Looking Back on 2020 and 2021 Predictions

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Research and Insights

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Looking Back on 2020

Happy New Year from all of us at Crypto.com Research! 2020 was an unprecedented year for the world and for crypto. Before we fully plunge into 2021 predictions, we will first share a brief recap of the major industry events of the past year and the lessons learned.

1. Bitcoin’s Big Year

2020 was a rollercoaster year for Bitcoin. We experienced extreme lows on Black Thursday in March as BTC fell 50% in a COVID-19 induced liquidity crisis, followed by a robust recovery that led us to a parabolic rally and high volatility still ongoing today.

In May, Bitcoin also underwent its third halving since inception, where the BTC inflation rate was slashed by half. Unlike the Olympics which was also slated for 2020 but had to be cancelled, BTC just kept chugging along, shrugging off the effects of the coronavirus.
2. DeFi Summer

How can we mention 2020 without mentioning DeFi, the new kid on the block? This year was an insane frenzy of action for DeFi, which offered a welcome respite from lockdown, as new protocols and yield farming initiatives were announced seemingly every week. By the end of it all, TVL (total value locked) in DeFi grew more than twenty-three-fold from under $700 million to $15 billion.

In our Research, we also produced an extensive set of DeFi-focused content, outlining the revolutionary and exciting nature of DeFi’s ‘money legos.’
3. The Dawn of Yield Farming

Besides DeFi’s core principle of trustless and open-source financial services, among DeFi’s most revolutionary ideas was the idea of yield farming. The idea that the very ownership of platforms belongs not just to its creators, but also its users and early supporters, was an idea that spoke to all of us.

Many who took part in yield farming this year felt that we were partaking in something groundbreaking, and rightly so - DeFi creators took equity distribution models to extremes we hadn’t seen before. The effects of yield farming, we suspect, will reverberate throughout the crypto and financial landscape for years to come.
4. Institutional Adoption of Bitcoin

As BTC continues to chart new all-time-highs every day, we should look back retrospectively at the events that set us on this path. 2020 will be remembered as a landmark year where crypto took its first shaky steps towards mass adoption. It all began with the announcement of Microstrategy in August that it was plowing $250 million of its cash reserves into bitcoin.

Besides Microstrategy and Square buying outright, institutions one by one announced their support of crypto. Notably, Goldman Sachs, which historically had been reluctant to recognize crypto, named a new head of digital assets. Fidelity, one of the largest asset managers in the world, launched a bitcoin fund for wealthy investors, and recommended a 5% portfolio allocation to bitcoin. Citibank made a bold prediction that BTC could surpass $300k by the end of 2021. Singaporean bank DBS decided to one-up all of them, launching their own digital asset exchange.
5. Paypal and the Beginnings of Crypto Mass Adoption

Besides the above, one institution in particular stands out - Paypal announced in October to allow its 300 million users to purchase cryptocurrencies directly. Partnering with Paxos its exchange partner to facilitate purchases, we have seen a tremendous inflow of PayPal user funds into crypto, especially bitcoin.

The impact of this new wave of entrants to Bitcoin cannot be understated. Instead of having to go through the fiat-to-stablecoin ramps or having to wire money into exchanges, PayPal effectively opened up cryptocurrencies to millions of people who previously found it too cumbersome to enter.
6. Ethereum 2.0

The upgrade to Ethereum 2.0 has been long-awaited by the ETH community. If anything, summer’s DeFi madness has shown that Ethereum is in dire need of an upgrade in scalability. Nothing illustrates this point more effectively than gas prices surpassing 1000 gwei during the UNI airdrop, making it infeasible for all but the largest of whales to transact on the network.

There’s currently more than 2 million ether locked in the ETH 2.0 staking contract as validator nodes, worth more than $1.6 billion at the time of writing, collecting more than 14% annualized in nominal yields. We covered the ETH 2.0 project in our June research report.
7. Explosion in Stablecoin Supply

In one of the most salient developments of 2020, the crypto industry has become increasingly reliant on centralized stablecoins, most notably Tether. The world’s most popular stablecoin ballooned to over $20 billion in circulating supply, taking up a staggering three-quarters market share in USD-based tokens.

