

August 2023: A Resurgence of Optimism for Real World Adoption of Digital Assets

Monthly Insights

September 8, 2023

- Innovation and advancement in the digital asset industry persists despite a lull in trading and investments through August.
- New developments: possible spot Bitcoin ETF approval, participation from major TradFi players like PayPal, Lufthansa, Coca-Cola, new viral consumer tech like friend.tech.
- Structural changes: the crypto exchange landscape is changing due to increased regulatory pressure and higher KYC and security standards.
- The crypto derivatives market has remained robust in the first half of 2023.
- China continues to warm to blockchain as Ant Group launches ZAN platform.

KEY THEMES

Progress on Grayscale's spot Bitcoin ETF

- On August 29, the US Court overturned the SEC's rejection of Grayscale's proposal to launch a spot Bitcoin ETF, arguing that the SEC decision was "arbitrary and capricious" and failed to justify its different treatment of similar products.
- A day later, the SEC delayed its decision on six spot BTC ETF applications to Oct 17 and 19. The ruling is the second recent high-profile court defeat for the SEC over its stance on crypto.
- Now, the SEC could appeal the decision; it could make Grayscale reapply; or it could allow spot Bitcoin ETFs to launch all at once, as the political pressure is building up.
- **TenSquared Capital View:** *This is a major victory for the crypto industry and Grayscale. The approval of spot Bitcoin ETFs just became more likely. Spot Bitcoin ETF could unlock billions of institutional dollars not serviced by other more complex products – and potentially boost the whole crypto sector.*

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Paypal Stablecoin – a milestone inflection point of crypto real world acceptance

- PayPal introduces PayPal USD, a stablecoin backed 1:1 by USD deposits and U.S. Treasuries.
- PayPal USD is issued on the Ethereum blockchain and will be used for fast transfers, remittances, and Web3 payments. PayPal is working with Paxos, a crypto-native trust company, to issue the stablecoin in a regulatory-compliant manner.
- **TenSquared Capital View:** *PayPal's new stablecoin issued on a public blockchain is a strong endorsement of the technology and the digital asset industry as a whole.*

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Europe's first spot Bitcoin ETF on Euronext

- Jacobi Asset Management lists Europe's first spot Bitcoin ETF on Euronext Amsterdam.
- Major financial institutions are supporting the launch of the ETF, with Fidelity Digital Assets serving as the custodian. Flow Traders operating as a market maker and Jane Street & DRW working as Authorized Participants.

KEY THEMES

- The ETF has also received a Renewable Energy Certificate to allow investors to invest in BTC while still meeting ESG goals.
- **TenSquared Capital View:** A BTC ETF allows a wider audience to invest in BTC. In the US, there are multiple spot BTC ETFs that are currently under review by the SEC.

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Ant Group is expanding into the crypto industry with the launch of ZAN

- The new blockchain platform ZAN will target Hong Kong, Singapore, and overseas markets and will focus on blockchain development and services for both institutional and individual Web3 developers.
- Earlier in April, the CEO of Ant Group (1.2 billion users) pledged support to the Chinese sovereign digital currency e-CNY, saying that it “could be as valuable to industrial internet use as mobile payments were for consumer use.”
- **TenSquared Capital View:** The launch of ZAN reflects the serious ambitions of one of the major Chinese fintech groups in the digital asset space, which will drive further crypto adoption.

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Lufthansa NFT-based loyalty program

- Lufthansa Group announced the public launch of an NFT-based loyalty program, Uptrip, that rewards participating passengers with digital collectibles that can unlock added benefits. Uptrip plans to add a trading feature, letting users fill in any gaps in their collections.
- All of the group’s airlines, Lufthansa, Austrian Airlines, Swiss International Air Lines, and others, are participating in the loyalty program.
- Lufthansa Group already has 36 million members in its traditional Miles and More loyalty program.
- **TenSquared Capital View:** NFTs have a much more general application in the ticketing world and with rewards programs. Gamification elements of NFT-based loyalty programs introduce participants to Web3 technologies in a fun way.

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New NFT collection of Coca-Cola

- Coca-Cola launched a new NFT collection on Base, Coinbase’s new blockchain network, featuring artwork with Coca-Cola imagery.
- Over 50,000 NFTs were created from the new collection, and the price of the NFTs ranged from 0.0011ETH – 0.014ETH (\$2 - \$20).
- **TenSquared Capital View:** Despite a decline in NFT trading volumes, major brands continue to issue NFTs with a focus on encouraging brand awareness and customer loyalty.

