HASHKEY
Capital

ASIA CRYPTO INSIGHTS

JUNE 2023

![HASHKEY Capital]

HashKey Capital

HashKey Capital is an institutional asset manager that invests exclusively in blockchain technology and digital assets. As one of the most experienced blockchain investors based in Asia, the HashKey Capital team has deep knowledge of the blockchain ecosystem in the region and has built a network connecting entrepreneurs, investors, developers, community participants and regulators.

HashKey Capital is affiliated with HashKey Group, a digital asset management and financial services institution in Asia.

Authors

Jupiter Zheng
Research Director
jupiter.zheng@hashkey.com

Henrique Centieiro
Senior Research Manager
henri.centieiro@hashkey.com

Scarlett Xiao
Senior Research Analyst
scarlett.xiao@hashkey.com

Table of Contents

3

Blockchain and Crypto Deals

HASHKEY
▸Capital

Lagrange Labs, a multi-chain interoperability infrastructure, completed a 4 million USD funding round at an unknown valuation. The round was led by 1kx and joined by Maven 11 Capital and CMT Digital. The platform facilitates seamless interactions between different blockchains without the need for intermediary nodes, through cryptographically secured state proofs.

Commentary by HashKey Capital:

Lagrange is a multi-chain interoperability infrastructure enabling seamless interactions between chains without intermediary nodes via cryptographically secured state proofs. In other words, Lagrange allows contracts to trustlessly access historical data on other chains without requiring transactions to execute on any other chain, eliminating need for bridges or messaging protocols.

This is a crucial step towards a truly integrated blockchain ecosystem, facilitating the exchange of value and information across different blockchains. With the solid support from leading investors in the blockchain industry, Lagrange is set to unlock new possibilities for multi-chain dApps and services.

HASHKEY
▸Capital

Blockworks, a premier financial media outlet focusing on digital assets, completed a $12,000,000 funding round with Framework Ventures and 10T Holdings.

Commentary by HashKey Capital:

In the fast-evolving crypto landscape, Blockworks serves as a critical information hub for investors, providing breaking news, insightful editorial content, newsletters, podcasts, and events. The team's strength lies in their comprehensive approach to delivering crypto and blockchain information, from hosting influential conferences such as the Digital Asset Summit to launching the data and research product, GovHub, that tracks protocol proposals across the industry.

Under the leadership of CEO Jason Yanowitz, a seasoned professional with experience in building strong communities, Blockworks is well-positioned to continue influencing the crypto landscape and bridge the information gap. As investors, we look forward to observing Blockworks' growth and influence in the digital assets space as it continues to innovate and serve the information needs of investors.

HASHKEY
▶Capital

Sort, a comprehensive developer platform for Web3 UI components, successfully completed a $3.5 million funding round led by Lemniscap and joined by Alliance DAO, Punk DAO, Orange DAO, and Parasol. The platform's mission is to simplify the process of building Web3 applications by providing an easy-to-use toolkit for developers.

Commentary by HashKey Capital:

With Sort, developers can easily query blockchain data, subscribe to real-time notifications for contract events, and generate free API keys for use in their app, all via Sort's platform. Furthermore, by sponsoring a contract on Sort, its data becomes available to all Sort users, thereby fostering an environment of collaboration and mutual benefit. By streamlining this process and enabling developers to focus more on their core business and less on managing servers or deciphering low-level blockchain complexities, Sort is mirroring the productivity leaps made in Web2 with the shift to cloud computing.

Blockchain Community and Market Update

SEC sues Binance and Coinbase, regulatory storm hits.

On the evening of June 5th Beijing time, Binance, a cryptocurrency trading platform, and its CEO Zhao Changpeng (CZ) were sued by the U.S. Securities and Exchange Commission (SEC) for allegedly violating securities trading rules. Just one day later, the SEC continued its regulatory crackdown by suing Coinbase, the largest cryptocurrency exchange in the United States. The market reacted to these tough regulatory measures, with BTC falling over 5% in just two days. BNB and Coinbase, the main targets of the SEC's regulatory actions, also experienced a sharp drop of about 30%. At the same time, the SEC listed a series of tokens as securities, including SOL, ADA, MATIC, FIL, and more, causing a corresponding drop in their value.

SEC Chairman Gary Gensler has faced market scrutiny for the regulatory crackdown, as multiple high-profile incidents, including FTX and 3AC, occurred during his tenure. On June 13th, a congressman proposed to impeach Gary Gensler. On June 14th, a congressional hearing was held to discuss how to classify and regulate cryptocurrencies.

Commentary:

The sudden regulatory storm has made the currently illiquid market more fragile. However, U.S. regulation of the cryptocurrency industry will be beneficial for its long-term development, despite short-term market pains. In the future, it will be important to follow the formal implementation of regulatory policies and the entry of compliant giants into the market, which may bring massive incremental capital and redirect the market upwards.

HASHKEY
▶Capital

The Federal Reserve's Interest Rate Meeting stops raising interest rates for the first time, but the timing of a rate cut is still uncertain.

