



Saturday, September 30, 2023

WisdomTree Crypto Monthly



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Cryptocurrencies can demonstrate higher volatility than other asset classes.

Market Commentary:

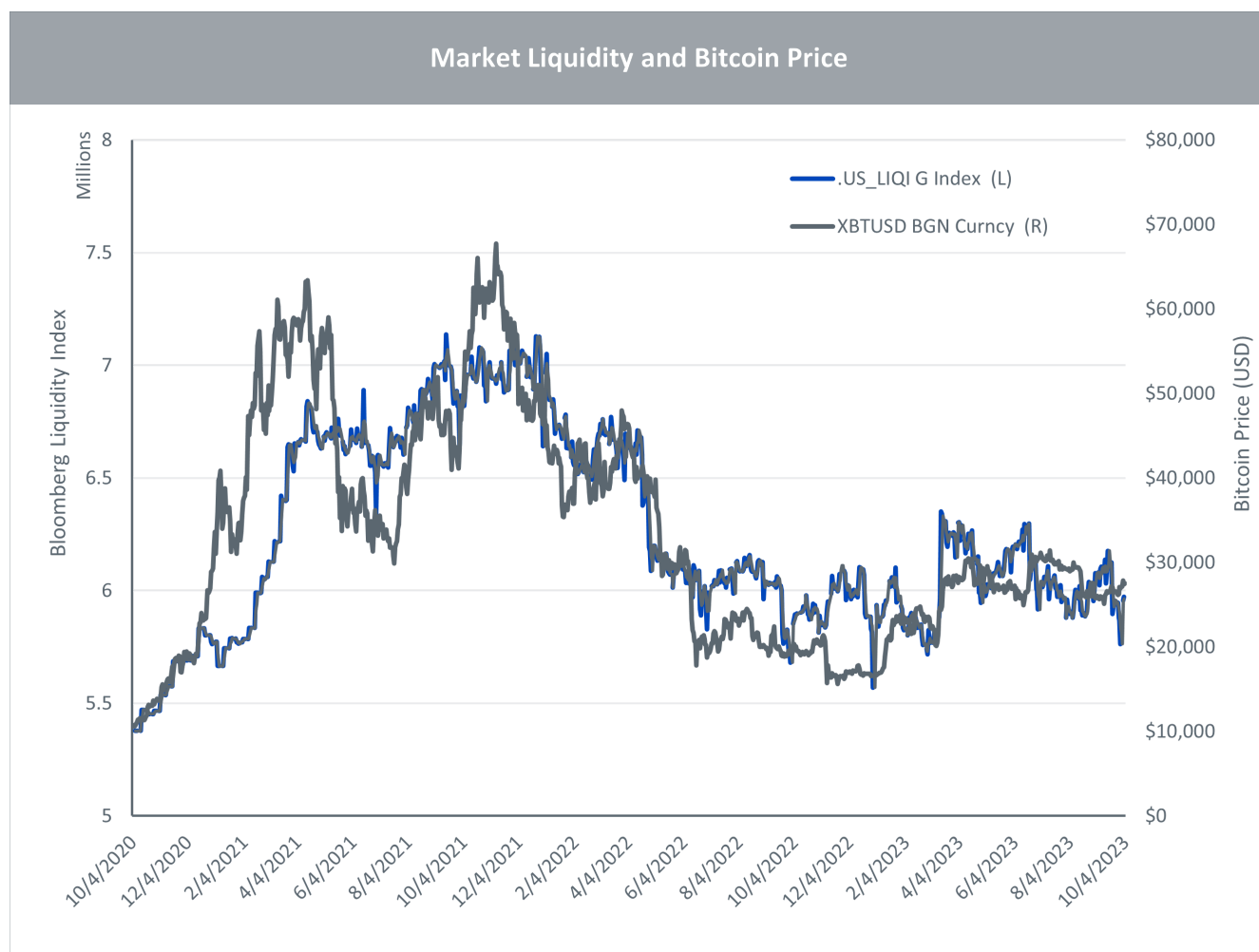
Short-term headwinds but long term investment cases remain intact

Very early signs that liquidity could be improving

In the second week of October 2023, we saw a reversal in the US 10-year treasury note from 4.8% to 4.6%^[1] and an increase in the Bloomberg liquidity index^[2], which focuses on the Federal Reserve’s (FED) reverse repurchase agreements (repos). The reverse repos indicate when the FED is injecting liquidity into the system. Lower rates and higher market liquidity would be beneficial for the crypto market but these are very early signs and do not make a trend yet.

Short-term technical outlook continues to exhibit weakness

From technical analysis point of view, the prices of bitcoin and especially ethereum exhibit short-term weakness. The price of bitcoin has dropped below its long-term 200-day moving average and the next few days will indicate whether the price will drop below its short-term 50-day moving average as well. The price of ether has dropped below its long-term and short-term moving averages. The drop below a long-term 200-day moving average tends to be more long-lasting unless a new catalyst emerges. The relative strength index (RSI) in both assets is in neutral territory and is therefore not showcasing a strong momentum in either direction^[3].



[1] Bloomberg
 [2] Bloomberg, .US_LIQI G Index
 [3] Technical data from Bloomberg

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Market Commentary:

Short-term headwinds but long term investment cases remain intact

On-chain data very lacklustre

The number of transactions in bitcoin increased from January through to September 2023 but have dropped significantly since then. The transfer volume in both bitcoin and USD terms have remained muted throughout the year. The transaction fees have also remained at a low level, except for the spike in May when bitcoin ordinals[1] were introduced. Bitcoin miners' hash rate[2] is at a record level indicating that the network has a higher number of computers trying to solve miner puzzles to obtain newly minted bitcoin. This increases the bitcoin network's security and is positive for the blockchain. In ethereum, the number of transactions has been going down since May 2021 and the transfer volume in both ether and USD terms has been in a downward trajectory since then. Ethereum's transaction fees have dropped to the lowest level in 2023, which is quite disappointing. The total number of validators continues to increase on the network improving the security of the blockchain[3].

Sentiment data has turned neutral

The Crypto Fear & Greed Index [4] is currently in neutral territory, which is an improvement from last month, when the index was in fear territory. This index takes into account price volatility over the past 30 and 90 days, market volume and momentum, social media mentions of coin hashtags on X[5], bitcoin market cap dominance and Google Trends data for bitcoin-related searches. Its goal is to gauge the market sentiment of crypto focusing on two basic psychological forces in investing: fear and greed.

Ether futures ETFs made an underwhelming debut in the US

On October 2nd 2023, several Ether futures exchange-traded funds (ETFs) were launched in the US. The volumes into these products have so far been disappointing. During the first week or so, just \$20 million had flowed into these ETFs while the first bitcoin futures product, ProShares BITO, drew in \$1 billion during the first few days of trading during the crypto bull market in October 2021. What is interesting is that the fund is still about the same size. The largest Ethereum futures ETF so far is VanEck Ethereum Strategy ETF, which has less than \$8 million in assets under management (AUM) [6]. We believe that if spot bitcoin and ether ETFs were to be approved in the US, they would most likely take flows away from bitcoin and ether futures ETF products, closed-end funds and companies with large bitcoin treasuries. We have written about our expectations for the changes in competitive landscape in the US if spot bitcoin ETFs are approved here: [implications of a potential approval of a spot bitcoin ETF](#).

New allegations against Binance

One of the reasons for the recent lacklustre performance in many crypto assets could be that investors are pricing in a negative outcome for Binance, the world's largest crypto exchange, which dominates almost 60% of futures trading volume and over 50% of the spot trading volume in crypto[7]. The exchange has over 140 million users worldwide and is a key liquidity provider in crypto. We believe the trend in the industry is toward using onshore exchanges, such as the new institutional crypto exchange EDX Markets, backed by TradFi[8] firms and introduced in June 2023, or Coinbase, and the role of unregulated offshore exchanges will diminish over time. We will give a bit more colour on this topic in the next section Insight of the month: What's behind the concerns over Binance?

[1] Bitcoin ordinals: bitcoin non-fungible tokens (NFTs)

[2] Bitcoin miner hash rate: number of guesses miners make to solve the miner puzzle

[3] On-chain raw data from Glassnode

[4] Alternative.me

[5] Formerly known as Twitter

[6] As of Oct 10th, 2023

[7] Kaiko Research

[8] TradFi: Traditional Finance, such as Citadel Securities, Charles Schwab, Fidelity Digital Assets

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Insight of the Month

What's behind concerns over Binance?

In the US, both the SEC and the CFTC, securities and commodities regulators, have filed lawsuits against Binance earlier this year. In its June 2023 lawsuit, the SEC claims that Binance and its founder, Changpeng Zhao (CZ), misled investors, artificially inflated trading volumes, promoted unregistered securities on its platform for US customers and operated a 'web of deception'[1]. Moreover, Binance and CZ were accused of potentially comingling customer assets by directing part of crypto assets to a market maker controlled by CZ. Even more serious, the US Department of Justice is considering fraud charges against Binance but prosecutors are weighting alternatives as they do not want to repeat an FTX-type bank run[2]. Binance denies these allegations.

In the past week, there have been allegations that Binance's initial coin offering (ICO) back in 2017 was a flop and that the creation of a utility token, also called an exchange token, BNB token (similar to FTX's FTT token), could have helped the company to create its current multi-billion dollar fortune. Normally, exchange tokens are used to reward customers or give discounts in trading, but they can also be used as a form of corporate currency and make investments in other companies.

According to a recent Forbes article[3] Binance's ICO back in 2017 minted 200 million BNB tokens with a value of 15 cents each. As much as 100 million BNB tokens were allocated to the public, 20 million to angel investors and the remaining 80 million to the insiders. As much as 50% of BNB tokens were allocated to be "burned" or removed from token circulation over time. Forbes used two forensic blockchain analysis firms[4] to investigate the movement of assets between blockchains, and in the article Forbes claims that Binance managed to raise less than \$5 million from outside investors and angels versus \$15 million claimed by the CEO of Binance. This would translate to less than 31 million BNB tokens being allocated to outsiders and angels versus the originally planned 120 million. Forbes claims that Binance kept the unsold BNB tokens to itself but did not disclose it. If these claims proved to be accurate, the value of BNB tokens held by outsiders today could be \$6.3 billion[5] while the share of BNB tokens held by Binance insiders could be approximately \$25 billion, including coins burned so far[6]. The market cap of the BNB token was \$31.3 billion on Oct 12th, 2023, and it is the fourth largest crypto asset in the world, behind bitcoin, ethereum and Tether's USDT.

