



CRYPTO MARKET PULSE

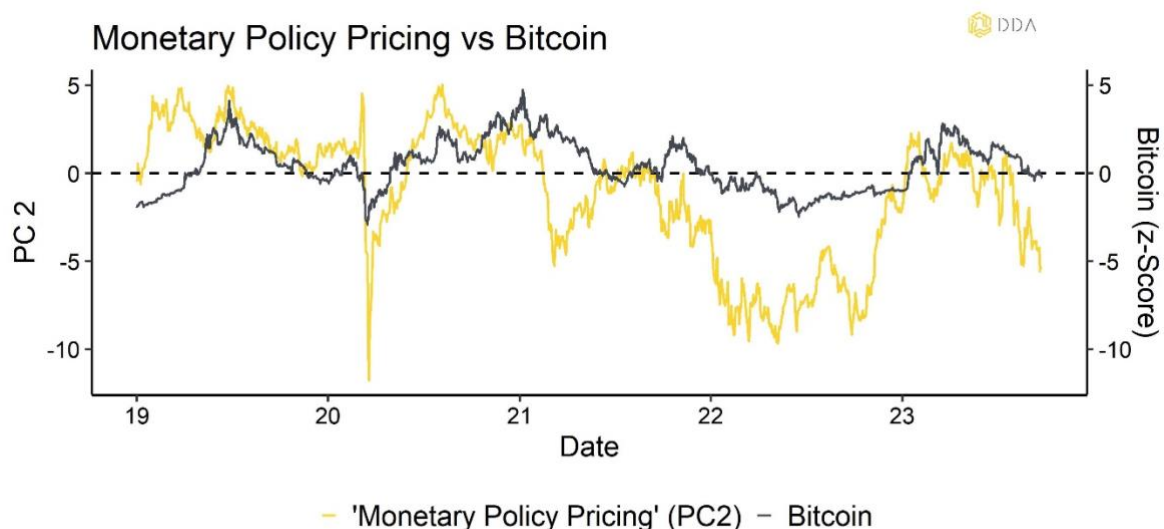
SEPTEMBER 25, 2023

Key Takeaways

by André Dragosch, Head of Research

- ◆ Last week, crypto assets were under pressure as the Fed delivered a hawkish pause
- ◆ Our in-house Crypto Sentiment Index remains in bearish territory
- ◆ Tight monetary policy will likely remain a negative factor for crypto assets in the near term

Chart of the Week

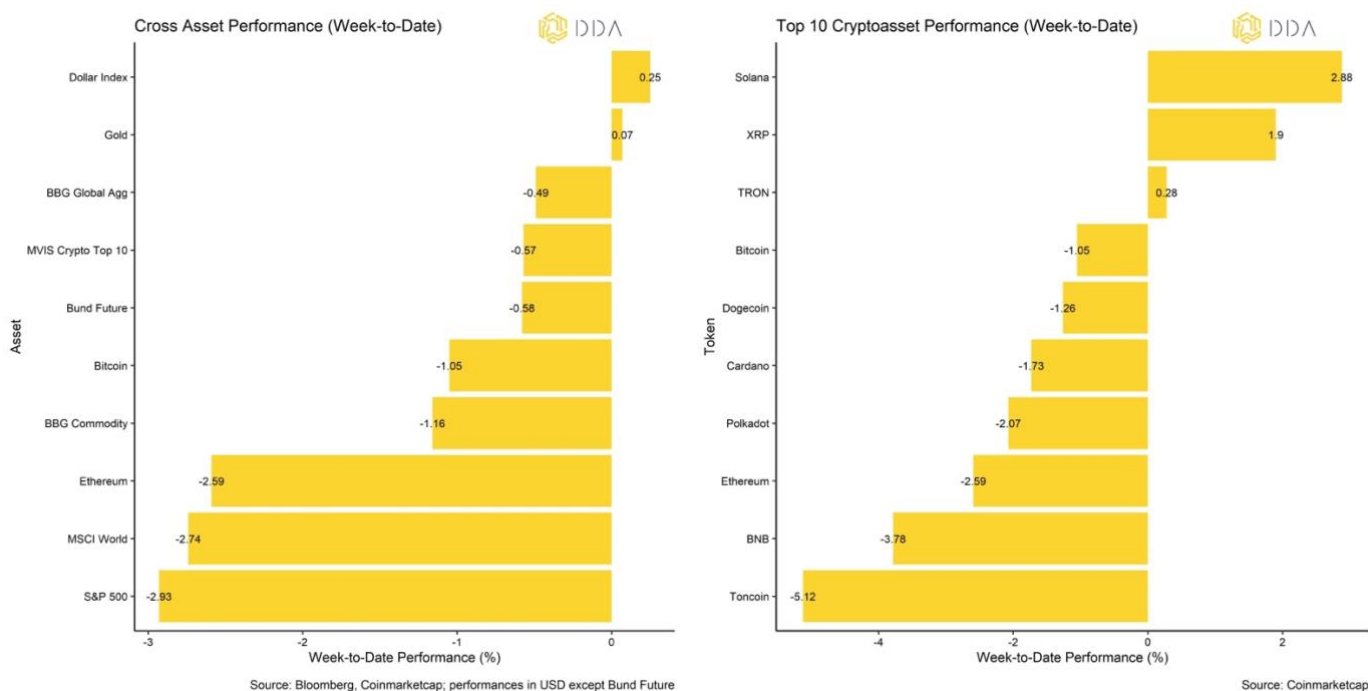


Source: Bloomberg, Deutsche Digital Assets

Performance

Last week, crypto assets were under pressure as the Fed delivered a hawkish pause. Despite no increase in the Fed Funds Rate, Jay Powell’s rhetoric reiterated the Fed’s stance that interest rates will remain “higher for longer”. This has generally led to a darkening of overall financial market sentiment last week as equities generally underperformed crypto assets like Bitcoin and Ethereum.

Our own measure of monetary policy as priced by financial markets also indicates that monetary policy has become even tighter in recent weeks which has likely exerted downside pressure on Bitcoin (**Chart-of-the-Week**).



Among the top 10 crypto assets, Solana, XRP, and TRON were the relative outperformers.

In general, altcoin outperformance vis-à-vis Bitcoin has recently increased despite the negative performance last week. 60% of our tracked altcoins managed to outperform Bitcoin on a weekly basis.

