

In collaboration with Covalent | Issue 22 | May 7 – 24, 2021

Market Insights

46%

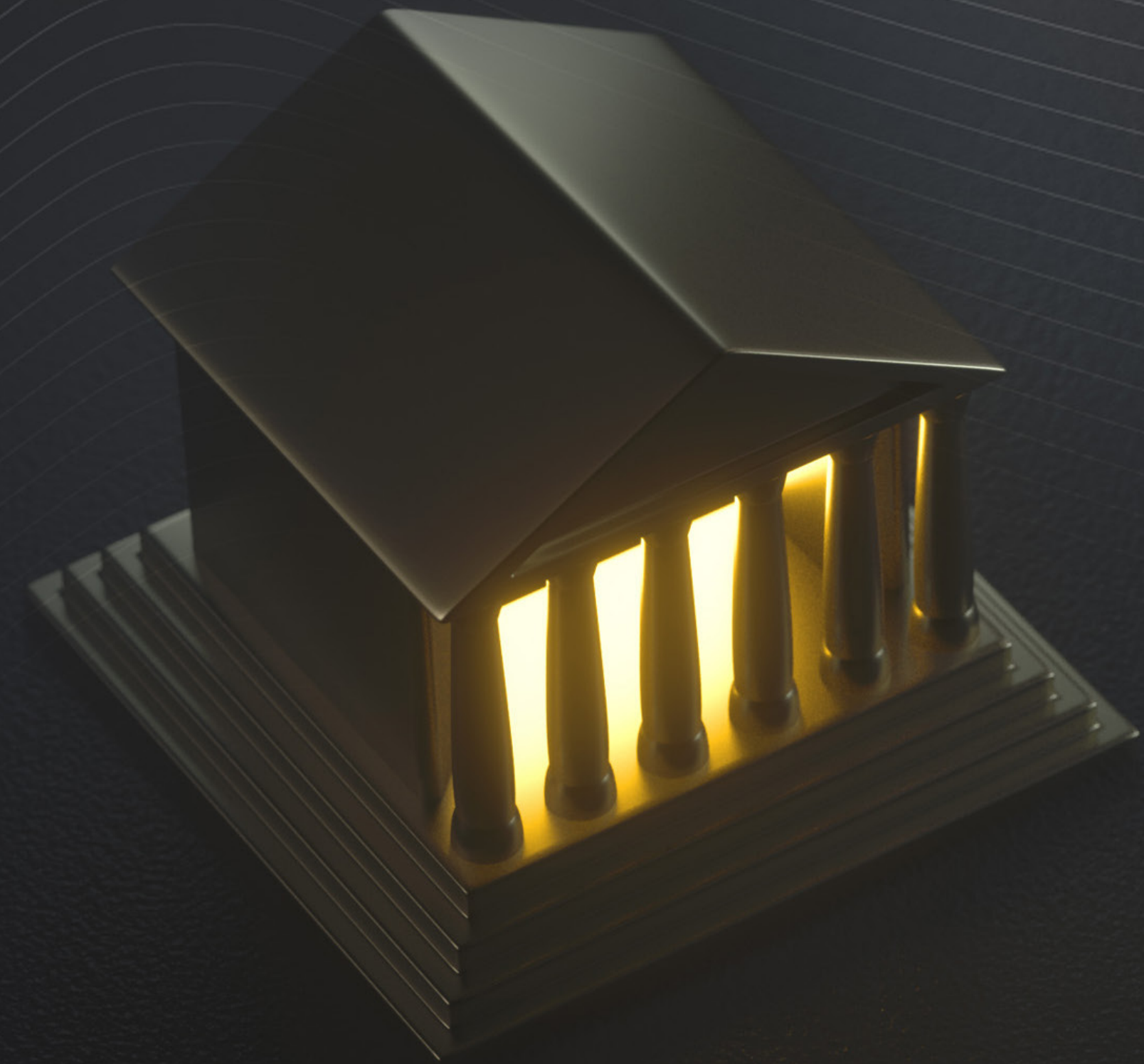
Ethereum price
decline from its
ATH on May, 12

\$38,000

the price of
Bitcoin as of
May, 24

\$158

total gas used on
gas across Aave
protocol on Polygon



Cointelegraph
Consulting

All eyes on crypto markets: major events between May 7 – 24

Key Takeaways

- What a turbulent period for crypto with so many unparalleled events packed in just two weeks. Heated discussion on Bitcoin's environmental impact triggered by Elon Musk, rising inflation, and China's ban on crypto businesses each added up to the change of the crypto market sentiment. The change led to a massive selloff of major cryptocurrencies and altcoins, with Bitcoin dropping more than 30% in the last two weeks and Ethereum experiencing a 46% plunge from its \$4,382 ATH on May, 12.
- Amid the crypto market crash and the concerns over its recovery, a dream of a Bitcoin ETF as a major investment vehicle remains unchangeable. While any of the recent ETF applications to the SEC were given a green light yet, the last two weeks revealed a new contestant for the Bitcoin ETF race: an agriculture-focused ETF provider Teucrium filed an application with the SEC. Meanwhile, Bitwise introduced a 'quasi' Bitcoin ETF, which offers exposure to companies that have significant holdings in crypto assets, mainly Bitcoin.
- In the midst of the hectic market, the gas commissions in DeFi skyrocketed, once again highlighting the value of layer-2 scaling solutions for Ethereum. In this bi-weekly newsletter we break down the numbers of Polygon, which is setting up the new standards in the DeFi industry.

VC Activities

Even the biggest drawdown of 2021 could not hold the crypto industry on its way to future growth. The companies were actively attracting venture capital, with the two fundraising deals of these two weeks making up \$276 million:

Figure Technologies, a blockchain-based lending startup, secured a \$200 million Series D round at \$3.2 billion valuation. The firm announced its plans to build up its presence in the lending sector as well as to branch out into payments with a proprietary solution.

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Copper.Co, infrastructure provider for crypto trading, raised \$50 million in Series B round aiming to expand its international operations and improve the product suite.

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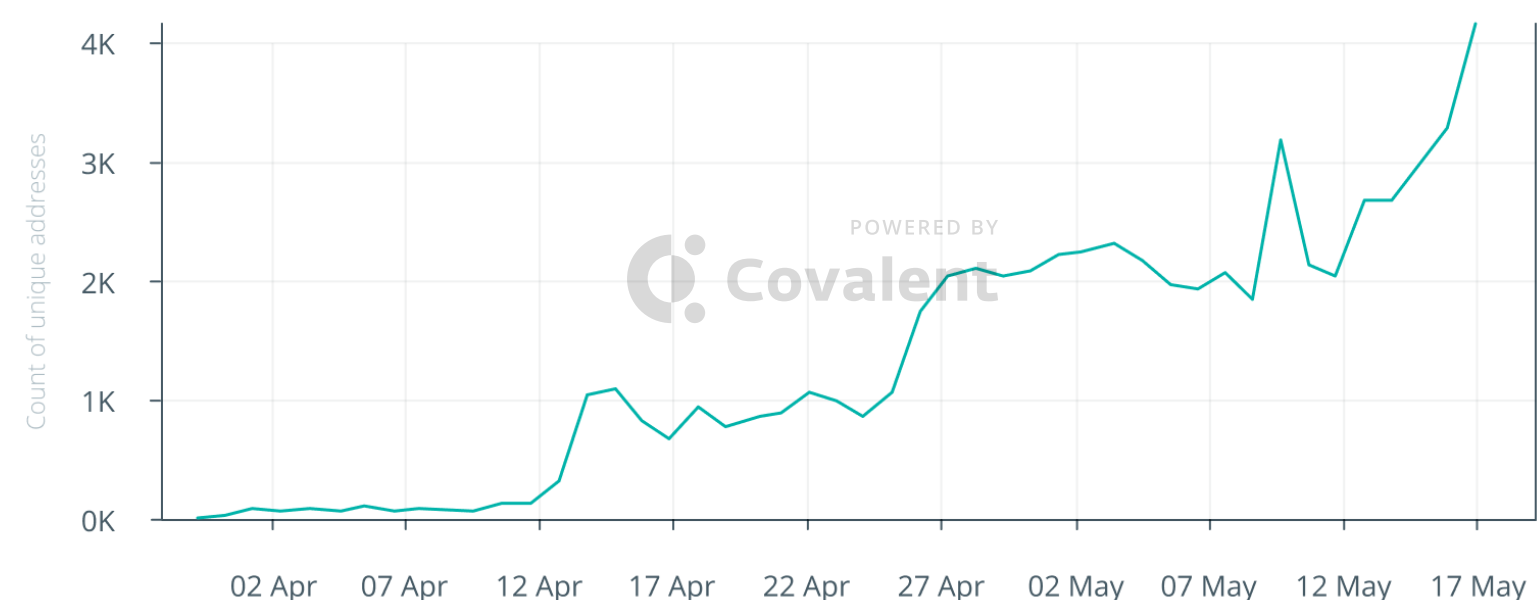
Hashdex, a Brazilian crypto asset manager closed a \$26 million round from VC industry heavyweights, including SoftBank and Coinbase Ventures, as the company announced global expansion plans.

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The rise of Polygon: strolling through the numbers

