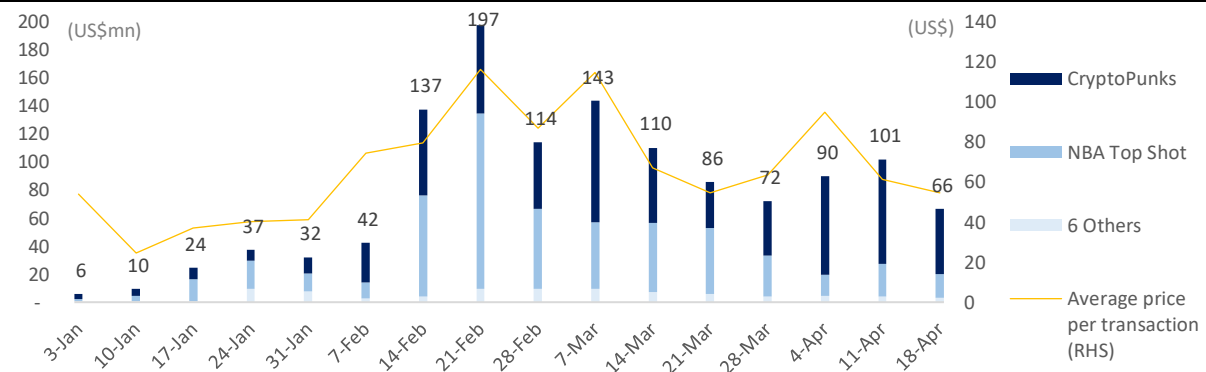




## Highlight of this issue – NFTs: Value creation underlying the hype

Figure 1: Weekly trade value of NFTs



Source: The Block Crypto, AMTD Research

**Non-fungible tokens (NFTs) have been the hottest phenomenon in the crypto world in 2021, with the world going digital in the post-Covid era.** NFT trading value reached an all-time high of US\$197mn on Feb 21, 2021. The largest NFT deal up to now is the digital art "Everydays: The First 5,000 Days" by Beeple sold for US\$69.35mn at Christie's.

**NFTs are verifiably unique digital items whose ownership can be tracked on blockchain, usually Ethereum.** Different from fungible cryptos such as BTC and ETH, an NFT cannot be exchanged equally for another NFT. Redefining ownership, NFTs are helping creators to reach to fans directly thus supporting the monetization in the passion economy. Built on the ERC-721 standard, NFTs first gained popularity for CryptoKitties in 2017. Major NFT marketplaces include OpenSea, Rarible, Decentraland, etc.. In terms of category, CryptoPunks and NBA Top Shot accounted for over 90% of NFT trading value.

**NFTs have a special transaction and maintenance mechanism.** Platforms take usually 2.5% of the final sale price, and creators could define a rate to earn a commission in each resale. Besides, a gas fee exists for the first listing of items, usually at around US\$50. The on-chain data works as a digital ID, while the underlying goods of NFTs are stored off chain on the IPFS network to be retrievable. Buyers are responsible for maintaining the off-chain data from damages, but sometimes sellers such as game companies may give a warranty to ensure the in-game NFTs' effectiveness.

## **NFTs are revolutionizing various industries and attracting diversified participants**

So far NFTs have been created in various industries, covering digital art, virtual real estate, collectible sports cards, even ownership records for physical assets, though less common, etc.

**Celebrities are joining the NFT craze.** Jack Dorsey, CEO of Twitter and Square, tokenized his first Twitter and sold the NFT for US\$2.9mn. Elon Musk, CEO of Tesla; Edward Snowden, American computer analyst and whistleblower; Beeple, digital artist; Kings of Leon, rock band; Logan Paul, YouTuber; and other celebrities from various industries all minted their NFTs in different forms of artwork, music, Pokemon card image, etc..

**FinTech companies and financial giants are also actively experimenting.** Square acquired a majority stake of Tidal, the music platform led by rapper Jay-Z, for US\$297mn in March, and news report suggest Square may start to tokenize Tidal's music products to help musicians monetize and increase Square Cash App's adoption. The NYSE recently launched "First Trade" NFTs, a series of collectibles of first trade of Spotify, Snowflake, Unity, DoorDash, Roblox and Coupang.

**VCs have pumped over US\$100mn into NFT startups this year.** Sorare, OpenSea, Bason Protocol are the largest three VC-led NFT deals in 2021, attracting top investors including Benchmark, Accel and Andreessen Horowitz.

## **NFTs redefine ownership**

**NFTs make ownership trackable and fractionalizable.** Embedded with a unique ID, the entire history including ownership, creator and price could be tracked on the blockchain without the need for intermediaries. NFTs also make ownership fractionalization possible. Items such as artwork could be divided into many pieces and every buyer could claim a small proportion of ownership onto it.

