August, PayPal announced the launch of PayPal USD token, PYUSD, on Ethereum. This is significant because this will enable the 431 million active PayPal accounts [2] to make peer-to-peer payments or payments with over 30 million merchants around the world with PYUSD and potentially use the token in decentralized finance and NFTs in the future. PayPal users will also be able to use the service with Venmo users in the US.

Visa is another company exploring ways to integrate traditional finance with crypto. The company is testing a way to offer a solution where on-chain blockchain transactions or 'gas' fees could be paid with a credit card. Successful implementation of this solution could be a major development in the industry as it would no longer require those wanting to interact with the Ethereum blockchain to hold Ether in their wallets.

[1] <https://www.wisdomtree.eu/en-gb/blog/2023-09-11/grayscale-wins-the-securities-and-exchange-commission-sec-case>

[2] PayPal

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Focus of the Month - Tokenisation

Tokenisation of real-world assets has emerged as a major use case for blockchains and has the potential to revolutionise the way we invest and manage real-world assets, including financial assets. Just as internet made it easy to exchange information between people around the world, tokenisation has the potential to make it easy to exchange value globally, often without intermediaries.

Tokenisation with smart contracts is the process of converting real-world assets or values into digital tokens on a blockchain. Tokenisation enables fractionalisation of assets and an ability to create verifiably scarce digital assets. Many physical or digital assets can be converted to digital tokens on a blockchain but not all assets should be tokenised. Some assets that could be suitable for tokenisation include financial assets, real estate, precious metals, copyrights, carbon credits, patents, art, wine, music, collectibles etc.

Using programmable smart contract blockchains enables automation of many previously cumbersome, slow and expensive functions. For example, global regulatory rules could be programmed into smart contracts in a way that only after certain regulatory criteria is met, the transaction is executed.

Tokenisation offers a more efficient and lower-cost way to issue and manage financial assets. Some of the major benefits of tokenisation include elimination of intermediary costs, improved efficiency of operations, faster settlement times, ability to use digital tokens as collateral almost real-time, 24/7 markets, increased liquidity of assets, wider investor base accessibility via lower investment minimums, global access and transferability, and a standardised, transparent and potentially automatic way of managing and tracking the full life cycle of digital tokens.

The most well-known example of tokenisation is 'stablecoins' or tokenised currencies, which has grown to an approximate US\$120 billion market in just a few years¹. If US dollars can be tokenized, by storing the reserves in banks or in short-dated treasuries, then other assets could likewise be stored with a custodian and digital tokens issued against these holdings (e.g. gold, securities, etc.).

Despite the many benefits of tokenisation, there are also several hurdles that need to be managed. Regulatory frameworks regarding the tokenisation of assets are still evolving and vary by jurisdiction, leading to potential regulatory risks. Technology and cybersecurity risks, such as bugs in smart contract code, must also be managed to avoid unintended outcomes. There is also a potential supply/demand mismatch that will need to be addressed: in a two-sided market both investors and asset owners/managers need to adopt the technology for the market to grow.

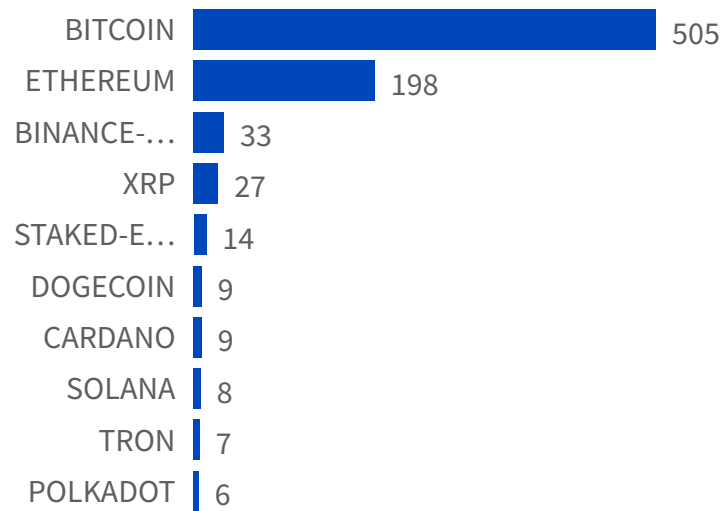
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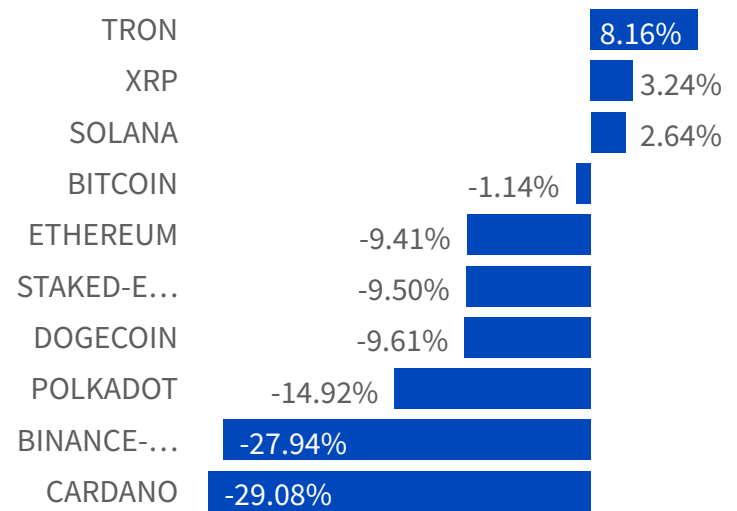
Cryptocurrencies can demonstrate higher volatility than other asset classes.

Market Summary

Top 10 by Market Cap | USDbn



3-Month Return | USD



Summary Statistics

Asset	Market Cap	1m Return	3m Return	Volatility	Correlation w. Bitcoin
BITCOIN	504.96	-6.60%	-1.14%	38.64%	1.00
ETHEREUM	197.83	-8.13%	-9.41%	39.91%	0.89
BINANCE-COIN	33.32	-7.18%	-27.94%	46.47%	0.68
XRP	27.06	-24.38%	3.24%	160.63%	0.41
STAKED-ETHER	14.04	-8.29%	-9.50%	38.93%	0.87
DOGECOIN	8.98	-15.40%	-9.61%	61.30%	0.62
CARDANO	8.96	-13.60%	-29.08%	73.99%	0.62
SOLANA	8.06	-12.19%	2.64%	81.83%	0.60
TRON	6.85	-3.01%	8.16%	39.50%	0.47
POLKADOT	5.76	-11.20%	-14.92%	47.73%	0.64

3-Month Correlation | Daily USD Returns

Asset	BTC	ETH	BNB	XRP	STETH	DOGE	ADA	SOL	TRX
ETHEREUM	0.84								
BINANCE-COIN	0.73	0.75							
XRP	0.47	0.55	0.46						
STAKED-ETHER	0.86	0.96	0.74	0.53					
DOGECOIN	0.56	0.66	0.56	0.39	0.63				
CARDANO	0.72	0.79	0.71	0.69	0.75	0.61			
SOLANA	0.70	0.76	0.71	0.50	0.73	0.52	0.73		
TRON	0.64	0.66	0.58	0.43	0.61	0.48	0.64	0.59	
POLKADOT	0.75	0.82	0.73	0.51	0.77	0.59	0.80	0.73	0.63

Source: WisdomTree. Volatility and correlation on 3-month USD returns. As of 31 August 2023.