On Wednesday, June 14th, the Federal Open Market Committee (FOMC) announced that it will maintain the target range for the federal funds rate at 5.0% to 5.25%, marking the first pause in the current cycle of rate hikes. Since March of last year, the Fed had raised interest rates in its previous ten meetings up until May of this year.

The economic projections presented by the Fed this time showed more significant changes than those in March. The expected GDP growth rate for 2023 was raised from 0.4% in March to 1%, indicating the Fed's greater optimism about the current US economy. The unemployment rate for 2023 was also lowered from 4.5% in March to 4.1%. In May, nonfarm payrolls increased by 339,000, the largest gain this year.

Though the Federal Reserve has paused its rate hike, it has sent a hawkish signal by implying in its dot plot and economic outlook that there may be two more rate hikes this year. At the same time, the Fed increased its peak rate projection, which is higher than most economists and investors had anticipated. Powell stated that the effects of policy tightening have not fully materialized, and almost all participants expect further rate hikes to be appropriate.

Commentary:

From Powell's remarks and the dot plot, it appears that June's pause is only temporary and that the Fed may still have a possibility of a 50 basis point rate hike. The likelihood of a rate cut this year is low unless inflation continues to fall below expectations. This time, the Fed's guidance on further rate hikes significantly exceeded market expectations, and the market began to abandon its bet on a rate cut this year.

The implementation of the new Hong Kong law accelerates the openness of the crypto field, supporting the development of more web3 enterprises.

On June 1st, the Hong Kong Securities and Futures Commission's new guidance for virtual asset trading platforms officially came into effect. The licensing of virtual asset trading platform operators marks a significant step forward in Hong Kong's efforts to become a global virtual asset center.

The Chief Executive Officer of the Hong Kong Securities and Futures Commission, Ashley Alder, stated that Hong Kong's regulatory framework draws upon the experiences and lessons learned from Singapore and other jurisdictions. Once a trading platform is licensed, it will be subject to regulation not only under securities and futures regulations but also under anti-money laundering regulations. The Hong Kong government is providing protection for all retail investors while also giving professional investors more freedom.

The development of Web3.0 is at a golden starting point, and this disruptive technology can change many existing business models while creating new opportunities. Developing financial technology innovation industries such as Web3.0 and embracing a broader digital space is an excellent choice for Hong Kong. With a series of actions such as a HKD 50 million government funding, the establishment of the Cyberport Web3.0 Base, the establishment of the Hong Kong Web3.0 Association, and the issuance of the new virtual asset regulation, it is evident that the Hong Kong Special Administrative Region government is full of expectations for the development of Web3.0 in Hong Kong.

Commentary:

The current policy pattern in the crypto world has brought forth a "east vs. west" policy environment, highlighting the importance of policies. Although policies themselves are not innovative, they are the ideal breeding ground for industry innovation. In the current wave of globalization, Hong Kong's policy environment of openness and inclusiveness will undoubtedly bring immense value.

HASHKEY
‣Capital

CNHC, a provider of Chinese yuan stablecoins on the Conflux network, and the Multichain team were both reportedly taken into police custody.

On May 29th, 2023, it was reported that CNHC, a provider of Chinese yuan stablecoins on the Conflux network, had gone missing, and the company's offices were sealed by Shanghai police. It was suspected that the company had encountered liquidity problems due to its involvement in foreign exchange transactions with Chinese yuan, but considering their small market share, it did not have a significant impact on the market . On or around the 23rd, the Multichain team, a cross-chain service platform, was reported to have been arrested by Yunnan police, causing delays in the transfer of cross-chain assets and involving assets worth several hundred million US dollars. Following this news, the Multi token plummeted by approximately 40%, and stablecoin assets on multiple public chains were affected, with FTM, OP, and ARB experiencing varying degrees of decline.

Commentary:

Currently, Chinese yuan stablecoins and crypto-related services regulations in mainland China remains strict, including illegal foreign currency exchange transactions , fraud, and gambling often use crypto for fund transfers, making these service providers a focus of regulation. After the 924 notice, crypto service providers should withdraw or close their services in mainland China as soon as possible.

HASHKEY
▸Capital

Since the upgrade of ETH Shanghai, staking volume has rapidly increased, with LSDfi becoming a new hotspot

Since the upgrade of ETH Shanghai on April 13th, ETH staking can be withdrawn, and after a brief peak in withdrawals, the inflow staking volume of ETH has started to increase significantly. As of June 20th, over 25 million ETH have been staked, an increase of over 5 million compared to before the Shanghai upgrade.

Over 70% of ETH staked is done through DeFi or CEX, with the largest staking volume coming from Lido, which accounts for 31.8% of ETH staked. Binance and Coinbase follow closely behind, with 5.3% and 9.6% of the staking volume, respectively. Other major projects include Rocketpool, Frax, and Kraken. Since most of these assets have been wrapped, they have brought significant TVL to Defi projects, leading to a new hotspot for LSDfi.