Sentiment

Our in-house Crypto Sentiment Index remains in bearish territory. However, only 5 out of 15 indicators are above their short-term trend, so the majority of indicators is still bearish.

Compared to last week, we saw major reversals to the downside in the BTC 1-month 25-delta Skew and the Crypto Dispersion Index.

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

Performance dispersion among cryptoassets has decreased somewhat compared to last week.

In general, lower performance dispersion among cryptoassets implies that correlations among cryptoassets have increased which means that cryptoassets are trading more on systematic factors.

At the same time, as mentioned above, altcoin outperformance has increased significantly with 60% 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 minor net inflows into global crypto ETPs.

In aggregate, we saw net fund inflows in the amount of +1.3 mn USD (week ending Friday).

Most of these inflows focused on Bitcoin funds (+7.5 mn USD) and Altcoin ex Ethereum funds (+1.8 mn USD).

In contrast, both Ethereum funds and thematic & basket crypto funds experienced net outflows to the tune of -6.3 mn USD and -1.7 mn USD, respectively.

The NAV discount of the biggest Bitcoin fund in the world - Grayscale Bitcoin Trust (GBTC) – decreased slightly last week but continues to hover around -20%. In other words, investors are assigning a probability of around 80% that the Trust will be converted into a Spot Bitcoin ETF.

Furthermore, the beta of global crypto hedge funds to Bitcoin over the last 20 trading has moved sideways, implying that global crypto hedge funds have not significantly changed their market exposure to crypto assets.

On-Chain

Overall, on-chain activity has worsened slightly over the last week, albeit from very high levels.

For instance, active addresses on the Bitcoin blockchain have decreased somewhat from their year-to-date highs observed last week. Similarly, new addresses on the Bitcoin blockchain have also decreased somewhat from their multi-year highs.

Bitcoin's hash rate is also decreased slightly from its all-time highs seen last week.

Nonetheless, the number of addresses with non-zero balances has continued to move higher.

Meanwhile, exchange balances for both Bitcoin and Ethereum continued to drift lower. Bitcoin exchange balances are near their 5-year lows and Ethereum exchange balances have marked a fresh 7-year low. However, there was significant underperformance of Ethereum vis-à-vis Bitcoin that is currently being attributed to the fact that Ethereum's net supply issuance has turned positive lately. This is because less ETH get burned relative to being issued as transaction throughput and gas fees have recently declined throughout the Ethereum network.

At the time of writing, ETH supply grows at +0.71% p.a. while -0.49% p.a. are being burned through the EIP1559 mechanism leading to a net issuance of +0.22% p.a. at the moment.

Derivatives

Last week, open interest in the BTC futures and perpetual markets were mostly unchanged.

However, there was a sharp increase in BTC options open interest. Most of this option exposure seems to be geared towards calls as both relative open interest and trading volumes of puts vis-à-vis calls decreased.

However, the increase in the BTC 1-month 25-delta skew implies a relatively higher demand for out-of-the-money puts relative to calls.

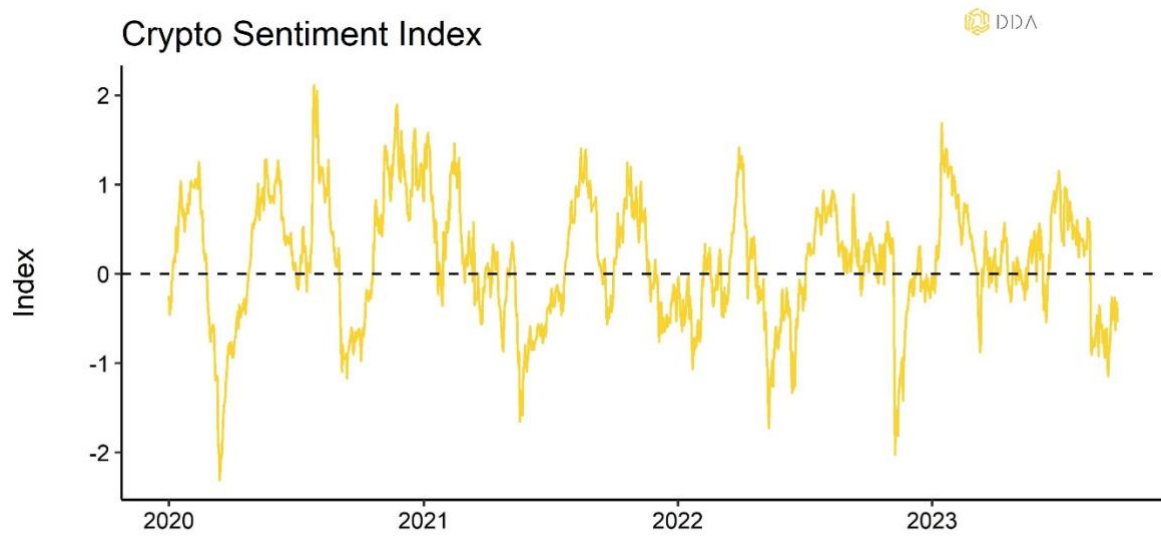
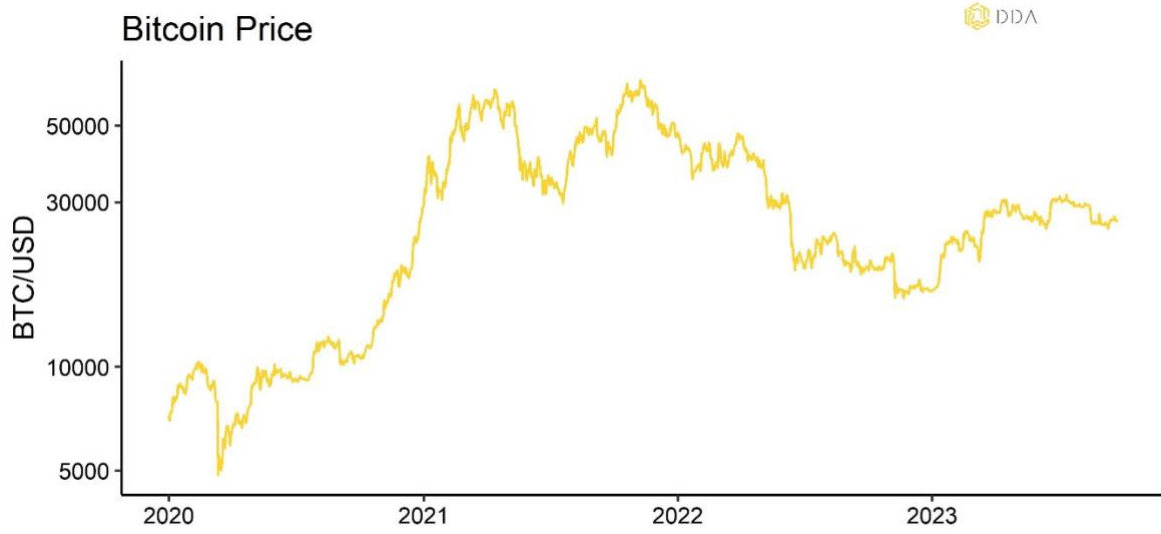
In other words, while there was a generally a tendency towards higher upside exposure via calls, there seems to be a greater demand for downside hedges in deep out-of-the-money puts as well.

