



# 2021-Q2

## CRYPTO INDUSTRY QUARTERLY REPORT

KuCoin Labs Quarterly report

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2021.4 - 2021.6

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# 1.

## Impact of infrastructure

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- ① Overall market & limitation of ETH
- ② Public chains with better performance

## Impact of infrastructure

Layer 1 network was overwhelmed due to a large number of new users flooding into the already active encryption market, leading to soaring ETH gas prices. A majority of Dapps showed strong resilience, with some dead. BSC shared much stress of ETH, but ecological Dapps were still immature, with theft occurring every few days on average in May. The market was more enthusiastic about infrastructure, including ZK and Layer 2. Public chain projects like Polygon, Solana and Arbitrum, were more frequently talked about and applied.

### 1 Overall market & limitation of ETH

In Q2 2021, BTC and ETH reached ATH in mid-April and mid-May successively but fell by 50% in market value in late June following a price surge. BTC reached ATH at \$64,804.72 on April 14, 2021, while fell below \$28,000.00 on June 22, 2021. ETH reached ATH once at \$4,356.99 on May 12, 2021, but fell below \$1700.00 on June 22, 2021.

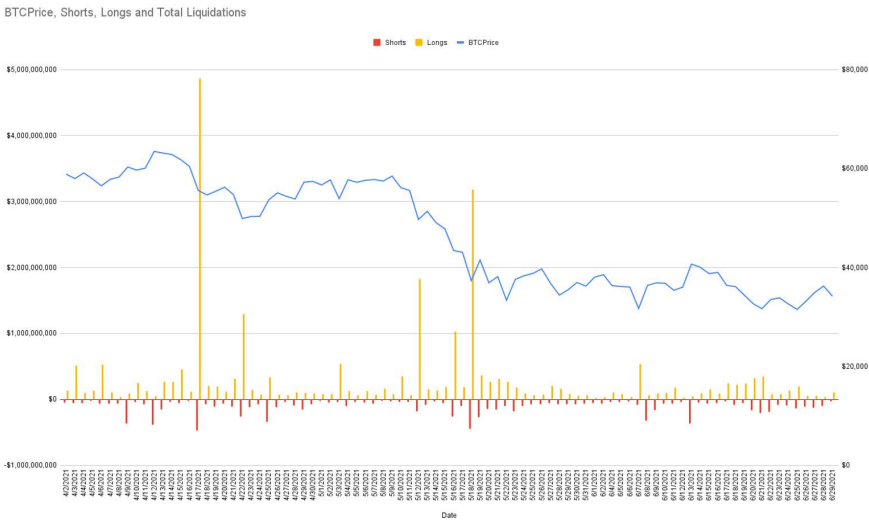


Source: Coingecko, KuCoin Labs, June 30, 2021





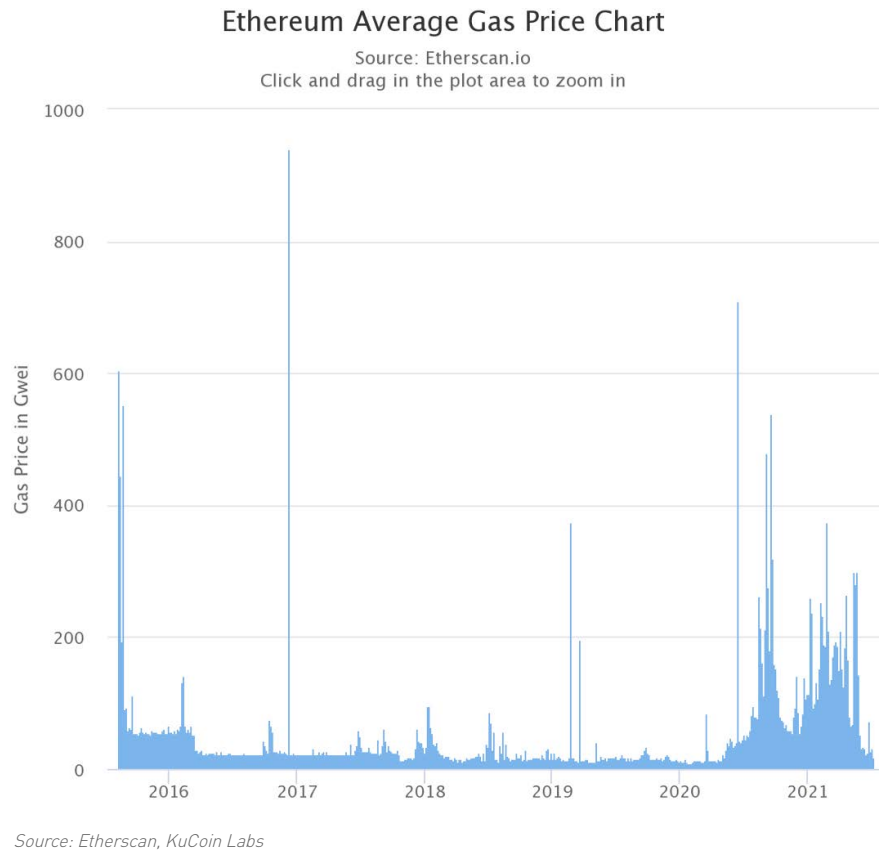
Source: Glassnode, KuCoin Labs



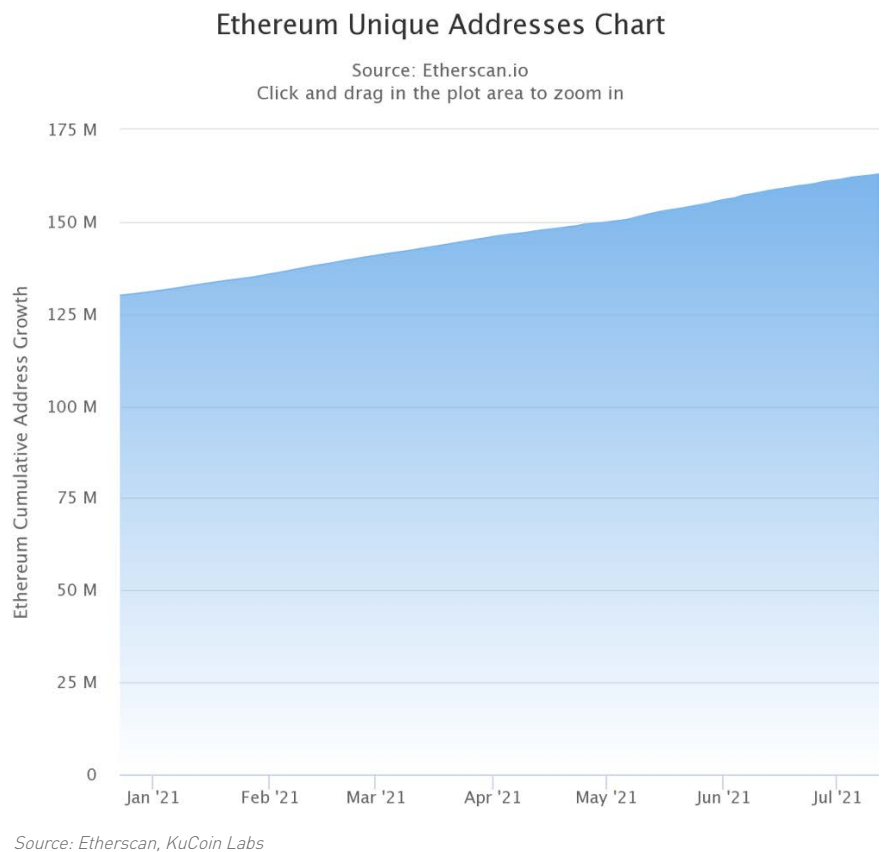
Source: The Block, KuCoin Labs

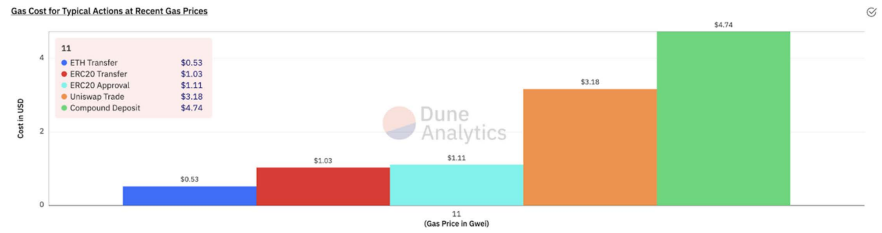
BTC experienced clearings of about \$5 billion long positions when hitting the ATH in mid-April, and clearings of another \$4 billion during the mid-May plunge. It can be said that the price surge of BTC in Q2 was beyond the market expectation, but when the market was still bullish, its price started to fall down.

At the same time, we noticed that the ETH gas prices have been soaring since 2020, and have remained at a very high level in Q2 2021, despite a short time of plunge at the end of 2020.



Also on ETH, we noticed that during Q2 (from April 4, 2021 to June 27, 2021), the number of ETH on-chain addresses showed a steady and continuous growth from about 130M in Q1 to about 140M.





Source: Dune Analytics, KuCoin Labs, June 30, 2021

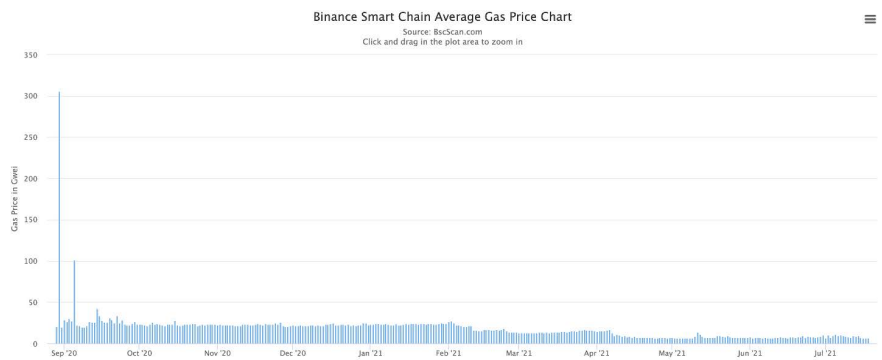
ETH gas prices fell back amid market downturn. At this time, the gas fee consumed for transfer and other operations on conventional chains was not much higher than that on the new public chains like BSC.

Did the rise of BSC, Solana, Polygon and other public chains share some stress of the ETH ecosystem in this round of market volatility? Have the public chains and Layer 2 known for better performance passed this round of market stress test?

## 2 Public chains with better performance

First, let's take a look at the fluctuations of Gas prices.

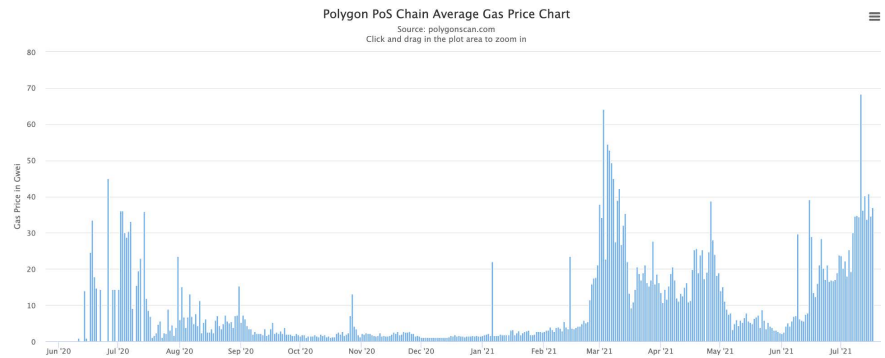
BSC had a stable performance in this bull and bear market cycle, but its Gas prices showed a marked decline in Q1 compared with that in Q3 and Q4 last year. This was maybe due to the fact that the traffic in Q2 was mainly concentrated on ETH. Heco survived Q2 without obvious trend in Gas prices observed. Polygon, as a newcomer, saw prices fluctuating with the market, suggesting that it could share the traffic stress of ETH.



Source: BscScan, KuCoin Labs



Source: HecoInfo, KuCoin Labs

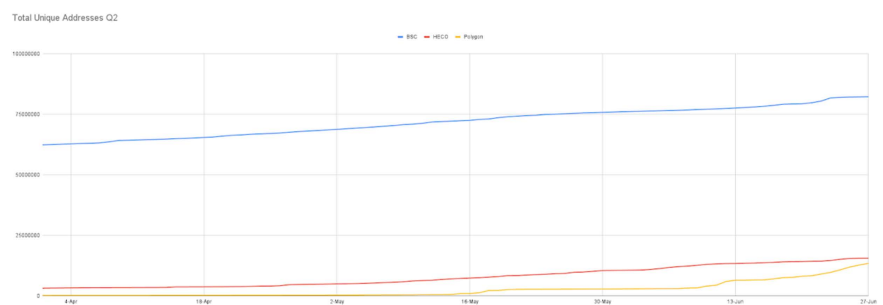


Source: PolygonScan, KuCoin Labs

Second, in terms of TPS, BSC reached a peak of 137 TPS on May 14, 2021; HECO peaked 50 TPS on May 10, 2021; Polygon peaked 106 TPS on June 16.

The TPS peaking dates of BSC and HECO in Q2 basically correspond to the ETH's ATH date of May 12. From the above time, we may infer that BSC and HECO could somewhat share the burden of ETH. Polygon, on the other hand, only started to exhibit its capabilities when the market was on a downward trend, particularly, it could absorb capital flows that had nowhere else to go like ETH and BSC after a bull and bear market cycle.

In terms of the number of on-chain addresses, in addition to BSC and HECO that saw a steady increase, Polygon also saw a significant increase since mid-June, which indirectly confirmed our inference above.



Source: BscScan, HecoInfo, PolygonScan, KuCoin Labs

Although these public chains could effectively share the stress of ETH during a boom, they also caused security problems due to their immature ecology in the early period. For example, the BSC ecological project was attacked almost every week throughout Q2, resulting in capital losses. For now, a mature new public chain ecology has not yet been formed.

Date	Project name	Currency of loss	Amount of loss
29-Apr	Uranium Finance	34k WBNB (\$18M) 17.9M BUSD (\$17.9M) 1.8k ETH (\$4.7M) 80 BTC (\$4.3M) 26.5k DOT (\$0.8M) 638k ADA (\$0.8M) 5.7M USDT (\$5.7M) 112k U92	\$50M
2-May	Spartan Protocol		\$30M - \$40M
7-May	ValueDeFi		\$11M
16-May	bEarn Fi	10,859,319 BUSD	\$10,859,319
20-May	Bunny Finance	697,000 BUNNY 114,000 BNB	\$200M
22-May	Bogged Finance		\$3.6M
28-May	Uranium Finance	4.4k WBNB 22k BUSD 2.5 ETH 1.4M USDT 432k BURGER 142k xBURGER 95k ROCKS	\$7.2M
29-May	Belt Finance	6,234,753 BUSD	\$6,234,753
22-Jun	Eleven Finance		\$4.5M

Source: Report of above attacked projects, KuCoin Labs

# 2.

## Users

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- ① Analysis of CEX and DEX users and trading volume in Q2
- ② Analysis of BTC and ETH users in Q2

## Users

Among the large number of traditional users flocking in, most users referred by NFT/Memecoin would directly try DApps, while most users attracted by BTC and ETH would directly try CEX. There are many speculators among them, and it is hard to tell how many of them will stay after this bear market cycle, but since they have been onboard, they will surely become the mainstay when the market goes up. It should be noted that the centralization business is becoming less attractive to users. With its traffic mainly referred by DeFi hot projects, it is losing its leading role in the market. If CEX itself does not have a decentralized ecology, after two or three bull and bear market cycles, it would lose out tier-1 market and have to capture tier-3 or tier-4 markets, and could even be phased out.












### 1 Analysis of CEX and DEX users and trading volume in Q2

Weekly visits by CEX users

Name	Weekly Visits
 Binance	38,475,284
 eToroX	19,670,746
 NiceHash	8,207,984
 Upbit	4,585,222
 Indodax	4,354,887
 Coinbase Exchange	3,891,464
 Kraken	3,573,941
 Paribu	2,366,983
 KuCoin	1,900,201
 CoinMarketCap	

According to the number of recent weekly visits to CEX and DEX, CEX TOP2 was still more attractive than exchanges at the same ranking with DEX, but since the introduction of UNISWAP (ranking third in DEX weekly

Weekly visits by DEX users

 PancakeSwap (v1) Decentralized	34,286,990.0
 Swtcheo Decentralized	14,441,052.0
 Uniswap (v2) Decentralized	12,937,755.0
 Binance DEX Decentralized	12,869,668.0
 PancakeSwap (v2) Decentralized	10,870,000.0
 Uniswap (v3) Decentralized	6,972,000.0
 Raydium Decentralized	3,027,060.0
 1inch Liquidity Protocol Decentralized	2,587,000.0
 1inch Liquidity Protocol (BSC) Decentralized	2,587,000.0
 Quickswap Decentralized	2,138,753.0
 Bakeryswap Decentralized	2,041,700.0

Source: Coinmarket

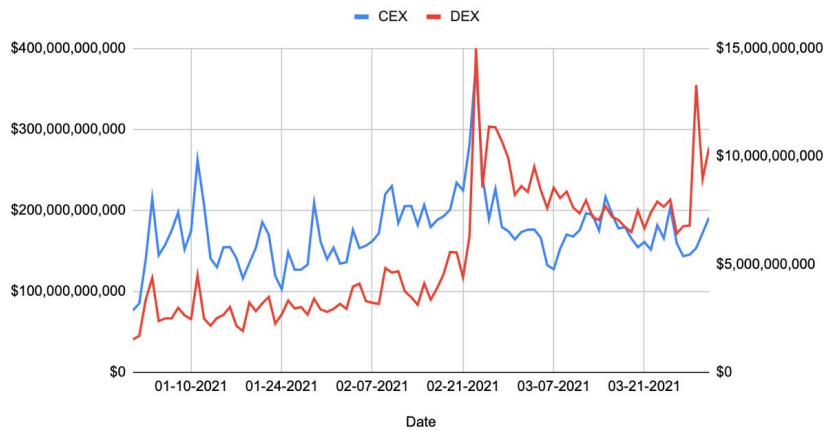
visits), the number of weekly visits to DEX has been higher than that to CEX, showing that DEX is becoming more attractive to users and have a large room for growth in the future.

