

# Ahead of the curve

## Market Update

### Good news + Bad News = Flat week

For the second consecutive week, BTC has seen weekly returns of 0% as BTC remains in consolidation. Altcoins, in particular small caps, have seen more upside over the past week as the market rotates into risk, leading the BTC dominance to fall by 0.9%.

The dull price action of late has caused market activity in BTC to stagnate as BTC spot volumes when excluding Binance, have fallen by 42% decline over the past week. In derivatives, we note that CME's OI has seen a steady decline over the past week, while the tendency of increased willingness to add leveraged upside exposure reappeared last week.

While BTC stays in consolidation, the past week was far from calm. A myriad of macro events and equity earnings caused frantic price action. The market saw a strong push higher after a relatively neutral FOMC Press Conference, but a remarkably strong non-farm payroll release caused the market to retrace. While sustained solid labor data is a positive development for the U.S. economy, the market interprets it as negative. The current state of the U.S. economy provides few valid reasons for the Federal Reserve to cut interest rates, and as the market readjusted rate expectations, headwinds ensued.

This week, the macro calendar is less frantic, and the focus will be on next Tuesday's U.S. CPI release. The February 14 CPI release will be the first CPI release with updated weightings (as noted in our December 20 report) and is currently forecasted to grow 0.5% month over month.

### CME traders prioritize BTC over ETH in 2023

Institutional speculators have prioritized BTC exposure over ETH exposure thus far in 2023. Open interest in CME's ETH futures has trended lower throughout January, whereas BTC futures saw strong growth in late January, as noted in previous reports. Year to date, open interest in CME's ETH futures has declined by 29%, whereas BTC futures have seen a YTD growth in OI of 6%, despite the recent decline in OI, highlighted on page 4.

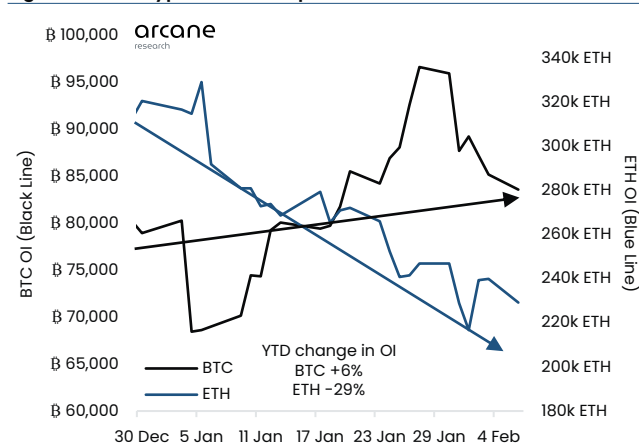
This open interest trend deviates from the normal trend in CME futures, and it illustrates that BTC has led the early 2023 market strength. Typically, open interest in CME's ETH and BTC futures tends to move in a similar direction, as illustrated in figure 15. The January deviation suggests that institutional investors sought BTC exposure in early January and were not in the business of seeking excess risk by adding altcoin exposure.

Interestingly, smaller altcoins have seen a tremendous start to the year fueled by a combination of short squeezes, poor liquidity, and increased risk appetite from retail participants on the backdrop of BTC's strength. Ether has not seen a similar push and currently seems constrained by being neither a retail nor institutional crypto darling, which might explain ETH's relatively weak start to the year compared to other altcoins.

### CME's ETH basis still on par with BTC basis

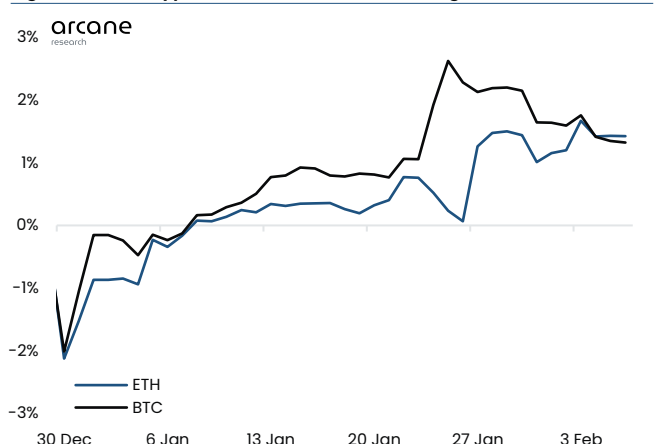
While we note a substantial difference in the OI developments in CME's ETH and BTC futures, we see that the ETH futures basis has grown in the last few weeks and now sits at similar levels to that of BTC.

