



CRYPTO MARKET PULSE

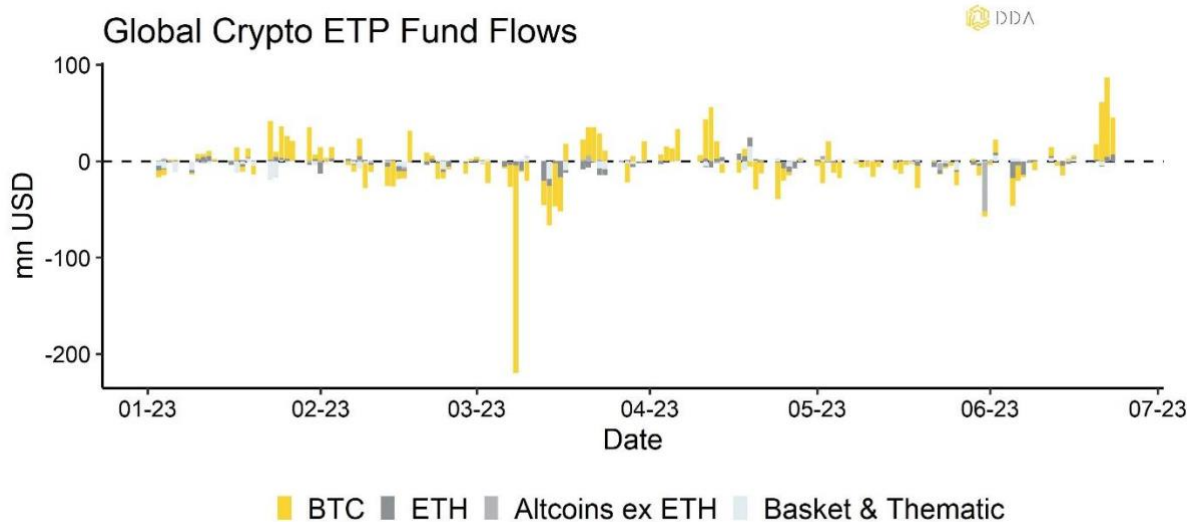
JUNE 26, 2023

Key Takeaways

by André Dragosch, Head of Research

- ◆ Blackrock's Bitcoin ETF filing in the US has sparked a new wave of optimism in crypto assets
- ◆ Our in-house Crypto Sentiment Index has surged significantly throughout last week
- ◆ As a result, global crypto ETP fund flows increased to the highest level year-to-date

Chart of the Week



Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

Performance

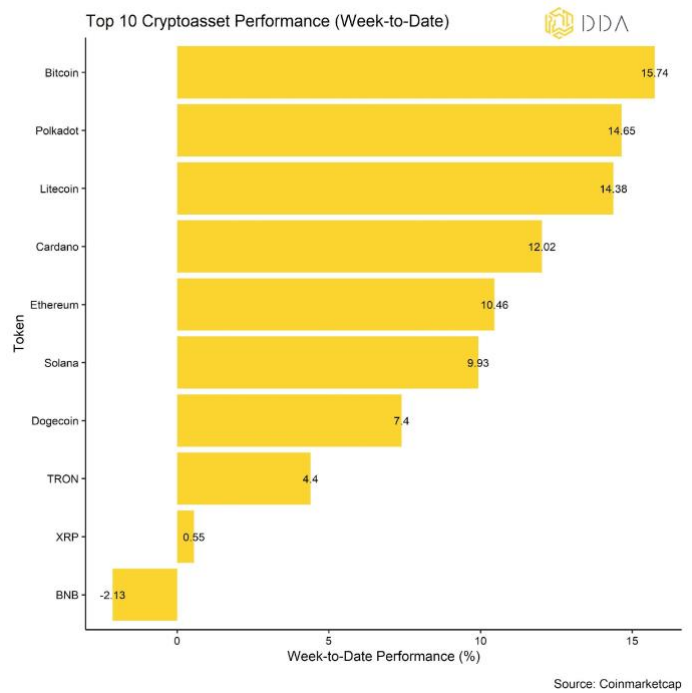
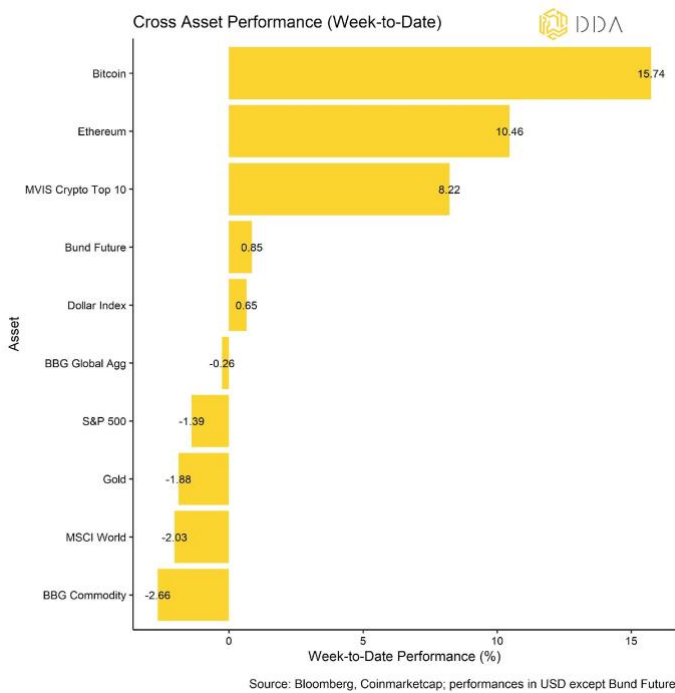
Last week, cryptoasset performances were still propped up by some secondary effects related to Blackrock's ETF filing in the US the week prior.

The Bitcoin Trust filing by Blackrock has sparked a new wave of optimism among institutional asset managers and banks who have hurried to move into the crypto asset space.

Consider the following events:

- Deutsche Bank has officially applied for crypto custody license in Germany
- Fidelity, Charles Schwab, and Citadel back new crypto asset exchange EDX Markets (EDX): Products traded on EDX include Bitcoin, Bitcoin Cash, Ethereum and Litecoin
- Other large asset managers have (re-)filed for a spot Bitcoin ETF with the SEC, including Invesco and Wisdomtree within 24 hours of Blackrock's filing.

As a result of this new wave of optimism, global crypto ETP fund flows have increased to the highest level year-to-date with over 200 mn USD flowing into Bitcoin funds alone (**Chart-of-the-Week**).