From the daily trading volume of CEX and DEX in 2021, it can be seen that the daily trading volume of CEX was much higher than that of DEX in early Q1, but was surpassed by the latter in the later period, and in Q2, the two took the lead alternatively.

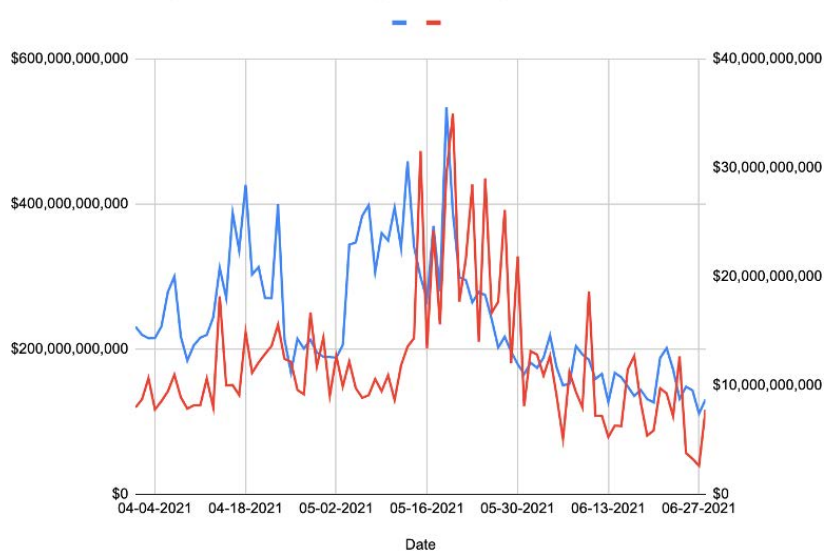
Although the trading volume of DEX fell rapidly in late Q2, it took a quick rebound at the end of June, and even showed a trend to further surpass that of CEX.

From the above indicators like the number of visitors and trading volume of CEX and DEX, we can see that DEX itself was quite resilient and was able to rebound when its trading volume slumped. We may reasonably predicate that if CEX itself does not have a decentralized ecology, after two or three bull and bear market cycles, it would lose out tier-1 market and have to capture tier-3 or tier-4 markets, and could even be phased out. The future development of DEX is worth our close attention.

CEX and DEX (Derivative Exchanges exclude) Q1

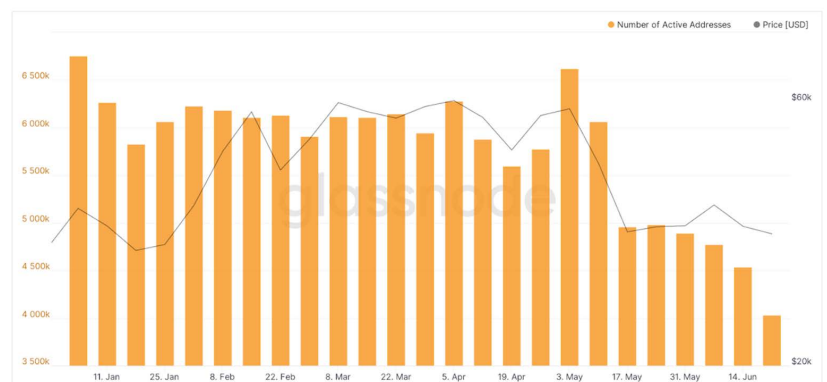


CEX and DEX (Derivative Exchanges exclude)



## 2 Analysis of BTC and ETH users in Q2

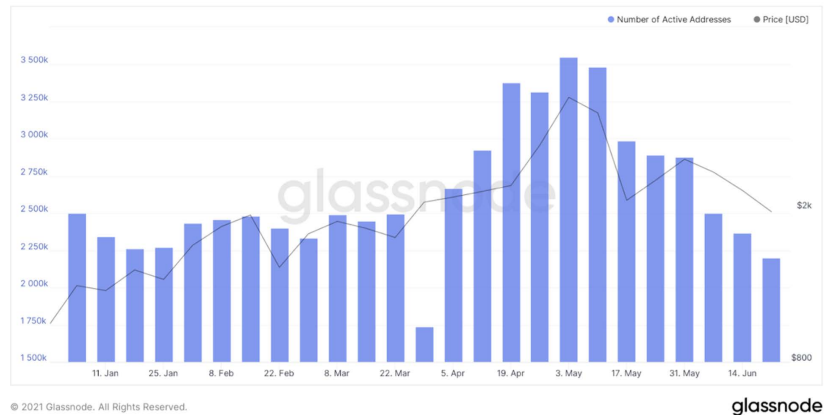
Bitcoin: Number of Active Addresses



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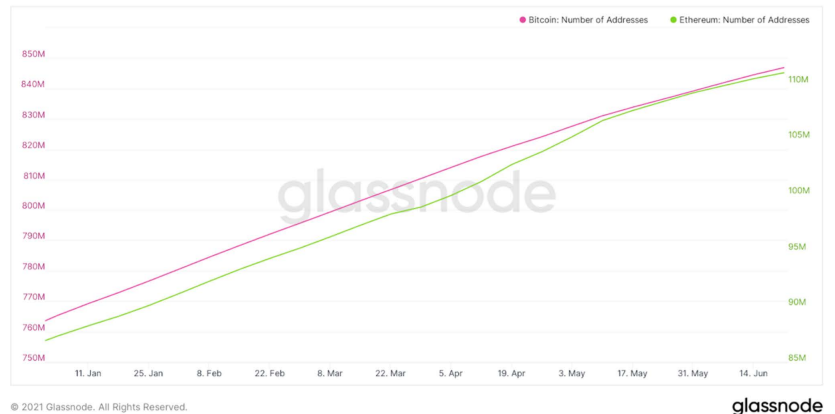
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Ethereum: Number of Active Addresses



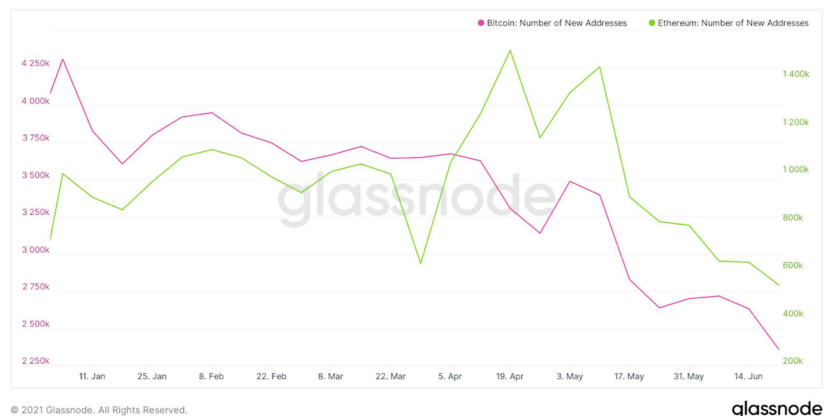
The number of wallet addresses on both BTC and ETH showed an uptrend in Q2. The number of ETH users fell largely behind that of BTC at the beginning of Q2 but the gap was narrowed down to nearly zero at the end of Q2. According to our reasonable prediction, the increase in the number of ETH users was the spillover effect of popularity of NFT in Q2.

Bitcoin: Number of Addresses vs. Ethereum: Number of Addresses



By comparing the number of newly added wallet addresses on BTC and that on ETH, we found that the number of newly added users on ETH surpassed that on BTC in May and peaked in mid-May, and was still far above that on BTC even in June when the market was bearish. It was noticed that ETH was still popular among users in a bear market, which may be related to the popularity of NFT concept as mentioned above.

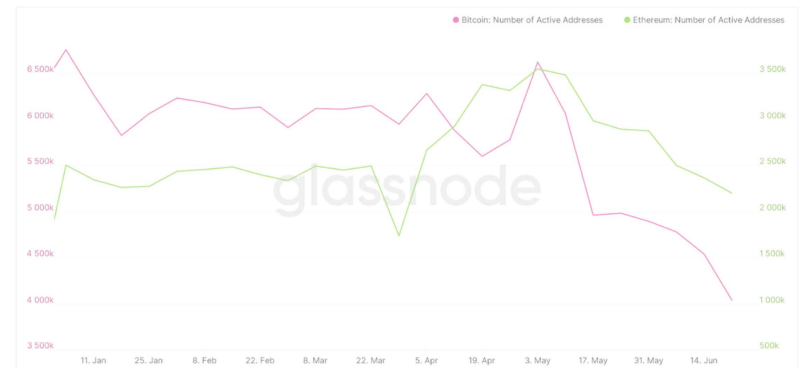
Bitcoin: Number of New Addresses vs. Ethereum: Number of New Addresses



In terms of the number of daily active traders, ETH also had a very encouraging performance at the end of Q2. In early May, ETH began to surpass BTC in terms of the number of active traders, and the trend has been maintained to date.

In the bear market in June, the absolute value of the descending slope of ETH traders was still significantly lower than that of BTC, showing that ETH was highly resilient.

Bitcoin: Number of Active Addresses vs. Ethereum: Number of Active Addresses



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# 3.

## Analysis of DeFi performance in Q2

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- ① Overall DeFi market
- ② DeFi Ecological performance

In the whole year of 2021, Uniswap V3 was the only project receiving good response. Most DeFi projects were in the stage of consolidating and stabilizing their development, mainly focusing on the financialization of collectibles based on NFT and deployment of existing products on other infrastructure with better performance. DeFi's overall resilience was tested and proved to be strong. Of course, compared with traditional financial products, DeFi was still at its early stage, and has not been employed by large institutions. Infrastructure was the biggest bottleneck blocking its further development. Moreover, the stability of DeFi products needs to be further verified, and relevant compliance regulations have not been put in place.

First, we will analyze the overall DeFi market in Q2 from three dimensions: the number of users, the total value locked (TVL) and the amount of leading.

## 1 Overall DeFi market

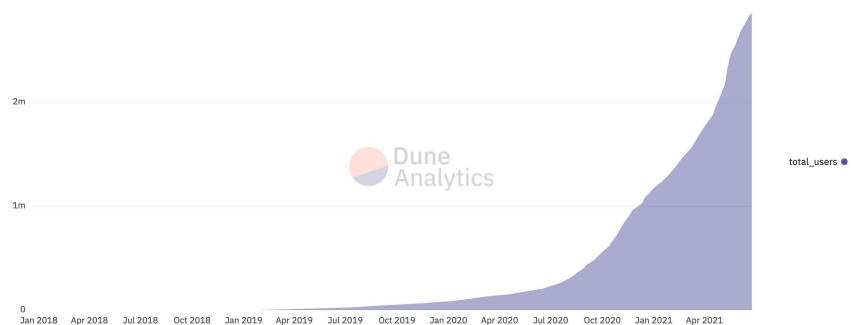
### 1.1 Number of users

The number of users is undoubtedly one of the most important indicators for measuring the ecological development of DeFi. It is positively correlated with the growth rate of DeFi, and may also to some extent reflect the level of attention paid to DeFi market. In 2020 when DeFi got hot, the leading DeFi projects grew at an amazing speed. Since Q2 this year, the market has been sluggish due to the poor performance of BTC and ETH, but this does not stop the development steps of DeFi market. According to data from Dune Analytics, the total number of DeFi users still showed a steep growth trend in Q2 2021, increasing by 62.43% from 1,765,110 at the end of Q1 to 2,867,016 at the end of Q2. (Note: As one user may have several addresses, there is a possibility that the figure was overestimated.)

A random sampling conducted based on data on the date of June 20, 2021 showed that the total number of DeFi users on that day was 2,841,026, of which, Uniswap had the largest users of 2,217,873, representing 78.06% of the total, suggesting its role a mainstay in DeFi market. It was followed by Compound with 322,606 users, or 11.35% of the total, and 1inch, with 242,889 users, or 8.54% of the total.

#### Changes of DeFi Users

**Total DeFi users over time**  
Users = unique addresses. Since a user can have multiple addresses the numbers below are overestimates. Source: @richardchen39

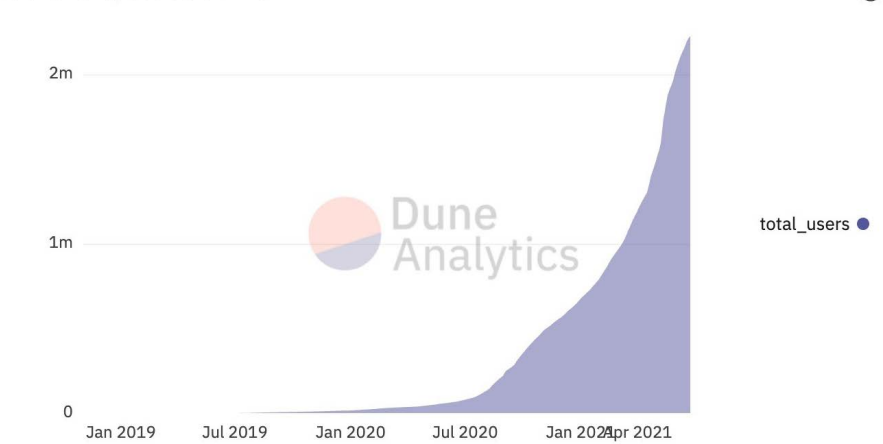


Source: Dune Analytics

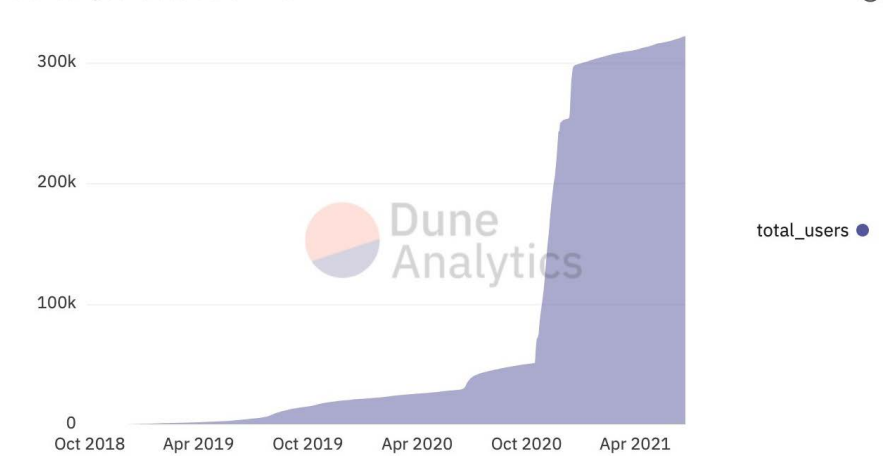
Changes of Users of  
Top Three DeFi  
Platforms in Q2

The enthusiasm of users for DeFi has not faded despite the market turmoil. It also reflected to some extent that DeFi has gradually entered a rational development stage after one year of piloting. It was favored by users for its broad application scenarios and intrinsic value.

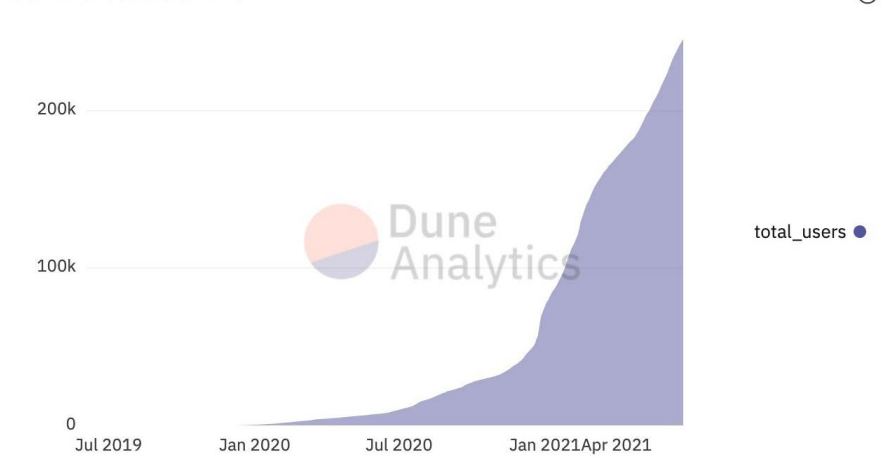
Total Uniswap users over time



Total Compound users over time



Total 1inch users over time



Source: Dune Analytics

1.2 TVL

In Q2 2021, the TVL of ETH in DeFi reached ATH at \$87.976 billion on May 11. According to data from Debank, in Q2, the TVL of ETH in DeFi continued to rise from \$46 billion in early April to a quarterly peak of \$87 billion in mid-May before falling back to \$48 billion monthly. From \$46 billion to \$48 billion, the TVL of ETH remained largely unchanged at the beginning and end of this quarter.

