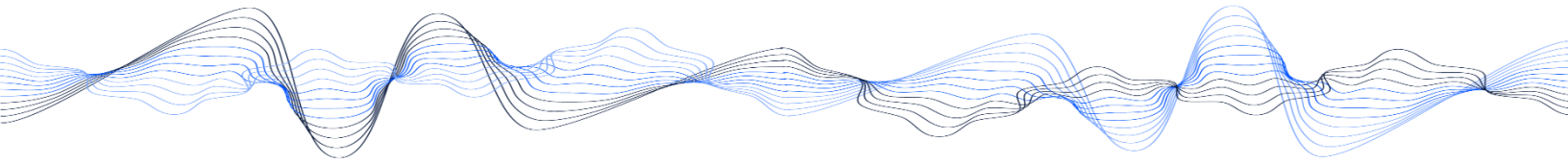




Digital Pulse Report: Expensive Freebies



20 July 2023

Coinbase Asset Management



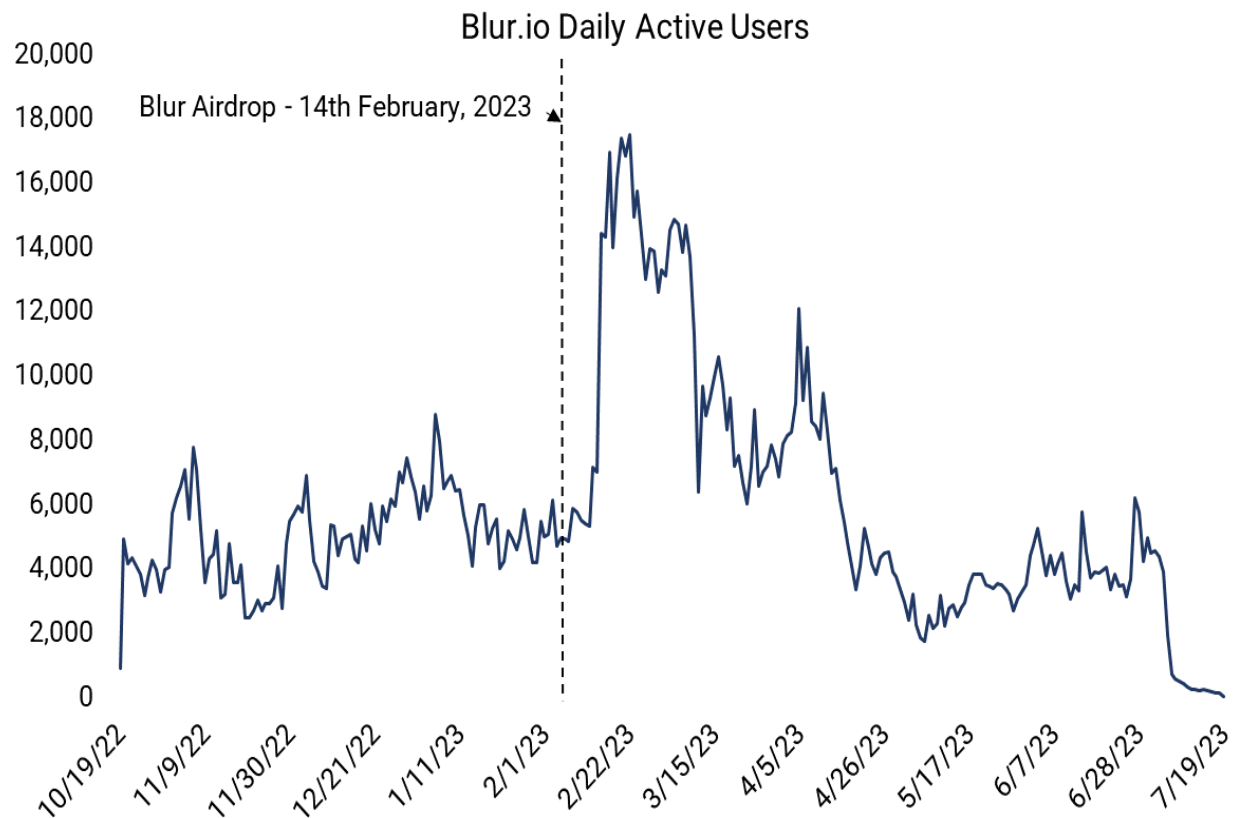
Expensive Freebies: Freebies can be irresistible. They are well-exploited by marketing teams. Sustaining irresistibility lies in balancing something-for-nothing allure with value creation. Otherwise, there's no repeat business. Blur, the NFT marketplace, grapples with this balance. Earlier this year, Blur took the NFT marketplace by storm, surpassing market-leading Opensea in NFT trading volumes. The incentives? Zero trading costs, "optional" creator royalty fees, and airdrops to eligible users. But Blur's success was short-lived – incentives come at a cost. Blur's "Airdrop 3" rewarded buyers when their bids were active for a long time. Traders gamed the system, placing lingering low bids for NFTs to harvest rewards. As blue-chip NFT floor prices dropped, stagnant sellers were inclined to accept the lower bids. A negative feedback loop rippled throughout the NFT ecosystem. The drop in NFT prices and trading volume spread to our Pulse, pulling down Ethereum and Polygon user activity scores in recent months. Blur doesn't shoulder all the blame. But its impact has been an undeniable drag in a bear market. The lesson? Freebies come with unintended consequences. Missteps in incentive design become painfully clear when prices decline. Now Blur is looking to remedy the situation by proposing a minimum bid threshold and penalties for wash trading. Incentives are hard. Sometimes freebies are expensive.

