

June 5, 2024

Summary

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- Many analysts currently estimate that spot ETH ETFs will capture around 20% of the spot BTC ETF flow, equating to \$7 billion annualized. We propose a more granular approach, examining Ethereum's attributes that justify a discount in the eyes of TradFi investors.
- Modeling TradFi investors' likely reactions to Ethereum's 'world computer' narrative and the ETF's lack of staking, our base-case scenario predicts a \$3.6 billion inflow in the first 12 months.
- Focusing on TradFi-friendly narratives to attract fresh capital, rather than adding staking features, would accomplish far more in terms of bringing in AUM. As a support, our best-case scenario, which reflects this possibility, estimates a flow three times larger than the base-case.

Figure 1: Base-Case Scenario For Spot ETH ETF Inflow

Source: CoinShares, Presto Research

Assumption 1: New/old money ratio is lower than in BTC ETF			
	US\$ mn	New/Old Ratio	% of Digital Asset Investment Products
AUM: Digital Asset Investment Products - ETH (Prior to Jan 11th)	15,842		
Re-cycled (est.) [A]	1,726	70%	11%
New Money (est.)	740	30%	
Cumulative Total Net Inflow (in the first 20 weeks, est.)	2,466	100%	
New Money Annualized (est.) [B]	1,901		
Cumulative Total Net Inflow (annualized, est.) [A]+[B]	3,628		

With spot ETH ETFs likely to list in a few weeks, many are hopeful that ETH will see a replay of the spot BTC ETF listings in both price and brand awareness. On the other hand, some are more cautious, citing the peculiarities of the Ethereum network. Given this context, this report proposes a framework for analyzing both the similarities and differences between the two assets that could affect the success of a spot ETH ETF and how they can be modeled to estimate the inflow.

Ethereum's Discount Factors

Currently, the street's estimates on the spot ETH ETF flow centers around 20% of spot BTC ETF, which represents a slight discount to the ETH/BTC market cap ratio of 33%. We believe Ethereum's certain attributes can explain the discount, and discuss two below.

First is its investment thesis. Specifically, TradFi investors may not respond as enthusiastically to ETH's investment thesis than to BTC's. Gold's investment thesis as an inflation hedge is well-known, and therefore it is not a leap for TradFi investors to wrap their heads around the idea of 'digital gold'. On the other hand, ETH's 'world computer' narrative is much more difficult to grasp for the non-technicals. Even if they manage to come around, their conviction level would need to be high enough to justify adding a second digital asset exposure after a BTC ETF. This could be challenging because, for those who have already allocated to a BTC ETF in their portfolio, adding another digital asset exposure provides substantially less incremental diversification benefit than the first exposure.

Second is the staking yield, or lack thereof. As an operationally superior investment vehicle, the spot ETH ETFs, once listed, are likely to trigger 'switch' or 'recycle' demand from holders of Digital Asset Investment Products. Coined by CoinShares, 'Digital Asset Investment Product' refers to registered investment vehicles of all types providing exposure to digital assets (e.g. Grayscale Bitcoin/Ethereum Trust, CoinShares Physical Bitcoin, etc.). They often offer the

best solutions for institutional investors until the debut of spot ETFs make them obsolete. Those who are already invested in ETH via Digital Asset Investment Products and don't want to be diluted may opt for opportunities to earn the staking yield elsewhere, instead of switching into the spot ETFs offering no staking yield.

