Ahead of the curve
Market Update

Digital Assets

Signals from the market

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Powell relief followed by diminishing volatility
The crypto market saw more upside last week after a strong positive reaction to Jerome Powell's speech at the Brookings Institution on November 30. In the speech, Powell indicated that the FED "could live with a more modest interest rate hike in December", reflecting positively on the crypto market. However, Powell also indicated that rate hikes in 2023 could become higher than anticipated. The positive market response to the Powell speech suggests that macro conditions will still play a substantial part in BTC's price discovery onwards. This week in macro is slow, with few notable events. However, next week is shaping up to become hectic with back-to-back important U.S. events, with the release of U.S. CPI numbers on December 13 and the FOMC press conference on December 14.

Apart from the market reaction to Powell's speech, markets stayed directionless last week, as BTC has spent the first 6 days of December floating in a narrow trading range near $17,000. The market slowdown is reflected in severely reduced trading volumes in spot and derivatives markets, and the last month seems to have caused market participants to shy the crypto market.

The last week has seen more clarity related to Genesis' balance sheet hole. Per recent reports, Genesis currently owes $1.8bn to its creditors, with the size expected to grow further. Related to crypto lenders, Nexo halted operations in the U.S. and has seen substantial outflows since the FTX collapse.

Trading activity in perps reaches multi-year lows
Activity in bitcoin derivatives has come to a standstill alongside the rest of the market. Open interest has stabilized materially, and we note a sharp decline in trading volumes. The current aggregated 7-day average trading volume in perps sits at $14bn and reached multi-year lows of $12.7bn on November 30.

Perpetual swaps are the most frequently traded BTC instrument. Perps have tended to see volumes stabilizing in the $20-$30bn range in previous low volatility environments after dramatic selling pressure. The current decrease in perp activity suggests that market participants have exited the market in the last month and that we might experience slower days ahead.

Short BTC ETF's AUM remains high
ProShares' short ETF BITI experienced massive inflows in November, leading its short exposure to surge to new all-time highs after a daily inflow equivalent to 2,730 BTC on November 9. Inflows remained high in the following days, leading the ETFs BTC equivalent short exposure to peak at 7,890 on November 28. The ETF has since experienced substantial outflows, but the AUM remains elevated as the short exposure sits at 6,230 BTC, well above the peaks of this summer.

Due to the structure of the ETF, BITI has yielded negative returns since its launch in June, despite BTC's drawdown underperforming a naked BTC short by 22.24%.

By the numbers

BTCUSD $16,994
7d: **5%**
30d: **-18%**

ETHUSD $1,259
7d: **8%**
30d: **-20%**

Open Interest (BTC futures and perps)
$8.6bn
507,000 BTC (**-4.3%** last seven days)

Average daily BTC spot volume
$6.8bn (**12%** last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DXY
0.89 (0.00)	0.31 (-0.02)	0.56 (0.00)	-0.43 (-0.01)

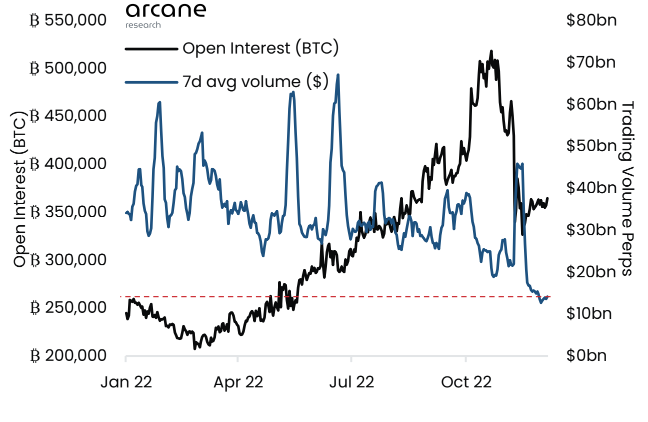
Percentage of Total Market Capitalization
Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
38.3% (0.4%)	18.1% (0.4%)	15.3% (-1.6%)	28.2% (0.7%)

Last week of top 50 by market cap

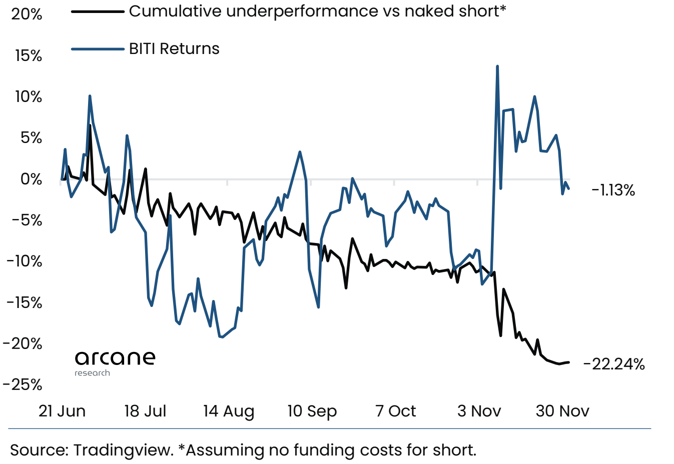
	Ticker	7d	YTD
Gainers			
1	AXS	34%	-91%
2	TWT	17%	222%
3	UNI	16%	-65%
Losers			
1	THETA	-5%	-82%
2	XRP	-2%	-55%
3	XLM	-2%	-69%

Figure 1: BTC Perps: OI (Notional) vs Trading Volume (7-day avg)



Source: Tradingview, Laevitas

Figure 2: Cumulative BITI returns since launch



Source: Tradingview. *Assuming no funding costs for short.

