Market Review

FEB 2022

Genesis

FEBRUARY 2022 MONTHLY REVIEW

Introduction

All months are interesting, especially in crypto markets, but few stand out as much as February 2022. The shortest month of the year turned out to be one of the most pivotal in terms of shaping the new geopolitical landscape that we have seen in decades.

→ We saw the first armed aggression on a sovereign nation in Europe since WWII.

→ We witnessed much of the world come together in condemnation, and enact economic sanctions with unprecedented scale and speed.

→ We also witnessed the power of social media as a combat tool.

→ And we now know that cyberattacks are an overt part of national arsenals.

The profound shifts don't stop there—the relationship between politics, financial systems and ideologies is also undergoing a rapid and public shift:

→ A historically neutral country agreed to enforce sanctions.

→ A country requested and received crypto donations.

→ Europe's largest economy discarded almost a century of military reluctance to supply Ukraine with surface-to-air missiles and anti-tank weapons while channeling 100 billion euros into military spending this year alone.

→ Private companies are unwinding decades of profitable collaboration.

→ Economies around the world are waking up to the precarious balance between the risks of climate change and the risks of energy shortages.

→ The "weaponization of markets" is now a normalized part of military strategy.

→ And we can't forget that, earlier in the month, a country that scores even higher than the US on The Economist's Democracy Index moved to block access to financial accounts based on political actions.

At time of writing it is unclear what the physical, economic and geopolitical ramifications will be, but it is clear that they will be significant and reverberate throughout all markets for years to come.

In the following report, we look at some of the significant shifts in crypto markets, focusing on network- and project-level developments as well as market signals. Given the intensity of the past month, there is much we have left out, including several developments that also point to a sea change in general awareness of crypto and its potential:

- → The Super Bowl became known in some circles as the “Crypto Bowl” because of the proliferation of high-profile ads either by crypto companies or featuring crypto concepts.
- → The potential identities of the individuals behind the 2016 Bitfinex and The DAO hacks have been revealed, highlighting the transparent nature of blockchain transactions and hopefully putting to bed the idea that crypto is ideal for money laundering.
- → Blackrock reportedly is considering incorporating crypto assets into its Aladdin trading platform.
- → KPMG Canada allocated BTC and ETH to its treasury as well as a World of Women NFT.

In the pages that follow, we touch on:

- → The potential impact of war in Europe
- → What consumer sentiment is saying
- → The shift in Bitcoin sentiment
- → Corporate indicators for Bitcoin mining
- → The drop in Ethereum transaction fees and what that means for supply
- → Terra’s strategies to energize UST and LUNA
- → Avalanche’s tech development
- → NFTs gain in awareness but slump in sales
- → ... 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.)

February performance

The February performance of the top 10 assets ex-stablecoins ranked by market capitalization:

Asset			Price USD	Mkt cap bn	Feb '22	30D RV
Bitcoin	BTC	Currency	$43,179.25	$819.44	12.26%	72.06%
Ethereum	ETH	Layer-1	$2,914.43	$343.45	8.49%	82.57%
BNB	BNB	Exchange token	$392.05	$64.32	5.68%	72.26%
XRP	XRP	Currency	$0.78	$37.07	26.99%	118.36%
Terra	LUNA	Layer-1	$86.36	$32.22	75.03%	128.35%
Cardano	ADA	Layer-1	$0.95	$31.57	-8.29%	79.68%
Solana	SOL	Layer-1	$99.85	$31.56	-0.76%	110.56%
Avalanche	AVAX	Layer-1	$84.78	$20.61	21.71%	119.79%
Polkadot	DOT	Layer-1	$18.90	$17.29	-2.63%	82.03%
Dogecoin	DOGE	Meme coin	$0.13	$16.32	-5.67%	69.56%

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

Looking at the top 10 performers among the top 30 assets ex-stablecoins ranked by market cap reveals a growing interest in exchange tokens:

Asset			Price USD	Mkt cap bn	Feb '22	30D RV
Terra	LUNA	Layer-1	$86.36	$32.22	75.03%	128.35%
Unus Sed Leo	LEO	Exchange token	$5.82	$5.56	59.68%	228.37%
XRP	XRP	Currency	$0.78	$37.07	26.99%	118.36%
Avalanche	AVAX	Layer-1	$84.78	$20.61	21.71%	119.79%
Bitcoin Cash	BCH	Currency	$339.27	$5.77	17.89%	72.75%
Bitcoin	BTC	Currency	$43,179.25	$819.44	12.26%	72.06%
Cosmos	ATOM	Layer-1	$31.38	$7.67	11.21%	109.65%
Shiba Inu	SHIB	Meme token	$0.000025	$13.87	8.80%	131.76%
Ethereum	ETH	Layer-1	$2,914.43	$343.45	8.49%	82.57%
BNB	BNB	Exchange token	$392.05	$64.32	5.68%	73.24%

Top 10 performers out of top 24 assets ex-stablecoins ranked by market cap. Source: Messari, Coin Metrics

1 Macro

War in Europe

As the Russian invasion of Ukraine is still ongoing at time of writing, it is as yet impossible to know the extent of the economic damage to the country as well as to its aggressor. The impact on the global economy is even more unclear. The state of sanctions being applied against Russia is a fluid situation, with new measures seemingly being adopted every day. We do not at this point have a clear idea of what the final sanctions tally will eventually be, whether they will work, nor which other countries and markets could be indirectly impacted.

One pressing area of concern is the potential impact on commodity prices (all data from Bloomberg on March 4).

→ Russia is the world's third-largest oil producer, accounting for around one of every 10 barrels the world consumes. The price of WTI crude futures has jumped over 50% since the beginning of the year to $112/barrel, the highest price since 2014.

→ Russia also accounts for 40% of Europe's natural gas supply—ICE NPB natural gas prices have more than doubled since Feb 24.

→ Russia and Ukraine together produce nearly a quarter of the world's wheat supply. Chicago wheat futures are up over 50% year-to-date.

→ Ukraine is the world's third-largest corn exporter. CBT corn futures are up 30% year-to-date.

→ Ukraine and Russia are also the world's largest exporters of seed oils.

→ Russia produces about 6% of the world's aluminum and accounts for about 7% of global nickel mine supplies. Prices are up over 20% and 30% respectively, year-to-date.

→ There's also the impact of the disruption to supply chains to consider. Goods stuck on ships and trucks because of blockades, port closures or other access restrictions often means higher prices for businesses and consumers.