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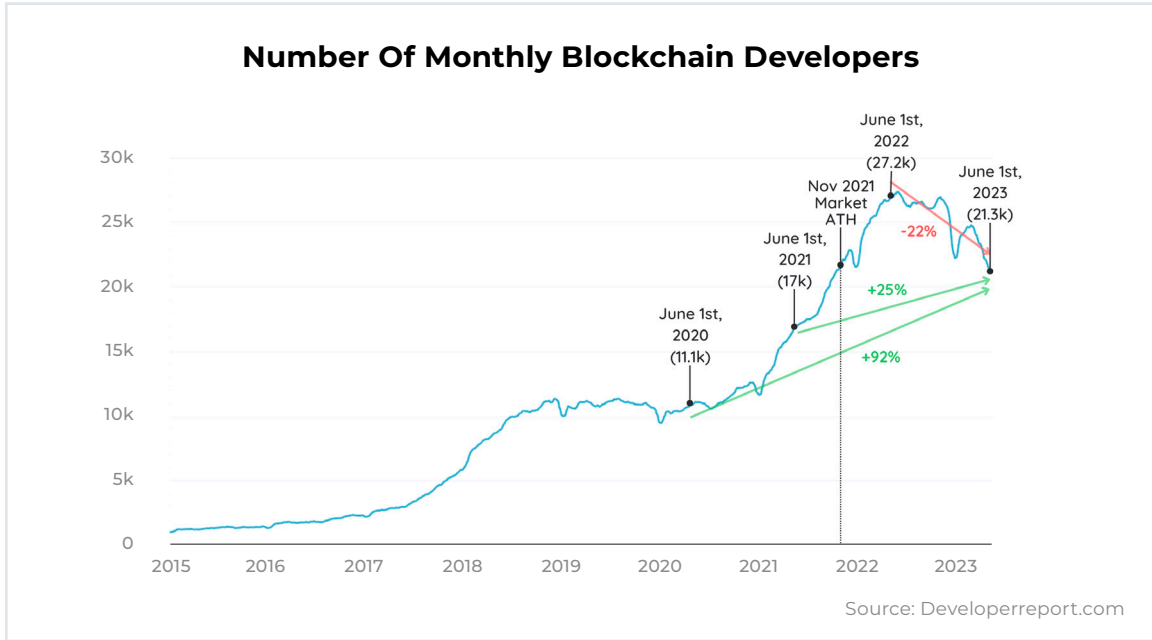
Social media evolving – Friend.tech

- Friend.tech, an innovative social application, recently launched on Base, Coinbase’s new Layer-2 solution, and has quickly attracted a lot of users, even catching the attention of big-name crypto influencers, NBA players and OnlyFans creators. In just over a week, friend.tech has attracted over 80,000 unique users.
- The success of the project can be attributed to a strategic go-to-market (engagement with crypto Twitter influencers) and its novel creator monetization model (in just one week, creators on friend.tech have collectively earned over 1,600 ETH (\$2.7M), with 71% of this total accruing to the platform’s top 250 influencers).
- **TenSquared Capital View:** The App’s innovative creator monetization model could act as a catalyst for a new generation of decentralized social and consumer applications. Friend.tech’s initial success also serves as a strong early indicator of Base’s potential as a robust, scalable Layer-2 solution.

