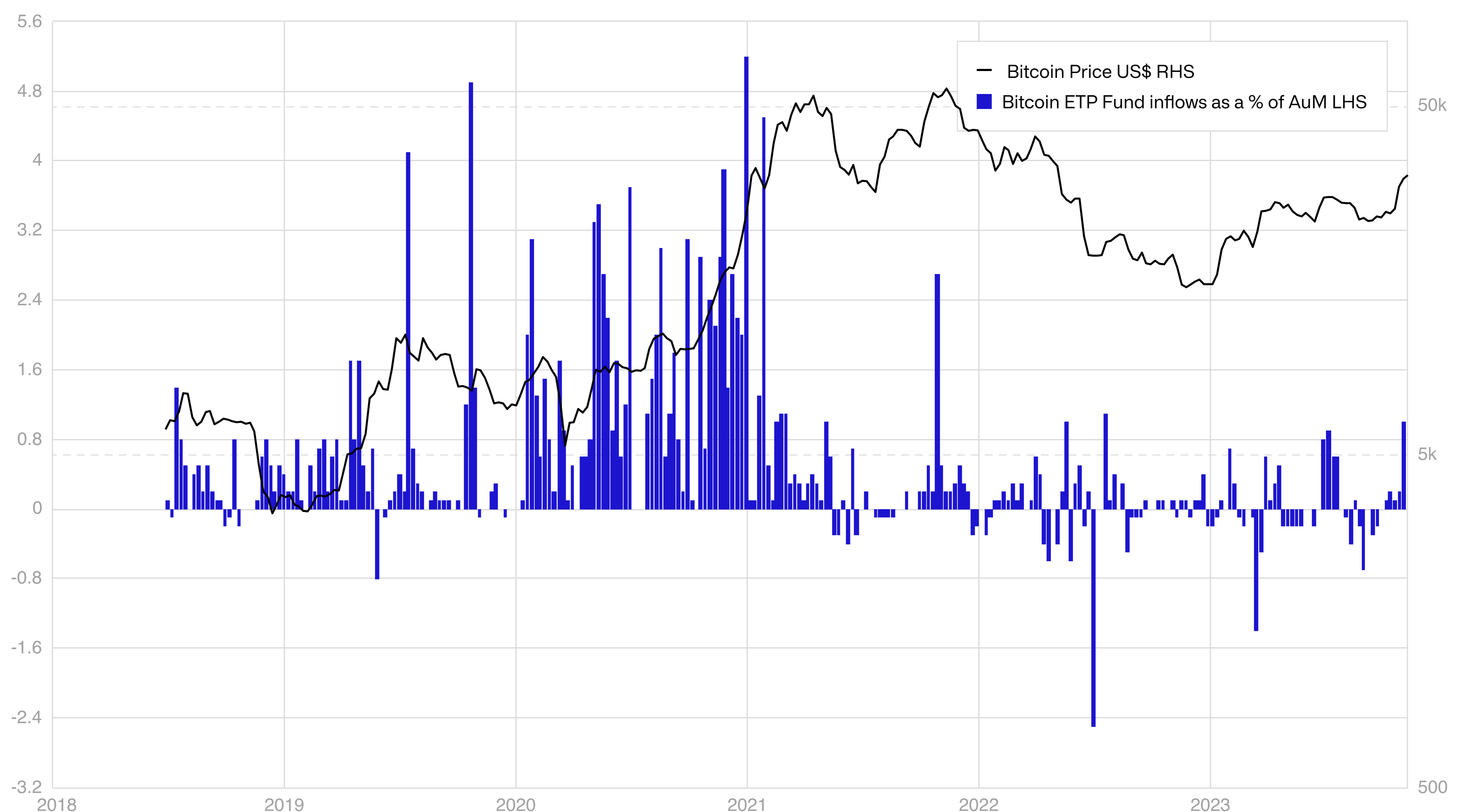


ETF Launch price impact

The big question once a Bitcoin spot ETF is launched in the US, is just how much inflows into ETFs this may prompt? and what impact on price those flows may have? Some good analysis has already been done on the former by [Galaxy](#) who surmised that there are US\$14.4 trillion addressable assets in the United States. One could assume that perhaps 10% invest in a spot bitcoin ETF with an average allocation of 1%, which would equate to US\$14.4 billion of inflows in the first year. If this were correct then it would be the largest inflows on record, with the largest so far being in 2021, which saw US\$7.24 billion of inflows, representing 11.5% of assets under management (AuM). On a proportional basis though, 2021 did not see the largest inflows, that was in 2020, where we saw US\$5.5 billion of inflows representing a higher 21.6% of AuM. It was also a year where the price rose by 303%, compared to 60% in 2021.

