

Ahead of the curve

Market Update

The great recovery

The last seven days have been remarkably strong and lively in crypto. BTC has seen a massive 23% gain and a growth in the market dominance of 2.2 percentage points over the last week as BTC leads the market recovery. A positive reaction to the Thursday CPI print of -0.1% was the primary catalyst behind the surge. Still, BTC faced strength also before the CPI release, seeing 13 green trading days in the first 16 trading days of the year amidst falling correlations to U.S. equities. BTC has shown resilience and has recovered to prices from before the FTX collapse, a promising development.

The entire crypto landscape has experienced considerable strength over the last week, in a week best defined as "a hated rally". ETH has seen 19% gains in the previous seven days, and all coins in the top 50 have seen positive seven-day returns. FTX and DCG-affiliated coins MANA, SOL, and Aptos top the charts over the past week, all experiencing YTD gains extending 100%, as the most heavily shorted coins face the strongest recovery.

Short-term, we note that the momentum seems overextended. Last week saw seven consistent days of green returns for the first time since March 2022, and the RSI momentum indicator has pushed toward extreme highs. The recent surge has predominantly been fueled by a short squeeze led by consistent aggressive shorting. BTC's push above \$20,000 has been followed by a stabilizing open interest, suggesting that short traders have grown cautious, which may lead prices to stabilize in the short term.

A hated rally

The current rally in Bitcoin has all the hallmarks of a "hated rally" with many sidelined investors who had been conditioned to short with conviction or rotate into fiat exposure in anticipation of further downside. This has caused a short squeeze and subsequent strength in BTC, resulting in a recovery to pre-November price levels and pushing the RSI (Figure 1) to multi-year highs, a potent signal of changing momentum.

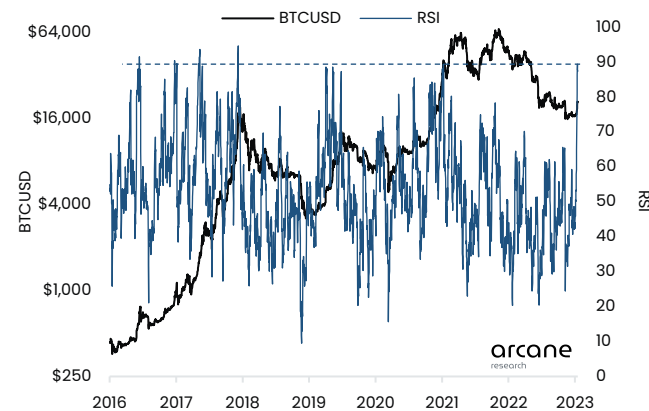
Moreover, several noteworthy market tendencies have occurred over the last couple of weeks. The Grayscale discount (Figure 21, page 8) has recovered from -48.5% to -36.3% year to date; bitcoin has experienced strength during Asian market hours (page 7); CME futures are trading above spot, and the term structure has normalized, while institutional participation in BTC futures is on the rise (page 4).

We anticipate that volatility will subside in the short-term, partly due to developments in Binance's BTCUSDTP perp, as we note less aggressive tendencies of shorting after BTC recovered to levels above \$20,000.

Softening correlations

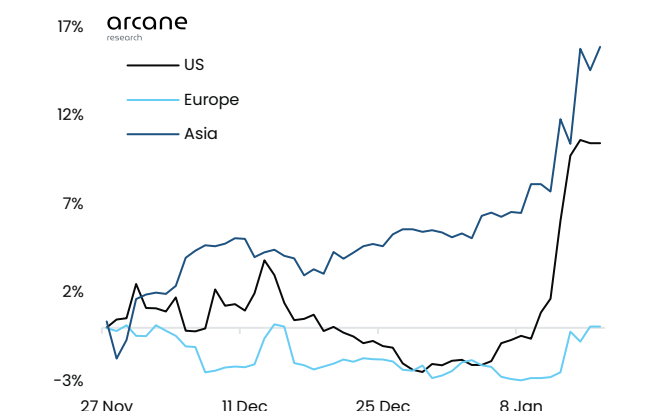
Amid bitcoin's recent strength, correlations between BTC and U.S. equities have fallen. BTC's 30-day correlation to Nasdaq currently sits at 0.29, which is the lowest recorded correlation between BTC and Nasdaq since December 2021, suggesting a declining relevancy of U.S. market movements for now. Still, certain market events cause correlations to grow. Following the U.S. CPI release of -0.1% MoM last Thursday, BTC followed U.S. equities in tight tandem.

Figure 1: BTCUSD vs RSI



Source: Tradingview (Bitstamp)

Figure 2: Cumulative returns by trading hour*



Source: Tradingview.

