Market Review

DEC 2021

Genesis

DECEMBER 2021 MONTHLY REVIEW

Introduction

In our last monthly report, we showed how November was a seminal month for crypto markets, with significant steps forward in BTC adoption, metaverse investment and layer-1 development. December continued the pace even around the holiday season, with product shipments, new funding rounds and shifting metrics pushing narrative twists forward in spite of relatively muted trading volumes.

In this December 2021 review, we look at:

→ How macro themes impacted crypto markets;

→ The temporary leverage shakeout in Bitcoin;

→ Ethereum's evolving investment narrative;

→ Shifts in layer-1 focus;

→ The weak growth in decentralized finance (DeFi) applications;

→ The growing importance of NFT floor prices;

→ And more…

This report is not an end-of-year review or a look back at 2021 – there are many of those, most of them excellent. This report focuses on the often-overlooked month of December and the notable events that took place during that short window. This overview is by no means comprehensive – there is much that we are unable to cover due to space limitations, but we have chosen what we think are some of the main themes to keep an eye on over the coming weeks.

(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.)

December performance

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

Asset			Price USD	bn	Dec '21	2021	30D RV
Bitcoin	BTC	Layer-1	$46,037.02	$868.52	-19.50%	56.66%	60.67%
Ethereum	ETH	Layer-1	$3,660.90	$434.23	-20.26%	400.48%	65.42%
BNB	BNB	Layer-1/Layer-2	$509.71	$84.74	-18.72%	1248.03%	59.37%
Solana	SOL	Layer-1	$169.26	$52.20	-26.26%	9082.93%	95.57%
Cardano	ADA	Layer-1	$1.30	$43.34	-16.07%	640.50%	108.94%
XRP	XRP	Layer-1	$0.82	$38.88	-17.87%	241.80%	83.00%
Terra	LUNA	Layer-1	$85.43	$30.82	33.63%	13076.12%	142.26%
Polkadot	DOT	Layer-1	$26.58	$26.10	-28.04%	219.10%	110.49%
Avalanche	AVAX	Layer-1	$107.61	$26.05	-10.35%	2824.16%	135.41%
Dogecoin	DOGE	Payments	$0.17	$22.28	-19.42%	2864.20%	104.32%

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

Looking at the top 10 performers among the top 30 assets ex-stablecoins ranked by market cap reveals the strong market focus on layer-1 growth (more on this below):

Asset			Price USD	Mkt cap bn	Dec '21	2021	30D RV
NEAR Protocol	NEAR	Layer-1	$14.43	$8.60	68.66%	954.61%	192.00%
Terra	LUNA	Layer-1	$85.43	$30.82	33.63%	13076.12%	142.26%
Polygon	MATIC	Layer-1/Layer-2	$2.49	$17.68	23.64%	13800.38%	136.27%
Cosmos	ATOM	Layer-1	$30.76	$6.95	17.51%	433.45%	152.41%
Fantom	FTM	Layer-1	$2.22	$5.61	3.99%	12760.05%	142.66%
Avalanche	AVAX	Layer-1	$107.61	$26.05	-10.35%	2824.16%	135.41%
The Sandbox	SAND	Gaming	$5.79	$5.29	-11.64%	15576.63%	136.59%
Algorand	ALGO	Layer-1	$1.66	$10.51	-15.57%	315.30%	113.37%
Cardano	ADA	Layer-1	$1.30	$43.34	-16.07%	640.50%	108.94%
XRP	XRP	Payments	$0.82	$38.88	-17.87%	241.80%	83.00%

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

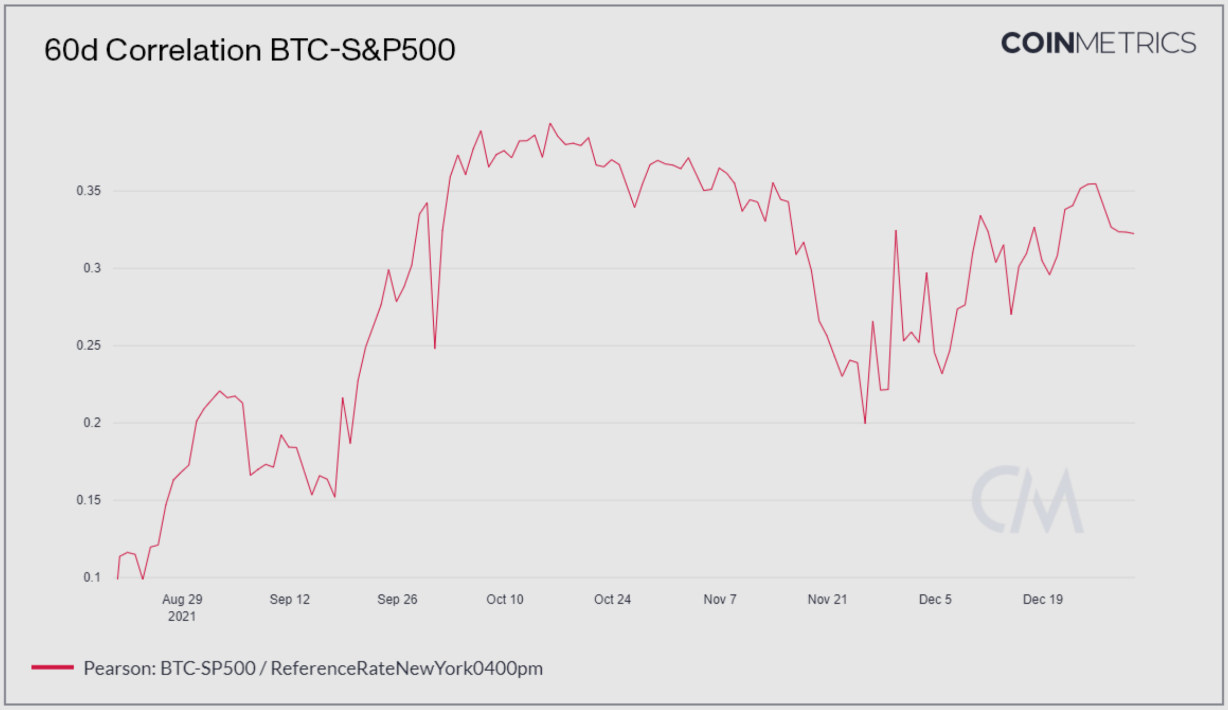
1 Macro

December firmly established that BTC acts more like a risk asset than an inflation hedge, with the highest inflation print since 1982 producing a short-lived BTC price bump which the market swiftly shrugged off.