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Bitcoin And Ether Focus

Cumulative Return | 12 Months

● BITCOIN ● ETHEREUM



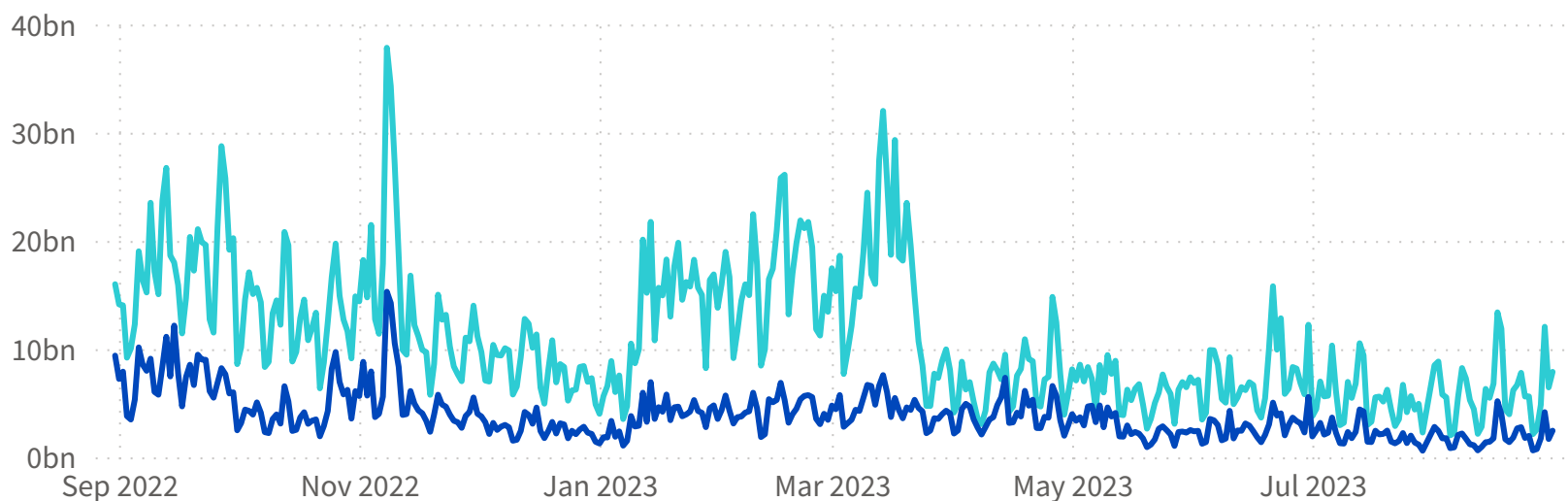
Rolling 90-Day Correlation with Bitcoin | 12 Months

● ETHEREUM



Daily Volume | USD

● BITCOIN ● ETHEREUM

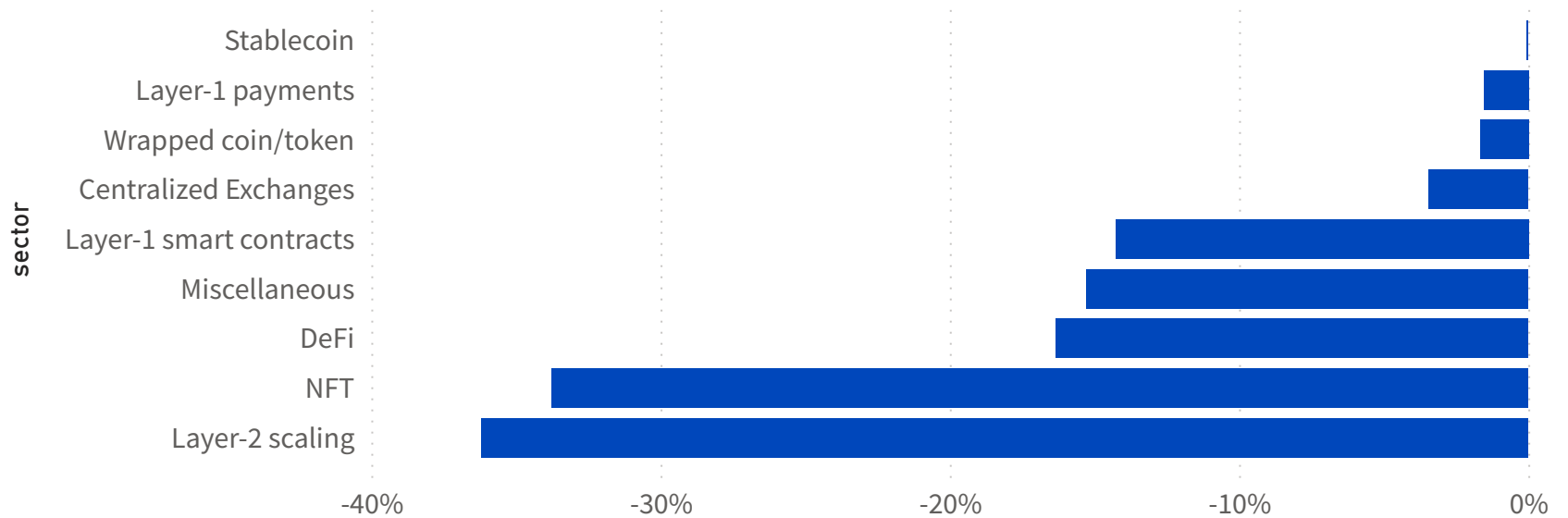


Source: WisdomTree, Messari. As of [31 August 2023](#).

