

INDUSTRY REPORT

WEEK 32 | 13 JUNE 2022



HUOBI WEEKLY REPORT
EULER: A TRULY PERMISSIONLESS DEFI
LENDING PROTOCOL

Authored by Eno Zhang, Fubing Yang, Kou Jer Shun, Researchers at Huobi Research Institute

Abstract

This week, we focus on the following events: 1) Alibaba Cloud Announces Launch of NFT Solution; 2) Felix Capital launches US\$600 million fund to back Web3 startups; 3) New York Crypto Regulator Issues Official Stablecoin Guidelines;

Project Analysis: Euler, a permissionless lending protocol that is intricately designed to allow its users to be able to lend and borrow more ERC20 tokens than was ever possible before, has some exciting plans in the coming future which we will be discussing in our analysis. We will be sharing with how Euler is differentiating itself from other popular DeFi lending protocols such as Compound and Aave.

1. Industry overview

I. Overall market trend

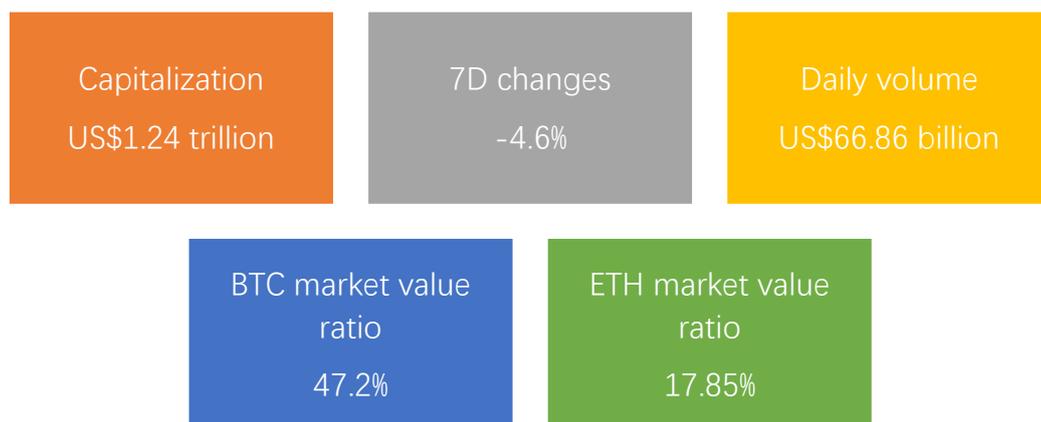


Figure 1. Overall market data

Source: CoinMarketCap

Bitcoin alongside other altcoins is showing a short-term upwards momentum. BTC has finally ended its longest negative streak with its first green weekly candle after 9 consecutive weeks of red candles last

week. BTC has risen back to US\$30,000 after last week's price fakeout at the US\$32,000 level and needs to conclusively break the US\$31,000-US\$32,000 range to be considered strong. BTC's daily RSI is below 50 which indicates slowing momentum in this recent upswing in prices.

After Ethereum hit a high of US\$2,016 last week, it quickly fell below the US\$2,00 resistance and is currently trading at US\$1,791. The rest of the altcoins also mimicked BTC's performance with most having insignificant gains or losses.

Rank	Name	7d
1	Green Satoshi Token	-37.5%
2	Unify Protocol DAO	210.2%
3	BNB	-4.44%
4	PancakeSwap	2.88%
5	Optimism	-29.03%
6	BTC	1.39%
7	Solana	-1.37%
8	Bella Protocol	69.49%
9	Secret	-13.71%
10	STEPN	0.16%

Table 1. Last week's hot currencies

Source: CoinMarketCap

The Crypto Market Fear & Greed Index is still at 13 (extreme fear) and although crypto sentiments remain negative, Arthur Hayes, former CEO of BitMEX predicts that BTC will bottom out at US\$25,000 - US\$27,000. According to glassnode data, smart money may have started to accumulate bitcoin with net outflows from the major cryptocurrency exchanges reaching 23,286 BTCs on 3rd June, the highest it's been since 14th May. Another positive sign of accumulation is the high number of investments in Bitcoin Exchange-Traded Products (ETPs). ETPs currently hold 205,000 BTC which is higher than ever before.