There have also been questions about the solvency of Binance. To counteract these concerns, Binance started publishing Proof of Reserves (PoR)[7] last November and has been doing it monthly ever since. Binance recently also moved to using zk-Stark technology, which allows users to check that their accounts are included in the PoR. Despite these improvements, there is currently no third-party firm conducting independent audit on Binance after Mazars Group suspended all work in crypto in late 2022.

The CFTC also claims that Binance directly or indirectly controls 300 different crypto accounts, which also trade BNB tokens. While it is normal for exchanges and companies to hold several wallets, could trading in an unregulated environment created opportunities for wash trading[8]? We expect more information on these concerns to come out in the coming weeks and months. As stated before, Binance has been a critical liquidity provider in crypto and remains a particularly important one in Asia, but we see a trend in the industry where onshore and regulated exchanges are becoming more important and the role of offshore exchanges will diminish over time.

[1] The SEC, press release June 5, 2023

[2] Semafor

[3] Forbes, How Binance Turned its Failed Token ICO Into A Billion Dollar Windfall, October 2023

[4] Grey Wolf Analytics, Inca Digital

[5] CoinGecko: the price of a BNB token was \$206 on Oct 12th, 2023

[6] Binance: 46 million BNB tokens have been burned, August 2023

[7] PoR: process of verifying that the customer assets held by the crypto exchange correspond to the number of assets held in reserve on behalf of customers.

[8] Wash trading: an entity engages in market manipulation by buying and selling the same financial instrument and creating an impression of market activity

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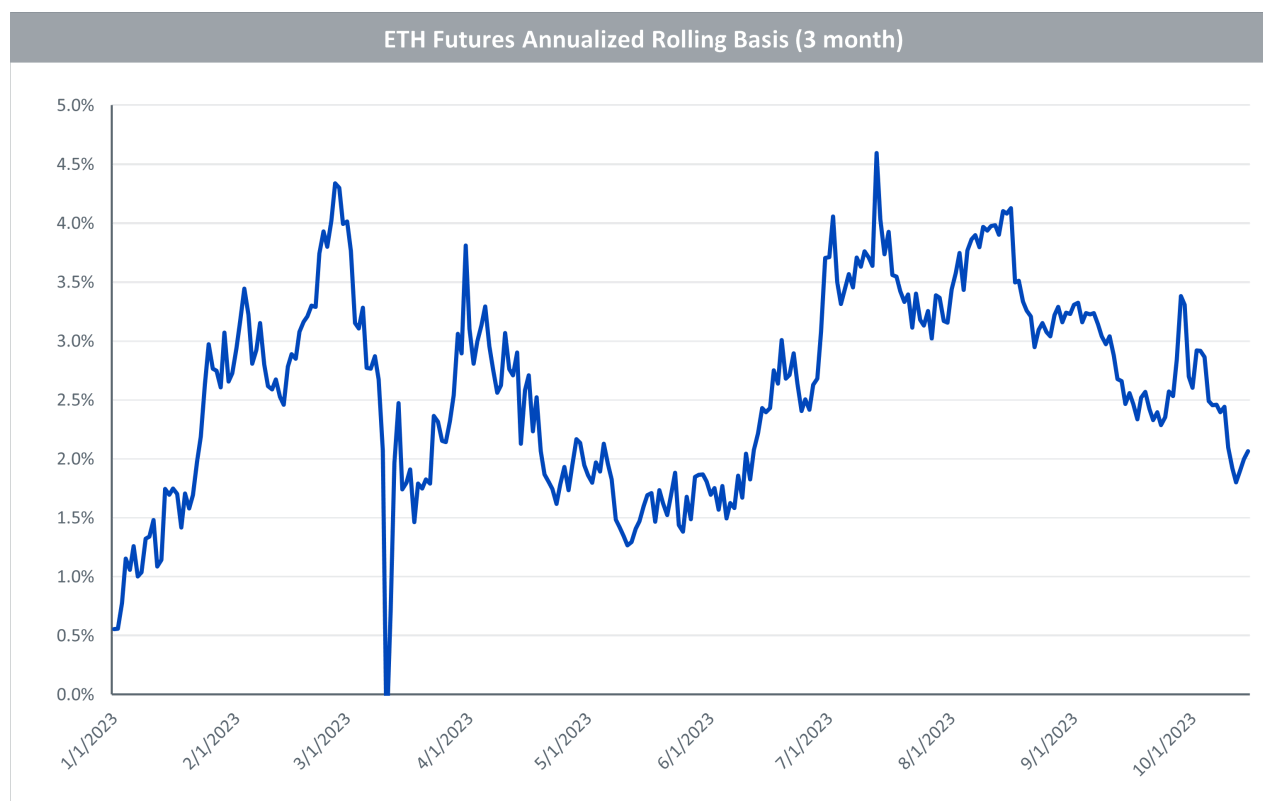
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Insight of the Month

Ether futures, precursor to a spot ether ETF

Earlier this year, the Securities and Exchange Commission (SEC) restated it believes bitcoin is a commodity and under the Commodity Futures Trading Commission’s (CFTC) regulatory umbrella. However, the agency’s current chairman was unwilling to say the same of ether despite being asked about it several times during a congressional hearing. Despite this unclarity over ether’s classification, ether futures ETFs were approved for trading in the US in early October 2023. This is probably because Ether futures are being traded on Chicago Merchantile Exchange (CME) and CME futures are regulated by the CFTC (Commodities Futures Trading Commission). We argued in our blog piece [implications of a potential approval of a spot bitcoin ETF](#), that if spot bitcoin ETF products were to be approved in the US, they would most likely take meaningful flows from bitcoin futures ETFs, closed-end funds and companies with large bitcoin treasuries. We believe the same could apply to ether futures products. This could be one of the reasons why the flows into the just launched ether futures ETF products have been so low.

Ether futures could suit short-term traders who want to take a short-term view on the sector or position their portfolios in a certain way. But, for the longer term, ether futures ETFs would not be able to compete with spot products as futures suffer from futures rolling costs. Each month, the futures ETFs would be selling the current month’s futures and buy the next month’s futures, which typically are more expensive (when prices go up), and hence incur futures rolling costs. These rolling costs tend to eat into returns. Furthermore, futures tend to sell at a premium compared to the underlying due to their demand for hedging, which can be shown below in the annualized basis. In the past two years, the largest bitcoin futures product, BITO, has underperformed the bitcoin spot price by -3.26% [1]. If approved, the spot bitcoin and ether ETFs would provide a more efficient way to track the real-time price of bitcoin and ether in an easy and liquid way.



[1] Bloomberg, during the period 9 Oct 2021-11 Oct 2023

[2] ETH Futures Annualized Rolling Basis, Glassnode. The 3 Month Futures Annualized Rolling Basis measures the annualized yield (percent return) that can be had by buying a spot asset and simultaneously selling a futures contract on that asset that expires in 3 months. Due to various factors, futures contracts will often trade at a price above that of the spot price. When this happens, market participants can do what is referred to commonly as a ‘basis trade’, allowing them to profit the difference in price between spot and a futures contract without taking on any directional exposure.

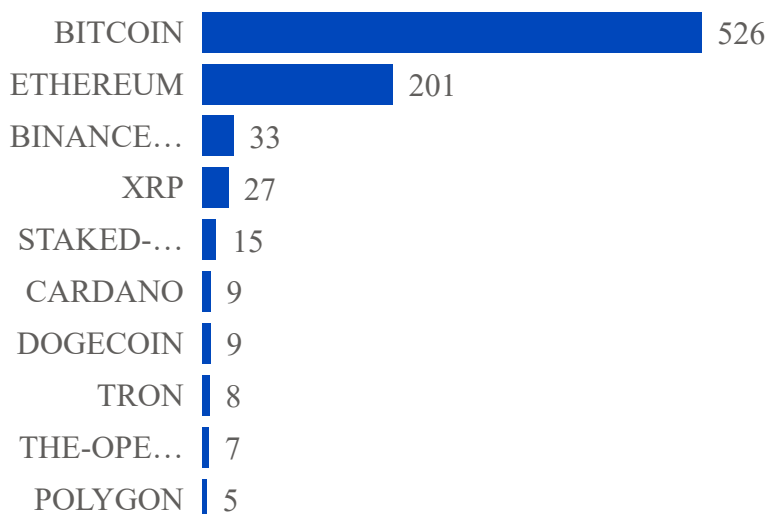
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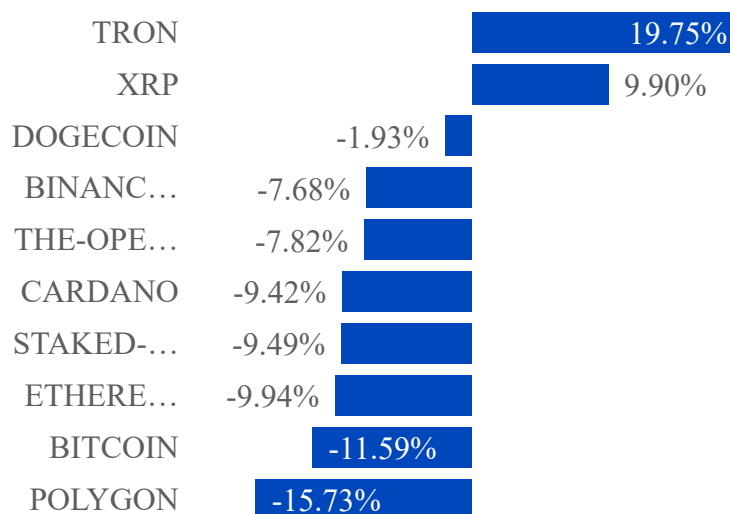
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Market Summary