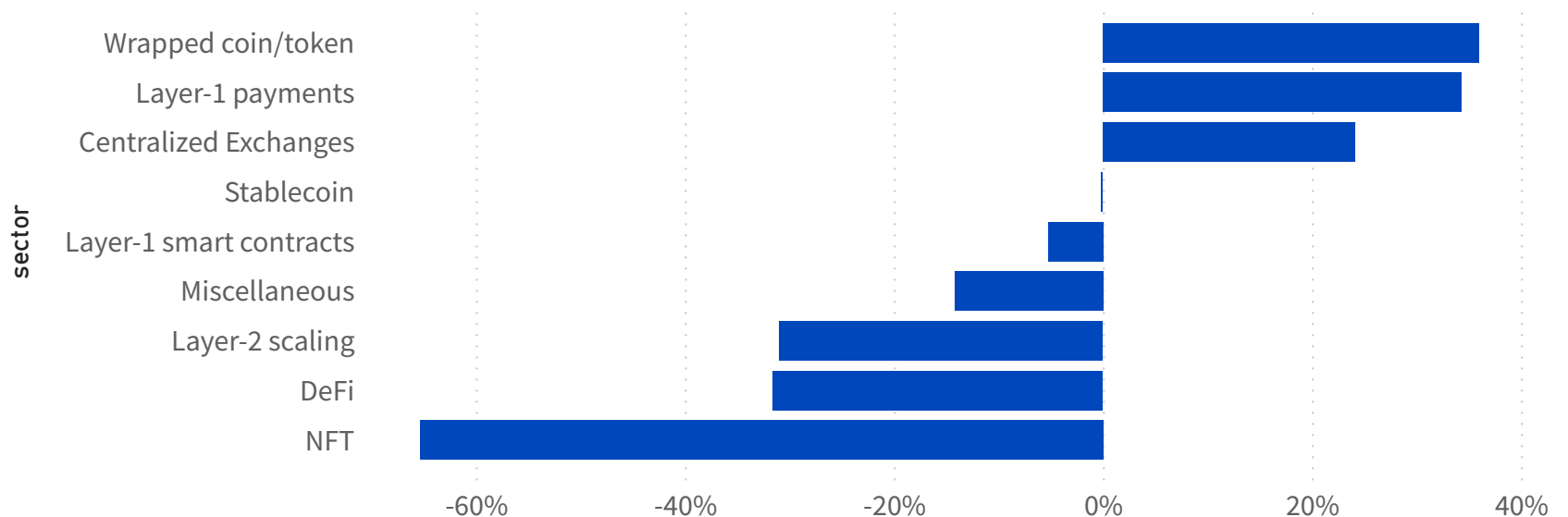
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Sector Summary

3-Month Performance



1-Year Performance



Sector Performance

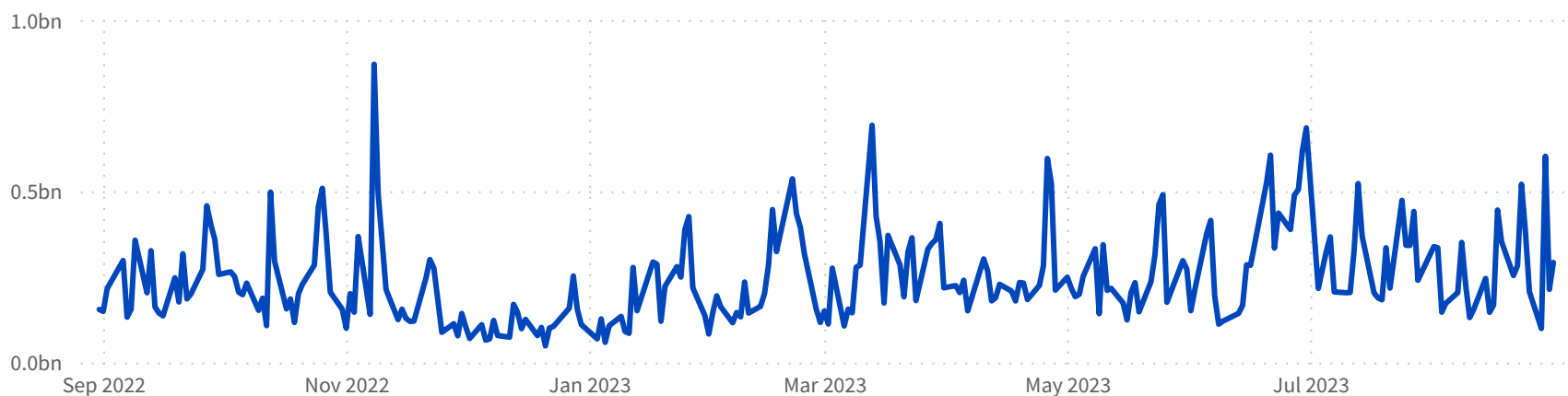
sector	YTD	1M	3M	6M	1Y
Wrapped coin/token	64.5%	-6.7%	-1.7%	17.8%	36.0%
Layer-1 payments	59.1%	-8.3%	-1.5%	16.1%	34.3%
Centralized Exchanges	32.5%	-3.3%	-3.4%	-12.2%	24.1%
Layer-1 smart contracts	28.2%	-9.5%	-14.3%	-5.5%	-5.2%
Miscellaneous	20.6%	-12.1%	-15.3%	-22.4%	-14.2%
Uncategorized	2.5%	-13.7%	-20.8%	-37.7%	-35.9%
DeFi	2.3%	-18.7%	-16.3%	-35.7%	-31.6%
Stablecoin	-0.0%	-0.0%	-0.0%	-0.2%	-0.0%
NFT	-16.7%	-18.4%	-33.8%	-51.4%	-65.3%
Layer-2 scaling	-24.4%	-17.6%	-36.2%	-52.0%	-30.9%

Source: WisdomTree. As of [31 August 2023](#).

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Regulated Futures (1/2)

