

Ahead of the curve

Market Update

Falling activity and falling prices

The crypto market continues to face headwinds as Genesis halts withdrawals while seeking an emergency raise due to illiquid assets on Genesis's balance sheet. In the current shaky environment, BTC has stabilized but reached new multi-year lows on Monday and has seen a 5% downside in the last week.

ETH underperforms BTC and is down 13% over the last seven days, driven by FTX-related market activity. The unidentified FTX hacker who stole funds amid the chaotic meltdown of FTX has started to sell his ether position by swapping ETH to renBTC, exiting to on-chain BTC. The hacker has converted \$72m worth of ETH to BTC and has \$200m more to deploy. The hacker will likely use coinjoins to obfuscate the origin of the BTC holdings and, over time, convert BTC to Monero before selling Monero to stablecoins on a different exchange to hide his trails.

Genesis and Digital Currency Group seeks emergency funding

The digital asset brokerage firm Genesis, owned by Digital Currency Group, seeks financing. Genesis suspended withdrawals, in addition to seeking an emergency loan due to certain illiquid assets on Genesis' balance sheet. Bankruptcy has emerged as a potential outcome if the financing efforts fail. Genesis has reportedly slashed its raise target from \$1bn to \$500m, indicating that the firm struggle to shore up its liquidity profile.

Digital Currency Group owns a myriad of companies, with Grayscale being the flagship company holding. Grayscale offers crypto exposure through close-ended funds and holds 3.3% of the circulating BTC supply and 2.5% of the circulating ETH supply. Traders are now fearing that bankruptcy will lead to a dissolution of Grayscale's crypto funds. Alternatively, the trusts may be acquired by traditional finance behemoths due to the attractive fee structure.

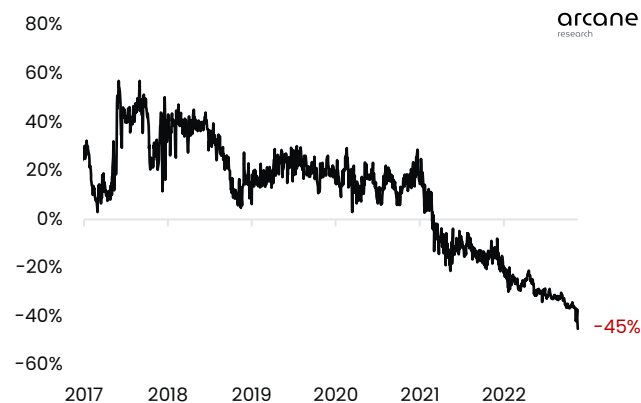
Grayscale's trusts trade at an all-time high discount to NAV. Due to its close-ended structure, the trust does not trade on par with NAV. Grayscale aims to turn the BTC trust into an ETF in the future. Previously, the trusts traded at a premium to NAV, but since early 2021, the trusts have traded at discounts. GBTC currently trades at an enormous -45% discount to NAV. Based on Grayscale's 2% annual management fee, the market is currently pricing in that the fund will remain close-ended until 2051.

All-time high open interest on CME

CME's open interest has surged to a new all-time high in notional terms of 98,725 BTC, surpassing October 25, 2021, highs of 93,628 BTC. The growth coincides with a growing presence from direct market participants, representing 56% of the open interest, up from 39% on November 3. The growth also coincides with bearish positioning, as elaborated on page 4. CME dominates the BTC futures market, accounting for 56% of the market. This is the highest CME dominance within BTC futures seen in the last year.

OKX is the largest offshore futures venue, representing 25% of the futures OI. OKX also has a material market share in perps, accounting for 20% of the total perp OI. OKX faced a wave of difficulties in 2021 related to Chinese crypto bans, leading its market share to plunge to 5% by December 31, 2021.

Figure 1: Grayscale Bitcoin Trust: Premium/Discount to NAV



Source: Skew, Ycharts

Digital Assets

Signals from the market

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By the numbers

BTCUSD \$15,747
7d: **-5%**
30d: **-18%**

ETHUSD \$1,089
7d: **-13%**
30d: **-20%**

Open Interest (BTC futures and perps)

\$8.6bn
550,000 BTC (9% last seven days)

Average daily BTC spot volume

\$6.4bn (-53% last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DXY
0.88 (-0.01)	0.32 (0.00)	0.56 (0.03)	-0.43 (-0.01)

