Market Review

JAN 2022

Genesis

JANUARY 2022 MONTHLY REVIEW

Introduction

With the first month of the year now behind us, many will agree that 2022 has a different feel than 2021. There's the bearish sentiment in the markets, an economy sending mixed signals, a Federal Reserve shifting monetary policy gears, escalating geopolitical tension and intensifying polarization regarding the path forward for the pandemic response.

In crypto, the regulators seem to be making clarity more of a priority, DeFi is becoming even more experimental while institutional interest is growing, new smart contract blockchains have attracted significant user capital, layer-2 scaling solutions are onboarding apps at a hectic pace, crypto firms are raising at increasingly eye-watering valuations, and M&A activity is getting more intense. We even now have a crypto exchange buying a 268-year-old bank.

Below, we look at some of the main themes affecting crypto markets. Some of the topics covered include:

→ A comparison of 2022 to the bear market of 2018

→ Ethereum's significant message shift

→ What's behind Fantom's rise

→ What the Wonderland drama did for the "Curve wars"

→ NFT floor prices and how they are resisting the market weakness

→ Deepening US regulatory interest in crypto mining

→ ... and much more.

Nothing in this report is intended to be investment advice—our aim is to explain some of the shifting narratives driving crypto markets with a view to enhancing our collective understanding of where recent developments could lead. We hope you find it useful.

(Note: we use uppercase Bitcoin to denote the network, and lowercase bitcoin or BTC to denote the asset; for Ethereum, we use uppercase to denote the network, and ether or ETH to denote the asset. All $ are USD unless otherwise specified.)

January performance

The January performance of the top 10 assets ex-stablecoins ranked by market cap was:

Asset			Price USD	Mkt cap bn	Jan '22	30D RV
Bitcoin	BTC	Currency	$38,442.97	$728.52	-19.29%	51.93%
Ethereum	ETH	Layer-1	$2,683.53	$320.43	-28.57%	79.06%
BNB	BNB	Exchange token	$376.65	$62.16	-28.16%	83.92%
Cardano	ADA	Layer-1	$1.05	$35.22	-23.79%	109.86%
Solana	SOL	Layer-1	$99.97	$31.51	-44.45%	100.43%
Terra	LUNA	Layer-1	$51.16	$20.50	-44.29%	132.01%
Polkadot	DOT	Layer-1	$19.48	$19.23	-31.93%	96.29%
Avalanche	AVAX	Layer-1	$69.64	$17.06	-38.91%	110.66%
Polygon	MATIC	Layer-1/Layer-2	$1.64	$12.25	-36.06%	104.56%
Shiba Inu	SHIB	Meme coin	$0.00	$11.73	-37.13%	99.33%

Top 10 assets ex-stablecoins ranked by market cap. Source: Messari

The top 10 performers among the 30 assets ex-stablecoins with the highest market cap reveals a growing interest in exchange tokens:

Asset			Price USD	Mkt cap bn	Jan '22	30D RV
FTX Token	FTT	Exchange token	$43.69	$6.04	9.21%	103.25%
Unus Sed Leo	LEO	Exchange token	$3.71	$3.54	-2.36%	39.94%
Chainlink	LINK	Data management	$17.11	$8.00	-16.95%	109.20%
Decentraland	MANA	Metaverse	$2.77	$5.05	-17.16%	112.16%
Bitcoin	BTC	Currency	$38,442.97	$728.52	-19.29%	51.93%
Fantom	FTM	Layer-1	$2.04	$5.18	-20.65%	168.64%
Cosmos	ATOM	Layer-1	$28.13	$8.05	-22.61%	147.93%
Internet Computer	ICP	Layer-1	$19.78	$3.93	-22.68%	121.11%
TRON	TRX	Layer-1	$0.06	$5.98	-23.12%	64.44%
Cardano	ADA	Layer-1	$1.05	$35.22	-23.79%	109.86%

Top 10 performers out of top 30 assets ex-stablecoins ranked by market cap. Source: Messari

1 Macro

The Fed Giveth, The Fed Taketh Away

The US Federal Reserve dominated the mood in crypto markets in January.

On Jan 5, the minutes of the Federal Reserve's December policy meeting were released, giving the first sign that rate hikes could come earlier than expected. A bigger surprise was the hint of "balance sheet normalization," which could mean a flood of bonds hitting the market as the Federal Reserve reduced its $8.8 trillion holdings.

This hawkish pivot sent risk assets hurtling downwards, with BTC falling almost 10% in one day and other tokens down notably more. Buying support soon emerged, but not enough to recover lost levels.

On Jan 26, Fed Chair Jerome Powell gave a statement in which he effectively confirmed a March rate hike, but assuaged the market's fears of quantitative tightening, hinting that the institution would more likely reduce the balance sheet gradually by not replacing bonds that mature.

Rather than take this as good news, the market inferred that accelerated rate rises were now inevitable, with almost five currently expected in 2022.

The tightening signals pushed markets into risk-off mode, hurting crypto prices as well as equities and bonds. The S&P 500 had its biggest January decline since 2009 at -5.3%, while the TLT long bond index was down 4% (data from Bloomberg).

(chart via Bloomberg)

Is this overdone? That will depend on just how likely five rate increases are this year.

Market behavior is unlikely to give us a clear signal on that in the short-term. Several times during his statement, Chair Powell stressed the strength of the jobs market in the US. This served as an implicit reminder that the health of the stock market is not part of the Fed's mandate—employment and stable prices are. In an increasingly market-based economy, however, the boundaries between the three are not as clear as they once were.