While analysing derivatives metrics to understand the position of professional traders, we noted that the BTC future's premium has been below 4% since April which indicates bearish sentiments as compared to when they were above 10% just 6 months ago. Crypto regulation and the weak economic environment definitely affect investor sentiment negatively and the derivatives data shows that professional BTC traders are avoiding leveraged long positions.

It is rather evident in the short term that the bears are comfortable with setting US\$32,000 as the resistance level and a drop back down to US\$28,000 is likely to continue.

II. NFT

Rank	Name	Volume 7d	Est. Market Cap
1	Goblintown.wtf	10,904.64 ETH	63,875.49 ETH
2	We Are All Going to Die	9,301.67 ETH	4,907.78 ETH
3	Bored Ape Yacht Club	5,449.78 ETH	1,112,200.33 ETH
4	Boki	5,049.36 ETH	8,464.94 ETH
5	ShitBeast	3,481.08 ETH	4,135.77 ETH
6	Otherdeed for Otherside	3,340.61 ETH	529,416 ETH
7	Akumu Dragonz	3,199.37 ETH	6,562.81 ETH
8	Mutant Ape Yacht Club	2,468.7 ETH	399,394.17 ETH
9	VividLimited	1,750.85 ETH	2,470.48 ETH
10	troll-town.wtf	1,718.52 ETH	1,751.09 ETH

Table 2. NFT Collections Listed By Sales Volume (7d)

Source: CoinMarketCap

While “blue-chip” NFTs have largely been able to maintain strong communities and even fostered additional partnerships while giving investors incentives to invest in these projects, they too have taken some losses recently. Projects like Bored Ape Yacht Club (BAYC) and Doodles have fallen roughly 8.95% and 36.95% respectively in the past 30 days. It is important to note that prices quoted in ether can be very deceiving as it does not account for ether's price movements. The % drop in USD is often much larger than the stated % drop in ether. While crypto markets usually take 1-2 years to recover, it is harder

to predict how long this slump will last in the NFT market as the NFT space is relatively new as compared to the crypto market. This recent slump can possibly be attributed to the fact that there was way more noise/hype in the NFT market as compared to value. As the noise fades, buyers are now looking to purchase NFTs with more utility and use cases.

Rank	Platform	Chain	Floor Price	Weekly volume	Whale sales
1	Dreadfulz	Ethereum	0.028 ETH	95.27 million	0
2	More Loot	Ethereum	0.004 ETH	27.86 million	1
3	Begin as Nothing	Ethereum	1.22 ETH	4.2 million	21
4	The GODA Mint Pass	Ethereum	7.5 ETH	3.66 million	14
5	Meebits	Ethereum	4.1 ETH	31.06 million	11
6	ShitBeast	Ethereum	0.43 ETH	7.27 million	65
7	pablos.lol	Ethereum	0.1 ETH	3.73 million	154
8	Mutant Ape Yacht Club	Ethereum	19.189 ETH	6.74 million	11
9	We Are All Going to Die	Ethereum	1.1 ETH	22.8 million	467
10	Bored Ape Yacht Club	Ethereum	93.88 ETH	13.13 million	24

Table 3. Top trending collections on NFTGO (by daily volume)

Source: NFTGO

III.DeFi

Rank	DeFi	TVL in billions US\$
1	MakerDAO (MKR)	9.51
2	Curve (CRV)	8.65
3	AAVE (AAVE)	8.22
4	Lido (LDO)	7.67
5	Uniswap (UNI)	6.01
6	Convex Finance (CVX)	5.23
7	Compound (COMP)	4.04
8	PancakeSwap (CAKE)	3.78
9	JustLend (JST)	3.04
10	Instadapp (INST)	2.49

