

Ahead of the curve

Market Update

The Holiday season is coming

Volatility revisited the market last week, as BTC (-2%) has touched both December highs and December lows in the past seven days in a week heavily influenced by macro events. ETH (-5%) followed BTC closely in the past week, seeing slightly more downside while moving in a tightly correlated pattern. BNB (-10%) faced a more substantial downside as Binance experienced a bank run last week, with BTC net outflows amounting to 78,600 BTC over the last seven days. BNB has seen a strong recovery over the weekend, recovering more swiftly than BTC and ETH.

Next week, we will change things up and publish a year-in-review report of this catastrophic year to be published on Thursday instead of our regular Tuesday market update. Per previous Holiday seasons, markets tend to be relatively idle during the holiday season, and we see few important macro events on the horizon, with the most notorious event coming up being closed markets due to the Christmas Holiday.

A roller coaster week, sponsored by the CPI and FOMC

The last week was a hectic macro week, with Bitcoin's price movements being heavily influenced by the CPI release and FOMC. The CPI release offered a pleasant surprise, as inflation came in 0.2% lower than anticipated, leading to a stint of optimism in the market.

A hawkish FOMC meeting was the most important event, with a unanimous committee agreement of increasing rates to 5% in 2023 and maintaining that level throughout 2023, setting the stage for tight conditions throughout the next year. However, all was not negative, as Jerome Powell suggested smaller hikes onwards, with a possible 25bps hike following the next meeting. The market has positioned for a stabilizing interest rate regime next summer, pricing a 4.75% target as more likely than a 5% for July 2023. Before the FOMC meeting, the market was positioned for a stricter hiking regime, then a 5% target rate following the July 26 conference was the most likely outcome.

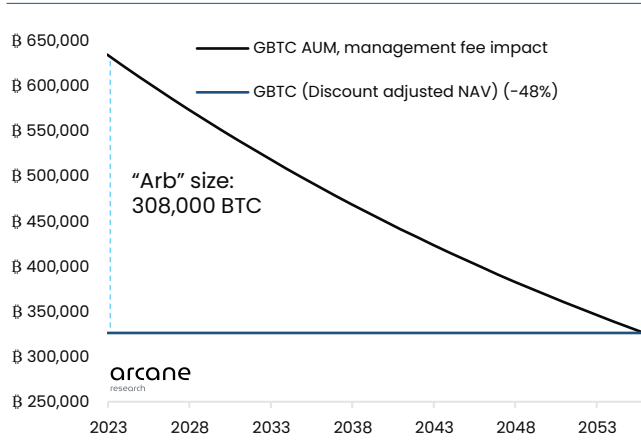
Developing GBTC situation

Grayscale still pursues an ETF conversion while the discounts are widening further. An Investor Letter published on Monday shed light on the situation. Grayscale will provide a response brief to the SEC by January 13, and the final written briefs will be published by February 3.

If Grayscale loses the case, the company will try to initiate a tender offering, enabling certain shareholders to convert GBTC to BTC in a one-time redemption. This would likely have implications for the GBTC discounts, leading them to narrow and also helping alleviate some of the balance sheet liquidity issues from distressed crypto lenders. This process is not straightforward, though, as Grayscale would need two approvals. One relief approval from the SEC and shareholder approval.

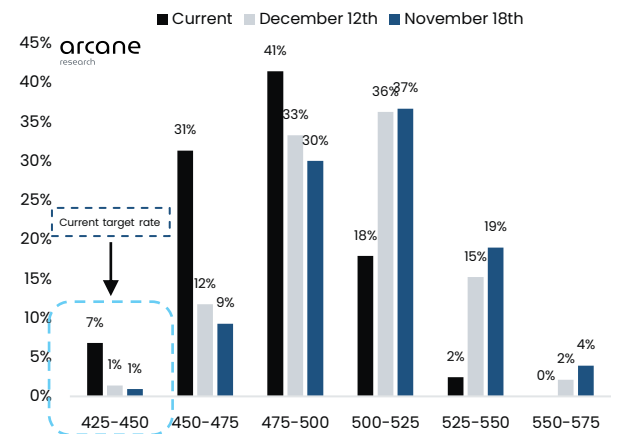
The Grayscale trust's discounts have widened further over the last week. GBTC trades at a 48.9% discount to NAV and ETHE at a 52.5% discount. GBTC holds 3.3% of the circulating BTC supply, and ETHE holds 2.5% of the circulating ETH supply. The discounts suggest that the market is not convinced of a favorable Grayscale outcome related to either ETFs or the tender offering and illustrates the overhang from the leveraged "arb" trade back in 2020 and 2021.

