



September 8, 2023

Crypto Commentary

August 2023

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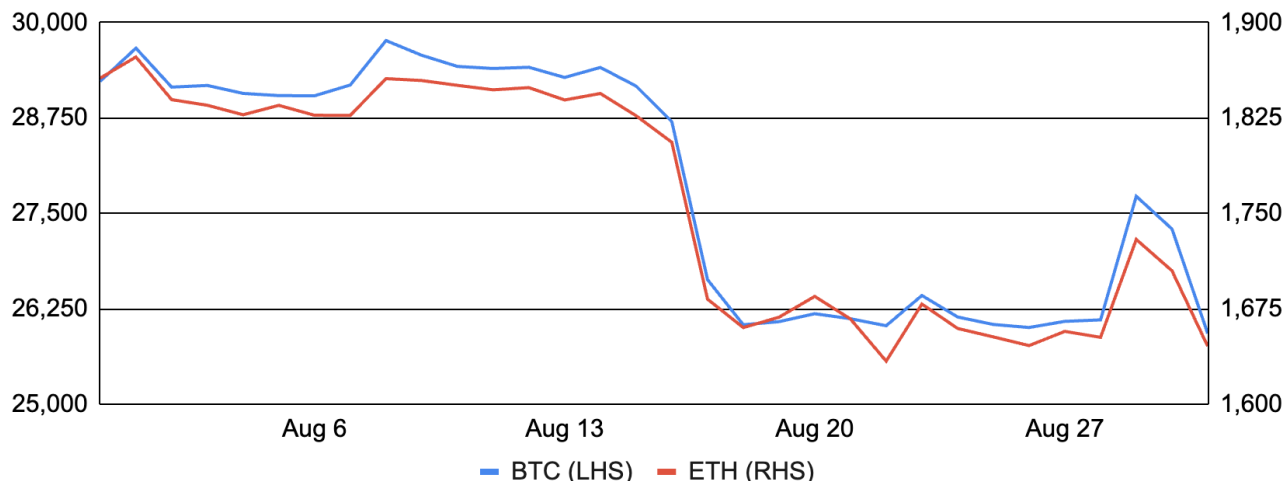
Matt Kunke, Research Analyst
Brian Rudick, Senior Strategist

Bitcoin and Ethereum

Bitcoin fell ~11% in August, delivering this year's worst monthly performance after entering August around \$29,200 and finishing at ~\$25,900. Performance trended sideways during the first half of the month until August 17th, when bitcoin fell more than 7% as ~\$860m of crypto longs were liquidated in the largest daily liquidation of the year. With no clear catalyst, the decline was attributed to various items including a WSJ article implying Elon Musk's SpaceX had sold its bitcoin, the shaky macro backdrop, low liquidity, and concentrated dealer gamma positioning. After the selloff, bitcoin quickly resumed its sideways price action until August 29th when it jumped 7% after a US federal appeals court overwhelmingly ruled in Grayscale's favor in its bid to convert GBTC into an ETF (covered more below). The rally proved to be short lived, however, as post-ruling gains were reversed over the final two days of the month. In other news, the Bitcoin network hashrate breached 400 EH/s; Arkham revealed that Robinhood controls the third largest bitcoin wallet; the SEC delayed its decision on seven spot Bitcoin ETF filings; the Bitcoin Frontier Fund launched the first Bitcoin Ordinals Accelerator program; blockchain oracle Pyth Network integrated with Stacks; and, [more details emerged](#) surrounding the mysterious wallet thefts enabled by poor cryptography in the popular Libbitcoin Explorer wallet tool.

Ethereum similarly fell ~11% during the month after entering August around \$1,850 and finishing at ~\$1,650. Ethereum provided little diversification benefit during the month as performance moved in tandem with bitcoin with correlation reaching 0.95. Demand for ETH staking continued unabated despite ETH's weakness, and the validator set grew meaningfully during the month though the activation queue showed its first material decline falling to ~45k validators (~19-day wait). ETH's supply decreased by ~5,300 during the month, its eighth consecutive monthly decline, albeit the smallest monthly decline of the year. While indicative of decreased mainnet activity, it's a sign of Ethereum's progression along its scaling roadmap as [total transactions are at record highs but a greater percentage of them are occurring on L2s](#). This was perhaps best illustrated by the [spike in transactions during the month on L2-deployed apps like friend.tech](#) that did not cause notable congestion on Ethereum mainnet. In other news, EigenLayer filled its 100k ETH restaking demand cap within hours of raising its upper bound; [five liquid staking service providers](#) committed to self-limiting at 22% of stake as concerns over Lido's dominance continue to increase; and, the month included meaningful new Ethereum ETF developments, including new spot and futures-based filings covered more below.

BTC and ETH



Source: Santiment, GSR.

