A crypto update in 7 points

Bitcoin flirting with $30,000, another successful upgrade on Ethereum, NFTs volume picking up: 2023 is off to a strong start for cryptos.

Charles-Henry Monchau *Chief Investment Officer*

PRIVATE BANKING

#1: The rebound of crypto assets in Q1

After the sharp decline experienced in 2022, the crypto market is off to a strong start this year, with bitcoin (BTC) testing $30,000 and ending the first quarter up 72%. This rebound comes amidst a greater risk appetite from investors, with the Nasdaq posting a 17% increase over the same period.

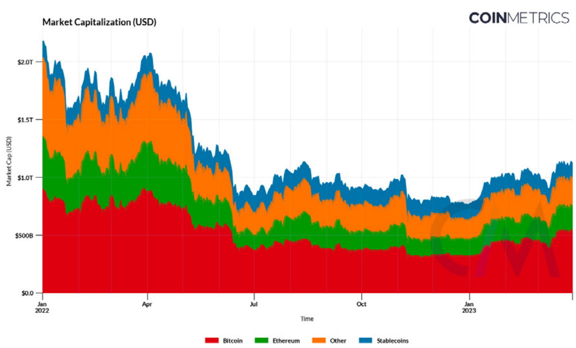
In addition to improved market sentiment, we should also note the emergence of new, buoyant themes within the crypto ecosystem: artificial intelligence, "Bitcoin Ordinals" (see point 7) as well as the growing interest in Chinese crypto currencies.

The market capitalization of digital assets has reached $1.2 trillion, the highest level since the summer of 2022.

Some of the most spectacular performances in Q1 include:

- FlexCoin (FLEX; +5064%; approx. $400 million capitalization) is the native token of CoinFLEX, a crypto-currency derivatives exchange platform, with decentralized finance (DeFi) offerings including "staking" products;
- Conflux (CFX; +1726%; market cap approx. $600 million), a Layer 1 blockchain whose mission is to solve the blockchain trilemma of decentralization, security and scalability;
- SingularityNET (AGIX; +812%; market cap approximately $400 million) is the native token of the SingularityNET exchange, a decentralized marketplace for artificial intelligence (AI).

Crypto assets market cap in June 2022



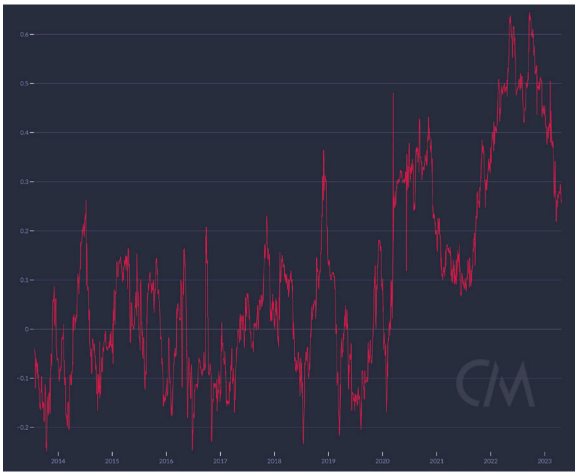
Sources: Coin Metrics datonomy, Coin Metrics Network Data

#2: An interesting change in bitcoin's behavior

While Bitcoin (BTC), Ether (ETH), and many smaller-cap crypto assets remain well below their 2021 highs, the crypto rebound has been accompanied by a shift in its behavior relative to traditional assets.

While stocks also rebounded in the first quarter, cryptos have begun to decouple from traditional assets, as evidenced by the decline in correlation between BTC and the S&P 500 Index.

Correlation of Bitcoin and S&P 500 (90 days)



Source: Coin Metrics Correlation Chart

#3: Bitcoin as an anti-fragile asset

The banking crisis and the bailout of Credit Suisse have played a significant role in the de-correlation between bitcoin and traditional assets.

Bitcoin vs. Silvergate, Silicon Valley Bank, Signature and Credit Suisse throughout March

Source: TradingView

The dichotomy between bitcoin and the aforementioned stocks highlights bitcoin's propensity to behave as an anti-fragile asset. "Anti-fragility" is a concept that was developed in 2013 by Nassim Nicholas Taleb, the author of the best-selling book, The Black Swan. The thesis developed is that the opposite of fragile is not solid or robust, as one might intuitively think, but "antifragile." Fragile is anything that does not stand up to the test. Solid is everything that resists a large number of tests. Antifragile is anything that gets better with time. In finance, anti-fragile likes volatility, uncertainty, shocks, financial crises, etc.

Bitcoin is often referred to as "digital gold". Indeed, its time-limited supply is one of its main similarities to precious metals. Bitcoin emerged at the time of the great financial crisis of 2008. Since its launch, bitcoin's monetary policy has made it the most robust and scarce currency on the planet. Bitcoin has survived many mistakes, shocks and even so-called "hard forks." Bitcoin has been declared for dead many times. Bitcoin mining has been banned in several countries. All these events and attacks have not stopped the development and adoption of bitcoin. The cryptocurrency is getting stronger with every block deposited.

In these times of banking crisis, bitcoin's anti-fragility features seem to have been remembered by investors.