Top 10 by Market Cap | USDbn



3-Month Return | USD



Summary Statistics

| Asset | Market Cap | 1m Return | 3m Return | Volatility | Correlation w. Bitcoin |
|------------------|------------|-----------|-----------|------------|------------------------|
| BITCOIN | 525.89 | -1.43% | -11.59% | 30.51% | 1.00 |
| ETHEREUM | 200.94 | -2.20% | -9.94% | 33.18% | 0.87 |
| BINANCE-COIN | 33.05 | -3.82% | -7.68% | 32.16% | 0.78 |
| XRP | 27.48 | -1.23% | 9.90% | 156.31% | 0.46 |
| STAKED-ETHER | 14.72 | -1.89% | -9.49% | 31.97% | 0.85 |
| CARDANO | 8.93 | -6.07% | -9.42% | 62.21% | 0.61 |
| DOGECOIN | 8.78 | -5.56% | -1.93% | 50.68% | 0.53 |
| TRON | 7.90 | 17.86% | 19.75% | 30.17% | 0.48 |
| THE-OPEN-NETWORK | 7.25 | -7.82% | -7.82% | 51.50% | 0.89 |
| POLYGON | 4.96 | -8.58% | -15.73% | 59.93% | 0.70 |

3-Month Correlation | Daily USD Returns

| Asset | BTC | ETH | BNB | XRP | STETH | ADA | DOGE | TRX | TONCOIN |
|------------------|------|------|------|------|-------|------|------|------|---------|
| ETHEREUM | 0.86 | | | | | | | | |
| BINANCE-COIN | 0.73 | 0.76 | | | | | | | |
| XRP | 0.47 | 0.56 | 0.45 | | | | | | |
| STAKED-ETHER | 0.87 | 0.95 | 0.74 | 0.54 | | | | | |
| CARDANO | 0.72 | 0.80 | 0.71 | 0.70 | 0.76 | | | | |
| DOGECOIN | 0.55 | 0.66 | 0.54 | 0.38 | 0.63 | 0.60 | | | |
| TRON | 0.62 | 0.66 | 0.56 | 0.43 | 0.61 | 0.62 | 0.46 | | |
| THE-OPEN-NETWORK | 0.38 | 0.41 | 0.34 | 0.25 | 0.43 | 0.37 | 0.22 | 0.22 | |
| POLYGON | 0.68 | 0.80 | 0.72 | 0.57 | 0.76 | 0.78 | 0.51 | 0.58 | 0.34 |

Source: WisdomTree. Volatility and correlation on 3-month USD returns. As of Saturday, September 30, 2023.

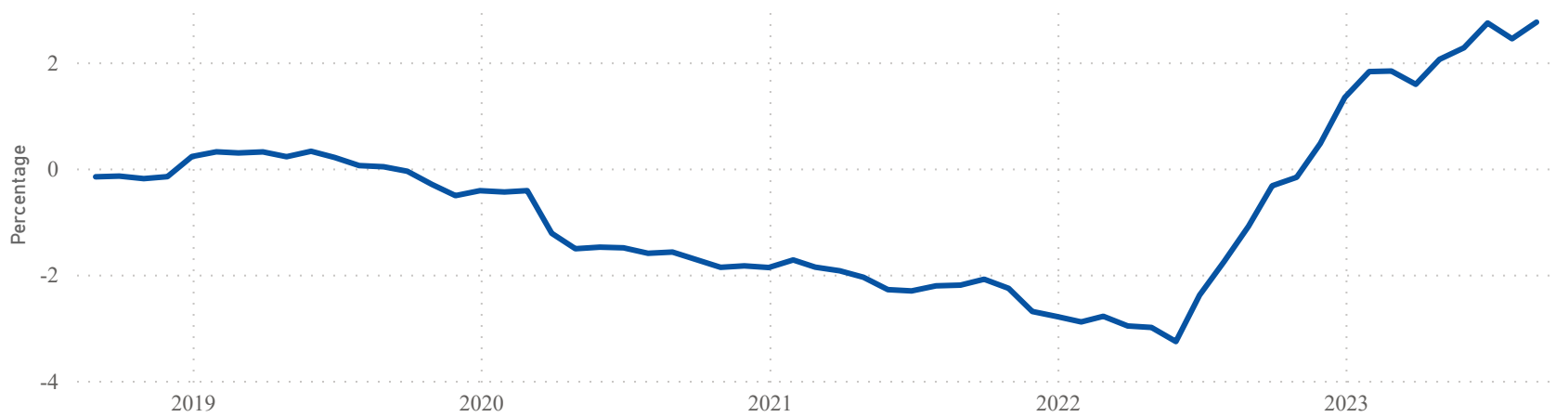
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Macro Landscape

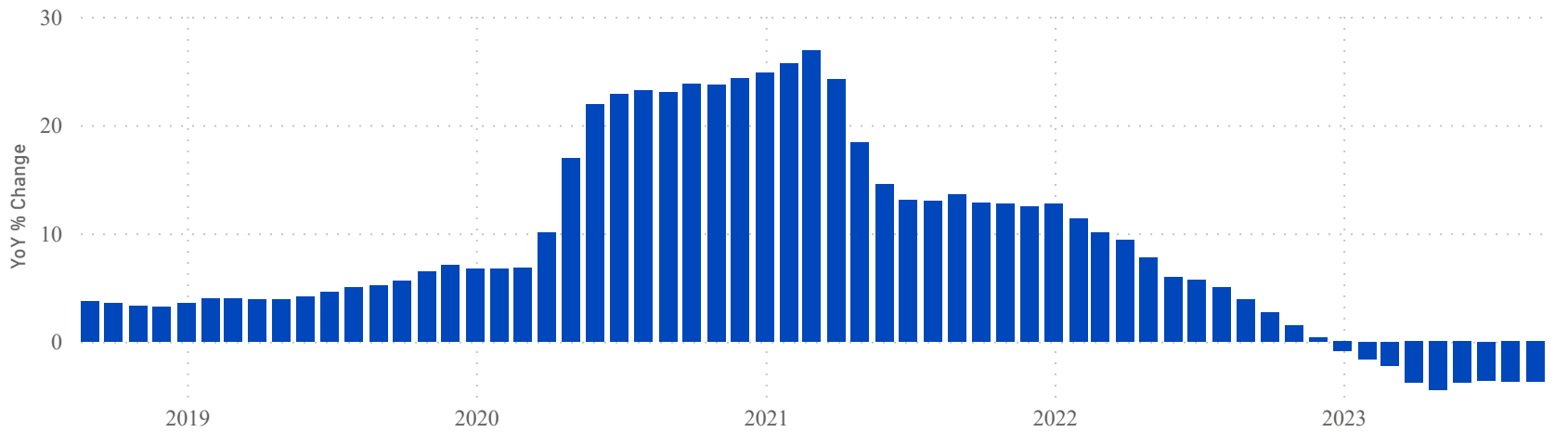
Curve | 10Y minus 3M US Treasury Yield



3-Month Real Yield



US M2 Money Supply



3-Month Real Yield



Source: WisdomTree, Bloomberg. As of Thursday, August 31, 2023.

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Bitcoin And Ether Focus

Cumulative Return | 12 Months

● BITCOIN ● ETHEREUM



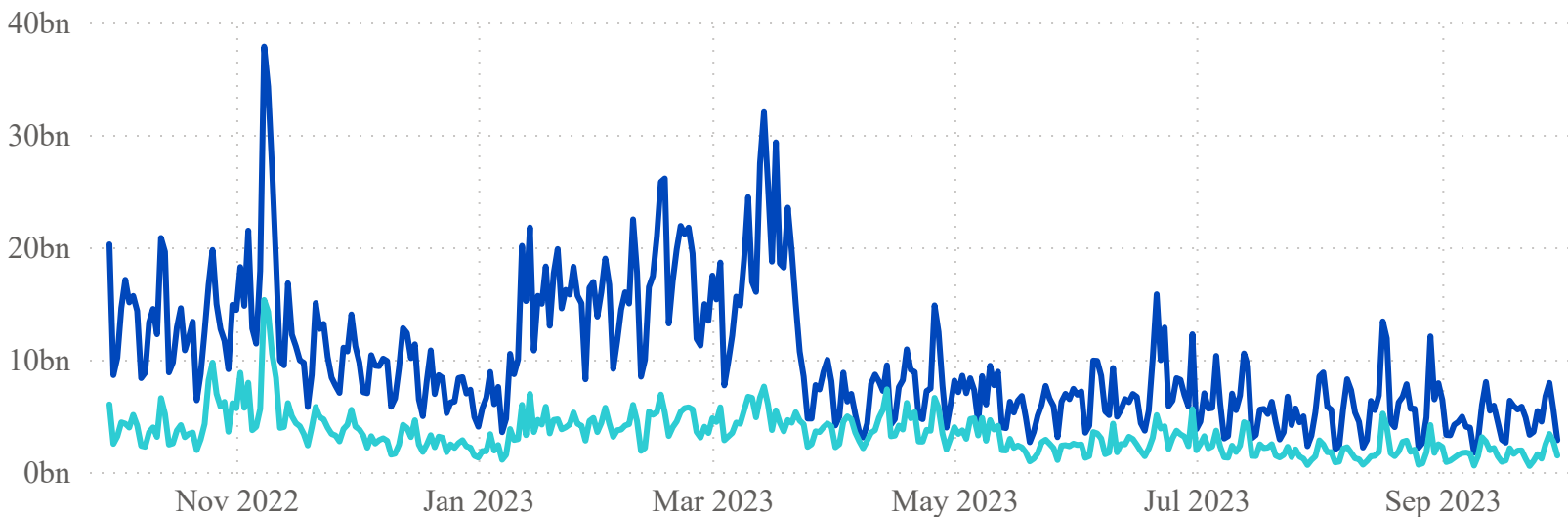
Rolling 90-Day Correlation with Bitcoin | 12 Months

