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Please note that One River Digital, a subsidiary of One River Asset Management, was acquired by Coinbase as of March 3, 2023. Read more [here](#).

One River Digital Pulse



8 June 2023

One River Digital
Research

Weekly Pulse: You Don't Say.

You Don't Say. Economist Jean-Baptiste Say introduced the concept that supply creates its own demand (called "Say's Law"). Does this "law" apply to blockchains? Layer 2 block space is now available for Ethereum, and supply is expanding rapidly. New venues are paving their way with Arbitrum, Optimism, and zkSync, now routinely present in the top 10 list for user fees paid on Ethereum, amounting to a run-rate of nearly \$100M per year. But despite 5-20x cheaper transaction costs, combined activity across the Layer 2s is only about twice that of Ethereum. The cost advantages of scaling solutions improve as transaction volumes rise by several orders of magnitude. Today, they are barely being realized. Turbo charging applications from the last bull market haven't solved the problem of insufficient demand. Cheap layer 2 block space may be a supply glut without the next generation of compelling use cases to inspire users at a lower price point. But progress is incremental. The foundation has been laid for a burst of adoption. Total value locked in the leading layer 2s is growing consistently, even if slowly. Is there a treasure trove of transaction activity waiting for the right applications? Possibly. Supply creates demand? You don't say.

coinbase ASSET MANAGEMENT

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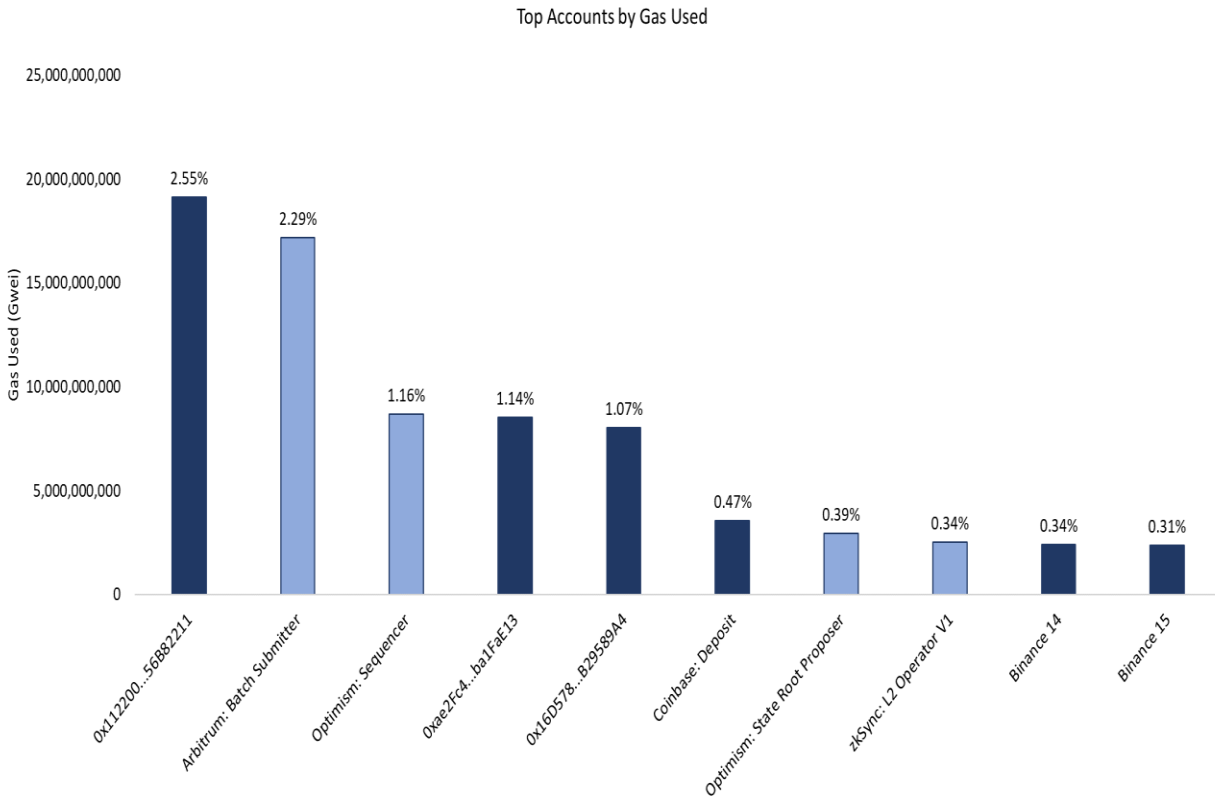
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WEEKLY BEATS

