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Investing in Ether: US ETFs open doors to the second-largest cryptocurrency

Following the overwhelming success of the first spot-based Bitcoin ETFs in the US, the second largest cryptocurrency by market capitalization - Ether (ETH) - secured the green light from the SEC. This opens up a new diversification opportunity into the leading network with smart contract functionality.

Under pressure from Wall Street giants such as BlackRock and Fidelity, the US Securities and Exchange Commission (SEC) approved the first spot funds on Bitcoin in January. BlackRock's "IBIT" reached over ten billion US dollars in assets under management (AuM) within a month, and competing products also generated billions. The Bitcoin price rose significantly.

In the coming weeks, the same renowned providers will be allowed to launch crypto ETFs that use the native cryptocurrency of the Ethereum network as their underlying asset. But will these products live up to the hype?

ETH: Pioneer of programmable money

Bitcoin's unique proposition can be summarized easily. The "digital gold" is the first decentralized and state-independent store of value in history and is becoming a tangible alternative for more and more investors in an over-indebted and inflationary world.

The Ethereum network, on the other hand, is a decentralized blockchain platform that allows developers to create smart contracts and decentralized applications ("dApps"). Ethereum is the largest asset in the smart contract platform sector and the largest blockchain network in terms of users and applications. It relies on modular scaling, whereby activities are outsourced to so-called layer 2 networks. Compared to Bitcoin, Ethereum has no fixed upper limit for the maximum amount of Ether. The emission rate depends on the activity in the network. Users pay millions of dollars (in ether) in

fees every day to interact with applications on the network. The main applications include applications from the DeFi sector.

Name	▼ 1 Day Fees	7 Day Avg. Fees
Ethereum	\$6,596,920.31	\$6,277,707.59
Bitcoin	\$4,588,721.61	\$2,212,625.81
Uniswap	\$2,412,740.12	\$2,291,212.57
Aave	\$1,101,613.37	\$1,051,653.93
BNB Smart Chain	\$379,846.90	\$407,080.88
MakerDAO	\$262,632.40	\$263,813.65
Kyberswap	\$116,101.68	\$310,381.32

Figure 1: Daily fees being paid to interact with the top crypto applications / Source: CryptoFees

A portion of these transaction fees are permanently destroyed, which can lead to a deflationary monetary policy if the network is highly utilized. The remaining part of the fees goes to stakers, who are responsible for securing the network. Currently, over 26% of the total ETH supply is tied up in such staking constructs.

Regulatory shift

Just a few weeks ago, the approval of Ether ETFs was unthinkable for many. The market was pricing the probability of a rejection or delay at 90%. After all, the SEC has been trying to classify the cryptocurrency as a security for two years. Using the almost century-old Howey Test, the authority argues that dealing with ether constitutes a securities transaction. The SEC has therefore always claimed that adequate



consumer protection was lacking and blocked all ETF applications.

Political pressure may have caused the SEC to rethink its position. Industry representatives see SEC Chairman Gary Gensler and anti-crypto initiatives by the Democratic Party as the main reasons for the previous negative stance.

A milestone

The long-term implications of the US Ether funds should not be underestimated. Just as with Bitcoin, various investor segments are gaining extended access to the digital asset class for the first time.

With a market capitalization three times smaller than Bitcoin, similar inflows would therefore have a huge impact on the Ether price. The market has recognized this. Since the first rumors about the ETF approval, the ratio between Ether and Bitcoin ("ETH/BTC") has recovered by 20%. However, the ratio remains far from its highs.



Figure 2: Ratio between Ether and Bitcoin (ETH/BTC) / Source: Tradingview, Digital Asset Solutions

No euphoria yet

The market has not yet been fully convinced. Ethereum's advantages are less obvious to some investors than those of "digital gold", which is why traders seem to be betting on a weaker start for Ether ETFs. In the end, it is also no longer an absolute premiere, which has benefited the Bitcoin funds.

The Ethereum network and thus the demand for ether is also heavily dependent on expanded use. The current annual value of ETH used for transactions is 2.8 billion dollars. With a growing user base, the natural demand for ether will increase. As the largest smart contract platform, Ethereum must hold its own against competitors such as Solana.

The launch of spot Ether ETFs will familiarize more investors with the concept of smart contracts and decentralized applications - highlighting the potential of public blockchains to transform digital commerce.

New demand for the market leader

Although there are alternative smart contract platforms with the same functions today, the Ethereum ecosystem has the most users, the most decentralized applications and the largest pools of capital.

Full US ETF approval will lead to new demand as the asset becomes accessible to a wider range of investors. Currently, the market capitalization ratio of Ether to Bitcoin is around 32%. Even if one anticipates lower demand for the new Ethereum ETFs, which could be around 20% of Bitcoin's demand of USD 15.3bn to date, the impact on the ETH price this year would still be significant while providing a surprise option for unexpectedly higher demand.



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