Early projects such as Pendle, Frax, and Lido have extended the use case of ETH 2.0. New projects like Lsdx and Lybra have also quickly grown their TVL. The market has shown significant interest in LSD-related projects, with Pendle's price rising by over 10 times, and Frax and Lido experiencing varying degrees of growth.

Commentary:

After the upgrade of ETH Shanghai, the ability to withdraw and stake has allowed off-chain funds to enter the market, and has brought significant TVL to LSD protocols, leading to a revival of on-chain DeFi and having a positive impact on the overall market development.
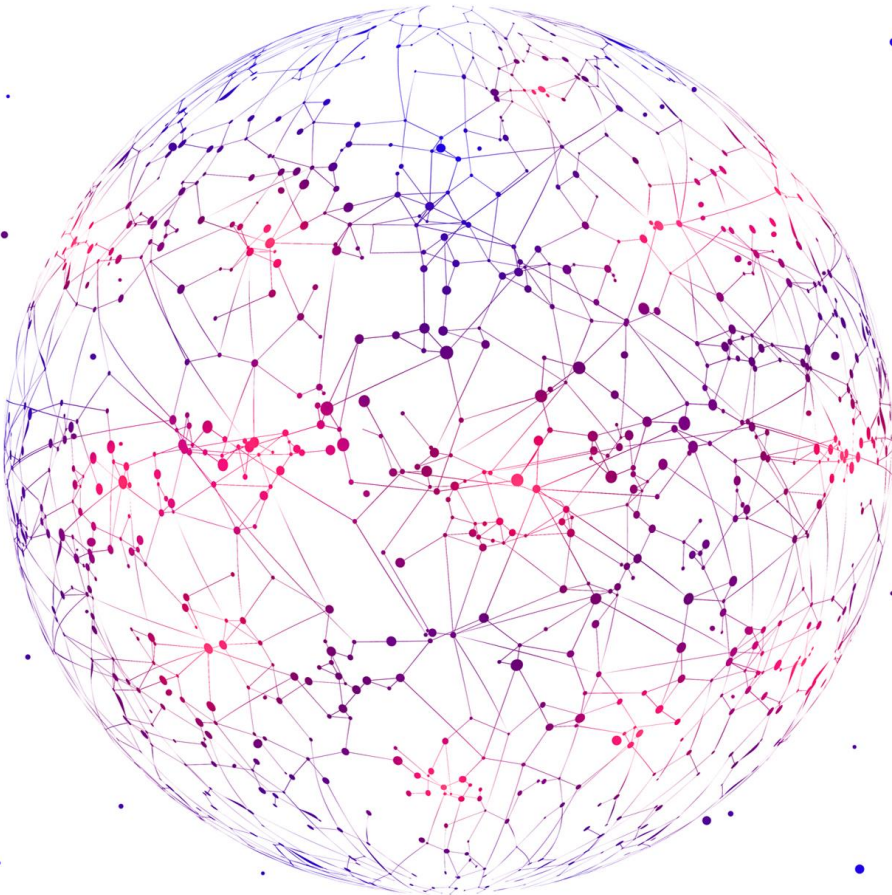
New public chains continue to develop

Following the launch of the Aptos and Sui public chains, which are both based on the Move programming language, new public chains such as Worldcoin, Sei Network, and the ZK series of public chains have entered the stage. WorldCoin, founded by OpenAI's CEO Sam Altman, has completed a Series C funding round and received investments from a16z, Coinbase Ventures, and others. Its goal is to airdrop tokens worldwide and become the universal currency and chain of the AI era.

Sei Network completed its latest round of financing in March and received investments from Foresight, Multicoin, and Jump. It is expected to launch soon, and its official website has already added an airdrop page.

Zksync and Starknet are both high-valuation public chains in the ZK space, with valuations exceeding $1 billion. As ETH's layer2 solutions, their user base has been growing sharply.

Commentary:

Although the market is in a downturn, new public chain projects are still abundant, and financing this sector has not been affected. The release of WorldCoin has also brought blockchain and AI closer together, providing a foundation for the development of cross-disciplinary integration.

Listed Companies & Token

Cipher Mining has purchased 11,000 A1346 miners from Canaan

https://www.globenewswire.com/news-release/2023/05/09/2664237/0/en/Cipher-Mining-Provides-First-Quarter-2023-Business-Update.html

HIVE Blockchain plans to raise $100 million in equity financing to double its hashrate to 6 EH/s

https://www.newsfilecorp.com/release/165844/HIVE-Blockchain-Announces-Growth-Plan-to-6-EHS-Corporate-Updates-and-Establishment-of-AtTheMarket-Equity-Program

China Blockchain Headlines

China Cyberspace Administration: Cultivating and Developing Digital Industries such as Blockchain and Artificial Intelligence

The China Cyberspace Administration has released the "Digital China Development Report 2022" which looks forward to the digital development space in 2023. It mentions the goal of empowering economic and social development, strengthening and expanding the digital economy, cultivating and developing digital industries such as the internet, blockchain, and artificial intelligence, and creating digital industrial clusters with international competitiveness.