More significant for markets was the FOMC meeting in mid-December which changed the tone of US monetary policy. Chairman Powell finally acknowledged that inflation might not be transitory, and announced intentions to accelerate the schedule of interest rate hikes and reduced bond purchases.

The change came as no surprise, however, and – as the positive reaction to November's 6.8% CPI print (the highest in almost 40 years) foretold – markets seemed to greet this with relief tinged with some skepticism as to the feasibility of rate hikes extending into 2024.

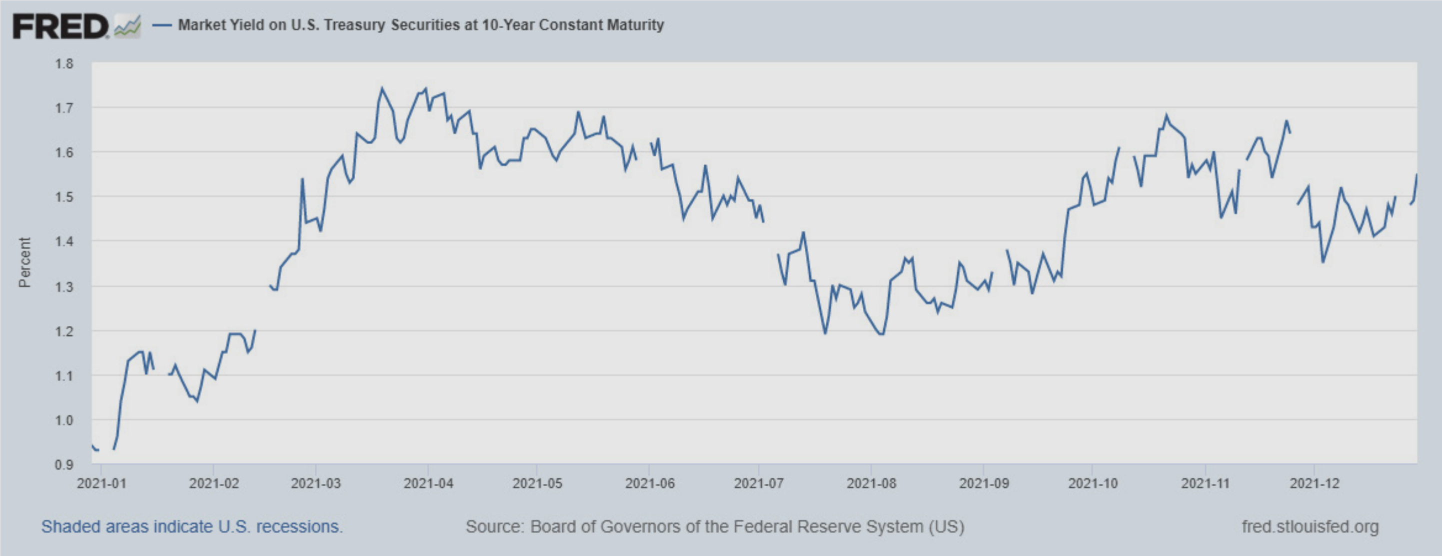
No sooner was this shift digested, however, than the omicron Covid variant started rattling investors concerned about the economic impact, and Chinese property market woes added further strain. This return to a risk-off sentiment affected equities to some extent and also BTC, whose correlation with stocks climbed back up to November levels after early December's leverage shakeout (more on this below in the Bitcoin section).



(chart via Coin Metrics)

As we have seen throughout the year, equity market optimism does not stay down for long, and reports that omicron is less deadly combined with measures to reduce quarantine requirements in many jurisdictions restored some faith that this, too, cannot withstand the force of liquidity needing a return. The S&P 500 ended the month over 5% up from the end of November, notably outperforming the major crypto assets.

10-year Treasury yields reinforced the tentative optimism by ending December higher, signaling growing bond market conviction that, unlike inflation, the external market threats are likely to be transitory and that economic growth and interest rates will be heading up. This could keep risk assets down until optimism finds a firmer footing, and concerns now center on the level at which higher rates might choke off economic recovery.



(chart from the St. Louis Federal Reserve)

2 Bitcoin

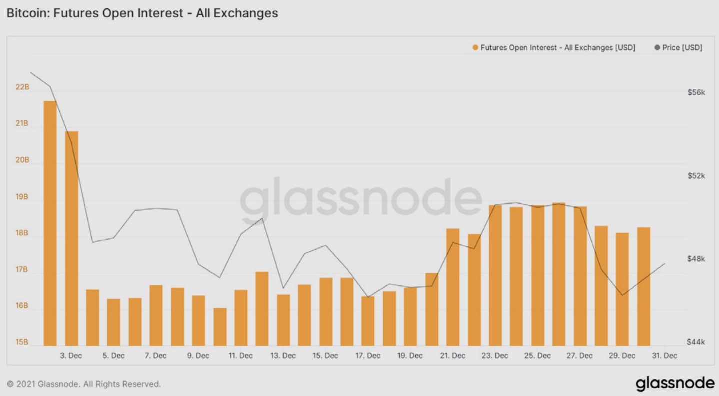
The December Shakeout: A Temporary Leverage Adjustment

Bitcoin opened the month with a splash, dropping almost 20% on Dec 3–4 and producing one of the sharpest falls of the year. The ratcheting up of tensions triggered by the emergence of a new Covid variant and the possibility of a Russian invasion of Ukraine was compounded by a build-up of crypto leverage and a thin weekend market, and cascading liquidations pushed the market down even further.

(chart from [Messari])

At time of writing, BTC has so far failed to recover from that drop, spending the rest of the month within a relatively tight trading range.

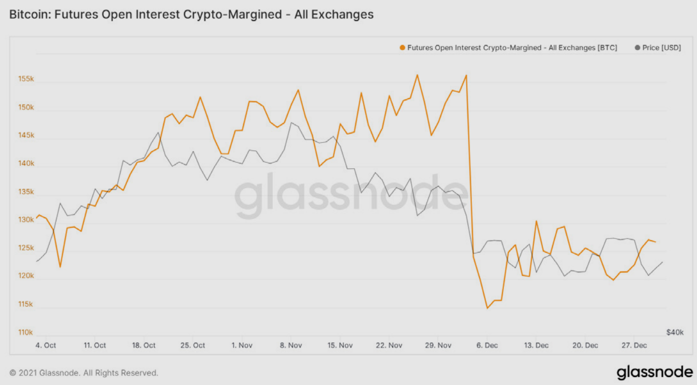
This drop produced the sharpest liquidations since September, washing over $5 billion of BTC futures open interest out of the market, a drop of approximately 24%. While this is steep, for context, the sharp market drop back in March 2020 washed out almost 60% of the futures open interest.



