

Key Takeaways

- *ETH prices tend to decline in the weeks immediately following Ethereum hard forks.*
- *Volatility for ETH tends to drop heading into these events, but picks back up post-fork.*
- *The recent surge in ETH's price from its December low is the swiftest jump in price in over 8 months, but may be due for a near-term pullback.*
- *Unlike ETH, Bitcoin tends to rise following Ethereum hard forks, and may serve as an attractive hedge against potential weakness in the former.*
- *The reduction in block rewards may alleviate some of the forced selling pressure from miners, however.*

Beware the Ethereum Post-Fork Hangover

Buy the rumor, sell the news. This simple, yet powerful, investing mantra has its place even in the nascent market for digital assets as the next chapter in the Ethereum saga gets set to unfold. A week from now Ethereum is expected to undergo another hard fork, Constantinople, addressing several protocol changes, notably a reduction in block rewards (3 ETH to 2) and delaying the difficulty bomb (12 months) intended to help phase out proof-of-work mining.

While we have our own views on the long-term fundamental implications of these proposals, we examined the price action of ETH and BTC around prior Ethereum hard forks to put the market's recent performance in perspective. Although the sample size of historical hard forks is small, the consistency of ETH's declines following such events is worth noting as we approach Ethereum's next protocol alteration. Bitcoin, on the other hand, may be poised to outperform if ETH prices begin to slip.

ETH Performance Around Byzantium Hard Fork



Sources: Kraken, Bitstamp

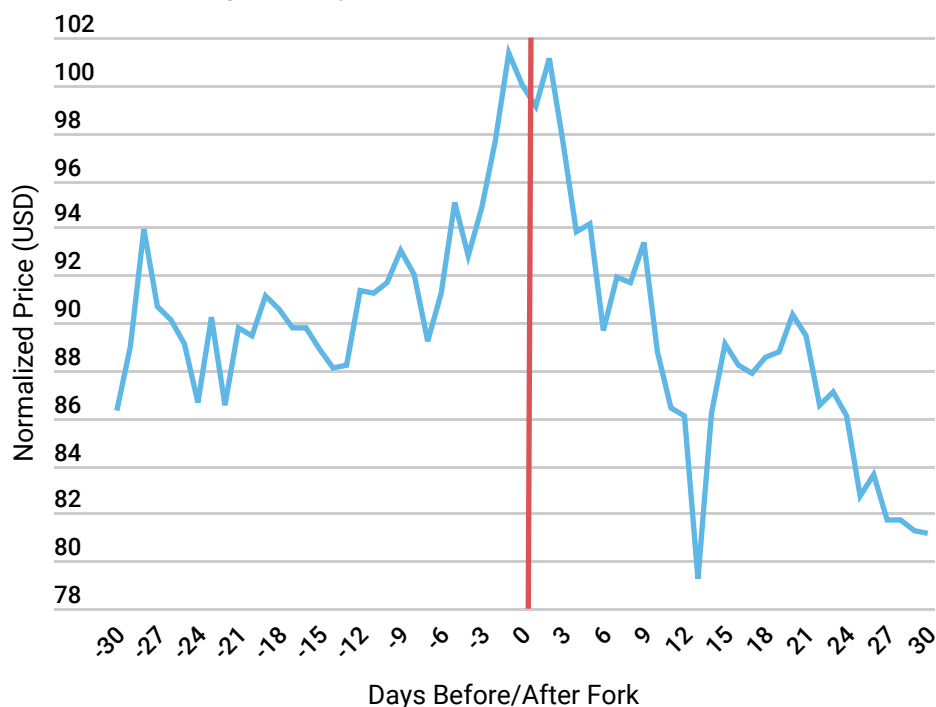
*Data in this report begins with the Homestead hard fork for volatility and price performance comparisons.