The report also emphasizes the acceleration of the digital transformation of traditional industries, the active development of smart agriculture, the deep implementation of intelligent manufacturing projects, the promotion of digital transformation in industries such as finance, trade, education, healthcare, transportation, and energy, and supporting the growth of digital enterprises while driving the healthy development of ecosystem. The report also highlights the development of efficient and collaborative digital governance.

Zhang Hui from Ant Group: Enterprise Web3 is the Future of Blockchain Based on Real-world Applications

At the Zhongguancun Forum held in Beijing, Zhang Hui, the CTO of Ant Group's digital technology business group, outlined the latest understanding of using trust technology to assist the development of the enterprise Web3. Zhang Hui stated that the industrial Web3 is the future of blockchain that we see in real-world applications.

As society enters the era of fully digitalized industries, technologies such as IoT, blockchain, and privacy computing will build a new Web3 contract network. Under this network, the circulation of data value and various digital assets will accelerate, and the collaboration efficiency of various stakeholders in the industry will also be unprecedentedly improved.

China Blockchain Headlines

Fuzhou Introduces Three Measures to Promote the Development of Blockchain Industry.

The Big Data Commission and the Finance Bureau of Fuzhou jointly issued the "Three Measures for Promoting the Development of Fuzhou's Blockchain Industry". Based on the demand for the development of Fuzhou's blockchain industry and the national blockchain innovation application pilot, the measures aim to comprehensively promote the development of the city's blockchain industry and technological innovation and accelerate the construction of a blockchain innovation and development system.

The measures are as follows:

• Supporting the landing of high-quality enterprises by offering a rent subsidy of up to 600,000 yuan per year for each enterprise or institution with an area of up to 1,000 square meters;

• Supporting the development of innovative applications by providing a construction fund subsidy of up to 500,000 yuan for each key project approved by the Fuzhou Big Data Commission;

• Supporting talent development and the construction of enterprise platforms by offering incentives of 1 million yuan, 500,000 yuan, and 300,000 yuan respectively for national, provincial, and city-level recognized blockchain technology for key laboratories, engineering research centers, and enterprise technology centers. At the same time, it encourages enterprises and social organizations with blockchain training qualifications and capabilities to carry out blockchain talent training.

Unlocking the Potential of LSD: A Look at the Liquid Staking Revolution

Liquid Staking Derivatives Adoption

The LSD market is revolutionizing Proof of Stake and on-chain yield generation. Let's start with some key takeaways:

The Shanghai (or Shapella) upgrade kickstarted the next big narrative: **the staking wars**. New innovative LSD protocols have been popping up in the market and promise to bring innovation, liquidity, and attractive yields to the stakers and validators.

Around $140 million dollars are staked every day on the Ethereum chain.

In this report, we will cover the current landscape of the LSD market and where we are heading. We will compare different LSD protocols and provide important insights into why we think this market has a big potential to grow.

Key insights:
1. The percentage of ETH staked will double in the coming years.
2. The liquid staking market share will take a big share from solo and CEX staking.
3. Emerging LSD protocols will take a large share of the currently dominating LSD protocols.
4. Staking yields will be lower but LSD composability with DeFi will boost the end-user yields.
5. New technologies such as DVT – Distributed Validator Technology – will further democratize and decentralize validator networks.

LSD protocols are now the top DeFi sector in terms of TVL – Total Value Locked – with $18 billion at the time of the writing. Decentralized Exchanges follow with $15 billion in TVL.

Given that the total percentage of ETH staked is to double in the coming years, the market has much room to grow. To be more precise we have created a statistical model that shows us that within 2 years (i.e. end of Q2 2025) the total ETH staked should reach between 31% and 45%. This growth can correspond to an additional $18 billion to $24 billion in TVL over the coming two years.

As protocol revenue for LSD protocols directly correlates with ETH prices, liquid staking protocols can be seen as a levered bet on ETH as they gain a stronger market share over staked ETH.

16

Liquid Staking Derivatives Adoption

Why do we see such a big resurgence in LSD TVL, and why did LSD protocols flip DEX Total Value Locked in March 2023?

