



# CRYPTO MARKET PULSE

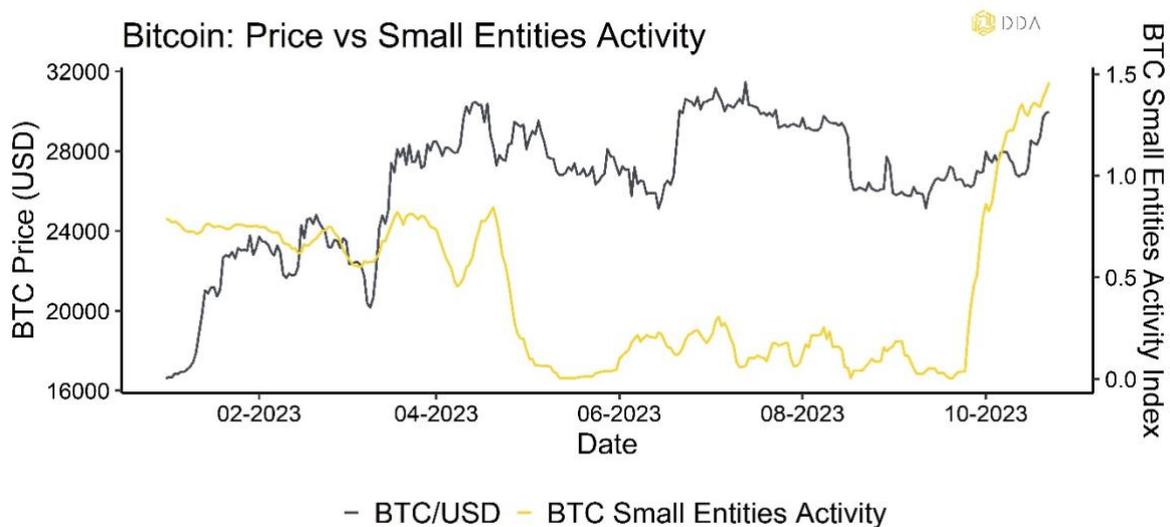
OCTOBER 23, 2023

## Key Takeaways

by André Dragosch, PhD, Head of Research

- ◆ Last week, crypto assets outperformed traditional assets by more than 10%-points
- ◆ Our in-house Crypto Sentiment Index has increased significantly and is now firmly in bullish territory
- ◆ This improvement is also visible in the increased activity by small investors over the last weeks based on BTC transfer volumes which reached year-to-date highs

## Chart of the Week



Source: Glassnode, Deutsche Digital Assets

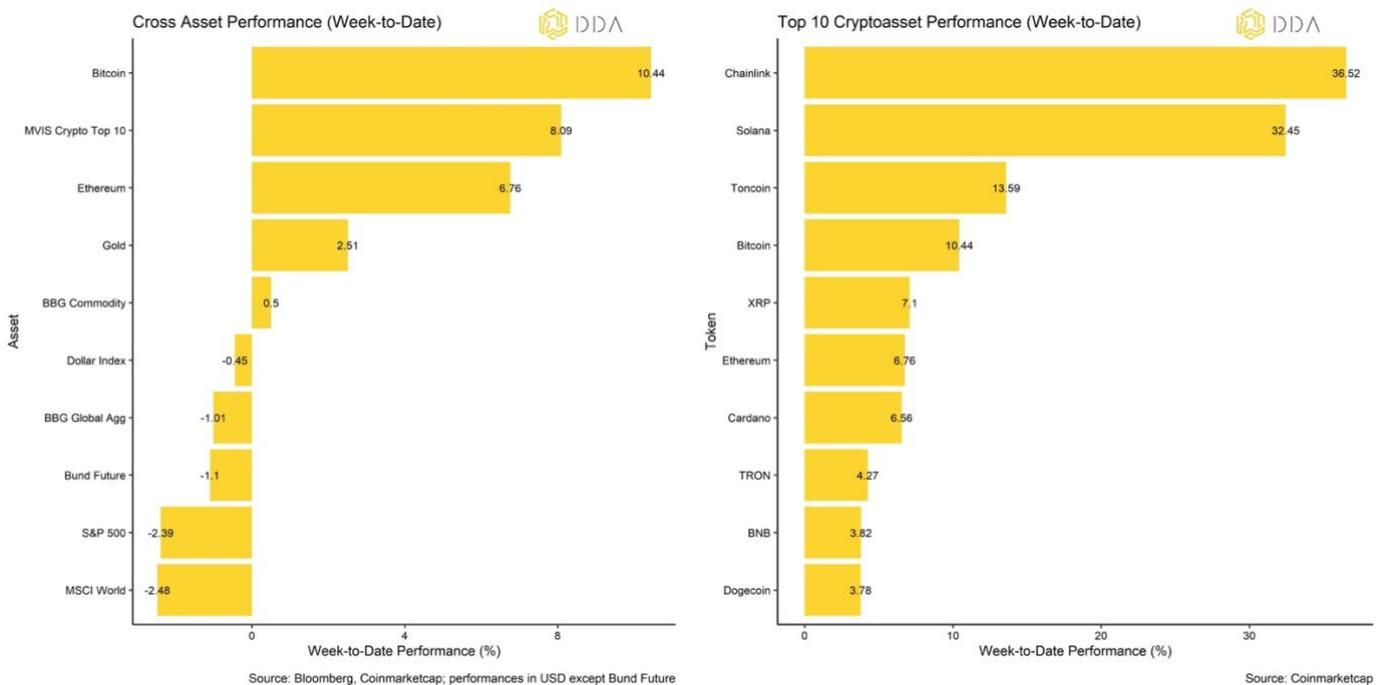
# Performance

Last week, crypto assets outperformed traditional assets by more than 10%-points. While traditional assets like equities were held back by rising yields and uncertainty in the US Treasury market, crypto assets were propelled higher by renewed hopes for an approval of a US spot Bitcoin ETF.

There was even the news that a spot Bitcoin ETF had already been approved by the SEC which shortly catapulted Bitcoin around +2k USD higher in a matter of minutes on the back of significant short liquidations.