1. Chart of the Week – Top Ethereum Accounts by Gas Usage
2. Fundamental Pulse – Neutral
3. Layer 2 fees are lower than Mainnet, but have a long way to go
4. Layer 2 transaction activity vs. Ethereum Mainnet
5. Growth in TVL on Layer 2s

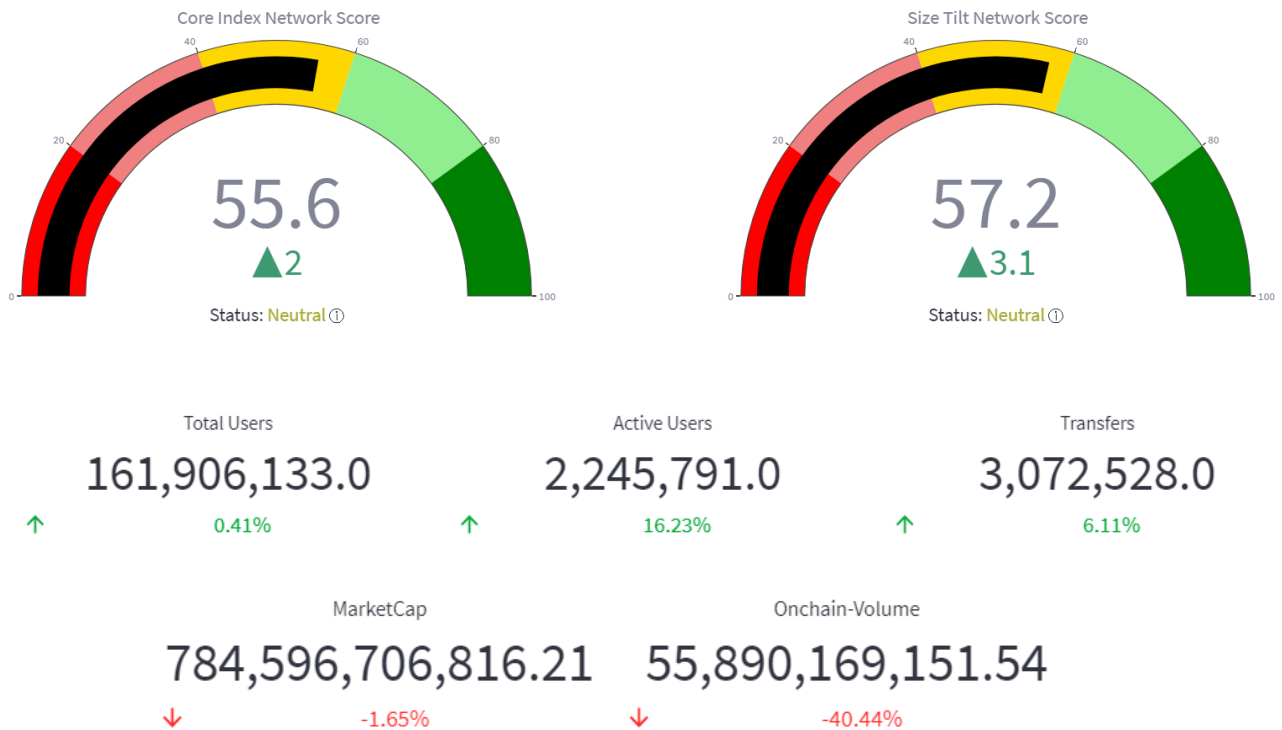
1. TOP ETHEREUM ACCOUNTS BY GAS USAGE

Arbitrum, Optimism, and zkSync smart contracts are writing layer 2 data onto Ethereum’s blockchain and all appear in the top 10 users of Ethereum gas for the previous week. Current usage annualizes to ~\$100M per year in payments to the Ethereum network.



Source: Etherscan.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



Ethereum ascends alongside Cardano to top the table this week. But for different reasons. Against the backdrop of regulatory activity, a surge in outflows from exchanges has propelled Ethereum Network scores.