Market Analysis Usage analysis of DApps on Polygon

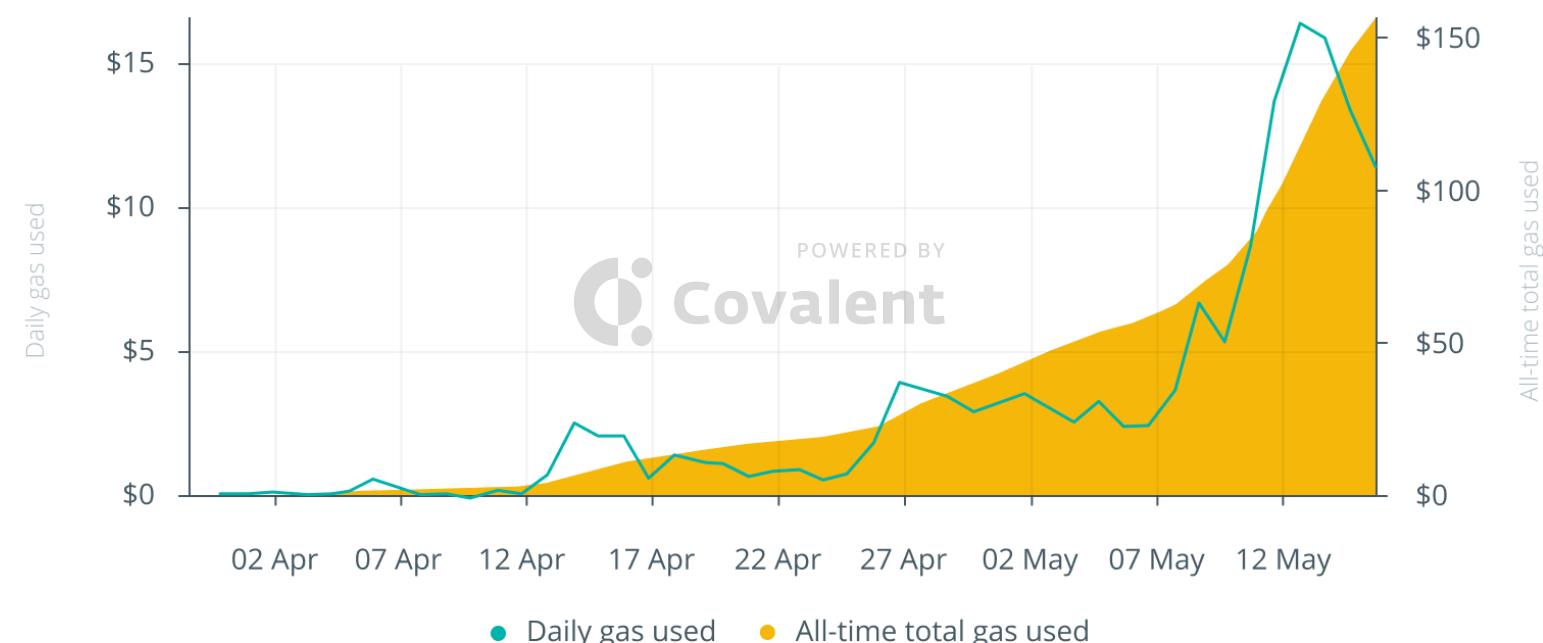
Daily unique addresses



cointelegraph.com

source: Covalent

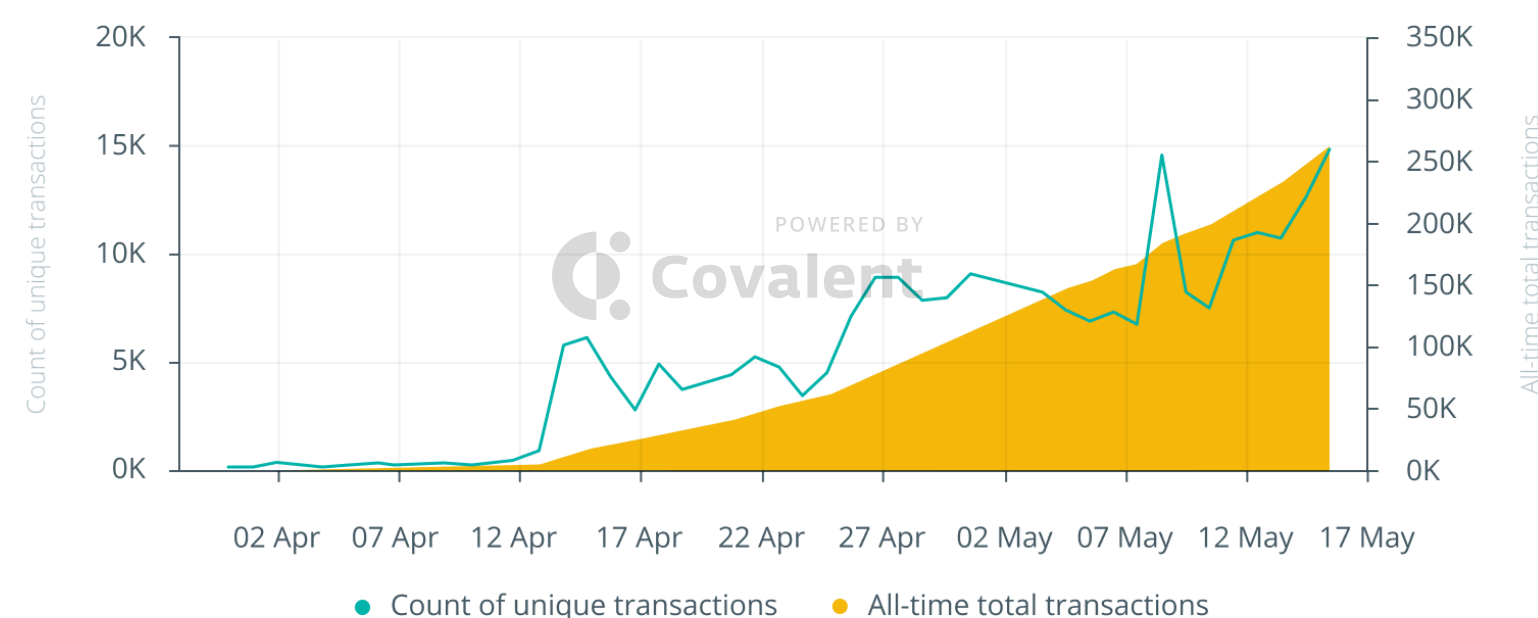
Aave's gas costs per day on Polygon



cointelegraph.com

source: Covalent

Daily transaction count for Aave on Polygon



cointelegraph.com

source: Covalent

Amid growing Ethereum congestion, layer-2 scaling solutions become an inevitable part of the ecosystem as it allows for more efficient token transfers. Such solutions are also crucial for wider embracement of DeFi products as whooping transaction fees on Ethereum mainnet may scare away many users.

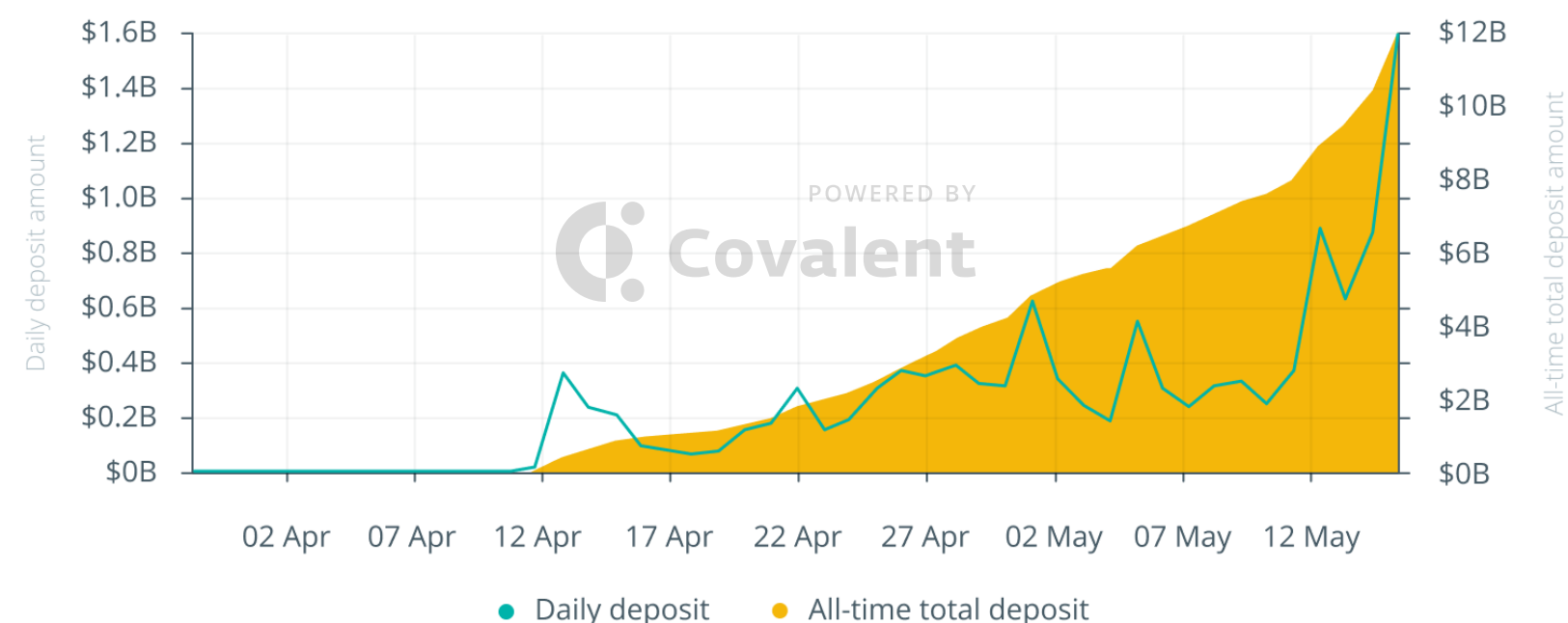
Polygon (formerly Matic) is one of the best-known scaling solutions in the crypto community. Aave, the DeFi lending giant, and DEX aggregator 1inch have both recently landed on the platform, pushing its usage up. Polygon's token, MATIC, has also seen a dramatic increase in price and even seems to survive the market crash losing only 25% of its price, while some other major altcoins plunged more than 80%.

Aave, which launched on Polygon in April, has driven the number of unique users on Polygon by 65k. The version has surpassed 350k transactions. As for the cumulative lending and borrowing rates, over \$7 billion has been borrowed and nearly \$12 billion has been deposited since the launch.

Flash loans and liquidations are also becoming more common as users take advantage of the extremely low gas costs: in fact, only \$158 has been spent on gas across the entire protocol. This is what just one user could pay for a transaction on Ethereum!

