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research

Market Research
Dec 13, 2022

Ahead of the curve
Market Update

Busy macro week
Bitcoin has stabilized further in the last week, trading in a tight range at $17k, pushing the 7-day volatility to new lows (page 3), while GBTC's discounts have widened to -48%. ETH trades in tandem with BTC, leading the correlation to push towards unusual highs, as illustrated on page 6. The crypto market is idle. The brief stint of vibrant institutional activity on CME has halted, evident by CME's OI nosediving, pushed by a sharp decline from active market participants.

While BTC and ETH have both risen modestly in the past week, BNB has seen a steep 8% drop in price. This downward trend can be attributed to a series of challenging circumstances surrounding Binance, such as the possible money laundering charges being considered by US prosecutors, the ongoing feud between Binance and Coinmamba, leading Binance to suspend Coinmamba and share customer support messages in public, and Binance's failure to disclose liabilities in their Proof of Reserves. These events have contributed to a decrease in BNB in addition to causing an uptick in exchange outflows from Binance.

Important macro catalysts ahead
While Bitcoin has stabilized around $17k with no material action in the last few weeks, this week could be volatile due to several important economic events. Today's CPI release today came in lower than expected at an MoM growth of 0.1%, leading BTC to push toward $18,000. Tomorrow's FOMC will likely cause a sharper market reaction, and market participants are currently pricing in an 80% chance for a 50bps hike vs. a 20% chance for a 75bps hike. In addition to the nearest hike, clues provided by Jerome Powell regarding the forecasted hiking schedule for 2023 will likely contribute to causing a volatile environment. Also, the BoE and ECB will hike interest rates this week, which may have spill-over effects on bitcoin as it may directly impact dollar strength.

Correlations between BTC and the Nasdaq appear to be reappearing. Figure 1 illustrates correlations at a granular hourly level based on minute returns of BTC and Nasdaq. The dark blue line illustrates correlations from November 28 until December 12, indicating that BTC is following the Nasdaq more closely now than it did back in November. In other words, with all these macro-economic catalysts and reappearing correlations in play, it may be time to buckle up and prepare for volatility.

Inflated and artificial open interest?
In the past year, the BTC futures market has experienced major changes, with some exchanges experiencing huge growth in open interest. However, we have doubts about the validity of the data supplied by certain entities, as some may be inflating their numbers to appear more significant. To better understand open interest relative to assets held on an exchange, we gauge open interest relative to disclosed proof of reserves. Although a high OI to PoR ratio does not necessarily mean malicious activity is taking place, it is still something to be aware of.

The exchange with the highest OI to reserves ratio is Bitget at 680%, followed by Phemex at 361% and Bybit at 153%. If you seek to trade derivatives, a cautious approach may be to avoid the exchanges with the highest OI relative to reserves.

Digital Assets

Signals from the market

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By the numbers

BTCUSD $17,905 7d: **5%** 30d: **5%**	**ETHUSD** $1,339 7d: **6%** 30d: **4%**

Open Interest (BTC futures and perps)
$8.3bn
484,000 BTC (**-4.5%** last seven days)

Average daily BTC spot volume
$6.3bn (**-8%** last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DXY
0.89 (0.00)	0.32 (0.01)	0.56 (0.00)	-0.45 (-0.02)

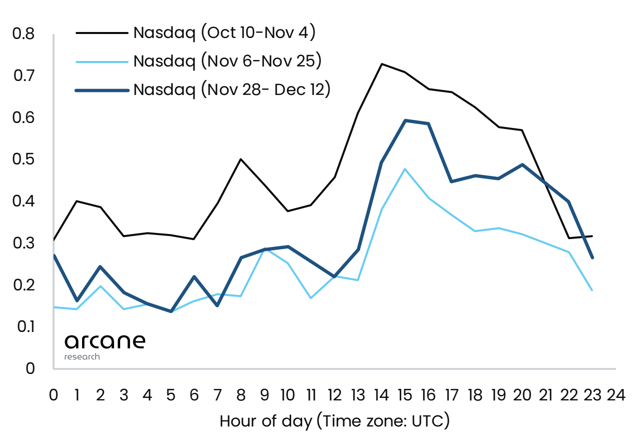
Percentage of Total Market Capitalization
Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
39.1% (0.8%)	18.3% (0.3%)	15.4% (0.1%)	27.1% (-1.2%)

Last week of top 50 by market cap

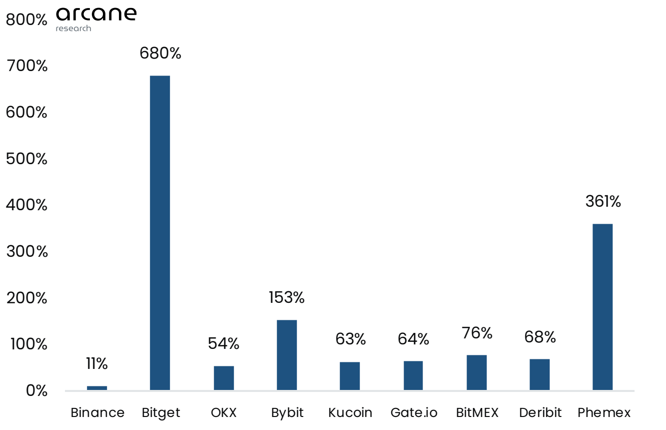
	Ticker	7d	YTD
Gainers			
1	TON	25%	-18%
2	BSV	14%	-62%
3	EOS	4%	-69%
Losers			
1	FLOW	-17%	-90%
2	AXS	-17%	-92%
3	DOGE	-13%	-49%