Figure 1: GBTC Management Fee Impact



Source: Grayscale, Arcane Research

Figure 2: Target Rate Probabilities For July 26, 2023 FOMC Meeting



Source: Tradingview (Coinbase, CME Group)

Digital Assets

Signals from the market

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By the numbers

BTCUSD \$16,829
7d: -2%
30d: 1%

ETHUSD \$1,209
7d: -5%
30d: -1%

Open Interest (BTC futures and perps)
\$8.1bn
482,000 BTC (-0.4% last seven days)

Average daily BTC spot volume
\$6.7bn (6% last seven days)

BTC 90-d correlations (weekly change included)

| Asset | Correlation |
|---------|---------------|
| ETH | 0.9 (0.01) |
| Gold | 0.32 (0.00) |
| S&P 500 | 0.56 (0.00) |
| DXY | -0.46 (-0.01) |

Percentage of Total Market Capitalization
Weekly change in percentage points

| Asset | Percentage |
|-------------|---------------|
| BTC | 39.9% (0.8%) |
| ETH | 18.3% (0%) |
| Stablecoins | 15.9% (0.5%) |
| Rest | 25.9% (-1.2%) |

Last week of top 50 by market cap

| Rank | Ticker | 7d | YTD |
|----------------|--------|------|-------|
| Gainers | | | |
| 1 | TON | 17% | -10% |
| 2 | OKB | 4% | -26% |
| 3 | TRX | 2% | -29% |
| Losers | | | |
| 1 | FIL | -30% | -92% |
| 2 | LUNC | -21% | -100% |
| 3 | EGLD | -20% | -85% |

Spot Market

The Holiday season is coming

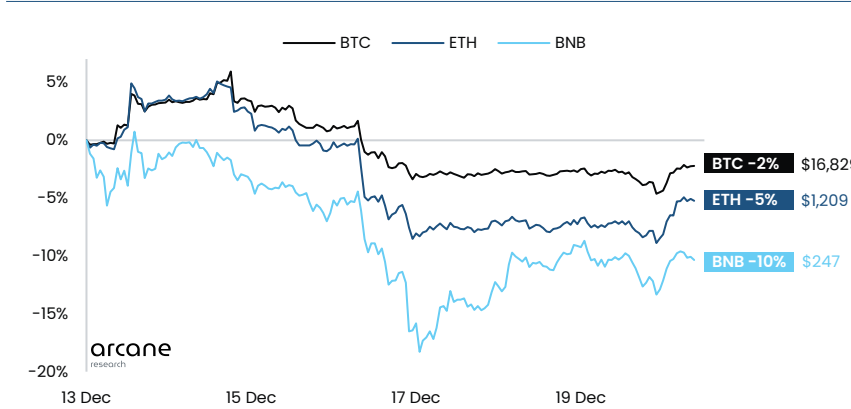
Volatility revisited the market last week, as BTC has touched both December highs and December lows in the past seven days in a week heavily influenced by macro events. Naturally, BTC's correlations to U.S. equities grew in the last seven days. A lower-than-expected CPI print caused a positive market reaction, followed by a similarly negative reaction to the FOMC press conference, where the FED hiked interest rates by an expected 50bps. At the same time, the FED median forecast surprised to the upside, showing rates at 5.1% for 2023.

ETH (-5%) followed BTC (-2%) closely in the past week, seeing slightly more downside while moving in a tightly correlated pattern. BNB (-10%) faced a more substantial downside as Binance experienced a bank run last week, with BTC net outflows amounting to 78,600 BTC over the last seven days. BNB has seen a strong recovery over the weekend, recovering more swiftly than BTC and ETH.

Grayscale provided investors with more clarity in the last week, leading the GBTC discount to narrow slightly from -48% to -46%. We cover Grayscale more in detail on [page 6](#).

Next week, we will change things up and publish a year-in-review report of this catastrophic year to be published on Thursday instead of our regular Tuesday market update. Per previous Holiday seasons, markets tend to be relatively idle during the holiday season, and we see few important macro events on the horizon, with the most notorious event coming up being closed markets due to the Christmas Holiday.

Figure 3: Top 3 Market Cap, Last Week

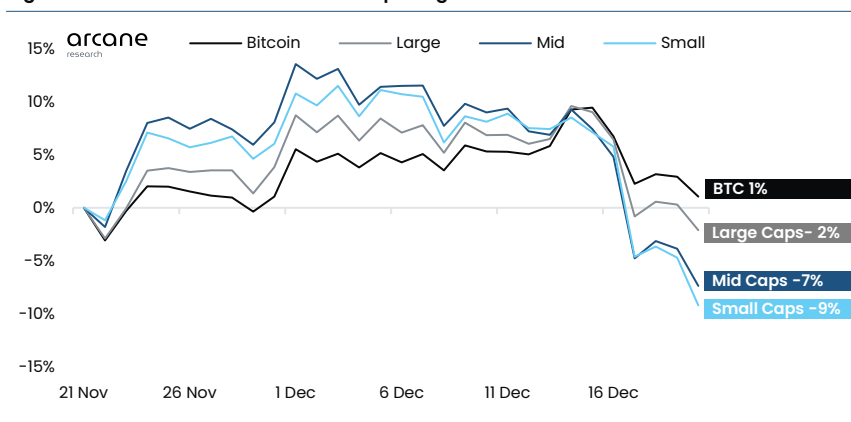


Source: Tradingview, (Coinbase, Binance U.S.)