Well, LSD protocols bring a strong use case to the market and significant benefits to PoS stakers. For instance, in most PoS chains, the capital allocated to PoS validators is not liquid. It involves locking capital for a certain length of time and waiting in queues to stake and unstake. Additionally, when a user stakes their crypto in a PoS chain, this crypto is locked for the period it's staked for, making it capital inefficient, i.e. there's not much that the user can do with the staked asset.
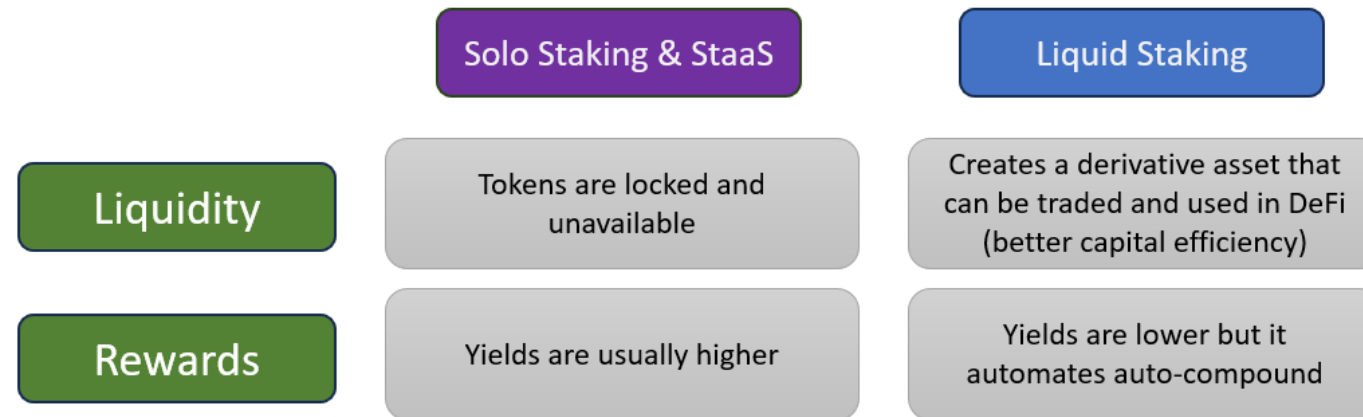
On the other hand, LSD protocols issues a "derivative" token that represents that staked asset. This derivative token can be traded, and it is used for other purposes such as re-staking, getting a loan in DeFi, or using these derivatives is a DeFi liquidity pool.

This opportunity led to the creation of multiple LSD protocols in multiple PoS chains such as Polkadot & Kusama, Cosmos, Polygon, Hedera, BNB, Fantom, Near, Avalanche, Solana, and, of course, Ethereum.

In a nutshell, PoS chains need LSDs in order to attract liquidity that will increase the number of validators securing the network. For instance, Ethereum requires 32 ETH to run a "solo" validator (which is around $64 000 at the time of writing); validators have to deal with technical specs, hardware requirements, and they have slashing risks (i.e. can be punished for misbehaving or for being offline), and need to wait in a queue to stake and unstake. LSD protocols remove all these limitations.

In this report, we will focus on Ethereum LSD protocols which can potentially bring billions of dollars to this DeFi sector, being undoubtfully the biggest market in the LSD space.

Ethereum PoS - LSD Market Shares

	Solo Staking & StaaS	Liquid Staking
Liquidity	Tokens are locked and unavailable	Creates a derivative asset that can be traded and used in DeFi (better capital efficiency)
Rewards	Yields are usually higher	Yields are lower but it automates auto-compound

Since the Chapella upgrade on April 13th 2023, Ethereum is a complete system. Staking and the EVM general-purpose language come together, bringing to ETH fully aligned incentives that foster a new layer of DeFi applications that we call LSD. The fact that withdrawals from the consensus layer bring additional confidence for LSD users and new technologies such as DVT carry more decentralization, resilience, and scalability to LSD protocols.

We are also starting to see the emergence of DVT – Distributed Validator Technology – that allows many validators can come together and work as a single unit from the network perspective. This democratizes ETH staking. ETH staking requires 32 ETH, but if 16 people can stake 2 ETH each providing a better-decentralized network, more resilient and better capital efficiency.

LSDs in the spotlight: although the LSD market exists for years, the Shapella upgrade brought confidence in Ethereum PoS (e.g., reduced risks related to staking withdrawals timeline) and triggered a flood of new use cases and protocols developing LSDs.

We will now categorize the different types of staking. Then, we will make a brief description of each one of these types of staking. This is important to understand better why LSD is important and what LSD characteristics are valued the most.

Ethereum PoS - LSD Market Shares

Solo staking

Being a permissioned chain, Ethereum allows anyone to participate directly as a PoS validator. While the "endgame" is to allow a validator node to run a light client on equipment with small capacity (such as mobile phones), we will still need to wait for "The Purge" upgrade to allow nodes to run without historical data. This will probably take years to come to fruition.

For now, considering the size of the blockchain and network requirements, validating nodes need to run equipment with minimum specs – a decent CPU, 16 GB RAM, and 1 Terabyte of disk space. This means that there's an entry barrier, as users need to have a device with these specs.

Staking as a service (StaaS)

Staking as a Service or StaaS can be an alternative to stakers that don't want to deal with hardware requirements. Staking as a service is run by infrastructure providers. These infrastructure providers operate the validator node hardware while, in most cases, the users continue to control the private keys of the validator in a no-ops manner.

