



CRYPTO MARKET PULSE

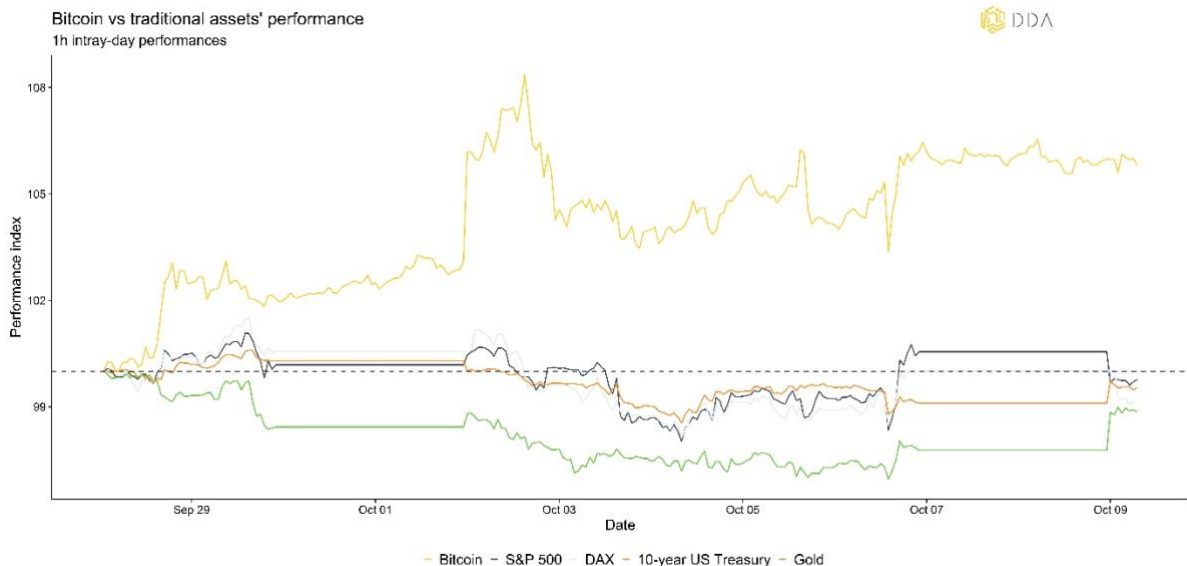
OCTOBER 9, 2023

Key Takeaways

by André Dragosch, PhD, Head of Research

- ◆ Last week, crypto assets mostly went sideways after a week of strong gains
- ◆ Our in-house Crypto Sentiment Index has increased somewhat and is now neutral
- ◆ Correlations between crypto assets and traditional assets have decreased significantly and especially Bitcoin has started to decouple

Chart of the Week

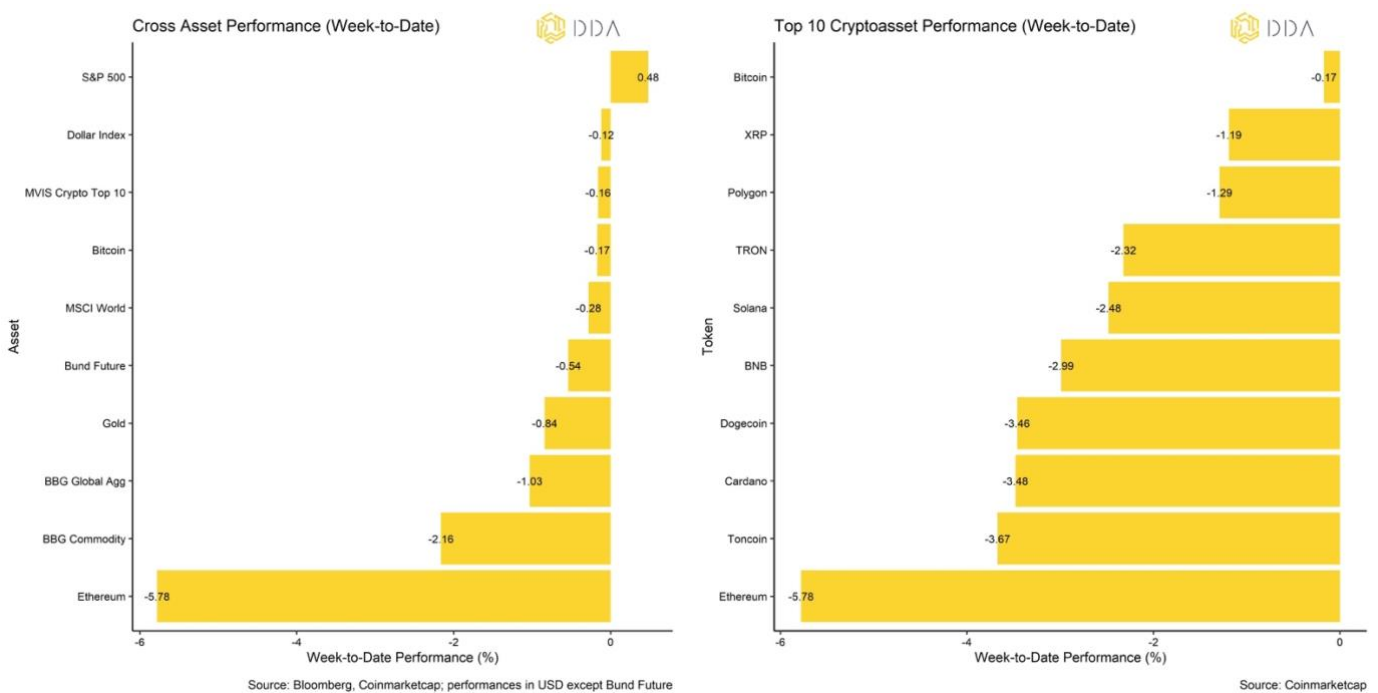


Performance

Last week, crypto assets mostly went sideways after a week of strong gains. Tight monetary policy still appears to be a major headwind for both traditional assets and crypto assets. Below the surface, we saw stronger outperformance of Bitcoin vis-à-vis other altcoins which implies a decline in risk appetite as well. Especially Ethereum underperformed Bitcoin by a wide margin which is also pointing in that direction. This is also consistent with a general decline in risk appetite in traditional financial markets as measured by our Cross Asset Risk Sentiment Index.

