Ahead of the curve
Market Update

Digital Assets
Signals from the market

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BTC stays rangebound
The crypto market saw a recovery last week, but overall the market structure remains closely aligned with what we noted last week. Trading volumes are still trending down, and derivatives traders remain cautiously positioned. BTC saw 5% gains in the last week, and a new trading range seems to be forming between $15,000 and $17,000. ETH saw unique sell-side pressure last week driven by FTX hack-related activity but has recovered from last week's losses.

The rolling 30-day correlation between ETH and BTC sits at unusually high levels of 0.96 and has only been higher 3% of the time since December 2016. The only periods affiliated with higher correlations between ETH and BTC occurred in late November 2018, early March 2019, after the Covid crash, and after the 3AC meltdown. The crypto market is thus currently extraordinarily correlated, and BTC is the predominant directional force.

Softening correlations – New regime?
In light of crypto-specific contagion, correlations between BTC and U.S. equities have naturally declined. Correlations have remained soft since the FTX collapse, assessed through both long-term rolling correlations and granular intraday price patterns. Bitcoin did not absorb the positive equity response to the lower-than-expected CPI release of November 10 as contagion occupied bitcoin traders' mindshare, and since, the economic calendar has been quiet.

Bitcoins reduced market cap, reduced liquidity, and 77% drawdown may lead to stickiness of a weaker correlation between BTC and U.S. equities. The lower market cap, currently sitting at $317bn, has led BTC's size to reach a less relevant size related to potential beta exposure to macro headwinds. Further, the reduced liquidity in the markets may disincentivize sophisticated funds to employ macro trading strategies associated with BTC. Lastly, the 77% decline from ATHs may represent levels at or near prices where determined buyers seek to build exposure regardless of the economic climate.

However, the last few weeks have been slow related to economic data. Activity will gradually pick up in the coming weeks. Nonfarm payrolls and a Jerome Powell speech this week may provide clues whether the structural correlations have calmed. We'll have to wait until the December 13 CPI release and December 14 FOMC press conference to assess whether the correlated relationship has firmly softened.

Zooming out
BTC's bear market has now lasted at lengths comparable to the bear markets of 2014-15 and 2018. This cycle has for now seen a max drawdown of 77% in BTC from peak to trough, with the current bottom occurring 376 days after the peak of November 10, 2021. In the 2014 bear market, BTC's peak-to-trough drawdown of 85% lasted for 407 days, while the 2018 top to bottom of 84% lasted for 364 days. Thus, while the current drawdown duration has been at comparable lengths to previous cycles, the depths are higher for now.

By the numbers

BTCUSD $16,490
7d: **5%**
30d: **-20%**

ETHUSD $1,215
7d: **10%**
30d: **-23%**

Open Interest (BTC futures and perps)
$8.7bn
530,000 BTC (**-3.6%** last seven days)

Average daily BTC spot volume
$6.1bn (**-5%** last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DXY
0.89 (0.01)	0.33 (0.01)	0.56 (0.00)	-0.42 (0.01)

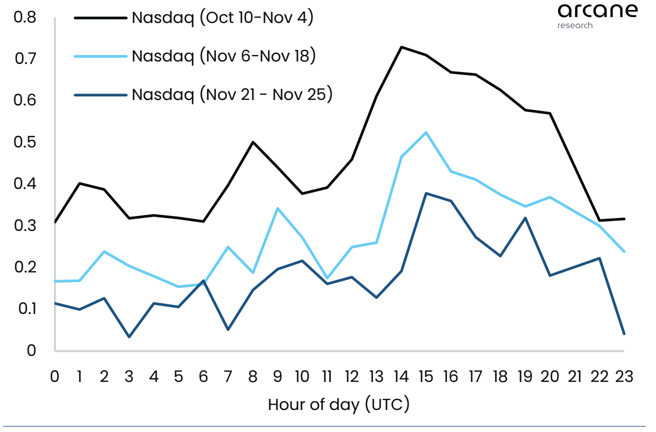
Percentage of Total Market Capitalization
Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
37.9% (-0.9%)	17.7% (0.6%)	16.9% (-1.2%)	28.8% (1.4%)

Last week of top 50 by market cap

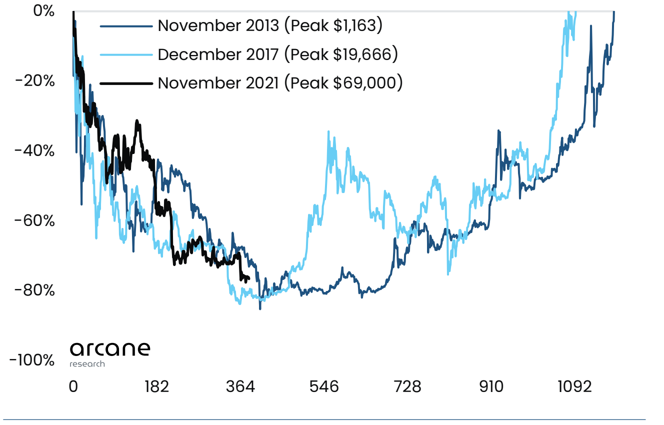
	Ticker	7d	YTD
Gainers			
1	HT	46%	-28%
2	DOGE	38%	-40%
3	APE	30%	-61%
Losers			
1	CHZ	-11%	-44%
2	ALGO	-2%	-86%
3	LEO	-2%	0%

Figure 1: Average rolling 60 minute correlation, Nasdaq and BTC



Source: Tradingview (CME, Coinbase)

Figure 2: BTC Drawdowns (X-axis: Days from peak)



Source: Tradingview (Bitstamp)

Spot Market

BTC stays rangebound
The crypto market saw a recovery last week, but overall the market structure remains closely aligned with what we noted last week. Trading volumes are still trending down, and derivatives traders remain cautiously positioned. BTC saw 5% gains in the last week, and a new trading range seems to be forming between $15,000 and $17,000. ETH saw unique sell-side pressure last week driven by FTX hack-related activity but has recovered from last week's losses.