Percentage of Total Market Capitalization

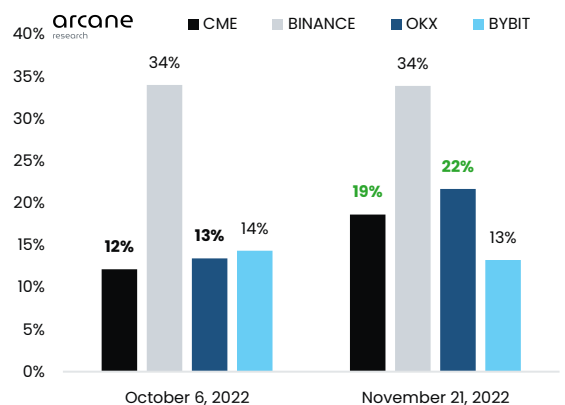
Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
38.7% (0.5%)	17.1% (-1.3%)	16.9% (1.1%)	27.4% (-0.4%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainners			
1	LTC	12%	-58%
2	OKB	6%	-32%
3	BCH	3%	-76%
Losers			
1	NEAR	-22%	-90%
2	SOL	-21%	-94%
3	UNI	-16%	-71%

Figure 2: BTC Futures and perps: Market dominance



Source: Skew, CME Group, Laevitas

Spot Market

Falling activity and falling prices

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U.S. markets are closed on Thursday and close early on Friday due to thanksgiving, which could have spill-over effects on crypto markets leading to reduced trading activity. Overall, we are already seeing activity dry up as volumes have declined to 3-month lows.

Headlines last week

[Crypto lender Genesis says no immediate plans to file for bankruptcy](#)

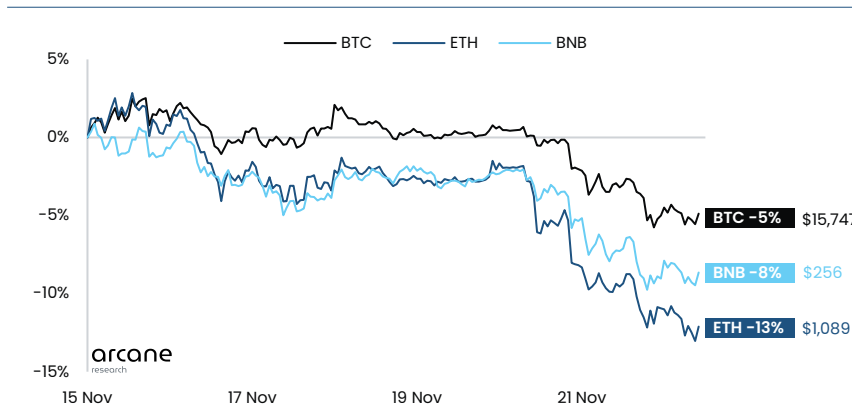
[Genesis sought emergency loan of \\$1 billion: WSJ](#)

[FTX Owes Its 50 Biggest Unsecured Creditors More Than \\$3 Billion](#)

[FalconX resumes use of Silvergate's payment network](#)

[Three U.S. senators ask Fidelity to reconsider bitcoin exposure in retirement plans](#)

Figure 3: Top 3 Market Cap, Last Week



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

A correlated downward trending market

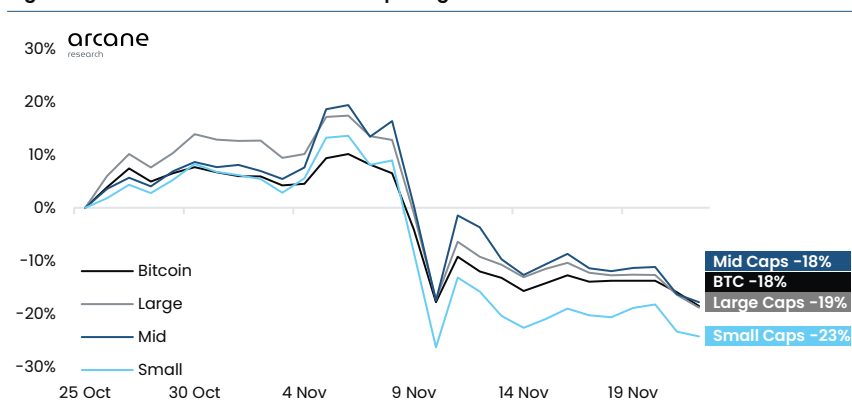
All indexes have moved in strong correlation over the last week. The 30-day rolling ETH-BTC correlation currently sits above 0.95, at levels only seen 3% of the time since December 2016. Similar correlations are evident across all indices.