Nonetheless, net fund flows into global Bitcoin ETPs have been relatively strong last week which might have supported Bitcoin’s general outperformance. However, the debut of several Ethereum Futures ETFs in the US was rather lukewarm and did not attract significant amounts of money.

In general, correlations between crypto assets and traditional assets have decreased significantly as especially Bitcoin has started to decouple (**Chart-of-the-Week**).



Among the top 10 crypto assets, Bitcoin, XRP, and Polygon were the relative outperformers.

As mentioned above, altcoin outperformance vis-à-vis Bitcoin has recently declined pointing to a decrease

in risk appetite. Only 30% of our tracked altcoins managed to outperform Bitcoin on a weekly basis.

Sentiment

Our in-house Crypto Sentiment Index has increased somewhat and is now neutral. At the moment, 8 out of 15 indicators are above their short-term trend.

Compared to last week, we saw major reversals to the downside in the Altseason Index and BTC Put-Call Volume Ratio. However, we also saw major reversals to the upside in crypto ETP fund flows and the BTC STH-NUPL.

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

Performance dispersion among cryptoassets continues to be relatively high.

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, as mentioned above, altcoin outperformance has continued to be low with only 30% of altcoins outperforming Bitcoin on a weekly basis.

In general, low altcoin outperformance is a sign of low risk appetite within crypto asset markets.

Flows

Last week saw a significant pick-up in net fund inflows into global crypto ETPs.

In aggregate, we saw net fund inflows in the amount of +102.9 mn USD (week ending Friday).

Most of these inflows focused on Bitcoin funds (+85.4 mn USD) and Altcoin ex Ethereum funds (+23.9 mn USD).

In contrast, despite the debut of several new Ethereum Futures ETFs in the US, Ethereum funds in aggregate did not attract significant amounts of money last week (+0.9 mn USD).

Thematic & basket crypto funds experienced net outflows to the tune of -7.4 mn last week.

The NAV discount of the biggest Bitcoin fund in the world - Grayscale Bitcoin Trust (GBTC) – narrowed

significantly last week and is now around -17%. In other words, investors are assigning a slightly higher probability of around 83% 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 decreased significantly, implying that global crypto hedge funds have reduced their market exposure to crypto assets.

On-Chain

Overall, on-chain activity has continued to worsen over the last week, albeit from very high levels.

For instance, active addresses on the Bitcoin blockchain have continued to decrease and are approaching year-to-date lows again. Similarly, new addresses on the Bitcoin blockchain have also decreased and are now at their lowest reading since May this year. The number of addresses with non-zero balances has also declined somewhat.

Nonetheless, Bitcoin's hash continues to hover near all-time highs.

Meanwhile, Bitcoin exchange balances have hit fresh lows and are now at their lowest level since March 2018. In contrast, Ethereum exchange balances have moved sideways last week but remain near 7-year lows.

The divergence in net on-chain flows between Bitcoin and Ethereum might explain the recent outperformance of Bitcoin vis-à-vis Ethereum as well.

However, accumulation dynamics across all wallet cohorts for Bitcoin have recently declined significantly. In particular, smaller wallet cohorts have reduced their accumulation activity which might limit any further upside in the short term.

Derivatives

Last week, open interest in the BTC futures and perpetual markets increased only slightly. The same can be said for Ethereum Futures and Perpetuals traded across all major exchanges despite the debut of several new US Ethereum Futures ETFs last week.

BTC options open interest also increased only slightly. Most of this increase was related to a relative surge

in put options, so option traders have increased their downside protection somewhat.

BTC option skews increased somewhat for expiries longer than 3 months but mostly went sideways for shorter expiries. Implied volatilities also mostly went sideways last week and remain at very low levels.

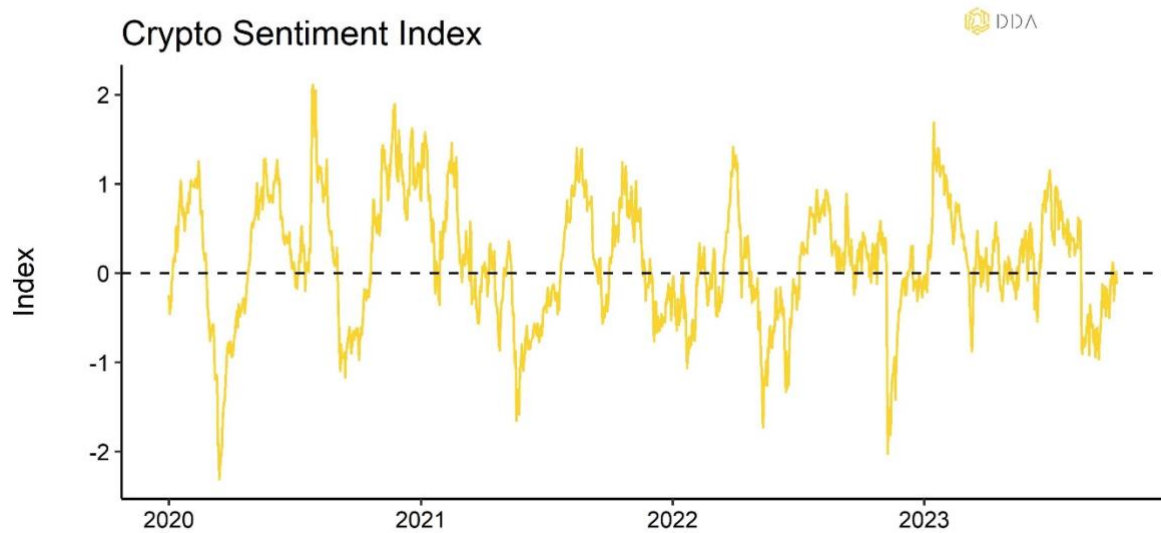
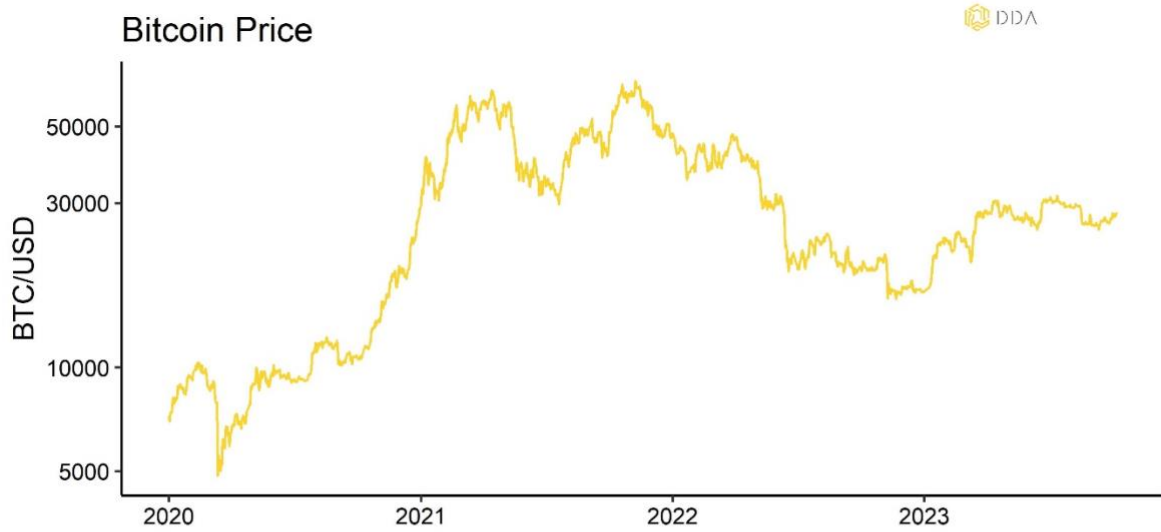
Bottom Line

