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Weekly Crypto Briefing

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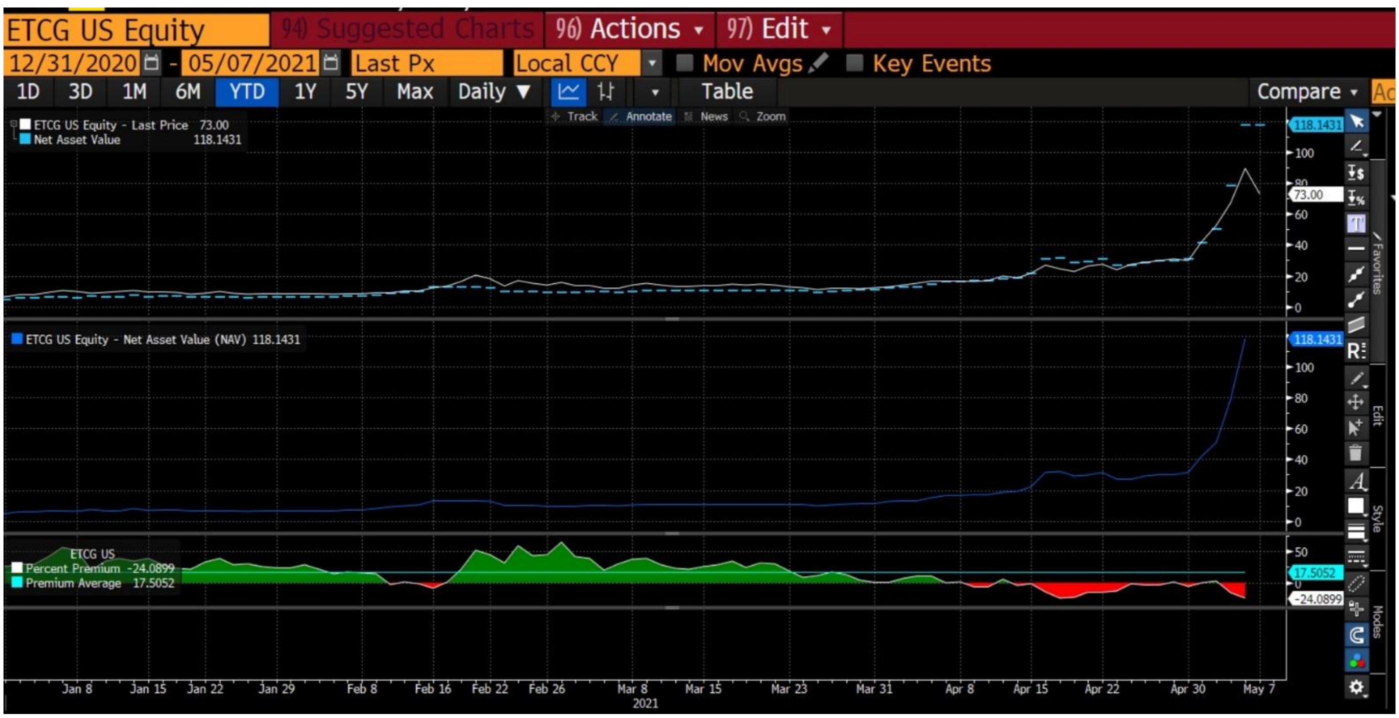
Ethereum Classic Trust (ETCG) trading at ~50%+ discount to NAV

The Grayscale Ethereum Classic Trust (ETCG) stock is trading at a ~50% discount to net asset value (NAV).

We think this could represent an opportunity for clients depending how the markets move over the weekend and want to put this on folks' radar for next week.

Currently, the stock ETCG is trading at ~$56 and meanwhile its underlying holdings, the cryptocurrency Ethereum Classic (ETC), are trading at $120 on Coinbase and $140 on Robinhood.

The chart below shows the historical price, NAV, and premium/discount to NAV for ETCG. Note, Bloomberg does not update their pricing inter-day in real time for this product and the current discount is larger than reflected here:



