



U.S. Crypto Market Developments

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Introduction

Cryptocurrencies are currently one of the hottest topics. No matter one's (educational) background or personal interests, it is rather difficult not to have been involved in a talk surrounding crypto, in one way or another. Indeed, the days when crypto used to be an obscure topic mainly discussed by a handful of enthusiasts (who are probably now millionaires) are over, as cryptocurrencies of all kind have infiltrated popular culture.

2021 in particular was an exciting year for Crypto: according to an analysis conducted by Triple-A, in fact, it is estimated that, in 2021, crypto ownership globally was about 4%, with over 300M users. Now, one might believe that due to the underlying nature/"mission" of cryptocurrencies, often seen as ways to replace the established and centralized financial systems, their adoption is likely to be more widespread amongst those emerging countries that are currently lacking developed financial institutions. However, the picture seems to be completely different, as showcased by the Triple-A report and its analysis of crypto adoption on a country/continent level, reported in Figure 1.

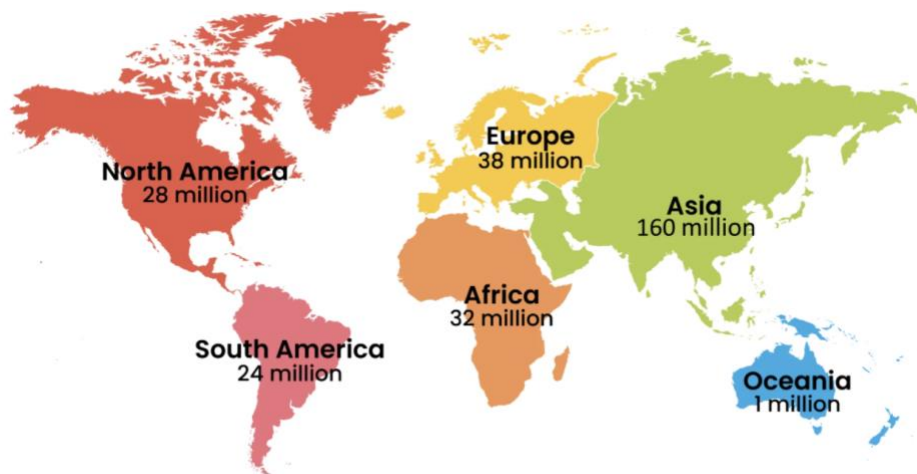


Figure 1: Adoption of Cryptocurrencies Worldwide in 2021 (Triple-A, 2022)

Indeed, as expected, there is clear popularity of crypto amongst African and Asian countries, but that is also accompanied by high adoption rates in North America and Europe, with over 65M users combined, in 2021. An even more insightful take can be observed when looking at the crypto adoption on a country level, as displayed in Figure 2.

Top Countries

1. India (100 million)
2. USA (27 million)
3. Nigeria (13 million)
4. Vietnam (5.9 million)
5. United Kingdom (3.3 million)

Figure 2: Top Countries for Cryptocurrencies Adoption (Triple-A, 2022)

Once again, it is not surprising to see countries like India, Nigeria, and Vietnam in the top 5 list of "Crypto Countries". Yet, it is interesting to notice also how other, more developed countries like the USA and the UK also belong to the list. Obviously, it is necessary to take into account the sheer size of the population of these countries to have a fair reflection of how crypto is adopted within them.

Nevertheless, looking at crypto holders as % of the population, the picture becomes even more interesting. The 100M holders in India represent 7.30% of the population, whereas the 27M holders in the USA represent over 8.30% of the population (Triple-A, 2022).

As such, it is hard to deny that Crypto is well widespread in emerging countries, like India, as it is in developed ones, like the USA. In this case, it appears particularly interesting to focus on the USA, not only due to its seemingly higher rate of adoptions but most important because, given how well-established financial systems currently are in the country, the impact and disruption brought by crypto in the USA have the potential to be colossal.

Hence, the Crypto development in the USA will be the focus of this report which, firstly, will analyze the major success of crypto in the country during 2020 and 2021 and, subsequently, will provide an overview of what the outlook of crypto in the country looks like going forward.

2020 & 2021 - Exponential Growth in Popularity

The inception of such popularity of crypto within the country has to actually be traced back to 2020. This was the year, in fact, where major players in the U.S. economy started becoming more and more interested in the previously obscure world of crypto. Amongst these players, the drive seemed to be coming from especially institutional investors and major companies (Gemini, 2021). In terms of the former, there was a major first bitcoin buying wave that started during the end of Q1 2020, with institutional investors pouring their money into the cryptocurrency and acquiring bitcoin blocks worth \$30M+ (Institutional Investor, 2021). Two major trends can be recognized as underlying this massive institutional interest in crypto during 2020: firstly, during the beginning of the year it was becoming ever-clear that the digital transition was accelerating; secondly, amidst major COVID-19 waves, inflationary concerns among investors were skyrocketing (Hamlin, 2022). In fact, the link between crypto and these trends was perfectly summarized by Steve Kurz, global head at Galaxy Digital Asset Management, which is an asset management firm specialising in crypto,

