

# Ahead of the curve

## Market Update

### Regulators sharpening their knives

This has been a challenging week for the industry, with several SEC enforcements coinciding with negative market impulses, leading BTC to fall 5% over the past week. Apart from concentrated headline-driven price reactions, BTC traded flat throughout most of the week.

Kraken's \$30m settlement with the SEC and ceased offering of staking as a service for U.S. customers caused a broad negative market reaction. The SEC's Wells Notice to Paxos related to BUSD, on the other hand, saw a more muted reaction in BTC compared to altcoins, with BNB taking the hardest blow leading to a weekly return of -10%.

Bitcoin is showing signs of reentering a slumber. BTC's volumes apart from Binance remain shallow, and we note reduced institutional participation in the market, as CME's OI has fallen a further 11% this week. Through longer lenses, BTC is trading in the center of the trading range established after 3AC's collapse, before FTX's collapse.

### SEC vs. Paxos

This weekend, the SEC issued a Wells Notice to Paxos, announcing plans to sue Paxos over its issuance of the stablecoin Binance USD (BUSD). In the aftermath, Paxos has announced that it will cease issuance of new BUSD tokens from February 21. Still, Paxos will manage the BUSD reserves and will operate with redemptions until at least February 2024. Paxos will facilitate redemptions for either cash (U.S. Dollars) or USDP, Paxos' own stablecoin.

In a nutshell, this enforcement impacts Binance and BUSD. No new BUSD tokens will be issued, and massive redemptions will likely ensue. This has strategic implications for Binance. Nonetheless, USDT pairs still represent a majority of the trade volume on Binance (58% per Kaiko), and Binance will likely respond by restructuring its alternative stablecoin pairs back towards a pair structure similar to the previous form or seek to find a new stablecoin issuer for BUSD.

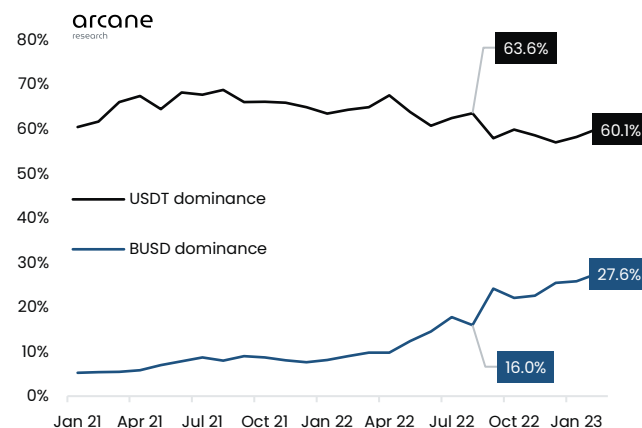
### SEC vs. Staking as a service

The SEC has had an active week, as Kraken agreed to cease its staking operation for U.S. customers in addition to a \$30m settlement to the SEC. Kraken has since automatically unstaked and paid U.S. customers in all staking protocols apart from ETH, where the unstaking will occur after the Shanghai Update, estimated to late Q1, or early Q2.

Coinbase's share price has fallen by 27% from Monday, February 6, after several consistent bad trading days amidst the enforcement activity by the SEC. Per Coinbase's Q3 report published in November, 78% of Coinbase's monthly transacting users, equaling 6.6m users, interacted with non-investing products (primarily staking and Learn), and subscription and services revenue grew by 43% quarter over quarter. Shareholders are bracing for a similar SEC probe toward Coinbase targeting its staking service, which would have a noticeable impact on Coinbase's revenue.

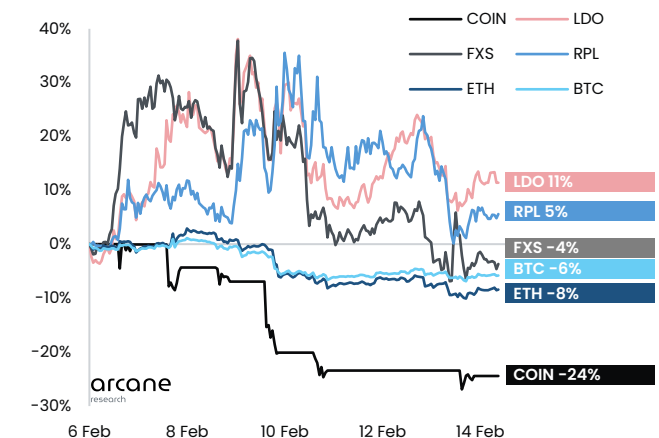
Decentralized liquid staking protocols, on the other hand, saw strength following Kraken's settlement, manifesting its role as a useful service for simplified and liquid crypto staking.

