coinmotion

2020 q2 quarterly report

DECENTRALIZED FINANCE (DEFI) HITS

2 BILLION DOLLARS

IN TOTAL VALUE LOCKED

in collaboration with dcresearch

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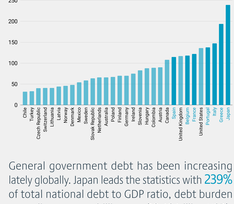
MARKET INSIGHTS

EUROZONE AND SYSTEMIC RISK

COVID-19 has been a huge challenge for the global economy, which used to see steady growth after the 2008 subprime crisis. Although the stock market reacted heavily on corona-induced panic, the S&P has recovered quickly, for now. To the date (30.6.2020), the S&P 500 Index has soared over **300%** from 2009 lows, indicating continuing growth for U.S. stocks.

General Government Debt (Total % of GDP 2018)
Data source: OECD.



General government debt has been increasing lately globally. Japan leads the statistics with **239%** of total national debt to GDP ratio, debt burden exceeding one quadrillion yen (10,46 trillion USD). Alongside Japan, Eurozone countries e.g. Greece **(194%)**, Italy **(147%)**, and Portugal **(138%)** have a questionable honor to be represented high on the list.

European Governmental Debt (Total % of GDP 2018)
Data source: OECD.

In addition to countries mentioned above, France **(122%)**, Belgium **(118%)**, and Spain **(115%)** are also classified as countries with relatively high percent of debt related to nominal GDP.

"The FED has created the illusion of years of forward earnings in 2 months with QE."

- Credit Suisse

EURO AND EXPORTS

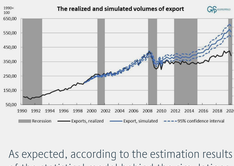
Despite the perceived healthiness of the stock market, many specialists expect more trouble to be looming ahead. On these grounds we decided to utilize an outsourced insight on the topic. Tuomas Malinen, adjunct professor at University of Helsinki, agreed to share some EU-related views with us. Malinen is also leading a Helsinki-based macroeconomic consultancy company, GnS Economics, specialized in forecasting and analyzing the risks of the world economy and the financial markets.

More insights by Tuomas Malinen on GnS Economics blog:

gnseconomics.com/blog

Tuomas Malinen has researched the topic of the euro's effects on national-scale exports, specifically in relations to Finland and its previous national currency markka. Finland switched from markka to euro on January 1st 1999, along 10 European nations. The original incentives for joining the eurozone were increasing trade between companies of member nations and more convenient traveling for individuals. One of the unforeseen consequences was that the euro became relatively expensive for many member nations and thus actually decreased exports.

GnS Economics created a simulation for assessing the euro's effect on Finnish exports. The simulation model consists of the history of the export in Finland, the partly realized and theoretical exchange rate between euro and markka, as well as of economic activity, GDP growth rates, of the U.S. and in the Eurozone.



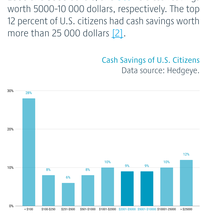
As expected, according to the estimation results of the statistical model behind the simulations, a depreciation of the (simulated) markka-euro exchange rate and increasing economic activity in the world economy increased the export of Finland, and vice versa.

According to Malinen's simulations, having her own currency would have helped the export of Finland to recover from the GFC and also from the long recession of 2012-2015. Moreover, the depreciation of the markka, combined with the strong growth of the world economy in 2016-2018, would have pushed our exports to new heights. At the Q1 2020, had Finland remained in markka, the country's exports would have been more than 40 percent higher than what they are now [1].

ESCALATING U.S. INEQUALITY

COVID-19 has exposed wide underlying inequalities buried deep inside U.S. society. Independent research company Hedgeye revealed an astonishing lack of cash savings among multiple segments of U.S. society. Hedgeye reports that **28 percent** of U.S. citizens held liquid cash savings worth less than 100 dollars (USD), while **50%** of U.S. citizens held savings worth 1000 dollars, or less. Only **9%** of the U.S. population held between 2000 and 5000 dollars, and **9%** held cash savings worth 5000-10 000 dollars, respectively. The top 12 percent of U.S. citizens had cash savings worth more than 25 000 dollars [2].

Cash Savings of U.S. Citizens
Data source: Hedgeye.

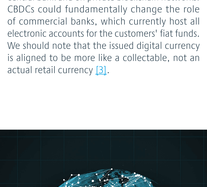


The startlingly low amount of liquid savings mirrors the complete unpreparedness of the U.S. society for situations like COVID-19. The data unfortunately also indicates that masses are living from paycheck to paycheck without a possibility for savings. Many U.S. investment products are specifically reserved for accredited investors, who are individuals with notable accumulated wealth. Alternative assets like bitcoin are completely open for entry-level investors and investing in bitcoin usually requires no regulatory or professional knowledge.

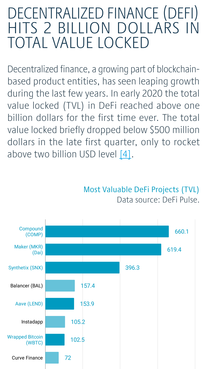
> *"Most of FED's QE liquidity went to recapitalize the banks, it didn't really get out to the public."*
>
> - Lyn Alden

LITHUANIA LAUNCHES A STATE-BACKED DIGITAL CURRENCY CONCEPT

24 000 tokens, called **LBCOIN**s, will go on presale in July 2020, each with an attached portrait of one of the 20 people who signed Lithuania's declaration of independence in 1918. The digital tokens will be sold in packs of six for 99 euros. The Lithuanian central bank expects users to trade them with others to build a specific set that can then be exchanged for a credit card-sized physical silver coin with a nominal worth of 19,18 euros.



LBCOINs can be exchanged directly with the central bank and on private blockchain networks. CBDCs could fundamentally change the role of commercial banks, which currently host all electronic accounts for the customers' fiat funds. We should note that the issued digital currency is aligned to be more like a collectable, not an actual retail currency [3].



