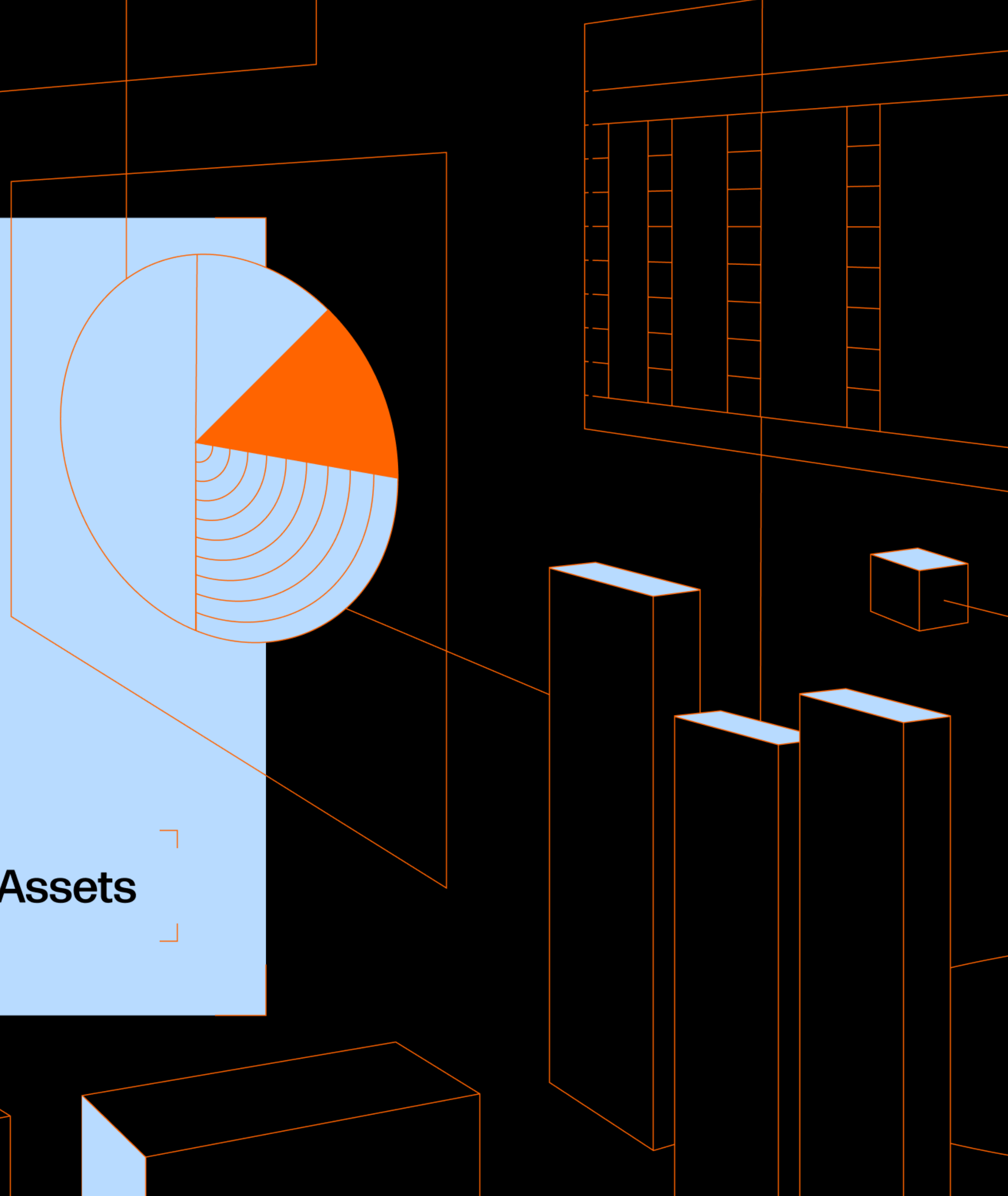
galaxy | Research

DeFi, RWAs, and Tokenization

DeFi's Surge and the Tokenization of Real-World Assets



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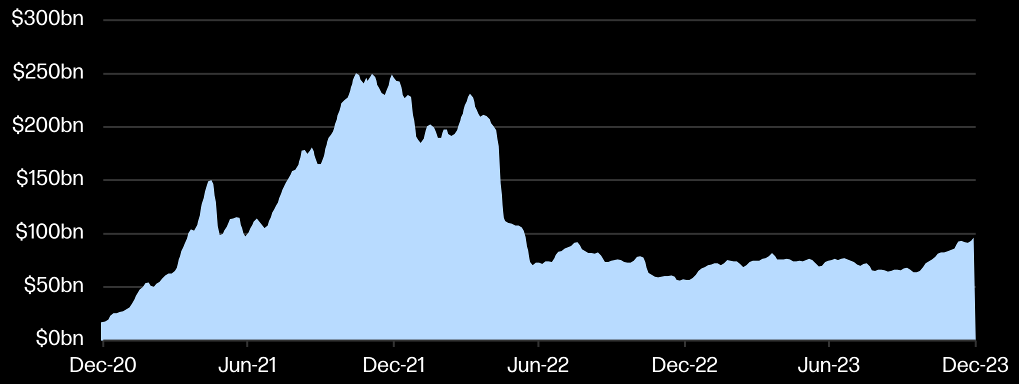