Although this news turned out to be fake, it has been an important contributor to an overall improvement in market sentiment. This improvement is also visible in the increased activity by small investors over the last weeks based on BTC transfer volumes which reached year-to-date highs (Chart-of-the-Week). Small investor participation is usually a precondition for a sustained bull market in crypto assets.

In any case, an approval of a spot Bitcoin ETF in the US has become even more likely as evidenced by the continued narrowing of the NAV discount of the world's biggest Bitcoin fund (Grayscale Bitcoin Trust).



Among the top 10 crypto assets, Chainlink, Solana, and Toncoin were the relative outperformers.

However, overall altcoin outperformance vis-à-vis Bitcoin has continued to be very weak pointing to a low level of risk appetite. Only 15% of our tracked altcoins managed to outperform Bitcoin on a weekly basis.

## Sentiment

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Our in-house Crypto Sentiment Index has increased significantly and is now firmly in bullish territory. At the moment, only 9 out of 15 indicators are above their short-term trend.

Compared to last week, we saw major reversals to the upside in the BTC 25-delta option skew and BTC STH-SOPR.

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 15% 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

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Last week saw significant net fund inflows into global crypto ETPs but with large divergences among crypto assets.

In aggregate, we saw net fund inflows in the amount of +80.9 mn USD (week ending Friday).

Most of these inflows focused on Bitcoin funds (+78.3 mn USD) and Altcoin ex ETH funds (+16.2 mn USD) while other types of crypto assets experienced net fund outflows.

For instance, Ethereum funds experienced net fund outflows in the amount of -7.3 mn USD last week.

Thematic & basket crypto funds also experienced net fund outflows (-6.4 mn USD) 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 -11%. In other words, investors are assigning a higher probability of around 89% 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 further decreased, implying that global crypto hedge funds have reduced their market exposure to crypto assets.

## On-Chain

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Overall, on-chain activity is still relatively muted but green shoots are emerging.

For instance, active addresses and new addresses on the Bitcoin blockchain continue to be near year-to-date lows. Besides, the number of addresses with non-zero balances continued to move sideways last week. Meanwhile, Bitcoin's hash is still hovering near all-time highs.

Nonetheless, we saw an increasing activity both in small and large BTC wallet entities that implies that especially smaller investors are increasingly flocking into the market. This can be seen in the significant increase in the median value of transfer volumes on the Bitcoin blockchain which is indicative of small investor participation. Note that (new) small investor participation is a necessary condition for a sustained bull market in crypto assets.

Prior to the recent squeeze above 30k USD, we also saw significant exchange outflows especially from larger investors with wallet sizes in excess of \$10M. In fact, BTC exchange balances have decreased again and reached new multi-year lows. Slightly less than 11% of the current BTC supply remains on exchanges on aggregate.

Accumulation activity has also picked up significantly across various wallet cohorts which is also a positive sign.

## Derivatives

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On the one hand, open interest in the BTC futures increased only slightly while perpetual open interest mostly went sideways in BTC-terms last week.

On the other hand, BTC options open interest increased significantly throughout the week. In fact, most of this increase was related to a relatively strong surge in call options, so option traders have increased their upside exposure significantly. In that context, BTC put-call open interest ratios are still at their lowest levels year-to-date. So, there is relatively low demand for downside protection at the moment.

In the same context, the BTC 1-month and 3-months 25-delta option skew has also decreased considerably and have reached the lowest levels year-to-date. This means that delta-equivalent call options are more expensive than comparable put options.

BTC Implied volatilities have also increased significantly last week to the highest levels since August this year.

All in all, the BTC options market already displays some level of exuberance in sentiment which points to some downside risks in the short term.

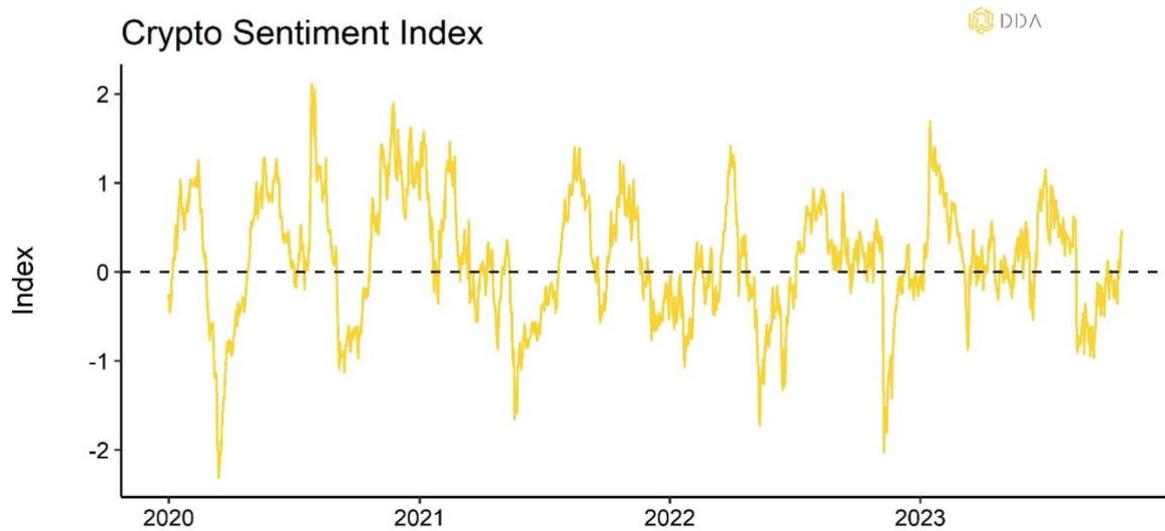
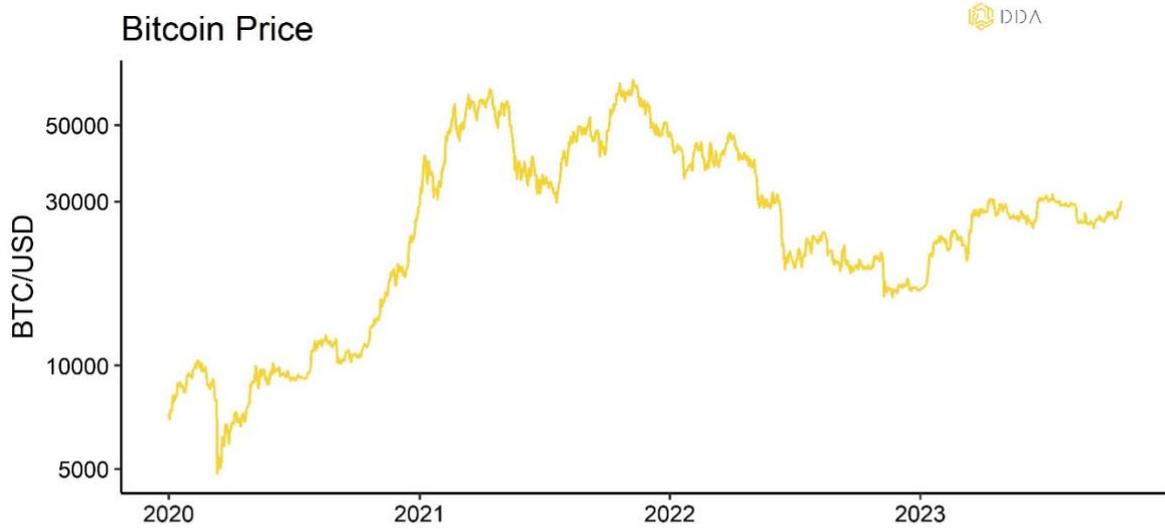
## **Bottom Line**

