

# Ahead of the curve

## Market Update

### Brace yourselves, tariff headlines are coming

BTC booked a 4% loss on the week, as an unfavorable PCE reading and tariff de-risking saw sell-offs in crypto and equities. Strategy purchased a further 22,048 BTC, using funds from both its ATM offering and its perpetual preferred stock STRF. The firm has only \$2.37bn remaining in its ATM pockets from the original \$21bn, which may translate to reduced MSTR buying pressure. However, GameStop is expected to close a \$1.3bn convertible note offering today, with funds marked for BTC buys. Tariffs remain the primary market-moving factor with Liberation Day looming, while U.S. job data this week may bring more volatility.

### Both CME and offshore traders are wary of Liberation Day volatility

CME traders refuse to take on risk, as futures premiums fell back to 5% alongside CME open interest plummeting to 11-month lows of 133,790 BTC. Expectations of tariff-induced volatility ahead of tomorrow have rendered CME traders defensive. Contango steepened post-expiry, but the spike - similar to February's - does not reflect renewed long interest and sentiment remains risk-off.

Perpetual futures funding rates have not averaged at or above neutral levels for one single day in the past 69 days, and it has been three weeks since funding rates even touched neutral levels, reflecting a cautious and moderately exposed market.

### Nordic crypto adoption is on the rise

Crypto ownership across the Nordics has now reached 2.2 million people. This amounts to an increase of 635,000 holders compared to last year, while ownership rates across Nordic countries ranged from 7.4% to 12.3%. The past year saw the most substantial growth in holders in Finland, Denmark, and Norway, with Sweden lagging behind in terms of new adoption. In Norway, crypto ownership hit new all-time highs, driven by a significant uptick in participation among adults aged 40 and older.

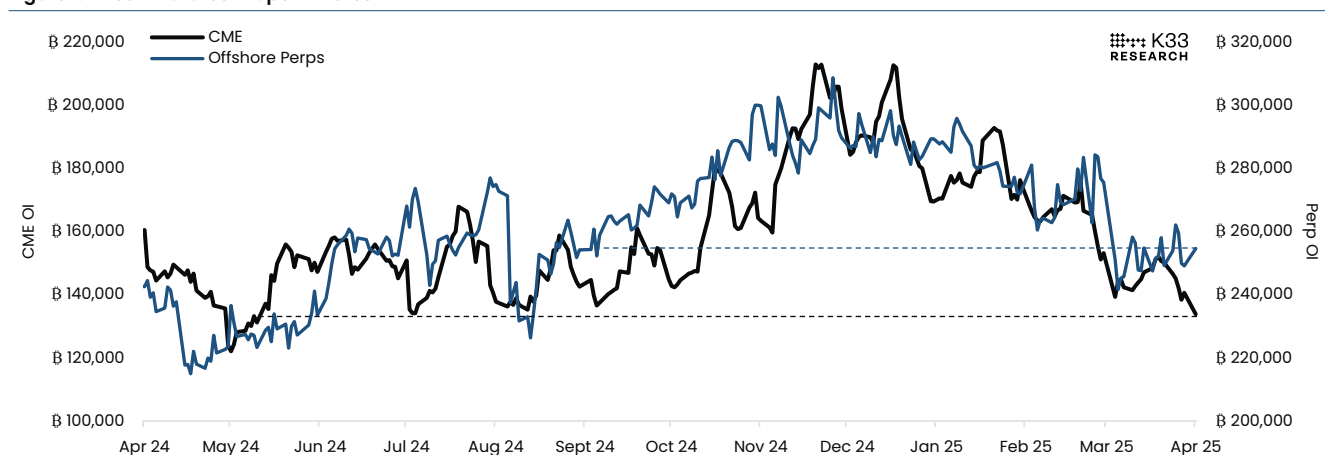
While our crypto adoption survey focused on the Nordics, we find the results reflect global adoption trends. Currently, 9.8% of the Nordic adult population holds crypto. However, a striking 28% expect to purchase crypto within the next decade, while 55.5% of Finns aged 59 or younger anticipate future exposure.

### Strategic Bitcoin Reserve moves underway amid Liberation Day focus

"Liberation Day" is tomorrow, and both crypto and equities have largely de-risked going into Trump's highly anticipated tariff announcements. Goldman Sachs has estimated that Trump will announce reciprocal tariffs that average 15% across all U.S. trading partners. We expect tariff announcements to have a big impact on the market with correlations between equities and Bitcoin remaining high.

Meanwhile, lost somewhere underneath tariff headlines, federal agencies are scheduled to submit reports by April 5 outlining their authority to transfer digital assets to the Strategic Bitcoin Reserve (SBR). This brings us closer to clarification on the reserve's initial composition and value. We expect the Bitfinex funds (94,636 BTC) to be transferred to the exchange following this deadline. Volatility may follow such a transfer, especially since headlines still reference the total U.S. Gov. BTC holdings of ~200K BTC in relation to the SBR.