*Asian hours defined as 0-8 CET, European as 8-16 CET and US as 16-24 CET

Digital Assets

Signals from the market

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By the numbers

BTCUSD \$21,175
7d: **23%**
30d: **27%**

ETHUSD \$1,565
7d: **19%**
30d: **32%**

Open Interest (BTC futures and perps)

\$9bn
427,000 BTC (-6.9% last seven days)

Average daily BTC spot volume

\$10.8bn (114% last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DX
0.89 (0.00)	0.30 (0.00)	0.51(-0.05)	-0.43 (0.02)

Percentage of Total Market Capitalization

Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
41.2% (2.2%)	19.3% (0.2%)	12.7% (-2.1%)	26.8% (-0.3%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainners			
1	MANA	81%	143%
2	APTOS	54%	132%
3	SOL	44%	138%
Losers			
1	LEO	0.2%	-3%
2	LUNC	5%	20%
3	LTC	5%	22%

Spot Market

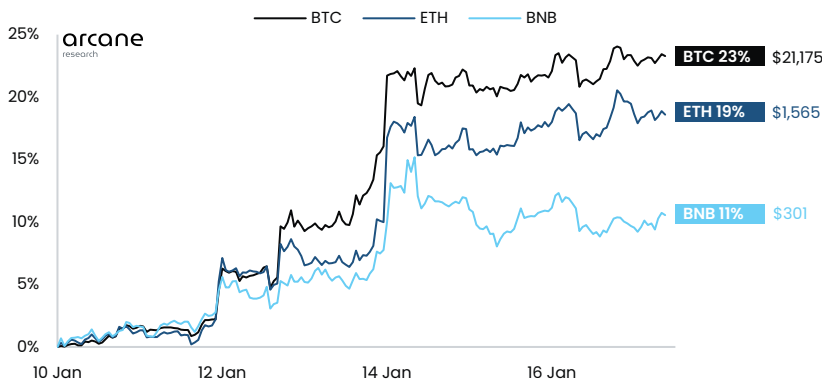
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Figure 3: Top 3 Market Cap, Last Week

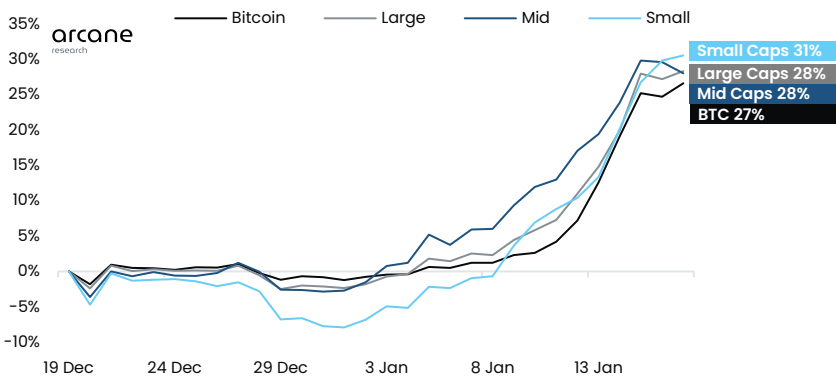


Source: Tradingview, (Coinbase, Binance U.S.)

An extreme week

All crypto indexes have seen 30-day gains in the range of 27-31%. Altcoins currently outperform BTC over a 30-day horizon. The altcoin outperformance is predominantly caused by altcoins facing a more substantial downside amidst the period following FTX's collapse in November.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

Headlines last week

- [Nexo's Bulgaria office raided by police](#)
- [Amazon \(AWS\) Partners up With Avalanche to Scale Blockchain Adoption](#)
- [EU's final vote on MiCA regulation postponed until April](#)
- [3AC founders Zhu and Davies pitch to raise \\$25 million for new crypto exchange](#)
- [Crypto.com cuts 20% of workforce amid sector-wide layoffs](#)

Calendar

- Wednesday, January 18
- BOJ Interest Rate Decision (Exp: unchanged)
 - EU CPI (Exp: 9.2% YoY)
 - US PPI (Exp: -0.1% MoM. Core 0.1% MoM)
- Monday, January 23
- Chinese and Korean New Year. Chinese and Korean markets closed.