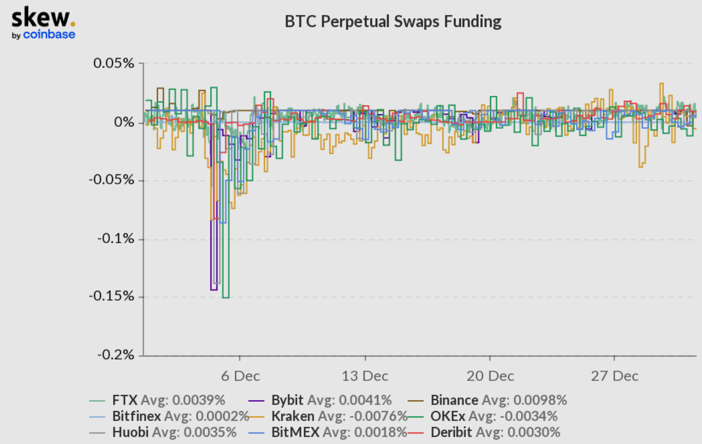
(chart from [glassnode])

This serves as a reminder that the relatively high leverage in crypto markets can exacerbate downward moves, especially if – as was the case in early December – the amount of crypto-leveraged futures is increasing.

One of the many peculiarities of crypto derivatives is the possibility to post margin in the same crypto asset as the contract. While this may be convenient for traders, it does introduce additional risk to the market, in that when the market falls and the value of the contract goes down, so does the value of the collateral, accelerating liquidations and driving the price down further. The amount of crypto-margined futures has yet to recover from the early December crunch, but this data point is worth keeping an eye on for the potential market risk it represents.



(chart from glassnode)



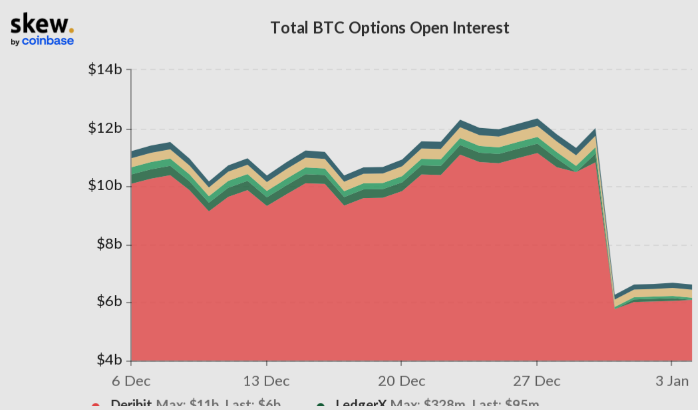
(chart from skew.com)

Leverage is endemic to crypto markets, however, and BTC futures open interest crept back up during the rest of the month. One way to gauge overall leverage in the market is to look at the perpetual futures[1] open interest in relation to the total market cap. Over the month of December, this metric more than recovered what it lost during the early December shakeout.

(chart from glassnode)

The BTC perpetual futures funding rate[2] recovered relatively swiftly after the early December shock, and hovered with a "neutral" rate for the rest of the month, trending neither bullish nor bearish and signaling a "wait and see" sentiment.

BTC options open interest headed towards month end at similar levels to the beginning of December, up until a whopping $5.8 billion options expiry on Dec 31. This was the largest options expiry of 2021, and pulled almost 50% of BTC options open interest out of the market.



(chart from skew.com)

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.

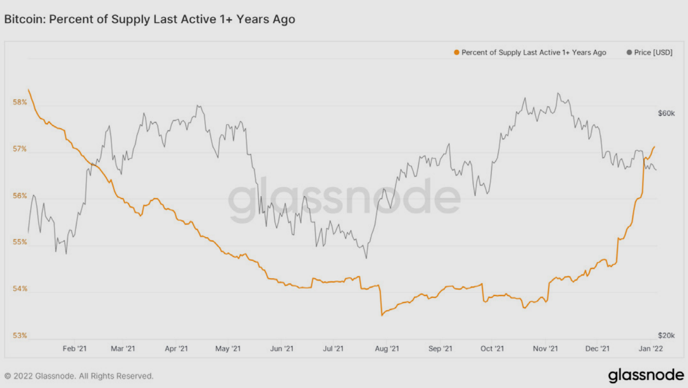
2 The funding rate keeps the perpetual futures contract price in line with the spot price. When the futures price is higher than that of spot markets, long positions pay a percentage rate to short positions – the wider the difference (i.e. the more bullish the market), the higher the rate. When the futures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

BTC a Risk Asset? That's Only Part of the Picture.

In the Macro section, we commented that BTC's market behavior aligns it more with risk assets than with store-of-value assets. So, does that mean that investors no longer believe in the store-of-value thesis?

No, because price behavior is only part of the picture. It represents the opinions of those active in the market at any given time, overlooking the thinking behind longer-term positions. These currently account for the majority of BTC in circulation.

Over 57% of BTC's supply has been held for over one year, through some significant risk-off market events. These holders do not seem to see BTC as a risk asset, or at least not one that they are willing to offload when market sentiment turns bearish.



(chart from glassnode)

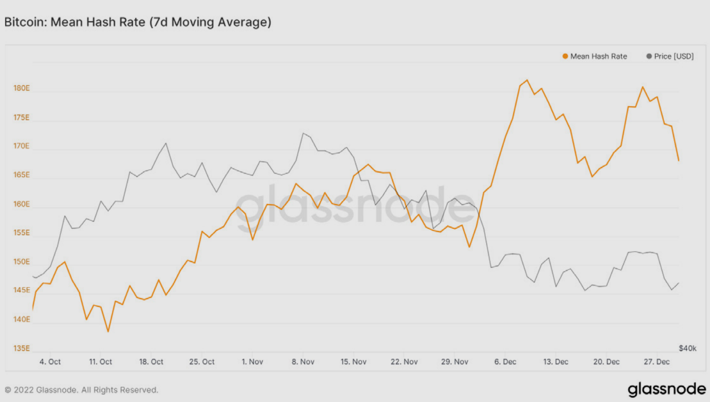
Looking at another metric, over 75% of BTC's supply is held in "illiquid" addresses, which are defined by on-chain data provider glassnode as addresses that spend less than 25% of incoming BTC.