Small and Mid Caps struggling amid market downturn

Smaller altcoins struggled last week. The crypto market fell in a correlated manner, but altcoins saw a more substantial downside, suggesting a rotation from alts into BTC and stablecoins. This is reflected in a 1.2% growth of BTC and stablecoins dominance, with BTC outperforming altcoins over a 30-day horizon, seeing a slightly positive return, while all our altcoin indexes sit in the red for the last 30 days.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

Headlines last week

[Visa proposes using StarkNet for automatic recurring payments](#)

[If Grayscale's Bitcoin ETF Dreams Fail, Firm May Try a Tender Offer, CEO Says](#)

[Bitcoin Addresses Tied to Defunct Canadian Crypto Exchange QuadrigaCX Wake Up](#)

[Crypto firm Voyager to sell assets to Binance.US in \\$1 bln deal](#)

[Embattled crypto lender Amber Group raises \\$300 million](#)

[PayPal Working With Crypto Wallet MetaMask to Offer Easy Way to Buy Crypto](#)

Calendar

Wednesday, December 21

- US CB Consumer Confidence
- US Existing Home Sales

Thursday, December 22

- UK GDP (Est: 2.4% YoY)
- US GDP (Est: 2.9% QoQ)

Friday, December 23

- US PCE (Est: 0.2% MoM)
- UK Early Close (Christmas)

Next Week

Monday, December 26

- Banking Holiday (Christmas). Markets closed.

Tuesday, December 27

- Banking Holiday (Christmas). Markets closed. NB! US Markets Open.

Friday, December 30

- Early Market Close, UK.

Spot Market

Growing trading volume in spot markets, when excluding Binance

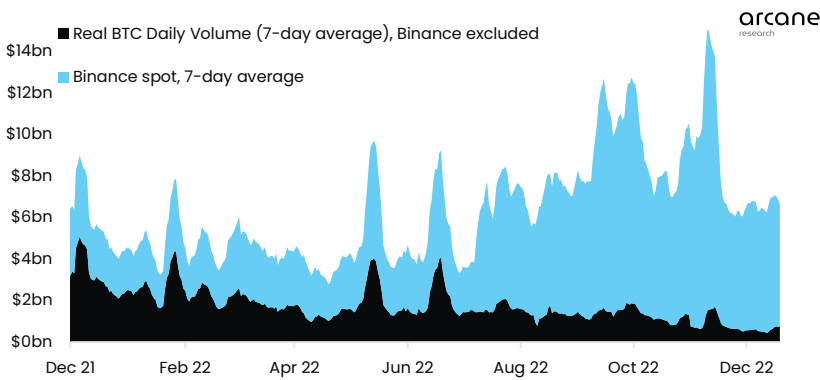
Most spot volumes have climbed this week in BTC. When excluding Binance, spot exchanges experienced a 52% growth in their 7-day average volume from \$498m to \$757m, which is the highest 7-day average volume recorded since November 19.

Binance, on the other hand, saw a slight decline in its trading volumes last week, falling from \$6.1bn to \$5.9bn. This has caused Binance's spot volume dominance to fall from 91.5% to 88.7% in the last week, still dominating the spot market. The decline in Binance's trading volumes may be attributed to the burdensome news storm mentioned last week, leading to a bank run on the exchange. Binance saw net BTC outflows of 78,600 BTC from December 11 to December 18, as their BTC balances declined to 565,000 BTC.

Fear and Greed

Now: 29 (Fear)
Last week: 27 (Fear)
Last month: 24 (Extreme Fear)

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



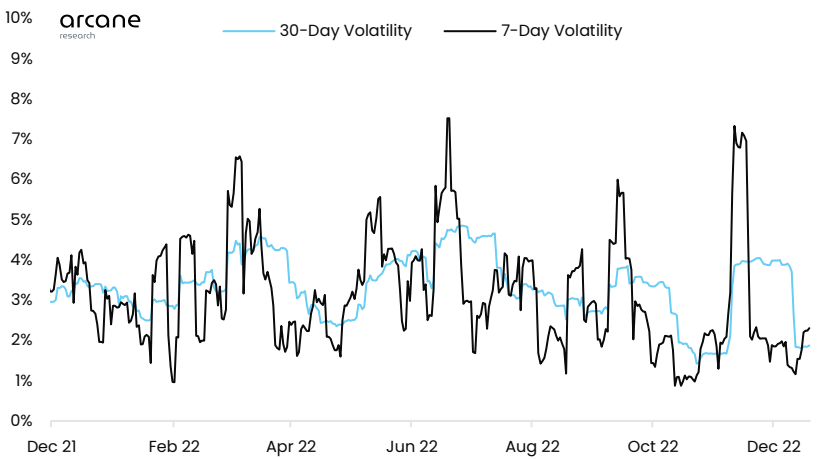
Source: Tradingview *Includes Bitwise 10 exchanges

Slight growth in short-term volatility

In the past week, BTC has touched both December highs and December lows, leading BTC's seven day volatility to climb to 2.3%. The 30-day volatility has stabilized at 1.9%, as BTC stays well within its consolidation range from the FTX fallout.