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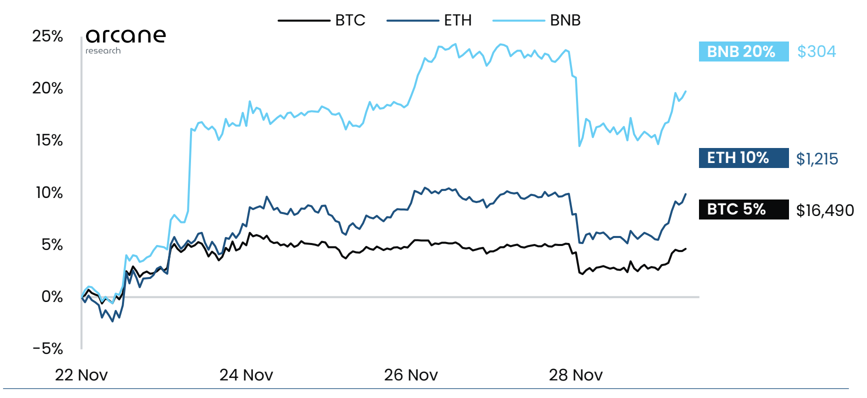
We note that correlations between BTC and equities have weakened in the last three weeks. This is natural due to the layers of uncertainty added to the market following FTX's insolvency. As the economic calendar gradually becomes more hectic, we may see if the recent meltdown has caused a structural trend shift in the correlated relationship between BTC and equities, as we comment in detail on page 6.

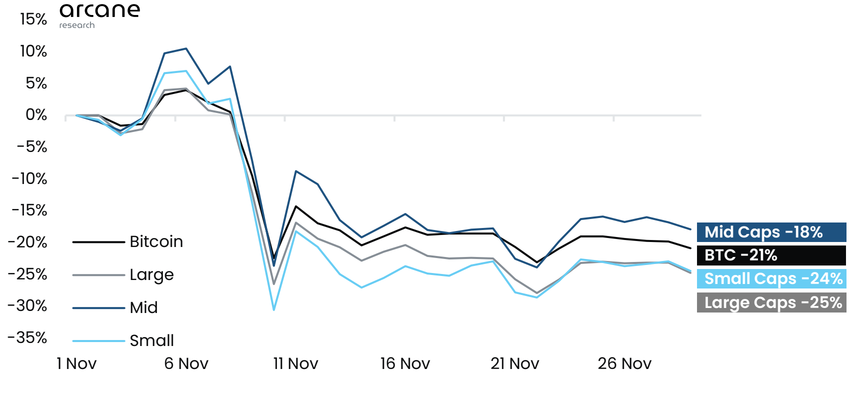
Figure 3: Top 3 Market Cap, Last Week



Source: Tradingview, (Coinbase, Binance U.S.)

Flattening crypto markets
The crypto market has stabilized in the last two weeks, with no notable deviations across any of the altcoin indexes. All November losses originate from the FTX collapse and the associated contagion with the meltdown. Prices have since stabilized, with certain exceptions within various altcoins experiencing short squeezes fueled by reduced liquidity in the market.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

Headlines last week

Crypto lender BlockFi files for Chapter 11

Crypto Bank Silvergate Says BlockFi Exposure Limited to $20M

Hut 8 Halts Bitcoin Mining Facility Amid Energy Dispute

CFTC chair defends bill that FTX's Bankman-Fried also backed

Fidelity opens retail crypto accounts

Line-owned crypto exchange Bitfront to shut down by March 2023

Man Group Readies Crypto Hedge Fund Despite FTX Chaos

Calendar

Wednesday, November 30
- Eurozone CPI (Exp: 10.2% YoY)
- U.S. GDP (Exp: 2.8% QoQ)
- SBF speaking at NYT Dealbook summit
- Powell speaks at the Brookings Institution

Thursday, December 1
- U.S. PCE (Exp: 0.3% MoM)
- Senate Committee Hearing on FTX

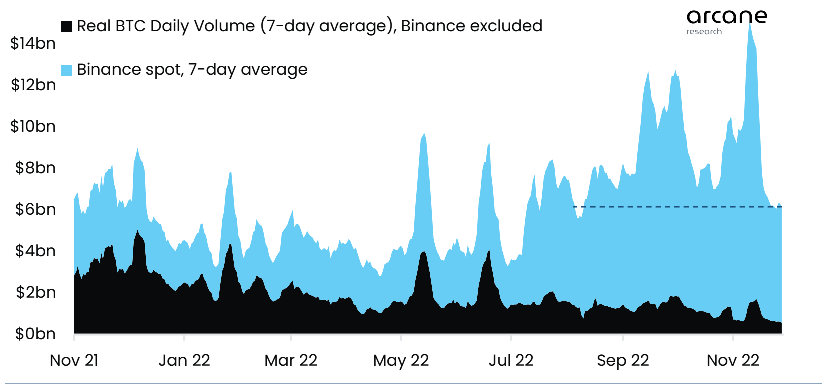
Friday, December 2
- U.S. Nonfarm Payrolls (Exp: 200k)

Spot Market

Market activity slows down further
The bitcoin trading volume has fallen further this week. Trading volumes outside of Binance reached the lowest 7-day average level in BTC spot markets since February 2021 this Sunday. Due to the sheer dominance of Binance, aggregated volumes remain high. Still, we note that the 7-day average trading volumes have only been lower once since Binance removed trading fees for its BTC pairs.

The reduced volumes illustrate the muted activity in the market at the moment. This is further illustrated in the derivatives slide, where we see no noteworthy developments over the last week.

