2022

Jul

DappRadar Blockchain Industry Report

Check out the dapp industry highlights of July 2022

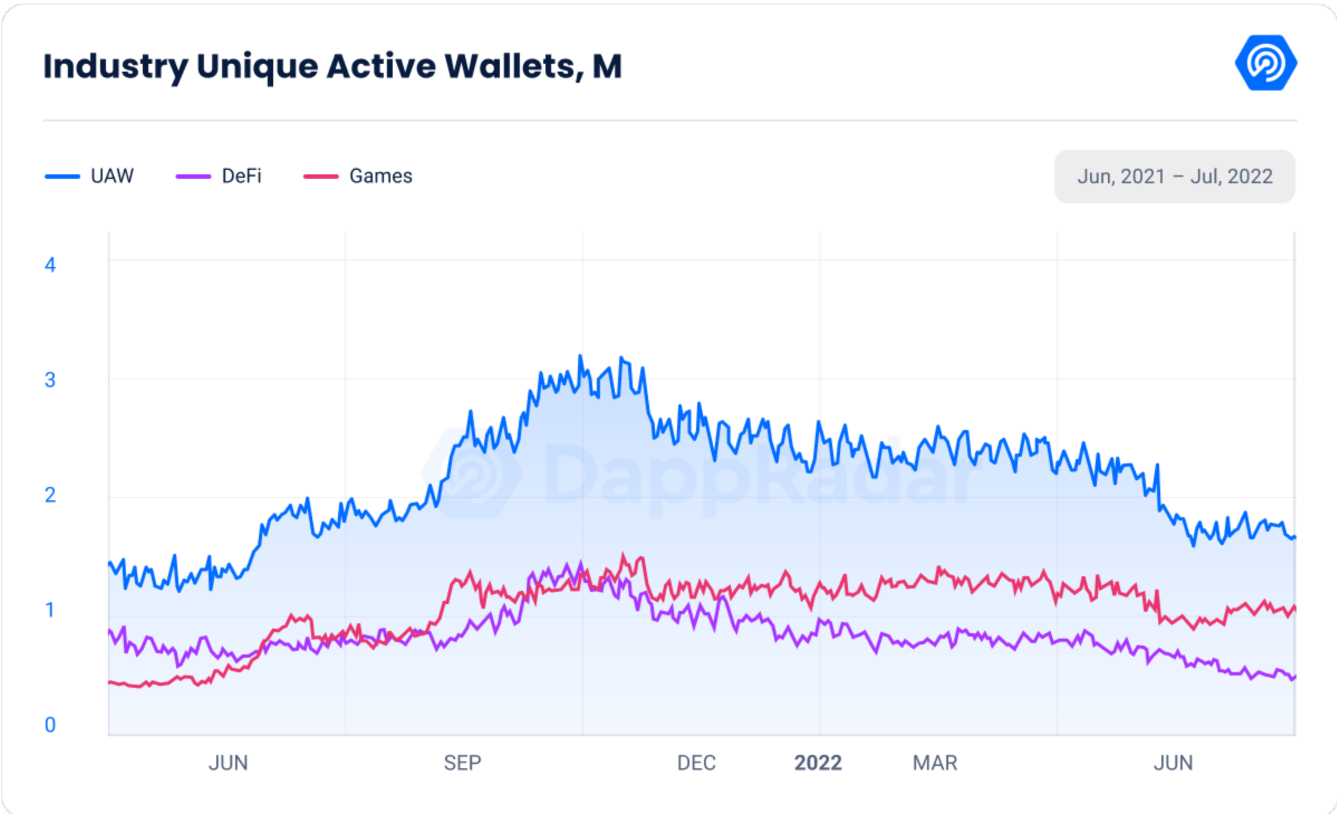
DappRadar

The crypto industry is still trapped in a bear market, feeling the effects of Terra's collapse, which had repercussions on the entire world of Web 3.0, including DeFi, NFTs, and the metaverse.

From the macro perspective, recent U.S. inflation figures reached their highest level in decades, with a rising interest rate of 75 basis points and a contraction of 0.9% in the second quarter of 2022. This was also the second quarter in a row for the United States making the official entrance into recession.

As obligations such as mortgage payments increase, disposable income decreases. Investors withdraw funds from the equity and cryptocurrency markets to repay loans and minimize liabilities. This increases the selling pressure and decreases the medium-term trading volume since it becomes more difficult to identify profitable chances.

The decline in cryptocurrency is visible, in fact, dapp activity has hit its lowest point this year with 1.68 million daily Unique Active Wallets (UAW) connected to blockchain dapps in July. This number represents a 4% decrease month-over-month (MoM), although it is still 20% higher than in July 2021.



Without question, DeFi is the blockchain segment that is feeling most of the struggles from the bear season due to the direct effect of cryptocurrency prices.

For the first time since April 2021, the number of UAW connected to DeFi dapps is below half a million. This translates to a 22% decrease from last month and a 31% decrease when compared to last year.

Yet, few blockchains stand out, defying the bear trend. For instance, Flow had an increase of over 200% of daily UAW from last month, mainly due to the recent launch of Permissionless Smart Contract Deployment, which means that anybody can now deploy a smart contract on the Flow Mainnet.

In such a complex situation, the NFT market has also contracted. In this case, however, several new trends have emerged in this sector that could accompany us throughout 2022 and even beyond.

Meanwhile, the Games category saw the most significant increase as the metric grew 8% MoM and 98% from last year, reaching 967,662 daily UAW on average. This is no surprise, as we have seen multiple blockchain games with truly immersive game mechanics that take entertainment to the next level in recent months.

