

Influence of the War between Russia And Ukraine on the Encryption Market

The situation in Russia and Ukraine which had recently received much attention suddenly took a turn for the worse on February 24, 2022. Russian army did extensive shelling to Ukrainian forces in the east and other military command centers and airfields. They soon landed in Odessa, Ukraine. The regional war then spread quickly: within a short period of time, Ukraine's air forces were incapacitated. Soon, Ukrainian National Guard headquarters was destroyed... Of course, it was not just Ukraine that's under heavy bombardment. Financial markets around the world were also severely affected.

Russian Luke to the US Dollars went all the way down and falls to a record low.

Crude oil and a small number of targets as well as most parts of the financial market were severely damaged. Global capital markets suffered from a broader scope of downturn and the crypto asset market was terribly defeated. OKex showed that the price of Bitcoin quickly fell to \$34,330 or so, reaching a 30-day low. Ethereum fell below the \$2,500 and had a decrease of more than 12 % each day. Risks will not be fully unleashed until the war ends.

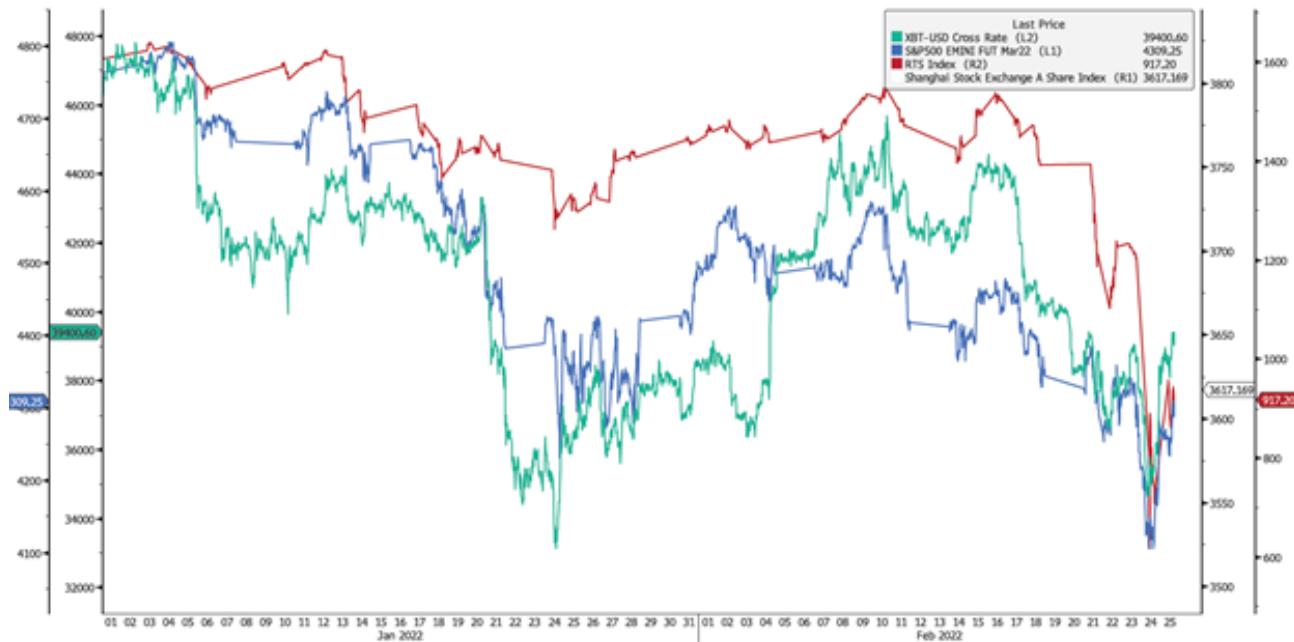


U.S. equity funds have suffered a lot and Bitcoin also can not detach itself from that.

In an interview with financial media, OKEx researchers said that compared with gold, which is driven up by capital hedging, Bitcoin is a relatively risky asset and that it cannot become the hedge choice of mainstream capitals during wars for the time being. At the same time, with the entry of mainstream institutions last year, Bitcoin price and NASDAQ index have been constantly related. U.S. equity funds have suffered a lot and Bitcoin also can not detach itself from that.