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**Last week, crypto assets outperformed traditional assets by a very wide margin. Our in-house Crypto Sentiment Index has increased significantly and is now firmly in bullish territory. This improvement is also visible in the increased activity by small investors over the last weeks based on BTC transfer volumes which reached year-to-date highs.**

# Appendix

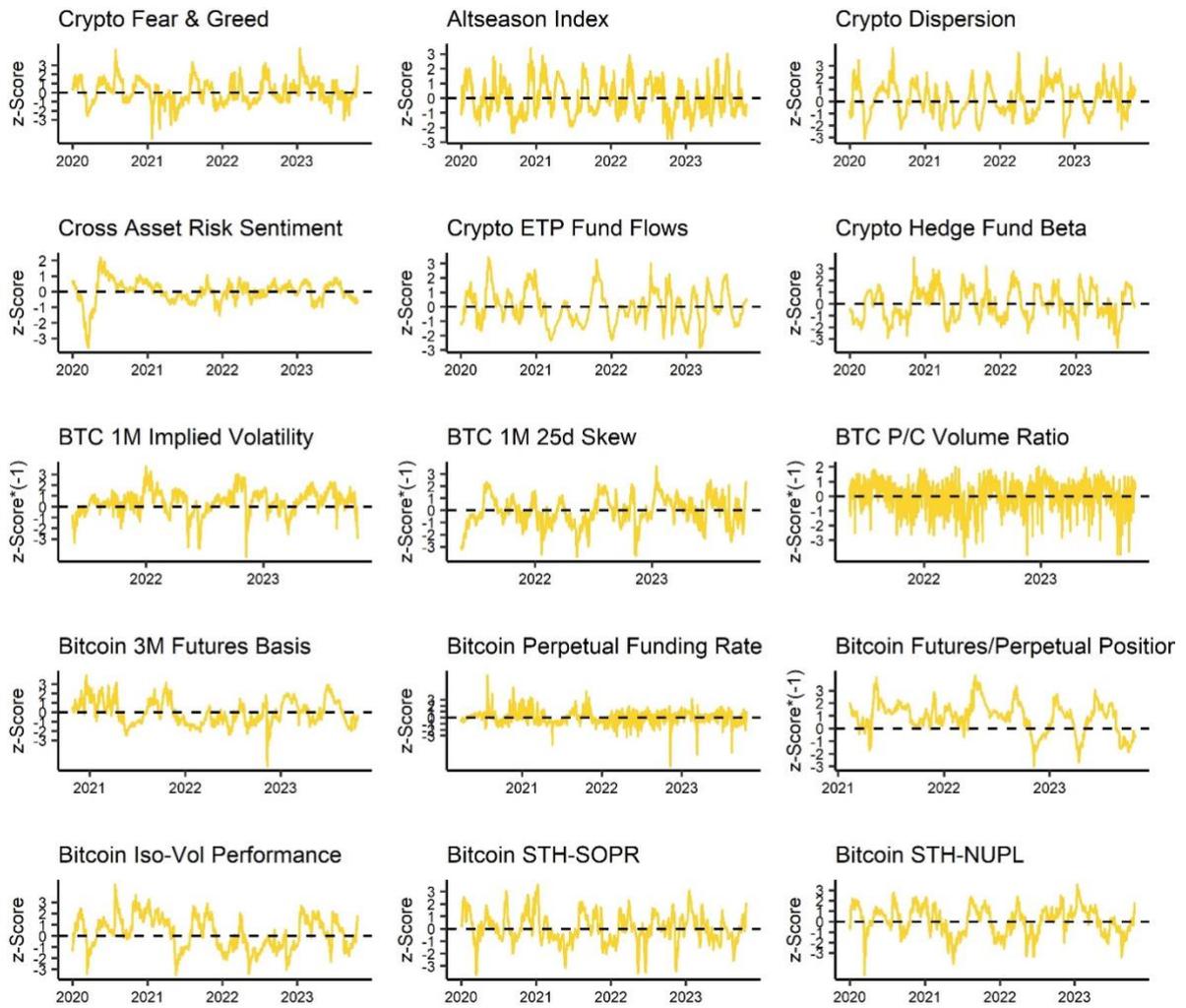
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Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