Simultaneously, on the NFT side, the number of UAW keeps increasing too. Over 130,418 daily UAW connected to NFT-related dapps, driven mainly by Solana and BNB Chain, which revamped their NFT alternatives.

This report aims to cover the most critical trends in the last month.

Key Takeaways

- DeFi TVL starts to recover, a 22% increase from the previous month, with Tron and Polygon gaining ground
- The centralized lending platform, Celsius, filed for Chapter 11 bankruptcy, placing additional uncertainty on the possibility of depositors' funds being recovered
- NFT volume fails to hit $1 billion in trades for the first time since June 2021
- New entries as competitors in the NFTs marketplace, and the dominance of OpenSea falls to 58.6% from the 84% measured in May
- The dominance of the blockchain gaming sector keeps growing and is now almost 60%, defying the bear market trend.

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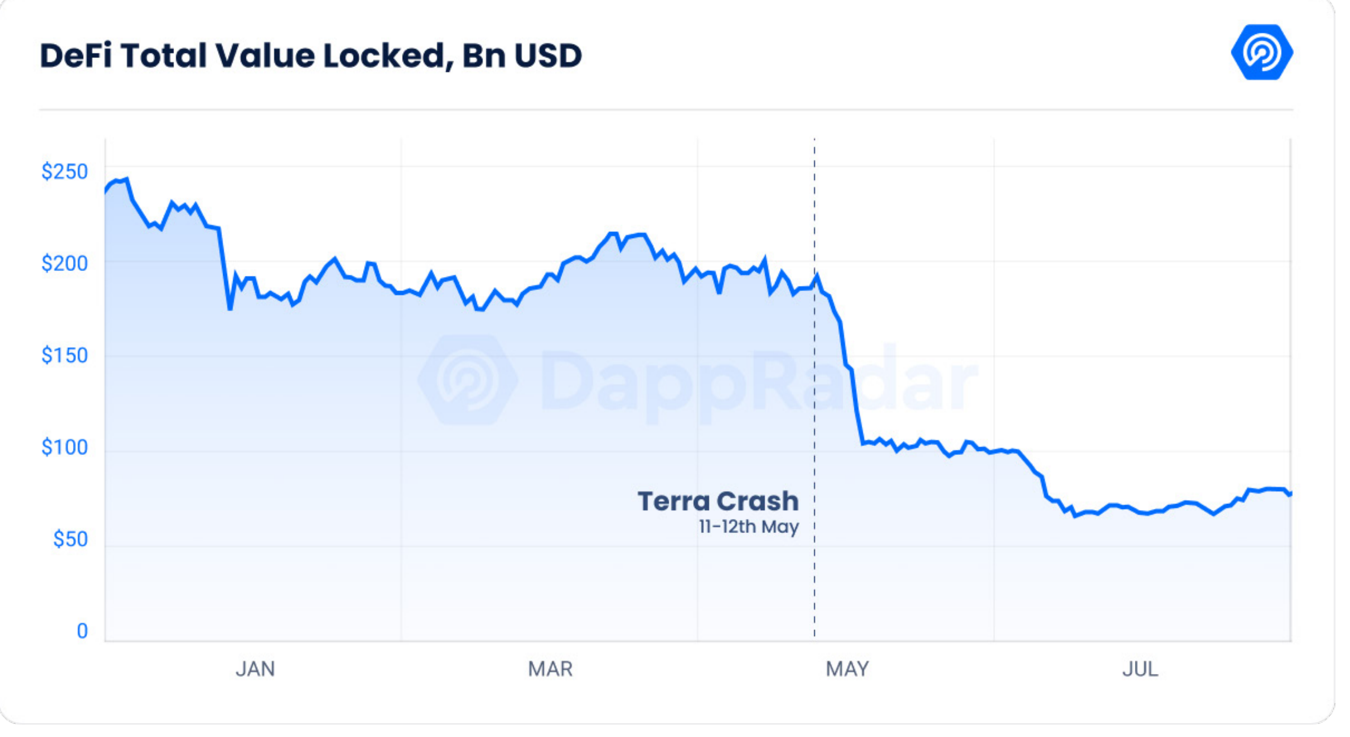
DeFi starts recovering from Terra collapse – 22% TVL increase

Due to the crypto market's slow but steady recovery, the decentralized finance (DeFi) industry has seen its overall total worth increase.

TVL, or total value locked, has served as the benchmark for evaluating the effectiveness of decentralized applications (dapps). TVL hit an all-time high of $253.91 billion on December 2, 2021.