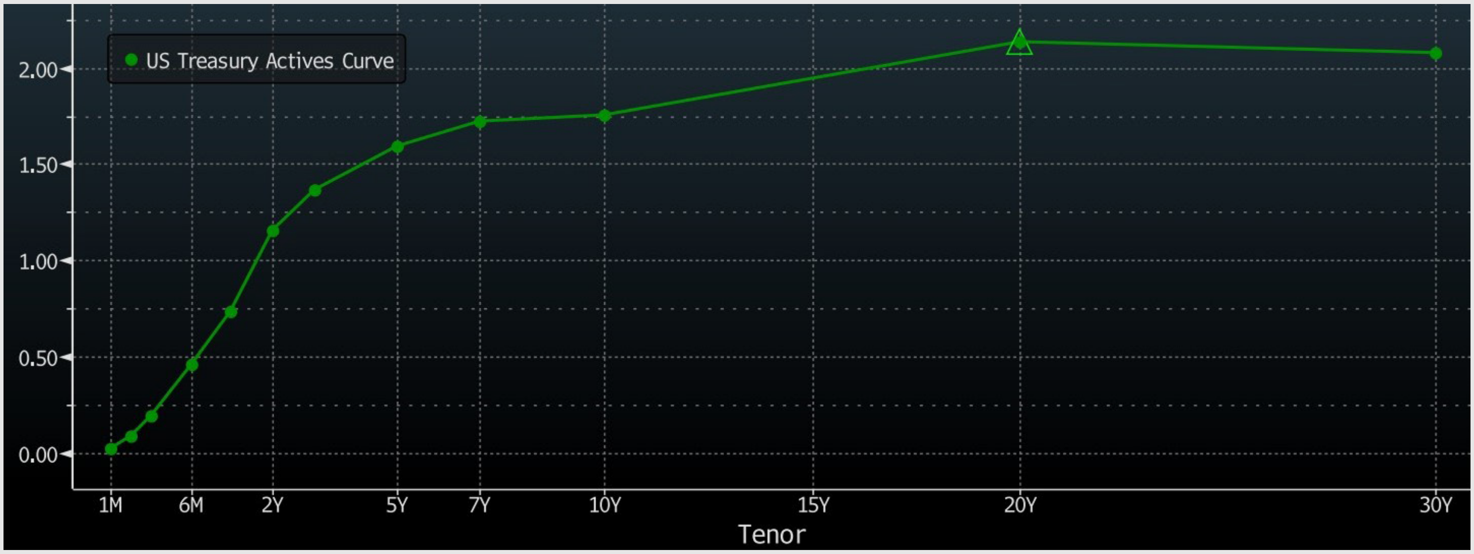
Yield curve

Economic indicators over the next few months could shed more light on the path forward. Chair Powell confirmed that the Fed would be agile, adapting to incoming data and shifts in outlook.

Meanwhile, the yield curve has flattened dramatically, hinting at a belief that the tightening process will be short-lived but also raising concerns about a possible inversion which in the past has signaled a recession within 18 months.

This alone could cloud the Fed's tightening plans. Over the next few months, economic data such as CPI and employment figures will suffer extra scrutiny as their evolution is likely to be key when it comes to forming a thesis around how many rate hikes the US will get. Also key will be inventory figures—when the supply chain congestion starts to get unwound, that could bring inflation down but could also suppress production and therefore economic growth.

The Federal Reserve has a tight margin in which to act: too little and inflation becomes an intractable problem that depreciates purchasing power which is economically damaging to many and therefore a significant political inconvenience; too much and economic growth as well as employment gets hit, which is also economically damaging to many and therefore a significant political inconvenience.



(chart via Bloomberg)

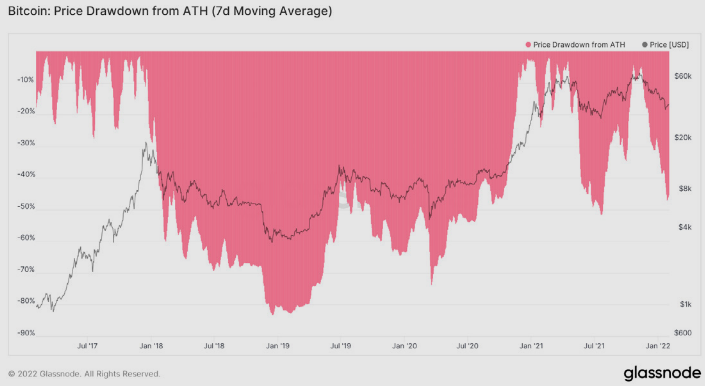
2 Bitcoin

Market Signals

Bitcoin failed to shrug off bearish sentiment for most of the month. On Jan 20, it seemed to give up the struggle and dropped approximately 20% over 48 hours, producing a similar correction to that of early December.

(chart from Messari)

This slump and a lesser one earlier in the monthdragged BTC down almost 20% for the month, the worst January performance for the asset since January 2015. The drawdown from the ATH reached almost 50% at one stage, not the worst in Bitcoin's history, but the sharpest since July 2021.



(chart from glassnode)

Perpetual futures[1] funding rates[2] were mildly positive throughout January but flipped mildly negative during the last week, signaling strong uncertainty.

The options market, however, showed clearer signs of bearish sentiment. The spike in 25D skew[3] (put IV - call IV) on January 19 was a strong hint of the correction which started the following day. The wide swings within an upward trend in skew since then reinforce the lack of a clear direction overlaid with general nervousness. Furthermore, the increase in the ratio of puts to calls over the month, in both options trading volume and open interest, showed that the negative sentiment has continued building.

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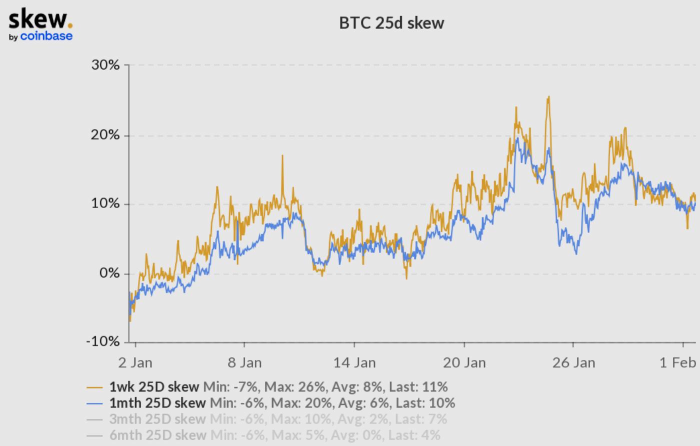
1 A derivatives product unique to crypto markets—these are futures contracts that do not expire, they are automatically rolled over. These typically offer significantly higher leverage than traditional futures and are traded on offshore exchanges.

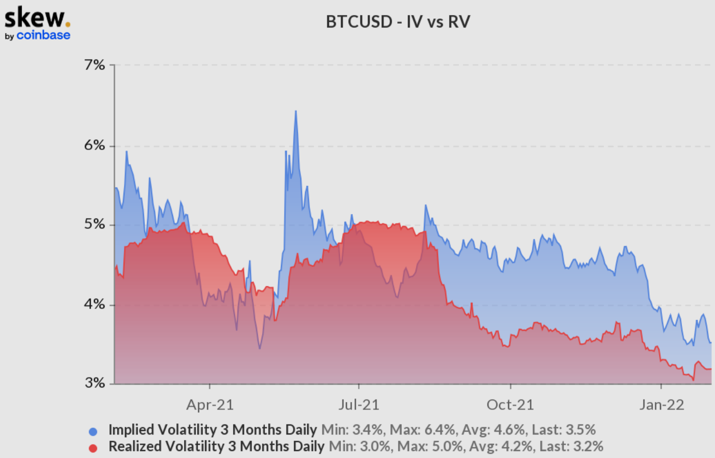
2 The funding rate keeps the perpetual futures contract price in line with the spot price. When the futures price is higher than that of spot markets, long positions pay a percentage rate to short positions—the wider the difference (i.e. the more bullish the market), the higher the rate. When the futures price is lower than the spot price (i.e. bearish sentiment), short positions pay longs—this appears as a negative rate.

3 This metric indicates the premium traders are willing to pay for puts versus calls—a high measure indicates bearish sentiment, a low measure points to market optimism.



(chart from skew.com)

The uncertainty is also evident in the declining levels of and narrowing differential between realized volatility and implied volatility in the options market. The difference between the two measures was the lowest it has been since last summer.