The sharp decline of Bitcoin is caused by many factors. The war impacted the monetary system in Eastern Europe, because of which, a large number of assets was possibly sold and used in the war. Besides, people had different opinions on the subsequent monetary policies. The market revealed a collective behavior of participants, with fundamental investors choosing to buy funds on the downside and algorithmic investors selling funds heavily based on the strong correlation between Bitcoin and the U.S. stock index.

Crypto assets (represented by BTC), US stocks (S&P 500) and Russia stocks (Russia Trading System or RTS Index) roughly tracked each other in early 2022: All three markets rose from late January to early February. However, they were sold off in recent weeks as Russia suffered from heavier geopolitical tensions.



**Following the SWIFT sanctions,
cryptocurrencies have been a potential option of Russia in its transferring wealth.**

The United States, Europe, Britain and Canada issued a joint statement on the weekend to ban major Russian banks from using the SWIFT international settlement system. SWIFT a high-security network connecting thousands of financial institutions around the world. Financial institutions use it to send secure messages and payment orders. The expulsion of Russia from SWIFT system is widely regarded as a "financial nuclear bomb" dropped by the West.

The latest sanctions undoubtedly gave more pressure to Russia in its finding other ways to transfer wealth. Cryptocurrencies were previously seen as a potential option. Transactions of cryptocurrencies were kept on a distributed ledger of blockchain and its operation was almost entirely outside the scope of standard global banking. Russia is currently the third largest Bitcoin mining center in the world and has 12% of the encryption market in the world.

Many insiders say that Bitcoin and other cryptocurrencies which have grown rapidly in recent years may provide Russia with a way to evade Western sanctions. However, Ukraine's government is apparently unwilling to give Russia any "breathing room" in terms of financial sanctions and its top political officials are further threatening on Sunday to tighten restrictions on cryptocurrency users in Russia.



Mykhailo Fedorov @FedorovMykhailo

...

I'm asking all major crypto exchanges to block addresses of Russian users.

It's crucial to freeze not only the addresses linked to Russian and Belarusian politicians, but also to sabotage ordinary users.

Ukraine's deputy Prime Minister Mykhailo Fedorov said on Twitter on Sunday that "all major cryptocurrency exchanges should block addresses of Russian users". Fedorov called for a freeze not only on encrypted addresses linked to Russian and Belarusian politicians, but also to sabotage ordinary users.

Fedorov had also pleaded for information related to the digital wallets of Russian and Belarusian politicians, saying that Ukraine's cryptocurrency circle was prepared to offer a "generous reward" to those providing information. Previously, the Ukraine government had received millions of dollars worth of cryptocurrency donations via Twitter and posted on online hacker forums to ask for help in defending against cyber attacks.

In response to Fedorov's tweet, a Binance spokesperson told the press that the exchange would not "unilaterally freeze the accounts of millions of innocent users" because that would run counter to reasons for the existence of cryptocurrencies.

Binance founder CZ once said that "The world is crazy, but Bitcoin is neutral. In contrast to CZ's restraint, Ethereum founder God V was more radical, saying that "Ethereum is neutral, but I'm not." Binance also pointed out that "We are taking necessary steps to ensure that we take actions against those companies being sanctioned while minimizing influence on innocent users. If the international community further expands these sanctions, we will actively implement those measures."

The geopolitical situation continues to be done and market reactions remain unstable.

The market has digested higher expectation of an increase in interest rate of FED since last quarter when the Encryption Market reached its peak. Earlier this month, future prices of FED-funds rose. It is expected that there will be nearly seven quarter-point rate hikes in 2022 and that 50 base points of interest rate will be added in the upcoming meeting in March. However, due to geopolitical uncertainty, investors have been assessing the Fed's rate expectations. Hawks trend welcomed a reversal in the past two weeks.

The Chicago Board Options Exchange Volatility Index (VIX), has grown ever higher over the past month and is now at its highest level since early 2021.



Affected by the war and restrictions on cash outflows, Ukraine has seen a surge in crypto trading.

