CRYPTO A.M. Our series on AI, Blockchain, Cryptoassets, DLT and Tokenisation

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PARTNER CONTENT

CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER

As we all adjust to this COVID-19 period of self-isolation, it is great to see how people and businesses alike are positively adapting - none more so than my colleagues and partners at City A.M. Whilst the last printed edition was distributed eleven days ago, CityAM.com has been flourishing with a significant increase in traffic over the last 7 days - the website is now recording up to 2.9m unique users every month. Crypto A.M. has also had to adapt and I'm very pleased to announce that www.CryptoAM.io has been launched today on www.Cityam.com - in association with BEQUANT Group. It is new and we will grow the site organically over the next three months, adding more sections and data, as well as promoting this online to the wider City AM audience - as always I would very much welcome feedback as we develop these pages via CryptoInsider@cityam.com

Turning to the crypto market since last week's edition at the time of writing, BTC was trading up at US$6,425.51 / GB£5,419.20; Ethereum (ETH) is at US$134.72 / GB£108.57; Ripple (XRP) is at US$0.1753 / GB£0.1411; Binance (BNB) is at US$12.26 / GB£9.91 and Cardano (ADA) is at US$0.02983 / GB£0.02405. Overall Market Cap is at US$176.76bn / GB£142.38bn (data source: www.CryptoCompare.com)

Positive news from the crypto insurance sector, I caught up with Sharon Henley of Coincover (https://www.coincover.com) which is aiming to be the market leader in Crypto security. She explained that Coincover as of today has entered into a partnership with Civic (https://www.civic.com) which is best known for its Blockchain based identity management. The partnership will provide a 'First-of-its-Kind' Crypto Hot-Wallet With a $1 Million Protection Guarantee ensuring customer funds are safe yet fully accessible, even online.

A major milestone was reached last week by Cardano who launched Ouroboros Hydra, it's off-chain scalability protocol. I spoke with my friend Charles Hoskinson, Founder and CEO of IOHK, who explained that Hydra users can connect to the network and simultaneously create ten "heads" and that each head creates a "lane" of throughput for transactions and data which will enable up to one million transactions per second, a level at which will support the most complex financial transactions and outperform most incumbents including VISA.

Finally, I'd like to update you on my local community effort for Canary Wharf / Isle of Dogs. As I mentioned last week the effort is focused on helping the elderly and vulnerable – quite scarily, speaking with Sister Christine Frost, I found out that some elderly people have become identified who have fallen out of the system and are going hungry. I'm very grateful to team members at BABB (Bank Account Based Blockchain) headquartered at Level 39, One Canada Square who have personally kickstarted the effort with £2,500 of their native BAX token which will be converted to sterling when withdrawn for distribution. It would be great if other Crypto / Blockchain / Fintech companies would like to get involved in helping my campaign and anyone else who wants to donate can do so via: www.bit.ly/IoDFoodCare

PROVEN RESILIENCE; FINDING A NEW FUTURE

Designed by Phill Snelling, Bowater Media

The COVID-19 pandemic continues to send shockwaves around the world. As the global marketplace attempts to come to terms with what impact this will have, Phil Mochan, Co-Founder and Head of Strategy and Corporate Development at Koine, a provider of digital asset post-trade services that meet conventional market norms, talks about what this means for the future of digital finance and blockchain technologies.

The world is, quite literally, in a state of flux. The stock market has responded to the COVID-19 pandemic with unpredictable levels of volatility, and the true economic cost, whilst unknown, will undoubtedly be huge (we predict 10%+ of global GDP).

The unprecedented response by governments and central banks to ensure that the pandemic shock does not become a substantive permanent loss of wealth, has led to implementation of formerly controvertible policies which might not have occurred in a decade or more (such as UBI and helicopter money). This enforced policy innovation reframes the strategic opportunity in digital finance and blockchain technologies in a potentially very positive manner.

VALUE PRESERVATION

Bitcoin, as well as other cryptocurrencies, has proven resilience in the current market. If you only read the headlines on digital currencies, you'll read of wild price swings and severe price volatility. However, if you had held Bitcoin, rather than US equities (S&P500) over last 12 months, you would be up 51.1%, rather than down 9.6% [16 Mar 2019 – 16 Mar 2020].

This continued proven resilience in a crisis will surely make it an increasing component of every portfolio, particularly when the market infrastructure model is normalised as we expect this year.