Inflation alarms

These concerns come at a time when much of the world was focused on inflation risks anyway. February kicked off with notable changes of tone from both the Bank of England as officials voted 4/9 to raise rates by 25bp (with the rest voting for a 50bp hike), and the European Central Bank which held ground but did not rule out a hike later this year.

The surprisingly high US CPI print for January of 7.5%, the highest since 1982, kicked US rate hike expectations up several notches, with the market at one stage pricing in seven hikes in 2022, according to data from Bloomberg. The onset of war has encouraged doubts that such an aggressive strategy could be maintained, with expectations signals now pointing to less than 5 hikes for the year.

(chart from Bloomberg)

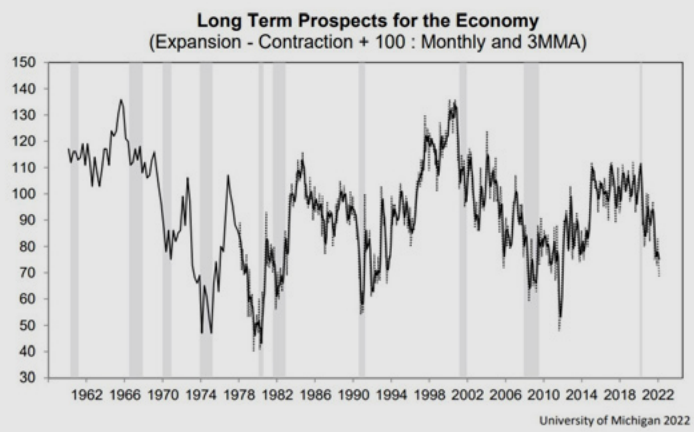
Even apart from the increases in commodity price increases and the likely supply chain disruption mentioned in the previous section, the underlying message of alarm on the inflation front could further encourage more inflation as workers ask for wage hikes and consumers bring spending forward.

However, the range of tools in the Federal Reserve's box is narrow, as too strong a rate reaction at a time of global economic uncertainty could trigger a wave of defaults on both the national and international stage. What's more, the cost of reconstruction and realignment will require liquidity as well as confidence in both markets and central banks.

Consumer sentiment

Since the Federal Reserve is tasked with maintaining stable prices as well as full employment which depends on a healthy economy, it also needs to pay attention to consumer sentiment.

The [Consumer Sentiment Index] published monthly by the University of Michigan came in for February at 61.7 vs an expected 67 and is now at its lowest level since 2011 when consumers were still dealing with the fallout from the Global Financial Crisis. It is a full 10 percentage points below the levels of April 2020, when the world was entering into an almost global lockdown.



(chart from the [University of Michigan])

According to the study, February's decline was strongest among households with incomes greater than $100,000, and was largely driven by inflation, a weakening confidence in the government's economic policies and the long-term economic outlook.

The decline hints at what could become a significant downturn in consumer spending which in turn should, all other things being equal, dampen inflation in the medium term. With the impact of war now climbing up the list of consumer concerns, sentiment could dip even lower in the next reading, heightening the economic risk of raising rates too far, too fast.

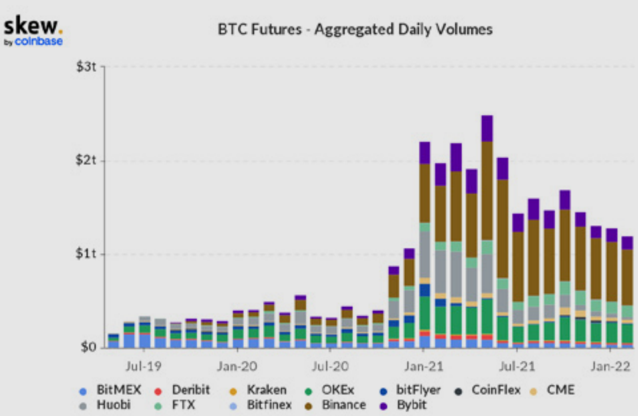
2 Bitcoin

After some wide price swings and a startling rally in the last hours of the month, BTC delivered its first positive month since October 2021 with an increase of over 12%.

(chart from Messari)

Muted Sentiment for Most of the Month

The rangebound trading in February kept volatility levels relatively low, which muted derivatives activity for the market as a whole—trading volumes for both BTC futures and options were well above those for February 2021, but were still notably lower than volumes in Q4, according to data from skew.com.

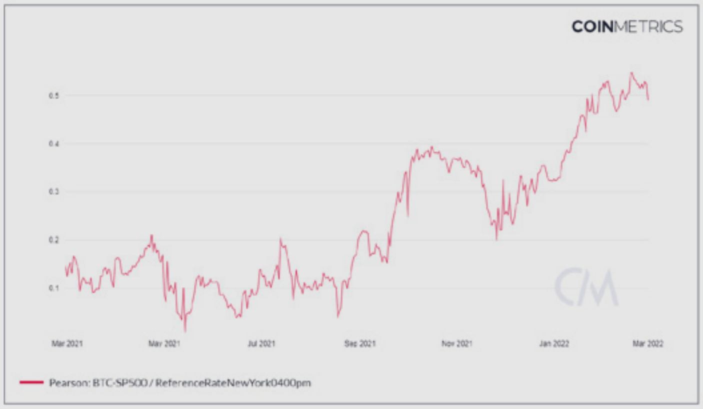


(chart from skew.com)

BTC perpetual futures funding rates were also sending neutral signals, highlighting the lack of conviction to either the upside or the downside, while the 3-month basis hit 1% for the first time since July of last year.

(chart from skew.com)

Meanwhile, the correlation between BTC and the S&P 500 continued to climb during the month, reaching its highest point ever, as BTC effectively mirrored general market jitters.

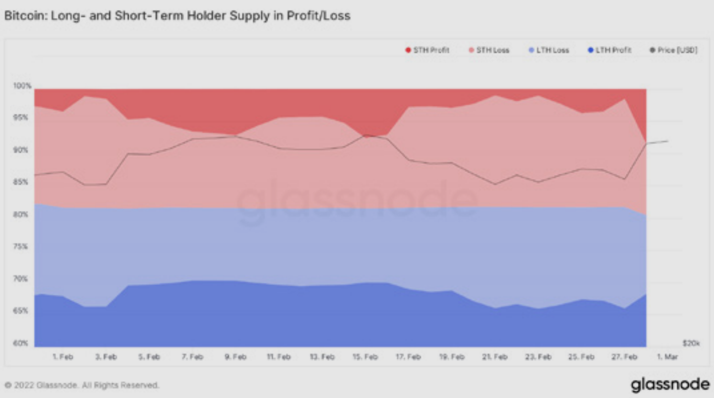


(chart from Coin Metrics)

Who is Accumulating?

