

Ethereum: The Bearish Case

Research | Strategy

Analysis:

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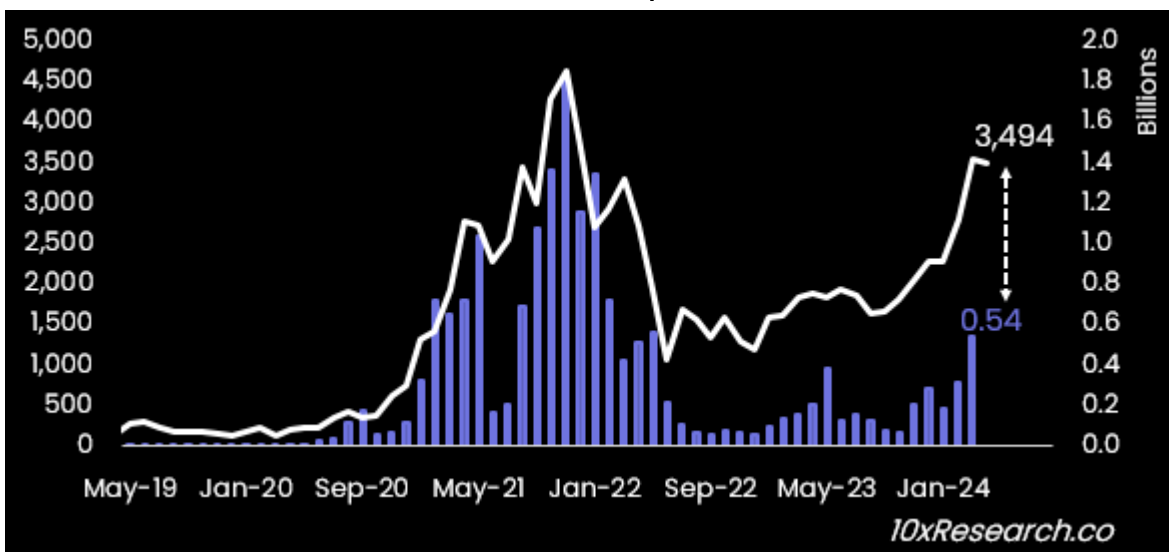
We are in a bull market, and most prices have increased. However, this bull market is driven mainly by Bitcoin ETF inflows. While we see increased issuance in stablecoins, which signals a fiat-to-crypto conversion, a real ‘bullish’ story for this bull market is still missing.

Instead of an actual use case, the bull market narrative remains that TradeFi must buy Bitcoin for asset diversification. All the previous four Bitcoin markets had one form or another, with blockchain as a central pillar. The last bull market was centered on DeFi and how crypto would replace some legacy financial systems as blockchain would put the existing trade settlement and other middle and back office operations out of business.

Ethereum was seen as the oil of the digital age, and as ETH was used to pay for DeFi transactions or NFT minting, Ethereum’s revenues increased dramatically—and with it, the price of Ether. Both revenues and Ether prices rose in tandem. Revenues are fees generated to the token holders—derived from the fees generated via the platform’s usage and then captured by the company (or token).

While fees are seen as sales, the company (or token) captures revenues as profits after different stakeholders (and other costs, such as marketing) are deducted. Each company or its token has a unique way of capturing and passing through revenues to the owners. While crypto token prices often deviate from their revenue level, the relationship is an anchor.

Exhibit 1: Ethereum Revenues (RHS, \$bn) vs. Ether prices



Source: 10x Research

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In March 2024, Ethereum’s fees were \$607m while revenues were \$544m. Historically – or more precisely, during the previous 2020 to early 2022 bull market, there was a close relationship between revenues and the price of Ether, whereas \$1.4bn in monthly revenues equated to an Ether price of 3,500. Today, Ether prices are similar, but revenues are just \$544m – hence, there is a hefty valuation gap. Based on this metric, Ether should be trading near 1,500, not 3,500.

Obviously, the market turns a blind eye as other drivers take over, but despite monthly revenue changes of +75% (March vs. February) and +72% (February vs. January), Ether appears rather overvalued. Of course, the driver appears to simply be the bull market and/or the potential approval of an Ethereum ETF in May. Despite plenty of applications, the news flow around an Ethereum ETF has remained quiet.

Overall, revenues remain relatively weak, but a snapshot of the top protocols offers a broad mix of Layer 1s (Ethereum, Tron, Bitcoin, Solana, BNB Chain), Layer 2s (Base, Arbitrum), DEX (Uniswap, Aerodrome, PancakeSwap, Trader Joe), Liquid Staking (Lido), Lending (Aave, Compound, Venus) and Stablecoins (MakerDao, Ethena).