Figure 1: CME Crypto Futures: Open Interest BTC and ETH



Source: CME Group

Figure 2: CME Crypto Futures Annualized Rolling 3-Month Basis\*



Source: Tradingview \*Daily average basis

## Digital Assets

### Signals from the market

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## By the numbers

**BTCUSD** \$22,890  
7d: **0%**  
30d: **38%**

**ETHUSD** \$1,572  
7d: **4%**  
30d: **36%**

### Open Interest (BTC futures and perps)

\$10.1bn  
440,000 BTC (1.1% last seven days)

### Average daily BTC spot volume

\$10.4bn (-7% last seven days)

### BTC 90-d correlations (weekly change included)

| ETH         | Gold        | S&P 500    | DX1           |
|-------------|-------------|------------|---------------|
| 0.94 (0.00) | 0.23 (0.00) | 0.47(0.02) | -0.37 (-0.01) |

### Percentage of Total Market Capitalization

Weekly change in percentage points

| BTC           | ETH          | Stablecoins   | Rest         |
|---------------|--------------|---------------|--------------|
| 41.5% (-0.9%) | 18.8% (0.4%) | 11.8% (-0.3%) | 27.9% (0.8%) |

### Last week of top 50 by market cap

|                 | Ticker | 7d   | YTD  |
|-----------------|--------|------|------|
| <b>Gainners</b> |        |      |      |
| 1               | GRT    | 94%  | 165% |
| 2               | SHIB   | 21%  | 71%  |
| 3               | OKB    | 17%  | 60%  |
| <b>Losers</b>   |        |      |      |
| 1               | APTOS  | -11% | 330% |
| 2               | LEO    | -6%  | -5%  |
| 3               | XMR    | -5%  | 12%  |

# Spot Market

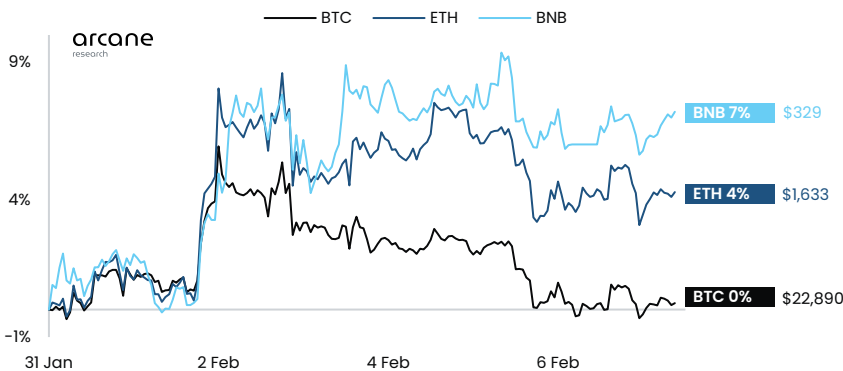
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While BTC stays in consolidation, the past week was far from calm. A myriad of macro events and equity earnings caused frantic price action. The market saw a strong push higher after a relatively neutral FOMC press conference, but a remarkably strong U.S. non-farm payroll release caused the market to retrace. While sustained solid labor data is a positive development for the U.S. economy, the market interprets it as negative. The current state of the U.S. economy provides few valid reasons for the Federal Reserve to cut interest rates, and as the market readjusted rate expectations, headwinds ensued.

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Figure 3: Top 3 Market Cap, Last Week

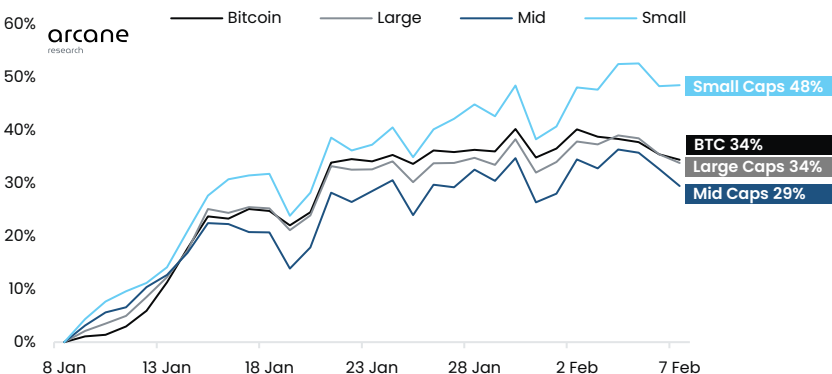


Source: Tradingview, (Coinbase, Binance U.S.)

### A flat week for the crypto market

The crypto market has flattened over the past few weeks. While all crypto indices and BTC are seeing impressive 30-day returns, the market, apart from the Small Caps index, has stagnated since January 22. Small Caps has faced some upside as we still see various altcoins pushing extreme returns over the past week, with GRT seeing a massive 7-day return of 94%.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

### Headlines last week

[Genesis, Gemini and DCG reach agreement in bankruptcy court](#)

[DCG Is Selling Holdings in Several Grayscale Trusts](#)

[FTX debtors want political donations returned by end of the month](#)

[Celsius Used New Customer Funds to Pay for Withdrawals](#)

[Ray Dalio still doesn't like Bitcoin but thinks inflation-beating coin could work](#)

[Crypto Exchange Binance to Suspend US Dollar Bank Transfers This Week](#)