Figure 1: Bitcoin Futures – Open Interest



Source: Laevidas, CME

## Digital Assets

### Signals from the market

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## By the numbers

**BTCUSD** \$83,882  
7d: **-4%**  
30d: **-3%**

**ETHUSD** \$1,834  
7d: **-10%**  
30d: **-17%**

### Open Interest (BTC futures and perps)

\$36.5bn  
439,000 BTC (**-5.3%** last seven days)

### Average daily BTC spot volume

\$2.7bn (**-2%** last seven days)

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

ETH	Gold	S&P 500	DXY
0.72 (0.01)	0.19 (-0.02)	0.47 (0.04)	-0.19 (0.01)

### Percentage of Total Market Capitalization

Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
61.4% (0.6%)	8.3% (-0.4%)	7.5% (0.4%)	22.8% (-0.4%)

### Last week of top 50 by market cap

	Ticker	7d	YTD
<b>Gainers</b>			
1	TON	12%	-25%
2	TRX	3%	-8%
3	SUI	-2%	-42%
<b>Losers</b>			
1	S	-18%	-36%
2	HYPE	-18%	-44%
3	TAO	-17%	-48%

# The Forgotten Reserve

## April Outlook

Digital Assets

April Outlook

We expect tariffs, strategic reserve developments, and apathy to extend the rangebound activity throughout April and aim to resume full allocation by the end of the month.

### Tariff ping-pong inbound

Are you already sick and tired of tariffs? Well, tough luck. Tariff ping-pong is coming, and our base case is that this will enforce choppy conditions throughout April.

Since the inauguration, tariffs back-and-forth have been the number one source of market volatility, and with Liberation Day coming tomorrow, nothing suggests that this trend is coming to a halt. We don't expect a sense of certainty and clarity post-April 2, as we expect responses, negotiations, sudden turnarounds, and surprises throughout April.

This is poised to generate a vividly fluctuating market sentiment, in which we expect BTC to extend its consolidation and hover in the \$88k to \$75k range.

### A fool's gold?

It's frustrating to see gold thrive in this environment while BTC tags along with any other risk asset. However, that's the way of the market. Gold is a time-tested safe haven, while BTC is a young asset facing its first significant wave of institutional adoption. In our opinion, the gold reflex from the market is fully rational, but it gives an informational edge for patient BTC accumulators.

Just like gold, BTC is scarce with globally efficient pricing and strong liquidity. Unlike gold, nation-state accumulation in BTC is in its very early days. Both assets are well equipped to handle increased global friction gracefully, but BTC sits far earlier in its adoption cycle. Strategic bitcoin reserves are a fresh new narrative and formal processes and time will be needed to materialize and subdue the ongoing perception of BTC as a risk-on vehicle.

### Strategic reserve news inbound?

Amidst this hectic news cycle, headlines are easily forgotten. The strategic bitcoin reserve is one such thing. The executive order issued on March 6 gave federal agencies 30 days to complete evaluations and submit reports detailing their authority to transfer funds to the SBR. That deadline is hit on April 5.

The transparency following this deadline is unclear, but we might see large on-chain transactions and consolidation to the U.S. treasury department and the early soft launch of the SBR.

Did the DOJ sell the 69,000 BTC they were granted permission to sell during Christmas? Does the U.S. government hold more coins than the market is aware of? We know the SBR is designed as a hold and potentially buy vehicle—any balance surprise to the upside tells the market of more BTC locked away from the market in the years to come, which is a positive.

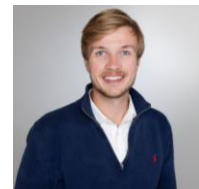
We also know that BTC seized with identifiable victims will be returned. Many news sources cite U.S. BTC balances of 200k BTC. This creates a false impression, as 94,000 BTC is set to be returned from the U.S. government to Bitfinex. We expect these coins to be returned between the first (April 5) and second (May 6) executive order deadline. While it should be clear to any participant that these coins belong to Bitfinex and that Bitfinex intends to sell 80% of the coins in an 18-month buy-and-burn process for LEO, the market has a peculiar tendency to forget and overreact. Thus, a plausible Bitfinex transfer is well-equipped to create a predictable but unnecessary sell-off worth buying.

We expect no details on budget-neutral acquisition strategies following the 30-day deadline, but expect them to come in proximity to the May 5 deadline. That's Scott Bessent's deadline for delivering an evaluation of the legal and investment considerations for the reserve. Another crypto summit could happen in early to mid-May, re-drumming up excitement as tariff headlines gradually taper.

### Beyond the headlines

Crypto traders remain largely apathetic. Funding rates have not averaged at or above neutral levels for 69 days, and CME yields have plummeted to 5%. Open interest on CME is at 11-month lows, and in the offshore market, it is at 6-month lows. Short-term skews are at 18-month highs as traders seek protection.

The chop has materialized in passivism, which over time may exhaust sellers. While near-term headlines justify this defensive structure, long-term fundamentals favor spot accumulation. After selling the inauguration, I've gradually added exposure in the lower 80s and higher 70s. I intend to maintain this strategy and be fully allocated by the end of the month, as I expect a positive feedback loop in the market once the worst of tariffs are fully digested in the market, and focus again may expand to strategic bitcoin reserves and eventual rate cuts by the Fed.



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# Spot Market

## New month -> More tariffs

Consolidation remained a core theme throughout the past week. Tuesday to Thursday was spent consolidating near \$87,000 amidst aggressive MSTR purchases, whereas a higher-than-expected PCE reading and tariff de-risking saw a coordinated sell-off across crypto and equity markets, leading the week to close at a negative 4% return.

Strategy acquired a further 22,048 BTC over the past week, using proceeds from both its ATM and its perpetual preferred stock STRF. The company spent \$1.2bn of its ATM, and the ATM is now down to \$2.37bn from its original \$21bn ATM offering from October 30. Further, approximately \$700m was spent on its \$711m STRF offering. The company has little gas left in its ATM tank, which may be followed by reduced MSTR buying pressure in the coming weeks. In that regard, it's helpful that GME has entered the race, expected to close its \$1.3bn convertible note offering today issued to acquire BTC.