Pooled Staking (aka LSD)

As previously mentioned, there are LSD protocols available for many major PoS chains. However, we will concentrate on Ethereum because it is the ecosystem from which most innovations and excitement arise.

| Solo Staking	Staking as a Service	Pooled Staking	Centralized Exchanges	DVT	LSDfi
DIY staking	BloxStaking	Rocket Pool	Coinbase	Obol	Ether.fi
	Abyss Finance	Stakewise	Binance	Puffer	unshETH
	Ethpool	Lido	Kraken		Agility
	Sensei node	Stakefish			Lybra
	Kiln	Ankr			Pendle
	Allnodes	Stafi			
		Stader			
		Frax			
		Stakehouse			
		Swell			
		NodeDAO			

Ethereum PoS - LSD Market Shares

Supported assets across the top 16 LSD protocols:

LSD prov.	ETH	SOL	DOT	Gnosis	BSC	Fantom	Avalanche	Polygon	Kusama	Acala	Near	Hedera
Lido	x	x	x					x	X			
Coinbase	x											
Rocket Pool	x											
Frax	x											
StakeWise	x			x								
Parallel			x									
Ankr	x		x	x	x	x	x		x			
Acala										x		
Stader	x				x	x					x	x
Marinade		x										
Benqi							x					
Ether.fi	x											
Stafi	x	x	x		x			x	x			
NodeDAO	x											
Swell	x											
Stakehouse	x											

Ethereum PoS - LSD Market Shares

LSD total TVL distribution per chain

Legend: Ethereum, Solana, BSC, Avalanche, OKX, Others
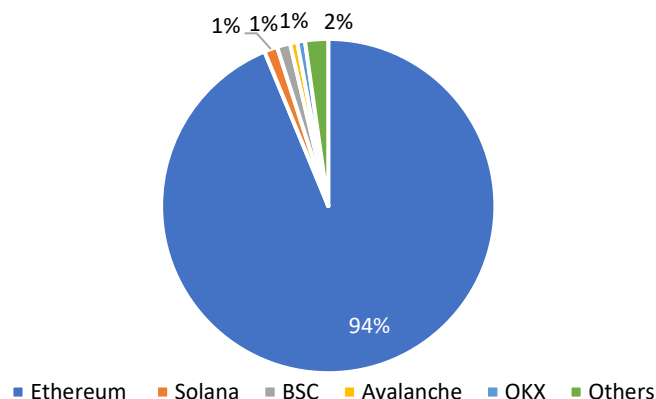
We can see that Ethereum has the highest number of LSD protocols and has the highest representation in terms of TVL. Considering all LSDs across all PoS chains, Ethereum's LSDs are responsible for 94% of the LSD market across all chains.

There are 13 different Ethereum LSD protocols with a TVL higher than $10 million.

Ok, so pooled staking includes the protocols known as LSDs that aim to remove some of the entry barriers that we saw before, including the 32 ETH minimum, technical barriers, node operations, and asset lock-up. Stakers pool their resources into a smart contract that distributes the stakes to validator sets.

Pooled staking allows stakers to have instant access to liquidity and redeem their stake anytime, it requires no technical expertise, no minimum amount and, the cherry on the top of the cake, users can use the LSD tokens in DeFi - either as collateral, LP or yield farming.

The underlying ETH gets organized into smart contract-managed staking pools that allocate the ETH to node operators.
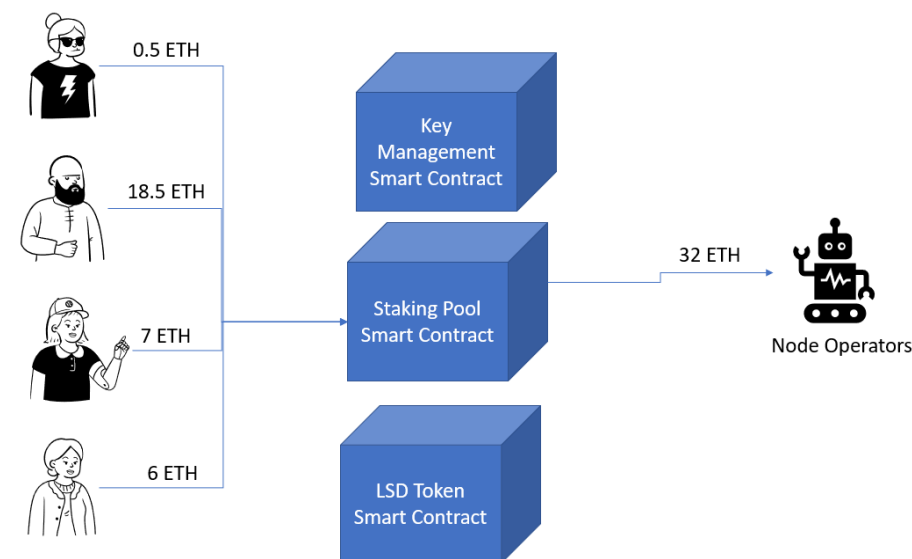
Complete Overview of the LSD Market in 2023