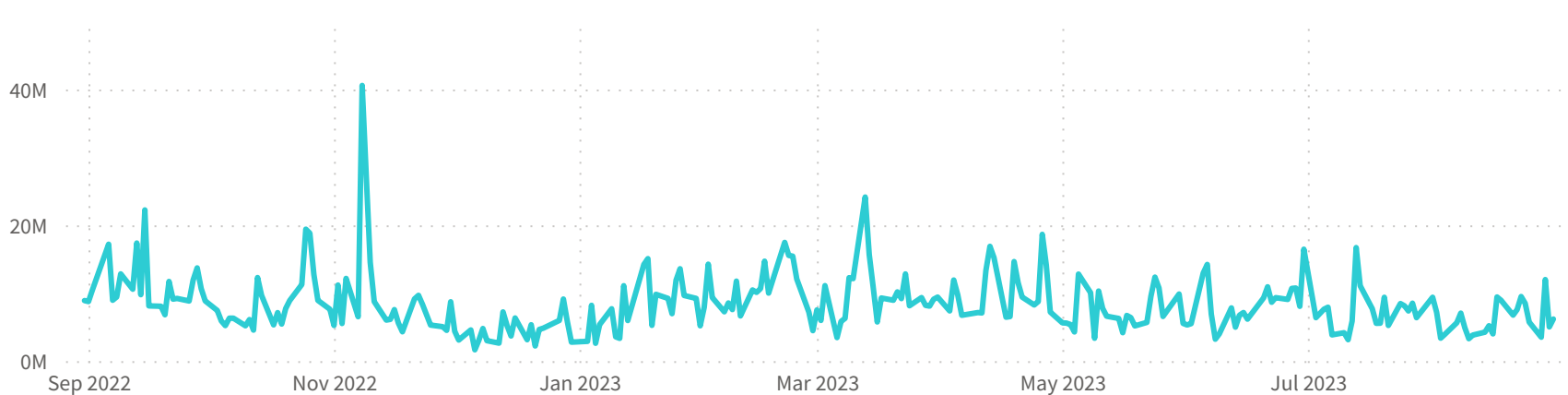
Bitcoin CME Futures | Volume USD



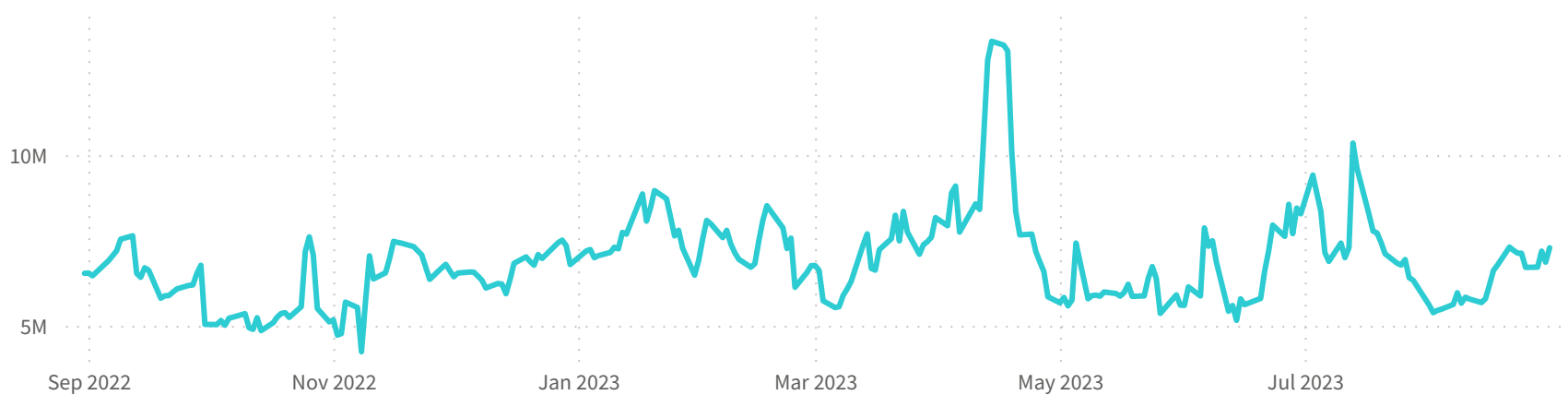
Bitcoin CME Futures | Open Interest USD



Ether CME Futures | Volume USD



Ether CME Futures | Open Interest USD

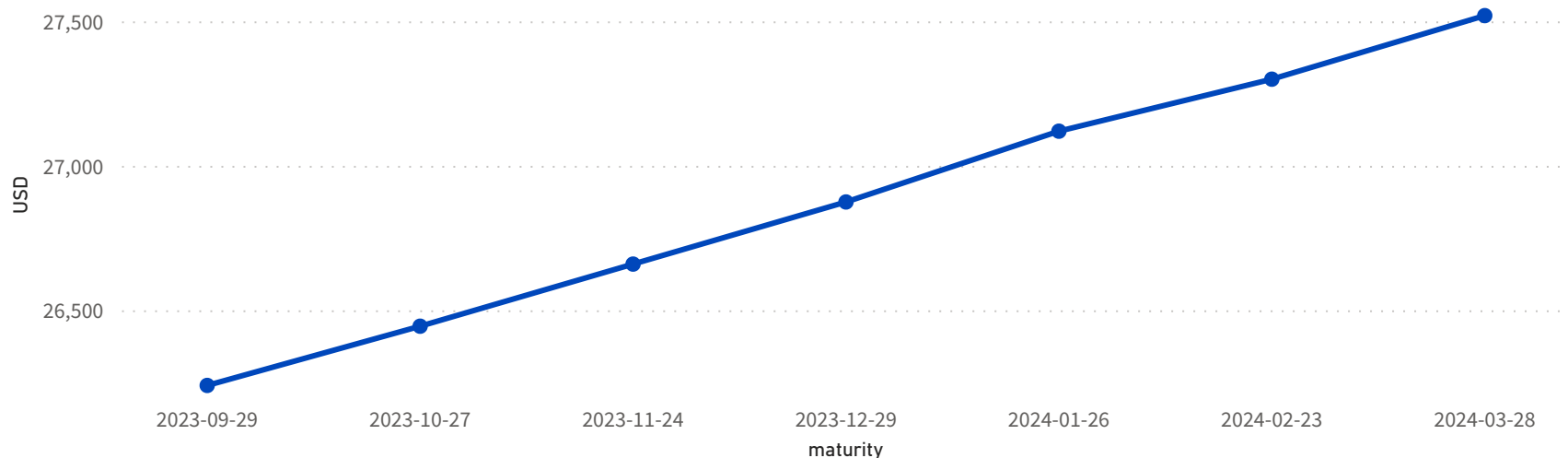


Source: WisdomTree, Bloomberg. As of [31 August 2023](#).

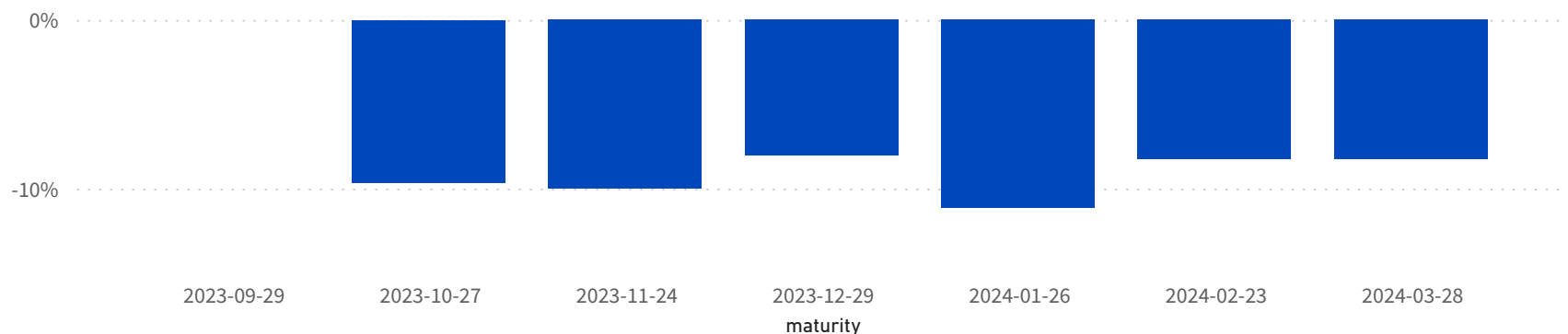
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Regulated Futures (2/2)

