CRYPTO
PRAGMATIST
PRO

Throughout this paper we will be referencing our past reports, all of which can be viewed here: https://cryptopragmatist.ck.page/posts

This is the point when conviction in crypto starts to get tested. Many of the notable figures have been tweeting along the lines of “being burnt out”, and “done with crypto for now”. While this FTX blowup will have a lasting, and *unknown* impact for the foreseeable future, we think this is **not the time to walk away.**

Like Vitalik and many others have said, *tons* of exciting things are happening on Ethereum and beyond (which of course we are talking about today). Soon enough things will quiet down, and it will be much easier to focus on the positives that are happening in the space.

Twitter

We began writing this paper when an FTX insolvency wasn’t even in the realm of possibilities, and now we are nearing the other side of the entire blow up. Point being, things change fast. Having strong beliefs/opinions loosely held could not be more relevant at this time and within crypto in general.

Stay safe out there.

ATOM 2.0

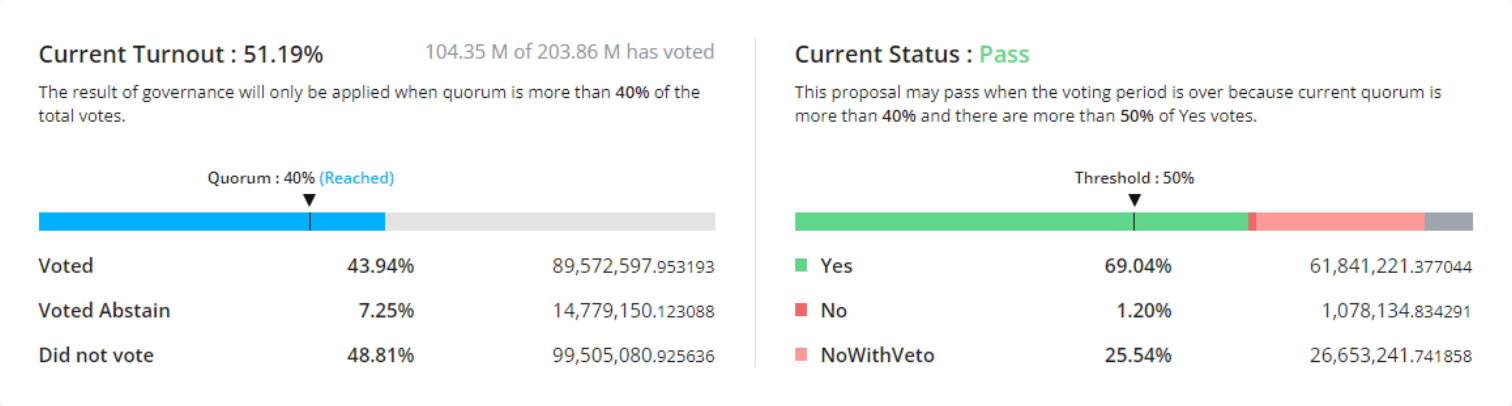
For our August narrative report, we wrote about the Cosmos IBC. After detailing the tech stack and advantages of appchains, one of our main points of the paper was questioning whether or not $ATOM accrued enough value from the entire Cosmos network.

The basic behind this is:

- $ATOM is needed to run validators on Cosmos Hub
- $ATOM must be issued to economically incentivize validators
- Making $ATOM highly inflationary
- But all appchains in the IBC use their own token for gas AND security, making $ATOM simply the “onboarding token”

Almost immediately after we released the report, the first public version of the [ATOM 2.0 whitepaper was released], and with it, *very* significant structural changes to both the $ATOM token and the entire Cosmos ecosystem.

Whether or not Atom 2.0 ends up being implemented is currently being decided, and the voting period will end on November 14th. Nearly 50% of bonded $ATOM has yet to vote, so in no way is this already decided. But as things stand today, the proposal would pass:



Stay up to date here: https://www.mintscan.io/cosmos/proposals/82

Below, we will describe some key points in the whitepaper, what their main utility is within the Cosmos ecosystem, and our general thoughts. There are four main components to the update, and while it is important to understand and consider them individually, they are cohesive and help orchestrate the entire shift in the network:

Hub-Specific Functionality

Interchain Scheduler	Interchain Allocator
A public blockspace market for all Cosmos chains	A DAO run fund investing and growing different Cosmos chains

Secure Economic Scaling

Interchain Security	Liquid Staking
Cosmos chains can use the security of Cosmos Hub / $ATOM	Contributes to the reduced need for $ATOM issuance / liquidity

Canva

$ATOM Supply

One of the most important points, and definitely the aspect that has caused so much rumbling within the Cosmos community, is the change in issuance and terminal $ATOM supply.

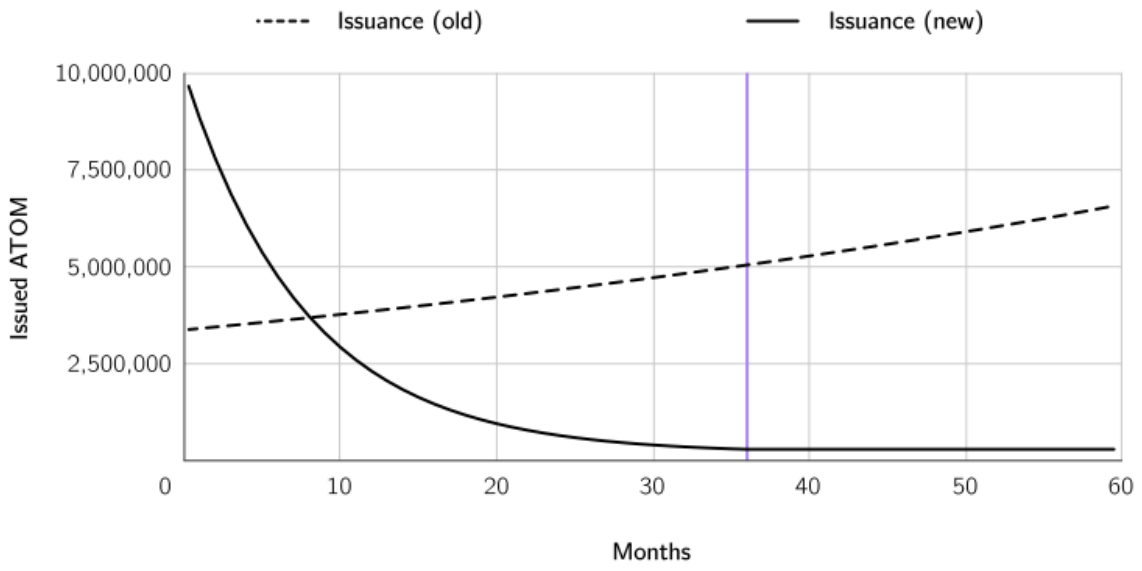
As we know, many of the tokens in the Cosmos IBC are highly inflationary tokens securing PoS networks. This is what makes real yield shrink down by nearly 70%:

	Risk	Complexity	Reward	Adj. Reward
Delegate Cosmos	moderate	easy	19.1%	5.91%
Run a Validator Node	risky	professional	20.45%	7.26%

Stakingrewards.com

The development team recognizes that this is not sustainable, and that anyone holding vanilla $ATOM tokens are constantly getting diluted through continued issuance of new tokens. The new paper proposes a *completely different issuance structure* that requires a front-loaded issuance. Here's the breakdown:

Monthly Issuance Graph



ATOM 2.0 Whitepaper

Current State	
Current Supply	292,586,163
Inflation	13.23%
Annual Issuance	38,709,149.36
Monthly Issuance	3,225,762.45
Transition Issuance Mo. 1	10,000,000
Year 1 Supply Difference	**27,744,372.91**

	Transition Supply Changes						Treasury Budget		
Month	Current Issuance	Transition Issuance	Difference (%)	Current Supply	Transition Supply	Difference (%)	Security Subsidy	Treasury Issuance	Cumulative Treasury Balance
1	3,225,762	10,000,000	210%	295,811,925	302,586,163	2.3%	2,758,027	7,241,973	7,241,973
2	3,225,762	8,824,000	174%	299,037,688	311,410,163	4.1%	2,482,224	6,341,776	13,583,749
3	3,225,762	7,789,120	141%	302,263,450	319,199,283	5.6%	2,234,002	5,555,118	19,138,867
4	3,225,762	6,878,426	113%	305,489,213	326,077,709	6.7%	2,010,602	4,867,824	24,006,691
5	3,225,762	6,077,015	88%	308,714,975	332,154,723	7.6%	1,809,541	4,267,473	28,274,164
6	3,225,762	5,371,773	67%	311,940,738	337,526,496	8.2%	1,628,587	3,743,185	32,017,350
7	3,225,762	4,751,160	47%	315,166,500	342,277,656	8.6%	1,465,729	3,285,431	35,302,781
8	3,225,762	4,205,021	30%	318,392,263	346,482,677	8.8%	1,319,156	2,885,865	38,188,646
9	3,225,762	3,724,418	15%	321,618,025	350,207,095	8.9%	1,187,240	2,537,178	40,725,825
10	3,225,762	3,301,488	2%	324,843,787	353,508,583	8.8%	1,068,516	2,232,972	42,958,797
11	3,225,762	2,929,310	-9%	328,069,550	356,437,893	8.6%	961,665	1,967,645	44,926,442
12	3,225,762	2,601,792	-19%	331,295,312	359,039,685	8.4%	865,498	1,736,294	**46,662,736**
24	3,225,762	655,838	-80%						
36	3,225,762	298,311	-91%						

Excel

The front load is put in place to fund the Interchain Allocator (IA), which has a goal of growing the entire Cosmos ecosystem. This is a vague description, but as we see it, the treasury can bolster this growth by:

- Increasing interchain liquidity
- Holding different IBC chains tokens in the fund to vote in governance and align goals

This growth of other chains will increase the transactions and general activity in the entire Cosmos ecosystem. Aside from the Interchain Security feature helping to drive some of this growth directly back to $ATOM holders, there is also a positive feedback with the Interchain Scheduler (IS), or blockspace market for the IBC. The IS is essentially an MEV market for Cosmos, so more chain activity = more opportunity for revenues.

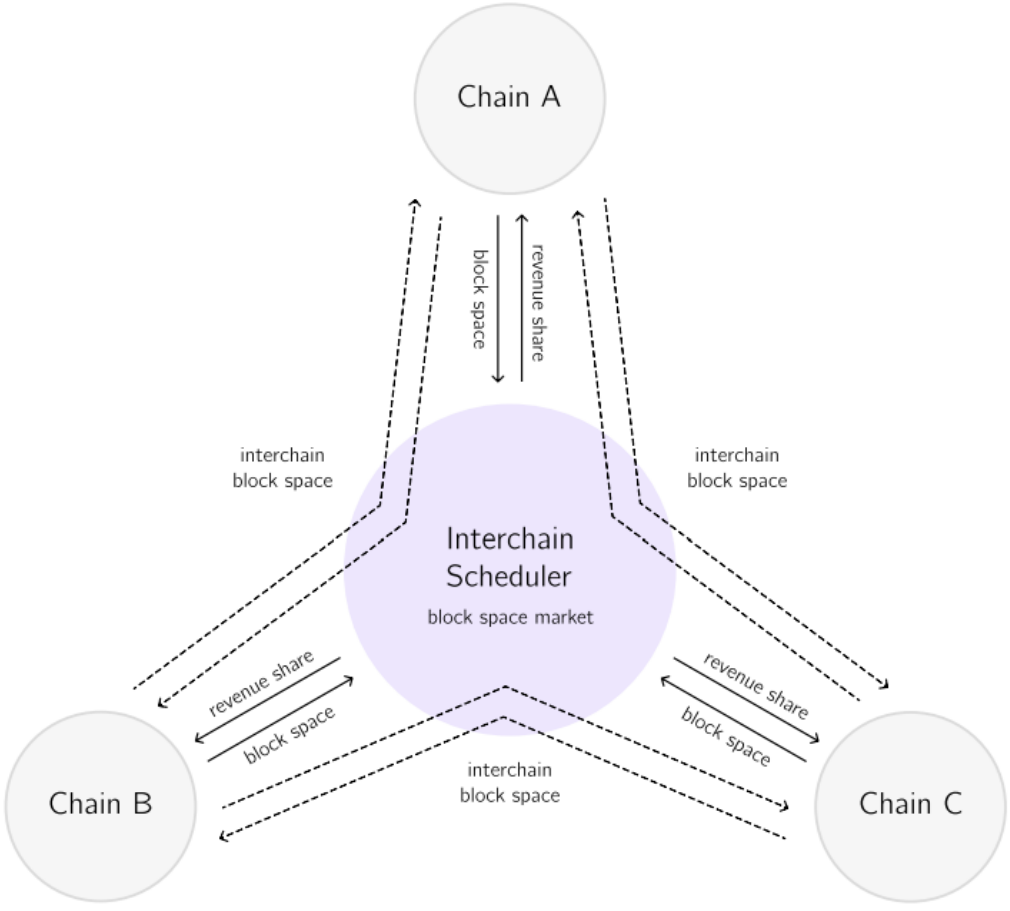
However, this supply change *will* have a significant impact on the price action of $ATOM in at least the first year of implementation. According to the schedule, there will be just under 10 million $ATOM minted in the first month compared to the ~3 million today. This totals to an

