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Analyst Retrospective June 2021



Ethereum fundamentals bullish but market pressures persist

One defining feature of the cryptocurrency market right now is the strong correlation between various cryptoassets. Looking at a price chart - mostly any price chart - would make for a difficult exercise in identifying the cryptocurrency. They all look near identical, following Bitcoin's steps.

But on-chain data provides a much more insightful picture. Anyone looking at supply trends on exchanges during 2020 would have noticed a declining trend for both Bitcoin and Ethereum. The last few months however have seen more selling pressure for Bitcoin as exchange balances have increased versus the start of the year.

In contrast, Ethereum supply has continued to dwindle at the same rate over the past year. The reduction in supply can be attributed primarily to increased activity on Decentralised Finance (DeFi) applications, but also the staking of ETH for the upcoming upgrade of the smart contract blockchain as it moves away from Proof-of-Work.

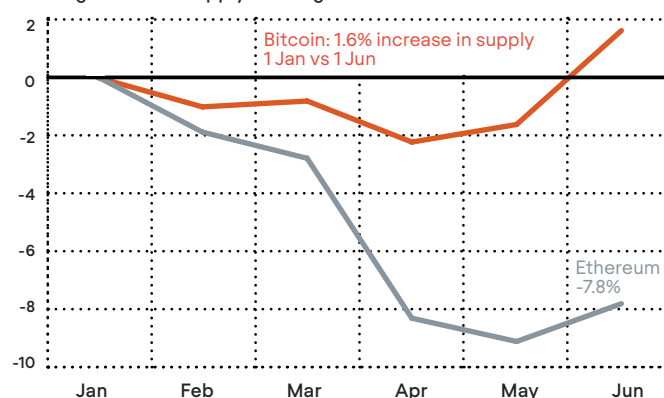
Since the start of 2021 and up until the start of June (see chart), the total amount of staked ETH has increased by nearly 140%. Moreover, the unique number of depositors exploded in May, indicating more players are ready to take part in the interest earning activity of running a node.

A look at peak supply on exchanges during 2020, before the major bull run started, shows that Ethereum reserves have dropped by 21%. In comparison, Bitcoin reserves has also seen a drop of 17%. But in US dollar terms, the picture is of course quite different. The value of ETH and BTC reserves has skyrocketed 450% and 475% respectively at the start of June 2021, versus the supply peak in 2020.

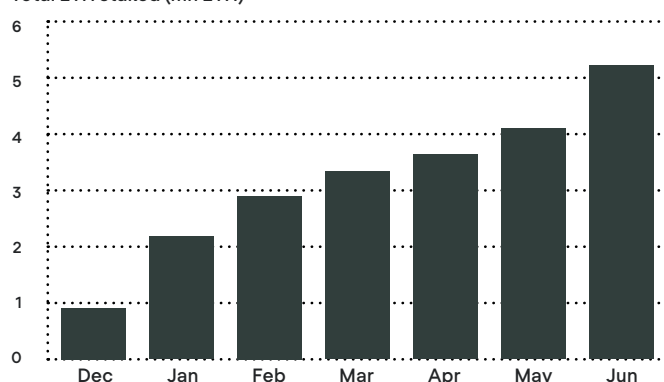
But while these numbers are near symmetrical, there is a difference so far this year. Supply on exchanges for Ethereum has actually dropped by nearly 8% versus the start of the year (see chart 1). In contrast, Bitcoin reserves on trading venues have increased by 1.6%.

Proof-of-Stake has proven to be a popular activity by industry participants. Markets have yet to take notice of potentially huge supply shifts into staking and correlations have stuck despite fundamentals speaking a fairly different story.

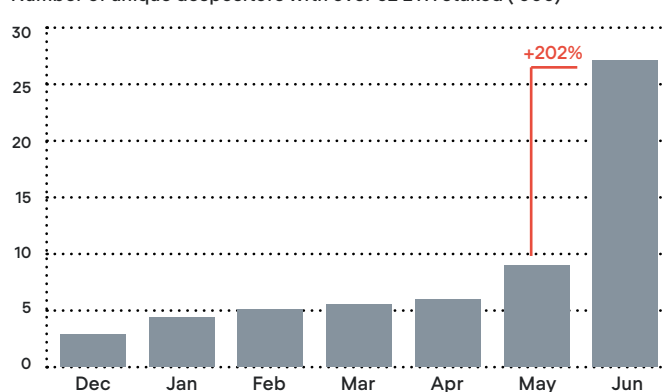
Exchange reserves supply % change versus 1 Jan 2021



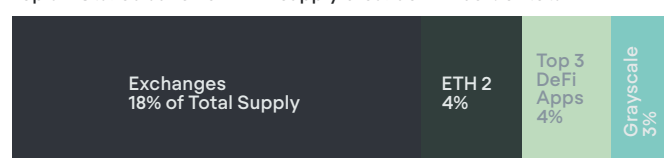
Total ETH staked (mn ETH)



Number of unique despositors with over 32 ETH staked ('000)



Top 5 + Staked June 2021 ETH supply breakdown - 30% of total





Still Early?