The National Bank of Ukraine has limited daily cash withdrawals to 100,000 Hryvnia (\$3,350) so as to control the outflow of cash from the country. However, the action has become a major catalyst for crypto trading in the country.

Before this war, Ukraine was one of the few countries that supported cryptocurrencies. News on February 17 showed that Ukraine's parliament passed a law to legalize the cryptocurrency. This is one part of its plan to give investors and businesses access to digital assets.

In addition, as early as last September, personal asset declarations submitted by Ukrainian politicians and government officials showed that many people have invested heavily in cryptocurrencies. However, some of them were unable to prove the ownership or digital assets according to report of the local media. In the asset declarations 2020, 652 officials of Ukraine admitted that they have owned a total of 46,351 BTC (now worth more than \$2.2 billion) as well as other cryptocurrencies.

After the announcement on February 24, trading volumes on the Crypto exchange Kuna, which offers Rouble trading in the Hryvna and Russia, immediately spiked. (Note: Official introduction of Kuna showed that Kuna is a cryptocurrency exchange of Ukraine that allows people to instantly top up the Ukraine bank card and withdraw their money. The project was established in 2016. A cryptocurrency gateway exists in Grivner, which can be used by individuals and entrepreneurs.)

According to Coingecko data, Kuna trading volume has increased from \$1.4 million to \$4.8 million and the majority of trading pairs located in the Hryvna (UAH). That is the highest increase for the platform since May 2021.

On February 26, the Kuna platform also retweeted a tweet from Mihailo Fedorov, Deputy Prime Minister and Minister of Digital Transformation of Ukraine: Accept Cryptocurrency Donations.

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 **Mykhailo Fedorov**  @FedorovMykhailo · 2月26日

Stand with the people of Ukraine
Now accepting cryptocurrency donations. Ethereum. Bitcoin and Tether (USDTtrc20)

BTC — 357a3So9CbsNfBBgFYACGvxxS6tMaDoa1P

ETH — 0x165CD37b4C644C2921454429E7F9358d18A45e14

USDT (trc20) — TEFccmfQ38cZS1DTZVhsxKVDckA8Y6VfCy

In addition, the founder of Kuna, Michael Chobanian, also points out that most people have no choice but to use cryptocurrencies. People have cash and they want to buy cryptocurrencies, but the current supply is very limited at the moment.

Volatility is opportunity in tough times.

Although the current macro conditions and geopolitical tensions have created a difficult environment for the market, we believe that investors with a long-term focus on cryptocurrency should regard the recent volatility as an opportunity.

1. Bitcoin rebounded from its low point on January 24, which is a piece of encouraging news. If prices can further rise because of new “bad news events” in the coming days and weeks, it will further indicate that sellers are exhausted by the current crisis.

2. The Fed will closely focus on the rising commodity prices, but we do not currently think that this will lead to higher sustained inflation. Besides, we need to take more positive policy actions which will not lead the economy to a stagflation period.

3. The Fed will continue to pay attention to how the geopolitical situations develop and how markets react. Lower rate hike expectations may be good for risk assets and cryptocurrencies. The price changes may be reflected as market becomes more certain about geopolitical situations.

4. There are still conflicts. We think recent news flows are likely to drive the market. When tensions rise, anything can happen, but we will not put a price on global conflict or economic slowdown as we do now.

5. The US and Russia will not fall into a cold war. Swift actions will give the market more certainty than the gradual escalation that led to market fall. History suggests that it is highly likely to have a post-invasion rally. Crypto assets and stocks are highly correlated and they are likely to continue and drive crypto prices.

6. There is still an intact long-term investment cryptostory. Regardless of narration of short-term market, Bitcoin has proven its ability to maintain and increase purchasing power over the long term. Cryptocurrencies have been a powerful investment in technological disruption.

Looking ahead to 2022: Analysis of new tracks and opportunities in the blockchain world

This article presents a selection of the top 10 predictions for 2022 from risk agency reports, annual summaries and social network opinion leaders, ranked by their voice.