additional 28 million of $ATOM supply issued, and with today's staking rate, 10 million extra $ATOM on the liquid market.

All of this to say that, in the medium term, the supply-side's impact on price for $ATOM will not be helpful.

Interchain Scheduler (IS)
Mentioned above, the IS is a public, Cosmos network wide blockspace market. This allows for arbitrageurs, multi-transaction bundling, guaranteed transaction, front-running protection, and sequencing priority. This has a *direct* benefit from the growth of the Cosmos network, and it is one of the most cut and dry **benefits** of the Atom 2.0 proposal.

By bringing the MEV market on-chain, all of the revenues will flow back to the treasury and allow for $ATOM holders, stakers, transacting users, and transaction searchers/bundlers to tap into the value chain. Below is a diagram in the whitepaper, which shows that a portion of revenues would be shared back to the chains that are part of the transaction block:



Whitepaper

Interchain Allocator (IA)
As the main beneficiary of the increased $ATOM supply post-upgrade, the IA has received its fair amount of scrutiny as well. The reason being, there is no track record for a DAO to manage funds like this. Many of those against the proposal say that they want to see some sort of buildout of DAO tooling, voting process and infrastructure, and a history of ability to manage such a large treasury. While objectively the goals of the IA make sense to help quicken ecosystem growth, there is absolutely a worry that problems could unfold.

This is one of the main problems that Tendermint founder and Interchain Foundation president Jae Kwon sees with the proposal. He argues that there should be a clear cut goal and boundaries for a treasury of this size.

Without taking a side, the additional issuance that the treasury receives will *only* create a problem if it cannot grow its assets at the same or faster rate. *If* the treasury controllers/DAO are able to increase the balance sheet based on Cosmos network investments, then it will be a net benefit because, of course, **the growth all flows back to $ATOM holders.**

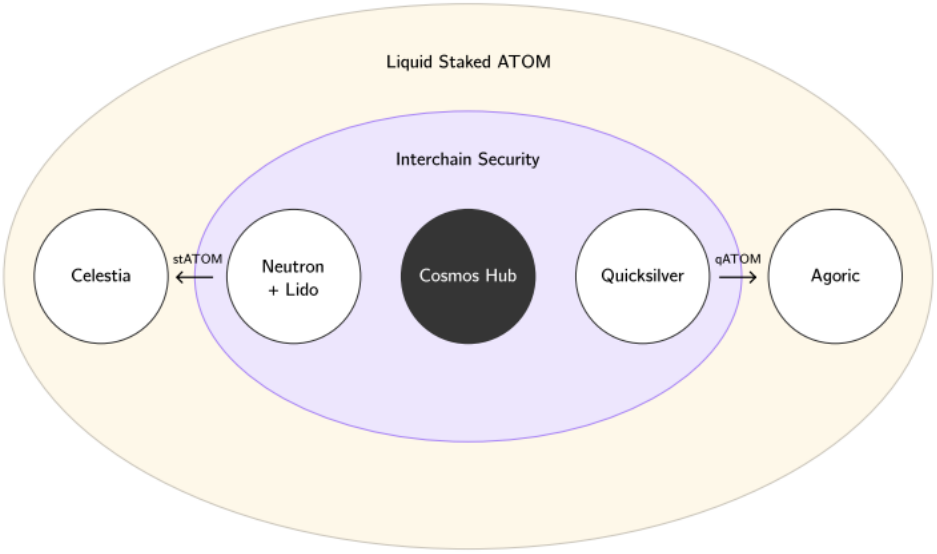
We will be looking for more details surrounding the treasury should the proposal go through.

Seeing that the cumulative balance for the treasury by year end will be ~46m $ATOM (with current issuance rates), we understand why this has gotten some flack. Efficient and useful allocation of these funds will be critical to fully realizing the benefits of $ATOM 2.0 architecture.

Interchain Security/Liquid Staking
Finally, there is the consensus level upgrade for the Cosmos network which allows for different chains within the ecosystem to tap into the security benefits of the Cosmos Hub and $ATOM. One of the biggest issues that these smaller chains have (on top of the liquidity, which is addressed above) is the difficulty bootstrapping enough security. Only chains within the top 50 have a total network value > $250k, so this will indisputably benefit the smaller chains.

With staked $ATOM having a market cap of ~$3B at the time of writing, it only makes sense that these chains benefit from added security.

And for the liquid staking of $ATOM, although we don't really need to get into the benefits, provides a massive opportunity for composability within the network. This feature works in tandem with Interchain Security to make $ATOM the desirable and base asset for Cosmos network.