Market Analysis Usage analysis of DApps on Polygon

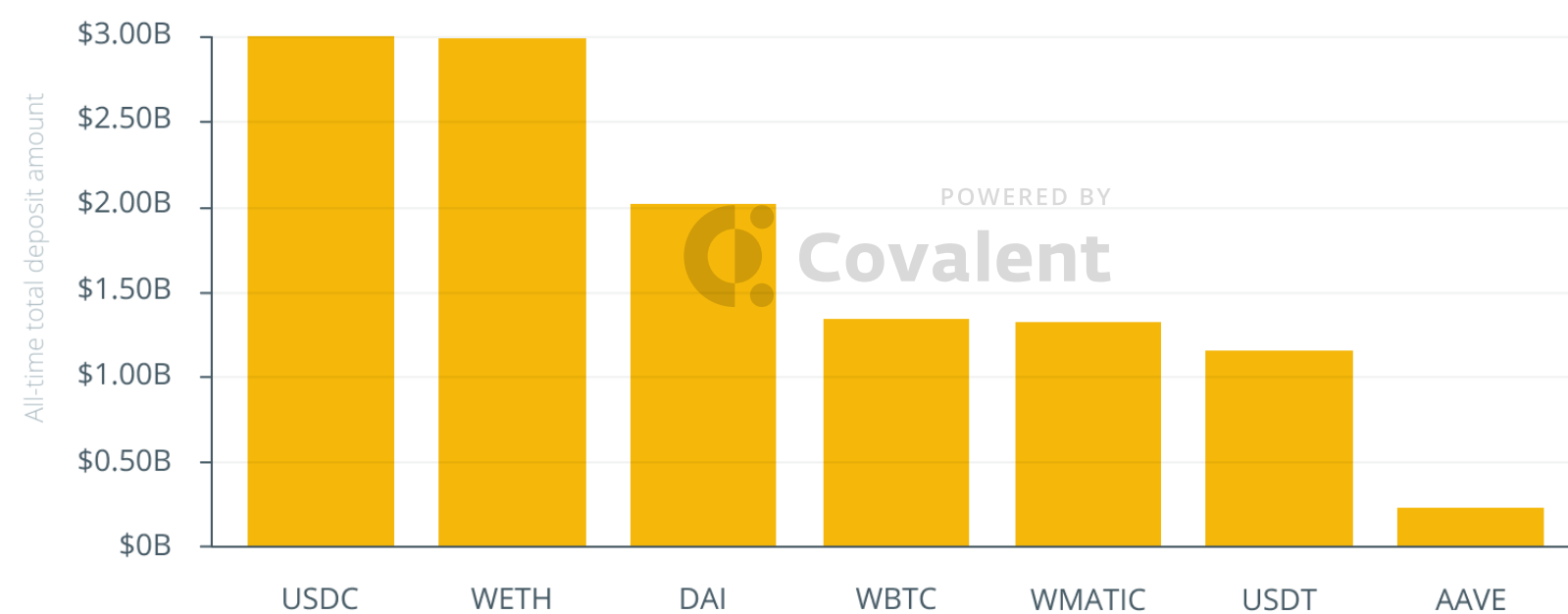
Daily deposit



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source: Covalent

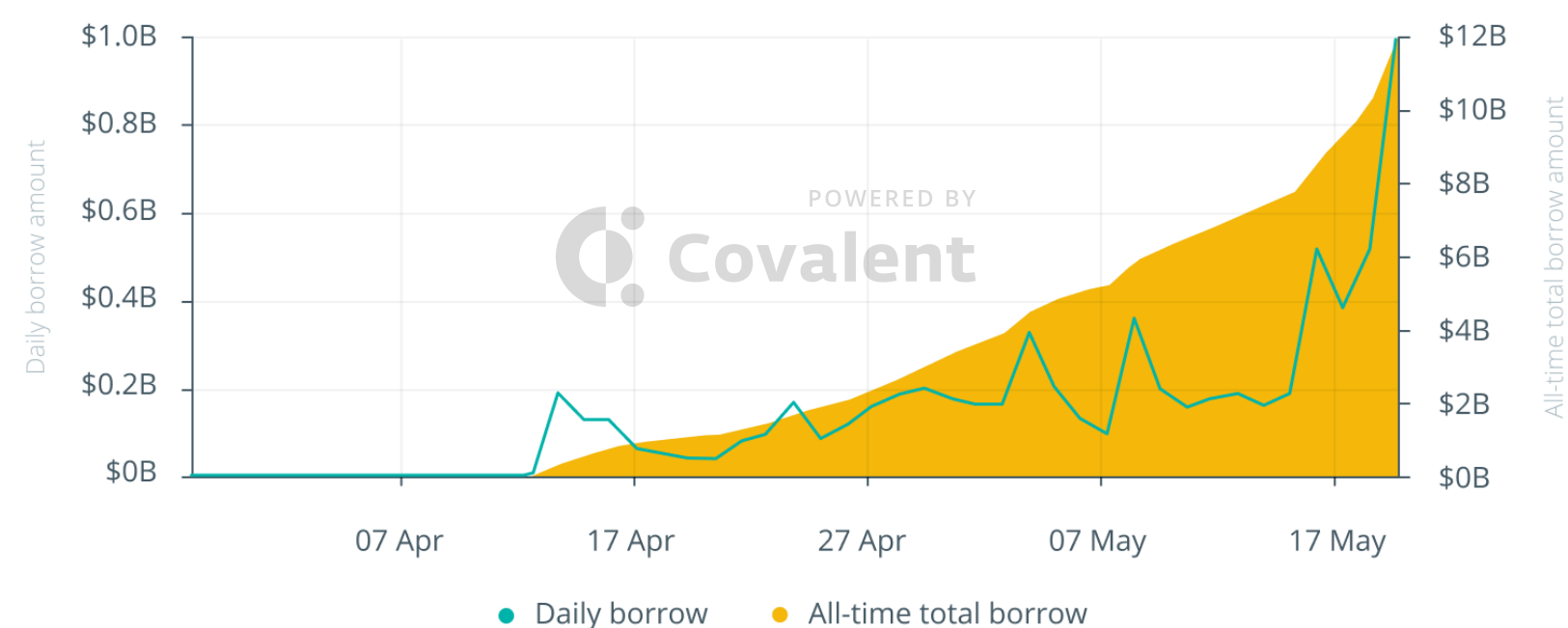
Token deposits



coingecko.com

source: Covalent

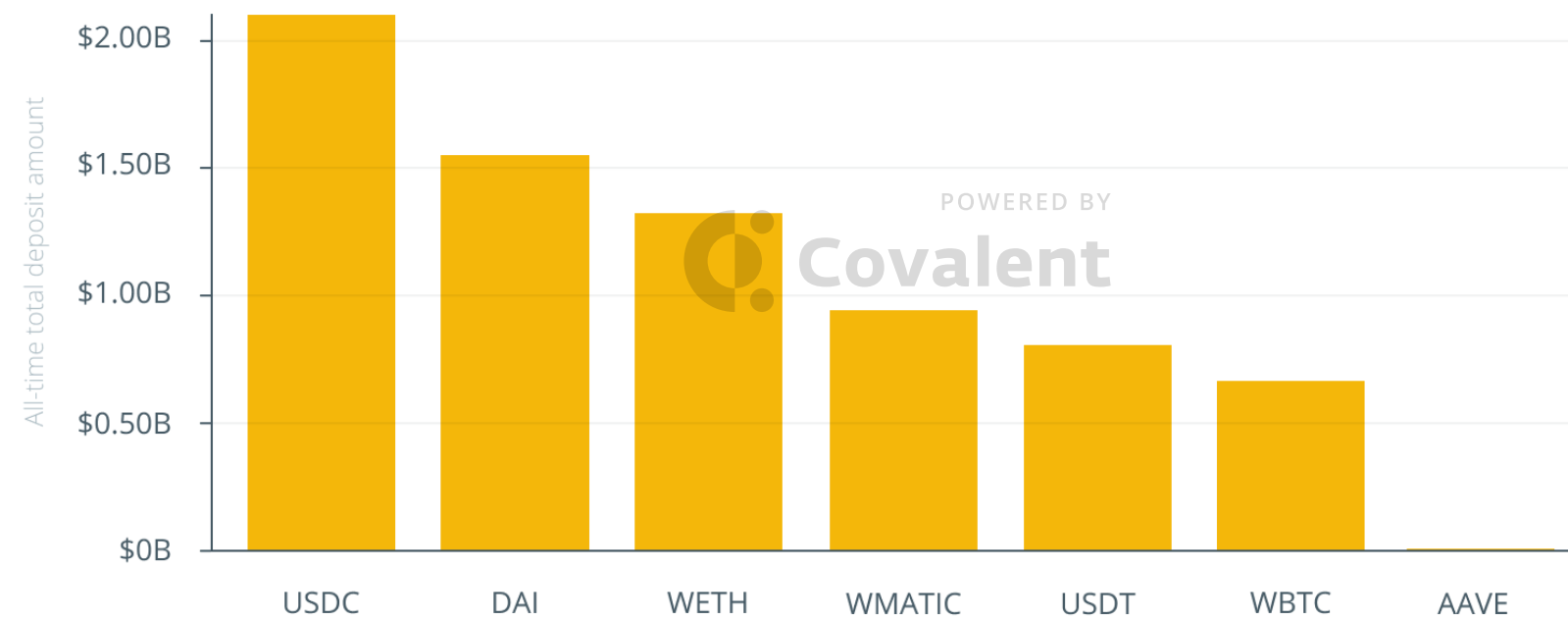
Daily borrows



coingecko.com

source: Covalent

Token borrows



coingecko.com

source: Covalent

As shown in the visuals this slide, the daily deposits on Aave's Polygon version have surpassed \$1.6 billion. The cumulative deposit amount on the version hit \$12 billion, with the majority of the deposits being denominated in USDC, WETH and DAI.

Daily borrows peaked at just over \$1 billion, while the total borrow amount reached the \$7 billion level. Notably, the major fraction of the capital is borrowed in stablecoins, with USDC, DAI and USDT making up roughly 60% of borrowings on Aave's Polygon version.

In fact, the breakdown of the borrowings reveals that Aave managed to execute its strategy that prevents users from risky borrowing against volatile assets, which, in turn, usually leads to liquidations.

This analysis was prepared by Covalent, a blockchain data indexer that provides APIs to support use cases such as network analysis, wallet management, and tax documentation.

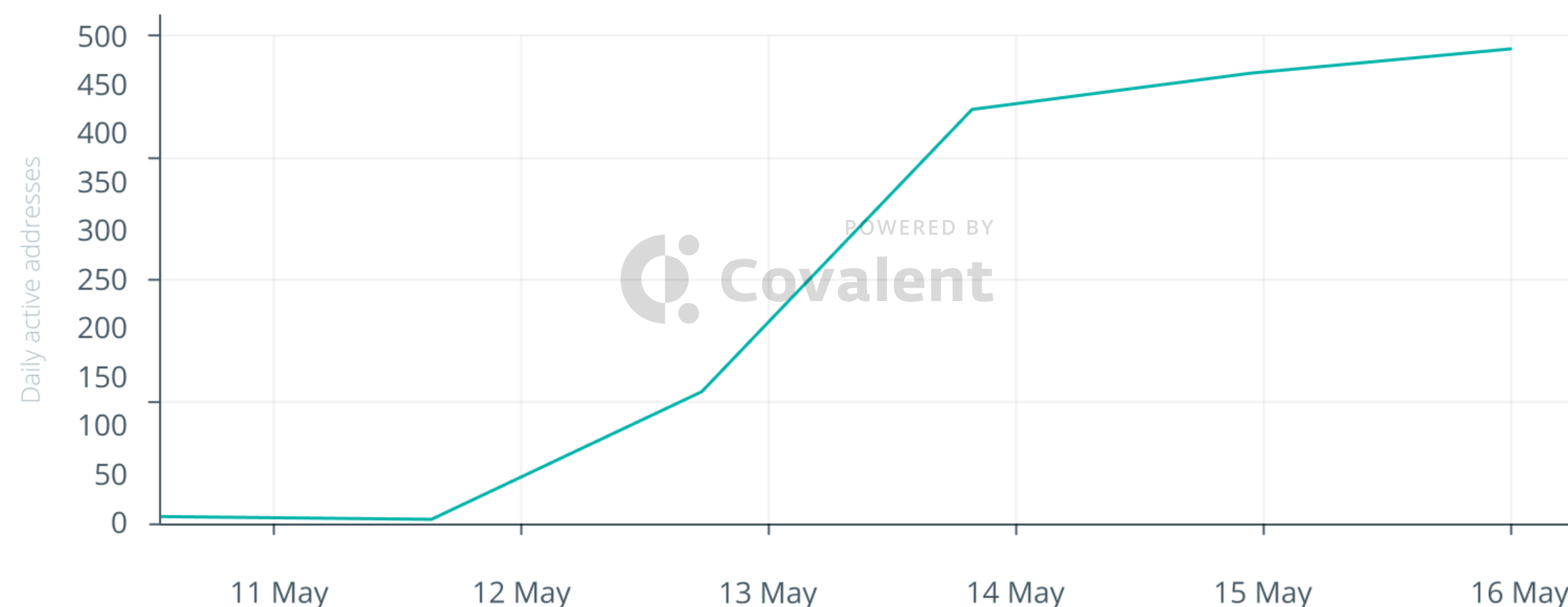
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Market Analysis Usage analysis of DApps on Polygon