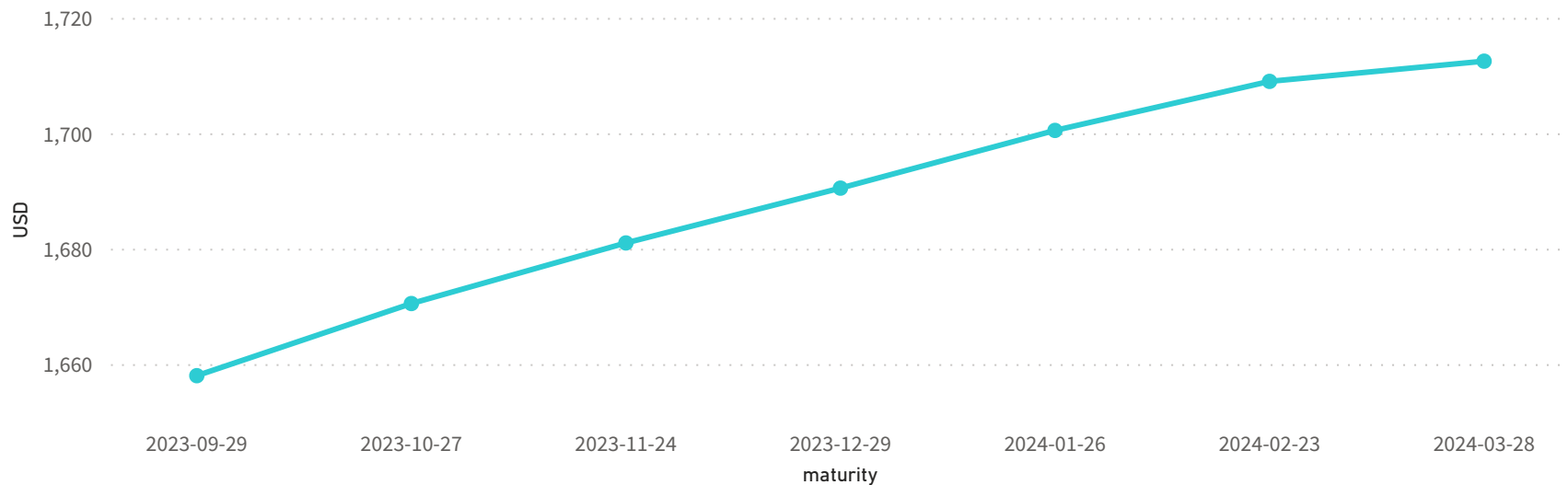
Bitcoin CME Futures | Price



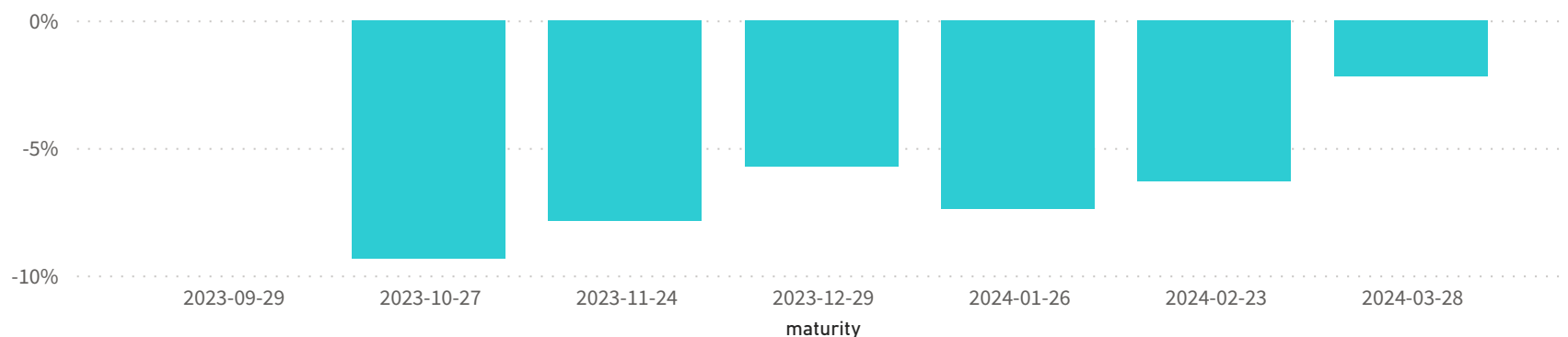
Bitcoin CME Futures | Annualised Implied Carry