BTC, Large Caps, and Mid Caps have experienced losses of 18-19% in the last 30-days, while Small Caps underperform the market, seeing losses of 23%

Calendar

- Tuesday, November 22
 - FTX Bankruptcy, First Day Hearing
- Wednesday, November 23
 - FOMC meeting minutes
 - German Manufacturing PMI
- Thursday, November 24
 - U.S. Thanksgiving, U.S. markets closed
- Friday, November 25
 - U.S. Thanksgiving, U.S. markets close at 1pm

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

Spot Market

Market activity dwindles down

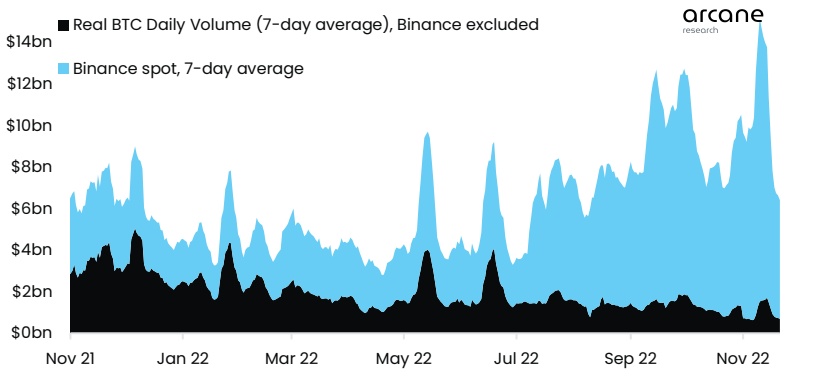
The crypto market has taken a hiatus after the extreme volatility and trading volumes amidst the FTX collapse, evident by the seven day average trading volume in BTC plunging to a 3-month low.

The dwindling activity is typical for BTC after meltdowns, and we saw similar patterns after the collapses of Luna and 3AC in May and June.

Fear and Greed

Now: 22 (Extreme Fear)
Last week: 22 (Extreme Fear)
Last month: 20 (Extreme Fear)

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



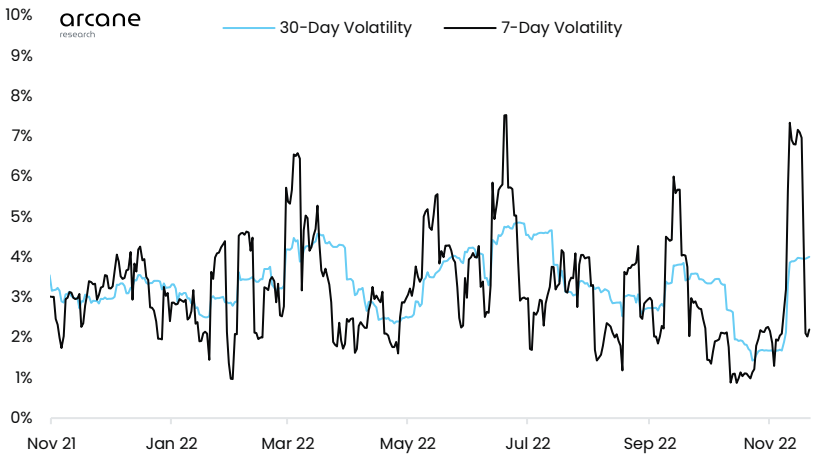
Source: Tradingview *Includes Bitwise 10 exchanges

Prices stabilizing

Volatility has stabilized as BTC has found support above 15k for now, leading the 7-day volatility to fall to 2.2%. However, as crypto contagion and uncertainties still ravage the market, several catalysts may ignite volatility in the market in the coming weeks.

Our base case is that volatility will soon flatline as soon as the current uncertain conditions ease. Market participants should prepare for quiet markets as we enter 2023, with few weekly changes, similar to the low volatility environment experienced in October. The 2018 bear market saw 120 days of no noteworthy volatility as markets bottomed, while the 2014-15 bear market saw 270 days of no material market activity.

