



Ethereum Market Activity Heats Up

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SUMMARY

- The successful integration of Ethereum's Goerli testnet on 10 August 2022 signaled the completion of the final step before the [network's merge and transition to Proof-of-Stake \(PoS\)](#).
- The anticipated merge will make Ethereum's transaction processing more energy-efficient and reduce the network's 's energy consumption [by 99.95%](#) due to the switch from a Proof-of-Work (PoW) consensus mechanism to PoS.
- Market activity surrounding Ethereum (ETH) and Ethereum-related assets has increased considerably as the planned merge dated (between September 10-20) approaches.

This report highlights the increasing digital asset market activity and price movement surrounding Ethereum-related assets as the network's merge approaches. Our analysis is compiled from the DAR's data sources, as well as public sources, media reports, and press releases.

ETHEREUM MERGE BACKGROUND, TIMING, AND IMPACT

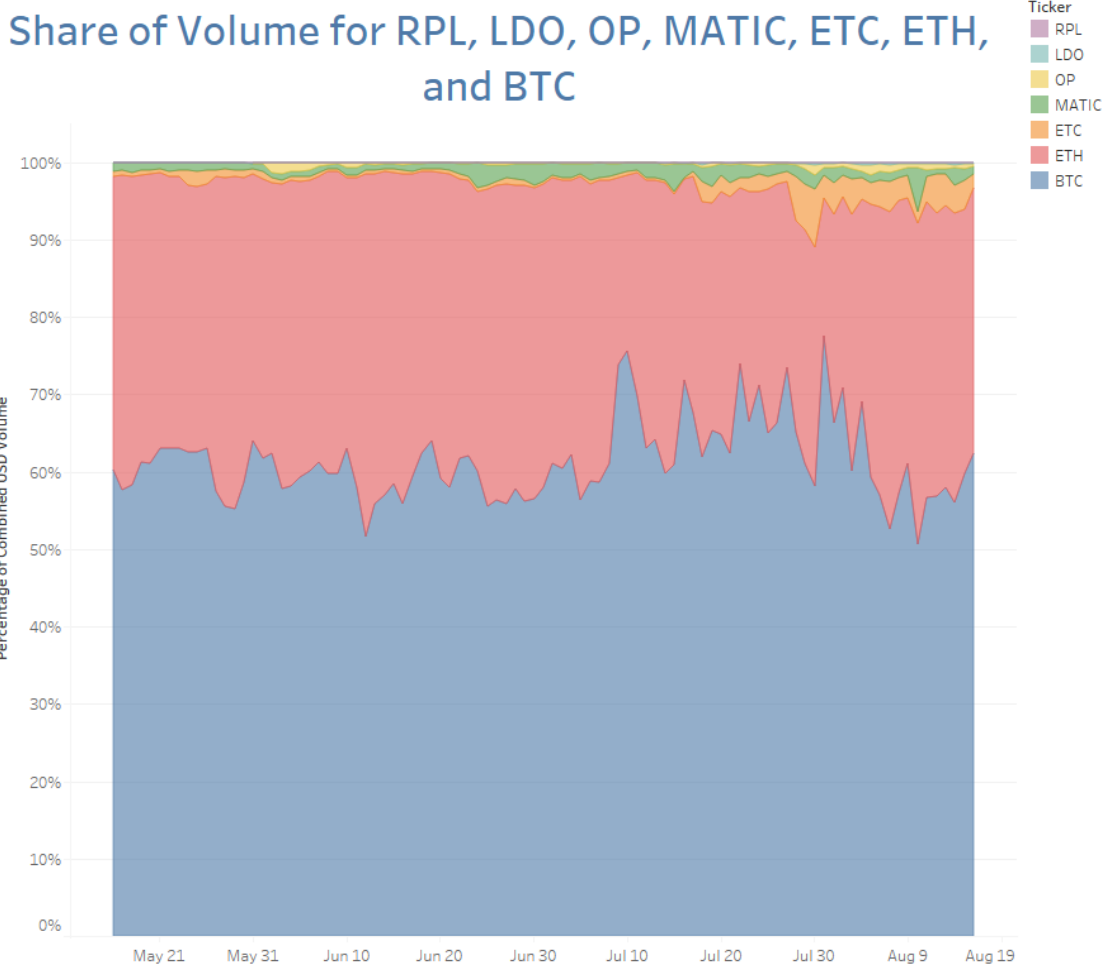
The merge will be the most significant upgrade to the Ethereum network to date. It represents the joining of the existing Ethereum network (Mainnet) with a new Proof-of-Stake (PoS) based consensus layer called the Beacon Chain.