Grayscale's Win

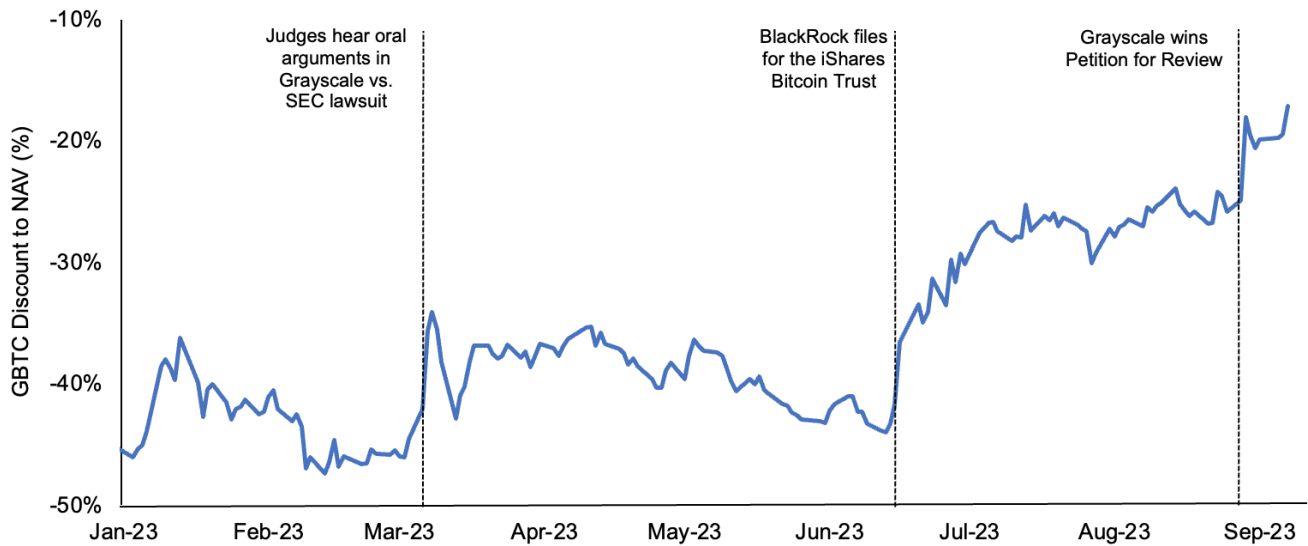
August was packed with crypto ETF developments, but none were more notable than the long-awaited appeals court ruling in Grayscale's lawsuit vs. the SEC. As a brief reminder, Grayscale filed a Petition for Review after its bid to convert GBTC into an ETF was denied by the SEC in June 2022. Grayscale's petition sought to vacate the SEC's denial, arguing that its spot ETF proposal was materially similar to several approved futures-based products, and thus the Commission's failure to treat similar cases alike without a reasonable explanation constituted arbitrary and capricious action in violation of the Administrative Procedures Act.

The Court of Appeals for the D.C. Circuit unanimously [ruled](#) in Grayscale's favor on August 29th, granting Grayscale's Petition for Review and vacating the Commission's denial. The court said it agreed with Grayscale's assertion that "its proposed bitcoin exchange-traded product [ETP] is materially similar to the bitcoin futures exchange-traded products and should have been approved to trade on NYSE Arca." Notably though, the ruling does not guarantee GBTC's ability to convert into an ETF. Assuming the SEC does not appeal the court's ruling¹, the agency must review Grayscale's application again with many of its long-standing claims from past denials rejected.

The commonly cited paths forward for the SEC include: 1) approving GBTC, 2) revoking the past approval of bitcoin futures ETFs, or 3) denying GBTC on new grounds. While the SEC's next move is uncertain, some believe that approving GBTC is the path of least resistance in light of the court's [unanimous ruling](#). Moreover, revoking past approvals presents an [unprecedented challenge](#), while denying GBTC on new grounds has its own challenges as other concerns should have already surfaced across the fifteen other spot rejections that have occurred since bitcoin futures ETFs began trading. Lastly, legal analysts have even [noted](#) that denying GBTC on new grounds may be entirely off the table, as the SEC's "significant markets" test, covered more in our [report on Bitcoin ETFs](#), created a sufficient condition for approval that the court determined was met, a point also raised by Grayscale's

legal counsel in a post-ruling [letter](#) to the SEC seeking to expedite GBTC's approval.

The Grayscale Bitcoin Trust (GBTC) Discount to NAV



Source: GSR, Grayscale Investments. Data as of Sep 7, 2023.