Figure 6: BTC-USD Volatility

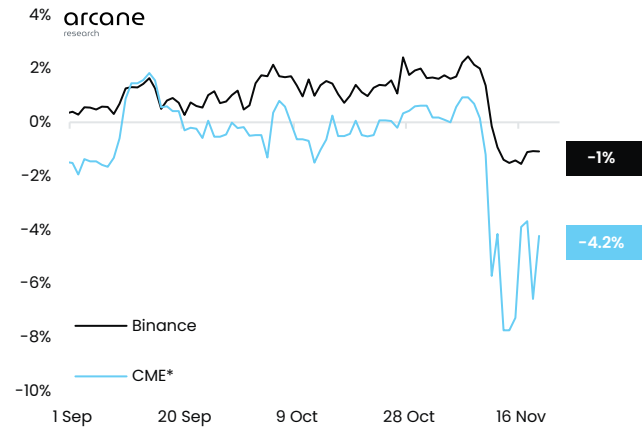


Source: Tradingview (Coinbase)

Derivatives

CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis



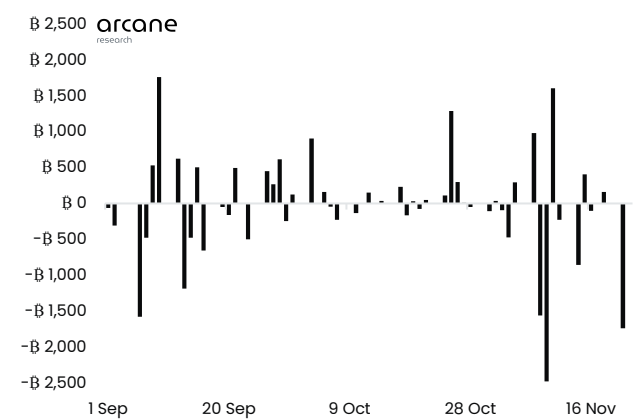
Source: Skew, Laevitas, Tradingview, CME
*Closed Saturday - Sunday

CME is still trading sharply below spot

Futures traders remain bearishly positioned, as futures still trade at substantial discounts to spot, with few material changes over the last week.

CME's basis has seen a slight recovery, but the 3mth annualized basis sits at -4.2% and has trailed below -3% ever since November 11. CME's BTC futures have never seen such sustained massive discounts, indicating that CME traders are bracing for further downside in BTC.

Figure 9: ProShares: Net Flow – BTC Equivalent



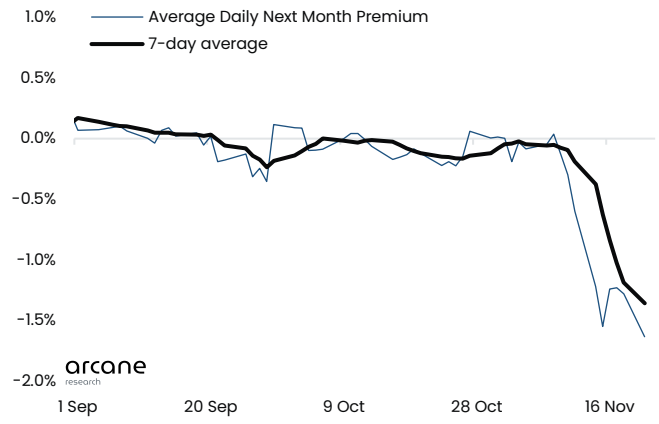
Source: ProShares

ETF flows remain negative

ProShares' short BTC ETF continues to experience massive inflows as the ETF's short exposure grew to new highs on Monday. Currently, BITI holds a short exposure equivalent to 7810 BTC, up 154% since November 7.

Flows to long ETFs are currently stale. VanEck and Valkyrie have seen flat flows in November, while BITO saw substantial outflows yesterday amidst the escalating uncertainty related to Genesis.

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



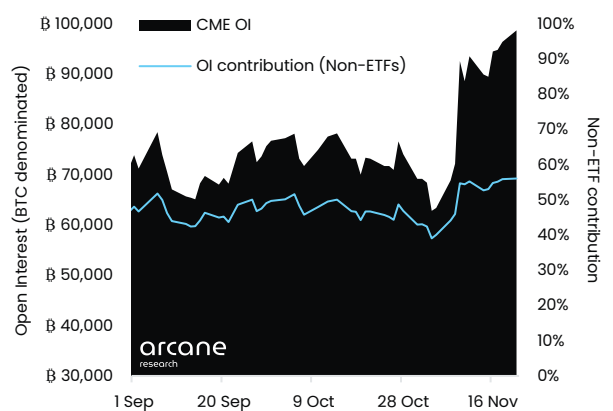
Source: Tradingview

Futures term structure in growing backwardation

The futures term structure in CME remains in strong and growing backwardation, as the December contract currently trades 1% below the November contract.

The widening backwardation is partly caused by the approaching settlement date for the November contracts this Friday. Nevertheless, the current futures term structure is unlike anything seen in CME's BTC futures before the last few weeks.