Ether CME Futures | Price



Ether CME Futures | Annualised Implied Carry

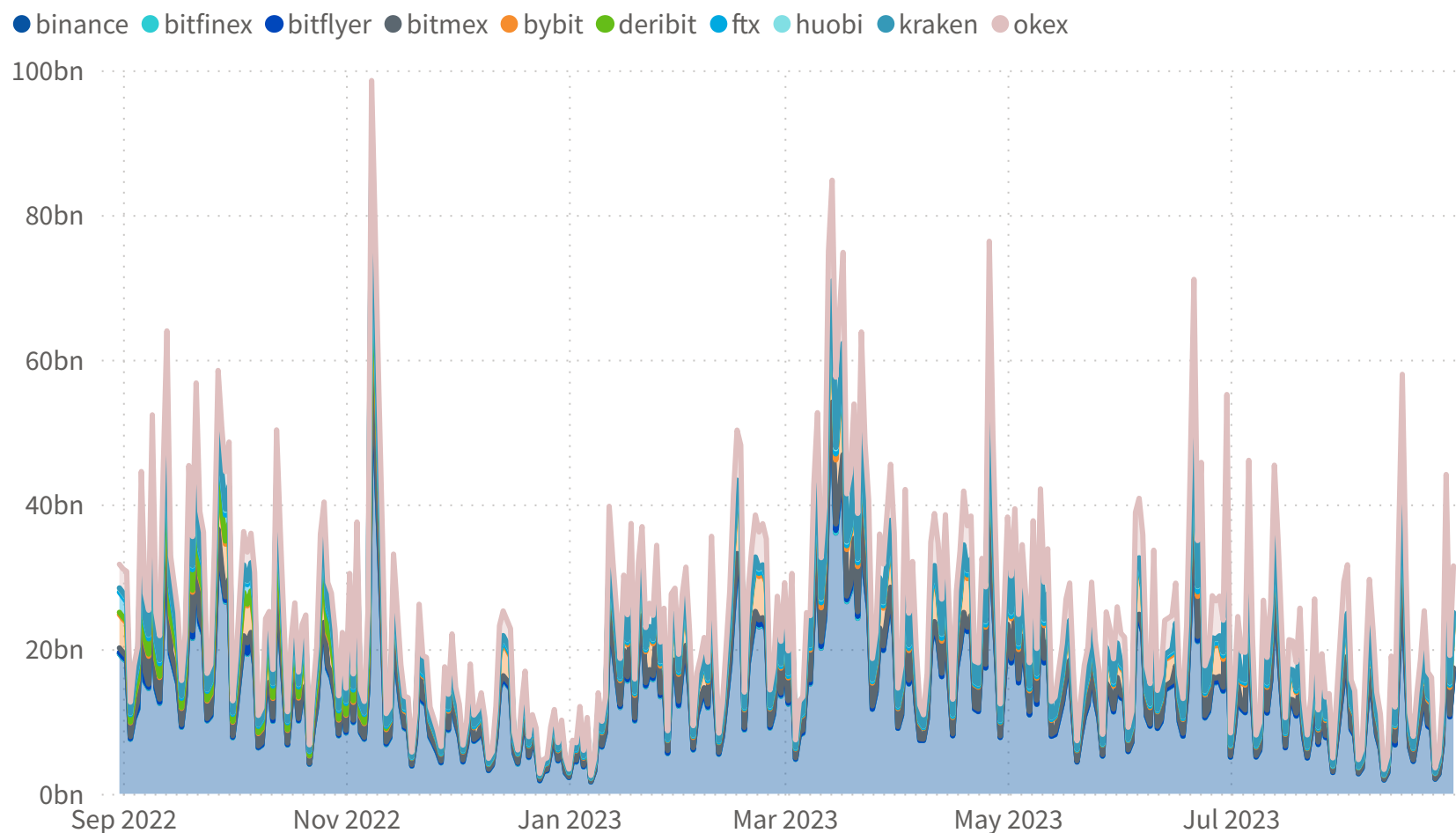


Source: WisdomTree, Glassnode. As of 31 August 2023.

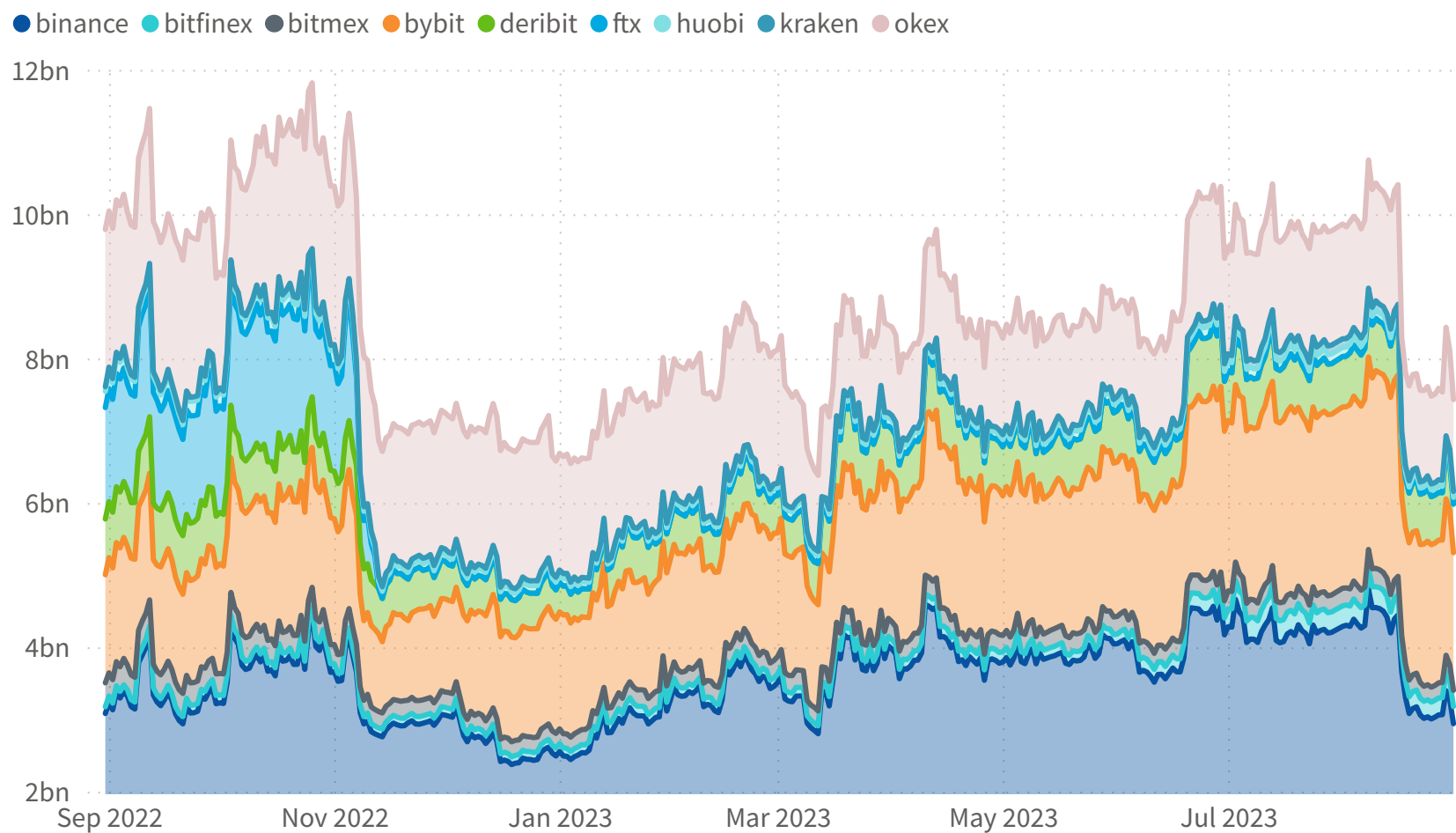
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Unregulated Futures (1/3)