INFRASTRUCTURE RESILIENCE

With the notable exception perhaps of popular stock-trading broker Robinhood in USA, it would seem that the majority of the existing market systems and post-trade infrastructures did work well, including the use of circuit breakers to dampen excess volatility.

Whilst it doesn't yet conform to the conventional model, the digital assets market has demonstrated its ability to deal with high volatility and dramatic trading volume increases. Therefore, it makes sense that traditional capital markets are likely to shift to the emerging digital market infrastructure on an accelerated basis once it follows normal market models.

CRYPTO IS RISK-OFFSET

We are now in a situation where helicopter money is flowing out of Central Banks to keep our economies going. We know that this is devaluing fiat currencies. The fixed known supply of the majority of crypto-currencies such as Bitcoin will likely prove positive as a hedge against this massive depreciation.

ACCESSING SAFE HAVEN ASSETS

In a crisis situation, there is a flight to so called safe haven assets such as US Treasuries and reserve currencies. But they're not straightforward to access for everyone in the world and transaction costs can be high.

We can therefore predict that digitalised US treasuries and regulated digital fiat currencies will, through the new digital distribution models, be accessible to greater numbers of individuals and organisations globally who do not have access to the historic capital markets infrastructure with its high relative costs and the exclusionary principals built into its "club rules".

We foresee increased demand for new safe haven assets, such as digital versions of World Parity Unity (a basket of 12 currencies), meeting the demand for non-USD denominated safe havens to augment the current role of CHF. These new assets will serve multiple communities of interest, including family offices, corporates and commodity traders, not just as a store of value but also as a medium of exchange, and will grow substantially larger than the existing cryptocurrency market within a couple of years.

RECOVERY LED BY FINANCIAL SERVICES INNOVATION

In the last week or so, statistics show that 3.28 million people filed for unemployment insurance in the US, and there were 477,000 new UK benefit claims. These record breaking shock numbers are likely to continue for several weeks. What will the recovery look like?

Some like Bill Ackman, the US hedge fund manager who made $2.6bn betting on COVID-19, believe the recovery will be a swift V-shaped model. Others are sceptical. Yes, the potential is there for a V-shape recovery if governments enact policies which keep businesses alive, but effective policies are hard to conduct at scale and permanent capacity will undoubtedly be lost.

In our view the initial pandemic crisis will lead to an economic and policy crisis creating the agenda for more rapid innovation, and the financial services industry and blockchain technologies could be significant beneficiaries.

In the short term, opportunities to manage the delivery of credit into the economy have exploded for digital innovators, whether through challenger banks, digital credit providers or crypto-asset lending platforms. Giving people access to cash is the pre-eminent initial opportunity.

In medium term, we foresee that the shifting capital flows in recovery phase will create opportunities in three areas: accelerated investment in blockchain and digital finance businesses, particularly infrastructure; an accelerated shift into cryptocurrencies as part of a balanced investment portfolio; and the opportunities arising from improved regulatory flexibility in facilitating change.

Whilst some are happy to bet on rising equity markets, it may be reasonable to see that accelerated inheritances and transformed risk attitudes may align more capital towards value preservation and diversification. This will undoubtedly be one of the drivers to the acceptance of digitalised alternative assets, including real estate and closed end funds.

Given the critical importance of emerging fintech and blockchain businesses for the world-leading UK, it is imperative that the existing businesses be given the cash support they need whilst the venture markets are closed to new finance. The current CBLIS initiative in the UK is inadequate to achieve this.

WHAT'S AHEAD

Financial services innovation is likely to be a major competitive advantage for nations in the new post COVID-19 world, and therefore it behoves governments to protect their fragile innovators at this time of crisis so that they can be major drivers of the economic recovery.

Phil Mochan, Co-Founder and Head of Strategy and Corporate Development of Koine, in conversation with James Bowater. Koine is a provider of segregated, institutional custody and settlement services for digital assets. For further information visit https://www.koine.com

CRYPTOCOMPARE MARKET VIEW

Demand for Gold-backed Cryptocurrencies Grows as Bitcoin Moves Sideways

Last week the price of Bitcoin traded within a $6,000 - $6,800 range as most top cryptocurrencies, including Ethereum and Bitcoin Cash, remained relatively stable. Over the same period, the S&P 500 recovered slightly, while oil dropped to a 17-year-low.