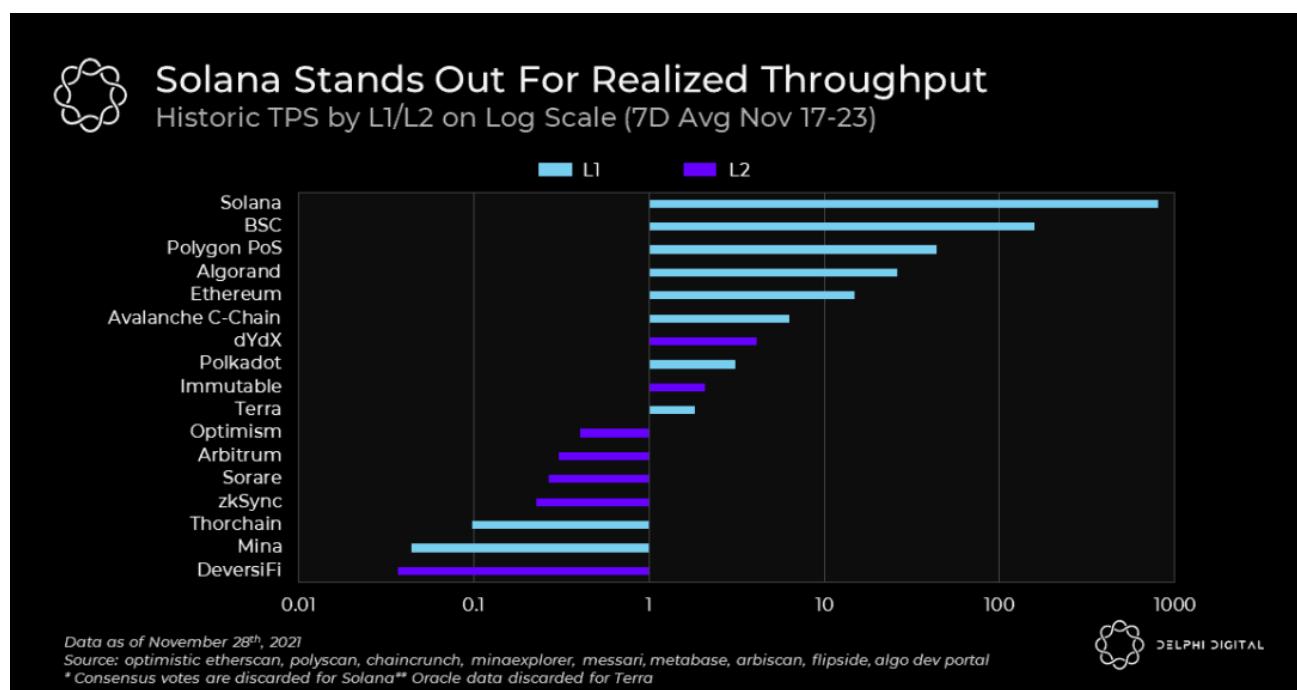
(1) Layer2

This is the most frequently occurring words in all outlooks.

Layer2 refers to Ethereum's second layer scaling solution. In the past, Ethereum has seen an influx of developers and users, causing the Ethereum network to become expensive and unusable, and the call for Ethereum to be scaled up has grown.