ETH Performance Slumps Post-Fork

The price of ETH has declined after each of the last five hard forks, falling nearly 19%, on average, over the following 30 days. The largest price drop came after the Homestead fork in March 2016 when ETH fell over 35% from \$12.50 to \$8 by mid-April. The most recent hard fork, Byzantium, resulted in a significantly smaller 30-day loss (~1%), which may be attributed to 1) the reduction in block rewards (5 ETH to 3) alleviating some selling pressure from miners and 2) the hysteria surrounding crypto assets in Q4 2017.

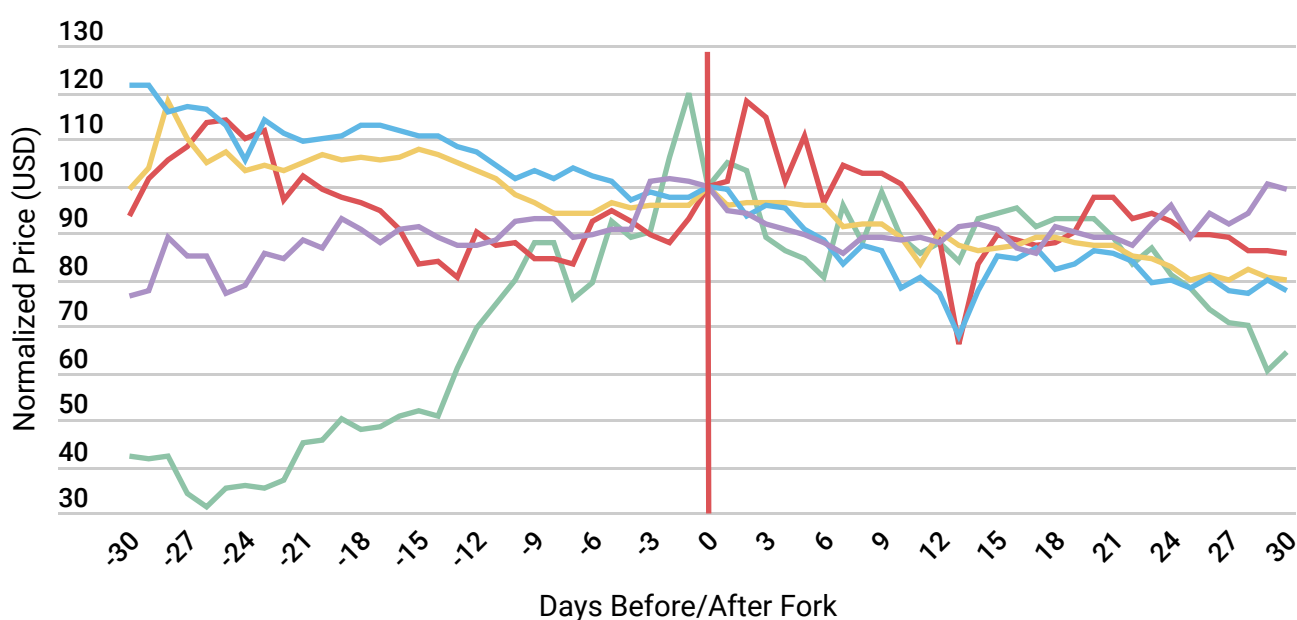
Average ETH Performance Pre- & Post-Prior Ethereum Hard Forks



The performance of ETH heading into a hard fork is a bit more dispersed, recording positive returns 80% of the time with an average gain of 32% in the 30 days before such events. Excluding the Homestead hard fork, which saw ETH's price more than double in the three weeks immediately preceding it, the average gain moderates to 5.5%.

Putting recent market moves in perspective, it's important to note ETH prices have surged over 60% in the last month, causing us to take a more cautious stance on further appreciation in the near-term.