Figure 10: CME BTC Futures: Open Interest



Source: Coinglass, ProShares, Valkyrie, VanEck

CME's open interest reaches new all-time highs

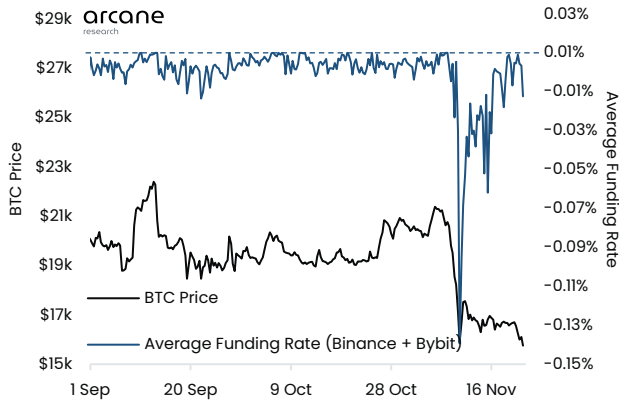
The bearish sentiment on CME is accompanied by the open interest pushing to new all-time highs, as we elaborate on [page 7](#).

Direct futures trading activity is behind the growth, as the non-ETF contribution to the open interest on CME has grown to 56%, near 2022 highs, prior to the launch of BITI.

Derivatives

Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



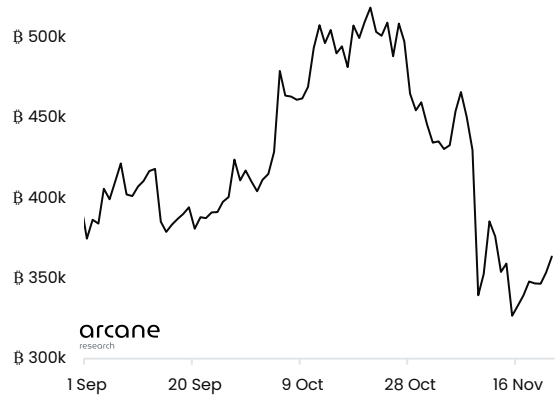
Source: Bybit, Binance, Tradingview (Coinbase)

Funding rates recover, but activity dies down

Funding rates recovered to neutral territory over the weekend, predominantly caused by an idle market, as perp trading volumes declined to 1-year lows, aligning with what we see in spot markets.

On Monday, funding rates returned to negative terrain as bitcoin faced downside amidst growing fears related to Genesis' halted withdrawals and the growing likelihood of potential bankruptcy.

Figure 12: Bitcoin Perpetuals: Open Interest



Source: Laevidas

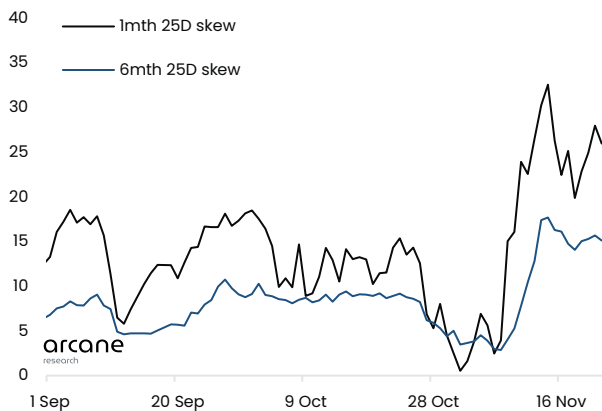
Open interest in BTC perps flattens

Alongside declining activity in the market, open interest in BTC perps has stabilized, seeing no material changes in the last week.

The open interest in BTC perps is heavily concentrated in Binance, representing 47% of the total open interest within perps. The last time we saw similar open interest dominance from one exchange was during the BitMEX hegemony in 2020.

On [page 7](#), we illustrate Binance's dominance within BTC derivatives and note that futures instruments are gaining market share again.

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



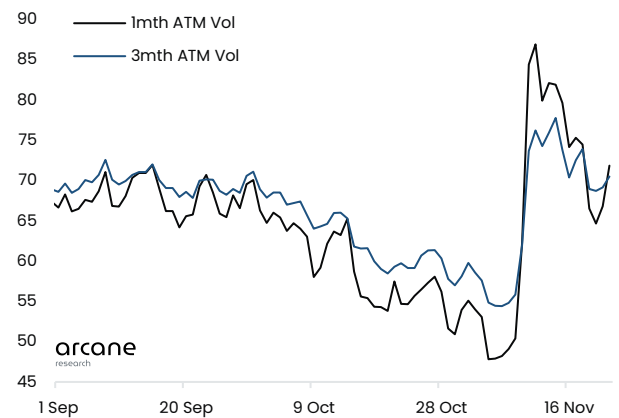
Source: Laevidas

Options traders seek protection

Options traders still aim for protection, as puts remain rich, with few notable changes from last week as the market has taken a breather.