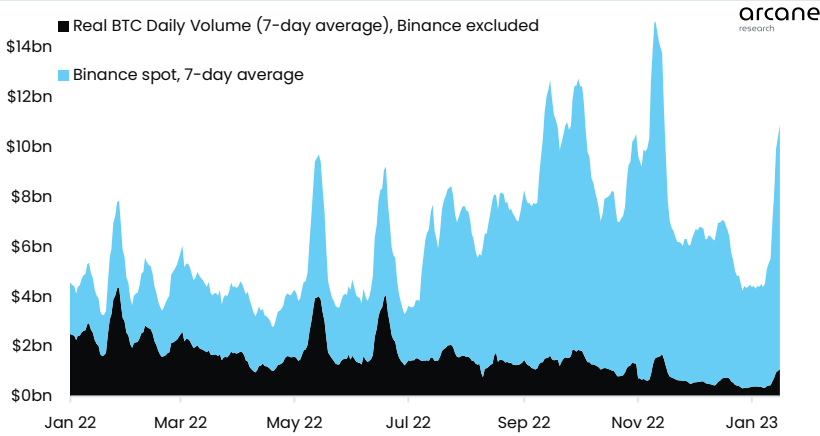
Spot Market

Strength backed by volumes

Amidst last week's strength, trading volumes have been pushed to highs not seen since the FTX collapse in November. It's promising to see that growing trading volumes accompany the current strong momentum in the spot market.

Over the last seven days, the average daily trading volume has soared by 114% to \$10.8bn, with Binance representing just shy of \$9.8bn of the average daily trading volume. Still, the rising volumes outside of Binance to a daily average of \$1bn is likely a welcoming development to exchanges forced into new rounds of restructuring lately.

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



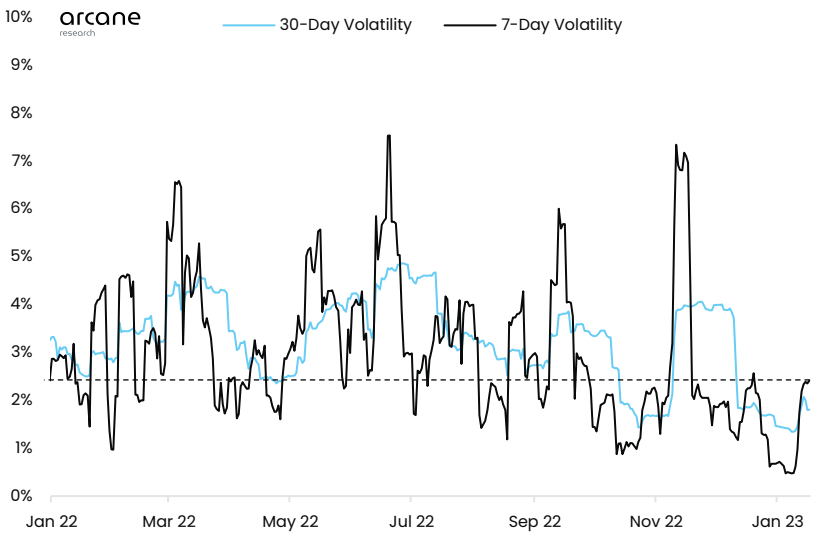
Source: Tradingview *Includes Bitwise 10 exchanges

Volatility growing in an orderly manner

BTC's mild buoyancy accelerated last week, pushing the 7-day volatility to 2.4% from the lows of 0.4% mentioned last week. The current 7-day volatility is far from unusual in BTC and still sits below the 2022 average 7-day volatility of 3.1%.

BTC's strength thus far into 2023 has predominantly been a tale of consistency rather than extreme spikes. Bitcoin saw seven consistent days of positive returns from January 8 to January 14, and 13 out of the first 16 trading days in 2023 have closed in the green.

Figure 6: BTC-USD Volatility



Source: Tradingview (Coinbase)

Fear and Greed

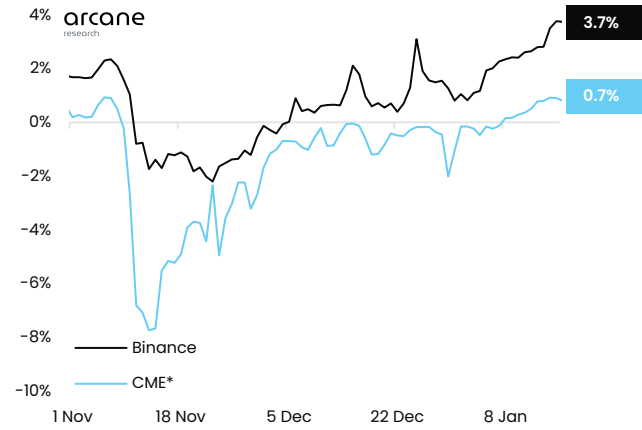
Now: 51 (Neutral)
Last week: 26 (Fear)
Last month: 28 (Fear)

The Fear and Greed index has pushed to neutral levels for the first time since April 2022, following the strong start to the year backed by strengthening volumes and strong momentum.