Last week, crypto assets mostly went sideways after a week of strong gains.

Our in-house Crypto Sentiment Index has increased somewhat and is now neutral.

Correlations between crypto assets and traditional assets have decreased significantly and especially Bitcoin has started to decouple.

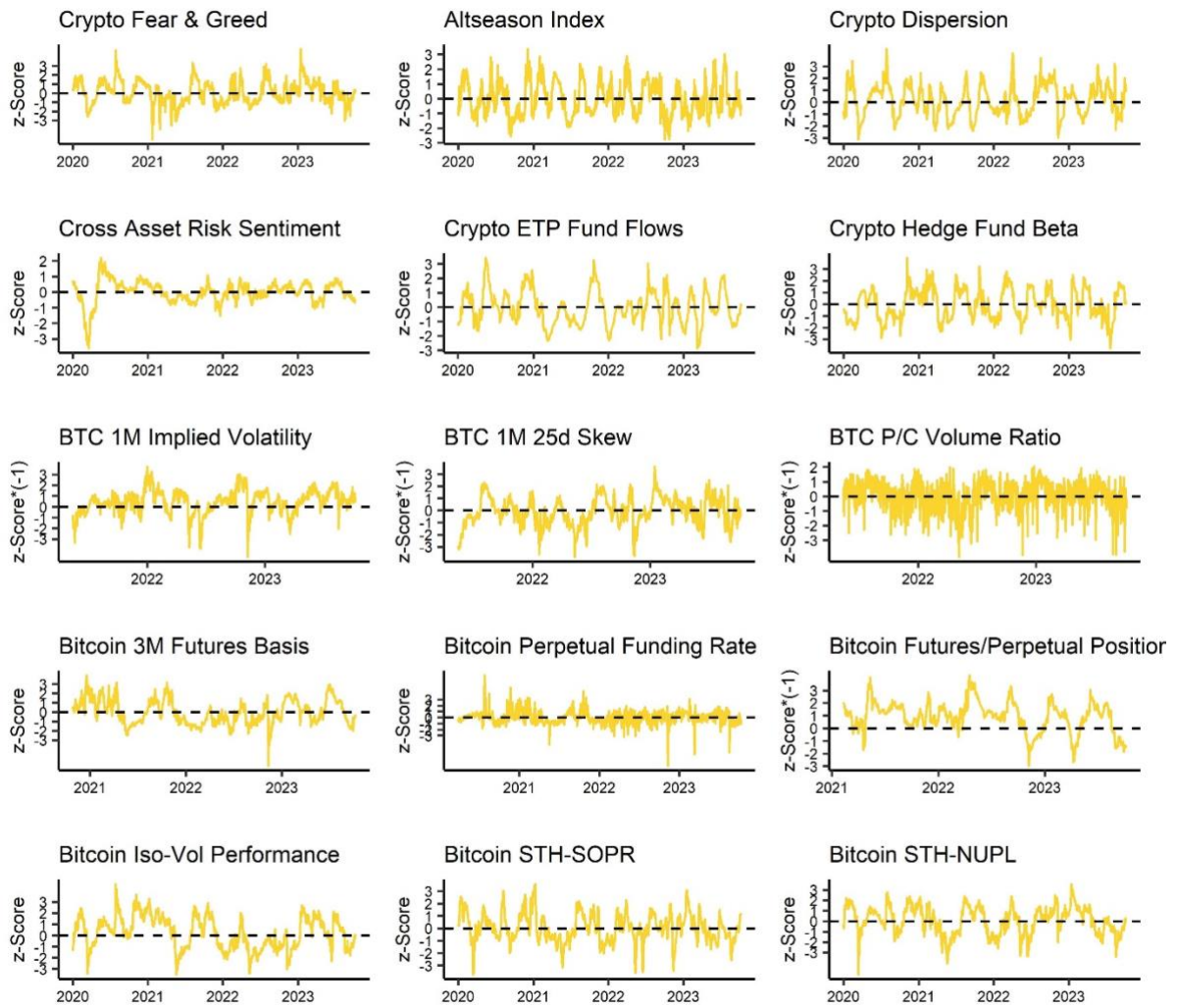
Appendix



Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

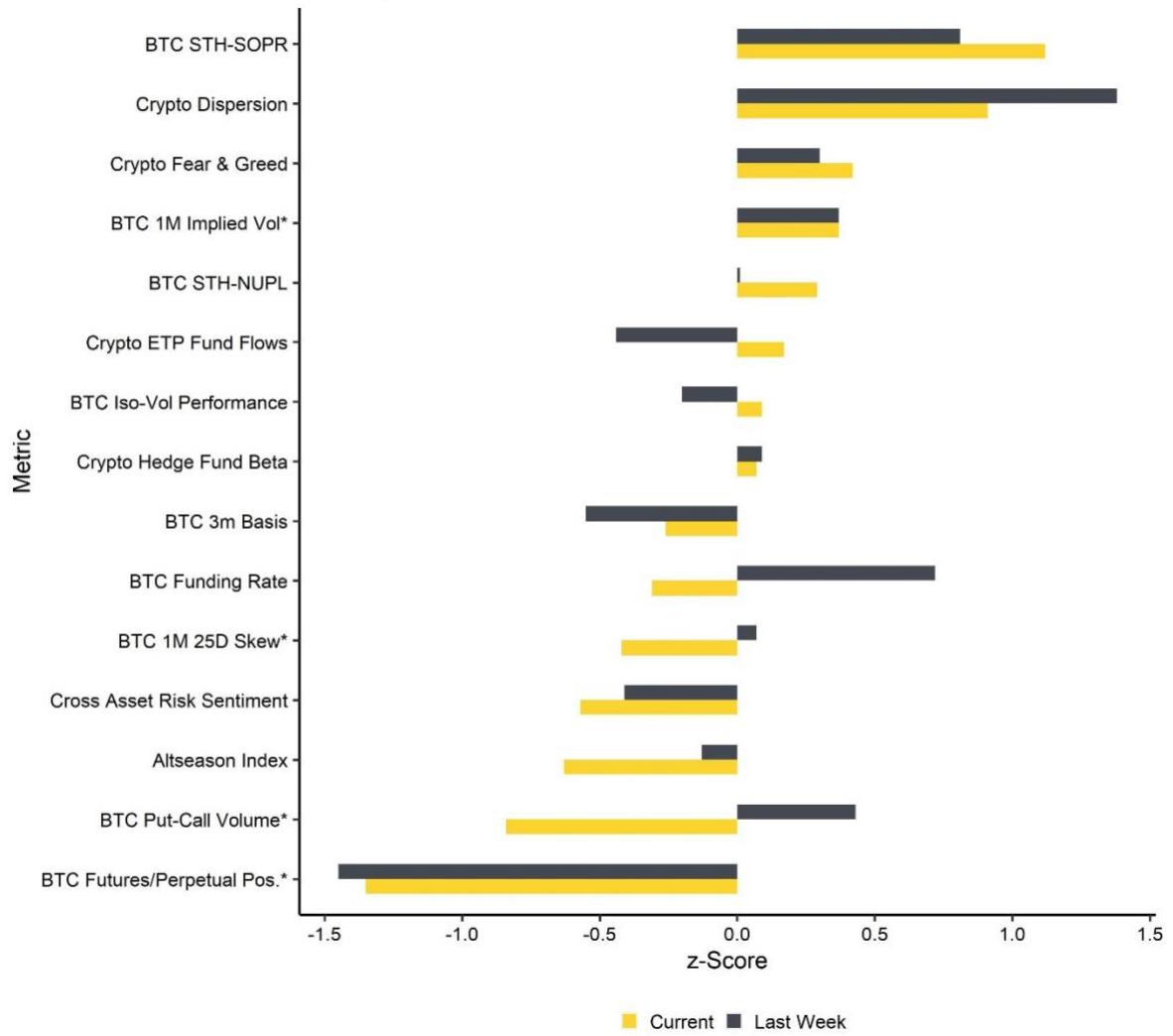
Crypto Sentiment Index

Subcomponents, 90-day rolling z-Scores

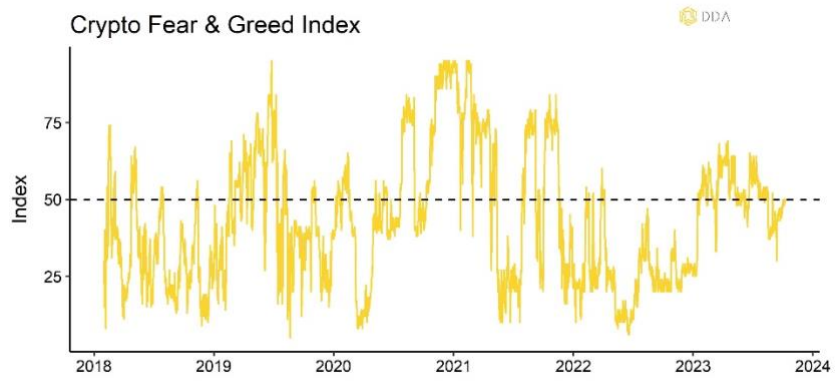
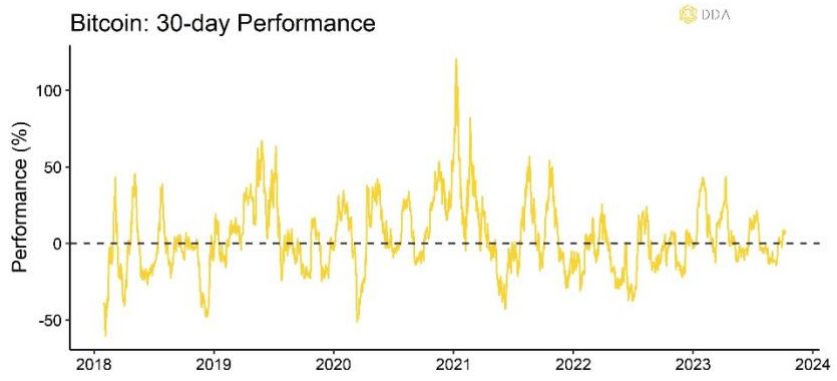