Table 4. DeFi market TVL ranking

Source: defillama

IV.Layer 2

Rank	Layer2	TVL in million US\$	Market Share
1	Arbitrum	2480	50.5%
2	dYdX	952	19.4%
3	Optimism	825	16.8%
4	Loopring	223	4.5%
5	Metis Andromeda	124	2.5%
6	Boba Network	76.61	1.5%
7	zkSync	72.63	1.4%
8	ZKSpace	50.49	1.0%
9	Immutable X	35.36	0.7%
10	DeversiFi	29.68	0.6%

Table 5. Layer2 protocols ranking and market share

Source: l2beat

2. Market news

I. Industry news

Alibaba Cloud Announces Launch of NFT Solution

Alibaba Cloud officially tweeted announcing the launch of NFT solutions, including web hosting, digital marketing and content delivery, to build an NFT marketplace.

Paypal adds in-app cryptocurrency wallet and external wallet transfer function

PayPal announced that its users can now transfer cryptocurrencies from their accounts to other wallets and exchange addresses. Jose Fernandez da Ponte, senior vice president and general manager of blockchain, cryptocurrencies and digital currencies at PayPal, said: "Our users have requested this feature the most since we started offering cryptocurrency purchases on our platform. The new feature will allow PayPal customers to transfer supported cryptocurrencies to and from PayPal to external crypto addresses, including exchanges and hardware wallets.

The Ethereum Ropsten testnet has completed the merger

The Ethereum Ropsten testnet has been merged. As of now, the transition date for the Ethereum mainnet proof-of-stake (POS) has not been determined, and it is currently only a testnet-based merger experiment. After the Ropsten transition is complete, two other testnets (Goerli and Sepolia) will also transition to Proof of Stake before the focus will shift to mainnet.

II. Investment and Financing

Felix Capital launches US\$600 million fund to back Web3 startups

London-based venture capital firm Felix Capital has launched a new US\$600 million (£478 million) dedicated fund to invest in 20-25 early-stage startups in Europe and North America focused on Web3 sustainability. The investment size for each startup is about \$5-10 million. Felix Capital, founded in 2015,

has previously invested in encrypted hardware wallets Ledger, Deliveroo, Oatly, Peloton and TravelPerk, and the fund's assets under management have reached US\$1.2 billion (£957 million) after this round of financing.

Skolem closes US\$20 million Series A, led by Galaxy Digital

Skolem, a provider of data and transaction execution services, has closed a US\$20 million Series A funding round. Galaxy Digital led the round with participation from Point72 Ventures, Jump Crypto, Fenwick, West, Morpheus Ventures and Dragonfly Capital. Funds raised will be used to recruit and improve the company's technical capabilities to further help institutions access DeFi. Note: Skolem aims to provide a safe and secure entry for institutional investors looking to enter the DeFi market.

Crypto asset management company Valkyrie completes US\$11.15 million in financing, with participation from BNY Mellon and others

Crypto asset management company Valkyrie has raised US\$11.15 million in strategic financing. This round of financing was invested by Coinbase's venture capital division and BNY Mellon, Wedbush Financial Services, SenaHill Partners, Belvedere Strategic Capital, Clearsky, Zilliqa Capital, C-Squared Ventures and others. Funds from this round of financing will be used to continue building its infrastructure, aiming to bring more institutional investors into the digital asset space. Valkyrie currently offers eight protocol trusts, a decentralized finance (DeFi) hedge fund, three Nasdaq-listed exchange-traded funds (ETFs) and a protocol money management business. As of the end of the first quarter of 2022, Valkyrie's assets under management have reached US\$1.2 billion.

III. Supervision

New York Crypto Regulator Issues Official Stablecoin Guidelines

The New York State Department of Financial Services (NYDFS), which oversees regulated crypto firms in New York state, released its first guidance for stablecoins on Wednesday, laying out a series of requirements that any issuer operating in the state must comply with. According to the guidelines,

stablecoins traded in the U.S. state of New York should be adequately backed by certain assets that are separate from the issuer's operating funds and periodically certified by auditors.