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



Source: Tradingview (Coinbase, CME Group)

Figure 2: Cumulative BITI returns since launch



Source: Coingecko, Binance, Bitget, OKX, Bybit, Kucoin, Gate, BitMEX, Crypto.com, Phemex, Huobi

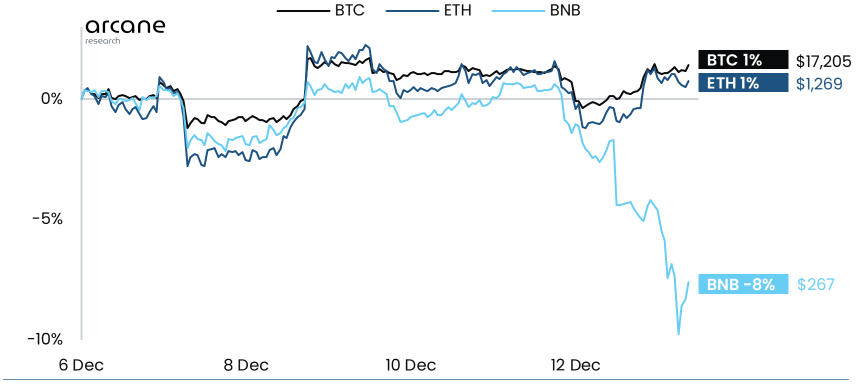
Spot Market

Busy macro week
Bitcoin has stabilized further in the last week, trading in a tight range at $17k, pushing the 7-day volatility to new lows (page 3). ETH trades in tandem with BTC, leading the correlation to push towards unusual highs, as illustrated on page 6. The crypto market is idle. The brief stint of vibrant institutional activity on CME has halted, evident by CME's OI nosediving, pushed by a sharp decline from active market participants. While BTC reigns directionless, this week offers several potential volatility catalysts due to a myriad of important macro events, in particular, related to Wednesday's FOMC press conference.

While BTC and ETH have both risen modestly in the past week, BNB has seen a steep 8% drop in price. This downward trend can be attributed to a series of challenging circumstances surrounding Binance, such as the possible money laundering charges being considered by US prosecutors, the ongoing feud between Binance and Coinmamba, leading Binance to suspend Coinmamba and share customer support messages in public, and Binance's failure to disclose liabilities in its Proof of Reserves. These events have contributed to a decrease in BNB in addition to causing an uptick in exchange outflows from Binance.

Elsewhere, we note a further widening of the GBTC discount, currently sitting at a massive 48%. In addition, Sam Bankman-Fried was arrested in the Bahamas on Monday evening. The last week has seen further disclosures of Alameda's vast array of investments, with the biggest Alameda investment being a $1bn investment in the enormous private bitcoin miner Genesis Digital Assets.

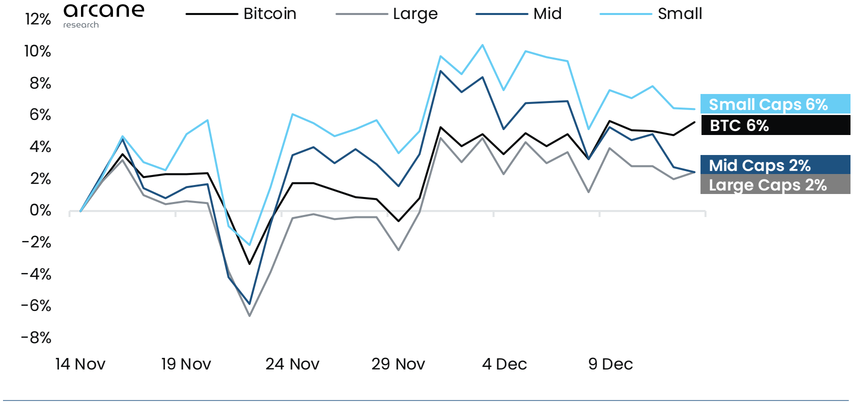
Figure 3: Top 3 Market Cap, Last Week



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

Flat since the storm
All crypto indices have traded in a low volatility flat regime in the last 30 days, following BTC closely. The strong correlation between the indices and BTC suggests that market participants are largely passive at the moment, with few notable rotations evident to or from altcoins.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