DECENTRALIZED FINANCE (DEFI) HITS 2 BILLION DOLLARS IN TOTAL VALUE LOCKED

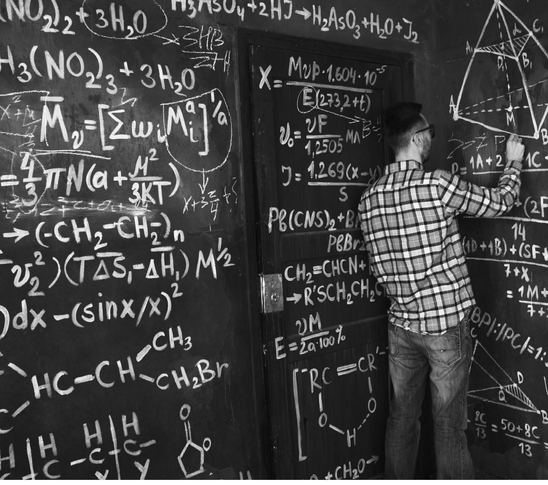
Decentralized finance, a growing part of blockchain-based product entities, has seen leaping growth during the last few years. In early 2020 the total value locked (TVL) in DeFi reached above one billion dollars for the first time ever. The total value locked briefly dropped below $500 million dollars in the late first quarter, only to rocket above two billion USD level [4].

Most Valuable DeFi Projects (TVL)
Data source: DeFi Pulse.

Looking closer to DeFi applications, two projects have crossed the $500 million mark in total value locked terms so far. These two projects are Compound **(COMP)**, and Maker (MKR) **(Dai)**. Both of these projects operate in lending business, and both are Ethereum-based, like all ten biggest DeFi applications here. Maker also operates the famous stablecoin Dai. Third largest project is derivatives-focused Synthetix **(SNX)**, scoring close to $400 million in TVL.

Aave **(LEND)** crossed $150 million in total value locked this spring and has continued to grow since. Aave is an Ethereum-based DeFi platform, which started its journey as ETHLend. Aave is focusing on lending and recently launched undercollateralized lending based solely on social reputation. Aave is currently managed by CEO Stani Kulechov, currently living in London. Stani has Finnish roots and the name "Aave" means ghost in Finnish, mirroring his relationship with Finland [5].

Another interesting DeFi project is Wrapped Bitcoin **(WBTC)**, currently holding $102,5 million in total value locked. Wrapped Bitcoin is an ERC-20 token that allows users to access popular Ethreum-based DeFi protocols using the value represented by their Bitcoin holdings. Users' bitcoins are held by custodian BitGo, while eight "initial merchants" act as middlemen between the users and the custodian, including Dharma, Kyber, Ren, DiversiFi, Set Protocol, Gopax, AirSwap, and Prycto. The Wrapped Bitcoin protocol is operated by a decentralized autonomous organization comprising 16 projects including the initial merchants, Compound, and MakerDAO. Bitcoin can be redeemed by burning wBTC tokens.



BITCOIN, METCALFE'S LAW AND METCALFE'S RATIO

Metcalfe's Law was originally presented in 1980 by Robert Metcalfe, describing "compatible communicating devices". The theory was later refined in 1993 by George Gilder, referring to Ethernet. In its basic form, Metcalfe's Law states that the value of a telecommunications network is proportional to the square of the number of connected users of the system (n^2), or $n(n-1)/2$, where n equals to number of nodes.

Metcalfe's Law has been successfully used for evaluating valuations of FAANG technology-related stocks and internet usage in general. Metcalfe's Law can be divided into original and generalized formulas:

A. Original Metcalfe's Law:

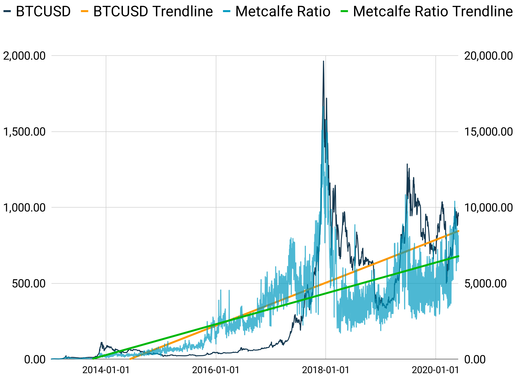
$NV \sim n^2$.

B. Generalized Metcalfe's Law:

NV ~ n^1.5.

The following chart mirrors Metcalfe Ratio, the amount of active addresses of the network (squared n^2), and bitcoin's price (BTCUSD).

Metcalfe Ratio and BTCUSD



Metcalfe Ratio shows both indicators rising in close correlation, Metcalfe Ratio is statistically more correlated with bitcoin's price than Metcalfe UTXO. We should especially focus on the recent rise of Metcalfe Ratio into mid-2019 levels and beyond, BTCUSD will likely follow shortly (please see a comprehensive analysis in the blog post) [6].

BITCOIN'S VALUE PROPOSITION TO INVESTORS

GROWTH

The pioneering blockchain industry is developing with escalating pace and new projects are constantly gaining traction. The mass adoption in bitcoin & blockchain tech and tokenization in general will continue to evolve rapidly in coming years.

DIVERSIFICATION

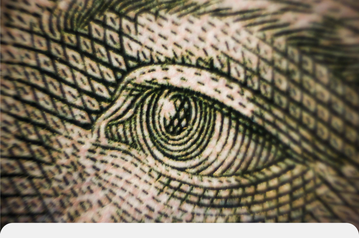
Bitcoin with a low historical correlation to traditional markets, is an emerging asset class to consider as a part of the portfolio diversification. Even just 1-5% allocation to bitcoin has been historically impacting portfolio performance favorably.

HEDGE

Bitcoin can be seen as a potential hedge to traditional asset classes. Built-in features like 21 million hard cap, inflation-free structure, and antifragile blockchain make bitcoin a store of value.

DECENTRALIZED VALUE

Global, decentralized, censorship-resistant & programmable asset with proven 10-year track record, showing outstanding staying power. With 99,98% uptime since inception, every subsequent day online makes bitcoin more robust, secured by built-in incentive structure.

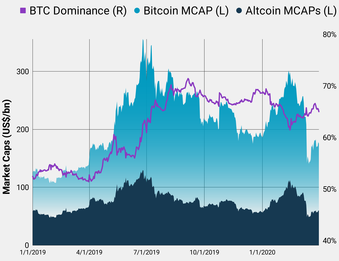


INDUSTRY OUTLOOK

MARKET CAPITALIZATIONS

The relative bitcoin dominance, or bitcoin's market cap compared with altcoins, has stayed surprisingly steady during the second quarter of 2020. Second quarter started with **66%** bitcoin dominance, bitcoin's market cap briefly rose to **68%** and then retreated back to **66%** range. While many decentralized finance (DeFi) projects are gaining notable traction, total value locked (TVL) rising beyond 2 billion USD in late Q2, they are still considered a niche. Should the market cap of DeFi projects rise in future, they might offer some competition to bitcoin's dominant status.