WEEKLY BEATS

1. Chart of the Week – Gone, In a Blur
2. Fundamental Pulse – Neutral
3. Freebies and Their Consequences
4. Knock-on Effects
5. Making Changes

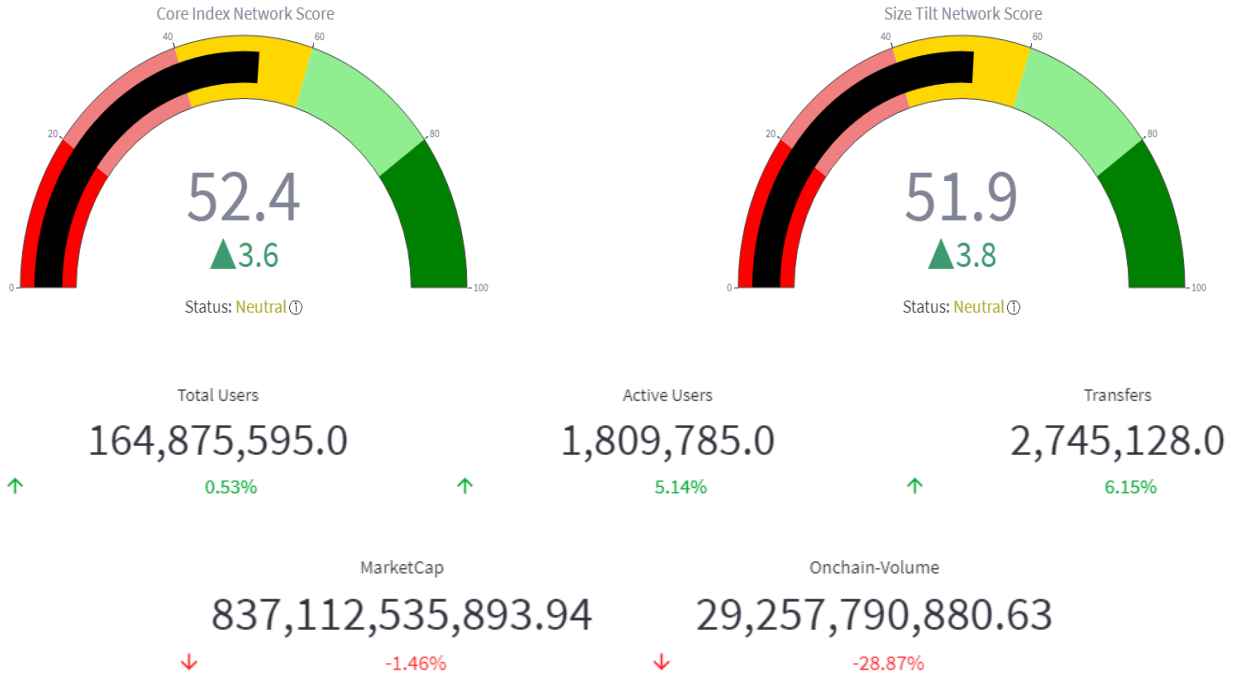
1. GONE, IN A BLUR

The anticipated Blur airdrop in February sparked a surge in user activity, peaking shortly after the event. However, the airdrop effect was fleeting, with activity dropping significantly in the following months.



Source: Glassnode.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



The Ripple (XRP) judgment has lifted altcoins on the Pulse, especially Ethereum and Polygon. Although most types of transactions experienced growth, these coins are notable for their more significant rise in direct token transfers.

Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Coinbase Core	52	4	0	34	87	46	68	46	4	81