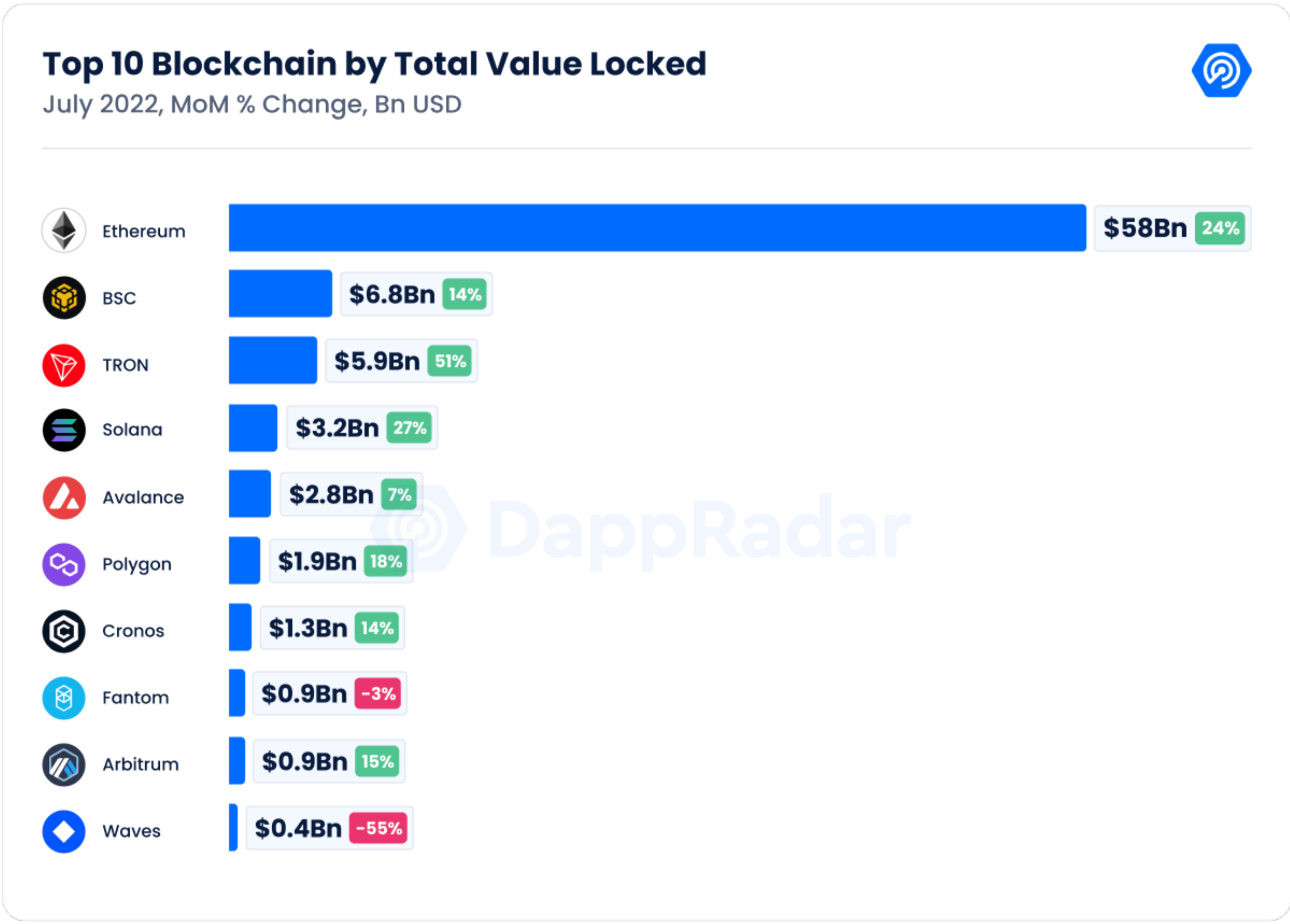


TVL has increased over the entire month of July. TVL was $82.3 billion on July 31, an increase of 22% from the $67.3 billion it was on July 1st. This growth could be attributed to a jump in TVL in seven of the top ten smart contract chains.

In July, Ethereum continued to have the highest amount of value frozen. On the first of July, Ethereum TVL was roughly $46 billion and increased to over $57.9 billion at the end of the month.

After Terra's failure, BNB Chain has taken over as the chain with the second-highest amount of value locked. BNB Chain's TVL had a value of almost $5.97 billion on July 1 and reached approximately $6.8 billion at the end of the month.

Over the month, similar increases were observed everywhere.



TRON TVL began the month of July with $3.95 billion, but on July 31, it had increased to $5.9 billion. Avalanche experienced an increase as well, growing from $2.68 billion to $2.81 billion.

During the same time, Solana (SOL) increased from $2.47 billion in TVL to $3.2 billion. For Polygon and Cronos, their TVL increased by $270 million and $110 million.

Polygon keeps building amid the bear season

Besides its DeFi growth, there have been significant updates to the Polygon network this month.

Numerous projects from the Terra ecosystem have moved to the Polygon network. This was primarily due to the Terra Development Fund, a multi-million dollar program that assisted these projects with their relocation. And as previously mentioned, this could also translate into DeFi activity, as the sidechain increased by 17% of its TVL.

Polygon was also chosen to participate in the Disney Accelerator Program, which strives to promote the expansion of creative businesses. Artificial intelligence (AI), non-fungible tokens (NFTs), and augmented reality (AR) technologies are heavily emphasized in this year's Disney Accelerator class.

Additionally, Polygon has plans to launch a new web3 phone alongside tech startup Nothing, a London-based company that wants to "remove the barriers between people and technology." Their goal with their new web3 smartphone is to enable NFT drops straight to their Android-based phone.

Crypto contagion continues as Celsius files for bankruptcy

The Celsius saga has moved on to the next chapter due to month-long account withdrawals and hope-inducing debt repayments. The centralized lending platform filed for Chapter 11 bankruptcy, placing additional uncertainty on the possibility of depositors' funds being recovered.

The company's bankruptcy petition showed extensive debt. After investing $750 million in mining rigs, the mining division of Celsius accrued $576 million in liabilities on its own. The bear market had a significant effect on mining earnings. For example, the price of mining machines dropped by 50%.