Figure 5: Real BTCUSD Daily Volume* (7-day average)

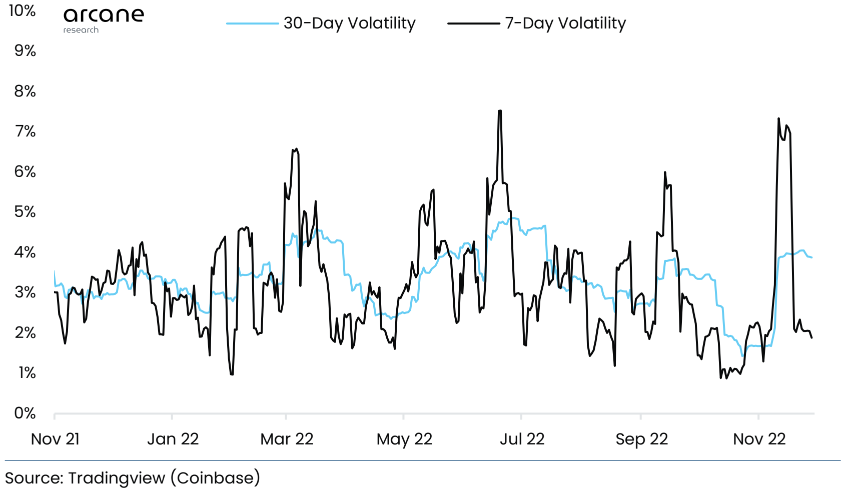


Source: Tradingview *Includes Bitwise 10 exchanges

Prices stabilizing
BTC's volatility has rapidly declined, accompanied by reduced activity in the market. The FTX shock was quickly absorbed in the market, leading volatility to skyrocket in mid-November, but now prices have stabilized. While contagion-related uncertainties still loom, prices have stabilized above $15k as BTC's seven-day volatility falls to 1.8%.

On page 7, we discuss how BTC bottoms tend to be followed by a lengthy low-volatility environment. While it is too early to state that a BTC bottom has formed, particularly related to the unclear situation with DCG and Genesis, the current price pattern is in line with previous BTC behaviour near market bottoms, and a lengthy period of low volatility may follow.

Figure 6: BTC-USD Volatility



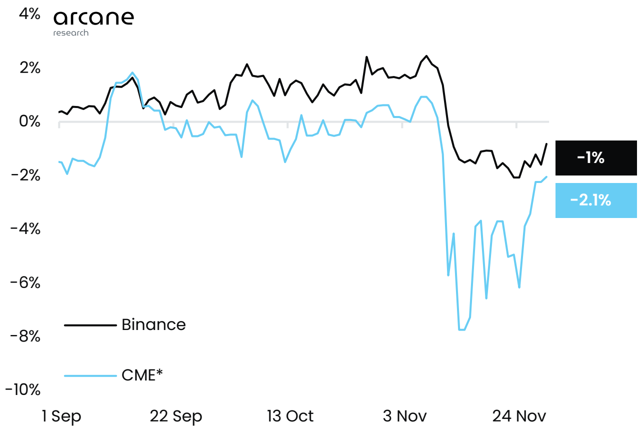
Source: Tradingview (Coinbase)

Fear and Greed

Now: 26 (Fear)
Last week: 22 (Extreme Fear)
Last month: 34 (Fear)

Derivatives
CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis

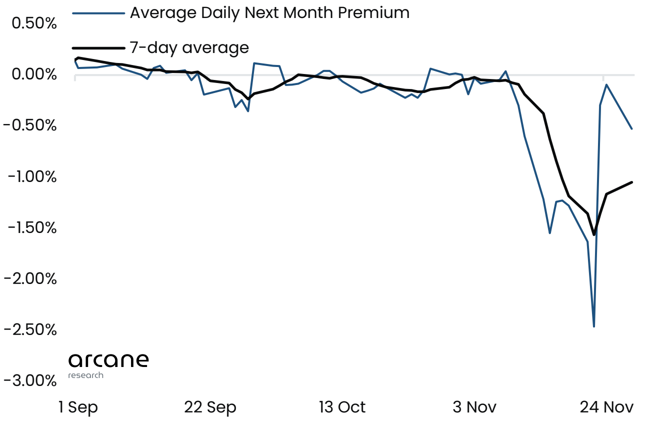


Source: Skew, Laevitas, Tradingview, CME
*Closed Saturday - Sunday

CME futures catching up
The gap between CME's 3-month futures basis and Binance's basis is narrowing as CME's basis recovers. This suggests that market conditions are gradually normalizing.

Nevertheless, Binance and CME futures still trade below the spot market, indicative of a negative and cautious sentiment among leveraged traders.

Figure 8: CME BTC Futures: Average Daily Next Month Premium

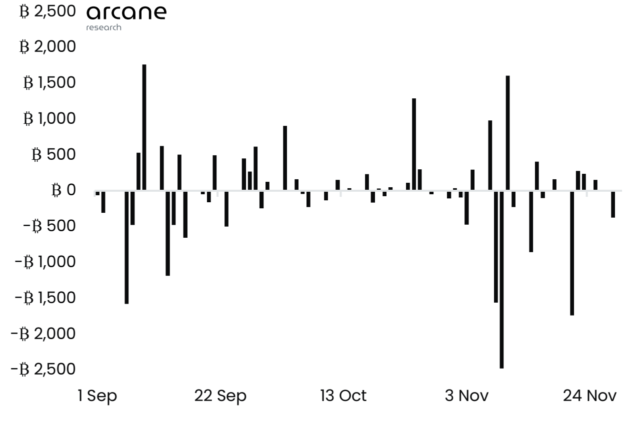


Source: Tradingview

Futures term structure normalizes
CME's BTC futures term structure has normalized after the November contract roll, but futures still trade in backwardation.