(chart from glassnode)

So, to say that BTC is a risk asset is focusing only on the part of the BTC supply that is actively traded – the "liquid" supply. It misses the bigger picture, which is that bitcoin is different things to different people. While this flexibility may complicate valuations, it is one of the key characteristics behind its resilience and potential growth.

Why Mining Financing Matters

Bitcoin's hash rate hit an all-time high (on a 7-day moving average basis) early in the month, only to drop, rise and drop again. Nevertheless, the 7-day moving average hash rate still ended the month over 7% higher than at the beginning, in spite of weak price performance. This, as well as the complete recovery of hash rate after the China ban early in the year, highlights the resilience and flexibility of the network as well as the inherent optimism of the miners willing to invest.



(chart from glassnode)

Investment in and by Bitcoin miners continued its strong trend in December:

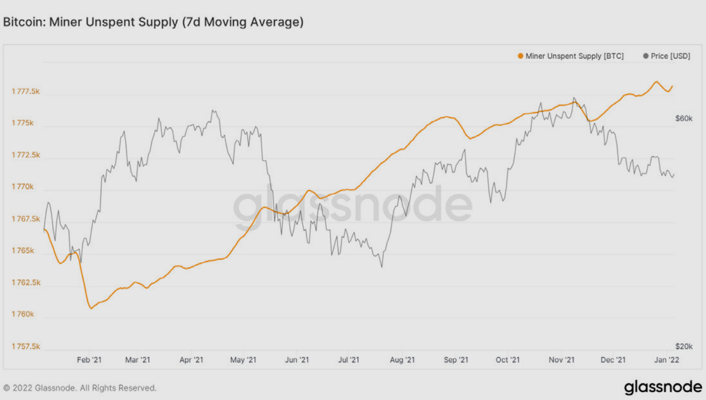
→ TeraWulf raised $200 million in debt and equity.

→ Stronghold Digital Mining announced plans to acquire 9,080 Bitcoin mining rigs and signed a $54 million financing deal with NYDIG.

→ And Marathon Digital revealed plans for the largest hash rate expansion to date, approximately 600%, with a $900 million mining machine order for Bitmain.

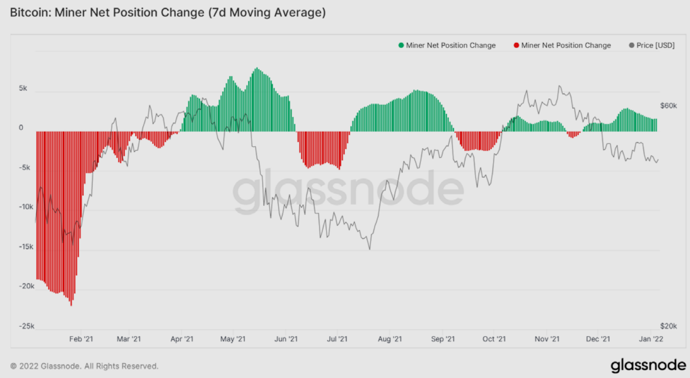
These moves are significant as they highlight a growing trend of miners acquiring more capacity using financing rather than paying cash up front as was the norm in the early days of the industry. The 2021 migration of hash rate to North America accelerated this change by improving miners' access to sophisticated financing options. The growing number of listed bitcoin mining companies has further boosted access to capital markets.

With greater funding availability, miners no longer need to sell BTC to fund operations and expansion. This reduces the selling pressure in the market. Just as well – according to on-chain data, miners' unspent BTC supply (BTC mined and held) in December reached an all-time high of almost 1.78 million, worth over $80 billion at current prices.



(chart from glassnode)

On-chain data also shows that, for most of 2021, Bitcoin miners have been net accumulators of BTC, further reducing the supply available for new market entrants.



(chart from glassnode)

While miners may still choose to sell for a variety of reasons, including balance sheet/ tax considerations, taking profits or because market financing may in some cases be relatively expensive or unavailable, the reduction in this source of BTC selling is unlikely to be temporary, especially as crypto markets continue to evolve and new types of financing instruments become available.

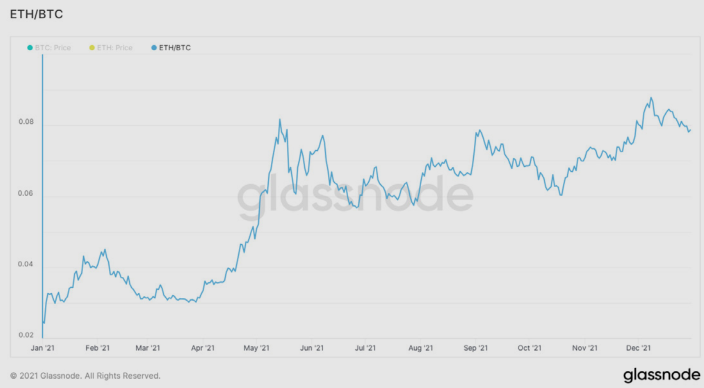
3 Ethereum

Is ETH a Store of Value?

Like most crypto assets, ETH had a weak December, falling approximately 20% in price and bringing its 2021 performance down to just under 400%. This marks the third consecutive December in which BTC outperformed ETH (although only marginally in 2021), and also the second year in a row in which ETH outperformed on an annual basis.

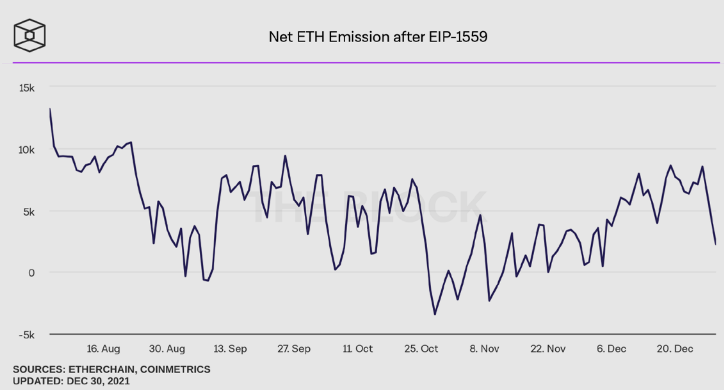
(chart from [Messari])

One of the key metrics we were watching in December was the ETH/BTC price ratio, a strong signal of market rotation. During the month, it touched its highest point since February 2018, highlighting the widening breadth of the market and the growing investor interest in assets beyond BTC. Notably, it reached this high point shortly after the sharp market correction of Dec 3-4, highlighting BTC's market behavior as a risk asset (see above).