### Calendar

- Tuesday, February 7
  - Powell speech at Economic Club of Washington
- Thursday, February 9
  - U.S. Initial Jobless Claims (Est: 190k)
- Tuesday, February 14
  - U.S. CPI (Est: 0.5% MoM)

# Spot Market

### Binance dominance all-time high as volumes elsewhere plunge

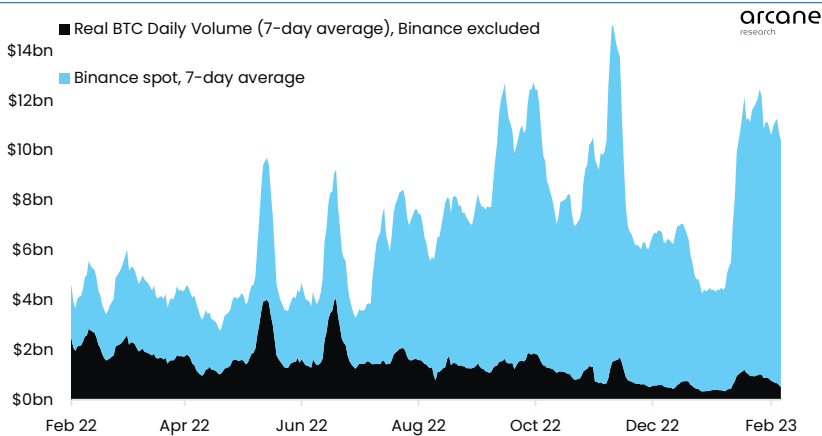
The real BTC trading volume\* has fallen 7% in the past week. When excluding Binance, which still operates without trading fees for BTC spot pairs, spot volumes are down a massive 42% compared to last week, and the daily BTC spot volume on Coinbase reached its lowest level since October 3, 2020, on Saturday, February 4. The Binance dominance among the Bitwise 10 exchanges currently sits at a new all-time high of 95%.

The declining trading volumes show that market participants have again grown idle as BTC remains heavily rangebound at \$23,000.

### Fear and Greed

Now: 54 (Neutral)  
Last week: 51 (Neutral)  
Last month: 25 (Extreme Fear)

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



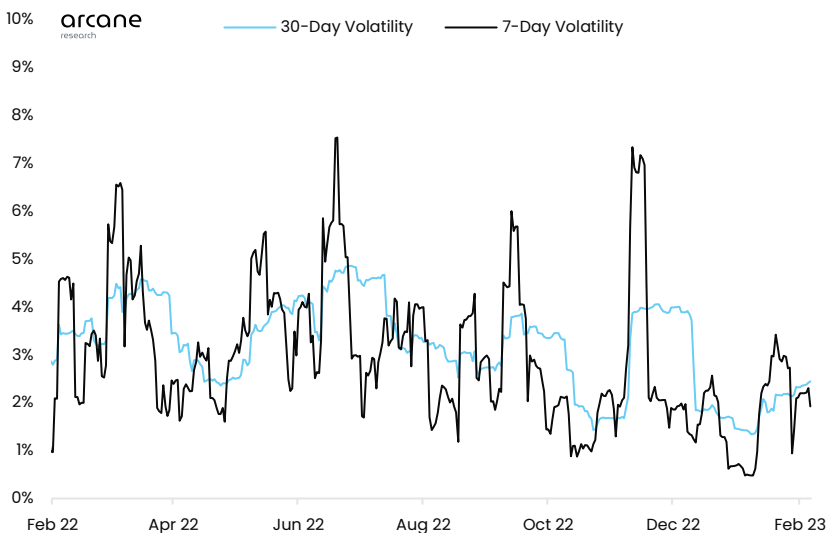
Source: Tradingview \*Includes Bitwise 10 exchanges

### Second consecutive 0% week for BTC

For the second consecutive week, we note a weekly price change of 0% in BTC, as BTC still oscillates at \$23,000.

That said, prices have still fluctuated this week, as both the FOMC press conference and the U.S. non-farm payroll surprise sparked volatility in the market, reflected in the 7-day volatility still sitting at 2%, despite a flat market week over week.

Figure 6: BTC-USD Volatility

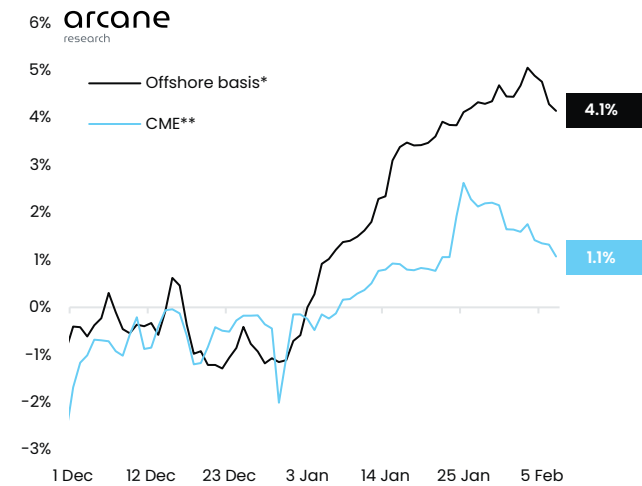


Source: Tradingview (Coinbase)