The current CME term structure suggests that institutional traders maintain a conservative positioning in BTC, with few notable changes from last week.

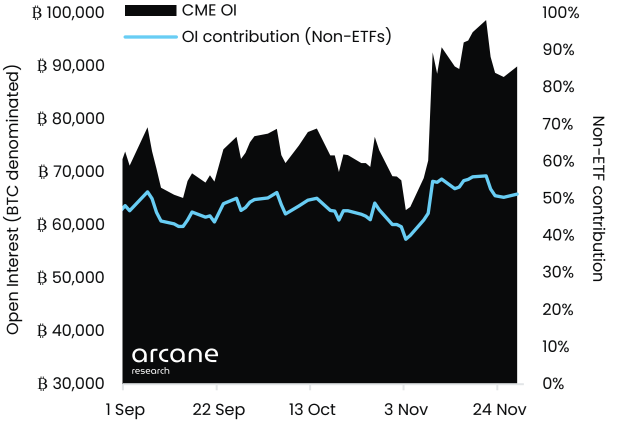
Figure 9: ProShares: Net Flow – BTC Equivalent



Source: ProShares

No notable flows in BTC ETFs in the last week
ETF flows have stabilized but remained slightly negative in the last week. After new inflows, BITI saw its short exposure reach new all-time highs on Monday, November 28. Still, the flows have predominantly been flat, with no notable inflows or outflows from either BITO or BITI, as sentiment largely remains unchanged from last week.

Figure 10: CME BTC Futures: Open Interest



Source: Coinglass, ProShares, Valkyrie, VanEck

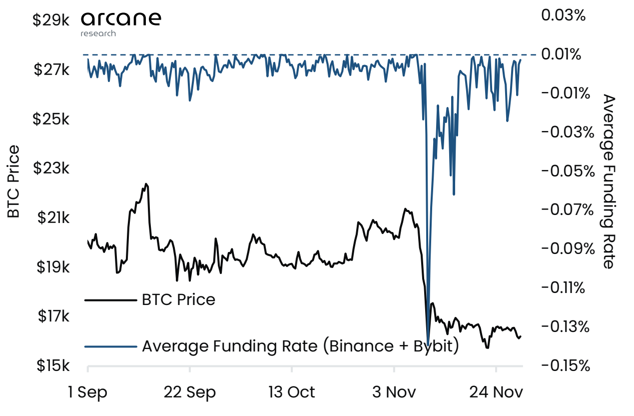
CME's BTC OI falls 9%
The open interest on CME has fallen 9% in the last week, from highs of 98,725 BTC to 89,955 BTC. Nevertheless, the open interest on CME still sits 30% higher today compared to October 31, indicating that institutional participation in the market stays elevated.

In sum, the institutional sentiment aligns with last week's observations, with an elevated OI, accompanied by muted basis and backwardation suggestive of bearish positioning among institutional market participants.

Derivatives

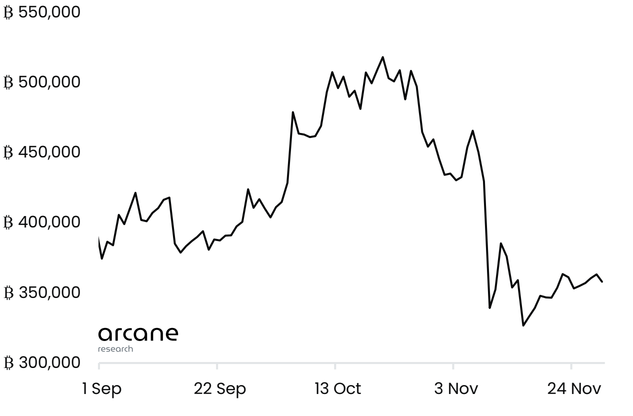
Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Bybit, Binance, Tradingview (Coinbase)

Figure 12: Bitcoin Perpetuals: Open Interest

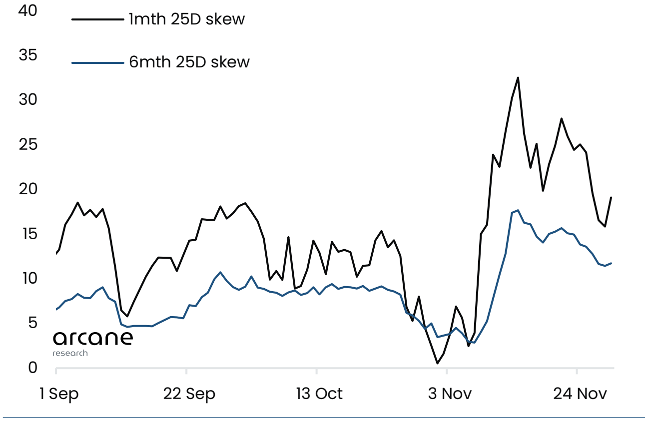


Source: Laevitas

Funding rates approach neutral levels
The muted activity in the market is reflected in perps as well. Trading volumes have declined further, similar to trends seen in the spot markets, and funding rates still trail below neutral terrain of 0.01% ranging around 0%, suggesting conservative behavior, also among perp traders.

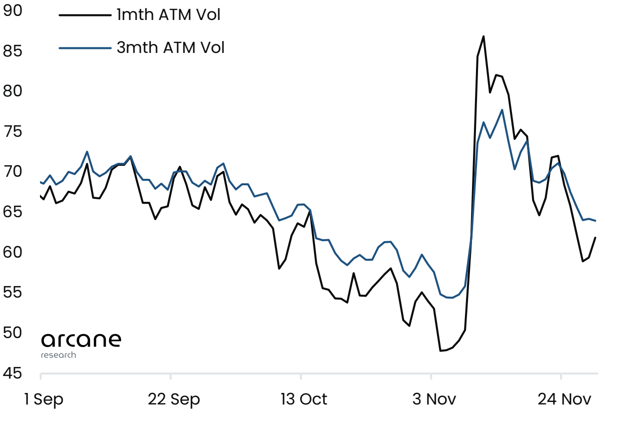
Open interest in BTC perps flattens
The muted activity in perps has caused open interest to stabilize at 360,000 BTC. As highlighted previously, the leverage in the market is high compared to 2021 levels, and the last week#s stable market has done little to reduce the accumulated leverage in BTC perps.

