



# GALAXY FUND MANAGEMENT NEWSLETTER

SEPTEMBER 2020 IN REVIEW





# MARKET COMMENTARY

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When measuring progress, we often look to metrics and numbers—but those numbers can be deceiving at times. For digital assets, September was one of those instances. Bitcoin finished down 8.61% while the Bloomberg Galaxy Crypto Index (BGCI) saw a 14.70% drawdown for the month. Despite finishing lower, both indicators remain well above the 2020 water mark with bitcoin returning 56.80% and the BGCI showing the broader large cap market up 79.39%. When weighing yearly returns versus the past month, it is much easier to conceptualize that, despite a lower finish, the final month of the third quarter still had several positive developments continuing to drive this rapidly emerging asset class forward.

Picking up [where we left off last month](#) with the purchase of bitcoin by MicroStrategy Inc. (MSTR) and its forward-thinking CEO, Michael Saylor, the company made yet another bitcoin investment with its balance sheet. When bitcoin dipped into the \$10,700 range in September, MicroStrategy announced the purchase of an additional \$175 million of bitcoin to add to its roughly 20% corporate treasury position, bringing its total balance sheet holding to about \$425 million. A public company that could have monetized its balance sheet with any

asset in the world has now taken a nearly half-billion-dollar position in bitcoin.

Additional developments in September were tied to other key themes of the year: decentralized finance (DeFi) and regulation. Growth in the DeFi sector of digital assets continued. Despite some assets collapsing 50%+ from their highs of just a few months ago, investors continued to flock to this rapidly developing area of the digital asset market. In September, the number of assets held or locked in DeFi applications crossed the \$10 billion mark, finishing just north of \$11 billion for the month. Lending applications, decentralized exchanges (DEXes), and other primitive forms of financial instruments continued to drive growth despite the drawdown for many assets. Ether finished down 18.81% but the Ethereum network continues to grow as the lifeblood application for DeFi.

On the regulatory front, the Office of Comptroller of the Currency (OCC) continued to release direction that appears bullish for digital assets. Earlier this year, the OCC released a letter confirming that banks with Federal Charters may custody digital assets. In September, the regulatory body released another letter, this time clarifying that these same banks may



hold stablecoin reserves or the assets that back stablecoins, which are widely used to create currency pairs in the digital asset market. This development should not only help traditional banks enter the space with the ability to increase their holdings, but also provide a broader stablecoin issuer community more options for the custody of their underlying holdings.

In another regulatory development, Kraken, a large San Francisco based digital exchange, secured a banking charter issued in the crypto-friendly state of Wyoming. Under a framework developed in the state, Kraken will be allowed to submit applications for services such as an account at the Federal Reserve, which would allow for common fiduciary services such as regulated custody, deposits, and servicing institutional level clients.

On a final note, the European Central Bank (ECB) made an announcement that further signals that the digitization of money is inevitable. The ECB indicated that a digital version of the Euro—its most widely-used currency—may become essential in the coming years. This announcement builds on prior signals that central bank digital currencies (CBDCs) will become part of the global financial system. Both China and the United States have discussed digitized forms of currency, with China being on the forefront of such innovation.

Despite markets finishing lower in September, it is important to remember that progress for the asset class and its underlying trends continue to strike a positive note and signal an upward trajectory.



# INDUSTRY INSIGHTS

**Square** completed the purchase of 4,709 bitcoin, a \$50 million investment. This represents ~1% of Square's total assets as of the end of Q2 2020. "Given the rapid evolution of cryptocurrency and unprecedented uncertainty from a macroeconomic and currency regime perspective, we believe now is the right time for us to expand our largely USD-denominated balance sheet and make a meaningful investment in bitcoin," the company noted in its bitcoin investment white paper. Founder and CEO Jack Dorsey has been a strong advocate for bitcoin, declaring in 2018 that bitcoin will eventually become the world's "single currency". Square's bitcoin investment follows MicroStrategy's \$425 million investment.

**The Centre for Alternative Finance at Cambridge University** released its 3rd Global Cryptoasset Benchmarking Study in September, releasing several new findings on the state of the cryptocurrency and blockchain industry. Findings show that the total number of cryptoassets users in 2020 stands at 101 million users, up from 35 million in 2018. Next, the proportion of "cryptoasset-only" companies that do not perform any KYC/AML dropped from 48% to 13% in 2019, showing an increasing willingness to work within regulatory

guidelines. Lastly, 39% of Proof-of-Work mining activity is powered by renewable energy, primarily hydroelectric power. 76% of miners use renewable energy as part of their mix.

**Decentralized exchange Uniswap's** monthly trade volume exceeded Coinbase's in September for the first time ever. Uniswap is an exchange built on Ethereum smart contracts that processed \$15.4 billion in volume in September, while Coinbase saw \$13.6 billion. Uniswap can support exchange between any two ERC-20 tokens by using a standardized market-making pricing mechanism called a Constant Product Market Maker. Uniswap launched a token UNI that will allow holders to participate in governing over the parameters of the protocol.

**Ethereum miners** cleaned up in September, making \$171.5 million in transaction fees paid by users. September 2020 alone nearly quintupled all of 2019. Transaction fees increased 48.7% month-over-month from August to September and 237.2% month-over-month from July to August. Total Ethereum transaction fees paid to miners are on pace to be \$491 million in 2020, 14.1x the total paid in 2019.



**The ECB's** High-Level Task Force on Central Bank Digital Currencies published a "Report on a Digital Euro", spelling out the shape of a future Digital Euro. A Digital Euro would "contribute to [the Euro's] strategic autonomy by providing an alternative to foreign payment providers for fast and efficient payments in Europe and beyond." The ECB, however, refuses to be the first-mover, opting

to wait until necessity forces its hand. The ECB says that it will wait until mid-2021 to decide whether to launch a digital euro project. By that time China's PBoC will likely have issued its digital currency. PBoC Deputy Governor Fan Yifei said at the Sibos 2020 conference that 3.13 million pilot transactions totaling 1.1 billion Yuan (~\$162 million) had been conducted in China's new digital currency.

DATA POINT	9/30/2020	8/31/2020	DELTA
BGCI	<b>476.66</b>	<b>558.82</b>	<b>-14.70%</b>
BITCOIN	<b>\$10721.92</b>	<b>\$11731.42</b>	<b>-8.61%</b>
ETHEREUM	<b>\$355.75</b>	<b>\$438.16</b>	<b>-18.81%</b>
XRP	<b>\$0.2395</b>	<b>\$0.2822</b>	<b>-15.13%</b>
EOS	<b>\$2.56</b>	<b>\$3.2533</b>	<b>-21.06%</b>
Bitcoin Cash	<b>\$225.99</b>	<b>\$274.66</b>	<b>-18.36%</b>
Litecoin	<b>\$45.95</b>	<b>\$61.36</b>	<b>-25.12%</b>
Total Market Cap	<b>\$343.99 BN</b>	<b>\$361.76 BN</b>	



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Sources: ECB High-Level Task force on Central Bank Digital Currencies, South China Morning Post, Cambridge University, The Block, Etherscan

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