Whitepaper

Now the 65% of $ATOM that is staked, either through a personal validator or delegated to a larger one, will have the ability to earn additional yield or trade on liquid markets. This is a big reason that long term $ATOM issuance will end up decreasing: because there is no need to distribute liquid $ATOM to stakers anymore.

In this debate and in the whitepaper, the team has said they want to ensure there is a competitive liquid staking market to reduce the possibility of a fragmented market like on Ethereum.

Conclusion

Atom 2.0 really is a game changing update to the network. While these are all objectively beneficial, we do understand why there has been some pushback from the community. This upgrade implements a lot of features that could be handled individually and in steps, and it absolutely can be daunting to address everything at once.

The $ATOM issuance update schedule is significant, and important to note that at any point the perpetual lower inflation rate can be increased back to previous levels to ensure the staking ratio stays at the *unspecified target rate.*

Overall, while $ATOM has shown unmatched strength since the bottom in June (close to 3x at one point), it should be quite clear how the updated supply will impact price.

Bonus:

- Where to Stake: pStake, StaFi, Stride
- $IBCX, and Osmosis based index token for the Cosmos ecosystem, governed by a DAO

GMX and Arbitrum Season

We sent out our $GMX report back in mid-May. The general outlook was bleak on crypto: it had been a catastrophic week where $BTC had just fallen off a cliff to $30k from its year long range around $40k.

But $GMX *truly* was a gem among the fire. Average swap + margin trading volumes for the month were $144m, just $16m less than the average for October, but price was 50% of what it is today.

We wrote that report with a bullish stance on:

- Yield denominated in $ETH
- Transparent platform statistics and revenue being kicked back to token holders
- The general growth potential of Arbitrum

So, now we will take a look at where things stand today for $GMX, and some thoughts about the Arbitrum activity that is *really* beginning to ramp up.

DEXes FTW

We are amid an FTX bank run due to a swath of rumors of Alameda's balance sheet illiquidity, CZ selling *all* of his (previously) $2B $FTT, and the general populous of CT freaking out. While most thought that this genuinely would *not* happen to a company like FTX: bank runs really are self fulfilling prophecies, and this one had all the necessary components to turn into something **very real.**

We'll put aside all the details for now, and our takeaway is that this is *extremely bullish* for decentralized exchanges *and* self-custody.

IF you are not already self-custodying, this should be the event that convinces you to do so.
Here is a great beginning to end guide from BowTiedBull.

Although CEXes will always have a stronghold due to ease of onboarding (for users willing to KYC) and bring assets onto the platform, we can't help but think that if anything, this is beneficial for DEXes. *Some unquantifiable amount of volume that lived on FTX will now flow to other exchanges, be it within DeFi or not.*

GMX Review

A quick summation of the important points of GMX platform and ecosystem tokens:

- $GMX can be staked to earn 7.5% and 6.5% on $esGMX and $ETH respectively
- $GLP is a token representing proportional ownership of the tokens available for trade (you are the counterparty to traders)
- $GLP is automatically staked and earns 16% in $ETH and 2% in $esGMX

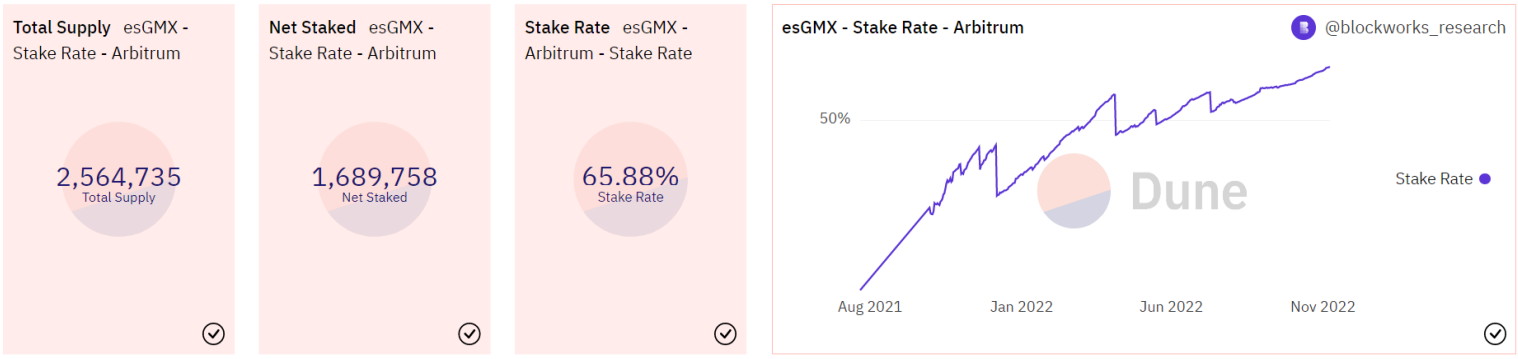
Our main focus today will be on the impact of $esGMX, which we didn't cover in detail in the previous report. While we did mention that the yield earned in Escrowed GMX, or $esGMX, should be ignored for all intents and purposes, it is an important barometer to assess potential $GMX sell pressure. Here's why:

- $esGMX can be used to earn the same yields as vanilla $GMX
- But to convert $esGMX into $GMX, you need to "reserve for vesting" the amount of $GMX that was staked to earn the $esGMX

- If I had 100 $GMX earn me 10 $esGMX, I would need to reserve all 100 $GMX in order for that $esGMX to turn into $GMX

The escrowed tokens vest every second linearly over a year, and the whole time that the $GMX is reserved for vesting, it earns regular yield. So, it would make sense why we consider $esGMX as nothing-yield: because we a) don't know what the eventual $GMX price will be when our total $esGMX converts and b) the $esGMX is otherwise *useless* if we don't want to vest it.

Given this, we can assume that more $GMX reserved for vesting means more future $GMX sell pressure through unlocks. Thus, we should look at the amount of $esGMX that is being staked, or in the same vein, the amount of $GMX that is currently "reserved for vesting".



