# Ethereum Shanghai upgrade is a success

Pubblicato il 13 aprile 2023

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The most significant upgrade to the Ethereum network since the 'Merge' took place last night.

The Shanghai upgrade was successfully implemented on the Ethereum mainnet, enabling the withdrawal of staked ether (ETH) to complete the full transition to Proof-of-Stake (PoS).

Since the go-live date of the first Ethereum Proof-of-Stake chain launched in 2020, the concept of staking has been on the mind of investors as they demanded yield in a low rate environment.

By locking up, or 'staking' Ethereum, to validate transactions on the network, a yield could be generated in the form of newly minted ether rewards.

In 2020 (an environment where treasury yields were quite low and crypto prices were climbing) this seemed to be a reasonable yield-generating alternative investment to many investors.

The caveat – no liquidity until withdrawals were enabled. This all changed last night.

With the successful upgrade, investors have liquidity – which has been in higher demand recently.

With downward price pressure on digital assets and higher treasury yields offering a more familiar risk profile, investors who staked ether for the sake of generating yield now have reasonable alternatives to traditional assets like fixed income.

Now that Ethereum staking withdrawals are enabled, there are some potential implications for the tactical investor to consider.

1. Around 14% of the Ethereum supply is staked and has been inaccessible for withdrawal -- until now. Depending on the demand to unstake and possibly liquidate ETH positions, this could further apply downward price pressure on the asset. On the other hand, it's also reasonable to view the Shanghai upgrade as a catalyst for increased staking demand, as the inability to withdraw may have driven potential investors away. In either view, it is important to note that, as the amount of ether staked decreases, the yield increases, and vice versa, which may offset any extreme shifts in demand. As of early March, there was over 16M ether staked, which places the current state of affairs off the far right hand side of the chart below.

*Source: WisdomTree, launchpad.ethereum.org.*

**Historical performance is not an indication of future performance, and any investments may go down in value.**

2. Due to the lack of ability to withdraw staked ether since 2020, various ‘liquid-staking’ service providers have emerged and amassed a large amount of assets under their provision. With withdrawals enabled, there is potential risk for reduced demand for the services of these providers, and could lead to redemptions of their derivative tokens. In the past, when the demand for redemptions exceeded the capacity of exchanges and liquidity pools, the pegs to Ethereum wavered.

*Source: DefiLlama, Glassnode, WisdomTree as of April 2023.*

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3. On the regulatory front in the United States (US), the Head of the Securities and Exchange Commission, Gary Gensler, has stated that any Proof-of-Stake digital asset may be considered a security. Although this contradicts views and statements made by the Commodity Futures Trading Commission, another US regulatory body, it highlights the potential risk for regulatory impact for US investors. Any conclusions made around classifying Ethereum as a security would only be speculative, but the successful upgrade further puts Ethereum into the regulatory spotlight as the largest Proof-of-Stake asset by market capitalisation.

The long-term potential of Ethereum remains strong, despite short-term risks, as the growing developer community deploys an increasing number of smart contracts that can revolutionise traditional operating models through the efficiency and transparency of the blockchain.

Additionally, the impressive coordination of the decentralised community in reaching consensus on the design, implementation, and maintenance of the Ethereum blockchain as a public good, instills confidence in the network’s longevity. The successful implementation of the Shanghai upgrade demonstrates the power of decentralised communities to drive innovation and solve complex problems efficiently.

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