BITFINEX Alpha

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EXECUTIVE SUMMARY

Bitcoin achieved its highest daily close last week, since April 12th. Following a softer-than-expected Consumer Price Index (CPI) inflation report, BTC was up 7.54 percent on the day, and up 8.7 percent on the week. Further supporting the price have been exchange outflows amounting to 55,000 BTC, indicating supportive market sentiment, and reinforcing our view that a bottom for the Bitcoin price has been reached.

Bitcoin Exchange-Traded Funds (ETFs) also saw net inflows of $948.3 million over the past week, reversing recent weeks of outflows as systematic investment plans and passive demand act to firm up the price. The total flows into Bitcoin ETFs, since their inception at the start of the year, now amount to $12.6 billion, with even the Grayscale Bitcoin Trust (GBTC) seeing reduced outflows. This trend suggests increased confidence in Bitcoin's stability, particularly as long-term holders maintain their positions and “new whales” accumulate BTC around the $60,000 mark, establishing it as a significant on-chain support level.

Even for short-term holders (STH), whose portion of the supply has increased from 19 percent at the beginning of the year to 26.1 percent currently has an average cost basis of approximately $61,046, making this an essential level to maintain to avoid triggering sell-offs. This is an important cohort to watch though, as STHs and ETF buyers seem to be quick to sell if prices fall below their acquisition cost.

In the macro economy, it was the CPI report for April that triggered the market enthusiasm last week. The report indicated some welcome signs of disinflation were becoming evident, with a 0.3 percent month-on-month (MoM) increase and a 3.4 percent increase year-on-year (YoY). These figures, slightly lower than March, indicate easing inflationary pressures, driven mainly by stable shelter costs and decreased retail sales. However, the Producer Price Index for April rose by 0.5 percent due to higher service costs, suggesting persistent inflation.

The housing market and manufacturing sector also continues to face challenges. Builder sentiment dropped due to high mortgage rates, while industrial production stagnated. The National Association of Home Builders Index fell to 45, and housing starts and permits were below estimates. Manufacturing was stagnant, with a notable two percent decline in motor vehicle production.

The Conference Board's Leading Economic Index also fell by 0.6 percent, signalling softer economic conditions ahead. Despite recent disinflation, high inflation and rising debt continue to strain the economy. While a rate cut could be possible by September, the Federal Reserve remains cautious, prioritising inflation control over stimulating growth in the short term.

In terms of news in the crypto sphere, Türkiye has introduced a legislative proposal to regulate crypto asset transactions. The bill, overseen by the Capital Markets Board, includes a licensing system for crypto firms and expanded regulatory oversight.

On May 16, 2024, Pump.fun, a memecoin launchpad, experienced a $1.9 million exploit, allegedly by a former employee using flash loans. The breach led to a temporary halt in trading, and the platform restored affected liquidity pools within 24 hours.

The US Securities and Exchange Commission also faces imminent deadlines for Ether ETF applications from VanEck and ARK on May 23rd and 24th, respectively. Approval appears unlikely due to the complexities of Ethereum's technology and ongoing legal uncertainties. Judging by history, the SEC is unlikely to approve unless there is judicial intervention, as there was with Bitcoin ETFs. Market pessimism is evident, with the Grayscale Ethereum Trust trading at a significant discount. The SEC's decisions could set important precedents for other digital assets in public markets.

Have a good trading week!

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WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Records Highest Daily Close in Five Weeks

As Bitfinex Alpha has indicated in previous editions, the ability of Bitcoin to sustain range lows at $61,000 have been a bullish indicator, and investors were rewarded last week with the highest daily close for the asset since April 12th. Indeed, April 12-13th is also the period when altcoins saw the largest liquidation cascade since November 2022 with over $2 billion in market liquidations. The current move we are now seeing in BTC is a sign of strength.

Figure 1. BTC/USD Daily Chart. (Source: Bitfinex)

BTC has experienced a notable rebound from its range lows, registering a 7.54 percent increase on May 15th, largely driven by favourable regulatory developments and a softer-than-expected Consumer Price Index (CPI) report.

It is important to recognise that previous unfavourable inflation data significantly contributed to the local peaks for BTC during March and April. Conversely, the scenario in May suggests that more favourable inflation figures, coupled with a dovish stance from the Federal Reserve, could potentially support a continued upward trajectory for Bitcoin. This interplay between macroeconomic indicators and Bitcoin's price dynamics highlights the cryptocurrency's sensitivity to economic shifts and policy changes.

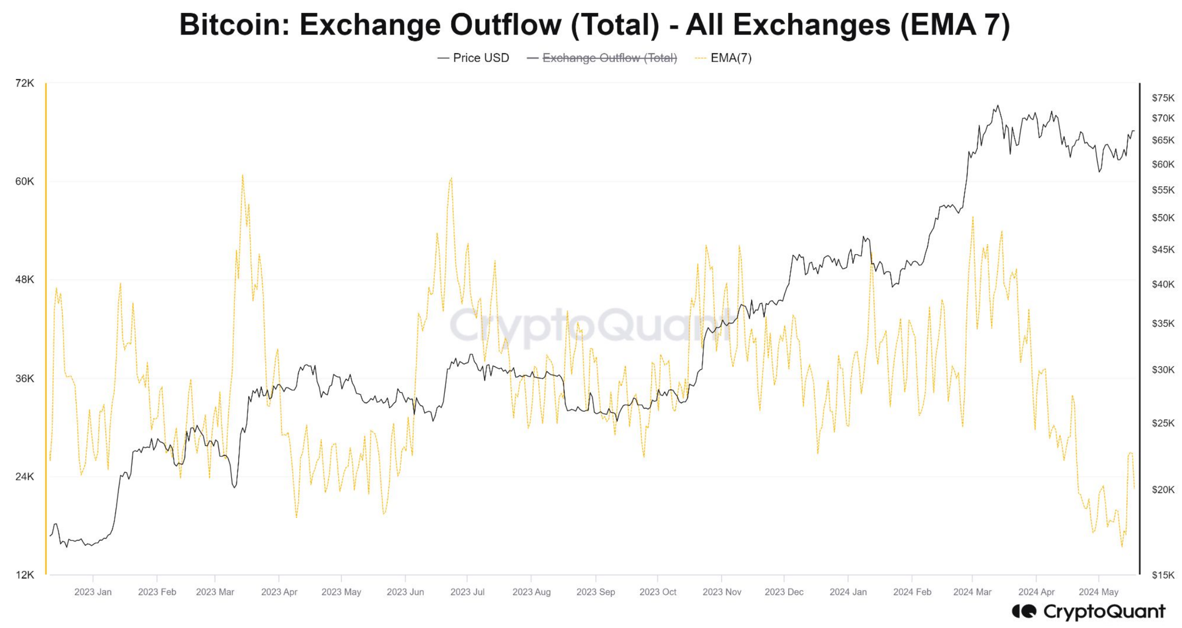


Figure 2. Bitcoin Exchange Outflow Across All Exchanges (Source: CryptoQuant)

May 15th also saw a surge in exchange outflows, with 55,000 BTC leaving exchanges, the highest since March 28th. The above figure contains a "smoothed" curve, showing a rebound after a short downtrend. It remains to be seen if this will be sustained. Movements of BTC, to and from exchanges are often viewed as significant indicators of market sentiment.

