

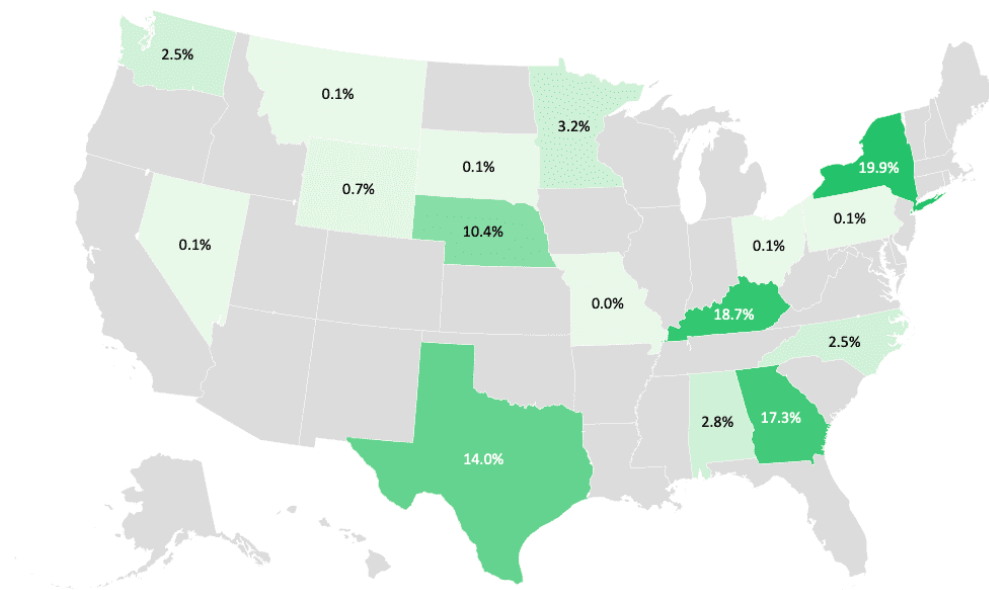
Welcome to Morgan Creek Digital's weekly digital asset update. It is comprised of a thought piece from our team followed by a summary of what we consider the most compelling digital asset news during the last week. We hope you find this content interesting. Please let us know if you have any comments or questions or if you would like to speak to a member of the [Morgan Creek Digital team](#).



Better to be lucky or good?

The United States Takes the Lead in Bitcoin Hash Rate

Last week, we discussed the United States' leading position as “hodlers” of Bitcoin and the irony that Americans are not known for being pragmatic crypto users. Nevertheless, U.S.-based crypto mining, including facilities and services, has grown significantly. As a reminder, Bitcoin mining is the process through which Bitcoin is awarded to computers solving complex mathematical puzzles. These systems consume vast amounts of energy, which is widely available in China at inexpensive rates. Miners recently have been forced to migrate their business operations due to a Chinese regulatory crackdown on trading and mining cryptocurrencies. The U.S., most notably New York, Kentucky, Georgia, and Texas, have benefited from this dramatic shift for from the prior longtime market leader.¹ Last year, China accounted for nearly two-thirds of the hash rate, the world’s total computational power used to mine Bitcoin. It now has nearly a zero percent hash rate.² The latest data suggests that 35.4% of the global hash rate exists in the U.S as of August, a significant growth from its 21.8% share in May and a massive uptick of 428% from a 4.2% hash rate in the summer of 2020.³



The serendipitous surge positions the U.S. as the global leader of crypto mining. The trailing countries are Kazakhstan, Russia, and Canada, with 18.1%, 11.2%, and 9.6% hash rate.⁴ Despite the overwhelming tendency for Americans to adopt a Western-centric view on the crypto ecosystem, a headline that reads “The Chinese Forfeit” may be more appropriate than “The American Victory.” Nevertheless, the turn of events is a classic case of luck meets preparation. Recent activity of mining operators suggests that they had anticipated the growing trend of miners seeking relocation in North America and had invested in growing infrastructure. Furthermore, dating back to the crypto winter of late 2017, mining operators capitalized on the decreased demand for crypto by deploying cheap capital and expanding mining operations in the U.S. This suggests that despite the laggard start to growing crypto operations in the U.S., the process may have been more intentional and the trend more predictable.

The American Appeal

Miners are seeking affordable and sustainable energy as well as autonomy over land and energy resources, which might explain the migration to the United States. Cheap energy sources are likely the main driver as miners compete in a low-margin industry and are hyper-focused on driving down energy expenditure. However, the migration could also be more about accessing renewable energies than is currently being covered in the press. The United States’ demand for sustainable development is seems to be growing. As costs for renewables continue to decrease, we believe the current administration is poised to increase spending on research and development. In addition, industry standards for offsetting carbon emissions are evolving.⁵ The most significant advantage of renewables in the world of crypto mining is its virtual infinite supply. The global supply of fossil fuels is likely to end by 2060, according to Octopus Energy estimations.⁶ However, in theory, sustainable energies such as wind, solar, hydropower, and more should provide energy for as long as humans can sustain the environment. Bitcoin mining is projected to be operational until 2140 per Bitcoin’s protocol. Thus, miners must rely on sustainable energy sources to preserve Bitcoin’s longevity.