Ethereum Futures ETFs

Beyond the Grayscale court ruling, positive sentiment quickly built around Ethereum Futures ETFs after Volatility Shares, the manager behind the recently approved [2x Leveraged Bitcoin Futures ETF](#), surprisingly filed for an Ethereum Futures ETF just months after several similar filings were withdrawn. It's widely understood that the SEC has historically asked such filers to withdraw their applications, allowing the agency to inhibit approval without detailing an application denial. However, this is a voluntary decision by the filer in an attempt to gain regulatory goodwill, and a more adversarial filer may ignore the request and force a response from the SEC that can be subsequently appealed. While we can't say for sure this is what happened, it seems highly plausible since all past Ethereum Futures ETF filings were withdrawn in a matter of days (which generally doesn't make sense for the filer to do on their own accord), including those filed just a few months earlier. However, once Volatility Shares' maintained their application, rumors quickly began to circulate that [the SEC would consider such applications](#), causing more than a dozen other applications to quickly follow suit. In fact, several experts like [Davis Polk's Scott Johnsson](#) and [Bloomberg's Eric Balchunas](#) posited that once Volatility Shares maintained its application, the SEC decided to consider them as it realized it may not win in court. Volatility Shares used to get the first leveraged bitcoin futures ETF approved, [as previous attempts were withdrawn](#) by other managers.

Looking ahead, it appears increasingly likely that Ethereum Futures ETFs will be cleared for trading by early-to-mid October. However, a final question still remains around timing and whether the SEC will allow the filings to go effective automatically at each one's respective deadline date, effectively picking a winner as was the case for BITO², or take a more [egalitarian approach](#) and approve multiple applications simultaneously. Elsewhere in crypto ETF news, Ark 21Shares became the first manager to re-enter the SEC's review queue for a spot Ethereum ETF filing, but was quickly followed by Van Eck,

which filed later the same day.

ETH Futures ETF Applications

Issuer (Ticker)	Company	Filing Date	Replication Strategy	Highest Act	Status	SEC Date
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 (ETHX)	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
Short Ether Strategy ETF	Proshares	8/1/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
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
Direxion Bitcoin Ether Strategy ETF	Direxion	8/2/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
Bitcoin & Ether Strategy ETF	Proshares	8/2/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/16/2023
Bitcoin & Ether Equal Weight Strategy ETF	Proshares	8/3/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/17/2023
Bitwise Bitcoin & Ether Equal Weight Strategy ETF	Bitwise	8/3/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/17/2023
Bitwise Bitcoin & Ether Market Wght Strategy ETF	Bitwise	8/3/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/17/2023
Kelly Ethereum Ether Strategy ETF (EX)	Kelly ETFs	8/4/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/18/2023
Valkyrie Bitcoin & Ether Strategy ETF (BTF) Conversion	Valkyrie Investments	8/4/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/3/2023
Bitwise Bitcoin & Ether Equal Wght ETF (BITC) Conversion	Bitwise	8/10/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/9/2023
Valkyrie Ethereum Strategy ETF	Valkyrie Investments	8/16/2023	Futures/Derivs-based	1940 Act	Awaiting Approval	10/30/2023

Source: [Bloomberg's James Seyffart](#), GSR. Note: The filing process for futures-based filings under the 1940' Act is distinct from spot filings under the 1933' Act. [Rule 485\(a\)](#) provides for [automatic effectiveness](#) within prescribed time periods of certain investment company registration statement amendments. A simplified explanation of this is that new funds can launch in 75 days while existing funds can make material changes to their registration statements within 60 days. After Volatility Shares filed for an Ethereum Futures ETF (75 days), Valkyrie sought to front run them by taking the faster approach and modifying the existing mandate of their Bitcoin Futures ETF to include Ethereum Futures, allowing them to theoretically launch a blended portfolio with Ethereum Futures ahead of Volatility Shares. See the SEC Date in the graphic above.

Legal and Regulatory Happenings

Grayscale's legal victory wasn't the only notable legal or regulatory happening during the month, as there were several others, mainly in the US. Perhaps most prominent was the [SEC's first-ever NFT enforcement action](#), where the SEC accused Los Angeles-based media and entertainment company Impact Theory of executing an unregistered offering of crypto asset securities in the form of NFTs. Specifically, the SEC stated that Impact Theory sold NFTs, known as Founder's Keys, and represented them as an investment in the business, suggesting that the NFTs would deliver "tremendous value" should Impact Theory accomplish its goal of becoming "the next Disney". The SEC found that the NFTs were investment contracts and therefore securities and that Impact Theory violated federal securities laws by selling them via an unregistered offering. Impact Theory did not admit or deny guilt, but consented to a cease-and-desist order requiring it to pay a \$6m fine and establish a fund to return money to injured investors, among other items. Notably, [two SEC commissioners dissented](#) on the enforcement action, in part due to disagreeing on the application of the Howey analysis, and stated that the Commission should have offered more guidance long ago.

