# The Great Protocol Sink (Market Monday - Lite)

bankless.substack.com/p/the-great-protocol-sink-market-monday-194

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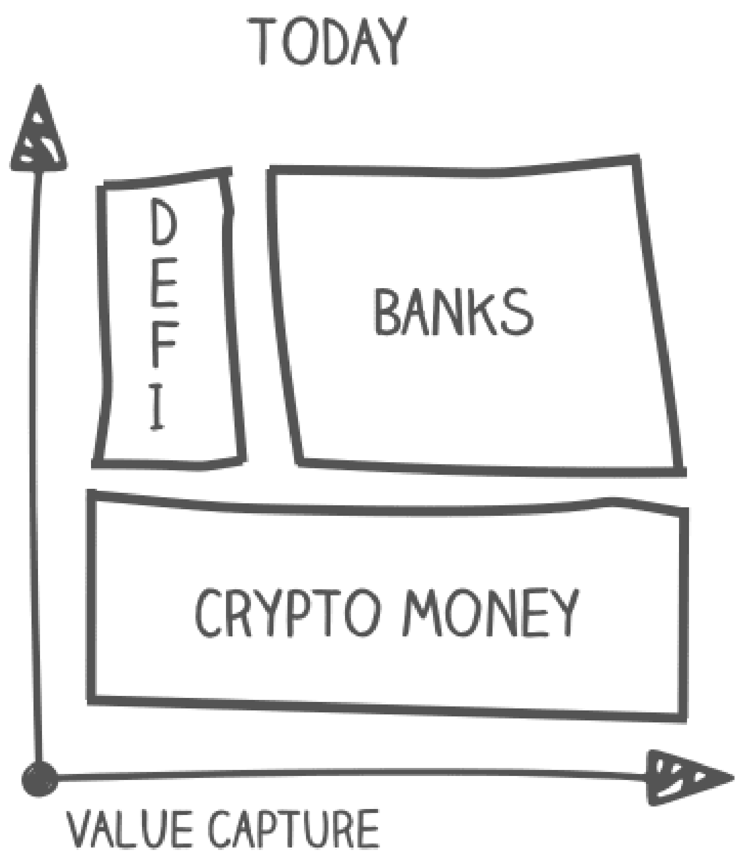
Dear Crypto Natives,

I think they're all wrong. DeFi protocols win in the end.

Yes, DeFi's small today—there's barely enough users to populate a city. Compare that to the millions on centralized exchanges and DeFi feels as weird as Bitcoin did in 2012.




Today the crypto money stack looks like the above. BTC and ETH is the crypto money at the bottom of the stack—the money settlement layer. ETH and BTC capture value in the form of liquid market cap—a term I've come to call economic bandwidth.

The crypto banks (the centralized exchanges) use the bandwidth of the money layer for trading pairs, liquidity, collateral. They offer lending, borrowing, payment, staking—all the money verbs. They issue tokens: stablecoins, and gold, and securities. You know them by names like Coinbase, Gemini, BlockFi, and BitMex.