In addition to sustainable resources, miners could be attracted to greater protections over land rights and autonomy of action in the U.S than in China. Since China's land is either subject to government ownership or collective ownership, government officials grant the right to use the land for a specific purpose.⁷ Furthermore, mainly through state-owned enterprises (SOEs), the Chinese government maintains a stranglehold on

the energy sector and its resources. However, the more favorable and less-regulated conditions in the United States are subject to change as the development of the Infrastructure Bill and its tax provisions for cryptocurrency could prompt miners to reconsider the U.S. as a viable location.

At Morgan Creek Digital, we closely monitor the crypto mining trend and recognize that the ecosystem is subject to change. Furthermore, we believe that the United States could further capitalize on its position as the dominant player through further investment in core infrastructure and promoting regulations that incentivize crypto-innovation, not stymie it. We will continue to seek to pursue opportunities that we believe are best positioned to capitalize on macro-trends in the digital asset industry.

THE RUNDOWN:

Bitcoin Futures ETF Won't Face SEC Opposition at Deadline: The Securities and Exchange Commission is poised to allow the first U.S. Bitcoin futures exchange-traded fund to begin trading in a watershed moment for the cryptocurrency industry, according to people familiar with the matter. The regulator isn't likely to block the products from starting to trade next week, said the people, who asked not to be named while discussing the decision. [Read more.](#)

Cathie Wood's Ark, 21Shares Team Up on Bitcoin Futures ETF Application to SEC: Noted investor Cathie Wood's Ark Investment Management and investment-product firm 21Shares are part of a new application to the U.S. Securities and Exchange Commission to list a bitcoin futures exchange-traded fund. The Wednesday filing was submitted by Alpha Architect ETF Trust, with 21Shares listed as the fund's sub-adviser. Ark Investment will provide marketing support, but not make investment decisions or provide investment advice, the filing said. [Read more.](#)

Coinbase Proposes US Create New Regulator to Oversee Crypto: Crypto exchange Coinbase wants the U.S. government to create a new regulator to oversee the cryptocurrency industry. Unveiled Thursday, Coinbase's Digital Asset Policy Proposal suggests Congress pass legislation to regulate Marketplaces for Digital Assets – its term for crypto exchanges that offer custody and trading services, as well as borrowing and lending services – and create a registration process for those entities. The exchange also proposed that the crypto industry establish a self-regulatory organization for crypto businesses. [Read more.](#)

Coinbase Jumps After Sign-Up Numbers for NFT Marketplace Revealed: Coinbase shares rose 6% Thursday after reports that the crypto exchange's new non-fungible token marketplace has a waiting list of more than one million people who signed up on the first day it was announced earlier this week. As of Thursday morning, the waiting list was at 1.35 million, which is four times the 300,000 users that OpenSea, the world's largest NFT marketplace, has, according to a note from financial services firm BTIG. [Read more.](#)

Second Biggest Mortgage Provider in US Stops Accepting Crypto Payments: United Wholesale Mortgage, the second largest mortgage lender in the U.S., has stopped accepting cryptocurrency for home loans, the company announced on Thursday. In August, the company said it would start offering the crypto payment option via a pilot program to gauge demand for this service. It was the first mortgage lender to do so. [Read more.](#)

- ¹ <https://www.cnn.com/2021/10/09/war-to-attract-bitcoin-miners-pits-texas-against-new-york-kentucky.html>
- ² <https://www.cnn.com/2021/10/13/us-beats-china-as-the-number-one-destination-for-bitcoin-miners.html>
- ³ <https://www.forbes.com/sites/roberthart/2021/10/13/us-claims-top-spot-for-bitcoin-mining-as-miners-flee-china-crackdown---here-are-the-worlds-biggest-mining-hubs/?sh=39640ba46af7>
- ⁴ <https://www.forbes.com/sites/roberthart/2021/10/13/us-claims-top-spot-for-bitcoin-mining-as-miners-flee-china-crackdown---here-are-the-worlds-biggest-mining-hubs/?sh=6044d60b6af7>
- ⁵ <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/renewable-energy-outlook.html>
- ⁶ <https://octopus.energy/blog/when-will-fossil-fuels-run-out/#:~:text=Coal%20and%20natural%20gas%20are,year%2C%20rising%20by%204.6%25>
- ⁷ <https://www.britannica.com/place/China/The-role-of-the-government>

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