Coinbase Size Tilt	52	4	-2	40	79	41	63	49	11	79
Bitcoin	57	2	4	31	96	56	71	43	0	100
Ethereum	42	8	-10	37	72	23	64	49	9	37
Polygon	53	10	10	57	45	48	61	57	1	100
Litecoin	45	3	-19	45	44	25	48	53	21	78
Cardano	68	-6	0	83	69	36	25	77	84	100

*Snapshot from the Coinbase Asset Management Pulse on 7/19/2023. 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. FREEBIES AND THEIR CONSEQUENCES

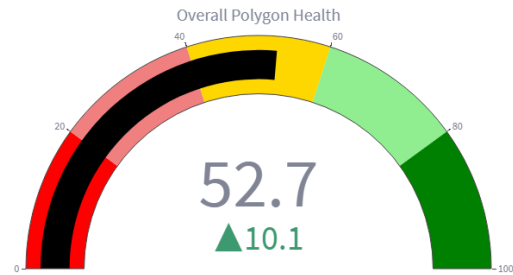
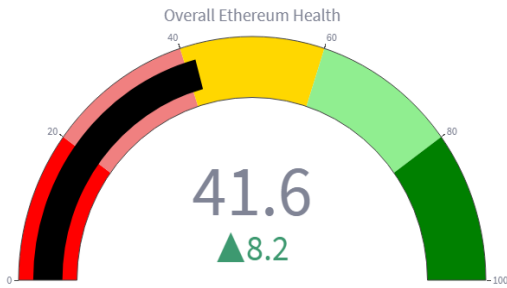
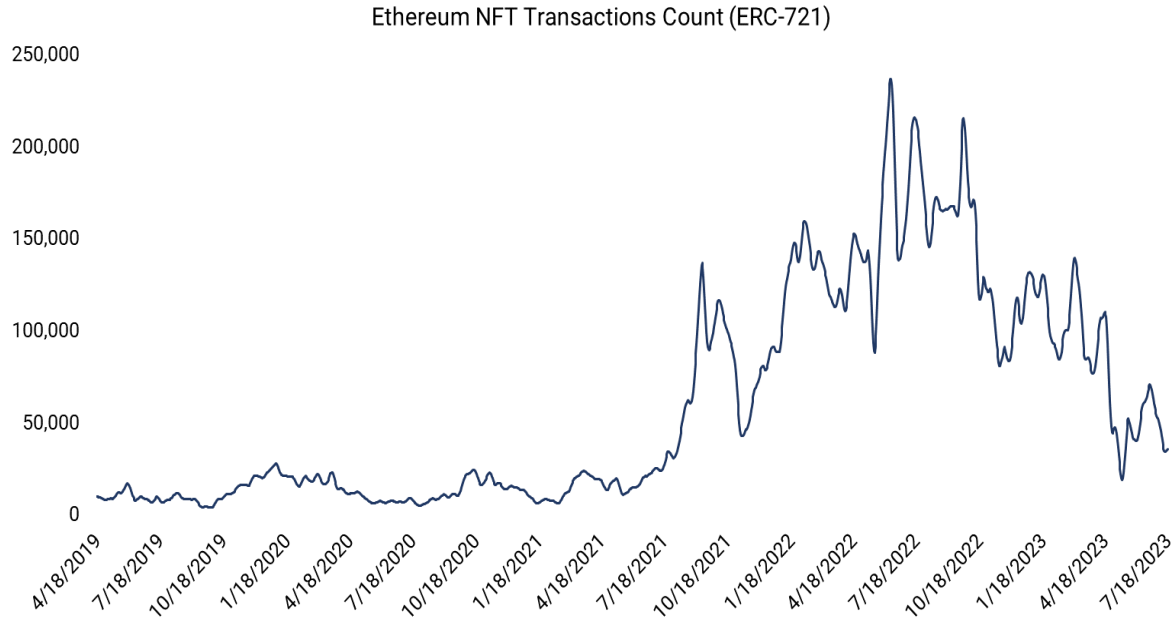
Blur rewarded buyers who had long-active bids. This incentivized low NFT bids, lasting longer, for more points. However, falling NFT floor prices and the decline of the Blur token fed a chain reaction as sellers started to accept these lower bids amidst dwindling demand.

