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CoinShares Bi-Weekly Digest

20th March 2023

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Digital Asset Market Summary

- Central Banks simply cannot have their cake and eat it. The FEDs tri-mandate is a bit like the blockchain trilemma – decentralization, security and scalability – where it is trying to optimize for market stability, low inflation and stable prices. But it can't have all three. The FED is also facing a trifecta of the 1940s debt problem (Govt Debt-to-GDP), the late 1990's speculative environment (S&P PE Ratios), and the inflationary issues of the 1970s (CPI). Never in history have we had all three issues happening at once.
- The future's market is pricing in a terminal rate of 4.7% with an 80% chance of a 25bps hike on Wednesday but this is contingent on calm markets before the meeting. Another meeting is scheduled for six weeks time. Our view is that no more hikes should occur, but it is likely we do see rates rise by 25bp, with the FED citing more nuanced "policy tools" to target specific weak spots in the economy. The fundamentals remain the same: Bitcoin is a hedge against monetary policy risk, traditional banking custodial risk and government policy risk.
- The long-awaited Shanghai upgrade on Ethereum is scheduled for April 12th which will allow Validators to withdraw their ETH. Our estimates predict it could take 2 weeks to clear the withdrawal queue and roughly three months for 25% to exit. This is significantly slower and less dramatic than the mainstream media makes it out to be. The purposefully stringent process prioritises the safety and security of the Ethereum network above all else. We expect many complaints on social media when the withdrawal process begins from those who expected to be able to immediately withdraw, but it is likely there will be an equally large staking queue.
- What to watch out for: Tuesday (Home Sales), Wednesday (Mortgage Applications, FOMC), Thursday (Jobless Claims, Current Account), Friday (Durable Goods)
- Follow all our reports on Bloomberg <NH CIE> GO

The Banking Crisis Proving Bitcoin's Worth

The way events are playing out now is the exact reason Bitcoin was created on January 3rd 2009 after the 2008 financial crisis: to have an alternative money that worked outside of banks, governments and other intermediaries. As such, this peer-to-peer money has no custodial risk. The market has started to realise the importance of this fundamental characteristic, as was neatly demonstrated in the BTC-USDT and BTC-USDC spread.

Circle, the issuer of the second-most liquid U.S. dollar-pegged stablecoin, USDC, lost its peg, dropping below 87 cents at one point on Saturday after admitting to having \$3.3 billion banked with SVB. But, Tether, the issuer of the most liquid stablecoin, USDT, did not encounter any problems. People started to sell USDC for Bitcoin whilst Tether barely flinched and continued to track the price of BTC-USD. The spread widened to 16% at one point.

People are starting to understand that Bitcoin is a hedge against traditional banking custodial risk.

Full report [here](#)



Our View on Grayscale vs The SEC

We have listened to the oral arguments between Grayscale and the SEC battle at the Court of Appeals, and we are sceptical of much of the recent reporting. Furthermore, we continue to think it is unlikely that the Court of Appeals will overturn the SEC's decision.

Nothing in the Court of Appeal's approach suggested that they strongly believed the SEC's decision, even if possibly wrong, was arbitrary and capricious nor did it imply that Court was likely to disapply Chevron Deference (the deference a court gives to regulatory bodies to whom Congress has granted authority to interpret and apply regulations).

The make-up of the three-judge panel works marginally in favour of the SEC. Judge Rao did seem more open to Grayscale's argument — but this is hardly surprising given she is a GOP nominee whose previous job in the Trump administration was pretty much dedicated to reforming the regulatory state. Judges Srinivasan and Edwards, both Democrats, are far less likely from an ideological perspective to interfere in the SEC's decision making.

In our opinion, based on our reading of the briefs and after listening to the oral arguments, we remain unpersuaded that GTBC now has a clearer path to becoming an ETF.

Read more in-depth [here](#)



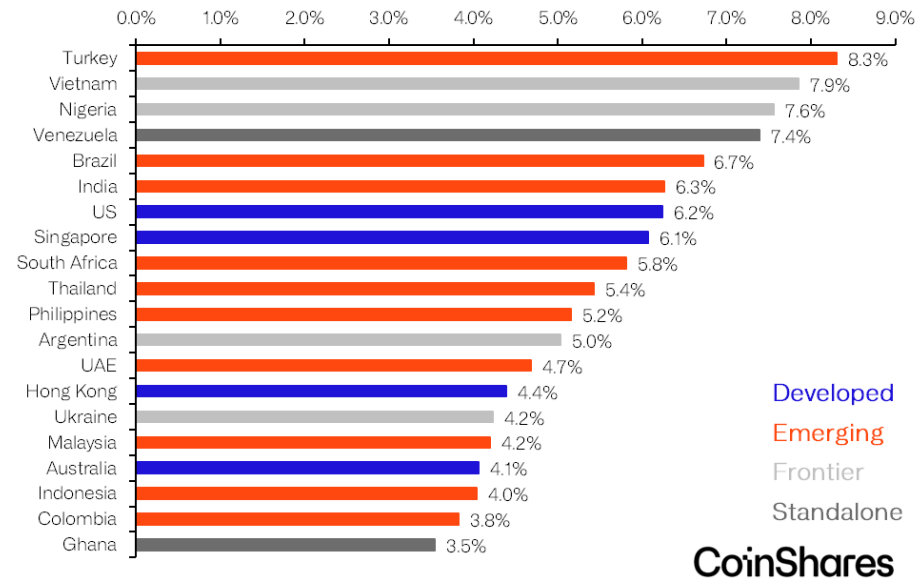
Bitcoin Ownership

Between 2016 and 2022 we calculate a compound annual adoption growth rate (CAGR) of 146% and a 23% CAGR between 2018 and 2022. Market cycles seem to play into the adoption curve, causing rapid booms around bull markets and then cooling off in the following bear markets.

A key observation is that the reported amount of bitcoin owners in each country per capita is strongly skewed toward emerging and frontier market countries. Out of the top 20, only 4 countries were developed, and the remaining ones were emerging (10), frontier (4) and standalone (2).

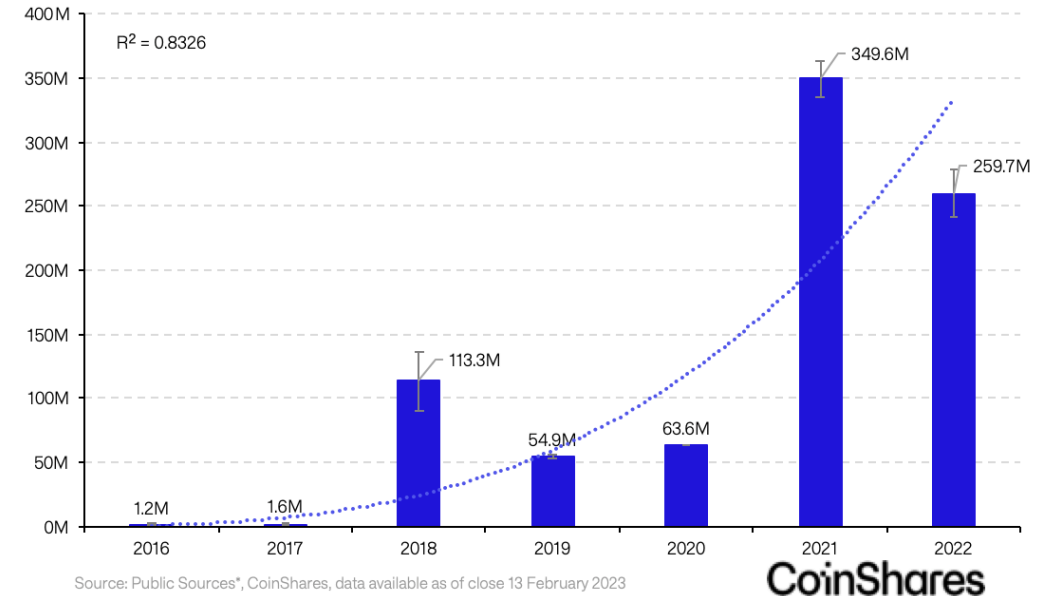
Report coming soon.