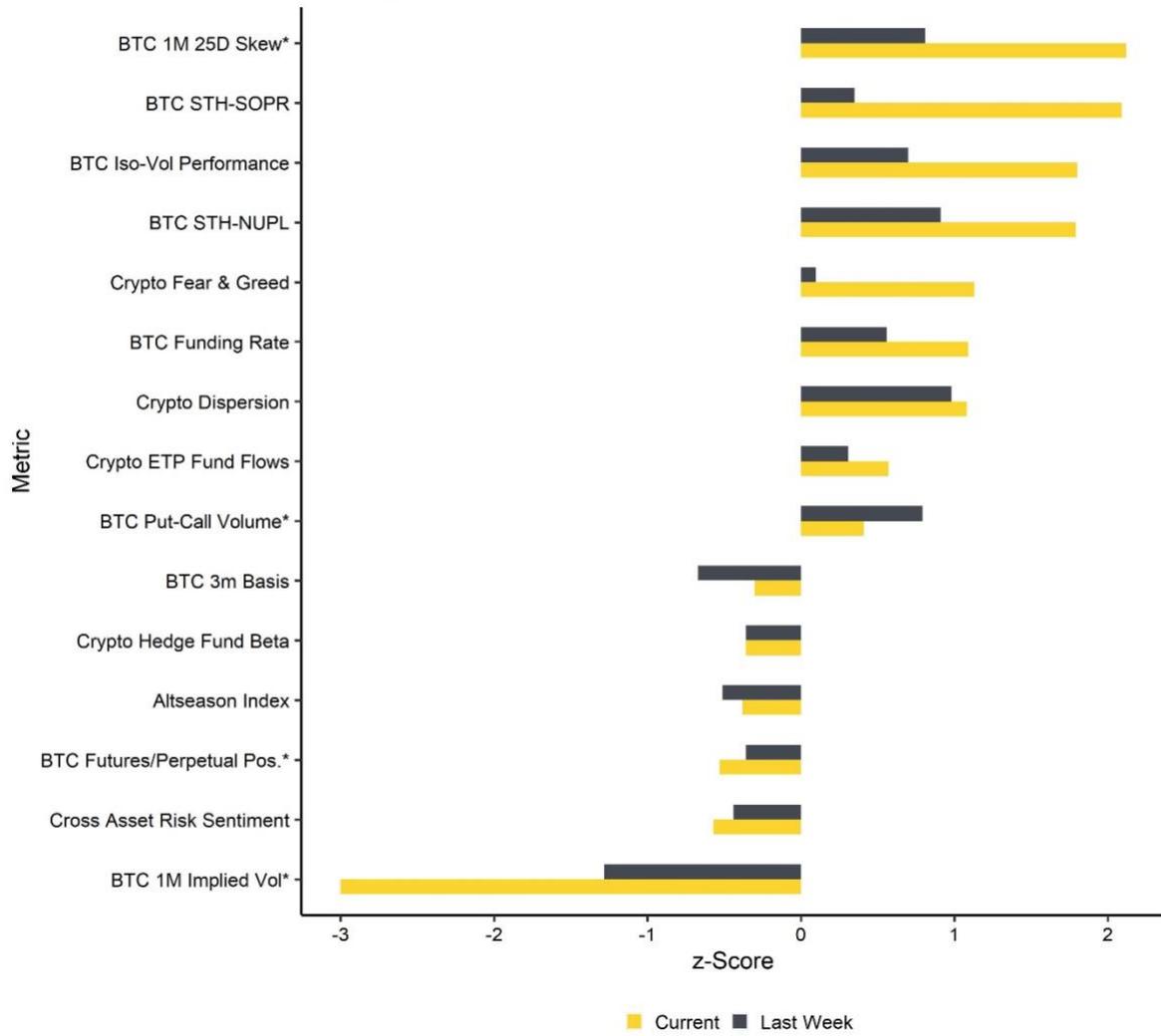
# Crypto Sentiment Index

## Subcomponents, 90-day rolling z-Scores



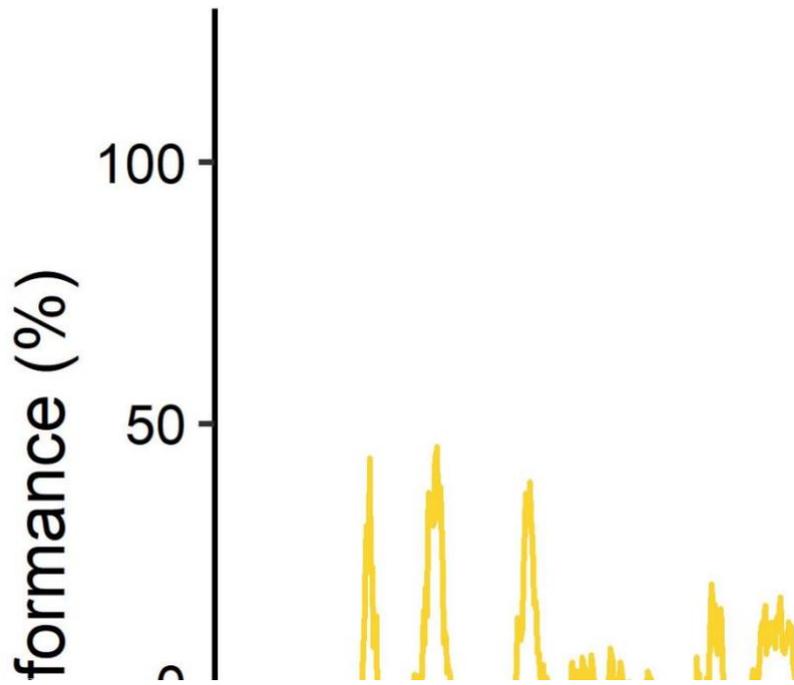
Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets

## Crypto Sentiment Index Subcomponents

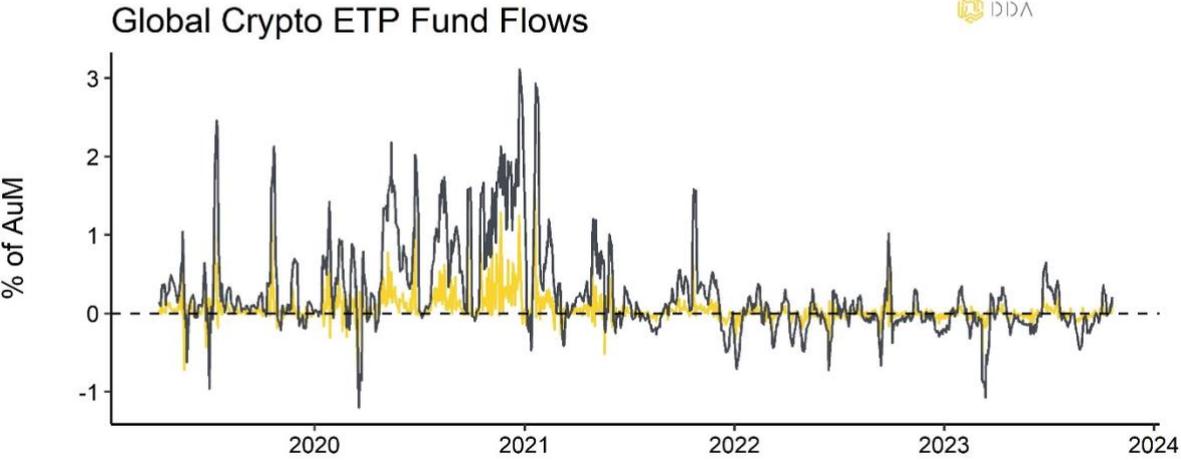
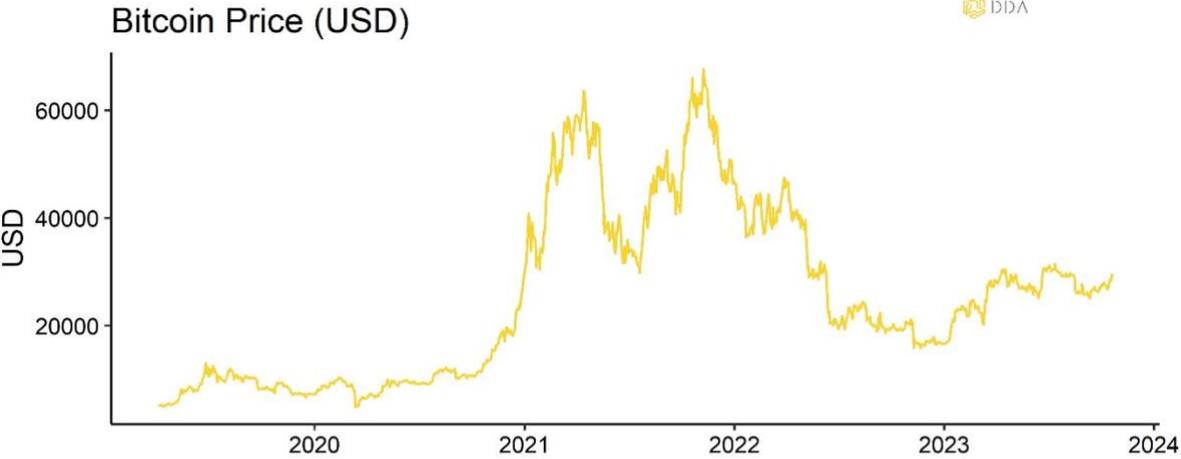


Source: Bloomberg, Coinmarketcap, Glassnode, Deutsche Digital Assets; \*multiplied by (-1)

# Bitcoin: 30-day I



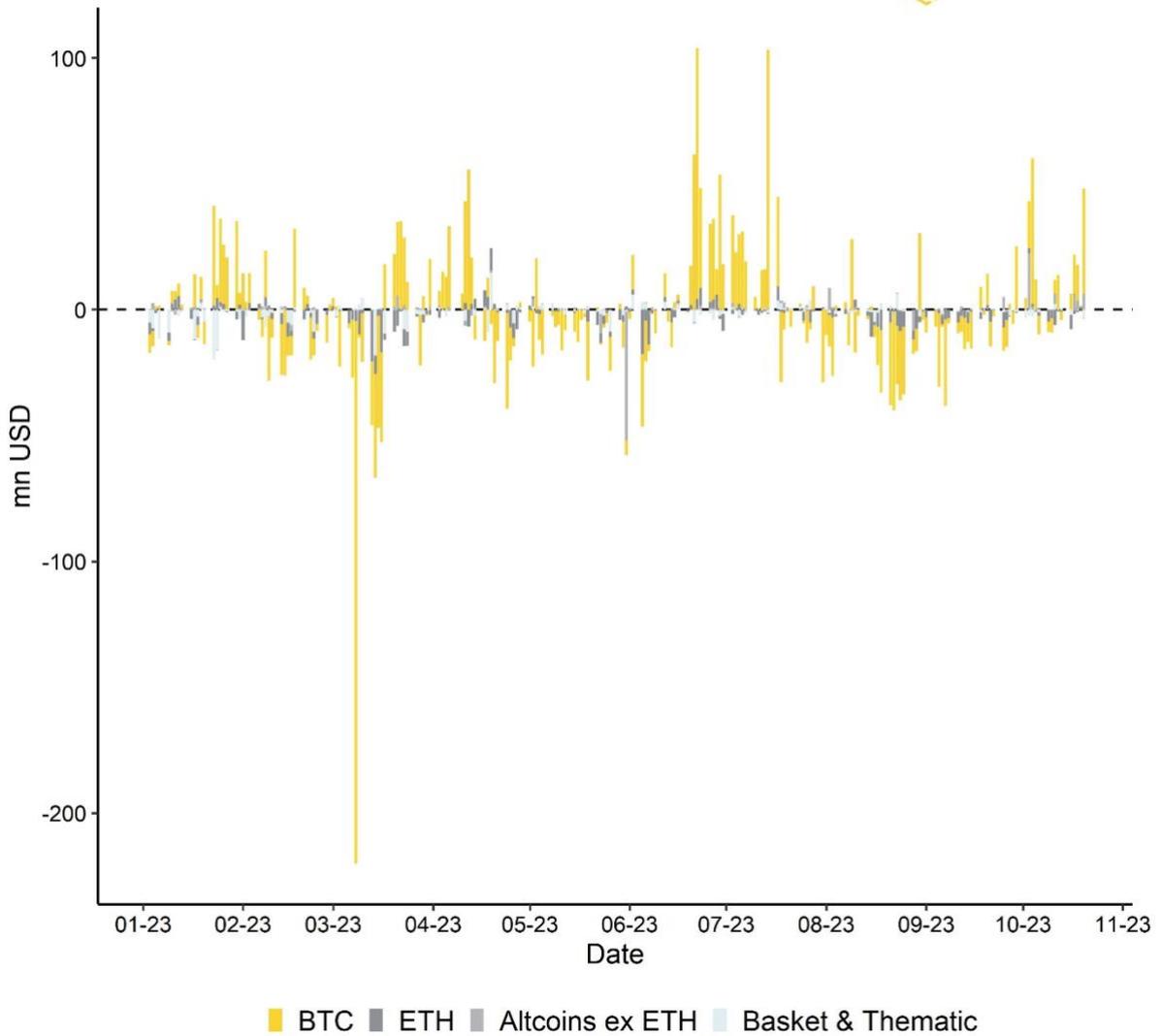
# Bitcoin vs Global Crypto ETP Fund Flows