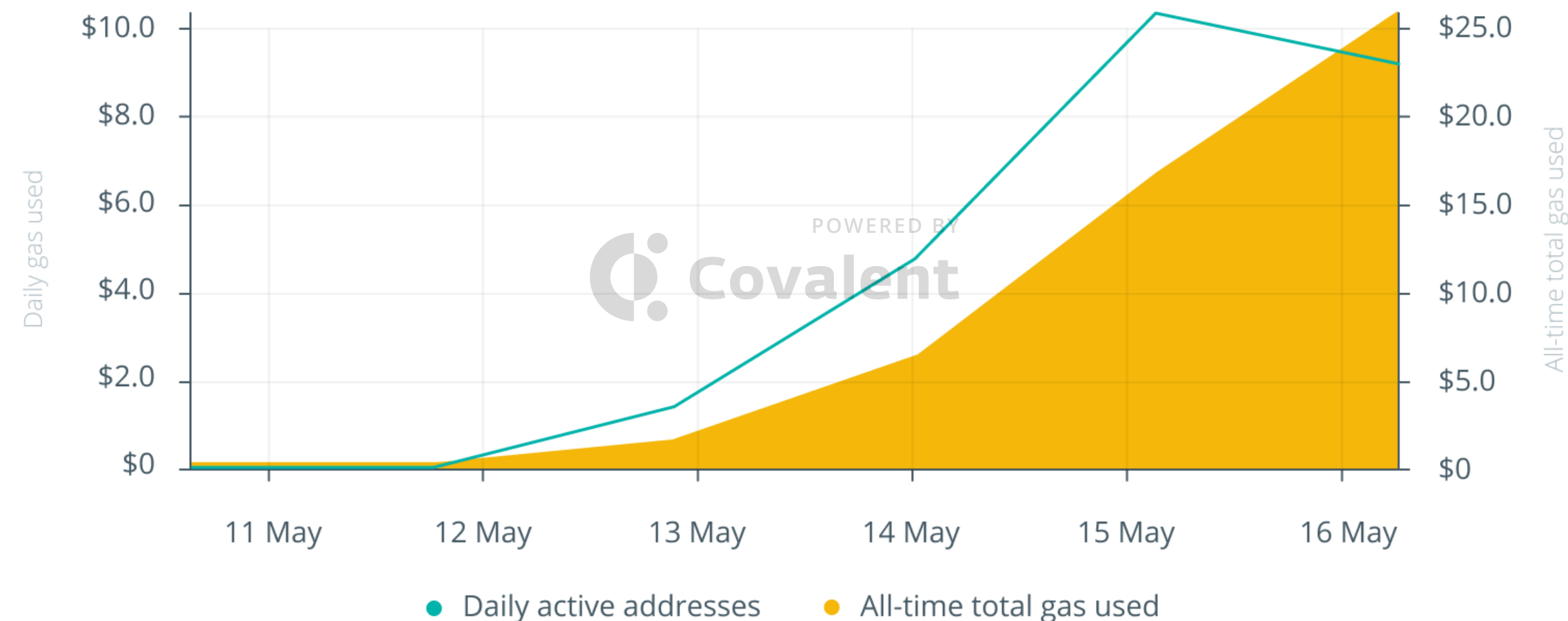
Hot off the heels of 1inch Network's launch on Polygon May 12, we take a look at its usage. The platform has already facilitated \$43 million in swaps, but only \$25 of gas was used to swap all of that!

1inch's Polygon version only pulled 1,100 unique users in the first days, but the dynamics looks similar to Aave's version, which has onboarded its first thousand of unique users ten days after the launch. So, 1inch may become one of the most popular of the 93 DeFi projects on the network in the upcoming weeks.

Daily active addresses

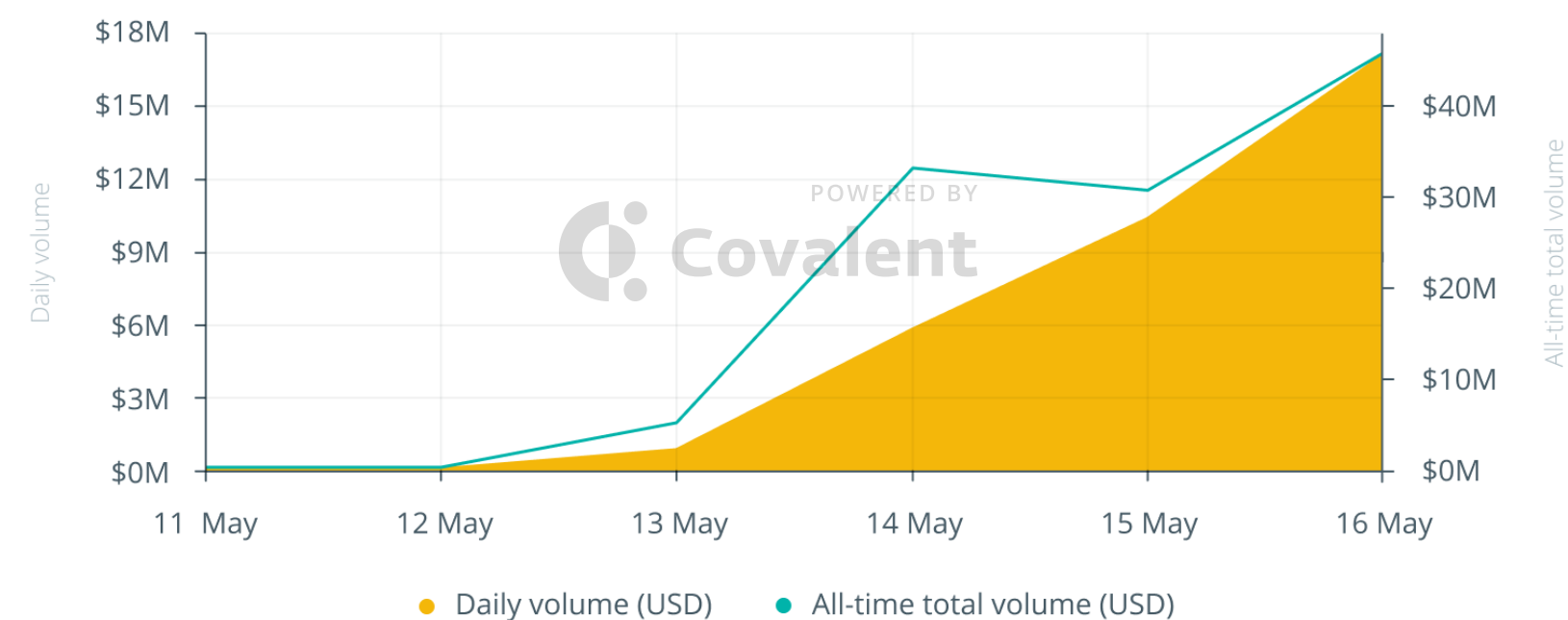


Gas statistics



Market Analysis Usage analysis of DApps on Polygon

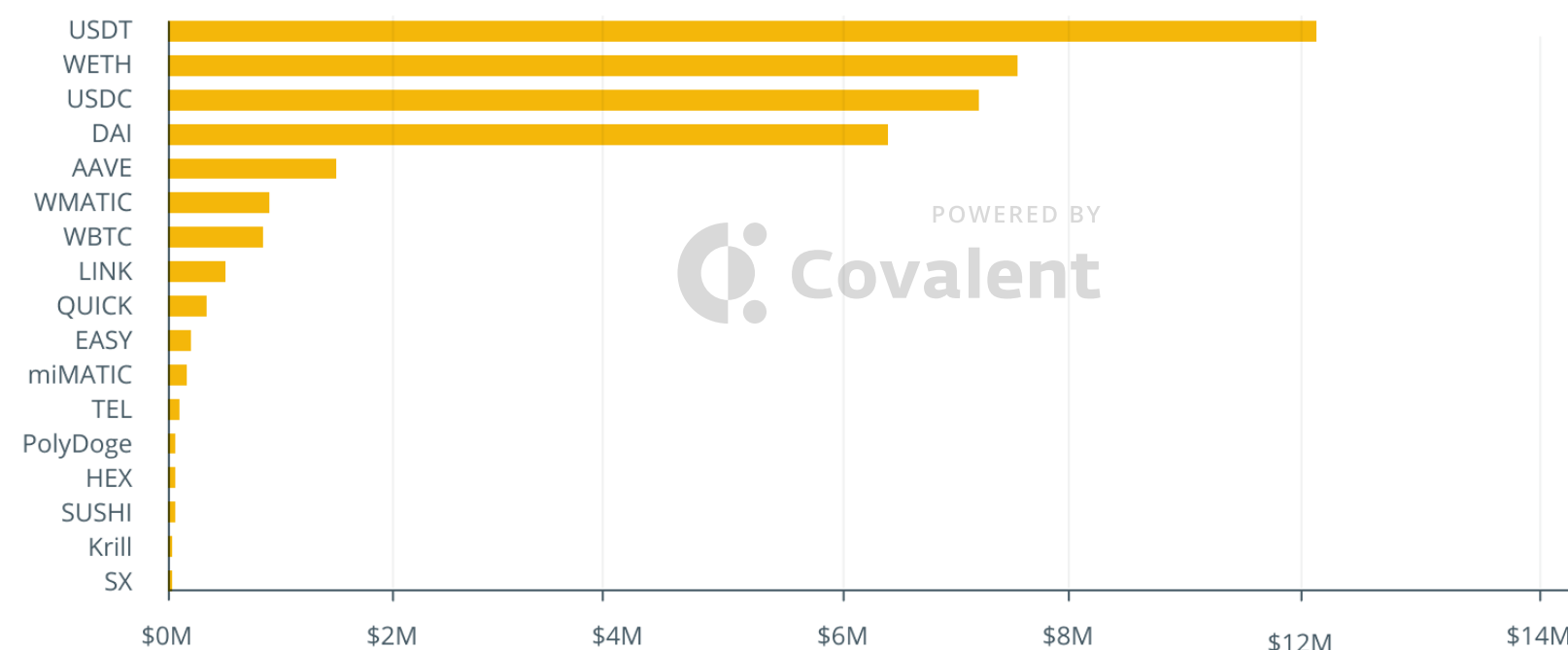
Daily swap volume (USD)