![Graph: Total Stablecoin Supply](image)

Like it or not, the proliferation of stablecoins has been a necessary ingredient in the growth of crypto as a whole. Centralized stablecoins are still the most efficient fiat on-ramp into crypto, and with USD still the global reserve currency with ample liquidity, it almost makes sense that USD-backed stablecoins are crypto’s reserve currency.

Time will tell whether Tether and Bitfinex’s legal and regulatory troubles will prove to be the downfall of USDT, hence ending this nascent bull run. If Tether once again sees regulatory scrutiny into the wholeness of its accounts or even has its assets frozen, this could be a very bad scenario indeed for crypto as a whole.
8. China Launches Digital Yuan

Central banks around the world may be taking their first steps towards CBDCs, but not the PBoC. China’s experiments with the digital Renminbi progressed at a rapid pace in 2020, growing from something that didn’t even have a launch timeline a year ago to trialing pilot programs all over the country.

Besides the implications of state surveillance, there are many economic consequences, which we detail in our research report on CBDCs. To summarize: CBDCs will result in a more resilient and efficient payments landscape, while risking banking sector disintermediation. Most importantly, perhaps, is that they enable the creation of ‘digital currency areas,’ where the extreme utility of DCEP allows controlling central banks to swallow the monetary sovereignty of surrounding nations.
9. Record Crypto Credit Growth

Crypto credit of all kinds has seen a tremendous year of growth, from futures issuance to on- and off-chain lending. Bitcoin futures open interest surpassed $10 billion at the end of 2020 according to Skew Analytics. DeFi lenders Compound, Aave, and Maker all saw remarkable growth in loan issuance, as did CeFi players Genesis Capital and BlockFi.

For the first time, we are seeing significant credit growth accompanied by a parabolic bull-run in the crypto markets. Does this mean a credit crunch will lead to a scenario where liquidations beget lower prices? We got a small glimpse of this on Black Thursday back in March, but the risk of credit-fueled selloffs is definitely a risk to watch.

On the flipside, the existence of healthy credit markets means that would-be sellers may opt to borrow on the back of their crypto instead of selling outright, mainly for tax reasons. All in all, we think the development in crypto credit markets is essential for the continued growth of crypto as a whole. Institutions need credit and derivatives to effectively supply liquidity.
10. Regulatory Scares for Exchanges

These remarkable stories of growth aside, let’s not forget some setbacks. In October, the US Department of Justice indicted senior BitMEX executives under criminal charges of money laundering. The CFTC followed up with a civil suit against the exchange, alleging that the company flouted AML regulations.

![BitMEX's BTC Net Flow in 3Q2020](chart.png)

As of December 26, 2020  Source: Crypto.com Research

All in all, this event might have been fatal to risk appetite in the crypto markets in any other year, but 2020 proved that crypto investors are nothing if not resilient. Bitcoin’s price stuttered briefly after the incidents, but quickly recovered.

If these events are any indication, global regulators are laser-focused on bringing the crypto industry to heel. In 2020, jurisdictions all over the world began to release regulatory frameworks for virtual asset service providers to follow, guided by the ever-vigilant FATF.
2021 Year Ahead

After an eventful and memorable 2020, what can we look forward to in 2021? We lay out some of our key predictions below.

11. Crypto Mass Adoption

Although we saw the green shoots of mass adoption in 2020, retail crypto adoption has yet to reach what it could be. According to our own research, there are only roughly 73 million crypto owners globally, a far cry from the 7 billion global population.