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

Crypto Sentiment Index Subcomponents

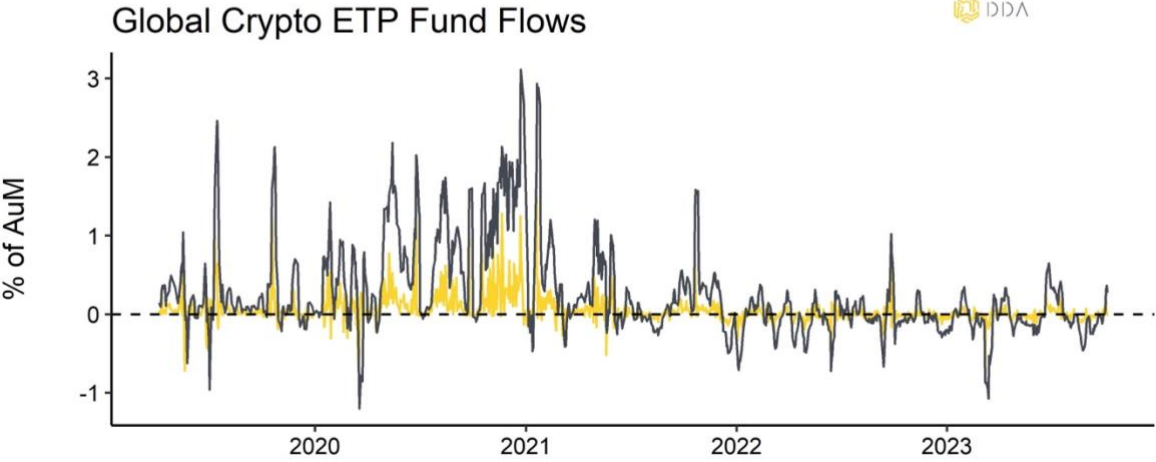
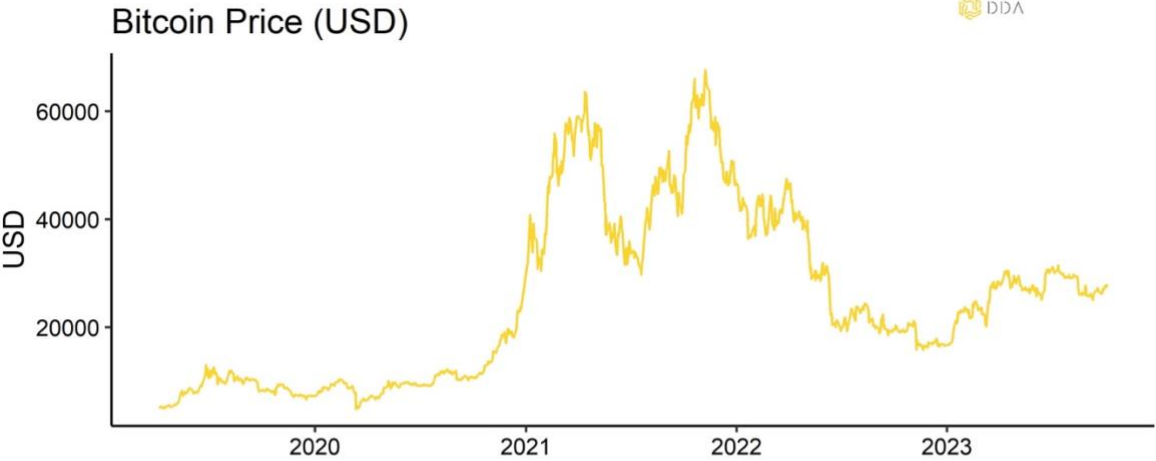


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; *multiplied by (-1)