— Fund Flows — 5d rolling sum

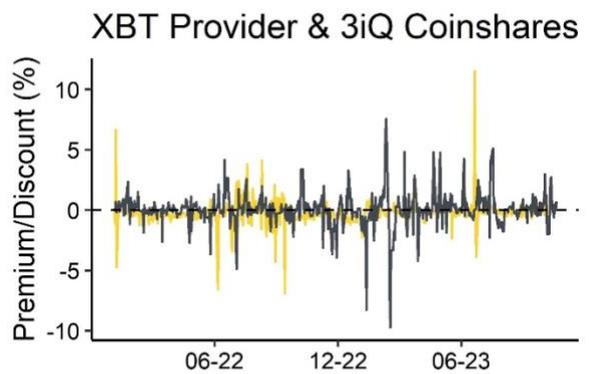
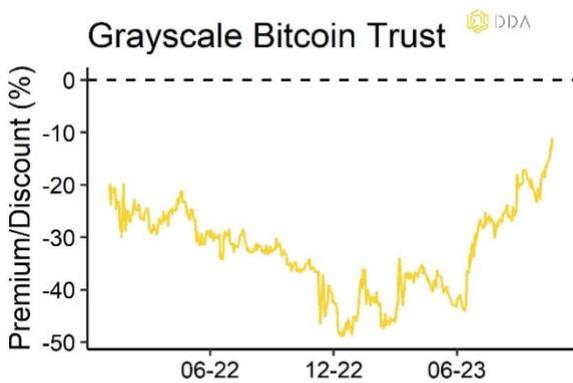
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

## Global Crypto ETP Fund Flows



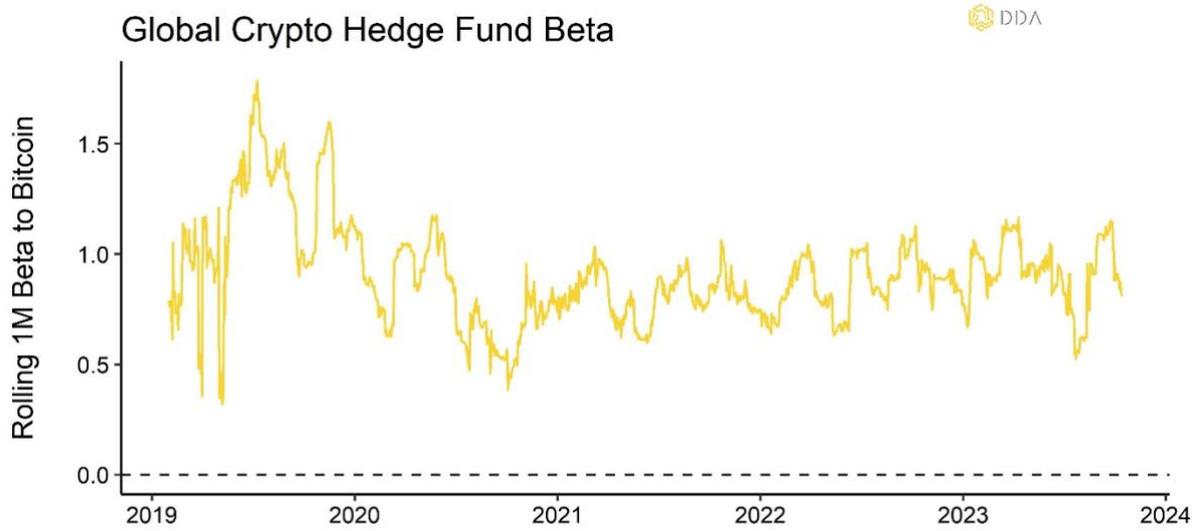
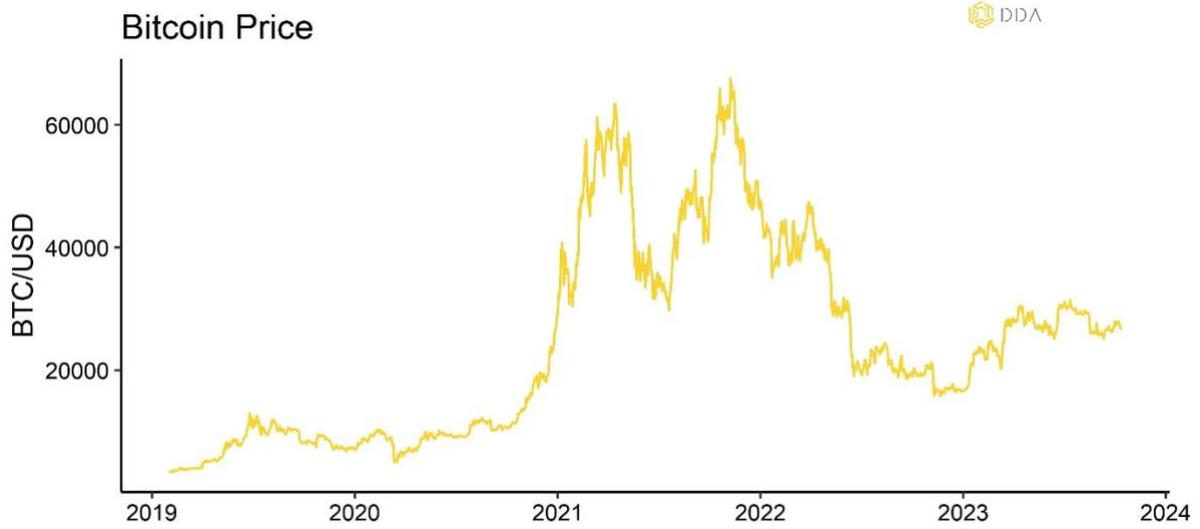
Source: Bloomberg, Deutsche Digital Assets; Only ETPs & Grayscale Trusts

