KPMG

Virtual Assets 2023 Review and 2024 Outlook

January 2024

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2023 was a year of recovery and building for the future

The confluence of price recovery, legal victories, and regulatory advancements is fostering a favourable outlook for the future of virtual assets

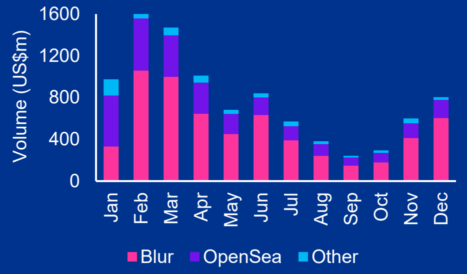
January: Bitcoin Ordinals

Ordinal theory applied to the Bitcoin protocol enables the inscription of arbitrary content to individual satoshis – the smallest unit of BTC – allowing the creation of unique Bitcoin-native digital assets and expands Bitcoin's utility beyond financial transactions

February: Blur dethrones OpenSea

Blur leverages protocol incentive mechanisms and innovative lending products, underpinned by their trader-friendly UX to bolster liquidity within the NFT market and capture the majority share of NFT trading volumes from OpenSea

Ethereum NFT Marketplace Volume



March: Crypto bank failures

Silvergate and Signature Bank face bank runs due to liquidity concerns, resulting in the collapse of two of crypto's largest on-ramp providers

April: Ethereum Shapella upgrade

Marking a 'full transition' to Proof of Stake and allowing withdrawals of staked ETH, the Shapella upgrade further improves scalability and reduces transaction costs on the Ethereum blockchain

May - June: Regulatory clarity

EU publishes MiCA, one of the first major markets outside ASPAC to apply a comprehensive virtual asset regulatory framework

Hong Kong introduces a new licensing regime for Virtual Asset Trading Platforms (VATP), becoming the frontrunner in the Asia Pacific region

Throughout 2023, over 40 countries rolled out or commenced development of regulatory frameworks for crypto businesses, bringing clarity to the industry

June: Spot ETFs gain traction

BlackRock and other traditional financial institutions apply to launch spot Bitcoin ETFs, raising expectations of institutional adoption and accelerating price recovery

July: SEC vs Ripple

Court rules Ripple's XRP token will only qualify as a security when sold to institutions and not to the public on an exchange, giving a key regulatory victory for virtual assets in the US

August: Base, HashKey launch

US exchange Coinbase launches an open mainnet for their own Layer 2 blockchain – Base, quickly attracting over one million users. VATP-licensed exchange HashKey launches retail services in Hong Kong

September: Hack volumes decline

Hong Kong's Mixin Network suffers the largest loss due to hacking of the year, amounting to US$200 million. However, overall stolen funds resulting from hacks reduce by 50% year-on-year

October: Grayscale vs SEC

Grayscale successfully overturn the SEC's rejection of their spot Bitcoin ETF application, causing BTC's price to surge

November: SBF conviction

Sam Bankman-Fried found guilty of all seven counts of fraud and conspiracy in relation to the collapse of FTX, with sentencing set for March 2024

November: Binance settlement

Binance and Changpeng "CZ" Zhao plead guilty to historical criminal compliance violations including money laundering and unlicensed money transmitting. They agree to one of the largest corporate penalties, settling with US regulators for US$4.3b. CZ subsequently steps down as CEO

December: Helium Mobile rollout

Solana-based carrier Helium Mobile launches nationwide in the US, highlighting the potential of mobile communication underpinned by Decentralised Physical Infrastructure Networks (DePIN)

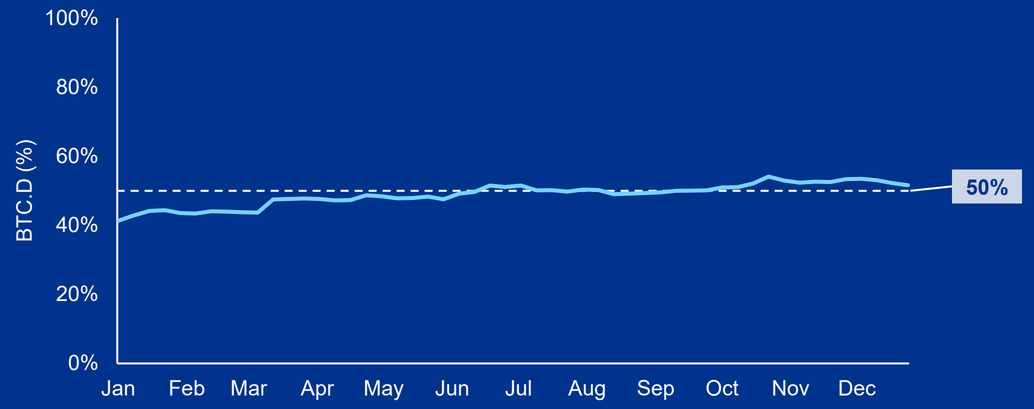
Sources: Binance Research, CoinMarketCap, CoinDesk, Messari Research, The Block, TradingView, Techopedia, BlockBeats, CNBC, KPMG research and analysis