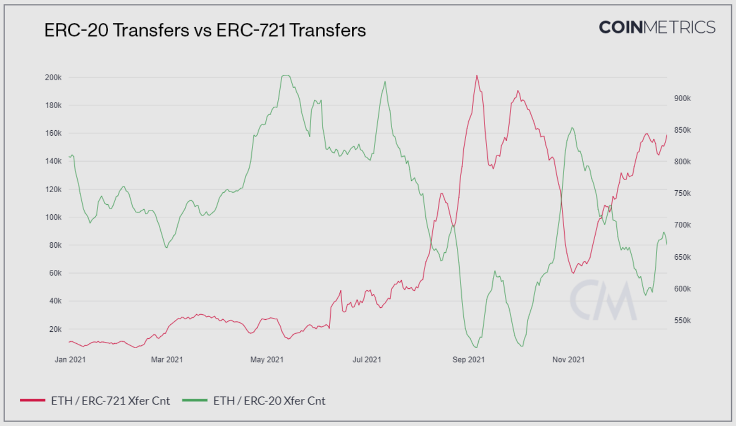
(chart from [glassnode])

The relative strength of ETH is also hinting at a shifting narrative for the market's second largest token by market cap, sketching a potential role as a monetary asset rather than a utility token. First, there's the drastically reduced increase in supply. The amount of ETH burned declined in December along with an overall decrease in transactions, but the net growth is still notably lower than before the activation of EIP 1559 in August, and should transactions pick up in the New Year, could once again turn negative.



(chart from [The Block Research])

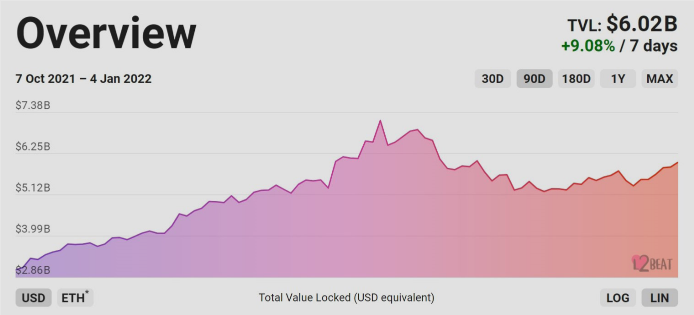
Second, Ethereum is still the leading blockchain when it comes to NFT sales by a wide margin. The majority of NFT sales on Ethereum are paid for with ETH, boosting the token's role as a transactional currency. While ERC20 transactions, which are powered by ETH as a utility token, dominate Ethereum activity, the number of these transactions has been declining over the past year. On the other hand, the number of ERC721 transactions, which involve non-fungible tokens, has been trending up.



(chart from [Coin Metrics](#))

Layer-2 Growth Stalls

Overall layer-2[3] total value locked[4] (TVL) fell sharply in the first half of December in USD terms, perhaps due to growing activity and more attractive incentives on alternative low-cost layer-1s (L1s, see below). Activity picked up towards the end of the year, but still ended notably below the start of the month.



(chart from [L2Beat](#))

Although the only L2 platform of meaningful size that achieved TVL growth in December was Arbitrum, the optimistic rollup network Optimism played a meaningful role in the evolution of scaling narratives for the month. And Polygon, whose TVL figures are not shown in the L2Beat chart above since it is more an L2/ sidechain hybrid, also saw significant growth. Let's look closer at the evolution of each.

Optimism

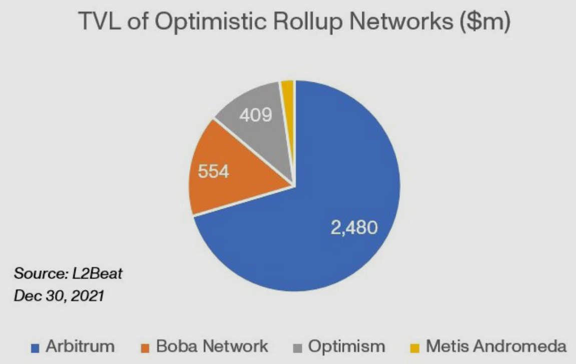
Optimism completed its transition to mainnet in December [by removing the whitelist requirement](#) for developers, which required projects to apply for approval to build on the network. While this may seem unexpectedly restrictive for an Ethereum scaling project, the Optimism team felt it was necessary to ensure sufficient support for builders.

The removal of this step signals that the team feels that the network is now robust enough to handle a higher rate of new applications and

3 Layer-2s, or L2s, refer to a secondary protocol build on layer-1 (L1) blockchains that enable scaling by performing computations off the main blockchain while enjoying the L1's security.

4 The aggregate USD value of tokens locked in smart contracts on the platform. This is an imperfect metric in that it involves some double-counting and is heavily influenced by token prices, but can be useful in gauging trends.

represents yet another significant step forward for Ethereum scaling solutions. A smoother onboarding could trigger a new wave of adoption as well as give Optimism a chance to catch up with its fork Boba Network (TVL of $554 million, according to L2Beat), or even possibly alternative optimistic rollup L2 Arbitrum (TVL of $2.5 billion) which launched its mainnet in May.



Polygon

Polygon had a busy month, kicking off with the expansion of trading of the first MATIC-based product in Europe – an ETP managed by 21Shares that listed on the Swiss SIX exchange in November – to the Euronext exchanges in Paris and Amsterdam.

It also made headlines with the acquisition of Mir Protocol, another Ethereum scaling solution, for 190 million MATIC tokens (currently worth ~$300 million) and $100 million worth of USDC. This was not a first for Polygon – in August, it acquired Hermez Network for 250 million MATIC, at the time worth approximately $250 million (the price of MATIC has since more than doubled). With these deals, Polygon is rapidly scaling its capacity and boosting its technology stack mainly using tokens from its treasury.