Top Bitcoin Ownership by Country, 2022



Source: Public Sources*, CoinShares, data available as of close 13 February 2023

Global Bitcoin Ownership by Year, 2016 - 2022

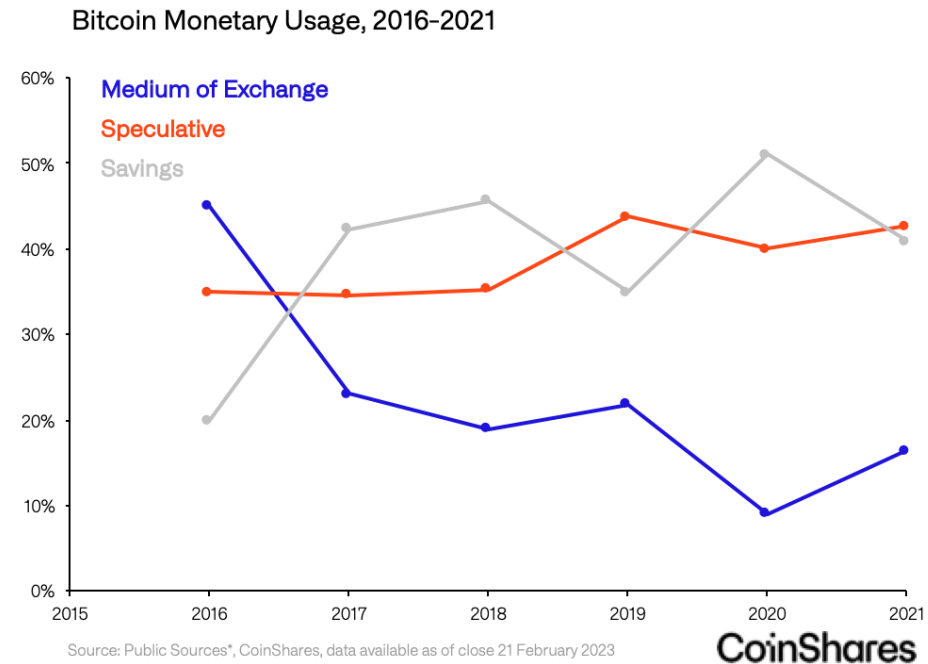
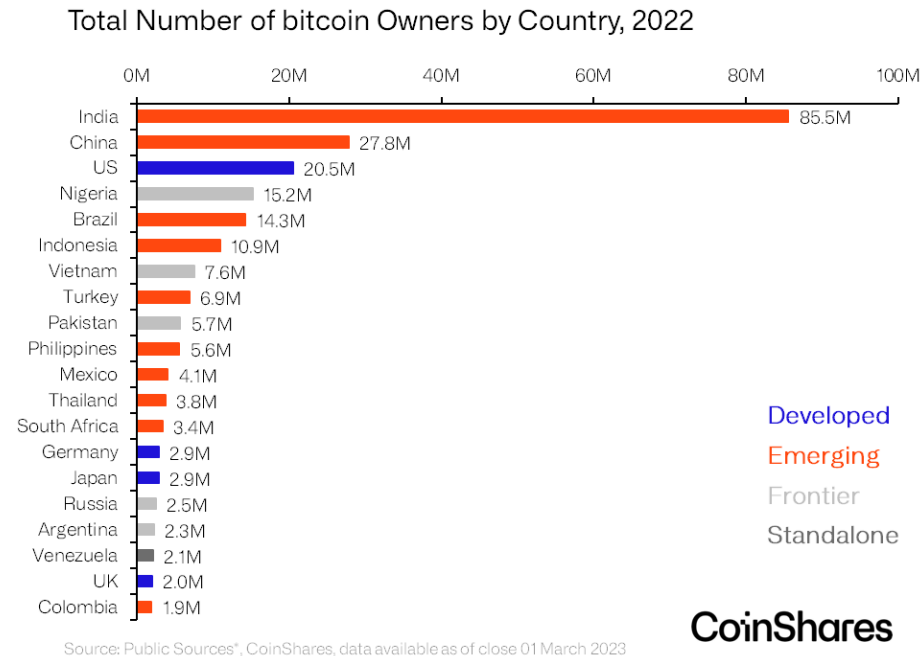


Source: Public Sources*, CoinShares, data available as of close 13 February 2023

Bitcoin Ownership pt. 2

Not only are emerging and frontier countries overrepresented in percentage-based usage, but they also represent the vast majority of the global population. The result is that 86% of total bitcoin owners live outside of developed countries. Our demographic data also suggests that the proportion of users who hold bitcoin as a store of value has steadily increased over the last 7 years, meanwhile its use as a medium of exchange has decreased and its use as an instrument of speculation has remained relatively steady.

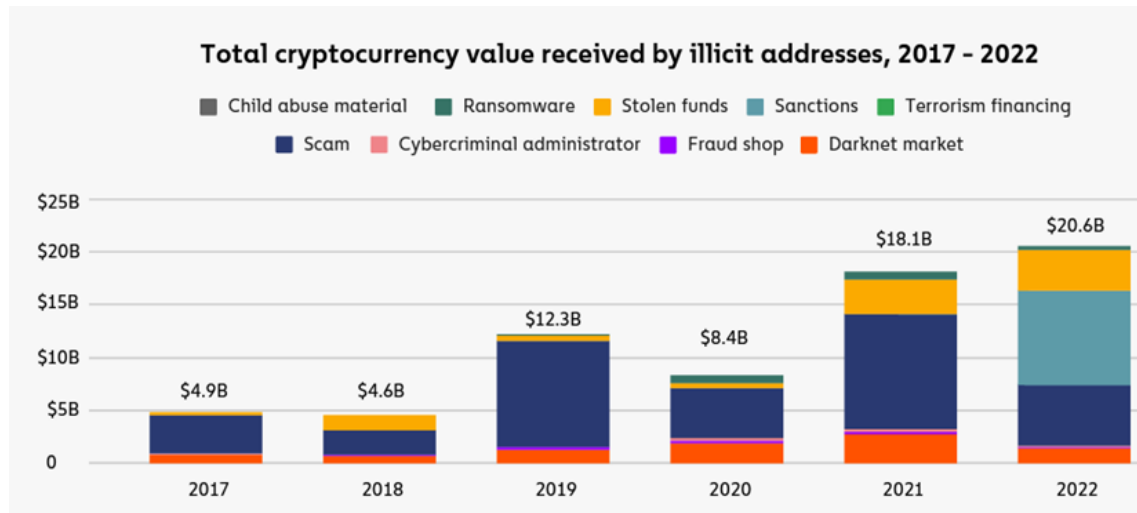
Report coming soon.



Quantifying Crypto Crime

The amount of cryptocurrency used in criminal activity is relatively small compared to the total amount of cryptocurrency traded. According to Chainalysis, the estimated usage of crypto in crime in 2022 was \$20 billion, which represents only 0.55% of the daily turnover of Bitcoin alone. In comparison, traditional fiat currencies are far more prevalent in criminal activities. Europol estimates that 30% of all €500 notes have been used in money laundering.