The revitalized volatility has been caused by macro events, with highs being reached following the promising CPI release and lows being visited in the days following the FOMC meeting, where BTC has nosedived alongside U.S. equities. The coming macro weeks are far quieter with few known catalysts, and the market could face a new slowdown as we near the end of this otherwise dreadful year.

Figure 6: BTC-USD Volatility

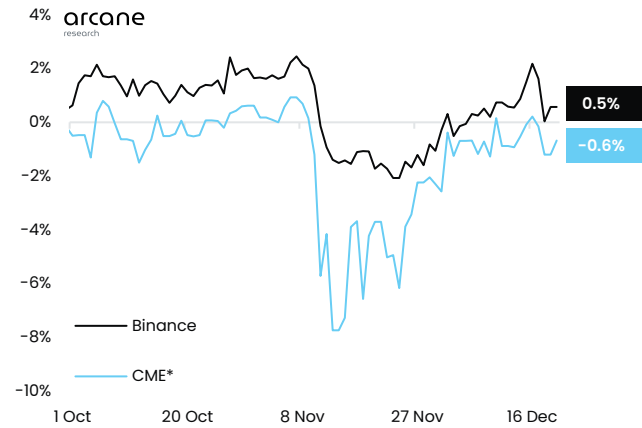


Source: Tradingview (Coinbase)

Derivatives

CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis



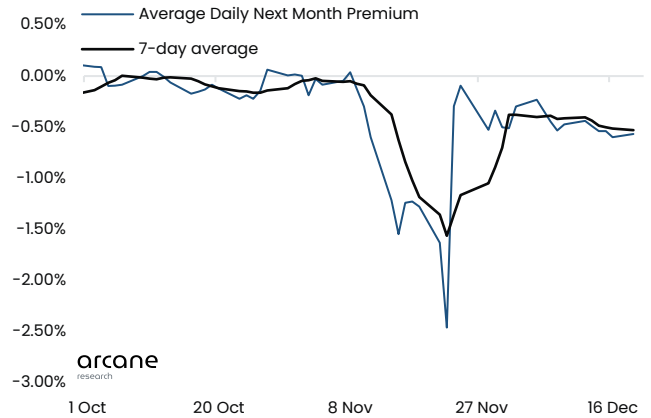
Source: Skew, Laevitas, Tradingview, CME
*Closed Saturday - Sunday

Futures basis unchanged from last week

Apart from the futures basis hitting a 30-day high on December 15 as BTC traded above \$18,000, futures have mostly traded on par with the spot market.

CME still trades below spot and the offshore futures market, with no material changes in the structure over the last week.

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



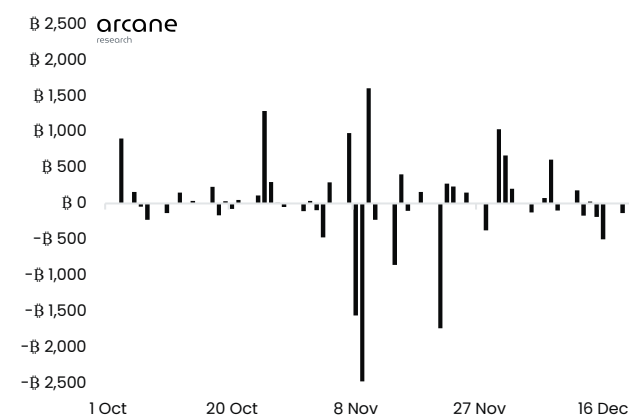
Source: Tradingview

Backwardation deepens

The futures-term structure has drifted into a deeper backwardation as we approach the futures settlement on December 30. This indicates that institutional market participants stay cautious.

We expect the backwardation to remain deep until ETFs begin rolling exposure, as we saw in November. BITO will likely initiate the rolling process on Friday this week due to fewer trading days next week

Figure 9: ProShares: Net Flow – BTC Equivalent

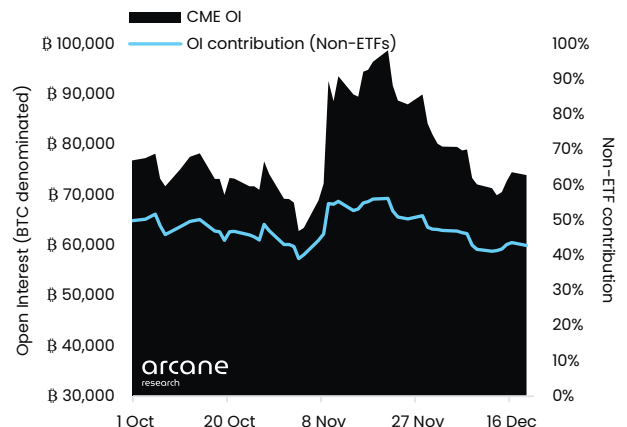


Source: ProShares

Short flows uptick

In the last few weeks, the net flows from ProShares' BTC ETFs have primarily been related to flows in BITI, ProShares' short BTC ETF. Last week saw substantial inflows to BITI, and while the extreme flows in November dwarves the current flows, we note that Friday saw the fifth largest inflow into BITI in Q4, 2022. This illustrates that downside bets prevail as the leading force in BTC ETFs.