Figure 1: Share of spot trading volume by pair denomination



Source: Cryptocompare

Figure 2: Coinbase vs various crypto assets: Feb 6 - Feb 14



Source: Tradingview

### Digital Assets

#### Signals from the market

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### By the numbers

**BTCUSD** \$21,720  
7d: -5%  
30d: 4%

**ETHUSD** \$1,501  
7d: -7%  
30d: -3%

#### Open Interest (BTC futures and perps)

\$9.2bn  
424,000 BTC (-3.6% last seven days)

#### Average daily BTC spot volume

\$10.3bn (-1% last seven days)

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

ETH	Gold	S&P 500	DX1
0.94 (0.00)	0.23 (0.00)	0.48 (0.01)	-0.37 (0.00)

#### Percentage of Total Market Capitalization

Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
41.8% (0.3%)	18.4% (-0.4%)	12.5% (0.7%)	27.3% (-0.6%)

#### Last week of top 50 by market cap

	Ticker	7d	YTD
<b>Gainers</b>			
1	HBAR	27%	126%
2	GRT	18%	169%
3	LIDO	7%	117%
<b>Losers</b>			
1	SHIB	-13%	52%
2	FTM	-12%	133%
3	AXS	-11%	50%

# Spot Market

## Regulators sharpening their knives

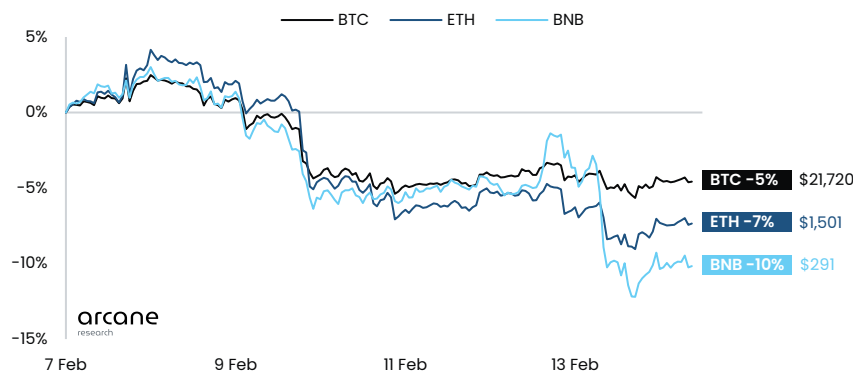
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Bitcoin is showing signs of reentering a slumber. BTC's volumes apart from Binance remain shallow, and we note reduced institutional participation in the market, as CME's OI has fallen a further 11% this week. Through longer lenses, BTC is trading in the center of the trading range established after 3AC's collapse, before FTX's collapse.

As usual, BTC experienced spiking volatility amidst today's CPI release. The MoM growth in inflation came in as forecasted at 0.5%. BTC immediately plunged by 1.5% on the release and quickly recovered before tumbling lower. The macro calendar is relatively quiet onwards, which could further nourish BTC's predominantly flat trading environment, with a slight downward drift of late.

Figure 3: Top 3 Market Cap, Last Week



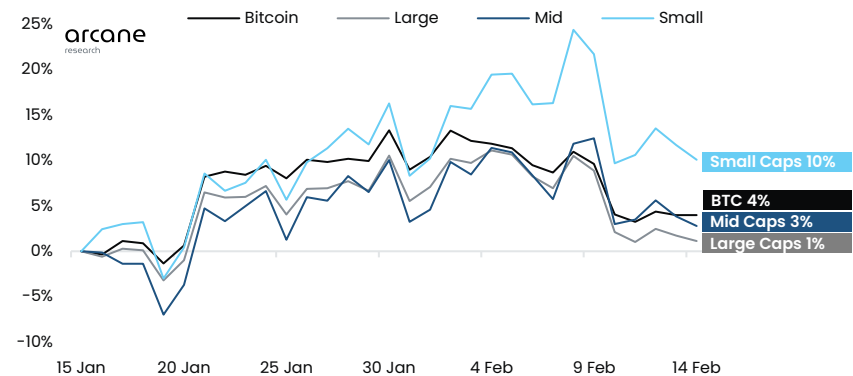
Source: Tradingview, (Coinbase, Binance U.S.)

## Staking enforcement leads to large caps underperformance

Large Caps have suffered on the backdrop of the recent regulatory enforcement related to both SEC's push against Kraken's staking offering and the Wells Notice related to BUSD, impacting BNB. This has caused Large Caps to underperform versus the rest of the market.

Nevertheless, the Kraken enforcement, in particular, caused a broad market reaction, erasing most of the upside experienced since late January.

