



Enigma Market Note. June 15, 2022



Staked ETH Vigilantes

- TYPE: STAKING DERIVATIVE
- CHAINS: MULTI

• PRICE, ETH: 0.94

Staked ETH (stETH) from Lido Finance is a derivative digital asset that represents ETH staked in the Ethereum Beacon Chain. All stETH token balances grow to accrue ETH staking rewards and the underlying ETH. The stETH cannot be redeemed until after Ethereum's first hard fork after The Merge confirms the PoS transition. Until then, stETH price is determined by the market as a yield-bearing ETH derivative.

stETH Bond Price & Yield by Time to ETH Unlock							
Months to Unlock	6	12	18	24	30	36	42
ETH-USD	\$1,219	\$1,219	\$1,219	\$1,219	\$1,219	\$1,219	\$1,219
stETH-ETH	0.94	0.94	0.94	0.94	0.94	0.94	0.94
stETH-USD	\$1,146	\$1,146	\$1,146	\$1,146	\$1,146	\$1,146	\$1,146
stETH Staking APR	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
stETH Reward	\$24	\$49	\$73	\$98	\$122	\$146	\$171
YTM	7.8%	9.6%	11.3%	12.9%	14.5%	16.0%	17.4%
Bond Price	\$1,198	\$1,157	\$1,101	\$1,033	\$956	\$875	\$792

Instead of a stable-price asset, stETH can be valued as an ETH bond. The derivative is redeemable for a face value of 1:1 stETH to ETH, plus the current variable 4% staking yield. Today's discount to ETH indicates maturity and credit risks: the possibility of a delayed or unsuccessful Merge. Yields to maturity show the market expects 12-18 months until unlock.

stETH Expected Returns							
Merge Success Probability	100%	95%	90%	85%	80%	75%	70%
Percent Recoverable	0%	0%	0%	0%	0%	0%	0%
ETH Value at Unlock	1.00	1.00	1.00	1.00	1.00	1.00	1.00
stETH Price	0.95	0.95	0.95	0.95	0.95	0.95	0.95
stETH Staking APY	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Expected YE Cash Flow	1.04	0.99	0.94	0.88	0.83	0.78	0.73
Initial Price, P	0.95	0.95	0.95	0.95	0.95	0.95	0.95
Expected Return IY	9.47%	4.00%	-1.47%	-6.95%	-12.42%	-17.89%	-23.37%

Using stETH price to determine expected returns shows the market probability of a successful Merge. For stETH, The Merge has binary outcomes: it happens and stETH plus staking yield are unlockable thereafter, or it doesn't happen, and stETH is worthless. Expected stETH return from today is the sum of both outcomes multiplied by their respective probabilities. Today's 0.95 ETH price shows the market expects The Merge is nearly certain, over 90% probable.





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