Source: alternative.me, Coinmarketcap, Deutsche Digital Assets

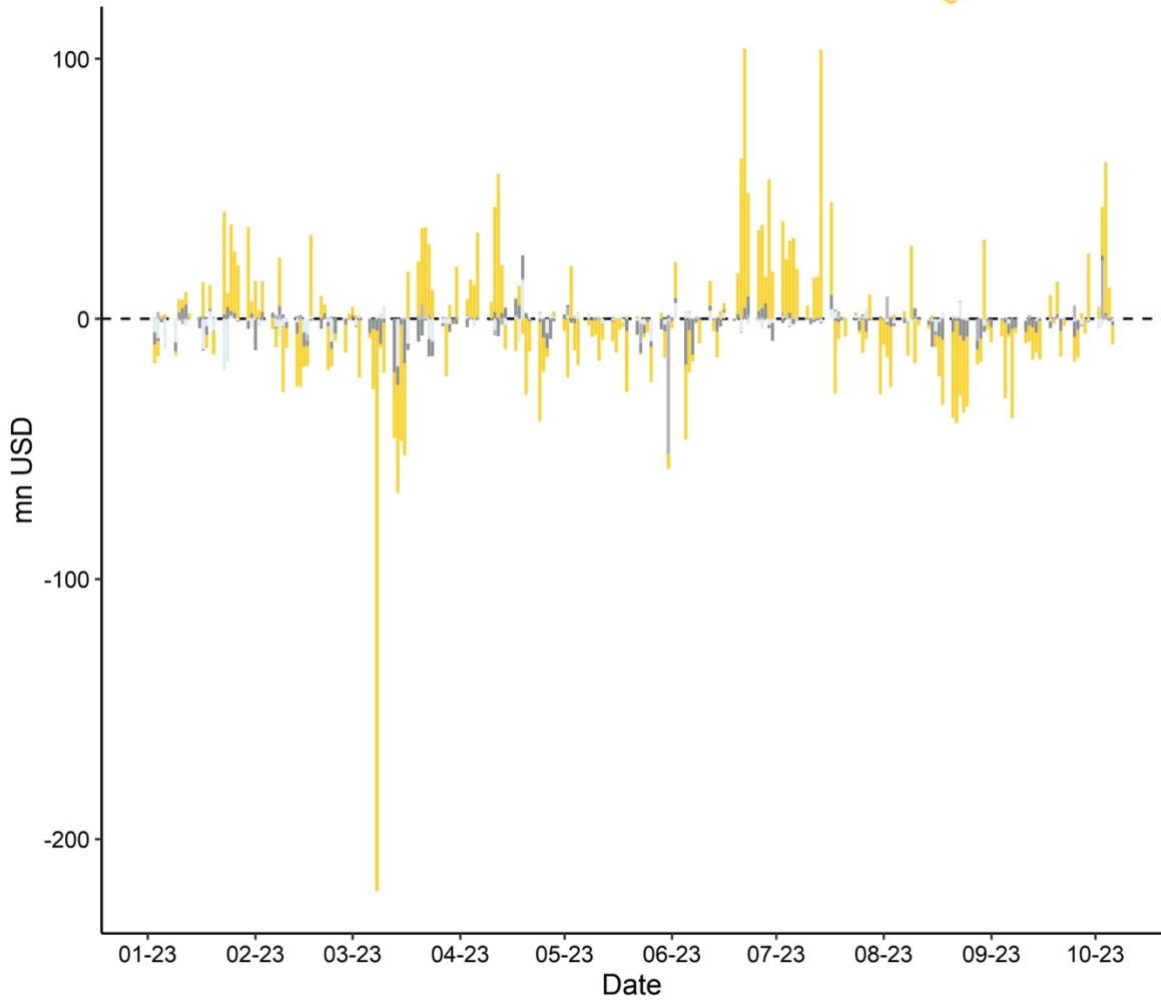
Bitcoin vs Global Crypto ETP Fund Flows



— Fund Flows – 5d rolling sum

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

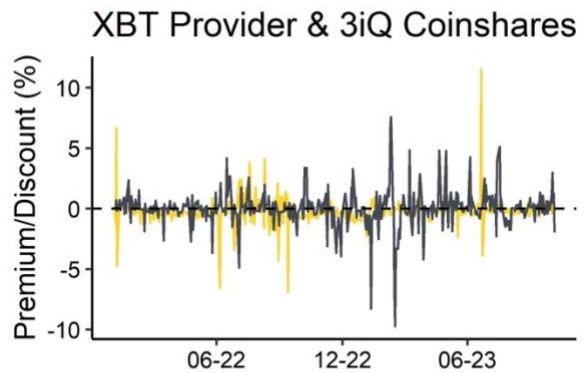
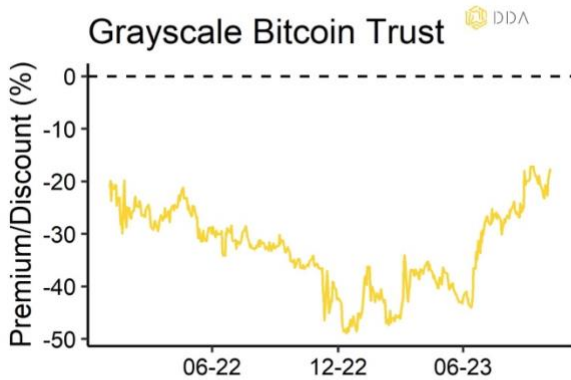
Global Crypto ETP Fund Flows



■ BTC ■ ETH ■ Altcoins ex ETH ■ Basket & Thematic

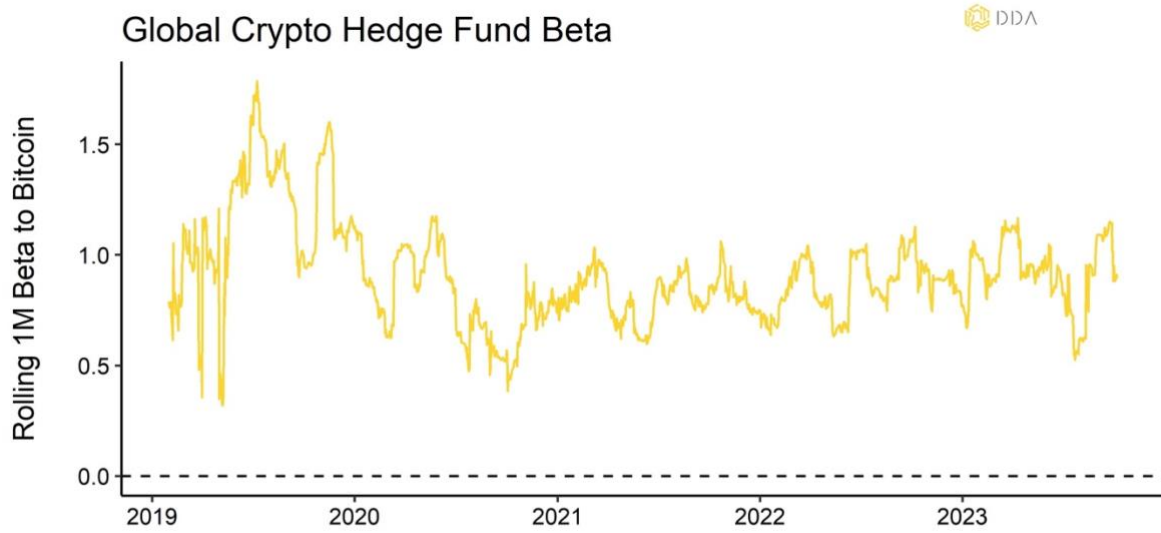
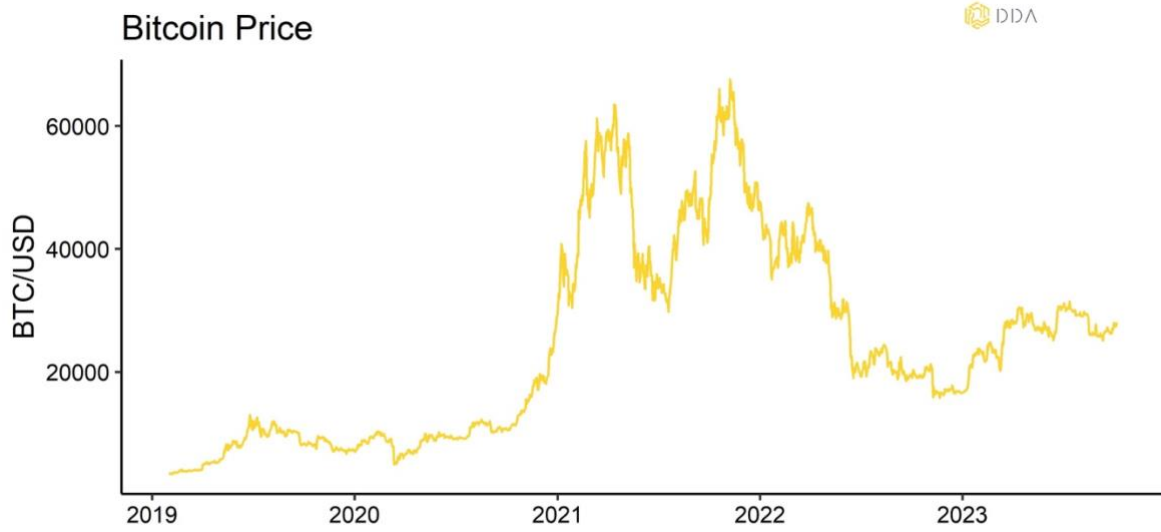
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