Figure 10: CME BTC Futures: Open Interest



Source: Coinglass, ProShares, Valkyrie, VanEck

Open interest sees slight uptick amid downside market

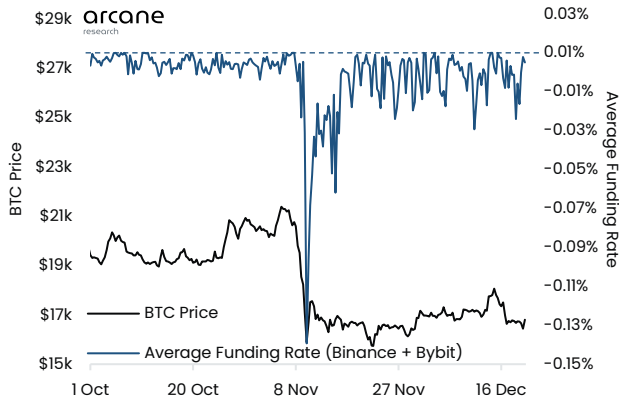
The open interest on CME has grown by 3,985 BTC in the last week, with ETF flows accounting for 1,250 BTC of the growth and active market participants for the remaining 2,735 BTC. This is the first sign of increased participation from active market participants since November 27.

Nonetheless, the trend in CME's OI is predominantly flat, indicating that institutional traders have a hands-off approach to the market as we enter the Holiday season.

Derivatives

Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



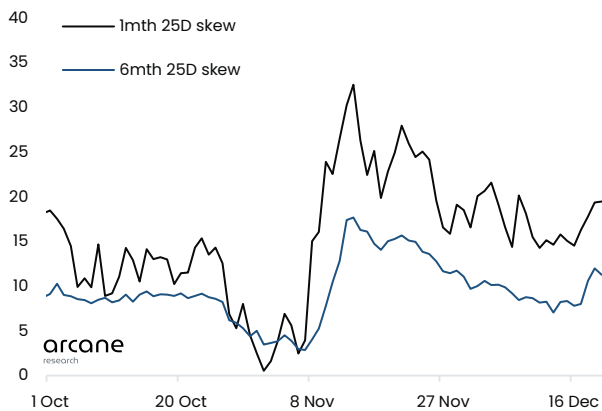
Source: Bybit, Binance, Tradingview (Coinbase)

Erratic perps

Perps continue to trade erratically, with funding rates fluctuating vividly at or below neutral terrain. Since the FTX collapse, funding rates have been far more volatile than in October, frequently pushing into deep negative levels.

Due to several important macro events, BTC perps saw growing trading volumes during last week's volatile conditions. On Tuesday last week, the 7-day average perp volume reached a multi-year low of \$10.3bn and has since climbed to \$15bn. Still, \$15bn remains shallow compared to volumes seen throughout the last two years, and volumes could very well fall again as we enter the Holiday season.

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

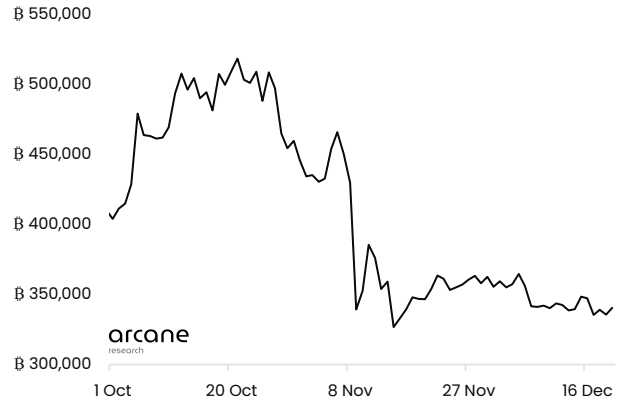


Source: Laevidas

Growing demand for puts

Options skews have once again grown over the weekend, with BTC facing downside momentum, leading the 6mth Skew to push to its highest level since November 27 as options traders still strive to build downside protection.