BITCOIN & ALTCOIN MCAPS & BTC DOMINANCE (SINCE 2019)
Data source: coin.dance. 30.6.2020.

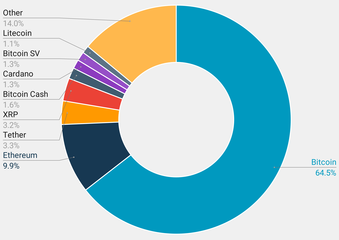


While exploring the market cap data we should always remember that MCAP is only a relevant metric when it's supported by volume relative to MCAP, and when volume comes from a broad group of participants that are representative of market demand. Many altcoins don't fit the criteria above, so the real (organic) bitcoin dominance is well over the said percent.

BITCOIN DOMINANCE REMAINS HIGH AT 66%

Bitcoin's dominance has consolidated around **66%** during the second quarter as top altcoins stayed below **10%** each. The second largest digital assets in market cap terms was **Ethereum (ETH)** with **9,9** percent share. The fundamental reasons behind bitcoin's dominant position are its first-mover advantage as the pioneering cryptocurrency. Consequently bitcoin also attracts the most liquidity within industry, leaving especially small-cap altcoins with liquidity risk.

Cryptocurrencies by MCAP
Data source: Coin Dance.



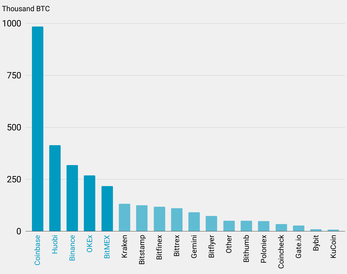
Ethereum (ETH) has been increasing its market cap from Q1 to Q2 2020. Ethereum's growing MCAP is supported by rising small-cap tokens (Bletchley 40) and expanding decentralized finance segment. Tether's (USDT) market cap grew slightly as well, uplifted by stablecoin demand.

INDUSTRY OUTLOOK

EXCHANGES

Cryptocurrency exchanges hold around 3,08 million bitcoins on their customers' behalf, nearly 16,5% of the total supply of 21 million. While the absolute amount looks large, the percentage figure is down by 10% since February 9 when exchanges held around 3,43 million bitcoins, representing nearly 19% of the total supply. Notably, Coinbase is the largest bitcoin holder, having around 984 300 BTC in its wallets.

Bitcoin Balance of Major Exchanges

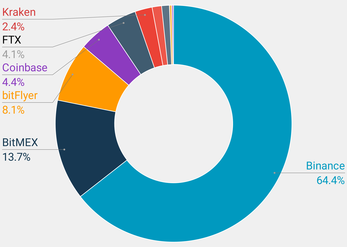


Coinbase is followed by Huobi (413 000 BTC), Binance (318 000 BTC), OKEx (268 000 BTC), and BitMEX (217 000 BTC).

BINANCE RETAINS ITS LEAD WITH 64% OF COMBINED VOLUME

Binance increased its volume in relation to other exchanges from Q1 51,6% to Q2 64,4%. Binance's recent growth has especially been supported by small-cap tokens, DeFi, and exchange tokens. Additionally Binance has its own exchange token called Binance Coin (BNB), which grew from a $1,9 billion market cap into $2,7 MCAP Quarter on Quarter (QoQ).

Exchanges by Transactional Volume
Data source: Nomics.



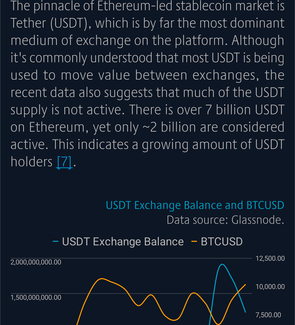
BitMEX is the second biggest exchange in volume terms, decreasing from 22,9% market share to 13,7% QoQ. Japanese bitFlyer dropped respectively, from 11,6 percent to 8,1%. In contrast, Coinbase and Kraken were able to grow their market share, with 4,4% and 2,4% each during Q2. The big picture summarized Binance's vastly dominant status among global exchanges.

INDUSTRY OUTLOOK

STABLECOIN MARKET

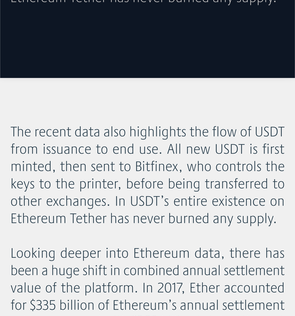
STABLECOINS AS ETHEREUM'S PRIMARY USE CASE

Launched in 2015, Ethereum's primary perceived use case has shifted from world computer and decentralized application (dapp) platform, into ICOs, tokens, and eventually stablecoins. Contrary to a general view, Ethereum is also being used to move significant amounts of value. Mainly driven by the growth of stablecoins, Ethereum is on pace to settle more than $530 billion this year.



The pinnacle of Ethereum-led stablecoin market is Tether (USDT), which is by far the most dominant medium of exchange on the platform. Although it's commonly understood that most USDT is being used to move value between exchanges, the recent data also suggests that much of the USDT supply is not active. There is over 7 billion USDT on Ethereum, yet only ~2 billion are considered active. This indicates a growing amount of USDT holders [7].

USDT Exchange Balance and BTCUSD
Data source: Glassnode.

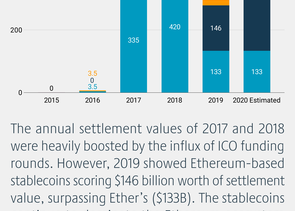


The data shows that most USDT is used on centralized exchanges for arbitrage, profiting from price differences across exchanges. The way this is done in practice is that arbitrageurs first send USDT to their own wallet before sending to a different exchange. This is done to gain more control over and achieve lower transaction fees on USDT transfers between exchanges. Most of this activity takes place between Huobi, Binance, and Bitfinex. The data also highlights the flow of USDT from issuance to end use. All new USDT is first minted, then sent to Bitfinex, who controls the keys to the printer, before being transferred to other exchanges. In USDT's entire existence on Ethereum Tether has never burned any supply.

The recent data also highlights the flow of USDT from issuance to end use. All new USDT is first minted, then sent to Bitfinex, who controls the keys to the printer, before being transferred to other exchanges. In USDT's entire existence on Ethereum Tether has never burned any supply.