ETH Performance Breakdown Pre- & Post-Prior Ethereum Hard Forks



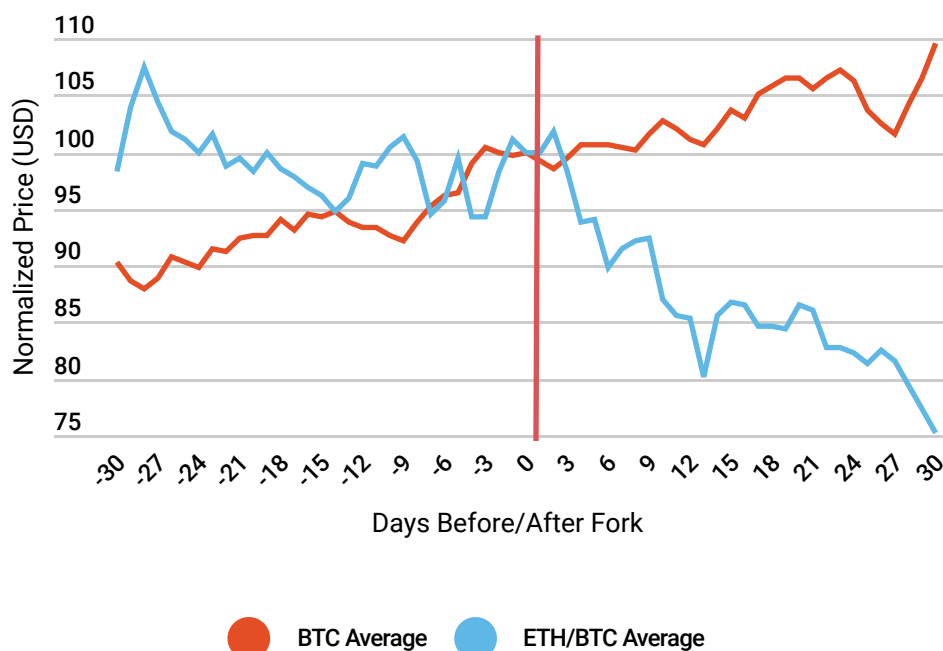
● Homestead ● DAO Fork ● EIP-150 Hard Fork ● Spurious Dragon ● Byzantium