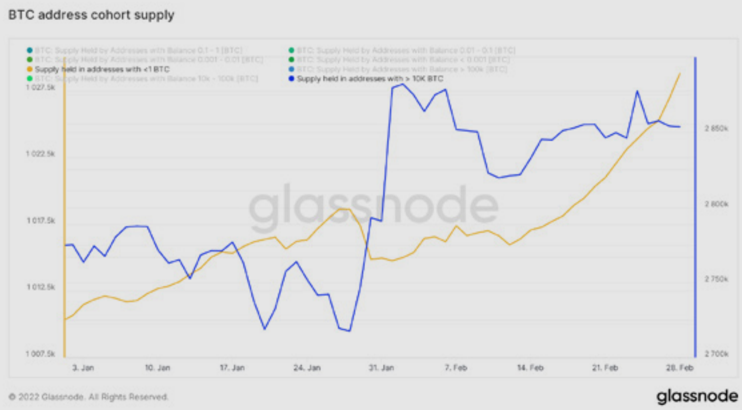
However, this close relationship and the narrative that BTC is a risk asset and nothing else was abruptly shattered in the last few hours of trading in February as the BTC price started to move, posting strong gains which continued into the next day while traditional markets were weak.

Does this mean that BTC is finally decoupling from its “risk asset” narrative? At time of writing, it is too soon to tell. Longer-term accumulation continued throughout February, showing that not all investors see BTC as a trading vehicle. At the end of the month, over 80% of BTC was held in long-term addresses (according to data from glassnode), defined as those that have a time-weighted holding period average of over five months.



(chart from glassnode)

Shorter-term, on-chain data shows that much of the accumulation over the past month was from relatively small rather than large holders. The sum of BTC held in addresses that hold less than 1 BTC has been rising steadily over the past couple of weeks, while the supply held in addresses with over 10,000 BTC has remained flat.



(chart from glassnode)

This does not mean that retail investors are piling in. It could reflect new entrants from Ukraine and Russia who are attempting to protect some of their wealth from confiscation or other loss of access —data from Kaiko shows that purchases from those two countries have spiked since the conflict started. It could also be a consequence of savers around the world recognizing the potential value in holding at least a small portion of personal wealth in a seizure-resistant asset that trades 24/7/365.

Bitcoin Mining: Watch the Corporates

The connection between Bitcoin mining and the price of BTC is complex and somewhat recursive, as a higher BTC price attracts more miners, and more miners makes Bitcoin more secure and more decentralized which enhances its security and therefore potential value.

Rather than look at correlations between mining and market data, therefore, here we review some of the notable developments over the past month in the Bitcoin mining industry, and what they could mean for the overall market.

- **ConocoPhillips sells excess energy to Bitcoin miners**. The world's largest independent energy exploration and production company getting involved with Bitcoin mining to avoid having to flare excess gas is a public confirmation of what many Bitcoin enthusiasts have long been claiming: that the network has the potential to contribute to greener energy use by reducing flare contamination while producing value. ConocoPhillips is not the first traditional energy producer to get involved with Bitcoin mining, and for now their agreement is with one Bitcoin mining pilot operating in the Bakken region of North Dakota, but it is one of the highest profile energy companies to make their strategy public. We could see others soon follow suit.

- **The involvement of traditional energy and commodity infrastructure companies in crypto mining continues to deepen.** One recent example is the raise by Compute North of $385 million in equity and debt financing, with participation from global energy and commodities trading company Mercuria, the venture arm of National Grid (one of the world's largest energy companies) and sustainable infrastructure platform Generate Capital.

- **Intel officially launched a crypto mining initiative**, with the first dedicated chips due to ship later this year. The entry of the California-based company into the mining chip business could reduce the industry's dependence on Chinese manufacturers and possibly introduce more price transparency and predictability while transferring even more influence in this key activity to North America.

- **Illinois and Georgia are looking into cryptocurrency mining incentives**. According to recently introduced bills, both states are considering tax incentives for crypto mining operations, joining the ranks of Texas and Kentucky. This is a public recognition of the industrial value the Bitcoin mining industry can bring to areas interested in boosting investment and employment. It is especially relevant for regions with relatively cheap power from sustainable sources.

- **Bitcoin's difficulty rate hit an all-time high**. The "difficulty rate" determines how fast Bitcoin blocks are processed on average, and is a key factor in how much it costs to mine bitcoin. The higher the difficulty, the more computation is needed per block, and the more energy is consumed. A high difficulty in theory is also a barrier to new miners coming online (because of the higher cost), but February also saw an all-time high for network hash rate, an indicator of how much computation is being input into Bitcoin security. This is a strong signal of miner optimism in the outlook for the BTC price.

(chart from Coin Metrics)

3 Ethereum

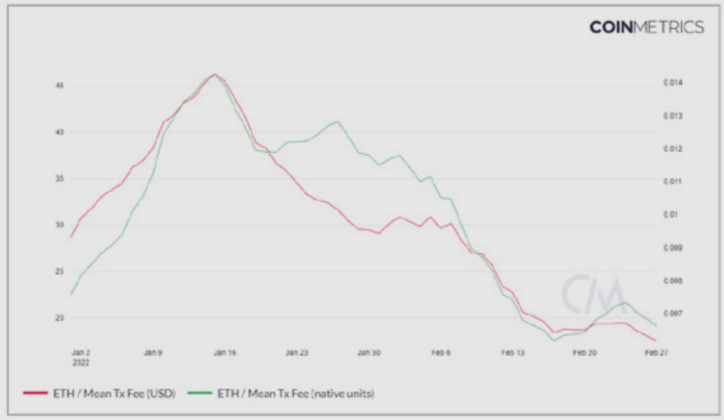
Ethereum also rallied strongly at the tail end of February, delivering a gain for the month of over 8%, the first positive month since November.