Shorter term implied volatilities on BTC options (up to 1 month) declined while longer term options' (≥ 3 months) implied volatilities increased slightly.

Bottom Line

Last week, crypto assets were under pressure as the Fed delivered a hawkish pause. Our in-house Crypto Sentiment Index remains in bearish territory. Tight monetary policy will likely remain a negative factor for crypto assets in the near term.

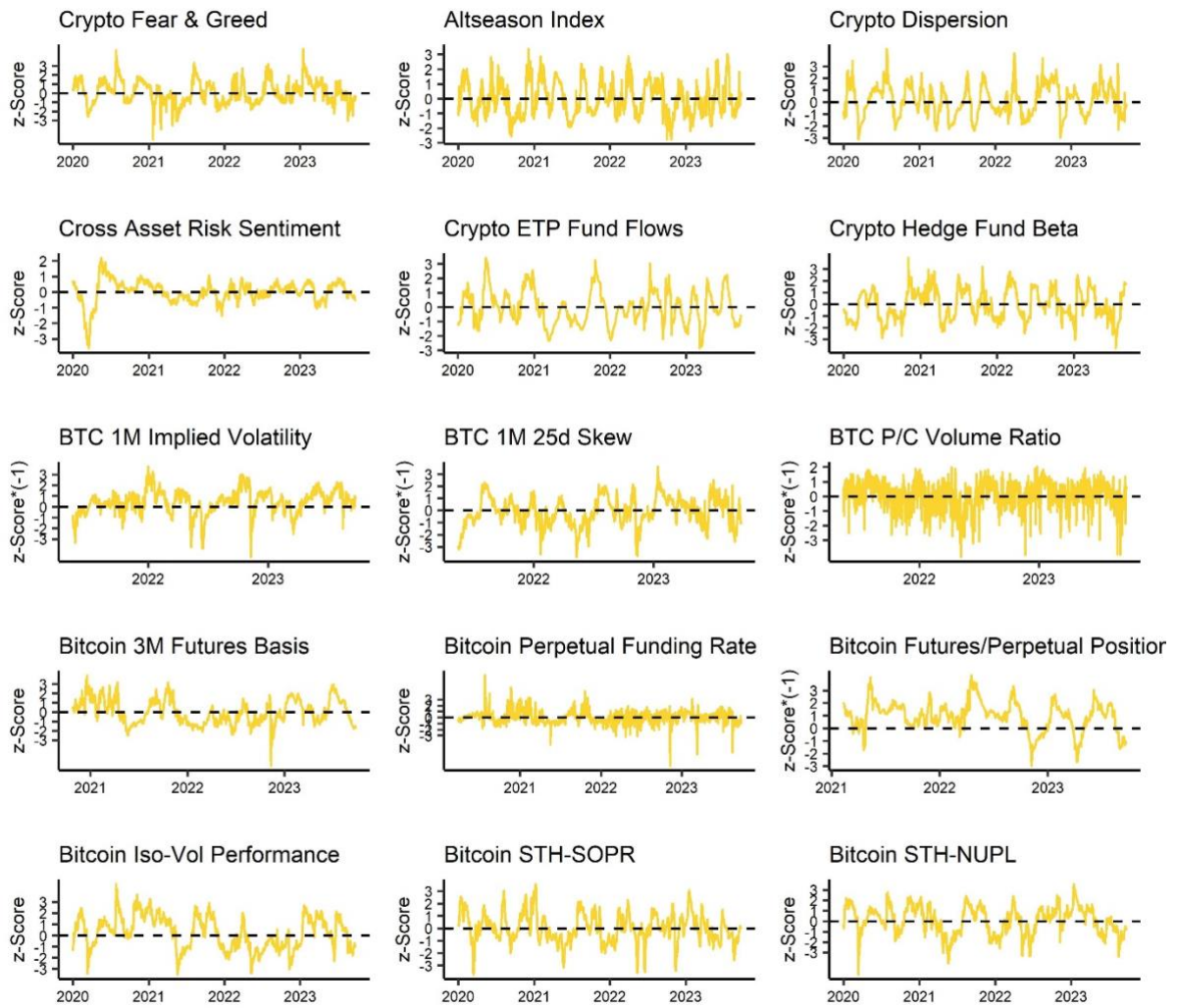
