

US Spot Ether ETF Approval Another Step Towards Mainstream Adoption of Digital Assets

Pubblicato il 24 maggio 2024

Blake Heimann

Associate Director, Quantitative Research

Dovile Silenskyte

Director, Digital Assets Research

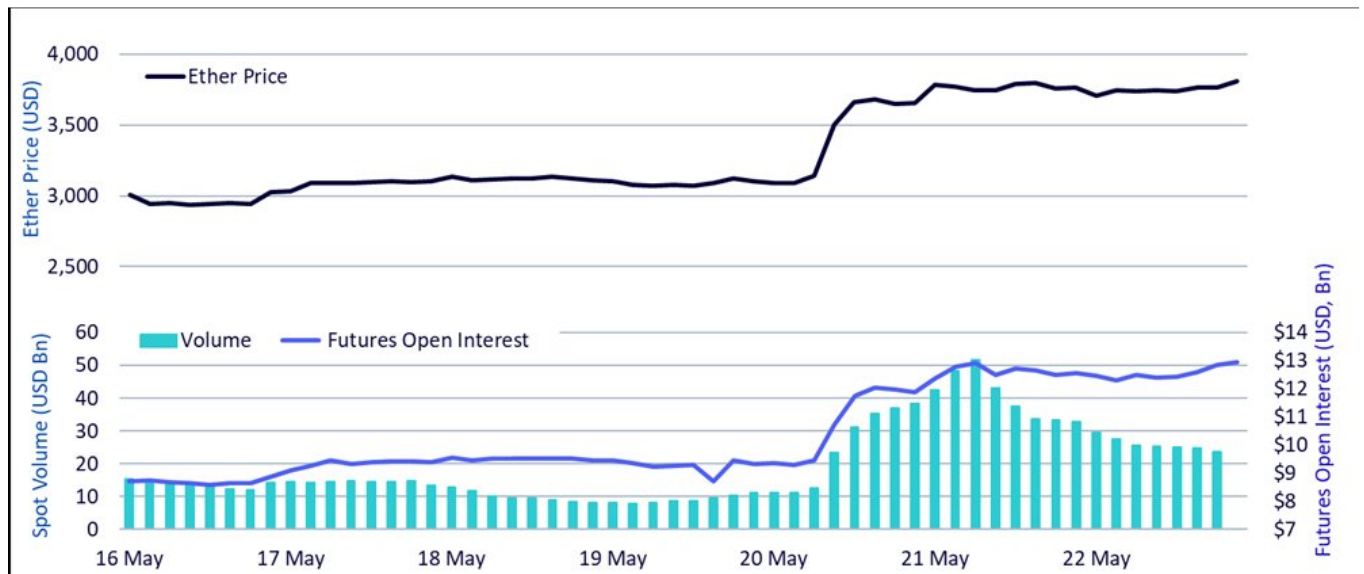
Punti chiave

- The potential approval of a spot Ethereum ETF in the U.S. represents a significant milestone for the cryptocurrency market.
- The cryptocurrency market itself is becoming more institutionalised as digital assets become more available within the wrappers that are easy to access.
- Will history repeat and significant assets move into ETH ETFs as we saw with bitcoin?
- Related Products WisdomTree Physical Ethereum, WisdomTree Physical Bitcoin Find out more

Ethereum's Surge Amid U.S. ETF Approval Activity

Ethereum (ETH, or ether) has seen a significant price uptick, rising over 25% over the past week. This was primarily driven by increased speculative activity around the potential approval of a spot ether exchange traded fund (ETF) in the United States, demonstrated by higher trading volume and futures open interest leading up to the Securities and Exchange Commission's (SEC) decision on May 23rd. By the end of the day on the 23rd, the announcement was made for the approval to list spot Ether ETFs in the United States, in a major turn of events from the past several weeks.