Headlines last week

FTX Founder Sam Bankman-Fried Arrested in the Bahamas

US SEC Charges Sam Bankman-Fried for Defrauding FTX Investors

U.S. Justice Dept is split over charging Binance as crypto world falters

Gensler Says SEC Is Fine Going After Crypto With Its Current Authority

Bitcoin Miner Argo Blockchain Says It's Close to Restructuring Without Having to Declare Bankruptcy

Calendar

Tuesday, December 13
- U.S. CPI (Actual MoM: 0.1% (Exp: 0.3%)
- FTX House Hearing

Wednesday, December 14
- FOMC Press Conference (Est: 50bps)
- UK CPI (Est: 10.7% YoY)

Thursday, December 15
- BoE Rate Decision (Est: 50bps)
- ECB Rate Decision (Est: 50bps)

Spot Market

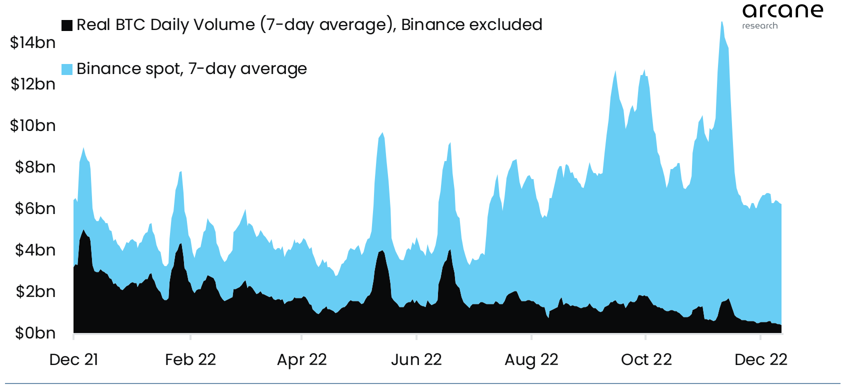
Fear and Greed

Now: 27 (Fear)
Last week: 25 (Extreme Fear)
Last month: 22 (Extreme Fear)

Nothing new under the sun – market standstill ensues
Volumes outside of Binance keep on falling. Last week's lows of $510m were broken as the 7-day average trading volume reached $436m on Monday, December 12.

Trading volume is the bread and butter of exchanges, and the current inactive trading regime directly affects their revenues. This has obvious second-order implications. To prepare for slower days, Kraken, Bybit, and BitMEX have recently announced a headcount reduction of 30% to withstand a market slumber. New restructuring and headcount reductions may occur onwards as crypto businesses are pressured due to lackluster speculative demand in crypto.

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

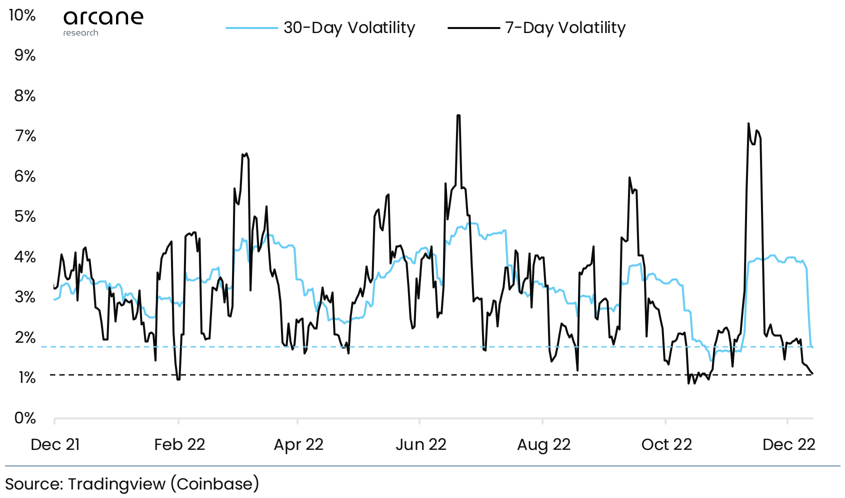


Source: Tradingview *Includes Bitwise 10 exchanges

Volatility plunging towards yearly lows
Bitcoin has traded stubbornly in a completely flat environment over the last seven days, sitting firmly at $17k. This has caused the 7-day volatility to drop to 1.1%, the lowest reading since late January and mid-October 2022. The 30-day volatility has also taken a nosedive, as time has passed from the market impact of the FTX collapse. Currently, the 30-day volatility sits at 1.8%. In the past year, bitcoin has only experienced a lower 30-day volatility in October, illustrating the flat and stable market conditions of late.

While bitcoin reigns eerily flat, this week is filled with macro catalysts that might reignite the market, in particular related to Wednesday's FOMC press conference (page 6). As implied volatilities falls (page 5), straddles might be a promising short-term trading strategy.