Figure 2: US\$16bn in ETH Investment Products

Source: Bloomberg

Issuer Name	Ticker	Prim Exch Nm	Curr Adj Mkt Cap	Sec Type	Deriv Bsd	Last Price	%1D
91.00	Sum	--	15,719	--	--	2325.3744	+28.69%
Grayscale Ethereum Trust	ETHE US	d OTC US	10,930	Open-End Fund		35.24c	+0.60%
ETHER TRACKER ONE - EUR	COINETHE SS	d FN Stockholm	835	ETP	Y	326.83c	-0.53%
21Shares Ethereum Staking ETP	AETH SW	d SIX Swiss Ex	551	ETP	N	41.55c	+0.13%
CI Galaxy Ethereum ETF	ETHX/B CN	d Toronto	496	ETP	N	18.53y	+0.22%
ETHER TRACKER ONE - SEK	COINETHE SS	d FN Stockholm	489	ETP	Y	373.23c	-0.99%
CoinShares Physical Staked Ethereum	ETHE SW	d SIX Swiss Ex	323	ETP	N	111.46c	+0.34%
Ether Fund/The	QETH/U CN	d Toronto	239	Closed-End Fund		55.77y	+0.32%
CI Galaxy Ethereum ETF	ETHX/U CN	d Toronto	198	ETP	N	17.02y	+0.71%
VanEck Ethereum ETP	VETH GR	d Xetra	175	ETP	N	20.78	-0.10%
Purpose Ether ETF	ETHH/B CN	d Toronto	165	ETP	N	17.83y	+0.34%
ETC Group Physical Ethereum	ZETH GR	d Xetra	154	ETP	N	33.25	+0.38%
Purpose Ether ETF	ETHH CN	d Toronto	114	ETP	N	15.22y	+0.53%
WisdomTree Physical Ethereum	ETHW SW	d SIX Swiss Ex	113	ETP	N	37.21c	+0.69%
Proshares Ether Strategy Etf	EETH US	xd NYSE Arca	98	ETP	Y	81.83c	+0.38%
Hashdex Nasdaq Ethereum Reference	ETHE11 BZ	d B3 Day	74	ETP	N	58.64c	+1.28%
Purpose Ether ETF	ETHH/U CN	d Toronto	72	ETP	N	16.35y	-0.61%
Evolve Ether ETF	ETHR CN	d Toronto	61	ETP	N	17.69y	+0.17%
Valkyrie Bitcoin and Ether Strategy E	BTF US	d NASDAQ GM	56	ETP	Y	21.07c	-0.61%

Three Scenarios

Factoring in these considerations, we break down the spot ETH ETFs' target investors into 'New Money' and 'Old Money' and summarize their respective decision making process as below (Figure 3).

Figure 3: Winding Path to ETH ETF Investing

Source: Presto Research

Who	Buy-in For World Computer Narrative?	Need a second crypto asset exposure?	Willing to forgo staking yield?	Invest in ETH ETF?
New Money	Institutional investors with no prior investment experience in ETH	YES		YES
		NO		NO
	NO	NO		NO
Old Money	Early/Progressive institutional investors	YES	YES	YES
		YES	NO	NO

With this in mind, we make the following assumptions regarding New Money and Old Money in our base-case scenario.

- **New Money:** It represents a significantly smaller portion of the spot ETH ETF inflow compared to the Old Money.
- **Old Money:** Investors in the Digital Asset Investment Product recycle the same percentage into the spot ETH ETFs as they did with the spot BTC ETFs.

To estimate the New vs Old Money split, we look at the spot BTC ETFs for reference. The spot Bitcoin ETFs' \$14bn YTD inflow consists of both New and Old money, where New Money represents fresh capital and Old Money represents switch/recycle demand from the Digital Asset Investment Products holders such as GBTC. Based on Bloomberg analyst James Seyffart's estimate that roughly one-third of the GBTC's redemptions are being recycled, we assign a 3:7 ratio. This is summarized in the table below (Figure 4).

Figure 4: Estimating New/Old Money Ratio For Spot BTC ETF Inflow

Source: CoinShares, Presto Research

	US\$ mn	New/Old Ratio	% of Digital Asset Investment Products
AUM: Digital Asset Investment Products - BTC (Prior to Jan 11th)	37,832		
Re-cycled (est.)	4,122	30%	11%
New Money (est.)	9,618	70%	
Cumulative Total Net Inflow (As of May 31st, 2024)	13,740	100%	

Applying the above model to the spot ETH ETF with a corresponding set of assumptions can provide a reasonable estimate for the likely inflow. This is shown in Figure 5.

Figure 5: Base-Case Scenario For Spot ETH ETF Inflow

Source: CoinShares, Presto Research

Assumption 1: New/old money ratio is lower than in BTC ETF			
	US\$ mn	New/Old Ratio	% of Digital Asset Investment Products
AUM: Digital Asset Investment Products - ETH (Prior to Jan 11th)	15,842		
Recycled (est.) [A]	1,726	70%	11%
New Money (est.)	740	30%	
Cumulative Total Net Inflow (in the first 20 weeks, est.)	2,466	100%	
New Money Annualized (est.) [B]	1,901		
Cumulative Total Net Inflow (annualized, est.) [A]+[B]	3,628		

Under our base-case assumptions, the model estimates the inflow into the spot ETH ETFs in the first 20 weeks to be \$2.5bn. Assuming that any recycling is mostly completed within the first 20 weeks, we annualize the ‘New Money’ portion only (i.e. New Money Annualized = \$740mn / 142 days x 365 days = \$1,901mn) to arrive at the 12-month inflow estimate of \$3.6bn.