The sharp rise in BTC prices, immediately following the CPI report, resulted in approximately $50 million in short liquidations of BTC and $100 million across all assets. This is a notable event, but not particularly high by recent market standards. It's also important to highlight that the current open interest—the total number of outstanding derivative contracts that have not been settled—is also relatively low compared to usual levels. This suggests a reduced level of trading activity.

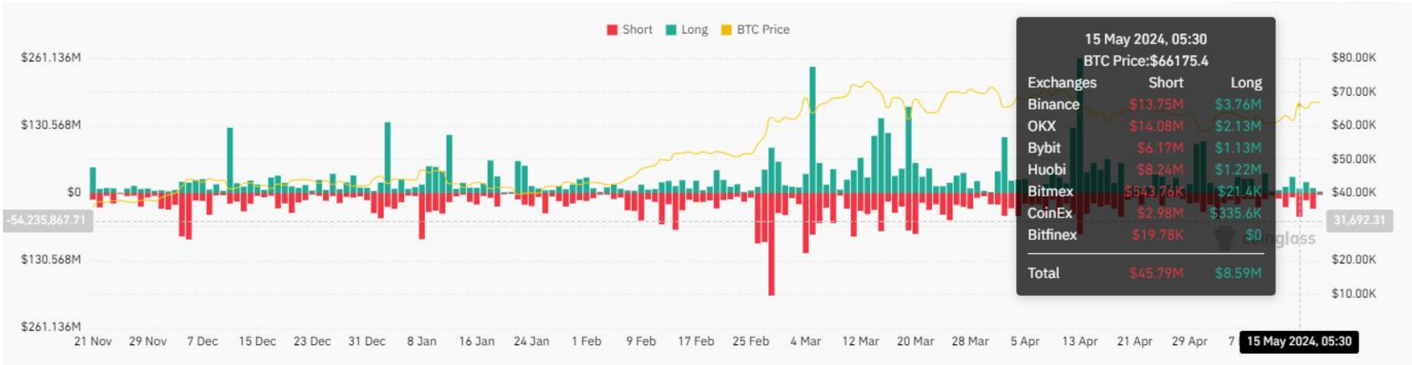


Figure 3. Bitcoin Daily Liquidations. (Source: Coinglass)

Against this backdrop of low volatility in the market, the rise in the BTC price by 7.5 percent on the day of the CPI report, and 8.7 percent on the week are particularly significant. Furthermore, the cumulative short liquidations amounting to just $300 million market-wide throughout the week underscore the strength of these price movements.

This could very well indicate that a market bottom for Bitcoin has been established, given the robust response to otherwise moderate liquidation figures.

Bitcoin ETF Flows Reverse Amidst Growing Market Confidence

A Sign of Systematic Investment Confidence

Bitcoin Exchange-Traded Funds (ETFs) have recently experienced a reversal in their flow patterns with $948.3 million net inflow over the past week. This signals renewed interest following a period of selling towards the end of April and first week of May. Passive demand, driven primarily by systematic investment plans, is expected to sustain these inflows into Bitcoin ETFs for the foreseeable future.

Date	IBIT	FBTC	BITB	ARKB	BTCO	EZBC	BRRR	HODL	BTCW	GBTC	DEFI	Total
29 Apr 2024	0.0	(6.9)	6.8	(31.3)	0.0	1.8	2.7	0.0	0.0	(24.7)	0.0	(51.6)
30 Apr 2024	0.0	(35.3)	(34.3)	3.6	(2.4)	0.0	0.0	0.0	0.0	(93.2)	0.0	(161.6)
01 May 2024	(36.9)	(191.1)	(29.0)	(98.1)	(5.4)	(13.4)	(9.7)	(6.5)	(6.2)	(167.4)	0.0	(563.7)
02 May 2024	0.0	0.0	0.0	13.3	1.5	3.4	2.3	0.0	0.0	(54.9)	0.0	(34.4)
03 May 2024	12.7	102.6	33.5	28.1	33.2	60.9	35.6	8.7	0.0	63.0	0.0	378.3
06 May 2024	21.5	99.2	2.1	75.6	11.1	1.8	0.0	1.8	0.0	3.9	0.0	217.0
07 May 2024	0.0	4.1	0.0	2.8	6.0	0.0	0.0	0.0	0.0	(28.6)	0.0	(15.7)
08 May 2024	0.0	0.0	11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.5
09 May 2024	14.2	2.7	6.8	4.4	2.2	1.8	0.0	0.0	0.0	(43.4)	0.0	(11.3)
10 May 2024	12.4	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.6	(103.0)	0.0	(84.7)
13 May 2024	0.0	38.6	20.3	0.0	0.0	0.0	0.0	7.1	0.0	0.0	0.0	66.0
14 May 2024	0.0	8.1	0.0	133.1	5.5	1.8	1.2	1.7	0.0	(50.9)	0.0	100.5
15 May 2024	0.0	131.3	86.3	38.6	4.6	1.9	3.7	7.5	2.1	27.0	0.0	303.0
16 May 2024	93.7	67.1	1.4	62.0	6.2	3.8	18.5	0.0	0.0	4.6	0.0	257.3
17 May 2024	38.1	99.4	20.8	10.0	5.7	0.0	6.4	9.5	0.0	31.6	0.0	221.5
Total	15,634.3	8,485.9	1,895.2	2,492.8	308.8	359.1	509.7	506.1	61.3	(17,620.6)	(2.1)	12,630.5

Figure 4. US Spot Bitcoin ETFs Daily Flows Across All Providers. (Source: FarsideUK)

As of last week, the total flows into Bitcoin ETFs amount to $12.6 billion of net inflows, and $30.2 billion, if excluding GBTC. However, even GBTC, which is seen as the legacy ETF and which charges considerably higher fees than its competitors, is also beginning to see sporadic inflows and reduced outflows.

As long as the passive inflows from the ETFs is sustained, and Bitcoin maintains a price range above $60-62,000, we can expect either a ranging market or potential price increases from what is currently a solid floor for the asset.

Figure 5. Long-Term Holder Supply Holdings. (Source: CryptoQuant)

The stability of BTC is also supported by the slowed distribution from Long-Term Holders (LTH), indicating that these investors are not offloading their Bitcoin holdings at current price levels, and at the pace that they were in early March (refer figure above). The supply held by long-term holders peaked in January at over 80 percent, but then declined, accelerating between March to April 15th, and has now stabilised at around the 73.8 percent mark, where it has sat over the past month. The reduced selling pressure from long-term holders is a positive sign for sustained price levels. Moreover, the “new whales” data from *CryptoQuant* signals a strong on-chain support level around the same zone.

Newly emerging whales—defined as addresses holding over 1,000 BTC and who acquired their coins within the last six months—have been actively purchasing Bitcoin around the $60,000 level. Engagement at this price point suggests that $60,000 has become a significant on-chain support level.