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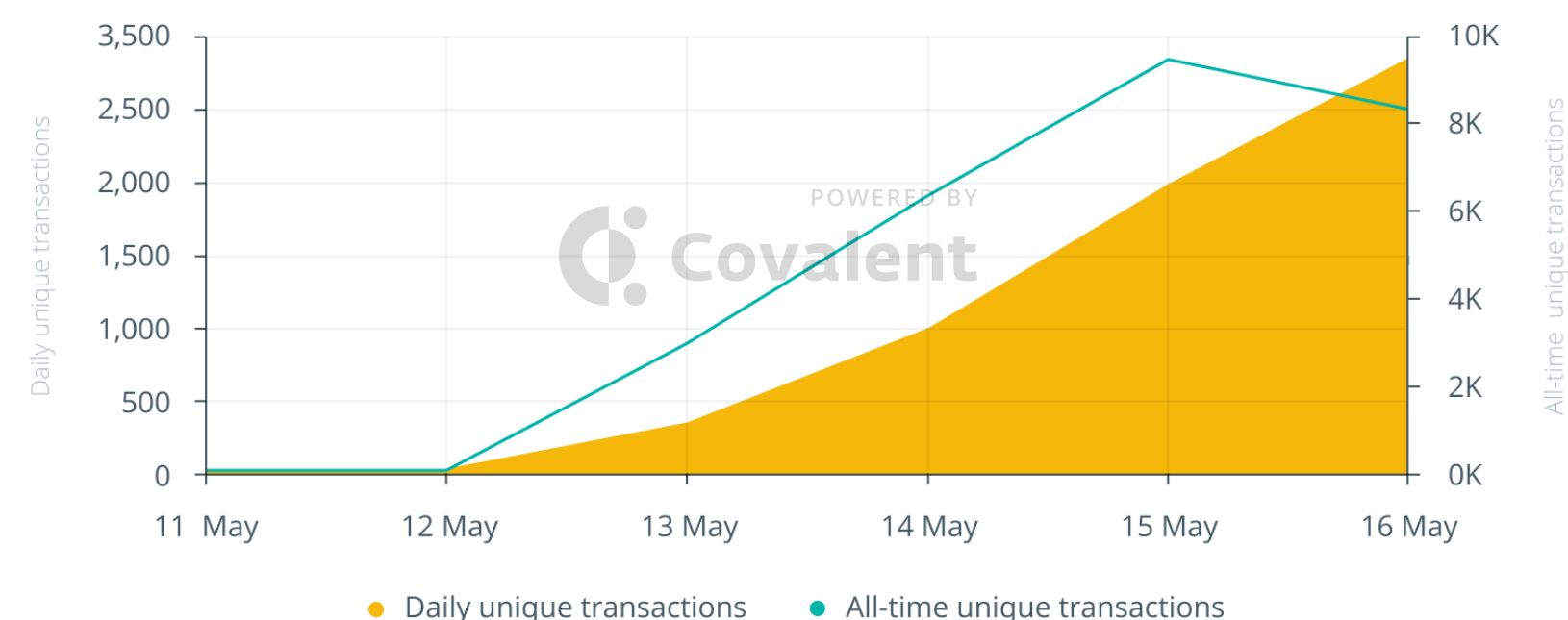
source: Covalent

Swap volume by token (USD)



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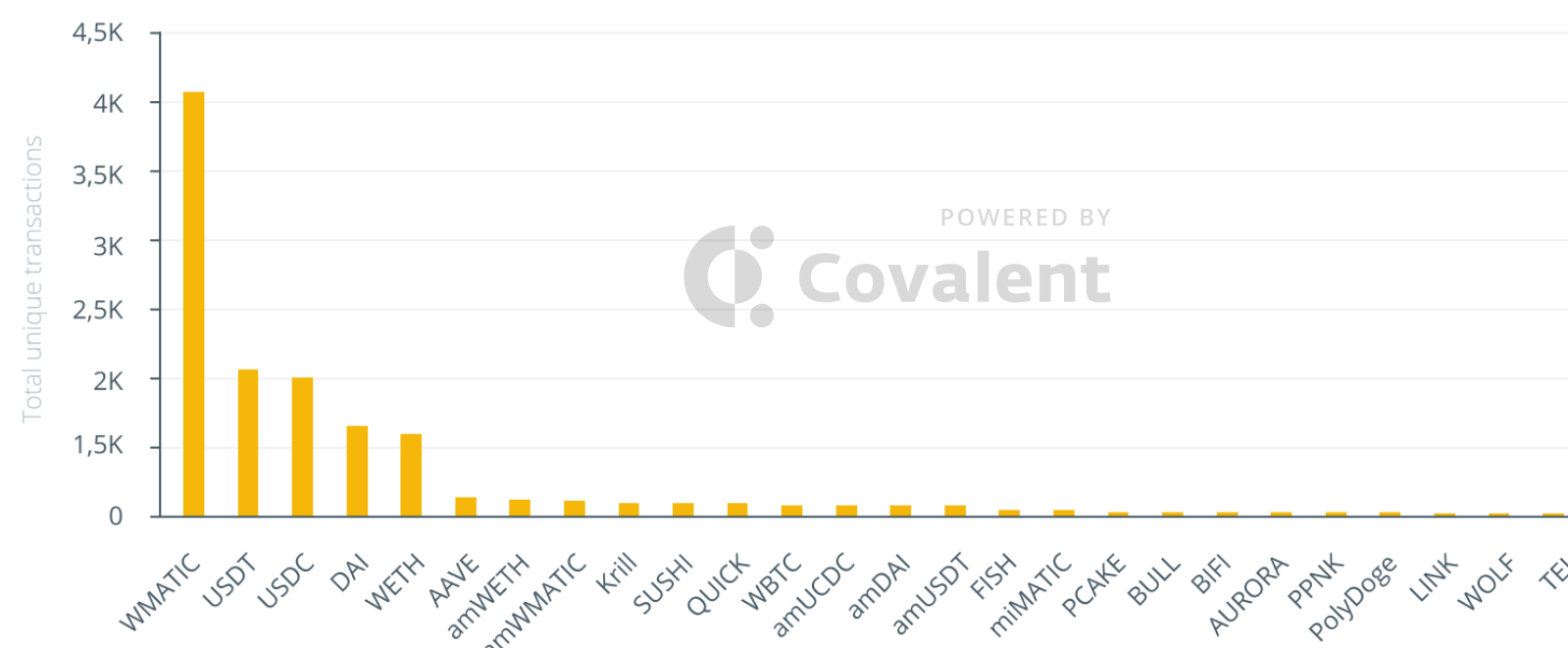
Daily swap count



coingecko.com

source: Covalent

Swap count by token



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The left side visuals show that 1inch on Polygon has reached almost \$18 million in daily swap by dollar value, with the most swaps denominated in USDT, WETH, USDC, or DAI.

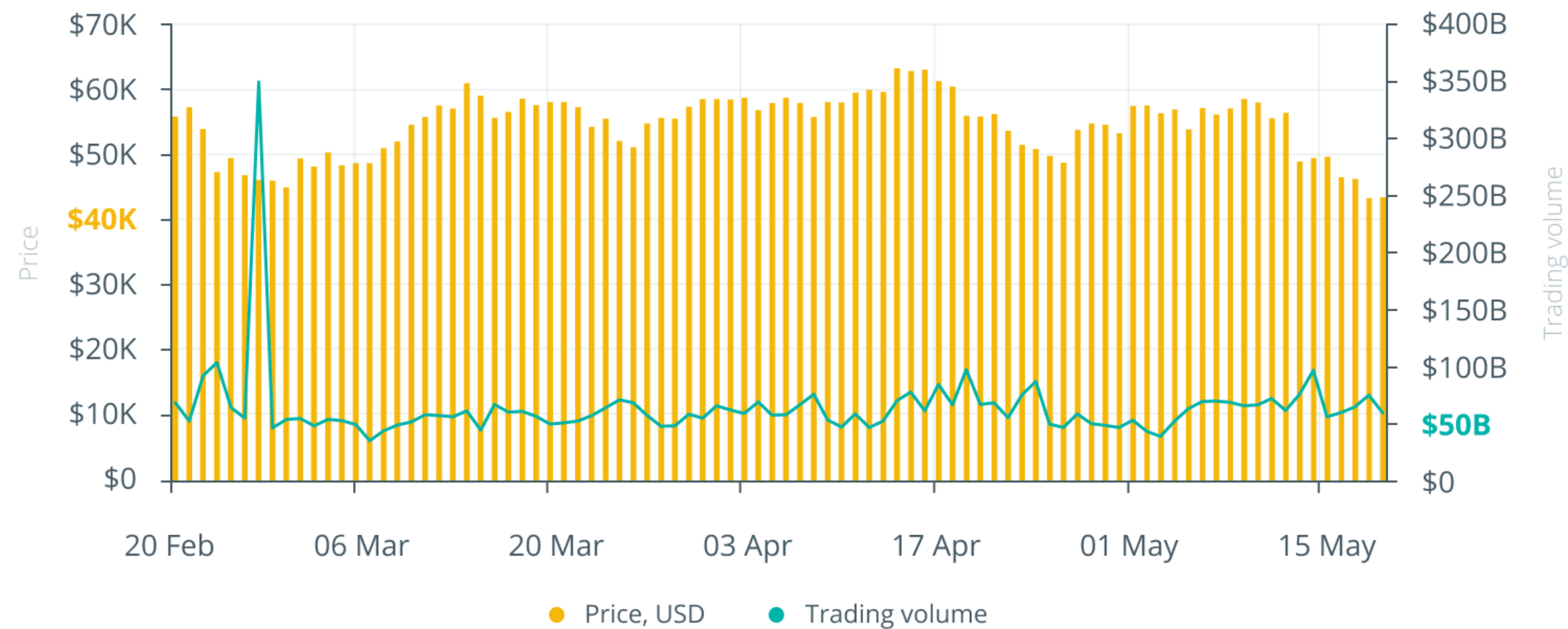
There have been nearly 10,000 swaps facilitated thus far, reaching nearly 3,500 swaps per day. The most popular token to swap in terms of the number of swaps is the WMATIC token by far.

Overall, Polygon seems to be a remedy for DeFi projects held back in their growth by the Ethereum network issues.