A post FTX world
December Update

Digital Assets

December Market Opinion

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November was a painful month for the crypto industry, and a recovery will likely take time due to long-lasting reputational effects.

Short term

This is not an environment where you want to be overly active due to unresolved contagion and a substantial slowdown in market activity. Still, the deep drawdown is in favor of maintaining and accelerating a dollar-cost averaging strategy in BTC.

Correlations between BTC and U.S. equities have softened, but the next week will show if the reduced correlations are just a fad. Previous BTC bear markets have ebbed out into obscure directionless patterns, and in such an environment, correlations with U.S. equities will decline. December 13 and 14 will be eventful and telling days in the market, with a U.S. CPI release and the final FOMC press conference of the year. I expect these events to impact crypto markets, but to a lesser extent than important macro events earlier this year.

Leverage has been flushed out of derivatives, and so has the activity. A stint of active institutional participation in CME seems to fade, and overall, derivatives activity points toward a substantial slowdown in crypto onwards.

Get your funds out of centralized yield products related to crypto - the yields do not outweigh the risks of further contagion and potential bankruptcies. Overall, BTC and crypto seem eerily stable after absorbing the FTX shock, and potential contagion-related knock-on-effects loom. In essence, there are a bunch of arguments in favor of a cautious approach to the market, and 2-10% yields on your precious hard-earned capital are definitely not worth the associated risks.

Nevertheless, this is unfortunately not our first contagion rodeo. During the 3AC collapse, prices bottomed amid the height of the fear shortly after the news reached the market. A smooth period of nothingness ensued over the summer. I expect similar tendencies to follow the FTX collapse and thus find few reasons to provide any actionable trading ideas for the short term.

Medium to long term

FTX's collapse will likely have implications on bitcoin in the medium to long term. Still, effects won't be universally adverse, as we already see tendencies of traditional finance behemoths seeking to invest in crypto infrastructure due to suppressed valuations.

My November 9 article covering the FTX farce and its implications still aligns with my general market view in the foreseeable future, but certain adjustments and clarifications should be made.

The FTX meltdown will have regulatory and reputational effects on the crypto market, limiting crypto performance onwards. The market will need time to recoup from the disgraceful FTX shocker and adapt to the changing market structure. I thus expect a long-lasting consolidation phase, offering investors time to build reasonable BTC exposure.

Institutional participation related to crypto infrastructure has benefitted from the FTX collapse. Today, Goldman Sachs announced that they see interesting opportunities arise due to suppressed valuations. Previously, we've seen that Citadel, Schwab, Nasdaq, and Fidelity are flagging a ramp-up in their crypto presence. In due time, this will be reflected in further maturation of the industry and hopefully less short-term gain and long-term pain scenarios like the never-ending crypto credit crisis of 2022.

I do not expect BTC or other digital assets to be hastily bought by institutions, given the current state of the market. Still, increased adult presence in the industry should have long-term positive implications for the market, increasing the integrity, trust, and robustness of crypto markets. Bitcoin has a tendency to endure and recover from apocalyptic events. Mt. Gox was followed by the launch and growth of more secure and robust spot markets. Likewise, 2022 will likely be followed by more thoughtfully managed exchanges, funds, and lending platforms.

Incremental spot BTC purchases for the long term are attractive in light of the massive drawdown. Additionally, the slowing market activity indicates that we will be granted a longer opportunity for dollar cost average at muted prices. If you liked bitcoin at $60k, you should also like bitcoin at $17k, but bear in mind that massive drawdowns tend to be followed by a long-lasting directionless market filled with apathy and unfathomable second-guessing.

Spot Market

Powell relief followed by diminishing volatility
The crypto market saw more upside last week after a strong positive reaction to Jerome Powell's speech at the Brookings Institution on November 30. In the speech, Powell indicated that the FED "could live with a more modest interest rate hike in December", reflecting positively on the crypto market. However, Powell also indicated that rate hikes in 2023 could become higher than anticipated. The positive market response to the Powell speech suggests that macro conditions will still play a substantial part in BTC's price discovery onwards. This week in macro is slow, with few notable events. However, next week is shaping up to become hectic with back-to-back important U.S. events, with the release of U.S. CPI numbers on December 13 and the FOMC press conference on December 14.