Appendix



Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

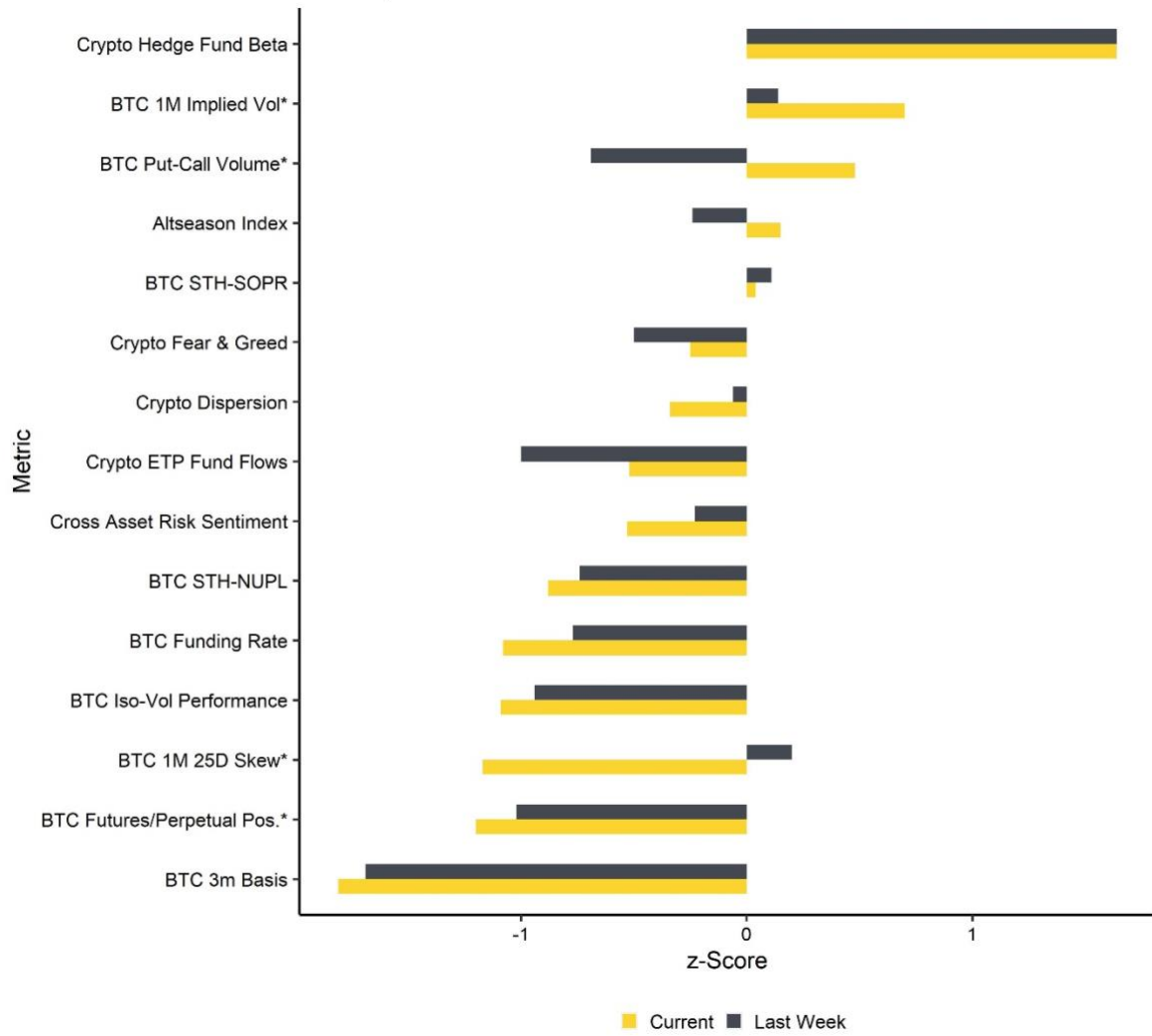
Crypto Sentiment Index

Subcomponents, 90-day rolling z-Scores



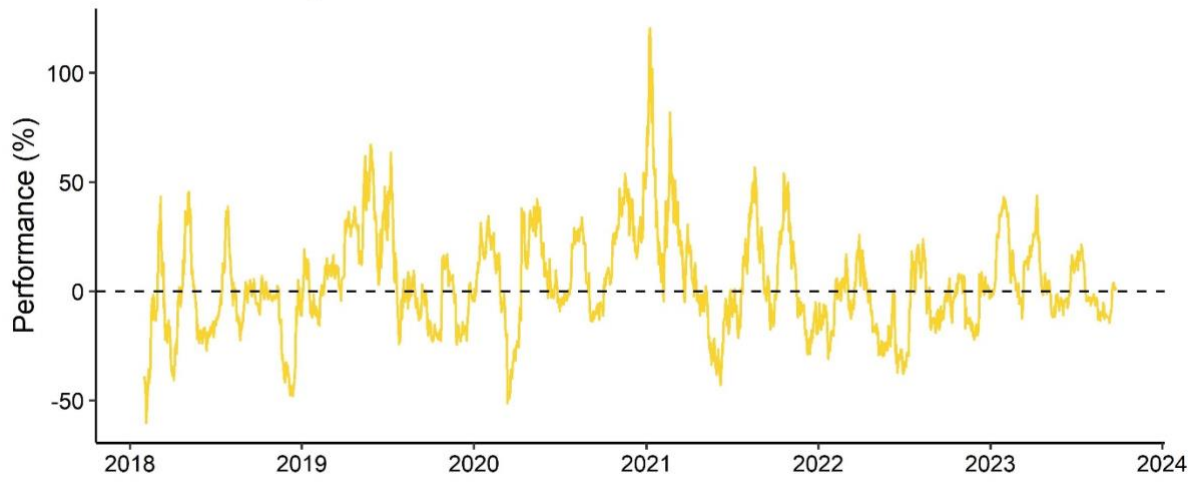
Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

Crypto Sentiment Index Subcomponents

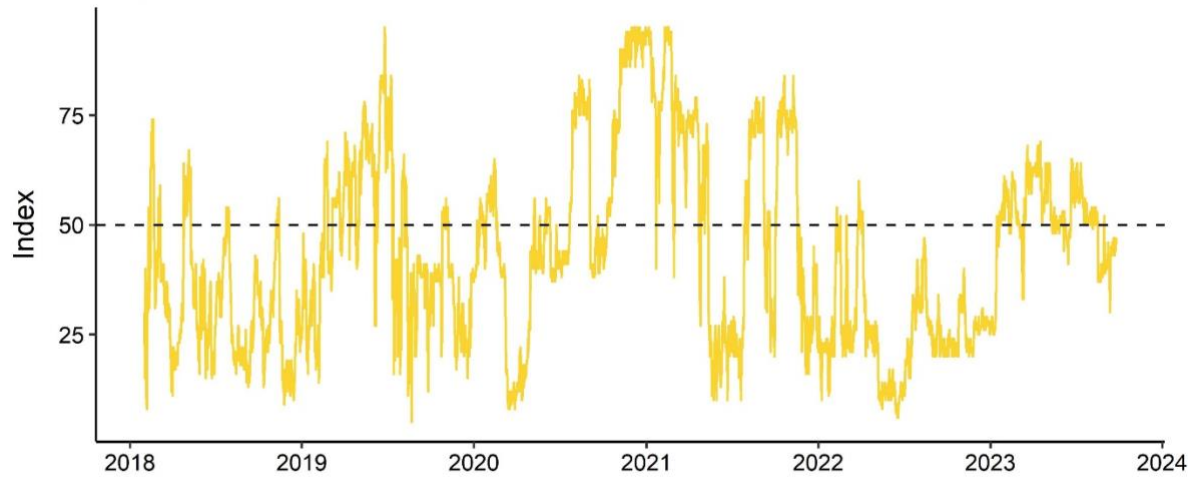


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; *multiplied by (-1)