Market Analysis BTC Daily Exchange Trading Volume and Price

BTC daily exchange trading volume and price

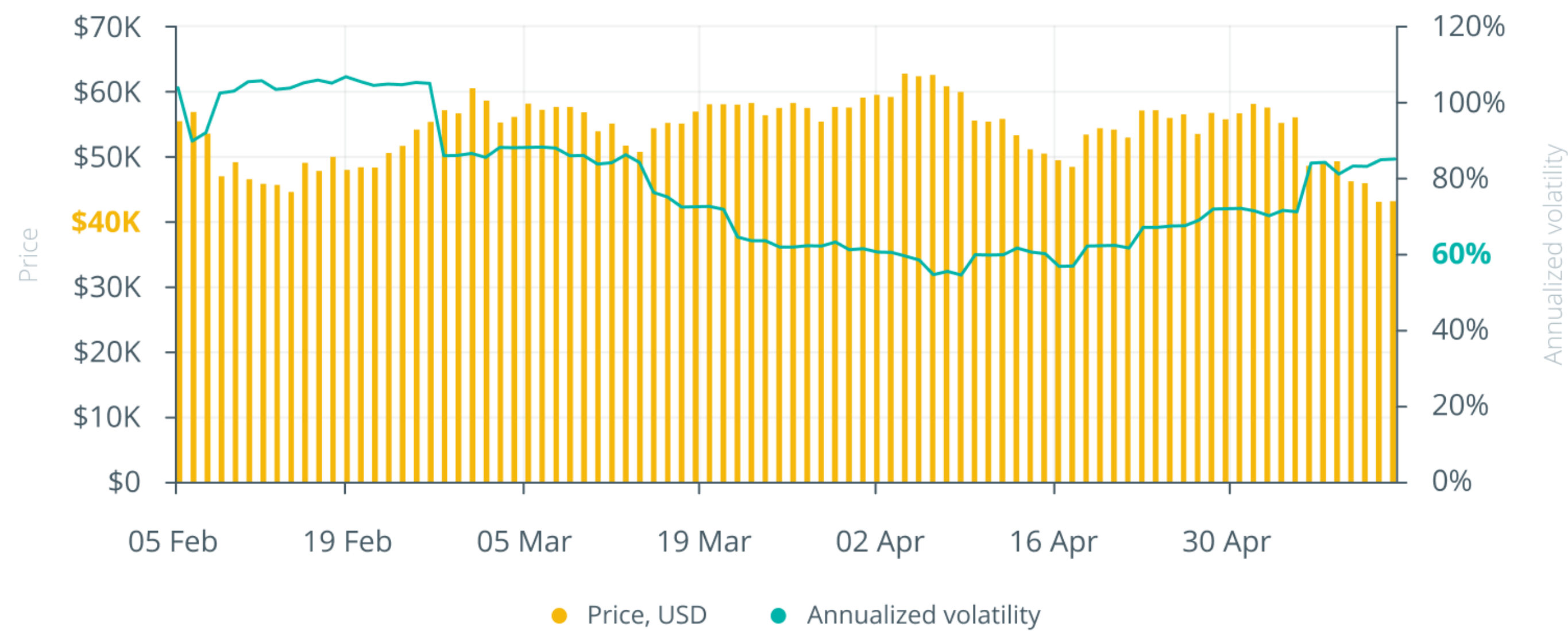


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- In contrast to the BTC price, which was mostly falling during the last two weeks, BTC trading volume was staying above \$55 billion for the entire period and reached over \$96 billion on May 13.
- Even though BTC trading volume over the last two weeks was relatively high, its two-week peak value of \$96 billion falls short of the maximum daily trading volume set on Feb 26.

Market Analysis BTC 30-day Annualized Volatility and Price

BTC annualized 30-day rolling volatility and price

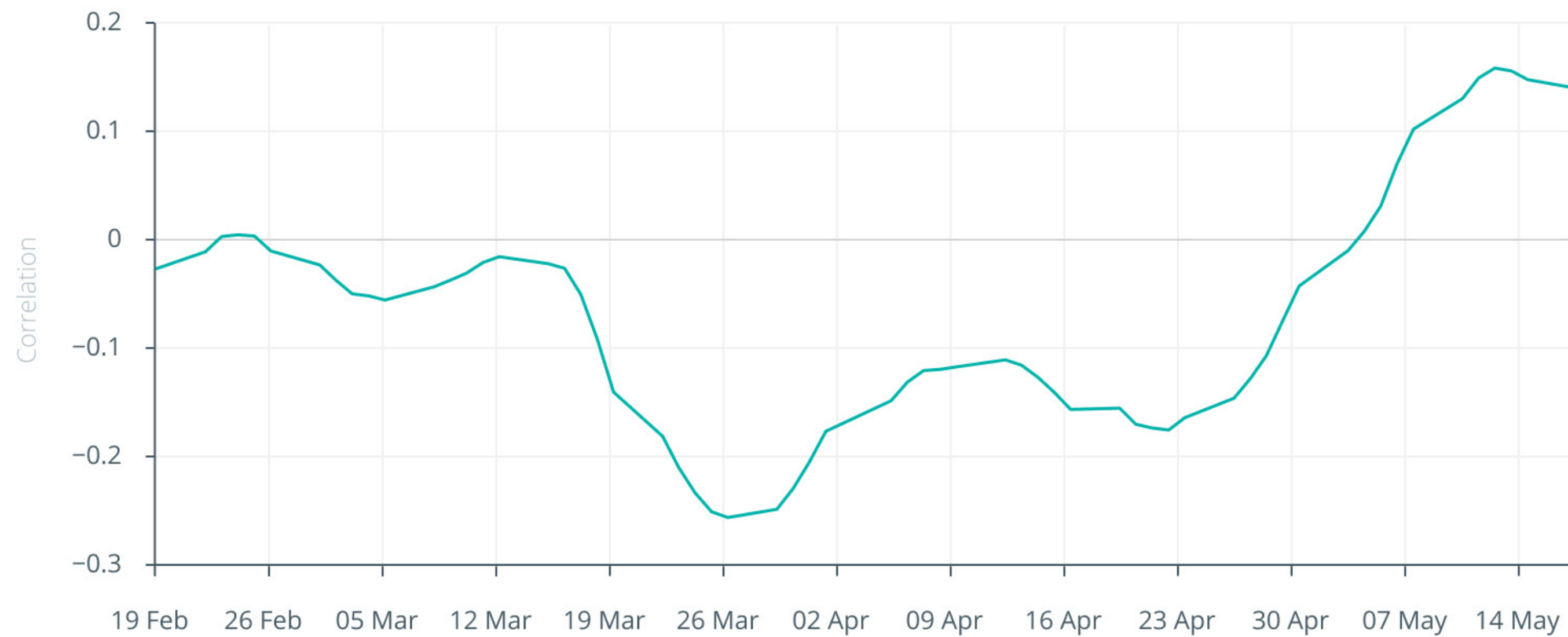


- The BTC price failed to get a foothold in the 50,000+ level and plunged to \$43,600 on May 18 thereby sparking an increase in the 30-day annualized volatility, which skyrocketed to 86%.
- The biggest increase of the BTC 30-day annualized volatility over the last two weeks occurred on May 12, when the BTC price dove by more than 13% from \$56,700 to \$49,150.



Market Analysis BTC – DXY

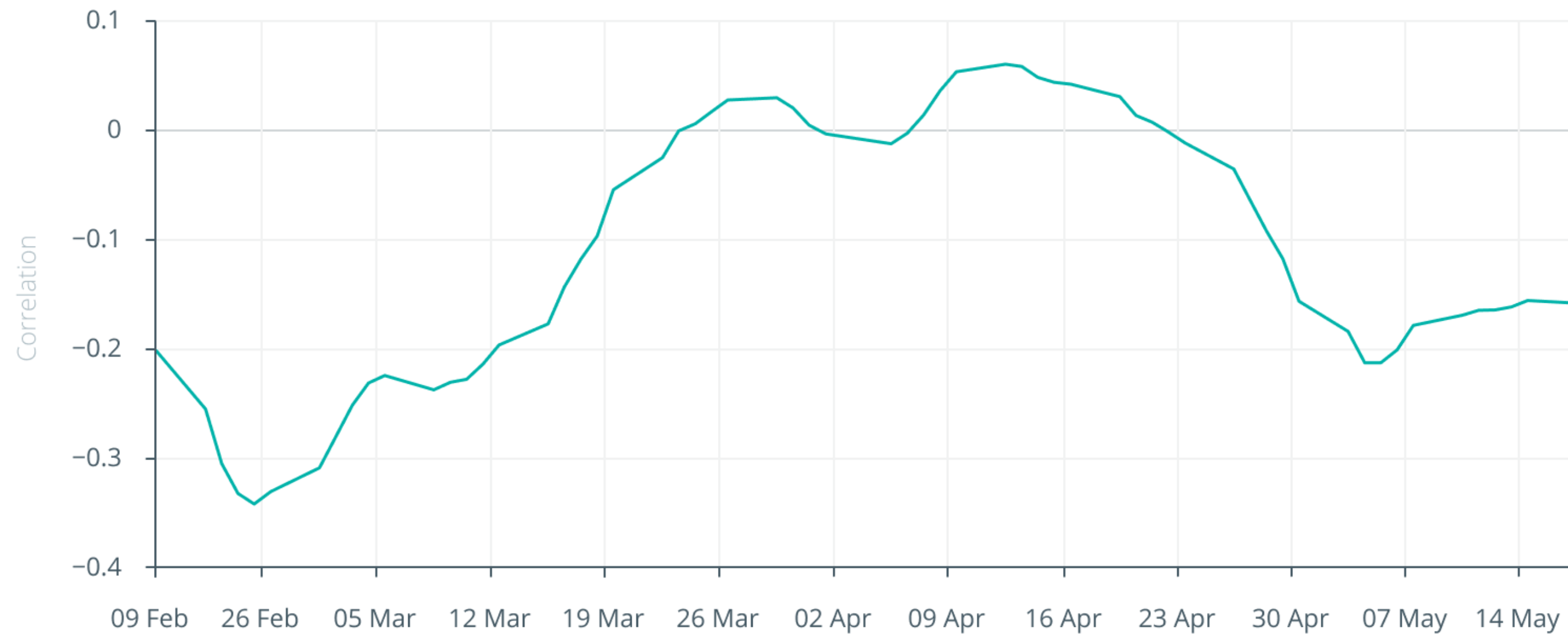
30 days moving average correlation BTC–DXY