Macro events are rigged to be the key market-moving force this week, with Trump's Liberation Day coming up tomorrow. Reciprocal tariffs are due to hit, with Goldman Sachs expecting reciprocal tariffs that average 15% across all U.S. trading partners. We expect huge volatility in the aftermath of tariff announcements and tariff negotiations to remain a core theme in the months ahead. A soft implementation would be good for risk assets, but that path remains highly uncertain for now. Apart from tariffs, U.S. job data will trickle in throughout the week, in which any surprise may directly impact interest rate expectations and, in turn, generate spill-over volatility in BTC and the broad crypto market.

Figure 2: Performance BTC and ETH, Last Week



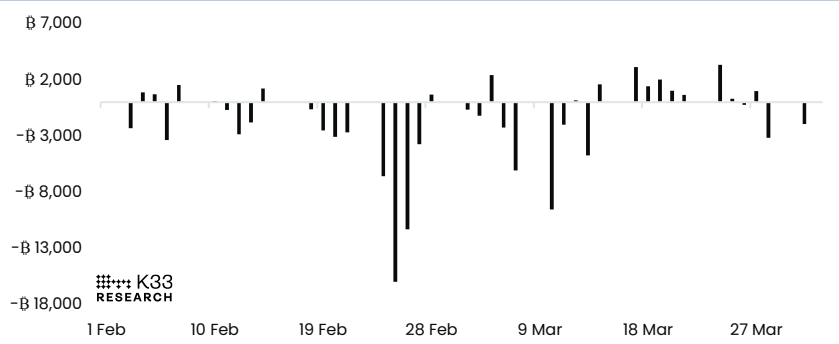
Source: Tradingview, (Coinbase, Binance)

## Stagnant week for ETPs

Bitcoin ETPs globally saw net weekly outflows of 4,057 BTC over the past week. These outflows occurred on Friday and Monday, with the market aiming to reduce risk as Trump's tariff day approaches.

That said, compared to mid-February to mid-March, flows were soft in size, suggesting that many have de-risked well before of April 2.

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

## Headlines last week

[FTX major repayments to begin May 30](#)

[BlackRock CEO Larry Fink warns dollar at risk of losing world reserve currency status to digital assets like bitcoin](#)

[Strategy buys another 22,048 bitcoin for \\$1.9 billion, taking total holdings to 528,185 BTC](#)

[GameStop follows Strategy's lead with bitcoin acquisition plan, \\$1.3 billion note offering](#)

[Trump pardons BitMEX co-founders, including Arthur Hayes](#)

[FDIC shifts stance on digital assets and will allow financial institutions to engage in crypto activities without getting prior sign-off](#)

[New York Attorney General and Galaxy Digital settle for \\$200 million](#)

[Tether bought 8,888 bitcoin in Q1, bringing its total holdings to \\$7.8 billion](#)

[SEC formally dismisses enforcement action against Kraken, Consensys and Cumberland DRW](#)

## Calendar

- Tuesday, April 1
  - U.S. JOLTs Job Openings
- Wednesday, April 2
  - U.S. Tariff day.
  - ADP Nonfarm Employment Change (Exp: 118k)
- Friday, April 4
  - U.S. Nonfarm Payrolls (Exp: 139k)
  - U.S. Unemployment Rate (Exp: 4.1%)

# Spot Market

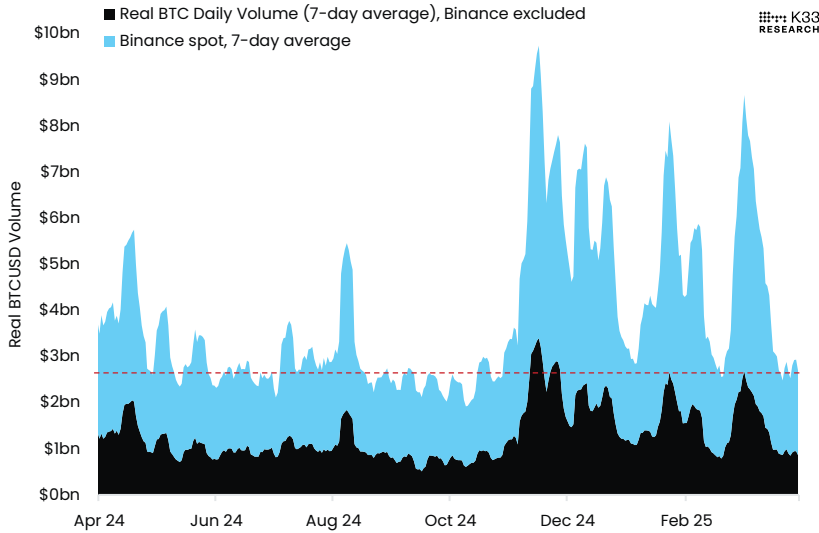
### Activity stays dry

Volumes and price action go hand in hand, and another passive week of ranging in BTC solidified the docile environment in spot markets. 7-day average daily volumes hovered below \$3bn throughout the week.