Bitcoin: 30-day Performance

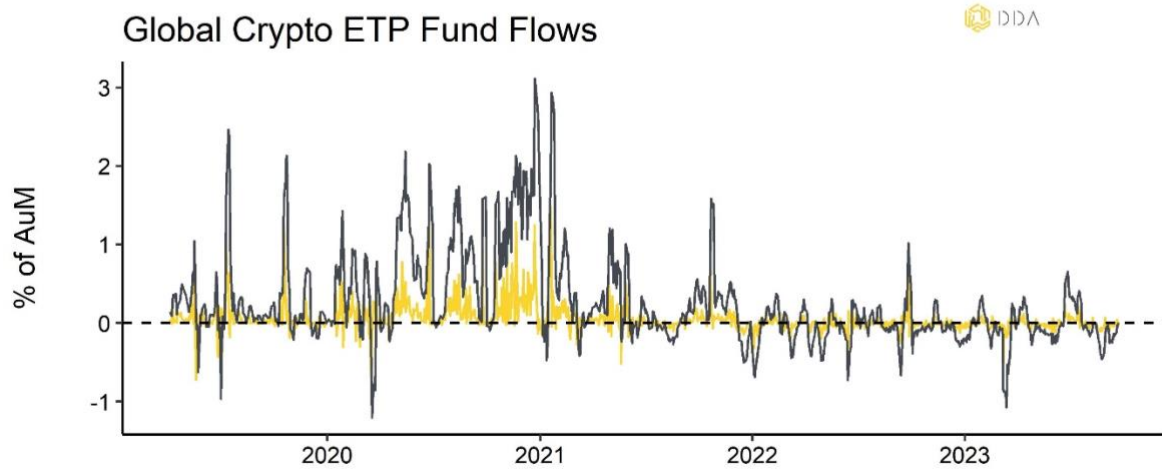
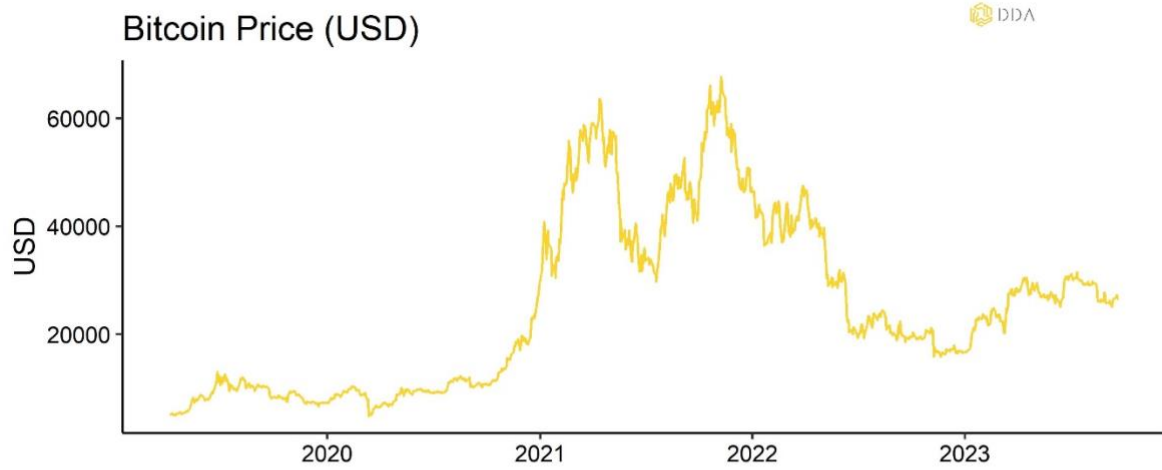