Not surprisingly, cryptoassets were the best performing asset class last week, outperforming other assets

by a very wide margin. Meanwhile, global equities, global bonds, and commodities retreated signalling that correlations are breaking down between equities, bonds, commodities and cryptoassets. The Dollar appreciated slightly last week.

Among the top 10 cryptoassets, Bitcoin, Polkadot, and Litecoin were the relative outperformers. Overall, Bitcoin was very dominant during last week's advance.

In this context, altcoins were able to outperform Bitcoin again albeit from very low levels. Based on our set of tracked altcoins, only 35% of altcoins were able to outperform Bitcoin on a weekly basis.

Sentiment

Our in-house Crypto Sentiment Index has surged significantly compared to last week and is firmly in positive territory again. 12 out of 15 indicators are above their short-term trend. So far, we have seen the highest levels of our Crypto Sentiment Index this year which increases the risk of short-term set-backs on account of overbought conditions.

Compared to last week, we saw major reversals to the upside in the Bitcoin 3-months futures basis and perpetual funding rate. There was a generally a sharp increase across futures and perpetual positioning indicators last week.

The Crypto Fear & Greed Index remains in "Greed" territory as of this morning.

Performance dispersion among cryptoassets has recently picked up again, albeit from lower levels.

In general, high performance dispersion among cryptoassets implies that correlations among cryptoassets have decreased which means that cryptoassets are trading more on coin-specific factors.

At the same time, altcoin outperformance has increased slightly last week and is now at only 35% of altcoins outperforming Bitcoin on a weekly basis.

In general, altcoin outperformance goes hand in hand with an increase in crypto dispersion, i.e. Bitcoin and altcoins are generally trading up during "altseason" with altcoins outperforming Bitcoin. Broader altcoin outperformance is usually a sign of increasing risk appetite and broader altcoin underperformance a sign of increasing risk aversion.

Flows

Last week saw the strongest net inflows in global crypto ETPs year-to-date.

In aggregate, we saw slight net fund inflows in the amount of +203.7 mn USD (week ending Friday).

Bitcoin funds attracted the lion's share of these inflows with +197.4 mn USD of net inflows last week.

Ethereum funds also experienced net inflows (+11.4 mn USD) while other altcoin-based funds were essentially flat (+0.3 mn USD).

In contrast, thematic & basket crypto funds struggled last week with -5.4 mn USD in net outflows.

Besides, the NAV discount of the biggest Bitcoin fund in the world - Grayscale Bitcoin Trust (GBTC) - has narrowed significantly to the highest level year-to-date which also implies some net inflows into this fund vehicle.

In contrast, the beta of global Hedge Funds to Bitcoin over the last 20 trading days was slightly negative, implying that global hedge funds have a negative net exposure to cryptoassets. However, the beta is still too small to consider it statistically significant. Global hedge funds still appear to be neutrally positioned with respect to cryptoassets at the moment and therefore rather underexposed. Further upside in cryptoassets should induce these types of investors to increase their exposure, too.

On-Chain

Before the latest spike in prices, bitcoin short-term holders briefly went below cost-basis (~26.4k USD) and we saw some level of capitulation of this investor cohort in a spike in realized losses on-chain.

So, there was some element of short-term "seller exhaustion" that supported a renewed increase in prices.

From a pure investor perspective, short-term holders are usually considered to be "weak hands" with a higher probability of distribution when prices decline.

Apart from that, bitcoins continued to flow out of exchanges on a net basis as prices moved upwards which implies ongoing buying interest and accumulation in the background.

This happened at a backdrop of still very strong exchange inflows from miners. The majority of these exchange transfers have been coming from "Poolin" BTC mining pool which appears to be liquidating a significant part of its BTC balances. However, overall BTC miner wallet balances have continued to trend up.

Notwithstanding, overall Bitcoin supply continues to become scarcer with almost 69% of supply remaining inactive for more than one year.

Another interesting development in recent weeks is the continued increase in OTC desk balances of bitcoins that signals and increased demand for bitcoins from institutional investors.

During the latest spike in prices, the Bitcoin mempool saw a sharp increase as well to levels last seen during the BRC-20 inscription hype in May. However, transaction fees remained relatively low. Other core on-chain such as active addresses or active entities continued to recover as well.

Derivatives

Last week, we saw one of the most significant reversals in derivatives metrics.

The recent spike in prices was also fuelled by a significant spike in BTC futures short liquidations that increased to the highest level since March 2023. Consistent with this development, perpetual funding rates and the 3-months futures basis rate increased as well. At the time of writing, the average 3-months annualized futures basis is at 4.36% p.a.

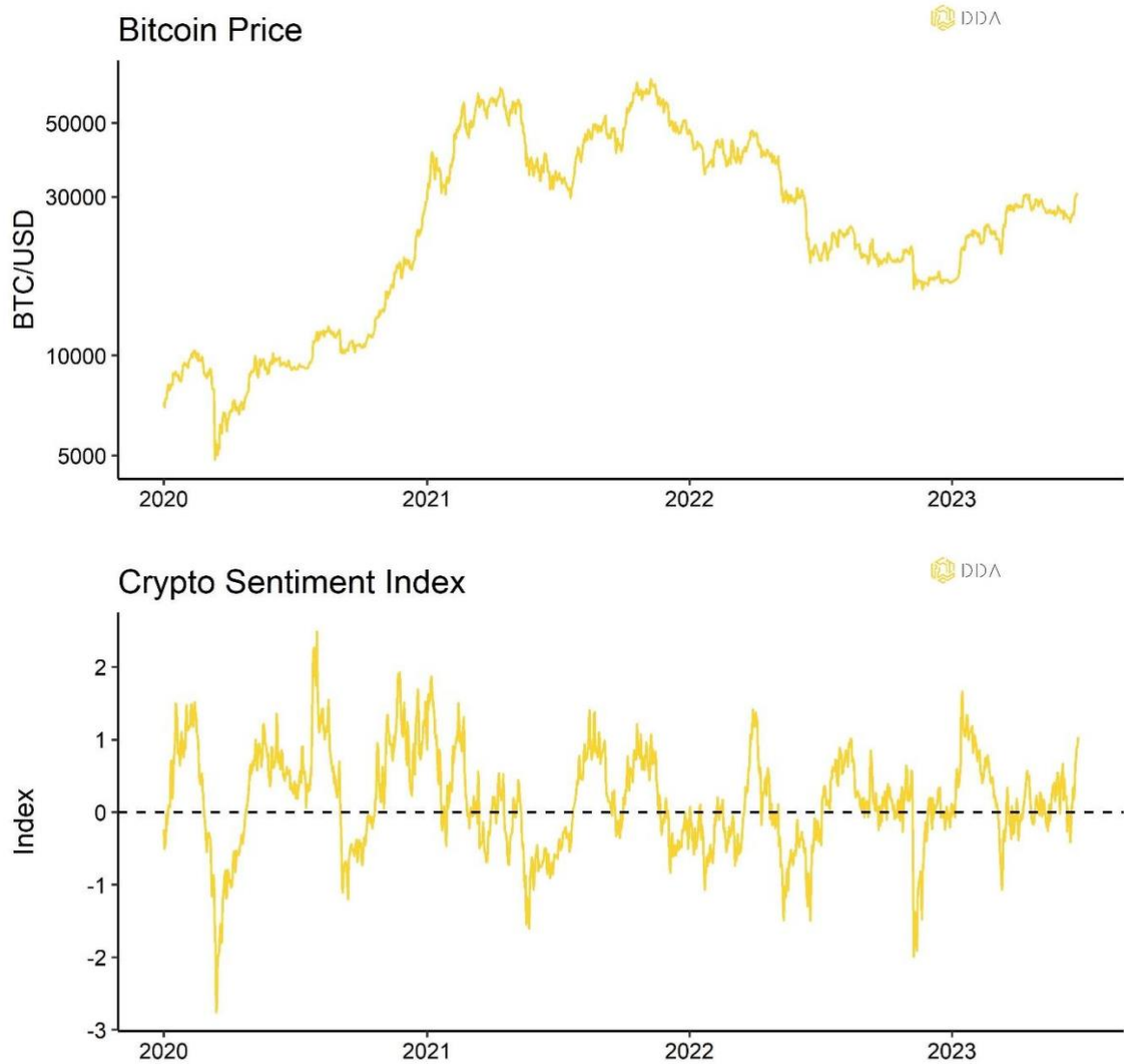
That being said, our in-house Bitcoin futures and perpetual positioning indicator already signals that long positioning is stretched which increases the probability of a short-term set-back in prices.