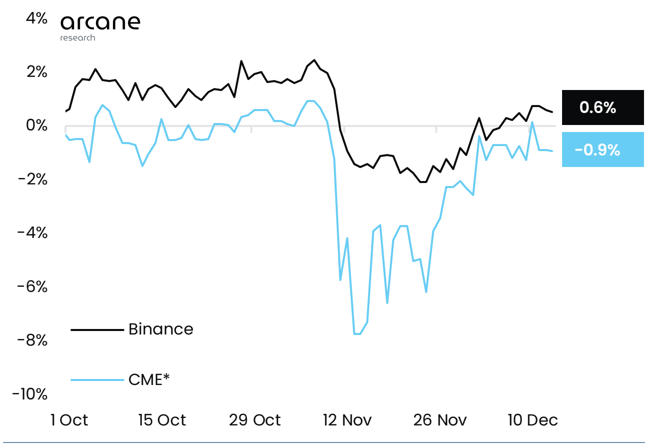
Figure 6: BTC-USD Volatility



Source: Tradingview (Coinbase)

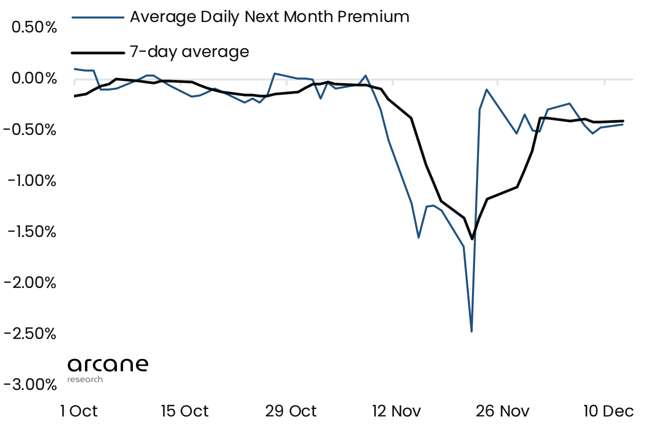
Derivatives
CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis



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

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



Source: Tradingview

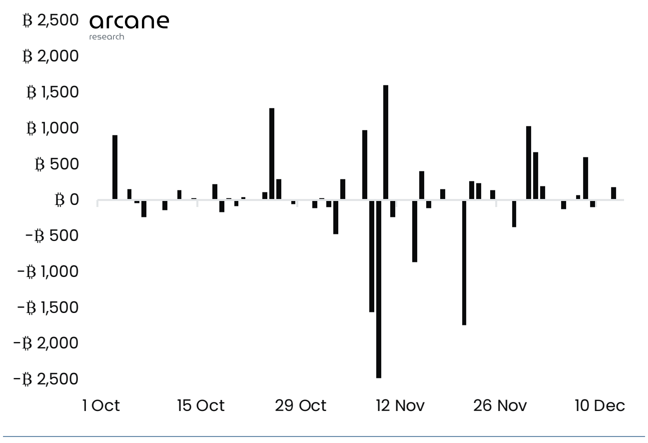
Stabilizing futures basis
Over the past seven days, the futures market has been trading in a largely flat basis regime, with CME's 3 month futures trading at an annualized negative basis of -1%. This regime has been consistent throughout December, with a marked decrease in institutional trader participation (as seen in Figure 10).

On Tuesday morning, CME's futures briefly climbed to a premium, as CME futures reached $18,000 on increased trading volumes while bitcoin simultaneously pushed to a one-month high of $17,500 on Binance. The premium was short-lived, however, and CME is now trading flat versus the spot market.

Futures term-structure still in backwardation
CME's BTC traders continue to remain conservative on the platform as the futures-term structure stays in a state of backwardation. The next-month contracts have been trading at a 50bps discount compared to the front-month contract, a trend that has been consistent over the past few weeks.

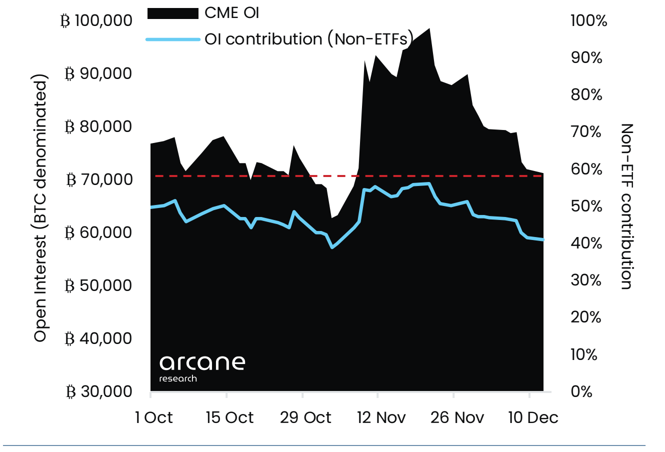
Furthermore, the volume for the next-month contracts has been rather low, with the majority of the flows coming from the nearest contract.

Figure 9: ProShares: Net Flow – BTC Equivalent



Source: ProShares

Figure 10: CME BTC Futures: Open Interest



Source: Coinglass, ProShares, Valkyrie, VanEck

Flat flows in Proshares' ETFs this week
ETF flows have been relatively subdued in the last week, with no significant inflows or outflows. This mirrors the general directionless, somewhat apathic tendencies witnessed in BTC's spot and derivatives market.