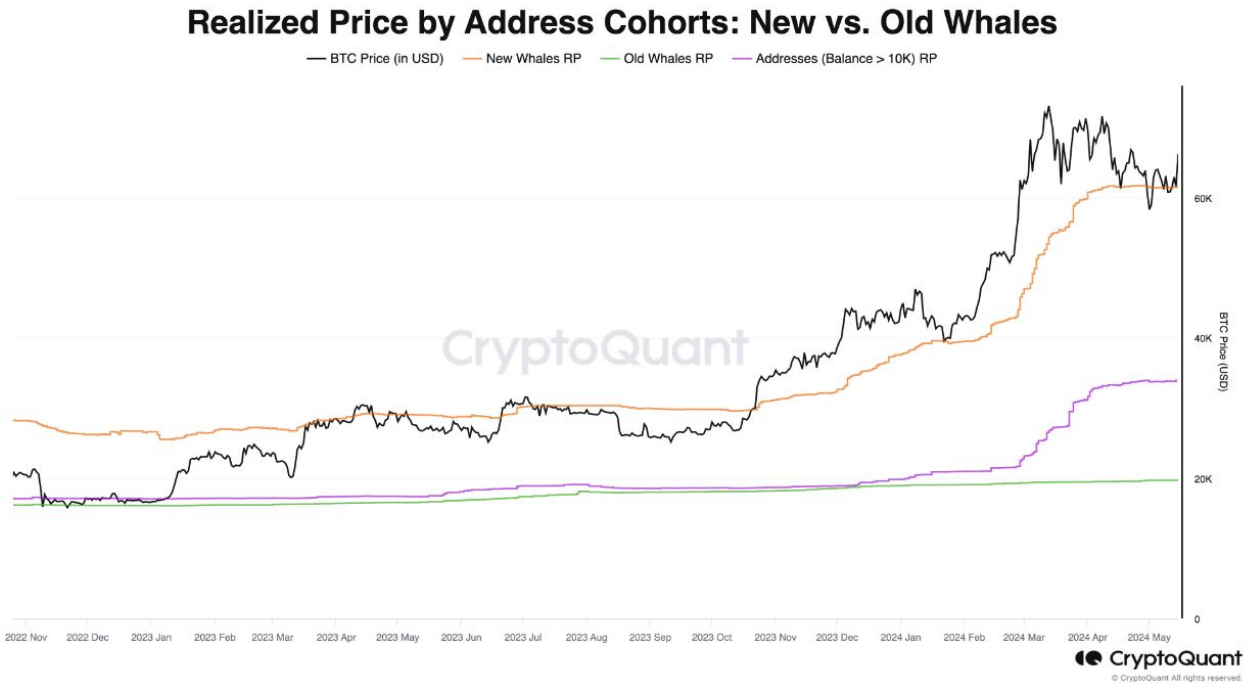


Figure 6. Realised Price For Whales Across Different Time-wise Cohorts. (Source: CryptoQuant)

The average acquisition cost, or realised price, for these new whales stands at approximately $60,000, underscoring their confidence in this level as a robust floor for Bitcoin's price. The entry of institutional capital through spot ETFs adds further momentum.

Long-standing whales too—those holding more than 1,000 BTC for over six months—are also displaying a consistently stable realised price. This stability is reflective of their seasoned investment strategies and minimal turnover, indicative of a strategy focused on long-term accumulation. The behaviour of these established holders showcases a profound confidence in Bitcoin's enduring value, often overlooking the vicissitudes of short-term market movements. We also suspect the distribution since March was from old whales realising profit gradually.

Collectively, these observations delineate the $60,000 threshold as a critical on-chain support level, upheld by both strategic investments from new entrants, and the steadfastness of veteran participants in the Bitcoin ecosystem.

There has also been a sharp increase in supply held by short-term holders (STHs) since January and the increase has accelerated recently. (refer Figure below)

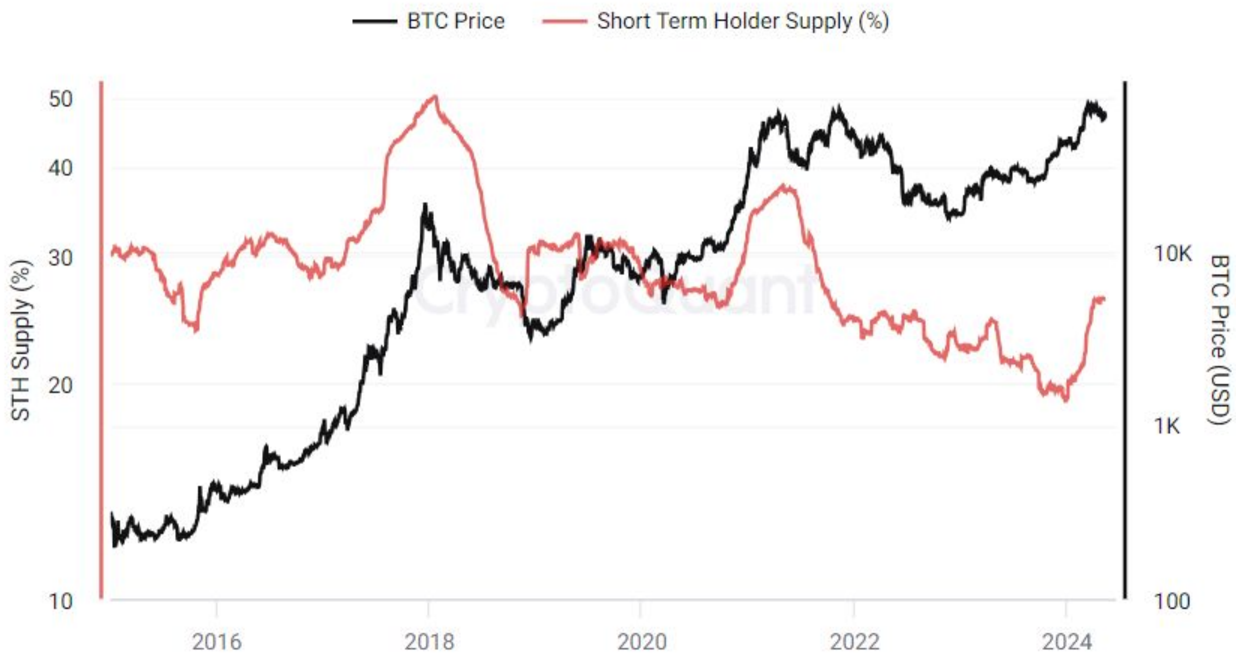


Figure 7. Short-Term Holder Supply Holdings. (Source: CryptoQuant)

A lot of the STH accumulation has been led by ETF buyers. This cohort has gone from holding 19 percent at the beginning of the year to 26.1 percent of supply currently. In these conditions, the average cost basis of ETF buyers and STHs becomes increasingly important support levels.

Figure 8. Short-Term Holder Realised Price For Bitcoin. (Source: LookIntoBitcoin)

Currently, the realised price for short-term holders—those who have recently bought Bitcoin—is at $61,046. Short-term buyers tend to capitulate quickly if their positions fall underwater, making these price points essential to maintain to avoid triggering widespread sell-offs. This was evident when short-term holders were seen selling their coins at a loss during the recent local bottom of around $57,000 on May 1st.

Currently ETF buyers have a similar cost basis, at around $62,000, excluding GBTC. Similar to STHs, the ETFs also saw negative inflows during the local bottom, signalling how even ETF buyers tend to sell underwater spot positions. Ensuring that BTC sustains above these critical levels is vital for continued market confidence and avoiding short-term volatility.