Figure 1: Ether Price, Volume, and Futures Open Interest Prior to Announcement



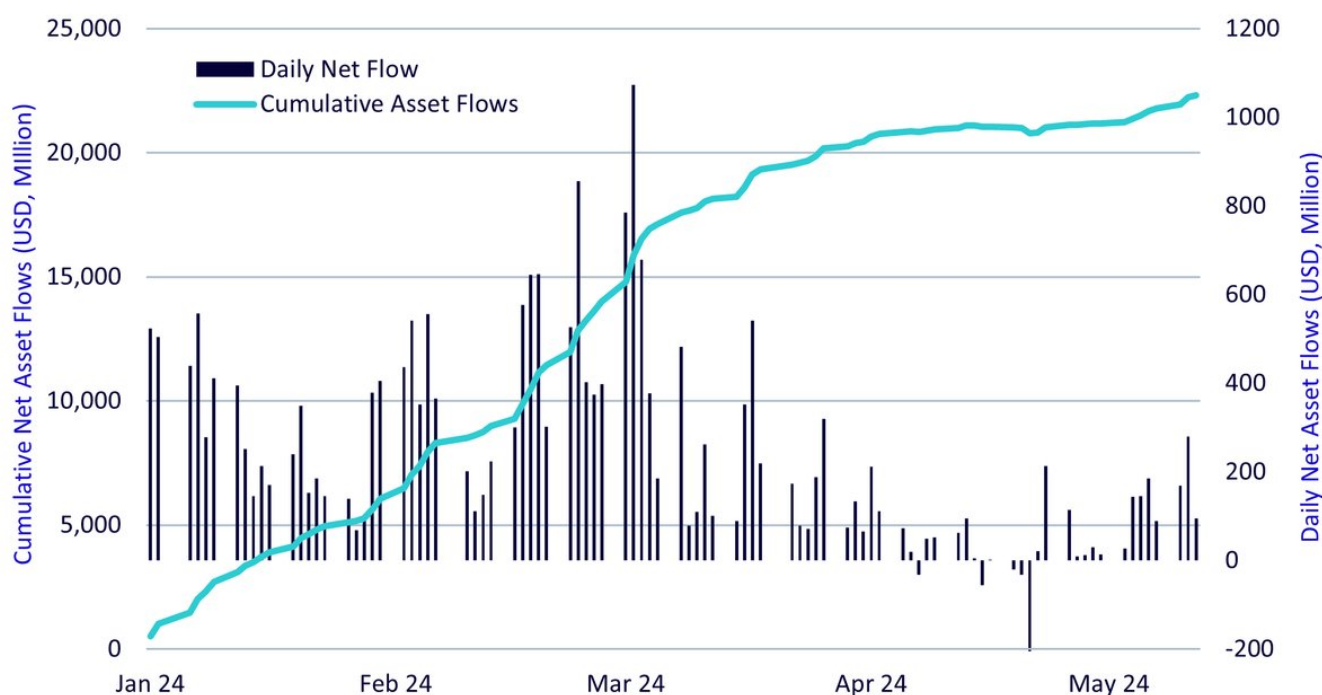
Source: Glassnode, Coinmarketcap, WisdomTree as of May 23, 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

In the months leading up to the approval, the SEC review process had been relatively quiet. Expert ETF analysts from Bloomberg had lowered the approval odds from over 50% early in the year¹ to 25%² more recently, as SEC concerns around Ethereum's classification as a security, and the ability to stake rendered it very different from previously approved Bitcoin. Executives of ETF issuers expressed scepticism on the approval based on their ongoing conversations directly with the SEC. However, this narrative shifted dramatically in the past few days, as issuers submitted amendments to their spot Ether ETF filings. These last-minute amendments caused analysts to quickly shift their views, updating the likelihood of approval to 75% days before the final decision³. This came as a surprise to markets, which quickly reacted to price in the increased likelihood, pushing ether prices and the digital assets markets up more broadly. With the recent SEC approval, the final step before spot Ether ETFs can begin trading is the approval of their ETF registration statements, which should come over the coming weeks.

The ETF Approval's Potential Market Impact

Earlier this year, the launch of spot Bitcoin (BTC) ETFs in the United States garnered record inflows, marking a significant milestone for the asset classes' maturity. Allocations from retail and institutional investors alike have led to new all-time high prices for bitcoin, and the doubling of the global market for spot crypto products year to date, with over 60B USD managed globally⁴. The question that has been on investors' minds is, would we expect a similar case for Ethereum?

Figure 2: US Bitcoin ETF Flows, YTD (excl. Grayscale)