	Lido	Coinbase	Rocket Pool	Frax	StakeWise	Ankr	Stader	Ether.fi	Stafi	Swell	NodeDAO	Stakehouse
LSD token	stETH	cbETH	rETH	frxETH + sfrxETH	sETH2 + rETH2	ankrETH	ETHx	eETH	rETH	swETH	nETH	dETH
Token Mechanism	Rebasing token	Reward bearing token	Reward bearing token	Base token + reward bearing token	Base token + reward bearing token	Reward bearing token	Reward bearing token	Reward bearing token	Reward bearing token	Reward bearing token	Reward bearing token	Reward bearing token
Commission	10%	25%	15%	10%	10%	10%	10%	0% (for now)	5%	0% - 5%	10%	Depends.
Comm. Distribution	Validators: 5% Lido DAO: 5%	Coinbase: 25%	Pool validators: 15%	Frax treasury: 8% Fund: 2%	Stakewise DAO and node vaults	Nodes and project treasury	5% to the DAO, 5% to nodes	N/A	3.5% to FIS token holders, 1% to treasury, 0.5% stafi team	N/A	7% distributed to node operators and 3% to NodeDAO	Depending on governance.
# node operators	29	1	2 800	1	3	3	N/A	Multiple	168	N/A	N/A	N/A
Min. staking for validators	N/A (permissioned)	N/A (permissioned)	8	N/A	N/A	N/A	4	Permissioned ATM	12 ETH	N/A	1.1 ETH	Depending on governance.
Governance token	LDO	N/A	RPL	FXS	SWISE	ANKR	SD	N/A	FIS	N/A	N/A	N/A
Token mcap	$1 556 mil	N/A	$783 mil	$405 mil	$18 mil	$165 mil	$20 mil	N/A	$16 mil	N/A	N/A	N/A
TVL/mcap	0.12	N/A	0.46	0.53	0.11	1.23	0.25	N/A	0.64	N/A	N/A	N/A
FDV	$1 769 mil	N/A	$783 mil	$558 mil	$66 mil	$165 mil	$118 mil	N/A	$31 mil	N/A	N/A	N/A
% circ. supply	88%	N/A	100%	72%	27%	100%	17%	N/A	53%	N/A	N/A	N/A

This table shows a complete overview of the different LSD protocols available in the market. Note that some of these protocols are very recent, and they might look quite centralized in terms of the number of node operators, but most of them have plans to decentralize and add technologies such as DVT – Distributed Validator Technology for better resiliency and decentralization. Some protocols don't have a token yet, but they might have it in the future (potential airdrop for early adopters?). This is the case for Ether.fi, Swell, NodeDAO and Stakehouse.

HASHKEY
▶Capital

Competition Drives Innovation: Why Decentralization in the LSD Space is Essential for Ethereum's Health

Ethereum LSD protocols are naturally fighting for their market share. A bigger market share brings more revenue to the protocol, which is good for its respective community and token holders. However, gaining too much market can be a double-edged sword, as it can harm the entire ecosystem in different ways:

- Reduced competition: centralization of staking can lead to less innovation, market manipulation and unfair practices.

- Increased risk of censorship: there is a heightened possibility of censorship with centralized staking players, as they may be subject to incentives or regulatory pressure to censor transactions. This can potentially result in a disruption of the trust within the network.

- Decreased security: big staking players make it easier for attackers to carry out malicious activities, such as 51% attacks.

- Increased risk of collusion: centralized stakers can collude to carry out actions that go against the decentralization ethos and against the users, such as malevolent MEV extraction and frontrunning.

23

HASHKEY ▸Capital

Competition Drives Innovation: Why Decentralization in the LSD Space is Essential for Ethereum's Health

The table below illustrates the current market share and delta since the Shapella upgrade:

Protocol	Staked ETH	2 months after Shapella	Market share	LSD Market share 2-month δ
Lido	7,410,310	30%	79%	2.30%
Coinbase stETH	1,085,972	-6%	11%	-4%
Rocket Pool	450,032	94%	5%	2%
Frax	226,751	72%	2.40%	0.60%
StakeWise	74,032	1%	0.80%	-0.20%
Ankr	40,778	-19%	0.40%	-0.20%
Ether.fi	22,751	69%	0.20%	0%
Stafi	12,032	1%	0.10%	0%

Data as of June 16th, 2023

Since the Shapella upgrade, Lido has grown to a 79% market share, which is 2.3% more when compared to the pre-shapella market share. On the other hand, Coinbase's staked ETH "cbETH" saw the biggest decline in terms of market share, losing 4%.

This can probably be explained by regulatory pressure, high fees (Coinbase reward commission is the highest at 25%), and the fact that other LSD protocols offer better composability.