GENERAL MACRO UPDATE

Consumer Price Index Disinflates

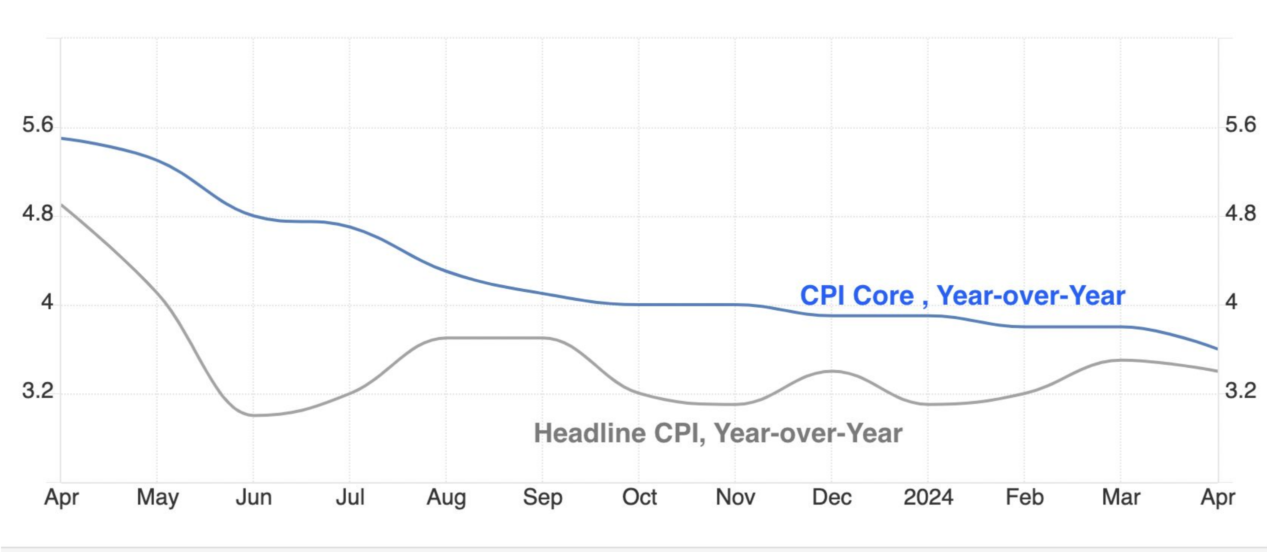


Figure 9. Consumer Price Index (CPI) and CPI less Food & Energy (Source: Bureau of Labor Statistics)

After an unexpectedly strong first quarter for US inflation, the Consumer Price Index (CPI) for April began to show some signs of disinflation in the economy. Although inflation still remains high, the decline in April's inflation figures marks a much-needed step forward in the Federal Reserve's ongoing efforts to bring inflation down.

Report	Period	Current	Consensus Forecast	Previous
Consumer Price Index (Headline), month-over-month change	April	0.3 percent	0.4 percent	0.4 percent
Consumer Price Index (Headline) Year-over-year change		3.4 percent	3.4 percent	3,5 percent
Core CPI, month-over-month change	April	0.3 percent	0.3 percent	0.4 percent
Core CPI, year-over-year change		3.6 percent	3.6 percent	3.8 percent
US Retail Sales	April	0.0 percent	0.4 percent	0.6 percent

Figure 10. Consumer Price Index & Retail Sales (Source: Bureau of Labor Statistics, US Census Bureau)

April CPI registered a 0.3 percent month-on-month (MoM) increase, and was up 3.4 percent year-on-year (YoY). Similarly, the Core CPI was up 0.3 percent MoM, and 3.6 percent YoY. Both CPI and Core CPI are 0.1 percent lower on a MoM basis, compared to March, signalling a slight easing of inflationary pressures.

The shelter component of the CPI, primarily consisting of rent and homeowners' equivalent rent, increased by 0.4 percent in April, which was the same as in March. Over the past year, shelter expenses are up 5.5 percent, marking the slowest annual rise since June 2022, and a decline from the 8.2 percent peak reached in March of the previous year. Shelter costs contribute to more than two-thirds of the yearly rise in "core" inflation, which excludes food and energy prices.

Additionally, retail sales data released on Wednesday showed a significant slowdown in spending last April, which helped explain the continued drop in goods prices. Lower inflation rates and reduced consumer spending should provide some relief for the Federal Reserve(the Fed) as it works to bring inflation down to its two percent target. However, the data is likely not enough for the Fed to change its policy rate in June or July, especially considering the inflation rebound observed in the first quarter.

A rate cut could be possible as early as September, assuming no unexpected economic shocks occur, and second and third-quarter data support such a move. As of May 17th, the market believes there is a 68.5 chance of a rate cut in September.

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES							
MEETING DATE	**350-375**	**375-400**	**400-425**	**425-450**	**450-475**	**475-500**	**500-525**	**525-550**
6/12/2024			0.0%	0.0%	0.0%	0.0%	8.7%	91.3%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	29.2%	68.6%
9/18/2024	0.0%	0.0%	0.0%	0.0%	1.2%	16.8%	50.5%	31.6%
11/7/2024	0.0%	0.0%	0.0%	0.4%	7.0%	29.5%	43.4%	19.7%
12/18/2024	0.0%	0.0%	0.2%	4.1%	19.6%	37.3%	30.1%	8.7%
1/29/2025	0.0%	0.1%	2.0%	11.0%	27.4%	34.1%	20.6%	4.8%
3/19/2025	0.1%	1.2%	7.2%	20.5%	31.3%	26.3%	11.5%	2.0%
4/30/2025	0.5%	3.7%	12.7%	24.9%	29.2%	20.2%	7.6%	1.2%

Figure 11. CME Fed Watch Tool- Anticipated First Rate Cut is in September

Despite recent challenges in achieving price stability, the current economic fundamentals suggest further disinflation is possible. The Fed's highly restrictive rates continue to dampen overall demand, particularly in the housing and automotive sectors, which were major contributors to the sharp rise in inflation over the past three years.