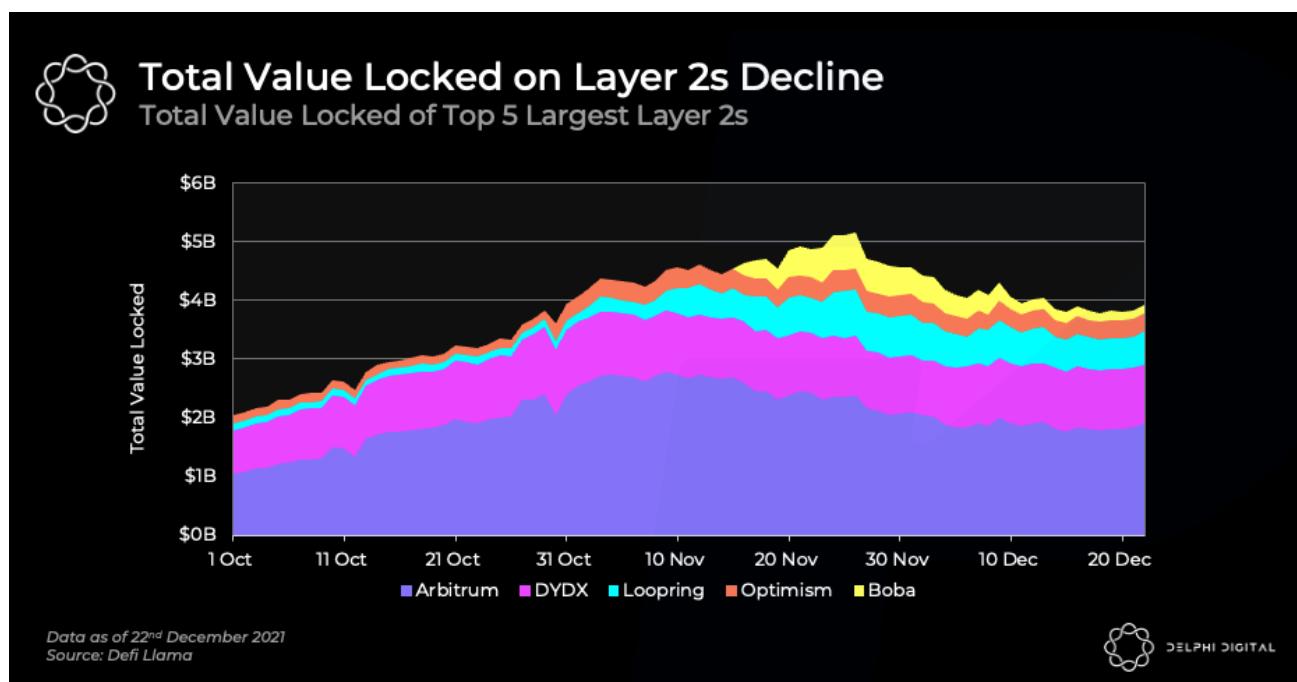
Ethereum's mainstream scaling solutions are Layer1 and Layer2. In layman's terms, if Ethereum is a congested road, Layer1's solution is to transform this original 4-lane road into an 8-lane road, while Layer2 is to make an elevated road on top of the original road. This solution of making an elevated road is now widely supported, and betting on the essence of Layer2 is to bet on the future of Ethereum ecology.

The mainstream technologies for Layer2 are Plasma, Rollup and Validium, all three technical solutions have representative projects in the market and are being validated by the market for their pros and cons. However, Rollup is currently the most versatile solution and is the officially recognized solution to Ethereum congestion in the short term.



(2) New Public Chain

The New Public Chain's opportunity is often presented next to the Ethereum expansion solution, due to the fact that if Ethereum's scalability solution is challenged, New Public Chain will be the opportunity. While Coinbase, Pantera, and others predict the Layer2 explosion, they also predict the New Public Chain's opportunity.



The opportunities for New Public Chain come from Layer1, multiple chains, data availability layers, etc.

Layer1 New Public Chain, such as Solana, has its application limitations and is predicted to be used in a certain domain, such as a public chain focused on gaming or social media.

Multi-chains, such as Avalanche, are among the many technological developments that investment firm Pantera Capital says will make 2022 an important year for the multi-chain domain, accelerating the growth of the non-Ethereum ecosystem, which in turn will create opportunities for cross-chain infrastructure.

After evaluating monolithic chains, multi-chain hub, rollup, split chains, and dedicated DA layer solutions, Delphi Digital's latest report concludes that multi-chain hubs are best suited to address the urgent needs of the blockchain industry in the short term, and that dedicated DA layers will be the endgame for scaling in the long term.

(3) Cross-chain

The cross-chain's opportunity is mentioned relatively little in the 2021 year-end report, but cross-chain's popularity is higher in early 2021.

New Public Chain's multiple chains will lead to cross-chain infrastructure opportunities, and Iconfirmation recently predicted that trust-minimizing cross-chain bridges are to be expected in the next year, with its observation that some cross-chain projects are lucrative.

