



NFTs against the tide of the crypto-crash

Crypto traders have had to hold on to their seats lately, as they watched their investments dwindle. While NFT holders could have expected a similar fate in the first weeks of the year, their niche has actually continued to grow against odds and expectations.

In our latest Focus, we look at how a world of punks and monkeys made its way into the mainstream to become more resilient than one would have thought.

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The crypto-currency market has corrected sharply since the beginning of the year. Interestingly, this does not seem to have affected the prices of some NFTs. In this paper, we will attempt to shed light on the reasons behind this unexpected resilience.

Since the end of November 2021, the two largest crypto-currencies - bitcoin and ether - have lost nearly 40 percent of their value, taking the rest of the crypto-currency market down with them. A sell-off that echoes the one suffered by many other so-called "speculative" markets such as SPACs, non-profitable technology stocks, momentum stocks, etc.

However, there is one market segment that seems to have escaped the purge we have been witnessing for several weeks.

This is indeed the case of NFTs, an asset that many market participants have described as the most symptomatic of the financial bubble we have been living in for years.

The boom of the NFT avatar market

As a reminder, an NFT, or non-fungible token, acts as an exclusive deed of ownership for a digital item such as a work of art, a piece of music, an image, a video, an avatar or virtual land in a video game or even a tweet. It can be purchased at a given price, but the fact that it is non-fungible allows its market value to fluctuate over time.

NFTs have seen explosive growth in 2021: a transaction volume of \$10.67 billion in Q3 alone, up 704% from the previous quarter, with continued momentum in Q4 (source: Taurus). Among NFTs, one segment in particular has exploded: the NFT avatars, which enable the development of ecosystems and communities, within which users

become increasingly engaged. The best known are the CryptoPunks NFTs, one of which was bought for \$150,000 by the credit card giant Visa. Or the Bored Ape Yacht Club NFTs (see image below), of which Adidas, Stephen Curry and Eminem, among others, avid buyers.

Why such a craze for a simple avatar?

The interest for NFT avatars has surged in 2021, with some buyers spending up to millions of dollars on individual virtual images that can be collected and used on social media.

Created in 2017, CryptoPunks are the first NFT avatars based on the Ethereum protocol. But of the recent projects inspired by CryptoPunks, the Bored Ape Yacht Club is the most prominent.

Developed by Yuga Labs, the Bored Ape Yacht Club is a (limited supply) collection of 10,000 Bored Ape avatars - or unique images of monkeys - created and registered as NFTs on the Ethereum blockchain. In this case, buyers own an illustration of a disinterested-looking monkey, with randomly generated features and accessories. No two images are exactly alike. The rarer its attributes, the higher its value. The Rarity.tools platform allows you to check the number of rare attribute combinations and has the added benefit of giving each NFT a rarity score.

Bored Ape's NFTs have already generated over \$750 million in trading volume, including subsequent variants, according to CryptoSlam data. They have become the Twitter NFT avatar of choice for athletes, musicians, etc. The purchase of a Bored Ape Yacht Club NFT provides access to a sort of "club" and membership to certain benefits. As the name suggests, the Bored Ape Yacht Club is presented as an exclusive society or social organisation, and owning one of the coveted NFTs unlocks its membership. It allows users access to an exclusive Discord server, for example, where other owners - including celebrities - meet to chat. Bored Apes tend to congregate on social media, where increasingly familiar avatars have created a kind of digital brotherhood. Owning a Bored Ape NFT also gives you access to other NFT avatars, which can then be resold for potentially massive amounts of money. Yuga Labs first offered Bored Ape owners free Bored Ape Kennel Club dog

The "Bored Ape Yacht Club" NFTs



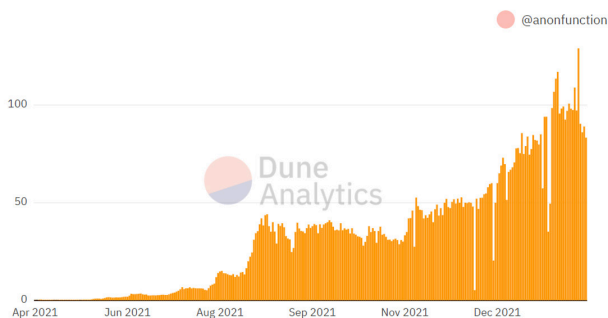
NFTs, then later free "mutant serum" NFTs that generate a Mutant Ape Yacht Club image. It's almost like paying once for an ongoing subscription plan for NFTs and the benefits that come with them.