Looking deeper into Ethereum data, there has been a huge shift in combined annual settlement value of the platform. In 2017, Ether accounted for $335 billion of Ethereum's annual settlement value, compared with $360 billion total settlement value. In 2018, Ether accounted for $420 billion of ETH settlement value, while stablecoins settled at a mere $10 billion.

Ethereum, Annual Settlement Value (USD Billion)
Data source: Coin Metrics.



The annual settlement values of 2017 and 2018 were heavily boosted by the influx of ICO funding rounds. However, 2019 showed Ethereum-based stablecoins scoring $146 billion worth of settlement value, surpassing Ether's ($133B). The stablecoins continue to dominate the Ethereum ecosystem further in 2020, with a whopping $375 billion worth of settlement value. As a recap, stablecoins are eating Ethereum.

INDUSTRY OUTLOOK

P2P MARKET

LocalBitcoins.com

The well-known Finland-based OTC platform, LocalBitcoins, suffered from declining volumes between Q4 2019 and Q1 2020. Nevertheless LocalBitcoins was able to cease the decline during the second quarter of 2020 and it's weekly volume rose back to $40 million weekly level, bottoming at 24 million during March, Q1 2020.

LocalBitcoins Volume (in millions) 2019-2020
Data source: Coin Dance. 30.6.2020.

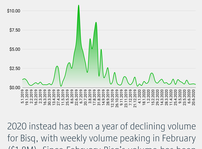
LocalBitcoins has been upgrading its service to align with new EU regulations and compliance, 5AMLD and the upcoming 6AMLD. While regulatory compliance is mandatory for companies, the feedback from traders has not always been so positive. Russia has been LocalBitcoins' most dominant market since the early days.

bisq

Bisq is an open-source, peer-to-peer application that allows you to buy and sell cryptocurrencies in exchange for national currencies. Bisq can also be classified as a decentralized exchange (DEX), although the definition is somewhat abstract.

Bisq had a successful year in 2019 since its highest volume week saw about $10 million worth of bitcoin traded. In total the trading volumes increased in 2019 compared to 2018 amounting to more than $112 million.

BISQ Volume (in millions) 2019-2020
Data source: Coin Dance. 30.6.2020.



2020 instead has been a year of declining volume for Bisq, with weekly volume peaking in February ($1,8M). Since February Bisq's volume has been declining drastically, dropping well below $500K in late second quarter of 2020. As Bisq saw above $10 million weekly volumes in June 2019, these numbers truly pale in comparison. Meanwhile Bisq has low trading volumes than other P2P bitcoin exchanges, it is increasingly popular for individuals who prefer their privacy and financial sovereignty.

PAXFUL

In contrast to performance of LocalBitcoins and Bisq, Paxful's current year has been a notable success. Compared to 2019 numbers, Paxful's weekly volume continued to generally rise in H1 2020, just briefly dropping in the early second quarter. As the recent volume data shows, Paxful's weekly is rising closer to the $50 million barrier, effectively surpassing LocalBitcoins' volume.

Paxful Global OTC Volume (in millions) 2019-2020
Data source: Coin Dance. 30.6.2020.

Paxful is especially focused on transactions with gift cards, including partners as Amazon, Apple, eBay, and Google. Paxful's volume has increased across markets with significant presence in North America, where Paxful has historically been well-positioned.

PAXFUL OVERTAKES LOCALBITCOINS IN MARKET DOMINANCE

The market composition of OTC exchanges is especially interesting through the first half of 2020. LocalBitcoins remained clearly dominant in 2019, even growing steadily over the 2019 summer bull market. Early 2020 marked a paradigm shift as the volume of LBC dropped from late 2019 $60M levels into $30M level and below. LocalBitcoins dropping into $30M level made it close to parallel with competing Paxful.

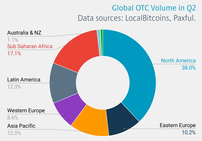
OTC Volume Combined (in millions) 2019-2020
Data source: Coin Dance. 30.6.2020.

Late second quarter marked a true inflection point as, for the first time in history, Paxful's volume overtook LocalBitcoins'. Q2 tail end data (27.6.2020) shows Paxful's weekly volume at $45 million, meanwhile LocalBitcoins stays at $37 million. Paxful surpassing LocalBitcoins' weekly volume marks a historical shift.

NORTH AMERICA CONTINUES TO LEAD GLOBAL VOLUME

Exploring the combined data of LocalBitcoins and Paxful, North America leads the group with 38%, an increase compared with first quarters 33,2%. North America and the U.S. in particular has been the main market for Paxful, consequently Paxful's rising volume and North American growth are positively correlated.

Global OTC Volume in Q2
Data sources: LocalBitcoins, Paxful.



Sub Saharan Africa took second place with 17,1% share. Paxful's growth might show here too as the company has been increasingly active in African community building and marketing ops. Eastern Europe accounted for 10,2%, a drop from first quarter 13,4%. Russia has been a strong single market for LocalBitcoins.

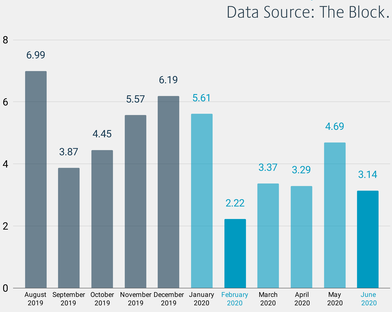
INDUSTRY OUTLOOK

ETHEREUM (ETH)

ETHEREUM GAINING GROWTH THROUGH STABLECOINS AND DEFI

There's a clear trend of ETH gaining more volume relative to BTC. Ethereum's price has stayed relatively correlated to bitcoin while the volumes have grown 2x relative to bitcoin. The ratio between spot volume of bitcoin and Ethereum stayed above 5 over the 2019-2020 turn of year, while the ratio dropped notably in February, into 2,22. Tail-end second quarter data showed 3,14 BTC/ETH spot volume ratio.

Ratio Between BTC and ETH Spot Volume
Data Source: The Block.

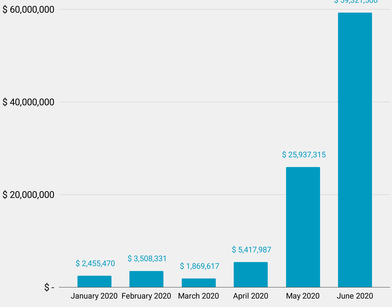


Close to $60 million worth of bitcoins moved to Ethereum in June 2020, according to data processed by Dune Analytics. Wrapped Bitcoin (WBTC), the oldest tokenized bitcoin protocol on ETH platform, is responsible for roughly 75% of that growth after moving more than 4800 bitcoins to Ethereum last month. Demand has increased for using bitcoin in a variety of decentralized financial services as Ethereum continues to be the most popular off-chain destination for bitcoins. More specifically, yield farming and MakerDAO adding tokenized bitcoin as collateral are likely strong catalysts [8].