In the BTC options space, implied volatilities increased significantly consistent with the sharp reversal in prices. BTC 1-month implied volatilities increased above 50% again for the first time since April 2023. Option open interest also increased significantly (by ~100k BTC notional) in the run-up to the latest spike in prices.

Bottom Line

Blackrock's Bitcoin ETF filing in the US has sparked a new wave of optimism in crypto assets. Our in-house Crypto Sentiment Index has surged significantly throughout last week. As a result, global crypto ETP fund flows increased to the highest level year-to-date.

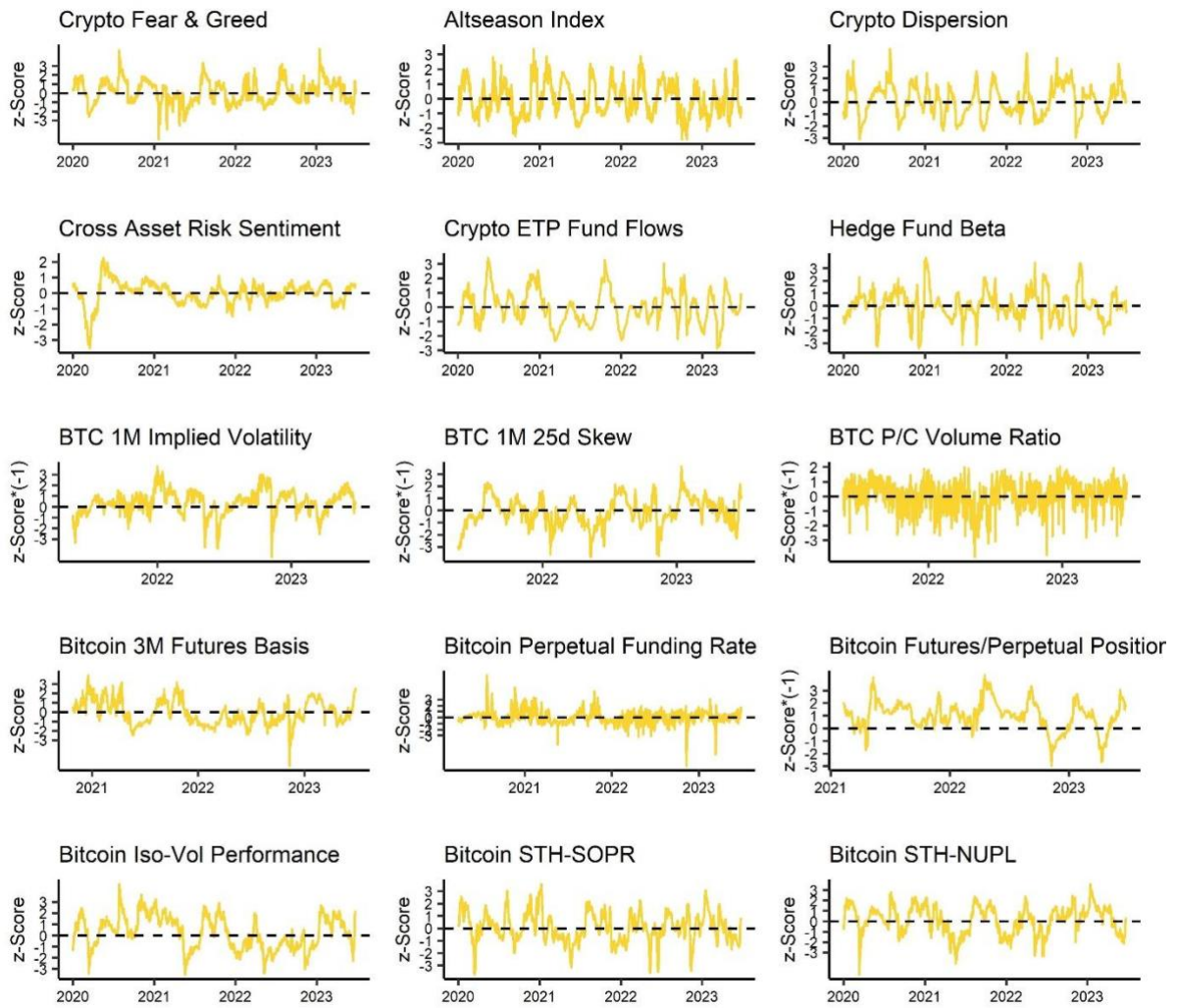
Appendix



Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

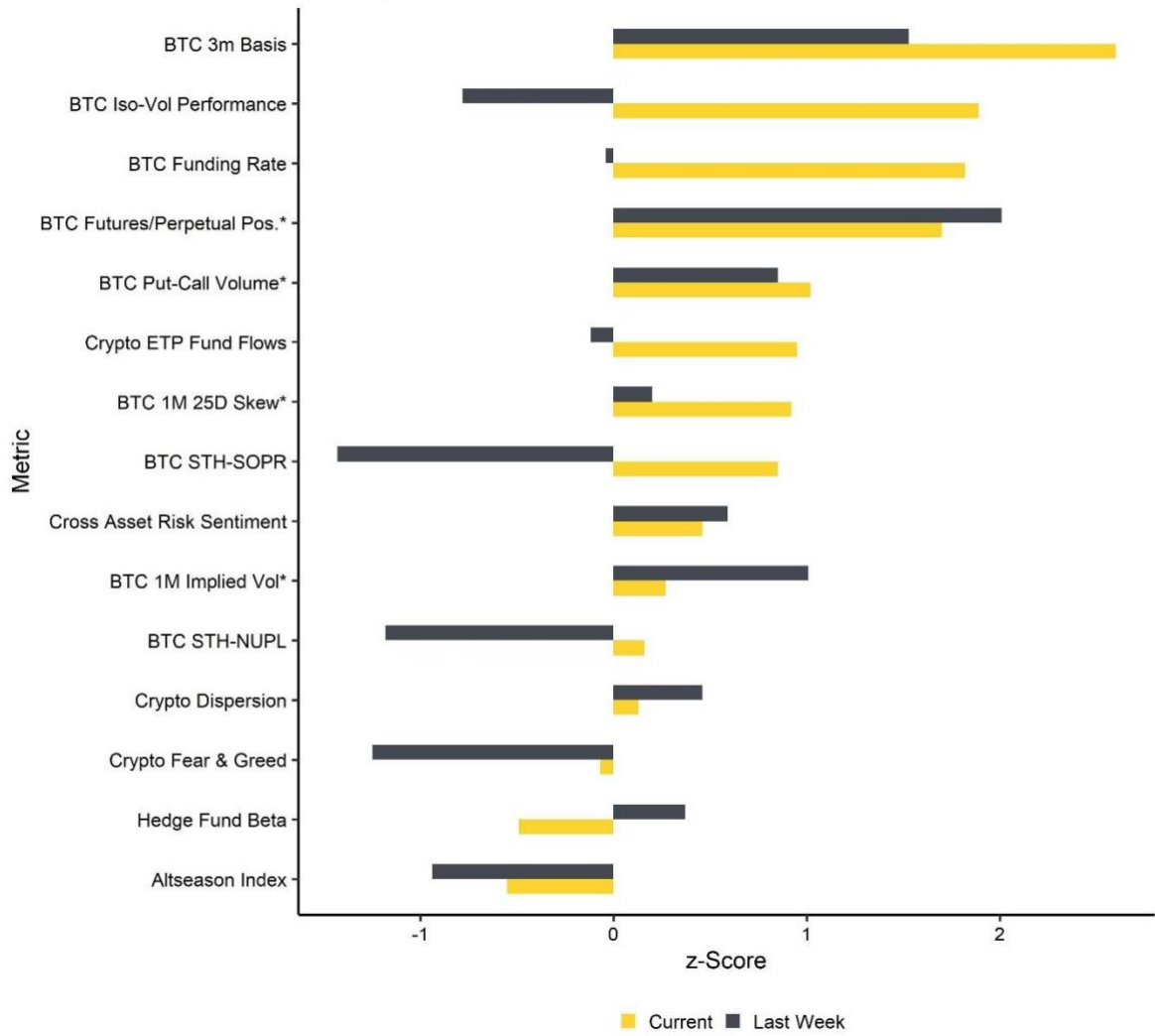
Crypto Sentiment Index

Subcomponents, 90-day rolling z-Scores

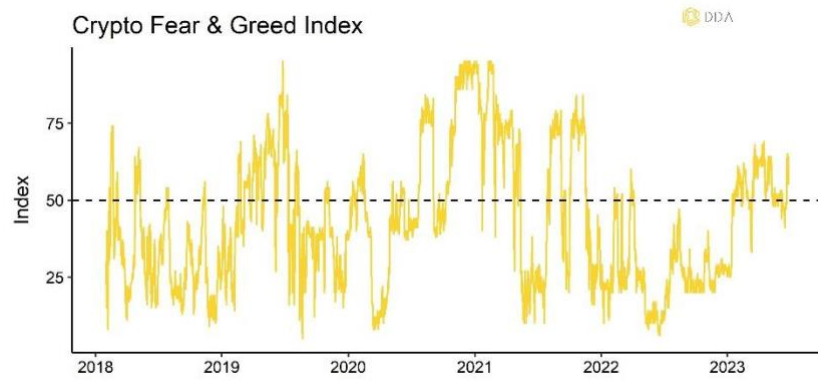
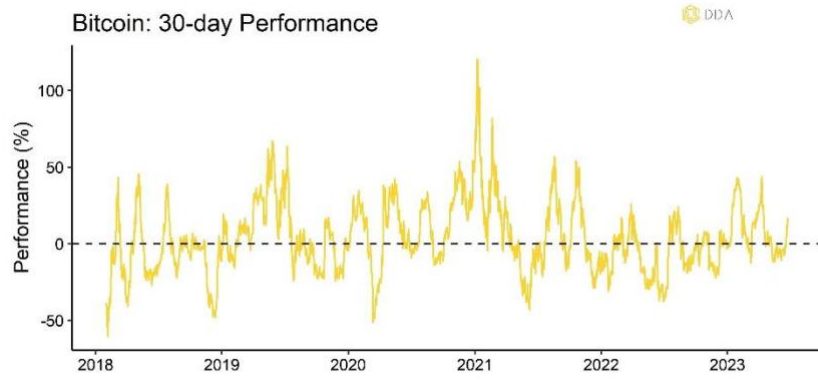