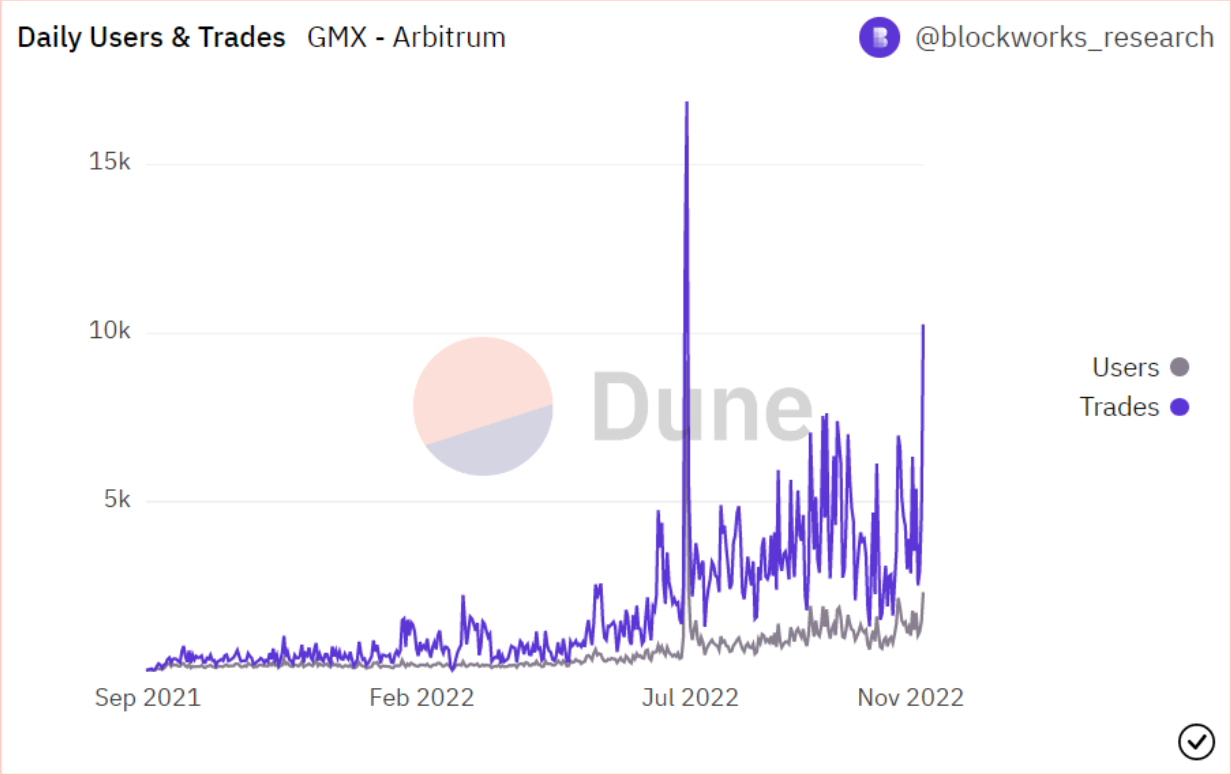
Dune Blockworks

The above dashboard shows that there has been a gradual increase in the stake *rate* of $esGMX, which means more users are committing to the long-term with GMX. And using the following equation $(\text{Total supply - Net staked}) = \$\text{esGMX vesting}$, which will get us **874,977 $esGMX.**

We will be building out our own dune dashboard with vested $GMX statistics, which will give a more accurate picture into the sell pressure, so keep an eye out for that here.

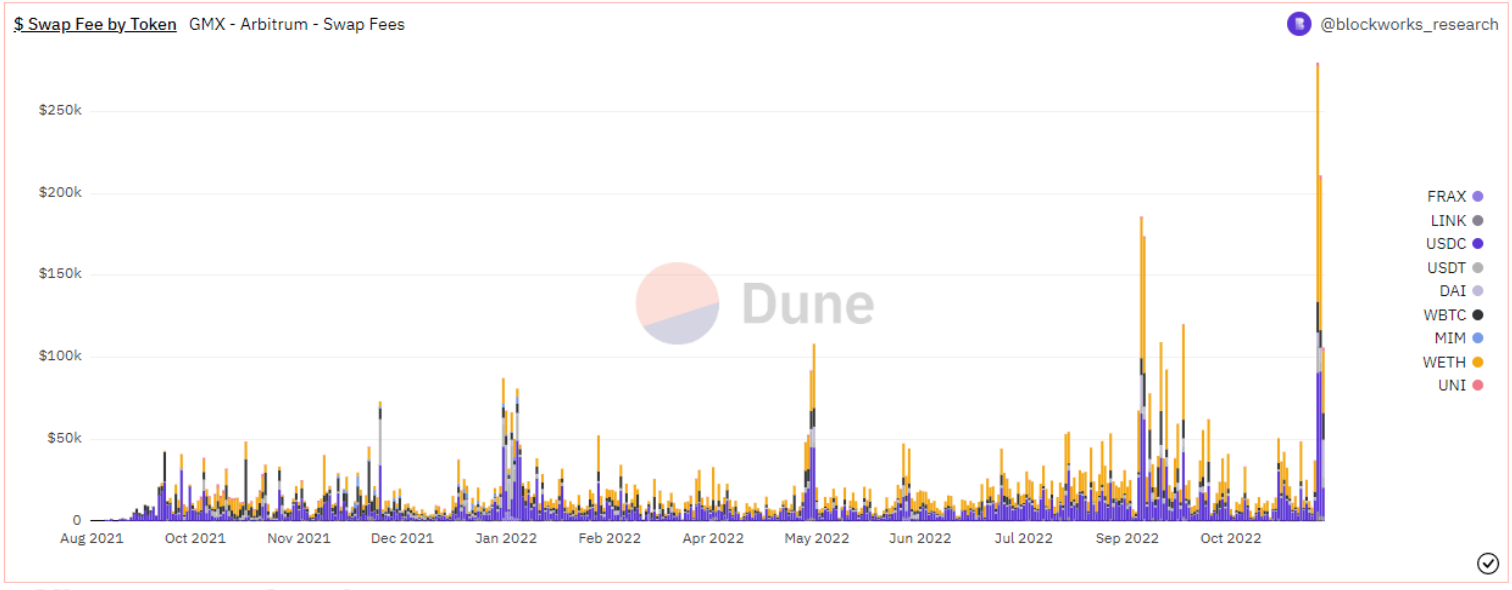
We'd be remiss to not mention anything about supply of $GMX. With a total cap of 13.25m, we are roughly ~2m away from no more *planned* issuance (this number counts the $esGMX supply, which is *not* currently circulating $GMX, but it is technically on the market).