PARALLEL GROWTH

Instead of seeing Ethereum's growth as direct competition to bitcoin, the growth in the value of assets on decentralized finance applications can be seen as a step towards the maturation of the industry, which is moving towards trustless and transparent financial services.

USD Value of Monthly BTC Growth on Ethereum
Data source: Dune Analytics.



The current trend adds synergy for bitcoin alike, as users are able to earn yield and collateralize bitcoin.

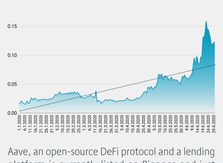
INDUSTRY OUTLOOK

DECENTRALIZED FINANCE (DEFI)

AAVE (LEND), A DEFI PLATFORM WITH FINNISH ROOTS

Decentralized finance, abbreviation: DeFi, seems to have potential to be one of the leading digital asset trends for 2020-2021. Aave (LEND), a lending platform with Finnish background, rocketed over 600 percent over the first half of 2020, and early July performance showed potential for above **1000%** returns YTD.

LEND Token Price (USD)
Data source: Binance.



Aave, an open-source DeFi protocol and a lending platform is currently listed on Binance and just acquired new funding from Framework Ventures and Three Arrows Capital [9].

> *"This is obviously highly anecdotal but in the last two weeks, I've been approached by three European VCs and asked to advise their DeFi investing strategy. This hasn't happened in more than two years"*
>
> - Larry Cermak

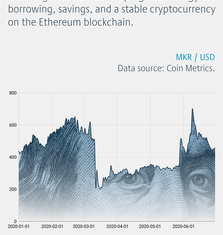
Despite the astonishing performance of DeFi platforms, many are still relatively unavailable for larger retail, as they have not been widely listed on prominent exchanges. E.g. LEND token has only been listed only on Binance.

	Coinbase	Kraken	Gemini	Binance	Huobi	OKEx	Bitfinex
Compound (COMP)	x			x		x	
Maker (MKR) (Dai)	x	x				x	x
Synthetix (SNX)				x			
Balancer (BAL)							
Aave (LEND)				x			

Compound (COMP) is available on Binance, Coinbase, and OKEx. Older projects like MakerDAO (MKR) are available on Bitfinex, Coinbase, and OKEx.

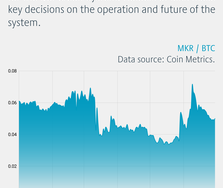
Another well-known DeFi project, MakerDAO, has also been performing relatively stable in H1 2020 both in USD and BTC terms. MakerDAO is an organization developing technology for borrowing, savings, and a stable cryptocurrency on the Ethereum blockchain.

MKR / USD
Data source: Coin Metrics.



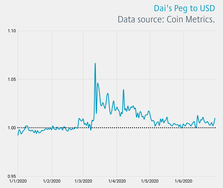
The Maker (MKR) token was created by MakerDAO and its primary purpose is to support the stability of MakerDAO's Dai token and enable governance for the Dai Credit System. Holders of MKR make key decisions on the operation and future of the system.

MKR / BTC
Data source: Coin Metrics.



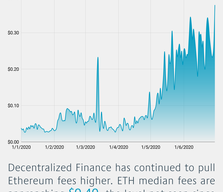
MakerDAO's Dai is an ERC-20 token on the Ethereum blockchain that has a steady value of one U.S. dollar.

Dai's Peg to USD
Data source: Coin Metrics.



It is also the key to the MakerDAO lending system. When a loan is taken out on MakerDAO, Dai is created. It's the currency users borrow and pay-back.

ETH Median Fees (USD)
Data source: Coin Metrics.



Decentralized Finance has continued to pull Ethereum fees higher. ETH median fees are approaching $0,40, the level not seen since mid-2018.

INDUSTRY OUTLOOK

EMERGING MARKETS

Emerging markets continue to feel the pressure stemming from U.S. dollar dominance and capital flight. The Argentine peso (ARS) is a perfect example of an extremely fragile emerging market national currency. The Argentine peso has systematically weakened against the U.S. dollar (USD) and bitcoin (BTC) over the last years.

A variety of emerging markets currencies continued to lose value against the U.S. dollar (USD) and bitcoin (BTC) during the second quarter of 2020. Argentine peso (ARS) was among the weakest national (fiat) currencies we have been tracking. The major fundamentals behind crushing EM currencies are unsustainable monetary policies, inflation, and capital flight.

ARS / USD
Data source: Trading Economics.

Argentina has a history of failed governmental & monetary politics, suffering great depressions during 1974–1990 and 1998–2002. Argentina is a prime example of growing bitcoin adoption in a low-trust environment. By LocalBitcoins data, the Argentine OTC volume has been steadily growing.

The relative value of bitcoin has zoomed up significantly compared with ARS in the first half (H1) of 2020. The rising BTC / ARS ratio is a perfect indicator for underlying demand for alternative assets in Argentina. Notably the Argentine peso has a tendency to weaken against the U.S. dollar and bitcoin simultaneously.

BTC / ARS
Data source: Trading Economics.

The weakening emerging market currencies usually follow a default pattern, which is described below:

→ EM currencies suffer from supply and demand shock and money outflows.

→ Emerging markets nations have expansionary monetary (fiscal) policies in general.

→ EM currencies will be exchanged into USD in an escalating manner, creating a negative feedback loop.

→ EM nations implement capital controls while trying to control currency weakness.

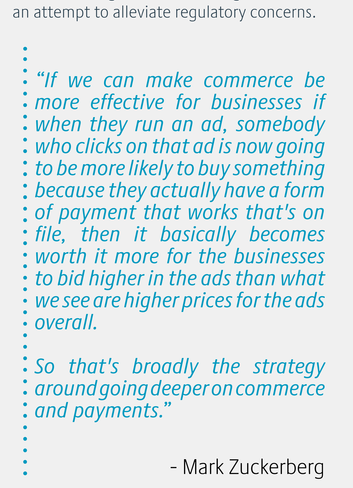
The described negative pattern of EM currencies is propitious to bitcoin as masses are using the cryptocurrency as an alternative investment, and instrument to avoid capital controls.