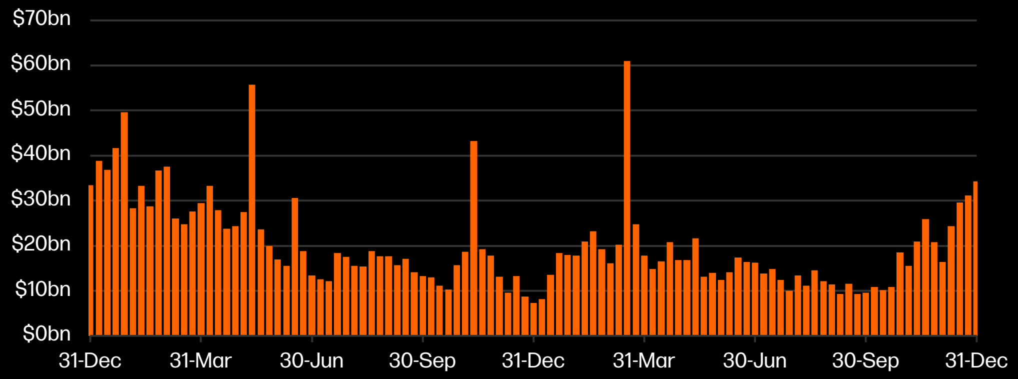
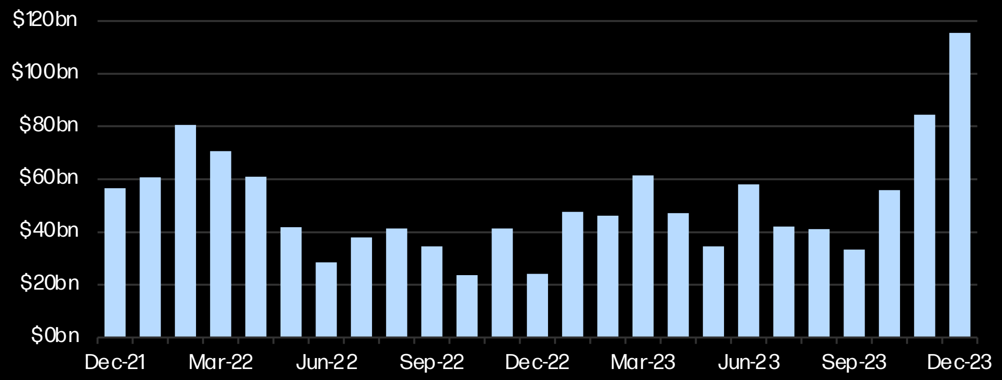
DeFi TVL



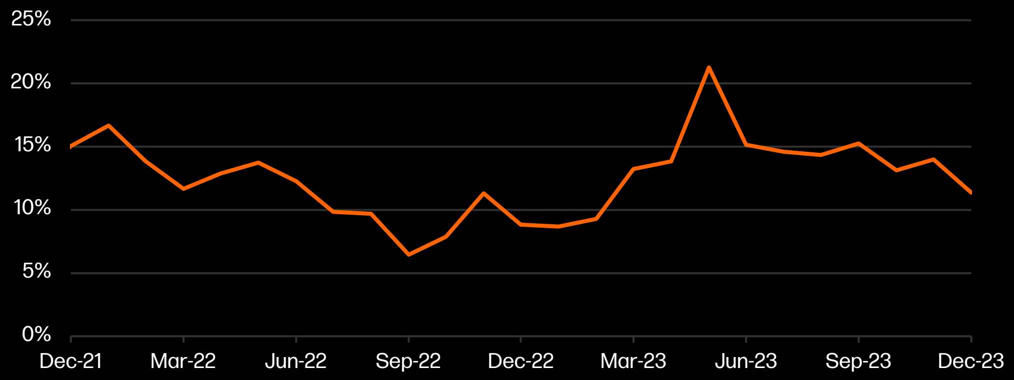
DEX Volume (weekly)



Monthly DeFi Derivatives Vol



DEX to CEX Spot Trade Volume (%)



