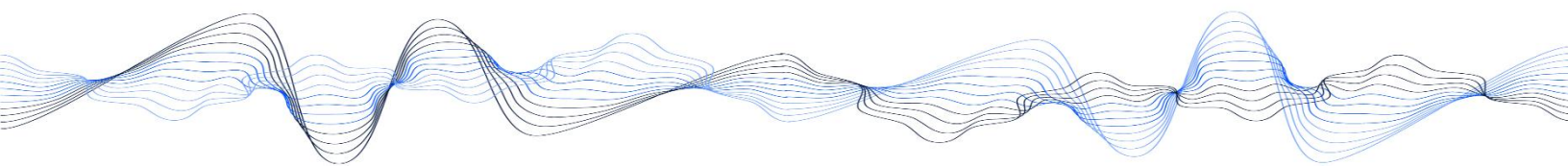




Digital Pulse Report: The Phoenix



13 July 2023

Coinbase Asset Management

ASSET MANAGEMENT

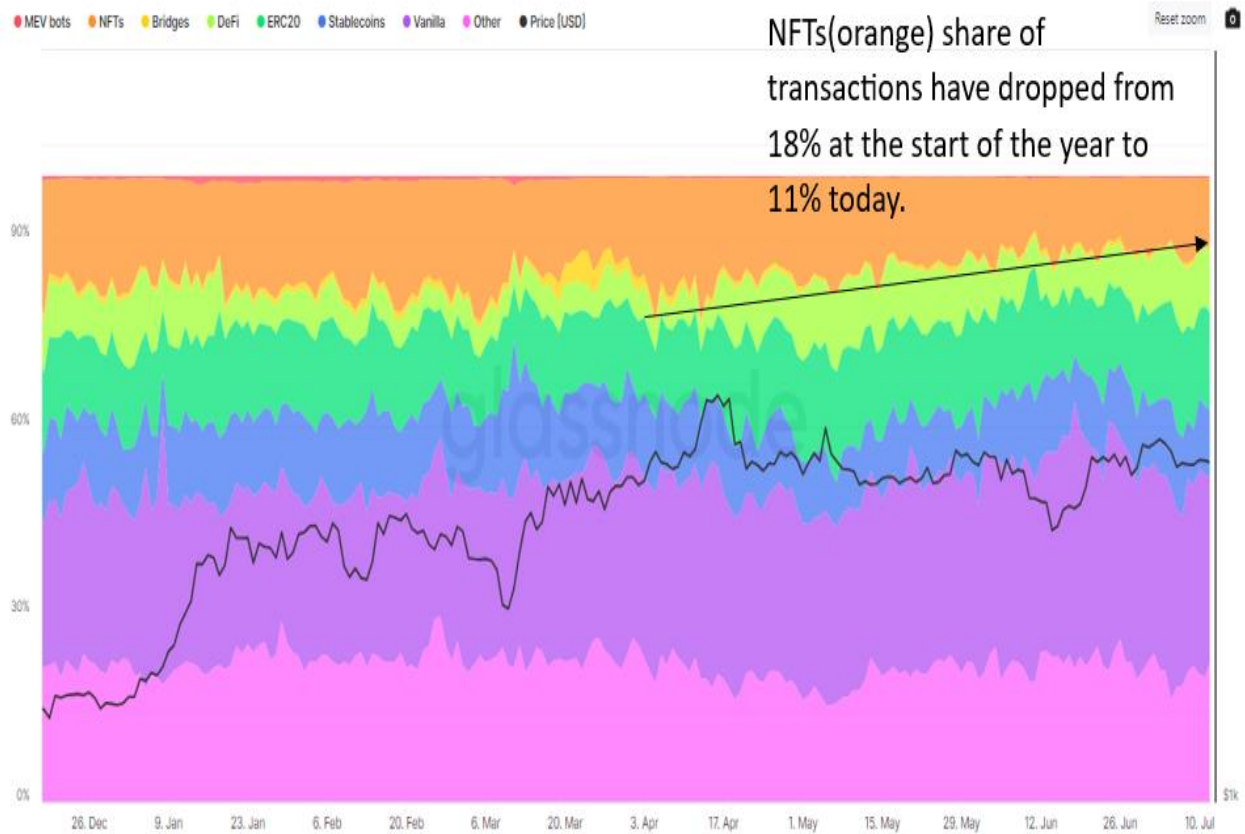
The Phoenix: Another speculative wave has passed, spurred by meme coins like PEPE and BRC-20s. The NFT ecosystem is left drained in its wake. Depleted market volumes and depressed prices for the most prominent Ethereum NFTs reflect the same sentiment. Are JPEGs over? Or is this a sign of more fundamental change for NFTs? Hidden in the speculative rise and fall of digital asset prices are generations of technology. The death of old ideas and birth of new ones. The Ethereum community recently introduced token-bound accounts (“TBAs”) for NFTs. Non-fungible assets can now operate smart contract wallets, allowing them to own other assets and interact on-chain in fundamentally new ways. On Bitcoin, BRC-69 could reduce the cost of Ordinals by up to 90%. Like TBAs, this new standard also changes functionality. Not to be outdone, Solana released a clever innovation that makes NFTs thousands of times cheaper to mint based on a volume discount. The technology rhymes with batch processing and compression tools that are critical to many Web2 systems. All these changes amount to cheaper, more powerful NFTs with new capabilities to explore. It is the beginning of something new. Despite builder excitement, only a few early projects have scratched the surface. Market prices of marquee NFTs reflect a loss of confidence in the current model. But this is the pattern of progress. Like the phoenix, great things can rise from the ashes. NFTs could be reborn, brighter and more colorful than before.