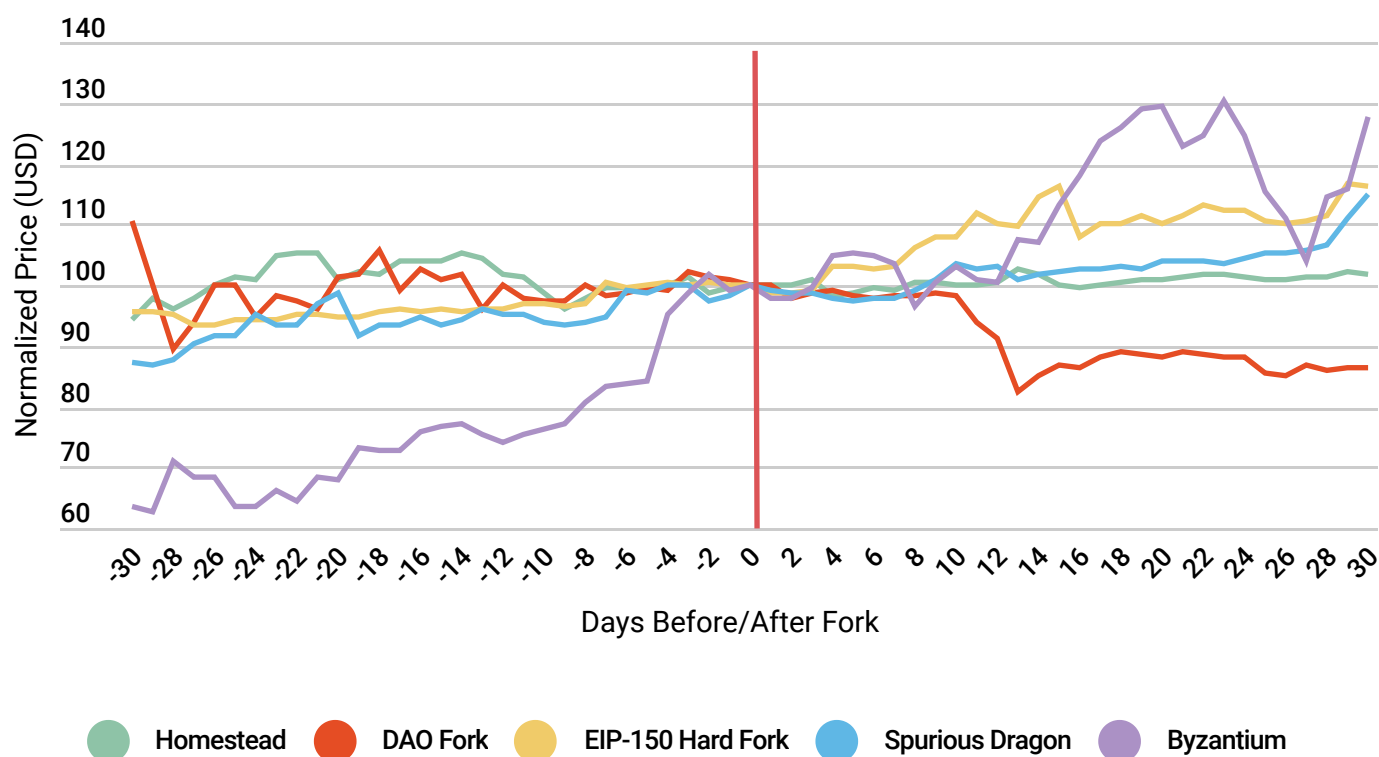
Bitcoin Outperforms Post-Fork

Bitcoin's historical performance following an Ethereum hard fork is a different story, posting gains four of five times in the subsequent 30 days with an average return of 9% (the DAO fork being the exception). The Byzantium hard fork occurred in the midst of BTC's most recent parabolic move (Q4 2017), implying its 28% jump in the following month was more likely a result of the hysteria at that time. Bitcoin, however, gained roughly 16% in the 30 days following each of the two previous hard forks.