Derivatives

CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis



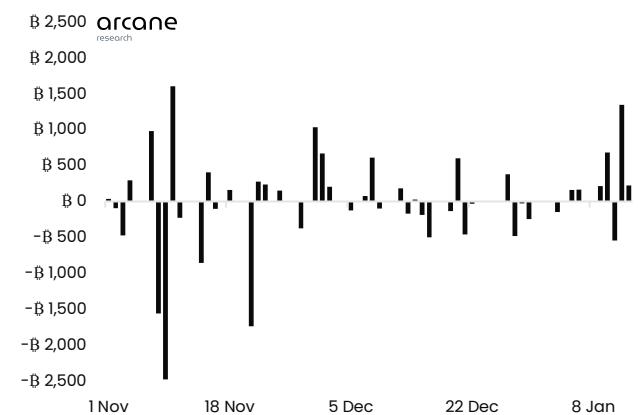
Source: Skew, Laevitas, Tradingview, CME
*Closed Saturday - Sunday

Basis to multi-month highs

Futures premiums have grown over the last week, both in the offshore market and on CME. Binance's 3mth basis currently sits at highs not seen since April 2022. However, open interest in Binance futures is very shallow, currently sitting at 6,600 BTC.

CME's basis has also seen a strong recovery in the last few weeks, currently sitting at 0.7%, the highest recorded basis since September 2022, suggesting a strengthening sentiment among institutional traders.

Figure 9: ProShares: Net Flow – BTC Equivalent



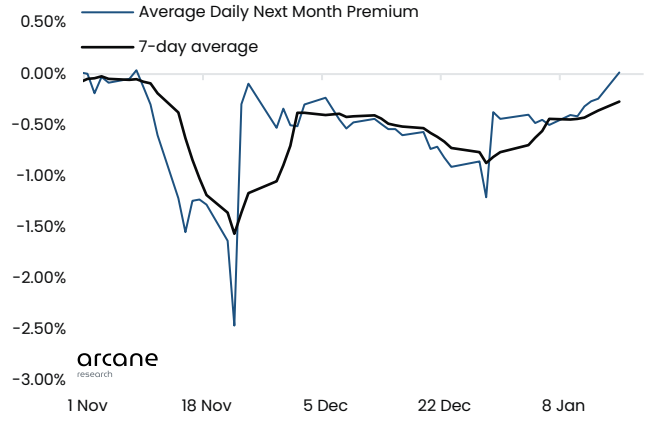
Source: ProShares

Substantial outflows from BITI

The net flow contribution from ProShares' ETFs was positive last week. This is predominantly caused by substantial outflows from ProShares' short BTC ETF, BITI.

BITI currently holds an exposure equivalent to 4,435 BTC, on par with levels from before FTX's collapse, and has seen its short exposure fall by 27% YTD.

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



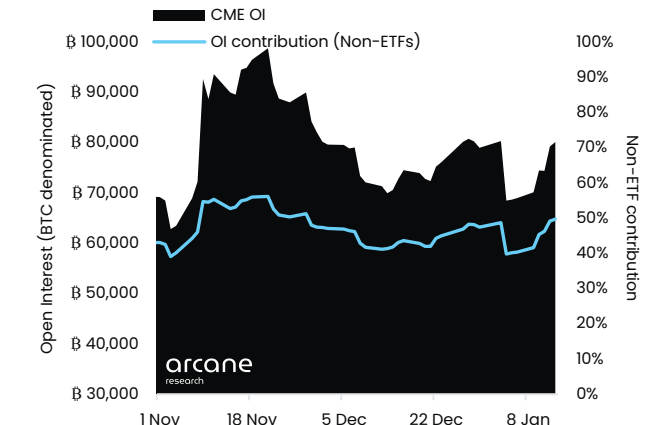
Source: Tradingview

CME's futures term structure normalizes

CME's near-term futures structure is no longer in backwardation for the first time since early November. This suggests that institutional traders are more confident with allocating into further dated maturities.

While we note positive signals from CME futures, we remind the reader that CME futures tended to trade at an annualized premium ranging from 5-15% from 2019 until the November 2021 peak. Thus, while premiums are rising, futures still trade at conservative levels compared to the norm up until the devastating 2022 bear market.

Figure 10: CME BTC Futures: Open Interest



Source: Coinglass, ProShares, Valkyrie, VanEck

Active institutional participation on the rise

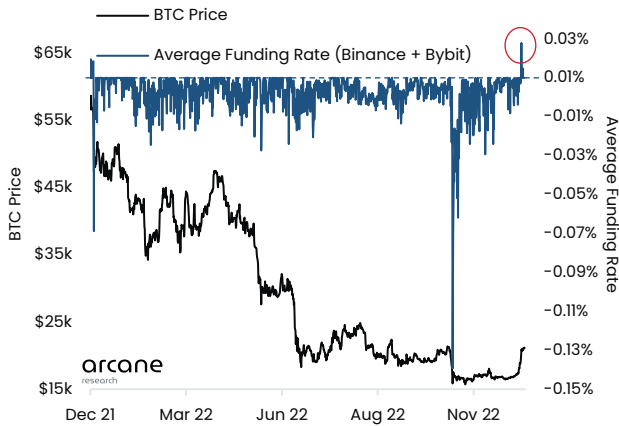
Interestingly, last week's strength was accompanied by growing participation from active market participants on CME as the active market participant contribution to OI grew from 42% to 50% over the last week, while CME's OI grew to 80k BTC.