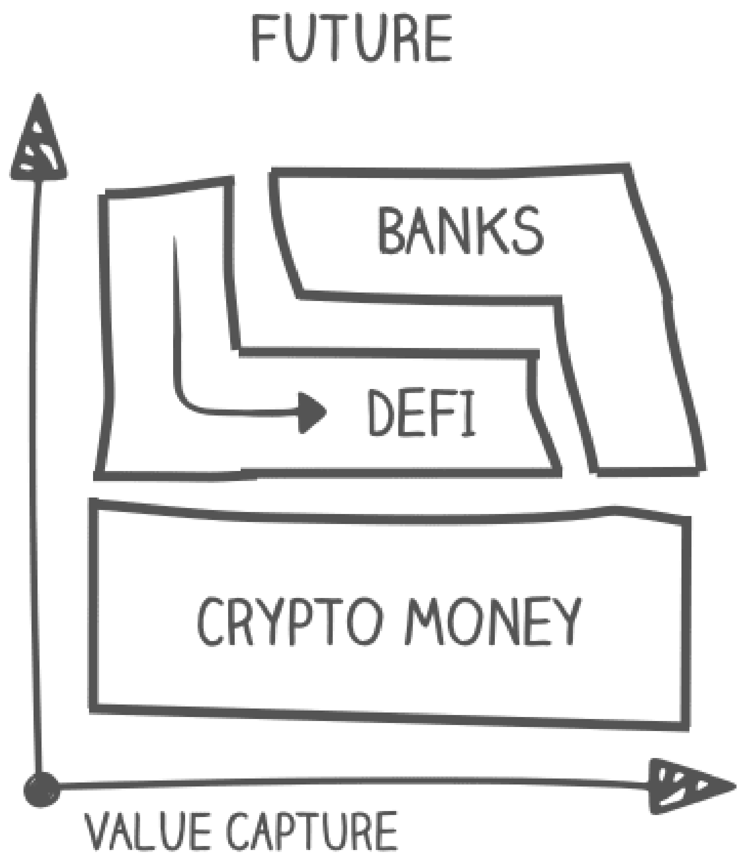
DeFi protocols like Maker and Uniswap use the crypto money layer too. They're growing fast —a billion locked in DeFi—but they're still tiny compared to crypto bank value capture. Just a sliver of trading, derivatives, stablecoins, and loans. An example: DeFi did $700m in loan origination last year—impressive! But the crypto bank Genesis did more originations than all of DeFi in a single quarter.

But protocols have a way of becoming the foundations of things. Their credible neutrality gives them higher density compared to centralized agents. Put liquids in a glass, what happens? The dense liquids sink to the base. The same in money systems—the money protocols become the base layer. They sink to the base.

An example? Binance has BNB token. They'd love if others used BNB as a money layer. They'd like other banks to adopt it as a core trading pair and build on it. But Coinbase never will. Neither will Gemini or Kraken. BNB is low density because it isn't neutral. BTC and ETH have higher density and thus become the base layer of the money stack.

This is **protocol sink**. Higher density DeFi protocols sink lower in the money stack and displace crypto banks.

This means we're headed toward a future more like this:




In this future the crypto banks still interact with the money layer, but less directly and more through DeFi protocols. Instead of using their own lending pool, the banks use Compound. Instead of sourcing their own liquidity, they use Uniswap. Instead of providing their own DAI lending rates, they use the DAI Savings Rate (DSR).

This doesn't happen all at once. The banks source Uniswap liquidity "just for the long-tail assets" at first. But soon, they're sourcing Uniswap for everything. And no, the crypto banks don't die, they can still thrive by wrapping these protocols with their own value-added services. They can give you more than the DAI Savings Rate, they can give you the DAI Savings Rate "plus 10.25% bonus interest if you sign up before March 6!"

Think this is far-fetched?

That last example is live today on OKEx. Why? Crypto banks like OKEx can't compete with the risk/return of the DAI Savings Rate—they don't want to—it's better for them to wrap the protocol inside their offerings. They compete with banks, not protocols.

But each time a crypto bank adopts a DeFi protocol and feeds it capital the protocol gets stronger. The protocol accrues network effect. And value. It gets fatter.

No, Coinbase won't create a competitor to the DAI Savings Rate. Coinbase will adopt the rate, add it to their offerings, and continue to compete with OKEx and Binance who'll inevitably add the DAI Saving Rate to their offerings too.

It'll take time. The DeFi protocol sink will play out over years and decades.

But protocols will displace banks just as crypto money systems are displacing fiat systems. You could sum up the entire crypto money thesis as this: crypto is higher density than fiat, thus, it sinks to the base layer of human society and inevitably becomes the foundation for everything.

This is the **great protocol sink**.

It started 10 years ago with Bitcoin and it continues with DeFi today.

I didn't make any predictions for 2020 yet but here's one. At least one A-rated crypto exchange will adopt the DAI Savings Rate sometime in 2020.

Longer term it's more interesting. Eventually the high density DeFi protocols become our base banking layer—the protocols displace the banks.

And the banks either adapt or die.

- RSA

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$1 billion locked in DeFi is a big deal—I expect a flood of new crypto users in the next bull run—the aim of Bankless is to help them—ain't got no time for trolls!