USD Volume in Futures | Bitcoin



USD Open Interest in Futures | Bitcoin



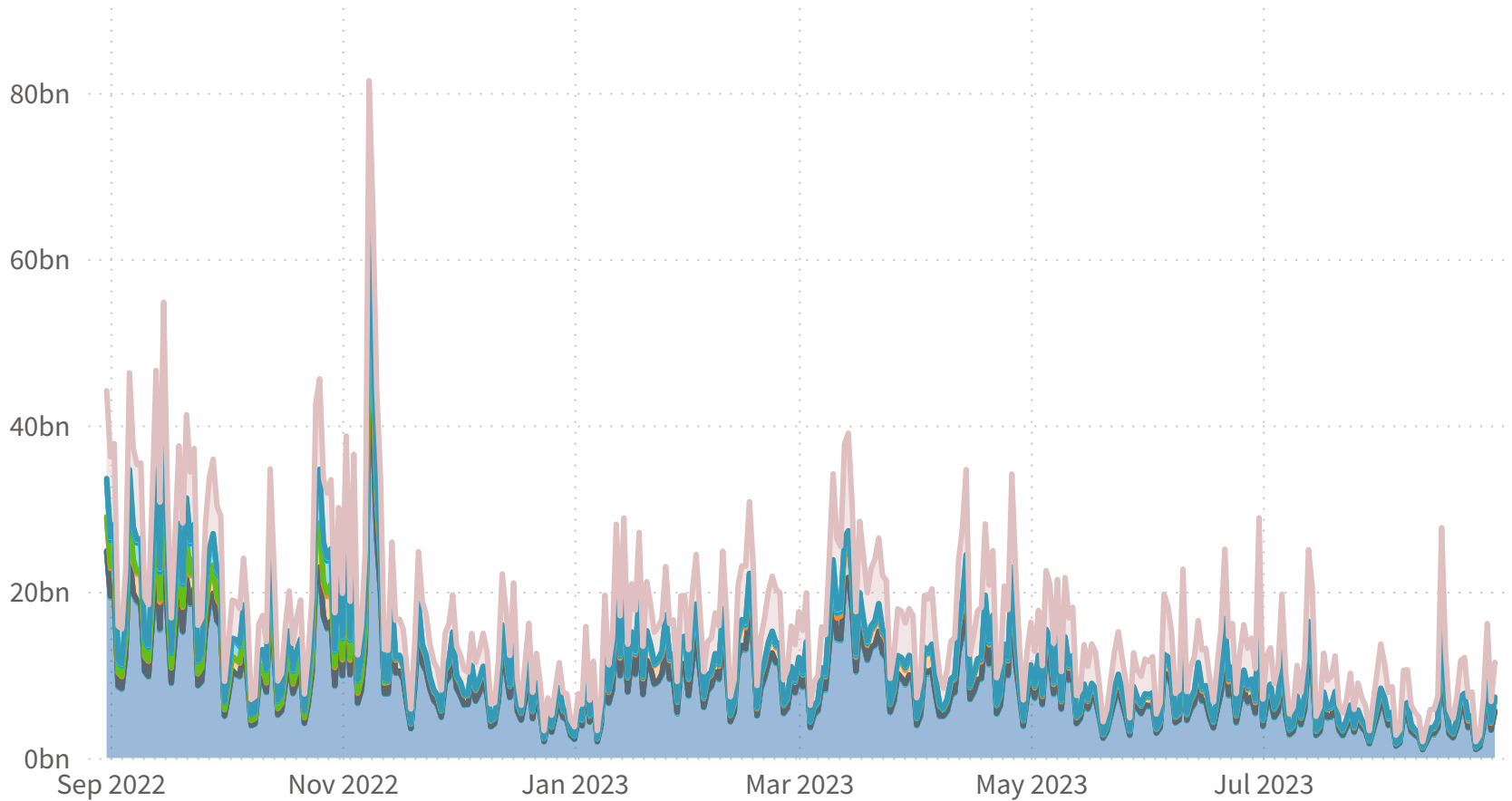
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Unregulated Futures (2/3)

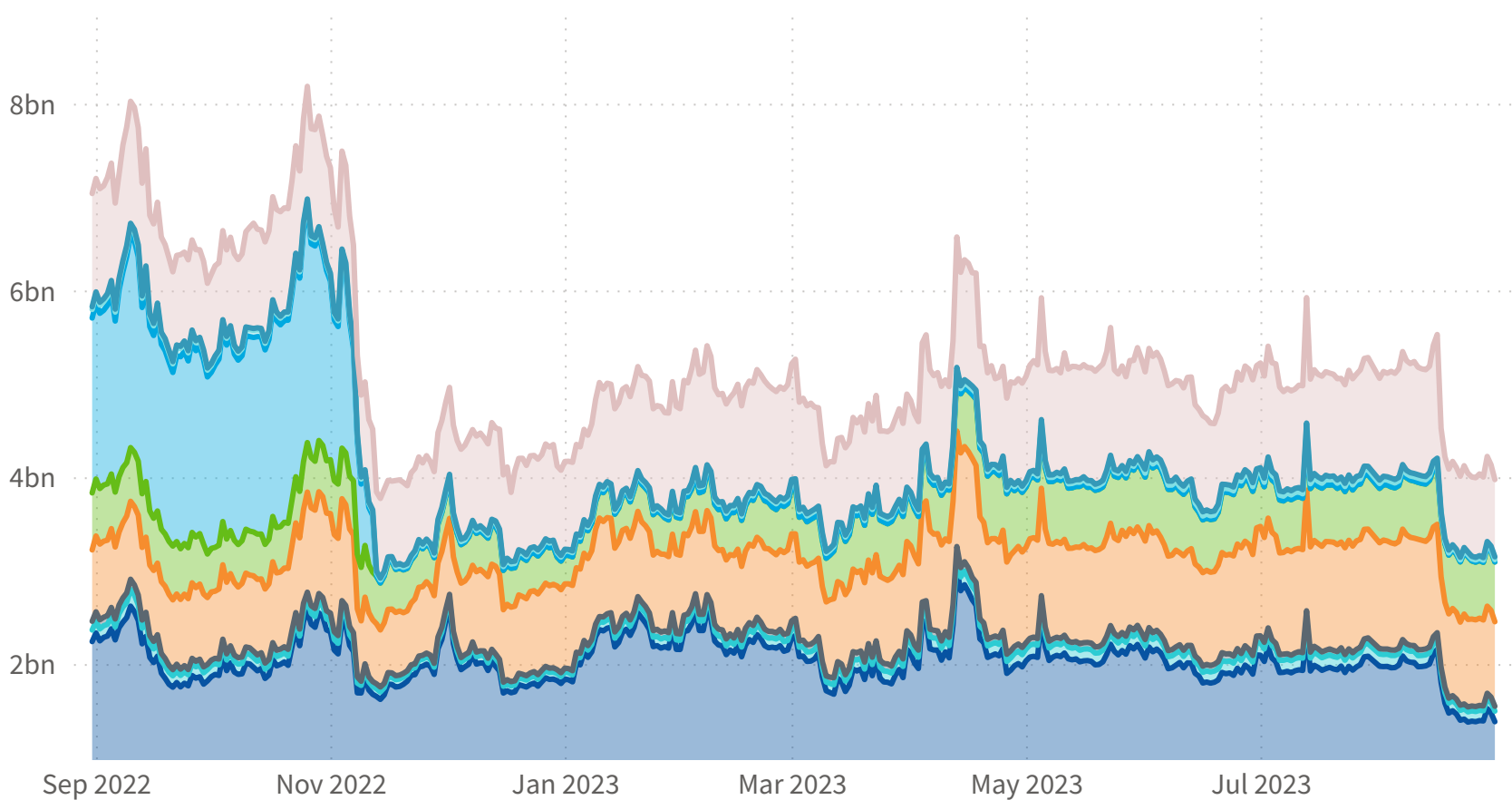
USD Volume in Futures | Bitcoin

binance bitfinex bitmex bybit deribit ftx huobi kraken okex



USD Open Interest in Futures | Bitcoin

binance bitfinex bitmex bybit deribit ftx huobi kraken okex



Source: WisdomTree, Glassnode. As of 31 August 2023.