(chart from Messari)

Lower Fees Mean Higher Net Issuance

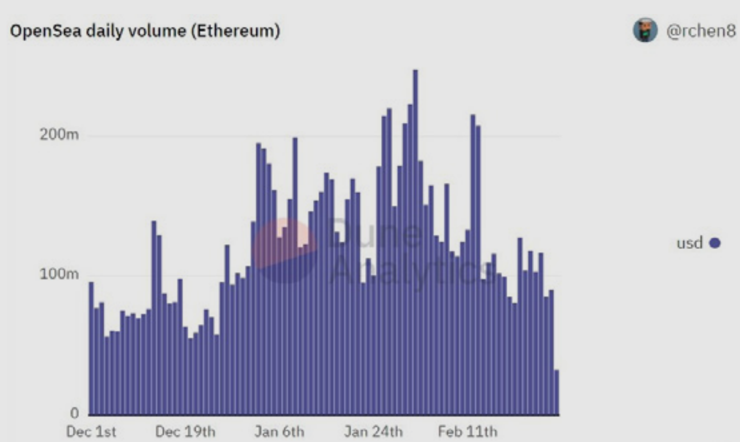
One of the more unexpected developments on the Ethereum network in February was the reduction in average transaction fees. The relatively high cost of transactions on the network over the past few months, peaking at around $60 in November according to data from Coin Metrics, has been cited as a barrier to user growth and an impetus to the development of layer-2 (L2) scaling solutions as well as a migration to other smart contract networks with higher throughput.

However, on a 7-day moving average, fees have been dropping since mid-January and ended the month at around $17, their lowest point since September 2021.



(chart from Coin Metrics)

One reason could be a drop in sales on OpenSea —the NFT platform is currently the largest generator of Ethereum fees by a wide margin, accounting for between 10–15% of total fees on any given day, according to etherscan.io. Over the past month, sales have suffered a steep drop, possibly as a result of a quieter market, growing competition as well as a phishing exploit that led to the disappearance of almost $3 million-worth of NFTs.



(chart from @rchen8 on Dune Analytics)

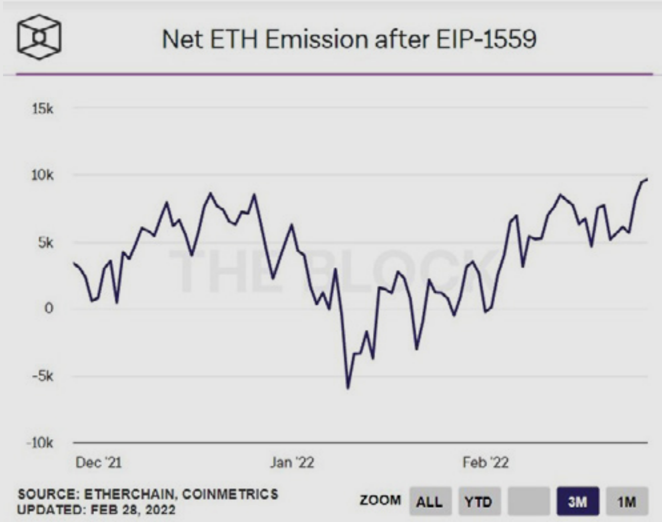
The second-largest consumer of gas fees on Ethereum is decentralized exchange Uniswap, which accounts for [roughly 5%]() of daily Ethereum fees. Its impact has also been declining over the past few weeks, according to data from etherscan.

(ETH fees used by Uniswap, [chart from etherscan.io]())

In third place is stablecoin tether (USDT), which accounts for 3-5% of daily Ethereum fees, again according to data from etherscan. Ethereum is just one of many blockchains on which tether runs, but it is the largest in terms of supply and the second largest in terms of transaction volume (behind Tron), according to [Coin Metrics data](). The drop in fees consumed by tether is even more discernible.

(ETH fees used by tether, [chart from etherscan.io]())

The drop in fees has led to a drop in ETH burning (the "base fee" part of transaction costs are burned), which has boosted the net new issuance of ETH. The net daily issuance at the end of February reached levels not seen since August 2021, the month in which the EIP 1559 upgrade introduced the fee burning mechanism.



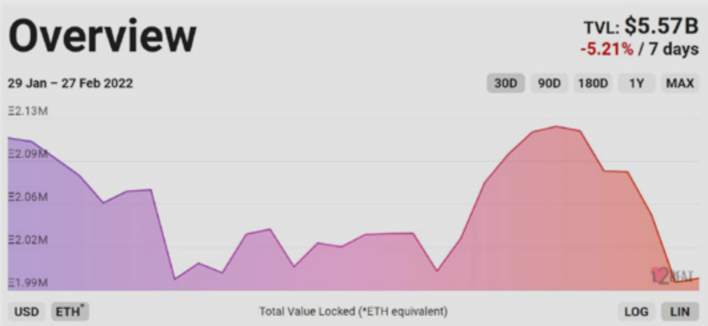
(chart from [The Block Research]())

Permanently lower fees are not as yet a priority of Ethereum development—that seems to be focused on the march towards the change to a proof-of-stake consensus. Yet they are likely to become a key component of more mainstream adoption going forward. In February, for example, Twitter [added the option]() to tip other users on Ethereum—but a tipping platform that costs over $15 to process could struggle to generate meaningful demand.

Meanwhile, Ethereum users who need lower fees can turn to the growing array of apps running on layer-2 networks.

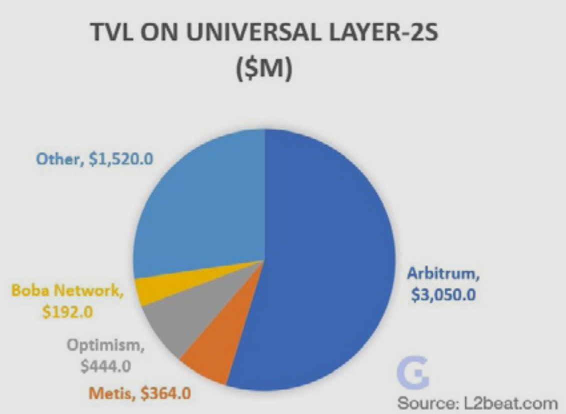
Layer-2s Show Constricted Growth

Total value locked (TVL)[1] on Ethereum's layer-2 networks made little progress in USD terms in the month of February, and in terms of ETH (to strip out the effect of token prices), it ended the month notably lower, according to data from L2Beat.com.



(chart from L2Beat)

Arbitrum continued to increase its share of layer-2 TVL, ending the month with 55% of the total (up from 50% at the end of January).



Does this mean that Arbitrum is winning the universal L2 wars? It's early days yet—less than a year ago, all Ethereum layer-2s together had a collective TVL of $467 million. In February, according to data from L2beat.com, Arbitrum's TVL reached an all-time high of $3.71 billion, making it not only the largest L2 but also one of the top 10 smart contract platforms.

One of the reasons for Arbitrum's lead is its early policy of encouraging apps to build on its platform. Optimism, in contrast, kept a gated approach until December 2021, requiring developers to apply for permission—this enabled the platform to ensure quality support, at the expense of rapid network growth.