# Derivatives

## CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis



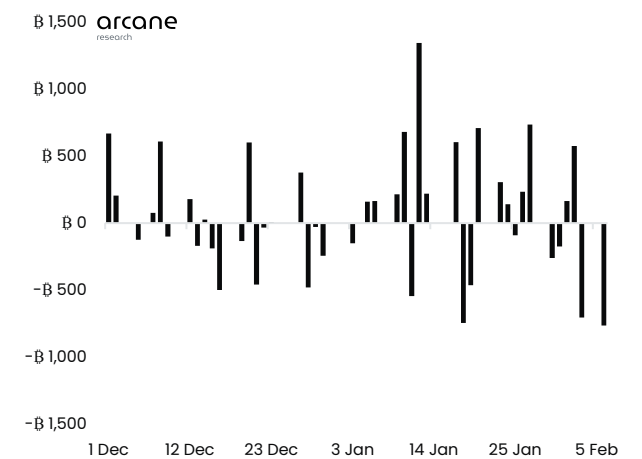
Source: Skew, Laevidas, Tradingview, CME  
\*OI weighted basis average (Binance, OKX, Deribit) \*\*Closed Sat-Sun

### Futures basis trending lower

CME's BTC futures saw a further decline in its 3mth annualized futures basis over the past week, currently trading at annualized premiums of 1.1%. The average offshore basis remains substantially higher at 4.1% but continues to see low trading activity.

Premiums are falling alongside declining open interest, suggesting that CME longs have been closed throughout the past week, causing the premiums to soften.

Figure 9: ProShares: Net Flow – BTC Equivalent



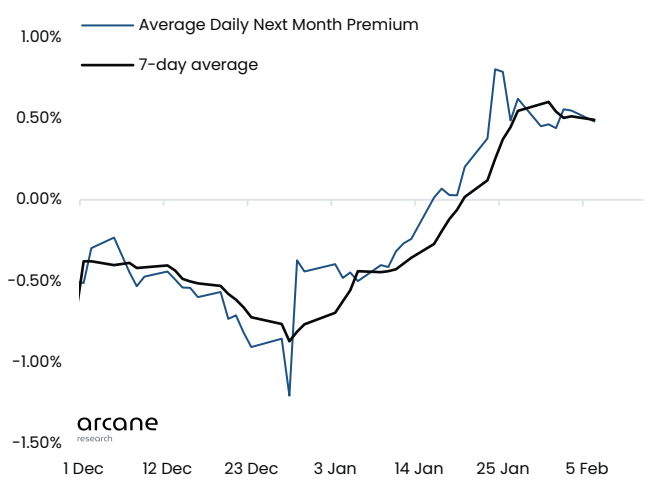
Source: ProShares

### First net negative ProShares' flow week since January 3

It was a week of volatile flows to ProShares' long ETF BITO. Following a predominantly neutral FOMC press conference and ensuing market strength, BITO saw new inflows, leading its BTC equivalent exposure to push to a new all-time high of 34,910 BTC.

However, inflows turned into outflows after the surprisingly strong employment numbers in the U.S. on Friday, leading the net weekly change in ProShares' exposure to fall by 905 BTC in the past week, the first week of negative net flows since January 3.

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



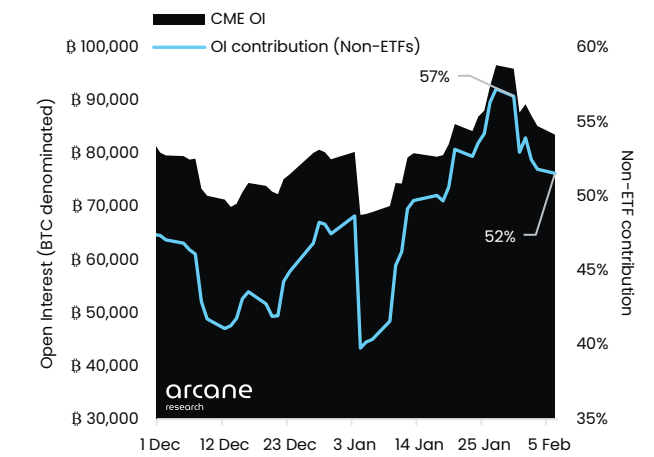
Source: Tradingview

### Term structure still in contango

While CME's futures basis is declining, the term structure remains in a wide contango. For longer-dated maturities, CME traders are still willing to pay a substantial premium, indicating that a bullish medium-term sentiment from CME traders remains present.

In the current structure, the basis trade is gradually regaining relevancy, which may explain parts of the strong inflows to BTC ETPs lately (Figure 22, page 8).