Mentioned in the intro, the DEX activity should see some significant increases here shortly. Leading up to this week's blowup, $GMX has been seeing some nice up-and-to-the-right charts for its trading activity (the daily swaps chart looks identical as well):



Dune

And not only is the trading activity slowly trending upwards over the course of the year, but in volatile times like today, it can really pay to be on the side of the casino. GMX trading activity and fees earned have reached *all time daily highs* the morning of this report, Nov. 10th:



Dune

Some other important GMX facts that solidify it as a solid platform:

- Traders continue to be net losers, with cumulative losses of ~$42m since inception
- AUM (comprised of $GLP) has increased by 2.8x since market bottom in June

- $GLP with fees earned continues to outperform its underlying basket:

Stats.gmx

Competition

Gains network has outperformed in terms of token price (6x'd from bottom) and is absolutely commanding a presence in the decentralized perps market. However, GMX has the first mover advantage on Arbitrum, and even if Gains does move to Arbi, it will be hard to attract assets away from GMX. Here are statistics on the Gains ecosystem and relevant staking rewards for comparison.

Additionally, GMX has been planning (albeit for a *very* long time) to launch synthetic assets on its platform. Hanging onto hope for this to hit would not be wise, but given that the team has released multiple blog posts discussing synths, it does feel imminent, whenever that may be. This will make GMX very hard to compete with in terms of its UX, asset base, and rewards for token providers.

Arbitrum

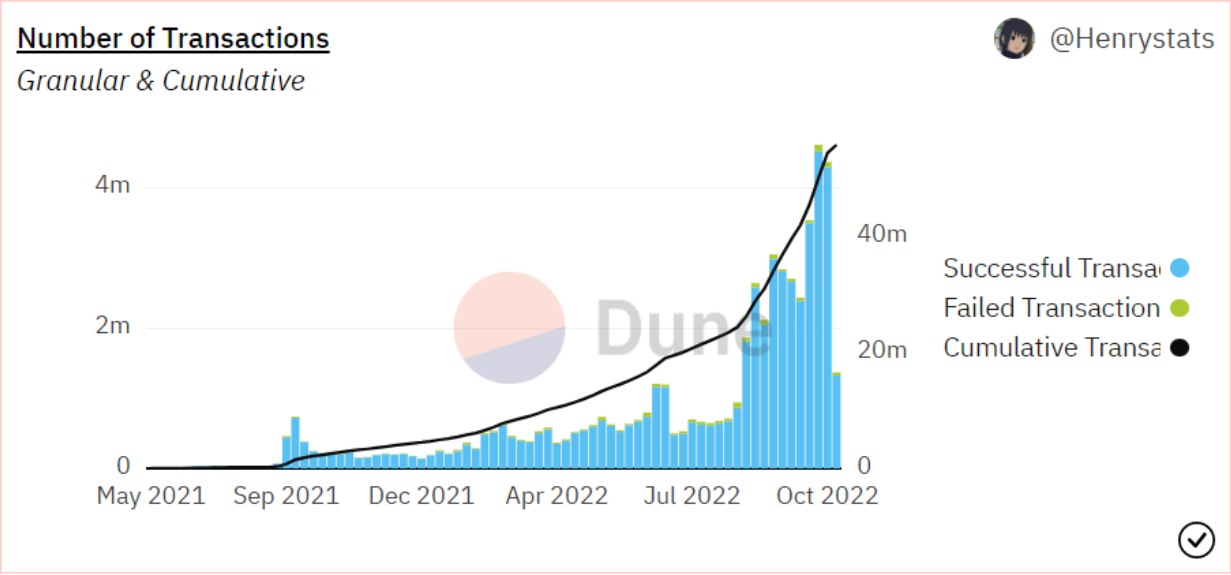
So what else is going on with Arbitrum besides GMX? Nova was launched on August 9th and Arbitrum One migrated to Arbitrum Nitro on August 31th. The end result is a much faster and cheaper chain, with Nova providing the infrastructure for gaming and social applications (Reddit

NFTs). The significance is of this is deep in the details, but our friend Smol Thots does a good job of discussing *why* this might lead to a potential $ARBI token in the following thread:

Twitter

The gist of it: in order for Nova to be able to offer the scalability benefits that it does, there are some mild trust assumptions with how data gets processed back to L1. These trust assumptions will *require* staking of a token to ensure alignment of goals and no bad actors. Keep in mind, this is just speculation, but the docs can be read here to get a better understanding.

Regardless of how likely it is or not, the discussion of $ARBI airdrop making the rounds on CT and a general heightened use of Arbitrum applications has led to a weekly transaction chart that looks like this:



Arbitrum Dashboard

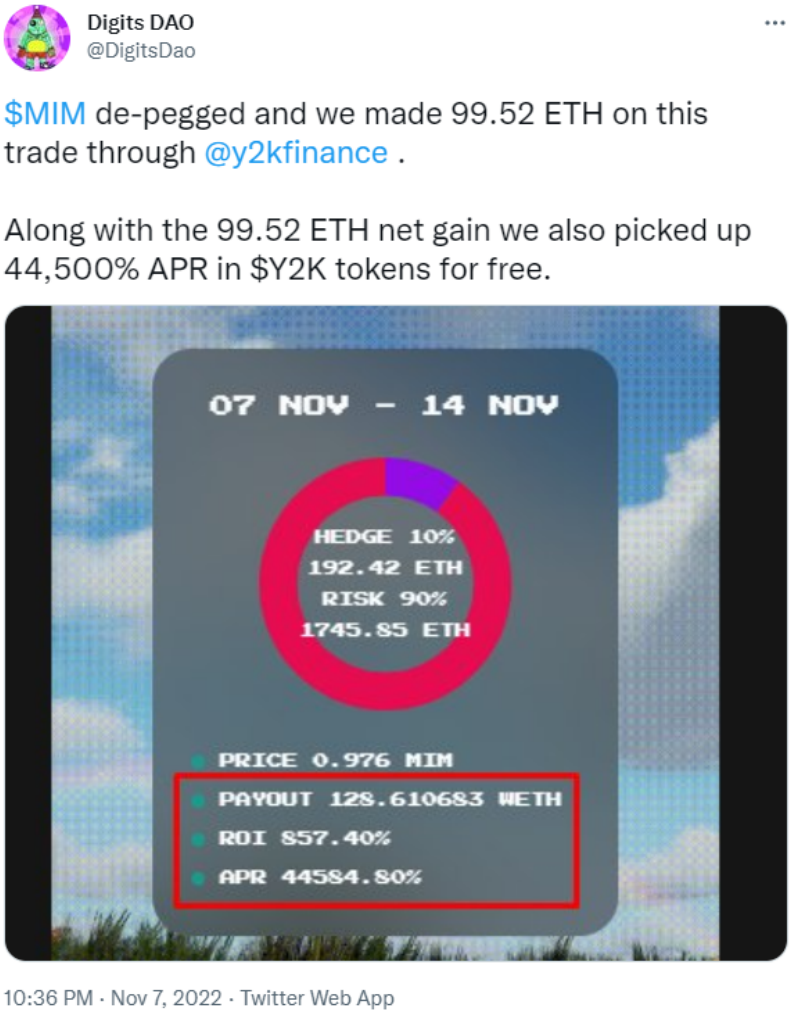
So, that leads us to ask the relevant question: what should we be looking at on Arbitrum? One protocol we are very excited about is y2k Finance, a stablecoin insurance market (soon to be more products) incubated by New Order DAO. Here is a short thread with some more details, but here are the basics:

- Insurance sellers bet on the probability of no stablecoin de-peg, and earn the premiums of hedge depositors

- Insurance buyers pay a premium to protect against a de-peg by receiving the insurance seller collateral in the event of de-peg.

The current "IFO" period is a heightened $y2k emissions period, where hedge and risk depositors will earn significant APR denominated in $y2k for depositing. There will be 3 more weeks left in the IFO.

Even though the FTX blowup is contributing to a disaster in the space, $MIM hedge depositors ended up receiving the vault payout, roughly 9x'ing their return on $ETH:



Twitter

And this morning, the $USDT vault also hit its strike limit, returning a 12.7x on all $ETH deposits into that vault. I guess sometimes it can pay to be a doomer.

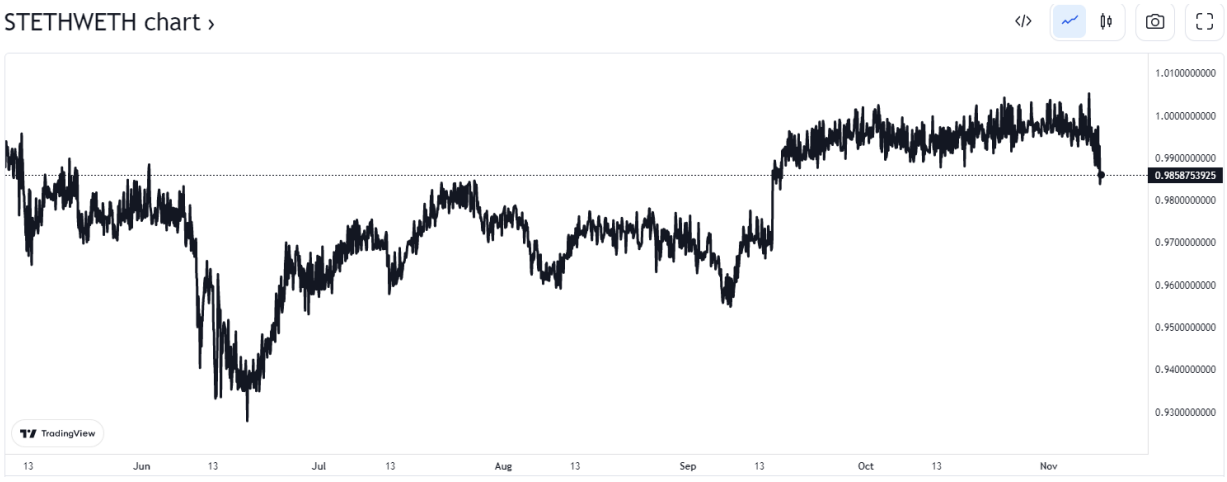
Another thing to absolutely look out for is the relaunching of Arbitrum Odyssey. After the initial event back in mid 2022 was brought to a halt due to insanely high gas fees, the team wanted to wait until the launch of Nitro to reinitiate the program.

Everything that has been said about the benefits of participating in the program is complete speculation aside from the fact that you would be eligible to earn an exclusive Arbitrum NFT for participating. Regardless of the monetary incentive that *may* be in place, taking part in the event is worth it: you can try out a bunch of Arbitrum applications and find what you like most and get involved with the community.

Keep an eye out from the official Arbitrum team to learn about the upcoming details of odyssey.

Ethereum Staking: Lido vs. Rocketpool
In terms of Ethereum, things have felt semi-quiet since all the rumblings about MEV, censorship, and centralization due to staking powers of the top entities. Despite this, it is still important to consider where to stake your $ETH.

Aside from taking on smart contract risk, another important note is the **available liquidity** of the LSD. In June, during the 3ac/Luna/stock market collapse, we saw $stETH-$ETH trade *far* off of parity, as low as .93 according to TradingView:



TradingView

This is important because, if you need the liquidity, selling $stETH at a discount is not ideal–you incur an immediate loss. *Contrary* to this, is the ability to *buy* an LSD at a discount, have the time horizon to wait for parity, and automatically increase your return.