Figure 13: BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Figure 14: BTC Options – Implied Volatility



Source: Laevitas

Options also mirroring last week – puts stay in demand
Options are the icing on the cake, wrapping up this monotonous passage of resemblances to last week. Neither the 1mth nor the 6mth skew sees any notable deviations from last week, as skews still suggest that puts and downside protection remains in focus among options traders.

Implied volatility stabilizes
Implied volatility has seen a slight decline over the last week, with the three-month IV falling below 70% and the one-month IV declining towards 60%. IVs have now declined toward September levels due to realized volatility falling after the market absorbed the FTX shock. Current IV levels are on par with the yearly average in 2022.

A deeper dive

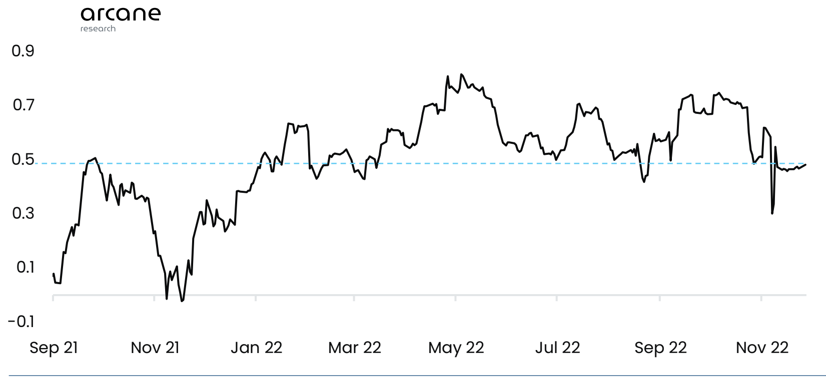
Softening correlations – new regime?

In light of crypto-specific contagion, correlations between BTC and U.S. equities have naturally declined. Correlations have remained soft since the FTX collapse, assessed through both long-term rolling correlations and granular intraday price patterns. Bitcoin did not absorb the positive equity response to the lower-than-expected CPI release of November 10 as contagion occupied bitcoin traders' mindshare, and since, the economic calendar has been quiet.

Bitcoins reduced market cap, reduced liquidity, and 77% drawdown may lead to stickiness of a weaker correlation between BTC and U.S. equities. The lower market cap, currently sitting at $317bn, has led BTC's size to reach a less relevant size related to potential beta exposure to macro headwinds. Further, the reduced liquidity in the markets may disincentivize sophisticated funds to employ macro trading strategies associated with BTC. Lastly, the 77% decline from ATHs may represent levels at or near prices where determined buyers seek to build exposure regardless of the economic climate.

However, the last few weeks have been slow related to economic data. Activity will gradually pick up in the coming weeks. Nonfarm payrolls and a Jerome Powell speech this week may provide clues whether the structural correlations have calmed. We'll have to wait until the December 13 CPI release and December 14 FOMC press conference to assess whether the correlated relationship has firmly softened.

Figure 15: BTC 30-d correlation to Nasdaq



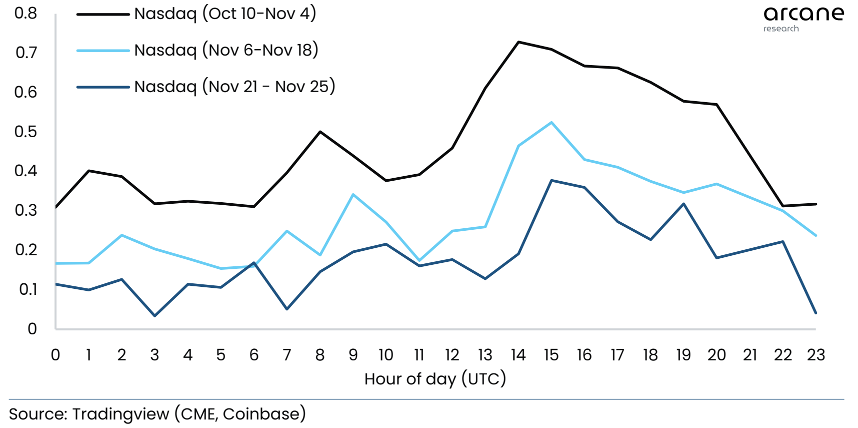
Source: Skew, Ycharts

Firming correlations

The rolling 30-day correlation between BTC and Nasdaq currently sits at 0.5, down from 0.75 in early October. Intraday correlations have also evidently softened since the FTX collapse, and the trend seems to hold through also last weeks as the market activity has slowed down. However, one should be aware that last week was particularly slow across markets due to thanksgiving.

From October 10 to November 4, BTCs 60 minute rolling correlation to the Nasdaq averaged 0.72 as U.S. markets opened and remained above 0.6 until markets closed. In the last few weeks, correlations have been far softer, trailing in the 0.2-0.4 range during U.S. market hours. By assessing granular correlations, we may get a sense of more nuanced correlation relationships in the market. We will monitor this trend closely as we approach a more hectic macro environment.