Figure 10: CME BTC Futures: Open Interest



Source: CME Group, ProShares, Valkyrie, VanEck

### Profits taken? Active market participation declines

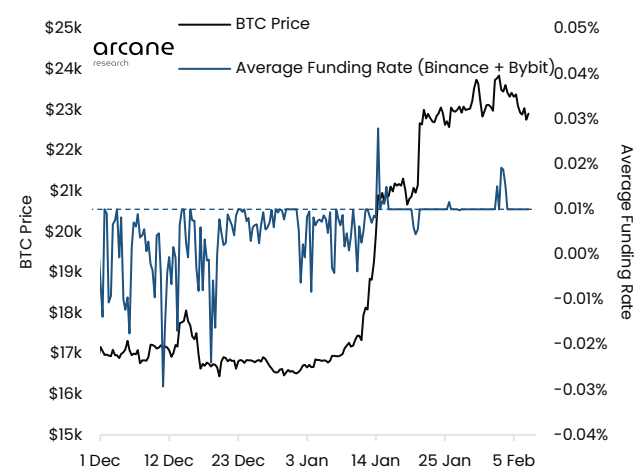
Open interest in CME's BTC futures is down 12,400 BTC (-13%) in the past week. CME traders seem to have utilized the January strength in BTC by holding to expiry as 1,875 January contracts (9,375 BTC) were held into final settlement leading the active market participant share to decline from 57% to 52%.

This resembles the December settlement, where the active market participant share plunged from 49% to 40% post-settlement. We now see no signals of CME traders adding more exposure as OI trended lower throughout the past week.

# Derivatives

## Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



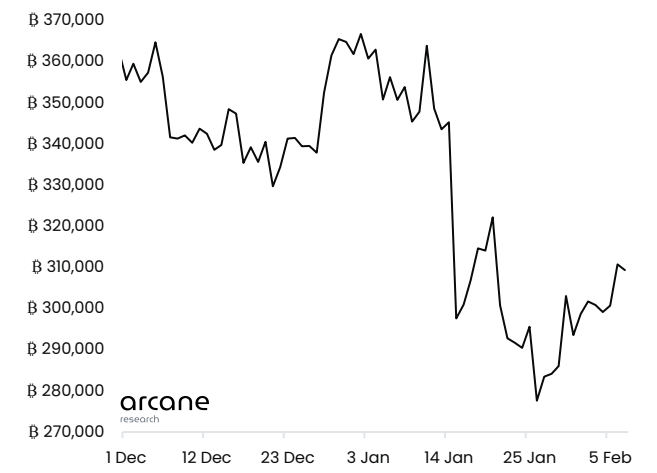
Source: Bybit, Binance, Tradingview (Coinbase)

### Stubbornly neutral funding rates

For the third week in a row, funding rates remain flat at neutral levels. On Binance, funding rates stayed idle at 0.01% throughout the week, whereas Bybit saw funding rates push above neutral following the post-FOMC press conference rally.

Funding rates quickly reverted back to neutral levels as momentum stagnated and has stayed flat since Saturday.

Figure 12: Bitcoin Perpetuals: Open Interest



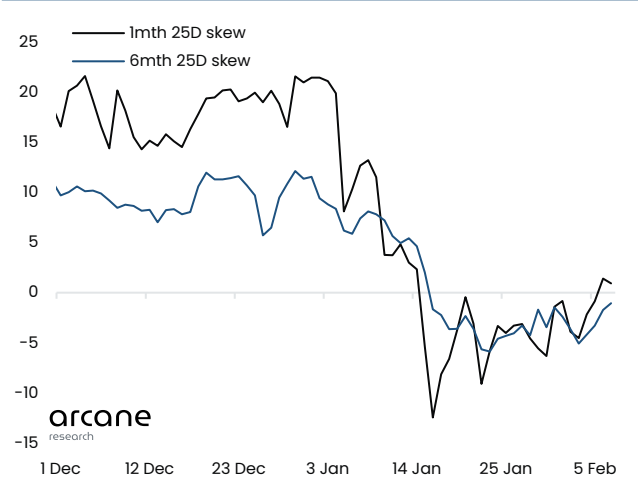
Source: Laevidas

### Open interest in BTC perps back above 300,000 BTC

Open interest in BTC perps has increased by 20k BTC to 310k in the last seven days.

While the week has largely been uneventful in perps with flat rates overall, the brief incident of positive funding rates on Bybit is the second example of increased willingness to add long exposure during strength. As noted last week, this changed dynamic compared to the short chasing in late January suggests that momentum could stall onward.