Figure 4: 30d Performance of Market Cap Weighted Indexes



Source: Bletchley Indexes, Tradingview (Coinbase)

## Headlines last week

[Kraken to Shut US Crypto-Staking Service, Pay \\$30M Fine in SEC Settlement](#)

[Paxos will no longer issue Binance USD stablecoin](#)

[Paxos 'categorically disagrees' with SEC in calling BUSD a security](#)

[Stablecoin Issuer Circle Warned New York Regulator About Rival Binance's Token](#)

[Coinbase CEO happy to go to court over US stance on staking, 'if needed'](#)

[PayPal Pauses Stablecoin Work Amid Regulatory Scrutiny of Crypto](#)

## Calendar

Wednesday, February 15

- U.K. CPI (Est: 10.3% YoY)
- U.S. Retail Sales (Est: MoM 1.8%)

Thursday, February 16

- U.S. Initial Jobless Claims (Est 200k)
- U.S. PPI (Est: 0.4% MoM)

Monday, February 20

- U.S. Banking Holiday: Washington's Birthday

# Spot Market

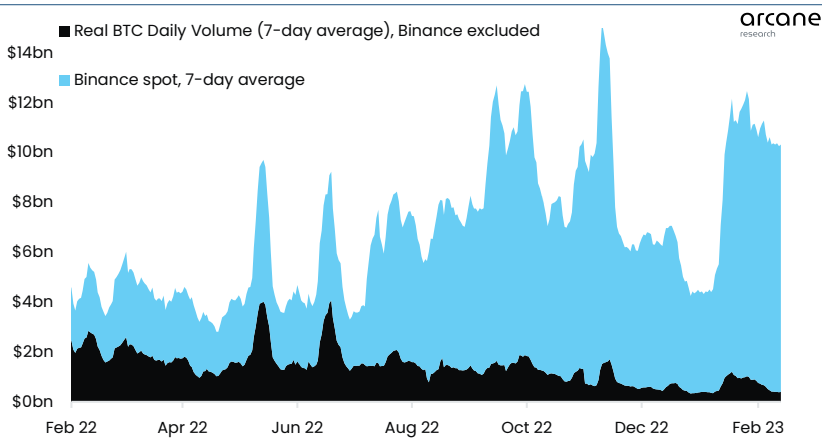
### Volumes still above \$10bn, as Binance dominance grows further

Volumes remain stable compared to last week, still sitting at \$10bn. Interestingly, Binance's dominance grew further in the past week as volumes on Coinbase, Kraken, and Bitstamp still trended lower. Daily volumes apart from Binance averaged \$390m in the past week, the lowest recorded since January 7. In the past week, Binance accounted for 96% of the BTC spot volume covered in our real daily volume index. Rotation from BUSD to USDT via Binance's BTC pair may explain parts of the elevated Binance volume in the past month, as both the BTCBUSD and BUSDUSDT pair have seen elevated volumes on the backdrop of the Paxos news (page 6).

### Fear and Greed

Now: 50 (Neutral)  
Last week: 54 (Neutral)  
Last month: 46 (Fear)

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

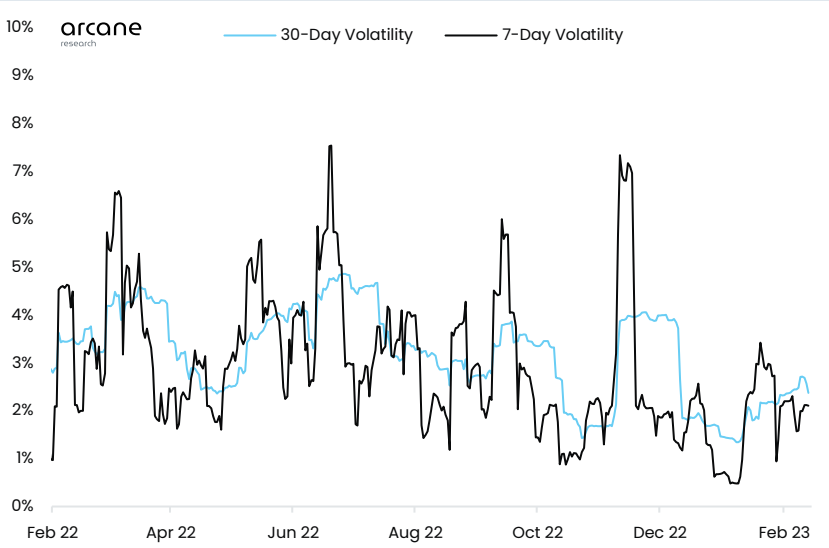


Source: Tradingview \*Includes Bitwise 10 exchanges

### Slight growth in volatility after the Thursday sell-off

Bitcoin has seen a slight increase in its 7-day volatility following the Thursday 5% sell-off. However, markets have since stabilized in a tight consolidation. Both the 7-day and 30-day volatility remains at low levels compared to the average of 2022, as BTC trades stubbornly within its Q3 2022 trading range.