Initially, the Beacon Chain was developed separately from the Mainnet. The current Proof-of-Work (PoW) based Mainnet has been running while the Beacon Chain ran in parallel. The upcoming merge will combine the two chains together and replace the Mainnet's PoW consensus mechanism with PoS. The switch will also reduce the amount of energy required to secure and maintain the Ethereum blockchain transactions by more than [99.005%](#).

The merge is currently scheduled for sometime between 10-20 September 2022. While the actual date and parameters could still change, the results of the multiple testnet merges could be an encouraging sign that the Ethereum mainnet will switch to PoS consensus without issue.

As the Ethereum merge approaches, the share of trading volume for ETH and Ethereum-related assets – like Polygon (MATIC), Optimism (OP), Ethereum Classic (ETC), Lido (LDO), and Rocket Pool (RPL) – on has increased considerably. The chart below shows trading volume across DAR’s Vetted Exchanges for ETH, ETC, LDO, MATIC, LDO, OP, and RPL, as well as Bitcoin (BTC) for comparison purposes.

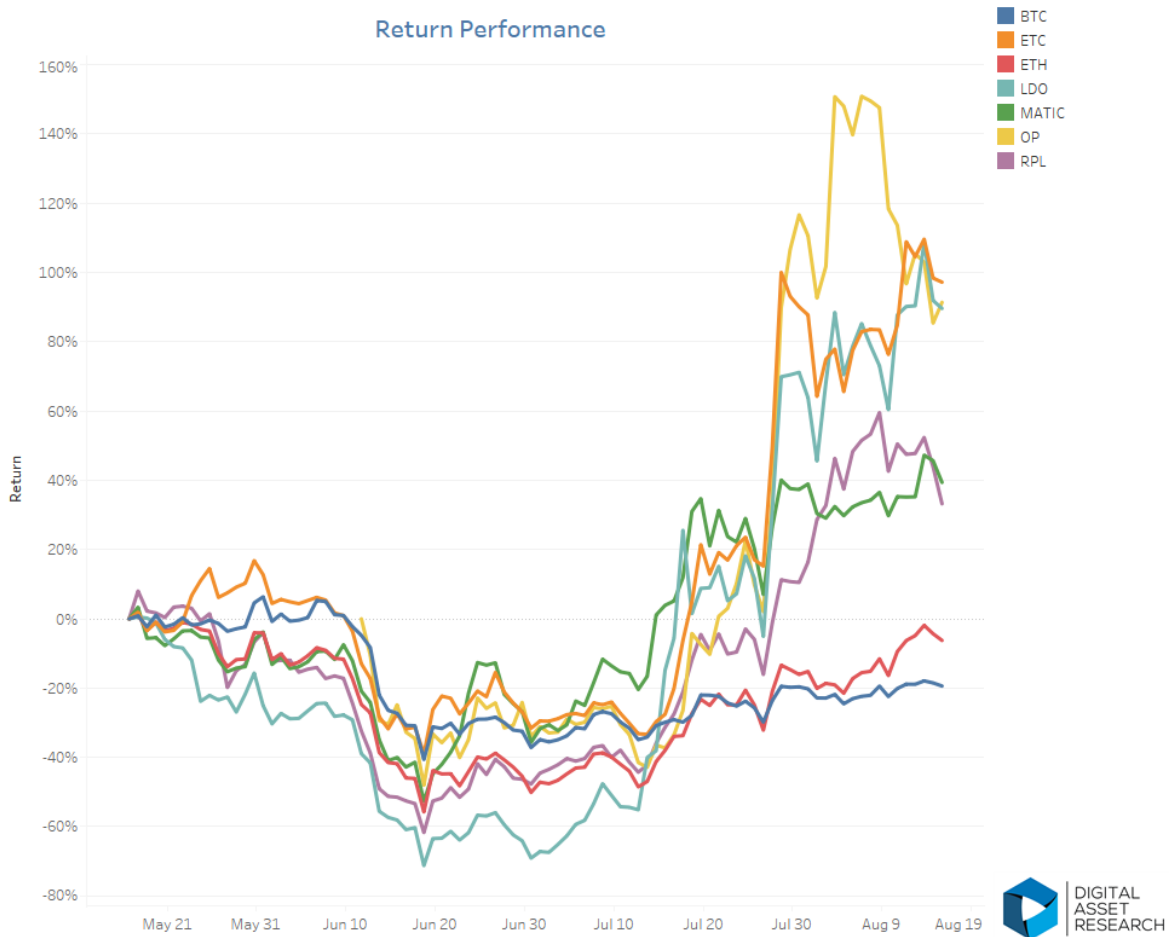
Figure A – Share of Volume on DAR Vetted Exchanges