Average BTC Performance Pre- & Post-Prior Ethereum Hard Forks



BTC Performance Breakdown Pre- & Post-Prior Ethereum Hard Forks

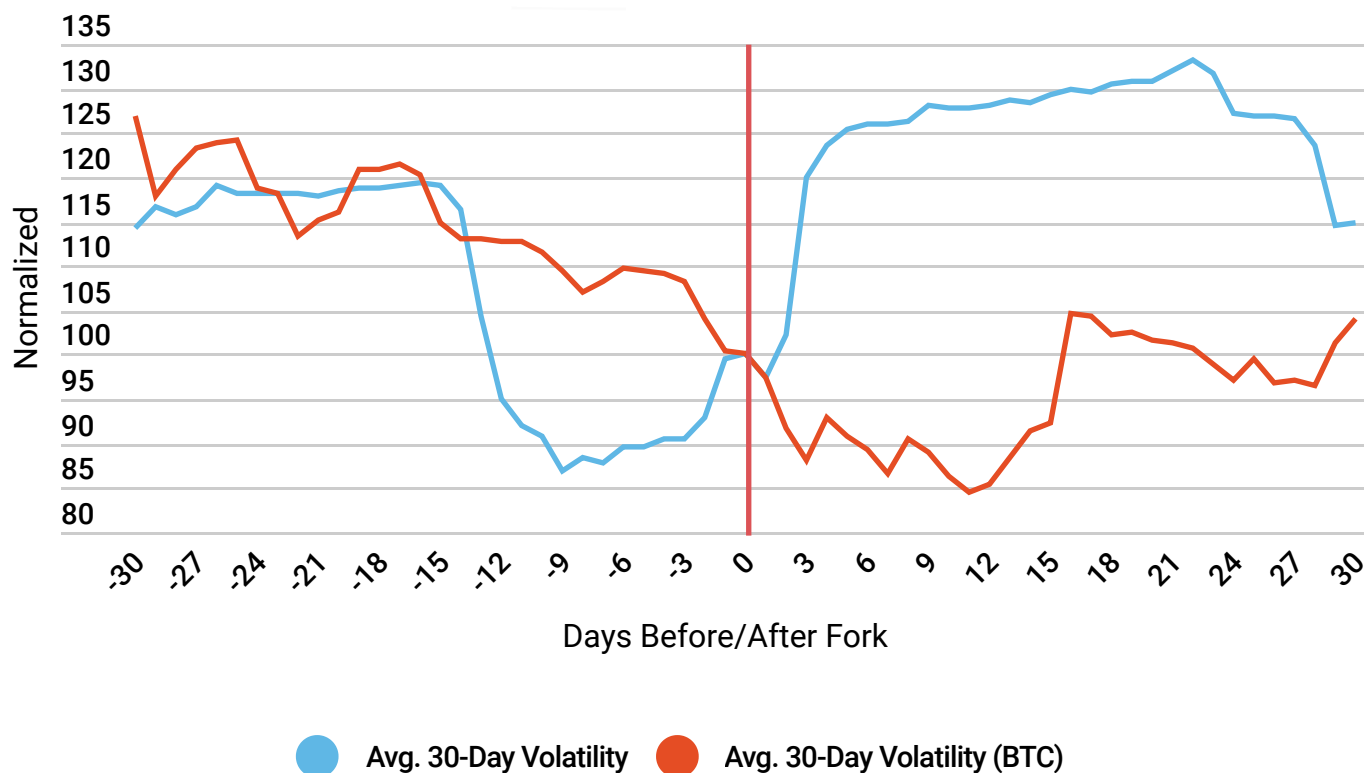




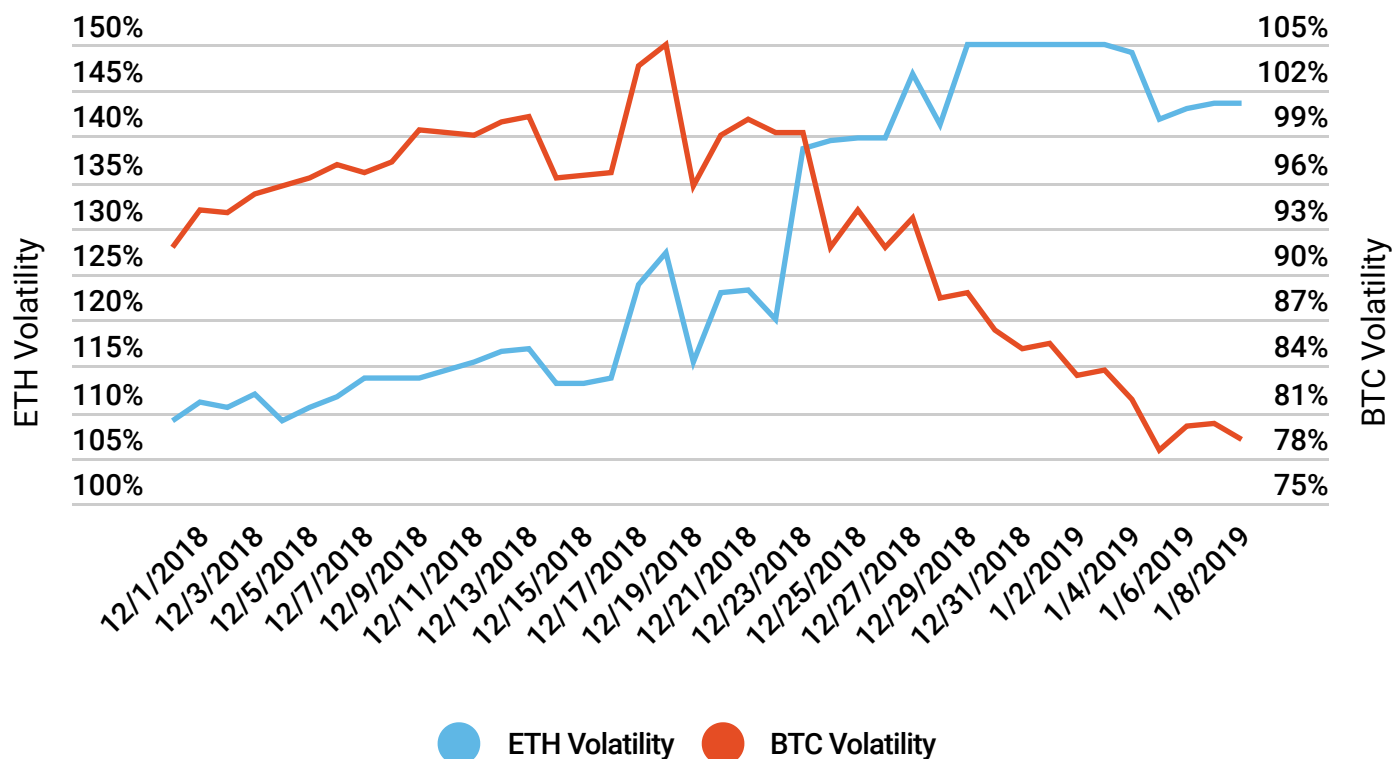
Volatility Moderates Pre-Fork

Volatility tends to moderate leading up to an Ethereum hard fork for both ETH and BTC, though the former typically fluctuates much more in the following weeks. The swift recovery in ETH prices recently has pushed volatility for the second largest crypto asset higher even as BTC prices have found a bit more stability.