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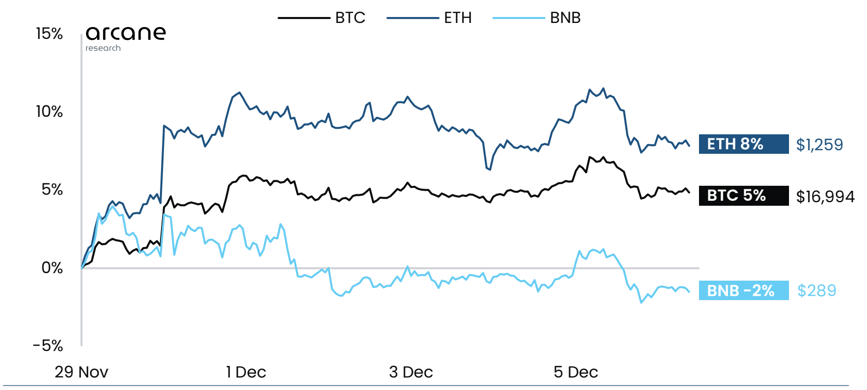
The last week has seen more clarity related to Genesis' balance sheet hole. Per recent reports, Genesis currently owes $1.8bn to its creditors, with the size expected to grow further. Related to crypto lenders, Nexo halted operations in the U.S. and has seen substantial outflows since the FTX collapse.

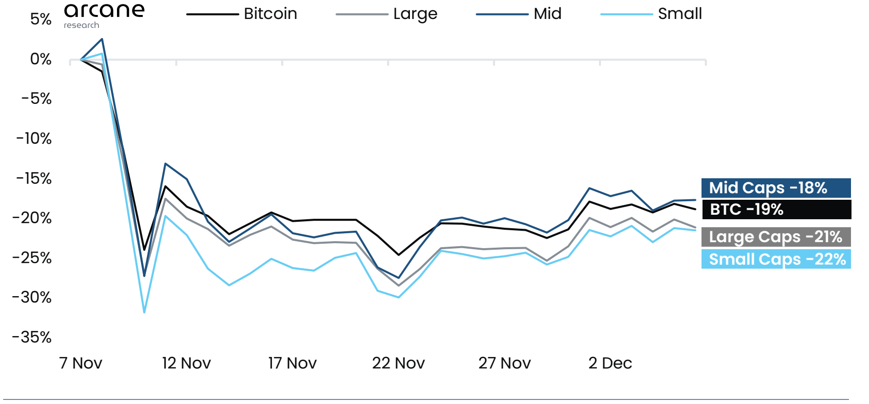
Figure 3: Top 3 Market Cap, Last Week



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

Extremely correlated crypto market
The crypto market has mostly traded as one coordinated organism in the last week, evident by all indexes trading in a very flat environment. The overall flat market is likely caused by a trader exodus following the FTX collapse, as the market trails in deep consolidation accompanied by low trading volumes.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

Headlines last week

Goldman Sachs on hunt for bargain crypto firms after FTX fiasco

Nexo to Depart US After Regulator Discussions Hit 'Dead End'

Genesis Creditor Groups' Loans Amount to $1.8B and Counting: Sources

Kraken Cuts 30% of Workforce Amid Crypto Winter

Bybit to Lay Off 30% of Staff Amid Crypto Winter

UK set to announce new crypto regulations

Calendar

Friday, December 9
- U.S. PPI (Exp: 0.2%)

Next week
Tuesday, December 13
- U.S. CPI (Exp: 10.7% YoY)

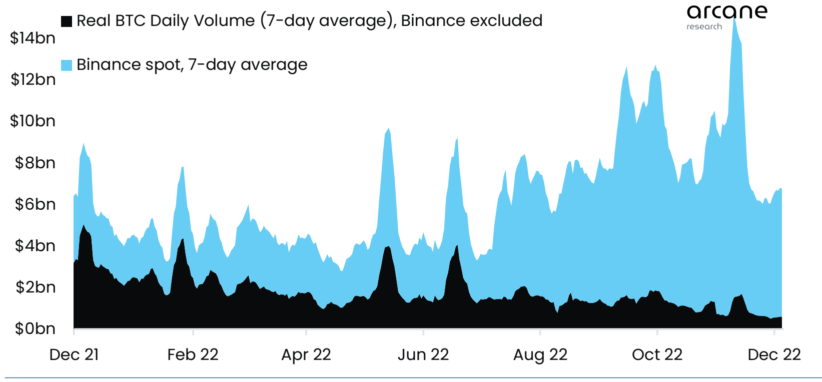
Wednesday, December 14
- FOMC Press Conference

Spot Market

Volumes remains shallow
Volumes have fallen further in the last week as trading activity remains low. Daily trading volumes in BTC spot markets, when excluding Binance, sits 65% below the yearly average. On November 29, the 7-day average real spot volume in BTC (excluding Binance) reached $510m, lows not seen since October 2020.

The slowdown in market activity is also evident in derivatives. BTC perps have seen trading volumes plunge to $14bn, mirroring the stagnant activity seen in spot markets.