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

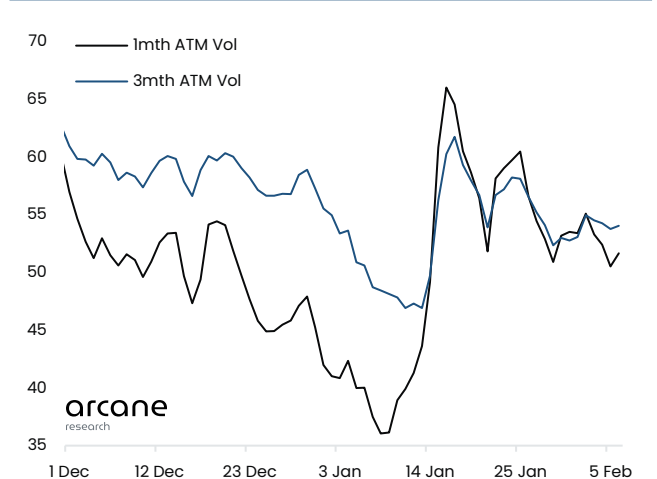


Source: Laevidas

### Skews unchanged from last week

In options, skews trail in neutral terrain. Puts are back in a slight premium for short-dated options, whereas the longer tenors still see a slight call premium.

Figure 14: BTC Options - Implied Volatility



Source: Laevidas

### Implied volatility stable

As bitcoin has consolidated in a relatively tight trading range in the past two weeks, implied volatility has flattened in the lower 50s across tenors.

# A deeper dive

## CME traders prioritize BTC over ETH in 2023

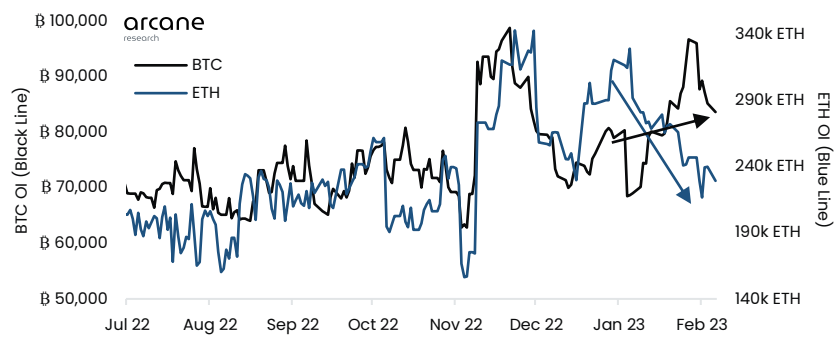
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This open interest trend deviates from the normal trend in CME futures, and it illustrates that BTC has led the early 2023 market strength. Typically, open interest in CME's ETH and BTC futures tends to move in a similar direction, as illustrated in figure 15. The January deviation suggests that institutional investors sought BTC exposure in early January and were not in the business of seeking excess risk by adding altcoin exposure.

BTC focus from institutional players is also evident in crypto ETPs. Per CoinShares' latest flow report, bitcoin ETPs have seen inflows of \$193m this year, representing 83% of all crypto-related investment vehicle inflows YTD. Ether ETPs, on the other hand, have seen inflows of \$10m YTD, a meager 4% of all crypto inflows YTD.

Interestingly, smaller altcoins have seen a tremendous start to the year fueled by a combination of short squeezes, poor liquidity, and increased risk appetite from retail participants on the backdrop of BTC's strength. Ether has not seen a similar push and currently seems constrained by being neither a retail nor institutional crypto darling, which might explain ETH's relatively weak start to the year compared to other altcoins.

Figure 15: CME Crypto Futures: Open Interest BTC and ETH



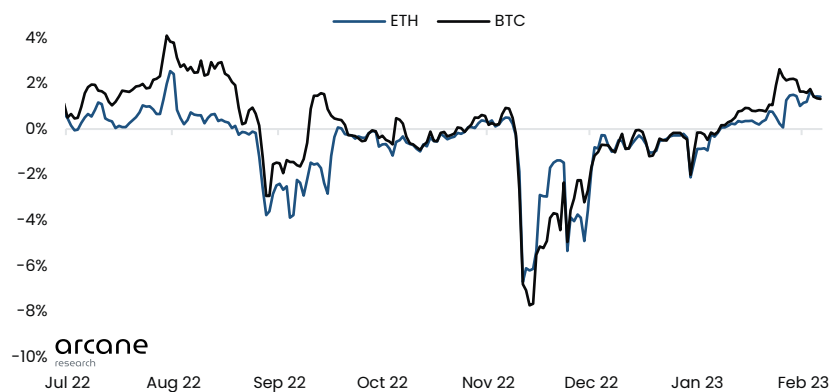
Source: CME Group, Coinglass, Skew

### CME's ETH basis still on par with BTC basis

While we note a substantial difference in the OI developments in CME's ETH and BTC futures, we see that the ETH futures basis has grown in the last few weeks and now sits at similar levels to that of BTC.

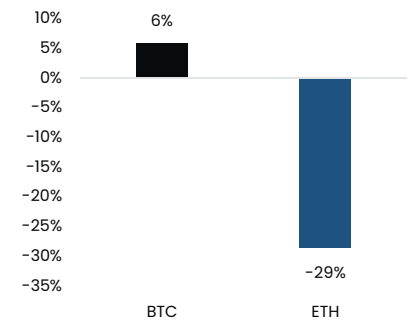
In late January, BTC futures traded at a premium to ETH futures on CME, but the basis difference has since narrowed. The average daily 3mth basis in CME's BTC futures peaked at 2.6% on January 25 but has fallen amidst the recent slowdown in momentum and currently sits at 1%. Meanwhile, CME's ETH basis has gradually climbed higher from 0% on January 25 to 1% today, trading at similar premiums to that of BTC. The narrowing premium gap between ETH and BTC coincides with the ETHBTC price bottom of 0.067 on January 25.