Figure 6: BTC-USD Volatility

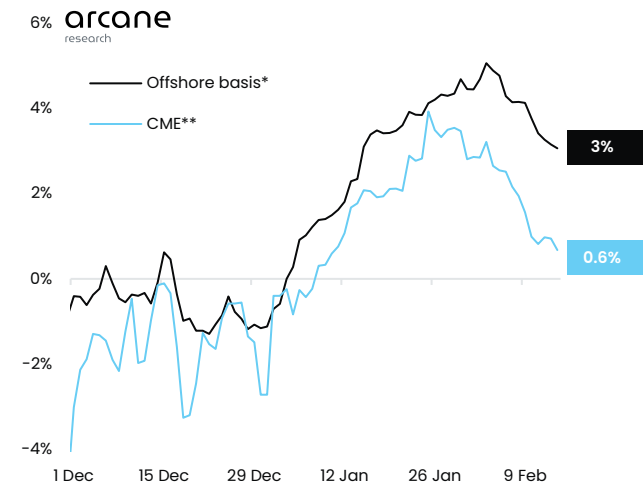


Source: Tradingview (Coinbase)

# Derivatives

## CME, Futures and ETFs

Figure 7: Bitcoin Futures Annualized Rolling 3-Month Basis



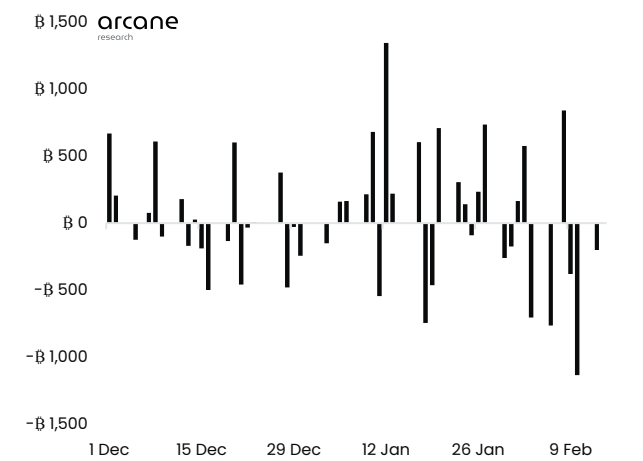
Source: Skew, Laevidas, Tradingview, CME  
\*OI weighted basis average (Binance, OKX, Deribit) \*\*Closed Sat-Sun

### Futures basis trending lower

CME's BTC futures basis has trended lower throughout the past week, currently sitting at a 30-day low of 0.6%.

In addition to sitting at a 30-day low, the CME basis has fallen more rapidly than offshore futures, suggesting that institutional speculators are more concerned than their offshore peers.

Figure 9: ProShares: Net Flow – BTC Equivalent



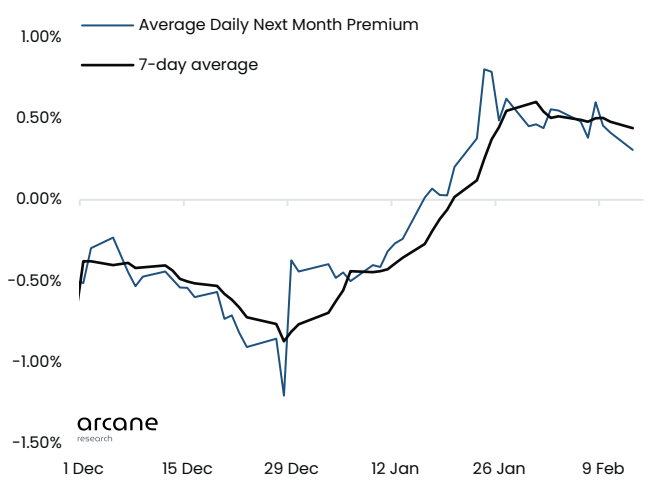
Source: ProShares

### Friday saw largest net outflow since November 2022

On February 10, BITO saw its largest outflow since November 21, 2022, as the bitcoin equivalent exposure of BITO fell by 1,030 BTC. This is the fourth-largest daily net outflow from BITO since its launch. BITI, on the other hand, saw consistent inflows last week. Overall, over the past week, a bearish bias dominated ETF flows.

Anecdotally, negative daily flows of 1000+ BTC tend to be followed by volatility in BTC (average weekly BTC 7-day move: 7%, 30-day: 12%), but with no directional impact (average 7-day return of 0.2%, 30-day return of -0.54%).

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



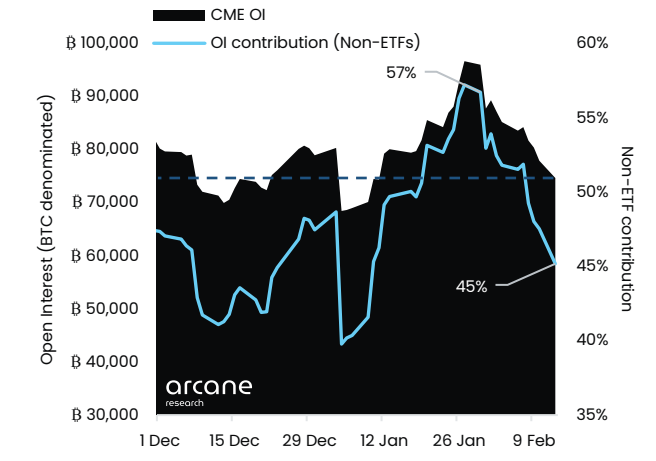
Source: Tradingview

### Softening contango

CME's futures term structure is also trending lower but remains elevated, with the March contract trading at a 0.31% premium to the February contract still.

This still creates an environment with potential basis trade opportunities and suggests that a positive bias still prevails in CME's BTC futures.