(chart from skew.com)

Check the Thermometers

The weak sentiment in crypto markets is resurfacing the term “crypto winter”, which was last in vogue during the 2018–19 slump. While we may be in for weak market performance for as long as overall market uncertainty around rate hikes, geopolitical tension and COVID impact prevails, it is worth comparing the crypto markets today to those of 2018.

First, let’s look at some **macro data:**

Macro stats	Jan 2018	Jan 2022
US 10yr yield	2.72%	1.78%
Headline CPI yoy (for December)	2.21%	7.03%
Size of US Fed balance sheet ($T)	4.4	8.8
S&P 500	2762	4515
VIX	13.54	24.83
60d correlation BTC/S&P 500	0.07	0.51

Sources: Bloomberg, St. Louis Fed, Coin Metrics

There was nothing in the macro data at the end of January 2018 that hinted at the crypto bear market that was to follow, which underscores how distinct the two markets were back then. The bear market four years ago was the result of overheated valuations. Now, on the other hand, the weak crypto market sentiment is largely due to macro factors, as evidenced by general market unease and the sharp increase in correlation. Crypto data, however, shows a much stronger market than four years ago.

The lower BTC transaction count and volatility suggest that the market is not as frothy today as it was in early 2018. And the strong growth of the overall market cap relative to that of BTC emphasizes the market’s growing diversity.

Crypto markets	Jan 2018	Jan 2022
Total market cap ($B)	352	1,729
BTC market cap ($B)	185	718
BTC dominance	39.2%	42.1%
ETH dominance	22.8%	18.6%
BTC 30d volatility	124.9%	54.1%
Average BTC tx count	238,172	206,988

Sources: Coin Metrics, TradingView, glassnode

What's more, it can be argued that support is strong. Accumulation has absorbed a much greater percentage of the overall BTC supply than the last time we had this scale of a drawdown. And layer-1s[4] and their growing app ecosystems have accumulated significant user interest and capital. Many apps are earning solid revenues, and the broad range of narratives lends a resilience to the industry's outlook.

Indeed, this last point is one of the key differences between the crypto markets in January 2022 and January 2018. Back then, BTC and ETH were "the market". While the total percentage of market cap accounted for by BTC and ETH is more or less the same, most other assets in early 2018 were hyped ICO tokens or protocols that no longer exist.

Crypto support	Jan 2018	Jan 2022
BTC held in long-term addresses (M)	8.6	13.4
BTC last moved over a year ago	42%	59%
% BTC supply in profit	75%	66%
BTC hash rate (E/s)	20.0	191.1
Total TVL ($B)	0.2	220.4

Sources: glassnode, DeFi Pulse, DeFi Llama

Today, crypto narratives have expanded way beyond "store of value" and "global computing platform". They include financial services, social connections, self-expression, gaming and much more. Many tokens generate significant revenue.

Many are gaining market share from traditional "equivalents" as evidenced by trading volumes. These narratives are currently eclipsed by macro jitters, but are not going to disappear and indeed are likely to continue to strengthen as building progresses and investment continues to pour in.

In January alone:

→ Venture capital firm a16z announced plans to raise $4.5 billion for new crypto funds.

→ Crypto exchange FTX set up a $2 billion fund to invest in crypto start-ups.

→ Pantera's new crypto fund has reportedly seen approximately $1 billion of new commitments.

→ Former a16z partner Katherine Haun has reportedly lined up investors for a $900 million crypto fund.

This comes on top of many smaller fund raises. Even if some of these funds struggle to close, retain and deploy the full amount of the indicated levels, they point to significant inflow of new money into the ecosystem. And it's worth remembering that these funds are led by experienced managers who have seen bull and bear markets and understand the appropriate moments to deploy capital.

Furthermore, on the company level, the astonishing raises over the past few months have given crypto firms significant war chests with which to keep building even through the market slump. In 2021, according to PitchBook, venture raises for crypto funds were 7x the levels for 2020.

4 "Layer-1" refers to a native smart contract blockchain, to differentiate from "layer-2" networks that operate on top of layer-1s. Examples of layer-1 chains are Solana, Avalanche, Terra, Cosmos, Fantom and others.

Just some of the raises by leading crypto markets infrastructure firms in January include:

→ Crypto exchange FTX raised $400 million from SoftBank, Paradigm, Tiger Global and others, to reach a $32 billion valuation.

→ Its US subsidiary FTX.US also raised $400 million to reach an $8 billion valuation.

→ Crypto market infrastructure firm Fireblocks raised $550 million from D1 Capital Partners and Spark Capital, at a $8 billion valuation.

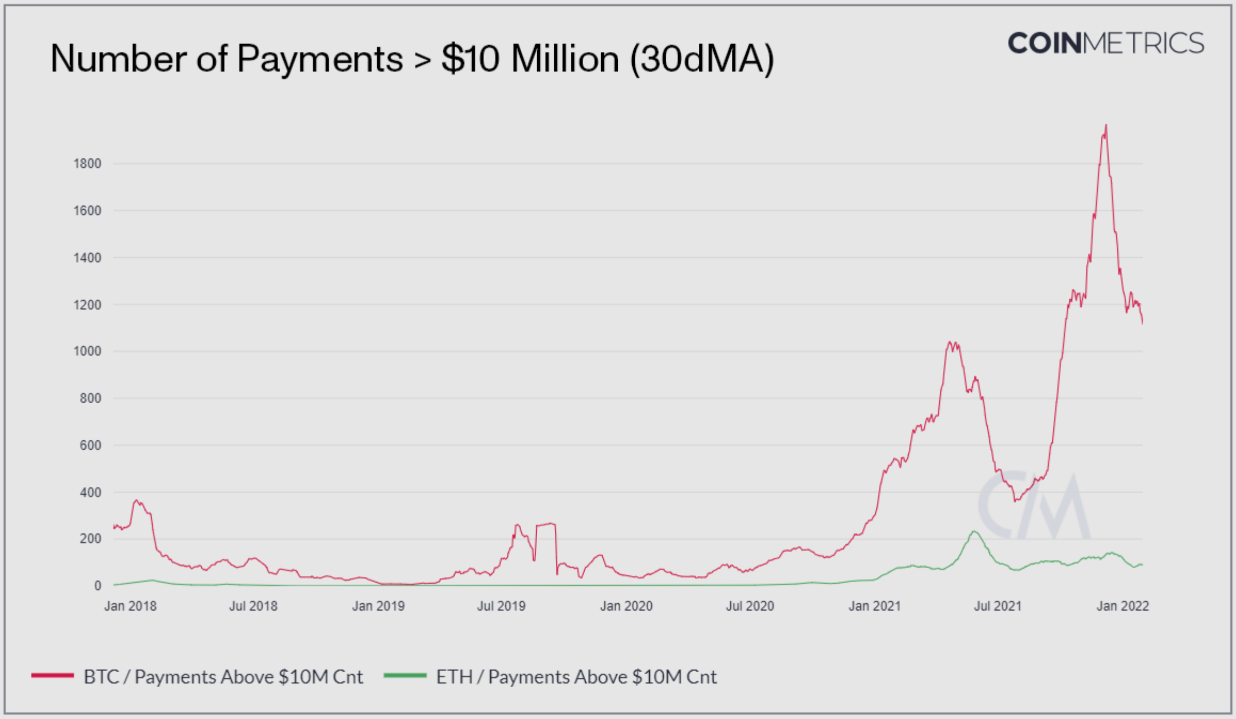
→ Blockchain infrastructure firm Blockdaemon raised $207 million from Tiger Global, Sapphire and others, to reach a $3.25 billion valuation.