Figure 12: Bitcoin Perpetuals: Open Interest



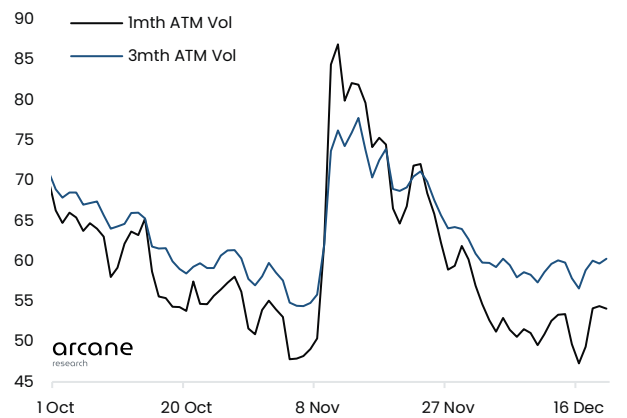
Source: Laevidas

Open interest in perps flat for the week

The higher trading activity in perps is not reflected in the open interest, which remains flat compared to last week sitting at 340,000 BTC.

This suggests that most of the past week's growth in trading volume originated from short-term repositioning and hasty trading, with no noticeable effect on leverage in the market.

Figure 14: BTC Options - Implied Volatility



Source: Laevidas

Implied volatility stays low

The 1mth implied volatility fell to new yearly lows on December 16 but climbed quickly as BTC once again pushed below \$17k. However, the implied volatility remains at shallow levels, with the 3mth IV staying below 60, maintaining an opportune structure for traders seeking to bet on increased volatility through straddles.

A deeper dive

Grayscale updates investors

Developing GBTC situation

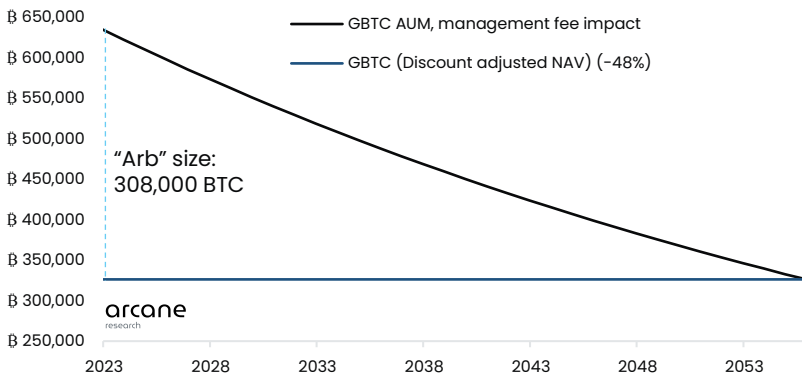
Grayscale still pursues an ETF conversion while the discounts are widening further. An Investor Letter published on Monday shed light on the situation. Grayscale will provide a response brief to the SEC by January 13, and the final written briefs will be published by February 3. Then, a three-judge panel will be selected to hear oral arguments and rule on the case. We do not know when this ruling will occur.

If Grayscale loses the case, the company will try to initiate a tender offering, enabling certain shareholders to convert GBTC to BTC in a one-time redemption. This would likely have implications for the GBTC discounts, leading them to narrow and also helping alleviate some of the balance sheet liquidity issues from distressed crypto lenders. This process is not straightforward, though, as Grayscale would need two approvals. One relief approval from the SEC and shareholder approval.

The letter also included important nuance, with Grayscale emphasizing that they are a separate and distinct legal entity from Genesis Global Capital, which in turn indicates that GBTC, ETHE, or any other Grayscale funds are not exposed legally to a potential Genesis Chapter 11.

The Grayscale trust's discounts have widened further over the last week. GBTC trades at a 48.9% discount to NAV and ETHE at a 52.5% discount. GBTC holds 3.3% of the circulating BTC supply, and ETHE holds 2.5% of the circulating ETH supply. The discounts suggest that the market is not convinced of a favorable Grayscale outcome related to either ETFs or tender offering and illustrates the overhang from the leveraged "arb" trade back in 2020 and 2021.

Figure 17: GBTC Management Fee Impact



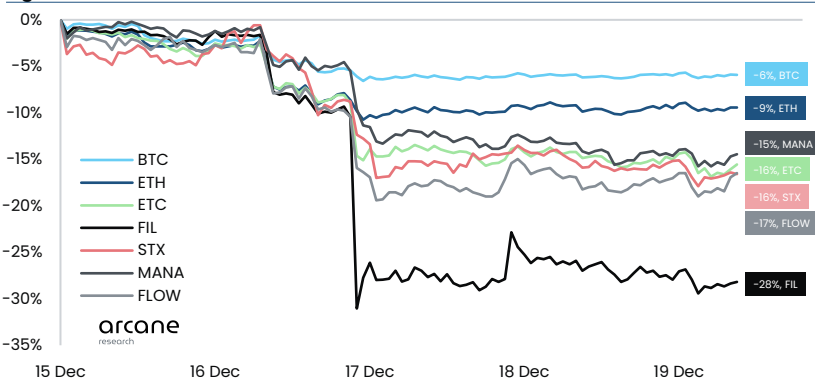
Source: Grayscale, Arcane Research

The dangers of a 308,000 BTC "arbitrage" opportunity

The current discount on GBTC in isolation represents an opportune environment for a potential "arbitrage" play. The 48.9% discount implies Grayscale remaining close-ended until 2055. At the current size of the fund, a potential arbitrage amounting to a spread trade involving a massive 308,000 BTC is available. In a scenario where Grayscale wins, a long Grayscale, short BTC trade could have massive negative short-term implications for BTC.