Jamaica's Senate passes new legislation authorizing the country's central bank to issue a CBDC and give it fiat currency status

Jamaica has become the first country to offer a CBDC as legal tender, a move aimed at providing an alternative to the cash-intensive economy and providing financial support to the unbanked. The Jamaica Senate passed an amendment authorizing the country's central bank to issue its CBDC, the Jamaica Digital Exchange (Jam-Dex). The new legislation expands the definition of legal tender to include virtual tokens, as well as physical banknotes and coins. Jamaica's central bank governor Richard Byles said Jam-Dex, which has been piloting since 2021, will be officially launched and used in the country later this month. Byles said Jam-Dex is safer and more convenient than physical banknotes and coins, and doesn't require a bank account to use. In earlier news, Jamaican company JMMB Group said that the company is currently in the exploratory stage of the country's central bank digital currency (CBDC) project, which is currently being rolled out nationwide.

Brazil's central bank chief will allow the country's private banks to issue their own stablecoins

Brazil's Central Bank Digital Currency, or CBDC, will be more of a wholesale asset than a retail-focused public token, according to a statement from Brazil's central bank president, Roberto Campos Neto. Campos Neto said that the country's private banks will be allowed to issue their own stablecoins on top of their own deposits, and will develop a technology for this that they will have to invest in as they can earn money from it. And once they develop this technology, the protocol for issuing stablecoins on deposits will be essentially the same as the monetization of various other digital assets. Furthermore, Campos Neto explained that digital physical objects will have a very unique focus, with the goal of monetizing assets and using them as collateral without compromising the credit function of private banks.

3. Trending project analysis – Euler (DeFi Lending Protocol)

DeFi definitely played a huge role in fuelling the crypto market boom back in 2021 with US\$93 billion worth of DeFi assets in the crypto market in June 2021 as compared to a mere US\$4 billion back in 2018. Even in the current sluggish crypto market, Decentralised Finance (DeFi) is still experiencing considerable amounts of activity as evident from the US \$105 billion locked up in smart contracts.

While there are a plethora of Defi Lending protocols such as Compound and Aave, Euler is differentiating itself by creating a truly permissionless lending protocol custom-built with an array of features that allow users to lend and borrow more Ethereum based tokens than ever before.

Current News on Euler



Figure 1. Euler Metrics

Source: Euler

Euler, founded in 2020, recently closed a US\$32 million funding round that was led by San Francisco-based venture capital firm Haun Ventures with support from other prominent firms such as Coinbase, FTX, Uniswap Lab ventures and Jump Crypto to name a few. This raise puts Euler's valuation at US\$375 million and its team's aim of raising these funds is in the hopes of diversifying its DAO treasury.

In this report, we will be analysing Euler in terms of the different benefits that Euler provides for its users.

Benefit 1: Permissionless listing + higher access to low liquidity and high volatility tokens

Euler removes any unnecessary listing procedures and also increases the spread of ERC20 tokens available for lending and borrowing. While protocols like Compound and Aave do allow your typical lending and borrowing, they only provide access to a handful of the most liquid ERC20 tokens because they were not designed to handle the risks associated with the lending and borrowing of assets with low liquidity and high volatility. They thus rely on a permissioned listing system so as to protect users from the risks associated with such assets. Euler solves the problem of low access to less liquid ERC20 tokens and permissioned listing by allowing their users to determine which assets to be listed. They will be able to list any asset that has a WETH pair on Uniswap v3. However, this does create the potential for risk to spill over from one pool to another and as such they have designed a risk-based asset tier system to protect both the protocol and its users.