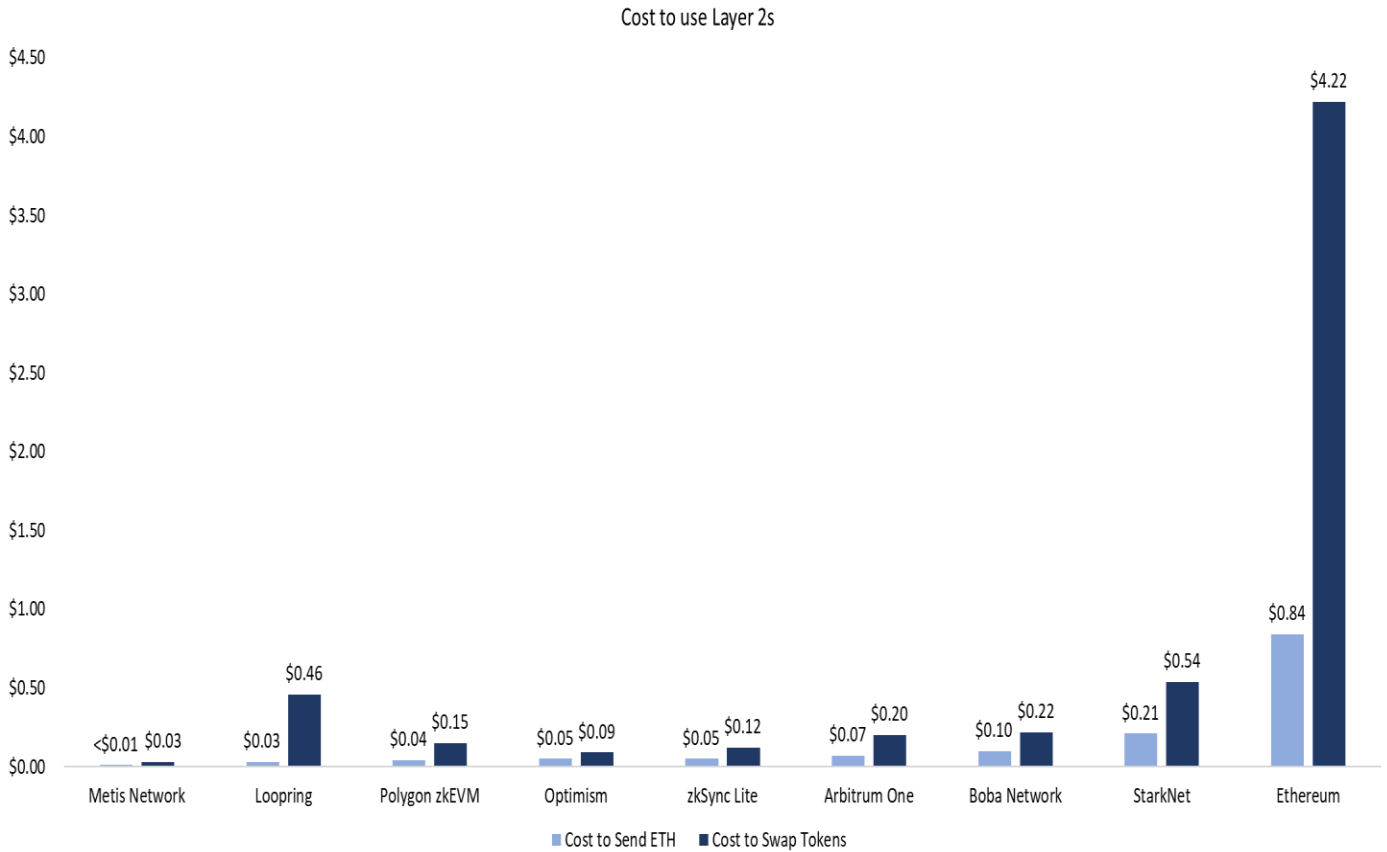
Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Coinbase Core	55	2	-1	38	79	51	53	47	33	88
Coinbase Size Tilt	57	3	1	47	77	53	46	53	38	85
Bitcoin	53	-1	-1	29	79	51	62	38	14	99
Ethereum	60	8	-2	54	80	50	35	63	78	60
Polygon	29	4	-2	31	18	17	10	30	9	91
Litecoin	73	1	6	91	89	83	38	83	39	92
Cardano	78	7	19	99	94	84	34	98	46	92

*Snapshot from the One River Digital Pulse on 6/7/2023. 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. LAYER 2 FEES ARE LOWER THAN MAINNET, BUT HAVE A LONG WAY TO GO