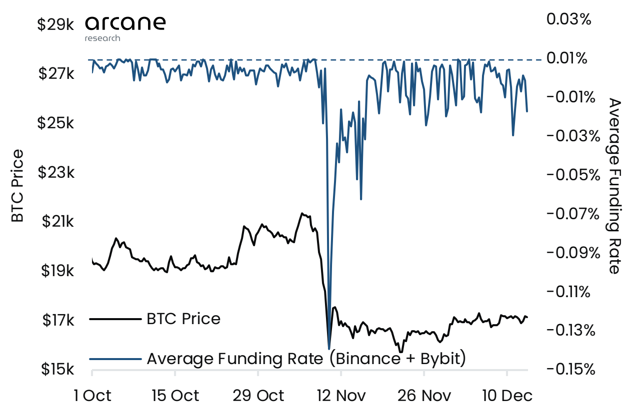
Still, the slow flows also indicates that ETF traders have allocated a satisfying exposure to express their market view, with a healthy share of both short and long exposure through ProShares' ETFs and no material changes over the past seven days.

CME's BTC OI down to mid-October levels
Open interest on CME has retraced to October levels, with open interest currently sitting at 71k BTC. As ETF flows remain stagnant, this decline in open interest may be explained by active market participants exiting positions. The share of open interest held by active institutional market participants has fallen to 41% from 56% on November 21.

The brief stint of vibrant institutional market participation has thus died down, and institutional speculators have resumed to a hands-of exposure to bitcoin.

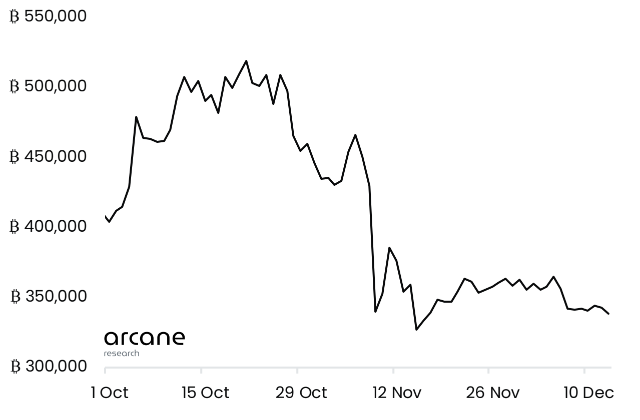
Derivatives
Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Bybit, Binance, Tradingview (Coinbase)

Figure 12: Bitcoin Perpetuals: Open Interest



Source: Laevitas

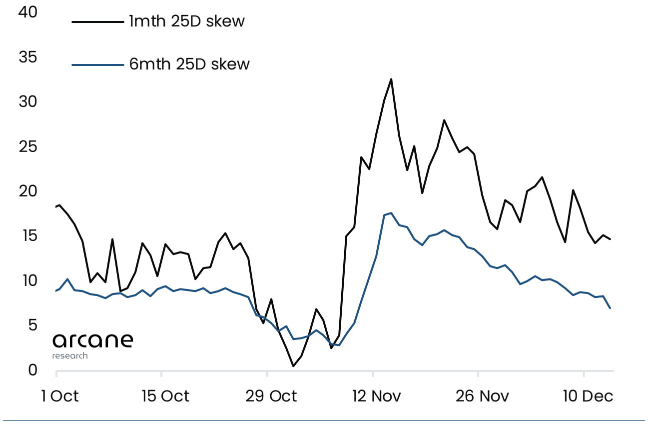
Funding rates slightly more negative
Funding rates have been slightly more negative throughout the week compared to what we saw in late November.

Perpetual swaps are also exposed to a noticeable plunge in trading activity. Activity in perps remains exceptionally low, and trading volumes continue to trail at multi-year lows, suggesting that the speculative appetite in the market remains severely reduced.

Open interest see slight decline
The open interest in perps has declined further, currently sitting at 339,000 BTC, down from 357,000 BTC last week. Most of the decline originates from a sharp reduction in Binance's BTCUSDT perp, as we elaborate on page 7.

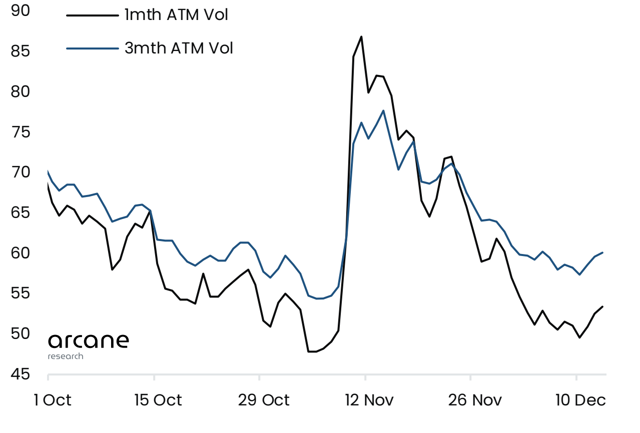
In essence, while open interest has fallen, there have been no material changes to neither sentiment, leverage, or activity in perps over the past week.