INDUSTRY OUTLOOK

LIBRA

A NEW LIBRA RELAUNCH ATTEMPT IN LATE 2020

We previously explored Facebook's "corporate coin" Libra within earlier quarterly reports. Libra can be described as a permissioned, blockchain-based stablecoin payment system. The upgraded future Libra payment system is supposed to support single-currency stablecoins and a multi-currency coin (LBR) that will be a digital composite of some of the single-currency stablecoins available on the Libra ecosystem. All Libra coins will be fully backed by cash and cash equivalents and short-term government securities held by a geographically distributed network of custodian banks.



During 2019, Libra received a notable pushback from regulators around the world who expressed concerns over privacy and the potential challenge to various nation's monetary sovereignty. As a result, just one month after the project was announced, Facebook assured that Libra would not launch until all regulatory concerns were fully addressed. Facebook executives proceeded to go through a series of hearings and meetings with U.S. Congress and various governments in an attempt to alleviate regulatory concerns.

"If we can make commerce be more effective for businesses if when they run an ad, somebody who clicks on that ad is now going to be more likely to buy something because they actually have a form of payment that works that's on file, then it basically becomes worth it more for the businesses to bid higher in the ads than what we see are higher prices for the ads overall.

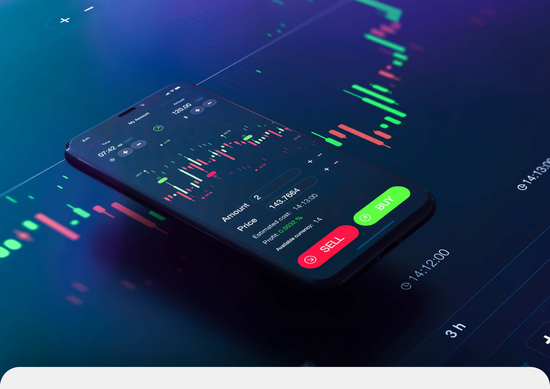
So that's broadly the strategy around going deeper on commerce and payments."

- Mark Zuckerberg

In September 2019, it was reported that the Libra reserve basket would consist of 50% U.S. dollars, 18% euro, 14% Japanese yen, 11% pound sterling and 7% Singaporean dollars. This U.S. friendly approach wasn't enough to calm controversies and regulatory pressures continued. In October 2019, PayPal became the first company to walk away from the Libra Association, with several other high profile founding members following suit, including Visa and Mastercard.

On April 16, 2020 Libra unveiled its recreated plan. As rumored, Libra transitioned to a framework featuring multiple single-currency stablecoins, in addition to its multi-currency Libra coin. Under the new model, each single-currency stablecoin will be backed by its respective fiat currency and government securities - i.e. the U.S. dollar stablecoin will be backed by a reserve of US dollars and U.S. government securities. The multi-currency Libra coin on the other hand would be a composite of some of the single-currency stablecoins available on the Libra network.

Consequently we'll most likely see an attempt to launch a redesigned Libra in late 2020. As the pioneering de facto ecosystem corporate coin, Libra will be followed closely across the globe.



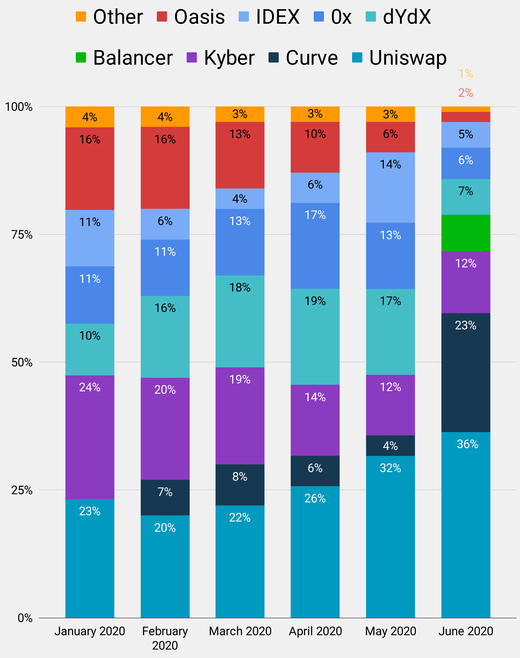
INDUSTRY OUTLOOK

DECENTRALIZED EXCHANGES

UNISWAP DOMINANT AMONG DECENTRALIZED EXCHANGES

The volume of decentralized exchanges has been increasing to $1,52 billion, a **70%** ascent from May to June 2020. The most dominant DEX, called Uniswap, currently controls **36 percent** of the combined market share, significantly strengthening its position from January 23 percent.

Market Shares of Decentralized Exchanges (DEX)
Data source: Delphi Digital.



So what is Uniswap? One could describe it as an Ethereum-based exchange that allows anyone to swap their ERC-20 tokens. Traditionally token swaps require buyers and sellers to create liquidity, Uniswap creates markets automatically. Unlike most exchanges, which are designed to take fees, Uniswap is designed to function as a public good, a tool for the community to trade tokens without platform fees or middlemen.

Also unlike most exchanges, which match buyers and sellers to determine prices and execute trades, Uniswap uses a simple math equation and pools of tokens and ETH to do the same job. As a recap, Uniswap was designed to help solve decentralized exchanges' prevalent liquidity problem.

BITCOIN ASSET SUMMARY

CORRELATIONS

BITCOIN - S&P 500 INDEX

Bitcoin's correlation with S&P 500 Index has shifted dramatically during the first half (H1) of 2020, rising from early Q1 negative values (January: -0,09) into positive territory in late Q2 (June: 0,19). Bitcoin has traditionally been relatively uncorrelated with S&P 500, however growing risk sentiment from COVID-19 has changed interweaved relationships of different asset classes.

Correlation: Bitcoin - S&P 500 Index
Data source: Coin Metrics.

Bitcoin's current correlation with S&P 500 Index is remarkably high, peaking at 0,49 on March 14th. During bitcoin's history, it has never been this positively correlated with S&P 500. The notable positive correlation might not last long though, as bitcoin has a tendency to decouple from other asset classes over longer time frames.

BITCOIN - GLD

The correlation between bitcoin and gold has been weakening along the first half of 2020, first peaking at 0,23 on March 13th and then gradually weakening below H1 tail end 0,03 levels. Bitcoin's correlation with gold is currently approaching zero, indicating no correlation between the said asset classes.