Source: Digital Asset Research’s Market Data

Additionally, ETH and Ethereum-related digital assets have also outperformed BTC over the past two months. The chart below compares the performance of BTC, ETH, ETC, LDO, MATIC, LDO, OP, and RPL.

Figure B – Return Performance



Source: Digital Asset Research's Market Data



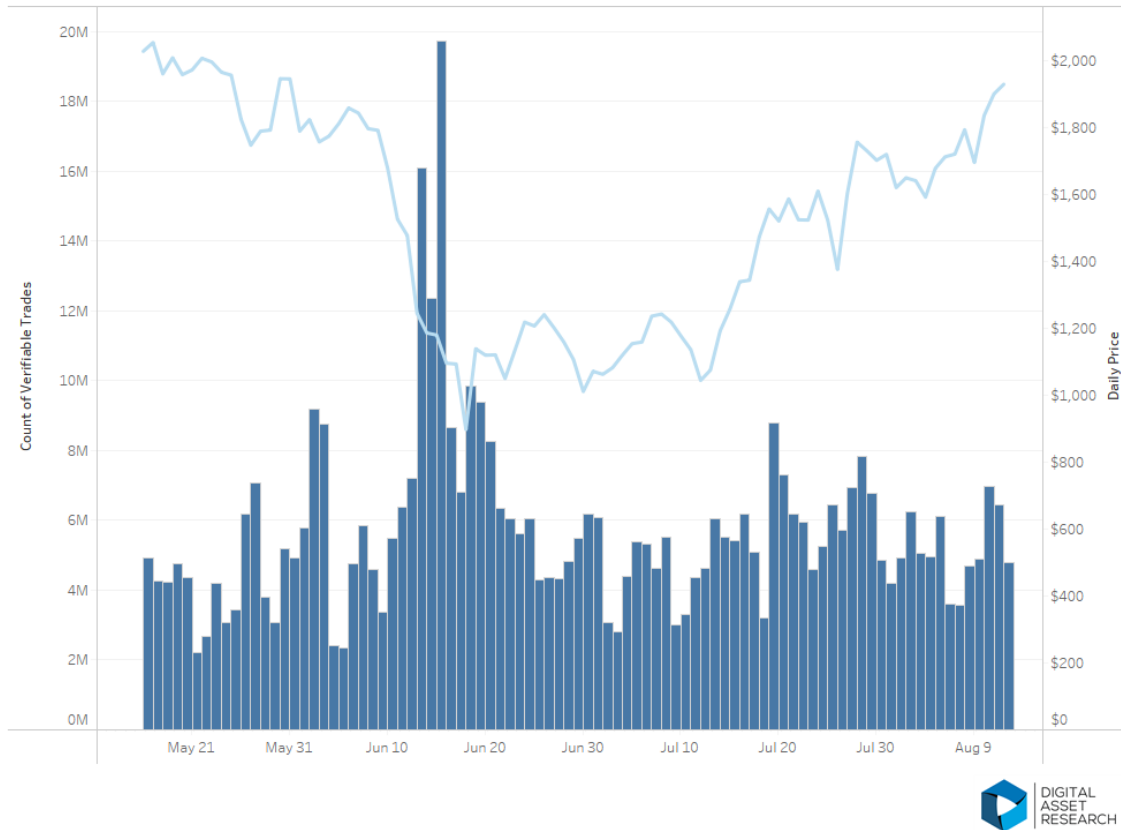
ETH'S PRICE MOVEMENT AHEAD OF THE MERGE

Ethereum is the most dominant smart contract platform; it has the most decentralized application activity and its ecosystem has the highest total value locked (TVL).

After a decline in June 2022, the Ethereum blockchain's native token, Ethereum (ETH) rallied to to approximately \$2,000, gaining more than 100% since 19 June 2022, as shown in the chart below which displays ETH's price and verifiable volume on DAR's Vetted Exchanges and Watchlist Exchanges.

Figure C – Ethereum Daily Price and Trade Counts

ETH Daily Price and Verifiable Trade Counts



Source: Digital Asset Research's Market Data

ETH's transition to a PoS consensus mechanism has been highly anticipated and recent developments have bolstered investor enthusiasm for the token, as well as other tokens closely related to the success of ETH merge.