Thus, we want to keep our eyes out for popular liquid staking solutions that might end up trading well off their 1:1 peg with $ETH during this time of heightened volatility. We can already see the Kingmaker, Lido $stETH, heading towards a discount.

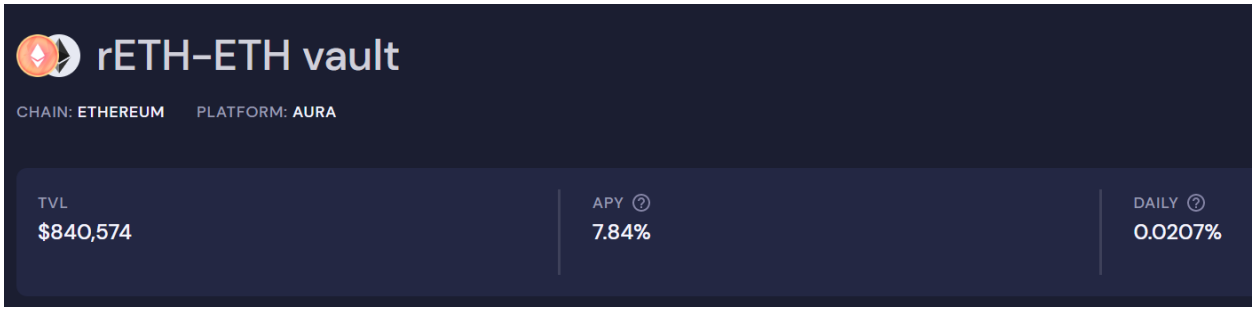
Obviously, there is a non-zero probability that some LSDs will never reach parity.
We made a watchlist of some of the LSD's on CoinGecko that can be viewed here. LSD that are worth keeping an eye out for:

- Lido
- Frax
- RocketPool
- Ankr

- StaFi
- Stakewise

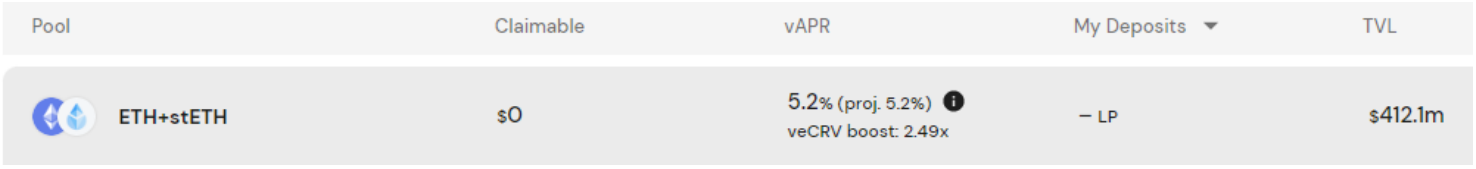
Earning additional yield on LSDs is another great way to unlock some extra rewards. Looking at Rocketpool's $rETH, there are some *very* solid opportunities, but keep in mind, each strategy will incur extra smart contract risk.

One example that recently popped up is the Beefy Finance vault for Aura $rETH-$WETH Balancer pool, which can be thought of as similar to Convex and Curve. Beefy auto compounds everything for you, so all that's needed is the initial deposit:



Beefy Finance

And in a more risk-averse environment, it is definitely worth sticking to the blue-chip protocols that we can be *much* more confident will be here 1, 2, 5+ years from now. On Convex, $stETH and $ETH pool yields are currently sitting at a solid 5%, which is nothing to sneeze at.



Convex

Aside from the LSD's for each staking protocol, we want to take a little bit of a dive into their respective tokens, $RPL and $LDO. Because we will be able to scoop these up at a low valuation in the coming (weeks, months, years), they are on our watch list.

Looking at a chart from the June lows, $RPL has performed as a high beta $ETH, and $LDO performing as a high beta $RPL:

TradingView

This is to be expected, especially with the increased narrative surrounding the Merge and LSD growth. But we sit in a different spot today, and considering this FTX meltdown as a "reset" of sorts, we are able to have the benefit of hindsight and understand how the market traded $LDO and $RPL.

One of the key and notable differences between the protocols, and thus token, is that Rocketpool is *only* Ethereum staking, whereas Lido offers other Proof of Stake services. With this, Lido is able to earn the extra staking rewards from these different protocols. Even though the large majority of revenues will come from $ETH, it is still worth considering.

The biggest differentiator, however, is the inherent demand for $RPL vs. $LDO. Right now, the 10% haircut on staking revenues for Lido just goes to pay out node operators and the slashing insurance fund, which helps cover depositors in the event of a slashing.

$RPL, on the other hand, is *needed* to become a node operator. 1.6 $ETH worth of $RPL token to run a mini pool, which is 16 $ETH worth. Thus, the growth of the token is highly correlated with the associated growth of the protocol itself. MEV is now an opt-out rather than opt-in for node operators, so as these rewards begin to permeate through, we will likely see APR's on *both* LSD's increase.

Finally, Rocketpool is sufficiently more decentralized than Lido, with 1,649 active node operators as of today. We expect this to only increase the demand and validity of Rocketpool as Ethereum evolves.

RocketPool has a great community that is deeply involved, one of our favorite resources we came across is the Rocket Fuel Youtube channel led by waqwaqattack, which is similar to curvecap for Curve.

Staking is simply going to continue to be relevant and impactful on the growth of Ethereum. Just because Lido is well ahead of the pack today, does not mean that it will be that way forever. Being able to adapt as new info arises will be beneficial especially within the staking game.

Summary

If you are reading this and are affected directly by the current FTX events, stay strong and please reach out to us, or anyone, to talk things through.

Things may begin to look ugly for the future of crypto: we imagine some regulatory clampdowns are imminent. However, like we said, now is the time to really become ingrained into the communities you are interested in within crypto, and continue to develop skills.