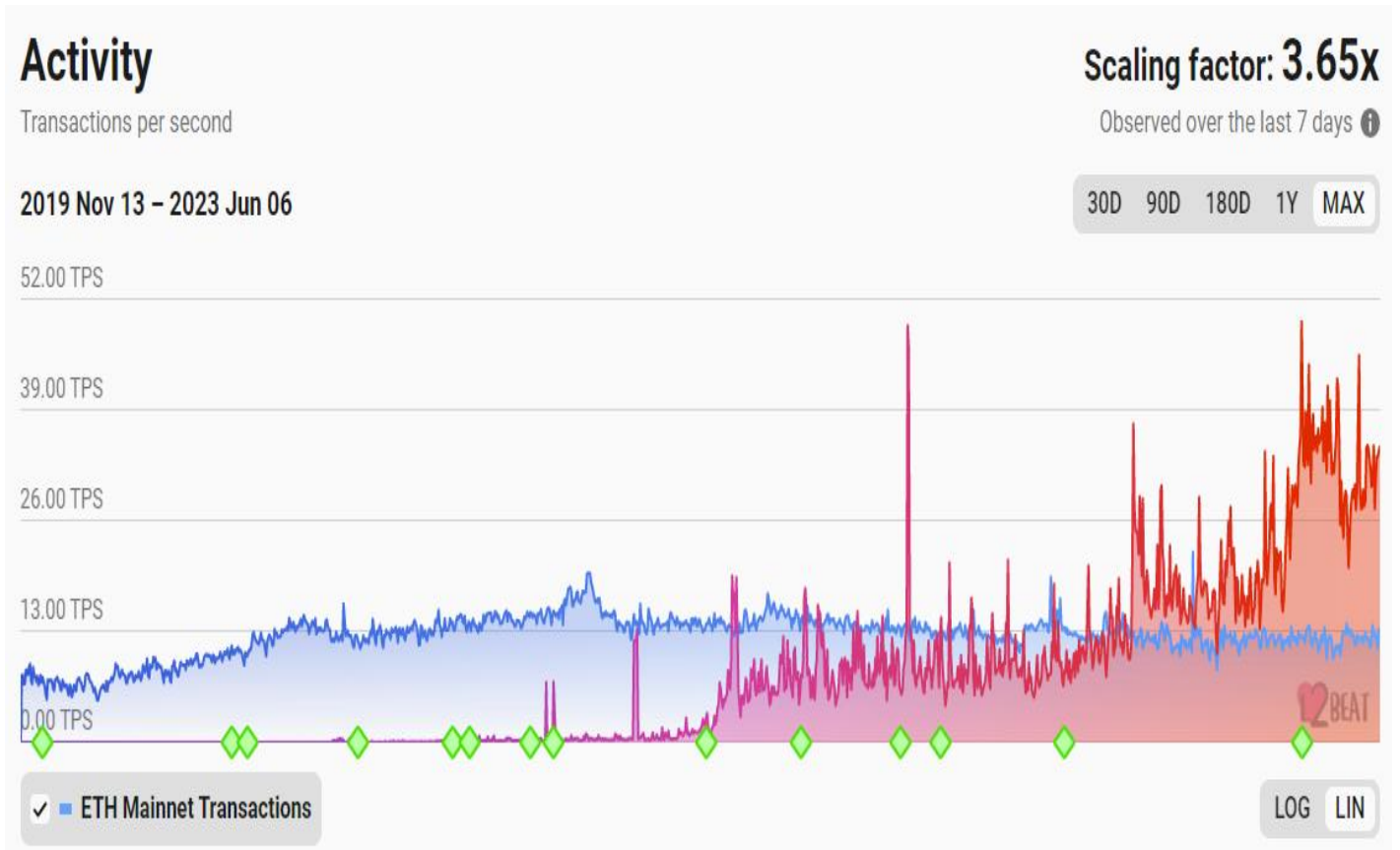
Transaction costs for both ETH and ERC20 transfers on layer 2s are between 5 and 20 times cheaper than on Ethereum Mainnet. As transaction activity rises on layer 2s, these costs should come compress further. Layer 2 transaction costs receive a volume discount.



Source: L2Fees (Snapshot date: 6/7/2023).