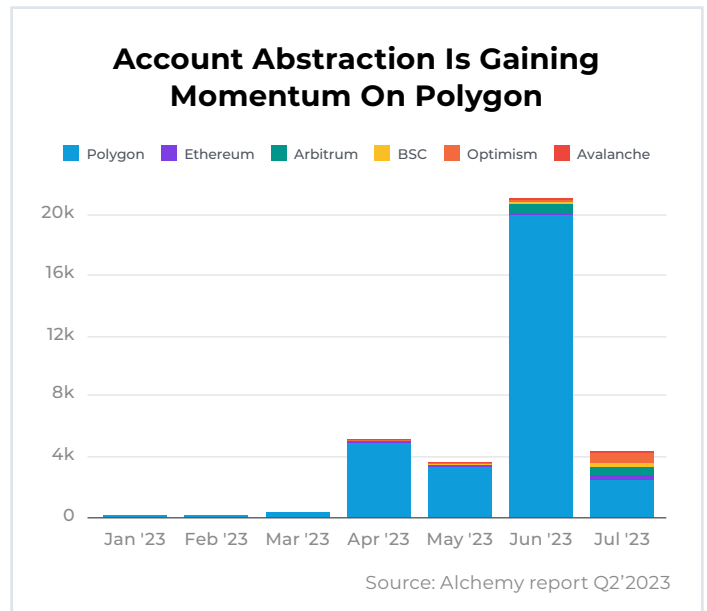
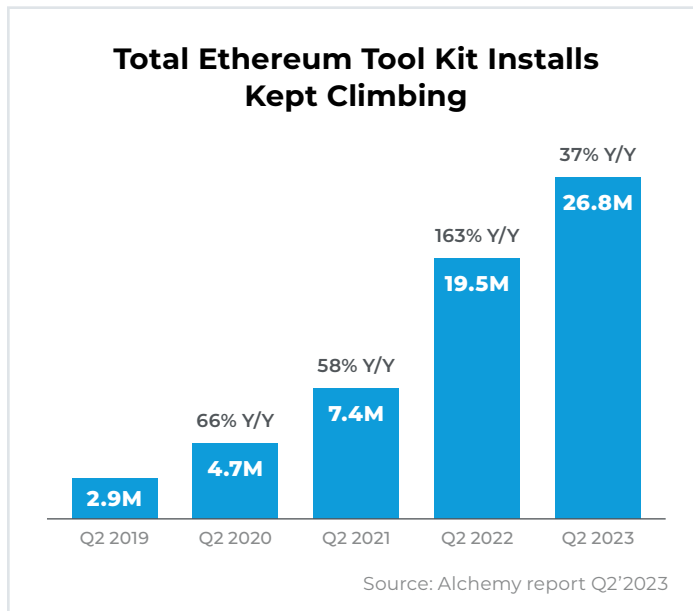
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INNOVATION CONTINUES IN DIGITAL ASSET MARKETS

- There are 21.3k monthly active open-source developers as of June 1, 2023. There are more monthly active developers today than before crypto markets hit an all-time high in Nov 2021.
- Developers who have worked in crypto for 12 months or more continue to build, while many newcomers have left. Established developers contribute 80%+ of commits.

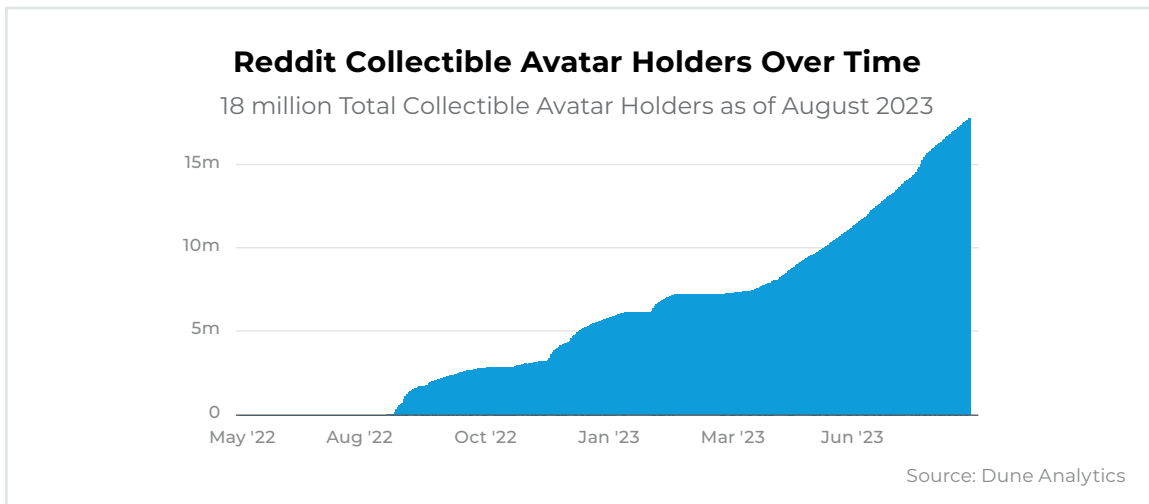


- Installations of blockchain Software Development Kits (tools) continue to increase every year as adoption of blockchain technology continues despite the price action of cryptocurrencies.
- Wallet access simplification (account abstraction) is key to driving the broader acceptance of blockchain. New developments in blockchain accounts allow a larger mainstream audience to access applications built on blockchains.