## BTC Funds NAV Premia/Discounts



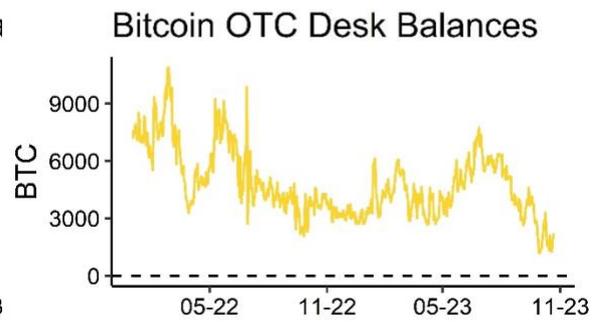
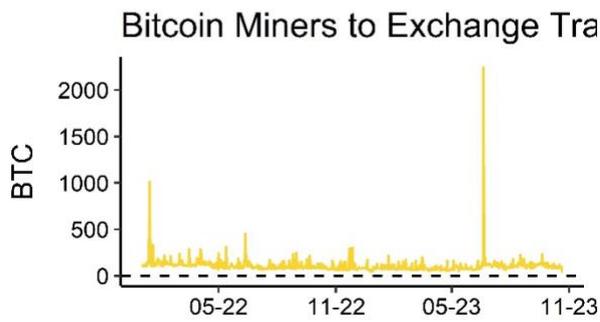
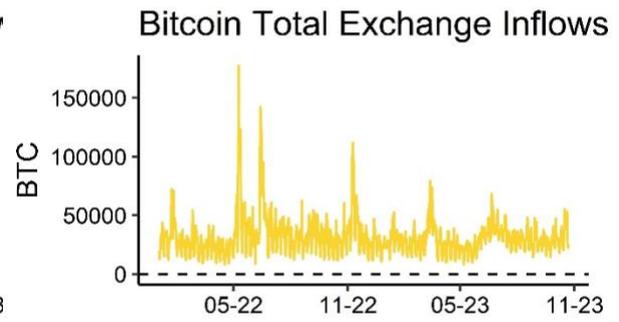
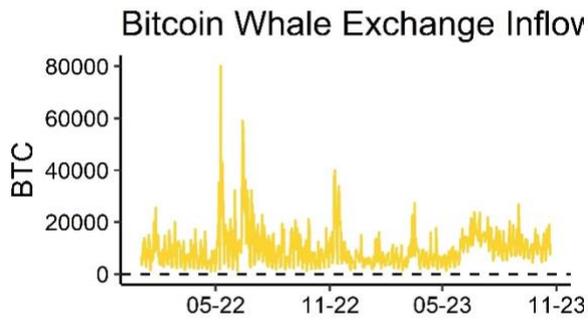
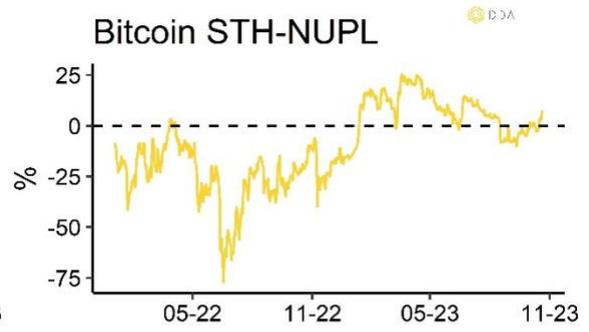
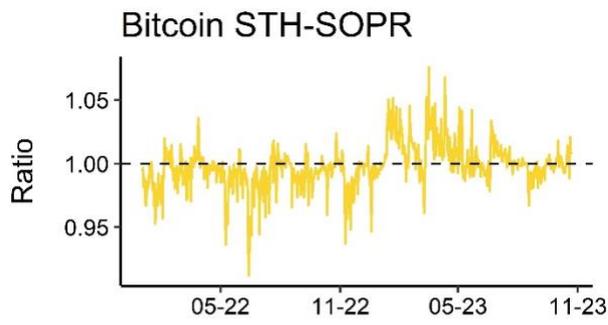
— XBT Provider — 3iQ Coinshares (Canada)