NFT Collection	Floor Price (ETH)	YTD Change
CryptoPunks	49.88	-24%
Bored Ape Yacht Club	33.15	-52%
Mutant Ape Yacht Club	6.08	-60%
Chromie Squiggle by Snowfro	10.58	-31%
Autoglyphs	199	-41%
DeGods	8.665	-2%
Fidenza by Tyler Hobbs	80	-10%
The Captainz	6.122	39%
Azuki	5.438	-52%
Decentraland	0.439	-63%

Source: NFT Price Floor (7/19/2023). Price Change Exceptions: DeGods: From April 1st. The Captainz from January 7th.

4. KNOCK-ON EFFECTS

The decline in Blur's volume within the NFT ecosystem led to a drag on the overall user activity on NFT dominant chains like Ethereum and Polygon.

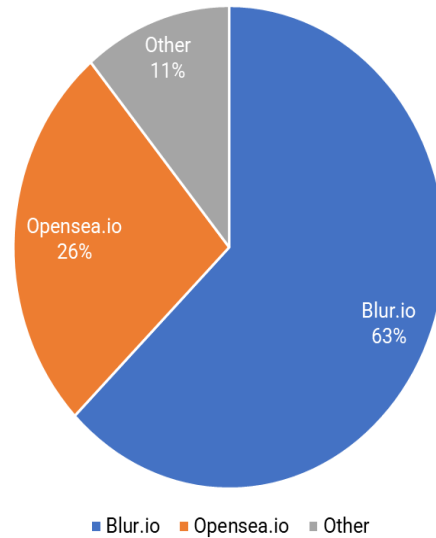


Source: Coin Metrics. Coinbase Asset Management.

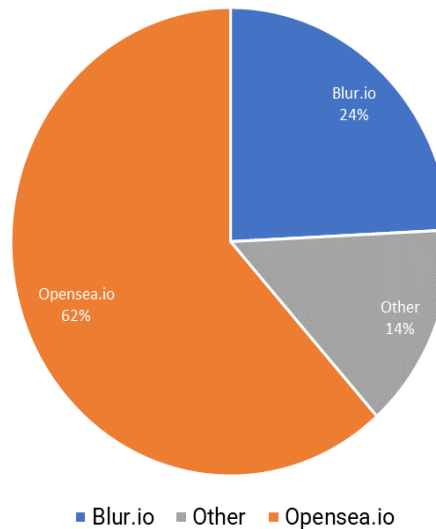
5. MAKING CHANGES

Blur and other NFT platforms are exploring improved incentives to revive the slowing NFT market. OpenSea's stability and user retention is notable in contrast. The adjustment may spark new competition along different lines.

Percentage of NFT Volume by Marketplace



Percentage of Unique NFT Users by Marketplace



Source: Dune Analytics.

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 assess 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

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