Additionally, loan liquidations cost the company $135 million in damage. The $841 million Tether loan was liquidated at a loss of $94 million, while the $75 million Three Arrows Capital (3AC) loan was liquidated at a loss of $40.6 million. However, the fascination continues.

The Chapter 11 bankruptcy of Celsius may not be as catastrophic as it sounds. It does not necessarily indicate that a business has died. General Motors and Marvel are companies that have gone through this process and emerged stronger.

In simple words, Chapter 11 bankruptcy refers to a company's reorganization through a court-supervised procedure determining which creditors will be paid first. Generally, the largest and most secured debtors get the highest claims priority, followed by retailers.

In the event of insolvency, Celsius' terms of service state that depositors "may not be able to recover or retain ownership" of digital assets.

At this time, Celsius intends to repair the platform and continue providing affiliates with lending services. However, account withdrawals and transfers will remain halted, and no new loans will be issued. Although it may take a considerable amount of time for depositors to hear whether or not they will receive their money back,

More calls for regulation in crypto

At the end of June 2022, the Council presidency and the European Parliament reached a preliminary agreement on the markets in crypto assets (MiCA), which covers issuers of digital currencies and stablecoins, as well as trading venues and wallets where crypto assets are stored.

This regulatory framework aims to protect investors and maintain financial stability while allowing for innovation and increasing the attractiveness of the crypto asset sector. The goal of MiCA is to provide more clarity across the European Union, as some member countries already have varying national legislation for crypto assets. Still, there was no specific regulatory framework at the EU level.

Source: [Comply Advantage]

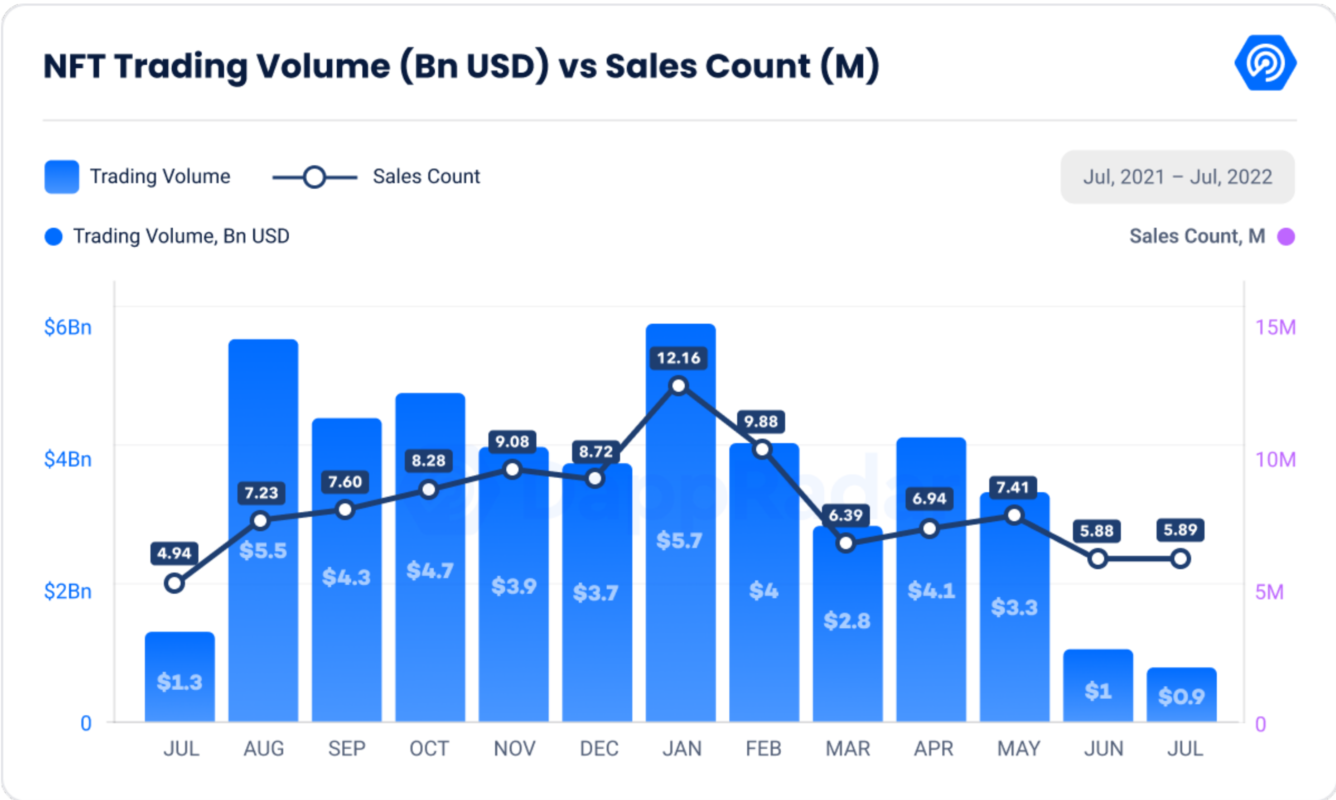
Almost simultaneously, the US Department of Treasury released a framework for international engagement on digital assets, which organizes collaboration across the G7, G20, the Financial Stability Board (FSB), the Financial Action Task Force (FATF), and the Egmont Group of Financial Intelligence Units (FIUs), the Organization for Economic Cooperation and Development (OECD), Other Standard-Setting Bodies (SSBs), the International Monetary Fund (IMF), The World Bank, and The World Bank.