The current non-ETF contribution to CME's OI of 50% is the highest level recorded since the FTX collapse and aligns with the highs recorded in May and June of 2022. Additionally, this is our first observation since March 2022 of increased direct activity in CME's BTC futures alongside rising futures premiums.

Derivatives

Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Bybit, Binance, Tradingview (Coinbase)

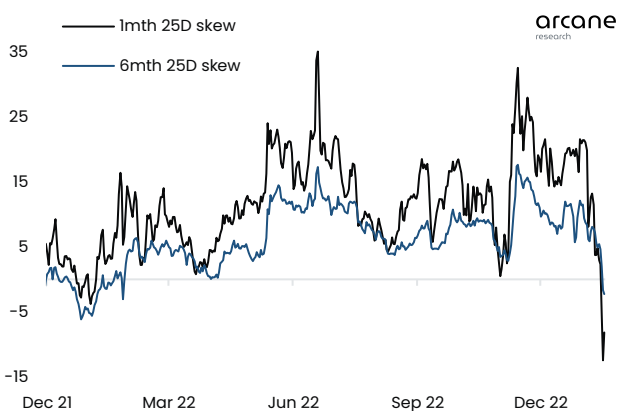
Funding rates above neutral for the first time since Dec 4, 2021

We expand the time horizons on all charts in this section this week to illustrate several unique observations from offshore derivatives over the past week.

The BTCUSDTPERP saw funding rates above neutral on January 14, ending a 13-month long streak of neutral to below neutral funding rates. Funding rates were pressured higher as shorts covered (page 6), pushing perps into a premium over spot.

While capitulation of shorts caused this brief funding rate spike, it also captures a promising signal of a recovering sentiment in the market.

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



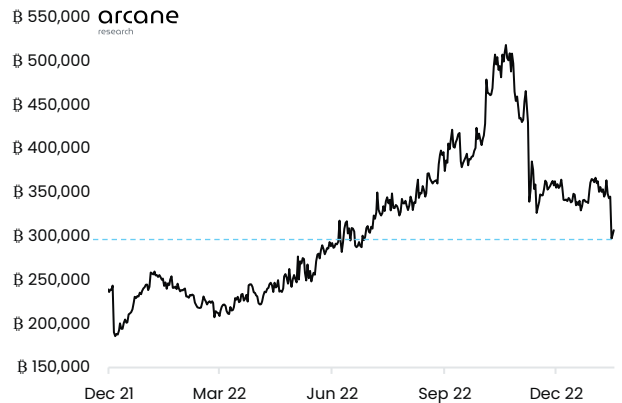
Source: Laevitas

Bullish tendencies in options

Options traders are pricing in a bullish premium for the first time since January 2022. Both the 1mth 25D skew and the 6mth 25D skew sit in negative territory as demand for calls outweighs that of puts.

Following last week's price action, we now see proper signs of optimism in futures, perps, and options after a one-year-long period of drought, backed by strong momentum.

Figure 12: Bitcoin Perpetuals: Open Interest



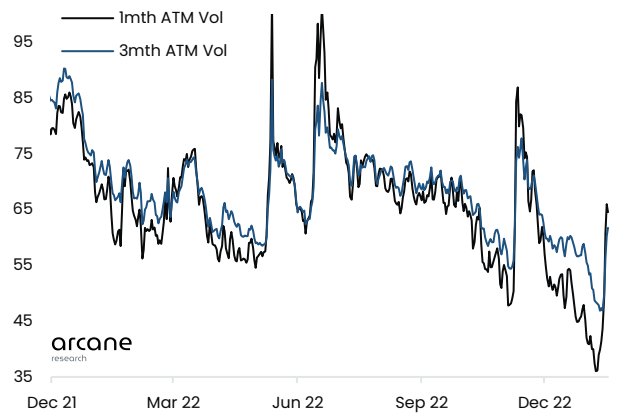
Source: Laevitas

Open interest plunges to June levels

Open interest in BTC perps has fallen 11.8% in the last week after falling by 40,000 BTC amidst last week's pressuring environment for shorts. Short liquidations in BTC perps spiked to \$141m on Saturday, reaching a multi-month high.