### Fear and Greed

Now: 34 (Fear)  
Last week: 46 (Fear)  
Last month: 20 (Extreme Fear)

**Figure 4: Real BTCUSD Daily Volume\* (7-day average)**



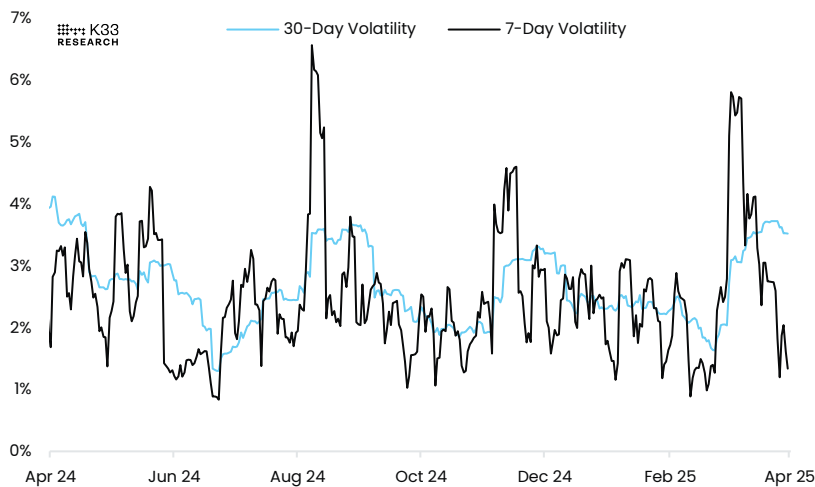
Source: Tradingview, Bitcoinity \*Includes Bitwise 10 exchanges

### Ranging – Volatility plunging

After rushing through this price area in November, we expected this to develop into a consolidation range, which has now materialized. 7-day volatilities have declined below 2% for the first time since February, alongside BTC stabilizing within the 80-88k range.

With Liberation Day coming up tomorrow, U.S. labor data ticking in throughout the week, and potential announcements related to the size of the Strategic Bitcoin Reserve coming up this week, volatility is well positioned to resurface.

**Figure 5: BTC-USD Volatility**



Source: Tradingview (Coinbase)

# Derivatives

## CME, Futures and ETFs

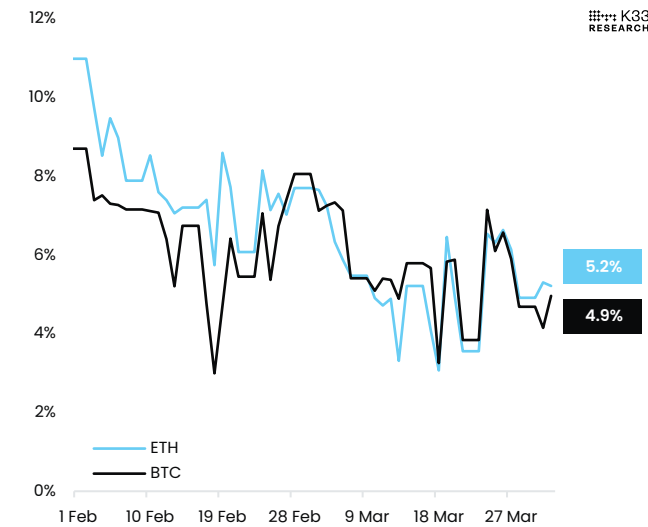
CME traders remain passive and defensive. Futures premiums have declined back to 5% after a week of consistent outflows from futures-based ETFs and CME open interest reaching 11-month lows.

With a tariff bonanza coming up, few are looking to add risk to the market. This is perfectly illustrated by annualized futures premiums for both BTC and ETH declining back to 5%. Few traders are willing to add risk, and the structure on CME remains passive and defensive.

The contango steepened after last week's futures expiry. Since we track the pure contango premiums without annualizing, this may lead to a false impression of long demand out in the futures curve. However, this is not the case, and the spike mirrors what we saw following the February expiry, as sentiment remains firmly pessimistic.

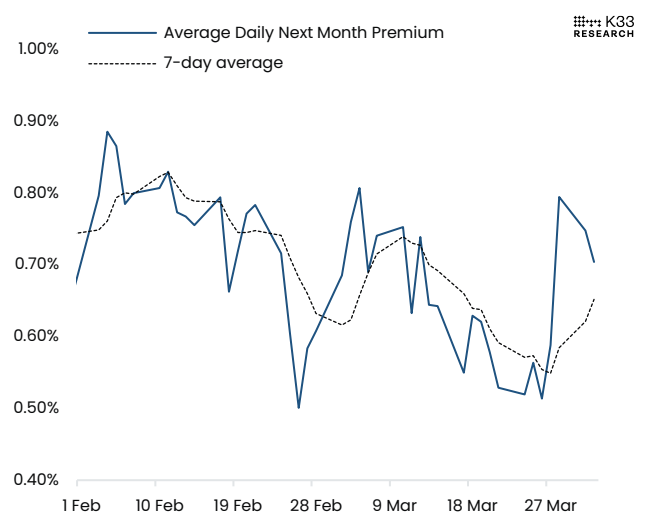
VolatilityShares saw continued outflows throughout the week, pushing its BTC equivalent exposure to 46k BTC, a low not seen since Sep 6. Further, last week's futures expiry contributed to a notable reduction in active market participant exposure. These two dynamics have pushed CME's OI to 11-month lows of 133,790 BTC, highlighting the passive behavior of CME traders.