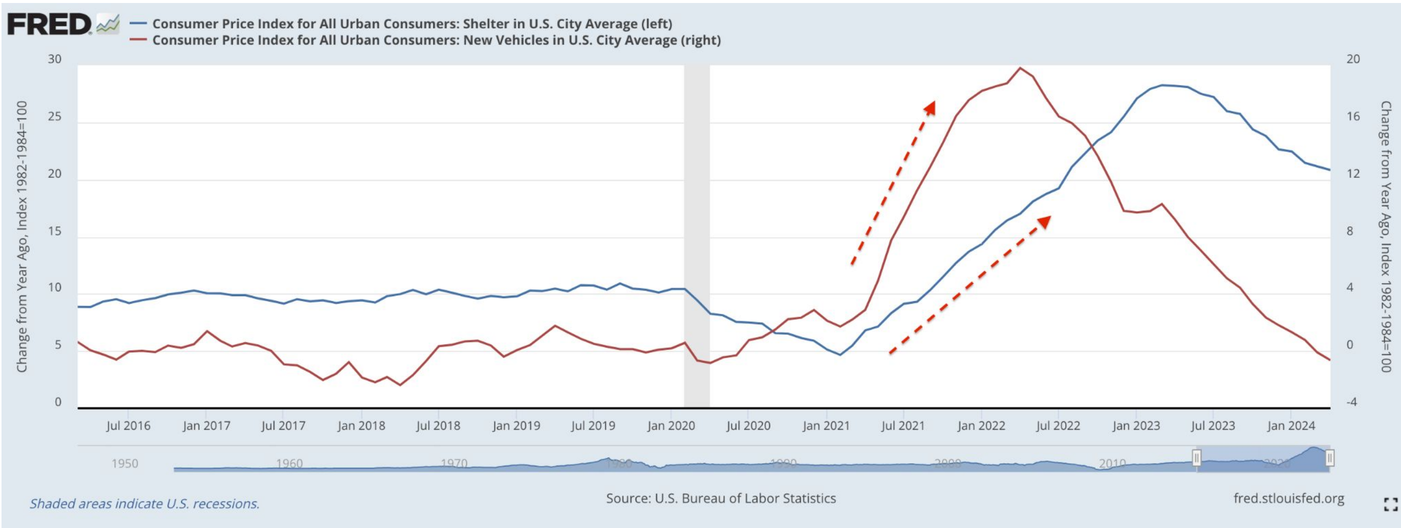


Figure 12. Consumer Price Index Components for Shelter and New Vehicles (Source: Bureau of Labor Statistics)

Dropping retail sales growth suggest that American consumers are starting the second quarter on a weaker note, with evidence that many are now using paychecks and continued wage increases to sustain spending as personal savings accumulated during the pandemic diminish.

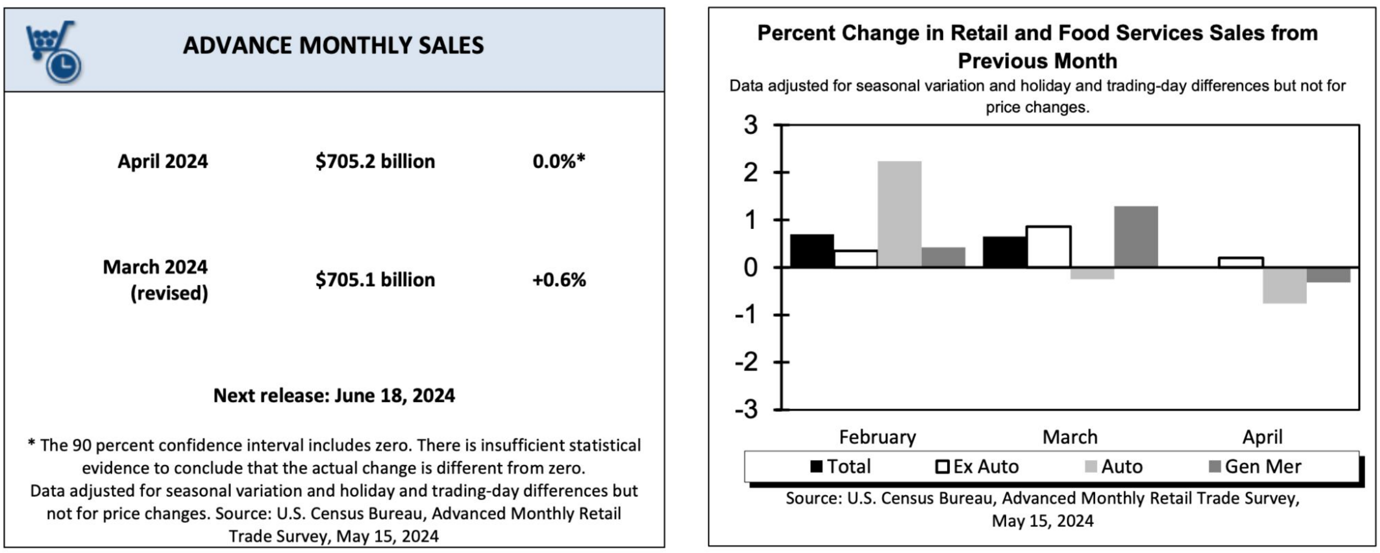


Figure 13. Retail Sales (Source: US Census Bureau)

Figure 14. Personal Savings Continue to Decline (Source: Bureau of Economic Analysis)

The combination of softer retail sales, recent CPI data, and the downward revision of the Producer Price Index, means that the forthcoming Personal Consumption Expenditures (PCE) data, due to be released at the end of the month, should be softer. The Fed uses PCE data as its primary measure of inflation, and any easing in this metric would further support the case for a potential rate cut later this year.

Producer Prices Surge in April Amid Rising Service Costs

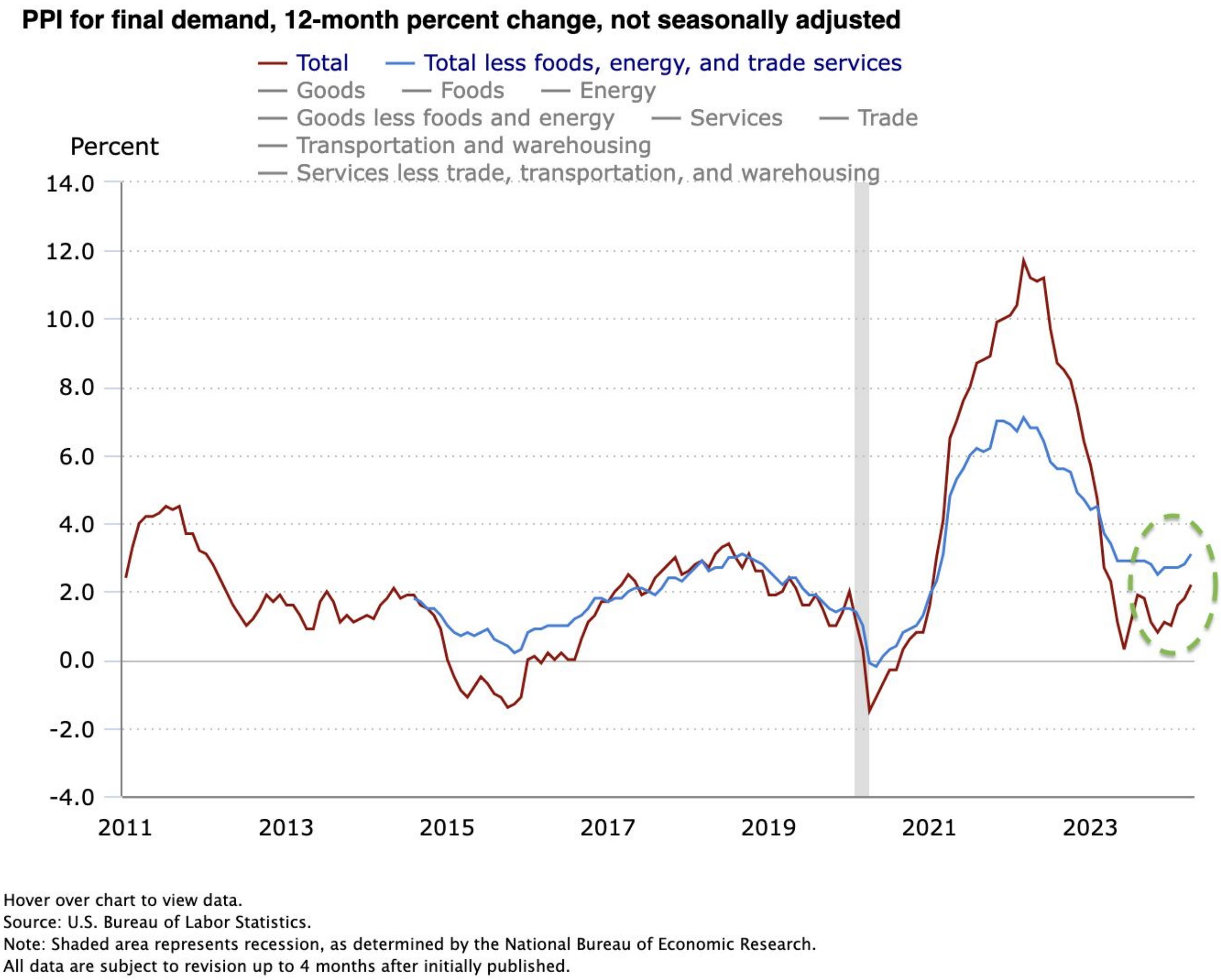


Figure 15. Produce Price Index (Source: Bureau of Labor Statistics)

In April, US producer prices increased more than expected due to significant rises in service costs, suggesting persistent inflationary pressures early in the second quarter.