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## MARKET MONDAY:

*Scan this section and dig into anything interesting*

## Market numbers

- ETH popped to $222 from $189 last Monday
- BTC shot up to $9,850 from $9,278 last Monday
- DAI stability fee steady at 8% with savings rate steady at 7.75%

## Market opportunities

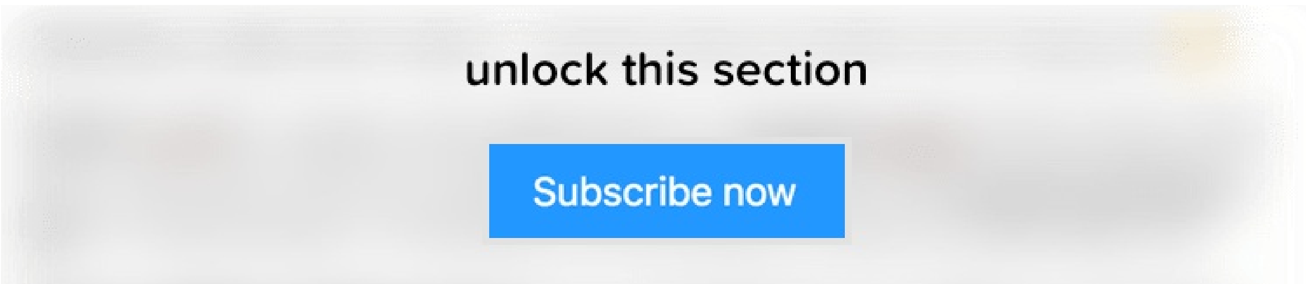
## New stuff

What’s hot

Money reads

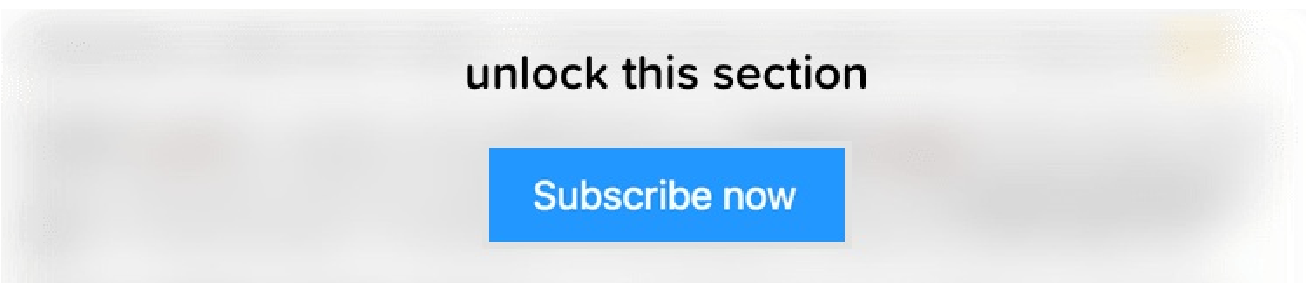
## WHAT I’M DOING

*Check out a few opportunities I’m capturing right now with my crypto money*

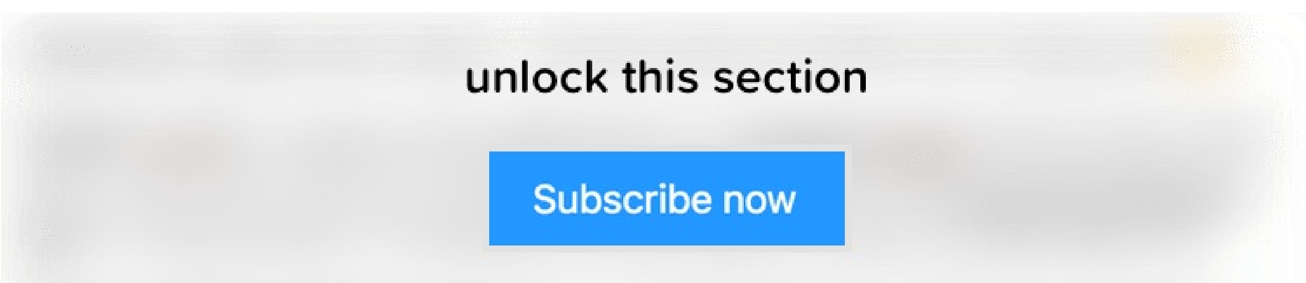



## WEEKLY ASSIGNMENT:

*Make time to complete this assignment before next week*

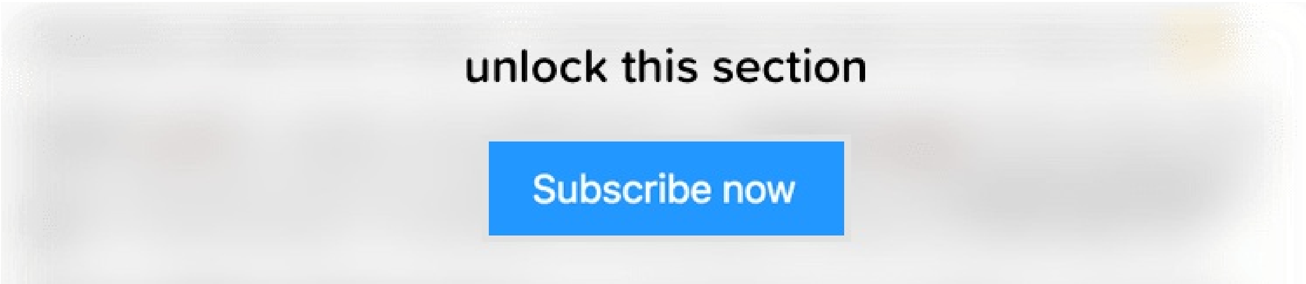



## Extra Credit Learning




## TAKES:

*Read my takes but draw your own conclusions*

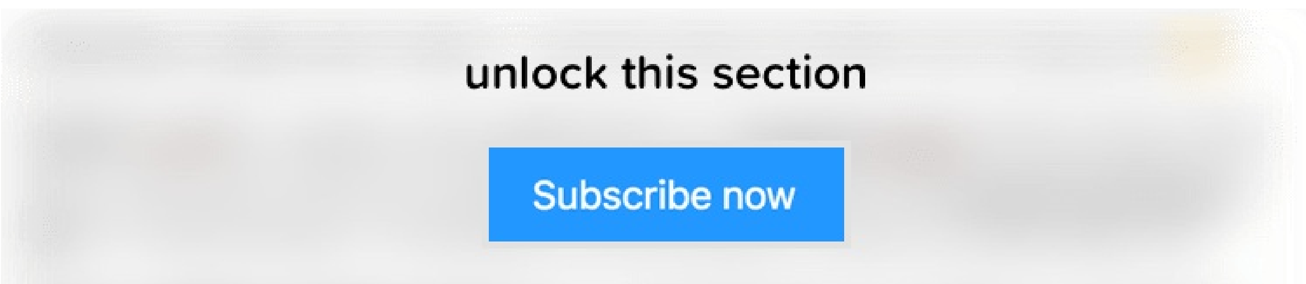



## TWEET-A-QUESTION

*Tweet me your question—I reply to one per week*

**Question from Twitter:**
Would you recommend storage devices over exchanges? I've been thinking about buying a Nano and have been researching storage devices/cold storage.

**RSA reply:**




*Some recent tweets…*

The next time ETH hits $1,000 we'll have earned it
It's 1994 in crypto land Exchanges are AOL, closed gardens, but they'll onboard the masses in the next wave Maker is Yahoo, Uniswap is eBay, native apps that'll grow even bigger than the closed gardens, just waiting on Netscape BTC & ETH are a TCP/IP layer…that you can buy
Careful. Ethereum tech might eat your chain's entire reason for existing Privacy chain ☞ AZTEC Digital gold chain ☞ ETH App-specific chains ☞ Rollups Internet of chains ☞ Eth2 shards Programmable money chain ☞ DeFi

### Actions

- Execute any good market opportunities you saw
- Complete weekly assignment: send DAI on a timer using Gelato

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