In the future, the level and quality of regulation in a given jurisdiction will most likely be correlated with the adoption of cryptocurrencies and stablecoins. Large economic regions such as the EU and the US are making strides to provide initial direction as regulatory certainty influences economic behavior.

Has the NFT bubble finally burst?

Even though the NFT market failed to hit $1 billion in trades for the first time since June 2021, the answer might not be that simple.

The market is facing a historically bearish period. Liquidity is down, prices are heavily influenced by the decline in the value of cryptocurrencies, and the potential profit from reselling is not very high. As a result, many users have decided to liquidate their investments in the NFT market, waiting for better times or moving to positions commonly known as "holding", the trading blocking until the "crypto winter" has passed.



The trading volumes measured in USD show that the market is contracting, with a decrease of 25% MoM. Also, the number of traders has decreased by 8% MoM but still increased by 40% from July 2021.

The market is very primarily dominated by the four projects owned by Yuga Labs: CryptoPunks, Bored Ape Yacht Club, Mutant Ape Yacht Club, and Otherdeed for OtherSide, which alone represent more than $ 160 million dollars traded in July. In other words, Yuga Labs represents just over 20% of the entire NFT market during the total trading volume of July 2022.

Recent trends have enabled the explosion of utilities, mainly Ethereum Name Service domain names, with 20 million dollars in total trading volume in the past 30 days. Most Bored Ape Yacht Club members have begun purchasing the four-digit domain name corresponding to the Ape they own. This number matches approximately the domain name of the brand that their Ape carries.

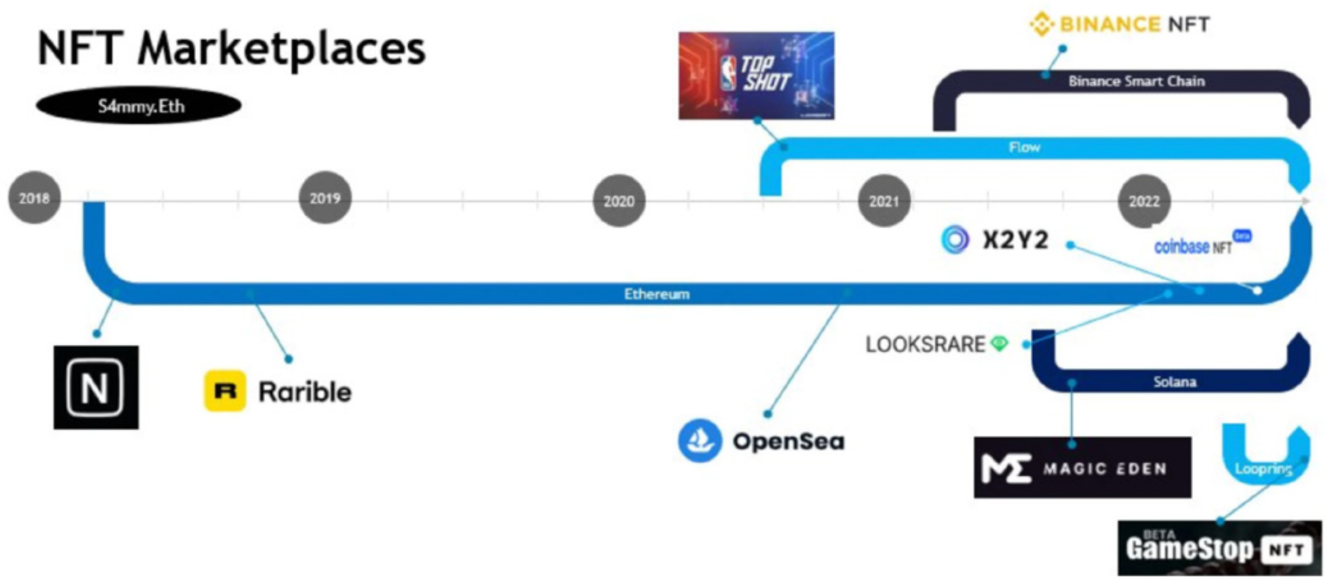
In these bear market times, where trade is concentrated on one asset class, we observe a hyper-centralization of activity as blue-chip NFT collections retain most of their value.

OpenSea might soon engage in an NFT Marketplace "War"

NFT Marketplaces continue their noticeable transformation amidst this evolution. We are witnessing the emergence of two new marketplaces: the Gamestop NFT Marketplace, which debuted on July 11, 2022, and Nickelodeon's NFT marketplace, launched on July 19, 2022.

The GameStop NFT Marketplace is a non-custodial marketplace built on Ethereum Layer-2-based blockchain technology known as the Loopring Layer-2 scaling solution.

In its first two days of operation, the GameStop NFT marketplace surpassed the Coinbase NFT marketplace. Since the launch, the total trading volume of the top 50 collections is approximately $12 million. The CYBER CREW [C4] collection is the leader in sales volume, with 3,000 ETH.



Source: [origins-research.eth]

The GameStop NFT marketplace will incorporate additional functionalities to include Web3 gaming, additional creators, and other Ethereum environments.

Also, the launch of Nickelodeon's NFT marketplace has been a great success; it witnessed over $2 million in total volume in less than three weeks.

The marketplace now exclusively sells the first-ever drop of Nickelodeon NFTs, "Nickelodeon: Rugrats & Hey Arnold!," which has done more than 1,700 ETH ($2.89 million) in total volume via OpenSea, the leading NFT marketplace in the industry.

The collection sold out in less than ten minutes during the presale and the general sale. The sale price was $50, and the collection's floor price is currently $94.