Outside of Grayscale, we note massive plunges in DCG related tokens, with FIL falling 30% late Friday.

Figure 16: Price Performance: BTC, ETH + Various DCG related tokens: Dec 15-19



Source: Tradingview (Coinbase)

A deeper dive

Up and down: Macro leading markets

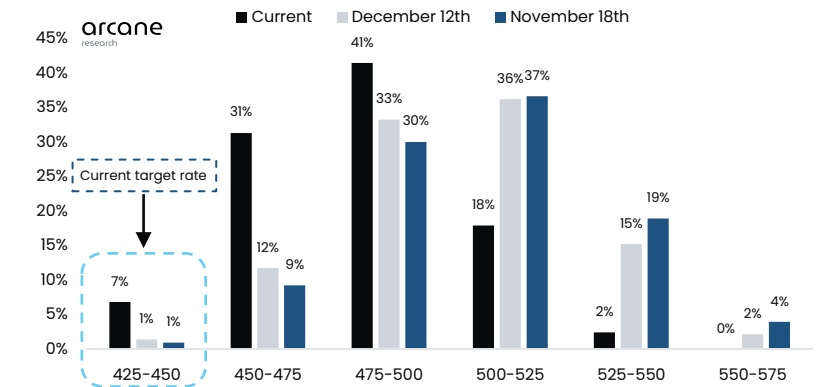
A roller coaster week, sponsored by the CPI and FOMC

The last week was a hectic macro week, with Bitcoin's price movements being heavily influenced by the CPI release and FOMC press conference, up and down and back to square one.

The CPI release offered a pleasant surprise, as inflation came in 0.2% lower than anticipated, leading to a stint of optimism in the market. The coming CPI releases will be based on different weighting by the BLS due to the annual weighting update based on a single calendar year of data. This update will likely lead to a larger weighting of service industries, as 2022 has seen a rotation back into services due to covid reopenings. This may impact the coming CPI releases.

A hawkish FOMC meeting was the most important event, with a unanimous committee agreement of increasing rates to 5% in 2023 and maintaining that level throughout 2023, setting the stage for tight conditions throughout the next year. However, all was not negative, as Jerome Powell suggested smaller hikes onwards, with a possible 25bps hike following the next meeting. The market has positioned for a stabilizing interest rate regime next summer, pricing a 4.75% target as more likely than a 5% for July 2023. Before the FOMC, the market was positioned for a stricter hiking regime, then a 5% target rate following the July 26 conference was the most likely outcome.

Figure 17: Target Rate Probabilities For July 26, 2023 FOMC Meeting



Source: Tradingview (Coinbase, CME Group)

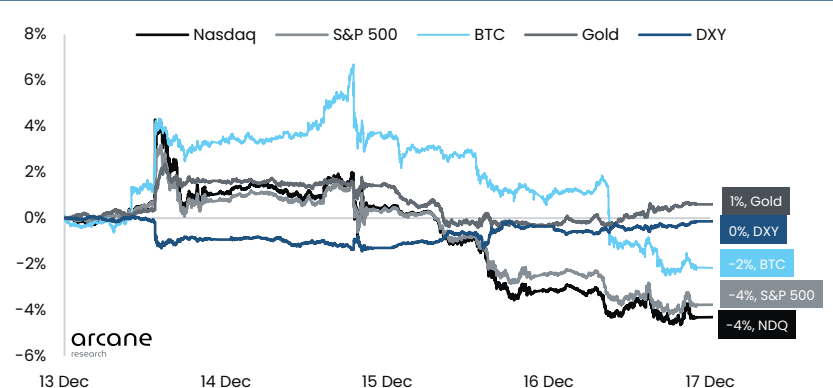
Up and back to square one

Bitcoin saw a breath of optimism before and following the CPI release, pushing prices to a monthly high of \$18,400. However, as the FOMC press conference unfolded, momentum quickly stalled, and BTC faced headwinds alongside U.S. equities.

In general, BTC moved in tight correlation with U.S. equities throughout the last week, with the CPI leg up, the FOMC press conference downside reaction, and the Friday sell-off occurring across risk-asset classes.

In sum, this correlated response to important macro developments suggests that correlations with other risk assets will remain relevant in BTC's price discovery onwards. The implication is that investors should pay close attention to signals from the Federal Reserve, also in the year ahead.