Changes in the TVL of ETH in DeFi in Q2



Source: DeBank

The TVL in DeFi in Q2 increased by 25.45% from \$55 billion to \$69 billion. As the TVL of ETH accounted for a lion share in the TVL in DeFi, the changes in the latter showed a trend similar to that of the former in Q2. The TVL rose from \$55 billion in early April to ATH at \$106.5 billion in mid-May before falling back to \$69 billion monthly.

Changes in TVL in DeFi in Q2

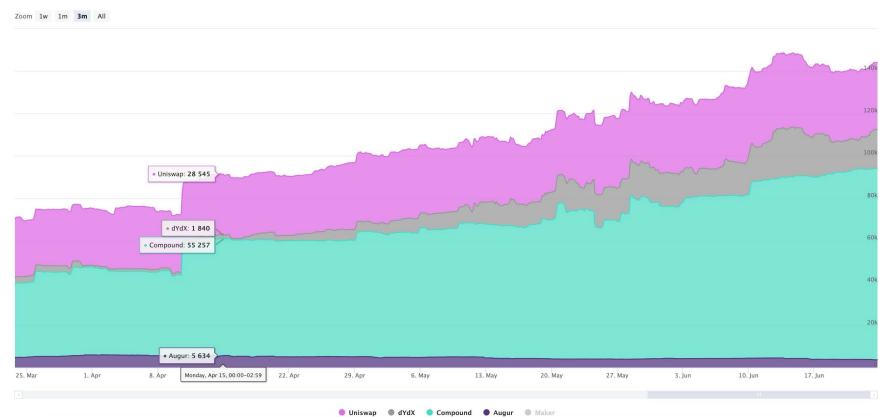


Source: DeBank

TVL of ETH in  
DeFi in Q2

In the case that the TVL of ETH represented more than 80% of the TVL in DeFi, the top three contributors were Uniswap, DYDX and Compound in turn. After one year of development, DeFi ecology was very much enriched. To pursue innovation based on its mature operations may be the future development direction for DeFi.

ETH Locked in DeFi



Source: KuCoin Labs

## 1.3 Amount of lending

According to data on DeFi mortgage lending for 2021, DeFi maintained an overall upward trend in leading in Q1, with downward fluctuations occurring in the middle of Q2. According to data from DeFi Pulse, due to the ever-growing demand of users for loans, the total lending of DeFi increased by 184.04% from about \$3.584 billion on January 1, 2021 to about \$10.18 billion at the end of Q1. However, impacted by the market in Q2, the total lending of DeFi started to grow at a lower speed of only 47.16%, growing from \$10.18 billion at the beginning of Q2 to \$14.981 billion at the end of this quarter, with the maximum amount of about \$18.502 billion and minimum amount of about \$10.18 billion.

Changes in  
Total Lending of  
DeFi in Q2

## Debt Outstanding (USD)

USD Value | DAI | USDC | USDT | ETH

All | 1 Year | 90 Day | 30 Day



Source: DeFi Pulse

## ② DeFi Ecological performance

In 2020, we stood witness to the burgeoning of DeFi. Thousands of DeFi projects, after fierce competition with each other, gradually divided DeFi market into several segments, including lending, decentralized exchanges (DEX), stable coins and derivatives. Although DeFi was basically in the stage of consolidating and stabilizing its development in 2021, there were also many eye-catching star projects in each segment, such as Compound, Maker and Aave in mortgage lending; Uniswap, Sushiswap, Pancakeswap and Serum in DEX; USDT and USDC in stable coins; and Synthetix and dydx in derivatives. Now let's take a closer look at their performance.

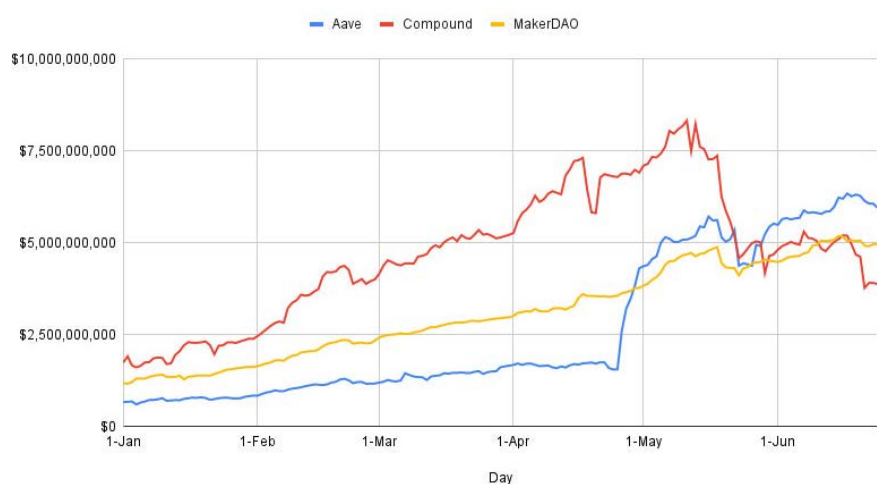
### 2.1 Lending

Different from traditional lending, DeFi lending provides distrust, decentralized, transparent and open source funds. Its main application scenarios are similar to the banking business model in the traditional financial field.

According to data from Dune Analytics, as at Q2 2021, the top three projects in the lending market were Compound, Maker and Aave, with their market share combined accounting for more than 90% of the total in DeFi lending market. As the top performer in the lending market, in the first half of 2021, Compound had an average market share of 47.47%, which peaked at 59%, while Maker and Aave had an average market share of 30.38% and 22.15% respectively. Compound had a total lending of about \$828.299 billion in the first half of this year, averagely \$4.733 billion per day.

Changes in Lending Volume of Compound, Maker and Aave in Q2

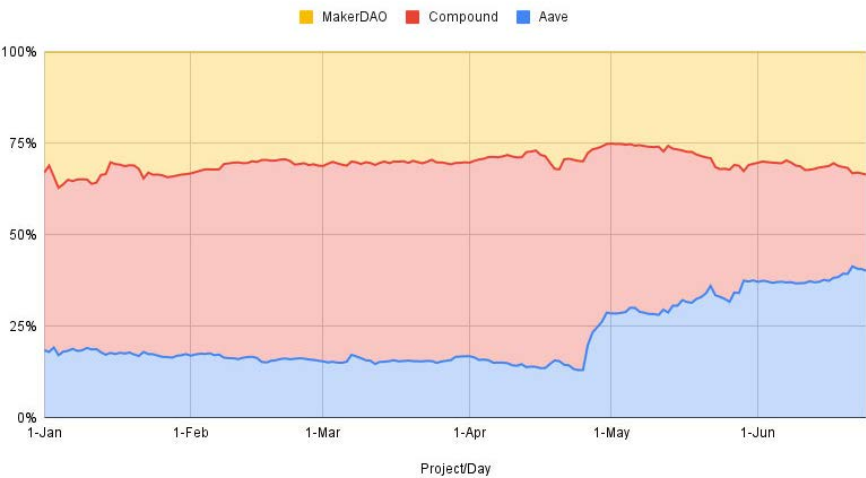
Q1 and Q2 Lending Volume



Source: Dune Analytics, KuCoin Labs

Changes in Market Shares  
of Compound, Maker and  
Aave in Q2

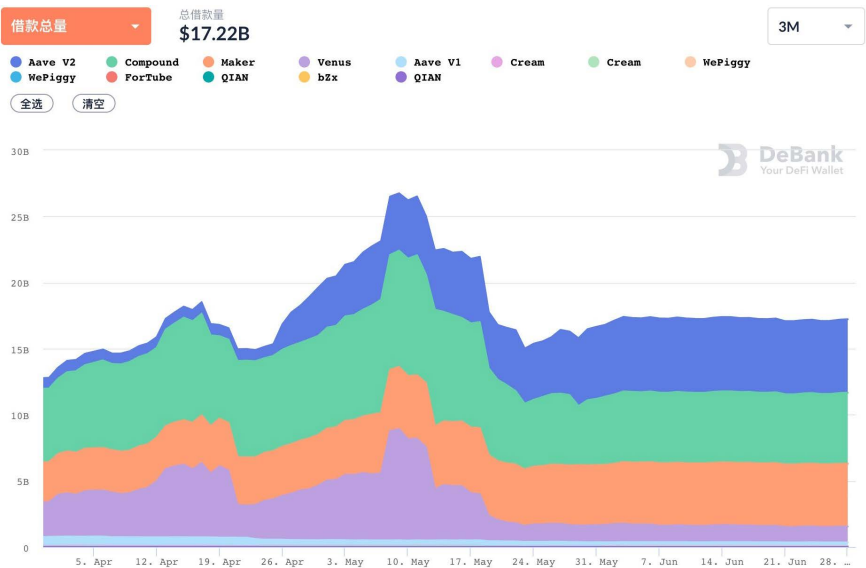
Q1 and Q2 Market Share



Source: Dune Analytics, KuCoin Labs

According to data from DeBank data, there were two significant changes in the TVL in Defi lending in Q2 2020: one slump and one rally. The analysis shows that such changes were mainly caused by safety factors, extreme market conditions and market regulation in Q2, 2021.

Changes in DeFi  
Lending in Q2



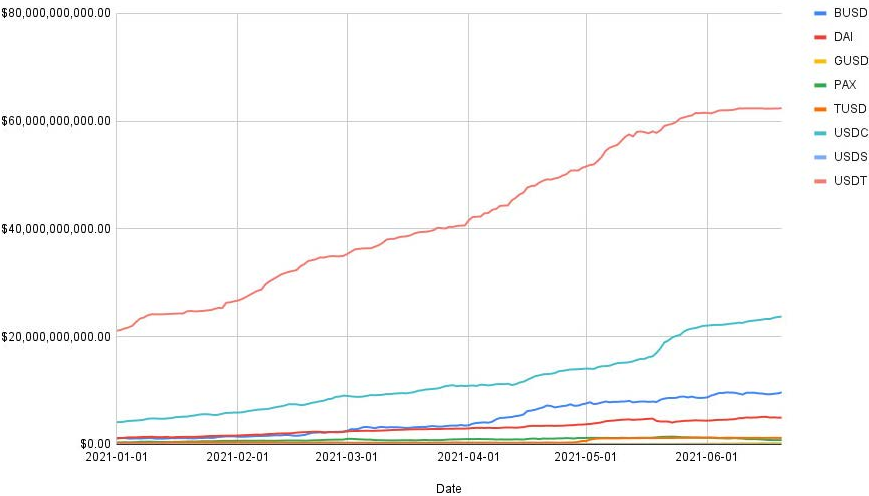
## 2.2 Stablecoins

“Unlike other assets, stablecoins have a special significance for the digital asset industry. Stablecoins are designed to support the value measurement, storage and circulation of digital assets based on the decentralized systems in the blockchain network to maintain value stability.”

In the stablecoins market in the first half of 2021, USDT still had a dominant advantage. As at June 29, 2021, USDT had a market value of over \$62.863 billion, with its shares representing about 64.2% of the total shares in the market in Q2. USDC came in second, with a market value of \$25.375 billion and shares representing about 19.7% of the total shares in the market. BUSD came in third, with a market value of about \$10.077 billion and shares representing about about 8.9% of the total shares in the market. Each of the rest stablecoins had a market value lower than \$5 billion.

Circulation of Stablecoins  
in the First Half of 2021

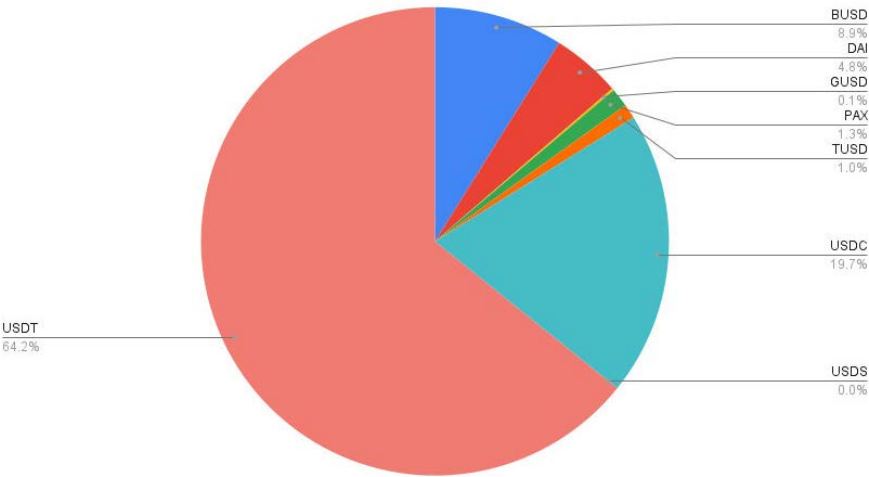
Q1 and Q2 Stablecoin Marketcap



Source: KuCoin Labs

Market Shares of Stablecoins  
in Circulation in Q2 2021

Stablecoins Marketshare Q2



Source: KuCoin Labs

## Ranking of Stablecoins

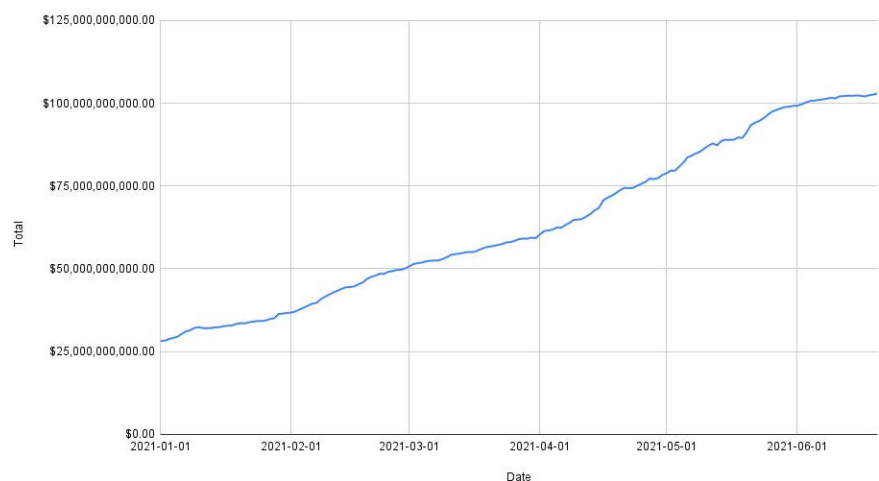
#	Coin	Price	24h Volume	Exchanges	Market Capitalization	30d - Last 30 Days Circulation
1	Tether USDT	\$1.00	\$62,309,059,011	376	\$62,863,313,354	2.3%
2	USD Coin USDC	\$0.999339	\$2,227,228,907	233	\$25,375,033,682	14.6%
3	Binance USD BUSD	\$0.999411	\$3,968,371,266	72	\$10,077,676,630	15.7%
4	Dai DAI	\$1.00	\$518,291,994	181	\$4,964,069,067	10.4%
5	TerraUSD UST	\$0.999517	\$84,220,540	12	\$1,910,449,645	-2.9%
6	TrueUSD TUSD	\$0.998329	\$58,392,201	148	\$1,409,417,194	9.6%
7	Paxos Standard PAX	\$1.00	\$41,340,666	105	\$821,730,959	-35.4%
8	Liquity USD LUSD	\$1.01	\$8,502,905	5	\$747,687,876	3.3%
9	HUSD HUSD	\$0.997294	\$60,493,638	21	\$606,122,468	-32.1%
10	Neutrino USD USDN	\$0.998014	\$14,742,772	14	\$388,559,430	10.3%

Source: CoinGecko

The total number of stablecoins in circulation during the first half of 2021 still maintained an upward trend, growing by 260% from over \$28 billion at the beginning of the year to over \$100 billion at the end of Q2. The frequent issuance of stablecoins was partly due to the global economic situation and the market sentiment for digital assets. In 2020, a coronavirus pandemic broke out and kept spreading and escalating, seriously impacting major economies around the world and leading to greater economic uncertainties. The bull market only lasted for several months in 2021. In the face of the unexpected extreme market conditions and increasingly stringent market regulation, investors were more concerned about asset stability and risk avoidance. The needs for risk circumvention and value transfer led to growing demand for stablecoins.