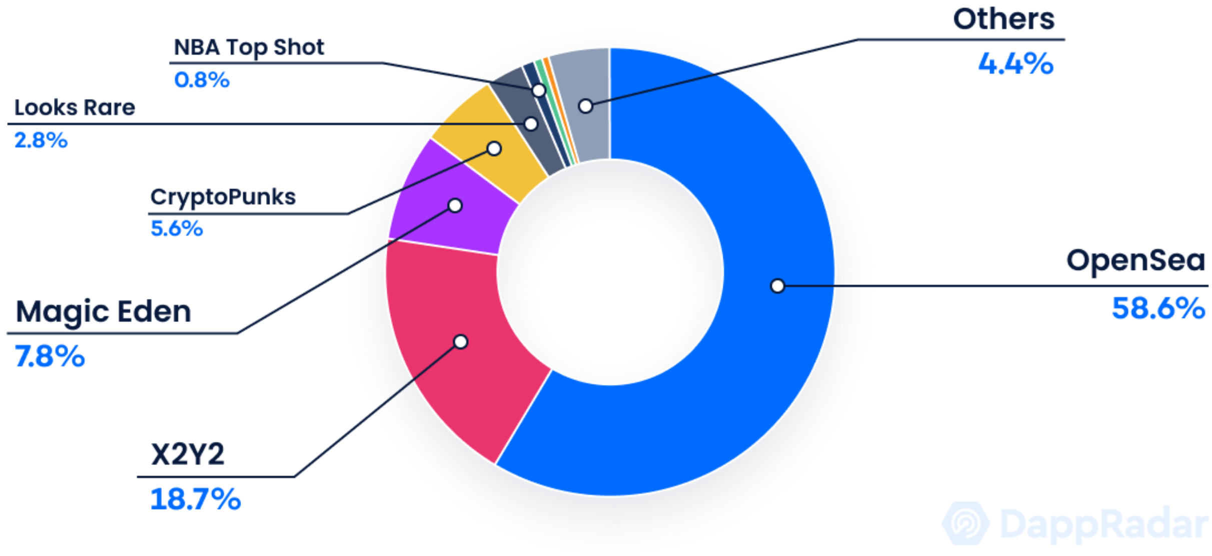
Nickelodeon's NFT marketplace filters by NFT type, character name, origin, series, slime score, costume, background, background accent, right arm, left arm, prop, eyes, mouth, outfit, expression, face prop, head prop, and VFX, which are all characteristics associated with the Rugrats and Hey Arnold!

Each NFT has a slime score that indicates its relative rarity relative to the other NFTs in the collection. By exchanging Nickelodeon NFTs, holders can also acquire slime.
Slime brings its possessors closer to acquiring rare, one-of-a-kind Mashup NFTs, which mix characteristics of Rugrats and Hey Arnold! characters to create new characters.

While the entry of new competitors has made things harder, OpenSea still remains the dominant marketplace, even if its market share has fallen from 84% in May to the current 58.6% measured in July. X2Y2 has seen a significant uptick in volume, more so than LooksRare. Using hildobby's (a renowned Web3 data scientist) formula to filter wash trading activity*, we see that organic volume grew 18.7% MoM in the community-driven marketplace reaching $168 million in organic trades during July.

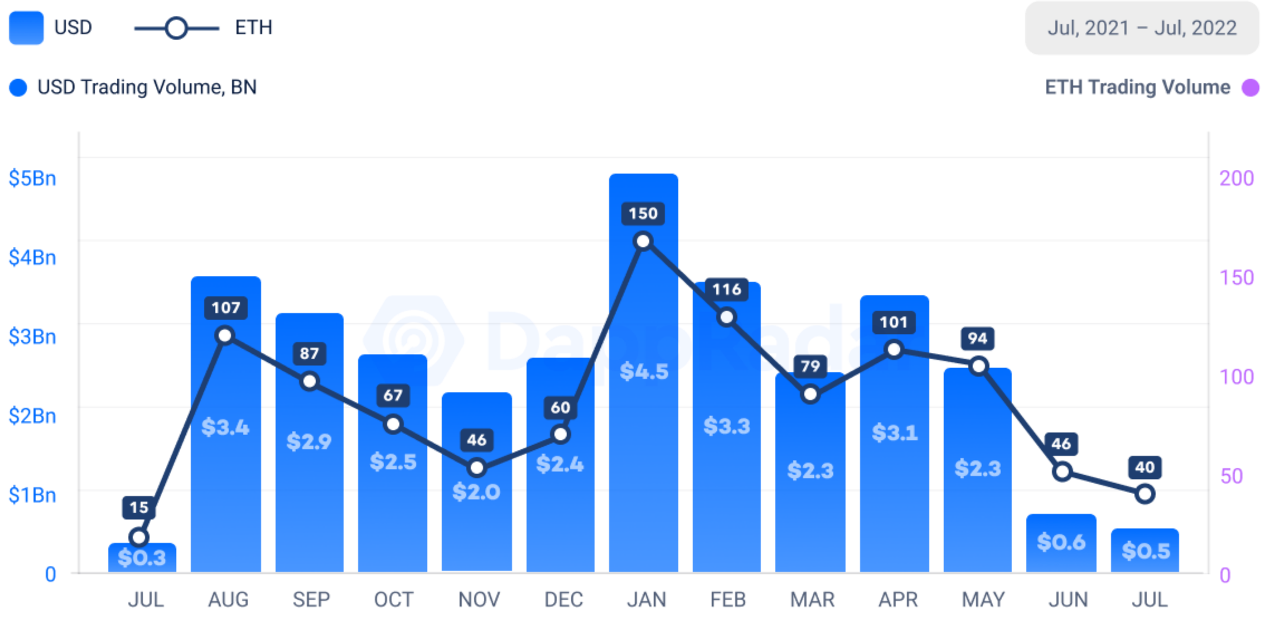
Marketplace Dominance in NFT Trading Volume