Figure 16: Average rolling 60 minute correlation, Nasdaq and BTC (Oct 10-Nov 28)



Source: Tradingview (CME, Coinbase)

A deeper dive

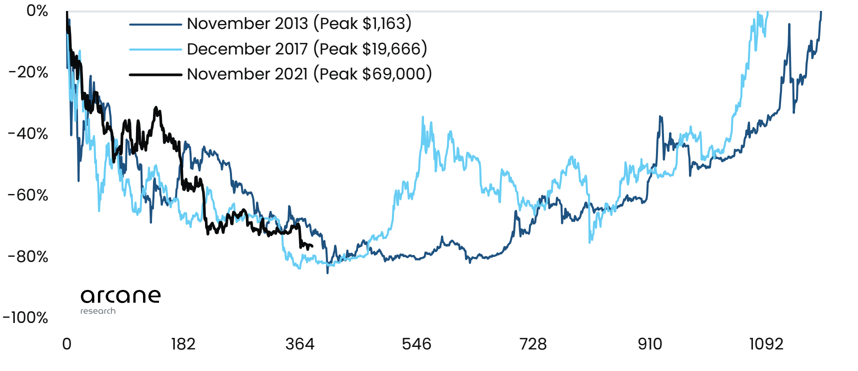
Zooming out

BTC's bear market has now lasted at lengths comparable to the bear markets of 2014-15 and 2018. This cycle has for now seen a max drawdown of 77% in BTC from peak to trough, with the current bottom occurring 376 days after the peak of November 10, 2021. In the 2014 bear market, BTC's peak-to-trough drawdown of 85% lasted for 407 days, while the 2018 top to bottom of 84% lasted for 364 days. Thus, while the current drawdown duration has been at comparable lengths to previous cycles, the depths are higher for now.

While history rarely repeats, BTC's cycle patterns are interesting to study. Periods of BTC strength are affiliated with massive hype, leading to bad risk management and massively painful drawdowns as market conditions sober.

Identifying bottoms in BTC is challenging, as the market is largely driven by psychology, with few prominent fundamental drivers. Fundamental drivers tend to lead the early stage bull market stages, i.e., the Silk Road adoption in 2013, the ICO wave in 2017, and the institutional wave in the wake of heightened inflation expectations in 2020. Bottoms emerge after an influx of forced selling, with prices being supported by determined buyers seeking to accumulate at suppressed prices. These periods have previously been long-lasting. After bottoming in 2018, BTC spent 120 days in a very flat environment, whereas the 2015 bottom saw 270 days of no material activity. Purely based on previous cycle patterns, investors should thus brace for slow days in the market whenever BTC bottoms.

Figure 17: BTC Drawdowns (X-axis: Days from peak)



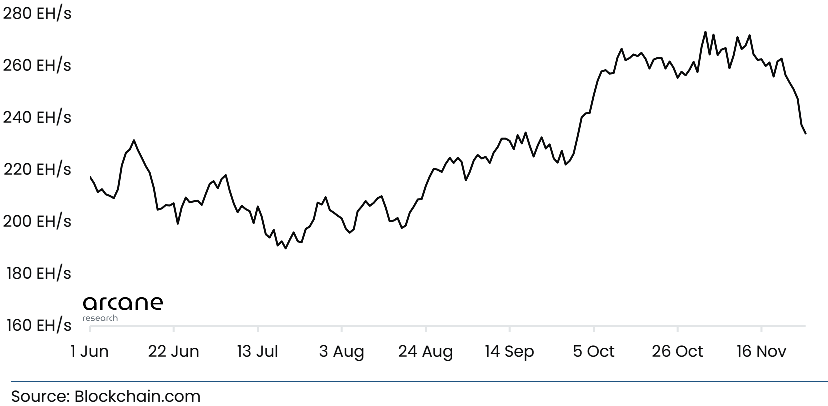
Source: Tradingview (Bitstamp)

New miner capitulation?

Miners are notorious beneficiaries of market strength while being similarly exposed to distressing conditions during market weakness. Miner capitulations are the name of the game in BTC cycles. Earlier this fall, we argued that a miner capitulation ala 2018 is highly unlikely. We reassess and clarify our view in light of recent events.

The hashrate has declined substantially in the last week, and miners are selling more aggressively. The declining BTC prices is likely to cause pain for indebted miners. Nonetheless, we believe that a miner capitulation will have a negligible impact on BTC prices, in contrast to what we saw in 2018. The substantial selling in May and June occurred on top of more sizeable selling from Celsius, 3AC, and their counterparties. The miner selling in May and June also reduced the impact of new rounds of miner selling pressure today. Still, bitcoin miners will likely experience a very challenging period ahead.

Figure 18: Bitcoin Hashrate (7-day average)

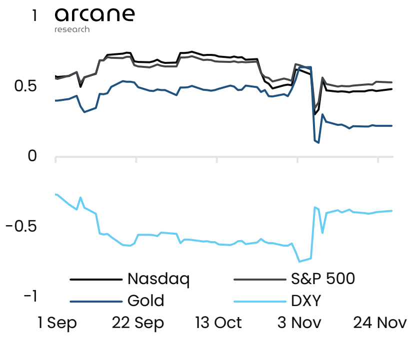


Source: Blockchain.com

Market Related Charts

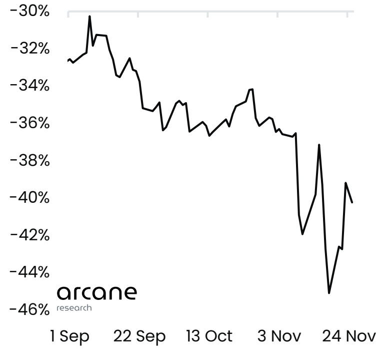
Data updated Monday Nov 28, 2022

Figure 19: BTC 30-d correlations*



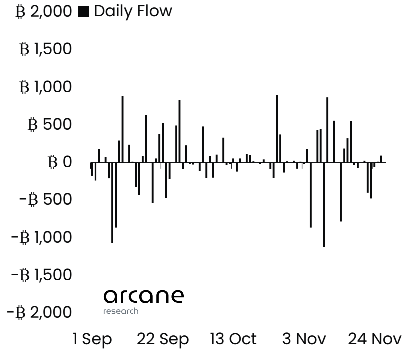
Source: Tradingview *Pearson

Figure 20: Grayscale Premium/Discount



Source: Ycharts

Figure 21: Daily Flows (BTC ETFs)