BTC Funds NAV Premia/Discounts



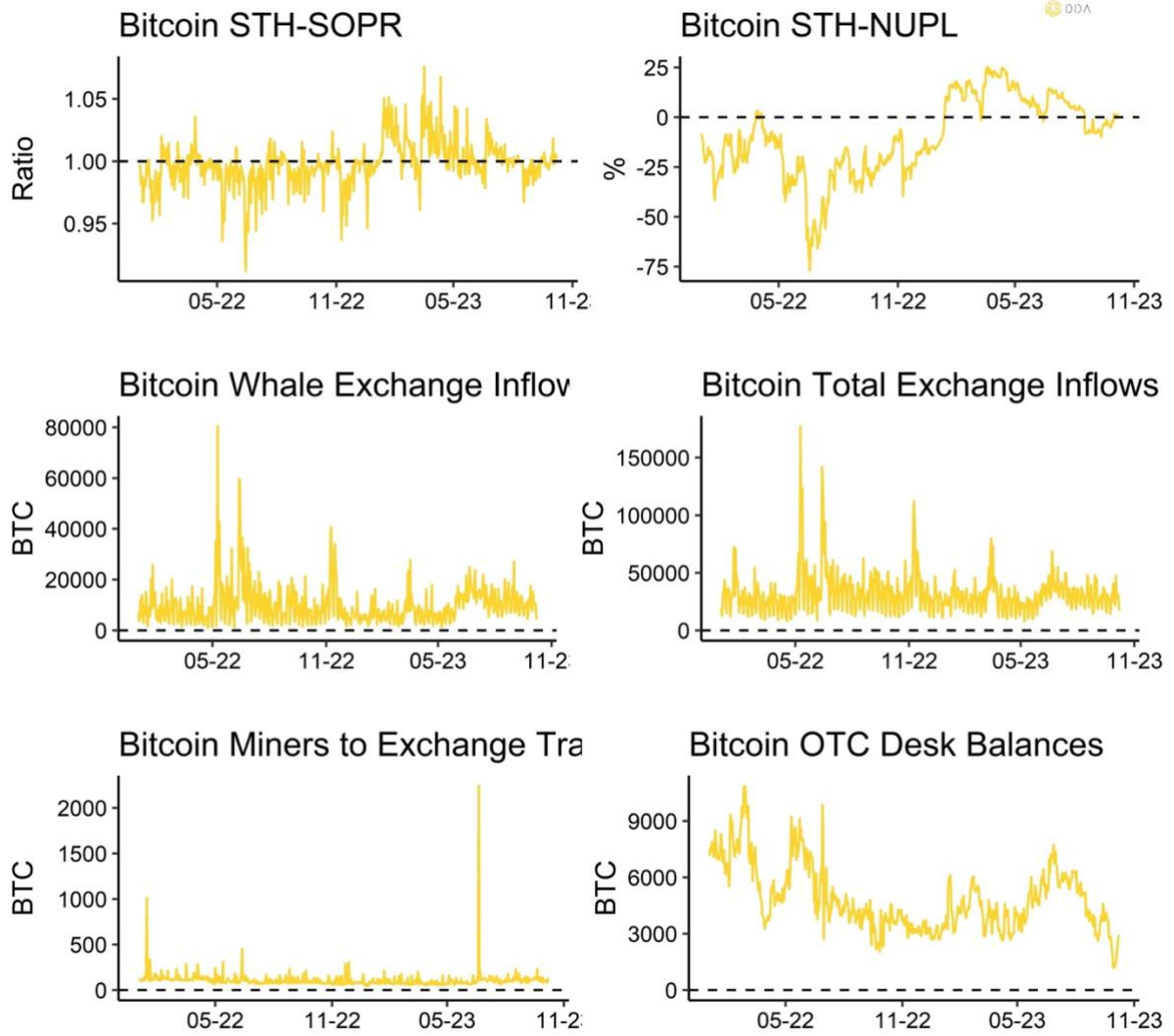
— XBT Provider — 3iQ Coinshares (Canada)