Figure 10: CME BTC Futures: Open Interest



Source: CME Group, ProShares, Valkyrie, VanEck

### CME OI at one-month low

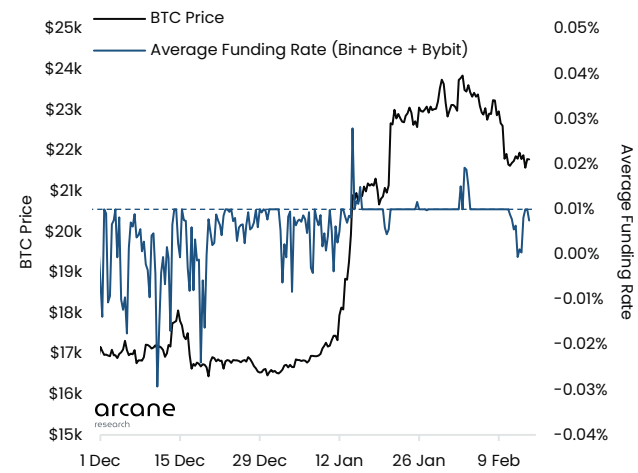
CME's open interest has fallen further by 10,000 BTC (-11%) to 74,655 BTC, currently sitting at a one-month low. The decline coincides with falling futures premiums on CME, suggesting that the key force behind the decline has been long positions closing.

The decline is caused by reduced exposure from active market participants, as the non-ETF contribution to CME's OI has fallen to 45% from a peak of 57% in late January. The OI contribution from active market participants currently sits at its lowest level since January 11.

# Derivatives

## Perpetual Swaps and Options

Figure 11: Bitcoin Perpetuals: Funding Rates vs BTC Price



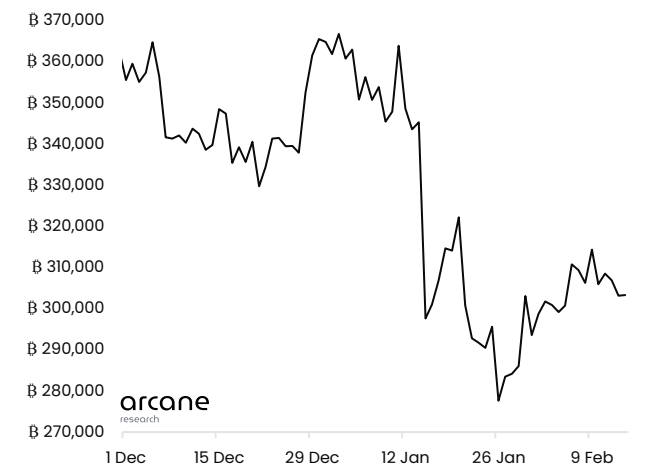
Source: Bybit, Binance, Tradingview (Coinbase)

### Market headwinds lead funding rates to fall

After a period of idle funding rates in the neutral range, funding rates declined towards 0% over the weekend following BTC's breakdown below \$22,000.

Alongside BTC stabilizing in the higher \$21,000s, funding rates have stabilized. Overall, activity in perps remains stagnant.

Figure 12: Bitcoin Perpetuals: Open Interest



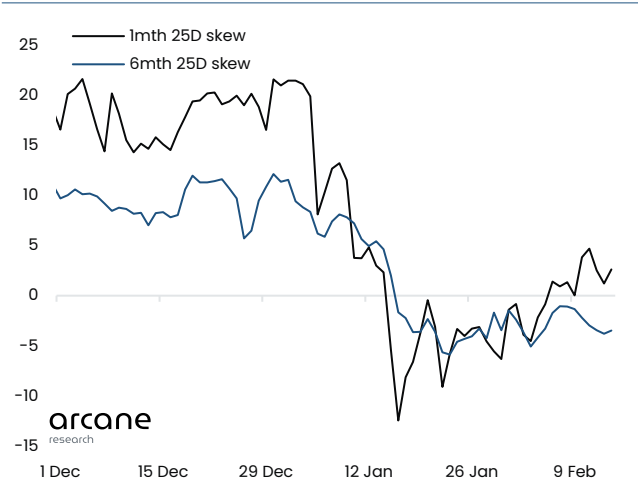
Source: Laevidas

### Slight decline in perp OI

Open interest in BTC perps has fallen slightly this week to 302,000 BTC. Reduced open interest in Binance's BTCBUSD perp is the key source behind the declining open interest, as illustrated on [page 6](#).

Apart from the decline in BTCBUSD OI, open interest has remained flat throughout the past week, as perp activity stays stale.