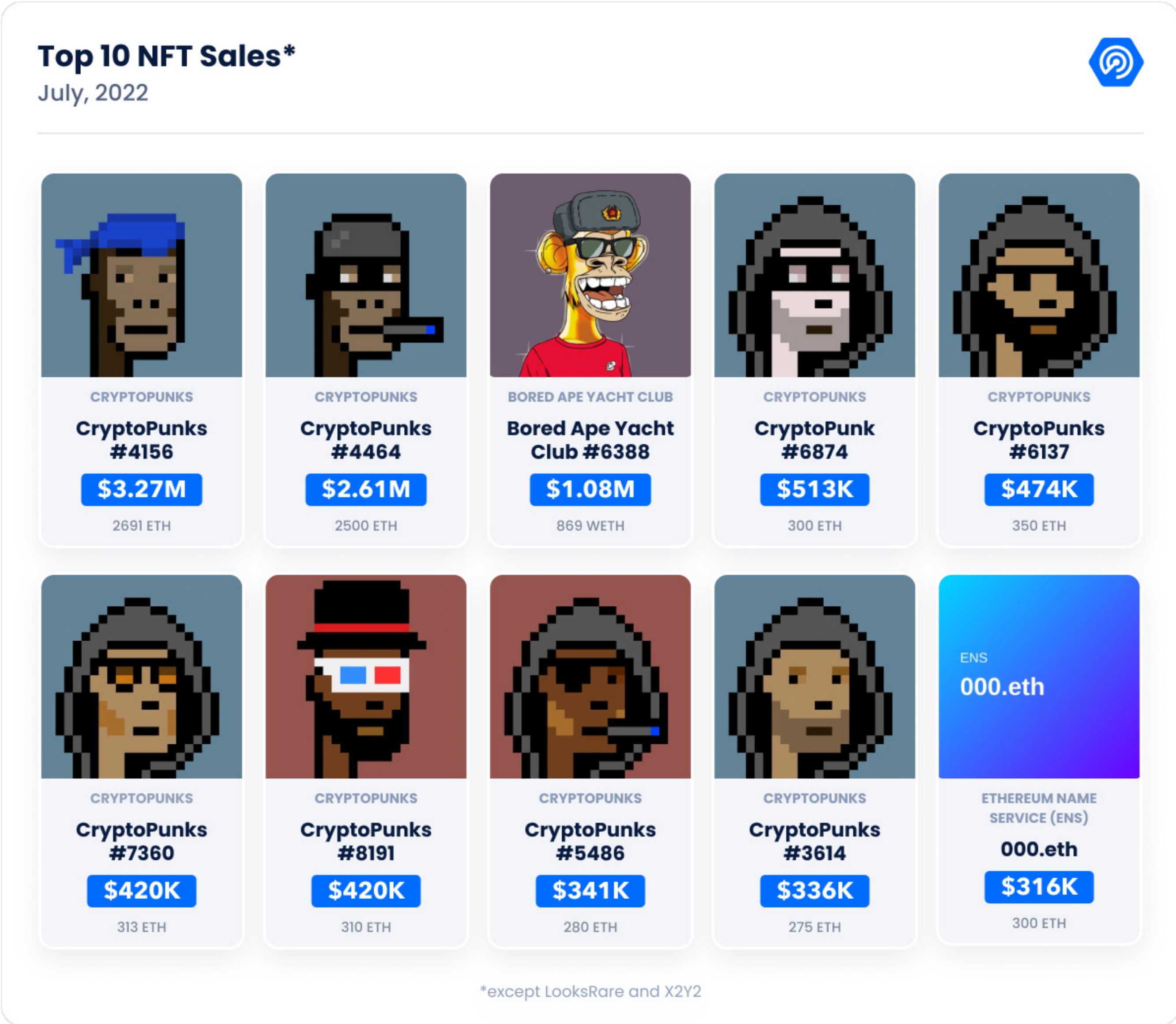
Organic Volume



Magic Eden controls the NFT market on Solana with a 90% market share, despite OpenSea's push into the Solana market. They recently announced a $130 million Series B funding round that values the company at $1.6 billion. The company is looking to expand into other blockchains, and it already accounts for 7.8% of all NFT transactions.