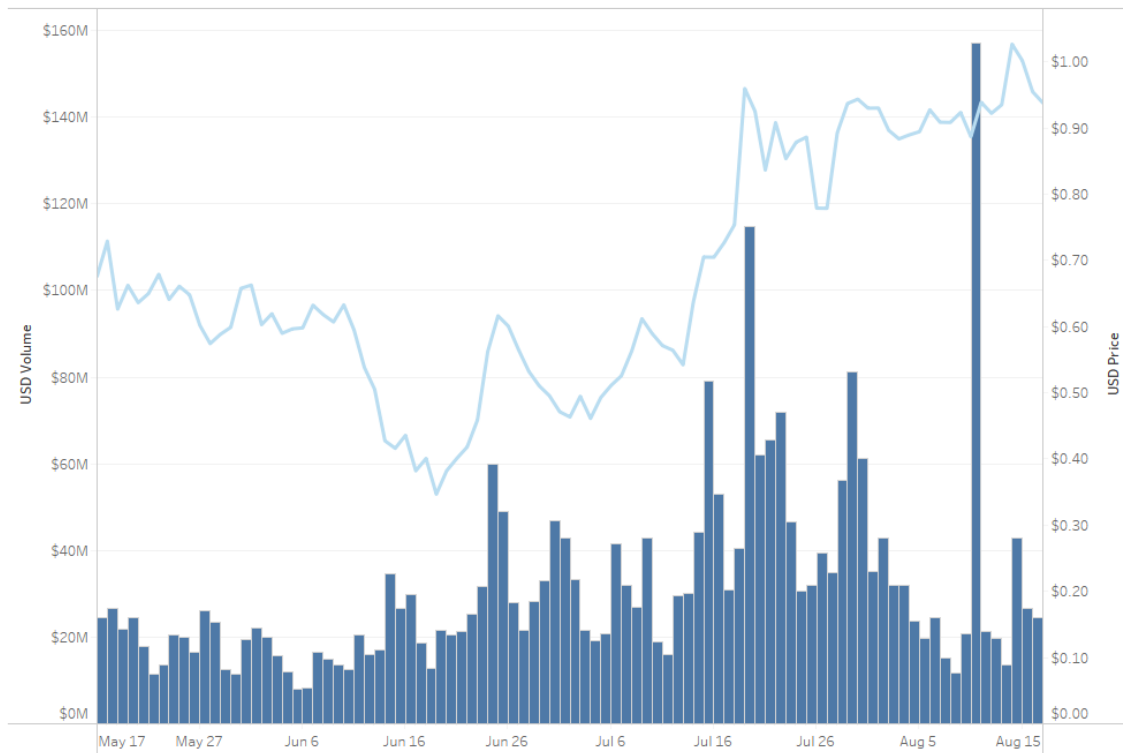
SCALING SOLUTION TOKENS RISE

Polygon (MATIC)

As an Ethereum sidechain solution, Polygon intends to scale the Ethereum network by linking Ethereum-compatible blockchain networks. [Polygon](#) is the Ethereum layer 2 solution that has received the most widespread adoption. In contrast to Ethereum, which can process 13–17 transactions per second (TPS), Polygon claims to be able to carry out 7,000 TPS. Polygon uses its own consensus process and its own MATIC token