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

Crypto Sentiment Index Subcomponents

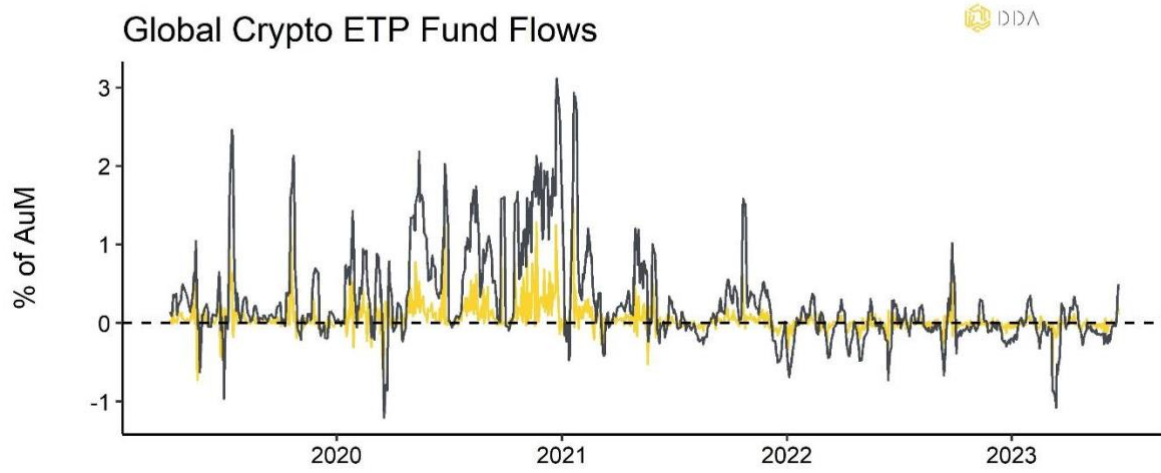
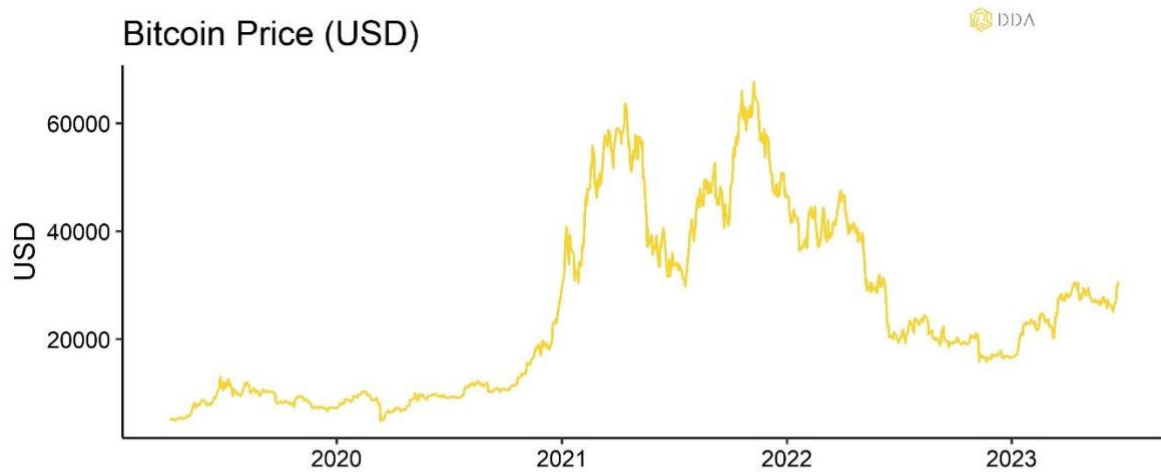


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; *multiplied by (-1)



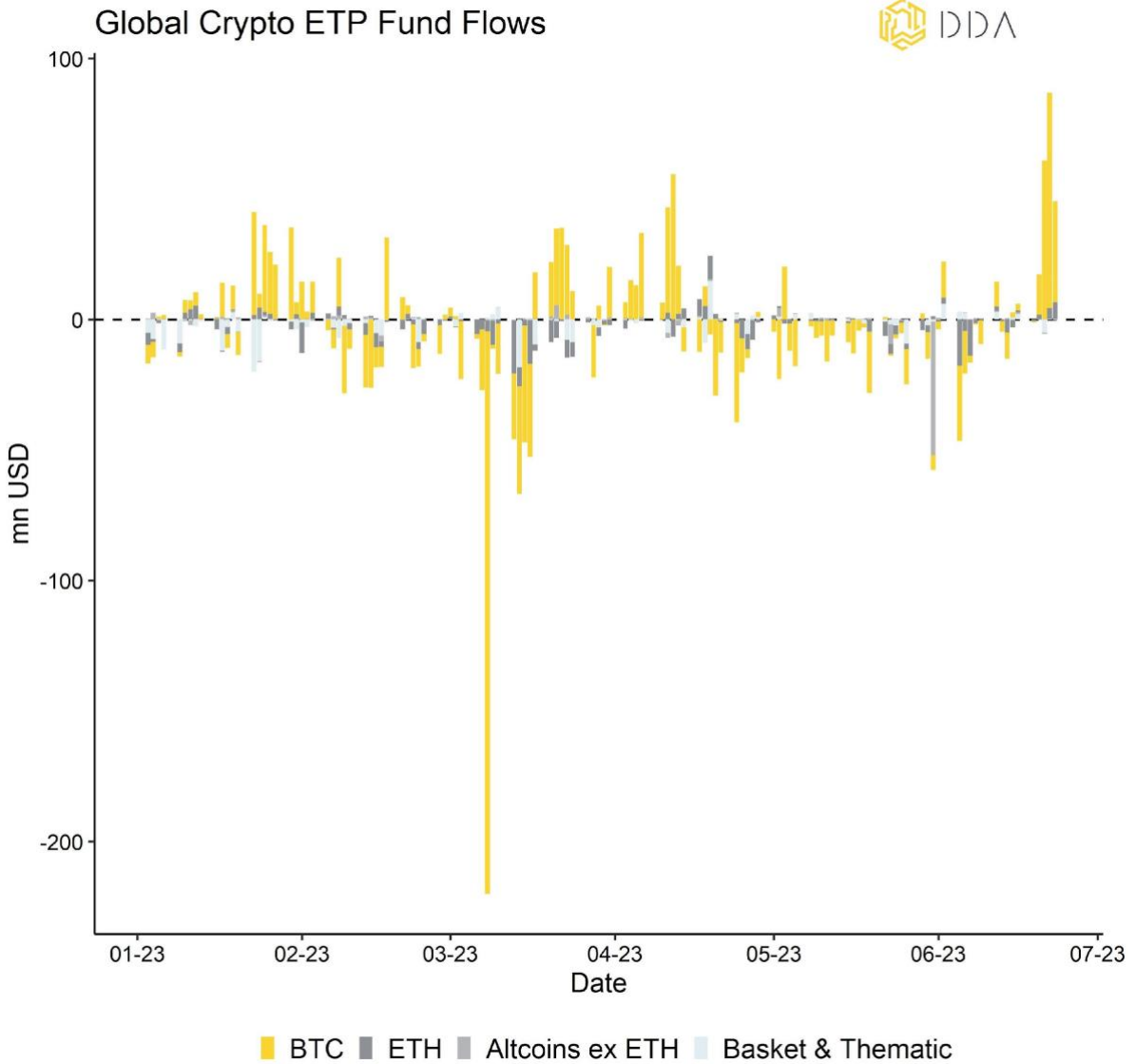
Source: alternative.me, Coinmarketcap, Deutsche Digital Assets