WEEKLY BEATS

1. Chart of the Week – Ethereum NFT Transactions Decline
2. Fundamental Pulse – Neutral
3. Just the Beginning for TBAs
4. Ordinals Activity Ebbs and Flows but Fees Are Down Only
5. Merkle Trees Compress Solana Fees

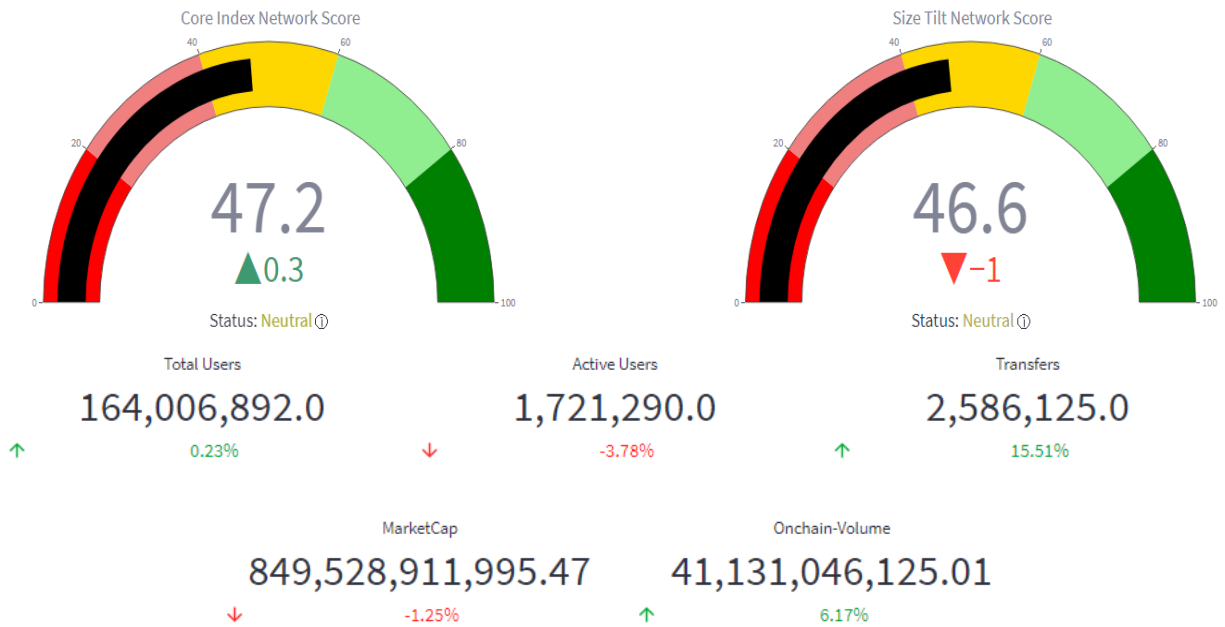
1. ETHEREUM NFT TRANSACTIONS DECLINE

The main driver of a decline in Ethereum network activity in recent periods is a loss in momentum from NFTs. As a percentage of total transactions, NFTs have declined from 22% in April to 11% now.