**Figure 6: Nothing happening to the basis**  
CME BTC and ETH Futures Annualized Rolling 1mth Basis



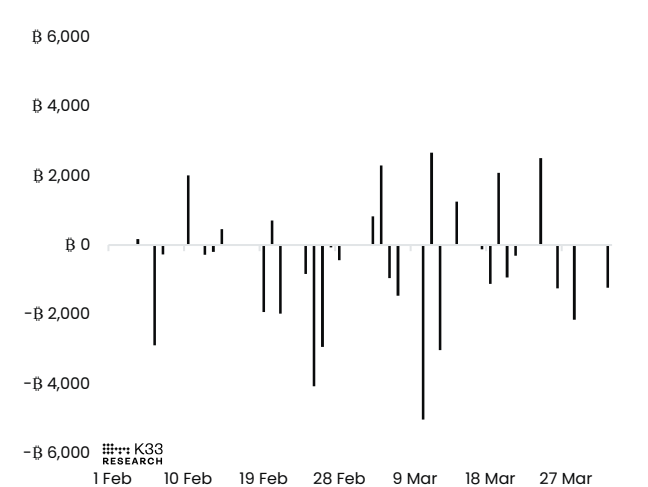
Source: Tradingview

**Figure 7: Post-roll contango steepening**  
CME BTC Futures: Average Daily Next Month Premium



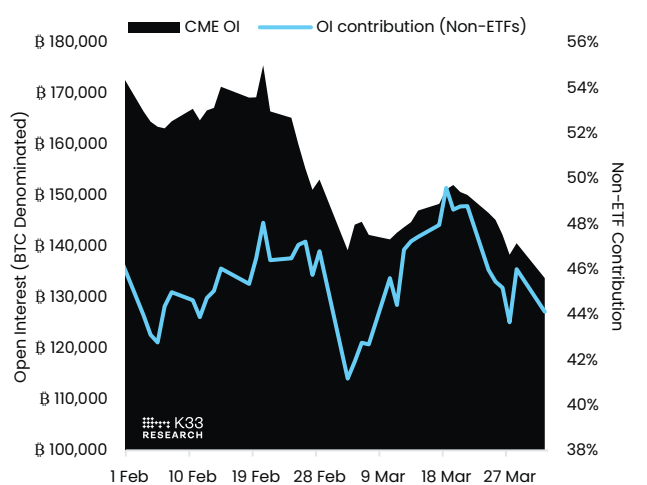
Source: Tradingview

**Figure 8: BITX exposure declines to 7-month lows**  
Futures-based ETFs: Net Flow – BTC Equivalent



Source: ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

**Figure 9: CME Open Interest at 11-month lows**  
CME BTC Futures: Open Interest



Source: CME, ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

# Derivatives

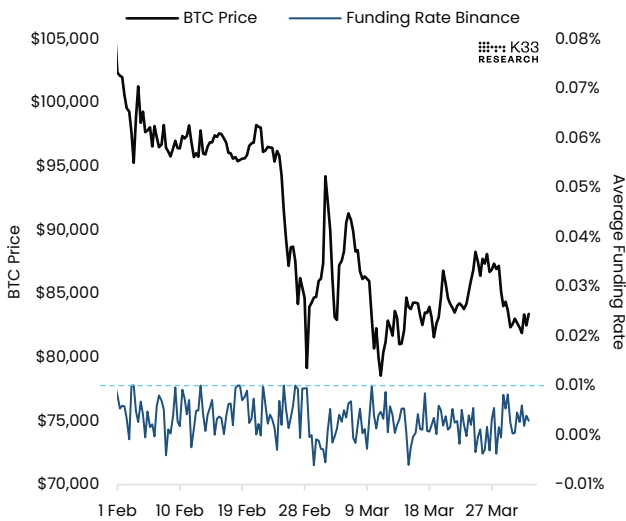
## Perpetual Swaps and Options

### Perpetual swaps

Funding rates have not averaged at or above neutral levels for one single day in the past 69 days, on course to surpass the 72-day streak from Q3 2024. That said, funding rates have generally hovered above negative levels in this period, in contrast to Q3 2024. Nonetheless, it has been three weeks since funding rates even touched neutral levels.

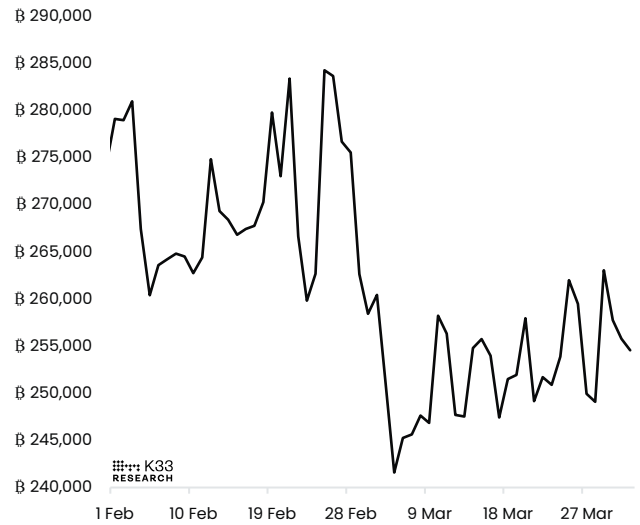
Alongside this drought in perp yields, leverage has remained soft, with some intraday volatility. The overall picture reflects a cautious and moderately exposed market.