Figure 17: CME Crypto Futures Annualized Rolling 3-Month Basis



Source: Tradingview

Figure 16: YTD change in CME OI: ETH vs BTC



Source: CME Group

# A deeper dive

## No pivot in sight

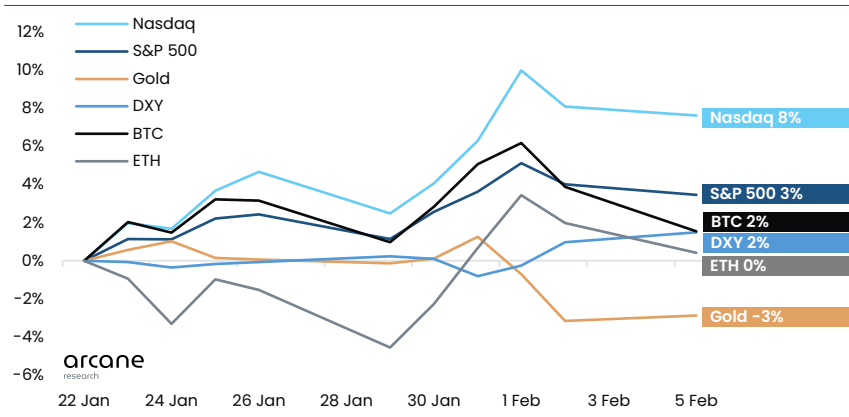
In the past week, the market has endured a hectic news environment filled with macro events and a myriad of earnings reports, which has caused a volatile environment across asset classes.

The Wednesday FOMC press conference offered few surprises, as the Fed's funds rate was hiked 25bps, in line with expectations. While stating that the Fed had yet to reach a sufficiently restrictive policy stance, the market rallied during the press conference, as Jerome Powell's rhetoric was more neutral and less hawkish than during previous FOMC press conferences.

The positive impulses in the market following the press conference were short-lived, as Friday saw a surprisingly strong U.S. non-farm payroll (NFP) release of 517k added jobs, crushing the forecasted 188k. The current strength in the U.S. labor market reduces the likelihood of a pivot and rate cuts in 2023. This caused substantial downside in various assets, with gold falling 2.4% on February 3, seeing its worst daily return since June 30, 2022, while the DXY saw its strongest daily return since October 3, 2022.

Equity indexes see buoyancy despite the volatile and shaky environment over the past week. Nasdaq has seen gains of 8% since January 22, driven by a strong earnings report by Meta.

Figure 18: 2-Week Performance (January 22-February 5)



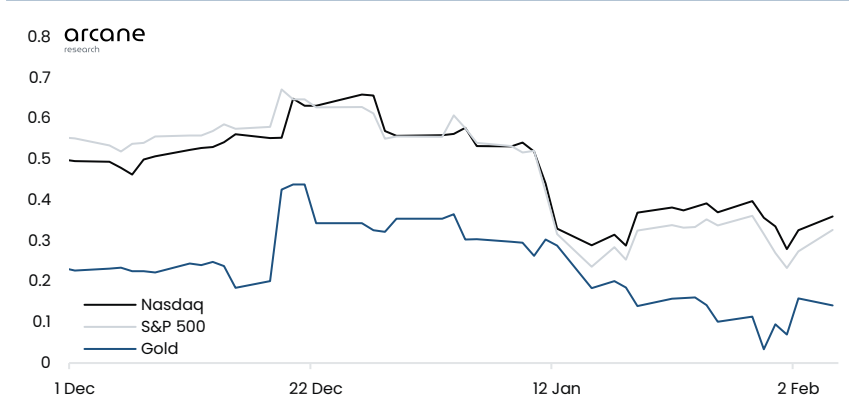
Source: Tradingview

### Correlations stay low compared to last year

Correlations have stabilized at levels substantially below those seen throughout most of 2022, despite strongly correlated reactions during the FOMC press conference and NFP release. For now, during the earnings season, the directional path of equity indexes is impacted by the market absorbing company-specific financials, which has less relevance to BTC.

While a pivot still seems far away in light of the strong labor market and heightened inflation expectations in the U.S., FED's policy and fund rate could soon stabilize, leading market conditions to normalize and macro to matter less. BTC may reclaim its role as a portfolio diversifier in a more stable macro environment.