## Growth of Total Stablecoins in Circulation in the First Half of 2021

Q1 and Q2 Total Circulation of All Stablecoins



Source: KuCoin Labs

## 2.3 Derivatives

The derivatives projects mainly cover synthetic assets, insurance and market forecasting categories, etc. The DeFi boom in 2020 also boosted the development of the derivatives market. In 2021, when DeFi entered a stable growth stage, many DeFi derivatives projects started to seek combination with NFT in search of a breakthrough point for the next boom. According to data from DeFi Pulse, in Q2 2021, the TVL in derivatives was \$3.313 billion on April 1. It fluctuated around \$3.5 billion from April to mid-May, and peaked at \$4.141 billion on May 19, the highest value in the latest one-year period. Then, affected by the extreme market conditions, the whole market began to calm down, and the TVL in DeFi derivatives started to make a downward turn to hit the bottom at \$29.59 million on June 19. As at June 29, the TVL in derivatives was \$1.888 billion, suggesting a fall of as high as 43.01% in Q2.

Changes of TVL in  
Derivatives in Q2

### Total Value Locked (USD) in Derivatives

[TVL \(USD\)](#) | [ETH](#) | [BTC](#)

All | 1 Year | [90 Day](#) | 30 Day

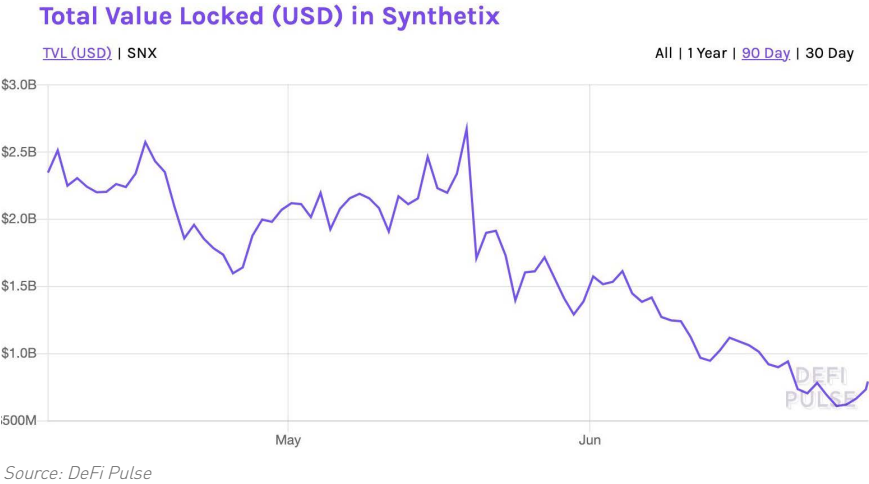


Source: DeFi Pulse

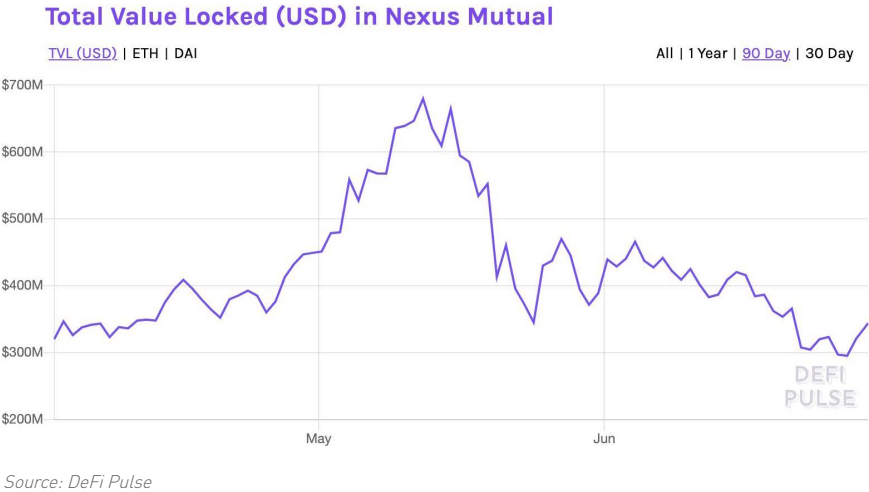
In terms of composition of the derivatives ecology, synthetic asset projects were dominant, followed by insurance projects and forecasting projects. On June 29, the TVL in derivatives was \$1.888 billion, among which the TVL in Synthetix, a synthetic asset project, was \$793 million, accounting for about 42% of the TVL in the derivatives market, far exceeding the shares of other derivatives projects. This suggested the leading position of Synthetix in derivatives projects.

From the overall trend of Synthetix TVL, it can be seen when the TVL in the derivatives market reached ATH at \$4.141 billion on May 19, Synthetix TVL also reached ATH at \$2.671 billion. The consistency between the two suggests that the changes of Synthetix TVL could determine to a large extent the changes of the entire derivatives market. At the same time, the sharp drop of Synthetix TVL at the end of Q2 also directly led to a drop of the TVL in the entire derivatives market.

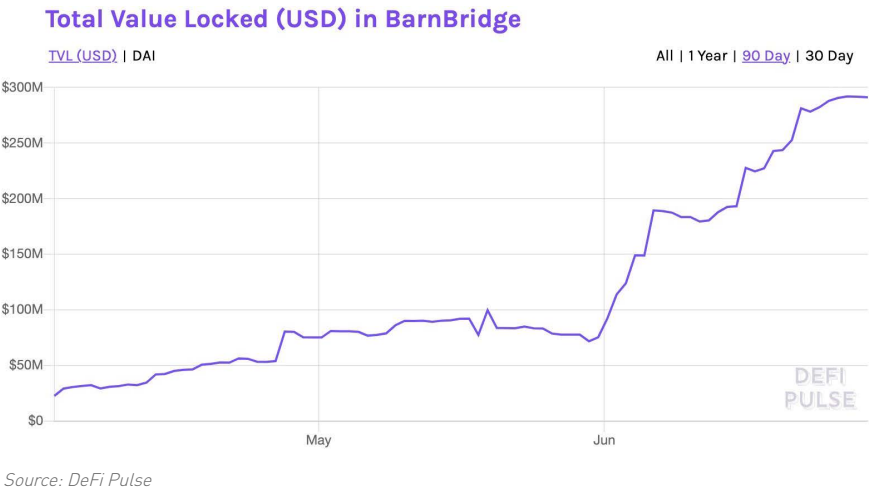
Changes of Synthetix  
TVL in Q2



Changes of Nexus Mutual  
TVL in Q2



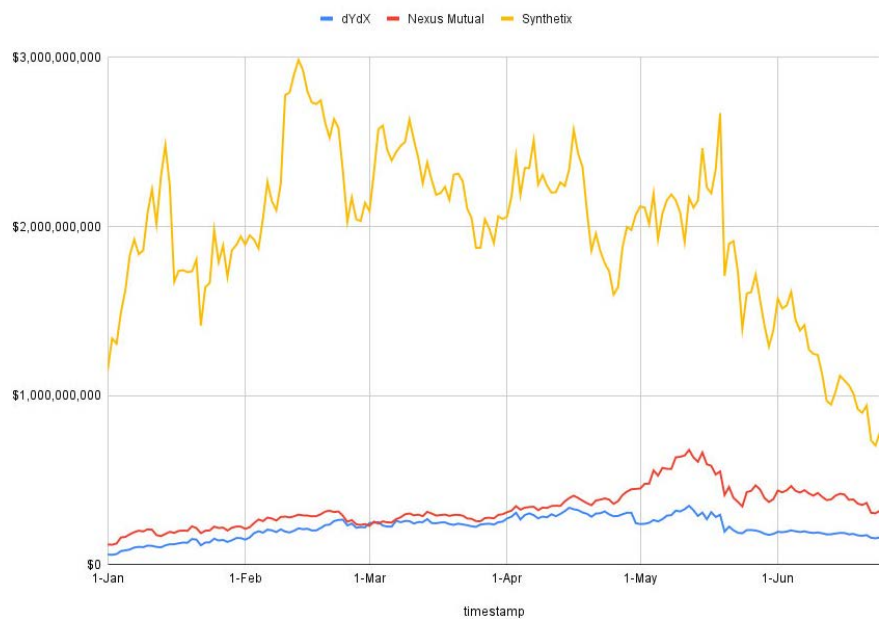
Changes of BarnBridge  
TVL in Q2



Besides, the insurance project Nexus Mutual, forecasting project BarnBridge and derivatives trading platform DydX also performed well as top five projects. Relevant data on June 29 suggests that the Nexus Mutual TVL was slightly lower than Synthetix TVL, standing at \$343 million, accounting for 18.16% of the TVL in the entire derivatives market. BarnBridge TVL stood at \$290 million, with a market share of 15.36%. DydX TVL recorded \$170 million, with a market share of 9%.

Changes of LTVs in  
Leading Derivative  
Projects in Q2

Top 3 Derivatives Projects TVL Q1 - Q2



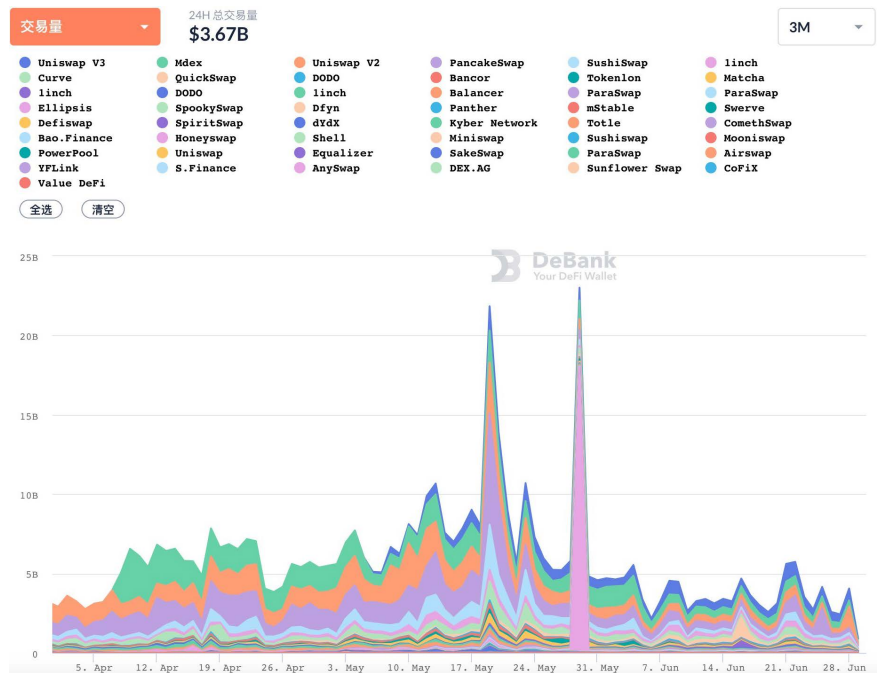
Source: DeFi Pulse, KuCoin Labs

## 2.4 DEX

Decentralized exchange (DEX) faced many problems like poor liquidity and poor user experience when it just emerged in 2019. After two years of development, DEX has become a main growth point for DeFi industry, one of the most attractive fields in DeFi market, and a non-negligible rival for all centralized exchanges.

Compared with 2020, DEX's total trading volume saw a huge increase in the first half of 2021, and hit a record high of \$20 billion in mid-May. According to data from DeBank, on May 29, 2021 the total trading volume on DEX's main platform reached as high as \$23 billion, up 126% compared to \$2.9 billion at the beginning of Q2 (01/04/2021).

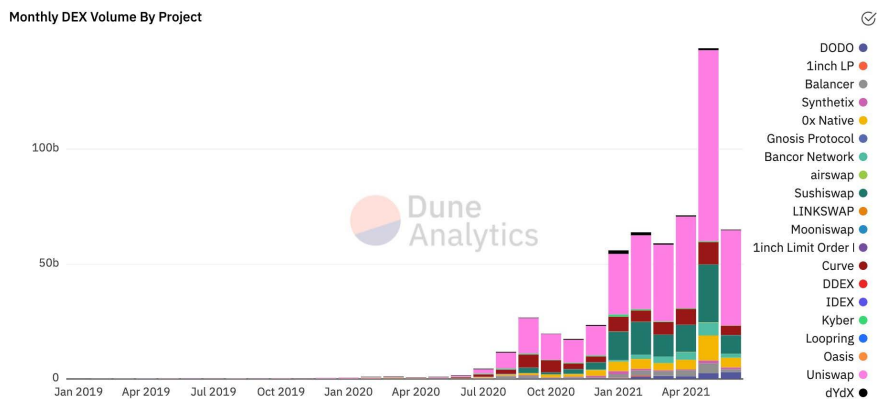
Total Trading Volume  
in DEX Market



Source: DeBank

In Q2, Uniswap had the most impressive performance, with a market share of about 50%, followed by Sushiswap, Curve, 0x Native, Balancer and DODO. As at June 29, the total trading volume on DEX was about \$4.05 billion, down by about 82.39% compared with the peak value of \$23 billion in Q2, while up by about 39.66% compared with \$2.9 billion at the beginning of Q2. Uniswap maintained a very strong leading edge, with a market share of more than 50%.

Shares in DEX Market



Source: Dune Analytics

According to DEX-related data, Uniswap's leading position was largely due to the launch of Uniswap V3. "Uniswap V3 adds the granularity control feature based on the constant product curve  $x*y=k$ , so liquidity providers may choose to deploy funds in the most frequent trading range to realize centralized liquidity and higher fund utilization. Uniswap V3 creates ERC-721 contracts for positions of liquidity providers. Unlike Uniswap V2's fungible liquidity, V3 liquidity consists of liquidity across a series of different ranges, and the liquidity provided by LP exists in the Uniswap V3 system in the form of non-fungible tokens (NFT)."

Uniswap V3 has kept a good performance since it was launched on May 5. On May 19, about a half month after its debut, the trading volume on Uniswap V3 rocketed \$2.42 billion, showing its popularity among users.

#### Changes in Trading Volume on Uniswap V3



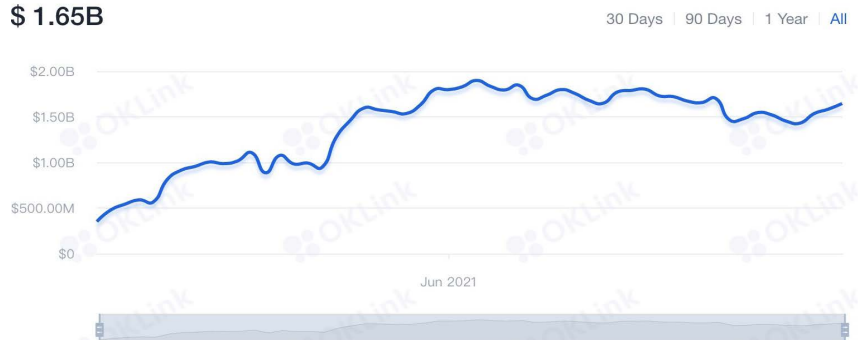
Source: Nomics

Now let's take a look at the Uniswap V3 TVL and the transaction fee these two important indicators. According to data from OKLink, the Uniswap V3 TVL has been on quick rise since it was launched. On its launch day, the TVL hit \$35.139 million, with the maximum value of up to \$1.9 billion. Fig.23 shows the transaction fees for cryptocurrency projects, from which, we can see Uniswap V3 ranks third, indicating it is very popular. Fig.24 shows the changes in transaction fees since the launch of Uniswap V3, with the maximum amount of \$7.14 million occurring on May 19.

#### Changes of Uniswap V3 TVL











总锁仓量 交易量

Uniswap V3 总锁仓量  
**\$ 1.65B**



Source: OKLink

### Transaction Fees for Cryptocurrency Projects

Name	▼ 1 Day Fees	7 Day Avg. Fees
 Ethereum	\$4,680,393.39	\$5,295,147.25 ▼
 Uniswap V2	\$2,501,170.96	\$1,390,977.34 ▼
 Uniswap V3	\$1,972,286.17	\$1,883,084.40 ▼
 Bitcoin	\$1,784,331.00	\$1,447,486.14 ▼
 Binance Smart Chain	\$1,074,858.68	\$1,081,451.04 ▼
 Aave	\$792,025.26	\$721,932.78 ▼
 SushiSwap	\$612,273.90	\$746,937.61 ▼
 Compound	\$446,571.33	\$308,252.72 ▼
 Quickswap	\$394,468.14	\$455,947.57 ▼
 Synthetix	\$270,929.33	\$205,574.66 ▼

Source: Crypto Fees

### Changes of Uniswap V3 Transactions Fees



Source: CryptoFees

Fig. 25 shows the major trading pairs with the largest TVLs on Uniswap V2 and Uniswap V3. It can be seen that LP provided the most liquidity for transactions among USDC, ETH and stablecoins, which is quite different from Uniswap V2. "Uniswap V3 adopts multilevel fees, with the lowest fee for transactions between stablecoins. In the meantime, the price variation for transactions between stablecoins is very small, so it is unlikely that LP will suffer unexpected losses. Moreover, through granularity control for concentrated liquidity, the capital utilization can be improved. This is particularly notable for stablecoin trading pairs. So Uniswap V3 is very friendly to transactions between stablecoins and has also attracted many LPs to provide liquidity to it."