**Figure 10: Perps maintain spot discount**  
Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Binance, Laevitas

**Figure 11: Perp open interest retrace alongside BTC**  
Bitcoin Perpetuals: Open Interest

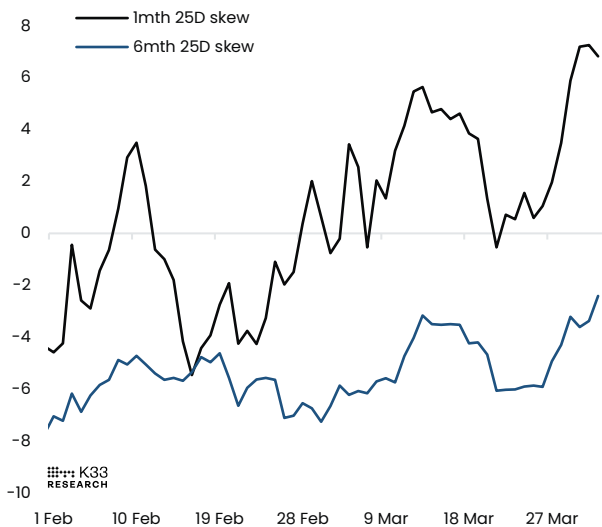


Source: Laevitas

### Options

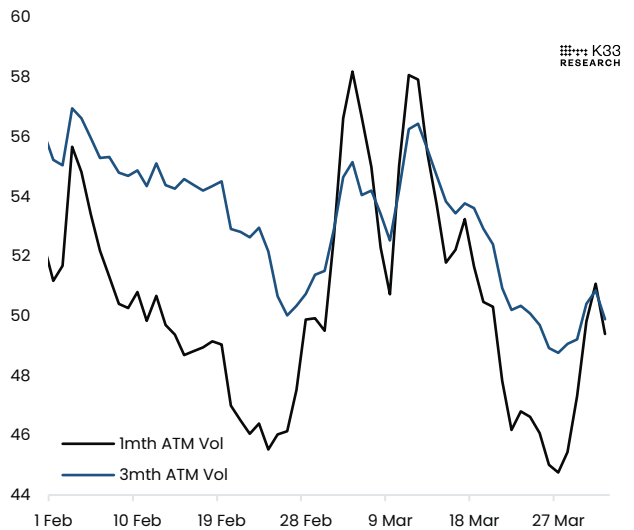
With tariff week upon us, options traders have been hedging aggressively as put premiums surge, evident by 1mth skews pushing to their highest level since October 2023. With BTC staying rangebound amidst lackluster activity, IVs have contracted below 50. With a month rigged for tariff volatility, this might make for a compelling case for straddle strategies.

**Figure 12: 1mth skews at 18-month high**  
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

**Figure 13: IVs stay soft**  
BTC Options - Implied Volatility



Source: Laevitas

# A deeper dive

## Nordic Crypto Adoption

**2.2 million people across the Nordics now own crypto**—an increase of 635,000 holders compared to last year. That includes 630,000 Swedes (7.4% of the population), 550,000 Norwegians (12.3%), 525,000 Finns (11%), 450,000 Danes (9.8%), and 26,000 Icelanders (8.7%). The past year saw the most substantial growth in holders in Finland, Denmark, and Norway, with Sweden lagging behind in terms of new adoption.

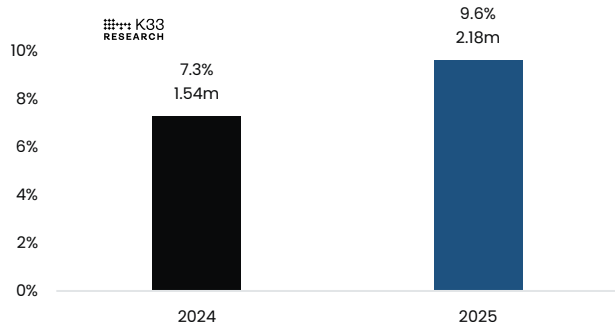
This marks the second annual edition of our Nordic crypto adoption survey, produced this year in collaboration with the Nordic Blockchain Association. The survey has been conducted annually in Norway since 2018. In Norway, crypto ownership hit new all-time highs, driven by a significant uptick in participation among adults aged 40 and older.

From 2021 to 2024, crypto ownership among Norwegians over 40 had plateaued at around 100,000. This year, that number more than doubled to 220,000. While the findings are specific to the Nordic region, we believe they mirror broader global adoption trends. Institutional, regulatory, and political tailwinds have helped boost adoption among older adults, signaling that crypto is no longer viewed as a fringe asset—it's here to stay.

These accumulation and adoption patterns are shaping longer-term trends. While today's prices remain vulnerable to near-term risks and uncertainties (like tariffs), these broad adoption shifts are setting the direction for the longer-term trajectory. Currently, 9.8% of the Nordic adult population holds crypto. However, a striking 28% expect to purchase crypto within the next decade, with an especially notable 55.5% of Finns aged 59 or younger anticipating future exposure.

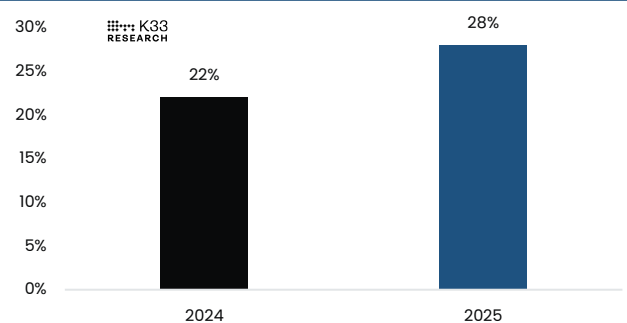
This measured but consistent adoption makes a strong case for accumulation amid BTC's current volatility. Long-term grassroots demand is solid, strategic reserves are taking shape, and the current storm—driven by tariffs and global friction—won't last forever.

Figure 14: Nordic Crypto Ownership Rate



Source: K33 Research

Figure 15: Nordic: Expects to buy crypto in the next decade



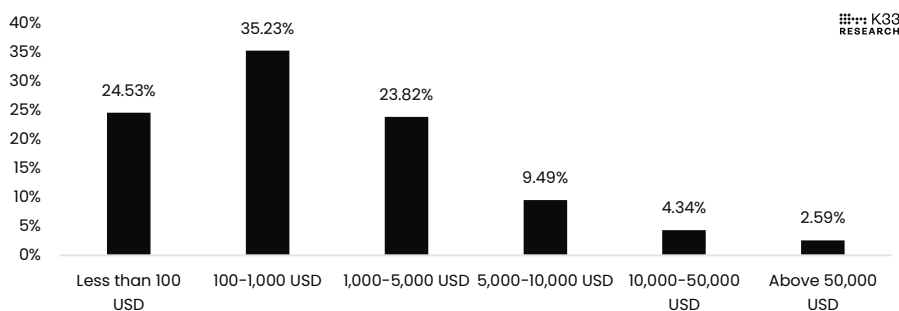
Source: K33 Research

### A vast majority of crypto owners have small sums invested

Nearly 60% of Nordic crypto owners hold less than \$1,000 in cryptocurrencies. This has been a consistent and unsurprising observation across all Nordic countries, and it shows that the median crypto holder is participating with relatively small capital allocations. That said, the tail end of owners holding larger amounts accounts for a significant portion of the region's total crypto wealth, which is currently estimated at \$16.7 billion.