Opensea Monthly Trading Volume, ETH vs USD





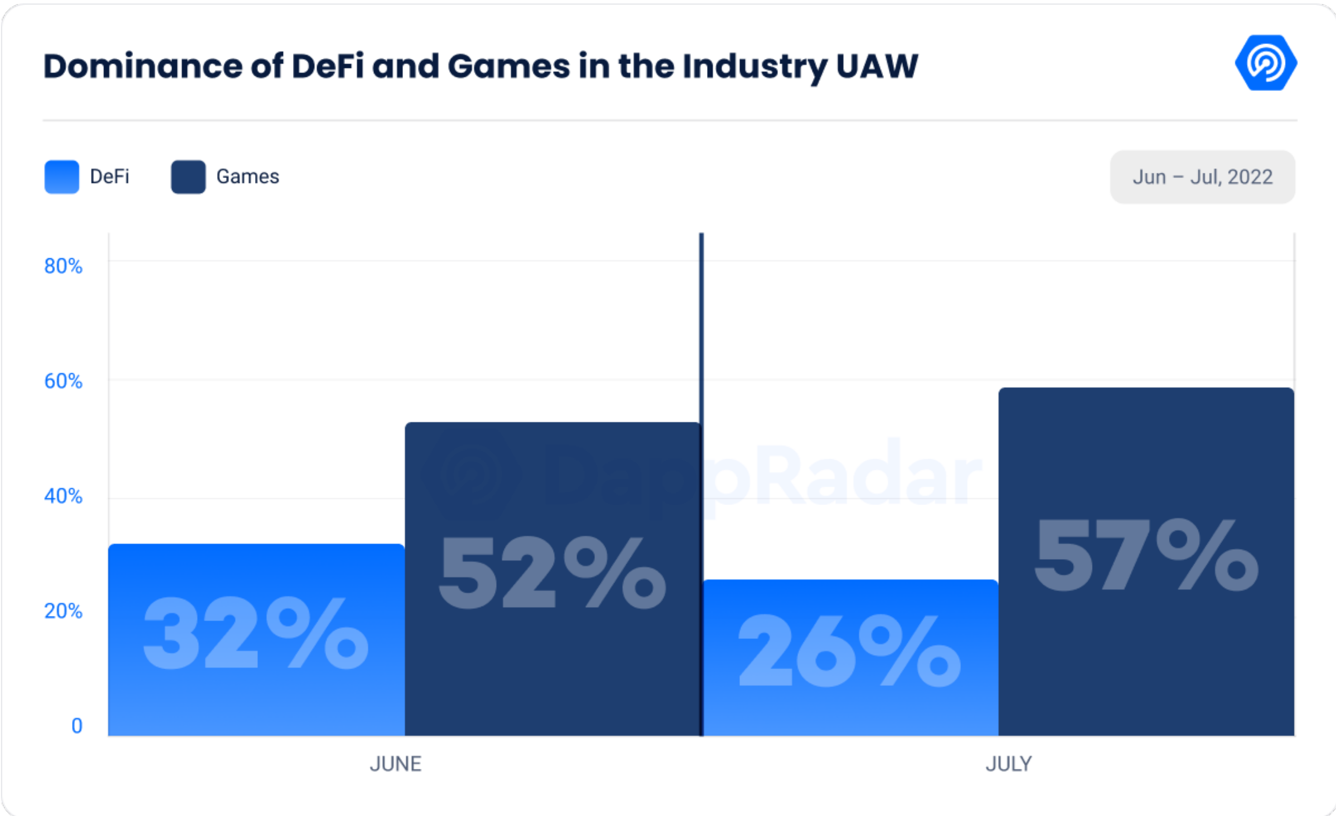
The dominance of OpenSea has unquestionably diminished as the NFT market matures and becomes more competitive, with volume increasing in X2Y2, Solana's Magic Eden, and Ethereum's Foundation, which focuses on NFT artworks. Still, it is safe to say that OpenSea's presence will remain dominant for months to come. The marketplace redesigned its layout and appearance, resulting in a new user experience. Also, it acquired Gem on April 27 and released Seaport. This open-source project is supposed to significantly lower the troublesome gas fees that can spike during periods of high demand.

Meanwhile, all competitors must not just focus on surviving but also on constructing an ideal platform to maintain or increase their market share. Once we emerge from the bear market, the platforms and standards will undoubtedly look different.

We'll monitor closely how the battle for NFT marketplaces evolves in the upcoming months.

Games represent almost 60% of the industry's usage

The Gaming sector is defying the bear market trend with almost 1 million daily Unique Active Wallets and $857 million in transactions.



The top blockchain games retain their player base, demonstrating genuine engagement at the top of the charts. Moreover, metaverse and blockchain-based gaming ventures continue to garner increasing venture capital.

It is worth mentioning that the dominance of games for the UAW has increased from 52% to 57.39% MoM, a very bullish trend for this category.

To get more insights on blockchain games and trends like virtual worlds, move-to-earn, and the leading game dapps, read our BGA Games Report.

Closing – what to expect in the future?

The winds of the upcoming “crypto winter” are blowing for Bitcoin and other digital assets due to price declines, layoffs, and high-profile defaults like Terra-Celsius-3AC. The cryptocurrency market experienced three devastating crashes in less than a month, and businesses that served as the industry’s building blocks collapsed before our eyes.

It is essential to consider the link between crypto and the broader market—a relationship that has played a painful role in the current downturn. While Bitcoin should, in theory, trade independently of mainstream finance, it has shown in the past year to be correlated mainly with other risk-sensitive assets, like stocks and especially ones in the tech sector.

The price of Bitcoin sits around $23,000, down more than two-thirds from its record high of around $69,000, reached in November 2021. As July draws to a close, it has lost 50 percent of its value since the start of the year, compared to the S&P 500’s slightly less than 20 percent decline. The market valuation of the entire crypto industry has dropped from $3 trillion to $945 billion in less than eight months, with other currencies like Ether, Solana, and Dogecoin faring much worse.

However, crypto, NFT, and web3 are still functional and will remain so. This crisis may be viewed as a quick market recalibration that has eliminated harmful “ponzinomics” ventures that wouldn’t have withstood the test of time. It’s time to stay strong and build. The projects that succeed will create the groundwork for an excellent bull run.