“Bitcoin happened to be this unbelievable asset that sat in between those two trends: It’s a digitally-native store of value and it’s also an inflation hedge”(Hamlin, 2022)

The result of this was a major success of crypto during the year, where the way that bitcoin usually does not correlate with other asset classes, paired with an overall devaluation of the U.S. dollar and fiscal monetary stimuli to soften the burden of COVID-19 created the perfect conditions for such rise to fame (Bouroudjian, 2021). To put this success in a financial perspective, Tim McCourt, CME Group’s Global Head of Equity Index and Alternative Investment Products, reports how,

“CME Bitcoin futures volume rose 114% in December 2020 compared to 2019. Likewise, open interest increased 252% over the same period, driven largely by institutional investors” (Bouroudjian, 2021).

As mentioned, this rise was also attributable to major companies such as Paypal and Twitter increasingly supporting cryptocurrencies, either by allowing crypto payments or investing in them directly (Gemini, 2021). Given this major 2020 interest in crypto, what were the expectations for crypto in the country during 2021?

According to a report conducted by Gemini, “The first few months of 2021 have shown no signs of crypto slowing down, as decentralized finance (DeFi) takes hold as a megatrend and bitcoin’s bull run

continues to break price records” (Gemini, 2021). Their estimates are even higher than those previously reported by Triple-A, with over 14% (21.2M adults) of the USA population estimated to hold cryptocurrencies. Their survey of 3,000 respondents also offers an overview of what the average U.S. crypto holder looks like, as shown in Figure 3.

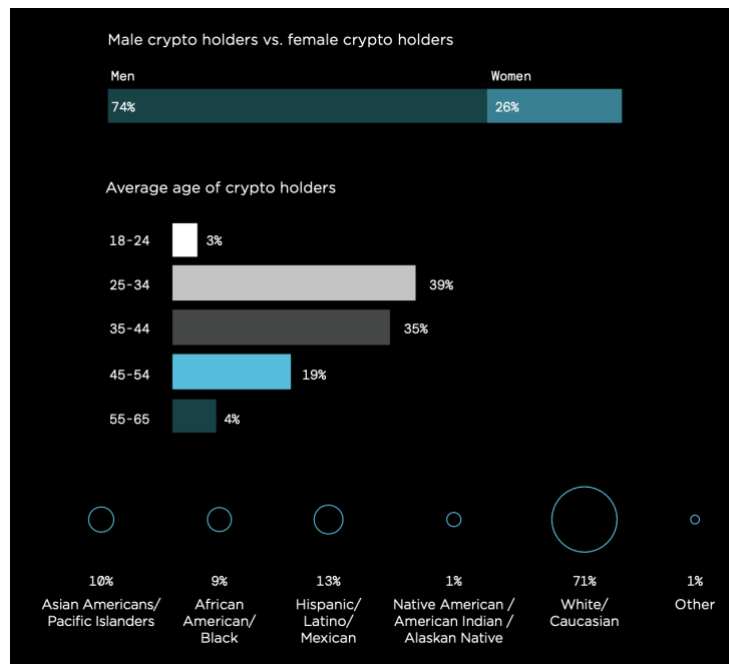


Figure 3: Demographics of Crypto Holders in the U.S. (Gemini, 2021)

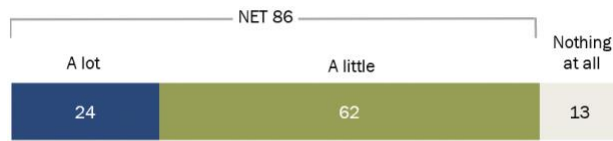
Interestingly, the crypto space appeared to be mostly dominated by male investors, with women account for only 26% of U.S. crypto holding. Nevertheless, as stated in the report, the market also appeared to be ever-broadening its appeal, as over 53% of respondents that indicated being interesting in holding crypto in the future were women (Gemini, 2021). Hence, they conclude that,

“It’s clear that crypto awareness is spreading, and acceptance is becoming more and more mainstream. Our survey revealed that there are many more people who are crypto curious than who are completely disinterested in crypto, which is promising for the future of crypto’s growth” (Gemini, 2021).

Indeed, the promise attributed to crypto for 2021 by Gemini proved correct, as shown by a survey conducted by Pew Research Center in September 2021 (Perrin, 2021). In fact, they report the results shown in Figure 4.

Nearly nine-in-ten Americans say they have heard at least a little about cryptocurrency ...