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

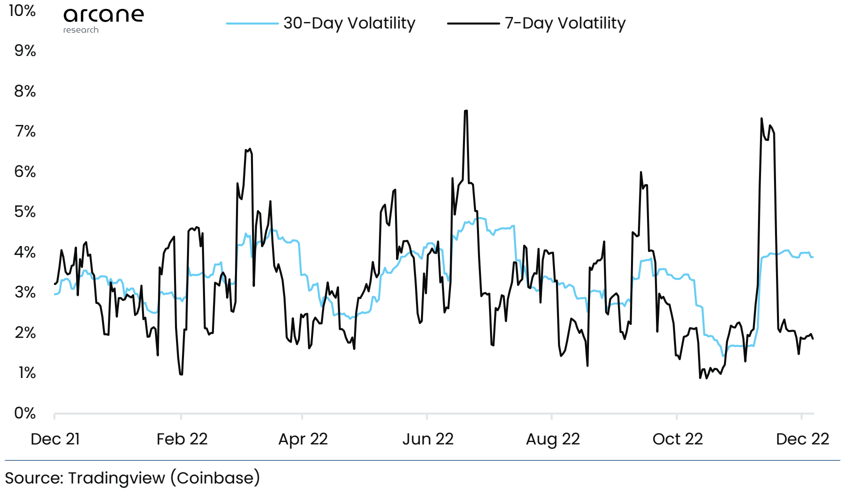


Source: Tradingview *Includes Bitwise 10 exchanges

Volatility slowdown
The 7-day volatility in BTC remains at 1.8%, as BTC has stabilized within the $15,500 to $17,500 trading range. November 30 saw a push higher in BTC from $16,500 to $17,000, but prices have since flattened completely in a narrow trading range between $16,800 and $17,100.

There are few obvious volatility catalysts in the near term. Still, unexpected contagion-related developments may shake up the market, while next week's U.S. CPI release and FOMC press conference may cause BTC to move.

Figure 6: BTC-USD Volatility



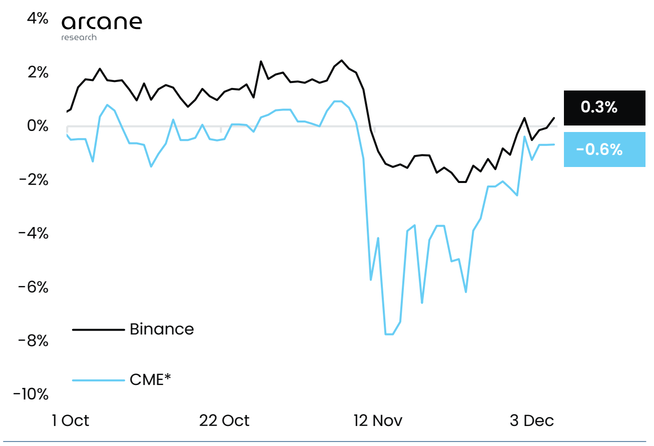
Source: Tradingview (Coinbase)

Fear and Greed

Now: 25 (Extreme Fear)
Last week: 26 (Fear)
Last month: 40 (Fear)

Derivatives
CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis

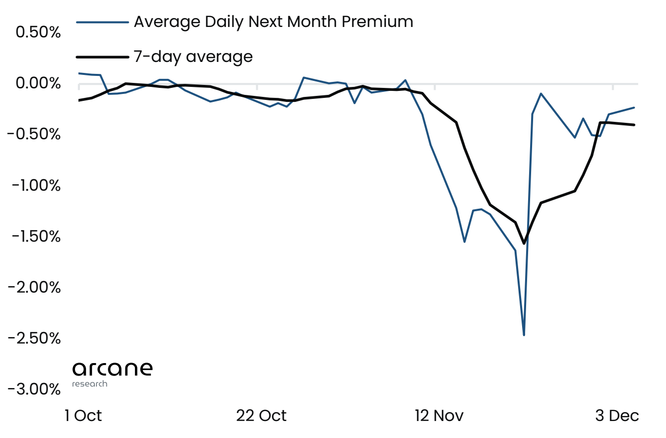


Source: Skew, Laevitas, Tradingview, CME
*Closed Saturday - Sunday

Futures trading on par with spot
The 3-month futures basis on CME has climbed further over the last week as futures prices now align more closely with spot prices. The recovering futures basis on CME may be partly explained by shorts being covered, evident by recent ETF flows.

In the offshore market, we note that the futures basis on Binance has neutralized, trading slightly above spot for the first time since November 10, indicating that the sentiment is gradually improving.

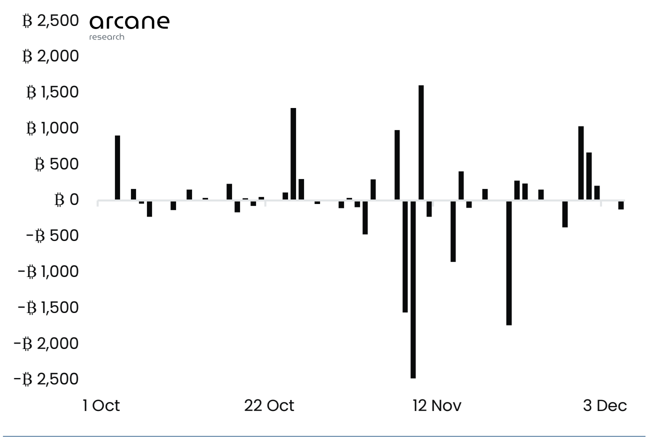
Figure 8: CME BTC Futures: Average Daily Next Month Premium



Source: Tradingview

Futures term structure still in sharp backwardation
While the futures basis is gradually recovering, the CME's futures term structure remain in backwardation, indicating that institutional traders remain cautious.