● ETHEREUM



Daily Volume | USD

● BITCOIN ● ETHEREUM

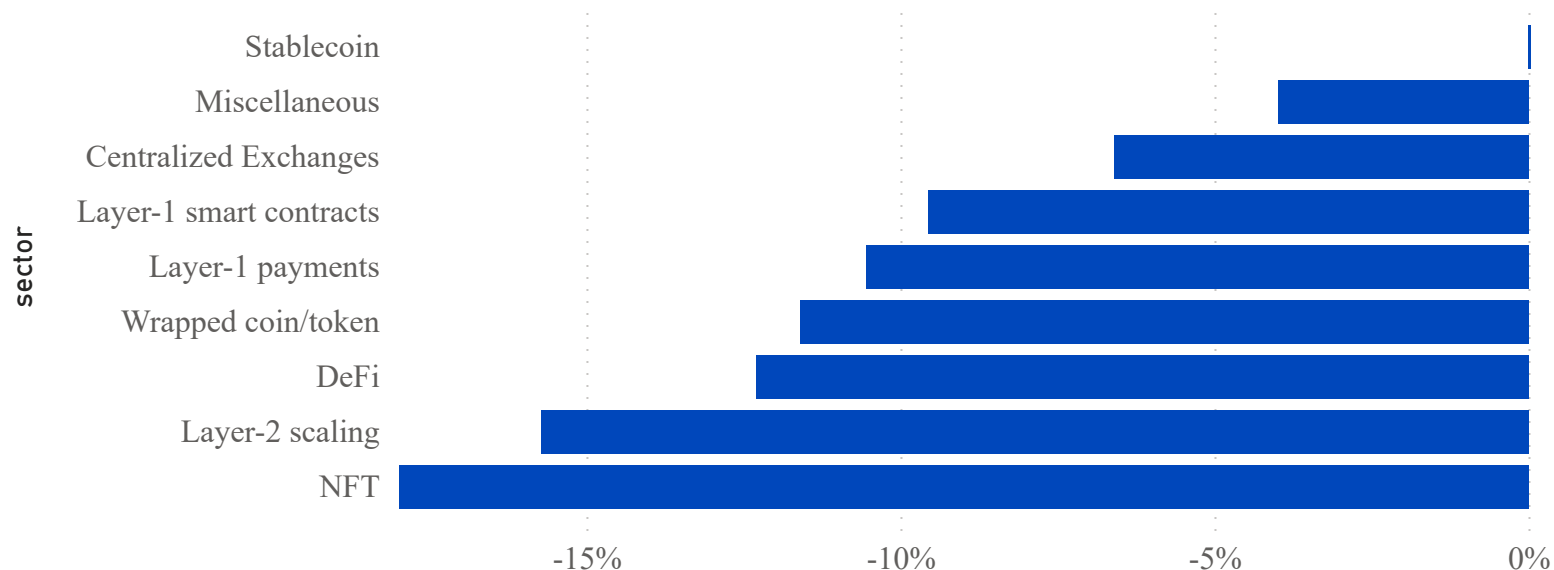


Source: WisdomTree, Messari. As of Saturday, September 30, 2023.

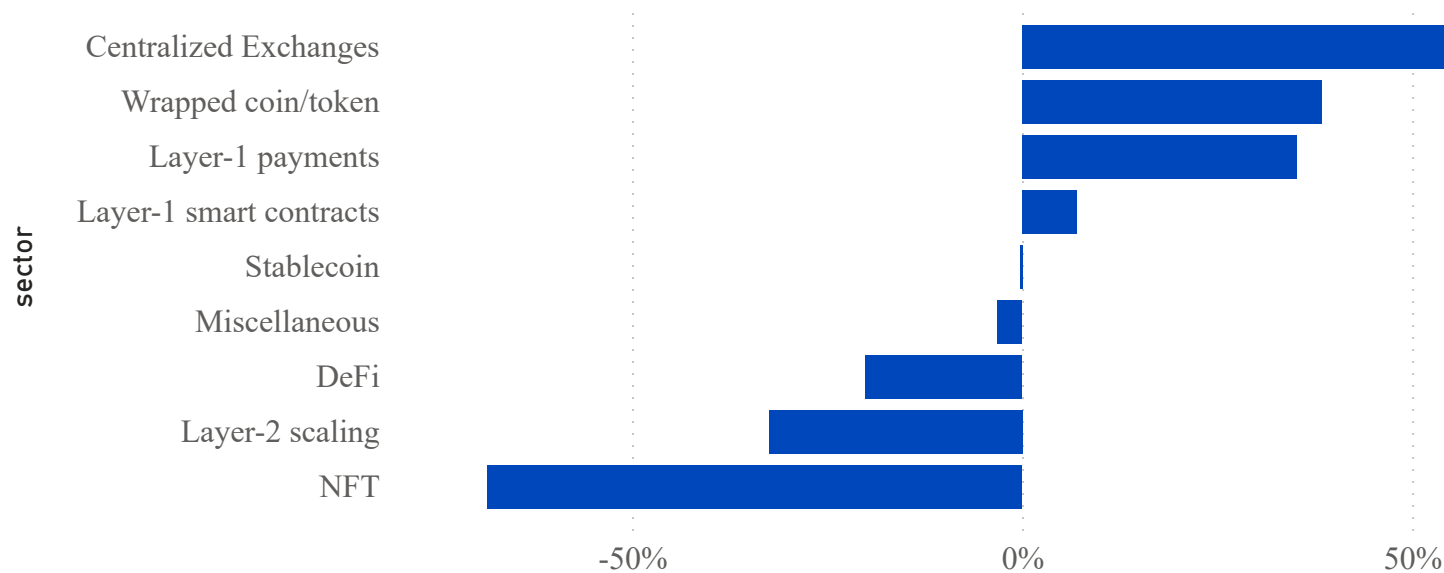
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Sector Summary

3-Month Performance



1-Year Performance



Sector Performance

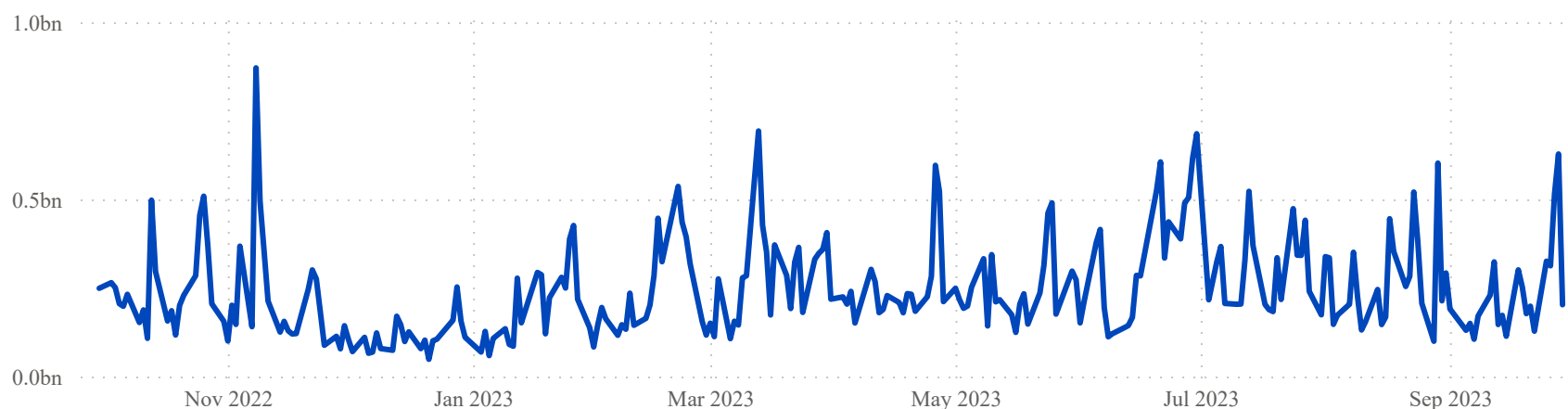
| sector | YTD | 1M | 3M | 6M | 1Y |
|-------------------------|--------|--------|--------|--------|--------|
| Wrapped coin/token | 62.3% | -2.9% | -11.6% | -4.1% | 38.4% |
| Layer-1 payments | 58.6% | -3.0% | -10.6% | -4.1% | 35.2% |
| Centralized Exchanges | 31.6% | -4.7% | -6.6% | -2.6% | 61.3% |
| Miscellaneous | 25.9% | 0.5% | -4.0% | -13.4% | -3.1% |
| Layer-1 smart contracts | 25.3% | -3.7% | -9.6% | -13.8% | 7.0% |
| DeFi | 16.2% | 1.8% | -12.3% | -30.9% | -20.0% |
| Uncategorized | 13.6% | -3.0% | -13.0% | -29.3% | 117.2% |
| Stablecoin | -0.0% | -0.0% | 0.0% | -0.3% | -0.2% |
| NFT | -26.6% | -6.0% | -18.0% | -49.8% | -68.5% |
| Layer-2 scaling | -30.9% | -11.4% | -15.7% | -52.1% | -32.4% |

Source: WisdomTree. As of Saturday, September 30, 2023.

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Regulated Futures (1/2)