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



Source: Laevitas

Figure 14: BTC Options – Implied Volatility



Source: Laevitas

Skews gradually trending lower, but demand for puts still high
Options skews still trail in positive terrain, albeit at a slightly downward trending path. The 6mth skew currently sits at 7, on par with levels from mid-October. Similarly, the 1mth skew has retraced back towards mid-October levels.

Yet, puts still remain in high demand as skews stay firmly positive, suggesting that downside protection remains the key priority in the market.

IV also back to Mid-October levels
Implied volatility (IV) has stabilized at shallow levels alongside a fall in realized volatility due to BTC stabilizing at $17k. The current IV levels now reflect levels seen in Mid-October, similar to our observations related to both CME's OI and within options skews.

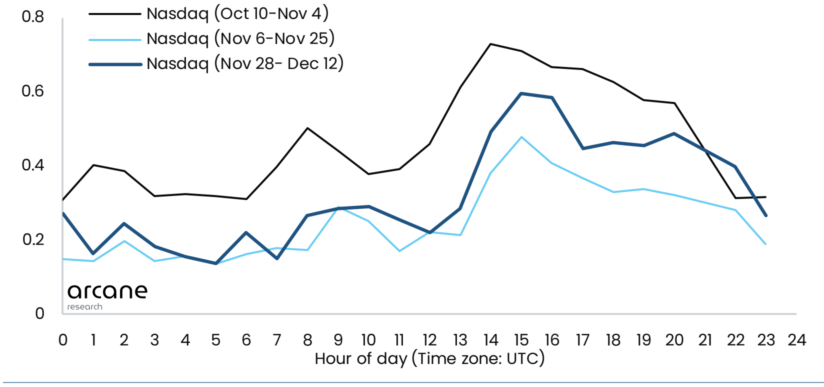
The 3 month IV currently sits at 60, which has previously been an attractive area for straddle strategies.

A deeper dive
A Big Macro Week

Important macro catalysts ahead
While Bitcoin has stabilized around $17k with no material action in the last few weeks, this week could be volatile due to several important economic events. Today's CPI release today came in lower than expected at an MoM growth of 0.1%, leading BTC to push toward $18,000. Tomorrow's FOMC will likely cause a sharper market reaction, and market participants are currently pricing in an 80% chance for a 50bps hike vs. a 20% chance for a 75bps hike. In addition to the nearest hike, clues provided by Jerome Powell regarding the forecasted hiking schedule for 2023 will likely contribute to causing a volatile environment. Also, the BoE and ECB will hike interest rates this week, which may have spill-over effects on bitcoin as it may directly impact dollar strength.

Though the market has become less correlated since the aftermath of FTX's collapse, correlations appear to be reappearing. The chart below illustrates correlations at a granular hourly level based on minute returns of BTC and Nasdaq. The dark blue line illustrates correlations from November 28 until December 12, indicating that BTC is following the Nasdaq more closely now than it did back in November. In other words, with all these macro-economic catalysts and reappearing correlations in play, it may be time to buckle up and prepare for volatility.

Figure 15: Average rolling 60 minute correlation, Nasdaq and BTC

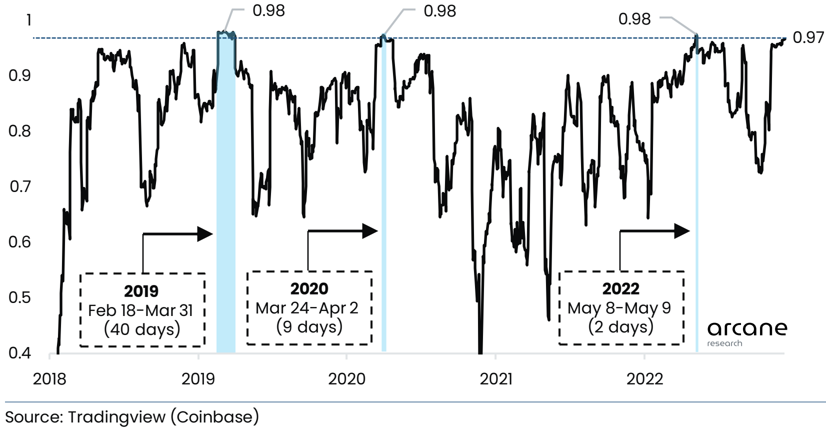


Source: Tradingview (Coinbase, CME Group)

Speaking of correlations: ETHBTC 30-day correlation
The 30-day correlation between ETH and BTC currently sits at 0.97. This is extremely high, and the rolling 30-day correlations between ETH and BTC have only been higher in three periods prior to this. First, from February 18 to March 31, 2019. This was a slow period in the market, as bitcoin reigned directionless at $4k throughout March, with ETH following BTC closely. Correlations firmed as BTC rallied from early April till the end of June. The second period of higher correlation than the current lasted for 9 days from March 24 to April 2, 2020, after the COVID meltdown. The third period occurred this year and lasted for two days, from May 8 to May 9.