Read the report [here](#).



Source: Chainalysis Crypto Crime Report 2023



Source: UN, Chainalysis, CoinShares, data available as of close 02 March 2023

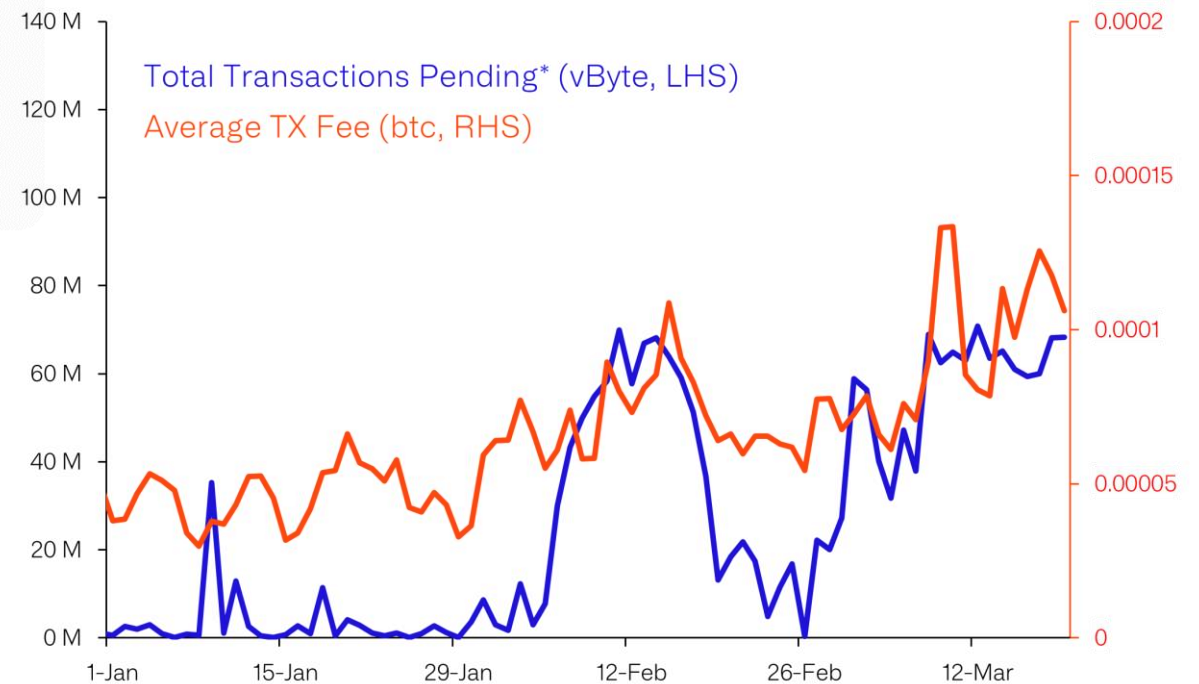
Bitcoin Market Fundamentals

Over the past two weeks, transaction activity on the Bitcoin network rose.

The estimated number of transactions awaiting settlement to the Bitcoin blockchain has increased to roughly 22k (or ~60 MvB in size); the average fee per transaction has also roughly doubled this year to 0.0001 btc (or US\$ 2.77).

Increased activity could possibly be driven by users withdrawing coins from exchanges, realising gains, or participating in a new and growing community focused on digital artefacts.

Demand for Bitcoin Transactions is Slightly Increasing



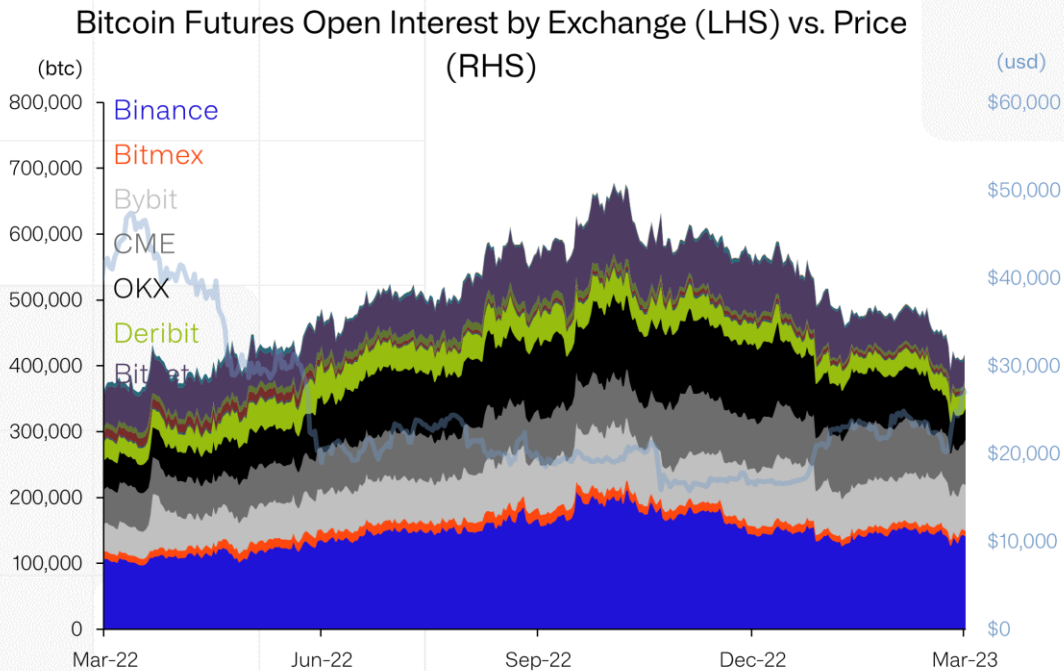
Source: Glassnode, CoinShares, data available as of close 18 March 2023

*Estimate based on Glassnode Bitcoin network node

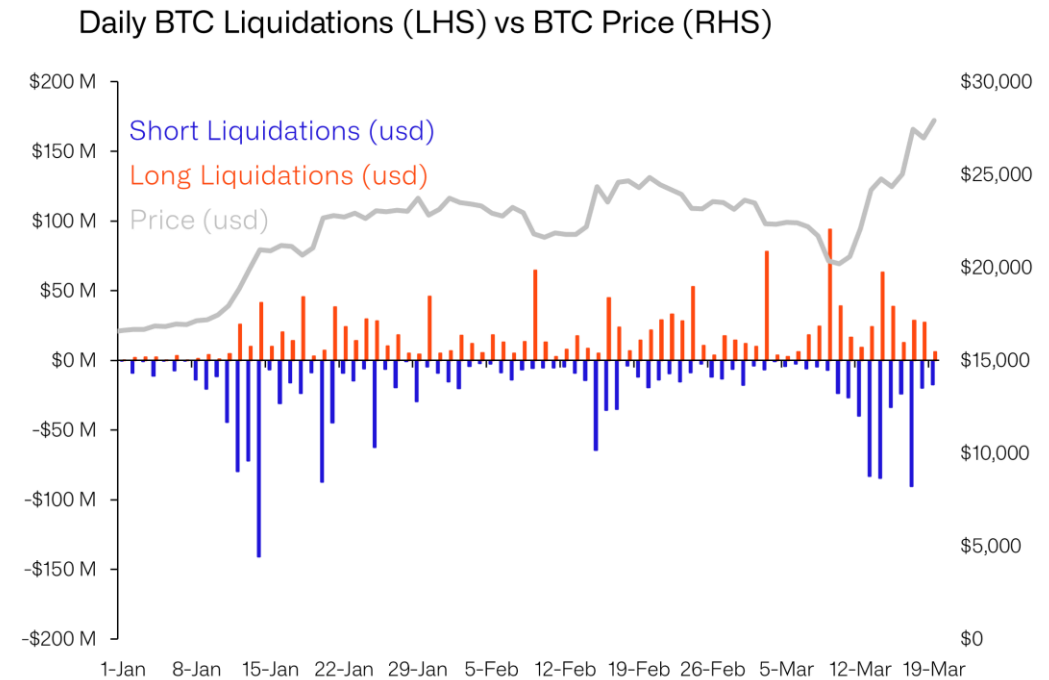
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Bitcoin Futures Overview