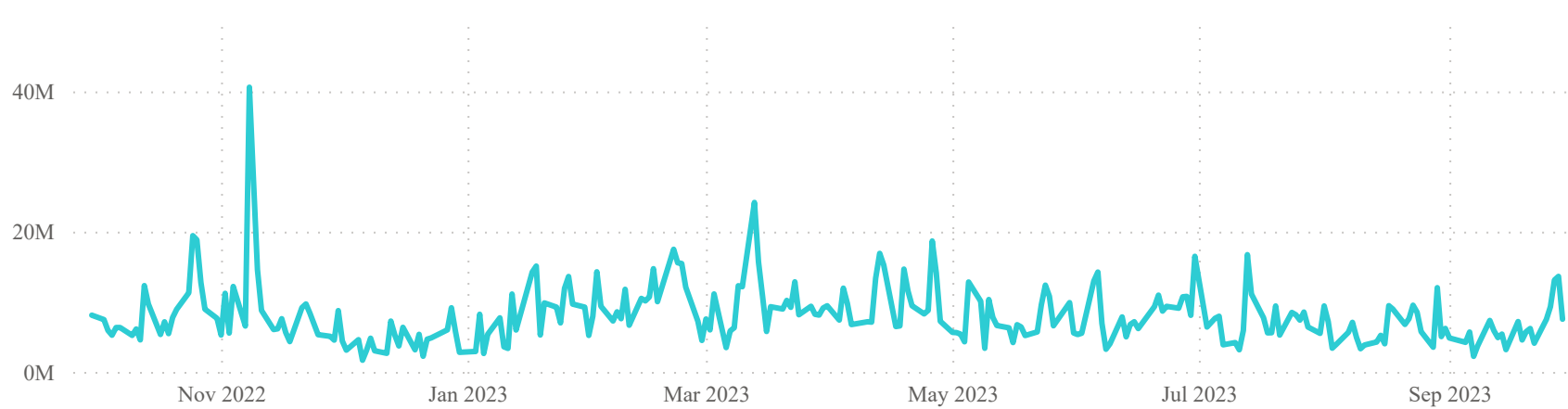
Bitcoin CME Futures | Volume USD



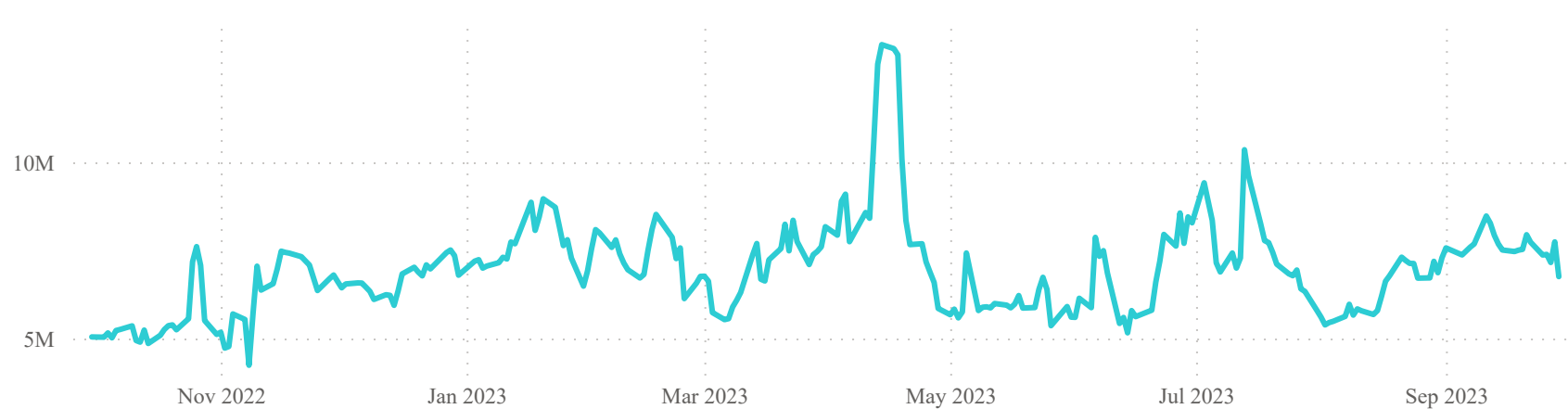
Bitcoin CME Futures | Open Interest USD



Ether CME Futures | Volume USD



Ether CME Futures | Open Interest USD

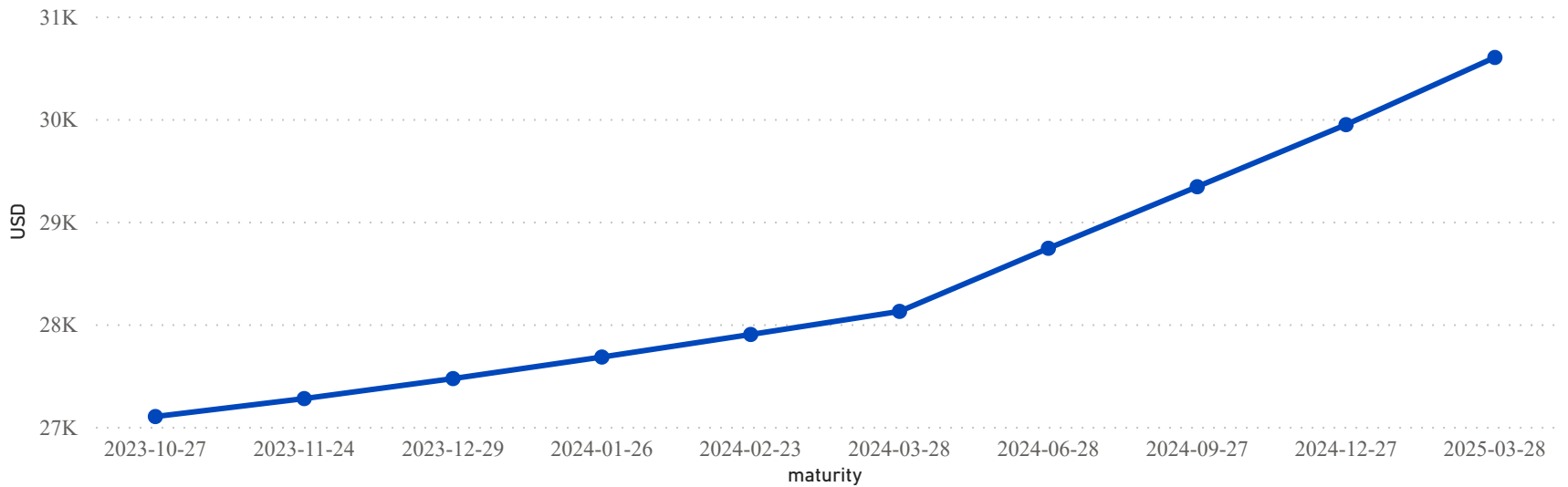


Source: WisdomTree, Bloomberg. As of [Saturday, September 30, 2023](#).

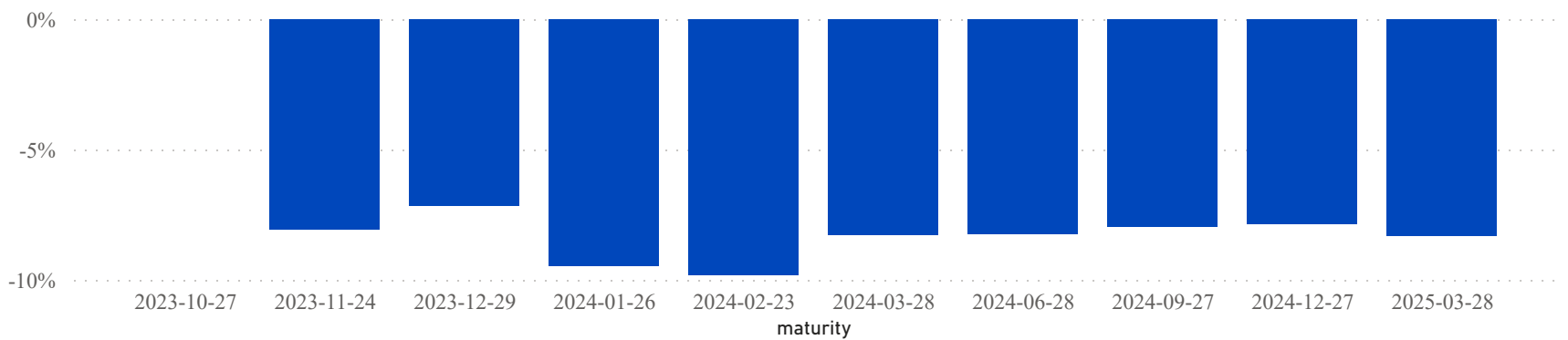
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Regulated Futures (2/2)

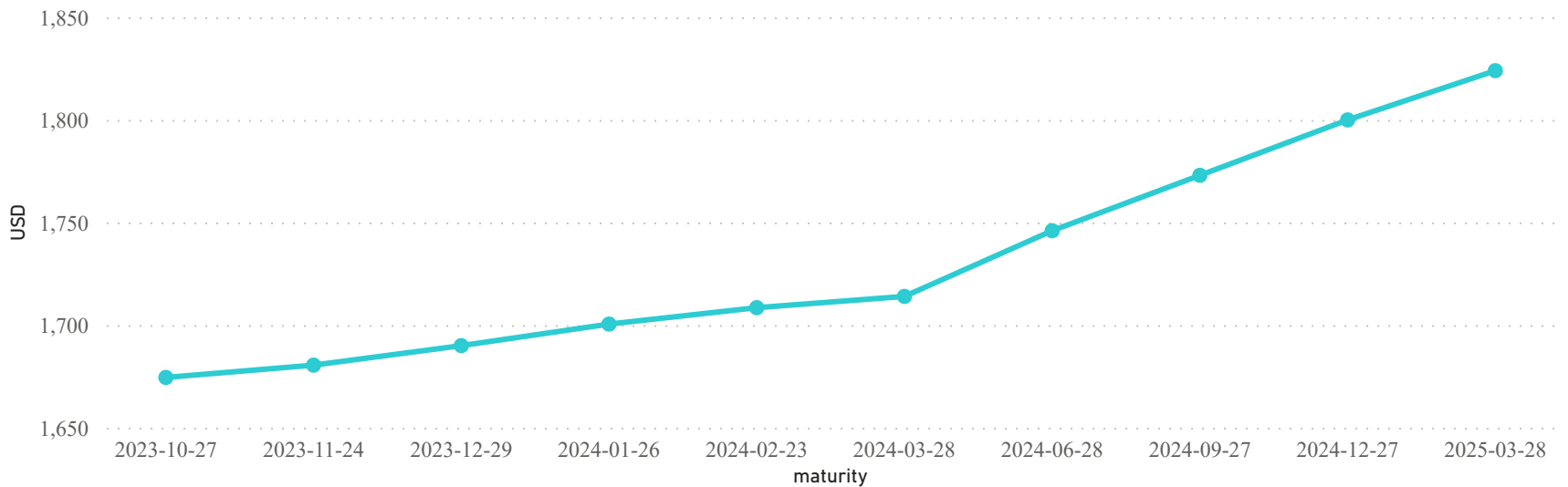
Bitcoin CME Futures | Price



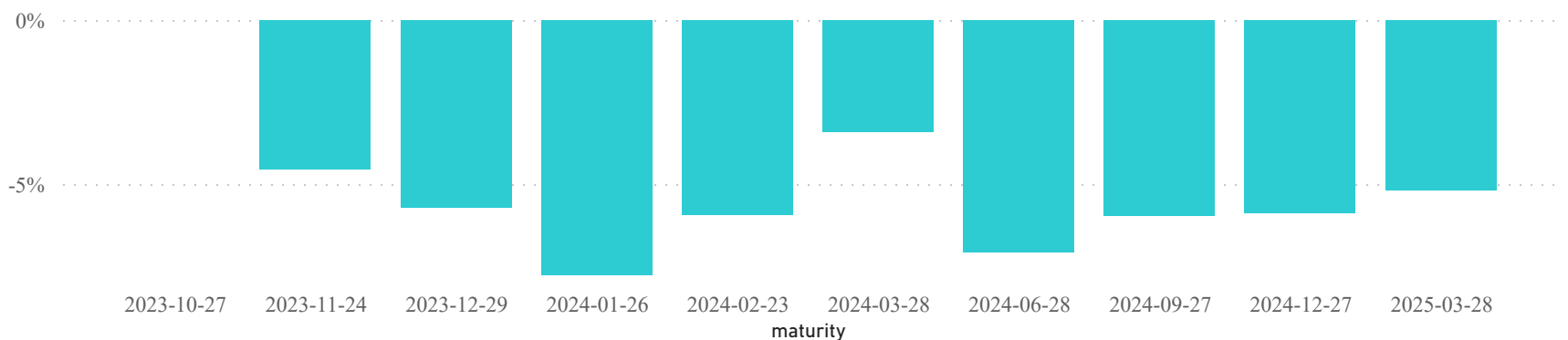
Bitcoin CME Futures | Annualised Implied Carry