→ Digital asset service provider BCB Group raised a $60 million Series A round co-led by Foundation Capital, North Island Ventures and others.

And finally, institutional involvement in crypto markets is on a different level versus a few years ago, as shown in our latest quarterly report and supported by the growth in the number of large transactions for BTC and ETH (see chart below).

So, are we now in a crypto winter? The answer depends on the definition of "winter". The term "winter" implies hibernation. The number of developers working on crypto applications today is at an order of magnitude greater than a few years ago. Electric Capital's Developer Report showed that the number of developers increases along with crypto prices, but does not necessarily fall when prices head down.

As you will see later in this report, progress also continues in the roll-out of new applications, NFT interest and regulatory understanding.



(chart from Coin Metrics)

3 Ethereum

Market Signals

The negative sentiment seen in the bitcoin markets extended to ether, the second largest asset by market cap.

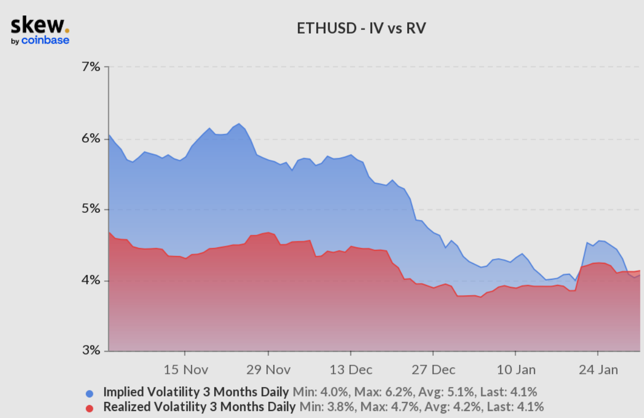
Its performance for the month was worse than that of bitcoin, with a 28% drop.

(chart from Messari)

The decline in the ETH/BTC ratio that we observed in December continued for most of January, turning around in the last few days of the month but still ending notably below the level at the end of 2021. This reinforces the role of BTC as the relatively “safer” crypto asset—when the market is heading down, BTC outperforms by falling less. When the market is feeling more optimistic, assets with higher volatilities tend to outperform.

(chart from glassnode)

As with bitcoin, uncertainty is depressing the ETH options market implied volatility, which dipped below the 3-month realized volatility in the last few days of January. Traders seem to be expecting ETH volatility to continue to remain at historically low levels given the market uncertainty and absence of notable catalysts in the short term.



(chart from skew.com)

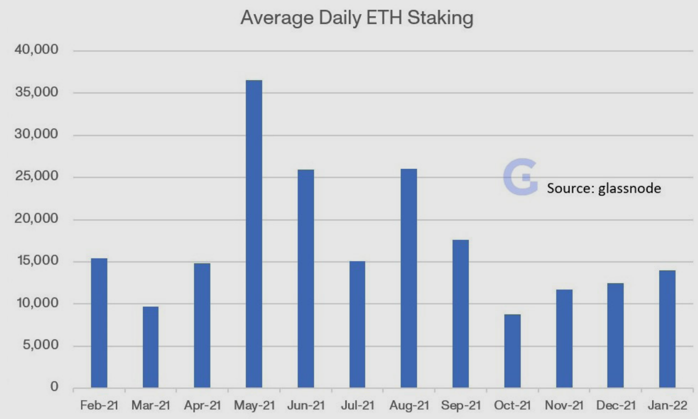
Average ETH transaction fees in USD terms declined for most of the month in line with lower demand for Ethereum transactions. At just under $30, however, they could still act as a deterrent for small transactions on the network. These increasingly have other solutions in the current market, however—many leading apps are deploying on layer-2 networks (see below for more on this).

(chart via [Coin Metrics](#))

Moving Towards a New Ethereum

The march towards the launch of Ethereum 2.0, in which it moves to a proof-of-stake consensus network, appears to be picking up, at least in terms of staked value and signaling.

The daily amount of ETH staked on the Beacon chain[5] was higher on average in January than in recent months, but notably lower than staking activity in the middle of last year.



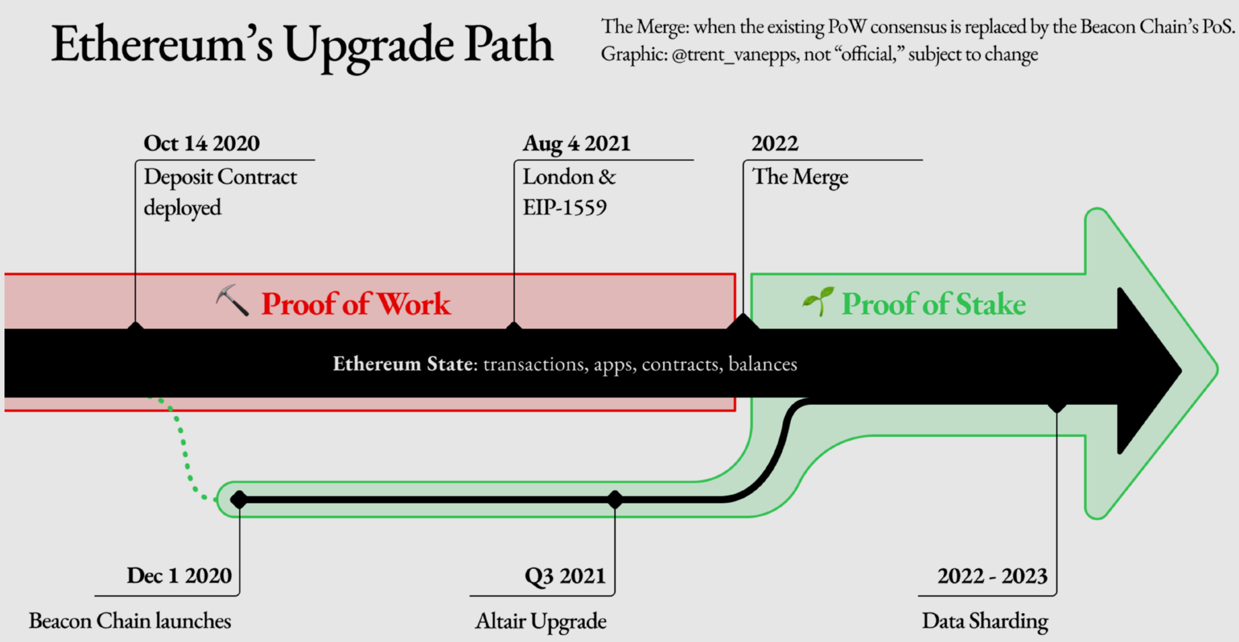
This was enough to push the total amount staked past the 9 million mark—almost 8% of ETH's circulating supply is now locked up until about six months after Ethereum 2.0 goes live, which is [currently expected](#) in mid-2022.