to verify transactions on the Polygon PoS network. Those who are in possession of MATIC tokens therefore have the ability to become validators for the network and earn a reward every time a transaction is processed. Staking is the term used to describe this process. MATIC has increased more than 100% since the announcement of the merge date.

Figure D – MATIC Daily Price and Volume

MATIC Daily Price and Volume (USD)



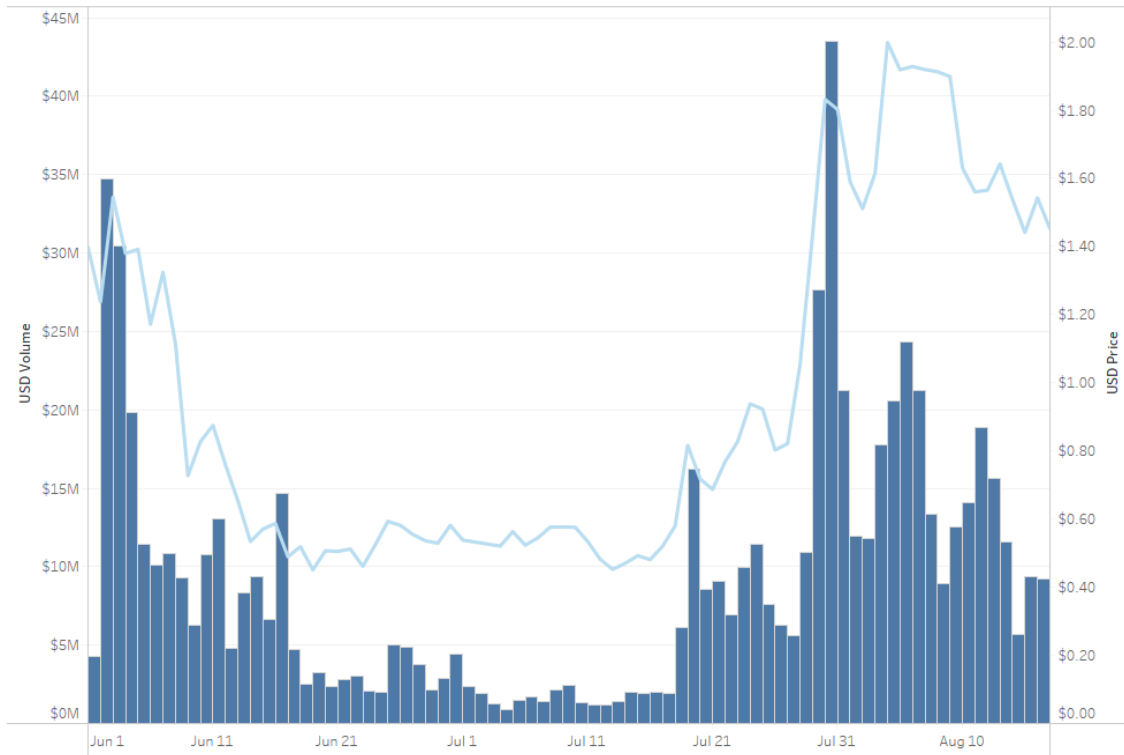
Source: Digital Asset Research's Market Data