Figure 9: ProShares: Net Flow – BTC Equivalent

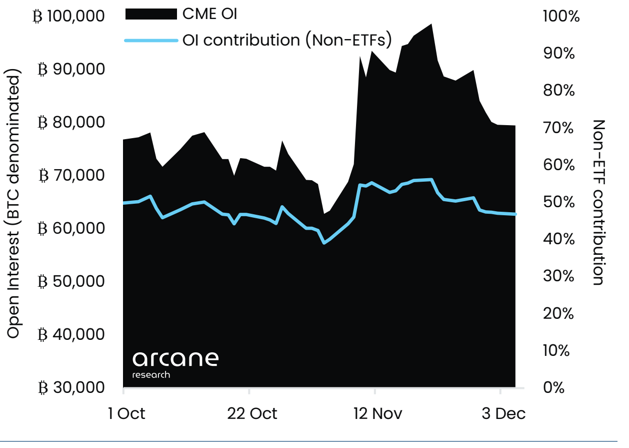


Source: ProShares

"Positive" ProShares flows
The last week saw substantial positive net flows from ProShares' two BTC ETFs. However, the positive flows stem from outflows from BITI, the short ETF, as we discuss on page 8 BITO, the long ETF, has seen stagnant flows in the last few weeks.

Traders closing shorts in BITI has second-order effects on CME's BTC futures prices. This may be the root cause behind the normalizing CME basis lately.

Figure 10: CME BTC Futures: Open Interest



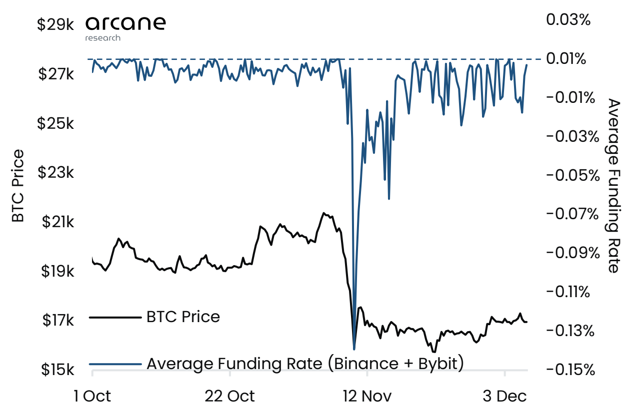
Source: Coinglass, ProShares, Valkyrie, VanEck

CME's BTC OI declines further
CME's open interest has fallen further this week to 79,000 BTC after reaching a new all-time high of 98,725 BTC on November 21. Outflows from BITI explain parts of the reduction in OI, but direct activity, unrelated to ETF flows, has been the most significant contributor to the decline, as the non-ETF contribution to CME's open interest has fallen from 50% last week to 47% today.

The "active market participant" contribution of 47% is still substantially higher than the 39% level reached on November 3 but aligns closely with levels seen throughout Q3, 2022.

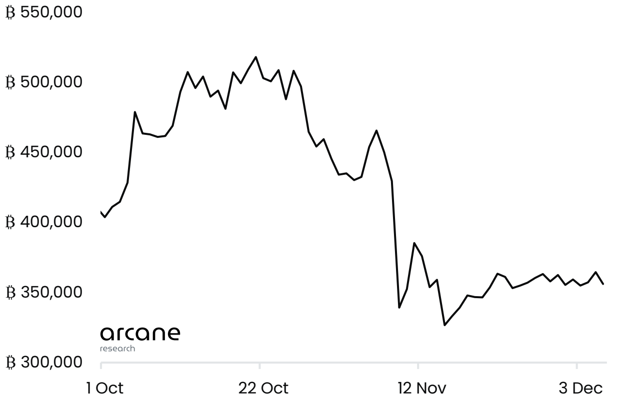
Derivatives
Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Bybit, Binance, Tradingview (Coinbase)

Figure 12: Bitcoin Perpetuals: Open Interest



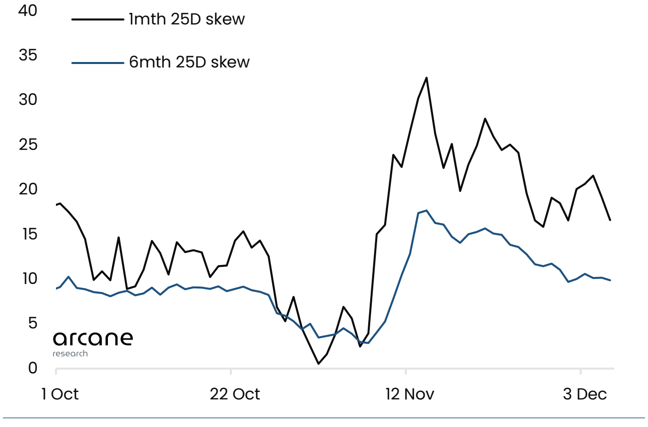
Source: Laevitas

Funding rates oscillating near 0%
Funding rates have oscillated around 0% in the last week, reaching neutral terrain multiple times, as the market structure is showing signs of normalizing. Nevertheless, trading activity in perps remains low, evident by volumes reaching multi-year lows (page 7) and open interest stagnating.