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

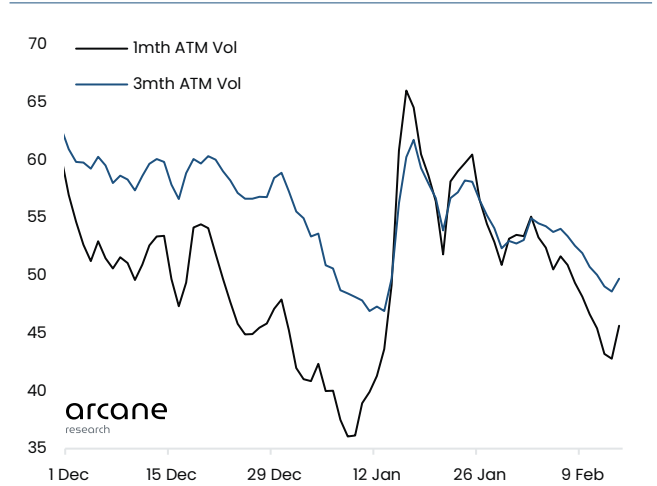


Source: Laevidas

### Options skews stay neutral

We note no major changes in options skews over the past week, as sentiment remains fairly balanced in the options market, with BTC still trailing well within its Q3 2022 trading range.

Figure 14: BTC Options - Implied Volatility



Source: Laevidas

### Implied volatility falls below 50

IVs have fallen further in the past week, currently sitting below 50 for both near and medium-term tenors. With today's CPI release and a regulation-heavy news cycle, this could again mark an attractive area for straddles, particularly for the medium to long-term tenors.

# A deeper dive

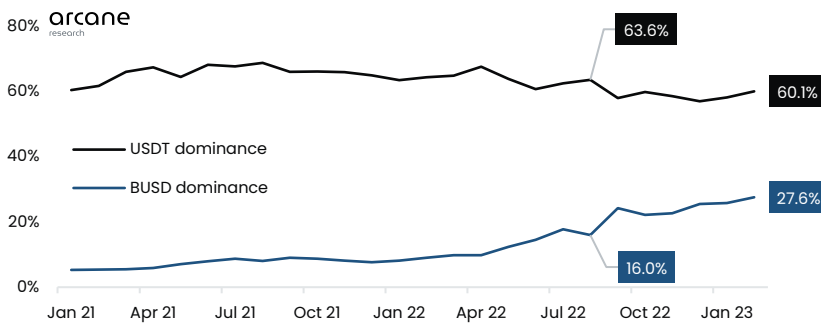
## The SEC sharpens its knives: Stablecoins

This weekend, the SEC issued a Wells Notice to Paxos, announcing plans to sue Paxos over its issuance of the stablecoin Binance USD (BUSD). In the aftermath, Paxos has announced that it will cease issuance of new BUSD tokens from February 21. Still, Paxos will manage the BUSD reserves and will operate with redemptions until at least February 2024. Paxos will facilitate redemptions for either cash (U.S. Dollars) or USDP, Paxos' own stablecoin.

In a nutshell, this enforcement impacts Binance and BUSD. No new BUSD tokens will be issued, and massive redemptions will likely ensue. This has strategic implications for Binance. Last year, Binance's focus was directed toward consolidation. Binance lifted fees for its largest spot markets, and also delisted several stablecoin pairs, and consolidated all stablecoin pairs apart from USDT into a BUSD pair. Nonetheless, USDT pairs still represent a majority of the trade volume on Binance (58% per Kaiko), and Binance will likely respond by restructuring its alternative stablecoin pairs back towards a pair structure similar to the previous form or seek to find a new stablecoin issuer for BUSD.

This enforcement action seems primarily targeted at Binance and not Paxos, in light of Paxos' public statement related to USDP conversions. This should give hope to Circle in avoiding a similar fate with its USDC stablecoin. The NYDFS explicitly pointed out that it had approved Paxos-issued BUSD on the Ethereum blockchain and that it had not authorized any Binance-Peg BUSD on any blockchain.

Figure 15: Share of spot trading volume by pair denomination



Source: Cryptocompare

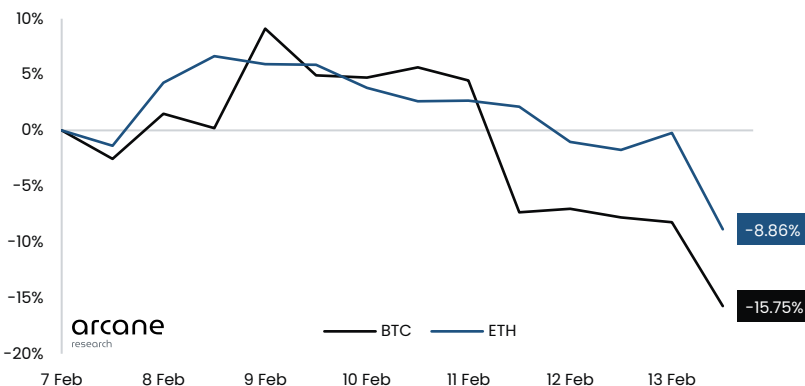
### Implications for the crypto market

Since Binance removed fees and consolidated its stablecoin pairs into BUSD, BUSD's market share has grown from 16% to 27.6%, while USDT's market share has declined slightly from 63.6% to 60.1%. These recent developments will likely reignite a larger USDT dominance in the BTC spot market, while BUSD volumes have likely peaked.