In a relatively overlooked signaling move, the Ethereum foundation [published a blog post](#) announcing that the terms Eth1 and Eth2 (or Ethereum 2.0) were being phased out. Eth1 will now be known as the "execution layer", Eth 2 is the "consensus layer" and the whole thing is "Ethereum". One of the main reasons for this shift is that apparently many assume that the current Ethereum blockchain will disappear.

Some scammers have gone as far as to convince new users that they will need to swap their ETH for ETH2 tokens.

With "the merge", expected toward the end of Q2 2022, the current Mainnet (Eth1) will continue to exist but will run on the Beacon chain's proof-of-stake consensus protocol.

5 The Beacon chain is the core of Ethereum 2.0, managing the new proof-of-stake consensus algorithm and storing all relevant data.



(image via the Ethereum Foundation)

Sharding was originally going to be implemented with the merge, but has been postponed to a later upgrade in order to not hold back the network's progress. One factor behind this decision was the growth of layer-2 scaling solutions such as Arbitrum and Optimism.

Layer-2s

Leading layer-2s Arbitrum, Optimism and Metis had strong starts to the year, each reaching an all-time high in terms of total value locked[6] (TVL) in early or mid-January, but each declining towards the end of month. Arbitrum continues to be the leader with over 5x the TVL of the second largest, Optimism.

One of the main drivers behind the usage spikes on Arbitrum and Optimism could be fee reduction. Both shipped upgrades during the month that slashed transaction fees.

For all three, app launches also most likely played a role. Some highlights include:

→ The community behind decentralized crypto lender Aave voted to launch on Arbitrum, Optimism and Boba Network, and a vote is currently ongoing to launch on Metis Andromeda.

→ Curve, currently the industry's largest decentralized exchange by TVL, launched on Optimism. (See the DeFi section below for more on Curve developments.)

→ In the case of Metis, the launch of leading DEX Netswap's liquidity mining program in early January pushed the network's TVL to more than double the level at the start of the month.

6 TVL is an imperfect metric that measures in USD the value of the tokens locked up in smart contracts on the platform. It is imperfect because it can involve some double-counting, and its value is effected by movements in token prices, but it can be useful to gauge relative value.

4 Layer-1s

In spite of weak market sentiment overall, alternative layer-1 smart contract chains continued to gain ground vs Ethereum in January—until the last week of the month, that is, when a combination of liquidations, scandals and uncertainty sent some DeFi token prices down sharply and ETH market cap dominance[7] up.

(chart from TradingView)

The segment decline was led by Solana (SOL) with a drop of over 40%. Fantom (FTM), on the other hand, led the pack in terms of performance, albeit with a drop of 20% on the month.

Asset		Price	Mkt Cap (bn)	Jan '22	30D RV
Fantom	FTM	$2.04	$5.18	-20.65%	168.64%
Cosmos	ATOM	$28.13	$8.05	-22.61%	147.93%
Cardano	ADA	$1.05	$35.22	-23.79%	109.86%
Polkadot	DOT	$19.48	$19.23	-31.93%	96.29%
Avalanche	AVAX	$69.64	$17.06	-38.91%	110.66%
Terra	LUNA	$51.16	$20.50	-44.29%	132.01%
Solana	SOL	$99.97	$31.51	-44.45%	100.43%

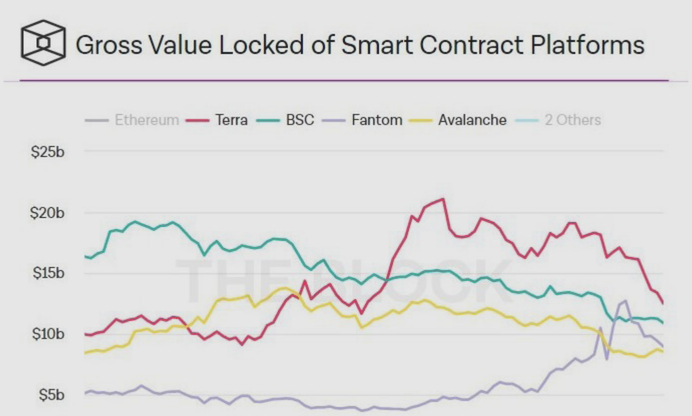
Top 7 L1 crypto assets with mcap > $5bn, ranked by 30d chg. Price calculated at 23:00UTC 1/31/22. Source: Messari

Let's look more closely at each:

Fantom

(chart from Messari)

At the beginning of January, the Fantom blockchain was 8th in terms of TVL, according to data from DeFi Llama. During the month it climbed to third place, behind Ethereum (not shown in the chart) and Terra, only to retract in the latter half to settle in fourth position. What's more, for a couple of days in January, the number of transactions on Fantom exceeded that on Ethereum, according to data from ftmscan.com and etherscan.io.



(chart from The Block Research)

7 The market cap of ETH divided by the total crypto market cap.

The force behind this seems to be token incentives. During the month, well-known developer Andre Cronje published details of a new AMM[8] protocol he was developing on Fantom, called Solidly, which will be based on the vote escrow mechanics as Curve and Convex and the and staking/dilution mechanics of OlympusDAO.

Solidly is attracting attention not just for the developer behind it, and not just for the potentially high return for participants, but also because these vote-escrowed tokens[9] will be converted into NFTs which will allow them to be traded. This introduces a new way to sell voting power.

What's more, Solidly will not be controlled by liquidity providers, like other decentralized AMM protocols—it will be controlled by protocols. Tokens will initially be airdropped to the top 20 apps on Fantom ranked by TVL according to a Jan 23 snapshot, for the protocols to then distribute to their participants.

The sharp boost in Fantom transactions was most likely in part triggered by apps scrambling to boost their TVL in order to get the airdrop, and also by the emergence of a DAO[10] to acquire one of Solidly's NFTs in the open market. In the space of 48 hours, veDAO attracted $2.69 billion of capital and briefly became the second most influential app on Fantom in terms of TVL, according to data from DeFi Llama.

Almost as fast as investors poured in, however, they left—at time of writing, the TVL has plummeted to just over $10 million.

VeDAO is not alone—already there are several other projects building on top of Solidly, highlighting the "building block" nature of DeFi protocols. And while funds and user interest may come and go, and some may question the utility of the boom-and-bust nature of airdrop incentives, the learning from agile experimentation of incentives and swap mechanics could deliver longer-term benefits to the entire ecosystem.

Solana

Solana, which in previous months was a top performer among layer-1 blockchains, in January lost over 40% of its value.

(chart from Messari)

One of the main issues it had to deal with this month was disappointing tech with several outages and degraded performance, most notably during the market correction of Jan 20–22 when some traders were unable to execute transactions or meet margin calls.