Top Trading Pairs on  
Uniswap V2 and Uniswap V3



Source: Uniswap website, KuCoin Labs

As a DEX operating on the main network of ETH, Uniswap V3 may improve the capital utilization of LP, but is still subject to the restriction of performance and Gas fee. Therefore, Uniswap V3 also plans to deploy a Layer 2 solution called Optimism, to reduce the Gas fee and improve user experience.

The liquidity provision strategy is key to Uniswap V3 in future competition. In making strategies, LP needs data on historical price fluctuations, data on liquidity that the LP has provided, and a method for resetting price ranges. Compared to Uniswap V2, Uniswap V3 can achieve greater returns through a more refined and complicated strategy. Of course, this also means that with a poorly selected strategy, LP returns will fall below the market average, with the capital utilization rate even lower than that under Uniswap V2. The development prospect for Uniswap remains to be seen.

## 2.5 Summary

Year 2020 is a booming and historic year for DeFi. In 2021, we witnessed the transition of DeFi from boom, to cooling down, and then to rational development. In this year, DEX, stablecoins and lending projects in DeFi ecology had the most impressive performance, achieving a substantial growth amid the market turbulence. Meanwhile, the derivatives market also showed great potential, gradually transiting from traditional financial models to combination with NFT, to constantly explore new economic models. With the steady increase of users, DeFi will surely continue its upward trend, and bring us more surprises by opening up more economic models.

# 4.

## Analysis of NFT performance in Q2

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- ① Overview of NFT market
- ② NFT ecological performance

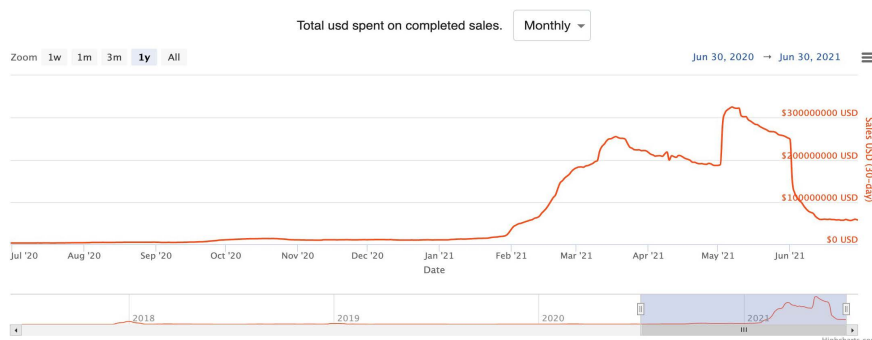
# Analysis of NFT performance in Q2

## 1 Overview of NFT market

"NFTs are essentially digital tokens of intellectual property on a flowing chain." The intellectual property tokens can be artworks, collectibles, game items, music, videos, credit points or special privileges, etc. The rapid growth of NFT market is inseparable from the development of the NFT art market, and the influx of artists at a special time and under special circumstances. Due to the impact of the coronavirus pandemic, many artists had to move the offline trading activities online. The pandemic also changed the way people use the Internet, that is, people would be online more frequently and for longer. By returning ownership of digital IP from the platform to the creator, NFT encouraged digital artists to create more works online and trade these works through the online platforms for tangible benefits. Since then, NFTs and trading platforms came out one after another, along with NFT technologies and standards.

From the NFT USD volume we can see that the volume was stable throughout 2020, suggesting the NFT market was still in bud. However, in 2021, the USD volume increased multiple times, growing by 2073.3% from \$10.18 million at the beginning of January 2021 to \$221 million at the end of Q1. In Q2, large fluctuations were observed due to extreme market conditions and market regulation, with the highest daily volume of \$325 million, and the lowest of only \$57.76 million. As at June 30, the NFT USD volume stood at about \$59.13 million, down by 266.98% compared with \$217 million at the beginning at Q2.

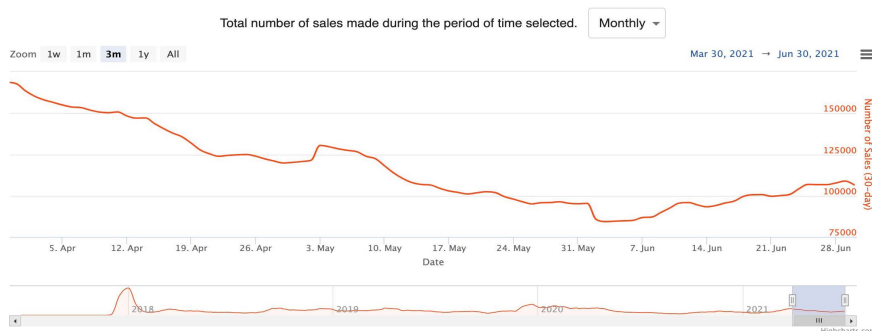
NFT USD Volume  
Over the Past Year



Source: NonFungible

The total number of trades in NFT market also declined. According to data from NonFungible, the trade number stood at 167,836 on April 1, 2021, then, dropped all the way till a rebound in June, and ended at 106,543 on June 30, down by about 36.51%.

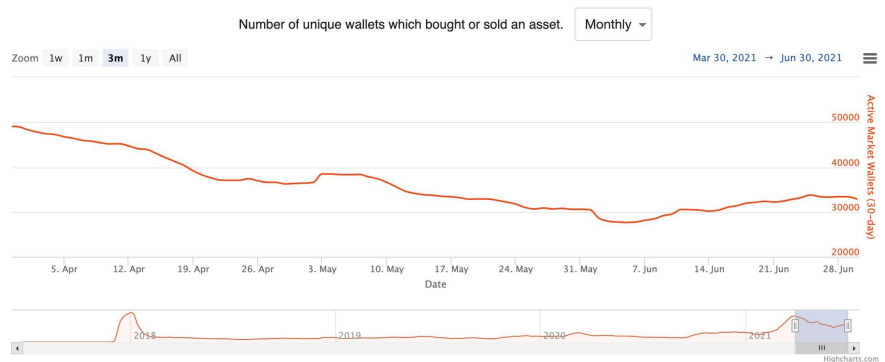
Number of Trades in  
NFT market in Q2



Source: NonFungible

The number of active wallets may somewhat indicate the vitality of the NFT market. Theoretically, a higher number of active wallets suggests a higher number of active users. As it is usual for one person to hold multiple active wallets, consideration should be given to the wallet reuse rate when incorporating relevant indicators. The number of active wallets in Q2 2021 followed the trend of the trade number in NFT market, that is, it fell all the way down from the beginning of Q2 till a rebound in June. The number of independent active wallets peaked at 48,355 on April 1, and then dropped by 42.8% to hit the bottom at 27,658 on June 5.

Number of Active  
Wallets in NFT  
Market in Q2



## 2 NFT ecological performance

NFT ecology is gradually enriched during the course of development. It can be roughly divided into artworks, collectibles, games, NFT exchanges, and newly emerged social tokens and financial derivatives. The six most expensive artworks sold in NFT market in Q2 2021 are shown in Figure below. It can be seen that four of them are from the NFT collectible project CryptoPunks, and two of them are from the NFT arts project Super Rare, while these two projects have the largest shares in NFT market. Now let's take a closer look at the performance of these projects in Q2.

Six Most Expensive  
NFT Artworks sold  
in Q2

Top 6 NFT sales - Q2 2021				
Name	Total Amount from all Transactions in USD	Last sale price/ Time period	Sold Count	Unique owners
C #8010 by CryptoPunks	USD 566,344.51	USD 232,730.26	2	7
Resurrection by EBI by Super Rare	USD 201,967.55	USD 201,967.55	1	4
C #2950 by CryptoPunks	USD 327,593.35	USD 118,795.95	2	4
C #260 by CryptoPunks	USD 553,995.32	USD 119,889.60	4	5
C #9951 by CryptoPunks	USD 327,593.35	USD 118,795.95	2	4
Xcopy and eclectic method by Super Rare	USD 139,287.94	USD 109,956.62	2	4

Source: KuCoin Labs

## 2.1 Artworks

According to statistics from CryptoArt, as at June 30, 2021, there were a total of 716,093 artworks sold on NFT's seven crypto art platforms - Async Art, KnownOrigin, MakersPlace, SuperRare, Hit et Nunc, Foundation and Nifty Gateway, with the combined market value of \$617 million.

Sales on NFT's  
Seven Crypto Art  
Platforms



Source: CryptoArt

On DappRadar's sales ranking list, the NFT artwork #4247 from Decentraland occupied the first place during the past month. It was sold on June 17 for \$910,000. Psy Art #94 came in second, with a price of \$890,000. The third was from The Sandbox, sold for \$640,000.











Sales Ranking  
List During the  
Past 30 Days

最高销售额				
NFT	时间	价格	交易地址	
1 <b>Decentraland #4247</b> Decentraland	2 weeks ago	\$914.06k 1.29M MANA	0xe7...bb46	→ 0xab...2ec3
2 <b>Psy Art #94</b>	2 days ago	\$891.81k 432 ETH	0xae...2353	→ 0x99...a141
3 <b>The Sandbox 24x24 Estate</b> The Sandbox	3 weeks ago	\$648.49k 650k USDC	0x20...f46e	→ 0x61...0bd9
4 <b>CryptoPunk #8805</b> CryptoPunks	2 weeks ago	\$334.32k 138 ETH	0xd4...3bff	→ 0xe6...ad68
5 <b>Mortimer the Crypto Mysti</b>	last week	\$308.86k 158 WETH	0xc9...1caa	→ 0xfd...6716
6 <b>Commander Fluffy</b>	last week	\$247.87k 126.8 WETH	0xc9...1caa	→ 0x5e...89b9
7 <b>CryptoPunk #9749</b> CryptoPunks	3 weeks ago	\$240.37k 100 ETH	0xf3...024b	→ 0xb8...c2fc

Source: DappRadar

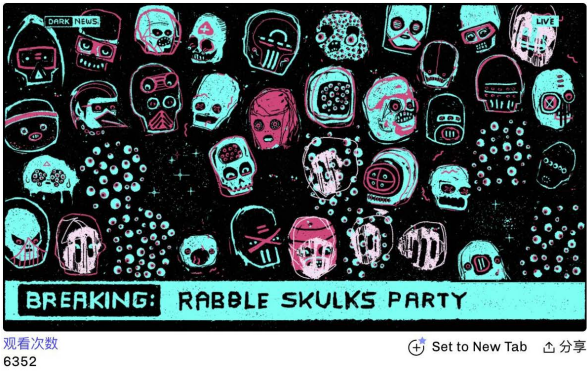
Ranking List of  
Active Artists on  
Async Art

最活跃  
艺术家

艺术家	创建的作品
 <b>XCOPY</b>	<b>76</b>
 defiantsquid	69
 Fabin Rasheed	59
 DinizBr ArtW	43
 Coldie	43
 TS Moreau	40
 Osinachi	38
 mlibty	37
 Mehak Jain	33
 fabiello	32

Source: Async Art

"The Rabble" by XCOPY  
on Async Art



Source: Async Art

大师作品  
**The Rabble**

艺术家	 XCOPY
拥有者	 TokenAngels
挂牌价格	 4444 ETH (US\$9,412,344)
投标	<input type="text" value="ETH"/>

On SuperRare, the artwork topping the price list was from artist @aee, titled "Us and Them", and was recently sold for \$34,957, or about \$340,000.

"Us and Them"  
displayed on  
SuperRare

## Us and Them

Edition 1 of 1

A surreal digital artwork created as a tribute for Pink Floyd by Ahmed Emad Eldin who is the official award-winning designer of their last album art The Endless River, Ahmed is listed by Adobe as one of the most creative visual artists under 25 worldwide. Many of his artworks has been exhibited in museums including Victoria & Albert in London, Doge's Palace in Genoa and Sotheby's Gallery in London.

#3d #3dart #abstract #color

Source: SuperRare



@aee  
Artist



@kenshiro  
Owner



75  
Favorites



3318  
Views

On Nifty Gateway platform, the highest price was paid for the video NFT work titled "shut.in #15/15". It was from the artists Wax//Wane, and was recently sold for \$351.00.

"Shut. In #15/15" Displayed  
on Nifty Gateway Platform



Contract Address: 0xc5eb86e4551dcab092ced9e4ccbaee87316788a1 Token ID: 26100010015

### shut.in #15/15



Owned by Victor Love Ministries

// "So please just let me fade away, into my fantasy, I don't care what's going on out there" // If you hodi 5 or more unique pieces when the stars change, be careful of what may awaken. // If you acquire all 10 at the beginning of the story, Be careful of what you become. // Instructions to follow on Twitter @\_waxwane //



Project:

Awakener Open Editions by Wax//Wane x Nate Hill



Created by:

Wax//Wane

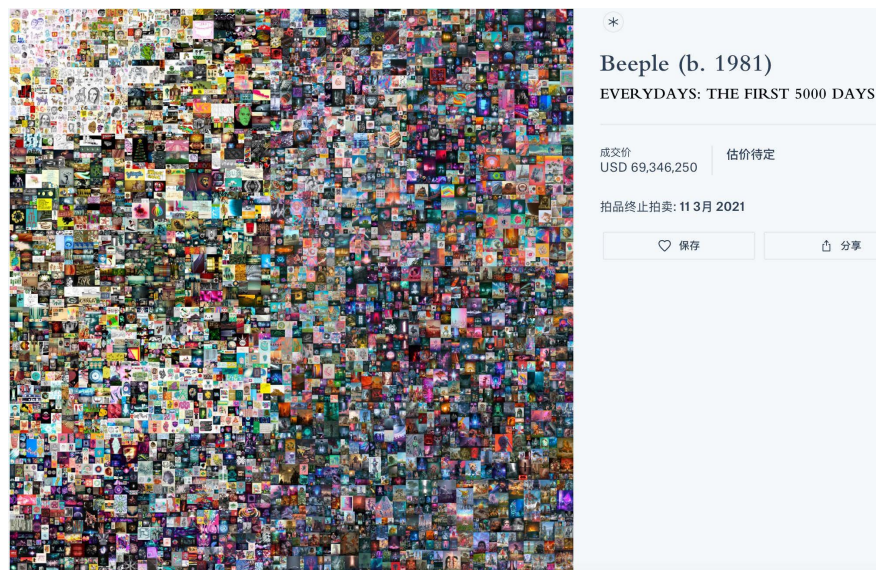
This Edition Last Sold For:

\$351.00

Source: Nifty Gateway

With the increase of crypto art transactions on ETH, the advantages of selling crypto art on ETH become more apparent, so more and more mainstream digital artists start to enter the crypto field. It can be seen that NFT artworks are becoming more diversified in forms like images, map layer overlapping and videos. Traditional artists also start to pay attention to NFTs and attempt to use NFT technology for crossover art design. For example, the artwork titled “Everydays: The First 5000 Days” from artist Beeple was sold for \$69,346,250 at Christie’s New York online auction on March 11, 2021, the third highest price for living artists, just behind works by David Hockney and Jeff Koons.

Everydays: The First  
5000 Days



Source: Christie official website

Traditional artworks have a low circulation rate, with a single work being circulated just a few times over several decades. Relying on the blockchain, the artworks may be circulated at a much faster speed and be traded around the clock. This will greatly boost the development of NFT art market. NFT art also involves art creation, but currently the NFT trading platforms mainly focus on artwork transactions, so how to expand the user acquisition channels and the user base are the challenges faced by NFT exchanges in improving the liquidity of NFT works.

With regard to the artworks as an asset, NFT is only the technical form of expression. The core value of an NFT artwork is still the artistic value of the work itself, which is also the fundamental factor determining the price of the work. As NFT technology is increasingly embraced by emerging artists, it is possible for NFT to become a key platform for digital art creation and collection in the future.

## 2.2 Collectibles

It is undeniable that NFT as a niche market is developing rapidly. When people were passionately exploring NFT art, another big sector of NFT market - NFT collectibles also got hot. In Q2 2021, the sales of NFT collectibles reached \$166 million for the first time in mid-May, and then flattened out, and stabilized between \$100 million and \$300 million.

Sales of NFT Collectibles  
in Q2 2021



Source: NounFungible

According to data from DappRadar, on the price ranking list of NFT collectibles sold during the past 30 days, the top one was from Axie Infinity, sold for \$126 million. The second was from Bored Ape Yacht Club, sold for \$43 million. The third was from NBA Top Shot, sold for \$40 million.