The network saw several new apps onboard, most notably Uniswap, the second-largest decentralized exchange in terms of total value locked. Others included automated market maker and decentralized exchange IDEX, trading and lending platform Aurox and decentralized index token provider Index Coop.

What's more, Transak Finance launched fiat onramps for Optimism and Arbitrum, which will enable users to transfer fiat value directly onto the networks, bypassing Ethereum and its high fees.

Signaling support for potential growth yet to come, reports emerged that a group of VC funds were putting together a $50-150 million investment in the platform. And Reddit co-founder Alexis Ohanian's venture capital firm Seven Seven Six has set up a $200 million initiative together with Polygon to invest in social media and Web 3-based projects.

The recent spurt of activity from Polygon, Optimism and other L2s continues to expand the Ethereum ecosystem while enhancing its competitiveness with the rapidly emerging layer-1 universe by working to solve for the high fees and relatively slow throughput that dissuades many developers and users from building on the industry's largest smart contract platform.

For now, however, the bulk of TVL growth seems to be accruing to alternative layer-1 blockchains (see below) as even using Ethereum's L2 solutions generally incurs high transfer fees from the main blockchain. Users and developers seem to prefer, for now, the low-cost alternatives offered by the growing alternative layer-1 networks.

4 Layer-1s

While ETH may have gained market dominance in December relative to BTC, overall it continued to cede ground to alternative smart contract platforms.

(chart from TradingView)

However, the segment leaders in December were not the larger L1s Solana and Avalanche, both of which wound back some of their recent gains. Rather, investor attention seemed to pivot to some of the smaller L1s, with Terra, Cosmos and Fantom delivering the only positive December performances for the segment.

Asset		Price	Mkt Cap (bn)	Dec '21	2021	30D RV
Terra	LUNA	$85.43	$30.82	33.63%	13076.12%	142.26%
Cosmos	ATOM	$30.76	$6.95	17.51%	384.29%	152.41%
Fantom	FTM	$2.22	$5.61	3.99%	13095.73%	142.66%
Avalanche	AVAX	$107.61	$26.05	-10.35%	3219.12%	135.41%
Cardano	ADA	$1.30	$43.34	-16.07%	615.77%	108.94%
Solana	SOL	$169.26	$52.20	-26.26%	11125.19%	95.57%
Polkadot	DOT	$26.58	$26.10	-28.04%	185.58%	110.49%

Top 7 L1 crypto assets with mcap > $100m, ranked by 30d chg. Price calculated at 22:00UTC 12/31/21. Source: Messari

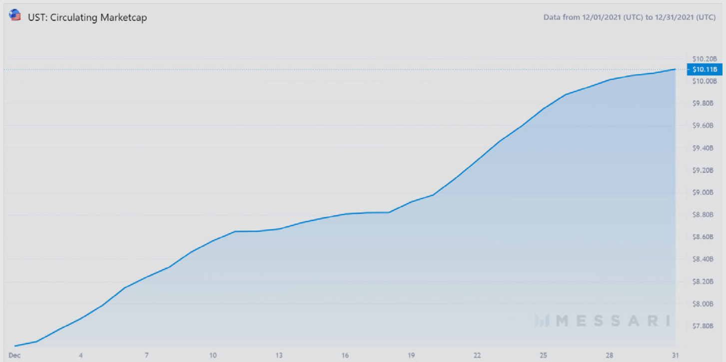
Let's take a closer look at Terra, which led with an over 30% price gain.

Terra

(chart from Messari)

Terra is an algorithmic stablecoin and smart contract blockchain system powered by LUNA. One of Terra's main differentiating features is how it leverages the UST stablecoin to enable multi-currency transactions across applications. There are UST versions backed by the U.S. dollar, the euro, the British pound, the Chinese yuan, the Japanese yen, the South Korean won and the IMF's special drawing rights (SDRs). These stablecoins are not backed by fiat deposits, as are market leaders USDT and USDC, but instead are anchored by LUNA that gets minted and burned as necessary to issue or retire UST from circulation in order to keep the UST value at the desired peg.

A quick look at the market cap of UST gives an idea of the market dynamics behind LUNA.



(chart from [Messari](#))

That sharp increase in market cap comes from the issuance of new UST tokens, which requires the burning of LUNA. That steady and steep reduction in LUNA supply would push its price higher even if UST demand were stagnant.

Demand has not been stagnant, however. The Columbus-5 upgrade at the end of Q3 unlocked greater functionality for the UST token and the network as a whole by enabling new applications as well as cross-chain transfers. And the user interface for Wormhole v2 went live in October, making it easier for users to port assets between Terra, Solana, Ethereum and Binance Smart Chain.

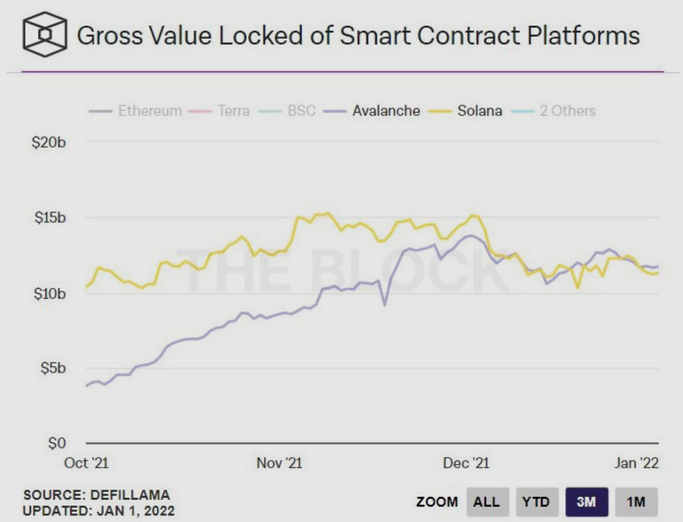
Growth in UST demand has in just over a year has made it the fastest-growing stablecoin in the ecosystem, overtaking leading algorithmic stablecoin DAI which launched almost four years ago. Total value locked on Terra [passed $20 billion](#) towards the end of December, more than double the level at the end of Q3.

The market seems to be betting on continued growth. December's token launch of Terra-based DEX Astroport generated [over $1 billion](#) of pre-launch locked value, and Astroport's launch will enable the launch of the Mars Protocol for borrowing and lending.