Ether CME Futures | Price



Ether CME Futures | Annualised Implied Carry

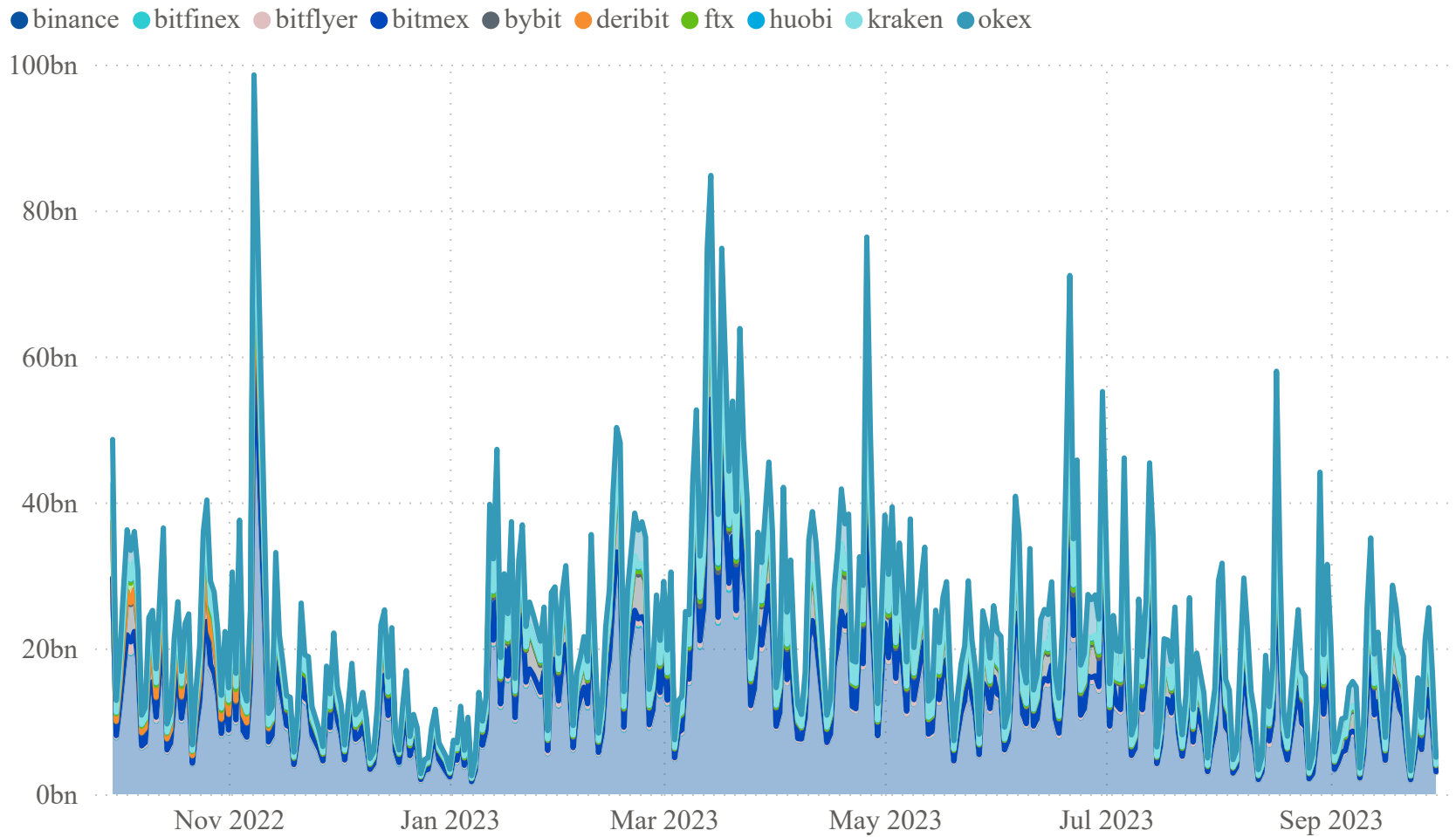


Source: WisdomTree, Glassnode. As of Saturday, September 30, 2023.

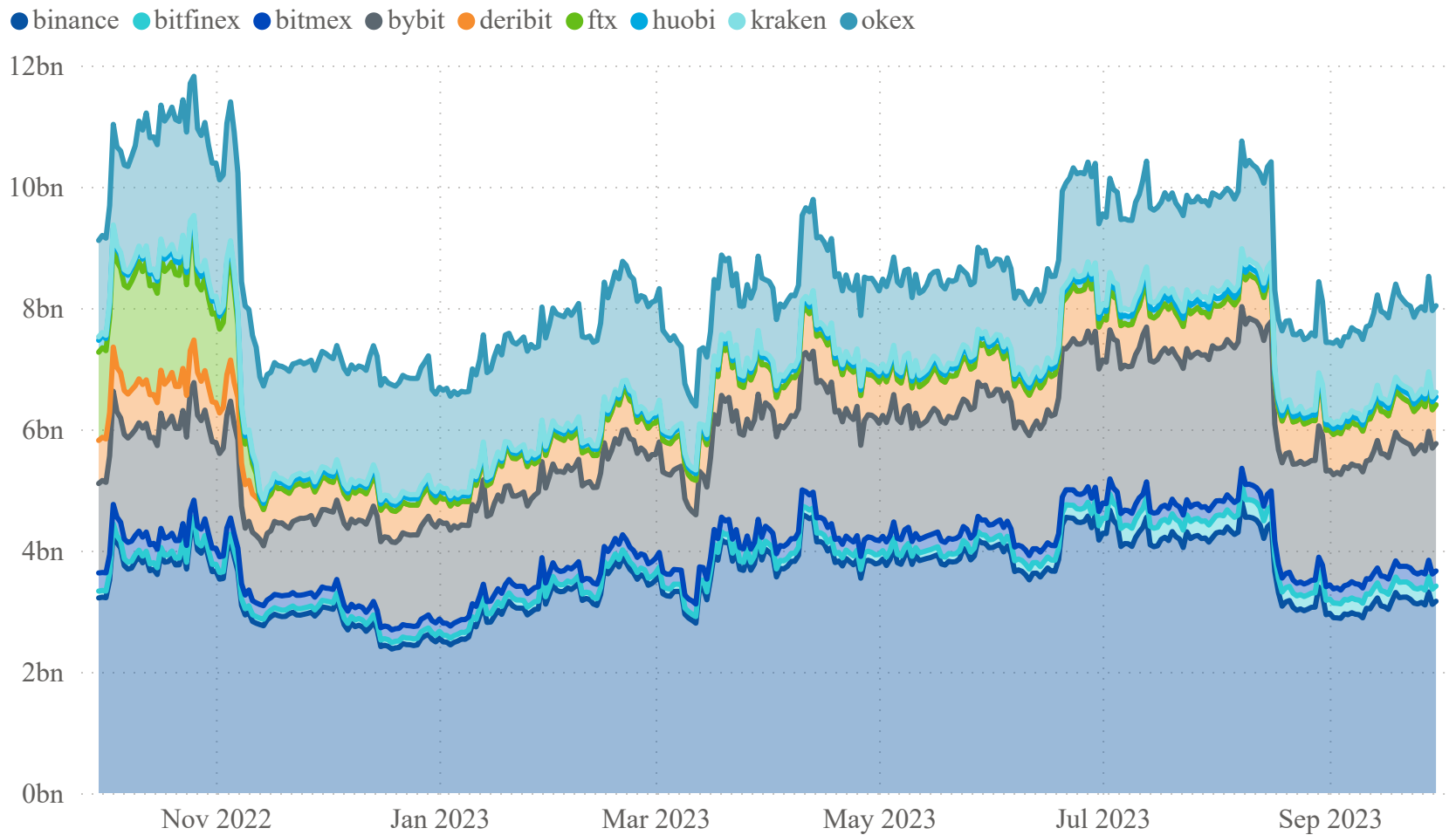
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Unregulated Futures (1/3)