It did not take many new entrants to send Bitcoin to a new all-time high in 2020. With trillions of dollars sitting on the sidelines from retail and institutional investors alike, it is really just the beginning for crypto adoption. According to the OECD, there were $32 trillion of pension fund assets in 37 OECD countries. If just 5% of these assets were allocated to bitcoin, this would be a $1.6 trillion inflow, more than tripling the crypto market cap. We’re a long way from reaching this point, but our point is, you ain’t seen nothin’ yet!
12. Growth of Institutional Crypto Brokerages/Custodians and Asset Managers

As institutions like PayPal and banks continue to offer crypto services to their users, we should expect to see an explosion in assets held by institutional prime brokers, custodians and asset managers. Institutions will turn towards institutional facilitators when entering crypto markets, while others will choose asset managers like Grayscale.

BTC and ETH Holdings of the Grayscale Trusts, in thousands

Since June 2019, BTC holdings grew by 138% and ETH holdings expanded by 28 times

As of November 2020 Source: The Block, Crypto.com Research
13. Continued Growth in DeFi

In the current BTC bull market, DeFi has taken somewhat of a backseat to majors after DeFi crash of late 2020. However, we would like to draw everyone’s attention to the fact that DeFi’s TVL has remained stubbornly high despite a fall in returns. DeFi is definitely here to stay.

The fact is, in this economic environment of zero-yields forever, investor assets simply have nowhere else to go, and DeFi yields are still attractive, even after factoring in the increased risk borne by investors.

Our thesis is that DeFi will continue to grow significantly in 2021, and this TVL will increasingly be captured by aggregators and decentralized asset managers, which offer the ability for investors to set-and-forget their investments.
14. NFTs - Art, Collectibles, and the Tokenization of Everything

If DeFi took a backseat to the crypto majors, then non-fungible tokens have been left even more by the wayside in 2020. After the ETH community’s attention moved from DeFi, however, NFTs seemed to garner some love, seeing an uptick of activity towards the end of 2020.

We believe NFTs, especially digital collectibles and art, will continue to trend upwards in 2021 as creators join in and new platforms emerge. In case you need a refresher on NFTs, we released this report in November. We will have more to share in this space soon!
15. Smart Contract Chain Scalability

Although the ETH 2.0 beacon chain was launched in December, it will be a long while before Phases 1 and 2 are here. Until then, Ethereum will need a stopgap to boost its scalability, or risk substitution by a competing smart contract chain. For the moment, it seems as though the market is firmly convinced that ETH Layer 2 scaling solutions are the way to go.

Solutions to watch: Plasma, sidechains, ZK-Rollups, Optimistic rollups. There are also competitor chains that are compatible with Ethereum, such as Avalanche, Polkadot, and Cosmos.

![Market Cap: ETH vs Ethereum Layer 2 Tokens](image)

We expect some activity to migrate to alternative chains with strong ecosystems in 2021, such as Polkadot. Crypto.com Chain could also become a contender, as it goes to Mainnet with synergies from the Particle B accelerator. This substitution behavior should progress at an accelerated pace if L2 scalability solutions fail to deliver, or if ETH 2.0 experiences further setbacks and delays. For now, however, ETH continues to be the platform to watch.
16. Growth in Global Regulatory Frameworks

As crypto becomes more mainstream, we should expect further regulation for all custodial players in the crypto industry and the first attempts to regulate non-custodial players (especially via the FATF Travel Rule). After all, regulators fear nothing more than grandmas and grandpas losing their retirement funds.

In 2021, we fully expect that regulators will begin to require service providers to obtain licenses to operate. This means increased costs related to compliance, and players that are best able to adapt to this new operating environment will reap the rewards.
17. Crypto Options Will Finally Hit the Big Time

An ancillary storyline for the institutional adoption of crypto is that crypto derivatives will see an absolutely tremendous growth. As we have seen in traditional financial markets, as investor sophistication increases, so does the sophistication of the instruments they trade. In particular, we anticipate an explosion in crypto options in 2021.

![Aggregate Open Interest of Bitcoin Options in 2020](image)

**Conclusion**

Well, there you have it – our two cents on the most important events in 2020 and our humble predictions for this coming year. Thank you for supporting our research thus far, and we hope you continue doing so in 2021!