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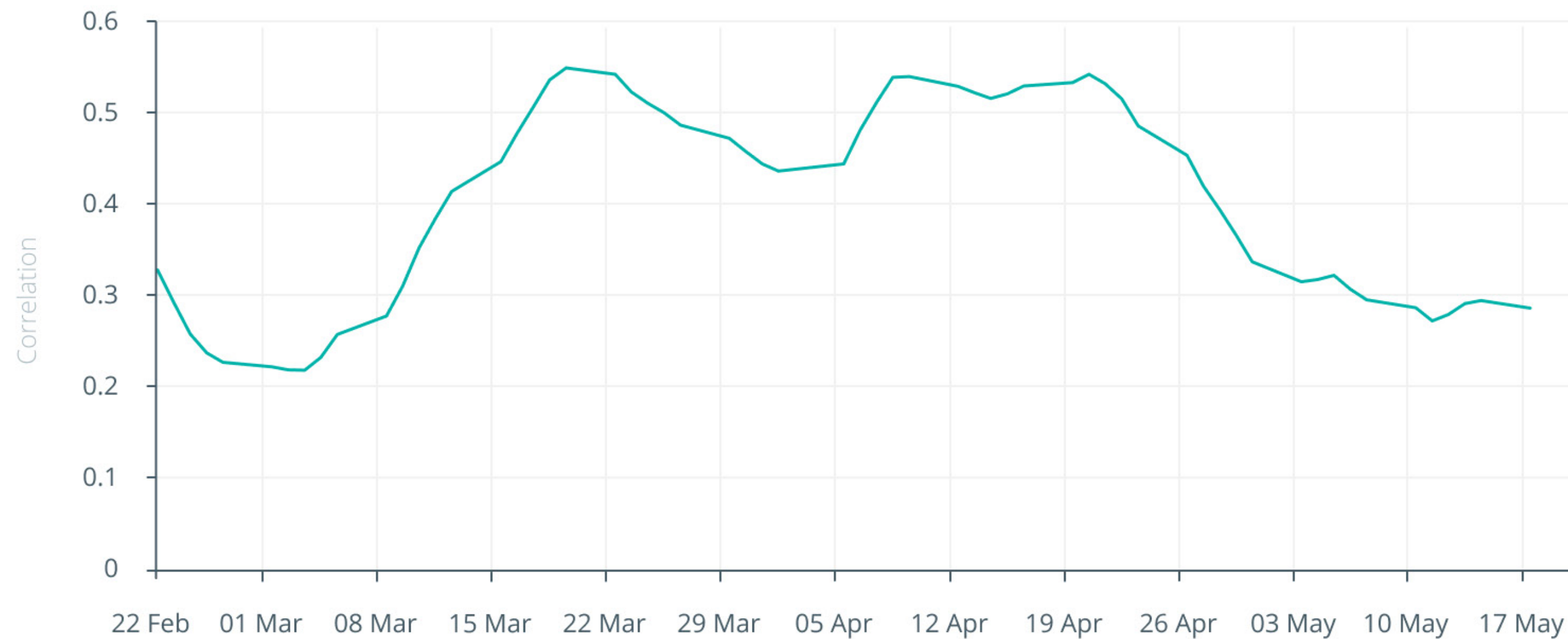
- The last two weeks were bearish for both DXY and BTC, but as the former went down by just over 1% from 91.3 to 90.2, the latter lost more than 18% and closed at \$43,500 on May 17.
- Simultaneous fall of DXY and BTC resulted in an increase of the moving average correlation that exceeded 0.16 on May 12 before slightly decreasing to 0.14 on May 17.

30 days moving average correlation BTC–Gold



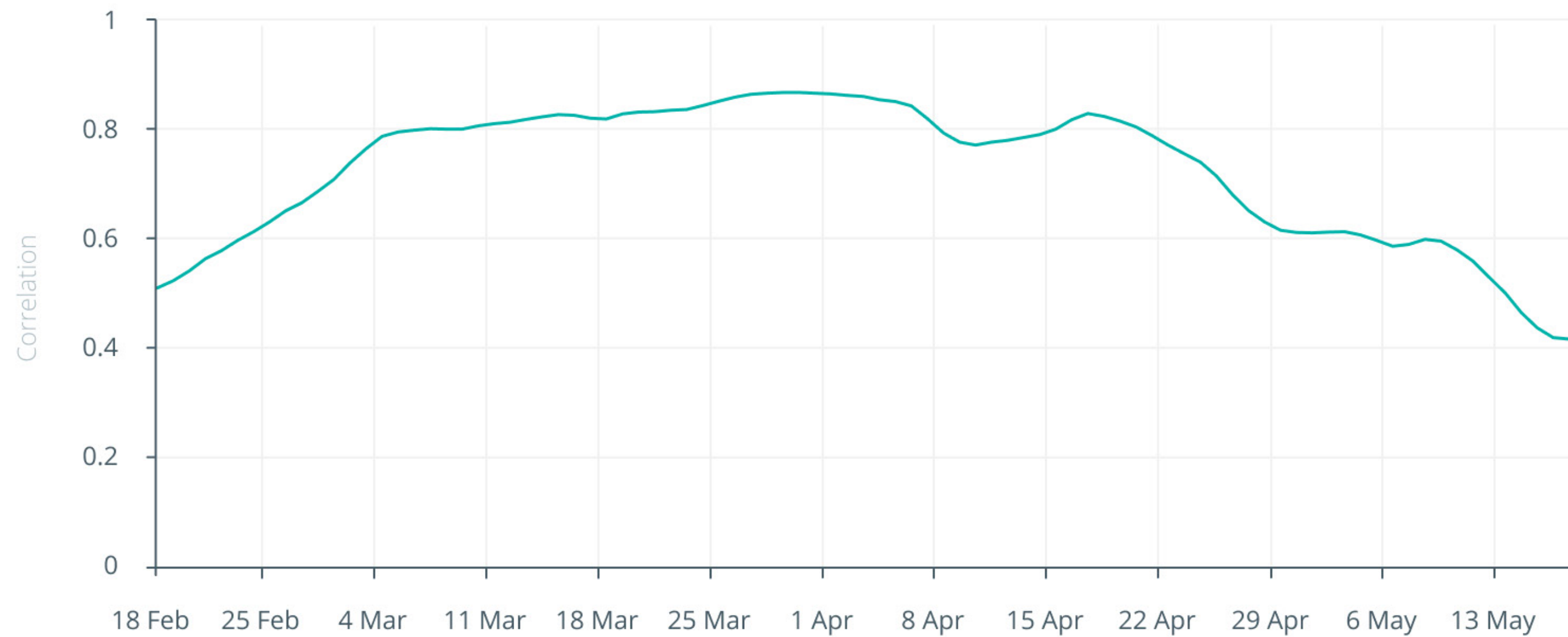
- The BTC – Gold moving average correlation has kicked off the bottom at -0.21 on May 4 before leveling out at around -0.15 .
- On the contrary to BTC, Gold rose in price over the last two weeks: its price was \$1,775 on May 4 and \$1,867 on May 17.

30 days moving average correlation BTC–S&P 500



- The S&P 500 index was volatile over the last two weeks: it set an all-time high on May 7 at 4,232 and subsequently fell down to 4,063 on May 12 before regaining 100 points and closing at 4,163, which is identical to the closing value recorded on May 4.
- The movement of the BTC – S&P 500 moving average correlation resembled the behaviour of the S&P 500 value as it started the two-week period with a decline, but returned to the level of just under 0.3 by May 17.

30 days moving average correlation BTC-ETH



- ETH had broken through the \$4,000 milestone on May 11 for the first time in history, but quickly fell down afterwards and closed at \$3,368 on May 17.
- The BTC – ETH moving average correlation plummeted to 0.41 on May 17, which is the lowest value of correlation in more than 3 months.

Institutional, Venture
Capital & M&A,
Professional Blockchain
and Regulatory Activities

Institutional Activities

Swiss banking giant UBS to reportedly offer rich clients crypto investments



Swiss **UBS Group AG** is planning to offer its clients investments in cryptocurrencies that will be limited to “a very small portion of the clients’ total wealth”

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Grayscale’s diversified crypto fund files to become SEC reporting company



Grayscale has filed with the Securities and Exchange Commission to convert its **Digital Large Cap Fund** into an SEC-reporting company. An approval from the SEC would mean registration of the shares of the fund with the commission, which is a necessary step in making the fund publicly traded.

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CBOE files another Bitcoin ETF application with the SEC



Two months after filing VanEck’s BitcoinETF, **CBOE** has submitted another application — one proposed by **Fidelity** — to the SEC. **CBOE** is seeking to list **Fidelity’s Wise Origin Bitcoin Trust Bitcoin ETF** that was initially submitted to the SEC by the \$4.9-trillion asset manager back in March.

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Singapore’s biggest bank launches crypto trust solution

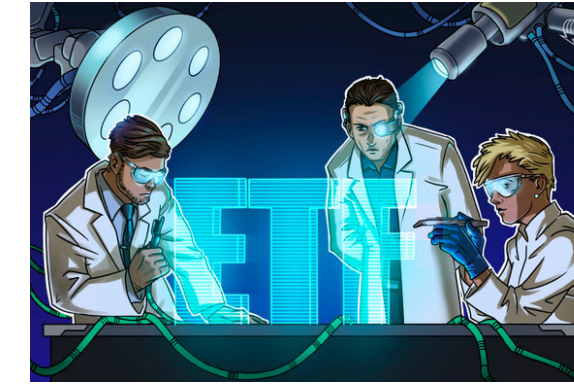


A wealth manager **DBS Private Bank** has launched a **cryptocurrency trust solution** that allows the company’s private banking clients to invest, custody and manage cryptocurrencies. The trust offering supports four cryptocurrencies including **Bitcoin, Ether, XRP, and Bitcoin Cash**.

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Bitwise launches US ‘crypto ETF’... sort of



Bitwise Asset Management has announced the launch of its **Crypto Industry Innovators ETF** that offers exposure to the shares of leading “public companies that are participants in the growing Bitcoin and cryptocurrency sector.” The fund will be available under the BITQ ticker with investments based on Bitwise’s Crypto Industry Innovators 30 Index.

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Bitrue floats \$50M cryptocurrency investment fund



Bitrue crypto exchange has announced a **\$50-million investment fund** that will target crypto projects working on use cases with the potential to advance the development of the emerging blockchain ecosystem.

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▶ Institutional Activities

Crypto.com unveils EVM blockchain functionality and related fund

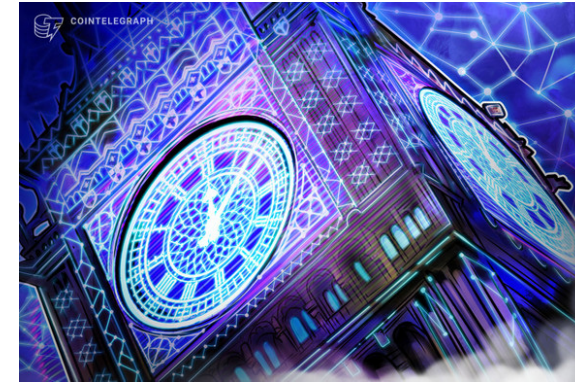


In the coming months, **Crypto.com's blockchain** will let projects built on Ethereum **transfer over to its ecosystem**. Crypto.com also announced a **CRO EVM Fund** that will be aimed at early-stage **projects developing on the Crypto.org blockchain** and will be offering startups up to \$1 million from the fund.