In the offshore derivatives market, BUSD pairs play a minor role. Only 4.5% of all BTC perp OI is in BUSD pairs, whereas 5.3% of the ETH perp OI is in BUSD pairs. These pairs will likely see sharply declining OI, but it might be reflected in rotation over to linear USDT perps or inverse perps.

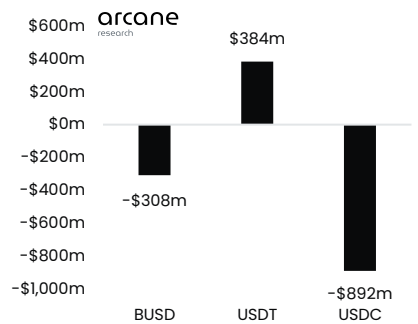
This is unlikely to represent a critical large structural change to the market, for now. Enforcement against USDC or the non-U.S. domiciled USDT, could have more dramatic implications, but the focus on BUSD over USDP could suggest that this path is less likely.

Figure 17: Changes in BUSD OI (Past week)



Source: Binance

Figure 16: Weekly change in circulating supply



Source: Coingecko

# A deeper dive

## The SEC sharpens its knives: Staking

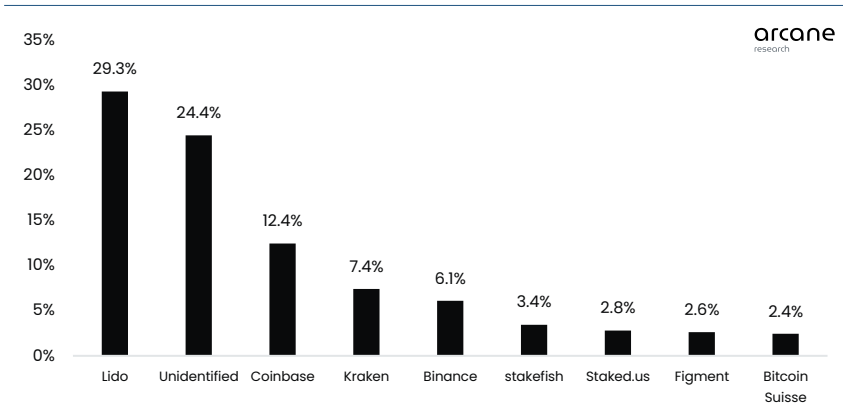
The SEC has had an active week, as Kraken agreed to cease its staking operation for U.S. customers in addition to a \$30m settlement to the SEC. Kraken has since automatically unstaked and paid U.S. customers in all staking protocols apart from ETH, where the unstaking will occur after the Shanghai Update, estimated to late Q1, or early Q2.

Centralized stakers are making staking simpler and more available for small users. To stake alone, you need both a validator node and 32 ETH. Crypto exchanges offer seamless staking regardless of your deposit size. From a user perspective, access to staking on the same platform used for purchasing crypto lowers the bar to entry significantly.

Nevertheless, the SEC has charged Kraken for failing to register this service with the SEC. The SEC argues that Kraken has received coins from the U.S. public and offers a 4% to 21% return while not disclosing the risks. In an [interview with CNBC](#), Gensler indicated that other centralized crypto services offering staking should take notice. This was followed by Coinbase's CLO [writing publicly](#) that Coinbase does not view Coinbase's staking services as securities, with Coinbase's CEO Brian Armstrong [adding](#) that Coinbase will gladly take this to court if needed.

Coinbase and Kraken combined currently represent nearly 20% of all staked ETH.

Figure 18: Largest ETH 2.0 stakers



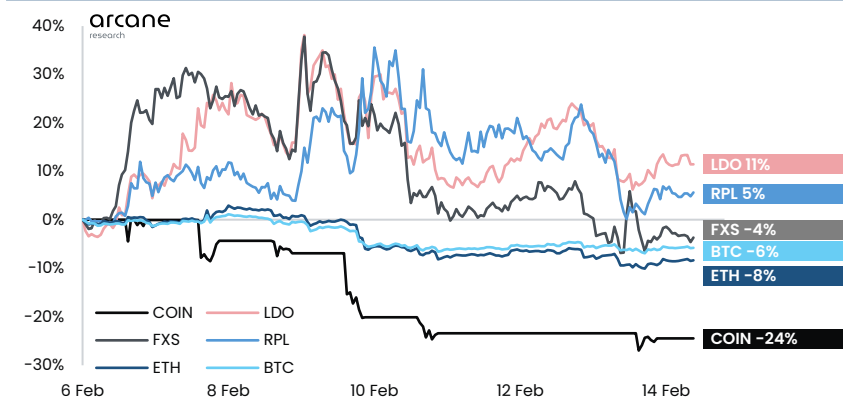
Source: Dune Analytics

### Coinbase's share price plunges, while decentralized staking services see strength

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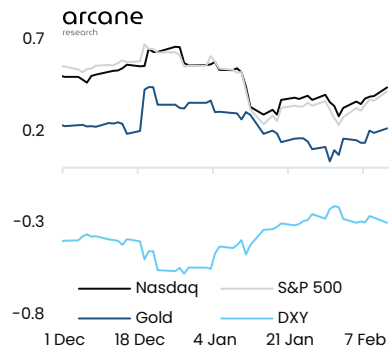