The fact that most holders have minimal exposure suggests that many are approaching the space with "test-sized" investments—dipping a toe in to engage with a trend that's still unfolding. With portfolio theory and risk models pointing toward optimal allocation to BTC sitting in the 2–5% range of one's portfolio, there's still considerable room for capital to enter in the years ahead.

Figure 16: Nordic Crypto Owners – How much cryptocurrency do you own?



Source: K33 Research

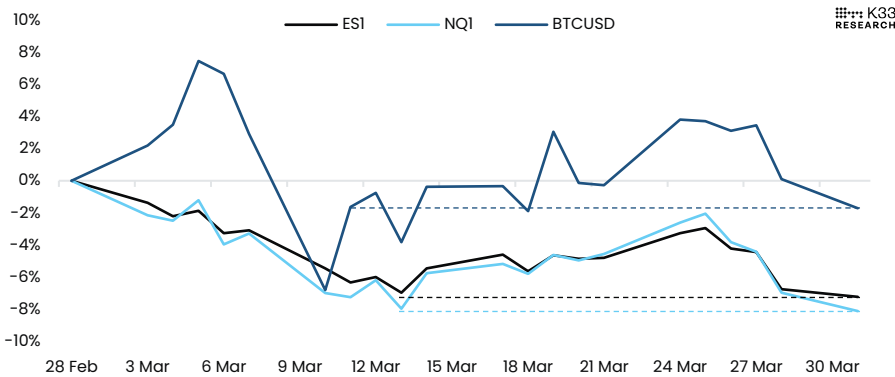
# A deeper dive

## Tariffs and reserves

Liberation day is soon upon us, and the market has aggressively de-risked into the unknown. Large-scale tariffs, including reciprocal tariffs, are expected to be announced on April 2. Goldman Sachs increased its tariff estimate this week, estimating that Trump will announce reciprocal tariffs that average 15% across all U.S. trading partners.

Heightened tariff expectations have been followed by aggressive selling in equities and crypto. The S&P 500 and Nasdaq have seen a significant sell-off in the past week, revisiting March 13 lows and levels not seen since September 2024. Meanwhile, BTC still trades above its March 7 low, a sign of moderate relative strength. That said, correlations remain high, and tariffs and the market reaction are due to be the key directional force ahead for equities and crypto alike.

Figure 17: Performance since Feb 28 close



Source: K33 Research

### Status on the U.S. Bitcoin reserve?

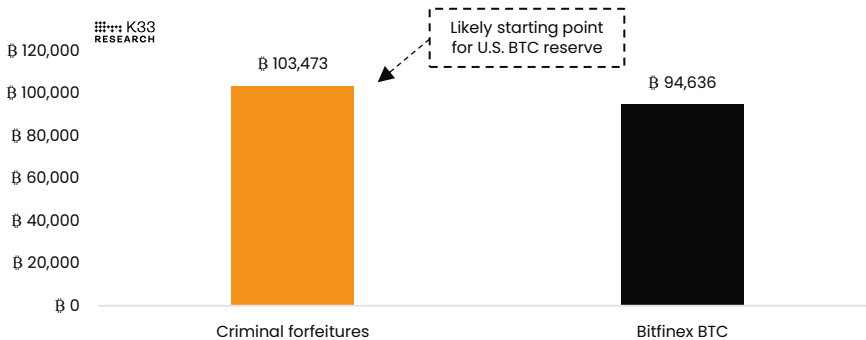
On March 6, Trump signed an executive order announcing the launch of a U.S. Strategic BTC Reserve. Per the order, the U.S. will stockpile currently seized digital assets and explore budget-neutral ways to acquire more BTC for the Strategic Bitcoin Reserve.

Within 30 days of the order—by April 5, 2025—federal agencies are scheduled to complete evaluations and submit reports detailing their authority to transfer digital assets to the SBR. This milestone should offer a clearer picture of total Bitcoin holdings and the framework for managing them. Follow-up disclosures or summaries might provide early insight into the reserve’s initial composition and value.

While it’s been relatively quiet on the SBR front over the past few weeks, the 30-day deadline could spark some movement and bring clarity on U.S. BTC holdings. We expect the Bitfinex funds to be transferred to the exchange following this deadline, meaning a large transaction—94,636 BTC moving from the U.S. to Bitfinex—could potentially be imminent. This might stir short-term volatility, especially considering most headlines around the reserve continue to cite a 200k BTC figure, suggesting the market may not be fully braced for these funds to start flowing. We’ll also likely get clarity on whether the U.S. holding estimate of 103,000 BTC (excluding the Bitfinex coins) is accurate, which could trigger additional market reaction.

Details on budget-neutral acquisition strategies aren’t expected until closer to the 60-day mark—around May 5—when the Secretary of the Treasury will deliver an evaluation of the legal and investment considerations for the reserve.

