

Monthly Digital Assets Market Report

February 2023

BTCetc – ETC Group Physical Bitcoin	BTCE	SOLetc – ETC Group Physical Solana	ESOL
ETHetc – ETC Group Physical Ethereum	ZETH	ADAetc – ETC Group Physical Cardano	RDAN
LTCetc – ETC Group Physical Litecoin	ELTC	UNLetc – ETC Group Physical Uniswap	USWA
BCHetc – ETC Group Physical Bitcoin Cash	BTCH	AVAXetc – ETC Group Physical Avalanche	EVAL
DOTetc – ETC Group Physical Polkadot	PLKA	ATOMetc – ETC Group Physical Cosmos	ATME
XLMetc – ETC Group Physical Stellar	STLR	MATICetc – ETC Group Physical Polygon	MTCE
XTZetc – ETC Group Physical Tezos	EXTZ	XRPetc – ETC Group Physical XRP	GXRP
ETC Group Digital Assets and Blockchain Equity UCITS ETF	KOIN	ETC Group Global Metaverse UCITS ETF	METR

For Professional Clients Only. Capital at risk.

All data as of 31/01/2023

This report was written by, and is the opinion of, ETC Group.

Key Takeaways

1. The Celsius effect: Euro Bitcoin ETPs win big
2. Ethereum deflation hits record with unstaking just weeks away
3. Is the crypto market bottom in?

Macro Outlook

The Celsius effect: Euro Bitcoin ETPs win big

Since the 2022 collapse of crypto lending platforms like BlockFi, Celsius and Voyager Digital, institutional investors in Europe have consistently moved away from esoteric, double-digit yield-promising platforms, instead seeking out the safest way to access Bitcoin in their portfolios. As such European Bitcoin ETPs have witnessed massive inflows.

Up for grabs is a slice of the 38% year to date returns for Bitcoin. And yet at a market price of \$23,000 the asset is still trading below its 200-week moving average — which has only happened four times in the last seven years.

The largest fund inflows since the beginning of 2023 have come into physically-backed investment products that not only replicate the price of Bitcoin but are 100% collateralised by the underlying asset. ETP Group's BTCE, for example, holds BTC with a third party custodian in cold storage and customers have a legal claim on the underlying BTC.

Europe's biggest winner of the year to date is BTCE which between 1 January and 6 February saw 2,125 BTC (~\$48m) of net inflows. Taking second place was the 3iQ Bitcoin ETF, with 1,952 BTC of inflows (\$44.8m). Synthetic funds — that rely on derivatives called swap agreements to replicate the price performance of Bitcoin — have underperformed the market.

The two lowest-performing European funds over the same period, with net outflows of 38 BTC (€805k) and 26 BTC (€551k) respectively, are both synthetic Bitcoin ETPs: Bitcoin Tracker One and Bitcoin Tracker Euro.

Sources available upon request. **Please remember that digital assets can be highly volatile, and your capital is at risk. Past performance is not indicative of future performance.**

ETH hits deflation record with unstaking just weeks away

It is now 145 days since Ethereum's Merge, the most significant cryptocurrency network upgrade in history. The structural switchover of the second-largest cryptoasset from Proof of Work mining to Proof of Stake instantly cut the amount of tokens issued into the market by around 88%.

Under Proof of Work, miners were issued approximately 13,000 ETH per day for helping to process transactions and keep the network secure. Under the new system, stakers are instead given rewards of around 1,700 ETH per day for depositing and holding ETH on the blockchain.

New data now reveals that Ethereum's native token ETH has hit a deflation record.

If Proof of Work was still in force, over the course of the last four months, 1.69 million ETH tokens would have been added to the 120.1 million circulating supply.

As it is, under this new Proof of Stake regime, almost 10,000 ETH has instead been removed from circulation. This gives Ethereum a deflationary currency, with a deflation rate of 0.02% annually.

Adding to the trend are that DeFi volume and NFT sales volumes have picked back up and demand from apps to use Ethereum's blockspace has broadly increased. ETC Group research shows that Ethereum saw \$758m in NFT sales across January 2023, while the total value locked in DeFi platforms grew by 26%.