Price Ranking List of NFT  
Collectibles in June

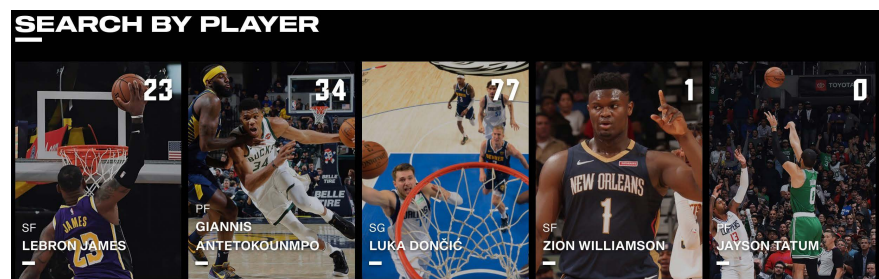
热门收藏				
收藏品		交易价格	交易者	销量
1	<b>Axie Infinity</b> ETH	\$126.8M 313.85%	67,018 239.85%	443,621 268.46%
2	<b>Bored Ape Yacht Club</b> ETH	\$43.13M 179.90%	3,151 -4.72%	5,809 -6.92%
3	<b>NBA Top Shot</b> FLOW	\$40.19M 12.85%	170,440 -11.37%	1,475,826 26.76%
4	<b>PUNKS Comic</b> ETH	\$24.02M -3.97%	1,453 -8.96%	5,797 13.60%
5	<b>CryptoPunks</b> ETH	\$18.85M -71.31%	387 -36.56%	391 -45.99%
6	<b>Sorare</b> ETH	\$11.77M -7.01%	8,906 -20.16%	51,628 -17.27%
7	<b>VeeFriends</b> ETH	\$10.43M -81.02%	547 -87.81%	626 -93.19%
8	<b>Rarible</b> ETH	\$10.31M -24.06%	9,575 16.84%	15,736 46.44%
9	<b>Art Blocks</b> ETH	\$9.38M 431.26%	2,306 172.58%	5,996 358.06%
10	<b>The Sandbox</b> ETH	\$3.99M 13.26%	1,725 9.80%	3,346 17.16%

Source: DappRadar

The price of Beeple's "Everydays: The First 5000Days" showed us the upper limit of high-end players in the market, while the prices of collectibles from NBA Top Shot and CryptoPunks showed us the potential of NFT among common players.

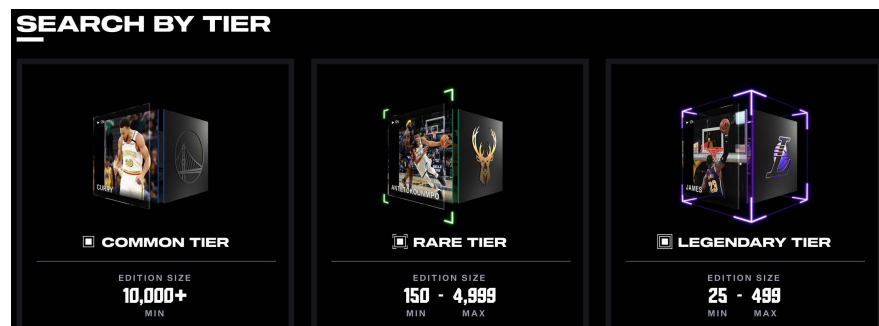
NBA TOP Shot is a blockchain-based digital collectible platform jointly developed by Dapper Labs, a CryptoKitties team, and NBA officials. This basketball-themed NFT game can present the peak moments of each match through a smooth video package. In this game, users can redeem, collect and trade NFT cards of their favorite soccer players. Simply put, NBA TOP Shot is an on-chain version of the traditional physical star cards. They only exist on the blockchain and are kept cryptographically, so they can't be forged, and can be authenticated at any time.

#### NBA Top Shot



Source: NBA Top Shot official website

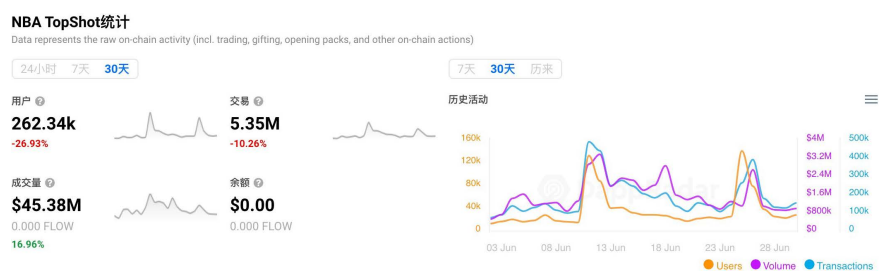
#### NBA Top Shot



Source: NBA Top Shot official website

According to data from DappRadar, during the past 30 days ended on July 1, or the entire month of June, the number of independent wallets on the NBA TOP Shot platform was 262,339, with the volume of \$5,354,863 (\$45.37 million).

#### Data about Wallets on NBA Top Shot in June



Source: DappRadar

## Ranking of NFT Trading Volumes

NBA TOP Shot launched its public beta in August 2020. According to data from the NFT collectibles statistics website CryptoSlam, as at July 1, 2021, the trading volume on the secondary market of NBA TOP Shot stood at about \$640 million, with more than 5252.24 million owners. As the most popular platform, NBA TOP Shot was followed by CryptoPunks, with the volume of about \$360 million and Axie Infinity, with \$170 million. To NFT investors, NBA Top Shot builds a new mapping and business model between the real world and the virtual world, and its success may promote the application of NFT in other fields.

# NFT Collectible Rankings by Sales Volume (All-time) ?

	Product		Sales	Buyers	Txns	Owners
1	NBA Top Shot		\$643,903,768.38	315,012	7,384,363	525,224
2	CryptoPunks		\$365,221,342.63	2,993	13,975	2,477
3	Axie Infinity		\$171,463,258.26	98,867	726,759	262,034
4	Meebits		\$69,314,683.26	1,920	4,722	4,698
5	Bored Ape Yacht Club		\$61,406,410.92	4,808	14,286	4,422
6	Hashmasks		\$51,257,584.10	3,411	12,040	4,466
7	Sorare		\$50,601,303.57	19,523	282,659	21,231
8	CryptoKitties		\$33,547,113.88	102,316	767,161	100,901
9	Art Blocks		\$31,586,763.01	2,897	18,585	5,833
10	Alien Worlds		\$23,648,971.85	260,739	3,405,113	1,454,261

Source: CryptoSlam

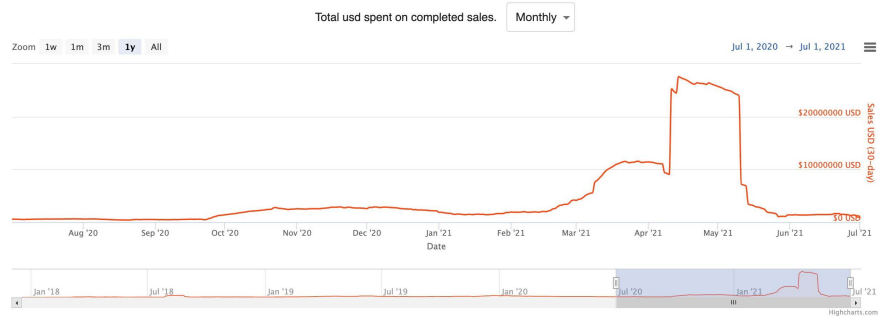
## 2.3 Games

Game props in a broad sense include game player assets. These assets have to be earned by players through playing games or to be bought. Game assets are unique and may generate usage data, and are only useful in certain scenarios.

Game props may be expressed in the form of NFT because on the one hand, they are developed and used on the chain, with their value underpinned by game scenes, and without having to go through the centralized "value going on chain" process, and, on the other hand, most game equipment and characters are unique and free for circulation, which are consistent with the attributes of NFT. Furthermore, NFT game props may be accepted and reused across scenarios and games, so the game assets are expected to become current assets in NFT ecology.

The total sales in NFT game market peaked at \$27 million in Q2, which were not at the same level as that of NFT collectibles and NFT artworks, but were the highest for NFT games since the record started.

## Sales of NFT Games During the Past Year



The activity of users in the game market showed a marked decline. The number of active wallets fluctuated around 10,000 at the beginning of Q2, and fell all the way to be around 1,500 at the end of this quarter, down by 85%.

## Number of Active Wallets in NFT Game Market in Q2



According to the ranking list of games in terms of historical trading volume as posted on NounFungible website, the top 3 games are the card game Gods Unchained (\$22 million), the pet raising game Axie Infinity (\$20 million), and the car game F1 Delta Time (\$10 million).

## NFT Games

Name	Volume 7d (USD)	Last 7d sales	Volume all time (USD)	All time sales
Watch Skins				AD
Gods Unchained	US\$5,196	24	US\$22,132,091	573,018
Axie Infinity			US\$20,151,263	328,377
F1 Delta Time	US\$137,804	181	US\$10,743,868	10,163
MyCryptoHeroes	US\$4,971	51	US\$5,120,970	56,911
MegaCryptoPolis	US\$2,318	11	US\$3,219,053	91,585
ChainGuardians	US\$4,855	6	US\$2,001,997	2,006
Hyper Dragons			US\$1,432,247	43,358
Crypto Space Commander	US\$1,370	39	US\$1,319,707	25,481

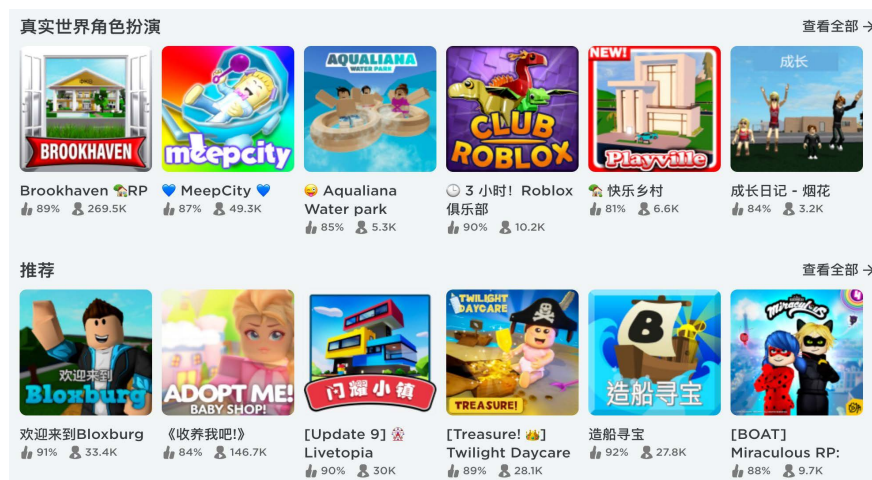
Source: NounFungible

During the current stage, NFT games are developed based on ETH, so without the support of complete or highly available infrastructure, their future development will be restricted due to ETH Gas fees and other issues, despite a huge number of prospective users.

Metaverse as new concept got hot in 2021, and because people have been divided in opinion on its classification, we temporally classify it as an NFT game. "Metaverse is one of the best fields for NFT application, where games, contents generated by users, art, finance, virtual images, multiplayer games and socialization are concepts that have tangible value to players." The Metaverse provides a perfect closed loop for doing things in the virtual world that are restricted in the real world. NFTs offer value that is similar to any tangible thing of value, and have the properties of uniqueness and scarcity. The owners possess the full ownership of NETs and may sell them to anyone. Through mapping the two properties, the unlimited potentials of NFTs may be tapped.

Take Roblox for example. Roblox is a game platform with 120 million users, aiming to create its own Metaverse. Although Roblox fits with the definition of Metaverse, it falls short in terms of immersion. In fact, all mainstream games today, including VR games, are far from Metaverse in terms of immersion, and require hard efforts in the future.

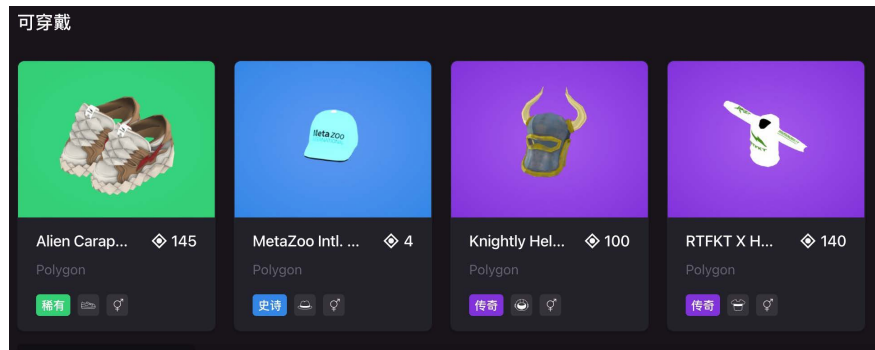
## Roblox



Source: Roblox official website

Decentraland as a 3D virtual world, is a Metaverse project meriting our attention. Based on the ETH decentralized VR platform, users may have complete control over the content environment and applications they create in the Decentraland world. This includes creating a virtual world, playing games, exploring the NFT art museums, attending live concerts, and conducting other social activities, with all the virtual land and structures on it forever belonging to the owner. Users can use cryptocurrencies and NFT features in standard web browsers, buy and sell real estate, create art museums and sell virtual artworks or build a game world. Decentraland even has a meeting space, showing that it can bring vendors a unique and creative booth experience.

## Decentraland

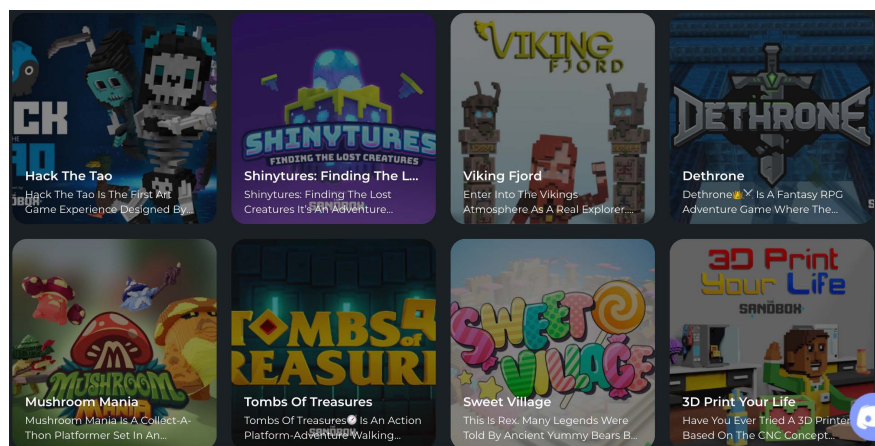


Source: Decentraland official website

The Sandbox is a virtual world where players can build, own and monetize game experiences within ETH blockchain using the utility token SAND on the platform. The game aims to create a deeply immersive virtual world in which players collaborate with each other to create a virtual world and play games without governance by the central authority, which will overthrow the existing game makers. The Sandbox intends to provide creators with real ownership over their works in the form of NFT, and reward them with SAND tokens for their participation.

The Sandbox also provides the VOXEDIT tool. VOXEDIT is an easy-to-use, powerful, free 3D Voxel modeling package, allowing users to create and animate 3D objects such as characters, animals, leaves and tools and to export them to The Sandbox marketplace as in-game assets.

## The Sandbox



Source: The Sandbox official website

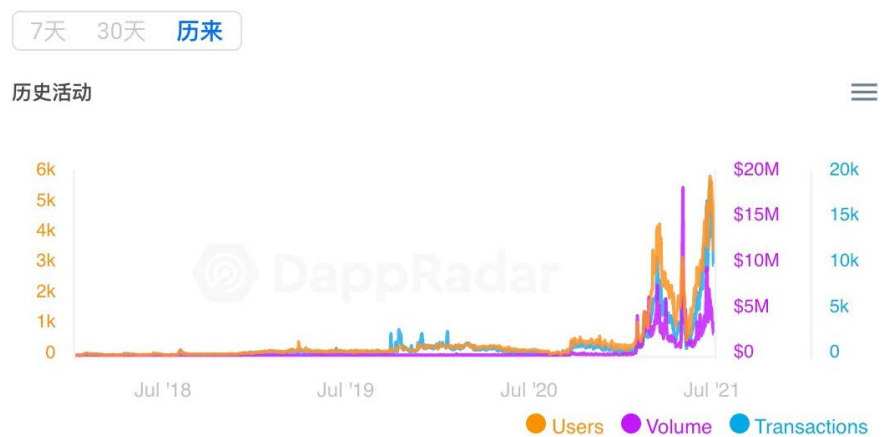
For now, games are still the best way to combine Metaverse with blockchain. Perhaps, it needs to be more accessible in the future, or we may need to seek the assistance of artificial intelligence, or to develop more hardware and software, but it is still full of potential and worth attention from every person in blockchain field.

## 2.4 NFT exchanges

Currently the well-known NFT exchanges include the comprehensive platform OpenSea, the long-standing crypto art platforms like MakersPlace, Async Art, KnownOrigin and Foundation, the community-driven open source unmanaged platform Rarible, the social networking platform SuperRare for art creators and collectors, and the first comprehensive NFT marketplace VIV3 on the composable underlying platform Flow.