The 6mth skew stays at all-time highs as options traders still position for long-term headwinds.

Figure 14: BTC Options - Implied Volatility



Source: Laevidas

Implied volatility stabilizes

Implied volatility remains on par with last week's levels, with few noteworthy changes.

In sum, the derivatives market remains distressed, and we see clear signals of cautiously positioned traders. However, there are few changes from last week, as trading activity has fallen substantially amidst the declining volatility.

A deeper dive

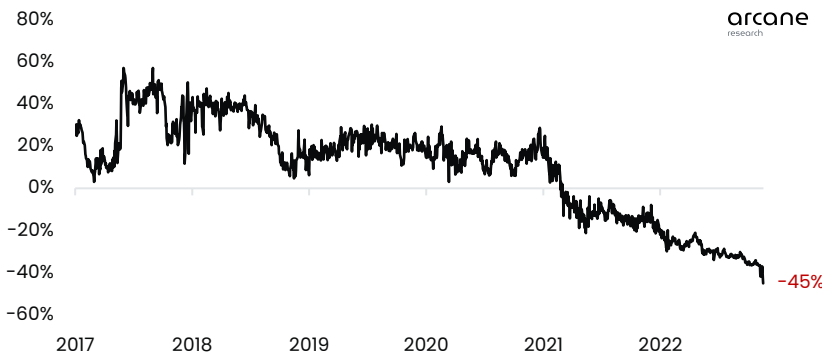
Genesis crisis and GBTC

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Grayscale's trusts trade at an all-time high discount to NAV. Due to its close-ended structure, the trust does not trade on par with NAV. Grayscale aims to turn the BTC trust into an ETF in the future. Previously, the trusts traded at a premium to NAV, but since early 2021, the trusts have traded at discounts. GBTC currently trades at an enormous -45% discount to NAV. Based on Grayscale's 2% annual management fee, the market is currently pricing in that the fund will remain close-ended until 2051.

Figure 15: Grayscale Bitcoin Trust: Premium/Discount to NAV



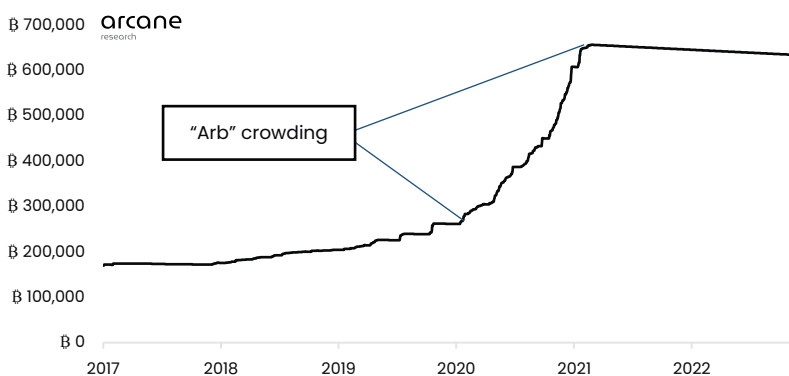
Source: Skew, Ycharts

Why the massive discounts? An "arbitrage" becoming painfully wrong

Up until early 2021, Grayscale's BTC trust continuously traded at a premium. Three Arrows Capital and other funds exploited this "arbitrage" by buying BTC, allocating to GBTC in-kind, and selling shares once delivered 6 months later, [as we explained in 2020](#).

This trade got highly crowded during the 2020 bull run, and 3AC, among others, lent BTC from Genesis, invested in-kind in GBTC, aiming to sell GBTC at a premium after the 6-month lock-up. From January 2020 until March 2021, Grayscale's trust grew from 260,000 BTC to 655,000 BTC, spiking massively in late 2020. The scope of this "arb" was unsustainably high, leading shares to flood the market far beyond the organic demand to buy GBTC and discounts to widen. The growth was also credit-fueled, leading Genesis, among others, to be caught offside, being the counterparty of loans based on collateral trading further and further away from its underlying asset.