Figure 19: BTC 30-d correlations\*

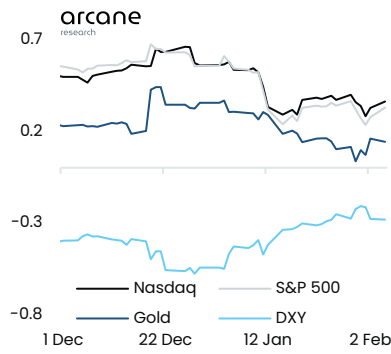


Source: Tradingview \*Pearson

# Market Related Charts

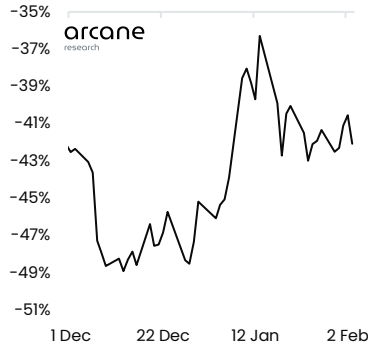
Data updated Monday Feb 6, 2023

Figure 20: BTC 30-d correlations\*



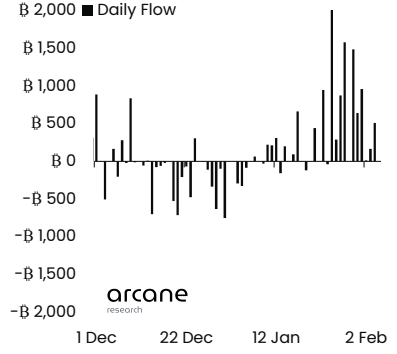
Source: Tradingview \*Pearson

Figure 21: Grayscale Premium/Discount



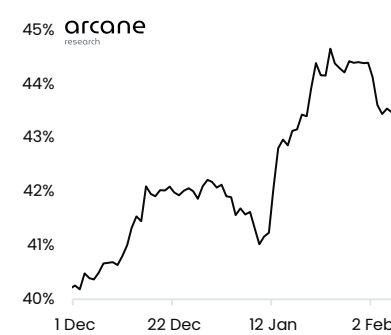
Source: Ycharts

Figure 22: Daily Flows (BTC ETFs)



Source: Bytetre

Figure 23: BTC Dominance



Source: Tradingview

Figure 24: BTC + Stables Dominance

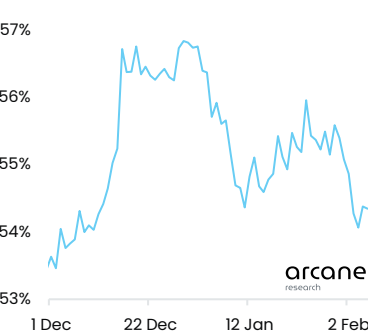


Figure 25: BTC + Stables + ETH Dominance

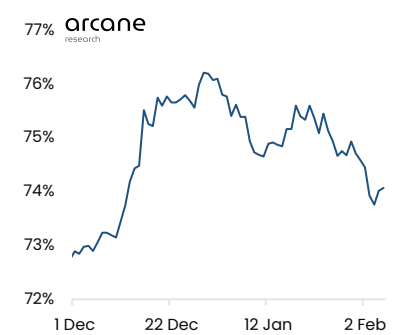
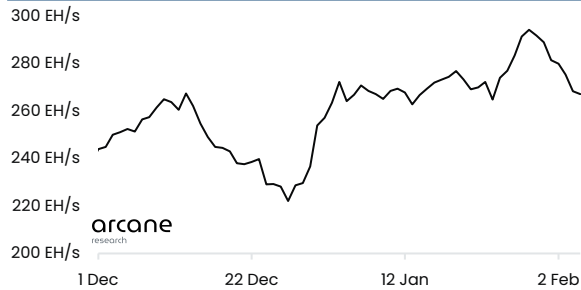
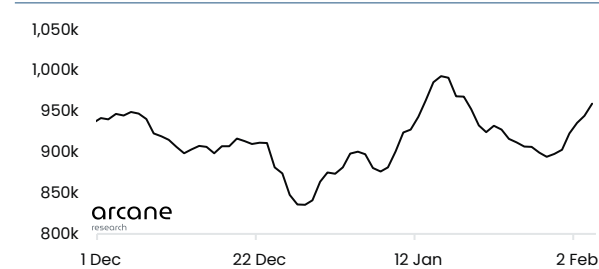


Figure 26: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 27: Active Addresses (7-day average)



Source: Coinmetrics

Figure 28: On-chain statistics

| Powered by            | 02/05/2023   | 7d Change |
|-----------------------|--------------|-----------|
| BYTETREE              |              |           |
| Daily Miner Revenues  | \$20,253,220 | -11.86%   |
| Fees per day          | \$441,060    | 46.94%    |
| Fees % Revenues       | 2.18%        | 0.87%     |
| Daily TX Volume (\$M) | \$3,601      | 10.29%    |
| Transactions per day  | 311,475      | 7.92%     |
| Avg TX value \$       | \$11,561.89  | 2.19%     |
| # Blocks per hour     | 5.68         | -13.27%   |
| Avg. # TX per block   | 2285         | 7.92%     |

Source: Bytetre



# 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 assess 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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