Elsewhere, the US Department of Justice (DOJ) [charged Roman Storm and Roman Semenov, the founders of crypto mixer Tornado Cash](#), with money laundering, sanctions, and money transmitting violations, and stated that the pair aided criminals in laundering over \$1b in illicit funds. According to the law enforcement agency, the founders deliberately avoided implementing controls to stop the criminals from using its platform for nefarious purposes. Also during the month: the judge in the SEC

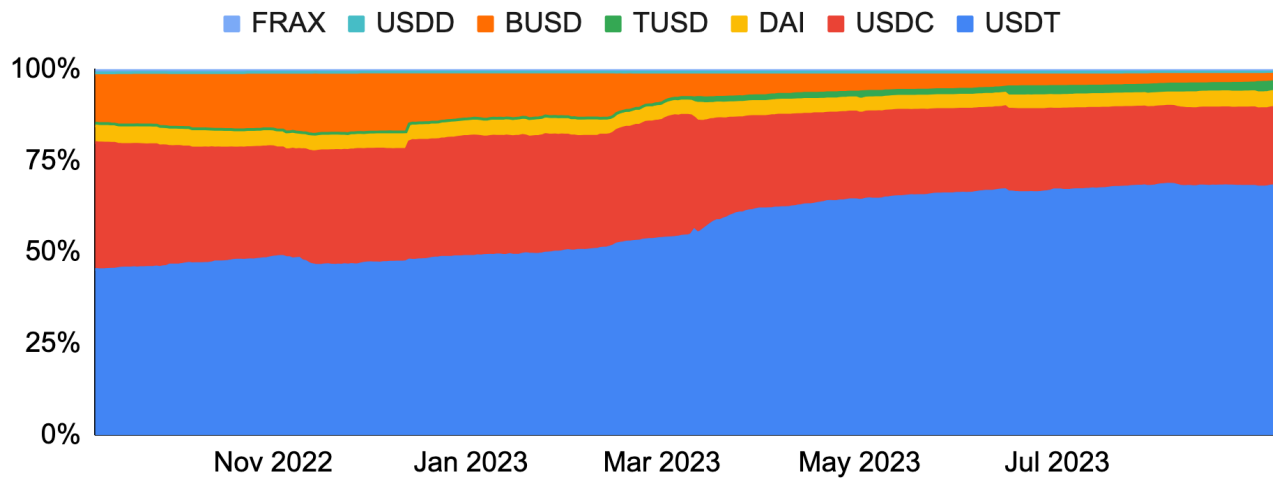
vs. Ripple Labs case granted the SEC's request to file a motion enabling it to argue for an interlocutory appeal, while Ripple filed a motion to block the SEC's attempt to appeal the court ruling; a US court dismissed a class action lawsuit against Uniswap, ruling that Uniswap cannot be held liable for damages caused by third parties misusing the protocol, and further labeled ETH as a commodity in the case; the DOJ is reportedly considering initiating criminal charges against Binance but may use alternative measures to avoid potentially inciting a run on the exchange, while the SEC took the unusual step of filing a sealed motion in its case against Binance; and, the former head of product at OpenSea was sentenced to three months in prison for insider trading.

Stablecoin Update

There were several notable stablecoin news items during the month. Payments giant PayPal launched its dollar-pegged stablecoin PayPal USD (PYUSD) on August 7th. Designed for digital payments and web3, the fiat-backed stablecoin is issued by Paxos on Ethereum as an ERC-20. And with PayPal's 50% global online payment processing market share and 350m active users, many hope the stablecoin will broaden adoption and introduce cryptocurrencies to the masses. Despite successful exchange listings, however, PYUSD has seen little uptake thus far, with Nansen reporting that ~90% of the outstanding supply is held by Paxos and that very few users are self-custodying it.

Elsewhere, Coinbase and Circle agreed to dissolve the Centre Consortium, which they jointly founded to issue USDC, giving Coinbase an equity stake in Circle and bringing USDC issuance and redemption in-house at Circle. USDC was also named the first stablecoin featured in Solana Pay's new integration with ecommerce platform Shopify to enable immediate and direct settlement of USD stablecoins (Visa launched a pilot program enabling merchants to receive USDC payments via Solana after the month ended). Meanwhile, Binance announced that it will gradually stop support for BUSD by February and encouraged users to convert BUSD into First Digital USD (FDUSD), a stablecoin by Hong Kong-based trust company First Digital Group that grew its market cap from \$20m to \$360m over the month. Lastly, in an effort to stimulate growth, the MakerDAO community temporarily increased the Dai Savings Rate (i.e., the yield on DAI stablecoin locked into a DSR contract) to as high as 8%, causing the amount of DAI in the DSR to increase by ~\$1b and the amount of DAI outstanding to increase by ~\$0.8b over the month.

Stablecoin Market Share, Last 12 Months



Source: Santiment, GSR.

Base's Mainnet Launch

Initially announced in February, Coinbase's OP Stack-based Ethereum layer 2 chain Base opened its mainnet to the public on August 9th. Base, which offers fast, inexpensive, and secure transactions, is intended to bridge Coinbase's products, users, and assets into the decentralized cryptoeconomy and has an ultimate goal of bringing the next million developers and billion users onchain. It is currently being incubated within Coinbase but plans for progressive decentralization.