USD Volume in Futures | Bitcoin



USD Open Interest in Futures | Bitcoin



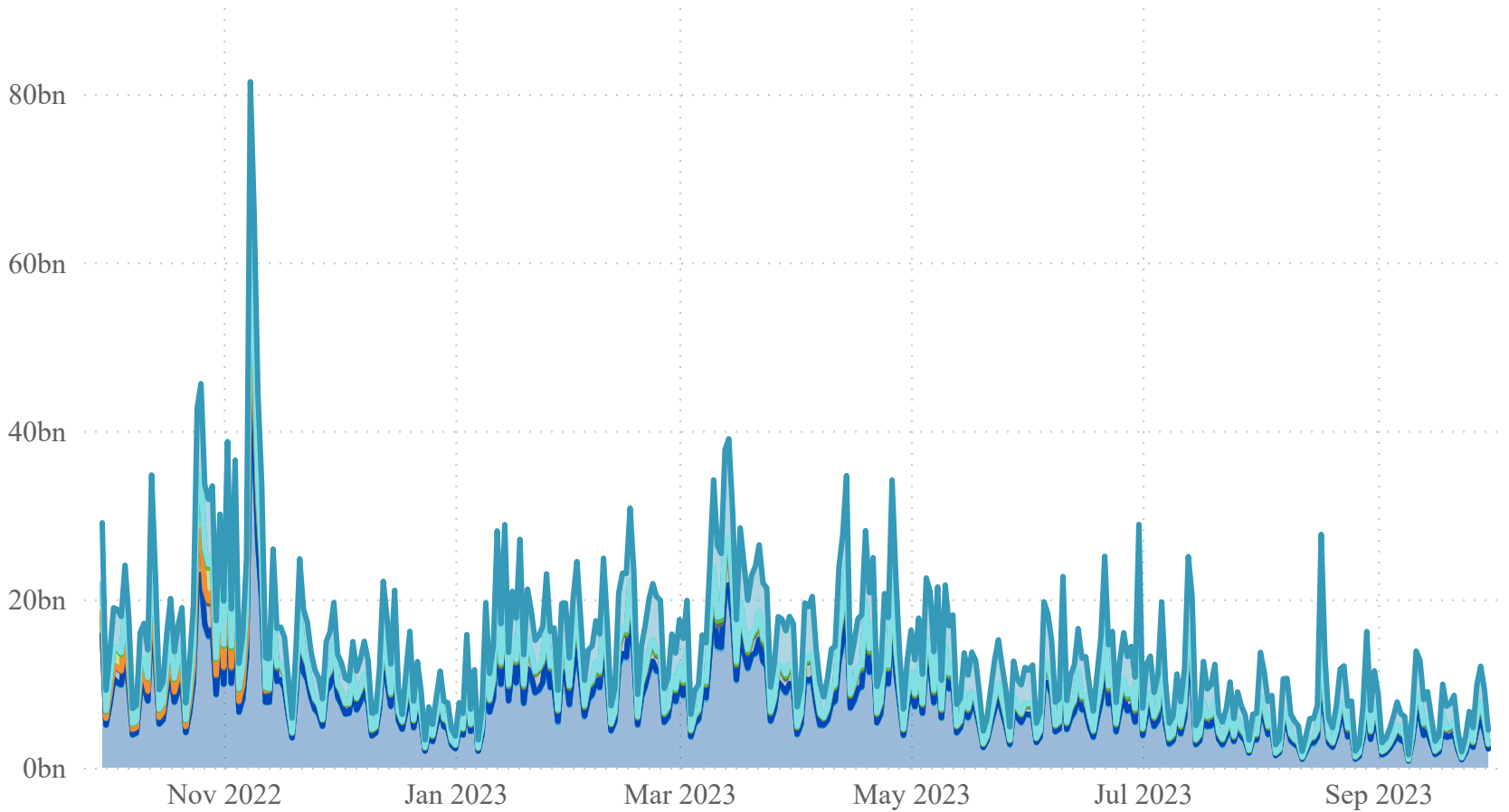
Source: WisdomTree, Glassnode. As of Friday, September 30, 2022.

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Unregulated Futures (2/3)

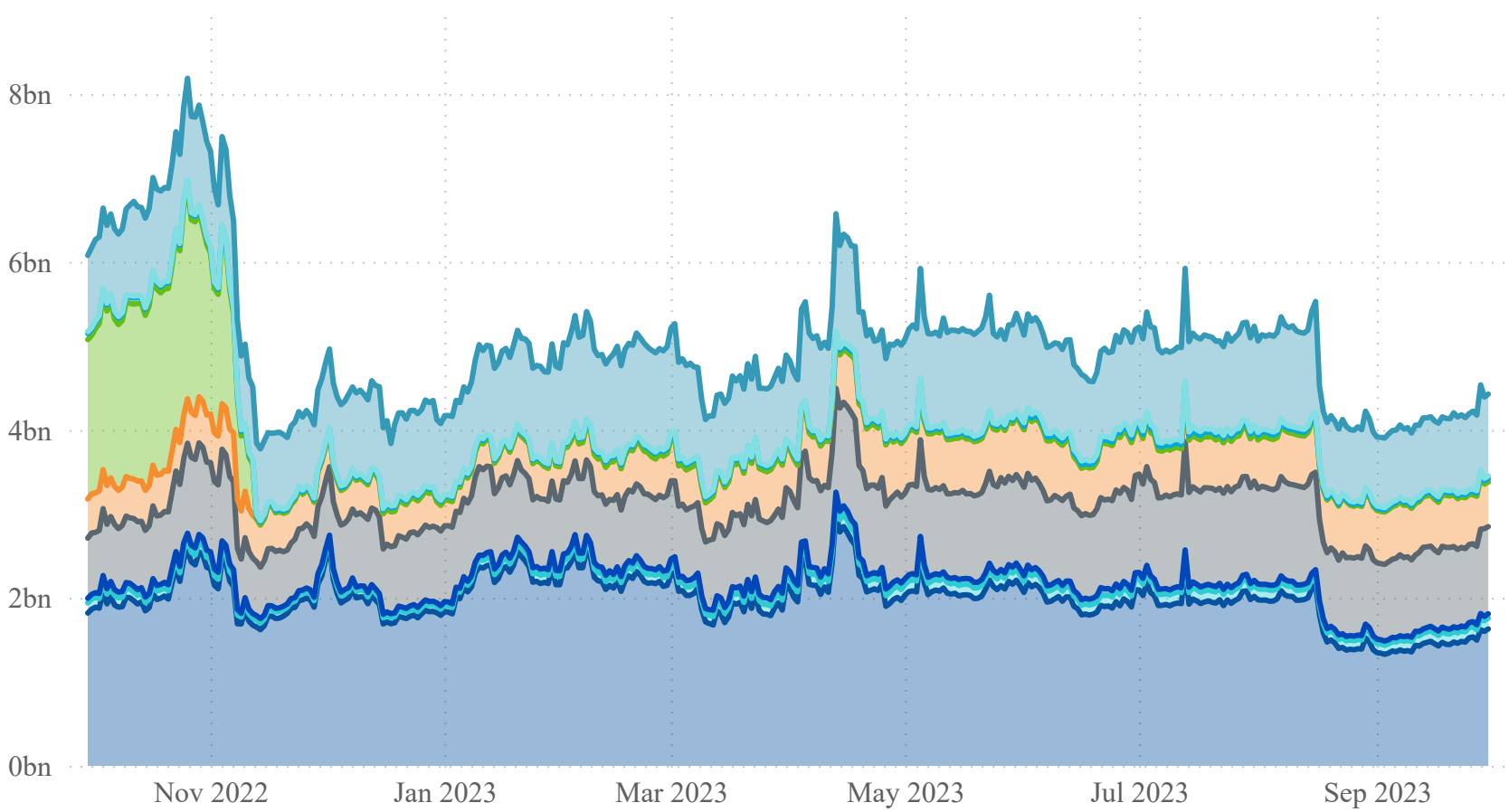
USD Volume in Futures | Bitcoin

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 Saturday, September 30, 2023.

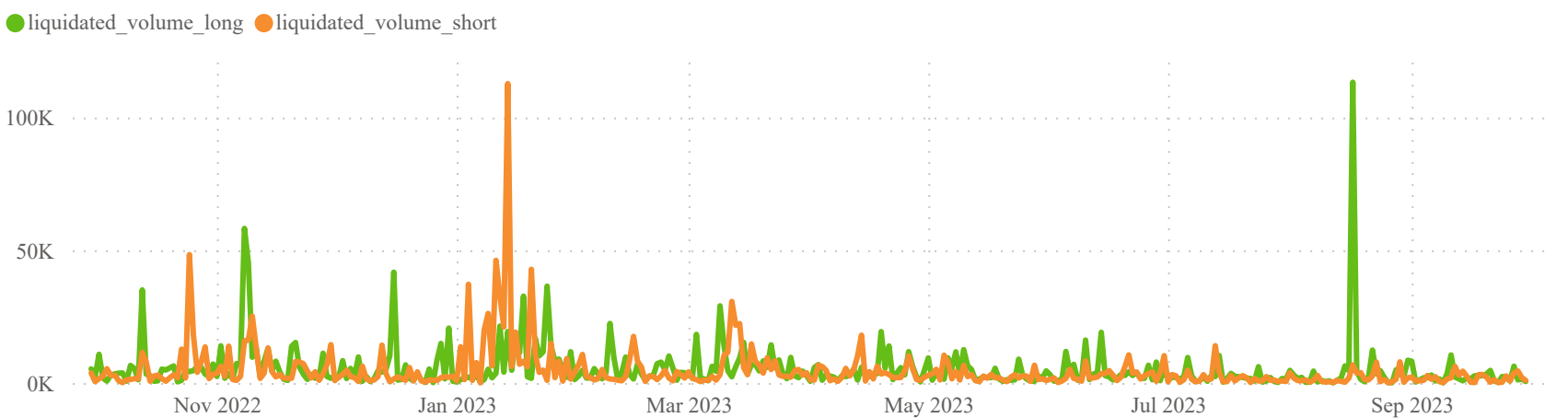
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Unregulated Futures (3/3)