While demand for bitcoin seems not to have grown, gold-backed cryptocurrencies have seen demand surge. The top two cryptocurrencies backed by the precious metal, Paxos Gold (PAXG) and Tether Gold (XAUt) are both backed by one ounce of gold stored per token, and entitle investors to redeem the gold.

As investors move to gold and gold-backed cryptocurrencies, the cryptocurrency community has formed the Crypto COVID-19 Alliance, raising funds to help fight the coronavirus pandemic. The Alliance has been growing as more cryptocurrency firms donate to support nonprofits.

The United States last week charged Venezuela's President Nicolás Maduro and other senior officials in the country with "narco-terrorism," alleging that Maduro used cryptocurrency to conceal transactions related to an illicit drug ring. The Department of Justice claimed Maduro and 14 other officials in the country are working with the Colombian Farc rebel group in a multibillion-dollar cocaine trafficking ring. While the cryptocurrencies used are not mentioned, Venezuela has also launched an oil-backed crypto, the Petro.

Coinbase Commerce, the retailer payment portal of the San Francisco-based cryptocurrency exchange, has to date processed over $200 million worth of cryptocurrency payments, through its network of 8,000 retailers accepting digital currency alongside other payment streams.

Last week also saw leading exchange Binance announce the launch of a crypto-backed Visa debit card that will allow its users to pay with cryptocurrency anywhere Visa is accepted. The card can be topped up with Bitcoin (BTC) or Binance Coin (BNB) and is set to launch in Malaysia before rolling out to the rest of the world.

CRYPTO A.M. INDUSTRY VOICES

Have MakerDAO proven their worth in DeFi?

In the world of blockchain and cryptocurrency DeFi has become synonymous with borrowing, lending and trading using public blockchains and smart contracts. DeFi saw incredible growth in 2019 (~140%) and is what blockchain enthusiasts will remember most about the year. Within this growth, DeFi protocol MakerDAO saw the value of their currency DAI (a stablecoin linked to USD) locked-up within the ecosystem jump by over 997% (Source: DeFi Rate).

On 12 March 2020 or 'Black Thursday' the markets crashed and Ether, the collateral used by MakerDAO, suffered a 30% loss causing chaos across the network. This sudden crash unveiled a flaw in MakerDAO's system for generating and then liquidating collateralised debt positions (CDPs) which allowed roughly $4 million of collateral to be bought up for almost nothing. This left the network in debt and under collateralised. Additionally, DAI was trading at a premium and becoming increasingly illiquid due to sudden increases in demand for 'safe' cryptoassets caused by the loses of Bitcoin and Ether.

This was not the first crash MakerDAO has endured. Formed in 2015 they were presented with issues when the price of Ether crashed by roughly $1,000 (or ~70%) in the first months of 2018. However, these issues were very different when compared to the fallout from 'Black Thursday'. DAI was trading below the $1mark, predominately due to a decrease in demand but the liquidation of CDPs had occurred largely without issue. In response, MakerDAO's community increased the Stability Rate, which is the interest paid to DAI holders, nearly 40-fold, from 0.5% to 19.5%. This move perplexed many in the wider community but by increasing incentives to hold DAI the $1 mark was retaken and changes proved a success.

The current issues MakerDAO faces, roughly $4 million of debt and an illiquid market for DAI, are no small problems to overcome. One of the solutions that has been proposed and voted in by the community is a series of auctions for MakerDAO's native token, Maker (MKR). Auctions lots, with 250MKR at a time, will take place until the debt has been recouped. This will dilute the supply of MKR but will maintain trust in DAI and MakerDAO as a whole. These auctions took place on www.flop.live and have proved an innovative solution to address the debt created. An additional solution, also proposed and voted in by the community, is to utilise USD Coin (USDC) as another form of collateral for generating CDPs. This in turn will lead to the creation of more DAI and stabilisation of the price through the creation of market making opportunities; mainly due to USDC being a stablecoin pegged to the dollar but having one key difference, it is centralised.

Through its innovation, MakerDAO is addressing all of these issues. However, some solutions are inherently different from others. Both the vote to alter the incentives for holding DAI and the MKR auctions to recover debt were laid out in the original whitepaper. In other words, they were risks which MakerDAO had addressed and tabled solutions long before the problems arose. Showing one of the reasons MakerDAO holds the DeFi crown.