(4) DAO

A report by research firm Messari suggests that 2022 will be the year of the DAO (decentralized organization), and Coinbase reports that DAO will enter the DAO 2.0 era next year.

In the next year, the DAO field can focus on DAO infrastructure, such as how to build a DAO quickly through tools. In addition, in screening DAOs, we need to focus on analyzing the mechanism of DAO's equity distribution and power generation.

In terms of tracks, Messari believes Venture DAO and Curation DAO need to be focused on. There is no uniform definition of these two concepts. Literally, Venture DAO is a decentralized autonomous organization for venture capital, which can be understood as a community-managed group, a joint capital aimed at investing in the community; Curation DAO is a decentralized autonomous organization for curators, which can be understood as a community-driven creators' platform related to media and content curation.

Pantera Capital believes it can focus on DAOs in areas around digital cultural identity, crowdfunding and capital distribution, social impact, etc. Even some predictions that DAOs may acquire some public or traditional companies and some have already been put into action: BlockbusterDAO plans to use \$5 million into the former video rental empire Blockbuster, which is about to go bankrupt.

(5) Game and social

Blockchain games are being sought after by capital in the second half of 2021, and many of the games being invested in at the end of 2021 won't go live until next year, so next year will be the year that GameFi's expectations materialize: not necessarily optimistic, but everyone will start to reap the answers.

As for social, it has recently started to receive attention from venture capital, and there are no shaped cases yet. Next year, we can focus on new products and user data in this category.

(6) Zero-Knowledge Proof Technique+

Zero-knowledge proofs refer to the ability of a prover to convince a verifier that an inference is correct without providing any useful information to the verifier.

This is not a new technical term, but will be a new development due to the Ethereum scaling debate. This technique does not appear independently, but in the form of overlays, such as “zero-knowledge proof + Layer2”, “zero-knowledge proof + privacy”, etc. Coinbase believes that the emergence of more privacy use cases may attract regulatory attention. KYC (Know Your Customer)/AML (Anti-Money Laundering) will pose a challenge to this.

(7) The penetration of crypto into existing financial services

Investment firm a16z's outlook for 2022 says there will be more integration of crypto with existing financial services as crypto products receive more and more user attention: more banks or fintech companies will enter.

Venture capital activity in fintech hit an all-time high in 2021, with year-to-date funding in the sector exceeding 96 percent of the year-end 2020 total to \$94.7 billion as of the third quarter, according to a report by venture capital data firm CB insight, illustrating the strong demand, with banks, tech giants and new players flocking to the space, including the crypto sector.

DeFi (decentralized finance) has approached \$100 billion in TVL (total value locked) although there hasn't been much buzz this year. The Block report says the DeFi market to watch next year is prediction markets, non-dollar stablecoins, real-world asset pass-throughs, governance transformation, and DeFi forks.

(8) Web3.0

Web 3.0 is one of the most buzzwords at the end of 2021, loosely defined as the next generation of the Internet.

a16z believes that the U.S. midterm elections are coming up next year and that Web 3.0 will influence voters' votes and play its role in the U.S. elections.

Pantera Capital focused on Web 3.0 and composability, where applications and services are seeking tighter integration with each other, to focus on projects that address the fragmented nature of human-web interaction.

(9) Social Investment Platforms

Social investment platforms refer to the desire of Internet community participants to collectively direct funds toward a larger goal, a phenomenon that is happening in both the traditional and crypto worlds: the traditional world with the GameStop saga and the crypto world with the U.S. Constitution copy auction DAO.

a16z reports that the next year will see multi-person, community-driven social investment platforms that leverage the Internet culture of collective action to make collective investment possible, where the investment target may be a fund or an environmental, social goal.

(10) Macro-level gaming

Many institutional reports and opinion leaders have provided macroeconomic outlooks for 2022, and the Popper Fund view is that useful advice is to always stay tuned in and learn from what's new.

In its crypto asset outlook for next year, Bloomberg News says that Bitcoin and Ethereum gaining wider adoption, and the normalization of stock market returns, as well as the continued decline in U.S. Treasury yields, will also have an impact on the blockchain industry.