

## A New Era for Ethereum: Market Reactions to Ether ETF Approvals

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### Introduction

The U.S. Securities and Exchange Commission (SEC) approved several Ether Exchange-Traded Fund (ETF) applications on May 23, 2024. This approval marks a significant milestone for ETH, the second-largest cryptocurrency by market capitalization, paving the way for broader adoption and increased investment opportunities. The approval process was marked by intense speculation and significant market volatility, reflecting the market's anticipation and subsequent reaction to this landmark regulatory decision.

### Background

The period following Bitcoin's halving on April 20, 2024, set the stage for a series of events. During this post-halving phase, the cryptocurrency markets experienced a period of reduced volatility and relative stability. Key metrics during this time included a drop in the Bitcoin Volmex Implied Volatility Index (BVIV) from 75 to 55 and a decrease in the Ethereum Volmex Implied Volatility Index (EVIV) from 80 to 63. Bitcoin's price stabilized around \$65,000, while the ETH price hovered around \$3,200. Concurrently, the volatility risk premiums (VRPs) for BTC and ETH fell to 1.5 and 8.5, respectively. This phase was characterized by reduced market uncertainty, as indicated by the lower implied volatilities and VRPs.

### Market Anxiety Before the FED Meeting

This calm market environment was disrupted however by growing fears prior to the Federal Reserve's monetary policy meeting on May 1, 2024. Investors were concerned about potential interest rate changes that could lead to significant market movements. The BVIV rose from 55 to 67.5, while the EVIV increased from 63 to 85. The BTC price dropped from \$65,000 to \$56,500, and ETH fell from \$3,200 to \$2,850. The Bitcoin VRP surged to 13.0, and the Ethereum VRP rose to 29.2. This period highlighted the sensitivity of the cryptocurrency markets to broader financial and macroeconomic conditions, resulting in increased implied volatilities and risk premiums.

## Market Stabilization and Higher Hopes for Ethereum ETF Approval

Following the FED meeting however, the cryptocurrency markets returned to a more stable state until May 20, 2024, when analysts significantly raised the probability of ETH ETF approvals, from 10% to 65%. This sudden change in sentiment was quickly reflected in the markets, as can be seen in Figure 1 and Figure 2.



Figure 1: BTCUSD (BITFINEX) and ETHUSD (BITFINEX)

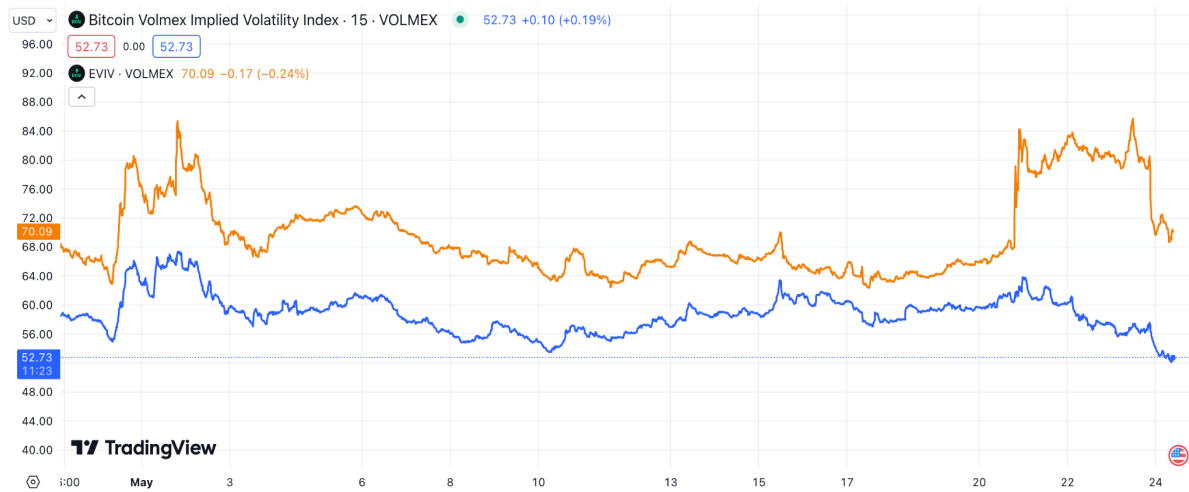


Figure 2: BVIV (VOLMEX) and EVIV (VOLMEX)

The BVIV increased to 64, and the EVIV jumped to 85.5. The BTC price rose to \$72,000, while the ETH price soared to \$3,950. The Bitcoin VRP spiked to 16 first, but it gradually decreased to 10, while the Ethereum VRP increased to 34 and remained around 30, as shown in Figure 3. The difference in VRPs reached 27. This abrupt shift was indicative of the market rapidly pricing in the increased likelihood of approval.