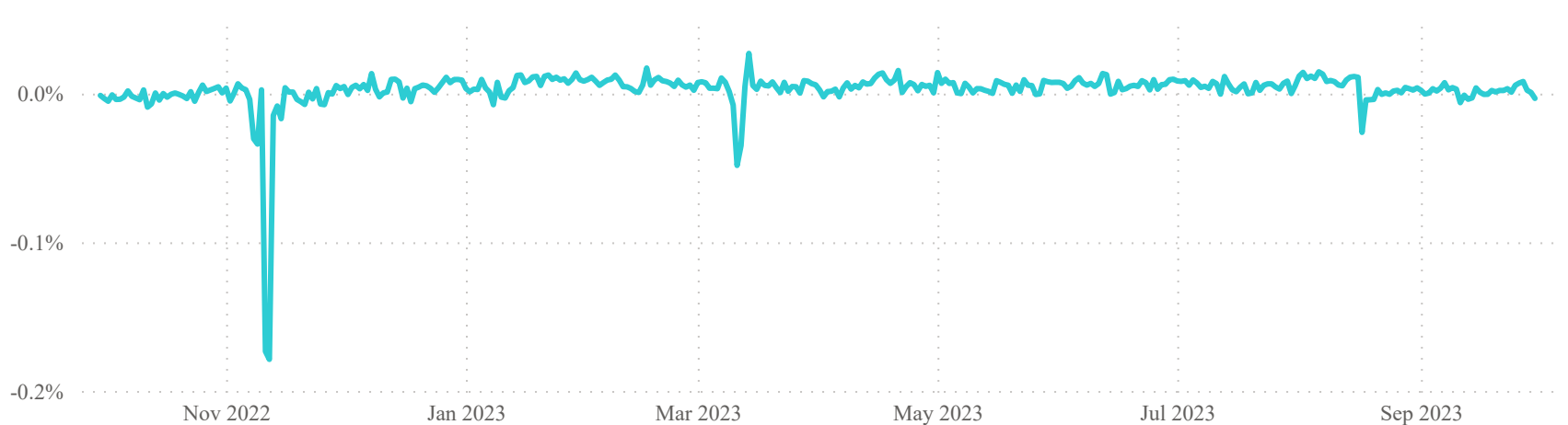
Bitcoin | Perpetual Funding Rate



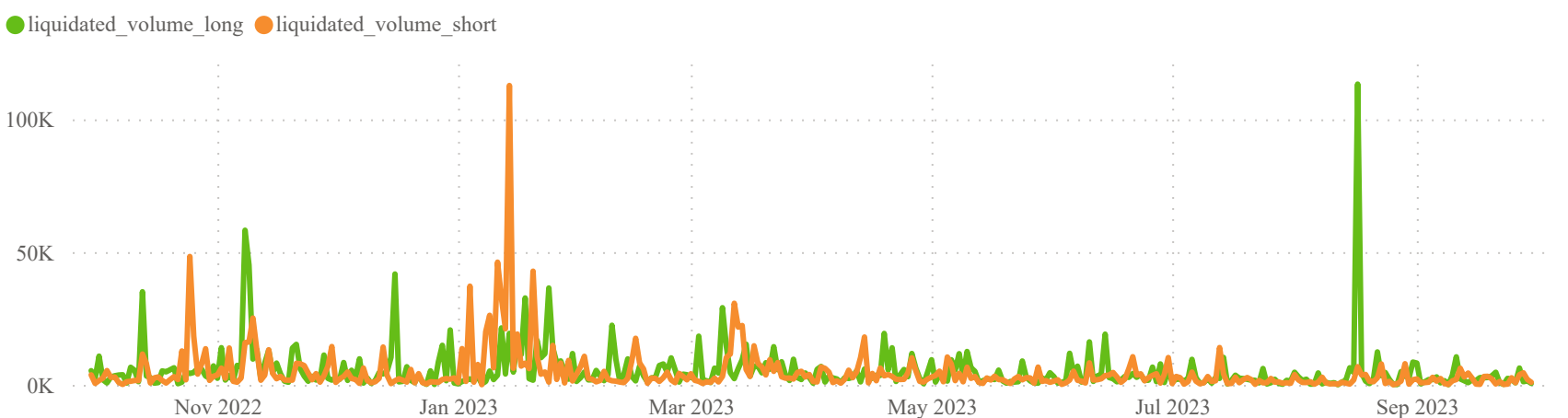
Bitcoin | Liquidated Volume



Ether | Perpetual Funding Rate



Ether | Liquidated Volume



Source: WisdomTree, Glassnode. As of [Saturday, September 30, 2023](#).

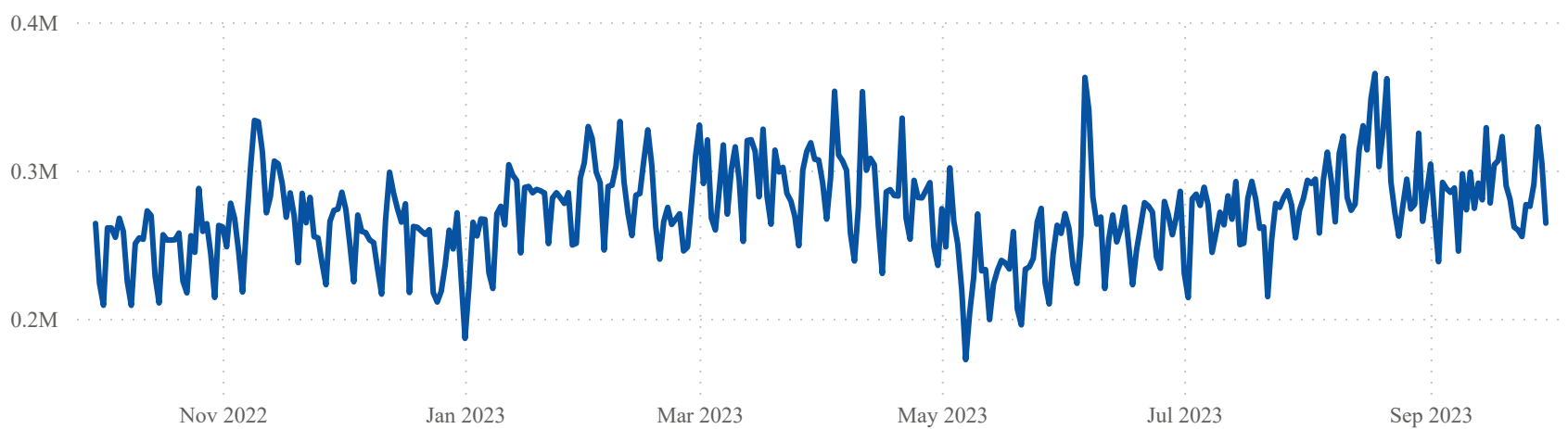
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Bitcoin | On-Chain Activity

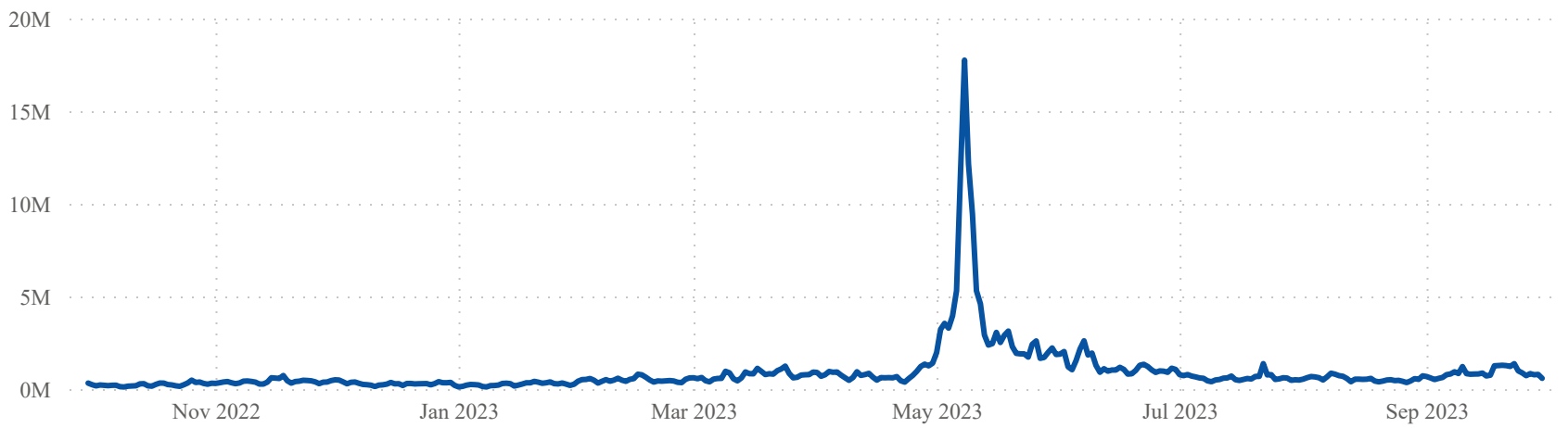
Number of Transactions



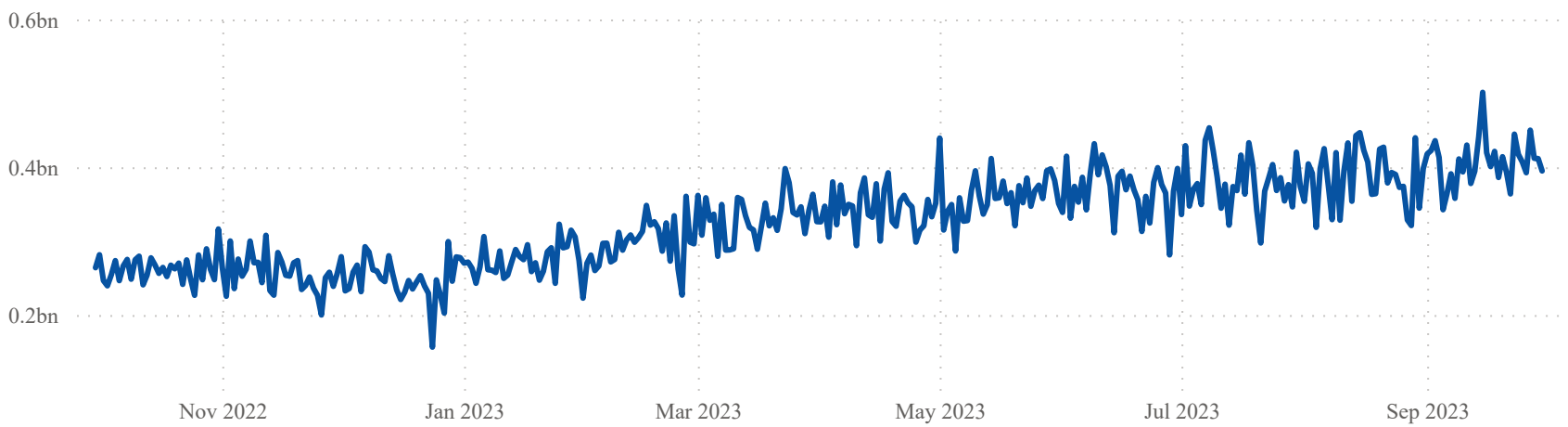
Number of Active Addresses



Fees Paid to Miners | USD



Hashrate | Terahash



Source: WisdomTree, Glassnode. As of Saturday, September 30, 2023.

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Valuation Metrics

Market Cap | USD

● BITCOIN ● ETHEREUM



MVRV | Market Value to Realised Value

● BITCOIN ● ETHEREUM



NUPL | Net Unrealised Profit Loss

● BITCOIN ● ETHEREUM



Exchange Balances | USD

● BITCOIN ● ETHEREUM



Source: WisdomTree, Glassnode. As of Saturday, September 30, 2023.

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