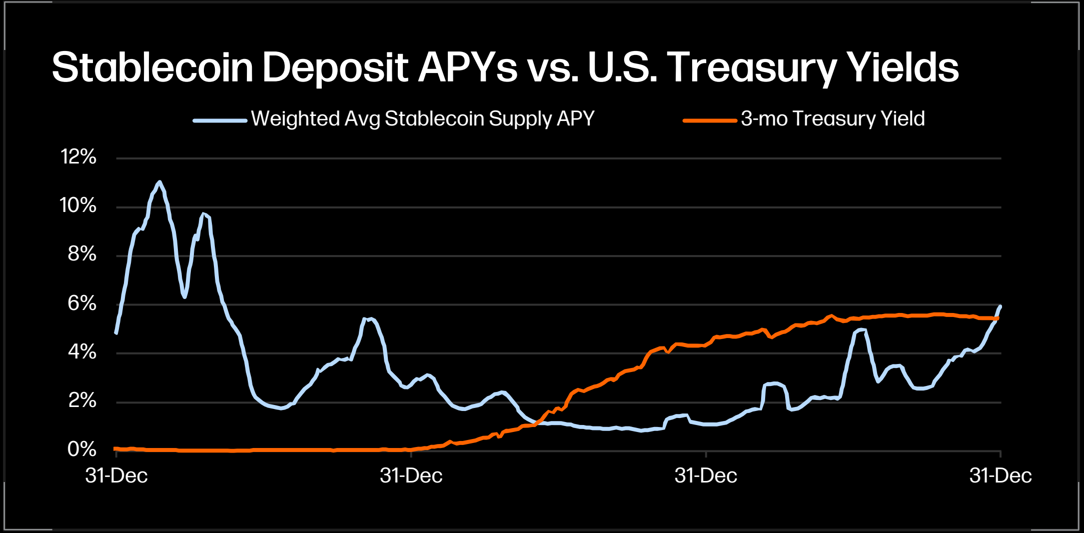
Data: DeFi Llama, Dune, The Block

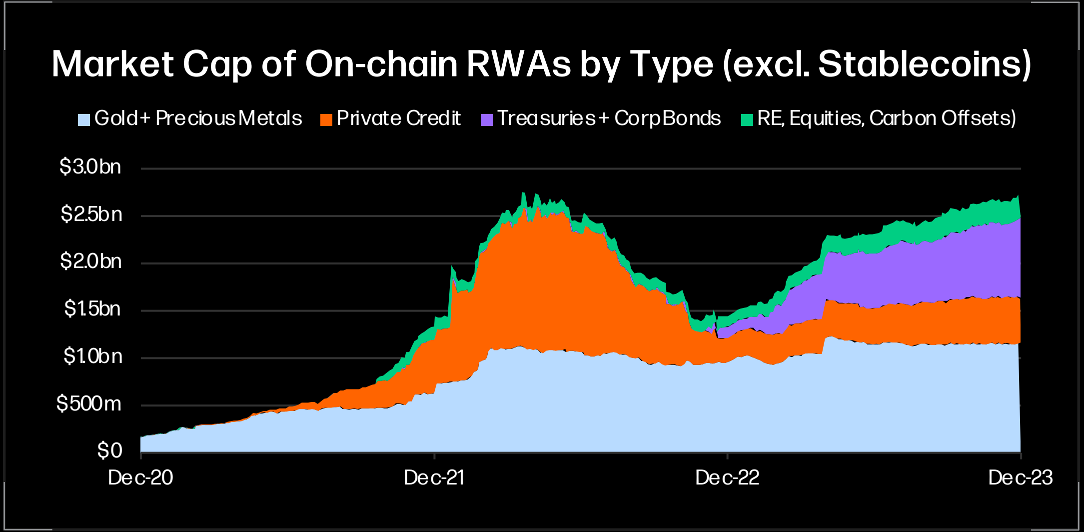
Real-world assets ("RWAs") have been one of the fastest growing verticals across crypto in 2023. The value of non-stablecoin RWAs on public blockchains grew to $2.7bn (+112% YoY) – $1.0bn (80%) of which has come from yield-bearing assets including Treasuries, real estate, and private credit. Market share of yield-bearing RWAs has grown this year from 31% to 55%.

Traditional financial brands like Franklin Templeton and WisdomTree have started to experiment with RWAs by tokenizing equity-centric funds and money market funds to service their institutional customers' needs.