Thus, the recovering funding rates seem to be caused by muted organic activity and occur as the market, in general, remains in an unusually slow state.

No changes in perp OI
Open interest in BTC perps has remained flat near 360,000 BTC in the last week, with no noteworthy changes as market activity dwindles.

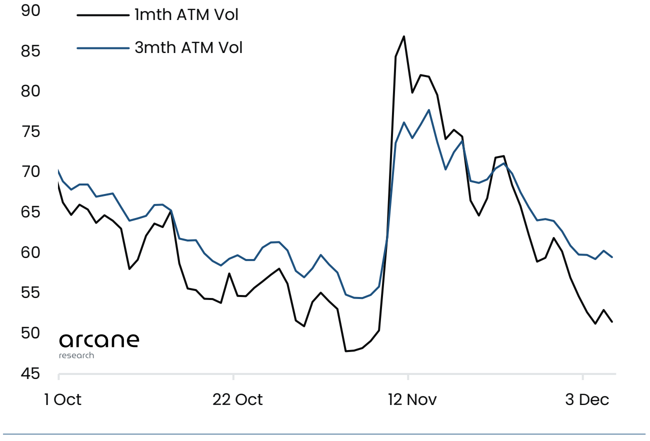
Figure 13: BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Skews still suggest a high demand for downside protection
Skews remain in positive terrain, aligning with last week's observations, as options traders are still willing to pay a premium for downside protection. Overall, the bearish sentiment in options remains strong.

Figure 14: BTC Options – Implied Volatility



Source: Laevitas

Implied volatility returns toward pre-FTX levels
As volatility has declined in BTC, implied volatility has followed suit. The 1mth implied volatility currently sits at 51, near the pre-FTX meltdown lows. The 3mth IV has also fallen considerably, trailing below 60, nearing pre-FTX meltdown levels.

While the market structurally seems to move into a stagnant stage, declining IVs may represent an interesting opportunity related to straddle trades.

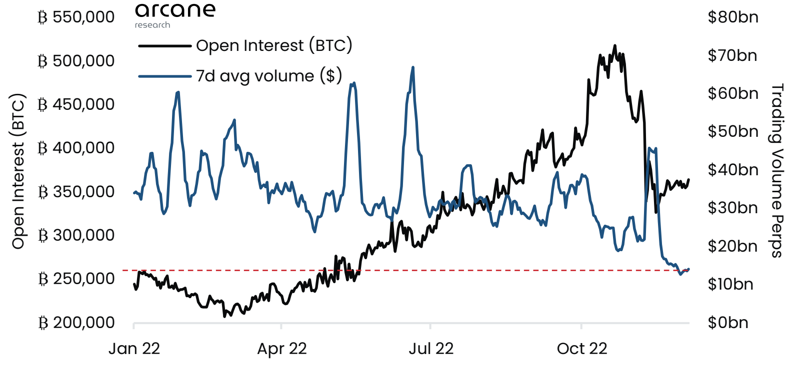
A deeper dive
Slowdown in BTC perps

Trading activity in perps reaches multi-year lows
Activity in bitcoin derivatives has come to a standstill alongside the rest of the market. Open interest has stabilized materially, and we note a sharp decline in trading volumes. The current aggregated 7-day average trading volume in perps sits at $14bn and reached multi-year lows of $12.7bn on November 30.

Perpetual swaps are the most frequently traded BTC instrument. Perps have tended to see volumes stabilizing in the $20-$30bn range in previous low volatility environments after dramatic selling pressure. The current decrease in perp activity suggests that market participants have exited the market in the last month and that we might experience slower days ahead.

The falling trading volumes in perps may also be caused by declining trust in centralized offshore exchanges following the fall of FTX. This also aligns with exchange balances declining from 2.5m BTC to 2.3m BTC in the last 30 days. A decline of 7.93% in the last 30 days, the largest relative decline in BTC exchange balances since January 2015.

Figure 15: BTC Perps: Open Interest (Notional) vs Trading Volume (7-day Average)

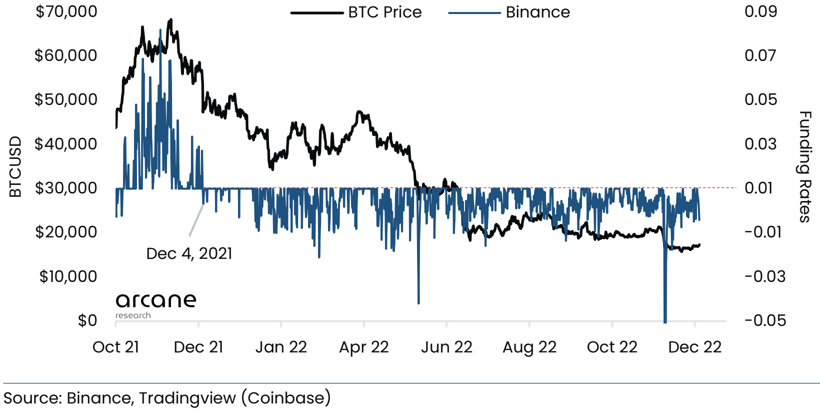


Source: Tradingview, Laevitas

One year of funding rates at or below neutral
Funding rates have now been neutral to below neutral for an entire year. The previous record-long duration of funding rates at or below neutral levels lasted for 2.5 months, so this is clearly unchartered territory for BTC perps. Nevertheless, as we have illustrated previously, the funding rate regime has still benefitted the short side since the peak of the bull market, unlike what we saw on BitMEX in 2018.