Source: Glassnode.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



NFTs are a marginal driver differentiating ecosystems this week. Ethereum’s low active user value and negative 30-day change in aggregate score both reflect the pullback in on-chain activity.

Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Coinbase Core	47	0	-11	29	85	53	39	38	5	82
Coinbase Size Tilt	47	-1	-14	33	76	46	39	41	12	79
Bitcoin	54	4	0	30	97	71	41	39	0	99
Ethereum	30	-7	-35	23	61	13	32	32	12	41
Polygon	39	-1	-25	27	26	35	53	27	3	100
Litecoin	43	-11	-24	40	43	28	44	57	20	70
Cardano	76	4	2	89	84	54	39	87	80	100

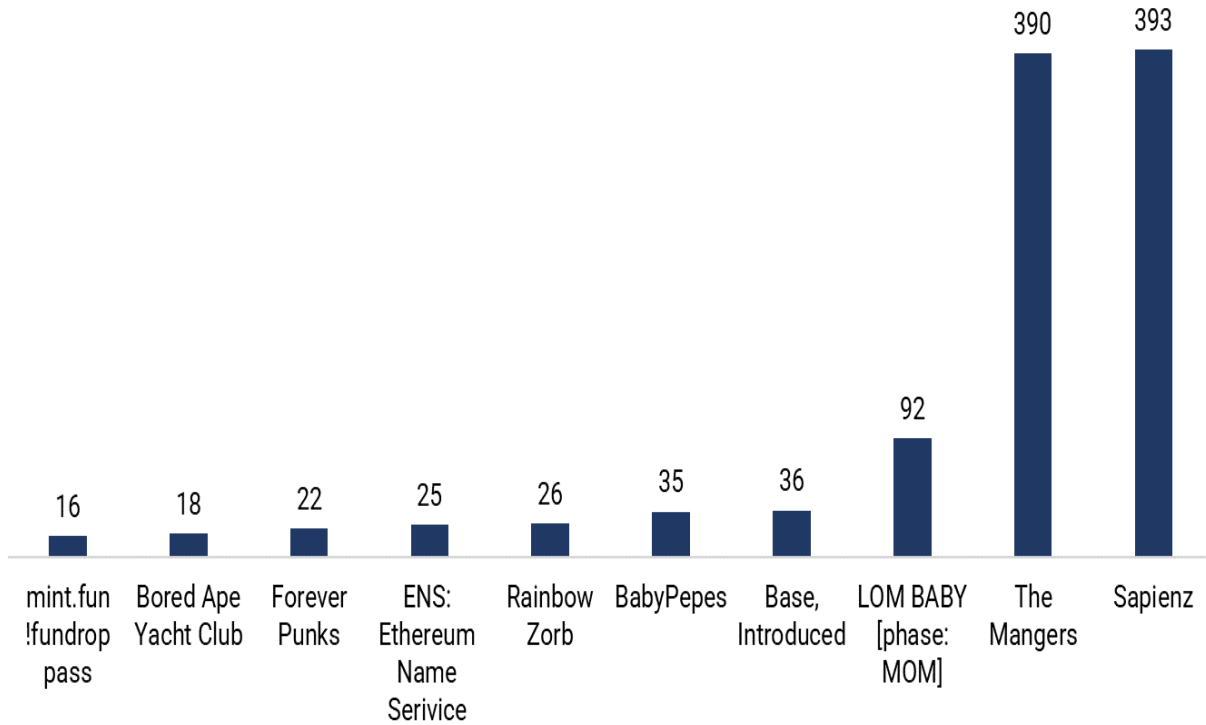
*Snapshot from the Coinbase Asset Management Pulse on 7/12/2023. Seven-day change in the Core and Size-Tilt Index Scores.

Notes: Status- High > 60, Neutral 40 to 60, Low < 40. A score of 54.5 means the Index value is better than 54.5% of its values in the past 365 days. Due to incomplete data coverage, index scores exclude Solana. Asset Scores are unique and sensitive to changes in a particular asset. Readers should not compare Asset Scores across assets. See MVIS for more information on the [Coinbase Core Index](#) and [Coinbase Size Tilt Index](#).