That said, those who disagree with our assumptions are encouraged to play around with the model to arrive at their own estimate. For instance, a more optimistic scenario could be constructed by assuming the following.

- New Money: It represents a bigger portion of the spot ETH ETF inflow compared to the Old Money, similar to that of the spot BTC ETFs.
- Old Money: Investors in Digital Asset Investment Product recycle the same percentage into the spot ETH ETFs as they did with the spot BTC ETFs.

These assumptions can be quantified, as in Figure 6. The resulting estimate is \$5.8bn, or \$12bn annualized.

Figure 6: Best-Case Scenario For Spot ETH ETF Inflow

Source: CoinShares, Presto Research

Assumption 1: New/old money ratio is same as in BTC ETF

	US\$ mn	New/Old Ratio	% of Digital Asset Investment Products
AUM: Digital Asset Investment Products - ETH (Prior to Jan 11th)	15,842		
Recycled (est.) [A]	1,726	30%	11%
New Money (est.)	4,027	70%	
Cumulative Total Net Inflow (in the first 20 weeks, est.)	5,754	100%	
New Money Annualized (est.) [B]	10,352		
Cumulative Total Net Inflow (annualized, est.) [A]+[B]	12,078		

On the other hand, a more pessimistic scenario can be constructed by assuming,

- New Money: It represents a significantly smaller portion of the spot ETH ETF inflow compared to the Old Money (i.e. same as base-case scenario)
- Old Money: Investors in Digital Asset Investment Product recycle a lower percentage into the spot ETH ETFs than they did with the spot BTC ETFs.

With the following quantified assumptions, the resulting estimate is \$1.4bn, or \$2bn annualized (Figure 7).

Figure 7: Worst-Case Scenario For Spot ETH ETF Inflow

Source: CoinShares, Presto Research

Assumption 1: New/Old money ratio is lower than in BTC ETF Assumption 2: % recycled is lower than in BTC ETF			
	US\$ mn	New/Old Ratio	% of Digital Asset Investment Products
AUM: Digital Asset Investment Products - ETH (Prior to Jan 11th)	15,842		
Recycled (est.) [A]	951	70%	6%
New Money (est.)	407	30%	
Cumulative Total Net Inflow (in the first 20 weeks, est.)	1,358		
New Money Annualized (est.) [B]	1,047		
Cumulative Total Net Inflow (annualized, est.) [A]+[B]	1,998		

Wanted: More TradFi-Friendly Narrative

The estimates under the three scenarios are summarized in Figure 8. The table offers two takeaways. First, ETH ETF inflows are likely to be lower than the street’s 20% estimate due to the extra challenges posed by Ethereum, namely Ethereum’s less TradFi-friendly narrative and the lack of staking rewards. Second, while allowing staking would certainly make spot ETH ETFs more attractive, focusing on TradFi-friendly narratives to attract fresh capital would accomplish far more in terms of bringing in AUM (e.g., positioning ETH as an ESG-friendly digital asset). As a support, our best-case scenario, which reflects this possibility, estimates a flow three times larger than the base-case. This intuitively makes sense; it’s still early days in the digital asset industry, meaning there is a much larger pool of capital out there that will respond favorably once Ethereum’s investment thesis is fundamentally comprehended.

Figure 8: Investment Thesis First, Staking Yield Later

Source: CoinShares, Presto Research

	New Money	Old Money	Spot ETH ETF Inflow in 12 Month (US\$ mn)
Who	Institutional investors with no prior investment experience in ETH	Early/Progressive institutional investors with existing ETH Investment Product holdings	
Variables	% contribution to spot ETH ETF inflow	% of the existing 'ETH Investment Product' recycled into spot ETH ETF	
Best-Case	70% Rationale: Strong buy-in for Ethereum's 'world computer' narrative	11% Rationale: Same % as spot BTC ETF	12,078
Base-Base	30% Rationale: 1) Less buy-in for Ethereum's 'world computer' narrative 2) Smaller diversification benefits from 2nd crypto exposure	11% Rationale: Same % as spot BTC ETF	3,628
Worst-Case	30% Rationale: 1) Less buy-in for Ethereum's 'world computer' narrative 2) Smaller diversification benefits from 2nd crypto exposure	6% Rationale: Reflecting outflow to earn staking rewards elsewhere	1,998

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