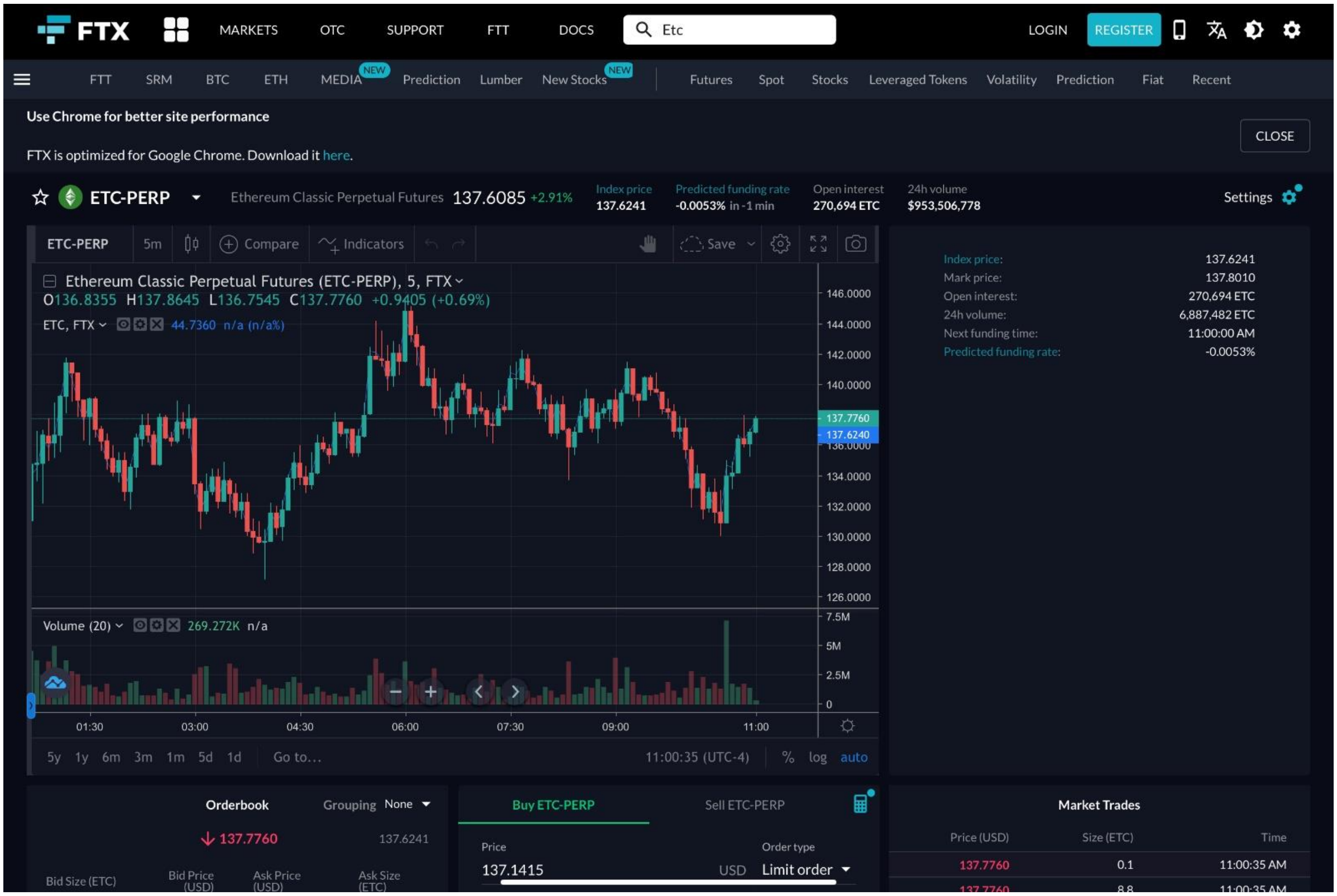
Source: Bloomberg

The website Tradeblock (https://tradeblock.com/markets/indices/ecx) reports the data intra-day in near real time and shows us large difference in pricing that currently exists in the market.

Source: Tradeblock

The price of the cryptocurrency Ethereum Classic (ETC) has run up nearly 4x in the past week alongside many similar crypto assets. And for investors that are couscous of the sustainability of this pricing, they could choose to hedge their position by shorting futures and simply betting on the discount converging regardless of the direction of ETC price.

Ethereum Classic (ETC) perpetual futures on the offshore crypto exchange FTX are trading roughly in line with the spot at $120 with nearly $100M in daily transaction volume. Other crypto exchange venues that offer ETC futures include: Binance, Gate.io, and KuCoin.