Futures Open Interest has fallen in terms of bitcoin over the past two week across all exchanges by 8.6%, or roughly 39k btc (US\$ 1.06B). Increased price volatility triggered liquidations totaling nearly 880M US\$, and the bitcoin price quickly rose 20%, now up ~68% YTD. Despite building momentum and showing signs of strength, perpetual traders appear both conflicted and mostly cautious of what's to come next: funding rates on average are hovering near neutral rates (1%) but were relatively turbulent over the period.



CoinShares

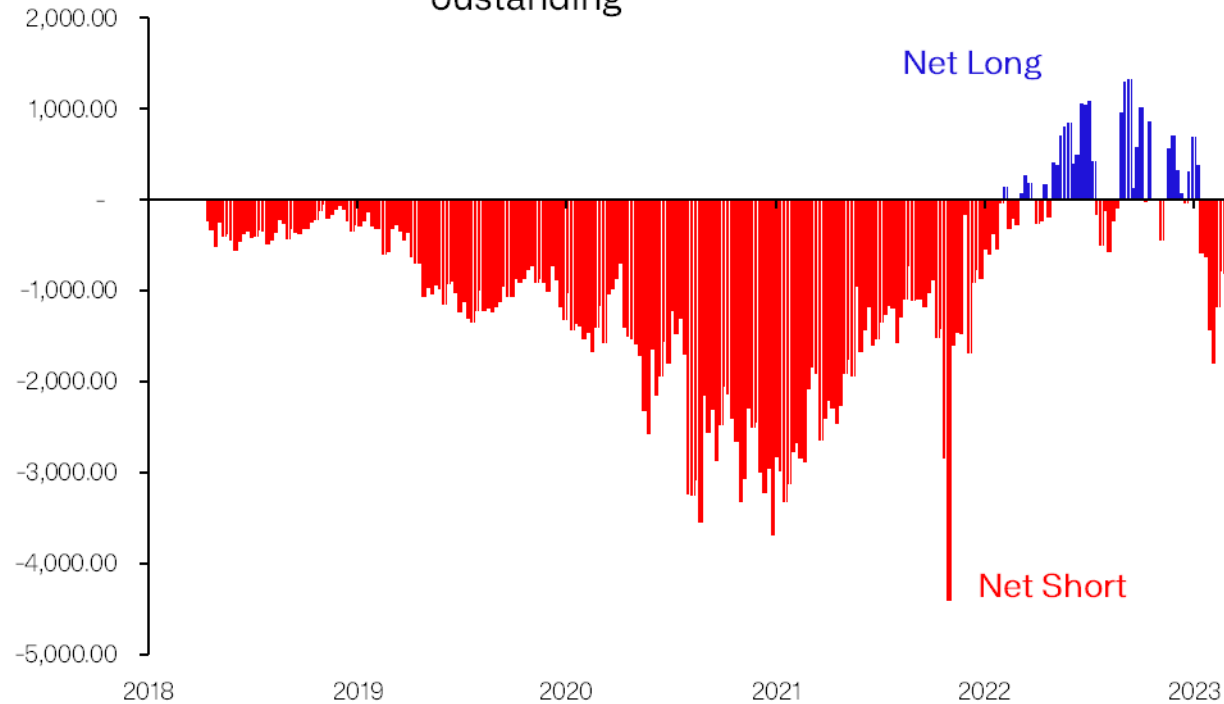


CoinShares

CFTC Bitcoin Futures

In the CME, futures positions have flipped into a small net long position. As it is often a contrarian indicator it is unusual to see it in a net long position given the recent price rise.

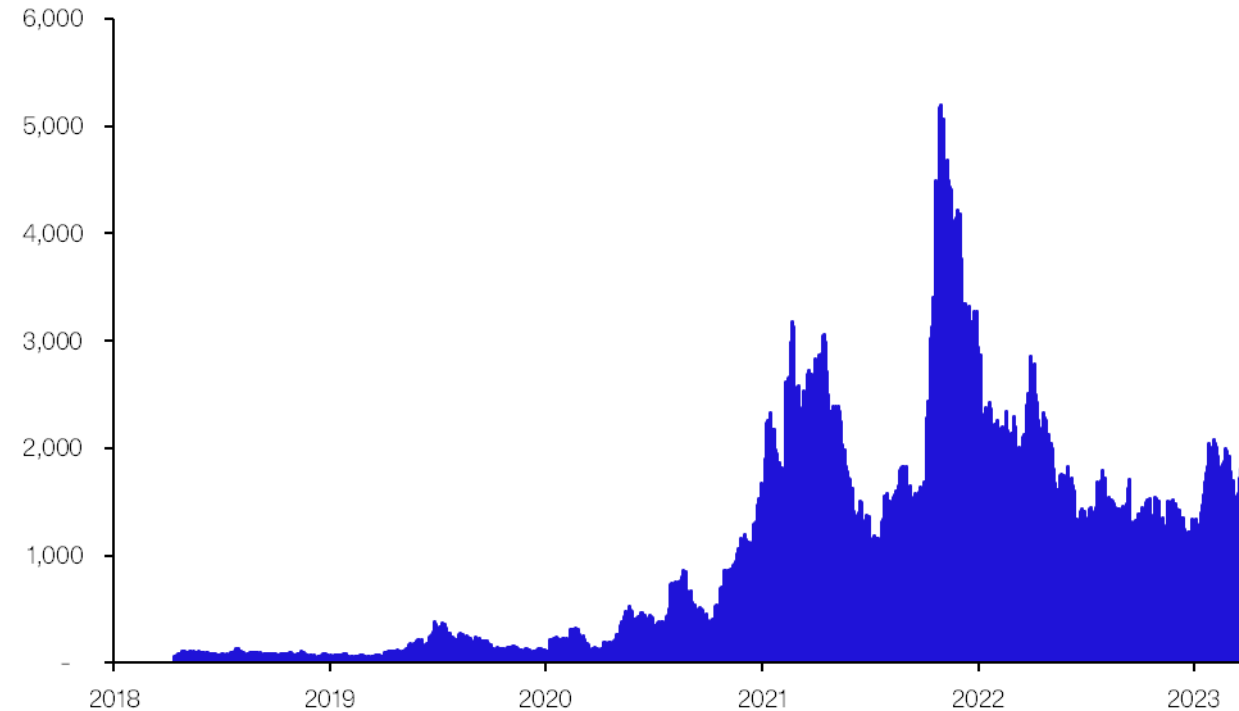
CME Bitcoin Futures contracts net non-commercial
oustanding