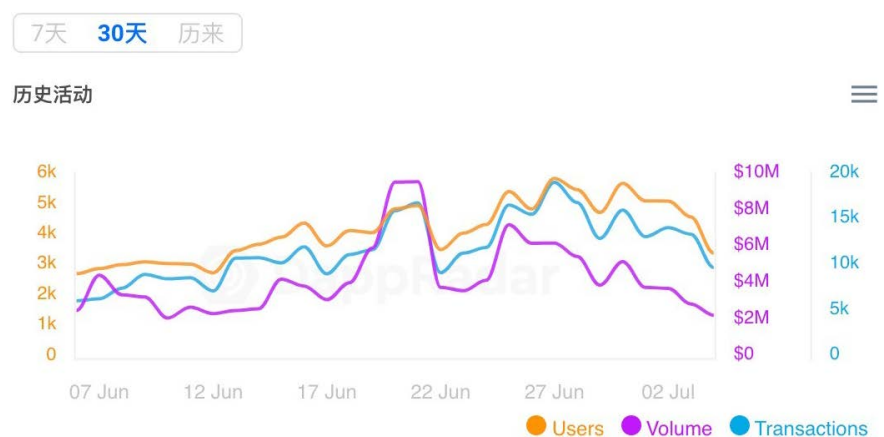
OpenSea (<https://opensea.io/>) is currently the largest NFT trading platform, covering digital artworks, crypto collectibles, game items, virtual land, domain names and other segments. In July, there were 355,576 transactions on OpenSea trading platform, with 37,409 active users, and dollar volume of about \$13.3749 million. From the trend of OpenSea's historical trading volume, it can be seen that the trading volume has grown exponentially since 2021, reflecting the boom of NFT in 2021.

OpenSea Historical  
Trading Volume



Source: DappRadar

OpenSea Transactions  
in July



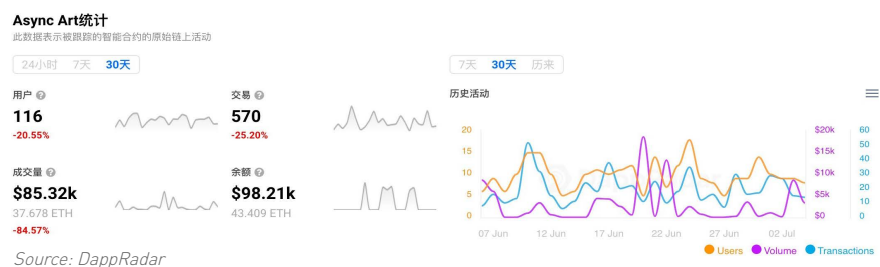
Source: DappRadar

In March 2021, OpenSea raised \$23 million in series A financing led by A16Z and joined by Cultural Leadership Fund, Ron Conway, Mark Cuban, Tim Ferriss, Belinda Johnson, Naval Ravikant, Ben Silberman and other angel investors. Compared with other NFT trading platforms, OpenSea is more “accessible”, allowing people to create and sell NFTs without paying any Gas fee. The comprehensiveness and accessibility are maybe the reason why OpenSea is so popular.

Async Art is an art trading platform. In February 2021, it announced that it had raised \$2 million in a seed round financing led by Lemniscap and joined by Galaxy Interactive, Signum Growth Capital, Semantic, Blue Wire Capital, Collab+Currency, Inflection, Divergence Ventures, The LAO and Placeholder.

In July 2021, the platform generated 570 transactions, with active users of 116 and dollar volume of about \$85,000. The biggest single day dollar volume fell on June 20 at \$18,700. For works sold for the first time on the platform, Async Art will charge 10% of the sales price as the service fee, with the remaining 90% belonging to the artist. In the second sale, the service fee charged will be reduced to 1%. Of course, the creator is also entitled to 10% of the copyright royalty. However, for custom artworks, Async Art will charge 20-30% of the sales price as the service fee, with the remaining 70-80% belonging to the creator.

#### Transactions on Async Art in July



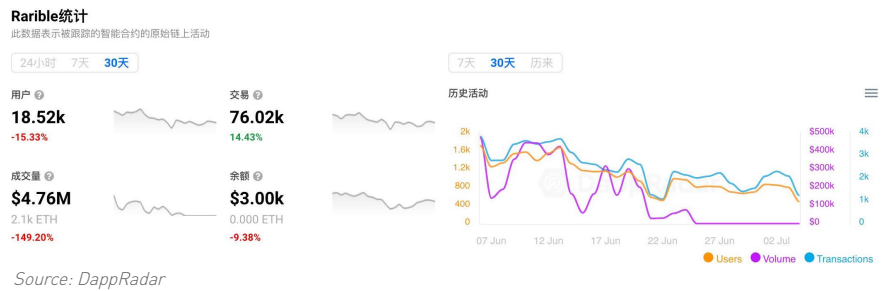
Rarible is a community-driven, open source, unmanaged platform, allowing users to create and display their own work, and to possess the NFT ownership.

In 2021, Rarible completed a seed round financing of \$1.75 million from 1KX, Coinbase Ventures, Parafi Capital and CoinFund, etc.

In July 2021, the Rarible platform generated 76,022 transactions with active users of 18,519 and dollar volume of about \$4.75 million. On the whole, the dollar volume, the number of users and the number of transactions on Rarible showed a downward trend in July. The biggest single day dollar volume was \$475,000.

Compared with other trading platforms, Rarible is more decentralized. In 2020, Rarible launched the governance token RARI. The introduction of the token greatly improved the sales process and sales conditions, and greatly enhanced the dollar volume of Rarible through the play method of “transaction fee mining”. The mint fee on Rarible is to be borne by the creator, and the copyright royalty is also set by the creator, with the default percentages of 10%, 20% and 30%. The service fee for the first sale is based on 2.5% of the sales price.

## Transactions on Rarible in July



## 2.5 Community tokens

Crypto primitives are developing rapidly. The primitive tokens representing personal and human capital, such as liquidity mining and community currency, are gaining popularity and developing towards convergence. The community token WHALE is backed by \$1 million worth of non-fungible tokens (NFT) in reserve and is currently valued at \$42.56 million. At a time when most projects were down due to the weak market, the number of WHALE holders saw a surge in June and stabilized at around 3,700 at the end of Q2. The unit price of tokens decreased by 79.42% from \$35 at the beginning of this quarter to \$7.2.

## Changes in WHALE Holders in Q2



## Fluctuations of Unit Price of WHALE Tokens in Q2



The \$WHALE token was created by WhaleShark, one of the largest individual NFT buyers in the crypto asset market. WHALE tokens are indirectly backed by WhaleShark's NFT assets. These assets are stored in the address called "Vault," which is mainly managed by WhaleShark.

From the WHALE trend, it can be seen that NFT liquidity mining has great potential, and the community is much more viscous than regular DeFi liquidity mining. The projects do not need to pursue profit-seeking capital to gain a high annual yield, as the NFTs of creators are exclusive and cannot flow into other similar NFT projects. Each additional NFT will add value to the "Vault". The NFTs are not highly liquid unless bought by someone, which will in turn increase the value of WHALE tokens. NFT liquidity mining is likely to be proved to be a more efficient growth mechanism in the short and medium terms. It remains unknown whether the Whale Vault will create a virtuous cycle, as none of the Vault's assets have been sold. The brand new community tokens have unique value capture capabilities and are evolving.

## 2.6 Financial derivatives

DeFi was one of the hottest sectors in the cryptocurrency market in 2020. During the cooling period of DeFi in 2021, the NFT market developed rapidly, with the highest single day dollar volume up to \$325 million in Q2.

DeFi and NFT are combined typically through porting of the liquidity mining model by the platform to the NFT field, such as the introduction of the NFT concept in DeFi model for the NFT decentralized platforms MEME and Avegotchi used for farming; NFT mortgage lending market NFTfi; DeFi mining projects using NFTs as collateral, such as WHALR, CARGO; the brand new concept for sustainable DeFi ecosystem, Dego; and Rarible project, which directly introduces liquidity mining to NFT platforms;

The traffic of NFT and DeFi combined applications is mainly contributed by the high returns from liquidity mining. The overall market size of NFT is about 2% of that of DeFi market, and due to the obvious heat cycle effect of the market, the trading volume is unbalanced.

NFTX, for example, is a platform that creates a liquidity market for non-fungible tokens (NFT) with poor liquidity, and may generate ERC20 tokens backed by NFT collectibles. The tokens generated by the platform are called funds and are fungible and composable. With NFTX, users can create and trade funds based on their favorite collectibles from a DEX such as Uniswap. The emergence of NFTX lowers the threshold to the NFT market and provides great convenience for people who do not want to spend time minting and trading NFTs to directly participate through the secondary market.

As at July 2, 2021, the platform had a total of 2,648 NFTs. The top five NFTX funds on the platform are listed as below. PUNK-BASIC ranked first, with the TVL of \$2,449,849, or about \$2.44 million. According to data from Dapp Radar, NFTX generated about 4,000 transactions in July, with about 418 active users, and single-day active users ranging from 15 to 39. NFTX currently has 4,868 on-chain holders. The number showed only slight changes throughout Q2, fluctuating around 4800. NFTX is an early project combining NFT with DeFi, with its holders not much affected by the market.

#### TOP NFTX VAULTS

TOP NFTX VAULTS			
VAULT	PRICE	SUPPLY	TVL
PUNK-BASIC <a href="#">↗</a> Punk-Basic	Ξ17.17	69	\$2,449,849
MASK <a href="#">↗</a> Mask	Ξ0.41	427	\$365,200
AXIE-ORIGIN <a href="#">↗</a> Axie-Origin	Ξ1.25	32	\$82,980
AVASTR-RANK-30 <a href="#">↗</a> Avastar-Rank-30	Ξ0.05	242	\$26,754
AVASTR-BASIC <a href="#">↗</a> Avastar-Basic	Ξ0.04	272	\$24,416

Source: NFTX official website

#### NFTX Data in July



Source: Dapp Radar

#### Changes in NFTX Holders in Q2



Source: CoinMarketCap

The combination of NFT and DeFi represents the development trend of the two market sectors, and is expected to bring us more surprises in the future.

## 2.7 Summary

Overall, both DeFi ecosystem and NFT market are critical to the development of the blockchain industry. In the first half of 2021, NFT market boomed, with breakthroughs made in artworks, auction houses and traditionally strong IP areas. As NFTs have been criticized for their poor liquidity and low collection value, to provide better native application scenarios and practical value, Metaverse concept (Ready Player One), NFT financialization splitting concept, mortgage lending and other Dapps were introduced, but none of them worked out well. Currently NFTs are in short supply, and in a period even earlier than that of DeFi. A complete industrial chain has not yet formed, and there is a lack of good projects. People are still exploring the potential possibility for NFTs. Coming as a surprise to the financial industry, NFTs are very likely to overthrow and transform the architecture of the traditional world, and to develop with a strong momentum in the future.

## 5.

# Impact of environmental regulation

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- ① Musk's call and the impact on prices of cryptocurrencies
- ② China's policies in Q2 and the impact
- ③ US policies in Q2 and the impact
- ④ European policies in Q2 and the impact
- ⑤ Bitcoin legalization attempt by El Salvador


## Impact of environmental regulation

After decentralized finance gained popularity, traditional financial giants started to consider virtual currencies, but so far, they have not dabbled into DeFi field. The US is relatively tolerant of cryptocurrencies. Leading companies can get the approval for listing, but on the whole, the attitude towards cryptocurrencies is conservative, so the massive adoption in the US is unlikely in the near future.

In Europe, as cryptocurrencies are often involved in terrorist attacks, political radicalization or utilized by capital interest groups, European countries have been keeping them under strict regulation. Moreover, to meet the development needs, European countries mainly focus on development of technologies at the national and enterprise levels. After the zeal for Memecoins cooled down, the credit of crypto market was damaged, with air coins and Ponzi scheme drawing widespread criticism. China has tightened its control over cryptocurrencies by banning the mining, holding and trading of them. This makes it impossible for developing the decentralized industry within the territory of China. It can be expected that a large number of teams and industries will move their projects overseas for survival, and those with weak capability in internationalization will be weeded out.

### 1 Musk's call and the impact on prices of cryptocurrencies

Musk's calls in Q2

Time	Contents	Cryptocurrencies impacted
01/04/2021	SpaceX is going to put a literal Dogecoin on the literal moon	Dogecoin
10/04/2021	... going to moon very soon	Unspecified
10/04/2021	 (Reply)	Dogecoin
15/04/2021	 (Reply)	Dogecoin
15/04/2021	Doge Barking at the Moon	Dogecoin
16/04/2021	 (Reply)	Dogecoin
17/04/2021	Everything to the moon!	Unspecified
24/04/2021	What does the future hodl?	Unspecified
27/04/2021	No, you do not. I have not sold any of my Bitcoin. Tesla sold 10% of its holdings essentially to prove liquidity of Bitcoin as an alternative to holding cash on balance sheet.	Bitcoin
28/04/2021	Yes (Reply)	Bitcoin
28/04/2021	The Dogefather SNL May 8	Dogecoin
30/04/2021	 (Reply)	Bitcoin

①

Time	Contents	Cryptocurrencies impacted
07/05/2021	I'm looking for a shiba pup!	Shiba Inu
07/05/2021	That is how I feel about it (Reply)	Dogecoin
08/05/2021	Guest starring ...	Dogecoin
10/05/2021	SpaceX launching satellite Doge-1 to the moon next year – Mission paid for in Doge – 1st crypto in space – 1st meme in space To the moooooonnn!!	Dogecoin
11/05/2021	Do you want Tesla to accept Doge?	Dogecoin
12/05/2021	🤖🤖 (Reply)	Dogecoin
13/05/2021	Tesla & Bitcoin (Tesla stops accepting Bitcoin)	Bitcoin
14/05/2021	To be clear, I strongly believe in crypto, but it can't drive a massive increase in fossil fuel use, especially coal	Unspecified
14/05/2021	Working with Doge devs to improve system transaction efficiency. Potentially promising.	
16/05/2021	Ideally, Doge speeds up block time 10X, increases block size 10X & drops fee 100X. Then it wins hands down.	Dogecoin
16/05/2021	Obnoxious threads like this make me want to go all in on Doge	Dogecoin
16/05/2021	Bitcoin is actually highly centralized, with supermajority controlled by handful of big mining (aka hashing) companies. A single coal mine in Xinjiang flooded, almost killing miners, and Bitcoin hash rate dropped 35%. Sound "decentralized" to you?  <a href="https://fortune.com/2021/04/20/bitcoin-mining-coal-china-environment-pollution/amp/">https://fortune.com/2021/04/20/bitcoin-mining-coal-china-environment-pollution/amp/</a>	Bitcoin
16/05/2021	Indeed (Reply)	Bitcoin
17/05/2021	To clarify speculation, Tesla has not sold any Bitcoin	Bitcoin
19/05/2021	esla has 💎🐶	Bitcoin
20/05/2021	How much is that Doge in the window?	Dogecoin

1

Time	Contents	Cryptocurrencies impacted
20/05/2021	Yeah, I haven't & won't sell any Doge	Dogecoin
20/05/2021	Bitcoin hashing (aka mining) energy usage is starting to exceed that of medium-sized countries. Almost impossible for small hashers to succeed without those massive economies of scale.	Bitcoin
24/05/2021	He fears the ...	Dogecoin
24/05/2021	Spoke with North American Bitcoin miners. They committed to publish current & planned renewable usage & to ask miners WW to do so. Potentially promising.	Bitcoin
24/05/2021	Spoke with North American Bitcoin miners. They committed to publish current & planned renewable usage & to ask miners WW to do so. Potentially promising.	Bitcoin
24/05/2021	Someone suggested changing Dogecoin fees based on phases of the moon, which is pretty awesome haha	Dogecoin
25/05/2021	Doge has dogs & memes, whereas the others do not	Dogecoin
25/05/2021	Please note Dogecoin has no formal organization & no one reports to me, so my ability to take action is limited	Dogecoin
01/06/2021	Sounds kinda fun (Reply)	Dogecoin
02/06/2021	... (Reply)	Dogecoin
02/06/2021	Found this pic of me as a child	Dogecoin
04/06/2021	#Bitcoin ❤️	Bitcoin
05/06/2021	👉 (Reply)	Bitcoin
05/06/2021	I pretty much agree with Vitalik	Unspecified
07/06/2021	🤔🤔 (Reply)	Dogecoin
07/06/2021	Thanks Lloyd! (Reply)	Dogecoin

Time	Contents	Cryptocurrencies impacted
13/06/2021	<p>This is inaccurate. Tesla only sold ~10% of holdings to confirm BTC could be liquidated easily without moving market.</p> <p>When there's confirmation of reasonable (~50%) clean energy usage by miners with positive future trend, Tesla will resume allowing Bitcoin transactions.</p>	Bitcoin
24/06/2021	👍👍 (Reply)	Dogecoin
25/06/2021	Oh right ... Bitcoin haha (Reply)	Bitcoin
25/06/2021	How many Bitcoin maxis does it take to screw in a lightbulb?	Bitcoin
25/06/2021	My Shiba Inu will be named Floki	Shiba Inu

## Impact on Dogecoins



Source: TradingView, KuCoin Labs

## Impact on BTC



Source: Vox, KuCoin Labs

The above picture shows that Musk's tweets have a heavy impact upon the price of virtual currencies. This is why some suspected him of manipulating the price of virtual currencies. In late February, the U.S. Securities and Exchange Commission (SEC) launched an investigation into whether Tesla CEO Elon Musk exploited the influence of his social media account to manipulate cryptocurrencies like Dogecoin. But nothing conclusive has been found so far.