Source: FTX

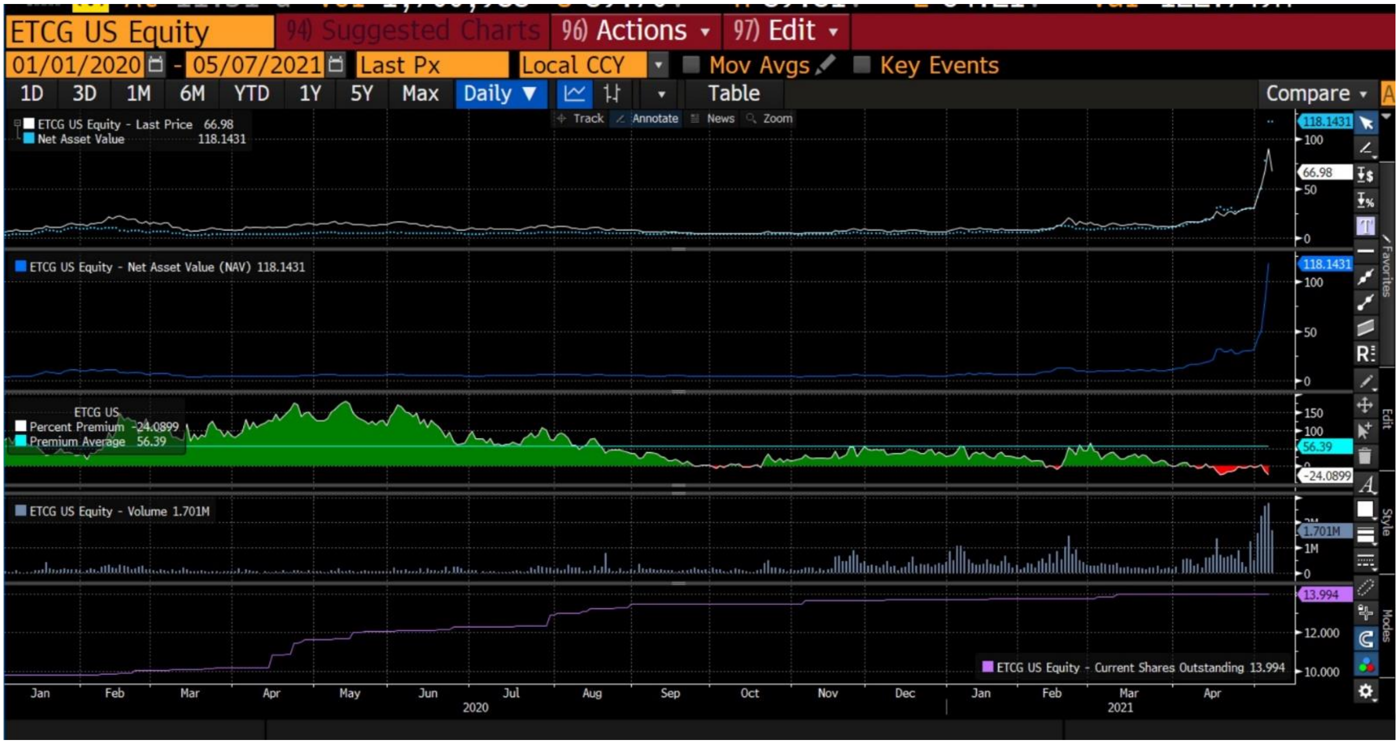
If investors chose to hedge the futures, be aware of the risk of the market staying mispriced longer than expected or the spread widening. We think the key to hedging this investment will be position sizing, not taking on too much leverage, and having enough collateral on the futures exchange to not get liquidated.

But why do we think this mispricing exists?

Taking a look at the longer term chart of ETCG and overlaying the stocks outstanding supply and volume we can see:

-Roughly 2M ETCG shares were issued between April and May 2020

-ETCG volume has been spiking recently this month as those shares are coming unlocked to the market



Source: Bloomberg

We think there are forced ETCG sellers in the market who are also forced ETC buyers that need to cover borrowed positions in the spot market.

Why do we think this?

Looking at the Genesis Capital reported loan book data, we estimate that roughly over 2M of ETC were borrowed during Q2 2020 and we think many of these shares went into the ETCG trust as investors were looking to take advantage of the high NAV premium on the shares at the time.

Genesis Capital Estimated Ethereum Classic (ETC) Loan Book					
Period	**Q1, 2020**	**Q2, 2020**	**Q3, 2020**	**Q4, 2020**	**Q1, 2021**
Active Loans	$ 649	$ 1,417	$ 2,121	$ 3,821	$ 9,033
ETC Borrowed (%)	2.1%	1.7%	1.0%	0.2%	0.2%
Implied ETC Borrowed ($ in MM)	$ 13.6	$ 24.1	$ 21.2	$ 7.6	$ 18.1
Avg ETC $ Price Over Period	$ 7.86	$ 6.24	$ 6.27	$ 5.73	$ 10.42
Implied ETC Borrowed (Native Units)	1,733,372	3,860,628	3,384,801	1,334,588	1,734,076

Source: Fundstrat Estimates, Genesis Capital

Shares of the private placement take 1 year to vest and many are likely being released to market recently. Many of these same shareholders are now finding themselves in need of covering their ETC denominated loans.

This means that these same investors who borrowed ETC to contribute to the trust must now sell ETCG shares and buy back ETC in the spot market to repay these loans.

At the same time these loans are likely coming due, we think Ethereum Classic (ETC) has been pushed higher by the following two factors:

-Ethereum (ETH) seeing substantial price increase causing investors to re-comp the price of ETC higher, which could be viewed as a hedge on ETH 2.0 not working and Dapps being posted over to the ETC chain.

-Robinhood lists Ethereum Classic (ETC) on its exchange and the same retail investors who are buying DOGE and others have been bidding up the price of ETC.

Combining the above with the relatively lower liquidity of ETCG, we think, has forced investors to push the shares to a deep discount from spot and the demand to cover borrowed positions has likely contributed to the increase in prices.

We think the biggest risk to this investment would be the market staying irrational longer than you can stay solvent - especially if hedged.

We think the risk on the other side if not hedged would be the price of ETC spot falling back below the current share price.

It does give us some confidence knowing there may still be forced buyers in the market over the coming quarter.

Depending how prices move over the weekend - we think this could represent an opportunity for investors.

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