Bitcoin vs Global Crypto ETP Fund Flows



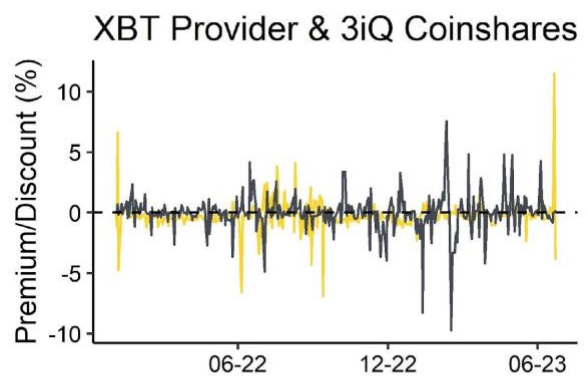
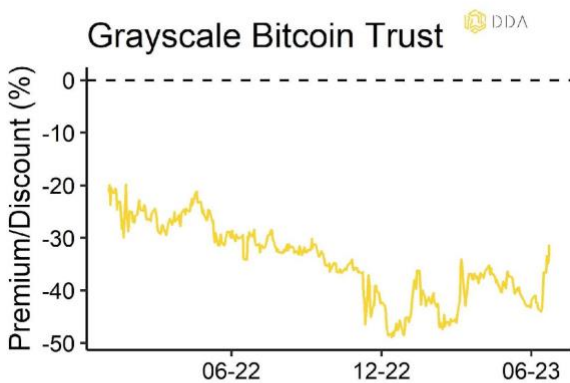
— Fund Flows – 5d rolling sum

Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts



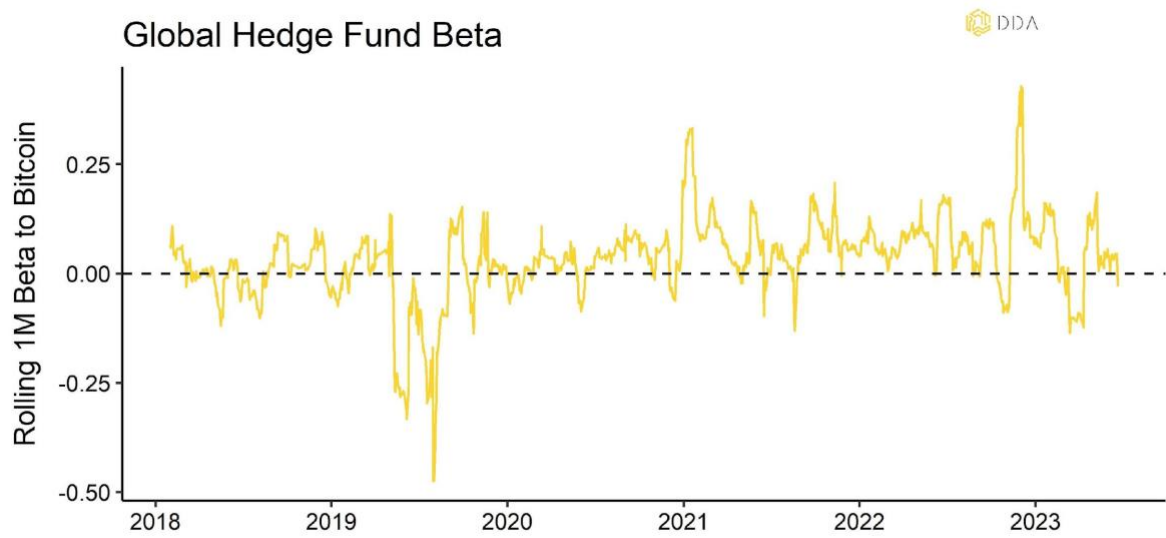
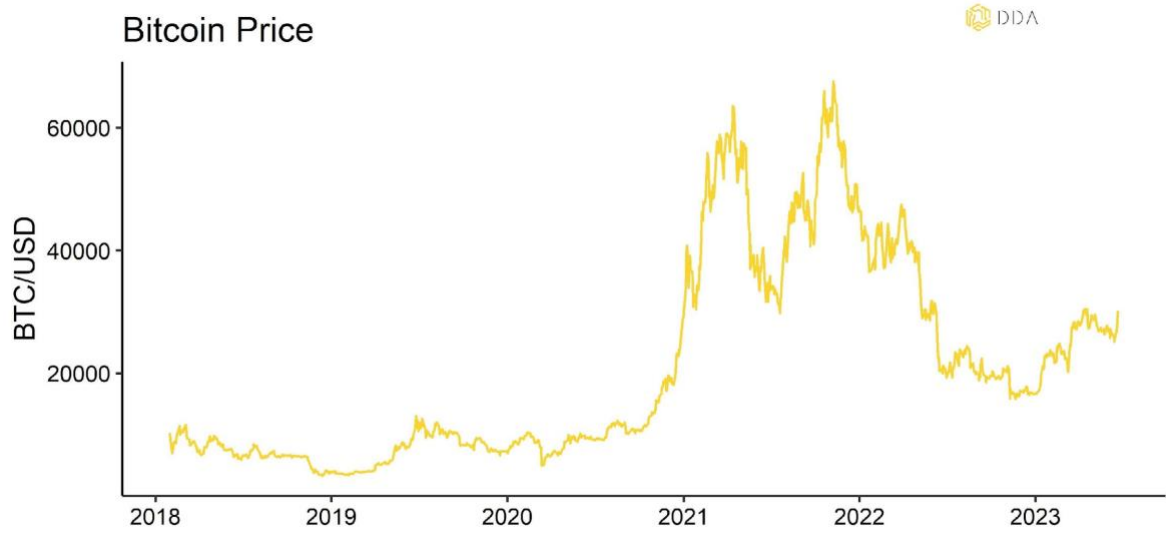
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