24

ETH LSD Market Projection

Total ETH Staked - Projection
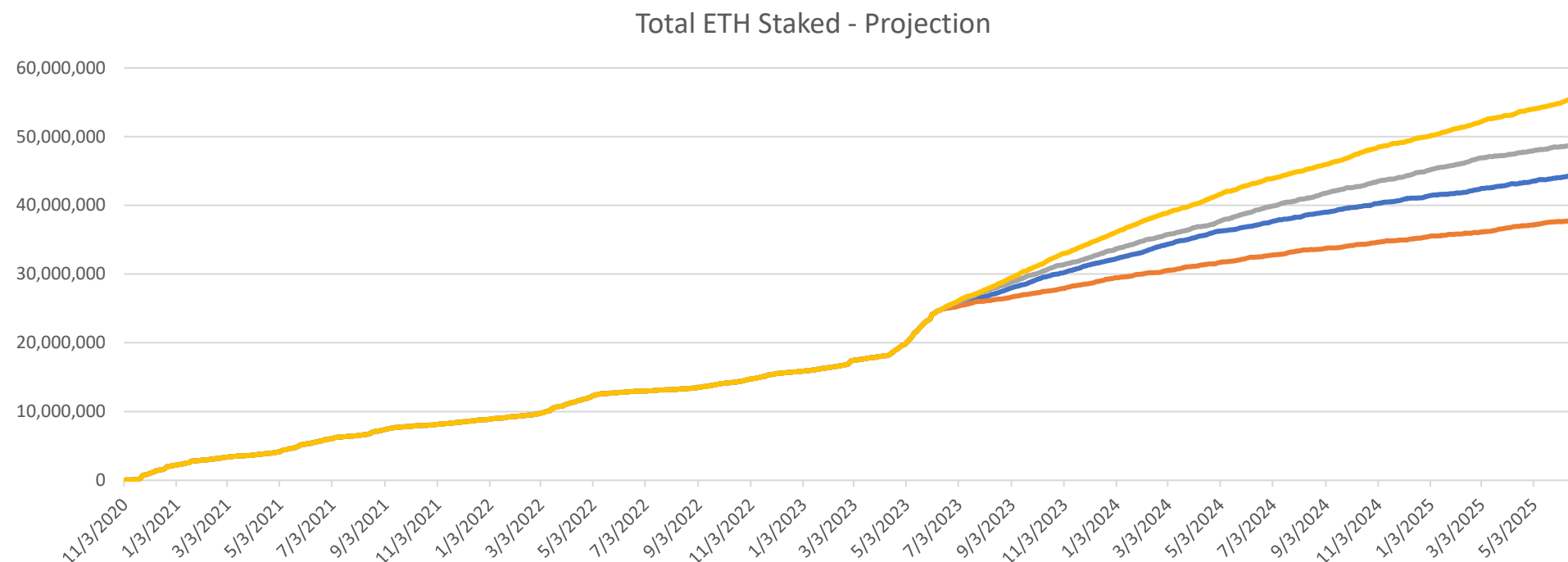
According to the current progress of the ETH staking we have created a statistical model that shows us that within 2 years (i.e. end of Q2 2025), **the total ETH staked should reach between 31% and 45%.** This means that the LSD market has the potential to more than double its size. This growth can correspond to an additional $18 billion to $24 billion in TVL over the coming two years.

Reaching a total staked ETH between 31% and 45% in 2 years would represent an annual growth between 43% and 75% YoY.

Not surprising that the LSD wars are starting.

Conclusion

The LSD market is rapidly evolving, and new players with innovative technologies have been joining the market and gaining traction over the last few months.

LSD protocols are trying to attract new users by providing seamless integrations with DeFi but also by adhering to the decentralization narrative. Better LSD decentralization can be achieved with DVT and by lowering the entry barrier to node operators.

In the future, we can foresee fierce competition across the LSD market to grab a piece of the multi-billion dollar growth.

Disclaimer

The information contained in this document has been compiled by HashKey Group (as defined below) from sources believed to be reliable, but no representation or warranty express or implied is made by HashKey Group, its affiliates or any other person as to its fairness, reasonableness, reliability, accuracy, completeness or correctness. All illustrations, examples or forward-looking information (if any) contained in this document have been provided in good faith for illustrative purposes only as of the date of this document, and are not intended to serve as, and must not be relied upon as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability. Whilst efforts are made to ensure the accuracy and completeness of the information contained in this document at the time of publication, errors or omissions may occur. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. HashKey Group reserves the right to correct any errors or omissions, and to change or update information at any time without prior notice.

Each legal jurisdiction has its own laws regulating the types of investments and/or services which may be offered to its residents and/or in its jurisdiction, as well as the process for doing so. As a result, certain investment products or services discussed in this document may not be eligible for sale or offered in some jurisdictions. This document is not an offer to sell or a solicitation of an offer to purchase any investments or services. Unless otherwise specified, HashKey Group does not hold itself out to be licensed to carry on regulated activities in any jurisdiction. Additionally, providing this material is not, and under no circumstances should be construed to act as a regulated business in any jurisdiction by any person or company that is not legally permitted to carry on such regulated business in that jurisdiction.

Nothing in this document constitutes legal, accounting, or tax advice, and you are advised to seek independent legal, tax and accounting advice prior to acting upon anything contained in this document. The contents of this material have not been reviewed by any regulatory authority. Investors are advised to exercise caution in relation to any investments or services in relation to this document. If you are in doubt about any of the contents of this material, you should obtain independent professional advice.

To the full extent permitted by law, neither HashKey Group nor any of its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or the information contained herein. No information contained in this document may be reproduced or copied by any means without the prior written consent of HashKey Group.

"HashKey Group" is a brand name to describe any one or more entities of the group companies composed of HashKey Digital Asset Group Limited and its Affiliates.