The state of perps is finally normalizing following a long-lived unique build-up from March 2022 to November 2022. After last week's development, OI has retracted back to June 2022 levels of 305,000 BTC. OI still remains elevated compared to 2021's average levels of 210,000 BTC, and we expect OI to trend lower in the next couple of months.

Figure 14: BTC Options - Implied Volatility



Source: Laevitas

Bouncing IVs

Implied volatility surged following last week's strength. Last week, we argued in favor of straddles as IVs plunged to all-time lows.

As implied volatility has recovered to more reasonable levels, this strategy carries less appeal onwards with more fairly priced volatility, an opportune environment to close straddles opened last week.

A deeper dive

A hated rally

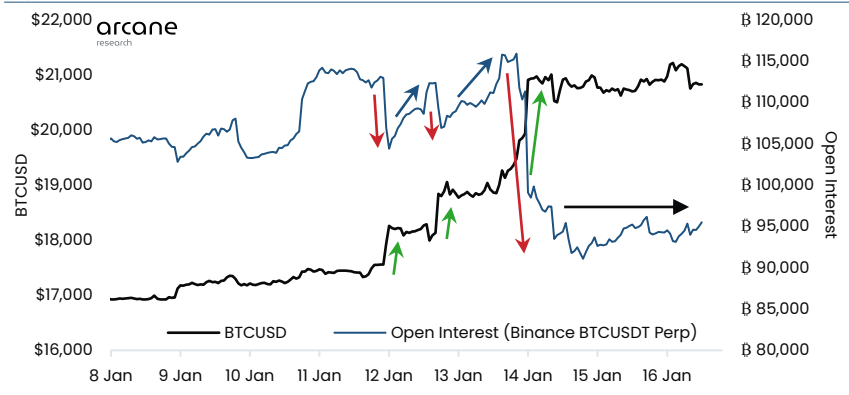
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Moreover, several noteworthy market tendencies have occurred over the last couple of weeks. The Grayscale discount (Figure 21, page 8) has recovered from -48.5% to -36.3% year to date; bitcoin has experienced strength during Asian market hours (page 7); CME futures are trading above spot, and the term structure has normalized, while institutional participation in BTC futures is on the rise (page 4).

We anticipate that volatility will subside in the short-term, partly due to developments in Binance's BTCUSDT perp. Figure 15 illustrates the intraday open interest in Binance's BTCUSDT perp. Throughout the past week, open interest saw several sharp retracements coinciding with market strength as shorts covered. Additionally, as prices temporarily stabilized, open interest gradually grew as traders entered new shorts, expecting retracements in BTC. Nevertheless, the strength persisted, and shorts acted as a catalyst, further driving the prices up as shorts covered.

At present, shorts are not providing much of an impetus to push prices higher in the short term. Open interest has stabilized, with no notable growth after BTC recovered to above \$20,000, indicating that short traders have learned from last week's unprofitable endeavors.

Figure 15: BTCUSD vs Open Interest BTCUSDT Perp



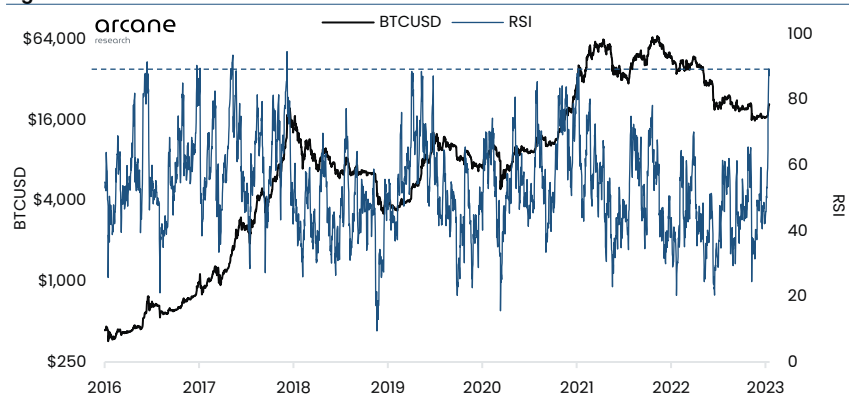
Source: Tradingview (Coinbase, Binance)

Bullish momentum

A burgeoning RSI supports our view of stabilizing markets in the near term. The relative strength index, a momentum indicator, ripped higher throughout the last week and pushed toward 2019 highs. This supports that the rally is extended in the short term. However, it also represents the first proper signal of strengthening momentum in BTC since the bull market of 2021.

The current recovery resembles BTC's initial recovery from the depths of the 2018 bear market. After RSI pushed above 80 in April 2019 following a relative volatility compression in March, BTC stayed rangebound for 40 days. Now, BTC has recovered to its Q3 range, the RSI is extended, and shorts are cautious, increasing the likelihood of near-term stability.