CoinShares

Source: Bloomberg, CoinShares, data available as of close 20 March 2023

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



CoinShares

Source: Bloomberg, CoinShares, data available as of close 20 March 2023

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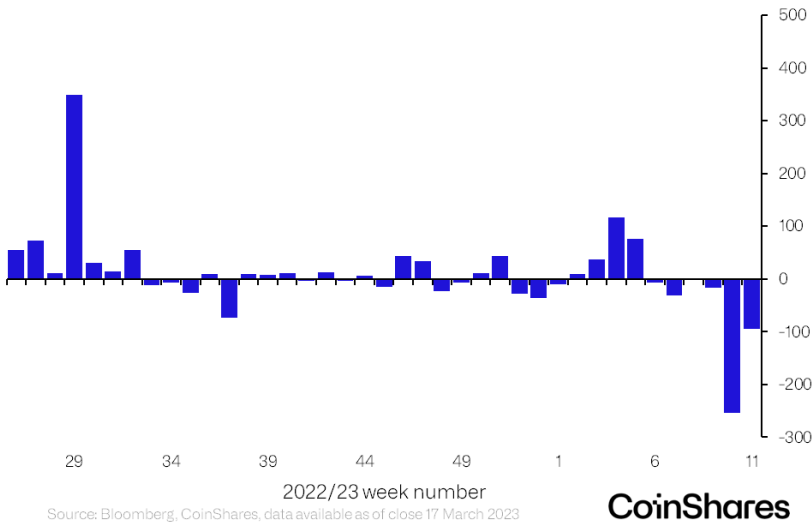
Digital Asset Fund Flows

A Stark Contrast in Sentiment with a 6th Week of Outflows for Bitcoin

- Digital asset investment products saw outflows for the 6th consecutive week totalling US\$95m, with the 5-week total being US\$406m, representing 1.2% of total assets under management (AuM).
- Bitcoin remained the focus of negative sentiment, seeing outflows in investment products totalling US\$113m last week.
- The outflows were in stark contrast to the broader market and suggest it was, in part, due to the need for liquidity rather than negative sentiment.

report [here](#)

Weekly Crypto Asset Flows (US\$m)



Flows by Provider (US\$m)				
CoinShares	Week flows	MTD flows	YTD flows	AUM
Grayscale	-	-	-	22,647
CoinShares XBT*	-11.6	-16.5	-20	1,661
CoinShares Physical*	-7.6	-16.7	18	463
21Shares	-6.5	-22.7	13	1,165
ProShares	-4.1	15.7	81	992
Purpose	0.4	0.7	2	787
3iQ	-12.9	-232.3	-187	701
CI Investments	-2.1	-3.5	-3	562
Other	-50.3	-85.2	-81	4,076
Total	-94.7	-360.6	-177	33,055

Flows by Asset (US\$m)				
CoinShares	Week flows	MTD flows	YTD flows	AUM
in	-112.8	-369.3	-230	21,997
Ethereum	-12.7	-22.8	-15	7,539
Multi-asset	-5.2	-2.5	-26	2,540
Binance	-	-	-0	345
Short Bitcoin	34.7	33.6	83	156
Litecoin	0.2	-0.1	-0	134
Tron	-	-0.3	-0	64
Solana	0.2	0.8	5	58
Polygon	0.2	0.3	1	36
XRP	0.4	0.7	1	35
Other	0.4	-0.9	5	150
Total	-94.7	-360.6	-177	33,055

Source: Bloomberg, CoinShares, data available as at 17 Mar 2023

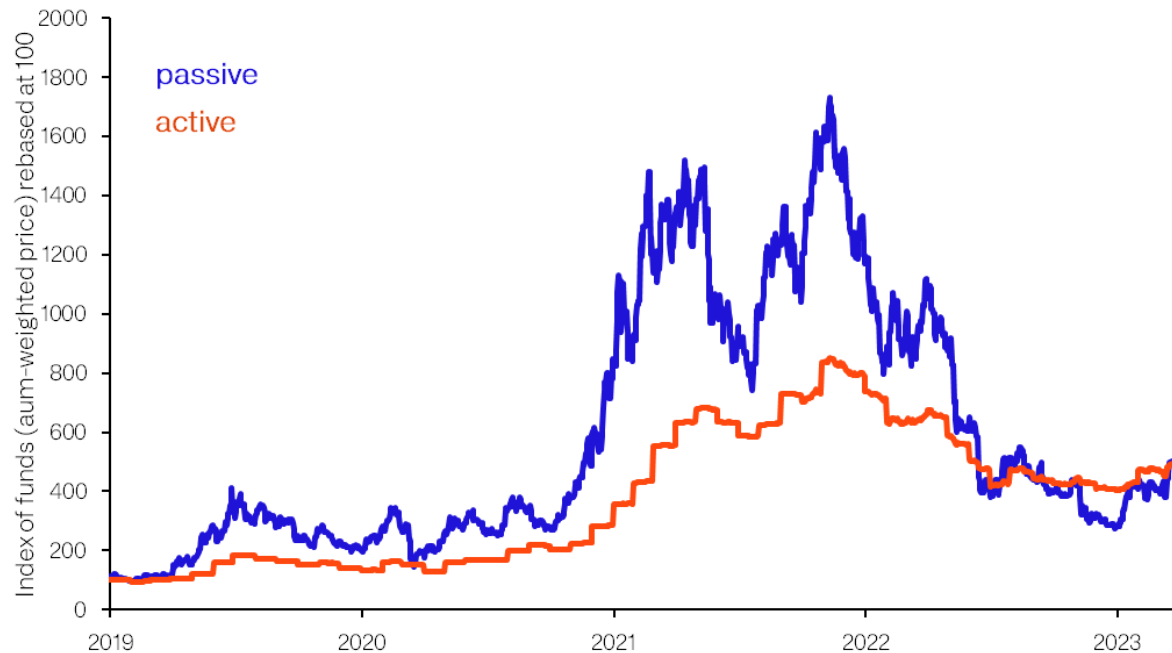
* Independent daily attestation by Armanino

Flows by Exchange Country (US\$m)				
CoinShares	Week flows	MTD flows	YTD flows	AUM
Australia	-	-	-	9
Brazil	-7.0	-6.3	-33	311
Canada	-12.8	-242.6	-187	2,284
France	-0.0	-0.0	1	9
Germany	-24.3	-59.6	19	1,393
Sweden	-11.6	-16.5	-20	1,661
Switzerland	-6.9	-21.6	23	1,515
United States	-0.4	18.7	83	24,535
Other	-31.6	-32.8	-63	1,338
Total	-94.7	-360.6	-177	33,055

Active vs Passive Crypto Investors

The recent rally saw passives massively outperform actively managed funds. Passives are underperforming active in aggregate in the longer term, although this data can be misleading, if only 2 of the 29 active funds are removed, they underperform passives. (New Weighting methodology highlights passives are lower beta)

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



Actively trading funds only, so there is a survivorship bias, NAV data frequency low for Actives

