

Top Market Events

Executive Summary

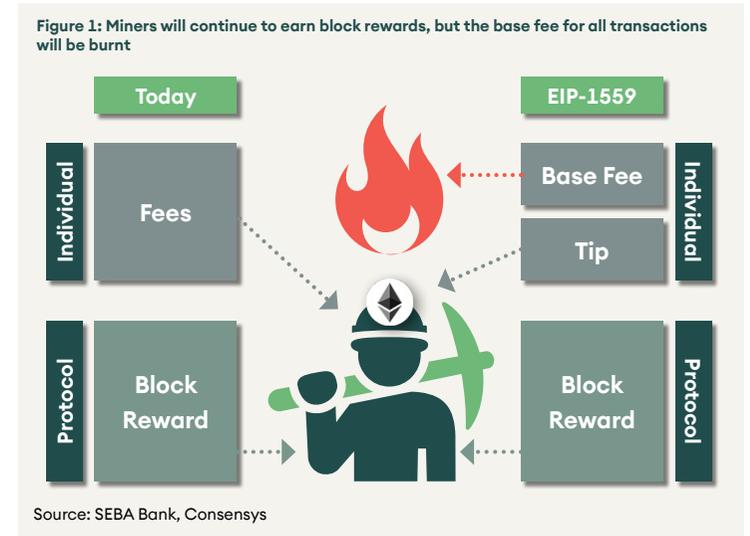
- EIP-1559 goes live in early August. We estimate its impact and the amount of ETH burnt in different scenarios
- Shiden wins the third parachain auction on Kusama
- Blue chip DeFi tokens post a strong week

ETH heats up

Ethereum Improvement Proposal 1559 (EIP-1559) will go live with the London upgrade on block number 12,965,000 on the Ethereum mainnet. It is expected to be mined on August 4. Among improvements in quality of life for users, EIP-1559 brings a key change to the tokenomics of Ethereum’s native currency, ether. Currently, users have to guesstimate the gas price that will allow their transaction to be included in the next few blocks, and they may end up overpaying or waiting much longer than they hoped. As a result, the fee market is highly inefficient, and it is estimated that the 10th percentile gas price in the average block pays 5 to 8 times more than the average gas price for the block.

After EIP-1559, the network will have a base fee for every block, and all transactions on the block will pay the same base fee. Power users who need their transaction to be included in the next block will pay a “tip” to the miners to incentivise them to include their transaction. The network will double the gas limit for every block from 12.5 m to 25 m and continue to have a long-term target of 12.5 m for block fullness. Every time a block is filled above 12.5 m gas, the base fee will increase, and if it is filled below 12.5 m gas, the base fee will reduce.

Currently, the entire transaction fees paid by the user gets transferred to the miners in addition to their block reward of 2 ETH per block. After EIP-1559, the network will burn the base fee and only transfer the tip to the miners; they will continue to earn their block rewards as usual. The base fee is burnt to remove any incentive for the miners to artificially increase gas prices by filling up blocks with bogus transactions.



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The burning of base transaction fees is a fundamental change to the tokenomics of ether and is likely to impact its long-term supply and, consequently, its fundamentals. We try to estimate the amount of ETH burnt in different scenarios and the table below gives an overview. We assume that the gas used on an average block will be the same as its long-term target, i.e., 12.5 m. The range for the columns has been decided based on the historical gas price trend, with the average gas price for a day in 2021 being 115 gwei, the minimum being 16 gwei, and the maximum being 374 gwei. The split between power users paying a high tip and regular users with no tip will affect the split between basefee that gets burnt and the tip which is transferred to miners.

Table 1: Ether burnt under different scenarios

		Gas price (gwei)				
		12	50	100	250	500
Base Fee %	30%	259	1,080	2,160	5,400	10,800
	50%	432	1,800	3,600	9,000	18,000
	70%	605	2,520	5,040	12,600	25,200
	90%	778	3,240	6,480	16,200	32,400

Source: SEBA Bank

Currently, new ether is supplied through proof-of-work rewards (2 ETH per block + uncle rewards) and proof-of-stake rewards on the beacon chain. On average, this translates to an issuance of ~13,500 new ETH as PoW rewards and ~1,068 new ETH as PoS rewards every day.

By comparing new issuance to ether burnt in Table 1, it seems that a bull-market and high use scenario like 2021 would mean around 30-85% lower issuance on average and <0% net issuance in extremely high-demand scenarios. This aligns the incentives of all participants in the ecosystem including users, developers and investors with the fundamentals improving with increase in usage. It is interesting to note that when the demand is hot, there is higher burn meaning more scarcity. It could lead to an even hotter period.

However, some other variables to consider is the impact of roll-ups and ETH 2.0 merge. Roll-ups might mean lower gas prices per transaction but an increase in transactions may offset that effect. The ETH 2.0 merge will also remove PoW issuance leading to a 90%+ reduction in new issuance if PoS rewards are not increased.