Figure 16: BTCUSD vs RSI



Source: Tradingview (Bitstamp)

A deeper dive

Softening correlations

Amid bitcoin's recent strength, correlations between BTC and U.S. equities have fallen. BTC's 30-day correlation to Nasdaq currently sits at 0.29, which is the lowest recorded correlation between BTC and Nasdaq since December 2021, suggesting a declining relevancy of U.S. market movements for now.

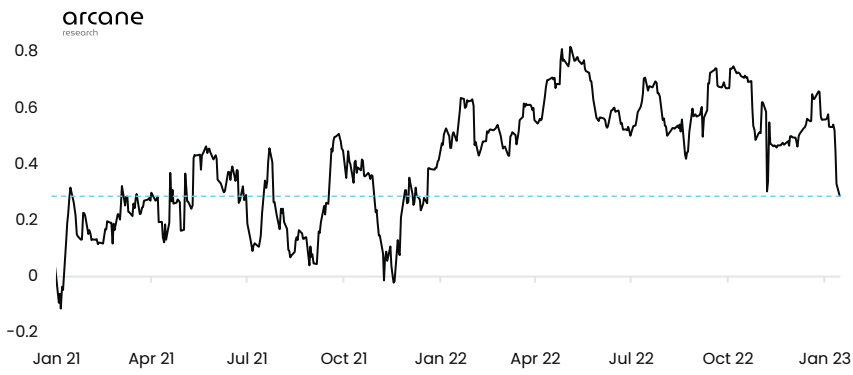
Softening correlations is a positive development in the market. We've previously highlighted how correlations naturally grew on the backdrop of several factors.

1. Institutional investors bundling BTC as a risk-asset
2. Growth companies holding BTC exposure (Tesla)
3. Selling pressure from miners (higher interest rate costs and energy prices)
4. A low interest rate regime incentivizing crypto companies to prioritize growth over sound financials.

Compared to 2022, public companies hold far less BTC, miners have less BTC to sell, and several institutional players have left the market. All of these factors are in favor of softening correlations onwards.

Still, certain market events cause correlations to grow. Following the U.S. CPI release of -0.1% MoM last Thursday, BTC followed U.S. equities in tight tandem. However, BTC maintained momentum as U.S. markets closed and Asian traders took over the wheel.

Figure 17: 30-day correlation: BTC and Nasdaq



Source: Tradingview

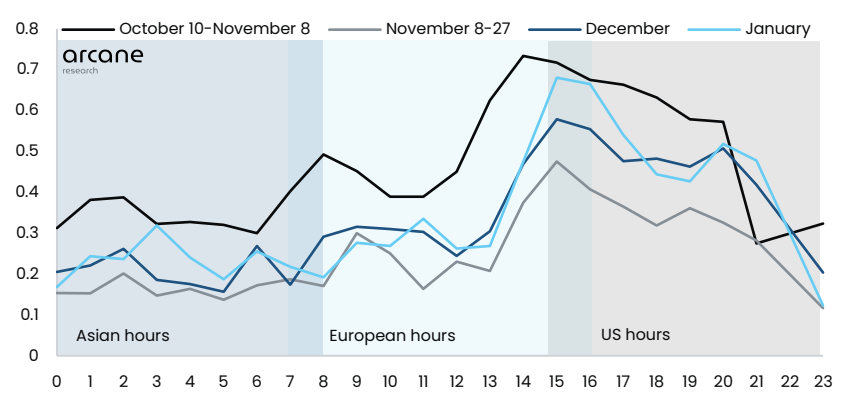
Still strongly correlated during U.S. hours, but Asia moves the market

After FTX's fall, Asian hours have defined the most significant upside in BTC, seeing uniquely strong momentum since November 27.

In Figure 18, we illustrate BTC's granular daily correlation to Nasdaq futures calculated by minute returns and sorted by hour of day (in UTC). From the chart, it's clear that correlations still matter during U.S. trading hours.

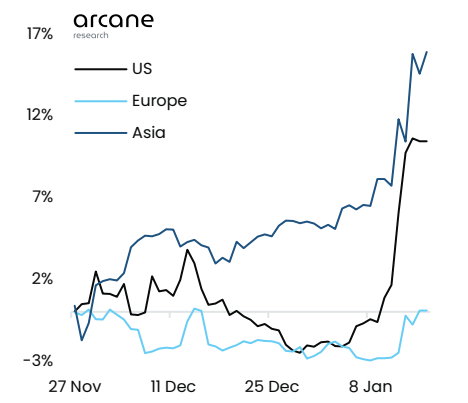
Nonetheless, Figure 19 illustrates the cumulative returns of BTC from November 27 to January 15. Apart from the strong CPI reaction last week, BTC has seen most of its gains occur during Asian market hours, with Asian hours seeing a 16% upside vs. U.S. hours 10%. Several Asian markets will be closed next week due to the Chinese and Korean New Year, potentially temporarily softening the Asian market impact.