## **NFTs empower the passion economy and propel Web 3.0**

**Unlike traditional centralized content distribution enabled by social media platforms in the Web 2.0 era, NFTs can help niche creators access their die-hard fans and receive considerable financial support, achieving Web 3.0's decentralization vision.** Creators can no longer rely on the advertising income from the centralized platform thus require them to acquire mass audience. Instead, they may generate income directly from their fans by selling their products. Creators could maximize their profit, as NFTs are intermediaries-waived and allow tiered pricing, since the pricing is determined one by one.

**NFTs can act as social currency for collectors.** Trackable authorized records and digital form which is easy to carry around bring a new way for collectors to show off. Buyers could express their appreciation to the creators by paying directly.

**Communitization has become an important trend in social relationships.** The internet-native Gen Z have a stronger desire to show their uniqueness and are more social-addicted than the older generation. Gen Z prefer to build niche communities with fellows of the same interests, and are willing to pay more for their enthusiasm. For example, "Shequan" (设圈), a niche ACGN community where teen enthusiasts pay a great amount for a virtual character of their imagination, has caused controversy this year when a 13-year-old spent RMB700,000 in virtual characters. NFTs trading will help regulate the community and increase transaction transparency.

**The internet-native generation's increasing acceptance of digital spending and virtual goods enables NFT prevalence.** According to Superdata, Global digital game spending reached US\$11.6bn in Jan

2021, up 15% YoY. People are paying more for interest and social currency, which may indicate sustainable revenue generating power of NFTs.

### **Everything can be NFTs: The future could be beyond imagination**

**More forms of NFTs may be on the way.** In addition to currently common forms of artwork and music, more categories such as videos, articles, voice recordings, chat history, memorable moments and so on could be imagined, since collectors would be willing to pay for anything related to their passion.

**NFTs also hint a new way of charity.** NFTs allow charitable organizations to tokenize wildlife values to earn livings for wildlife. A South African startup Studex which tracks animals' location and health conditions to ensure their safety is converting the data into NFTs, sells the tokens and uses the proceeds to protect wildlife.

### **Value creation will continue in the long run with the hype fading away**

**As hype deflates, NFTs may realize long-term growth with the solid demands for digital ownership.** Both weekly trade value per user and weekly transactions per user have come off from their peak. Compared to the 2017 ICO bubble, NFTs do have underlying goods, while ICO is more of a future promise. There are some parallels between the two crazes, including the easy entry, high popularity and skyrocketing prices.

**NFTs still have many limitations.** The pricing of NFT goods are determined by individual seller and buyer. Therefore, it would be difficult to draw a broader consensus on price. As NFTs are intermediaries-waived, it is difficult to prove scarcity of certain goods. It remains difficult to tie NFTs to physical items, which may limit NFTs' growth potential.

### **Innovative derivatives will continue to unlock market potential**

**NFT Loans allow NFT owners to acquire liquidity with their NFTs as collateral.** Companies include Starter, UniLend, Lendroid and NFTfi.

**The NFT20 protocol provides liquidity by converting NFTs into ERC20 tokens.** NFT collectors could deposit their NFTs to a new or existing NFT pool to get equivalent ERC20 tokens immediately, then use the tokens or exchange for another NFT in the same pool. ERC token owners could accumulate dividends from the platforms.

**NFT Flash Loans, the new feature in NFT20 protocol, enable borrowing without collateral.** Users could borrow NFTs from the NFT20 pools, claim accumulated ERC20 tokens and convert them to ETH, and return the NFTs to the pool within a single trading block.

## News of the week

22 Apr 2021

BNPL

Tamara

### Saudi BNPL startup Tamara raised US\$110mn in debt and equity round

Saudi Arabian buy now, pay later startup Tamara has raised US\$110mn in debt and equity. The round was led by Checkout.com, following a US\$6mn seed round in Jan 2021. Founded in 2020, Tamara was the first BNPL firm to be enrolled in the Saudi central bank's sandbox programme. Tamara now operates in both KSA and UAE with two main products: 'Pay in 30 days' and 'Pay in 3' which are available both online and in-store through Tamara's consumer app. The new injection will be used by the company to scale its team, open new countries in the GCC and fund the distribution of its BNPL product. (Source: [Bloomberg](#))

22 Apr 2021

Investment

BUX

### Dutch neo-broker BUX raised US\$80mn

Dutch neo-broker BUX has raised US\$80mn in a funding round led by Prosus Ventures and Tencent. The firm has launched its flagship commission-free trading app BUX Zero in Netherland, Germany, France, Austria and Belgium in the past year. The full range of BUX products include BUX Crypto which allows users to invest in cryptocurrencies, and BUX X, where users can trade in contracts for difference. The business targets a new gen of novice investors. BUX currently claims 500,000 customers, reporting 6x growth throughout 2020 as users search out better returns on their capital in a low-interest rate environment. (Source: [TechCrunch](#))