2023 in charts

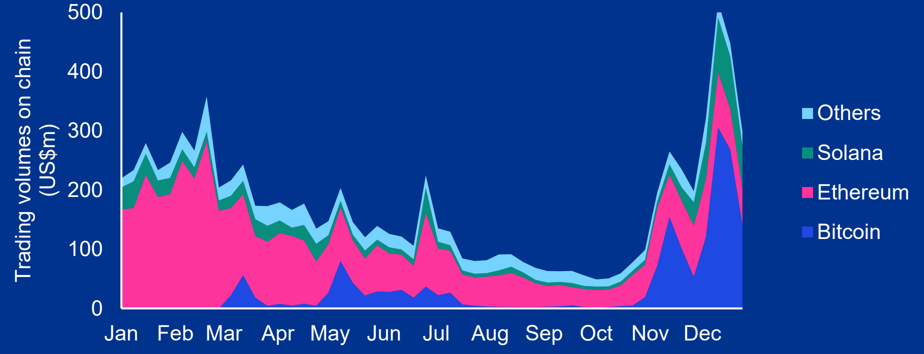
The crypto market exhibited resilience and resurgence, with positive momentum anticipated to carry onto 2024

BTC leads virtual asset price recovery, increasing more than 160% year-on-year

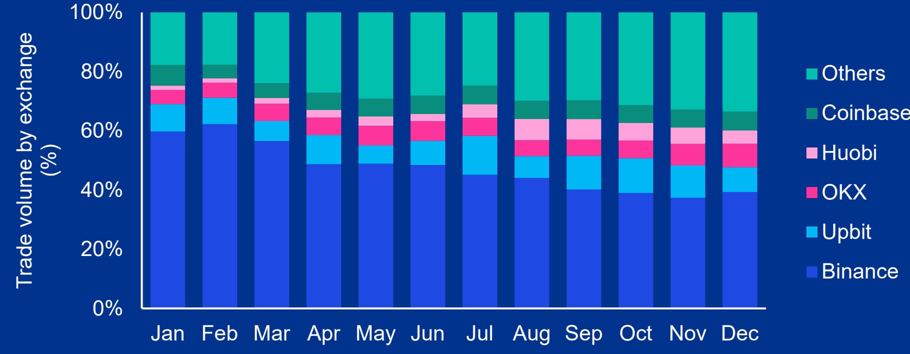
BTC dominance pushes past 50%, a historically bullish sign for the wider virtual asset market



NFT trading volumes make comeback, propelled by Bitcoin Ordinals and a surge in demand for inscriptions



Binance's dominant position at risk amidst regulatory hurdles



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2024 is poised to be a landmark year for virtual assets

> "The carnage of the past twelve months in crypto has been brutal for all of us. We've grinded through bankruptcies, lawsuits, layoffs, turnover, and a general malaise that comes with a bad hangover after a big party… But we have never been operating further out on the cutting edge of tech than we are today."
> Ryan Selkis, Messari

- Recovery of Bitcoin driven by the approval of both spot and futures virtual asset ETFs, as well as the anticipated Bitcoin halving in April 2024
- Wider application of tokenisation in social and increasing network tokenisation of real world assets
- Steady rise in utility of NFTs across fashion, gaming and creative industries, pertaining to provenance, timestamping, identity and authentication
- Overall UI/UX improvements will accelerate transition from Web 2.0 to Web 3.0
- Generative AI results in greater demand for crypto protocols which enable proof of authenticity
- Expectations of declining interest rates bring liquidity back to risk-on assets, benefiting crypto
- Regulatory clarity, including stablecoin guidelines will foster greater institutional engagement and capital inflows
- Increased utilisation of DePIN in cloud storage, telecom, and energy networks
- Rollup ecosystems implementing proto-danksharding will significantly reduce transaction fees, supporting a wider variety of applications and users
- Greater user friendliness of wallet applications encourages people to try broader use cases of crypto, including DeFi, GameFi, DeSoc and DeSci

- Broader economic conditions, such as high inflation or recession, may drive investors towards traditional, lower-risk asset classes
- Ongoing security concerns and criminal cases in the US may have a detrimental impact on crypto's reputation among mainstream users
- Uncertainty regarding potential policy changes and the upcoming US elections may lead to risk aversion
- Implementation of CBDCs could stifle the growth of crypto as an aftereffect of competition and central bank coordination

Sources: Binance Research, CoinMarketCap, CoinDesk, Messari Research, The Block, TradingView, Techopedia, BlockBeats, CNBC, KPMG research and analysis

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