Nevertheless, in spite of Arbitrum's strong 10% TVL growth in February while most other L2s declined (according to data from L2Beat.com), it is still dwarfed in terms of overall TVL and growth by several alternative smart contract platforms known as layer-1s (L1s).

TVL $bn	28-Feb	31-Jan	% chg
Ethereum	130.83	128.65	1.69%
Terra	21.75	12.65	**71.94%**
BSC	14.51	14.12	2.76%
Fantom	12.17	9.72	**25.21%**
Avalanche	11.96	9.45	**26.56%**
Solana	7.31	7.99	-8.51%
Arbitrum	3.05	2.78	9.80%
Optimism	0.44	0.45	-2.03%
Subtotal	202.02	185.81	8.7%

(Source: DeFi Llama)

1 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 affected by movements in token prices, but it can be useful to gauge relative value.

4 Layer-1s

February's star performer in layer-1 tokens and indeed for the market as a whole (among tokens with a market cap greater than $5 billion) was Terra's LUNA, whose 75% increase more than made up for its disastrous January decline of 44%. The second highest performance in the L1 group came from Avalanche (AVAX) with 22%, while Solana (SOL) was among the weakest layer-1 tokens with a gain of just under 1%. Let's look more closely at each in turn.

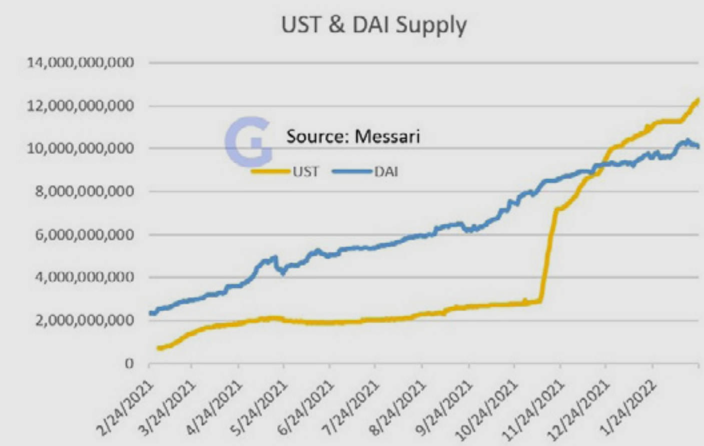
Asset		Price	Mkt Cap (bn)	Feb '22	30D RV
Terra	LUNA	$86.36	$32.22	75.03%	128.35%
Avalanche	AVAX	$84.78	$20.61	21.71%	119.79%
Cosmos	ATOM	$30.34	$8.60	11.67%	109.65%
BNB	BNB	$392.05	$64.32	5.68%	72.26%
Solana	SOL	$99.85	$31.56	-0.76%	121.00%

Top 5 performers among L1 crypto assets with mcap > $5bn. Source: Messari

Terra Energizes UST and LUNA

(chart from Messari)

Terra had an eventful month, with signs of growing demand as well as development progress. Demand for UST, the network's native stablecoin, continued to outpace that for the second-largest algorithmic stablecoin DAI, further widening UST's lead in terms of market cap.



Increasing demand for UST through greater cross-chain functionality, DeFi applications and market awareness is a strong support for the LUNA price since UST is minted by burning LUNA and thus reducing its supply.

Possible recent factors behind the continued rise of UST demand include:

→ The expansion in early February of UST to Avalanche, with Avalanche-based decentralized exchange Pangolin announcing that UST was to be henceforth its default stablecoin. Sometime in March, Pangolin is expected to launch a Super Farm with a $2 million grant from the Avalanche Rush incentive program that will develop a liquid pool for UST swaps.

→ To further support UST's peg, the Luna Foundation Guard (LFG), a Singapore-based nonprofit organization supporting the growth of the Terra ecosystem, raised $1 billion from Jump Crypto, Three Arrows Capital and others. The sale was of LUNA tokens which will be locked for a four-year vesting period, and the proceeds will go toward building a BTC reserve for the protocol's algorithmic stablecoin UST. Not only will this help to protect UST's peg; it also strengthens the stablecoin's resilience by diversifying the tools that could be employed should its peg become unstable.

→ The network saw concrete steps towards the launch of the long-awaited decentralized credit protocol Mars with an airdrop of MARS tokens to holders who locked their UST in smart contracts for 3–18 months, claimable upon the Mars launch in early March. At time of writing, over $208 million worth of UST had been locked.

→ In a bold marketing move, Terra announced a $40 million sponsorship deal with the Washington Nationals that would not only emblazon Terra's brand on the home plate VIP lounge; it also involves an exploration of the potential use of the protocol's native stablecoin UST within the team's Seattle stadium.

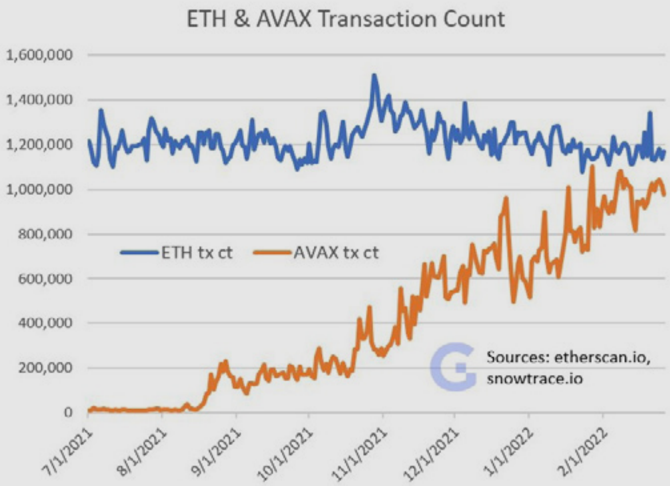
→ At the end of the month, it was revealed that LUNA would start trading on March 1 on crypto exchange FTX, one of the highest-volume crypto spot and derivatives exchanges, which is likely to boost liquidity and investor access.

Not all was good news, however, as strains in the Anchor protocol (which we discuss more in the DeFi section further ahead in the report) highlight some of the potential risks from the reflexivity inherent in a system that relies on token prices to sustain app returns that in turn impact token prices. The situation was resolved, underscoring the flexibility of young technologies with agile teams but also raising questions about the sustainability of high yields during all types of market environments.

Avalanche Powers Up

(chart from Messari)

AVAX's outperformance was not just in price terms: its transaction count also grew considerably and is now approaching that of Ethereum, according to data from snowflake.io and etherscan.io.