Source: Bytetree

Figure 22: BTC Dominance

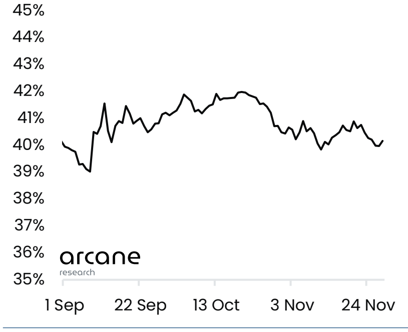


Figure 23: BTC + Stables Dominance

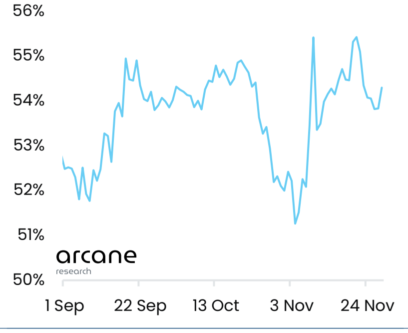
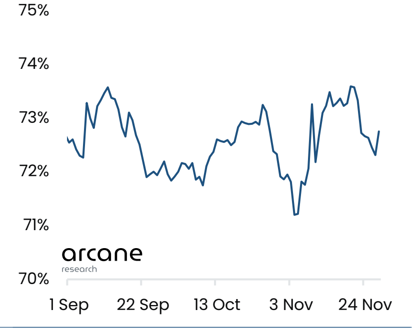
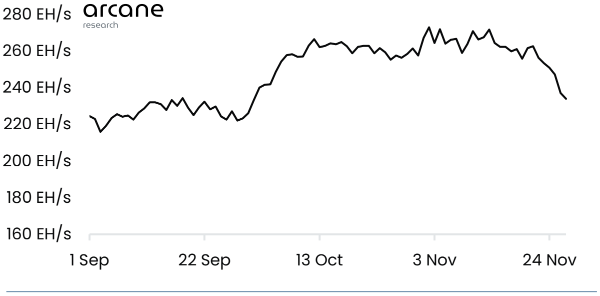


Figure 24: BTC + Stables + ETH Dominance



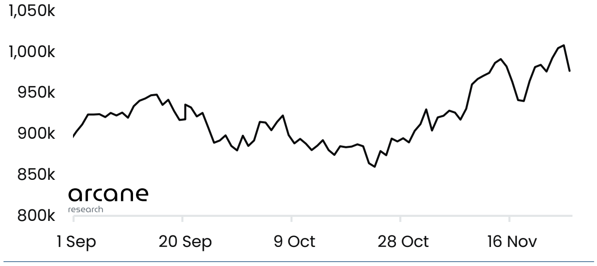
Source: Tradingview

Figure 25: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 26: Active Addresses (7-day average)



Source: Coinmetrics

Figure 27: On-chain statistics

Powered by BYTETREE	27/11/2022	7d Change
Daily Miner Revenues	$13,453,795	-12.72%
Fees per day	$414,587	-20.76%
Fees % Revenues	3.08%	-0.31%
Daily TX Volume ($M)	$3,340	-35.83%
Transactions per day	251,535	-2.99%
Avg TX value $	$13,278.67	-33.85%
# Blocks per hour	5.31	-10.89%
Avg. # TX per block	1974	-2.99%

Source: Bytetree

Why we choose the charts we do

Heavy Bitcoin focus
The crypto market is heavily correlated. Movements in BTC tend to be reflected by sharper moves in altcoins. In many ways, BTC is the lower beta exposure alternative to crypto and the definite market leader. However, don't worry – whenever we find a topic, a coin, or some tendencies worth drilling deeper into – we will. This report will get you the most important information from the crypto market.

Market by the numbers
We highlight the most critical market data by numbers in this table. A glance at these data should be sufficient to assess the state of the market superficially.

Open interest is an essential underlying market driver. Crypto tends to be very volatile, and leverage exacerbates volatility. We have had frequent massive liquidation cascades throughout the last years, mostly towards the downside, but we've periodically seen short squeezes emerge. During the March 12th collapse in 2020, cascading liquidations were the root cause of the absolute carnage in the market. You should always pay close attention to open interest if you aim to be an active participant in the market. Our derivatives pages will contribute to delivering you a directional assessment of the data.

The spot volume is an efficient way to gain an overview of the general activity in the market.

Correlations have been growingly important in the last year due to the complicated macro picture post-COVID. It's important to be aware of BTC's, for now, close relationship with U.S. equities and its inverse relationship with the dollar strength index (DXY). However, the current correlation regime is unlikely to be as strong as today forever. Through awareness of correlation trends, you may be able to execute trading strategies before the market catches up to correlations breaking.

The simplified market cap distribution box allows you to assess the general risk sentiment in the market quickly. In general, the "Rest" category may be used as a proxy for risk aversion in the market. Currently, BTC, ETH, and stablecoins represent nearly 75% of the crypto market, which is telling for a risk-averse crypto market.

The two charts on the first page illustrate the two most interesting topics covered in our market analysis. A more thorough examination of these charts is found in the last section of the report, where we dive deeper into two topics that currently seem to drive the market.

Spot Primer

Top 3 coins
We explore the last week's performance of the top 3 cryptocurrencies to asses deviations and opportunities within the safer bracket of digital assets. Currently, BTC, ETH, and BNB represent the three largest. Both ETH and BNB have a thriving DeFi user base and unique drivers of price and demand, which could generate temporary or long-term correlations within crypto to decline as trading opportunities arise or spread trade opportunities.