Optimism (OP)

[Optimism](#) is an alternative generalized layer 2 token that exhibits the same behavior as Ethereum but at a lower cost. Optimism utilizes Optimistic Rollups where it relies on the fact that all members in the network will carry out their responsibilities in good faith. Optimism's governance token, OP, has risen by around 250% since the announcement of the merge date.

Figure E – OP Daily Price and Volume

OP Daily Price and Volume (USD)



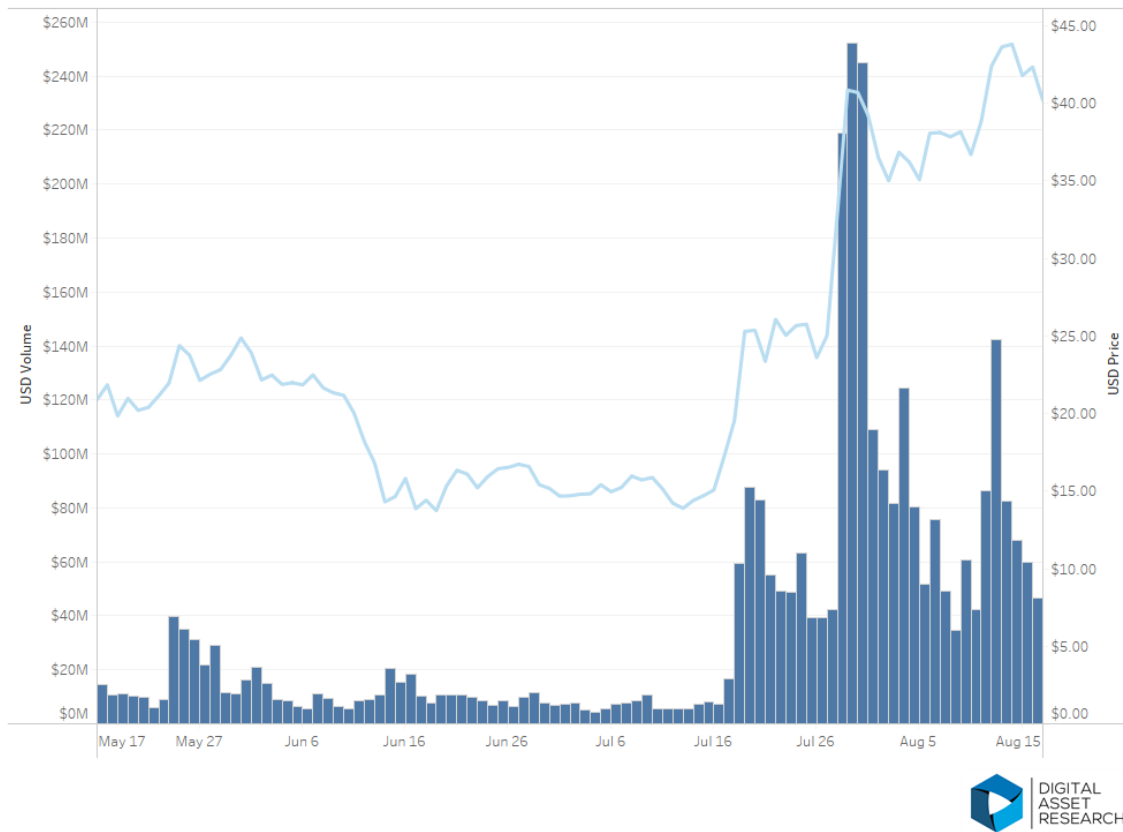
Source: Digital Asset Research's Market Data

ETHEREUM CLASSIC SEES A PRICE INCREASE

[Ethereum Classic](#) was launched in 2016 as a hard fork from Ethereum. While the Ethereum Classic chain sees much less activity than Ethereum, the price and volume of its native ETC token has increased as the Ethereum merge approaches. Discussions about a possible Ethereum PoW fork also instigated conversations about Ethereum Classic, which might serve as the preferred chain for existing Ethereum miners that want to maximize the use of their mining rigs. Since the announcement of the merge date, ETC has risen by over 200%.