## 2 China's policies in Q2 and the impact

### China's policies in Q2

Release date	Contents
May 18, 2021	China banned financial institutions and payment providers from conducting business or providing services related to virtual currency. The prohibited services include, inter alia, trading, clearing, settlement, accepting virtual currency as payment, issuing financial products related to virtual currency, and other services.
May 26, 2021	Inner Mongolia region released draft guidelines on the planned ban of crypto mining. According to the new guidelines, non-compliance with a ban may result in, among others, withdrawal from preferential policies granted by the government for big data centers and cloud computing companies, in the revocation of telecommunications business licenses, social credit blacklisting, etc.

Source: KuCoin Labs

### Impact of China's policies in Q2 on BTC price

From the policies issued by China in Q2, we can see that China's attitude towards cryptocurrencies is increasingly tough. The voice of Beijing also had a significant impact on the cryptocurrency market. Take BTC as an example. Every time Beijing issues a policy, the price of BTC would fall sharply, giving rise to the suspicion that the bearish market of cryptocurrency in June may be related to the message given by Beijing.



Source: TradingView, KuCoin Labs

### ③ US policies in Q2 and the impact

US policies in Q2

4

Release date	Contents
At the federal level	
April 20, 2021	The House passed the Eliminate Barriers to Innovation Act (April 20, 2021). The passed act requires the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) to establish a working group with the goal of clarifying in which cases the jurisdiction over a certain token belongs to SEC and in which to CFTC.
April 13, 2021	SEC's Commissioner, Hester Peirce, published an updated version of her Safe Harbor proposal for token offerings. The updated Safe Harbor proposal updates Peirce's 2020 proposal, which suggested a three-year grace period for network developers within which, under certain conditions, they can facilitate participation in and the development of a functional or decentralized network, exempted from the registration provisions of the federal securities laws. The updated proposal reflects constructive feedback provided by the crypto community and includes a number of changes, most notably, (i) a requirement for companies to provide the SEC with semi-annual updates; (ii) an exit report requirement, that is, a requirement to submit a report, made by an outside counsel, explaining whether and why the network is decentralized or functional, at the end of the grace period. The exit report requirement provides guidance on the matters to be addressed while explaining that the network is decentralized.
April 16, 2021	The U.S. District Court of the Southern District of New York has dismissed a class action lawsuit against crypto exchange Bibox alleging unregistered offering of securities. According to the lawsuit, Bibox has offered six tokens, which were allegedly securities: EOS, TRX, OMG, LEND, ELF and the native token of the platform – BIX. The Court found that the plaintiff lacked standing for bringing suit regarding tokens that were not purchased by him, and therefore his claims with regard to those tokens must be dismissed. Furthermore, the plaintiff's claims related to the BIX token were dismissed since the action was filed more than one year after the last BIX transaction made by the plaintiff, while the claims must be filed within at most one year of their accrual and thus fall outside of the relevant limitation periods.
May 28, 2021	The SEC filed an action against five individuals alleging that they promoted a global unregistered digital asset securities offering that raised over \$2 billion from retail investors. According to the SEC's complaint, from approximately January 2017 to January 2018, BitConnect used a network of promoters to market and sell securities in its "lending program." These promoters advertised the merits of investing in BitConnect's lending program to prospective investors, including by creating "testimonial" style videos and publishing them on YouTube, and received commissions based on their success in soliciting investor funds, the complaint said. The SEC's complaint alleged that these promoters offered and sold the securities without registering the securities offering with the Commission, and without being registered as broker-dealers with the Commission, as required by the federal securities laws.
May 5, 2021	Kraken was ordered to provide information on users who made crypto transactions exceeding the equivalent of more than \$20,000 in a year. A federal court in northern California authorized the Internal Revenue Service (IRS) to serve a "John Doe summons" on Payward Ventures Inc., and Subsidiaries d/b/a Kraken (Kraken) seeking information about US taxpayers who conducted at least the equivalent of \$20,000 in transactions in cryptocurrency during the years from 2016 to 2020.
May 13, 2021	Binance is under investigation by the IRS. According to reports from Bloomberg, Binance Holdings Ltd. is under investigation by the Justice Department and the IRS. As part of the inquiry, officials who probe money laundering and tax offenses have sought information from individuals with insight into Binance's business, the report said.

Release date	Contents
May 20, 2021	US Treasury has proposed to impose on businesses (including crypto exchanges, custodians, payment providers, and financial institutions) an obligation to report to IRS crypto transactions over \$10,000. The proposal was introduced as part of the US Treasury's "The American Families Plan Tax Compliance Agenda", according to which it is assumed that the proposal will become effective for tax year 2023.
At the state level	
April 5, 2021	Wyoming has passed a new law legalizing online sports betting in the state, with gamblers able to fund their accounts with bookmakers using cryptocurrencies. House Bill 133, which was signed into law on 5 April 2021 (with new guidelines expected to take effect from 1 September 2021), recognizes cryptoassets as suitable means of making deposits into online sports betting accounts.
April 21, 2021	Wyoming passed a new law recognizing decentralized autonomous organizations (DAOs) as limited liability companies. The new law (Bill 38) will take effect on July 1, 2021, allowing DAOs to be incorporated in Wyoming as limited liability companies (LLC). Under the new law, a DAO is a limited liability company that must be registered in the state and whose articles of organization contain a statement that the company is a decentralized autonomous organization. The law further recognizes that DAO LLCs can either be "member managed" (managed by its members) or "algorithmically managed" (managed by smart contracts) and imposes certain provisions accordingly. For example, the law says that if the DAO LLC is algorithmically managed, the ability to update, modify or otherwise upgrade the underlying smart contract must be in place.
May 7, 2021	The Office of the Attorney General of the State of New York (OAG) sought to immediately halt Coinseed operations. In February, the OAG filed a lawsuit against Coinseed, claiming that it defrauded thousands of investors, but, since that time, Coinseed and its CEO have continued their fraud, said the OAG. On May 7, 2021, the OAG filed a motion asking the court for a temporary restraining order, a preliminary injunction, and the appointment of a receiver to immediately block Coinseed and its CEO from making any further unauthorized trades and safeguarding investors' monies.
May 25, 2021	Nebraska has passed a law creating a digital asset banking charter. The new law (Legislature Bill 649) authorizes digital asset depository entities and provides for the charter, operation, supervision, and regulation thereof. Texas passed a law, aimed at providing a legal framework and clarity for companies dealing with cryptoassets (June 5, 2021). The bill relating to the control of virtual currency and the rights of purchasers who obtain control of virtual currency for purposes of the Uniform Commercial Code (House Bill 4474), defines the term "virtual currency" and applies key commercial and business laws to cryptoassets.
May 3, 2021	A new bill sought to ban crypto mining over environmental concerns. Among other things, the New York Senate Bill 6486 sought to establish a three-year moratorium on the operation of cryptocurrency mining centers and to require such mining centers to undergo an environmental impact review.
Others	
June 2, 2021	Starting from August 3, 2021, Google will only permit FinCEN-registered or chartered crypto exchanges and wallets to advertise on its network. Google has updated its financial products and services policy such that, beginning August 3, 2021, companies seeking to advertise crypto exchange or wallet services to US customers will have to be registered with the U.S. Treasury's Financial Crimes Enforcement Network ("FinCEN") as a Money Services Business and with at least one state as a money transmitter or a federal or state chartered bank entity. All prior certifications by Google will be revoked at that time.

Source: Network

### Influence of US policies on BTC price in Q2



Source: TradingView, KuCoin Labs

According to data from Elliptic, a research firm, U.S. regulators have imposed \$2.5 billion in penalties on the cryptocurrency industry since 2009. Elliptic found that the U.S. Securities and Exchange Commission (SEC) charged the foremost penalties of \$1.69 billion; The Commodity Futures Trading Commission (CFTC) came second, with \$624 million. The majority of the penalties were imposed for unregistered securities offerings and fraud.

It is in the midst of numerous fines and penalties that crypto practitioners improved the compliance of their practices with rules of regulators. Coinbase obtained a license and PayPal, VISA and Master were permitted to conduct cryptocurrency business, indicating that through making compromises, both practitioners and regulators are seeking solutions that are beneficial to the development of the cryptocurrency asset industry.

From the judicial practices and policies of the US in Q2, it can also be seen that the US is determined to gradually regulate the cryptocurrency market to pave the way for future cryptocurrency legalization.

In the foreseeable future, the US regulators may through taxes, fines, capital adequacy requirements and other indicators (such as requiring institutions to deposit BTCs in stock proportionally into the government co-governed cold wallets as insurance reserve fund), gradually bring the core participants of the decentralized industry into under the traditional regulatory framework, to ensure financial stability, and at the same time, refrain from completely restricting the development of the industry.

In terms of the policy impact, the policies introduced by the US in Q2 had no big impact on the BTC price. This is maybe because people are still optimistic about the future policies of the US.

## 4 European policies in Q2 and the impact

### European policies in Q2

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Country/ department	Release time	Contents
EU		
AML (Ireland)	April 23, 2021	Irish law requiring crypto firms to comply with anti-money laundering (AML) regulation has entered into force. The Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2021, the law transposing the fifth Anti-Money Laundering Directive (AMLD 5), has entered into force. The law requires virtual asset service providers, such as wallet and exchange providers, to comply with various AML obligations and to register with the Central Bank of Ireland.
AML (Spain)	April 27, 2021	Spain has adopted a law transposing the EU Fifth Anti-Money Laundering Directive (5AMLD) into its domestic legal system. The Royal-Decree Law 7/2021 requires virtual asset service providers, such as wallet and exchange providers, to comply with various anti-money laundering duties as well as registration requirements on various virtual asset service providers.
AML (Portugal)	April 23, 2021	Banco de Portugal issued a notice on the registration regime for entities carrying out crypto-related activities. The notice (Notice no. 3/2021) defines the terms of registration.
AML (France)	May 1, 2021	A new decree specifying AML/CFT rules which apply to digital assets has fully come into force. The new Decree (Decree No. 2021-387) has introduced new provisions with regard to obligations of natural and legal persons subject to AML/CFT rules, and with regard to procedures for monitoring compliance with such rules. The decree inter alia clarifies the existence of a ban on the use of anonymous electronic money for the purchase of digital assets, introduces an obligation to conduct customer due diligence prior to any transaction and sets procedures with regard to remote identification and combating the anonymity of transactions carried out in virtual assets or electronic money. Furthermore, the degree extends the scope of the action of the supervisory authorities to the implementation of European measures to freeze assets and prohibit provision thereof, as well as sets organizational requirements for the subject entities in that regard.
Germany	June 28, 2021	From July 1, new legislation in Germany will allow institutional investment funds — 'Spezialfonds' — to allocate up to 20% of their portfolio to cryptocurrencies. According to reports from Boersen Zeitung, the new legislation could introduce as much as 350 billion euros of institutional investment into the crypto market. Spezialfonds are similar to Luxembourg's Special Investor Funds (SIFs) and Ireland's Qualifying Investor Funds (QIFs). Such funds are typically less restrictive, more flexible and more diversified than other funds.
UK		
Securities	April 22, 2021	The Financial Conduct Authority is examining whether Binance's offering of tokens representing fractions of shares complies with securities laws. Binance has launched digital tokens designed to track the share performance of companies they represent (e.g., Tesla and Coinbase), but cost only a fraction of the price of the stock. Reportedly, the FCA is examining whether the launch of these tokens is subject to securities laws.

Country/ department	Release time	Contents
UK		
Advertisement	May 26, 2021	The UK self-regulatory body, Advertising Standards Authority (ASA), has halted an advertising campaign by Luno, a cryptocurrency exchange, for being misleading and irresponsible. Luno posted on the London Underground posters featuring a cartoon image of a Bitcoin with text saying "if you're seeing Bitcoin on the Underground, it's time to buy". The ASA said that consumers would interpret that statement as a call to action and that the simplicity of the statement gave the impression that bitcoin investment was straightforward and accessible. This is despite the fact that Bitcoin investment is complex, volatile, and could expose investors to massive losses, the ASA said. Consequently, the ASA ordered that Luno's ads must not appear again in the form complained about and that Luno must ensure that their future marketing communications make sufficiently clear that the value of investments in Bitcoin could go down as well as up and the Bitcoin market is unregulated.
AML	June 3, 2021	The FCA has extended the deadline for crypto businesses to register under its Temporary Registrations Regime (TRR) from July 9, 2021 to March 31, 2022. The TRR was established last to allow existing cryptoasset firms that applied for registration before December 16, 2020, and whose applications are still being assessed, to continue with their operations. In the extension notice, the FCA has expressed its concern that "a significantly high number of businesses" are not meeting its AML standards and noted that "this has resulted in an unprecedented number of businesses withdrawing their applications".

### Impact of European policies on BTC prices in Q2



Source: TradingView, KuCoin Labs

The legislation of the EU tends to be more conservative. As cryptocurrencies are frequently involved in terrorist attacks, political radicalization or utilized by capital interest groups, European countries have been keeping them under strict regulation.

In terms of the impact, BTC prices are more sensitive to EU and UK policies than to US policies.

The President of the European Central Bank (ECB) Christine Lagarde shared her view on El Salvador's move to make BTC a legal tender, adding that the ECB's policy on BTC and other cryptocurrencies remain unchanged. We can see that Europe as a whole is still very cautious about cryptocurrencies, and it remains to be seen whether there will be a breakthrough in the future.

## 5 Bitcoin legalization attempt by El Salvador

The most explosive news in Q2 is El Salvador's attempt to legalize Bitcoins. Nayib Bukele, President of the Republic of El Salvador declared that this country would become the World's first nation to make Bitcoin a standard legal tender.



Source: Twitter, KuCoin Labs

The move caused an uproar. To carry out this plan, the country will cooperate with countries like Chicago-based Zap Solutions Inc., whose digital wallet Strike is already being used by Salvadorans in a coastal town the crypto community has dubbed Bitcoin Beach.

However, doubts have been raised about the legalization attempt, and whether it can become an offshore financial center in the crypto world remains to be seen.

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# Summary of impacts of market conditions

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- ① In the bull and bear market
- ② DeFi and NFT as a gateway in the long term
- ③ Analysis and thoughts

## Summary of impacts of market conditions

### ① In the bull and bear market

From the bull and bear market chart of the industry compiled by Coindesk, we can see that the bull and bear cycles are getting shorter, and the BTC price keeps climbing to a new high in each bull market.



More and more traditional institutions like Micro Strategy, Visa, Paypal, Tesla, Mass-Mutual, Square, Marathon Digital Holdings and Galaxy Digital Holdings, start to invest and deal with cryptocurrencies, especially after the DeFi boom in 2020. In summary, following the market cooling off in Q2, these large institutions have no intention to exit the crypto industry and some even increased their investment. We infer that this will be an effective catalyst for the next boom of the crypto industry, and will play a role of a stabilizer for the whole industry during the subsequent declines.

### ② DeFi and NFT as a gateway in the long term

The total market value of DeFi is more than four times that of NFT. As native blockchain applications, financial applications have become increasingly mature in the entire crypto industry. NFT, as a new gateway to the crypto world, also brings an opportunity for traditional nonfinancial institutions, including brands like Adidas, Gucci, Re-Inc, James Gaubert and Phillips, and well-known traditional auction houses like Christie's and Sotheby's to enter the crypto industry.

#### Top DeFi Tokens by Market Capitalization

The DeFi crypto market cap is \$60,298, a - 8.37% decrease over the last day.

Market Cap  
\$69,021,169,850  
- 2.99%

Trading Volume  
\$5,038,728,408  
- 8.37%

#### NFT Protocols Listed By Market Capitalization

This page lists the top NFT protocols and tokens. They are listed by market capitalization with the most valuable first and then in descending order.

Market Cap  
\$16,135,459,938  
- 4.94%

Trading Volume  
\$2,715,465,333  
- 18.76%

Source: CoinMarketCap, KuCoin Labs

From the ranking of NFT projects in terms of market value, it can be seen that the top positions are occupied by projects concerning infrastructure, metauniverse, games and NFT financialization. NFT art that made the NFT track a hit during Q1 and Q2 2021 has no much trace left. The number of NFT projects focusing on traditional IP marketing and VR/AR technology development is growing. Without the support of complete infrastructure, it may take a long time for the NFT track to grow into the same size as today's DeFi. At the same time, we can see that some traditional game giants are very likely to dabble into the NFT industry. Rather than complete centralization, the NTF industry tends to be integrated with the traditional industry in the future.



Source: BitDealer, KuCoin Labs

### 3 Analysis and thoughts

After a bull and bear market cycle in Q2, the crypto market is currently at low ebb. This bull market is one of the longest bull markets in the history of the crypto industry. Instead of exiting the industry, traditional financial giants increased their investment. Regulatory policies are becoming clearer, and new users are flooding in. All these suggest that the crypto industry is more stable and sound than it was one or two years ago. Based on market data, it may be predicted that this bear market will not last long. DeFi is still expected to be the next driving force, because in the final analysis, infrastructure and exchanges are products to meet the market demand, while DeFi is the most powerful source of market demand. Non-negligibly, the rise of the NFT market this time might be the chance for quick access to this field by traditional users knowing neither finance nor encryption. Furthermore, the combination of NFT and DeFi might be the starting point for the next bull market and is worth our continuous attention.