Average 30-Day Historic Volatility Pre- & Post-Prior Ethereum Hard Forks



Current 30-Day Historic Volatility

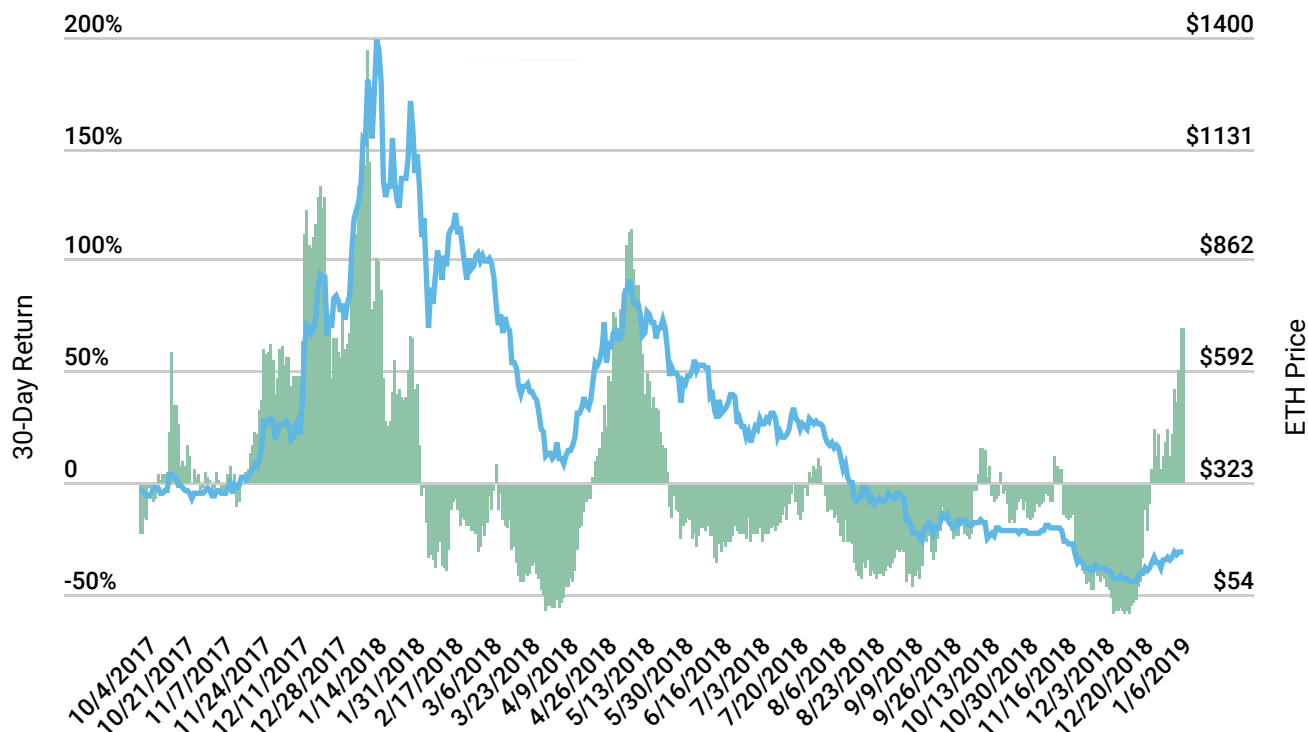




How Sustainable is Recent ETH Run Up?

We recognize the power of momentum, especially as it relates to crypto assets, but we wouldn't be surprised to see a modest pullback in ETH prices in the next few weeks.

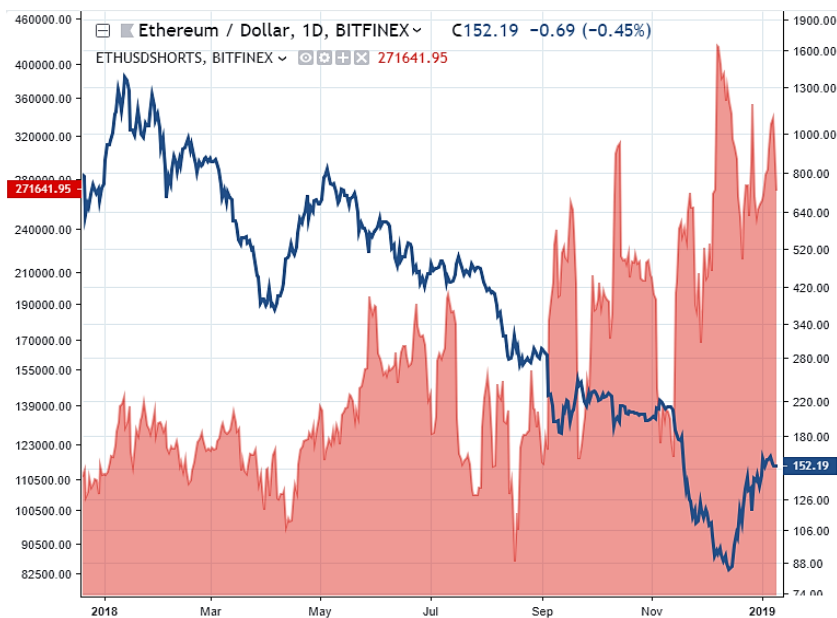
ETH May Be Poised to Cool Down as Hard Fork Approaches



Its +60% jump the last 30 days is the fastest positive rate of change for ETH in over 8 months, helping it reclaim its title as the world's second largest crypto asset. It had a similar surge in April, breaking above \$800 from ~\$380 in just a month, but that proved to be short-lived.

Short-covering is also difficult to dismiss as a contributor to ETH's recent surge given total margin short positions on Bitfinex, for example, reached an all-time high just before ETH's December bottom.

Margin Shorts Reaching All-Time Highs (in ETH)



Final Thoughts

The recent rally in ETH may be poised for a pause in the coming weeks. If history serves as any guide, BTC could help hedge a pullback in ETH given its tendency to outperform in the weeks following an Ethereum hard fork. However, the reduction in block rewards, and thus forced selling pressure, remains an upside risk to ETH's post-fork potential.



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