Part of the strong performance could be froth generated by investors eager for more token drops. There are also risks stemming from the relative youth of the technology and the SEC subpoena related to the network's Mirror protocol that creates tokens that track securities. But zooming out, the growth of Terra and the LUNA price performance indicate growing interest in systems that focus on flexibility and that hint at how a multi-chain world could operate.

Avalanche

Avalanche's ecosystem continued to evolve in December, for the first time catching up to and even surpassing Solana in terms of total value locked (TVL).



(chart from [The Block Research](#))

A few of key developments helped to spur both user interest and market attention:

→ USDC – the second-largest stablecoin in terms of market cap – launched on Avalanche, which will facilitate further liquidity in Avalanche-based DeFi applications as well as cross-chain transfers for users.

→ Avalanche launched on Fireblocks, connecting institutions to the AVAX token and to DeFi applications on the protocol.

→ Crypto custodian BitGo announced support for Avalanche's AVAX token, making it easier for BitGo's institutional clients to invest.

→ Bank of America published a short note on Avalanche, highlighting its strong developer momentum and growing enterprise adoption

→ AVAX listed on exchanges FTX and Kraken, potentially bringing further liquidity to the asset

→ DeFi platform Alpha Finance joined the Avalanche Rush liquidity program, further boosting the ecosystem and incentivizing use of a broader range of applications.

5 DeFi

DeFi tokens on the whole had a weak December as both revenue and total value locked took a breather from their recent growth. The DeFiPulse Index, which tracks a market cap-weighted listed of leading protocols, was down almost 16% on the month.

Asset		Price	Mkt Cap (bn)	Dec '21	2021	30D RV
Spell Token	SPELL	$0.02	$1.79	95.62%	n.a.	72.73%
SushiSwap	SUSHI	$9.45	$1.20	26.54%	233.66%	249.84%
Gnosis	GNO	$530.55	$0.99	19.10%	592.85%	158.00%
yearn.finance	YFI	$31,352.05	$1.15	9.26%	39.15%	147.25%
Curve	CRV	$5.23	$2.24	6.21%	743.97%	205.38%
Rari Gov Token	RGT	$1.14	$0.33	3.42%	6226.79%	180.10%

Top 6 DeFi crypto assets with mcap > $100m, ranked by 30d chg. Price calculated at 22:00UTC 12/31/21. Source: Messari

Let's look at what's going on with the two top performers for the segment in December:

SPELL

One notable outperformer was multichain lending protocol Abracadabra Money's reward token SPELL. Abracadabra mints the fully collateralized Magic Internet Money (MIM) stablecoin through interest-bearing asset deposits. During December, Abracadabra's total value locked reached an all-time high of $6.3 billion, largely propelled by its enhanced capital efficiency compared to projects such as MakerDAO.

At the beginning of the month, SPELL listed on Coinbase, which triggered a 120% price bump, and towards the end of the month, the token also listed on Binance. To top that off, the community voted to burn 5.25 billion SPELL (over 6% of circulating supply) on Jan 3 from the liquidity mining portion of its supply.

SUSHI

Decentralized exchange SushiSwap has been beleaguered over the past few months with governance issues and internal conflict that had pushed the SUSHI price down to over 70% below its March all-time high. Things came to a head in early December with some high-profile departures, and seemed to start to turn around when Daniele Sestagalli, a well-known Avalanche developer (and one of the key figures behind Abracadabra, discussed above), proposed joining the platform. Since then, restructuring proposals have further energized the SushiSwap community and the SUSHI price, which ended up recovering to mid-November levels.

Other Key DeFi Developments

→ **Uniswap** took its first tentative step off of Ethereum by launching on Polygon. While Polygon is linked to the Ethereum ecosystem and is seen as a layer-2 scaling solution, it is actually more of a multi-chain system unto itself with its own computation and security. This could help Uniswap catch up with Curve (another decentralized exchange) and Aave (a decentralized lender) in terms of TVL growth.

→ **Rari Capital**, which allows the creation of permissionless lending pools, combined with liquidity provider **Fei Protocol**, in the industry's largest decentralized token merger to date. The two platforms have united behind the TRIBE token, which jumped 20% on the news. This potentially heralds a vector of platform growth that we may see more of in 2022.

6 NFTs

Price Floors Start to Matter

The December trend in NFTs seemed to move from developing communities around collections to positioning them as investment opportunities. This can be seen in a growing emphasis on floor prices.

Given that NFTs are unique and diverse, it may seem counterintuitive to talk about any one "price" for a collection. However, being able to do so is a necessary prerequisite for many of the concept's potential applications and the development of NFTs as an investable asset group. The "floor price" – the lowest ask price for any NFT within a collection – is taken as a heuristic for overall interest.

Keeping an eye on floor price evolution can reveal some interesting shifts. For instance, the floor price for Bored Apes overtook that of the "original" NFT collectible CryptoPunks for the first time in December, and is currently around $277k vs CryptoPunks' $262k. This is most likely due to the continued proliferation of Bored Ape initiatives and partnerships:

- → The issuer of Bored Apes is developing a play-to-earn NFT game with Animoca Brands, the developer behind decentralized metaverse gaming platform The Sandbox, with launch expected in Q2 2022.
- → Adidas bought a Bored Ape NFT and announced that it is working with the collection's issuer to turn it into a metaverse character.
- → Author Neil Strauss is working on a fictionalized biography of Bored Ape characters, which could further enhance and expand the brand's reach.

(image via BAYC)

The utility of floor prices is becoming increasingly evident:

- → Asset manager Bitwise launched an NFT fund for accredited investors that will be based on floor prices of leading collections.
- → Crypto lending platform Nexo teamed up with Three Arrows Capital to launch a crypto credit service backed by NFTs.
- → Kraken's CEO has hinted that the exchange's forthcoming NFT platform will facilitate NFT-backed loans.

A Flood of New Platforms

The steady drum of new platform announcements over the course of the most recent month could be signaling that we are entering the "picks and shovels" era of the emerging NFT market.

While any new type of asset needs liquid marketplaces on which to reach a broader audience looking for access and liquidity, a reasonable question is whether the current market can generate enough demand to support the rapidly growing supply.

In December, we found out that:

→ The US arm of crypto exchange FTX added support for Ethereum-based NFTs to that already offered for Solana-based NFTs.

→ Crypto exchange Blockchain.com opened an NFT marketplace.

→ US-based crypto exchange Kraken talked about plans to follow suit.

→ Twitch co-founder Justin Kan's NFT platform Fractal launched on Solana.