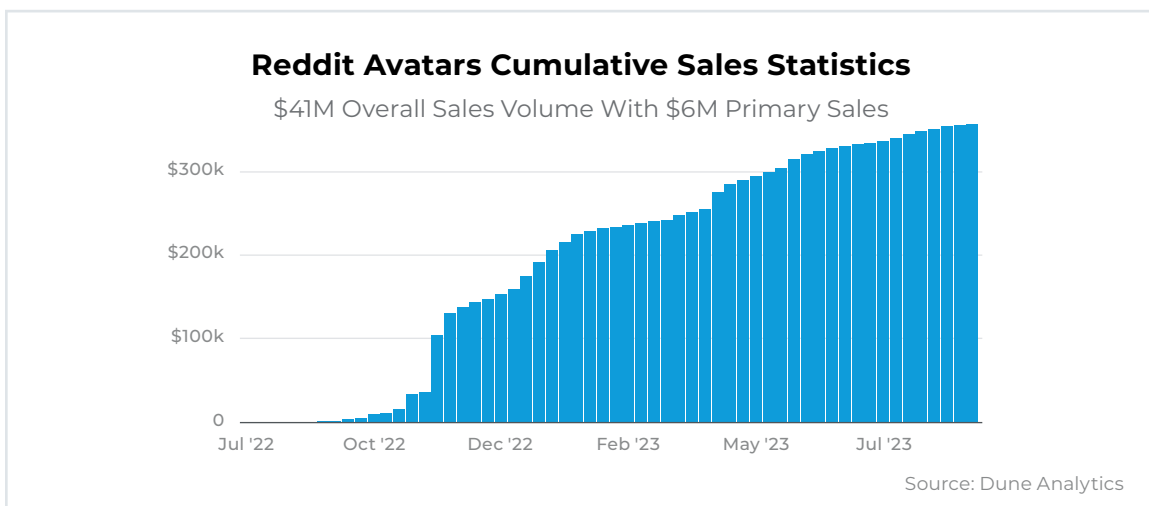


CASE STUDY: REDDIT AVATARS SUCCEED DESPITE LOW NFT “TRADING” VOLUMES

- The Reddit NFT marketplace has become incredibly popular, even among those who are generally not focused on NFTs and digital assets.
- Today, over 18 million users hold about 21 million collectible Reddit avatars¹. Reddit regularly distributes NFT avatars for free, and yet \$41M worth of these avatars sold in less than a year.
- Judging by the popularity of the avatars, many Reddit users enjoy collecting the NFTs to signal their personality, mood, or group in an avatar form. Avatars have become a way of increasing user engagement on the platform.

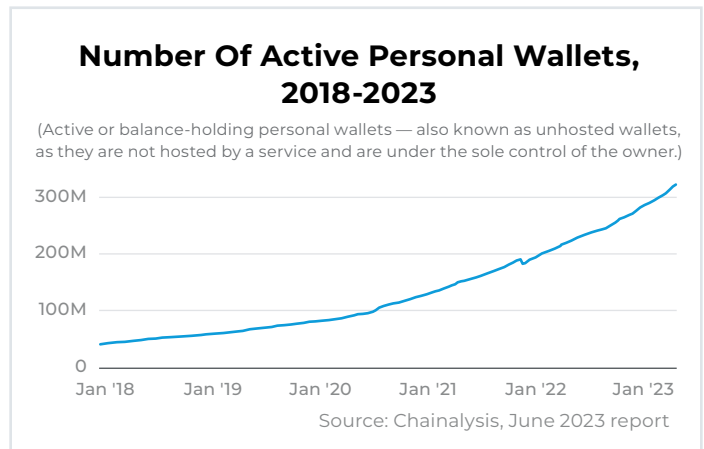
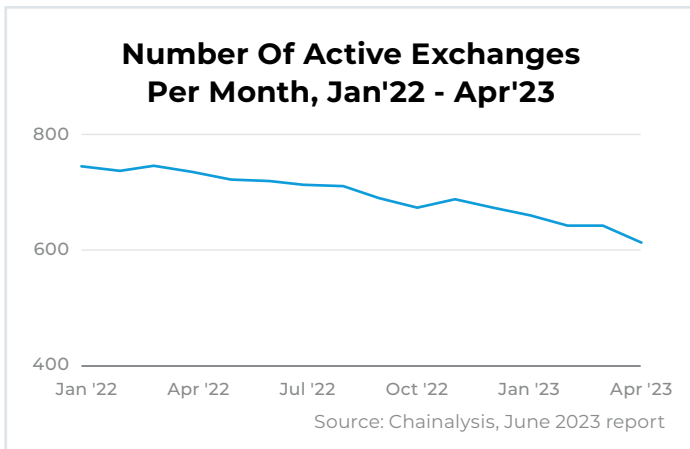