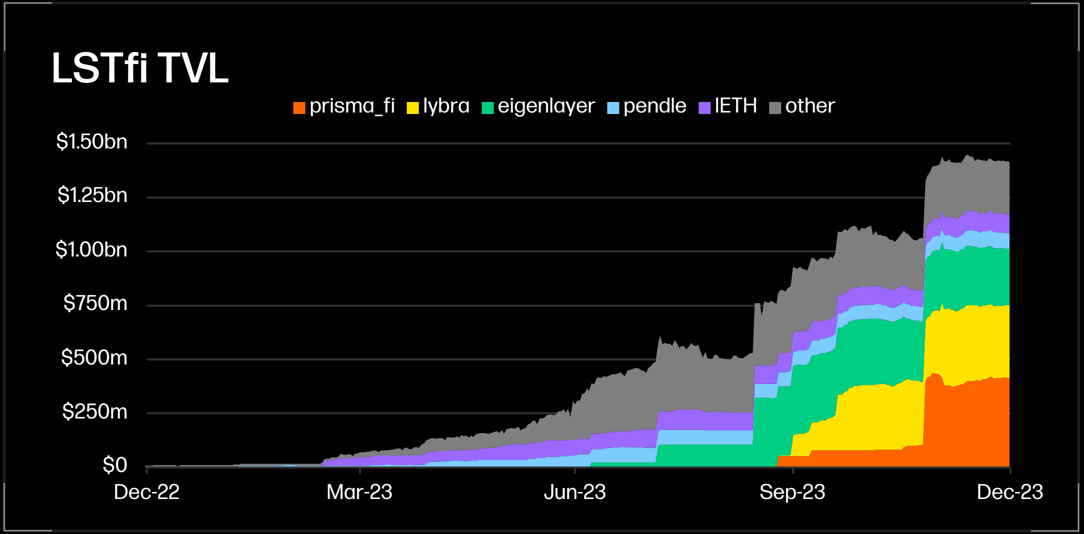
Looking ahead in tokenization:

- Though tokenization efforts are still nascent and in the early stages of development, the issuance of RWAs by established TradFi brands companies can catalyze onboarding of large swaths of new users to crypto.
- On-chain credit markets have a lot of room for development – more research is needed to understand some of the idiosyncratic or distinctive risks with DeFi / blockchains particularly as it relates to defaults and token composability. The monitoring, auditing, and communication of off-chain assets to on-chain end users also poses challenges for tokenization. Infrastructure will have to be developed to streamline this process and promote transparency, a key pillar of the blockchain economy.
- Out of a multi-trillion-dollar addressable market, so far only $1.5bn of financial assets has been tokenized on public blockchains, representing a significant market opportunity. Tokenization represents one of crypto's most compelling use cases and will continue to be an important trend going forward.





Data: FRED, DeFi Llama, rwa.xyz



LSTfi: While yield-bearing stablecoins and new tokenized RWA credit products aim to deliver off-chain yields through on-chain products, LSTfi (liquid staking token finance) aims to allow crypto-native yields to be used more productively in DeFi. The LSTfi market is now at $1.3bn, up from near zero since the start of this year, and it will have important implications for protocol design and incentive structures. LSTfi is more modular designs such as posting to alternative DA layers like Celestia and EigenDA.

DeFi continues to add improvements to UX. DeFi protocols have continued to make progress in optimizing and simplifying user operations, automating tasks, lowering costs, improving capital efficiencies, and revamping protocol incentives for more sustainable yield. Technical improvements enable more seamless on-chain experiences with features including Account Abstraction, gas-less transactions, and protocol subsidies/rebates.

Data: Dune

Predictions:

- DeFi protocols will continue horizontal expansion to build competitive moats. Many of the core DeFi protocols have expanded horizontally into new products to grow synergies with existing product offerings – for example, Curve Finance and Aave now have the crvUSD and GHO stablecoins, respectively, MakerDAO now offers yield on its stablecoin through sDAI and also launched its own lending protocol SparkLend (a fork of Aave), while Frax introduced its own competitor to sDAI with sFRAX and LST with frxETH. This trend will eventually lead to significant overlap in offerings among major DeFi protocols.
- Institutional adoption continues to accelerate. TradFi is warming up to crypto as the industry aims to modernize their financial infrastructure and product offerings. Familiar financial brands including Franklin Templeton, WisdomTree, JPMorgan's Onyx, and Apollo have recently announced various RWA/tokenization initiatives that utilize public blockchain infrastructure and permissioned solutions – a sign that institutional- and enterprise-grade blockchain solutions are nearing production-readiness. Regulatory clarity / compliance solutions can be a big unlock and determinant for how DeFi evolves and how institutions get involved.
- Trading & infrastructure developments will improve capital efficiency in DeFi and unlock new use cases. Trading activity improved with continued development of AMMs, aggregators, and derivatives platforms. Telegram trading bots drove significant trading volume in 2023 as they offer simplified trading interfaces and can automate execution of a wide range of trades quickly. Expected to launch in 2024, Uniswap v4 features 'hooks' or intent-centric uses that can help aggregate fragmented liquidity across different DEXes, CEXes, and across chains. Infrastructure improvements can unlock new interoperability use cases in DeFi, such as Chainlink's Cross-Chain Interoperability Protocol (CCIP) and Circle's Cross-Chain Transfer Protocol (CCTP).