How the risk-based asset tier system works

	Ordinary Borrowing & Lending	Borrowing alongside other assets	Assets borrowed can be used as collateral
Isolation Tier	Yes	No	No
Cross Tier	Yes	Yes	No
Collateral Tier	Yes	Yes	Yes

Table 1. Available functions within each tier



Figure 2. No. of assets in each tier

Euler has 3 tiers, namely the **isolation tier**, **cross tier** and the **collateral tier** which has 42, 10 and 8 assets respectively. Riskier assets in the isolation pool will only be allowed to be borrowed and lent but

not be used as collateral in transactions involving assets not in the isolation tier. Euler has announced that it will be launching its decentralised autonomous organisation (DAO) later this year and holders of EUL, the native governance token of Euler protocol, can vote to promote assets from the isolation tier to the cross tier or collateral tier through governance mechanism. As assets are promoted up the tiers, capital efficiency is increased as lenders and borrowers will be able to use capital more freely but it may also expose the protocol users to increased risk. Thus, it is in the EUL holder's best interest to balance these concerns. By creating such a tiered system with assets of different risk profiles split up, it brings more awareness to its investors as to which assets are of higher risk in nature.

Benefit 2: Higher accuracy in estimating amount of collateral needed

In lending protocols, there is a need to ensure that the value of the collateral assets remains higher than the value of the liabilities. Most protocols like Compound achieve this by using only collateral factors to adjust the value of a borrower's assets when determining how much they are allowed to borrow. The issue present is that it only accounts for risks that are associated with a borrower's assets decreasing in value and does not account for if the borrower's liabilities increase in value.

Euler tackles this problem by using a 2 sided approach where it takes into account both the values of a borrower's assets and liabilities, improving capital efficiency. This method will allow the liquidation threshold of each borrower to be tailored to the specific risk profiles associated with the assets they are borrowing and using as collateral.

Benefit 3: Liquidations are performed internally

Text	External	Internal
Liquidity source	Liquidator typically purchases from a DEX or has an existing source of funds themselves	Liquidator uses internal liquidity in the stability pool
Transaction costs	Gas costs may be high for DEX trades and cross-contract calls	Gas costs often relatively cheap for internal token transfers
Explicit trade costs	Swap fees	No swap fees
Implicit trade costs	Slippage on illiquid markets	No slippage
Liquidation price	Liquidation expected to take place at price determined by the wider market	Liquidation expected to take place at price determined by the internal price feed
Liquidation timing	Liquidation is expected to take place only after the dynamic discount exceeds operating costs and trade costs	Liquidation is expected to take place soon after the dynamic discount exceeds the operating cost of liquidation

Table 2. External and Internal liquidation differences

Benefit 4: Use of reactive interest rates instead of static interest rates

Static models are only accurate when they are appropriately parameterised ahead of time and can lead to inaccurate costs of borrowing if parameterised wrongly. This will essentially stifle borrowing and lower capital efficiency. Euler uses a PID controller to amplify or dampen the interest rates when utilization is above or below a target level. This reactive interest rate thus adapts to market conditions for the underlying asset in real time without the need for ongoing governance intervention.

Conclusion

Euler does indeed have many different differentiating factors from other DeFi lending protocols and removes the barriers to entry of getting listed for many new projects. It is definitely going to be

interesting when Euler launches its DAO later this year which will allow their users to vote on various things such as the tier of an asset, collateral and borrow factors, reactive interest rate model parameters, etc. This is definitely a project that investors should keep in their watchlists.

4. Calendar of future popular asset events

I. NTF mint Calendar

Project	Marketplace	Blockchain	Date	Introduction	Website
Azuki Demon - Minting is Live	OpenSea	Ethereum	5.16-6.21	Azuki Demon is Created by 3 Azuki Holders. Once you mint an Azuki Demon, you will get the Azuki Demon DAO membership and Airdrop \$ZUKI token rewards.	https://azukidemom.com/
NYX Sandbox NFTs in Honor of the Pride Month	NYX	Ethereum	6.09-6.30	In honor of the Pride Month, L'Oréal-owned makeup brand NYX, the web3 Lab People of Crypto (POC), and The Sandbox metaverse space announced a collaborative NFT endeavor. Thus, NYX's voxel NFTs will promote diversity and inclusion in the Valley of Belonging, the first-ever equity, and inclusivity hub in the metaverse.	https://nftcalendar.io/event/nyx-sandbox-nfts-in-honor-of-the-pride-month/
Agent1 x Moonlanders - Metaverse Land NFT Game	OpenSea	Ethereum	5.20-6.20	Agent1 is a "play-to-earn gaming" NFT, that renders its visuals based on the holders' actions and wallet contents.	https://agent1.xyz/
Ceci n'est pas un Botto	-	Ethereum	6.09-6.16	BottoDAO's first commissioned collection of Botto derivatives. Gifts for the early stewards of Botto.	https://pipes.botto.com/
Ape Invasion	AirNFTs	Binance Smart Chain	6.09-6.16	Ape Invasion is a collection of 2000 apes invading BSC. Owning one will give tickets to future drops, collabs and early stealth access to tokens of some of the brightest developers on BNB Chain. Inspired by other ape collections with our own hint of flavour. OG and whitelist spots available to early members of the community.	https://www.apeinvasion.live/