- Reddit's NFT marketing strategy played a crucial role in its success. The social media platform's pitch to its users didn't mention Web3, NFTs, or any crypto jargon and allowed users to purchase avatars using fiat currency. This helped the project attract a non-crypto native audience.
- Reddit NFT marketplace demonstrates one of the successful real-life use cases for blockchain technology (Web 3) used in Web2 platforms like Reddit.

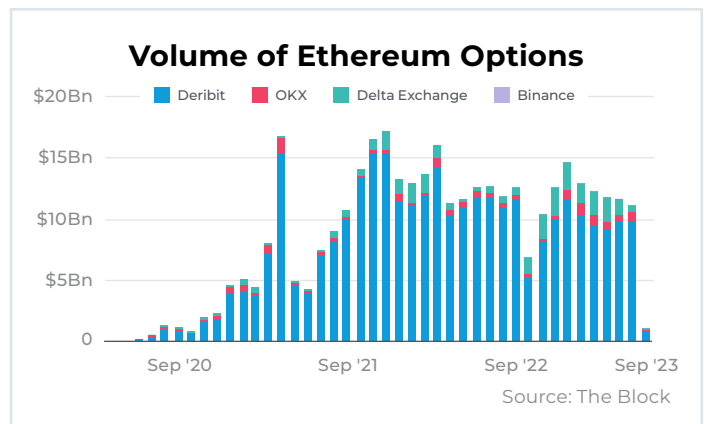
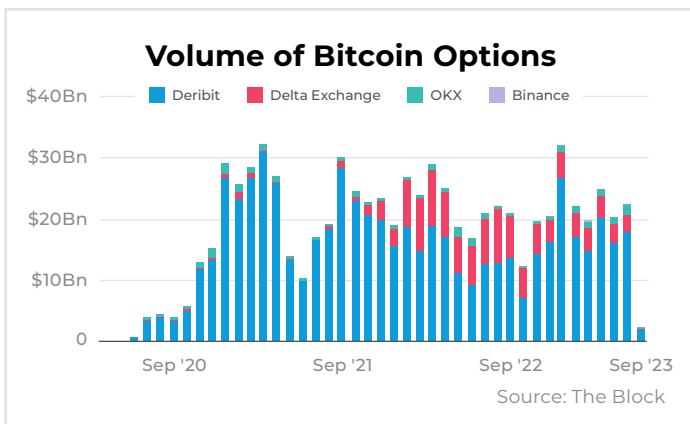


CRYPTO EXCHANGES ARE PRIMED FOR RECOVERY

- Since the start of 2022, the number of active centralized cryptocurrency exchanges has fallen meaningfully due to decreasing transaction volumes, regulatory pressure, and security issues
- However, at the same time, the number of cryptocurrency users continues to increase, particularly users with unhosted / non-custodial (outside of exchanges) wallets.
- Exchanges who can win over the users behind those wallets and take market share now will be in the best position to reap the rewards when crypto market turns and transaction volumes pick up again.
- Consolidation of exchanges and the introduction of robust digital asset regulatory frameworks signals the revival of the industry and helps instill consumer confidence.



CRYPTO DERIVATIVES MARKET CONTINUES TO BE ROBUST



- Despite slower activity in spot markets, the crypto derivatives market volume remained robust in the first half of 2023, showing no signs of a slowdown. A deep and liquid derivatives market is a necessary component for the continued institutional adoption of digital assets.
- The crypto options volume is only 10% of the underlying spot volume (Genesis Q2'23 report). In TradFi, the notional volume of equity options in the US exceeded the notional traded value of the underlying equities in 2021, according to Genesis Trading. Following this TradFi trend, some estimate that the crypto options market has room to grow 10x from current levels.



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