



## Market Commentary: June 2019

Bitcoin dominated the cryptocurrency markets in June going on a parabolic run, which has been rumored to be caused by institutional buying of the digital asset. Meanwhile, Binance is launching bitcoin futures trading on their platform, which will allow speculators to use up to 20x leverage to trade bitcoin ([Coindesk](#)). Binance hopes to overtake some of Bitmex's liquidity as Bitmex had just recently hit an astonishing \$11 billion in daily bitcoin volume ([Forbes](#)). Additionally, Google partnered with Chainlink, a blockchain company that acts as a secure "middleman" and will allow Google to use its technology to transfer data between Google and Ethereum smart contracts safely ([CryptoSlate](#)). Chainlink is now the best performing altcoin this year gaining 1,195% since the start of 2019 ([Swingtradebot](#)). Moreover, LedgerX has won approval of the Commodities Futures and Trading Commission (CFTC) to settle bitcoin futures in spot bitcoin, which will allow LedgerX to offer bitcoin derivatives to retail and institutional investors in the United States and Singapore ([Financial Times](#)). All eyes were on Facebook in June as they released the Libra cryptocurrency whitepaper ([Libra Whitepaper](#)) and captivated the cryptocurrency community making this release one of the biggest cryptocurrency news of 2019.

Libra, which will be used as a method of payment and used for transactional purposes, has a mission to bring financial infrastructure to the 1.7 billion unbanked across the globe. Facebook's inspiring and revolutionary mission has aroused cryptocurrency enthusiasts claiming that Libra will spur mass cryptocurrency adoption. However, Libra's inspiring mission did not excite all cryptocurrency enthusiasts. Several claim that Libra is the "Trojan Horse" of the decentralized cryptocurrency movement ([USSA News](#)). So, what's behind the Libra token that is stimulating such extraordinary narratives among crypto enthusiasts?

The Libra cryptocurrency operates on the Libra Blockchain which uses Byzantine Fault Tolerance (BFT) consensus mechanism to verify transactions. There are going to be 100 validators on the network, which Facebook's claims are the "decentralized" part of the blockchain. However, on the Libra blockchain, you must be a globally renowned "entity" to become a validator on the network. In other words, a firm/entity must reach two of the three following requirements: more than a billion dollars in market value, reach more than 20 billion people across the globe annually and/or be recognized as an industry leader by a third party association. Clearly, those worried about the decentralization of Libra's blockchain is justifiable as it appears that Libra's blockchain is quasi-oligopolistic. In addition, those also worried about the decentralization of Libra's blockchain will only be instilled with more anxiety when discovering that the Libra blockchain is, ironically, not actually a blockchain, rather, a permissioned ledger with no concept of a block of transactions in the ledger history. Fortunately, the Libra blockchain is pseudonymous, which means users can have one or more addresses that are not linked to their real-world identity ([Libra Whitepaper](#)).

Nevertheless, on the surface, the Libra cryptocurrency has all the characteristics of a stablecoin. The cryptocurrency is backed by a basket of the most "stable" global fiat currencies, which include the US Dollar, the British Pound, the Euro, and the Yen. However,



unlike most stablecoins, Libra will not be pegged to a basket of fiat currencies. As a result, the Libra Association, the entity responsible for making decisions about Libra, will not actively manage its reserves, rather, they will only intervene if there is a currency crisis that could greatly affect the value of the basket of currencies. Lastly, the supply of Libra's is uncapped and coins will be minted and burned in accordance with the flow of fiat when buying and selling into Libras ([Libra Whitepaper](#)).

In accordance with the invention of Libra, Facebook is also releasing a digital custodial wallet, dubbed Calibra, which specifically, enables the storage and usage of the Libra cryptocurrency. It will be available on Facebook platforms, but initially, it will be integrated with WhatsApp and Messenger. Although several have stated that Calibra will not share your personal data, that is actually not true. Rather, Calibra will not share account information or financial data with Facebook, Inc. or any third party without customer consent. In other words, it is likely that Facebook will have access to your personal transaction history when using the Calibra wallet ([Calibra: Customer Commitment](#)).