This perhaps in part reflects some notable Avalanche developments in January, such as the launch of well-known DeFi app 1inch on the network, and AVAX support from crypto lender Celsius. Also, February saw further progress, such as Benqi Finance—a decentralized non-custodial liquidity market protocol on Avalanche and currently the network's fourth-largest app in terms of TVL—announcing the introduction of AVAX liquid staking.[2]

2 Liquid staking issues proxy tokens for staked tokens, enabling users to get staking yields without sacrificing liquidity.

AVAX's performance could also be partly attributed to anticipation of growing experimentation on Avalanche subnets, a scaling solution which allows users to build customized blockchains that connect to the mainnet. In December 2021, several subnets in beta were launched, [starting with Subnet EVM] which enables anyone to create an Ethereum-compatible blockchain on Avalanche. At the end of January, Ava Labs launched the WAGMI Subnet Demo platform which will make it easier for developers to test subnets. To incentivize trials, Avalanche [airdropped WGM tokens] to anyone who had used Avalanche's C-chain at least twice, to cover testnet transaction fees.

Furthermore, excitement is starting to build for Avalanche's [first major developer conference] in Barcelona in the second half of March, which should not only lend greater clarity to the status of subnets and other features, but should also give an idea of what app launches are planned for the months ahead. (The conference is March 22-27—we'll be there, come say hi!)

Solana Overcomes a Hit

(chart from [Messari])

Solana had a relatively dramatic month with a [$320 million exploit] in early February on Wormhole, a "bridge" that connects multiple blockchains by converting native assets for compatibility. Bridges allow users to deposit one token and in exchange receive a "wrapped" version compatible on a different blockchain. For example, a user could deposit ETH in a Wormhole contract and can get in exchange a wrapped ETH that would allow the user to effectively deploy their ETH into Solana-based applications.

A simplified explanation of the exploit is that a hacker figured out how to mint Wormhole-wrapped ETH (whETH) on Solana without the initial ETH backing.

The situation was saved by Jump Crypto, an arm of Jump Trading, [which deposited] 120 ETH into the Wormhole contract to provide the missing collateral. Jump Crypto are not the owners of Wormhole, but [last year acquired] a firm called Certus One [which built] Wormhole. Jump Crypto is also a key liquidity provider and investor in the Solana and other blockchain ecosystems.

This exploit was one of the largest to date on a decentralized application, and highlights how experimental the concept of "bridges" still is. It also reminds us of the important role bridges play in the ecosystem today, and how this role is likely to multiply in size as new applications and blockchains continue to develop.

While the hack had nothing to do with Solana's code, SOL dropped over 10% on the news, bounced on the replenishment but spent the rest of the month trending lower-to-flat with most other layer-1 tokens.

This is in spite of some positive network developments in February:

→ Decentralized options vault[3] Ribbon Finance launched on Solana, partnering with options project Zeta Markets. The first product is a covered call vault for SOL.

→ Amun, an issuer of listed crypto products, launched SOLI, a Solana ecosystem index token with exposure to five liquid Solana-based assets.

→ Streaming music service Audius[4] bridged its Ethereum-based AUDIO token to Solana via Wormhole. This is the latest step in the app's expanding footprint on Solana, and aims to bring more functionality to Solana and scalability as well as liquidity to AUDIO.

→ Portals, a Solana-based NFT/metaverse project, raised $5 million in seed funding. Portals allows users to customize their own space.

→ Solana NFT data site Solanalysis revealed a raise of $4.5 million and rebranded to Hyperspace and the launch of an NFT aggregator.

3 Decentralized options vaults (DOVs) open up options trading to all types of investors by allowing users to deposit tokens into "vaults" that are then deployed into various strategies according to market pricing. As well as possible trading profits, investors could also potentially benefit from token rewards and staking yields. Ribbon Finance was the first proof-of-concept for DOVs, and is currently the largest with over $190 million in TVL according to data from Token Terminal. Like all experimental DeFi projects, DOVs are subject to platform as well as market risk.

4 Audius aims to be a "decentralized Spotify", allowing artists to own their work as well as decide on its monetization. Music creators can distribute artist tokens as well as receive 90% of the platform's revenue in AUDIO, with the other 10% going to node operators. AUDIO secures the network, acts as a governance token and allows users to access music and other features.

5 DeFi

In spite of a rally mid-February, TVL for the crypto ecosystem ended up near where it started the month, at over $220 billion. The largest apps by TVL are still Curve ($19.39 billion), MakerDAO ($16.33 billion) and Convex Finance ($13.22 billion), highlighting ecosystem predominance of yield generation and algorithmic stablecoin apps.

(chart from DeFi Llama)

Of all DeFi protocol assets with market cap greater than $500 million, the top performer for February was Anchor (ANC) with an increase of 127%.

Asset		Price	Mkt Cap (bn)	Feb '22	30D RV
Anchor Protocol	ANC	$3.54	$2.08	127.27%	166.87%
Gnosis	GNO	$349.16	$0.61	18.17%	79.88%
Kava	KAVA	$3.33	$0.90	6.90%	88.11%
Compound	COMP	$119.86	$7.34	-0.81%	96.15%
Bancor	BNT	$2.45	$0.79	-6.77%	73.68%

Top 5 performers among DeFi assets with mcap > $500m. Source: Messari

Anchor Gets a Boost

(chart from Messari)

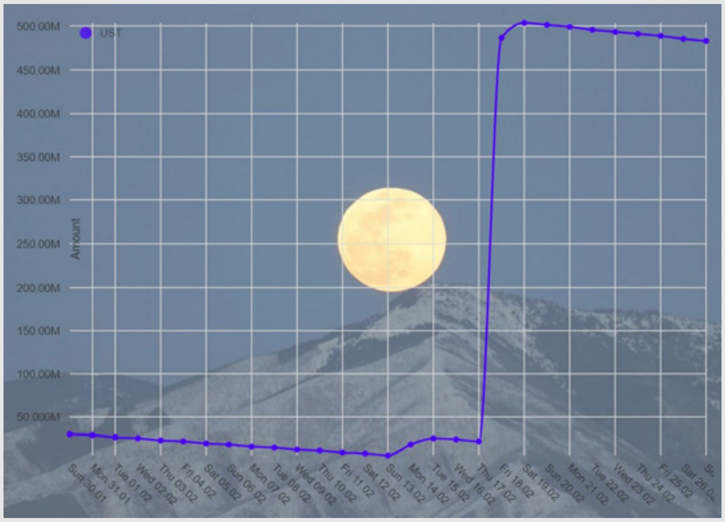
Anchor is the leading DeFi app on the Terra blockchain with almost $10 billion in TVL, an increase of over 30% during the month, according to data from DeFi Llama. The ANC token earns protocol fees, has governance privileges and acts as an incentive for borrow demand.