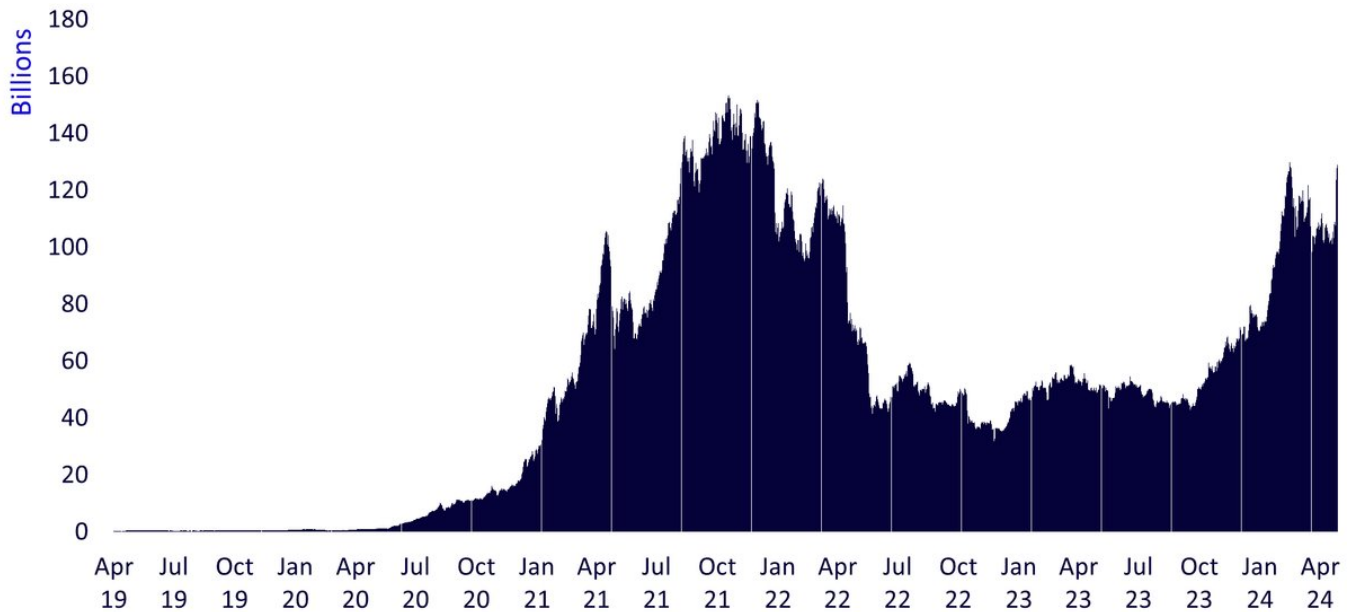


Source: Bloomberg, WisdomTree as of May 23, 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

It's possible, and the early market rally would reflect the optimism for a similar case for Ethereum. However, there is a chance adoption rate may not mirror the magnitude of Bitcoin's due to Ethereum being the second spot crypto asset to reach the US ETF market this year, muting some of the overall impact. The launch of the spot Bitcoin ETFs in the U.S. was the most successful on record and surpassing that in the same year may be a challenge. Likewise, the differentiated nature of Ethereum's use cases may attract a different investor base, potentially smaller than that of bitcoin, at least initially.

On the other hand, Ethereum's ecosystem may have other characteristics that could be beneficial to price action from ETF asset flows, beyond what was seen with Bitcoin. As the foundational layer for web3, enabled by smart contracts, Ethereum sees a considerable portion of its supply tied up in these contracts, leading to a reduced liquid supply. With much of its supply locked in the staking contract (you can learn more about here) and smart contracts associated with the many applications on the blockchain, less liquid supply may be available to meet the new demand from spot Ether ETFs. If this is the case, we may see prices rise more sharply if demand surges.

Figure 3: Assets in Smart Contracts on the Ethereum Network, USD



A Global Trend Towards Mainstream Adoption

This year has already marked several significant milestones for digital assets entering mainstream finance. The recent approval for Bitcoin and Ethereum Exchange Traded Products (ETPs) to be listed on the London Stock Exchange (LSE) has granted professional investors in the UK direct access to digital asset exposures within the wrapper they are already familiar and comfortable with. Similarly, spot crypto listings in Hong Kong earlier this year have further validated the asset class in Asia. These developments are viewed as a significant step towards greater institutional adoption of the asset class, with spot Ether ETF approval in the U.S. as another key milestone.

As demonstrated by the Wisconsin Investment Fund allocating to bitcoin in their pension⁵, institutional investors are taking digital assets seriously. They have evaluated the benefits of adding this asset class to their multi-asset portfolios (as highlighted in our digital assets whitepaper), recognizing that digital assets are becoming well established, and omission from portfolio allocations³ requires a clear investment thesis. With increased access through exchange traded products, global adoption of digital assets continues its strong trajectory.

1 The Block, 'Speculation over potential Ethereum ETF approval in May sends ether price surging', January 2024

2 Twitter, @EricBalchunas, March 25, 2024

3 Twitter, @EricBalchunas, May 20, 2024

4 Bloomberg, May 2024

5 Reuters, 'Bitcoin ETFs drew bets from Millennium Mgt, Wisconsin Retirement System in Q1', May 15, 2024

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.