4. LAYER 2 ACTIVITY FOR THE TOP VENUES IS ~2X ETHEREUM MAINNET

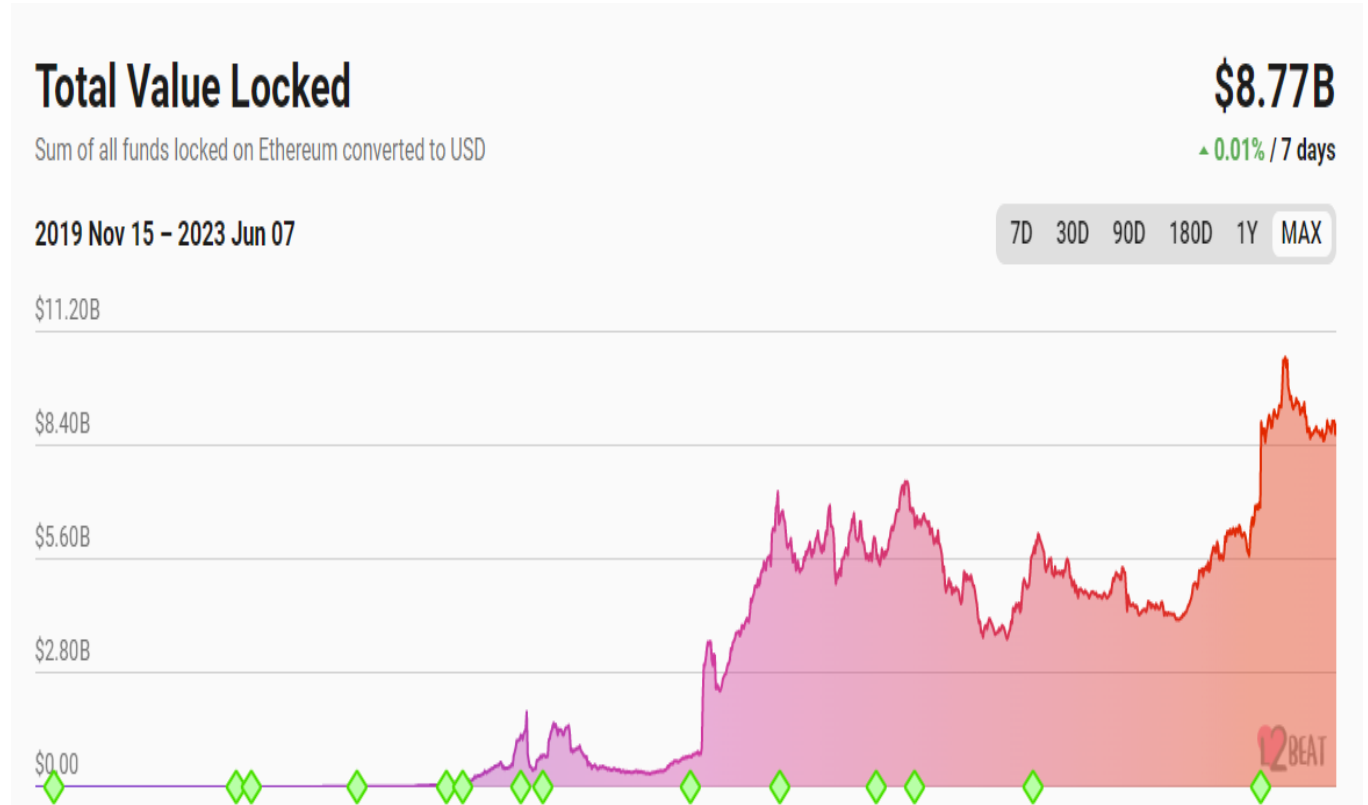
The largest layer 2s are home to approximately twice the transaction activity of Ethereum Mainnet. To maximize cost savings and realize the vision for Ethereum scaling, these venues need to produce several orders of magnitude more transactions. Growth so far has been slow and steady.



Source: L2beat. (Orange area chart represents Layer 2 transactions).

5. GROWTH IN TOTAL VALUE LOCKED (“TVL”) ON LAYER 2S

Growth in TVL picked up recently with zkSync seeing the biggest lift. Overall, layer 2 TVL is approximately 30% of that locked in applications on [Ethereum Mainnet](#). However, the applications capturing this TVL are fewer and more concentrated. The top two applications comprise about 84% of total Layer 2 TVL.



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.

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