Being that the Libra blockchain is private, oligopolistic and not actually a blockchain, it is clear why crypto enthusiasts are skeptical about the project. Moreover, given Facebook's questionable history regarding user's privacy, it is justifiable to believe that this project is just another medium for Facebook to further capitalize on its user's private data ([New York Times](#)). However, what is more worrisome is not so much the underlying technology of Libra, but the Calibra wallet. When transacting on the Libra blockchain, a person's identity will be hidden, hence, it would be difficult for Facebook or any of Libra's validators to capitalize on your personal data. However, the Calibra wallet will be integrated on all of Facebook's platforms and Facebook has already hinted at utilizing your personal transaction data as long as they have your "consent" to do so. Hence, Facebook will not only have access to all of your social media platform data, but they will be able to specifically analyze what your buying and selling on a daily basis ([Calibra: Customer Commitment](#)). In fact, this concern over privacy has already promoted regulators to take action. Maxine Waters, House Financial Services Committee Chairwoman, has already scheduled a July 17th hearing for the social network's ambitious cryptocurrency plans ([The Mercury News](#)).

Although safeguarding its user's private data is not a primary concern for Facebook, even the largest data scandal of the 21st century, Cambridge Analytica, could not deter the 2.38 billion monthly users who continue to use Facebook's platform ([New York Times](#)). As a result, it is clear that Facebook's users value simplicity over privacy, which renders Libra to be a major opportunity for both Facebook and the digital asset space.

Today, the most challenging issue afflicting cryptocurrencies is adoption. Although there are around 32 million bitcoin wallets, the estimated amount of active bitcoin users, those used to make payments with bitcoin, is around 2.3 million ([Bitcoin Market Journal](#)). Meanwhile, bitcoin's Chinese payment rival, AliPay has 900 million active users ([China Daily](#)). Hence, if Facebook is only able integrate the Calibra Wallet with only 1% of active users on both Facebook Messenger and WhatsApp ([Dustin Stout](#)), Libra will have around 8x-10x more active users than bitcoin ([Zephoria](#)). Likewise, if Facebook is able to integrate the Calibra



Wallet with just a fraction of its users, it will likely render most ecommerce cryptocurrencies obsolete and will cause cryptocurrency enthusiasts to question if this digital asset movement is really meant to thrive on decentralization. However, let's not forget that Facebook's path to success is not as cushy as it appears as its permissioned ledger will have it competing with other centralized payment behemoths such as Apple Pay, which has over 300 million active users ([Apple Insider](#)) and PayPal, which has a user base of over 200 million accounts ([Statista](#)).

If regulators fail to intervene in Facebook's cryptocurrency plans, Libra will inevitably impact the cryptocurrency space. However, Libra's success will greatly depend on the logistical integration of Calibra across Facebook's social media and messaging applications. Seamless integration of Libra will most likely lead to the cryptocurrency's success, but consequently, will further exacerbate the lack of control over user data, which is one of the major issues the decentralized cryptocurrency movement is attempting to remedy.

*List of all Libra "Founding Members" listed below by industry:* Payments: Mastercard, Mercado Pago, PayPal, PayU (Naspers' fintech arm), Stripe, Visa Technology and marketplaces: Booking Holdings, eBay, Facebook/Calibra, Farfetch, Lyft, Spotify AB, Uber Technologies, Inc. Telecommunications: Iliad, Vodafone Group Blockchain: Anchorage, Bison Trails, Coinbase, Inc., Xapo Holdings Limited Venture Capital: Andreessen Horowitz, Breakthrough Initiatives, Ribbit Capital, Thrive Capital, Union Square Ventures Nonprofit and multilateral organizations, and academic institutions: Creative Destruction Lab, Kiva, Mercy Corps, Women's World Banking