% of U.S. adults who say they have heard ____, if anything, about cryptocurrency such as Bitcoin or Ether



... and 16% say they have ever invested in, traded or used one themselves

% of U.S. adults who say they themselves ____, ever invested in, traded or used a cryptocurrency such as Bitcoin or Ether



Figure 4: The State of Crypto during 2021 in The USA (Perrin, 2021)

As such, it is clear that cryptocurrencies’ popularity in the country skyrocketed throughout 2021, with the majority of adults (86%) having at least heard about them, and over 16% being actually engaged with them by Q3 2021 (Perrin, 2021). As such, 2021 is often referred to as the record year for crypto, seeing the market’s value reaching, and surpassing, the astonishing amount of \$3 trillion thanks to leading cryptocurrencies such as ether and Bitcoin reaching all-time-highs and digital assets (e.g. NFTs) getting million-dollar offers (Locke, 2021). But what sources can this 2021 crypto success be attributed to?

There are several key events, both domestic and global, to consider: firstly, there was the sale of the infamous “Everydays: The First 5000 Days” NFT for \$69M at Christie’s by Mike Winkelmann, aka Beeple, in March 2021, which led to a surge in NFT interest domestically and globally, with the NFT market reaching over \$23B in trading volume during the year; secondly, there was major influence by celebrities promoting all sorts of crypto coins and projects: the most notable case is Elon Musk’s promotion of the meme-inspired cryptocurrency Dogecoin through various tweets and television appearances (Saturday Night Live), which severely pumped the price; thirdly, El Salvador was the first country to allow Bitcoin as legal tender, meaning that taxes and goods in the country could be paid via the currency, hence signaling its great future potential for entire economies in a variety of instances; thirdly, great initiatives were introduced by Ethereum which, in 2022, plans to shift from a proof of work model to a proof of stake one, significantly reducing its environmental impact (one of the main objections posed against crypto); fourthly, the ProShares futures-based bitcoin ETF (NYSE:BITO) was launched in October 2021, and achieved an EFT record-high first day; fifthly, a major update to Bitcoin, Taproot, occurred in November 2021, allowing for cheaper and safer transactions; next, policy-makers were severely lagging behind, as the industry is still clearly lightly regulated (also thanks to the emergence of “crypto lobbyist”); lastly, there was the rise of decentralized autonomous organizations (DAO) in the same month, which showcased their influence and future potential thanks to the case of ConstitutionDAO trying to purchase a U.S. Constitution copy for over \$40M (though being beat by Citadel CEO Ken Griffin) (Locke, 2021).

2022 & Beyond - A New Asset Class?

From the previous section, it is undeniable that cryptocurrencies had a fantastic year during 2020, and especially 2021, thanks to major domestic and global developments. Hence, it is now necessary to investigate their outlook going forward: will cryptocurrencies become the asset class of the future?

In these regards, there are three major themes to consider:

Firstly, there are pending regulations all over the world. As previously mentioned, policy-makers are clearly lagging behind, and they are now showing ever-increasing interest in establishing regulations to make the overall industry more transparent and safer. In fact, according to Jeffrey Wang from Amber Group, a crypto finance company, “Regulation is probably one of the biggest overhangs in the crypto industry globally. At the same time, however, Federal Reserve Chair Jerome Powell mentioned that there are not current plans on banning crypto within the country, but regulations are still underway to provide crypto holders clear guidelines, making the overall crypto investing safer and easier. In fact, provisions have been introduced in November 2021, especially in terms of crypto tax reporting, to make tax filings much easier. Whereas it is also true that sudden policies can worsen the already high volatility of the industry, the overall consensus is that further regulation will benefit crypto, as it enables people to invest in it confidently (Haar, 2022).

Secondly, this report already addressed the record-breaking debut of BITO, the first bitcoin ETF, on the NYSE. Nevertheless, concerns remain as the ETF only enables to invest in Bitcoin futures contract and does not actually hold the currency. Hence, unclarity remains whether the SEC will approve of other ETFs that actually hold Bitcoin. Further ETFs would enhance the accessibility of crypto within the nation (and globally), and hence their approval might be crucial for the future of crypto. Nevertheless, given the recent approval of BITO, and the upcoming regulations, this does not seem to represent an issue (Haar, 2022).

Lastly, further adoption by institutional investors and Big Tech will prove fundamental. As previously mentioned, companies like Paypal already starting entering the industry back in 2020, and experts predict that this trend will increase further in the future. According to Ben Weiss, CEO of the crypto buying platform Coinflip, “What we’re looking at is institutions getting involved in crypto, whether it’s Amazon or the big banks”. Indeed, companies like Amazon and Walmart currently on the look for crypto experts signals that further adoption of crypto by influential names is on the way (Haar, 2022).

Hence, the overall outlook of crypto in the U.S. seems to be highly positive. Of course, there are regulatory concerns to take into account, but the general consensus and trends seem to point at crypto eventually establishing itself as one of the major asset classes in the upcoming years.

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