The need, however, to add a centralised stablecoin to stabilise the value of a decentralised stablecoin, doesn't sound quite as impressive. Although many would say it was simply a 'quick fix' for a complicated problem and MakerDAO has proven their worth. When the ethos of DeFi is that it is 'open to all' and can 'bank the unbanked' the addition of a stablecoin whose issuer "reserves the right to "blacklist" certain addresses and freeze associated USDC" could challenge the crown that MakerDAO hold.

Charles Adams, Blockchain Marketing Consultant at www.ZeroCarbonProject.com

Crypto A.M. shines its Spotlight on PhiGold PGX

In the broadest terms, Investment Banks take our deposits, go and speculate on a project - and when it all works out, keep the Aston Martin and Bentley dealers busy. That's fine: we all know the rules. But how can we get closer to their rich seam of opportunities? Well, that's a bit harder... until now.

'Physical Gold Streaming' is a type of financing where a mine sells a right to a certain percentage or amount of future production, typically at a discount, in exchange for financing.

Now, Commodity Financing Tokens allow investors to partake in streaming - in much smaller sums than previously possible - and so invest in projects that until now have only been accessible to IB's and specialist funds.

Digital RFQ Limited – the London-based OTC digital asset broker - has worked with the team of a gold mining company, PhiGold, the owner of the Barobo gold mine in the Philippines to structure, deliver and launch the PGX token.

PhiGold is placing 15,400 OZ out of its total proven reserves of 272,000 OZ to fund the 100th/OZ tokens for sale at USD$10 each, raising $15,400,000 with which PhiGold funds its mining operations.

The gold extracted from the mine is refined and sold to the Central Bank of The Philippines, 50% of the cash flow is used to purchase London Bullion Market Association (LBMA) gold bullion held by an independent Trust in London. Once the amount of gold held in the Trust fully backs each PGX token, holders can redeem tokens directly at the Trust.

> "The PhiGold PGX token provides an avenue for both institutional and retail investors

LBMA gold at the time of writing is trading at over $1600/oz, with the effective price of gold for sale via the token at $1000/oz. An attractive yield curve that the IB's would like to achieve - so why isn't an IB financing this deal? Size matters here - smaller operations like PhiGold do not have the scale or demographics to make them fit an IB model.

Instead of relying on funding from traditional sources, PhiGold is able to disintermediate middlemen, and raise the capital needed directly from investors, more economically and with greater flexibility.

The PhiGold PGX token provides an avenue for both institutional and retail investors to directly engage in an area of investment from which they may otherwise have been excluded. Digital RFQ can both provide finance to a mine and syndicate the financing to a diverse group of investors via the issuance of digital tokens.

From 12:00am 31/03/2020 AAX Exchange in Hong Kong launches the secondary trading of the PGX token, meaning investors can enter or exit at any point during the streaming's lifecycle.

This project is the first in a series of tokens in the Digital RFQ pipeline. You can sign up for updates on these at www.digitalrfq.com. As for the PGX Token, full details and due diligence of the mine business, geological reports, costings and team can be found on the company website and White Paper at www.phigold.com

LOYALTY PROGRAMS DON'T NEED BLOCKCHAIN

Troy Norcross, Co-Founder Blockchain Rookies

That's right. Loyalty programs don't need blockchain. Loyalty programs are designed to lock people in and to keep them, well, loyal. Yet there are dozens of companies working to create loyalty programs underpinned by blockchain technology.

The thinking goes like this: Consumers are tired of accumulating points that they can only use at the merchant where they earned them or within a closed network of merchants. Wouldn't it be great if consumers could take their points and use them anywhere - or even better - convert them to cash through an exchange?! Consumers would love this. Let's build it.

The problem is: This is the exact opposite of why merchants create loyalty schemes.

Merchants don't want consumers to spend their points with other merchants or their competitors. And they don't want them to convert their points to cash. Merchants want consumers to come back and spend more and to use their points as part of spending more.

A single company or a loyalty network operates from a centralised database. Each of the merchants in the network uses the same database to determine if a consumer has sufficient points for a transaction and to deduct those points once a purchase is complete. The network could deploy distributed ledger technology (DLT) to allow for easier reconciliation and faster processing. Still, it would be a private permissioned network with a central control - and thus not blockchain. Also, immutability wouldn't be of real value and instead would slow things down.

A genuinely decentralised blockchain for loyalty points would allow for easy tracking of balances as well as ease in spending or exchanging points for cash - or even for other cryptocurrencies - and that's the last thing that merchants want.

The best blockchain solutions have a solid business case for ALL stakeholders.

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