Figure 18: Correlation by hours, BTC vs Nasdaq (Future): Various periods



Source: Tradingview. *Asian hours defined as 0-8 CET, European as 8-16 CET and US as 16-24 CET

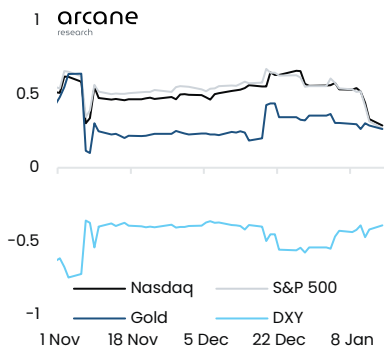
Figure 19: Cumulative returns by trading hour*



Market Related Charts

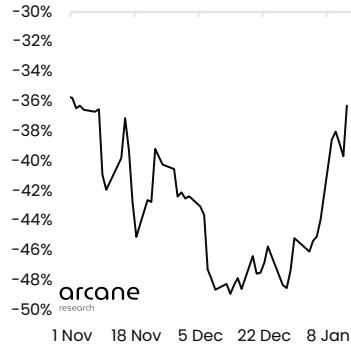
Data updated Monday Jan 16, 2023

Figure 20: BTC 30-d correlations*



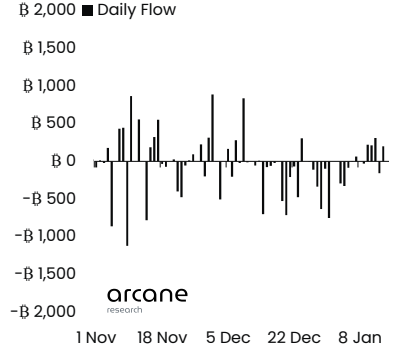
Source: Tradingview *Pearson

Figure 21: Grayscale Premium/Discount



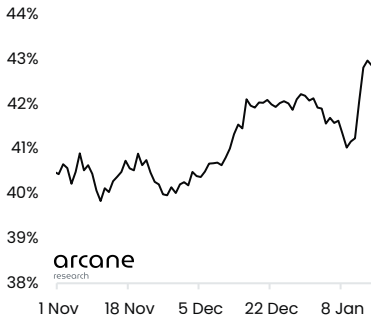
Source: Ycharts

Figure 22: Daily Flows (BTC ETFs)



Source: Bytetre

Figure 23: BTC Dominance



Source: Tradingview

Figure 24: BTC + Stables Dominance

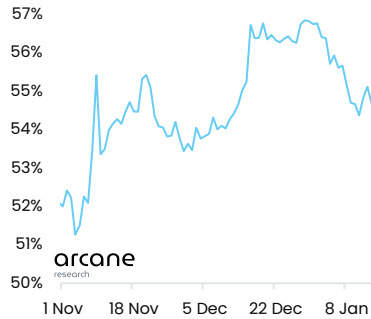


Figure 25: BTC + Stables + ETH Dominance

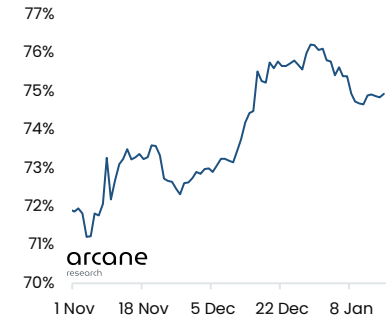
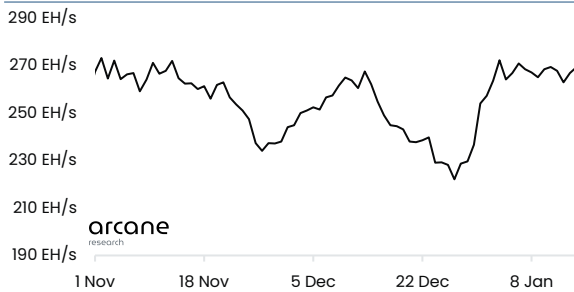


Figure 26: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 27: Active Addresses (7-day average)



Source: Coinmetrics

Figure 28: On-chain statistics

Powered by	01/15/2023	7d Change
BYTETREE		
Daily Miner Revenues	\$19,154,528	14.62%
Fees per day	\$243,778	28.21%
Fees % Revenues	1.27%	0.13%
Daily TX Volume (\$M)	\$3,362	44.58%
Transactions per day	295,664	14.35%
Avg TX value \$	\$11,369.75	26.44%
# Blocks per hour	6.61	1.28%
Avg. # TX per block	1863	14.35%

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 "inorganic" 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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