According to the latest Producer Price Index (PPI) report, final demand climbed 0.5 percent last month, following a 0.1 percent decline in March. The consensus forecast was for a 0.3 percent rise after the initially reported 0.2 percent increase in March. The surge in services, which rose by 0.6 percent, accounted for nearly three-quarters of the overall PPI increase. April's rise marks the highest since July 2023, reversing the 0.1 percent drop seen in March. Year-over-year, PPI rose 2.2 percent in April, up from 1.8 percent in March.

Despite this increase, the upward trend was tempered by the revision of March’s figure, which was adjusted from a 0.2 percent rise to a 0.1 percent decline. This revision means that the jump to a 0.5 percent increase in April is now seen against a backdrop of a more pronounced shift from a decline rather than a continuation of slow growth. As a result, while April's increase is still significant, the overall trend over the last two months appears less consistently upward than initially thought. This revision brought the annual inflation rate for domestic producers to 2.2 percent, compared to 1.8 percent the previous month.

Overall, even if the CPI data gave some relief following the consecutive rises seen in the last quarter, the PPI shows that inflationary pressures remain significant, and the momentum accumulated over the past few years continues to persist.

US Housing and Manufacturing Sectors Face Setbacks

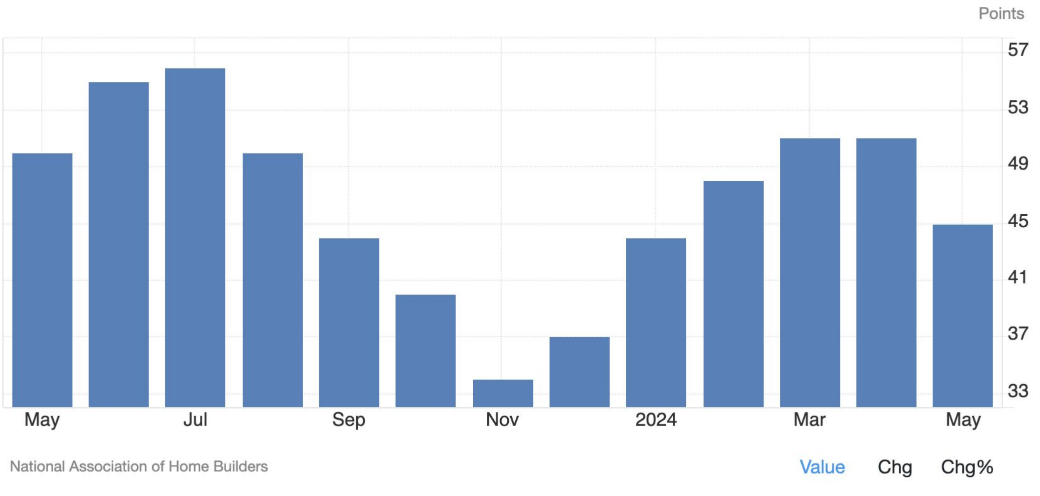


Figure 16. Home Builders Confidence Index (Source: national Association of Home Builders)

In May, both the US housing market and manufacturing sector faced significant challenges, with builder sentiment declining and industrial production stagnating.

Builder sentiment dropped for the first time in six months. High interest rates on home loans deterred potential buyers, compelling many builders to offer incentives to attract customers. The National Association of Home Builders/Wells Fargo Housing Market Index (HMI) fell to 45 in May, down from 51 in April, marking the lowest level since January. This decline was unexpected, as the consensus forecasts for the index was 50.

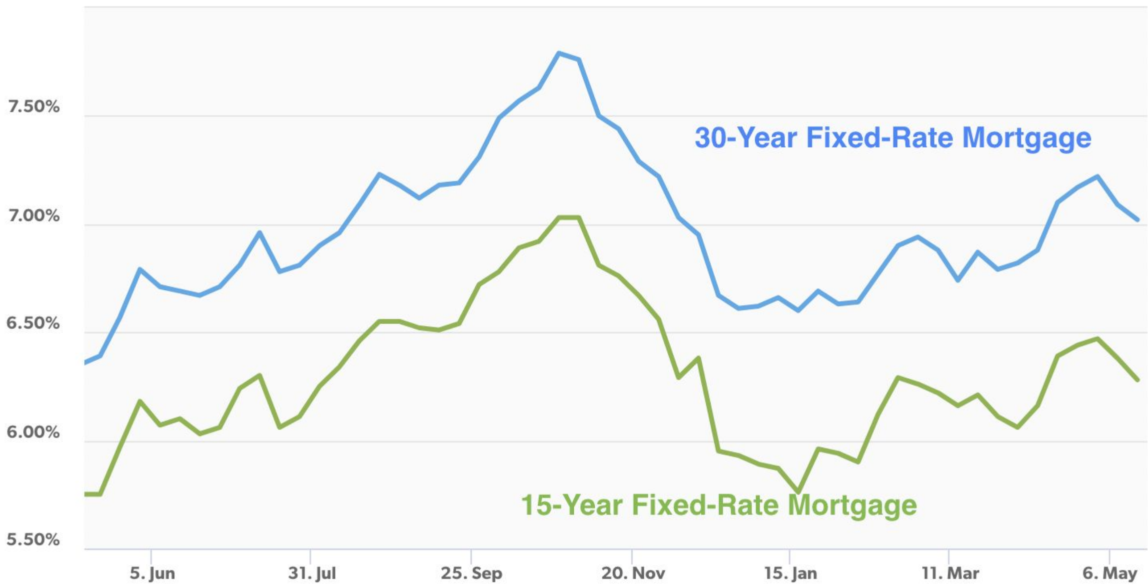


Figure 17. 30-Year and 15-Year Fixed Rate Mortgage (Source: Freddie Mac)

The HMI's measures, which include current sales, sales expectations for the next six months, and traffic of potential buyers, all saw declines. The 30-year fixed-rate mortgage has remained above 7 percent since mid April. With slow progress in reducing inflation, mortgage rates have been pushed higher, negatively impacting builder sentiment. The primary challenge in the ongoing inflation battle is reducing shelter inflation, which requires the construction of more affordable housing. And with builders becoming less confident, the pace of new construction projects is likely to slow down, exacerbating the housing supply shortage. This slowdown in construction could further elevate housing prices, making affordability an even greater issue for potential buyers.