In general, the very strong correlation depicts an inactive market with no substantial altcoin rotation. Additionally, it illuminates an apathetic behavior by traders, in which two of three previous events have eventually led to an upside price movement.

Figure 16: Rolling 30-day correlation, ETH and BTC



Source: Tradingview (Coinbase)

A deeper dive

Open Interest versus PoR

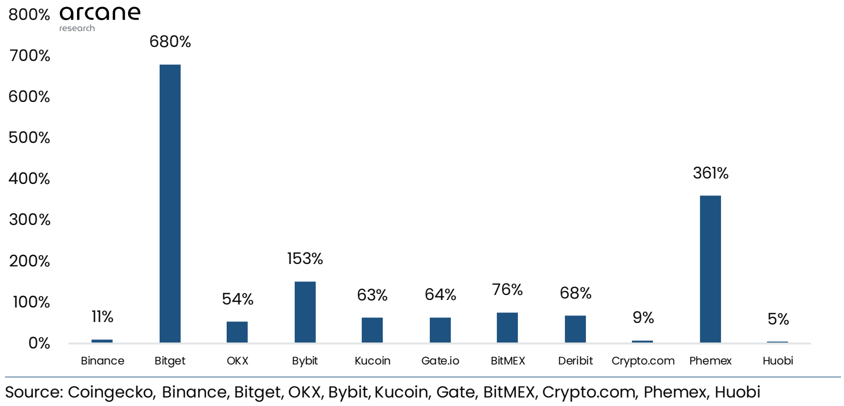
Various exchanges have gradually presented Proof of Reserves (PoR) in the last month, with certain exchanges being critiqued for running Agreed-Upon Procedures. Nevertheless, it is still great to see a push toward more transparency by offshore exchanges.

In the past year, the BTC futures market has experienced major changes, with some exchanges experiencing huge growth in open interest. However, we have doubts about the validity of the data supplied by certain entities, as some may be inflating their numbers to appear more significant. To better understand open interest relative to assets held on an exchange, we gauge open interest relative to disclosed proof of reserves. Although a high OI to PoR ratio does not necessarily mean malicious activity is taking place, it is still something to be aware of.

The exchange with the highest OI to reserves ratio is Bitget at 680%, followed by Phemex at 361% and Bybit at 153%. If you seek to trade derivatives, a cautious approach may be to avoid the exchanges with the highest OI relative to reserves.

While BitMEX and Deribit's OI to reserves ratio may seem high, it's important to understand that Deribit solely offers derivatives, and traders at Deribit are likely more inclined to be active with the deployed capital. In our opinion, Binance, OKX, BitMEX, and Deribit are reasonable venues to use for active trading, with BitMEX and Deribit currently being underappreciated for their straightforward isolated margin structure, simplicity, and long-lasting transparency.

Figure 17: Open Interest relative to Proof of Reserves



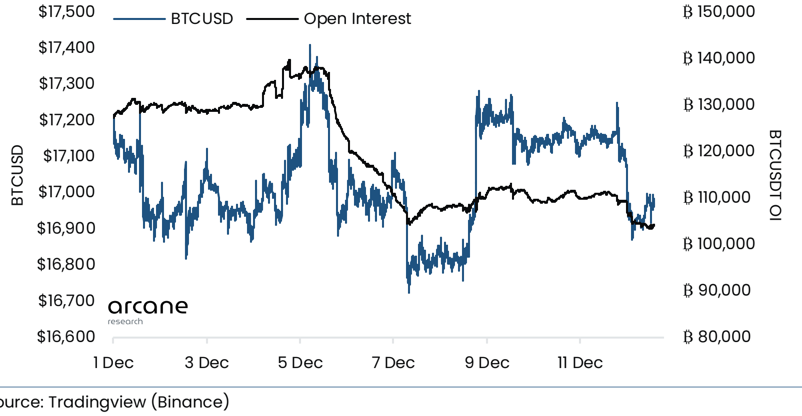
Source: Coingecko, Binance, Bitget, OKX, Bybit, Kucoin, Gate, BitMEX, Crypto.com, Phemex, Huobi

Binance deleveraging

The open interest in Binance's BTCUSDT perp has seen a substantial fall in the last week and fell by 32,000 BTC from December 5 to December 7, with no meaningful impact on BTC prices, which hovered at around $17k in the period, albeit on a slight downtrend.

This combination of large changes to Binance's OI and a lack of price volatility is similar to what was seen last December, leading certain traders to question the accuracy of Binance's OI data. The dampened price impact could also potentially be caused by an OTC transaction between two entities on opposite sides of the market.