22 Apr 2021

Digital bank

Revolut

### Revolut earmarks US\$25mn spend to launch in India

Revolut has earmarked a US\$25mn spend on building the Indian business over the next five years, with plans to launch in 2022. Revolut has appointed a new CEO and plans to hire 300 staff to serve its global business operations. It is the latest step in its international expansion plans, following successful roll outs in Singapore and Australia in 2019, and the US and Japan in 2020. Revolut also plans to open in South America Asia-Pacific. The company is currently is preparing a new fundraising round that would value the digital banking app at US\$10bn-US\$15bn. (Source: [CNBC](#))

21 Apr 2021

BNPL

Affirm

### Affirm to acquire Returnly at US\$300mn

BNPL giant Affirm will buy online returns and post-purchase payments company Returnly at about US\$300mn in cash and equity. Returnly has helped more than 1,800 merchants process over US\$1bn in returns, and has been used by over eight million shoppers. Customers receive an instant merchant credit upon initiating a return, allowing them to order a new or replacement item immediately rather than waiting until their return is fully processed. Returnly takes the product return risk and settles orders in real time, promising to help merchants drive higher return-to-repurchase rates, increased revenue from returns and higher customer satisfaction. (Source: [Yahoo](#))

21 Apr 2021

BNPL

Tinkoff

### Tinkoff launched Russia's first BNPL payment service

Tinkoff launched Russia's first BNPL payment service, Dolyame.ru. The service allows customers to split the purchase price of goods sold online into four equal parts. Users are allowed to buy fast-moving consumer goods such as clothes, shoes and cosmetic that are not usually sold on credit or in installments from online stores. Dolyami.ru payments are already available for online shoppers persuing Dinomama.ru and Puma sites, and will be available soon in other online stores. (Source: [CrowdfundInsider](#))

21 Apr 2021

Blockchain

Digital Asset

### Blockchain company Digital Asset raised US\$120mn

Blockchain company Digital Asset has raised over US\$120mn in Series D funding round. Its Daml application platform is used by financial giants including the Australian Securities Exchange, BNP Paribas, and Broadridge. Daml promises to help firms create new multi-party solutions that transform disparate silos into synchronized networks, eradicating latency and errors by guaranteeing consistent data. Digital Asset says it will use the funding to boost its global headcount by 50% and develop a new interoperability protocol that enables data to seamlessly interact across blockchains and traditional databases, creating an interoperable data network across systems of record. (Source: [Bloomberg](#))

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21 Apr 2021

Sustainability

Klarna

### Klarna launched carbon footprint insights for 90 million consumers

Buy now, pay later giant Klarna is to provide shoppers with carbon footprint calculation tools from Mastercard-backed Doconomy to measure the emissions generated by their purchases. The initiative is part of Klarna's 1% pledge, which will bring US\$10mn to projects tackling climate change and loss of biodiversity alongside 50% emissions reduction ambition for 2030. Every purchase made through Klarna's payment methods will include a carbon footprint measured by Doconomy's Åland Index, reaching up to 90 million Klarna customers, including its growing user base of 18 million monthly active app users. (Source: [Reuters](#))

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20 Apr 2021

Infrastructure

Mantl

### Digital account opening company Mantl raised US\$40mn

Mantl, a digital account opening technology provider targeting community banks and credit unions, has raised US\$40mn in a Series B funding round. The round was led by CapitalG and joined by D1 Capital Partners, BoxGroup, Point72 Ventures, Clocktower Technology Ventures and OldSlip Group. Mantl claims that its technology modernises traditional financial institutions' most essential processes, transforming their cost structures. Mantl has doubled its revenues last year. (Source: [Forbes](#))

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20 Apr 2021

Cryptocurrency

PayPal

### Venmo let users buy and sell crypto

Following PayPal, Venmo is set to start letting its 70 million users buy, hold and sell cryptocurrency directly within its app. Users can buy as little as US\$1 worth of Bitcoin, Ethereum, Litecoin and Bitcoin Cash from within the app using funds from the Venmo app or a linked bank account or debit card. Customers can also view cryptocurrency trends and access in-app guides and videos to help answer commonly asked questions. A Venmo survey shows that more than 30% of its customers have already started purchasing crypto or equities, 20% of which started during the pandemic. (Source: [CNBC](#))

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20 Apr 2021

Infrastructure

FintechOS

### FintechOS raised US\$60mn

FintechOS, a European startup promising a low-code approach to helping financial institutions quickly go digital, has raised US\$60mn in a Series B funding round led by Draper Esprit. FintechOS' low-code, self-service approach augments legacy systems, allowing institutions to build, test and scale new digital products and services in weeks rather than months. The new money will be used to strengthen the company's position in Europe and the UK and fuel international expansion to Asia-Pacific, Middle East and Africa, and North America. (Source: [TechCrunch](#))

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