Figure 16: GBTC – Bitcoins under management

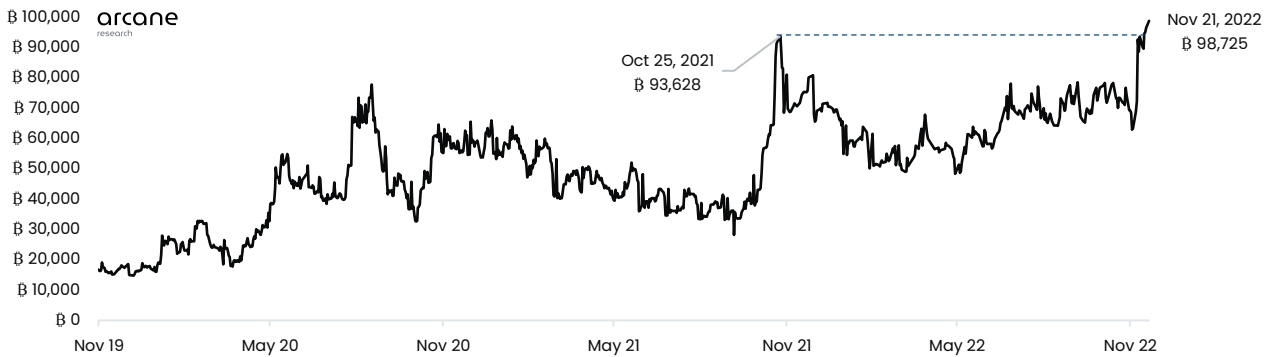


Source: Skew, Grayscale

A deeper dive

Futures relevancy recovering

Figure 17: CME Open Interest



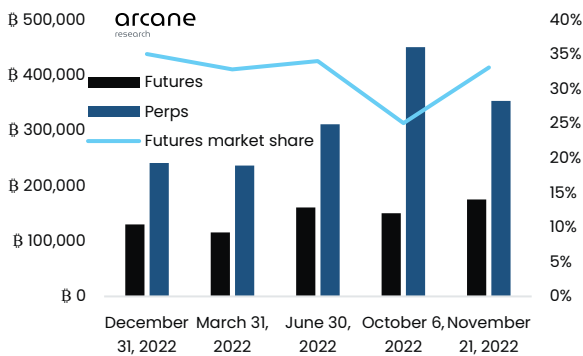
Source: Skew, CME Group

All-time high open interest on CME

CME's open interest has surged to a new all-time high in notional terms of 98,725 BTC, surpassing October 25, 2021, highs of 93,628 BTC. The growth coincides with a growing presence from direct market participants, representing 56% of the open interest, up from 39% on November 3. The growth also coincides with bearish positioning, as elaborated on [page 4](#).

Per last week's CFTC commitment of traders report, commercial traders reduced long exposure and increased short exposure, suggesting that hedging-related trades constitute a substantial share of the most recent flows. This is unsurprising, given the contagion and uncertainty within crypto at the moment. Meanwhile, institutional speculators increased their long exposure. This may be driven by hedge funds seeking to take advantage of the CME discount versus spot ahead of the settlement of the November contract this Friday.

Figure 18: BTC Open Interest: Futures versus spot



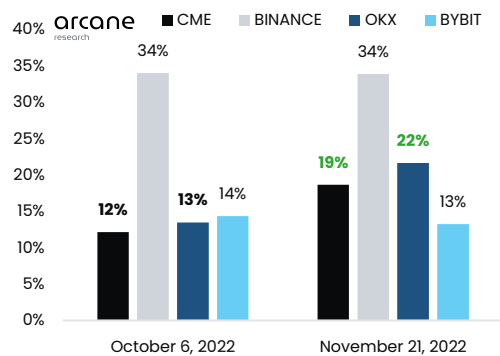
Source: Skew, CME Group, LaeVitas

Futures dominance growing

CME's growing market share has led futures to gain market dominance in BTC derivatives. However, the futures market share was unusually low, sitting at 25% on October 6, and has now returned to levels on par with the norm from 2022, currently representing 33% of the open interest in BTC derivatives.

Overall open interest stays high. Open interest has fallen substantially in perps but remains at levels higher than prior to Q3 2022.

Figure 19: BTC Futures and perps: Market dominance



Source: Skew, CME Group, LaeVitas

CME and OKX dominance growing

CME dominates the BTC futures market, accounting for 56% of the market. This is the highest CME dominance within BTC futures seen in the last year.

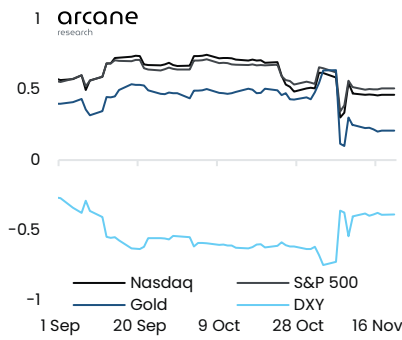
However, when including open interest from perps, Binance's dominance in the market is clear, representing a third of the open interest in BTC derivatives, whereas CME is the third largest derivatives exchange, representing 19% of the total OI in BTC derivatives.