One other key positive catalyst for ETH holders is the Shanghai hard fork, which is scheduled for March 2023. This is the most significant technical development since The Merge in September 2022, and will enable users to withdraw Ethereum deposits and rewards that have been accrued since staking went live on the Beacon Chain in December 2020.

The Ethereum network has \$26 billion worth of ETH staked on the network that users will be able to access progressively.

Is the crypto market bottom in?

It would be hard to find a harsher or more fraught playing field for risk assets as mid-to-late 2022, and it is difficult to imagine either Bitcoin or Ethereum revisiting their 2022 lows — \$15,782 and \$993 respectively.

There are simply more bullish catalysts available to both digital assets today than there were in the midst of the market drop. Some are structural, such as the growing demand for blockspace and associated fees on Ethereum, some are crypto-cyclical, such as the upcoming Bitcoin halving, while others relate more broadly to the prevailing macroeconomic picture. This latter point may reveal cryptoassets to be a better portfolio diversifier than many had anticipated.

Bitcoin's recent run up from \$16,000 to \$24,000 injected some much-needed optimism into crypto markets, but it is worth looking at what comes next.

Sources available upon request. **Please remember that digital assets can be highly volatile, and your capital is at risk.**

Featured Products Performance

As of 31.01.2023

	1M	3M	6M	YTD	12M	SI
BTCetc ETC Group Physical Bitcoin	39.48%	12.86%	-4.21%	39.48%	-41.13%	125.88%
<i>Bitcoin</i>	39.11%	13.32%	-3.32%	39.11%	-39.99%	135.17%
ETHetc ETC Group Physical Ethereum	32.83%	1.25%	-8.72%	32.83%	-41.71%	0.73%
<i>Ether (Ethereum)</i>	32.32%	1.55%	-8.09%	32.32%	-40.88%	1.72%
ETC Group Digital Assets and Blockchain Equity UCITS ETF	30.26%	-7.85%	-20.52%	30.26%	-59.62%	-79.74%
<i>Solactive ETC Group Digital Assets and Blockchain Equity Index NTR</i>	30.45%	-7.55%	-20.20%	30.45%	-59.32%	-79.60%
ETC Group Global Metaverse UCITS ETF	17.77%	14.16%	7.49%	17.77%	NA	-6.82%
<i>Solactive ETC Group Global Metaverse Index</i>	17.87%	14.37%	7.67%	17.87%	-23.14%	-6.50%

Please note that all performance figures are showing net data. Source: Bloomberg / HANetf. Data as of 31/01/2023
Performance before inception is based on back tested data. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. Past performance for the index is in USD. Past performance is not an indicator for future results and should not be the sole factor of consideration when selecting a product. Investors should read the prospectus of the Issuer ("Prospectus") before investing and should refer to the section of the Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in this product. When you invest in ETFs and ETCs, your capital is at risk.

Featured Product Details

Visit the [BTCE Fund Page](#) for more information

Exchange	BBG Code	RIC	ISIN	Valoren	SEDOL	Currency	TER
Deutsche Boerse Xetra	BTCE GY	BTCE.DE	DE000A27Z304	-	BMWSLR9	USD	2.00%
SIX Swiss Exchange	BTCE SW	BTCEUSD.S	DE000A27Z304	55503260	BLB3S55	USD	2.00%
SIX Swiss Exchange	BTCEGBP SW	BTCEGBP.S	DE000A27Z304	55503260	BLB3S66	GBP	2.00%
SIX Swiss Exchange	BTCECHF SW	BTCECHF.S	DE000A27Z304	55503260	BLB3S77	CHF	2.00%
Euronext Paris	BTCEEUR:FP	BTCE.PA	DE000A27Z304	-	BN0ZB02	EUR	2.00%
Euronext Amsterdam	BTCEUSD:NA	BTCE.AS	DE000A27Z304	-	BN0ZB13	EUR	2.00%
CBOE	BTCEd I2	BTCEd.DXE	DE000A27Z304	-	BNM7CN6	EUR	2.00%