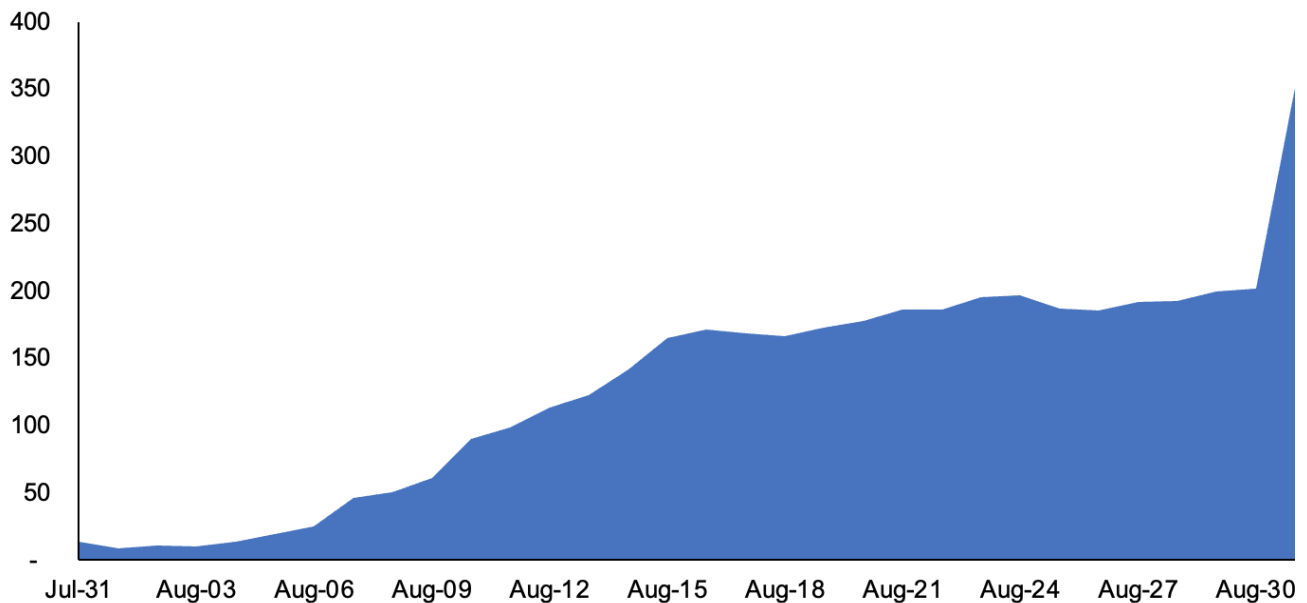
Base launched its testnet in February and initially opened to developers in July, when it saw immediate uptake. However, without a well-developed dapp ecosystem yet, much of the activity focused on memecoins like BASED, COIN, and BALD, the last of which had increased over 40,000% at one point. Despite its steady growth, Base also experienced its share of growing pains, including rug pulls with the BALD memecoin and SwirlLend DEX, and exploits of RocketSwap and LeetSwap.

Base activity reached new heights with the launch of friend.tech, a mobile-only, Twitter-linked decentralized social media platform allowing users to buy shares (now called keys) of their favorite social media personalities. Similar to popular AMMs, the price of keys follows a bonding curve, and keys not only allow users to bet on and profit from the success of social media influencers, but also enable access to private chats. So popular has friend.tech been that the app reached its server capacity on its August 11th invite-only beta launch date, attracted several non-crypto celebrities like NBA player Grayson Allen, and at its peak, generated more daily revenue than Uniswap and even Bitcoin. Conversely, friend.tech has been criticized for its focus on speculation, and while it is still seeing material activity, it has certainly calmed from the initial frenzy.

All in, Base continues to see impressive growth, with over one million users, \$385m bridged to the network, the third highest ETH L2 30-day transaction count behind only zkSync Era and Arbitrum One,

and 1.5m daily transactions on its August 21st peak, surpassing those on Ethereum mainnet.

Base Total Value Locked (TVL) (\$M)



Source: Defi Llama, GSR. Note: TVL existed before Base's public launch as devs and technical users could bridge to Base by interacting with the contracts directly before the Bridge UI was launched.

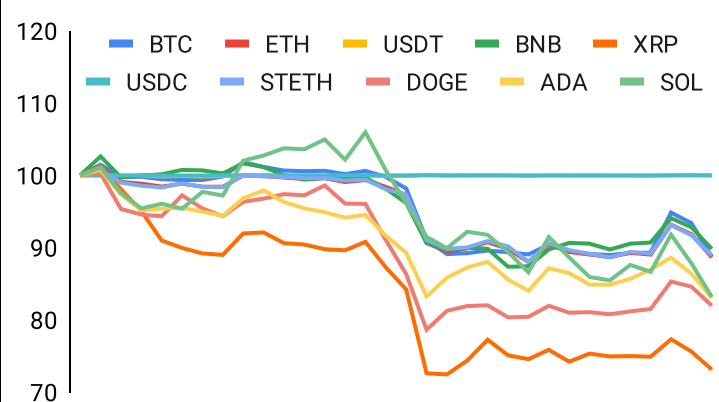
Footnotes:

1. It remains to be seen if the SEC will petition for an en banc hearing or petition the Supreme Court for review, but both these avenues for appeal are a long-shot in this case as far as we understand.
2. When Bitcoin Futures ETFs were considered for approval in 2021, the SEC allowed applications to go effective automatically at their respective deadline dates under Rule 485(a). This allowed ProShares, who sat at the front of the review queue, to enter the market alone days before any competitor, which allowed them to raise ~\$1b more AUM than other competitors that were approved days or weeks later.