Compared to other competing blockchains in the industry, ETH so far has a mere 4% of its total circulating supply staked. Polkadot, Cosmos, Solana, and Cardano have well over 60% of their supply staked.

With exchanges offering direct staking for those who do not have 32 ETH, the requisite number to run a validator node, the picture of even the exchange supply might be considerably different post-merge of the Ethereum mainnet with the already launched Proof-of-Stake Beacon chain.

Enough with the 'flipping'

The cryptocurrency industry has a great deal of very vocal activists across its many camps/blockchains. The overzealous communities always vie for top spot on the market capitalisation table as a sign of 'winning'.

The problem is that it's particularly inconducive to attract new investors who have lumped the industry together despite crypto moving its tentacles across many use cases and actually finding an audience.

Copper recently [created a few metrics](#) to address this issue in an effort for new investors to find the true value of networks. There will be winners for sure. But they'll be in different categories of the crypto industry. And even with segments of different blockchains, value needs to be assessed differently.

Down and out - in the good sense

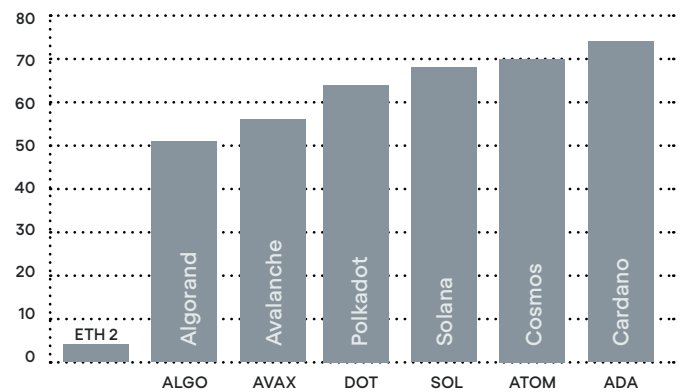
While this report focused on Ethereum that is driving a new wave of financial products, store-of-value remains an attractive prospect for investors.

Blockchain analytics firms Glassnode has particularly interesting data on the Bitcoin held by three OTC Desks (Over-the-counter).

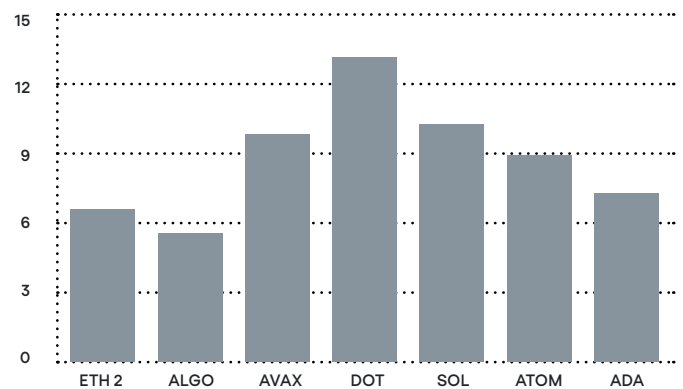
While, for sure, the data and holdings are a fairly small snapshot of the overall opaque OTC market, it could be an indication of trend. The data shows that the holdings are now actually at their lowest point since October 2019, a point when Bitcoin once again broke past the \$10k mark following a major bear market.

With institutional interest on the rise, can this decline in supply cause the second coming of market pressures seen in 2020? Or is it cause of lower demand? Although 2020 was primarily railed by retail investors, can deeper pockets cause even more of a supply squeeze? Potentially.