NEW RESIDENTIAL CONSTRUCTION APRIL 2024

Building Permits:	1,440,000
Housing Starts:	1,360,000
Housing Completions:	1,623,000

Next Release: June 20, 2024

Seasonally Adjusted Annual Rate (SAAR)
Source: U.S. Census Bureau, HUD, May 16, 2024

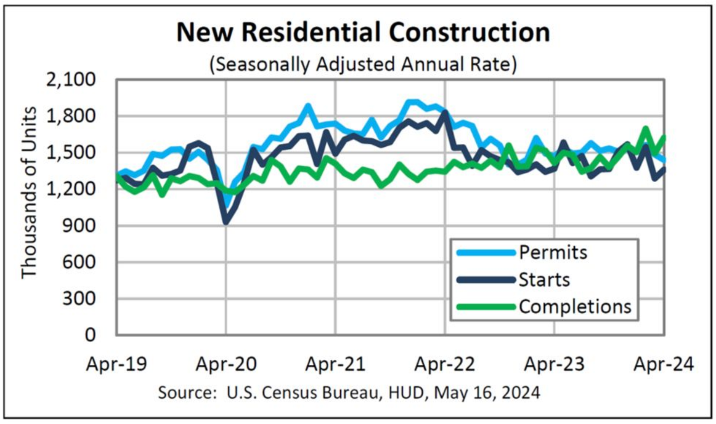


Figure 18. Housing Starts & Building Permits (Source: US Census Bureau)

The slowdown in construction is reflected in housing starts and permits, which came in below estimates, with prior readings also revised downward. Rising mortgage rates have hindered overall construction activities, signalling a weak quarter for the gross domestic product residential component.

Meanwhile, the manufacturing sector has also shown signs of stagnation. In a separate report, issued last Thursday, May 16th, industrial production remained unchanged in April, with March's data revised down to a 0.1 percent gain from an initial 0.4 percent. A notable factor in the stagnant production growth was the 2 percent decline in motor vehicle production for the month.

While the recent CPI inflation report has shown signs of disinflation, the overall economic landscape remains fragile, especially in critical sectors like housing and manufacturing. The Fed may continue to prioritise inflation control over stimulating economic growth in the short term. This cautious approach aims to prevent inflation from re-accelerating, even if it means prolonged challenges for the housing and manufacturing sectors. However, if disinflation continues and economic conditions worsen significantly, the Fed might consider more accommodative measures to support growth and stability. For now, stakeholders in the housing and manufacturing sectors must brace for a period of sustained high interest rates and their associated impacts on consumer behaviour and economic activity.

Conference Board's US Leading Economic Indicator: Economy Faces Increased Strain with High Inflation and Rising Debt

The forward-looking Leading Economic Index (LEI) confirms the prognosis that the US economy remains challenged due to a persistence of inflation, high interest rates, and increasing household debt. The LEI fell in April by 0.6 percent to 101.8, following a 0.3 percent decline in March. Consensus forecasts for April were only for a 0.3 percent decline.

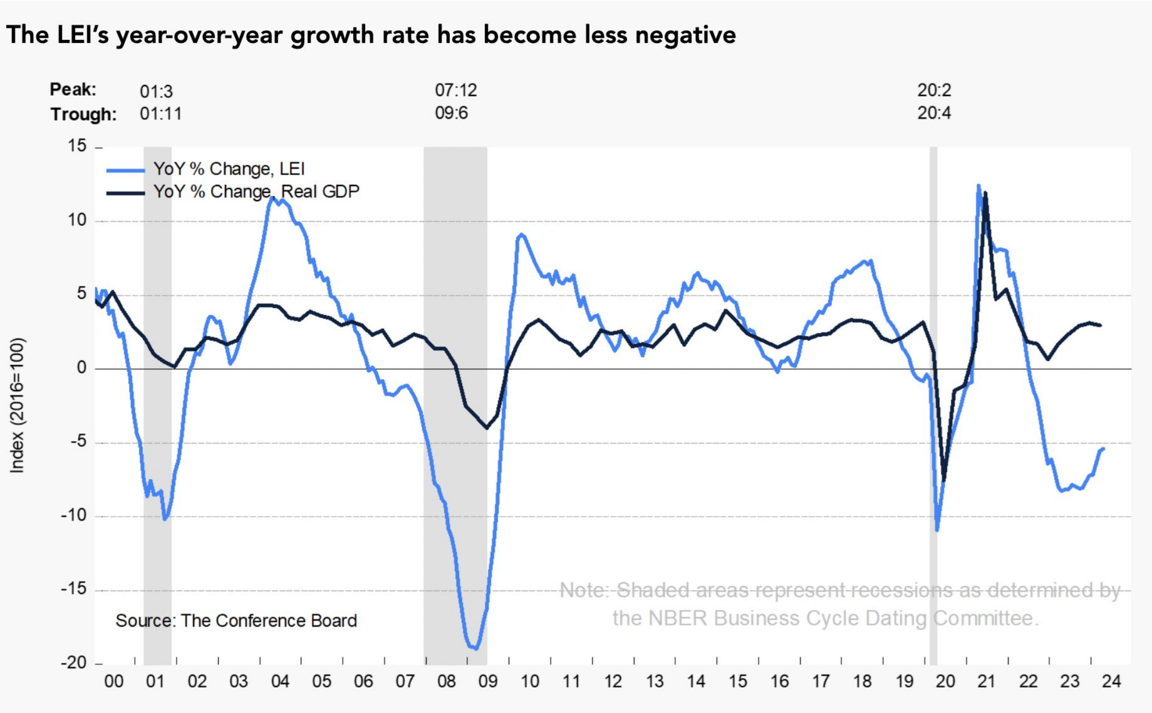


Figure 19. Leading Economic Index (Source: The US Conference Board)

The April reading comes three months after the Conference Board retracted its recession forecast. The LEI found that the consumer outlook on business conditions has worsened, new orders have weakened, the yield spread has turned negative, and new building permits have decreased. Additionally, stock prices negatively impacted the index for the first time since October of the previous year.

The LEI report said that the index confirms that softer economic conditions lie ahead, and that although the LEI components no longer indicate an impending recession, they still suggest significant obstacles to economic growth.

NEWS FROM THE CRYPTO-SPHERE

Türkiye Proposes New Legislation to Regulate Crypto Transactions

Figure 20. Türkiye Proposes New Legislation to Regulate Crypto Transactions

- **Türkiye has introduced a legislative proposal to regulate crypto asset transactions, which includes establishing a licensing system for crypto firms and expanding the regulatory oversight of the Capital Markets Board**
- **The bill aims to align Türkiye's crypto regulations with international standards and enhance the safety of the crypto ecosystem**

Türkiye introduced a legislative proposal last Thursday, May 16th, to mitigate the risks associated with crypto asset transactions in the country.

The proposed bill includes a range of regulations for crypto assets and will be overseen by the Capital Markets Board (CMB). Key elements of the proposal involve establishing significant rules for crypto service providers and enhancing the CMB's regulatory authority over them.

One of the primary objectives of the bill is to implement a licensing system for crypto firms, placing them under the CMB's jurisdiction. To ensure consumer protection, the scope of inspections for crypto providers will be broadened.