II. Token Airdrops

Project	Number of Winner	Total airdrop amount	Ends in	Website
ReiGroup Airdrop	30	1,000 USDT tokens + 10 ReiClub Membership NFTs	22 June 2022	https://www.airdropbob.com/reigroup/airdrop-reigroup
Bittra Airdrop	203	20,000 BITTRA tokens + 500 USDT (Referral contest)	21 June 2022	https://www.airdropbob.com/bittra/airdrop-bittra
Space Coin Project Airdrop	203	total of 200,000,000 SPJ tokens + 500 USDT (Referral contest)	16 June 2022	https://www.airdropbob.com/space-coin-project/airdrop-space-coin-project
Amoledo Airdrop	-	100 AMOL tokens	17 June 2022	https://www.airdropbob.com/amoledo/airdrop-amoledo
BendDAO Airdrop	whole NFT community	500,000,000 BEND (5% of the BEND total supply)	18 June 2022	https://www.airdropbob.com/benddao/airdrop-benddao

About Huobi Research Institute

Huobi Blockchain Application Research Institute (referred to as "Huobi Research Institute") was established in April 2016. Since March 2018, it has been committed to comprehensively expanding the research and exploration of various fields of blockchain. As the research object, the research goal is to accelerate the research and development of blockchain technology, promote the application of blockchain industry, and promote the ecological optimization of the blockchain industry. The main research content includes industry trends, technology paths, application innovations in the blockchain field, Model exploration, etc. Based on the principles of public welfare, rigor and innovation, Huobi Research Institute will carry out extensive and in-depth cooperation with governments, enterprises, universities and other institutions through various forms to build a research platform covering the complete industrial chain of the blockchain. Industry professionals provide a solid theoretical basis and trend judgments to promote the healthy and sustainable development of the entire blockchain industry.

Official website :

<https://research.huobi.com/#/>

Consulting email:

research@huobi.com

Twitter: @Huobi_Research

https://twitter.com/Huobi_Research

Medium: Huobi Research

<https://medium.com/huobi-research>

Disclaimer

1. The author of this report and his organization do not have any relationship that affects the objectivity, independence, and fairness of the report with other third parties involved in this report.
2. The information and data cited in this report are from compliance channels. The sources of the information and data are considered reliable by the author, and necessary verifications have been made for their authenticity, accuracy and completeness, but the author makes no guarantee for their authenticity, accuracy or completeness.
3. The content of the report is for reference only, and the facts and opinions in the report do not constitute business, investment and other related recommendations. The author does not assume any responsibility for the losses caused by the use of the contents of this report, unless clearly stipulated by laws and regulations. Readers should not only make business and investment decisions based on this report, nor should they lose their ability to make independent judgments based on this report.
4. The information, opinions and inferences contained in this report only reflect the judgments of the researchers on the date of finalizing this report. In the future, based on industry changes and data and information updates, there is the possibility of updates of opinions and judgments.
5. The copyright of this report is only owned by Huobi Blockchain Research Institute. If you need to quote the content of this report, please indicate the source. If you need a large amount of reference, please inform in advance (see "About Huobi Blockchain Research Institute" for contact information) and use it within the allowed scope. Under no circumstances shall this report be quoted, deleted or modified contrary to the original intent.