Crypto Fear & Greed Index



Source: alternative.me, Coinmarketcap, Deutsche Digital Assets

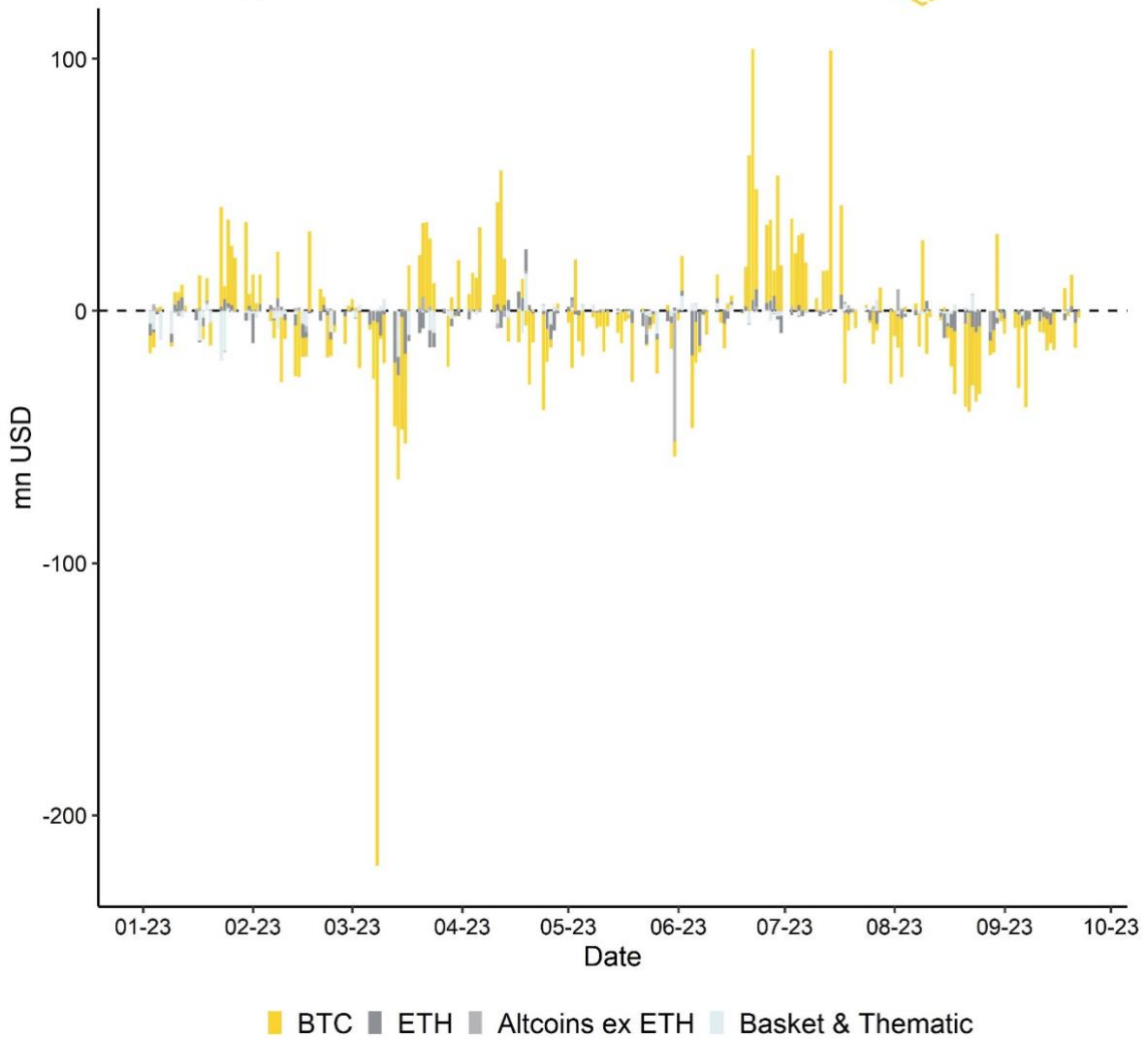
Bitcoin vs Global Crypto ETP Fund Flows



— Fund Flows — 5d rolling sum

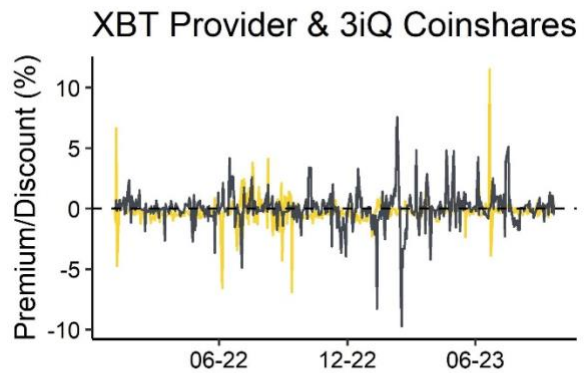
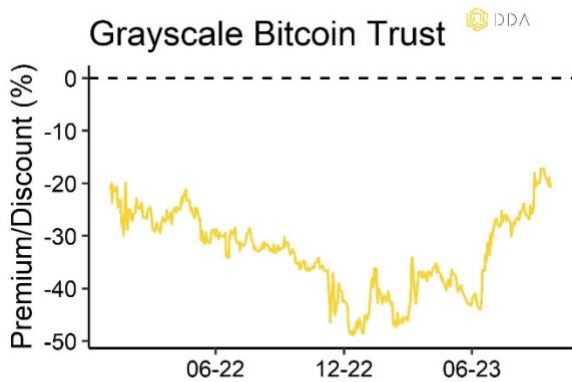
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

Global Crypto ETP Fund Flows



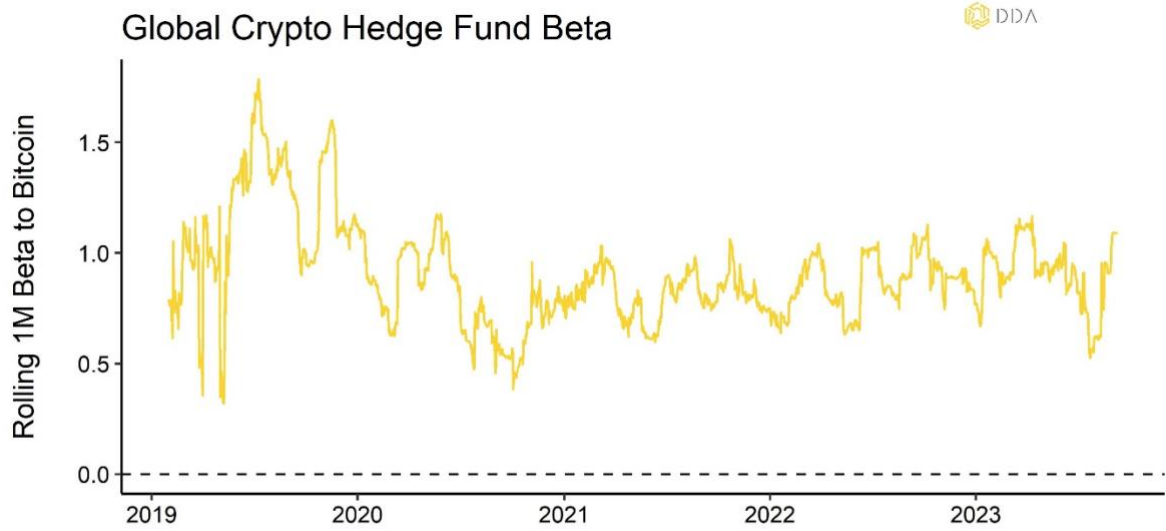
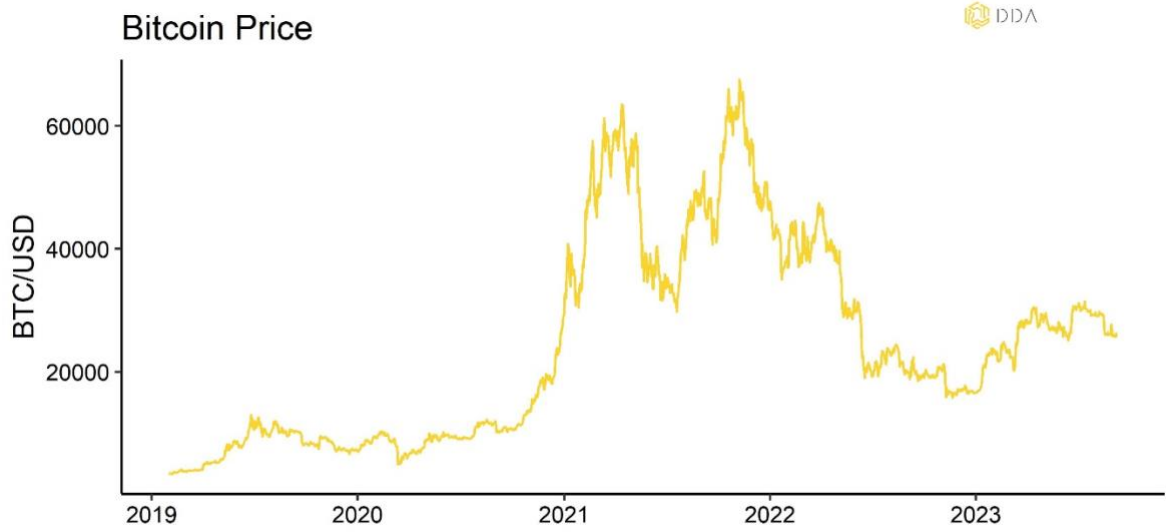
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