3. JUST THE BEGINNING FOR TBAS

It is the earliest days of token-bound accounts on Ethereum. This [Dune dashboard](#) describes nascent activity, which is dominated by a few projects. Interestingly, the current generation NFTs (ERC721s) can also be upgraded with token-bound accounts. All except CryptoPunks, which were created before the necessary features were introduced to the standard.

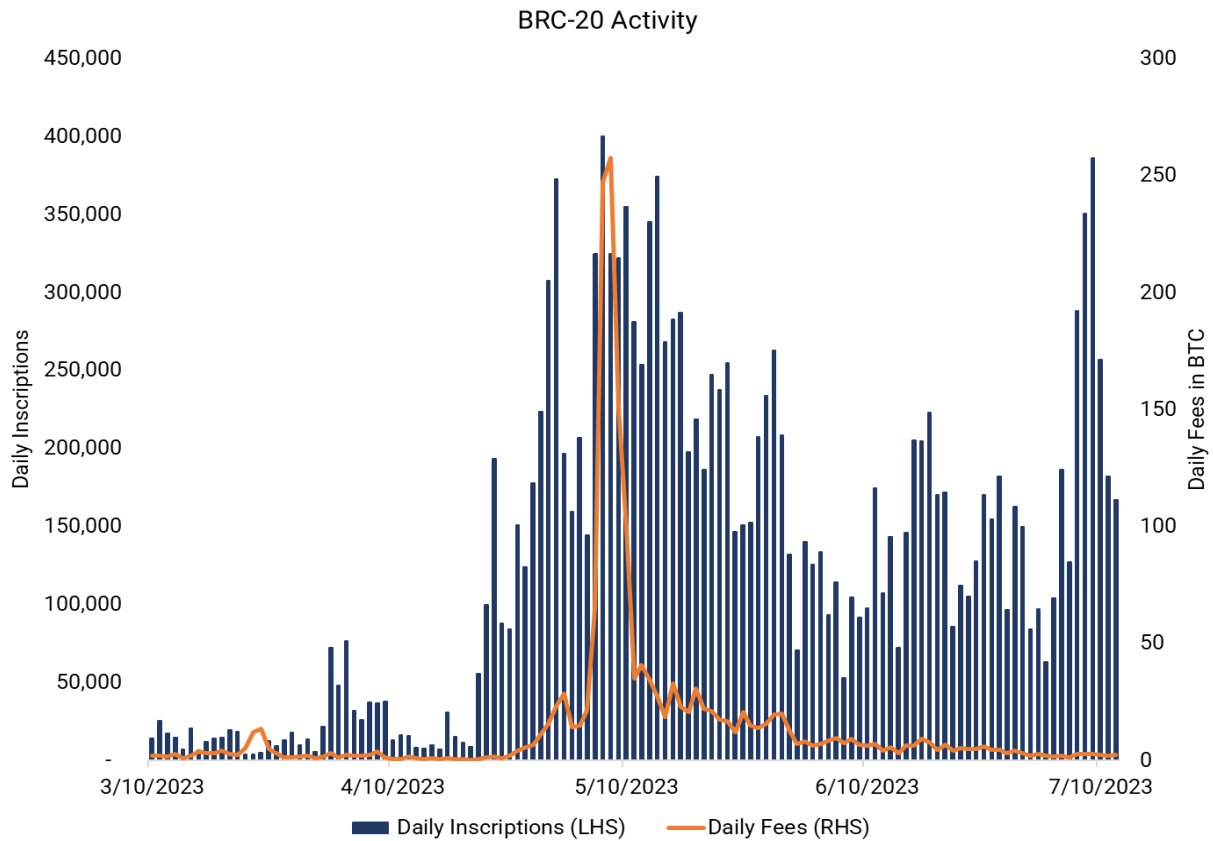
NFT Collections using ERC-6551



Source: Dune Analytics.

4. ORDINALS ACTIVITY EBBS AND FLOWS BUT FEES ARE DOWN ONLY

On Bitcoin, BRC-20 activity retreated after a hype wave that put Bitcoin in unexpected competition with Ethereum for fungible meme coins. Transaction fees on the network have retreated from over 250 BTC/day to 2 BTC/day. BRC-69 is already spawning early experiments, and Ordinals activity is back up, this time without the spike in transaction fees.