GSR in the News

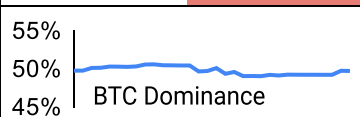
- Coindesk - [Crypto for Advisors: Bitcoin and the Bull](#).
- Coindesk - [Ethereum Handled Friend.tech Frenzy Without 'Gas Fee' Spike. Why That's a Big Deal](#)
- Axios - [Bitcoin miners take fresh look at hedging products](#)
- Cryptonews - [Bitcoin Miners Consider Hedging Options for Revenue Stability](#)
- Businesswire - [Standard Custody & Trust Company and GSR to Offer Clients Secure Settlement and Escrow Services](#)
- Linera - [Bringing Microchains to Web3 with an Additional \\$6M in Funding](#)
- CoinmarketCap - [The GSR team talks Bitcoin ETFs, Halving, and ETH Layer 2 recent developments](#)

Crypto Leaderboard

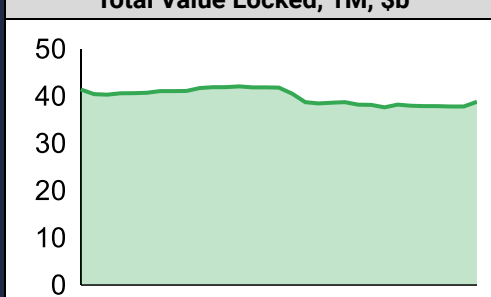
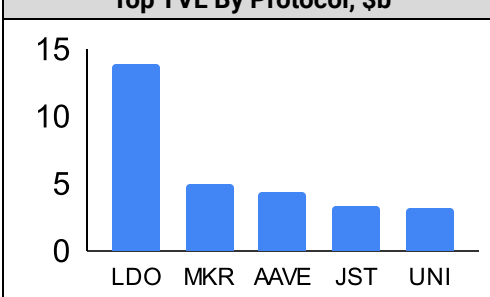
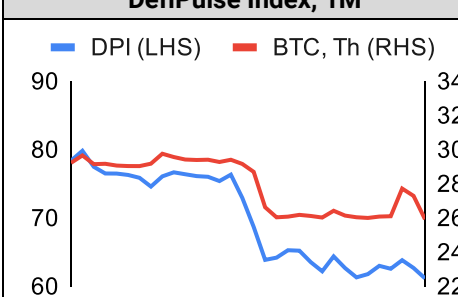
Rank	Name	Ticker	Price	MC, \$b	1M	One Month Performance					
1	Bitcoin	BTC	25,931	505	-11%		BTC	ETH	USDT	BNB	XRP
2	Ethereum	ETH	1,646	198	-11%		USDC	STETH	DOGE	ADA	SOL
3	Tether	USDT	1.00	83	0%						
4	BNB	BNB	217	33	-10%						
5	Ripple	XRP	0.51	27	-27%						
6	USD Coin	USDC	1.00	26	0%						
7	Lido	STETH	1,647	14	-11%						
8	Dogecoin	DOGE	0.06	9	-18%						
9	Cardano	ADA	0.26	9	-17%						
10	Solana	SOL	19.74	8	-17%						

One-Month Performance

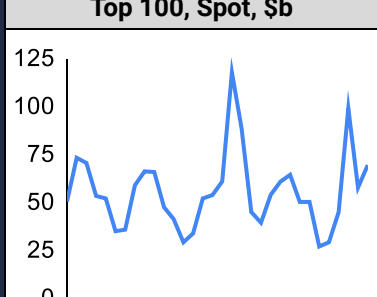
By Token		By Category		By Ecosystem		Traditional Finance	
TON	44%	Meme	-13%	Cosmos	-5%	Gas	4.3%
XDC	2%	CEXs	-13%	Tron	-10%	WTI	2.4%
OKB	0%	DEX	-13%	Gnosis Chain	-15%	USD/JPY	2.2%
FRAX	0%	Other DeFi	-16%	BSC	-16%	EUR/USD	-1.4%
USDC	0%	IoT/Data/Comp	-16%	Solana	-17%	NIKKEI	-1.7%
BUSD	0%	Gaming/Entertainment	-17%	Polygon	-18%	SPX	-1.8%
LTC	-32%	Privacy	-18%	Polkadot	-19%	Nasdaq	-2.2%
GMX	-37%	Smart Contract	-18%	Avalanche	-20%	DAX	-3.2%
PEPE	-38%	Scaling	-21%			Gold	-3.2%
COMP	-42%	Currency	-21%			FTSE	-3.4%
FLEX	-72%	Lending	-21%			HSI	-7.9%