While the observation of the prolonged state of this bearish funding rate regime presents limited actionable insights, it is telling of the longevity of the negative sentiment in the market. Despite the funding rate regime of the last year, shorts have yielded a cumulative funding rate of 4.5% since December 4, 2021, due to funding rates tending to stabilize near neutral territory as sell-offs quiet down.

Figure 16: Funding Rates Binance, BTCUSDT Perp



Source: Binance, Tradingview (Coinbase)

A deeper dive

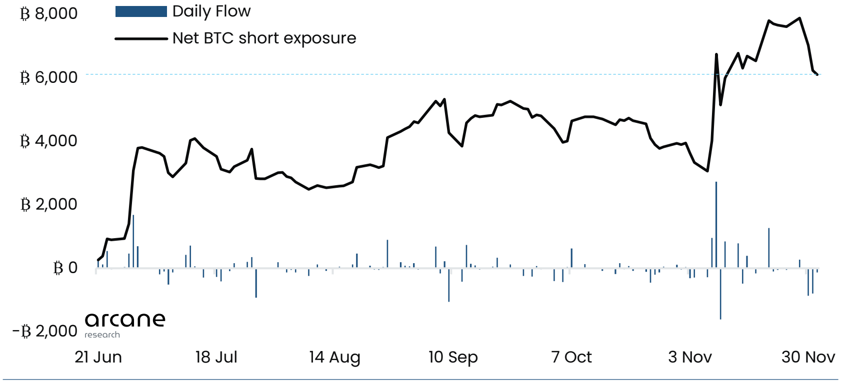
Short BTC ETF's AUM remains high

During the turbulence in Mid-November, ProShares' short ETF experienced massive inflows, leading its short exposure to surge to new all-time highs after a daily inflow equivalent to 2,730 BTC on November 9. Inflows remained high in the following days, leading BITI's short exposure to grow to an equivalent of 7,890 BTC at its peak on November 28.

However, inflows have turned into outflows in recent days. On November 30, BITI experienced outflows equivalent to 860 BTC. Similarly, December 1 saw 760 BTC worth of outflows. This is the third and fourth largest daily outflows from BITI since launch, and the outflows might be caused by the stabilizing BTC price. Additionally, most of the inflows since November 9 have been unprofitable as the spike in inflows coincided with BTC bottoming.

Inflows to the short ETF tend to occur amidst peak market fear, and we have previously noted a pattern of BITI's AUM peaking near BTC bottom depths. This could suggest that countertrading extreme BITI flows could be a promising trading strategy.

Figure 17: ProShares, BITI: BTC equivalent short exposure



Source: ProShares

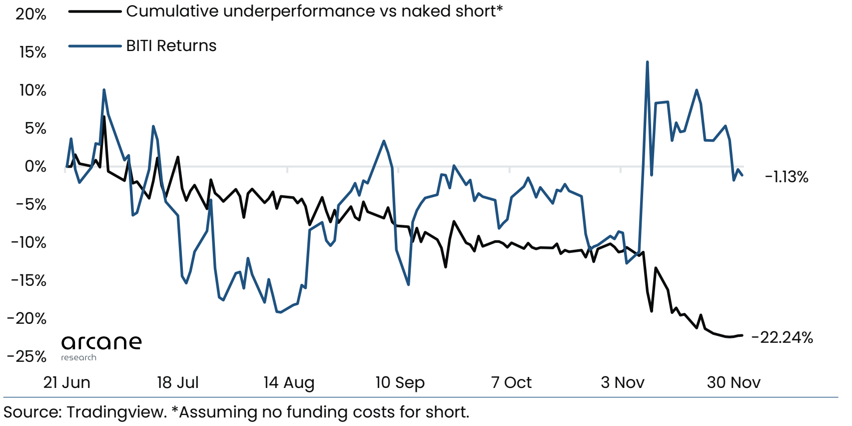
BITI return negative since launch, despite a significant BTC price fall

An important caveat to BITI is the daily costs related to BITI and its structure. The fund seeks a return equivalent to the -1x return of BTC on *a single day*. Over time, the daily BTC returns will hurt the BITI holder, and compound effects of slight underperformance day over day during periods of volatility will lead to significant underperformance. This makes BITI a bad alternative for long-term exposure.

Since BITI's launch, BTC has declined 21% from $20,700 to $17,200. If a trader entered BITI at the launch date and held it long-term, the investor would be slightly in the red, seeing negative returns of -1.13%, underperforming a naked BTC short by 22%.

There are costs associated with naked shorting BTC through alternative venues as well. However, the costs tend to be negative, as funding rates tend to approach their neutral 0.01% level. For instance, a BTCUSDT perp short on Binance would've yielded 1.6% in excess return due to funding rates. Still, offshore exchanges introduce counterparty risk and uncertain funding rates. Additionally, U.S. retail traders are barred from using them to trade, which might explain why traders flock to BITI during uncertainty.