BTC Funds NAV Premia/Discounts



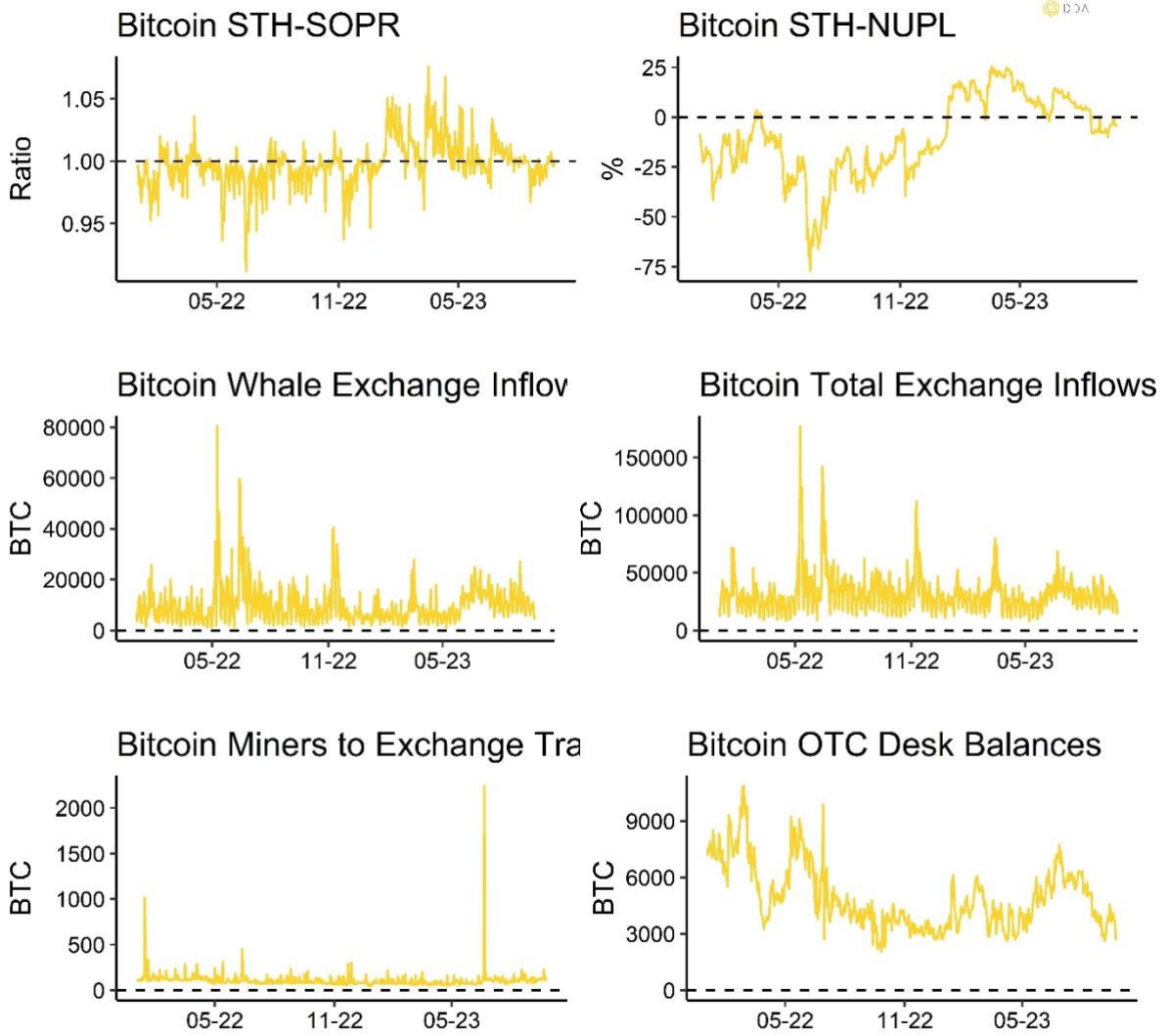
— XBT Provider — 3iQ Coinshares (Canada)