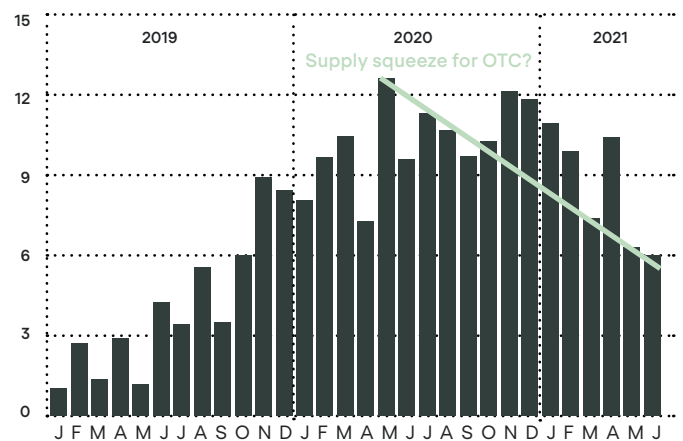
Percentage of circulating supply staked on different blockchains



Estimated annual staking reward (%)



Three OTC Desk holdings according to [Glassnode](#) ('000 BTC)



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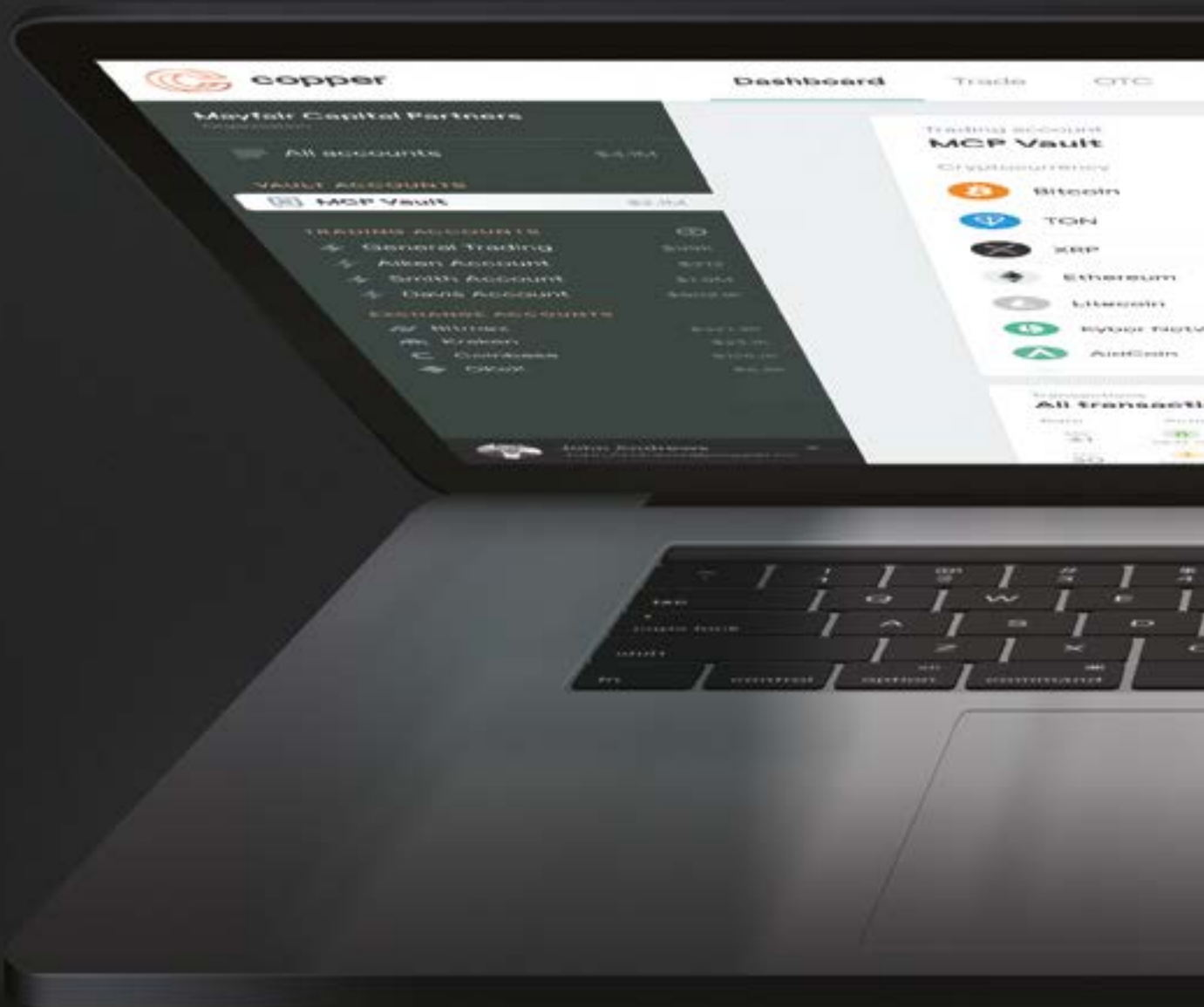


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