OKX is the largest offshore futures venue, representing 25% of the futures OI. OKX also has a material market share in perps, accounting for 20% of the total perp OI. OKX faced a wave of difficulties in 2021 [related to Chinese crypto bans](#), leading its market share to plunge to 5% by December 31, 2021. Amidst recent turmoil, OKX has managed to reclaim its relevancy, once again being one of the most relevant derivatives exchanges in crypto, representing 22% of the total open interest in the market

Market Related Charts

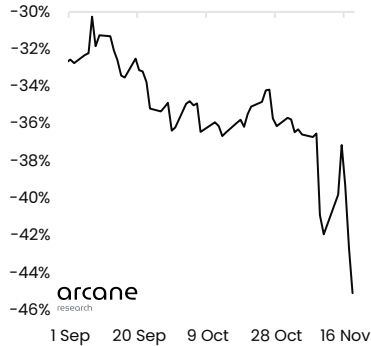
Data updated Monday Nov 21, 2022

Figure 20: BTC 30-d correlations*



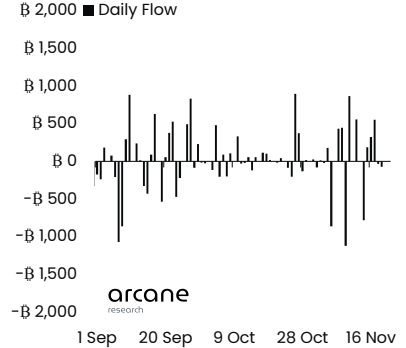
Source: Tradingview *Pearson

Figure 21: Grayscale Premium/Discount



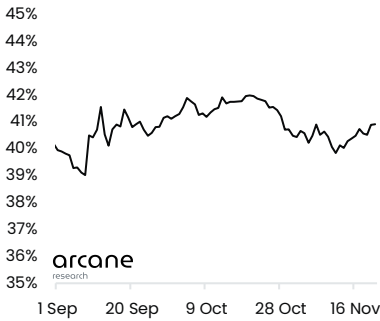
Source: Ycharts

Figure 22: Daily Flows (BTC ETFs)



Source: Bytetre

Figure 23: BTC Dominance



Source: Tradingview

Figure 24: BTC + Stables Dominance

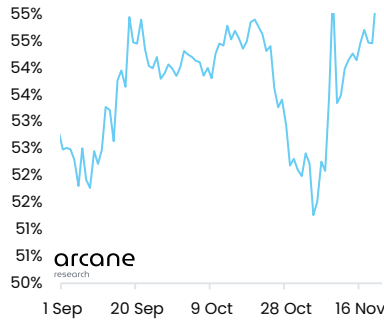


Figure 25: BTC + Stables + ETH Dominance

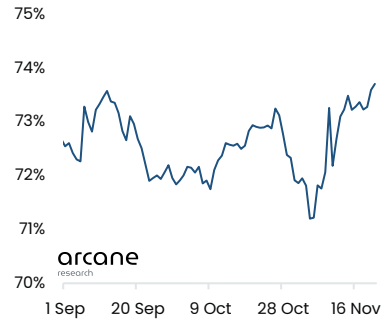
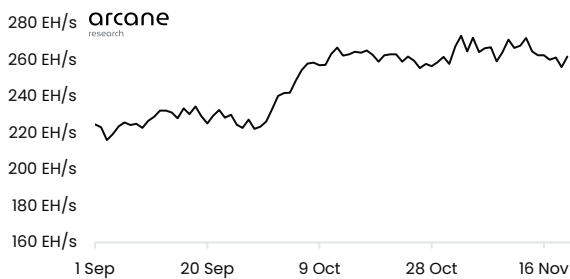


Figure 26: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 27: Active Addresses (7-day average)



Source: Coinmetrics

Figure 28: On-chain statistics

Powered by	20/11/2022	7d Change
BYTETREE		
Daily Miner Revenues	\$15,415,306	-5.86%
Fees per day	\$523,214	49.66%
Fees % Revenues	3.39%	1.26%
Daily TX Volume (\$M)	\$5,205	-17.19%
Transactions per day	259,293	-3.51%
Avg TX value \$	\$20,072.31	-14.17%
# Blocks per hour	5.96	-2.15%
Avg. # TX per block	1813	-3.51%

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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