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Kusama Parachain Update

The third Kusama parachain auction concluded this week, with Shiden being the winner. The sister-project of leading Polkadot-native layer-two decentralized app hub, Astar Network (formerly Plasm Network) Shiden is a multichain Decentralized Application hub on Kusama Network that supports Ethereum and Layer 2 solutions. With 138,460 KSM staked, currently valued at USD 30 million, the project has 4,611 contributors and a 48-week lease ending in May 2022. For every KSM locked in the crowdloan, the contributors will get a reward of up to 128.49 SDN tokens. The principal backers of the project are Binance Labs, Hypersphere and Hashkey.

Once deployed on Kusama, features like a wallet for the SDN token, token transactions, dApp staking and deploying apps on Shiden will be enabled.

The ideal Kusama staking ratio is set at 50%. If we expect 20% of the circulating supply to be liquid at any time, a maximum 30% can be used for auctions. As 10% is already use, our back of the envelope estimate suggests that the next 96 parachains will have to share 20%, making an average auction price of about 0.2% of the circulating supply, a much smaller proportion than what is now.

The fourth parachain auctions are underway, and Bitfrost and Khala network leading the round with 80,281 KSM and 83,960 KSM, respectively. Bitfrost is a multichain middleware platform enabling developers to create dApps on multiple protocols, while Khala is a trustless and private computation cloud with blockchain technologies.

DeFi coins move

As Bitcoin sparked above its key resistance area of USD 35,000 recently, alt coins tended to trail the flagship digital asset's price. DeFi coins also boomed during the week with Uniswap (-16%), Compound (-39%), Synthetix (-31%) and Aave (-24%) being the top performers. The upside move in the SNX markets also pushed the total value locked in Synthetix pools to above USD 1 billion. Part of the reason why SNX TVL rose could be the higher annualised percentage yield. For example, the SNX staking returned users with 39.30% APY as of Monday, using Synthetix's inflationary supply model. Thus, SNX yields come out to be much higher than those available in traditional or other DeFi markets.

Top Market Events

Technical Outlook

By Swaminathan Iyer of the Trading Desk

BTCUSD



Source: TradingView

The trend for the pair remains bearish, with the price rejecting the USD 35,000 level this week.

Support: USD 30,000

Resistance: USD 35,000

ETHUSD



Source: TradingView

The mini bull run for the pair stalled at USD 2,400 levels where selling pressure was observed, and a shooting star pattern was seen on the daily chart.

Support: USD 2,050

Resistance: USD 2,280

Market Monitor

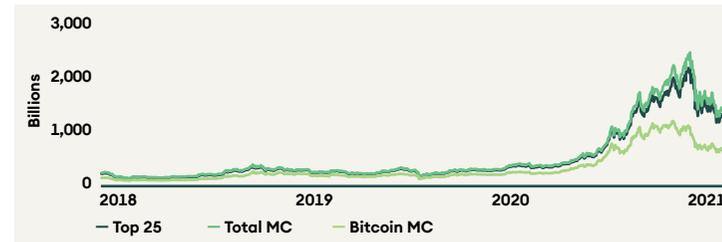
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The sell-off pressure has gotten slightly stronger from the previous week, with the crypto market's total value falling by about 1%. This is reflected by a mild, but steady downtrend in the Top 25 market cap, with Bitcoin experiencing a relatively sharper fall.

Figure 1: Market Capitalisation

	Market Cap (USDbn)	Weekly Change
Total Market	1,439.3	-0.9%
Top 25	1,301.4	-1.4%
Bitcoin	634.8	-3.4%



Volatility in crypto markets seem to continue tapering off further from its previous high in June this year. Alt coins have retained more of their volatility than Bitcoin, especially the ones that constitute the top 25.

Figure 2: Risk Measures

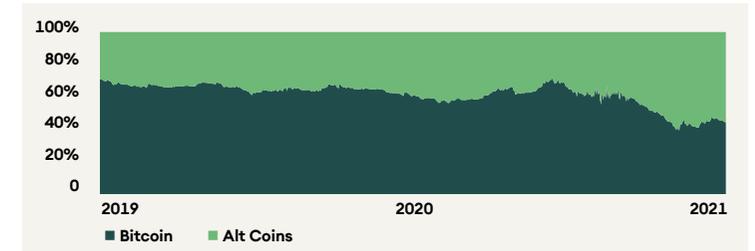
	Current Value	Weekly Change
Total Market	94.3%	-4.3%
Top 25	88.3%	-3.7%
Bitcoin	93.7%	-4.5%



Bitcoin's dominance has found a new level at 45%, hovering steadily around it for the last two months. There is no sign of it dropping further or making a comeback.

