



BitOoda Ethereum Market Research, 8/3/23

ETH Futures ETF Frenzy

Research

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ETH Price	\$1,850
Total ETH Staked	22,588,382
ETH Supply Change WoW	(3,999)
ETH Total Supply	120,218,384
ETH / BTC Price	0.063

While ETH continued to see muted price volatility through the end of July and the first week of August, activity in the Ethereum space was elevated — both on the positive and negative side. First, the negative side — focusing on ETH DeFi:

The Ethereum ecosystem consists of an economy of app protocols (similar to companies) that are built on Ethereum. These protocols can be for NFTs, games, or the most innovative — but also the most controversial — application, namely decentralized finance (DeFi).

The point of the decentralized finance app economy is to replace much of the human-based financial interaction with computer programs. Ultimately, this could increase efficiency, reduce transaction fees, and cut costs. The DeFi economy has resulted in three main types of “primitives,” or applications that are building blocks for other DeFi programs. These “primitives” are (1) trading protocols like Uniswap, (2) lending protocols like Aave, and (3) stablecoin protocols like USDC. The benefit of these DeFi apps is open access to sophisticated financial tools for all users and the ability to automate money to do complex financial transactions.

Although we’ll do a detailed dive into the

Ethereum DeFi ecosystem later, DeFi was in the spotlight this past week when it experienced a major hack for one of its core trading primitives called Curve. Curve, one of the original swapping apps used primarily to trade stablecoins and other highly-correlated assets, experienced a major hack due to a compiler bug — a vulnerability that has been present for years but was just found. As a result, several Curve liquidity pools were hacked, resulting in the theft of funds and a drop in Curve’s token CRV. This is the double-edged sword of having open-source, permissionless app protocols. On one hand, the system becomes more resilient over time as vulnerabilities are fixed. On the other hand, there is a constant risk of hacks due to the open nature of the code. This amplifies the need for a clear regulatory framework for DeFi, as hacks involving money are more dangerous than hacks of other tech platforms.

Moving away from this debacle (which, ultimately, had minimal impact on ETH price since ETH’s economy is much larger than just DeFi), the seeds were planted this week for the same catalyst that could potentially boost Bitcoin: the re-filings of ETH Futures ETFs. This could be a paradigm shift for the

institutionalization of ETH as an asset.

It is important to note that the ETF filings call for a *futures-based* ETH ETF rather than a spot ETF, the ETF journey has nonetheless started. Indeed, the first Bitcoin ETF approved (BITO) was a futures-based BTC ETF that set the stage for the spot ETF applications. While it is probably early for the market to start being excited about a spot ETH ETF, the opening move may have been made with these filings over the past week.

Why is an ETF so important? Digital assets, despite being digital, involve self-custody. Self-custody, while having benefits such as strong property rights, is a big responsibility, especially at this stage of the technology. Self-custody should become easier in the future, but for now, both retail and institutional users generally do not want to deal with custody. The introduction of ETF products for major crypto assets removes the custody barrier for most users and consolidates custody with the ETF issuer (via its custodian partner). This could allow users and institutions to hold exposure to crypto assets without dealing with custody, which could spark broader adoption.

ETH Futures ETF Frenzy

ETF Filers

- Several ETH futures-based ETFs were filed earlier this year — these were all registered under the 1940 Act (like the BTC futures ETF). These were withdrawn 1-2 weeks later, presumably because SEC approval was unlikely.
- However, all previous parties plus a few new ones (Proshares, Volatility Shares) filed or re-filed applications for futures-based ETH ETFs this past week. While it is possible these are procedural filings that could be withdrawn again, it is notable that these re-filings happened around the same time as the BTC spot ETF filings were submitted.
- Although the jury is still out on whether ETH is classified as a commodity or security in the US, one can argue that if a BTC futures ETF is approved, an ETH futures ETF has merit to be approved as well, since ETH futures are listed on CME. Ultimately, this could be the first step toward a spot ETH ETF.