Visit the [ZETH Fund Page](#) for more information

Exchange	BBG Code	RIC	ISIN	Valoren	SEDOL	Currency	TER
Deutsche Boerse Xetra	ZETH GY	ZETH.DE	DE000A3GMKD7	-	BMV2RQ3	EUR	1.49%
SIX	ZETH SE	ZETHUSD.S	DE000A3GMKD7	110488627	BN0WR83	USD	1.49%
SIX	ZETHCHF SW	ZETHCHF.S	DE000A3GMKD7	110488627	BN0WRB6	CHF	1.49%
SIX	ZETHGBP SW	ZETHGBP.S	DE000A3GMKD7	110488627	BN0WR94	GBP	1.49%
Euronext Paris	ZETH FP	ZETH.PA	DE000A3GMKD7	-	BN0Z9Y2	EUR	1.49%
Euronext Amsterdam	ZETH NA	ZETH.AS	DE000A3GMKD7	-	BN0Z9Z3	USD	1.49%

Visit the [KOIN Fund Page](#) for more information

Exchange	BBG Code	RIC	ISIN	Valoren	SEDOL	Currency	TER
London Stock Exchange	KOIN LN	KOIN.L	IE00BMQ8YK98	-	BMBTJ46	USD	0.60%
London Stock Exchange	KOIP LN	KOIP.L	IE00BMQ8YK98	-	BN4MYX3	GBP	0.60%
Borsa Italiana	KOIN IM	KOIN.MI	IE00BMQ8YK98	-	BMXR829	EUR	0.60%
Deutsche Boerse Xetra	KO1N GY	KO1N.DE	IE00BMQ8YK98	-	BMXR807	EUR	0.60%
SIX	KOIN SW	KOIN.S	IE00BMQ8YK98	112518685	BMX8DD8	CHF	0.60%
Euronext Paris	KOIN FP	KOIN.PA	IE00BMQ8YK98	-	BMD2GJ7	EUR	0.60%

Visit the [METR Fund Page](#) for more information

Exchange	BBG Code	RIC	ISIN	SEDOL	Currency	TER
London Stock Exchange	METR LN	METR.L	IE000KDY1003	BMV7W41	BMV7W41	0.65%
London Stock Exchange	METP LN	METP.L	IE000KDY1003	BMV7ZZ3	BMV7ZZ3	0.65%
Deutsche Boerse Xetra	M37R GY	M37R.DE	IE000KDY1003	BMCDV18	BMCDV18	0.65%
Borsa Italiana	METR IM	METR.MI	IE000KDY1003	BMCDTZ8	EUR	0.65%



ETC Group has been created to provide investors with the tools to access the investment opportunities of the digital assets and blockchain ecosystem. United within ETC Group is one of the world's largest electronic market makers and an exceptional team of financial services professionals and entrepreneurs, with experience spanning both the worlds of digital assets and regulated markets. While product quality and safety stand at the core of our product creation approach, we aim at continuously launching best-in-class institutional-grade exchange traded products.

As a company, we have launched the world's first centrally cleared Bitcoin exchange traded product on Deutsche Börse XETRA, the largest ETF trading venue in Europe, and have also launched Europe's first Metaverse ETF together with HANetf. Further information as well as regular digital assets research publications can be found on www.etc-group.com.



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 - ii. the carbon securities ETCs under the terms in the base prospectus approved by the UK Financial Conduct Authority ("FCA") and the relevant final terms of the carbon securities (together, "FCA Carbon ETC Prospectus"); and
 - iii. the carbon securities ETCs under the terms in the base prospectus approved by the Central Bank of Ireland ("CBI") and the final terms of the carbon securities (together, "CBI Carbon ETC Prospectus").

Investors should read the latest versions of the relevant ETC prospectus before investing and should refer to the section of the relevant ETC prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the ETCs. Any decision to invest should be based on the information contained in the relevant ETC prospectus.

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The ETF Prospectus, Metals ETC Prospectus, FCA Carbon ETC Prospectus, CBI Carbon ETC Prospectus and Cryptocurrency Prospectus can all be downloaded from www.hanetf.com.

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