There does seem to be a relationship between inflows as a percentage of AuM and change in price. Inflows do appear to be coincident, the week the prices rise so do flows rather than one leading the other.

Bitcoin Price vs Fund Flows

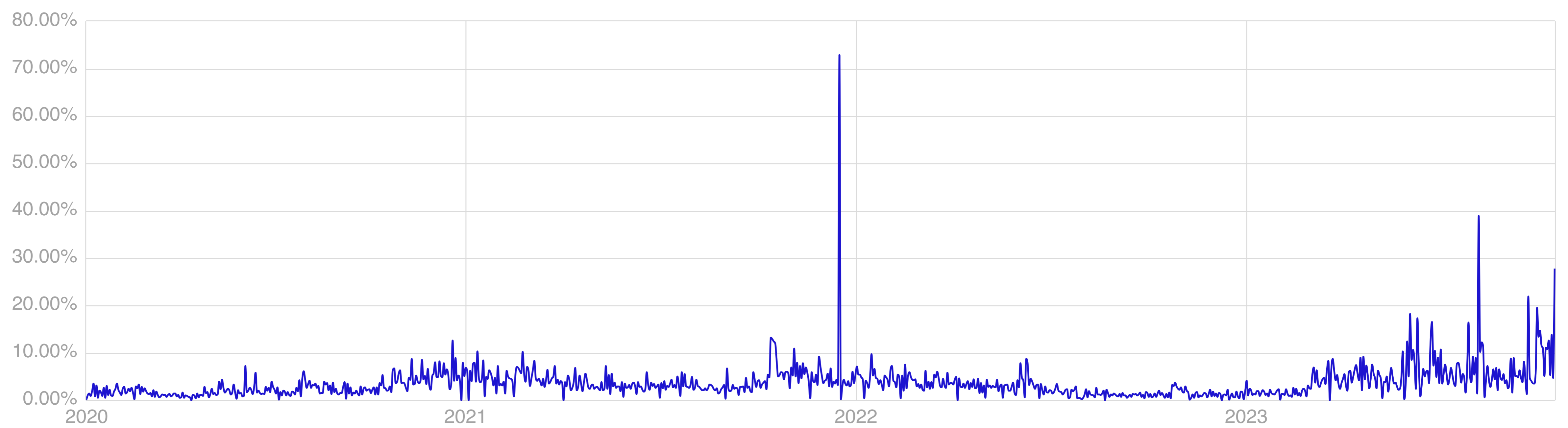


Source: Bloomberg, CoinShares data available as of close 09 November 2023

The highest inflows were witnessed when the prices were rising, suggesting many ETP investors are momentum trading. In periods where the price has floundered, the flows have moderated too, early 2019

and 2022 being good examples of this. We do not believe that ETP investors necessarily lead price action too, this is evident in the volumes data, which highlights that ETP volumes have averaged 3.5% of daily bitcoin trading turnover on trusted exchanges, based on data going back to 2018. This year is unusual in the fact that ETP volumes have proportionally risen, this is due to the dramatic fall in volumes from Binance rather than a rise in ETP volumes. Historically at least, as overall market volumes rise, so have ETP volumes, where there is a form of “sentiment matching”.