Source: Tradingview

# Market Related Charts

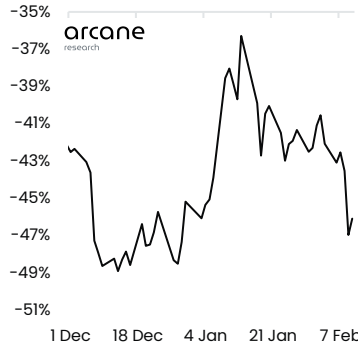
Data updated Monday Feb 13, 2023

Figure 20: BTC 30-d correlations\*



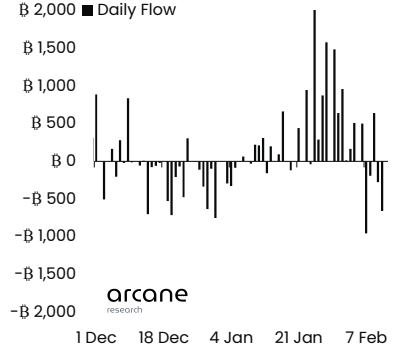
Source: Tradingview \*Pearson

Figure 21: Grayscale Premium/Discount



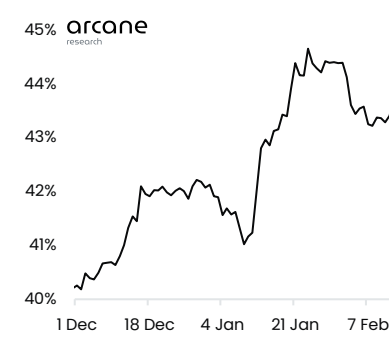
Source: Ycharts

Figure 22: Daily Flows (BTC ETFs)



Source: Bytetre

Figure 23: BTC Dominance



Source: Tradingview

Figure 24: BTC + Stables Dominance

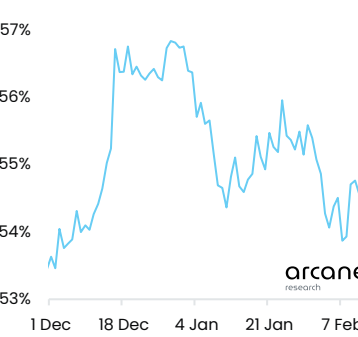


Figure 25: BTC + Stables + ETH Dominance

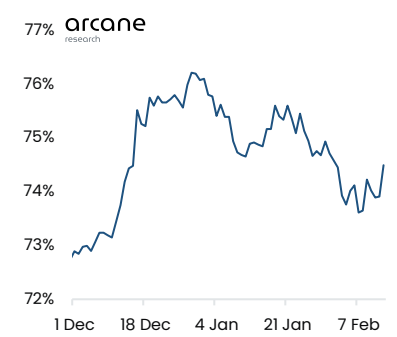
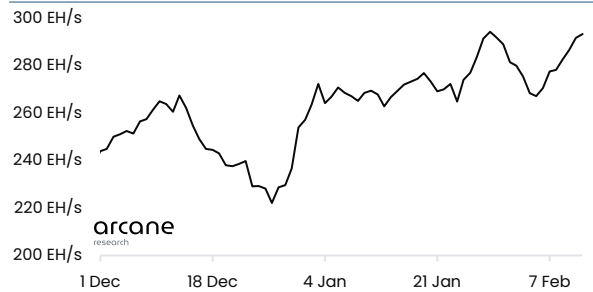
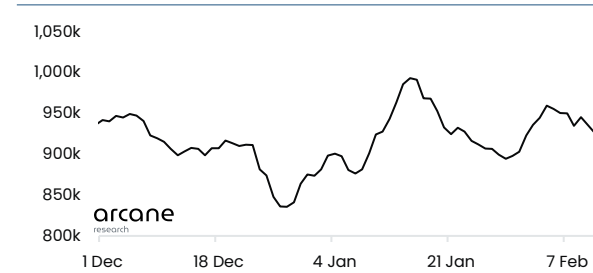


Figure 26: Bitcoin Hashrate (7-day average)



Source: Blockchain.com

Figure 27: Active Addresses (7-day average)



Source: Coinmetrics

Figure 28: On-chain statistics

Powered by	02/12/2023	7d Change
BYTETREE		
Daily Miner Revenues	\$21,283,093	4.87%
Fees per day	\$473,101	7.15%
Fees % Revenues	2.22%	0.05%
Daily TX Volume (\$M)	\$3,134	-13.03%
Transactions per day	304,132	-2.51%
Avg TX value \$	\$10,304.30	-10.80%
# Blocks per hour	6.23	9.52%
Avg. # TX per block	2033	-2.51%

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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