No market crash for NFT avatars

According to DappRadar, the index representing the top 100 NFT avatars has lost "only" 15% of its value since late November. What is even more remarkable is that the "premium" avatar NFTs, such as Bored Ape Yacht Club (BAYC), Mutant Ape Yacht Club and World of Women, have even seen their share price appreciate since November.

An example of this can be seen in the chart below, which shows the floor price paid for BAYC avatars on the OpenSea marketplace. Since November 2021, prices have almost doubled...

Bored Ape Yacht Club Opensea Price Floor



Source: Dune Analytics

Why is this type of asset - which can rightly be considered among the most speculative on the planet - not impacted by the drying up of liquidity caused by central banks determined to become less accommodating? According to the Finimize website, several explanations can be envisaged.

Reason #1 —

NFTs are in a bubble that has not yet burst

As mentioned above, the NFT market - or part of it - emerged much later than cryptocurrencies. The cryptos have gone through several boom and bust phases and it may only be a matter of time before NFTs go through similar motions.

Reason #2 —

NFTs attract a different type of investor

It is possible that investors in NFTs are different from those who invest in cryptocurrencies. The investment horizon is likely to be longer, with buyers of NFTs willing to hold on to a

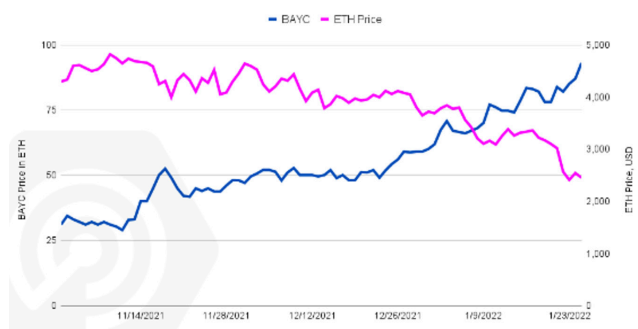
digital asset or artwork to which their identity is attached, or that has emotional value.

Reason #3 —

A negative correlation with Ether

Most NFTs are denominated in ether and seem to have a negative correlation with the price of this cryptocurrency. As shown in the chart below (source: DappRadar), the floor price of BAYC (in ether) seems to move inversely to the price of ether (here expressed in dollars).

Value Comparison : Bayc(ETH) vs ETH Price (USD)



Source: Finimize

It thus looks like when Ether falls, NFTs - particularly the top-tier NFTs - rise to match their pre-drop dollar value. In recent weeks, the BAYC floor price has continued to appreciate despite the steep decline in Ether prices.

Interestingly, the prices of these NFT avatars (expressed in Ether) do not fall when the price of Ether rises. Perhaps a tangible sign of a relatively strong bull market.

Reason #4 —

NFTs are still in the early phase of their adoption curve

NFTs emerged much later than cryptos. They are arguably still in the fastest and earliest phase of their adoption curve, attracting growing mainstream attention by the day. In fact, Google searches for the term "NFT" are surpassing those for "crypto" for the very first time. Giant brands such as Adidas, Coca-Cola, Gucci, Dolce & Gabbana and many others have launched their avatars or partnered with NFTs specialists to appear in this field.

Moreover, the adoption of NFTs is expected to increase further as the exchange of NFTs becomes more accessible. For example, the upcoming NFT exchange platform created by Coinbase - which already has over 3 million users on its waiting list - will directly integrate MasterCard payments, making the whole process of buying and owning NFTs easier. Similar services are also being launched by other crypto exchanges, as well as major Web2.0 players such as Facebook (Meta) and Instagram.

Reason #5 —

The scarcity effect

This term may seem overused when you consider that new NFT avatars are being launched every day. But remember that we are talking about premium NFT avatars here. And these collections have a limited supply of NFTs (between 10,000 and 20,000) that will remain the same forever.

A figure to be set against Facebook's project in the metaverse. Mark Zuckerberg has stated that he wants to bring one billion people into the metaverse within a decade. If we assume that only 10% of these people - 100 million - will be interested in having a digital avatar to go with their digital identity on the metaverse, an offer of a few thousand "premium" avatars would then find itself in a situation of supply-demand imbalance, de facto driving up prices.

It should be noted that NFTs for digital avatars are already part of the modus operandi of the main social media platforms. For example, last month Twitter launched its official verification mechanism for profiles using an NFT avatar. Instagram and Facebook are expected to follow suit.

Is the NFT market a bubble in the making or is that bubble already about to burst? It's hard to say, although their resilience during the cryptocurrency downturn is already a bit of a surprise for many investors.

Source: Finimize (Reda Farran), Taurus

For further information

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