Figure 18: Estimated status of current U.S. BTC Reserves

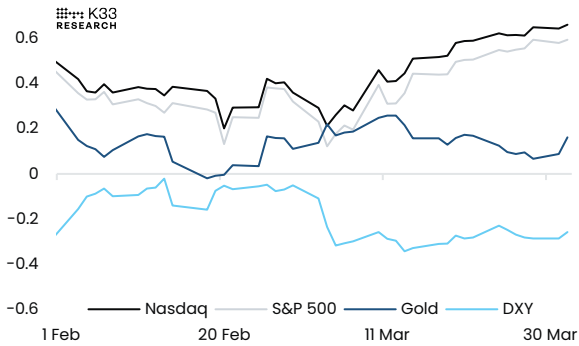


Source: Arkham, DOJ

# Market Related Charts

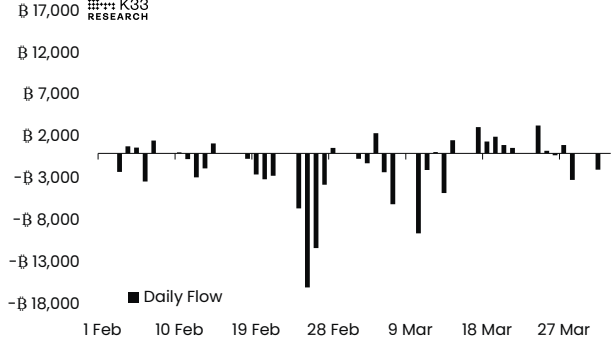
Data updated Tuesday, April 1, 2025

**Figure 19: BTC 30-d correlations\***



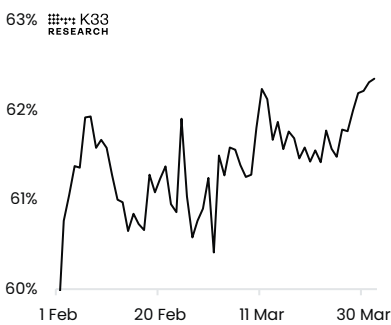
Source: Tradingview \*Pearson

**Figure 20: Daily Flows (BTC ETFs)**



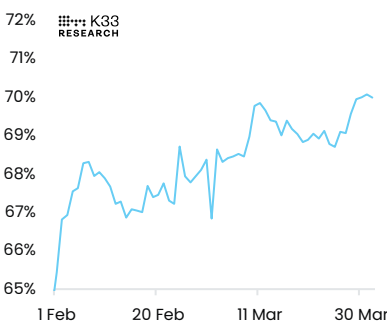
Source: K33 Research

**Figure 21: BTC Dominance**

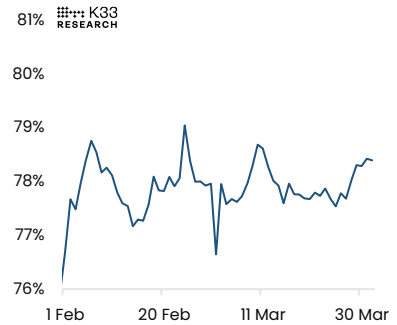


Source: Tradingview

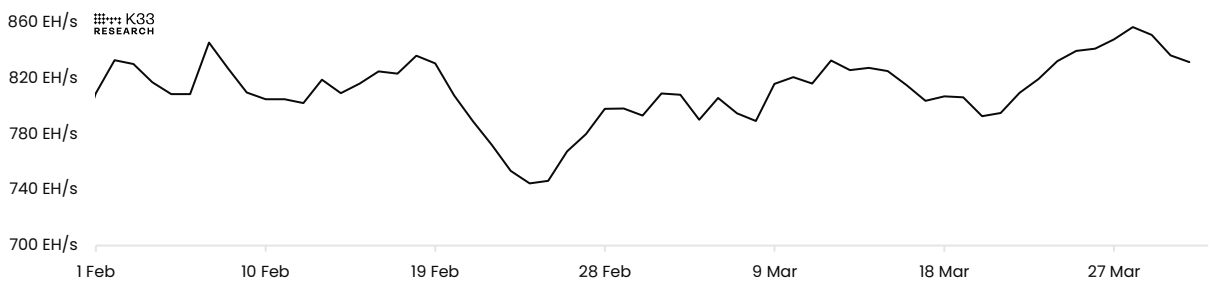
**Figure 22: BTC + Stables Dominance**



**Figure 23: BTC + Stables + ETH Dominance**

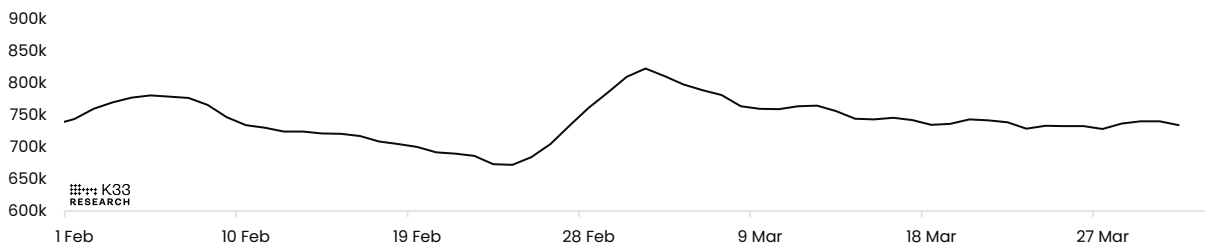


**Figure 24: Bitcoin Hashrate (7-day average)**



Source: Coinmetrics

**Figure 25: Active Addresses (7-day average)**



Source: Coinmetrics

# 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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