Founder Anatoly Yakovenko attributed the issues to bots congesting the network, but the

8 Automatic Market Maker—a type of DeFi application that allows users to swap assets within user-owned pools.

9 Vote-escrowed tokens are tokenized acknowledgments of deposited tokens, usually designated with the letters ve before the deposited tokens' symbol (for example, veCRV represents locked CRV). Usually, the amount of ve tokens awarded increases the longer the underlying tokens are locked. Ve tokens usually confer governance, fee-earning and other rights to holders, but cannot be sold.

10 DAO = Decentralized Autonomous Organization, in which participants vote on the use of funds among other governance issues.

community's frustration has led to questions as to whether Solana's tech is set up for the fast and scalable transactions the network originally promised.

On the one hand, the congestion can be seen as a sign of success in that it stems from high transaction volume. On the other hand, investors in Solana's token are betting on continued growth which will depend on traders' trust.

On the development front, however, progress continues:

→ Crypto market infrastructure company Fireblocks added support for Solana, making it possible for the firm's more than 800 institutional clients to send, receive, custody and stake SOL.

→ Solana wallet Phantom raised $109 million in new funding and launched an iOS app.

→ The community foundation of Serum, a decentralized exchange built on Solana, raised $75 million in a token sale from Tiger Global, Commonwealth Asset Management and others.

→ In the middle of the month, Bank of America published a report positing that Solana could become the Visa of the digital asset world.

→ On Jan 31, Coinbase listed Solana-based project tokens (ORCA and FIDA), marking the first time the exchange has listed tokens that were either not native to a blockchain or running on Ethereum. This triggered a significant bump in the price of SOL in the last hours of January.

What's more, Solana is gaining significant ground in NFTs, and during the past month passed $1 billion in cumulative sales and overtook Ronin to become the second largest chain in terms of NFT sales.

Blockchains by NFT Sales Volume
(30 days)

	Blockchain	Sales	Change (30d)	Buyers
1	Ethereum	$3,749,988,802	▲88.06%	333,401
2	Solana	$183,408,210	▲78.59%	74,464
3	Ronin	$121,325,118	▼55.00%	307,007
4	Flow	$60,752,071	▲38.92%	64,600
5	Avalanche	$48,561,071	▲302.12%	4,214

(chart from cryptoslam.io)

A slew of funding announcements over the past month hint that the Solana-based NFT ecosystem could continue to grow:

→ Metaplex, a company that allows users to build their own Solana-based NFT marketplaces, raised a $46 million funding round led by Multicoin Capital and Jump Crypto.

→ Burnt Finance raised $8 million to build an NFT platform on Solana, in a round led by Animoca Brands.

→ STEPN, a move-to-earn NFT gaming startup, raised $5 million in seed funding from Sequoia Capital India, Folius Ventures, Solana Ventures and others.

5 DeFi

Most of January was looking bleak for DeFi assets, but a notable rally in a few key names in the last few days changed the performance mix. In the last week, Maker jumped +20%, Uniswap +11%, and both Aave and Curve + 8%.

Asset		Price	Mkt Cap (bn)	Jan '22	30D RV
Maker	MKR	$2,130.09	$2.08	-12.42%	80.79%
Bancor	BNT	$2.50	$0.61	-25.18%	63.19%
yearn.finance	YFI	$24,729.04	$0.90	-32.43%	118.48%
Uniswap	UNI	$11.70	$7.34	-32.86%	98.87%
1inch	1INCH	$1.68	$0.79	-33.69%	86.69%
PancakeSwap	CAKE	$7.40	$1.95	-38.33%	96.92%

Top 6 DeFi crypto assets with mcap > $500m, ranked by 30d chg. Price calculated at 23:00UTC 1/31/22. Source: Messari

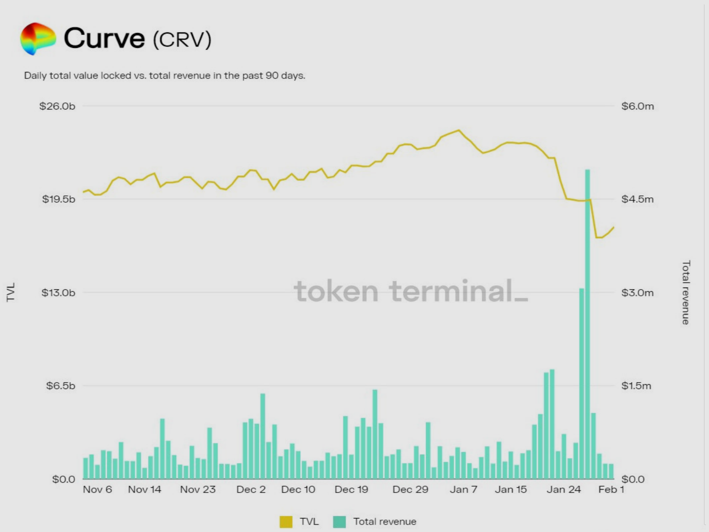
The sector was buffeted with several strong narratives, some positive and others more unfortunate. Below, we take a look at what has been going on with Curve and Aave.

Curve

Through the January market slump, in which Curve's token price dropped over 47%, other fundamental factors for the protocol remained strong.

(chart from Messari)

In spite of a 15% drop in USD terms, Curve maintained its lead in the overall TVL ranking. What's more, Curve's revenue surged towards the end of the month, producing an almost 30% increase vs December 2021.



(chart from Token Terminal)

While growth over the past few months can be attributed to the "Curve wars", this latest boost seems to be a consequence of DeFi governance drama.

Some background:
Curve is a decentralized exchange that shot to the top of activity tables by offering lower fees (4bps) and lower slippage than other DEXes. It does this with a different balancing curve than others such as Uniswap, which is made possible by Curve's emphasis on stablecoin and other like-asset pools.

Users can earn CRV by depositing tokens into Curve's liquidity pools. They can also stake their CRV for up to four years, in exchange for veCRV tokens which confer voting rights on issues such as additional pool rewards, trading fees and new liquidity pools.

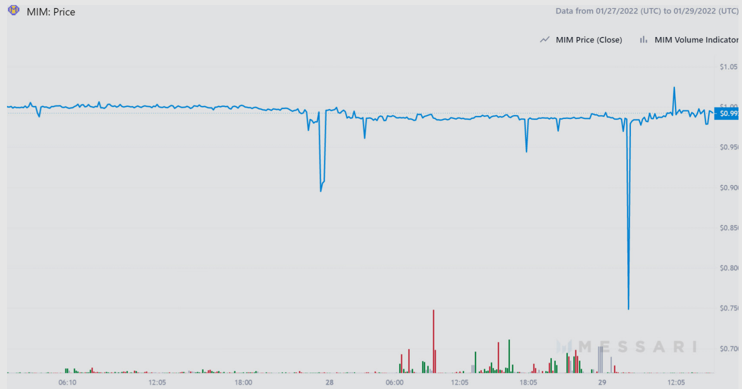
Some DeFi apps such as Yearn Finance, Convex and StakeDAO compete to influence Curve governance by promising users a yield in return for depositing CRV tokens, which the apps then use to lock up on Curve in exchange for veCRV. The aim is to get enough voting influence to increase the rewards to the pools for which these apps have provided liquidity.