Defi

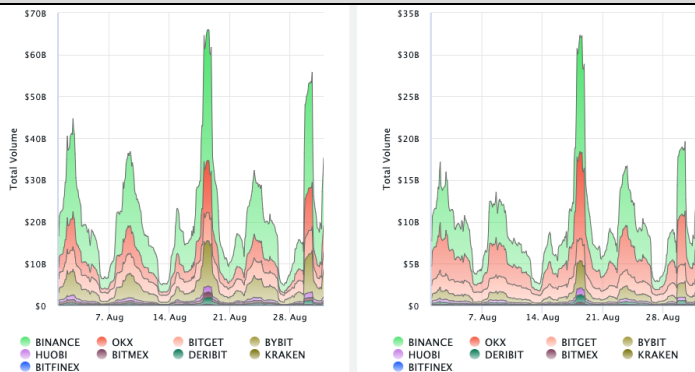
Total Value Locked, 1M, \$b	Top TVL By Protocol, \$b	DefiPulse Index, 1M
		

One-Month Trading Volumes

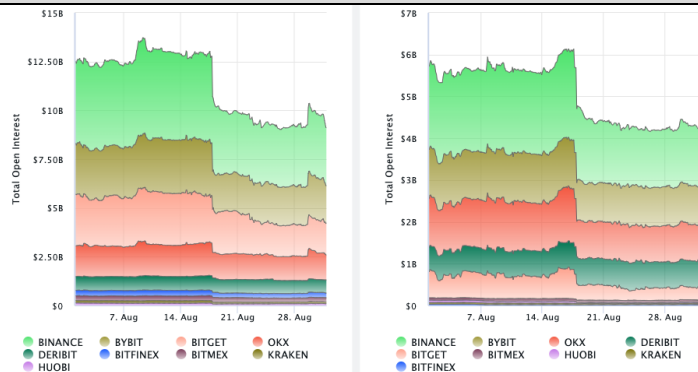
Top 100, Spot, \$b	Top Spot by Token, \$b	Top Spot Exchanges, \$b	Aggregate Derivs Vols, \$b																																														
	<table border="1"> <tr><td>USDT</td><td>679</td></tr> <tr><td>BTC</td><td>438</td></tr> <tr><td>ETH</td><td>169</td></tr> <tr><td>USDC</td><td>95</td></tr> <tr><td>TUSD</td><td>64</td></tr> <tr><td>BUSD</td><td>39</td></tr> <tr><td>XRP</td><td>37</td></tr> </table>	USDT	679	BTC	438	ETH	169	USDC	95	TUSD	64	BUSD	39	XRP	37	<table border="1"> <tr><td>Binance</td><td>192</td></tr> <tr><td>Upbit</td><td>32</td></tr> <tr><td>Huobi</td><td>31</td></tr> <tr><td>Coinbase</td><td>27</td></tr> <tr><td>Poloniex</td><td>24</td></tr> <tr><td>OKX</td><td>24</td></tr> <tr><td>ByBit</td><td>23</td></tr> </table>	Binance	192	Upbit	32	Huobi	31	Coinbase	27	Poloniex	24	OKX	24	ByBit	23	<table border="1"> <tr> <td></td> <td>1M</td> <td>O/I</td> </tr> <tr> <td>Spot</td> <td>366</td> <td>na</td> </tr> <tr> <td>Perpetuals</td> <td>2,980</td> <td>107</td> </tr> <tr> <td>Futures</td> <td>6</td> <td>1</td> </tr> <tr> <td>Options</td> <td>25</td> <td>na</td> </tr> <tr> <td>Total</td> <td>3,377</td> <td>108</td> </tr> </table>		1M	O/I	Spot	366	na	Perpetuals	2,980	107	Futures	6	1	Options	25	na	Total	3,377	108
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Crypto Futures