While the bill does not include specific tax provisions, it does mandate that CMB and the Scientific and Technological Research Institution of Türkiye (TÜBİTAK) receive a percentage of the income from crypto service providers. TÜBİTAK, a national agency, focuses on developing policies for science, technology, and innovation, as well as supporting and conducting research and development.

This legislative proposal is anticipated to align Türkiye's crypto asset regulations with international standards, address criticisms from the Financial Action Task Force (FATF), and enhance the safety of the country's crypto ecosystem.

Pump.fun Hit by $1.9M Exploit: Immediate Actions and Future Safeguards

Figure 21. Pump.fun Hit by $1.9M Exploit: Immediate Actions and Future Safeguards

- **Pump.fun suffered a $1.9 million exploit due to actions by a former employee using flash loans**
- **Trading was temporarily halted, with affected liquidity set to be restored within 24 hours**
- **The platform has enhanced security measures and is now operational with on offer of zero percent trading fees for seven days**

On May 16th, 2024, Pump.fun, a memecoin launchpad, reported a significant security breach resulting in a $1.9 million loss. The exploit was allegedly conducted by a former employee who abused their access to manipulate coin prices and withdraw liquidity using flash loans—a type of loan in crypto that must be repaid in the same transaction.

This incident temporarily disrupted trading on the platform, prompting an immediate response to safeguard users' funds and prevent further unauthorised withdrawals. To address the stolen funds, Pump.fun plans to replenish the affected liquidity pools with equivalent or higher amounts of Solana within the next 24 hours, ensuring no user faces a financial setback.

The breach highlights the vulnerabilities associated with high-liquidity trading environments. Pump.fun said it had now revamped its security protocols and resumed trading activities, offering zero percent trading fees for the next week to regain user trust.

Challenges Loom Over Ether ETF Approvals

Figure 22. Challenges Loom Over Ether ETF Approvals

- **SEC deadlines for Ether ETFs approach on May 23rd and 24th without signs of approval**
- **Legal battles anticipated following potential SEC rejections, mirroring Bitcoin ETFs path**
- **Market pessimism reflected in the significant discount of Grayscale Ethereum Trust**

The US Securities and Exchange Commission (SEC) is poised to make decisions on Ether ETF applications submitted by VanEck and ARK on May 23rd and 24th, respectively. However, the approval outlook remains bleak, with the complexity of Ethereum's technology posing a significant hurdle.

Historically, the SEC has shown reluctance to advance digital asset ETFs without judicial intervention. This pattern suggests that Ether ETF applicants, including major players like VanEck and ARK, might face initial rejections followed by potential legal challenges. Such a scenario unfolded last year with Bitcoin ETFs, which were only approved after a federal court decision.

Ethereum's broader functionalities, such as smart contracts, add layers of complexity that the SEC has been cautious to address. The regulatory body's hesitation is compounded by ongoing legal disputes, such as the lawsuit by Consensys seeking to establish that Ether is not a security—a crucial distinction that could influence the SEC's decision.

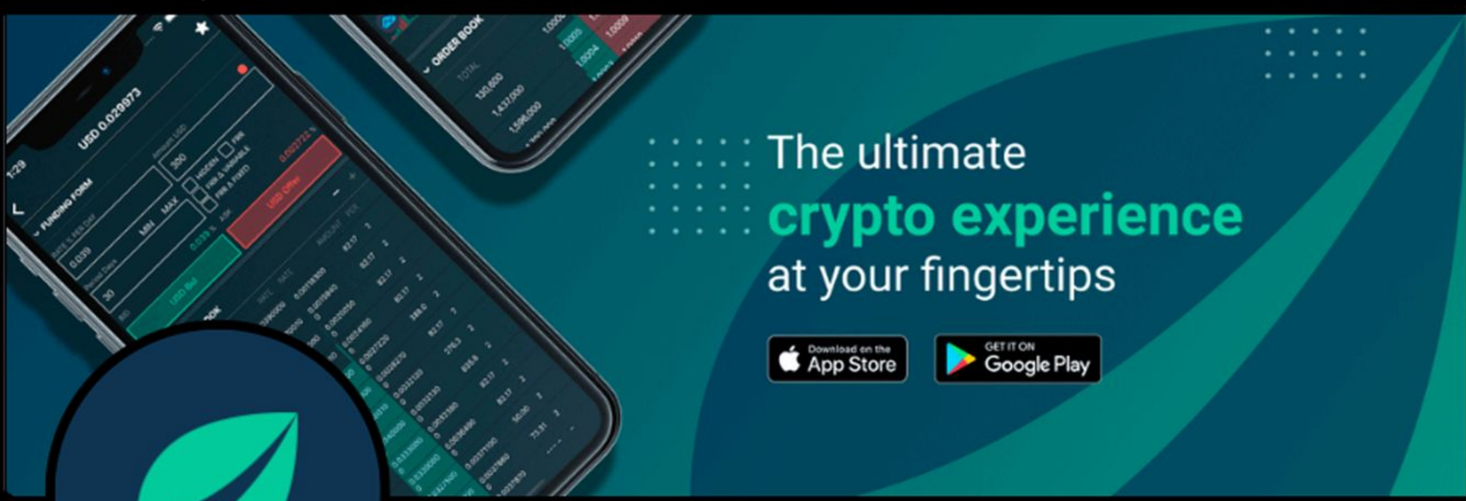
Current market sentiment is not optimistic however, with the Grayscale Ethereum Trust trading at a 24.2 percent discount to its net asset value, indicating investor scepticism about the short-term prospects for approval. This contrasts sharply with last year's narrowing discount for the Grayscale Bitcoin Trust amid anticipation of regulatory approvals.

As the deadlines approach, the crypto community is watching closely, knowing that the SEC's decisions could set significant precedents for the treatment of other digital assets in public markets. Meanwhile, Ether continues to underperform compared to BTC, with only a 26 percent increase this year compared to BTC’s 45 percent gains.

Issuer *(Ticker)*	Company	Asset	Exchange	Custodian	Index/Pricing Provider	SEC Next Deadline	SEC Final Deadline
			"Physically" Backed				
VanEck Ethereum ETF	VanEck	Ethereum	CBOE	Gemini??	MVIS	12/25/23	5/23/24
ARK 21Shares Ethereum ETF	21Shares & ARK	Ethereum	CBOE	Coinbase	S&P Dow Jones	12/26/23	5/24/24
Hashdex Nasdaq Ethereum ETF	Hashdex	Ethereum	Nasdaq	N/A	Nasdaq	1/1/24	5/30/24
Grayscale Ethereum Trust *Conversion (ETHE)*	Grayscale	Ethereum	NYSE	Coinbase	Nasdaq??	12/6/23	6/18/24
Invesco Galaxy Ethereum ETF	Invesco & Galaxy	Ethereum	CBOE	Coinbase	Bloomberg	12/23/23	7/5/24
iShares Ethereum Trust	BlackRock	Ethereum	Nasdaq	Coinbase	CF Benchmarks	~1/25/24	~8/7/24
Fidelity Ethereum Fund	Fidelity	Ethereum	CBOE	Fidelity	Fidelity/CoinMetrics	~1/21/24	~8/3/24

Note: Dates are estimates and deadlines, so they may come earlier.
Source: Bloomberg Intelligence, SEC.gov
Bloomberg

Figure 20. SEC Deadline for ETF Issuer



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