BTC Funds NAV Premia/Discounts



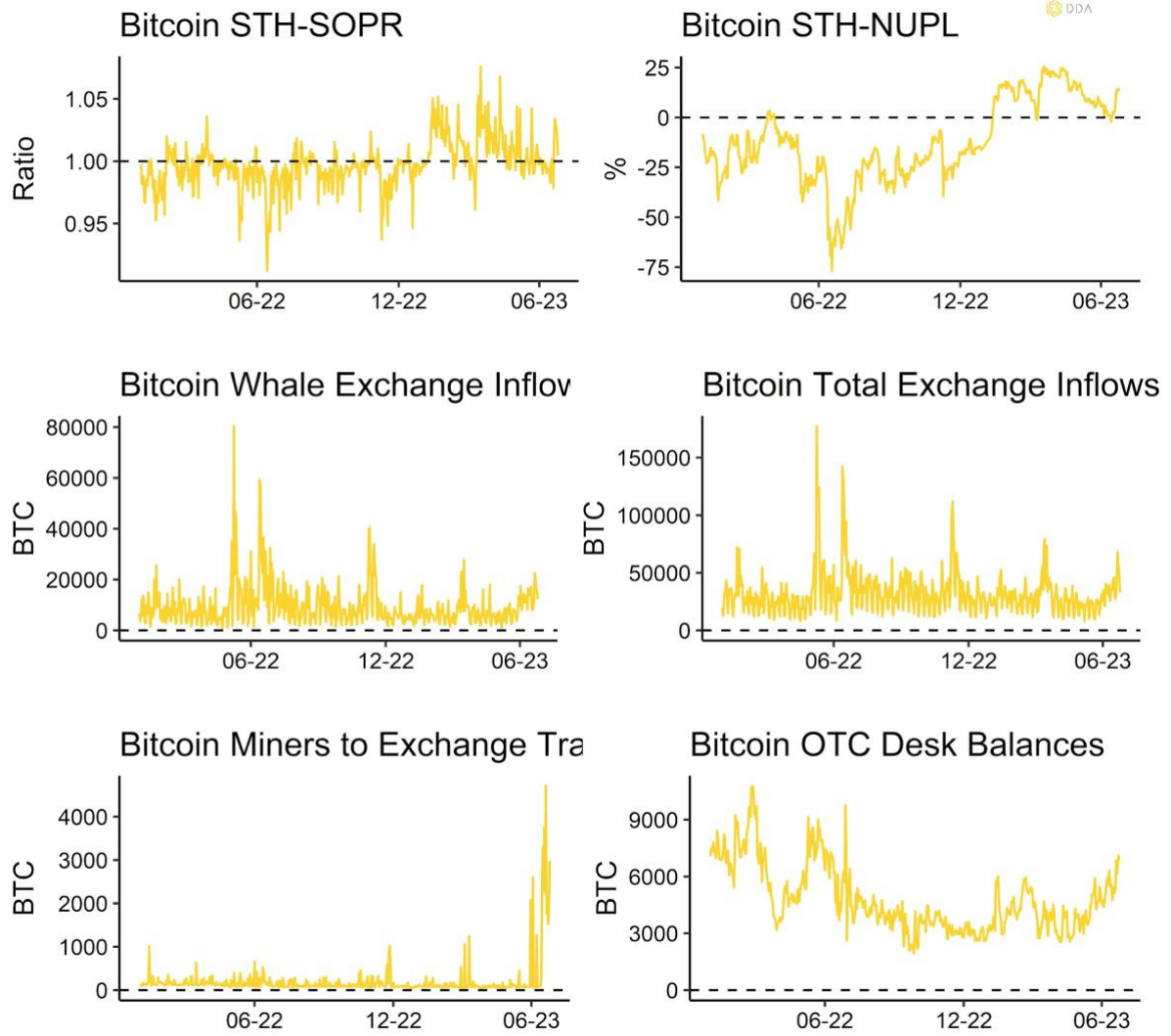
— XBT Provider — 3iQ Coinshares (Canada)

Source: Bloomberg, Deutsche Digital Assets



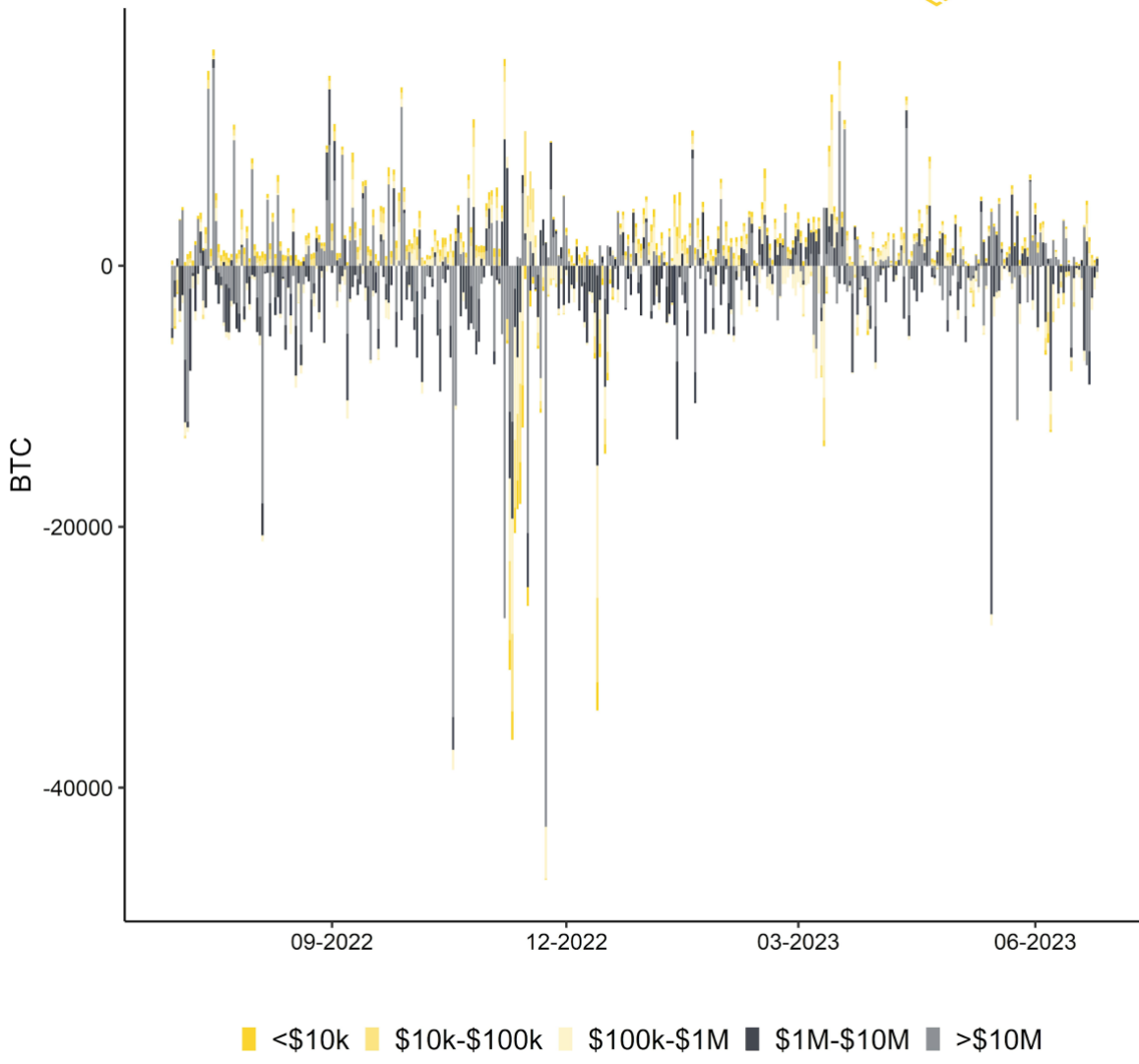
Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets

Bitcoin On-Chain Indicators



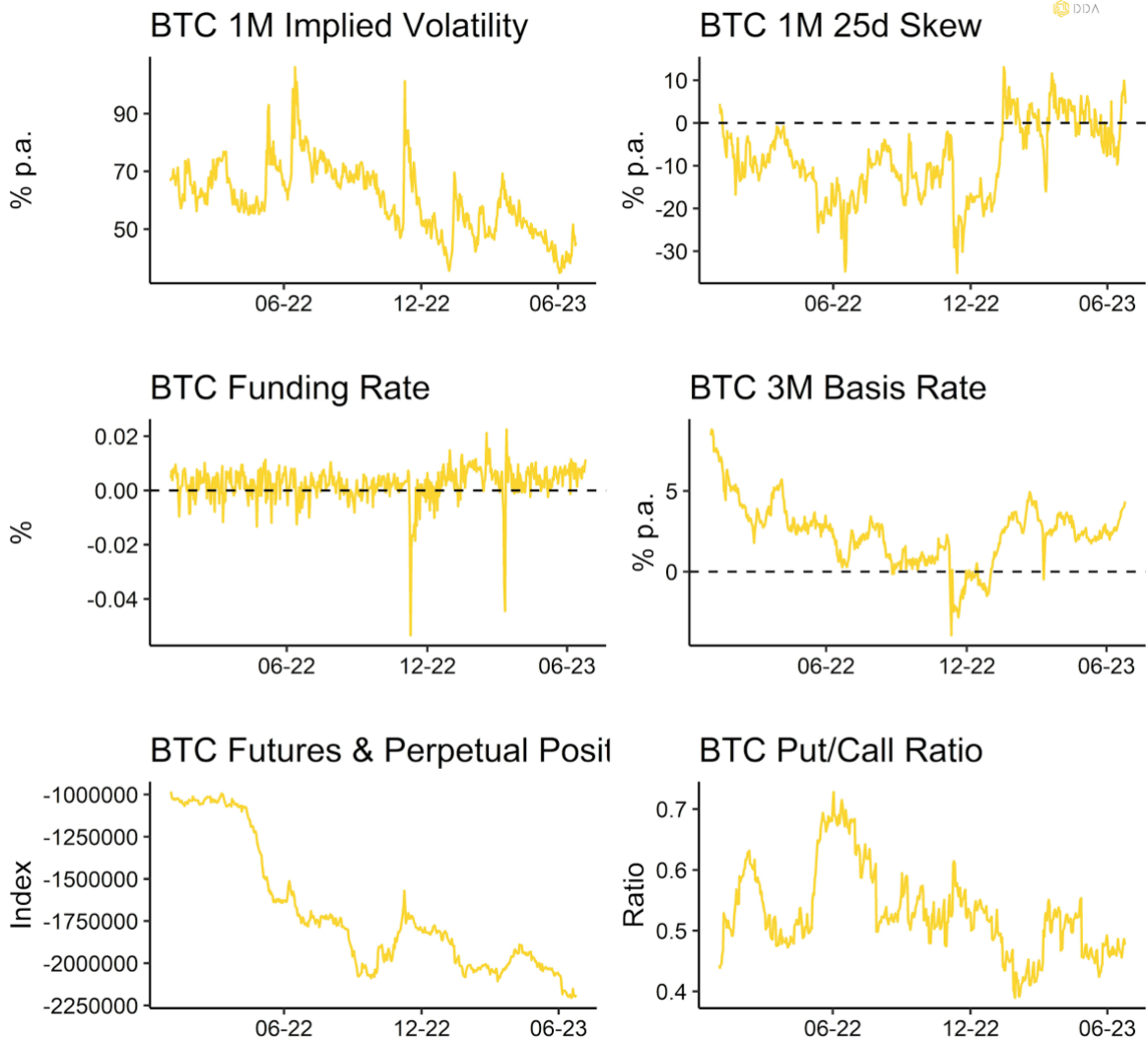
Source: Glassnode, Deutsche Digital Assets

BTC Net Exchange Volume by Size



Source: Glassnode, Deutsche Digital Assets

Bitcoin Derivatives Indicators



Source: Glassnode; *Cumulative daily absolute change in OI multiplied by sign of BTC price change

Disclaimer

In no event will you hold Deutsche Digital Assets GMBH, its subsidiaries or any affiliated party liable for any direct or indirect investment losses caused by any information in this report. This report is not investment advice or a recommendation or solicitation to buy any securities.

Deutsche Digital Assets GMBH is not registered as an investment advisor in any jurisdiction. You agree to do your own research and due diligence before making any investment decision with respect to securities or investment opportunities discussed herein.

Our articles and reports include forward- looking statements, estimates, projections, and opinions which may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond Deutsche Digital Assets GMBH's control. Our articles and reports express our opinions, which we have based upon generally available information, field research, inferences and deductions through our due diligence and analytical process. Deutsche Digital Assets GMBH believes all information contained herein is accurate and reliable and has been obtained from public sources we believe to be accurate and reliable. However, such information is presented "as is," without warranty of any kind.



DEUTSCHE DIGITAL ASSETS

About Deutsche Digital Assets

Deutsche Digital Assets is the trusted one-stop-shop for investors seeking exposure to crypto assets. We offer a menu of crypto investment products and solutions, ranging from passive to actively managed exposure, as well as financial product white-labeling services for asset managers.

We deliver excellence through familiar, trusted investment vehicles, providing investors the quality assurances they deserve from a world-class asset manager as we champion our mission of driving crypto asset adoption. DDA removes the technical risks of crypto investing by offering investors trusted and familiar means to invest in crypto at industry-leading low costs.

Contact Us

Deutsche Digital Assets GmbH
research@deutschedigitalassets.com
www.deutschedigitalassets.com