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Diginex's crypto custody arm receives green light from UK financial watchdog



The Financial Conduct Authority of the U.K. has approved **Digivault**, the security token custody arm of digital assets group Diginex, **to register as a custodian wallet provider**.

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Bitcoin whale MicroStrategy buys additional 271 BTC



Business intelligence firm **MicroStrategy** has added another **271 Bitcoin to its strategic reserves for an average price of \$55,387**. **MicroStrategy now has 91,850 BTC** on its books for an average purchase price of \$24,403.

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▶ Venture Capital and M&A Activities



Block.one secures funding for \$10B EOS-based crypto exchange platform

Investors: Peter Thiel, Mike Novogratz, Alan Howard, Louis Bacon

Funded company: Block.one

Business scope: Blockchain software

Headquarters: Cayman Islands

Announcement date: May 11, 2021

Deal amount: \$300 million

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NFT game developer Animoca Brands completes capital raise at \$1B valuation

Investors: Kingsway Capital, HashKey Fintech Investment Fund, RIT Capital Partners, Huobi

Funded company: Animoca Brands

Business scope: NFT game developer

Headquarters: Hong Kong

Announcement date: May 13, 2021

Deal amount: \$88.9 million

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Babel Finance raises \$40M to expand crypto offerings

Investors: Zoo Capital, Sequoia Capital China, Dragonfly Capital, BAI Capital, Bertelsmann, Tiger Global Management

Funded company: Babel Finance

Business scope: DeFi

Headquarters: Hong Kong

Announcement date: May 10, 2021

Deal amount: \$40 million

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▶ Venture Capital and M&A Activities



Major Brazilian crypto asset manager secures \$26M in funding

Investors: Valor Capital Group, Coinbase Ventures, SoftBank

Funded company: Hashdex

Business scope: Crypto asset manager

Headquarters: Brazil

Announcement date: May 12, 2021

Deal amount: \$26 million

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Polkadot-centric derivatives exchange raises \$6.4M in seed funding

Investors: Three Arrows Capital, DeFiance, Polychain Capital, ParaFi Capital, Huobi, Mechanism Capital

Funded company: dTrade

Business scope: Decentralized exchange

Headquarters: Canada

Announcement date: May 13, 2021

Deal amount: \$6.4 million

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Professional Blockchain Adoptions

Spanish stock exchange ready to test blockchain-based SME financing system



Spanish stock exchange Bolsas y Mercados Españoles is set to test its blockchain

infrastructure for small- and medium-sized enterprise financing after a successful pilot run. Next, the **BME** will likely be looking to examine the suitability of the Ethereum-based system in raising capital for limited liability companies.

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MoneyGram to allow retail Bitcoin buying in the US



The global payment service **MoneyGram** announced a partnership with crypto exchange

and Bitcoin ATM operator Coinme Inc., to allow United States customers to withdraw their cryptocurrency holdings for cash across its point-of-sale outlets in the country.

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Investment bank Cowen set to offer institutional-grade crypto custody



American investment bank **Cowen Inc.** has inked a partnership with Standard Custody

and Trust Company in order to enter the crypto custody business.

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Sotheby's crypto-powered auction sells Banksy art for \$13M



Auction house **Sotheby's** has completed its cryptocurrency-enabled auction offering

Banksy's protest artwork "**Love is in the Air.**" The bidders were able to pay using **Bitcoin** and **Ether** sent from an approved wallet or exchange, including: Coinbase, Coinbase Custody Trust, Fidelity Digital Assets Services, Gemini, or Paxos.

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Central Bank Digital Currency

Hong Kong to expand pilots for cross-border use of digital yuan



People's Bank of **China** and the **Hong Kong Monetary Authority** confirmed

that the first phase of testing for the digital yuan's cross-border use had been successful. The plans for the next phase of pilots include the feasibility of broadening and deepening the use of e-CNY for cross-boundary payments.

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Israel's central bank floats possible digital shekel with new action plan



The **Bank of Israel** is preparing an action plan to explore the benefits of a digital shekel to

the economy. The bank may consider issuing a **CBDC** if it could meet the needs of the future digital economy as well as provide more efficient cross-border payments.

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Alipay set to allow users to test China's digital yuan



Alipay, the mobile payment platform owned by Ant Group, is set to allow some of its users to

participate in the emerging digital yuan commerce ecosystem.

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Central Bank of Bahrain and JPMorgan to work on digital currency settlement pilot



The government of **Bahrain** is working with American investment bank **JPMorgan Chase**

and the Arab Banking Corporation **BSC** on a digital currency settlement pilot that is aimed to cut settlement processing time and can over time evolve into a central bank digital currency.

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Regulatory Activities

North America

Nebraska bill allowing banks to offer crypto services moves forward



Nebraska State Senators **voted to advance the Legislature Bill 649** for enrollment and initial review on Sunday. **The bill aims to adopt the Nebraska Financial Innovation Act and create digital asset depository institutions, as well as provide for charter, operation, supervision and regulation of such institutions.**

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IRS will seize your crypto if you can't pay back taxes



The United States Internal Revenue Agency announced that the government **classifies digital assets as property** according to federal tax law, **meaning that these assets may be confiscated to satisfy outstanding tax debt that hasn't been repaid.**

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Texas house passes crypto-friendly bill, now goes to senate

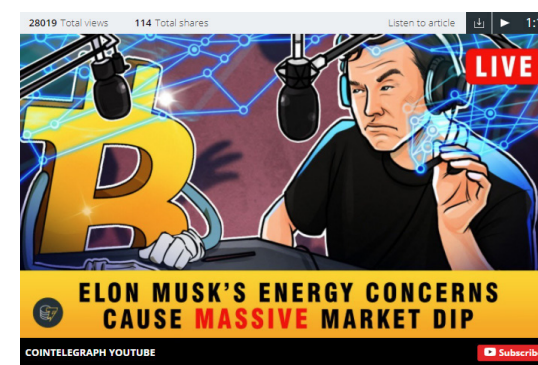


The Texas House of Representatives has passed an amendment to the state's Uniform Commercial Code, **aimed at better adapting commercial law to blockchain innovation and digital asset regulations.** The bill will now go to the Texas Senate for any proposed amendments and potentially a final vote.

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Binance is reportedly under investigation from IRS and Justice Department



Cryptocurrency exchange **Binance** is reportedly **under investigation** by both the United States Department of Justice and Internal Revenue Service **in an apparent effort to stymie illegal trading activity from users in the United States.**

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Trial of former BitMEX executives set for next March

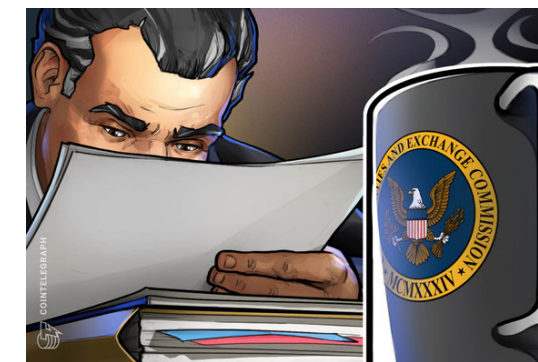


The trial for Arthur Hayes, Benjamin Delo, Samuel Reed, the former executives of U.S. cryptocurrency exchange **BitMEX**, has been **scheduled for March 28, 2022.** The trio are **accused of violating the Bank Secrecy Act and anti-money laundering laws.**

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SEC enforcement actions cost crypto firms and individuals \$1.7B in penalties



The Securities and Exchange Commission brought **75 enforcement actions against crypto firms and individuals from July 1, 2013 to Dec. 31, 2020**, mainly involving allegations of fraud or unregistered securities offerings. Of the 75 enforcement actions, the SEC settled **43 cases through litigation and 32 with administrative proceedings.**

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Rest of the World

Argentina's tax body reportedly asks crypto firms to report all activity



Argentina's Federal Administration of Public Income has ordered **domestic crypto exchanges and payment firms to provide monthly reports of all kinds of operations** by users on their platforms.

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Regulatory Activities

Europe, the Middle East and Africa

Hungary plans Bitcoin tax cut as part of economic recovery program



The Finance Minister of **H u n g a r y** announced that lawmakers are **considering**

reducing taxes on cryptocurrency trading to 15% of income, down from the current rate of 30.5%, as part of the post-COVID-19 relief efforts.

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Turkish customs confiscate over 500 smuggled Bitcoin mining rigs



Turkey's Customs Protection's anti-smuggling and intelligence teams **seized 501 ASIC Bitcoin mining**

rigs at \$600,000. Four suspects were detained as part of the investigation.

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Crypto.com becomes first cryptocurrency platform to receive MFSA Class 3 license



Crypto.com, a platform for buying and selling digital assets, **has become the first cryptocurrency**

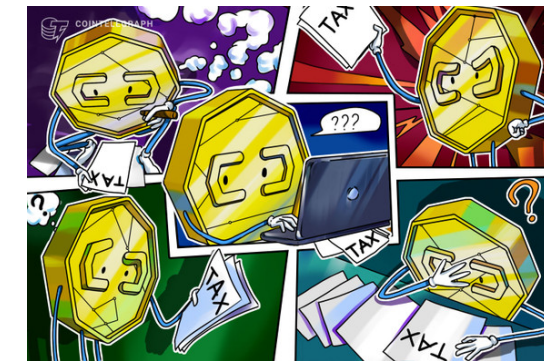
company to receive Malta's Class 3 Virtual Financial Assets License.

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Asia Pacific

Indonesia considers capital gains tax on cryptocurrency trades



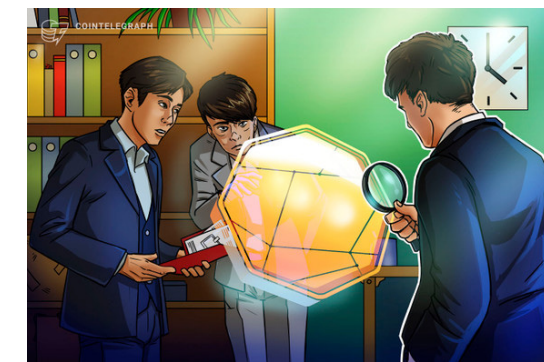
I n d o n e s i a n Directorate General of Taxes is considering a tax scheme for capital gains

generated from cryptocurrency trades as well as a mandatory report of these gains to the government. The new crypto **tax scheme** for capital gains **is still under discussion.**

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Bank of Korea wants to monitor crypto trading activity, cites monetary risks



The Bank of Korea reportedly **plans to** maintain strict **oversight** on **crypto trading activity via real-**

name bank accounts. The crypto monitoring regime could **begin in September** if approved by lawmakers.

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Kazakhstan's government to create roadmap for developing crypto market



Kazakhstan's government is forming a roadmap for the cryptocurrency industry and

blockchain technology. **Officials have proposed to run crypto exchanges via a major national financial hub and to establish standards by which crypto exchanges can interact with** local banks and **clients.**

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