Figure 18: Binance: BTCUSDT Perp

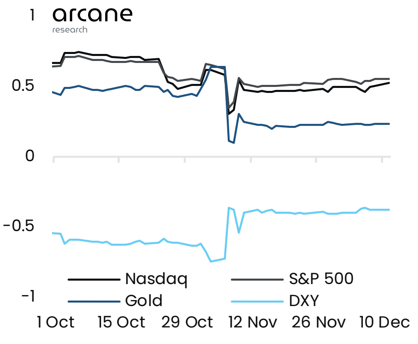


Source: Tradingview (Binance)

Market Related Charts

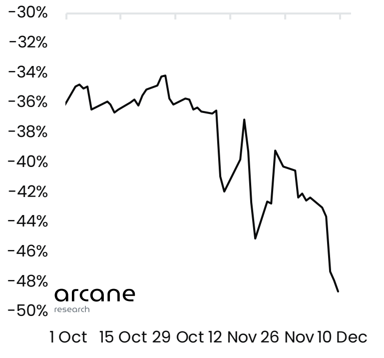
Data updated Monday Dec 12, 2022

Figure 19: BTC 30-d correlations*



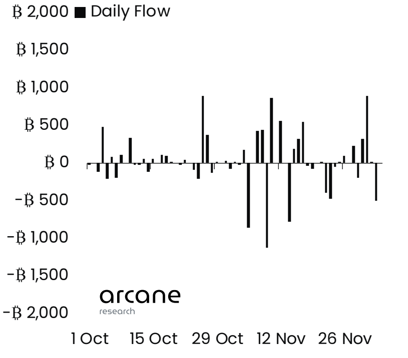
Source: Tradingview *Pearson

Figure 20: Grayscale Premium/Discount



Source: Ycharts

Figure 21: Daily Flows (BTC ETFs)



Source: Bytetree

Figure 22: BTC Dominance

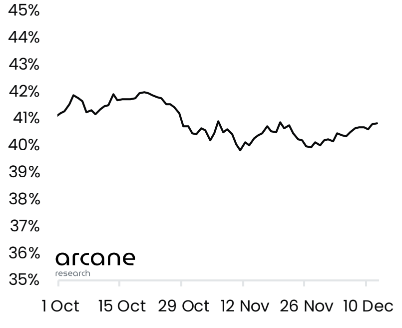


Figure 23: BTC + Stables Dominance

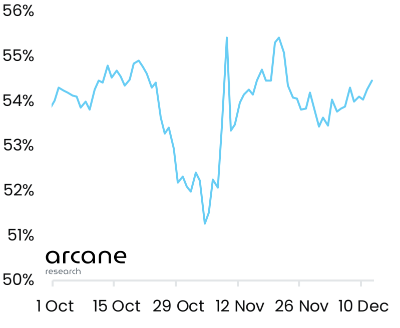
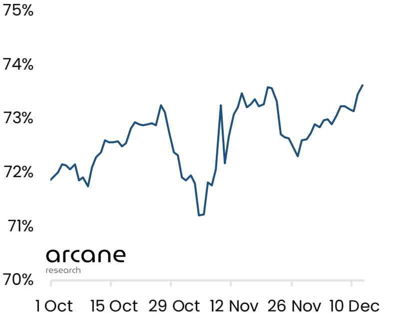
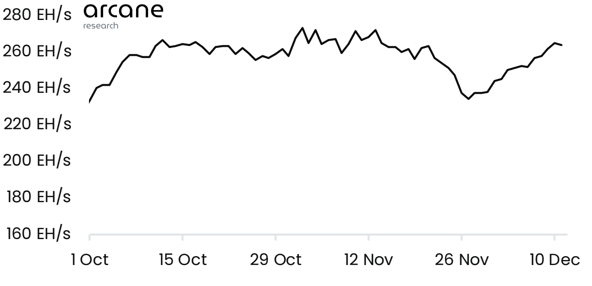


Figure 24: BTC + Stables + ETH Dominance



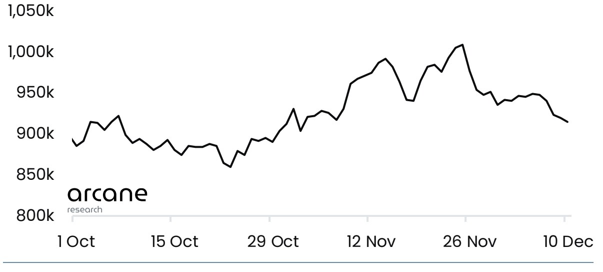
Source: Tradingview

Figure 25: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 26: Active Addresses (7-day average)



Source: Coinmetrics

Figure 27: On-chain statistics

Powered by BYTETREE	11/12/2022	7d Change
Daily Miner Revenues	$16,579,763	11.95%
Fees per day	$270,884	-34.37%
Fees % Revenues	1.63%	-1.15%
Daily TX Volume ($M)	$2,546	-15.93%
Transactions per day	256,388	-2.12%
Avg TX value $	$9,929.33	-14.12%
# Blocks per hour	6.37	11.81%
Avg. # TX per block	1677	-2.12%

Source: Bytetree

Why we choose the charts we do

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

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

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

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

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

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

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

Spot Primer

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

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

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

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

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

Derivatives primer

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

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

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

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

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

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

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

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

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

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

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

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