Source: Bloomberg, CoinShares as of close 20 Mar 2023

CoinShares

Digital Asset fund Performance & Risk

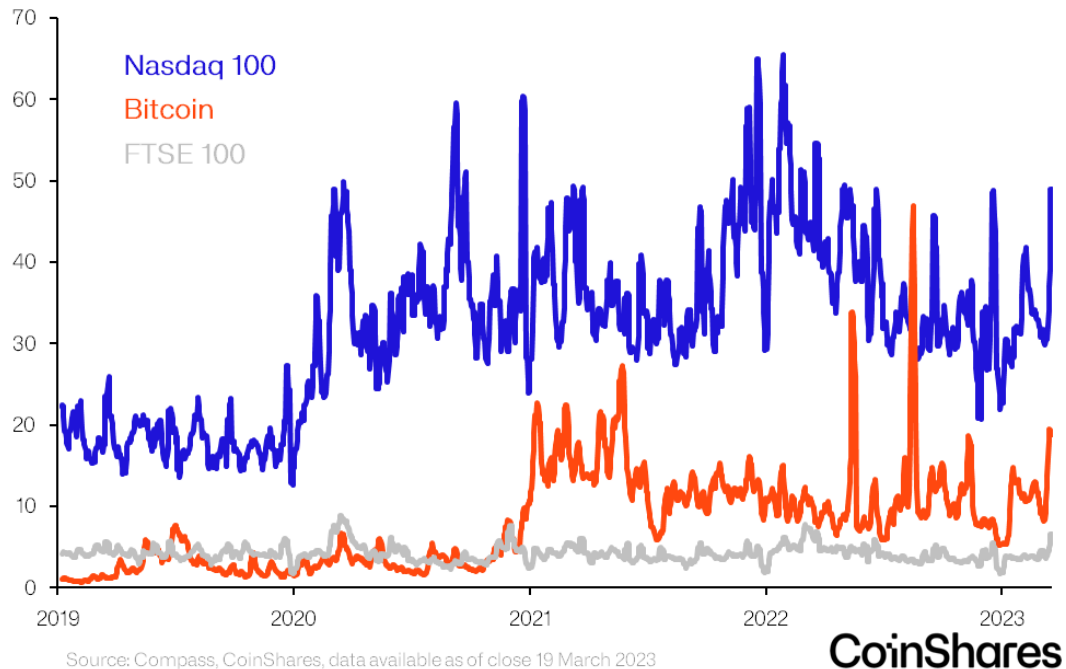
CoinShares	Passive	Active
1m	23.5%	4.8%
3m	78.6%	21.9%
6m	26.4%	15.8%
1y	-52%	-27%
2Y	-56%	-11%
annualised returns (since 2019)	47%	50%
# actively trading	169	29
% actively trading (March)	100%	93%
assets under management (US\$m)	31,203	1,852
Average annual fee (%)	1.45	1.75
max drawdown	84.3%	52.6%
volatility	67.6%	36.9%
return dispersion (weighted)	4.1%	1.2%
sharpe	0.68	1.34

Source: Bloomberg, CoinShares as of close 20 Mar 2023

Bitcoin Volumes

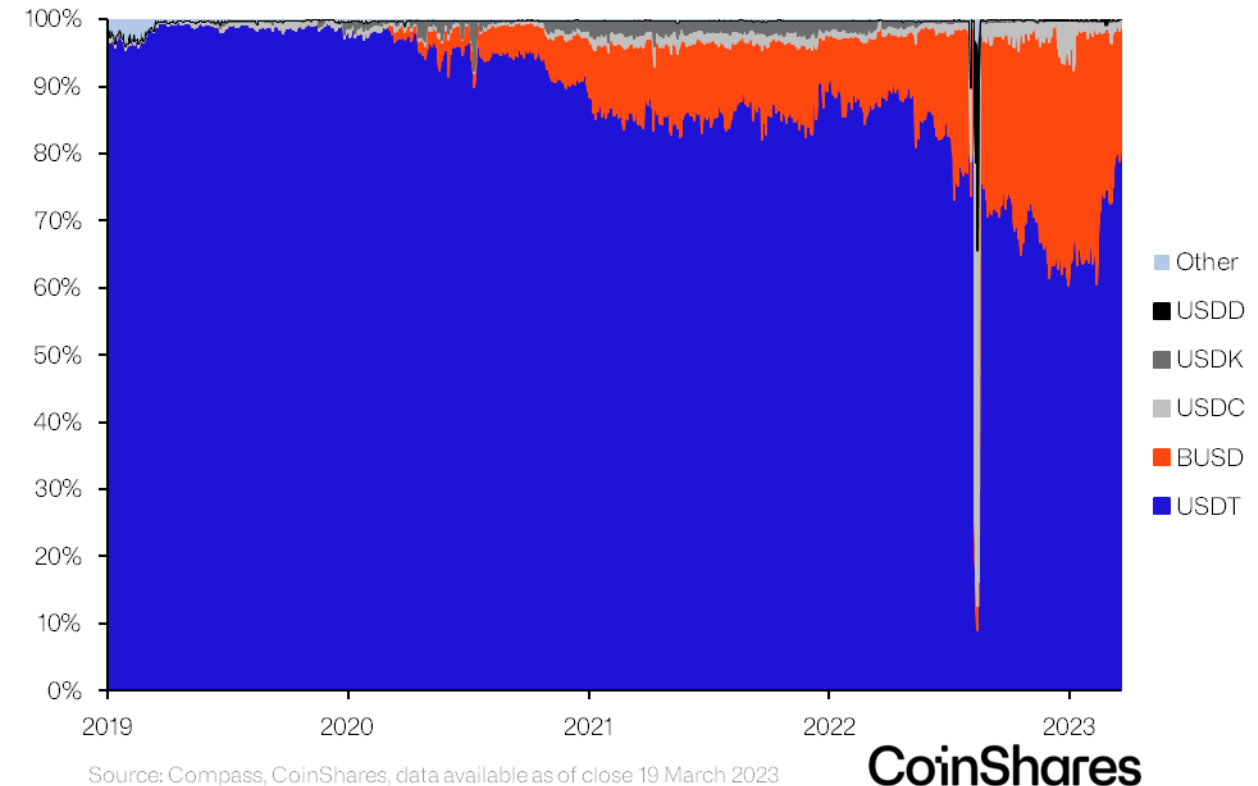
Volumes in Bitcoin have picked up dramatically during this crisis, peaking at US\$25bn in a single day.

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



USDT continues to increase its market share as holder look to switch out of US regulated entities.

Stablecoin Market Share of Bitcoin volumes



Market Correlations

BTC 3-month Correlation to Equities (Nasdaq) fallen from its 71% peak to 26% today.

It's lowest point since End-2021 when the FED was poised to hike interest rates.

After the recent rally, Bitcoin 30d price volatility has risen to ~60%, but US banking equities have seen a volatility spike.

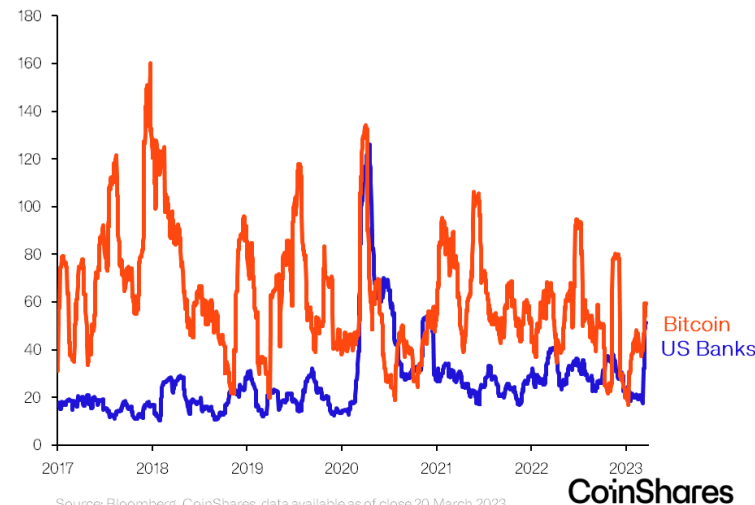
BTC Correlation to various equity indices in varied price shock events (since 2019)