Source: Dune Analytics.

5. MERKLE TREES COMPRESS SOLANA FEES

Compression and batch processing make NFTs much cheaper on Solana. It is a technique that could be deployed across other blockchains, and for other purposes – an innovation in math. It offers a volume discount that rises to 10,000x cheaper and beyond.

Number of NFTs	Solana Today	Solana with Compression	Ethereum	Polygon
1,000	12 ◎ \$253.68	2.57 ◎ \$54.33	17.69 ≡ \$33,774.35	28.94 ∞ \$33
10,000	120 ◎ \$2,536.80	3.49 ◎ \$73.78	176.09 ≡ \$336,231.23	288.14 ∞ \$328.48
100,000	1200 ◎ \$25,368	4.22 ◎ \$89.21	1760.09 ≡ \$3,360,800.03	2880.14 ∞ \$3,283.36
1,000,000	12000 ◎ \$253,680	5.35 ◎ \$113.10	17600.09 ≡ \$33,606,488.03	28800.14 ∞ \$32,832.16
10,000,000	120000 ◎ \$2,536,800	10.76 ◎ \$227.47	176000.09 ≡ \$336,063,368.03	288000.14 ∞ \$328,320.16
100,000,000	1200000 ◎ \$25,368,000	56.45 ◎ \$1,193.35	1760000.09 ≡ \$3,360,632,168.03	2880000.14 ∞ \$3,283,200.16
1,000,000,000	12000000 ◎ \$253,680,000	507.13 ◎ \$10,720.73	17600000.09 ≡ \$33,606,320,168.03	28800000.14 ∞ \$32,832,000.16

Source: Solana.com.

Metric Definitions

1. Volume – The aggregated value of native units transferred between addresses on-chain.

2. Transfer Count – The sum count of transfers between addresses. It becomes more valuable when used in conjunction with Volume.

2.1 Low Transfer Count & High Volume: High volume but transferred by a few addresses.

2.2 High Transfer Count & Lower Volume - Indicates higher retail activity or exchanges amongst small accounts.

2.3 Lower Transfer Count & Lower Volume: Indicates slower network usage and low network demand.

2.4 High Transfer Count & Higher Volume- indicates high network usage. A persistent trend is substantial.

3. Active Users: Number of addresses active in the network as recipients or originators of ledger change. This includes value transfers, signing blocks, and other forms of ledger change activity.

3.1 High Value: High network usage and high demand.

3.2 Low Value: Low network usage and low demand.

4. User Growth Rate: The rate at which new addresses with non-zero balances are added to the network.

4.1 High Value: Indicates users being added to the network at an increasing rate.

4.2 Low Value: Indicates users being added to the network at a slower pace.

5. Valuation: This metric compares the on-chain volume to the realized capitalization representing the value of the network. Realized capitalization is a revised form of market capitalization that accounts for the value of the coin at the time the coin was last spent. A lower volume compared to the high value of the network indicates the network could be overvalued and vice versa.

5.1 High Value: Indicates the network is closer to its real value based on the on-chain volume.

5.2 Low Value: Indicates the network is very close to being overvalued considering the activity on the network.

5.3 Medium value: Asset is reasonably valued—sustainable demand for transactions.

6. Velocity –This indicator shows the turnover of coins in the network as measured by on-chain volume divided by active supply. The primary use of this metric in this instance is to help access an asset’s market-relevant supply.

6.1 High Value: There is greater circulation of coins in the network and use for payments.

6.2 Lower Value: There is lower circulation of coins in the network and use for payments.

7. Network distribution – The metric used, the SER ratio, compares the smallest accounts (sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (sum held by the top 1% addresses).

7.1 High value: Signifies high distribution of supply and higher decentralization.

7.2 Low value: Low supply distribution and heavy concentration amongst a few wallets.

Disclaimer

One River Digital Asset Management has been acquired by Coinbase and is now Coinbase Asset Management. Additional details on the transaction may be found on the [Coinbase blog](#). References to One River Asset Management and One River Digital Asset Management may be contained herein during the transition period but are subject to change.

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