This scramble to get more CRV in order to swap it for veCRV and influence pool payouts is known as the "Curve wars", which was one of the main drivers of the 130% increase in the CRV price in Q4. Almost half of all CRV in circulation is currently locked in Curve contracts, according to data from @banteg on Dune Analytics.

Now, on to the scandal that pushed up trading volumes and hence revenue:

On January 27, it was revealed that one of the leaders of the Wonderland ecosystem of decentralized applications, which includes the algorithmic stablecoin MIM, was a convicted felon linked to several scams, most notably the collapse in 2019 of the QuadrigaX exchange that led to the loss of around $190 million of user funds.

MIM is one of the principal assets in Curve pools. In light of the Wonderland revelation, MIM holders rushed for the exit, pushing MIM trading volumes up by orders of magnitude. The dwindling MIM liquidity on Curve caused the stablecoin to briefly lose its peg on several occasions throughout the day.



(chart from Messari)

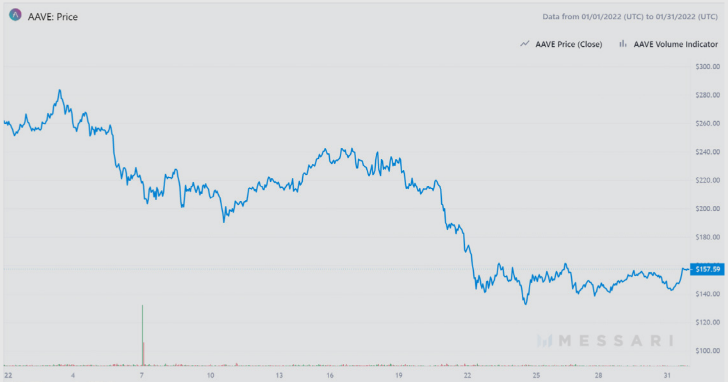
Through Curve pools and other DeFi applications, MIM is heavily collateralized by Terra's algorithmic stablecoin UST. The market became concerned that if MIM lost its peg, the same could happen to UST, so UST volumes on Curve also soared.

The market risk led some institutional investors to withdraw liquidity from Curve, exacerbating the drop in TVL mentioned earlier.

A notable takeaway is that two of the fastest-growing algorithmic stablecoins—MIM and UST—at time of writing have still held their peg in spite of brief deviations. This could end up being an affirmation of the decentralized stablecoin model. On the other hand, it could also end up being a tool the regulators use to point out the vulnerability of the system.

Aave

Another DeFi platform that made news in January was decentralized lender Aave, with the launch early in the month of Aave Arc, a permissioned deployment for institutions. Aave Arc enables parties who have successfully gone through a KYC process to be able to borrow and lend cryptocurrencies to other such parties in a decentralized manner. It functions much like the main protocol, but is limited to approved parties.



(chart from Messari)

For now, approximately 30 participants have onboarded to the platform through designated whitelister[11] Fireblocks. They are largely crypto-native firms such as SEBA Bank, CoinShares, GSR, QCP Capital, Wintermute and others, but the composition of the list could change as the community votes to add additional designated whitelisters.

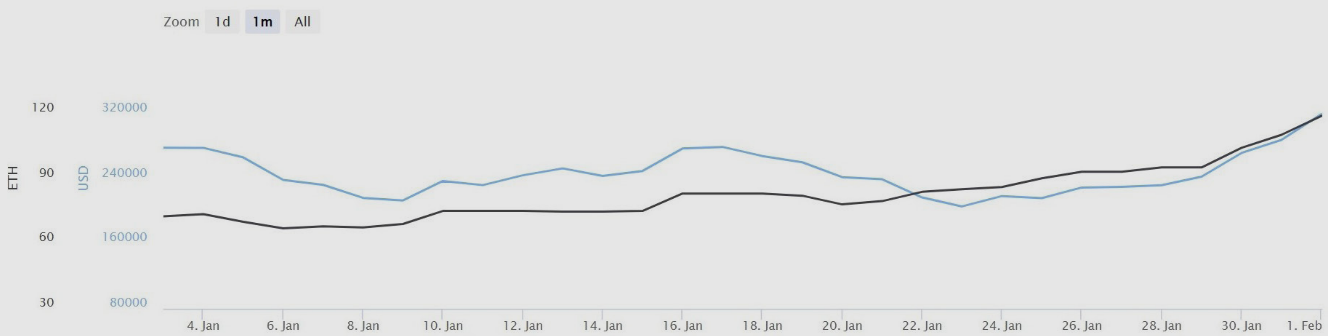
The gatekeeping implied in permissioned DeFi may seem contrary to the decentralized ethos of crypto. However, DeFi is also about making financial services more efficient, and if Aave Arc shows that institutions are eager to participate in new forms of yield generation, then we could see other DeFi platforms adapt and more institutional funds enter the ecosystem. This might bring not only greater liquidity to the market, but could also lend even more legitimacy and perhaps even contribute to the tech development by stress-testing and furthering experimentation with the concept of digital identity.

11 Aave Arc's whitelisters are tasked with onboarding institutional users to the platform as well as with monitoring ongoing KYC and AML compliance. Applications to be a whitelister are voted on by the Aave community. Fireblocks, with approximately 700 institutional clients, at time of launch was the only approved and active whitelister, but a vote was held in December which approved Securitize and another in January to approve SEBA Bank.

6 NFTs

In last month's report, we talked about the expanding role of price floors in the NFT conversation. We saw that consolidate even further in January, with a growing focus on the potential diversification value of NFTs as an investment and of the industry as a whole.

Against a backdrop of weak crypto markets, the floor prices of many collections headed up. Bored Apes, for instance, ended the month higher in terms of floor price[12] in both ETH and USD terms; Mutant Apes as well. The same goes for Adam Bomb Squad, Sneaky Vampire Syndicate, World of Women...The list is long.



(Bored Ape floor price chart from CoinGecko)

Bored Ape Yacht Club (BAYC) continues to be the most valuable collection in terms of floor price: according to nftpricefloor.com, it currently stands at around $300,000, and has attained an almost unrivalled celebrity power. In January, Paris Hilton and Jimmy Fallon shared their Bored Apes with millions of viewers on Fallon's prime-time show. The list of celebrities owning Bored Apes now includes Eminem, Kevin Hart, Justin Bieber, Neymar and many more.

According to Google Trends, search interest in the term "NFT" continued to escalate throughout most of the month, ending above the term "crypto" (but below "bitcoin").