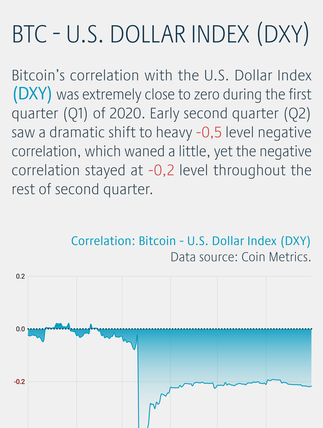
Correlation: Bitcoin - Gold
Data source: Coin Metrics.

The perceived value propositions of bitcoin and gold are close to each other, both promise to be a hedge to the mainstream stock market in cyclical downturn events. Both represent alternative currencies, bitcoin's edge being in censorship-resistance and cross-border transactions, while gold is a more mainstreamly accepted alternative investment.

BTC - U.S. DOLLAR INDEX (DXY)

Bitcoin's correlation with the U.S. Dollar Index (DXY) was extremely close to zero during the first quarter (Q1) of 2020. Early second quarter (Q2) saw a dramatic shift to heavy -0,5 level negative correlation, which waned a little, yet the negative correlation stayed at -0,2 level throughout the rest of second quarter.

Correlation: Bitcoin - U.S. Dollar Index (DXY)
Data source: Coin Metrics.



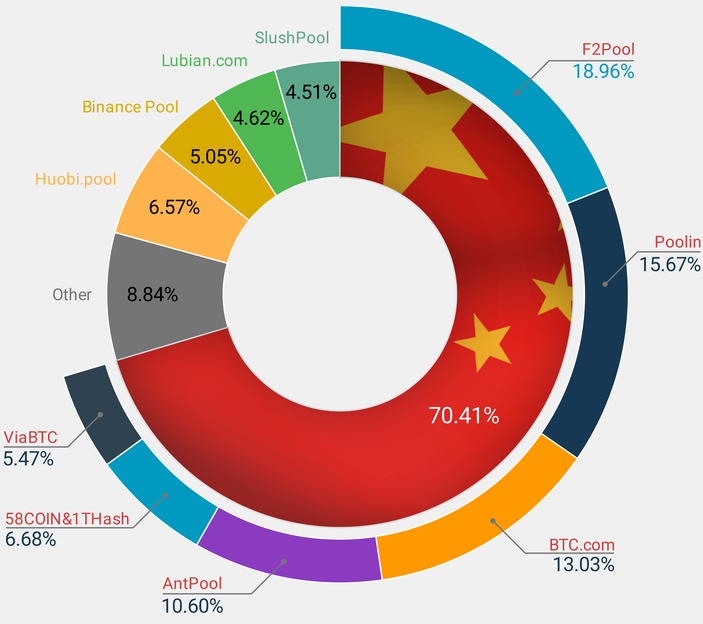
Bitcoin's current correlation (-0,22) with DXY is historically low in the negative territory. Bitcoin has never seen longer periods of below -0,2 correlations previously, looking back at historical data.

BITCOIN ASSET SUMMARY

HASHRATE DISTRIBUTION

China-based mining operators continued to dominate the bitcoin mining hashrate, with combined estimated hashrate of 70,41 percent. The fundamentals supporting Chinese dominance in mining are cheap available electricity and friendly regulation. The cost-base for running mining operations in Chinese rural areas is also low.

Mining Hashrate Distribution
Data source: BTC.com.



In addition to China, areas like Russia and Eastern Europe also contain sizable mining activity. Slush Pool (4,51% of global mining hashpower) is located in Czech Republic.

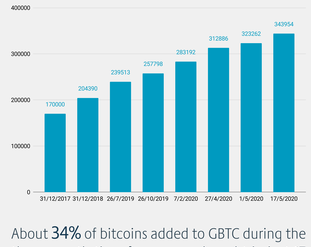
BITCOIN ASSET SUMMARY

INVESTMENT PRODUCTS

ESCALATING INSTITUTIONAL GROWTH FOR GRAYSCALE

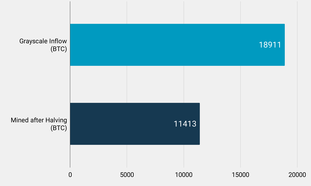
Grayscale Investments, LLC has been facing significant growth through the first half of 2020. Grayscale reportedly added 60 762 bitcoins to its bitcoin trust (GBTC) between February 7 and May 17, 2020. The amount is equivalent to 607 bitcoins acquired each day for GBTC during the same timeframe.

Amount of Bitcoins in GBTC Fund
Data source: Grayscale Investments, LLC.



About 34% of bitcoins added to GBTC during the three month time frame were bought in just 17 days amid a checkered spike in the price of bitcoin, targeting $10 000. As of May 17, the Grayscale Bitcoin Trust Fund had a total of 343 954 bitcoins AUM, up 21% from 283 192 bitcoins held 100 days earlier. In value terms, the portfolio has soared to $3,37 billion from $2,77 billion, at prevailing market prices.

BTC Inflow of Grayscale Bitcoin Trust
Data sources: Grayscale, Messari.

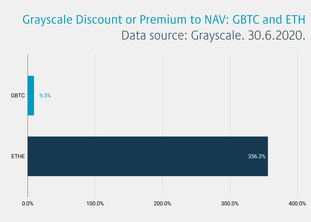


Grayscale also bought up to 33% of all newly minted bitcoin over the last three months, as the asset manager continues to stockpile major cryptocurrencies. The company is heavily focusing on institutional clients and Grayscale announced that 84 percent of its clients had an institutional background during the second quarter of 2020. 60 percent of the client base were offshore-based, consisting largely of hedge funds.

GBTC, ETHE AND PREMIUM TO NAV

Grayscale's Ethereum fund (ticker: ETHE) has drawn attention recently by its huge premium to net-asset-value (NAV). ETHE's discount peaked at 948,9 percent on June 4th and has since dropped, consolidating at quarter-end 356,3 percent. Grayscale's bitcoin fund (ticker: GBTC) has seen huge premiums as well, peaking at 132,6 percent on May 31st 2017. The discount of GBTC has reduced noticeably since and quarter-end premium for GBTC was a mere 9,3%.

Grayscale Discount or Premium to NAV: GBTC and ETH
Data source: Grayscale. 30.6.2020.



How to analyze the varying premium on both funds? For starters, institutional and accredited investors have an opportunity to short GBTC at a premium, buying it back at a discount for the NAV price in which private placement events are priced. The selling pressure created by arbitrage, along with the possibility for early liquidity provided by the SEC registration and negative sentiment in the market have created an environment for falling GBTC premiums.