CoinShares	Inflation-linked Bonds	MSCI World	S&P 500	Gold	NASDAQ 100	10yr Treasuries	CRB	DXY Index
All periods	24%	36%	34%	20%	33%	6%	18%	-20%
3x stdev event	48%	67%	61%	41%	71%	28%	20%	-13%
3x stdev event + momentum	18%	38%	36%	27%	74%	42%	-21%	-23%
3x stdev event - momentum	55%	70%	65%	57%	69%	21%	21%	34%

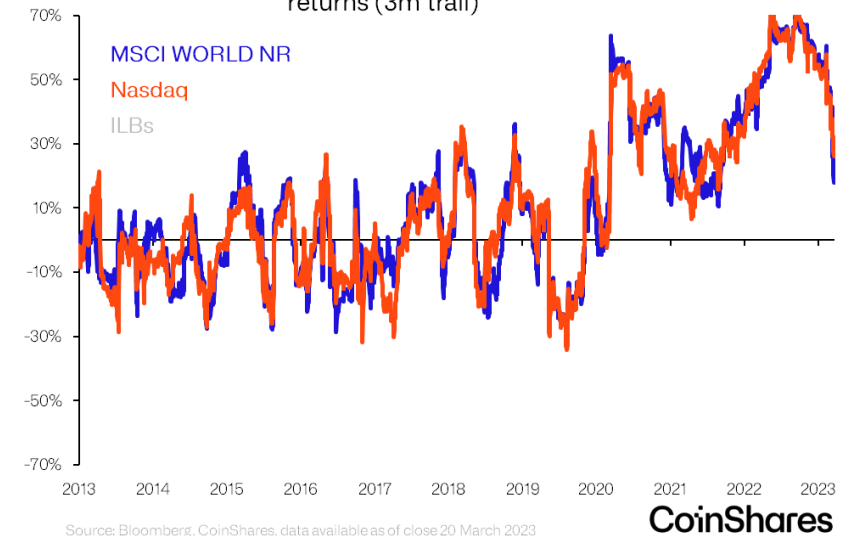
Source: Bloomberg, CoinShares, data available as of close 20 March 2023

- MSCI World total return, Bloomberg Total Return 7-10 year bond, XBTUSD, CRB (commodities), XAU, SOCL & NDX indices are used

Bitcoin Volatility vs Equities (30d annualised)



MSCI World & Nasdaq 100 vs Bitcoin correlation of daily returns (3m trail)



Bitcoin in a Portfolio

A portfolio weighting of 4% achieves a Sharpe ratio of 1.17, 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%	14.3%	40.8%	16.2%	6.9%	6.6%	6.7%	6.8%
max drawdown	21.4%	22.9%	67.2%	22.4%	20.9%	20.8%	20.7%	21.7%
volatility	9.3%	10.4%	42.4%	10.5%	9.1%	9.0%	9.0%	9.6%
correlation	-	92.7%	37.1%	90.9%	99.8%	100.0%	100.0%	99.8%
tracking error	-	3.9%	39.7%	4.4%	0.6%	0.3%	0.4%	0.6%
beta	-	0.83	0.09	0.81	1.03	1.03	1.04	0.97
Sharpe (vs cash)	0.49	1.17	0.91	1.34	0.52	0.48	0.50	0.48
Sortino	-	1.48	1.19	1.70	0.63	0.59	0.61	0.58

Source: Bloomberg, CoinShares, data available as of close 20 March 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 and MVIS Digital Assets indices are used

- Rebalanced per calendar quarter

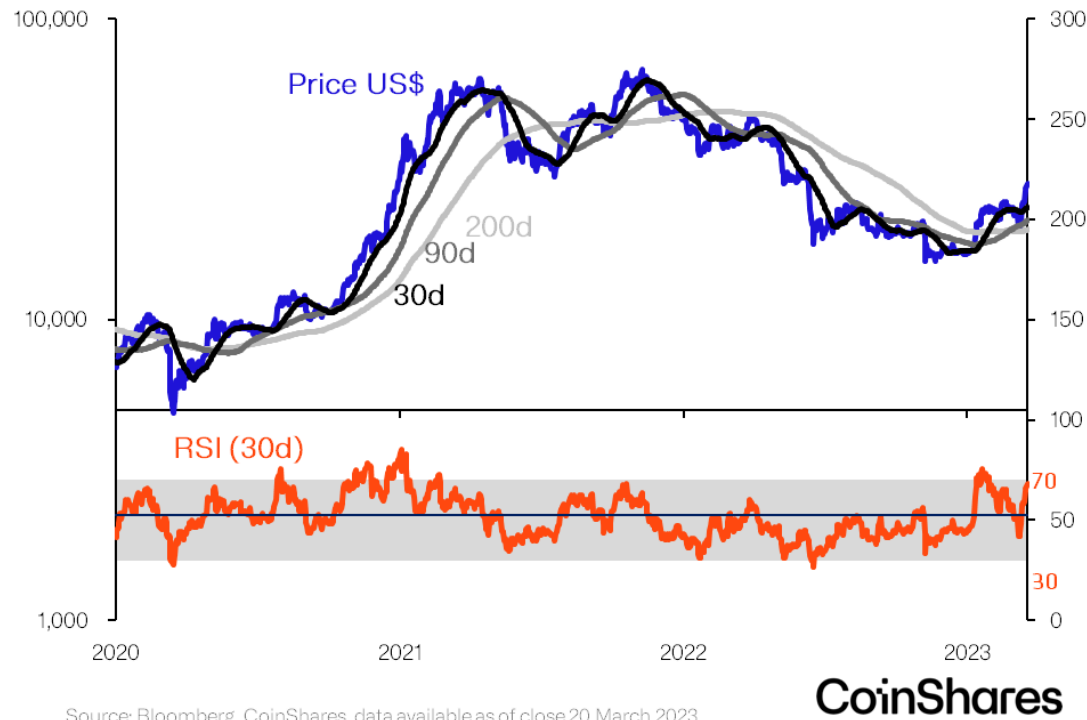
We have written a detailed portfolio analysis [here](#)

Technical/Value Indicators

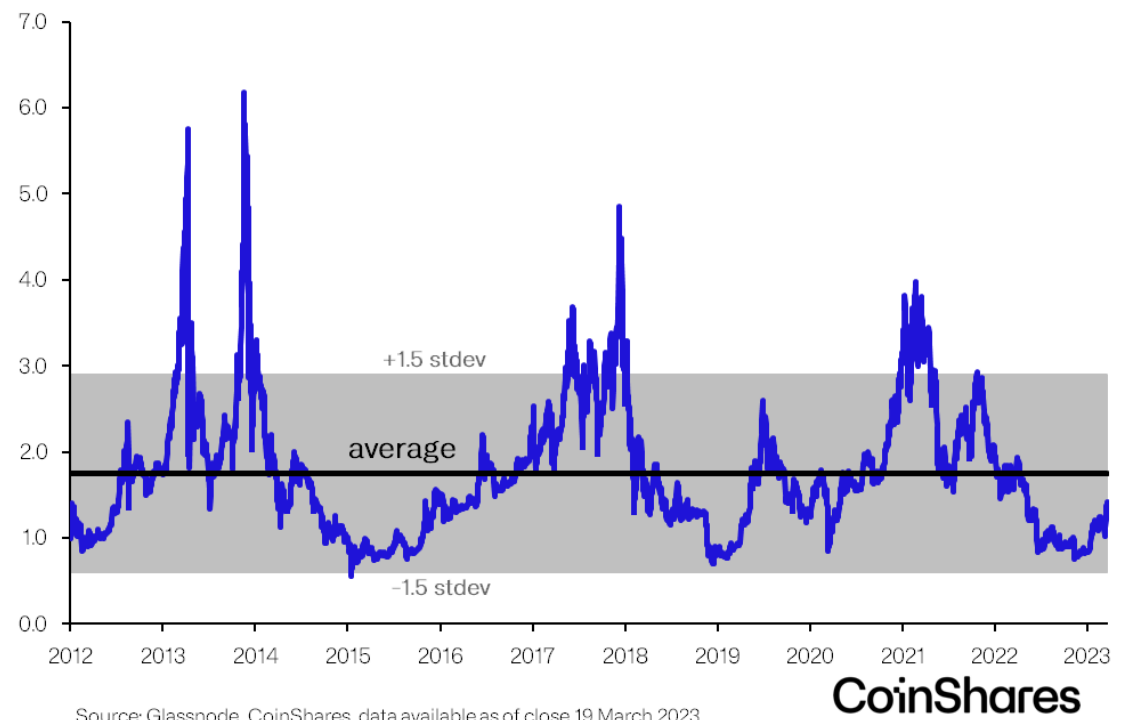
Bitcoin's RSI is now very close to being technically overbought.