Source: Bloomberg, Deutsche Digital Assets



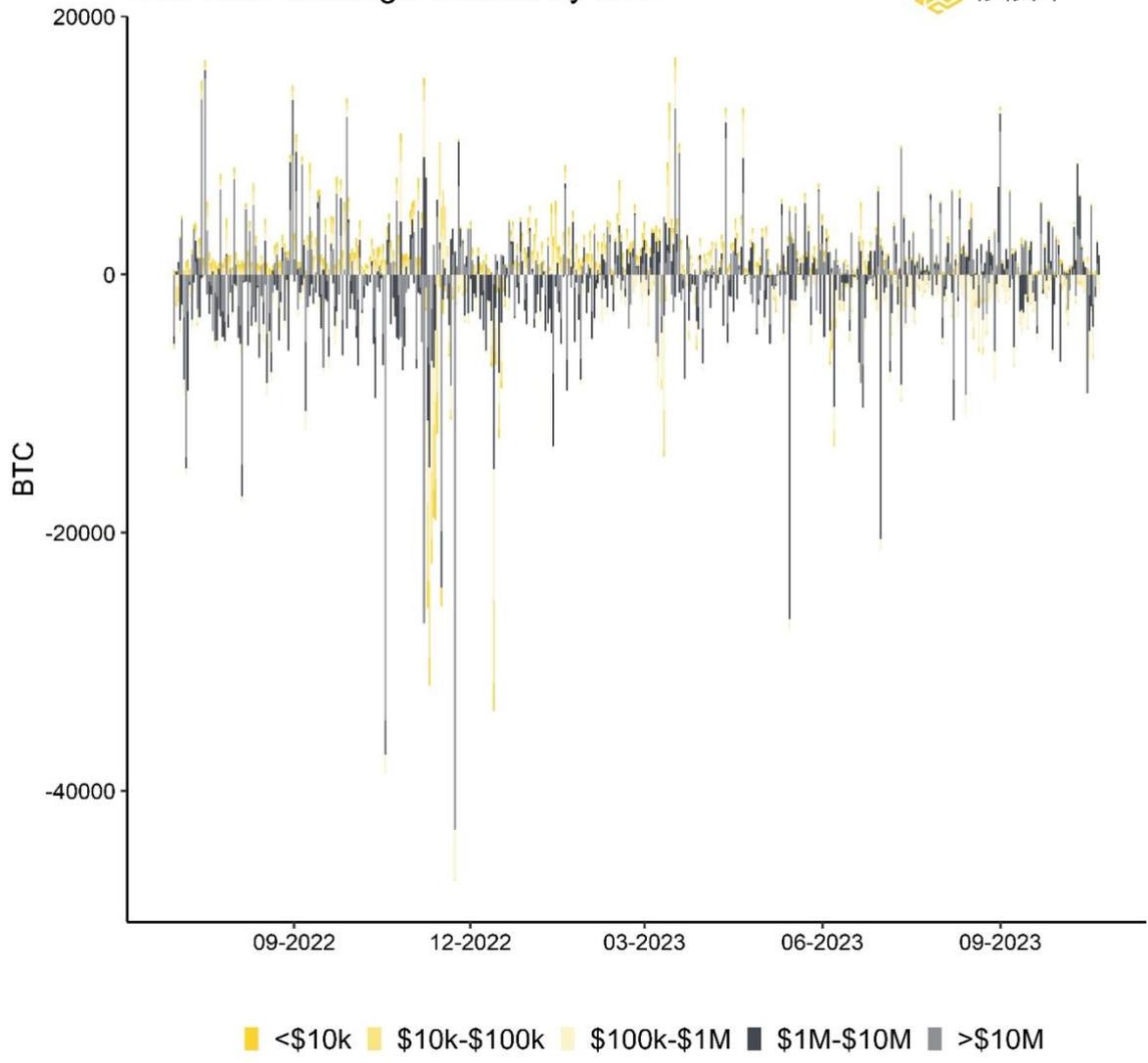
Source: Coinmarketcap, Bloomberg, Deutsche Digital Assets

## Bitcoin On-Chain Indicators



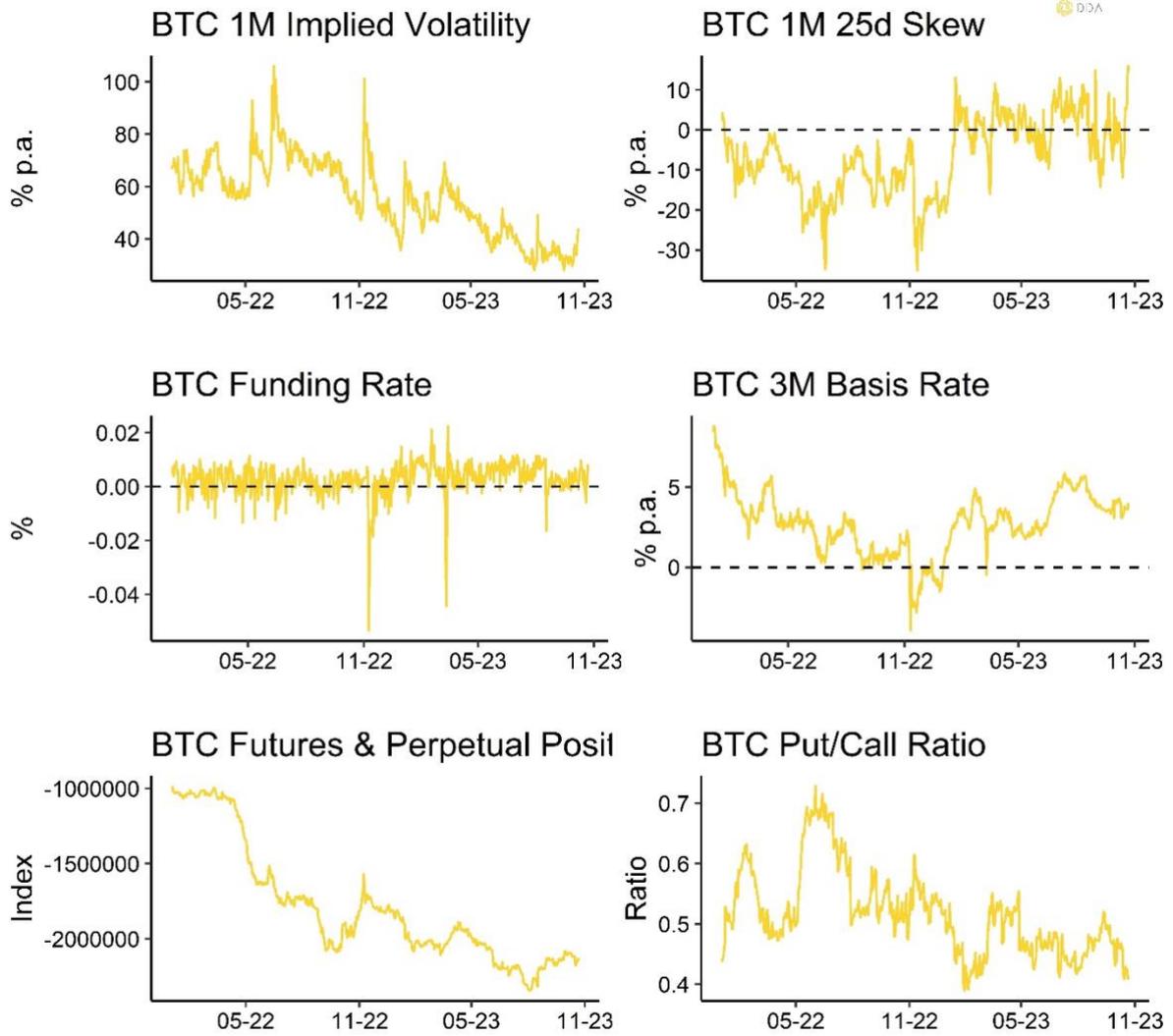
Source: Glassnode, Deutsche Digital Assets

# 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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