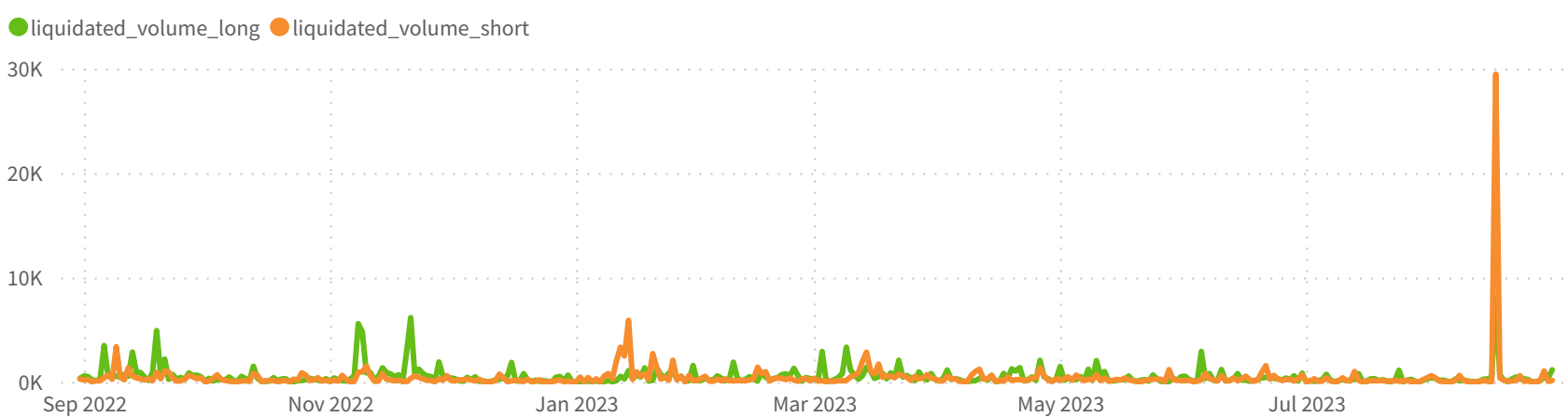
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Unregulated Futures (3/3)

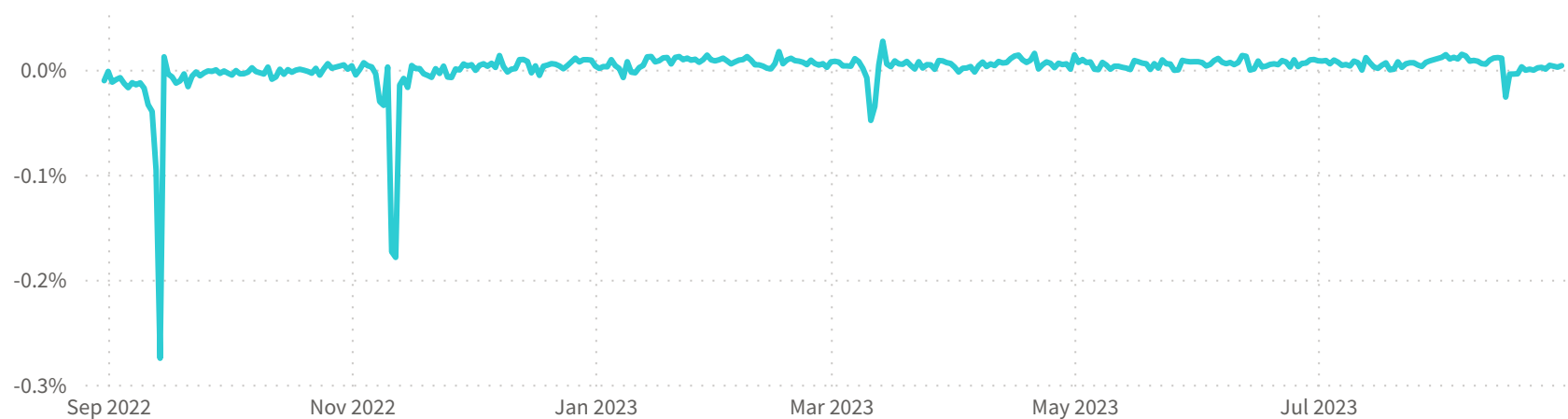
Bitcoin | Perpetual Funding Rate



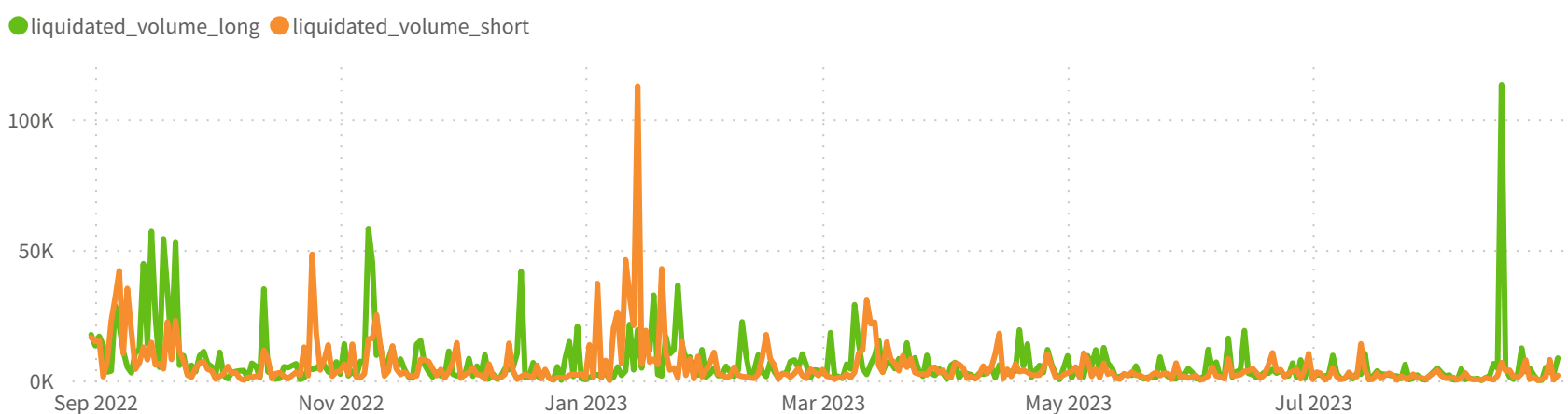
Bitcoin | Liquidated Volume



Ether | Perpetual Funding Rate



Ether | Liquidated Volume



Source: WisdomTree, Glassnode. As of 31 August 2023.

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