Figure 18: BTC versus other assets: Dec 13-Dec 17

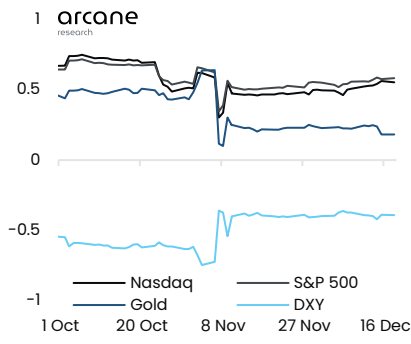


Source: Tradingview (Coinbase, CME Group)

Market Related Charts

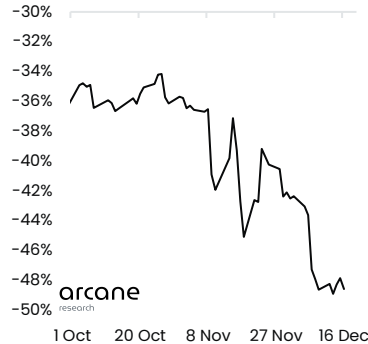
Data updated Monday Dec 19, 2022

Figure 19: BTC 30-d correlations*



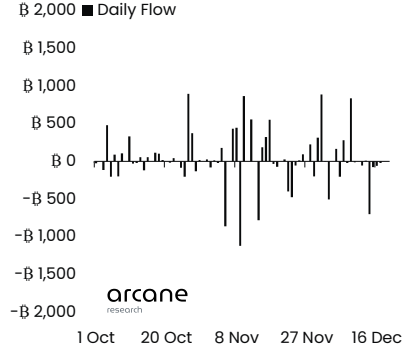
Source: Tradingview *Pearson

Figure 20: Grayscale Premium/Discount



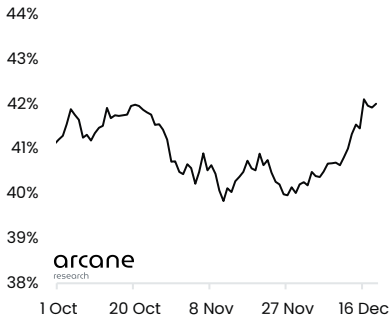
Source: Ycharts

Figure 21: Daily Flows (BTC ETFs)



Source: Bytetre

Figure 22: BTC Dominance



Source: Tradingview

Figure 23: BTC + Stables Dominance

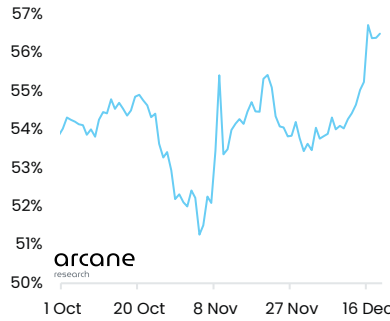


Figure 24: BTC + Stables + ETH Dominance

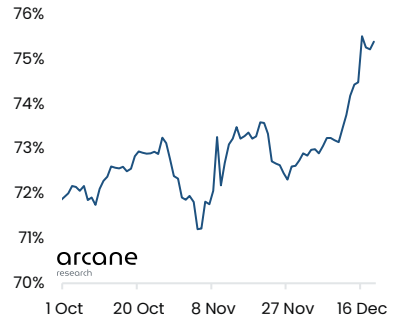
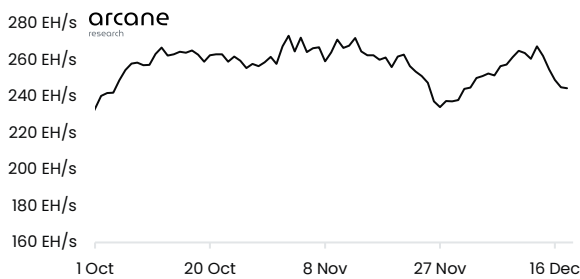
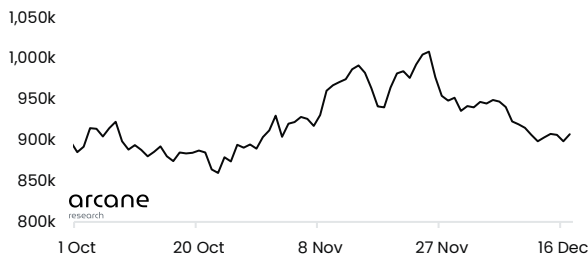


Figure 25: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 26: Active Addresses (7-day average)



Source: Coinmetrics

Figure 27: On-chain statistics

| Powered by | 18/12/2022 | 7d Change |
|-----------------------|--------------|-----------|
| BYTETREE | | |
| Daily Miner Revenues | \$15,722,614 | -5.43% |
| Fees per day | \$262,190 | -3.27% |
| Fees % Revenues | 1.67% | 0.04% |
| Daily TX Volume (\$M) | \$3,270 | 28.36% |
| Transactions per day | 261,709 | 1.90% |
| Avg TX value \$ | \$12,496.52 | 25.97% |
| # Blocks per hour | 5.99 | -6.24% |
| Avg. # TX per block | 1821 | 1.90% |

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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