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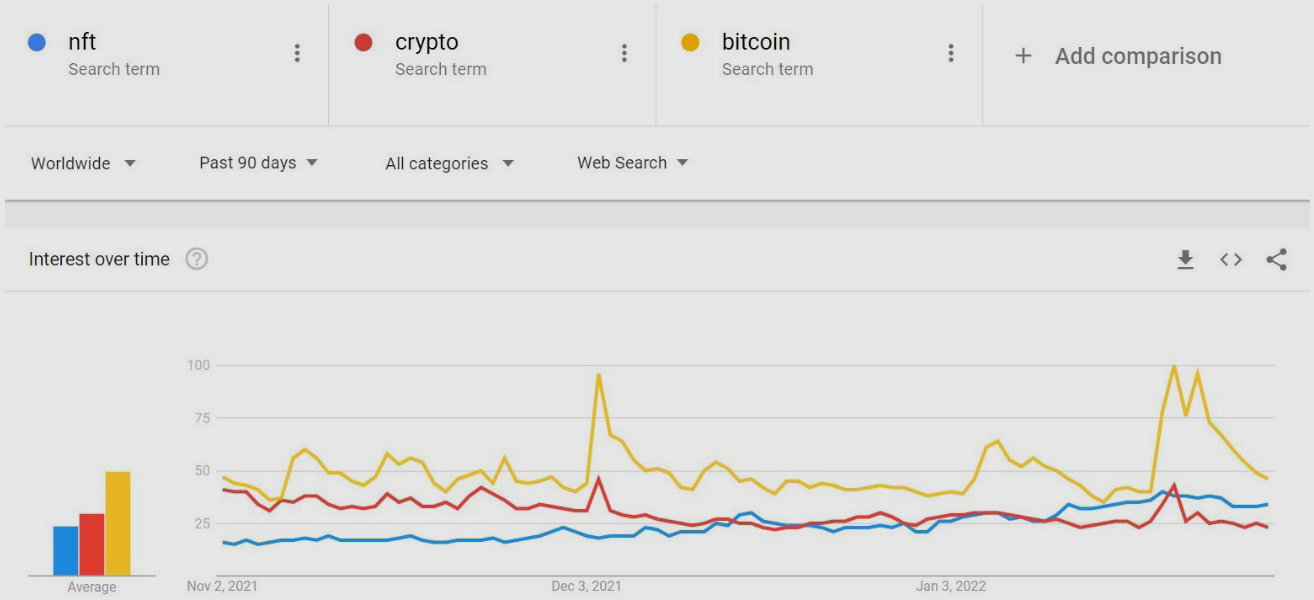
12 "Floor price" refers to the lowest market price for an asset in a given collection.



(chart from Google Trends)

Other signs of the industry's growing popularity can be seen in the evolution of the market infrastructure:

→ Leading NFT exchange OpenSea generated a record $5 billion in sales in January, and reached a $13 billion valuation in its latest raise.

→ New competitor LooksRare generated over $10 billion of sales in its first month of trading by dangling token incentives in front of potential users (although deeper analysis reportedly shows this is mostly wash trading).

→ NFT platform Autograph raised $170 million in a Series B round from a16z, Kleiner Perkins and others. Autograph is co-founded by seven-time Superbowl champion Tom Brady, who has announced his retirement from football to spend more time on his company.

→ Solana NFT layer Metaplex raised $46 million.

→ Twitter enabled profile picture NFT verification.

→ YouTube is apparently looking into NFTs.

→ Facebook and Instagram's parent company Meta is reportedly looking into launching an NFT marketplace.

→ Samsung plans to introduce an NFT platform as part of its new smart TVs.

→ Anheuser-Busch launched an NFT project for Bud Light. Walmart, Gap, Gucci, Prada, Crocs and other well-known brands also developed strategies around the concept.

→ NFT onboarding platform MoonPay rolled out a credit card checkout tool for NFT purchases, and Coinbase is partnering with Mastercard to make it easier for users to buy NFTs.

7 Regulation

Crypto Mining

The House Energy and Commerce Committee's Oversight Subcommittee held a hearing on proof-of-work mining. The title—"Cleaning Up Cryptocurrency: The Energy Impacts of Blockchains"—hinted at an antagonistic look at the environmental impact of Bitcoin mining, and the hearing's memorandum went as far as to compare the energy cost of a single BTC transaction with a single ETH transaction (revealing a misunderstanding of how blockchain mining works). In the end, however, the witness list was relatively balanced (although surprisingly did not include any Bitcoin mining companies), and the tone of the questions was more inquisitive than aggressive with a notable absence of calls for an explicit crackdown.

The tone coming from the European Securities and Markets Authority was more strident, with the vice-chair calling for a ban on Bitcoin mining for environmental reasons. This is unlikely to produce any harsh short-term measures as the European Union tends to move slowly, which will give the crypto mining industry time to both grow further and increase its education efforts.

The Bank of Russia also called for a total crackdown on crypto mining as well as crypto-fiat transactions, although Putin himself has since stepped in to counter with a proposal to regulate crypto mining, in which he believes the country has competitive advantages. This is worth keeping an eye on as, according data from the Cambridge Bitcoin Electricity Consumption Index, at the end of August 2021 Russia was the third-largest Bitcoin mining location with over 13% of global hash rate, behind the US and Kazakhstan. A government estimate puts crypto holdings in the country at 12% of the global market.

Crypto Promotions

January could be remembered as the month in which crypto promoters got a harsh wake-up call, with regulators in several jurisdictions clamped down on crypto marketing.

In Spain, influencers and their sponsors will have to notify the authorities in advance of any post promoting crypto, and warn of the risks, or face fines of up to 300,000 euros. The Monetary Authority of Singapore issued guidelines limiting crypto advertising to digital asset firms' own websites and social media accounts. And in the UK, crypto marketing is now within the scope of financial promotions legislation and subject to the same Financial

Conduct Authority rules as other investment services and products. Also, the Advertising Standards Authority banned two crypto.com ads, and London's transport authority suspended approvals for crypto-related advertising.

These moves can be interpreted as positive for the industry in that urging retail investors to buy Floki because they "missed Doge"—or even to "buy Bitcoin" for that matter, without any mention of the risks—reinforces the impression that crypto is only for speculation and that prices only go up. This may boost short-term engagement but at the expense of the industry's reputation and possibly also investors' wealth.

Executive Order

Towards the end of January, reports emerged that President Biden was preparing an Executive Order on cryptocurrency policy to be released as early as February. The contents of the Order are as yet unclear, but could task a range of federal agencies with assessing the risks and opportunities they pose.

Barring any negative surprises in the text, this could be taken as a positive step for a market that has been struggling with the lack of regulatory clarity. A more comprehensive approach with inter-agency cooperation could establish a framework in which investors in both the crypto markets and the companies that serve them feel a greater degree of reassurance. It could also make it much easier for US crypto businesses to be compliant and might encourage more international businesses to set up operations in the US.

A potential downside is that any risk assessment and ensuing rules might be hastily compiled, which could lead to problematic definitions and requirements that show a lack of understanding of the underlying technology.

Sources say that the Executive Order will ask agencies to submit reports in H2 2022. This may sound like plenty of time, but there is a lot of ground to cover. Many crypto firms have beefed up their budgets to help official representatives understand the opportunity and the risks, and a growing number of politicians are publicly showing interest. 2022 could end up being a pivotal year for the industry on the regulatory front, hopefully ending a long period of uncertainty.

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Genesis January 2022 Monthly Report by:

Noelle Acheson, CFA
Head of Market Insights
nacheson@genesistrading.com

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