Ethereum Gas fees are transaction fees users pay on the Ethereum blockchain to conduct transactions like sending or swapping ETH and when they execute smart contracts. Gas fees are, therefore, a form of compensation paid to miners or, nowadays, to stakers who help make Ethereum network transactions possible.

Exhibit 2: Top protocols by monthly revenue (last 30 days)



Source: 10x Research

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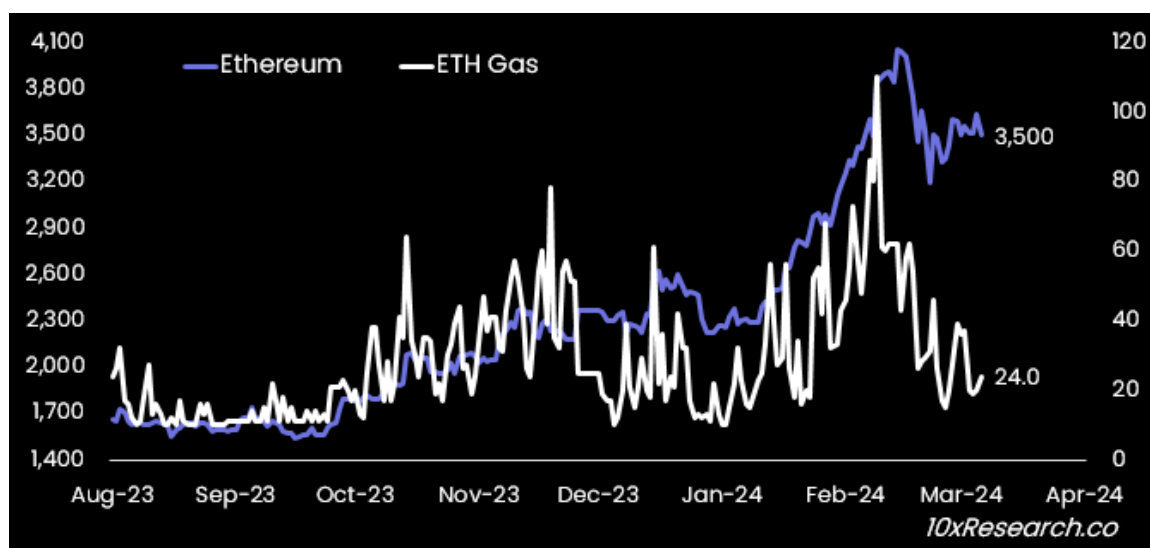
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Recently, ETH gas fees have declined sharply, signaling that network activity has normalized after the spike in activity in early March. This coincided with when many meme coins took off (dogwifhat, \$4bn market cap) or were listed – such as Book of Meme (BOME) – most of the newer meme coins are issued on Solana due to their lower (gas) fees.

Exhibit 3: Ethereum vs. ETH Gas Fees



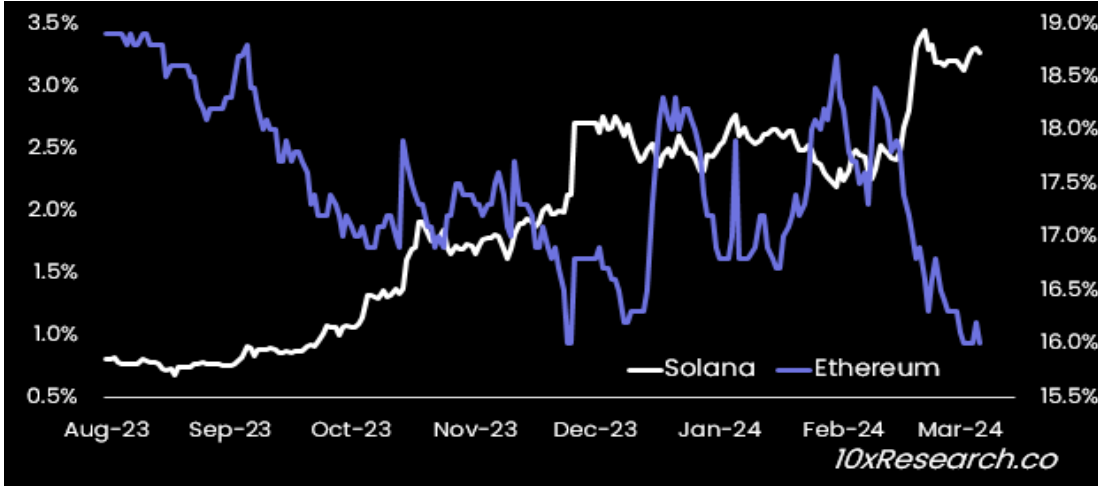
Source: 10x Research

While Bitcoin’s dominance has remained stable at 52%, Ethereum’s dominance (Ethereum market cap/crypto market cap) has declined from nearly 20% a year ago to just 16%. Solana’s dominance has increased from 0.7% to 3.5%. The latest spike is purely associated with meme coin issuance (or pre-sales) on Solana.