Source: Bloomberg, Deutsche Digital Assets



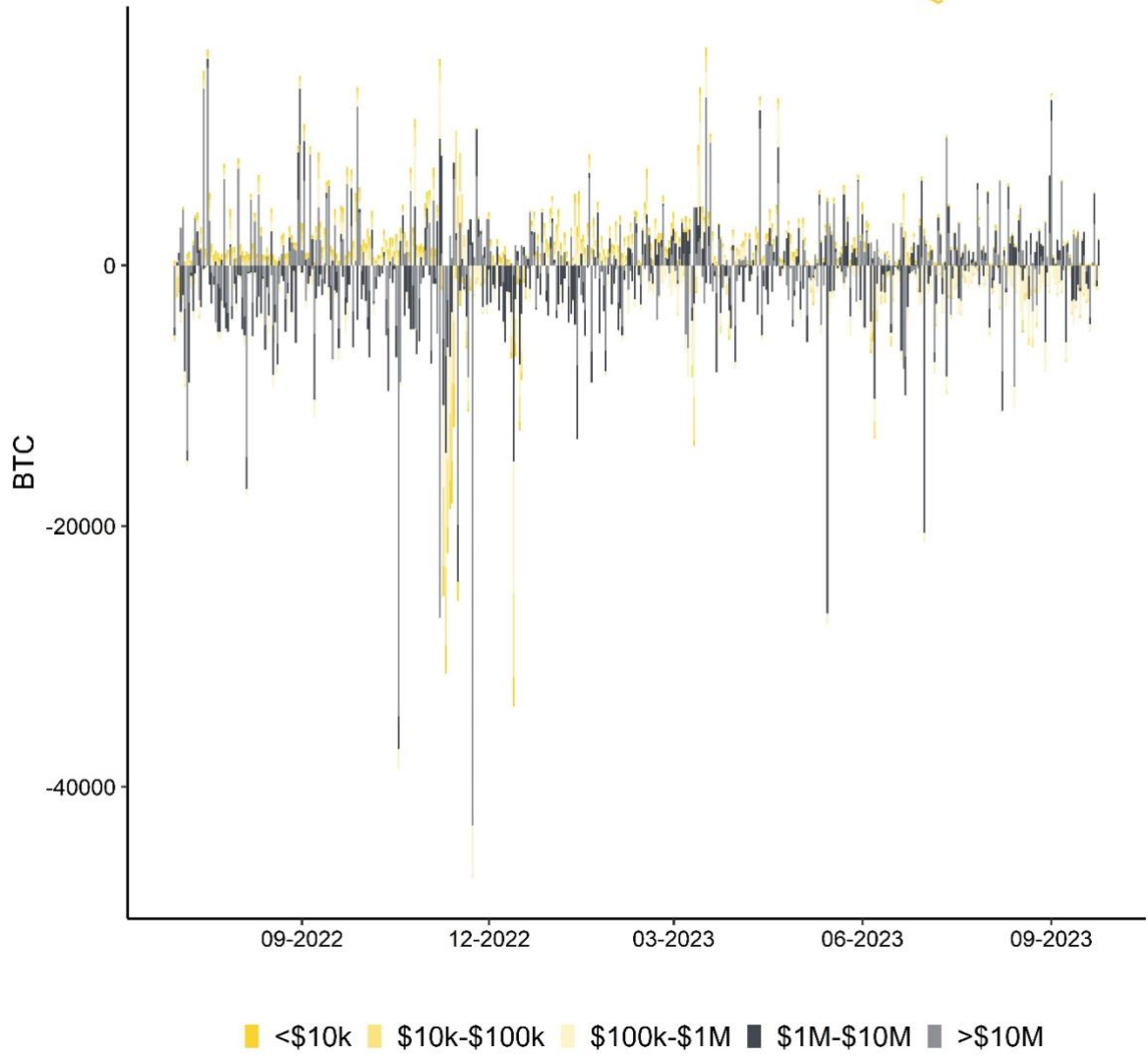
Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets

Bitcoin On-Chain Indicators



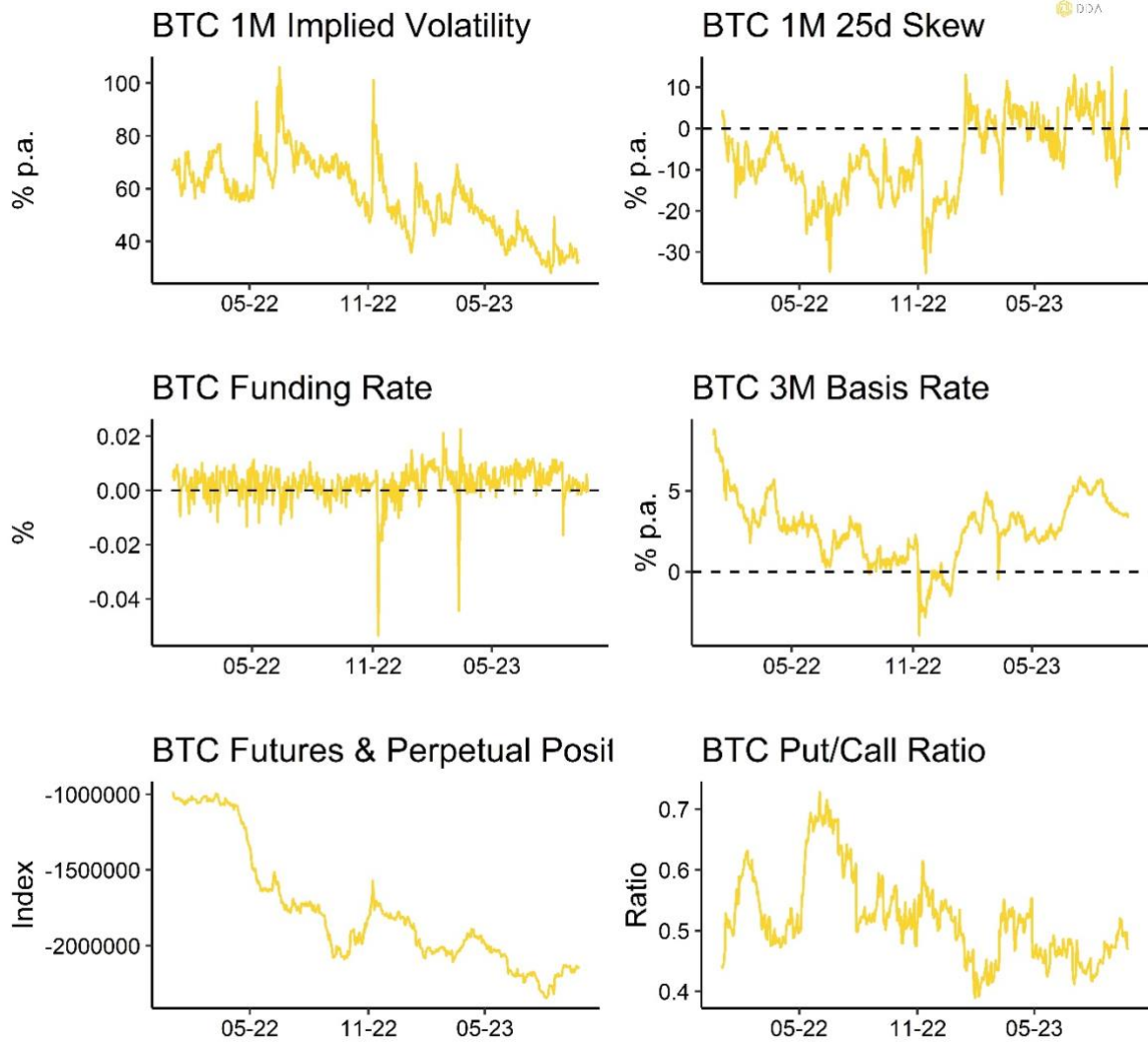
Source: Glassnode, Deutsche Digital Assets

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

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