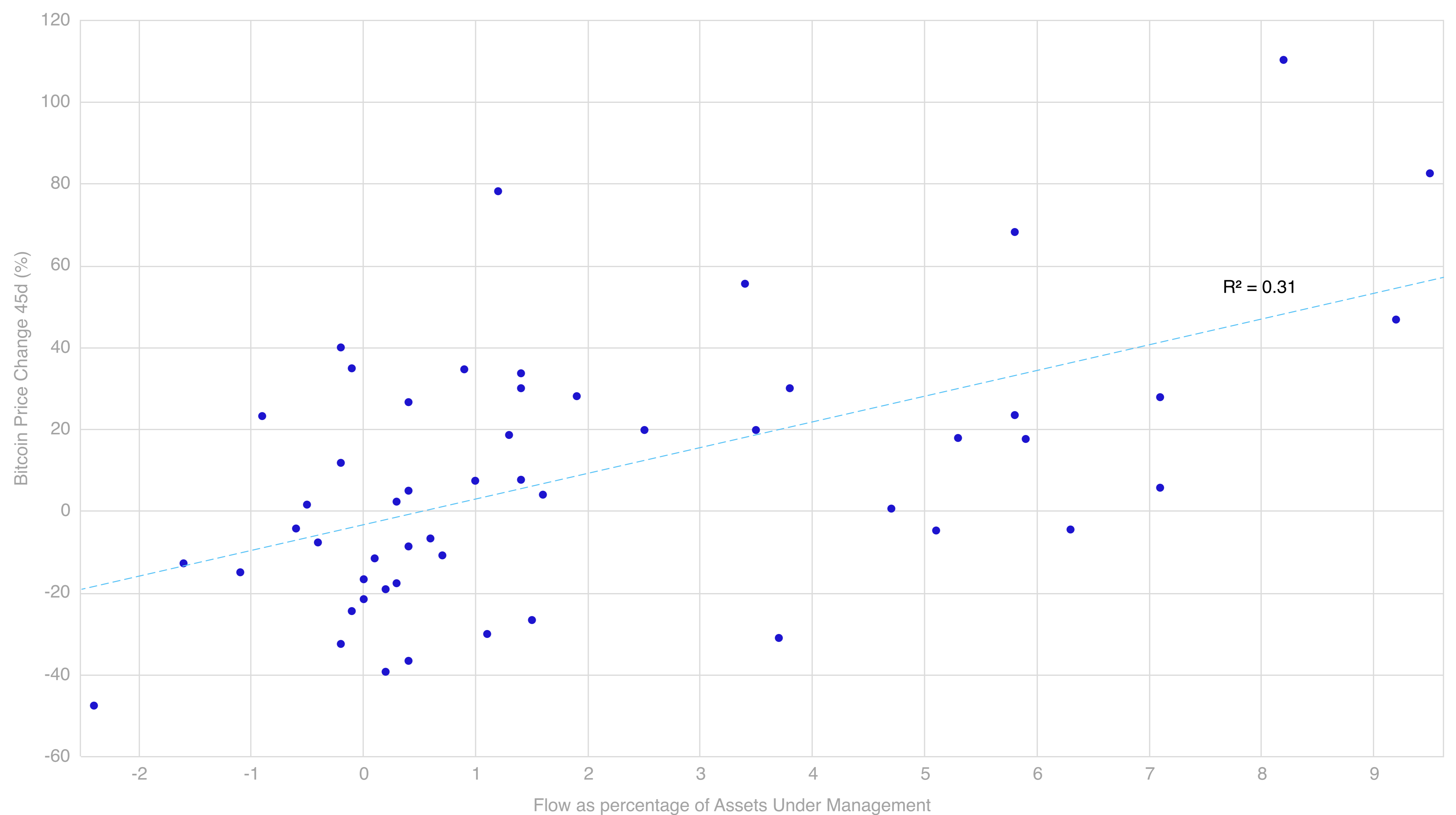
Bitcoin ETP Volume as a percentage of total market volume on trusted exchanges



Source: Bloomberg, CoinShares, data available as of close 15 November 2023

Looking at weekly ETP flows from a quantitative perspective, there is a relationship. Looking at 45 day change in prices and weekly flows as a percentage of AuM, the R2 is 0.31, not perfect by any means but signifies some semblance of a trend does exist.

Fund Flows vs Bitcoin price changes



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

Using this trendline it can help us predict what inflows would have on price. If we take the aforementioned US\$14.4 billion of inflows, the model suggests it could push the price up to US\$141,000 per Bitcoin. The problem with the estimate of inflows is that it is very difficult to ascertain exactly how much inflows there will be when the spot ETFs are launched. Below is a simple matrix with a varied set of inflows, and its potential impact on the Bitcoin price.

Fund Flows Model	% OF AUM	INFLOWS (US\$M)	PRICE PROJECTION (US\$)
Bitcoin	0%	-	35,715
	2%	627	40,310
	4%	1,254	44,904
	6%	1,881	49,499
	8%	2,508	54,093
	10%	3,135	58,687
	20%	6,269	81,660
	40%	12,538	127,604
	60%	18,807	173,548
	80%	25,076	219,492
	100%	31,345	265,437

Source: CoinShares, as at 10 November 2023

Ultimately, it is very difficult to ascertain just how big the potential wall of demand will be once a spot-based ETF is launched. We know that it effectively diversifies a portfolio and enhances sharpe ratios, as discussed [here](#), but regulatory approval and corporate acceptance are slow burn issues due to Bitcoin's perceived complexity. For this reason it may well take some time for corporations and funds to build up their knowledge and confidence before they decide to invest.

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