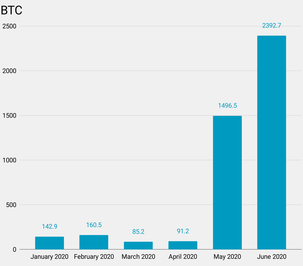
However, GBTC is trading near its 5-year low point for premium over NAV. Of the previous 3-4 times it did this, 1 was bearish for bitcoin pricing for the next 6 months, and the rest were bullish. The GBTC premium can be interpreted as contrarian as well, and it might indicate an interim market bottom [10].

BITCOIN ASSET SUMMARY

DERIVATIVES

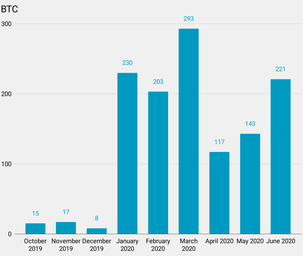
Bitcoin-related derivatives are giving positive signals as the average volume of CME bitcoin options product, launched in January 2020, has increased its average daily volume beyond 2,3 billion dollars. The early months of CMR bitcoin options were modest in contrast, with volume staying within the 100 million dollar range.

Average Daily Volume of CME Bitcoin Options
Data source: CME.



The physical bitcoin deliveries of Bakkt, launched in September 2019, have stayed high, rising from April 117 bitcoins into June 221. Physical bitcoin delivery is considered a positive process in the bitcoin scene as it avoids the creation of "paper bitcoins", which are usually dollar-based uncapped derivatives.

Bakkt Physical BTC Delivery
Data source: Bakkt.

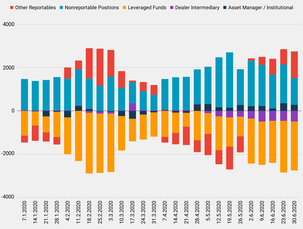


BTC futures, commenced on December 18th 2017, by CME (Chicago Mercantile Exchange & Chicago Board of Trade), are an essential indicator to the bitcoin market. CME bitcoin futures were launched in close proximity with CBOE futures during late fourth quarter of 2017.

A futures contract in general is an instrument for hedging positions and reducing the risk of an unknown future. It is also used for arbitrating between current spot and future contracts. In the case of bitcoin, futures have been closely associated with miners who may face the risk of unknown future bitcoin prices.

Back in the late 2017, CME and the Chicago Board Options Exchange (CBOE) launched their comparable cash-settled bitcoin futures, as one of the first major moves to bring a fully compliant bitcoin-based financial product to the mainstream market. However, during the capitulation phase of a challenging bitcoin bear market in March 2019, CBOE announced it would discontinue its bitcoin futures trading activities.

COT Analysis: Net Positions of CME BTC Futures
Data source: CFTC.



When assessing 2020 COT data, we see that leveraged funds, also known as hedge funds, were notably net short through the first and second quarters of 2020. Leveraged funds had 3661 short contracts in the beginning of January 2020 and increased their short positions towards the end of the first quarter. In mid-February the amount of leveraged short contracts increased to 5258. Leveraged money was heavily short in May again with 6815 short contracts, a 12-month high.

On the contrary, nonreportable positions kept steady net long positions through the first half of 2020, peaking in May with 2896 long contrasts. Other reportables and asset managers were mostly longish in H1 2020.

BITCOIN ASSET SUMMARY

INDICES

SMALL CAPS RISING

Bletchley indices are an important tool for interpreting digital asset markets holistically. The three most essential indices provided by Bletchley are 10, 20, and 40. 10 represents the performance of 10 most valuable digital assets, usually led by bitcoin. 20 index is composed of 20 medium-sized assets, and 40 index mirrors the performance of 40 small-cap assets.

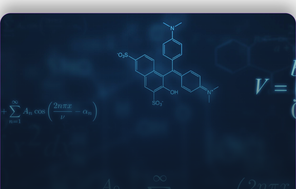
Our last reports explored how small-cap tokens have been showcasing poor performance against Bletchley 10, and bitcoin in particular. Additionally the summer 2019 bull market was mainly supported by bitcoin and larger altcoins. However during the second quarter of 2020, the smaller-cap tokens have truly lifted off as Bletchley 40 clearly indicates.

Bletchley 10 / 20 / 40 Indices.
Data source: Bletchley Indexes. 30.6.2020.

What caused the small-cap rally in Q2? One explanation would be the previously assessed growth of DeFi tokens. The tokens associated with decentralized finance recently crossed the 2 billion dollar barrier and DeFi platforms currently have close to 3 billion USD in total value locked (TVL). The rising demand for DeFi might generate additional popularity for other small-cap tokens alike.

While small-cap digital assets have momentarily over-performed bitcoin's price performance, bitcoin still holds its place as the reserve currency and source of liquidity for the whole industry. Also the rise of DeFi tokens will likely support the long-term view of bitcoin as they offer more exposure for the scene as an entity.

Here's a summary methodology and structure behind Bletchely indices. Bletchley Indexes offers a total of 13 different index products, we are focusing on 3 of them including Bletchley 10, 20, and 40.



BLETCHLEY INDEX METHODOLOGY

Bletchley 10 Index: Market cap weighted index composed of 10 of most valuable digital assets by nominal MCAP.

Bletchley 20 Index: Market cap weighted index composed of 20 medium-sized digital assets by nominal MCAP.

Bletchley 40 Index: Market cap weighted index composed of 40 small-sized digital assets by MCAP.

The market capitalization of each asset in indexes is calculated off of the expected total supply in 2050, using OnChainFX data.

THE STRUCTURE OF BLETCHLEY INDICES DURING JUNE 2020 REBALANCE

Bletchley 10 Index: BTC, ETH, XRP, XTZ, BCH, LINK, BSV, LTC, XLM, EOS, ADA.

Bletchley 20 Index: ADA, BNB, TRX, XMR, ICX, ETC, DASH, NEO, ZEC, DOGE, IOT, ONT, VET, RVN, XEM, ZIL, DGB, ZRX, BAT, DCR, LINK, LSK, MIOTA.

Bletchley 40 Index: LSK, THETA, OMG, SC, WAVES, NMR, SNT, QTUM, BTG, MONA, REP, ZEN, KMD, KNC, BCD, NANO, MCO, GAS, HOT, XZC, DGD, AION, ARK, RCN, BTS, NULS, STEEM, XVG, PIVX, AE, MAID, IOST, STORJ, MANA, GXC, GNT, ARDR, ELF, WAN, FUN, CVC, ZIL.

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