Solana’s fees and revenues exploded in March, with fees at \$69m and revenues at \$35m. In November, those numbers were \$3.2m and \$1.6m. On a weekly basis, we are seeing fees decline from \$12m to \$9.8m—a sign that the bulk of the revenue increase (rate of change) is likely behind us.

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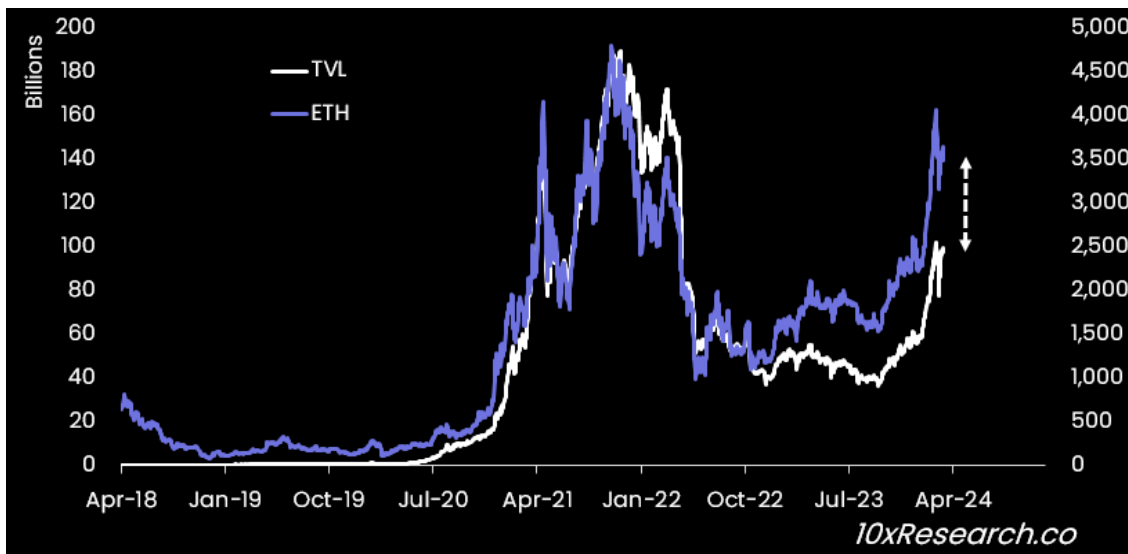
Exhibit 4: Ethereum vs. Solana dominance



Source: 10x Research

Similarly, when we compare the Ether price with the TVL for the crypto industry, we notice that Ether appears fairly overvalued. TVL stands for Total value locked and determines the US dollar value of digital assets locked, or staked, on a particular blockchain network via decentralized finance (DeFi) platforms or decentralized applications (dApps). Based on the overall TVL market, Ether should be valued closer to 2,500.

Exhibit 5: Ethereum vs. TVL



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One narrative that is also being repriced is that of US rate cuts. While previously expectations were high that the Fed might cut six times this year, this has been repriced to just three. Even three cuts are becoming doubtful as inflation and inflation derivatives remain above 3.0%. This is certainly a surprise and could shift the sentiment for crypto tokens.

We are cautious around Ethereum—this is nothing new as we have pointed out that the better risk/reward trade is long Bitcoin. Ether is overvalued based on various metrics we monitor. This report highlights the overvaluation based on Ethereum's revenues, its declining dominance, and the weak growth of TVL for the overall crypto industry. The decline in Ethereum Gas fees might signal that revenues will decline to normal levels, which could result in a repricing in Ether prices.

This bull market can continue if Wall Street keeps buying Bitcoin ETFs. However, if we see flows becoming less predictable—as was the case two weeks ago—or if the SEC is at odds with approval for Ethereum ETFs, we would consider hedging any upside exposure.

A key driver was the massive volume increase in meme coins and altcoins in early/mid-March. However, with trading volumes normalizing (volumes in Korea have dropped from \$16bn to \$4bn), we need to make sure that Bitcoin stays above 68,330. If not, Ethereum should be our preferred short.

**all charts are provided by 10x Research PTE. LTD. based on various external data sources, which can include, Coingecko, Investing, Coinalyze, Stelareum, Token Terminal, YahooFinance, amongst others.*

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