Users can deposit UST on Anchor to earn a relatively attractive yield that is supported by a combination of interest paid, rewards from staking collateral and liquidation fees, and topped up from reserves. Weak market conditions over the past few months led to a drop in borrowing demand and a bump in demand for yield, and therefore a steady decline in reserves as these were depleted to maintain the promised return.

The community began to worry that the reserves would run out which would force a cut in yield and – since a significant source of user interest in UST is the 20% yield available on Anchor – could lead to a significant reduction in demand for the stablecoin. Were users to start selling their UST holdings, the price of LUNA would drop (as LUNA is minted in order to redeem UST), which could trigger even more concerned UST sales, causing even more sell pressure on LUNA. Indeed, in January the LUNA price dropped over 44%, one of the worst performances among L1 tokens.

In early February, as the level of reserves was heading down to below 10 million UST, the Luna Foundation Guard—a non-profit governance and support organization focused on the Terra ecosystem—[voted to replenish](#) Anchor reserves by burning $450 million-worth of LUNA to mint an equivalent amount of UST.

This has bought the Anchor protocol a considerable amount of time before reserve levels become a problem again, and should the market turn bullish, an increase in borrowing demand could eliminate the need to draw down reserves.



(chart of Anchor reserves from [terra.engineer](#))

6 NFTs/Metaverse

Metaverse Real Estate

Decentraland (MANA), the metaverse segment leader in terms of market cap, delivered a muted February performance of just over 5%.

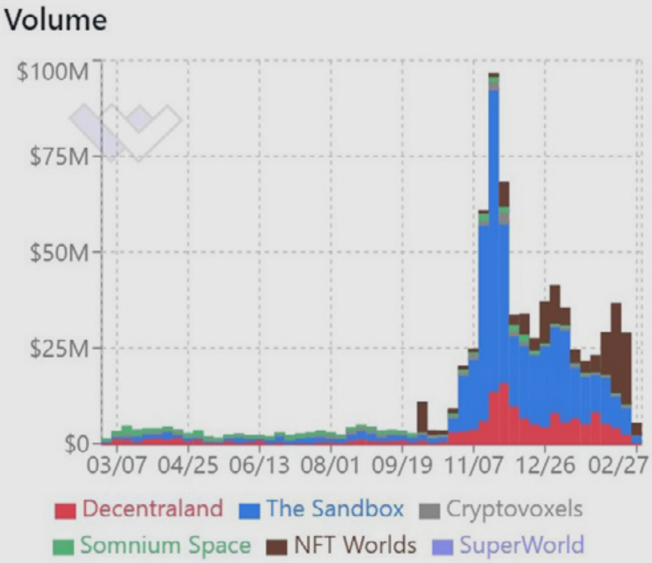
(image via Messari)

This is in spite of some significant boosts to mainstream awareness over the quarter.

One came from an unexpected corner: an investment bank. In February, JPMorgan opened its first Decentraland space and published a report calling the metaverse a “$1 trillion opportunity.” Given that the combined market valuation of the top five metaverse platforms by market cap[5] is just over $16 billion, the market took this to imply considerable upside and pushed MANA briefly up by 20%.

The JPMorgan move also helped to coalesce attention around a key metaverse investment concept: the opportunity for investors is not limited to metaverse platform tokens or NFT avatars—a growing number of participants are starting to study the potential in real estate. According to Metametric Solutions, real estate sales on the four major metaverse land sellers[6] reached $501 million in 2021, and projects that they could reach $1 billion in 2022.

However, after a very strong November, sales have been trending down, according to data from WeMeta.



(chart via WeMeta)

Nevertheless, cultural awareness continues to grow, as in February luxury fashion brand Gucci bought land in The Sandbox. Investor awareness is also expanding, with the $60 million raise for metaverse land investor and developer Everyrealm from Andreessen Horowitz, Animoca Brands and others.

5 Decentraland (MANA), The Sandbox (SAND), Axie Infinity (AXS), Enjin Coin (ENJ) and Illuvium (ILV).

6 The Sandbox, Decentraland, Cryptovoxels and Somnium.

NFTs Gain in Awareness but Not in Sales

In many respects, February could end up being a turning point for NFTs.

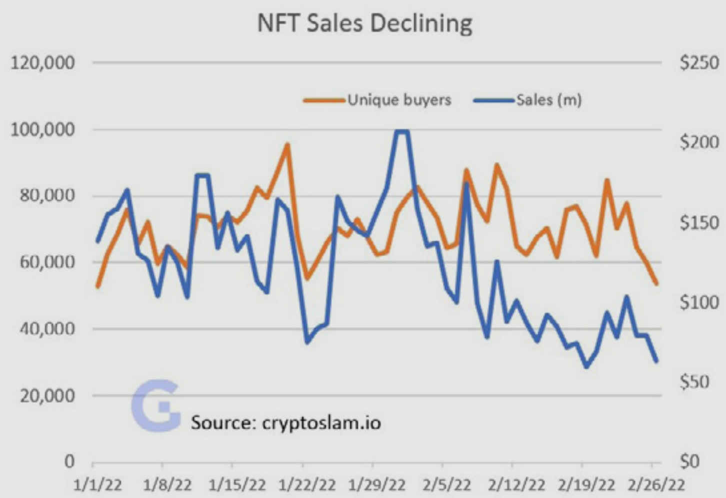
On the one hand, it had several key mainstream moments:

→ Budweiser's Super Bowl commercial, allegedly seen by over 100 million people, included imagery from the Nouns DAO NFT project. The company also launched an innovative digital/analog campaign in which holders of its approximately 12,000 N3XT NFTs can claim Nouns-inspired physical specs.

→ Pre-orders of Samsung's new Galaxy S22 Smartphone or Tablet S8 will come with a commemorative NFT that confers ongoing membership benefits and privileges.

→ Both game developers Zynga (Farmville) and Take-Two (Grand Theft Auto) have revealed plans to explore NFTs in gaming.

→ Reese Witherspoon's production company is planning a series of films and TV shows based on the World of Women collection.



→ Twitch's creator Justin Kan tweeted that gaming NFTs will end up being even bigger than the platform's millions of users.