Indexes
We use the Bletchley Indexes to gauge and assess market activity across BTC and altcoins grouped by market cap size. Documentation for the index weights may be found at through this link.

Volume
The BTC spot volume is an efficient way to communicate the general activity in the market. It may help you identify frantic market bottoms or peaks. Our volume data is based on Bitwise's 10. In 2019, Bitwise explored wash-trading and market manipulation in the spot market, leading to this index. In general, our volume assessment likely underestimates the volume to some degree, as legitimate volumes in other exchanges are excluded. However, the volume estimate is a good proxy for general activity in the market.

We differentiate Binance's volume from the remainder of the exchanges due to Binance's removal of trading fees this summer. We believe a substantial amount of the recent trading volume on Binance is related to "in-organic" trades, i.e., high-volume trading strategies that were not economically feasible prior to fees being removed. Of course, removing fees has likely also contributed to moving traders from alternative exchanges over to Binance.

Volatility
Volatility is a topic well worth paying attention to. In specific periods, such as the current – where BTC trails in a shallow volatility regime, new trading opportunities emerge related to options and straddles. This chart is handy to pay close attention to, as it may help you enhance your ability to act on opportunities in the market when activity is low and options are becoming cheap.

Derivatives primer

Why should you care about derivatives flows?
The crypto market is periodically extremely volatile, and activity in derivatives enhances the market reactions. Crypto derivatives are at the cutting edge of financial innovation, the offshore market is periodically wild, and animal spirits tend to take over. Derivatives more or less always carry a clue of overheating in the market or full-on depression. It's highly actionable and worthwhile understanding if you aim to be an active crypto market participant.

The market is also clearly divided. There are two branches worth monitoring – institutional and offshore. Both components periodically lead the market, and assessing sentiment and general risk aversion in these two provides you the tools to understand dangers or opportunities on the horizon.

CME – The importance of a cash-based futures market in BTC
Institutional traders strongly impact BTCs price discovery, as identified both by Bitwise and by us. However, many institutional traders have limitations regarding access to crypto markets or even related to holding BTC. CME provides the most accessible, most efficient access to crypto markets for those traders. CME also has the added caveat of a familiar clearinghouse structure, leading to fewer barriers to entry for crypto exposure for institutional traders.

We assess institutional sentiment by monitoring the futures basis and contract spreads between the front month (upcoming expiry) and the near month (next expiry). In general, a positive and high futures basis on CME indicates a positive sentiment, whereas a negative basis indicates the opposite. We include Binance's basis to compare offshore and CME premiums to highlight different sentiments between institutional traders and retail. While Binance have institutional traders, they also enable easy access to derivatives for retail, which may provide useful information ahead of periods of distress.

We monitor aggregated ProShares flows, meaning inflows and outflows to both ProShares' long BTC ETF (BITO) and short BTC ETF (BITI) on the CME page. In the chart, inflows to BITI will be calculated as a negative flow impact, while inflows to BITO will be calculated as a positive flow impact. The opposite is true for outflows from the ETFs mentioned above. ProShares are by far the largest U.S. BTC ETF provider, holding a substantial amount of BTC contracts on CME. Retail and institutions have access to BITO and BITI. Periods of strong aggregated flows to BITO may substantially impact CME's basis. An interesting scenario that has yet to emerge would be one scenario with neutral flows but a rising CME basis. In this scenario, one can assume that certain institutional players actively add long BTC exposure.

We further monitor CME's open interest and the contribution of ETFs to the open interest to assess the degree of activity in CME futures.

Perpetual swaps
Perpetual swaps are the most frequently traded derivative in crypto markets. It's an everlasting futures-like instrument, utilizing funding rates to secure that perp prices align with spot markets. There are certain intricate nuances to funding rates, for instance, varying funding intervals and varying neutral funding rate thresholds. In normal conditions, Binance and Bybit's funding rate sits at 0.01% every eight hours – meaning longs pay shorts a fee. This structural element in crypto derivatives may lead to a natural structural contango. They may be utilized for cash and carry strategies (albeit in a non-arbitrage fashion, assuming that funding rates will average around neutral terrain).

During roaring markets, funding rates tend to be pushed towards extreme highs due to enormous demand to go long, leading perps to trade at a substantial premium over spot. By assessing funding rates, you may be able to act on market moves and liquidation cascades prior to a liquidation cascade. Similarly, funding rates may sit in extremely negative terrain during bear markets, foreshadowing potential short squeezes.

We monitor open interest in perps to better gauge the risks of soaring volatility and market instability. We monitor open interest in notional value, i.e., in BTC, to have a clear eye on the relative leverage in the market. Currently, the open interest sits at all-time highs in notional value. This is a dangerous trend, and we view it as likely that this will generate a dramatic reaction when BTC breaks out of its prolonged consolidation. Cascading liquidations may occur in both directions, so the open interest is best used as a proxy for how volatile a spike may be.

Options
We monitor two options charts. The 25-delta skew, which is a metric comparing the implied volatility of a 25-delta put option vs. a 25-delta call option, normalized by at the money implied volatility. Counter-intuitively, when the 25d skew is positive, traders are paying more for puts than calls and may be assessed as cautious/bearish behavior in the options market. The opposite is true when skews are negative. Skews trending in a certain direction may also elaborate on repositioning from options traders and is worth paying attention to. We show the 1-month skew for contracts expiring by the end of the month, and the 6-month skew, for contracts expiring half a year from now to assess differences in positioning across maturities.

The implied volatility illustrates options traders' forward-looking assessment of volatility – or the options pricing. Implied vols in BTC are rarely trailing below 60 for long, and this has previously been a good time to enter straddle strategies.

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