#4: Ethereum's Shapella upgrade

A new upgrade to the Ethereum blockchain - dubbed "Shapella" - successfully went live on April 12. This is the most important "upgrade" since "The Merge" last year.

With "The Merge", Ethereum changed its consensus protocol. It abandoned a Proof-Of-Work (POW) model as used on Bitcoin to adopt the Proof-Of-Stake (POS) model, a much less energy intensive model.

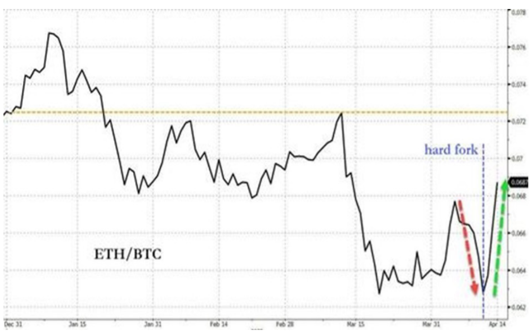
The Ethereum blockchain has two layers: execution (the main one) and a consensus layer. The "Shanghai" update is applied to the former and the Capella update to the latter, resulting in the Shapella (Shanghai + Capella) update.

One of the main changes made by Shapella concerns the staking of Ether (ETH) tokens. The move to the POS protocol has changed the way people participate in block validation. With POS, users who are staking ETH participate in block validation. This allows them to be remunerated via transaction fees. On the other hand, the tokens placed in staking are blocked. The Shapella update will change this as users can now withdraw their previously blocked ETH tokens.

The weeks leading up to the update saw the price of ether being under pressure and underperforming Bitcoin. The reason? Many investors were expecting large Ether unstaking requests right after Shapella. Coinbase had warned on Twitter that ETH withdrawal requests could be spread out over "weeks to months".

To the surprise of many observers, the days following Shapella were not characterized by large withdrawals, resulting in a strong rebound in ETH. As the chart below shows, the ether underperformed bitcoin before the update but outperformed bitcoin in the days following the Shapella hard fork.

Ether (ETH) relative to Bitcoin (BTC) between 31/12/2022 and 14/3/2023



Source: Bloomberg

#5: Stablecoins in turmoil

The stablecoin market is worth $120 billion. Some major developments took place within the stablecoin ecosystem during the first quarter.

The first major event occurred on February 13, when stablecoin operator and infrastructure company Paxos announced it would no longer issue Binance USD (BUSD) tokens. Paxos also announced that it had received a notice from the Securities & Exchange Commission (SEC) that it was considering classifying the BUSD as a security. In this climate of regulatory uncertainty, the supply of BUSD in circulation quickly plummeted from $16 billion to $8 billion at the end of the quarter.

In early March, the sudden closure of Silicon Valley Bank had negative impacts on the USDC, the second largest stablecoin. For a brief moment, we saw a de-pegging of the USDC against the dollar to 88 cents on March 11. Indeed, Circle, the parent company of the USDC, had $3.3 billion in deposit with SVB. The price of USDC then recovered to parity thanks to assurances from the FDIC, the US Treasury and the Federal Reserve that all depositors would be fully protected.

Despite Thether's infamous reputation, some market players have "taken refuge" in Tether, the world's largest stablecoin, during this period of uncertainty .

#6: Crypto exchange platforms are subject to regulatory oversight

The quarter also saw a series of new regulatory actions in the United States against crypto-currency exchanges. In early February, Kraken reached a settlement with the SEC, agreeing to pay $30 million in fines and to end "staking" services for U.S. customers.

Coinbase (COIN) announced on March 22 that it had received notice from the SEC that the U.S. regulator had made a "preliminary determination to recommend that the SEC take action against the company." Then, on March 27, the Commodity Futures Trading Commission (CFTC) filed a civil complaint against Binance and its CEO "CZ" for allegedly "failing to exercise due diligence in the supervision of Binance's business," as well as a host of other charges.

While these two events are very different in nature, they affect two major players in the digital asset industry: the largest U.S.-based exchange and the largest international exchange by spot volume.

#7: NFT trading volumes are on the rise again

Non-fungible token (NFT) trading volume rebounded in Q1 2023, reaching $4.5 billion, a 68% increase over Q4 2022. Blur, a newcomer to the NFT marketplace, has accounted for the majority of NFT trading volume since its launch in October 2022, accounting for 71.8% of the NFT market share in March 2023.

An important development regarding NFTs took place in the past quarter: it is now possible to "mint" NFTs on so-called "layer-2" Bitcoin blockchains. This is because the Ordinals protocol allows data to be permanently and immutably written to the Bitcoin blockchain. Here's how it works: each Bitcoin is divisible into 100 million units called satoshis (or sats). It is these satoshis that are used as the medium for registrations on Ordinals. As with NFTs, Ordinals registrations can store images, text, audio clips, security tokens, stablecoins, smart contracts, etc.

Pour plus d'informations

Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
Tel +41 58 799 10 00
Fax +41 58 799 20 00
syzgroup.com

Charles-Henry Monchau, Chief Investment Officer
charles-henry.monchau@syzgroup.com