Figure F – ETC Daily Price and Volume

ETC Daily Price and Volume (USD)



Source: Digital Asset Research's Market Data

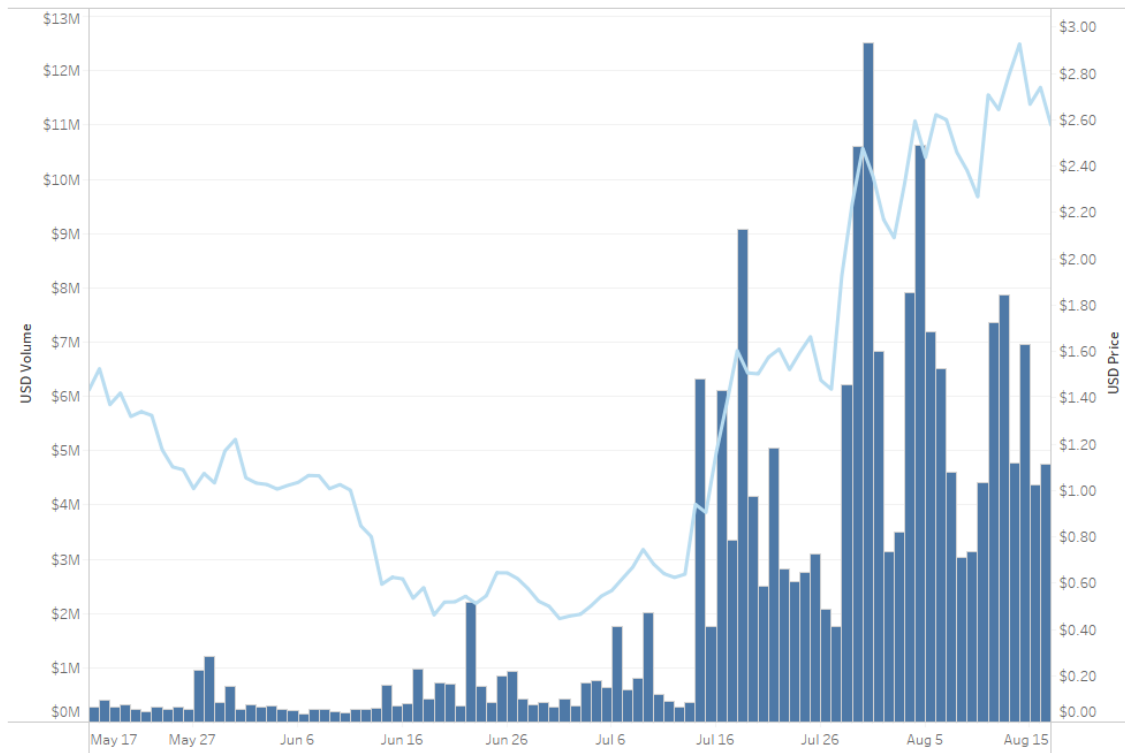
LIQUID STAKING TOKENS SEE PRICES RISE

Lido (LDO)

[Lido](#) is a [liquid staking protocol](#) for ETH 2.0 that enables ETH stakers to earn yield while having access to their capital in the form of a derivative token named stETH. More than [4.2 million](#) in ETH has been staked through Lido, making it the leader in the Ethereum staking market share. Lido's native token, LDO, has seen its price increase by more than 500% since the announcement of the merge date.

