



DIGITAL ASSETS

DECODED

JUNE 2021 IN REVIEW

GALAXY

FUND MANAGEMENT



MARKET COMMENTARY



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Digital assets finished lower in June as concerns around China deepened. President Xi Jinping's regime implemented further sanctions against the asset class, creating a worsening hangover on the back of May's news regarding China's ban of digital assets as currency.

SUMMARY OF RECENT CHINA DEVELOPMENTS

MAY 21

- Vice Premier Liu He and the State Council announced a crackdown on mining and trading

MAY 25

- Inner Mongolia proposes eight measures to restrict mining

MAY 27

- Sichuan province, a region that hosts many hydro-powered miners, announces a public meeting to assess a mining ban

JUNE 5

- Weibo (China's Twitter) announces ban of Chinese "crypto influencer" accounts

JUNE 9

- Baidu (China's Google) and Weibo begin censoring searches related to exchanges Binance, OKEX, and Huobi
- Miners in Xinjiang are ordered to shut down
- Miners in Qinghai are ordered to shut down

JUNE 11

- Yunnan province, which hosts large hydro-electric generating miners, announces that all mining farms will be inspected by the end of June

JUNE 16

- Huobi announces that it will slash leverage for Chinese Nationals from 125x to 5x

JUNE 19

- Sichuan province orders state-owned energy suppliers to cut power to 26 local mining farmers

JUNE 21

- The People's Bank of China orders Chinese banks and payment processors to cut off payment and funding on-ramps immediately
- Trading desks begin to shut down
- Miners begin to go offline



These developments brought price headwinds and increased volatility. Why? As miners and trading desks shut down, substantial selling of assets can follow as business models pivot. Miners shutting down also leads to a decrease in hashrate, which is the computing power used to mine new blocks. The less computing power in the network, the easier (and more profitable) mining becomes for remaining miners. That said, bitcoin's design tackles changes in its hashrate via "mining difficulty," a re-calibration every 2,016 blocks that reset the level of difficulty to mine.

Experts estimate that it will take roughly one year for the affected miners and trading desks to relocate their businesses and restore operations. Many across the digital asset space are calling China's actions the largest sovereign assault on the asset class since its inception. We recognize that it's important to widen the aperture. As a result of China's actions, the asset class expects to see a migration of digital asset mining, trading, and business function from east to west. While this "great migration" has led to a near-term price drop and volatility, it likely stands to deliver longer-term benefits to the asset class as a whole, including:

- Movement of business to regions that embrace innovation
- Increased transparency and more accurate data for digital asset-related businesses
- More balanced dispersion of digital asset-focused businesses around the globe
- Less leverage in the system (many Asian-based exchanges offer retail traders the ability to take highly levered positions)



WE ARE CONFIDENT THAT THE SHORT-TERM VOLATILITY WILL GIVE WAY TO A STRONGER ASSET CLASS



Elsewhere in the world, El Salvador is taking an entirely different stance on bitcoin. President Nayib Bukele announced in a national address that El Salvador will make bitcoin legal tender effective September 7, noting that its use will be optional. El Salvador's Congress already approved Bukele's proposal to embrace the digital asset, making El Salvador the first country in the world to adopt bitcoin as legal tender. This adoption received mixed reactions, with some citing potential headwinds such as bitcoin's illiquid nature, volatility, and U.S. dollar conversion risk. Those who support the move cite that El Salvador relies heavily on money sent back from workers abroad, with World Bank data showing remittances to the country made up nearly one-fifth of gross domestic product (GDP) in 2019, one of the highest ratios in the world. As global leadership continues to get more comfortable with bitcoin and regulatory clarity increases, we are confident that the short-term volatility will give way to a stronger asset class.



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