



Market Commentary: July 2021

Key Regulatory Updates

Major regulation could threaten the US Cryptocurrency industry. The upcoming US Infrastructure Bill plans to raise \$28B via squeezing cryptocurrency brokers. The bill's definition of a cryptocurrency broker basically refers to any business in the industry, which handles cryptocurrency. This means that businesses such as miners and DeFi startups will have a near impossible task of providing the IRS with customer forms.

Wyoming has approved America's first legal decentralized autonomous organization (DAO) in Wyoming, American CryptoFed DAO. The DAO aims to implement a new monetary system. This development comes after Wyoming Lawmakers passed a bill to allow DAO's to be officially registered in the state. Interestingly, this law allows DAO's, which are managed by smart contracts, to have the same rights as a limited liability company. This legislation puts Wyoming at the forefront of digital asset regulation paving the way for the intersection of decentralized technologies with traditional businesses.

Market Overview

"Play-to-Earn": Axie Infinity, the Sky Mavis developed blockchain video game where players collect, breed, acquire and battle fury creatures called Axies in order to gain Smooth Love Potions (SLPs), which can be used for in-game play or sold on the secondary market, has kicked off the "play-to-earn" movement. The top players on Axie are earning almost \$500 a day, while the Axies themselves have sold for as much as \$120K (The Conversation). Although the Ethereum blockchain based game has been around since 2018, the developers of Axie believe the uptick in activity on its platform has been due to its migration to the Ronin side-chain, which helped the game increase performance and lower fees attracting a swath of new players (Kultejas). Axie now boasts over 350,000 players worldwide (Kultejas), while at the end of the July, Axie was ranked the number one NFT Collectible by sales volume boasting over \$750M in all time sales (Crypto Slam). Over the last 30 days Axie did \$167M in protocol revenue more than 10x what the second highest blockchain dApp by revenue achieved (Token Terminal). In just one month, AXS token went from a \$316M dollar market capitalization to over a \$2B market capitalization (CoinGecko). Axie's rapid success will surely encourage developers to incorporate a "play-to-earn" model within their games going forward meaning we could see an uptick in activity for blockchain based gaming as well as the development of a "play-to-earn" micro-economy among video gamers.



Binance's Regulatory Crackdown: Binance, the largest cryptocurrency exchange by market capitalization and "mecca" of alt-coin trading, has finally caved to ongoing regulatory pressures. After initially banning the trading of stock based crypto tokens at the start of the month due to securities regulation concerns, Binance then cut daily withdrawal limits for unverified users (Cryptobriefing), cut maximum leverage from 100x to 20x for its existing customers (Cointelegraph) and shut down crypto derivatives trading in Europe (Cointelegraph). Founder of Binance and crypto twitter influencer, Changpeng "CZ" Zhao, is even stepping down from his role of CEO of the exchange as Binance seeks to become a regulated financial institution (CNBC). Although Binance suffered the most from regulatory pressures among crypto exchanges, other crypto exchange behemoths did not make it out of the month unscathed by regulators. Both Huobi and Okex dissolved its China entity causing the share price of Huobi Tech, a Hong Kong listed subsidiary of Huobi Group, to fall 21.88% in just one trading session (The Block). Despite the regulatory "FUD" surrounding the future of cryptocurrency exchanges, exchange tokens shook off the news and rallied during the month as OKex (Cyan) led the charge gaining 87.31% followed by FTX (Yellow) gaining 35.92%, Binance (Blue) gaining 18.92% and Huobi (Orange) gaining 6.10% during the month.

NFT Summer: Weekly trade volumes among NFTs passed \$339 million in the last week of July as whale buying lifted the price floor among the most popular NFT projects. CryptoPunks accounted for 61%, or \$207M, of the aggregate weekly trade volumes as media agency owner and social media influencer (The Block), Gary Vaynerchuk's purchase of an individual CryptoPunk for \$3.7M was the spark that lit the buying spree causing a whale "anon" to follow up with a purchase of 88 CryptoPunks worth a total of \$7M (Decrypt). The average price of CryptoPunks gained 53% in just the one week of trading. Meanwhile, Axie Infinity NFTs accounted for \$127M, or 37%, of the aggregate weekly NFT trade volumes, while the Flow Blockchain based NFT sports card trading platform, NBA TopShots, accounted for \$4M, or 1%, of the aggregate weekly NFT trade volumes (The Block).

Breaking Down the Basis

The average Bitcoin futures annualized rolling quarterly basis across crypto exchanges fluctuated around 5% during the start of July and ended the month trading around 8%, while Bitcoin gained around 23% on the month. In other words, we can assume Bitcoin's monthly gain was primarily driven by institutional spot buying, while retail and leveraged traders remained sidelined. The spot driven rally could potentially mark the bottom of the brief bear market within cryptocurrency markets. If this holds true we will probably see further spot buying from institutions in August, while Bitcoin's basis slowly drifts upwards.