MVRV Value indicator continues to highlight low valuations. More research on this indicator is available [here](#).

Bitcoin Moving averages and Relative Strength Index



Bitcoin Market Value / Realised Value (MVRV)



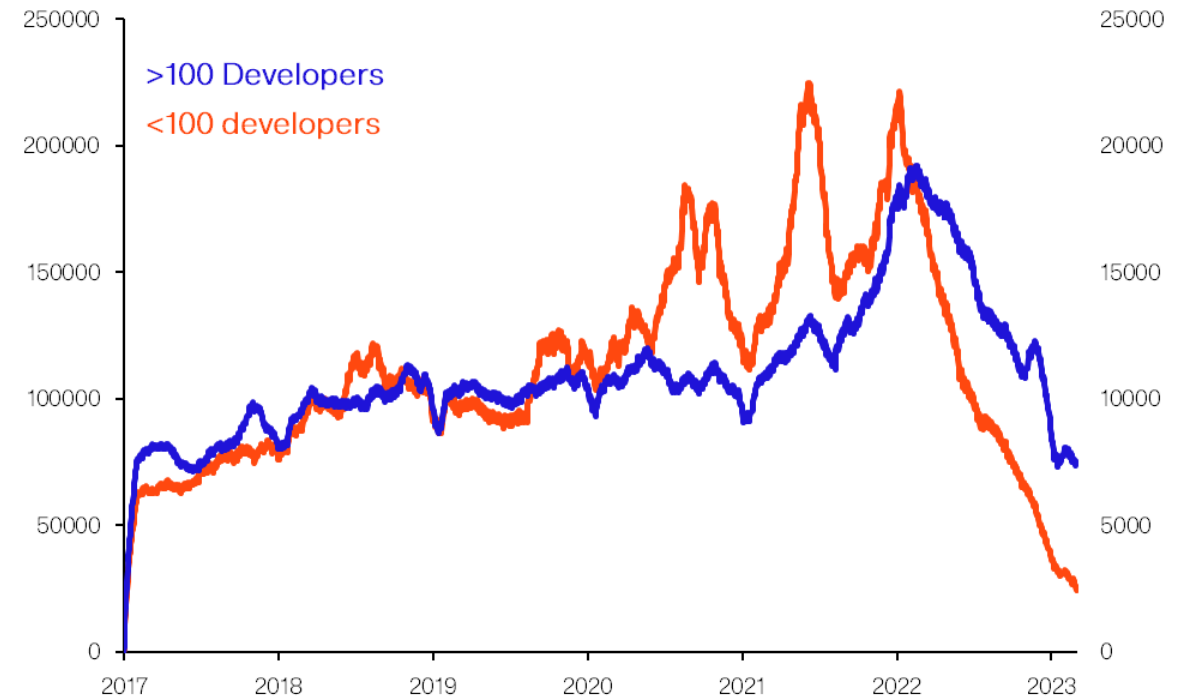
GitHub Development Landscape

While it is alarming to see such declines in active developers, existing scale is an advantage, with the number of developers on the larger networks retaining more developers – this is particularly noticeable on the Ethereum network. Solana and Polygon have particularly suffered over the last 180 days., while the Lightning Network has been resilient.

Ecosystem summary (30d average)						
CoinShares	# of Unique Developers	180d change %	30d change%	# of Commits	180d change %	30d change%
Ethereum	1,340	-38%	0.0%	576	-32%	-13%
Cosmos	727	-33%	-11.8%	255	-49%	-43%
Polkadot	712	-28%	-4.9%	352	-26%	-17%
General	692	-54%	-4.0%	312	-42%	-11%
Solana	534	-58%	-6.8%	397	-40%	-29%
Gitcoin-Grants	461	3%	-13.8%	265	58%	74%
Cardano	362	-26%	-19.2%	181	-16%	0%
Lightning	354	-8%	-4.1%	180	-8%	-14%
Internet-Computer	336	-15%	-0.9%	287	21%	36%
Tezos	293	-21%	-11.2%	211	-12%	-25%
Truffle	257	-19%	-14.6%	603	666%	809%
Defillama	251	-21%	-13.7%	93	-3%	-9%
Near	247	-58%	-14.8%	546	17%	18%
Near	247	-58%	-5.0%	546	17%	18%
Polygon	244	-66%	10.4%	101	-72%	-66%
Open-Source-Cryptograph	207	-3%	-4.6%	62	50%	31%
Starknet	201	-16%	-5.2%	76	-32%	-19%
Parity	199	-11%	-2.5%	67	-8%	11%
Filecoin	186	-11%	-3.1%	110	5%	14%
Multiversx-Elrond	183	-49%	-4.2%	94	-38%	-24%
Total	39,294	-60%	-40%	36,221	-5%	27%

Source: ElectricCapital, CoinShares, data available as at 01 March 2023

Small vs Large Developer Counts



Source: Electric Capital, CoinShares, data available as of close 05 March 2023

GitHub Development Landscape

Top Rising Developers (30d average)				
CoinShares	# of developers	180d change %	# of commits	180d change %
ton	147	60%	48	48%
ethereum-execution	138	31%	29	51%
metamask	120	13%	50	56%
sui-network	97	11%	38	-23%
sui-network	97	11%	38	-23%
balancer	92	10%	46	-11%
balancer	92	10%	46	-11%
balancer	92	10%	46	-11%
groestlcoin	102	4%	42	12%
gitcoin-grants	448	3%	265	58%
hyperledger	174	-3%	46	-11%
open-source-cryptography	170	-3%	62	50%
nym	85	-4%	30	161%
nym	85	-4%	30	161%
lightning	330	-8%	180	-8%
Total	39,294	-60%	36,221	-5%

Source: ElectricCapital, CoinShares, data available as at 01 March 2023

Top Declining Developers (30d average)				
CoinShares	# of developers	180d change %	# of commits	180d change %
polygon	301	-66%	101	-72%
osmosis	221	-65%	66	-76%
bnb-chain	128	-61%	88	-35%
comdex	115	-60%	18	-75%
liquid-driver	86	-60%	4	-90%
liquid-driver	86	-60%	4	-90%
near	290	-58%	546	17%
solana	573	-58%	397	-40%
arthx	136	-56%	13	-89%
arthx	136	-56%	13	-89%
arthx	136	-56%	13	-89%
general	749	-54%	312	-42%
hubble	139	-50%	18	-76%
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multiversx-elrond	217	-49%	94	-38%
Total	39,294	-60%	36,221	-5%

Source: ElectricCapital, CoinShares, data available as at 01 March 2023

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