Figure 18: Cumulative BITI returns since launch

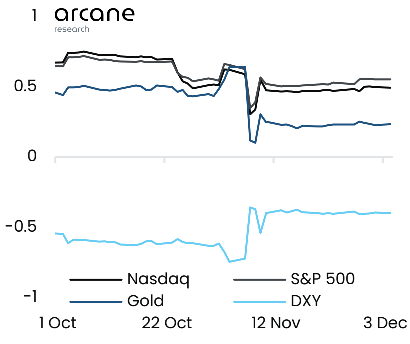


Source: Tradingview. *Assuming no funding costs for short.

Market Related Charts

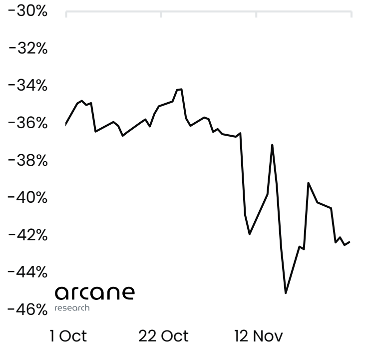
Data updated Monday Dec 5, 2022

Figure 19: BTC 30-d correlations*



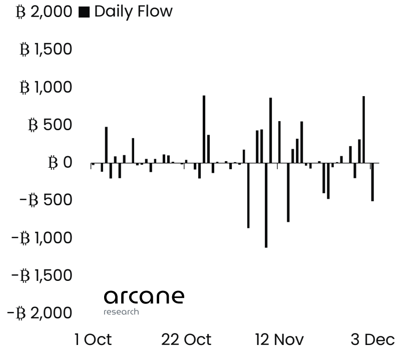
Source: Tradingview *Pearson

Figure 20: Grayscale Premium/Discount



Source: Ycharts

Figure 21: Daily Flows (BTC ETFs)



Source: Bytetree

Figure 22: BTC Dominance

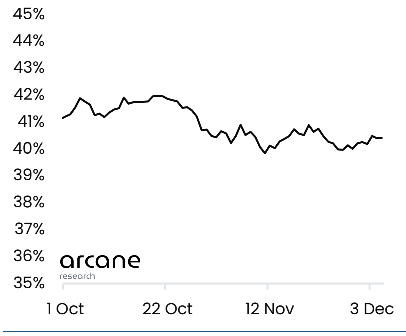


Figure 23: BTC + Stables Dominance

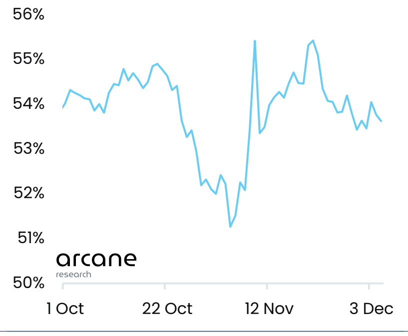
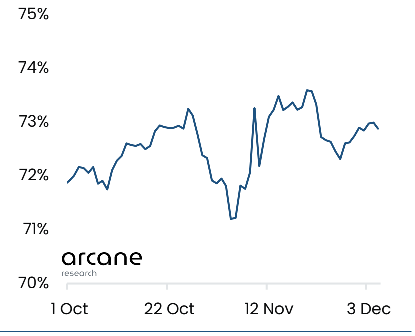
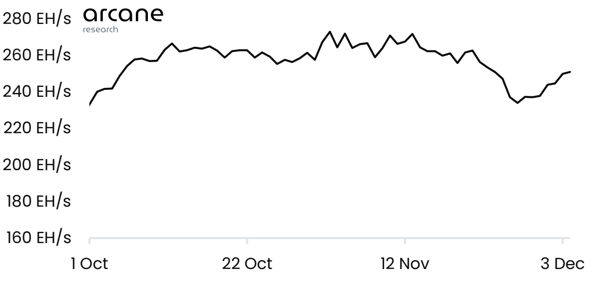


Figure 24: BTC + Stables + ETH Dominance



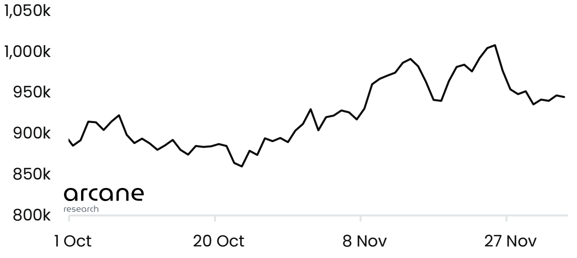
Source: Tradingview

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	04/12/2022	7d Change
Daily Miner Revenues	$14,779,235	9.73%
Fees per day	$412,308	-0.68%
Fees % Revenues	2.79%	-0.29%
Daily TX Volume ($M)	$3,026	-9.48%
Transactions per day	261,433	3.78%
Avg TX value $	$11,574.76	-12.77%
# Blocks per hour	5.68	6.94%
Avg. # TX per block	1916	3.78%

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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