→ Reddit is reportedly hiring a senior engineer to work on an NFT platform.

7 Regulation

Congressional hearings

When it comes to crypto regulation, December 2021 will be remembered as the month when crypto conversations in the halls of power got more comprehensive and realistic.

One of the key moments on the calendar was the hearing early in the month before the House Financial Services Committee, in which the heads of leading crypto market infrastructure participants answered legislators' questions for five hours. The tone was more inquisitive than antagonistic, which seemed to show a recognition on the part of many politicians that their constituents will want informed opinions on the matter, as well as a general acceptance that the industry is 1) here to stay, 2) a force to be reckoned with and 3) holds risks but also opportunities.

While the crypto industry still has many opponents in Washington DC, a notable shift is just how often it is talked about in public, which hints at even more conversations going on behind closed doors. Indeed, crypto lobbyists have beefed up their resources, and – according to *The Economist* – in the first nine months of this year spent around 4x the disclosed spend during the same period in 2020. This growth is likely to have escalated in the past quarter, given the community reaction to the Infrastructure Bill as well as the growing recognition from leading market participants that they need to be part of the conversation.

This conversation will hopefully continue to get more detailed and more constructive in the coming months, as Senator Cynthia Lummis of Wyoming has been working on a comprehensive crypto industry bill that she plans to introduce in 2022. The bill apparently aims to clarify crypto asset and market participant definitions, detail consumer protection provisions and updated taxation guidance, as well as propose a new crypto-specific watchdog. According to Senator Lummis, it will also incorporate most of the President's Working Group (PWG) recommendations on stablecoins.

Stablecoins

The progress toward stablecoin clarity that was kicked off with November's PWG proposals continued in December with a US Senate hearing on stablecoins that revealed a party divide on the core utility. Some witnesses pushed back on the PWG recommendation that stablecoin issuance be limited to fiduciary institutions, while others insisted that stablecoins are only used for speculation and DeFi.

Meanwhile, in its annual report, the Financial Oversight Stability Committee (FSOC) reiterated the need for stablecoin regulation and said that it would step in if Congress fails to act. And Japan's top banking regulator announced that it will introduce new legislation in 2022 that seeks to limit the issuance of stablecoins to banks and wire transfer companies.

India

India continued its apparent flip-flopping on crypto regulation, with reports of a harshly enforced ban tempered by Prime Minister Modi's call for a global crypto standard for emerging technologies such as crypto that should be used to "empower democracies".

A crypto regulation bill, which appeared imminent for much of 2021, is now apparently delayed until 2022.

This is worth keeping an eye on, as India is not only the world's largest democracy, with a population of almost 1.4 billion. It is also reportedly one of the largest crypto markets in the world, with the number of users estimated between 20 million and 100 million users. According to Chainalysis, it ranks second in global crypto adoption. And its growth has been rapid – India's largest crypto exchange WazirX has reported 2021 trading volumes over 18x higher than those of 2020. A ban would be a blow not just for crypto users in India, but also for markets should a significant portion of market liquidity need to find a new home.

8 Looking ahead

Every new year tends to kick off with a fanfare of predictions, and 2022 is no different. What does change is the frequency with which certain topics come up. This year there seemed to be more mentions of the macro environment than a few years ago; more focus on the success or disappointment of scaling solutions; more bets on layer-1 competition; more frequent mentions of decentralized derivatives; and what feels like a heightened expectation of regulatory clarity. True, analysts have been talking about this latter point for years, but those who have been following the growing interest from officials in the US and elsewhere appear more convinced than ever that the stage is set for meaningful steps in the year to come.

One thing on which there seems to be consensus is continued strong growth in the industry, with more traditional investors and market participants honing their crypto strategies. Another point of general agreement appears to be that institutions and retail investors are no longer going to limit their focus to bitcoin – a few years ago, the leading crypto asset by market cap would have been the only practical option for many. The rapid development of market infrastructure and the spread of crypto education at all levels have broadened the potential universe of crypto assets for investors of all types.

The Genesis teams plan to continue contributing to the broadening and the deepening of crypto markets, as well as the ever-necessary education as the industry evolves at an accelerating pace. If we can help your firm with its crypto strategy, please reach out to us at sales@genesistrading.com.

We wish you all an interesting January, and a happy 2022.

About Genesis

Genesis is a full-service digital currency prime brokerage providing a single point of access for select qualified individuals and global institutional investors. Genesis combines unrivaled operational excellence, a seamless user experience, and best-in-class client service to provide the full suite of services global investors require to manage their digital asset portfolios.

The firm offers sophisticated market participants a fully-integrated platform to trade, borrow, lend, and custody digital assets, creating new opportunities for yield while increasing capital efficiency for counterparties

Genesis is a wholly owned subsidiary of Digital Currency Group (DCG), one of the largest private investors in blockchain and digital asset companies.

Stay Connected

For more information from this report, contact us at **info@genesistrading.com**, or call us at (212) 668-5921.

www.genesistrading.com

Twitter
LinkedIn
Facebook

Learn More About Our Services

About Genesis
Genesis Prime
Lending FAQ
Custody FAQ

Genesis December 2021 Monthly Report by:

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

Disclosures

This research is for our clients only. Other than disclosures relating to Genesis, this research is based on current public information that we consider reliable, but we do not represent is accurate or complete. This research should not be relied upon as investment advice. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment. Genesis conducts a global prime brokerage service, integrating digital asset lending, trading, and custodial services. Genesis Global Trading, Inc., registered in the United States with the SEC as a broker-dealer, is a member of SIPC (https://www.sipc.org). SIPC coverage does not cover digital assets, virtual currency, cryptocurrency, or other related assets. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. The analysts named in this report may have from time to time discussed with our clients, including Genesis salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the digital assets discussed in this report, which impact may be directionally counter to the analyst's published price target expectations for such digital assets. Any such trading strategies are distinct from and do not affect the analyst's fundamental rating or commentary for such digital assets. We and our affiliates, officers, directors, and employees, will from time to time have long or short positions in, act as principal in, and buy or sell, the digital assets and securities or derivatives thereof, if any, referred to in this research. The views attributed to third party presenters at Genesis-arranged conferences, including individuals from other parts of Genesis or its parent, Digital Currency Group (DCG), and any affiliates or subsidiaries of thereof, do not necessarily reflect those of Genesis and are not an official view of Genesis. Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of any investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.