Ether ETFs pending — Grayscale, VanEck and others file SEC applications

A handful of United States asset managers have filed fresh applications to launch ETH futures ETFs.

Issuer (Ticker)	Company	Filing Date	Replication Strategy	Highest Act	Status	SEC Date
<i>Derivatives Based</i>						
Grayscale Ethereum Futures ETF (ETHG)	Grayscale	5/9/2023	Futures/Derivs-based	1940 Act	Withdrawn for Now	5/17/2023
Bitwise Ethereum Strategy ETF	Bitwise	5/10/2023	Futures/Derivs-based	1940 Act	Withdrawn for Now	5/17/2023
Direxion Ether Strategy ETF	Direxion	5/10/2023	Futures/Derivs-based	1940 Act	Withdrawn for Now	5/18/2023
Roundhill Ether Strategy ETF	Roundhill	5/10/2023	Futures/Derivs-based	1940 Act	Withdrawn for Now	5/24/2023
Valkyrie Ethereum Strategy ETF (BTFD)	Valkyrie Investment:	5/12/2023	Futures/Derivs-based	1940 Act	Withdrawn for Now	5/18/2023
Ether Strategy ETF (ETHU)	Volatility Shares	7/28/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/11/2023
Bitwise Ethereum Strategy ETF	Bitwise	8/1/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
Roundhill Ether Strategy ETF	Roundhill	8/1/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
Ethereum Strategy ETF	VanEck	8/1/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
Proshares Short Ether Strategy ETF	Proshares	8/1/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
Grayscale Ethereum Futures ETF (ETHG)	Grayscale	8/1/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023

Source: Bloomberg Intelligence, SEC.gov

Bloomberg

Figure: ETH Filings

Source: Bloomberg

ETH Futures ETF Frenzy

ETH Economic Snapshot

- Checking in on Ethereum metrics for the week: onchain activity remains at bear market levels (despite the flurry of activity around the Curve hack this week). Annualized fees are still trending low.
- Meanwhile, the amount of staked ETH continues to steadily increase. There are still 76k ETH (over 2.4mm ETH) in the staking inflow queue, with a wait time of just over 1 month. The number of validators in the exit queue is (finally) above zero, currently sitting at 106 (3,392 ETH), which should take 1 hour for the entire exit queue to be processed.
- Staking yields, as a result, continue to trend downward. Staking is a function of amount of ETH staked (yield goes down as more ETH is staked) and fees (which are currently low). Nevertheless, ETH was slightly deflationary week over week as the monetary policy remains robust.

ETHEREUM MODEL - PROOF OF STAKE ECONOMICS

Key Assumptions

Total ETH Supply	120,218,384
Total ETH Staked	22,588,382
% ETH Staked	18.79%
Annual PoS ETH Issuance	860,338
Annual Fees (ETH)	1,231,880
% Fee Revenue Burned	80%

Key Metrics

ETH Price	\$1,850
Annual ETH Fees / Revenue (\$)	\$2,278,978,000
Annual ETH Fee Burn (\$)	\$1,823,182,400
Issuance to Validators (\$)	\$1,591,625,362
Fees to Validators (\$)	\$455,795,600
Annual Validator Revenue (\$)	\$2,047,420,962

Annual Issuance Summary

Pre Merge - ETH Inflation	4.00%
Net USD Issuance / Day	\$24,363,131
Post Merge - ETH Inflation	-0.10%
Net USD Issuance / Day	(\$634,403)

Staking Yield Summary

ETH Staking Yield	4.90%
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Cost to Attack ETH

ETH Price	\$1,850
Total ETH Currently Staked	22,588,382
Total ETH Staked (USD)	\$41,788,506,700
Total Cost to Attack	\$83,577,013,400
\$ ETH Staked Under Attack	\$125,365,520,101
ETH Market Cap	\$222,404,010,400
% Market Cap Purchased	38%

Figure: ETH Economic Dashboard

Source: BitOoda Estimates

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