Source: Bloomberg, Deutsche Digital Assets



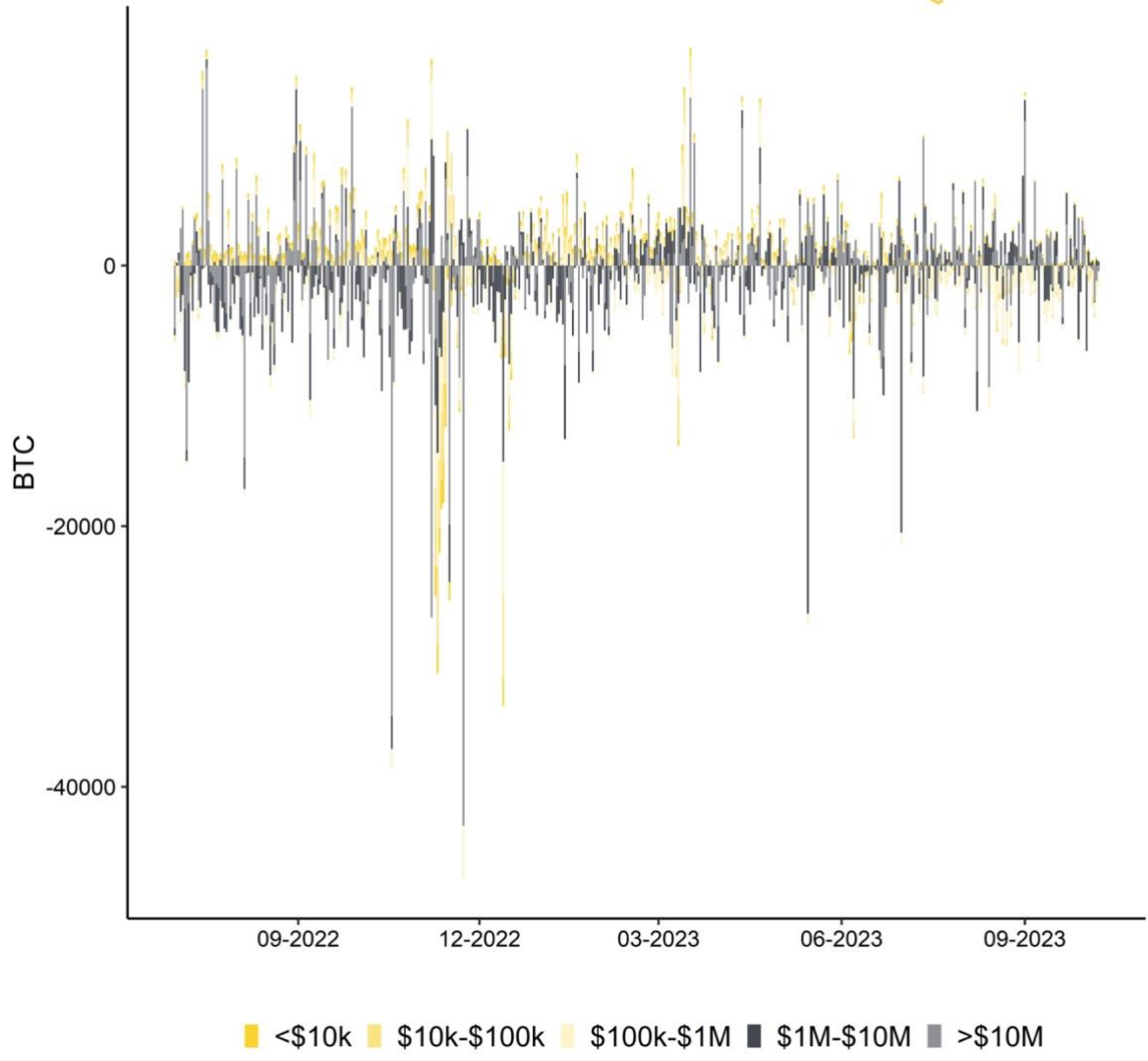
Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets

Bitcoin On-Chain Indicators



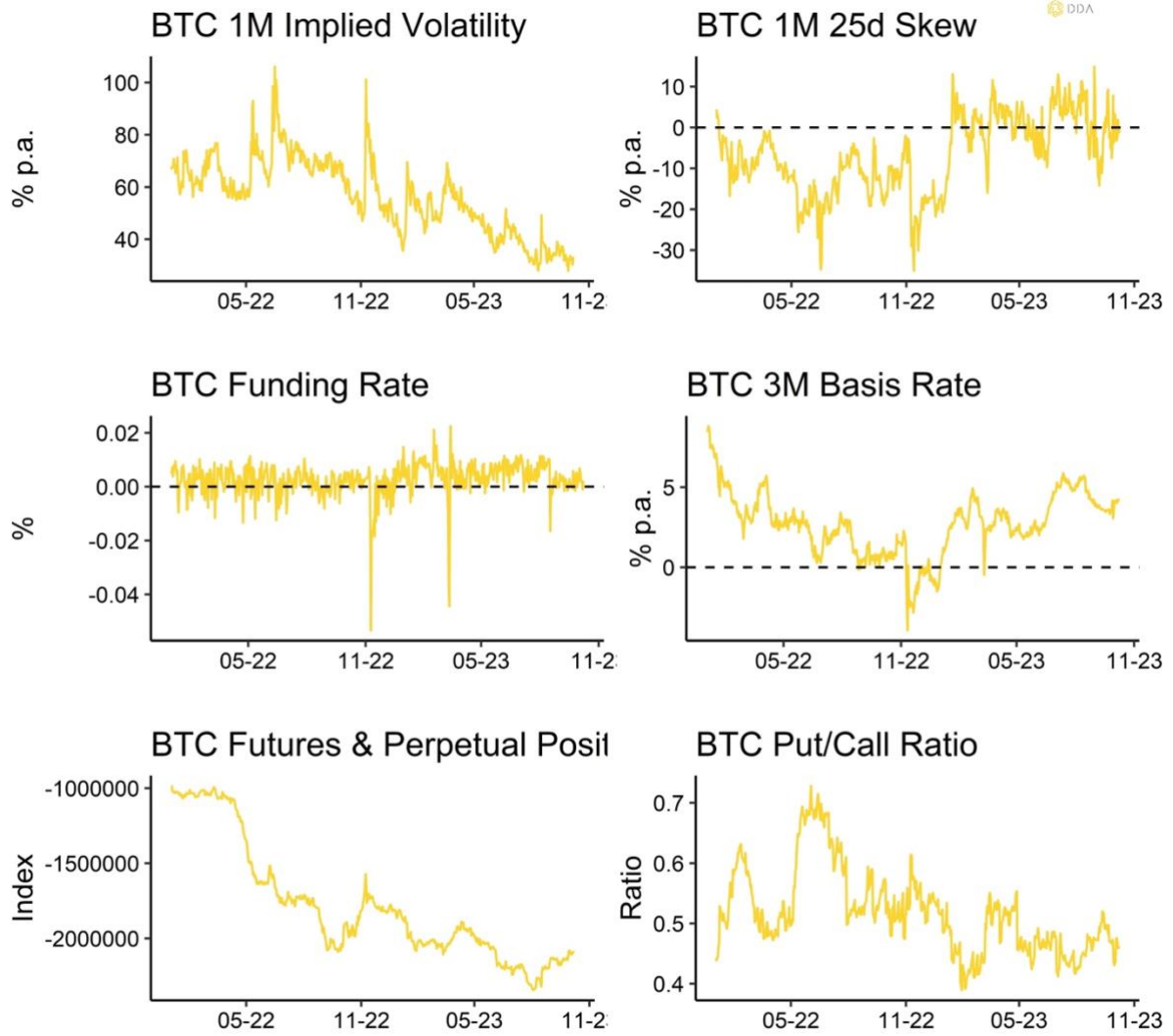
Source: Glassnode, Deutsche Digital Assets

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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