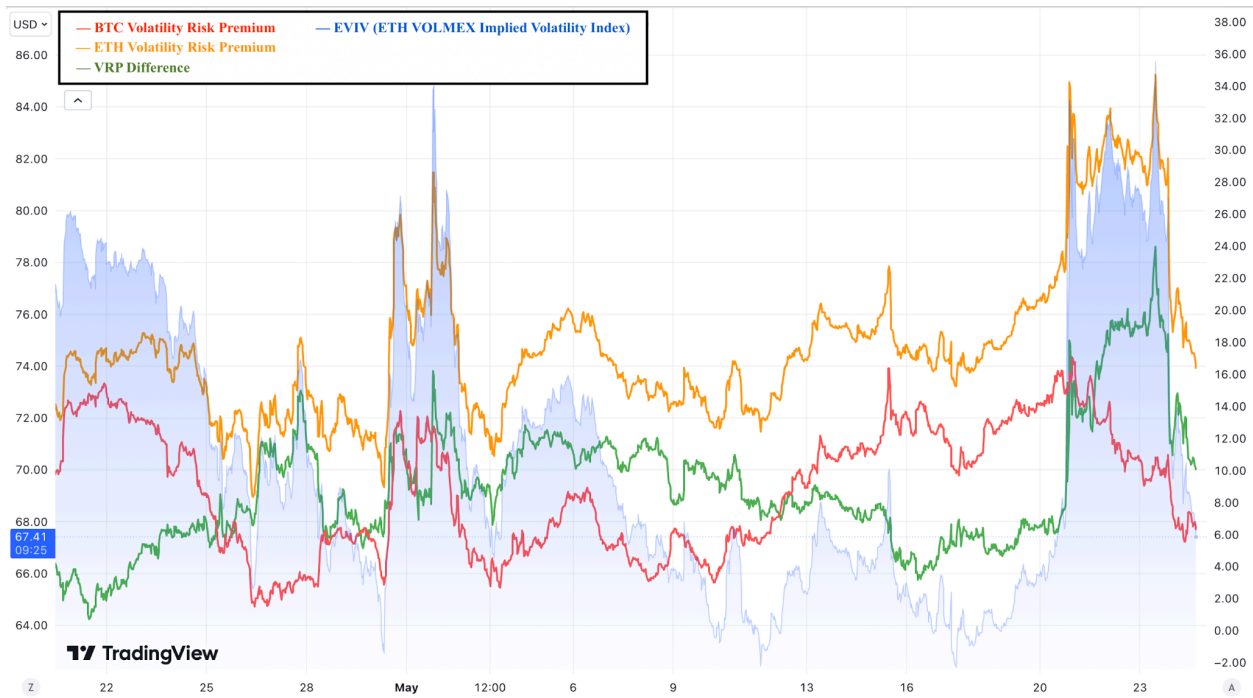


Figure 3: EVIV (VOLMEX) vs Volatility Risk Premiums

## SEC Approval Announcement and Market Reaction

The SEC announced the approval of Ethereum ETFs on May 23, 2024, leading to immediate adjustments in the markets. Within only three hours of the announcement, the EVIV decreased from 85.5 to 69.5. The BVIV dropped from 64 to 52.5 within nine hours. The Ethereum VRP fell to 18, and the Bitcoin VRP decreased to 7. The difference in VRPs dropped to 11. Prices initially fluctuated significantly before the announcement, with ETH ranging from \$3,530 to \$3,904 and BTC from \$66,400 to \$68,400 within an hour before the announcement. However, once the decision was made, prices began to stabilize. The reduction in implied volatilities and VRPs post-announcement indicated that the market had priced in the resolution of uncertainty, leading to stabilization once the news was confirmed.

## “Sell the News” Phenomenon

Following the initial excitement and stabilization, investors began to realize their gains, leading to a "sell the news" effect. ETH price fell from \$3,800 to \$3,650, and the EVIV decreased to 68.5. Bitcoin's price dropped from \$68,000 to \$66,700, and the BVIV decreased to 52. This behavior is typical in financial markets, where anticipated positive events lead to profit-taking once the news is confirmed, resulting in short-term price declines.

## Conclusion

The approval of spot ETH ETFs by the SEC on May 23, 2024 serves as a compelling case study of how regulatory decisions and market expectations interact. The journey from low odds of approval to significant market excitement, followed by the resolution of uncertainty and subsequent profit-taking,

highlights the complex dynamics of the cryptocurrency markets. This sequence of events underscores the importance of understanding market sentiment, volatility indices, and the impact of major regulatory announcements.