(Source: Budweiser)

On the other hand, while the number of unique users held roughly constant throughout the month, there was a notable decline in the dollar level of sales, according to data from CryptoSlam.

What's more, CryptoPunks, the original art NFT collectible, appears to be losing some of its star power. In February, the creators publicly apologized for mishandling the sale of some "V1" CryptoPunks that came from a scrapped smart contract before the second and now-famous edition was minted. The market reaction could have influenced another piece of bad press: the sale at Sotheby's of 104 CryptoPunks was pulled at the very last minute, allegedly because the only bid on the table was well below the estimated price.

And 17 users of OpenSea were hit with a phishing attack that led to the loss of almost $3 million-worth of NFTs, in the industry's largest art heist to date. This has resulted in at least one lawsuit so far, and highlights how relatively immature the user experience around security procedures still are on many of the main NFT platforms.

The proliferation of NFT platforms expected for this year (Coinbase reportedly has over 3 million signups for its NFT platform, FTX recently revealed a gaming division that will expand and complement the reach of its NFT platform, and e-commerce giant Rakuten announced in February the launch of an NFT platform for sports and entertainment collectibles) hints at the likely rapid improvement in ease of use supported by custody safety.

(image via Sotheby's)

7 Regulation

Stablecoins Take Center Stage

Regulatory attention on stablecoins ramped up a notch with two official hearings on the subject, from both the House and the Senate. The hearings discussed the propositions set out in the President's Working Group (PWG) report published last November, which proposed to limit stablecoin issuance to insured deposit institutions (IDIs).

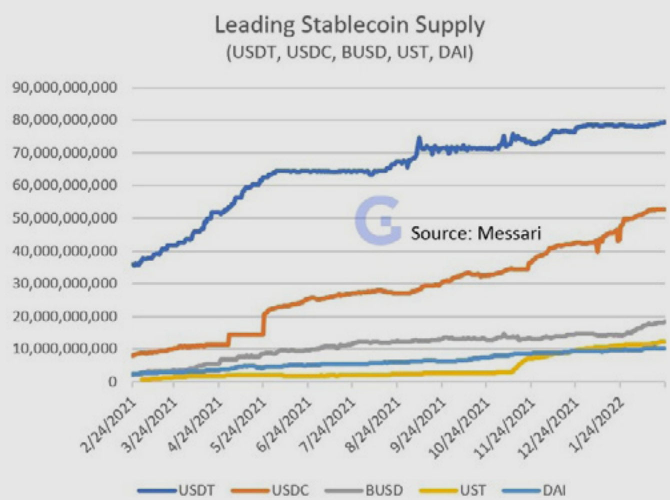
Along with broad consensus that stablecoins need to disclose reserves and face audits as well as some concern around redemption risk, the House Committee broadly rejected the requirement to turn stablecoin issuers into banks. Some argued that the relative simplicity of stablecoin issuance does not warrant the same degree of oversight as banks. Others protested that restricting the field to IDIs would limit competition.

The pressure to do something seems to be building, however—the PWG report suggests that, in the absence of Congressional action, the Financial Stability Oversight Committee (FSOC) could step in by designating stablecoins a "systemic risk" which would give the organization more authority and stablecoin oversight. FSOC is less accountable to Congress, however, so many regulators are scrambling to propose concrete legislation.

One example is the Stablecoin Innovation and Protection Act proposed by Congressman Josh Gotthiemer (D-NJ), which sets out protections for stablecoins issued by either an IDI or a non-bank qualified stablecoin issuer that maintains 100% reserves in the form of cash, T-bills or other OCC-approved assets.

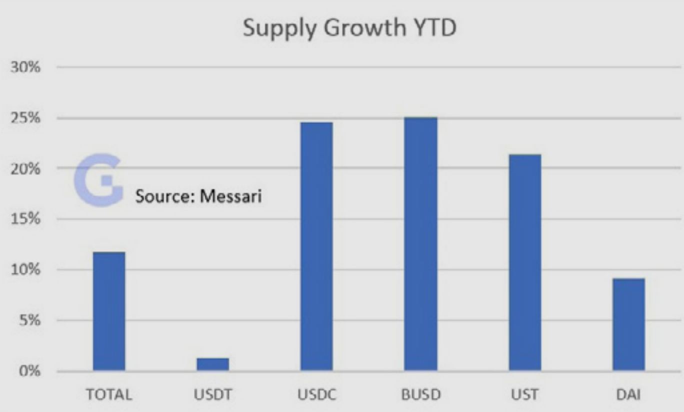
Highlighting the complexity of the issue, a timely paper published in February by the NY Federal Reserve points out that requiring 100% reserves of safe assets could lead to a scarcity, just at a time when the market needs them and possibly producing the type of financial "contagion" that legacy institutions have for some time been warning about. Inasmuch as heightened demand for Treasury bills drives down rates, this in turn could end up affecting monetary policy.

Meanwhile, supply growth continues, dominated less by market leader Tether (USDT) and more by USDC, which institutions tend to see as a more regulated stablecoin.



(data from Messari on 2/23/2022)

In February, Tether published an attestation with an updated breakdown of its reserves as of the end of 2021, which revealed a reduction of its commercial paper holdings in favor or lower-risk money market funds and T-bills. Nevertheless, its supply growth for the first two months of the year was practically 0, while USDC and BUSD[7] saw 25% growth each.



(data from Messari on 2/23/2022)

States Get Involved

Another trend that emerged in February is that of more US states proposing cryptocurrency-related legislation. Wyoming has long been in the lead of crypto-friendly US jurisdictions, being the first state to authorize "crypto banks" (special purpose depository institutions, or SPDIs), officially recognize the custody of digital assets as a regulated activity and allow the registration of DAOs as limited liability corporations (LLCs). Now it appears that other states are starting to seriously investigate how the crypto industry can help its finances and constituents.

Here are just some examples that were reported on during the month:

→ A bipartisan bill introduced in Tennessee's legislature on February 2 would, if approved, allow the state and its municipalities to invest in cryptocurrencies and NFTs.

→ The Wyoming Stable Token Act, presented on February 17, proposes that the state issue its own dollar-backed stablecoin.

→ At ETHDenver on February 18, Colorado Governor Jared Polis (D) revealed that the state will accept taxes and fees in cryptocurrency by the summer.

→ California is also interested in accepting cryptocurrency as payment for government services, according to a bill presented on February 18.

7 A dollar-backed stablecoin issued by crypto exchange Binance.

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With special thanks to Julie Ros and Josh Shaked.

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