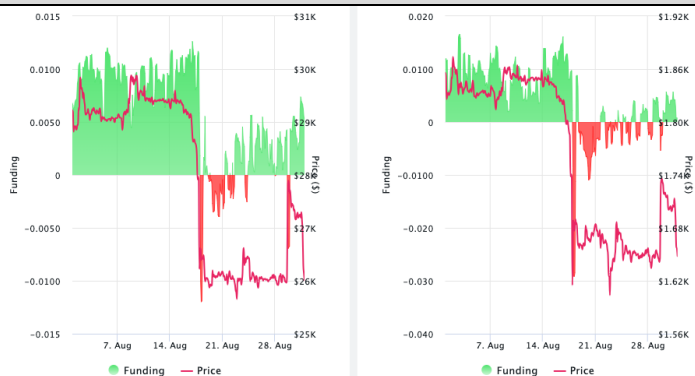
Futures Volume (BTC LHS ; ETH RHS), 1d



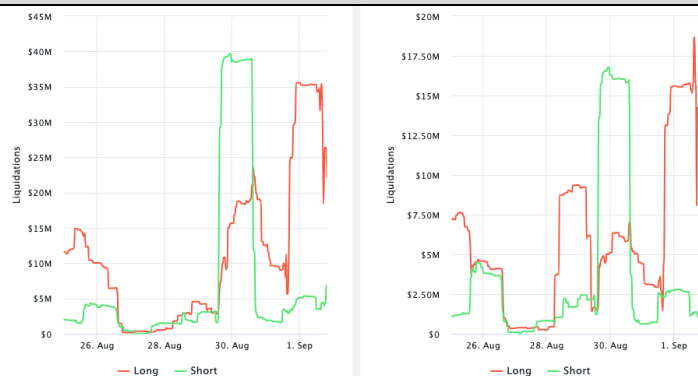
Futures Open Interest (BTC LHS ; ETH RHS)



Volume Weighted Funding Rate (BTC LHS ; ETH RHS), 1d

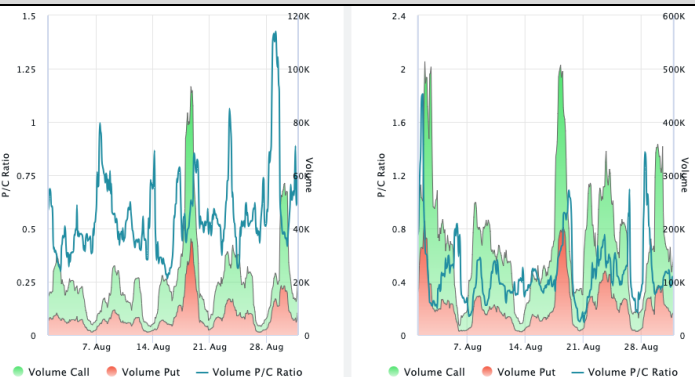


Liquidations (BTC LHS ; ETH RHS), 1d

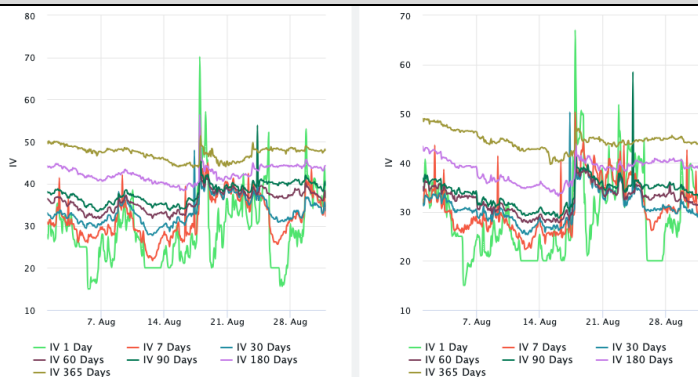


Crypto Options

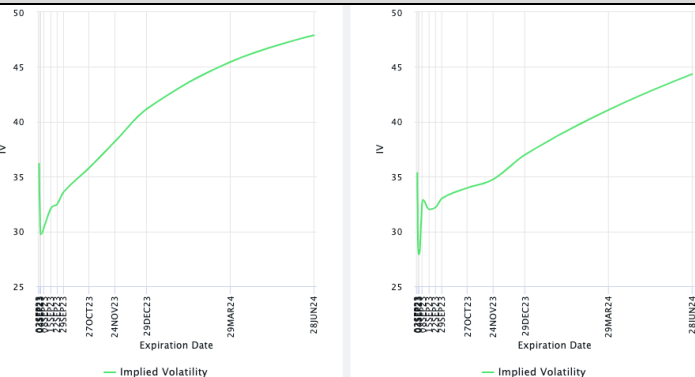
Options Volume & Put/Call Ratio (BTC LHS ; ETH RHS), 1d



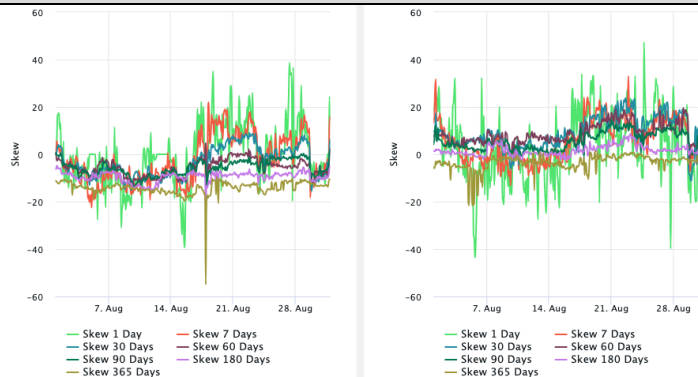
ATM Implied Volatility (BTC LHS ; ETH RHS)



ATM Implied Vol Term Structure (BTC LHS ; ETH RHS)



25 Delta Skew (BTC LHS ; ETH RHS)



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