Figure 3: Bitcoin Dominance within Total Market

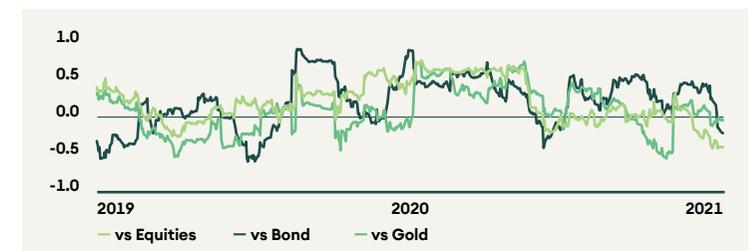
	Dominance	Weekly Change
Bitcoin	44.10%	-1.12%
Alt coins	55.90%	1.12%



Bitcoin's rolling correlation with equities has moved deeper into negative territory, and is at the highest negative correlation we've seen since November 2020, in absolute terms. Correlation with gold reaches a higher negative correlation from the last week, but correlation with bonds still remains low and intact.

Figure 4: 30-day Rolling Correlations of BTC

Equities	Bonds	Gold
-0.14	-0.01	-0.292

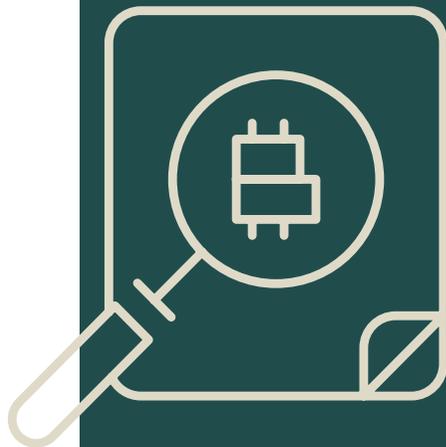


Source: Coinmarketcap.com



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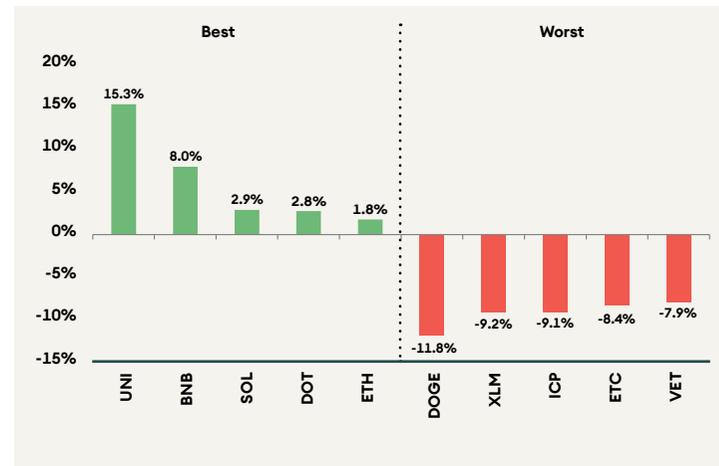
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Crypto Market Monitor

Market Monitor

Uniswap outperformed every other major alt coin this week and Binance Coin finally rose from its persistent slump. Dogecoin continued its fall from last week, but with more severity. Internet Computer and Ethereum Classic plunged by more than 8% after last week's significant jump.

Figure 5: Weekly Best & Worst Five Performers within the Top 25 Coins



Source: Coinmarketcap.com, Thomson Reuters.

The market snapshot indicates that we have not yet reached the aftermath of the correction, and its negative effects still continue to linger. In addition to ETC and ICP, alt coins such as THETA and XLM took a dive of about 8% and 9% respectively. BTC continues to fall slowly but steadily.

Figure 6: Top 25 Crypto Assets by Market Cap

Coin	Marketcap (USDbn)	Price	Weekly Change	YTD
Bitcoin	634.80	33,855.3	-3.4%	15%
Ethereum	269.95	2,315.2	1.8%	217%
Tether	62.37	1.0	0.0%	0%
Binance Coin	50.25	327.5	8.0%	764%
Cardano	44.82	1.4	1.4%	700%
Dogecoin	29.21	0.2	-11.8%	3,842%
XRP	30.08	0.7	-7.8%	174%
USD Coin	25.82	1.0	0.0%	0%
Polkadot	16.16	16.9	2.8%	103%
Uniswap	13.06	22.2	15.3%	369%
Binance USD	10.76	1.0	0.0%	0%
Bitcoin Cash	9.56	508.9	-3.3%	49%
Solana	9.98	36.6	2.9%	2,323%
Litecoin	9.17	137.4	-4.7%	9%
Chainlink	8.64	19.8	1.4%	67%
Polygon	7.11	1.1	-3.3%	5,542%
Wrapped Bitcoin	6.69	33,880.8	-3.4%	15%
Ethereum Classic	6.14	52.8	-8.4%	826%
Internet Computer	6.21	45.4	-9.1%	-89%
Theta	6.37	6.4	-7.9%	223%
Stellar	5.97	0.3	-9.2%	94%
Vechain	5.37	0.1	-7.9%	337%
DAI	5.49	1.0	-0.1%	0%
Filecoin	4.86	56.4	-6.6%	153%
Tron	4.61	0.1	-5.7%	139%

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