Figure G – LDO Daily Price and Volume

LDO Daily Price and Volume (USD)



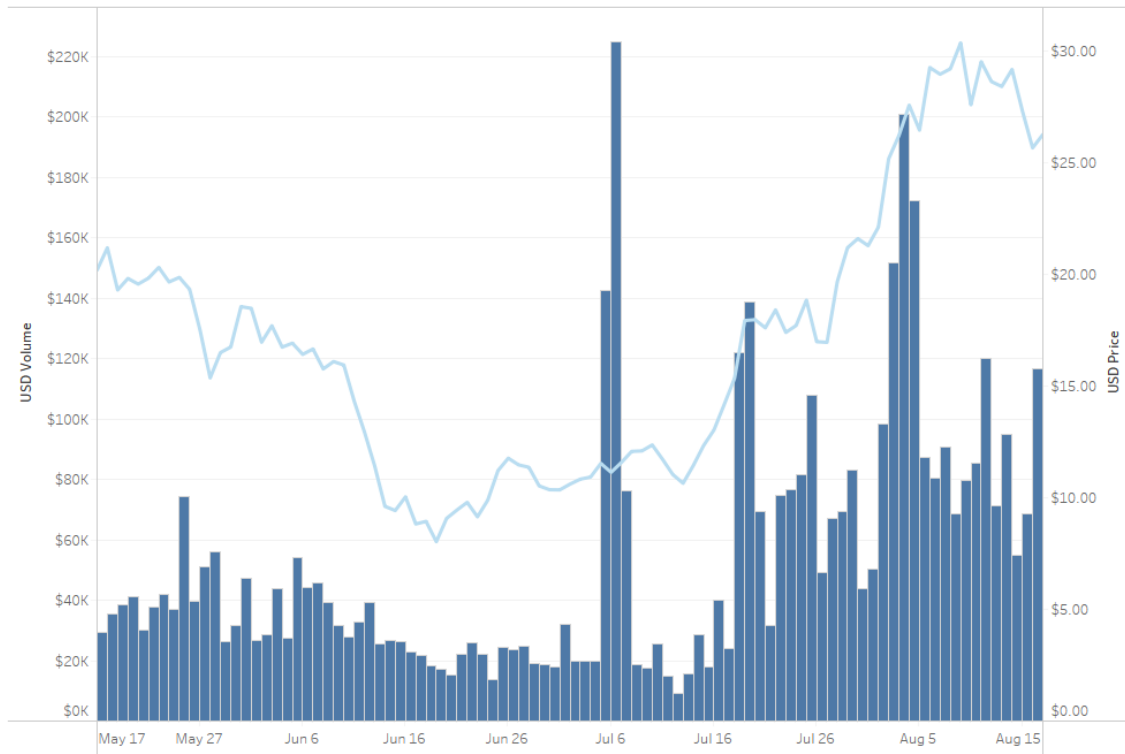
Source: Digital Asset Research's Market Data

Rocket Pool (RPL)

[Rocket Pool](#) is another liquid staking protocol for ETH 2.0 that enables ETH stakers to earn yield while having access to their capital in the form of a derivative token named rETH. Unlike Lido, Rocket Pool allows anybody to become a node operator in the network by creating a *minipool*, which requires a deposit size of 16 ETH (50% of the required minimum amount to become an Ethereum validator, the remaining 50% will be received from Rocket Pool's user deposits). Rocket Pool's native token, RPL, has seen its price increase by about 300% since the announcement of the merge date.

Figure H – RPL Daily Price and Volume

RPL Daily Price and Volume (USD)



Source: Digital Asset Research's Market Data

CONCLUSION

The price of Ethereum rallied in August 2022, reaching a local high of approximately \$2,000, its highest level in the preceding three months. Market activities for ETH and Ethereum-related digital assets, such as liquid staking providers and scaling solutions, also showed a considerable increase in price and volume. As the Ethereum merge approaches in less than 3 weeks, market activity and volatility surrounding ETH and Ethereum-related assets may continue to increase.

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