Ahead of the curve
Market Update

Digital Assets
Signals from the market

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It's golds time to shine
Bitcoin and Ethereum ended the week flat despite sharp volatility, with Bitcoin falling back to early July lows of $107,200 over the weekend—continuing its three-week trend of lower lows. The broader crypto market echoed this weakness, as Ethereum closely tracked Bitcoin's performance. ETHBTC has hovered around the 0.04 level for ten straight sessions, showing signs of a cooling sentiment in institutional interest via CME.

In contrast, gold broke to new all-time highs after months of steady accumulation, driven by global uncertainty and the introduction of U.S. trade barriers. Gold's resilience has led central banks to now hold more gold than U.S. treasuries in their reserves for the first time since 1996. Despite bitcoin often being branded as digital gold, its price behavior remains largely uncorrelated with gold, with 30-, 90-, and 365-day correlations near zero or negative. This divergence supports the case for holding both assets as complementary hedges in uncertain macro environments.

Perp OI stays at yearly highs
Perpetual swaps saw heightened activity and erratic behavior this week, with notional open interest fluctuating sharply and funding rates swinging between negative and neutral as traders remain uncertain about Bitcoin's direction. This leverage-driven environment has amplified volatility risks, setting the stage for broader market swings.

Second-worst monthly BTC ETP flow since the launch of U.S. spot ETFs
Bitcoin ETPs saw significant net outflows of 15,399 BTC in August, ending a four-month streak of inflows and marking the second-largest monthly outflow since U.S. spot ETFs launched. Past months of net outflows from BTC ETPs have coincided with global market de-risking, a factor not resembling August 2025, as equity indices stay put at ATHs.

The strong historical correlation between ETF flows and BTC returns remains intact, with a 2025 R^2 of 0.755, though slightly weaker than 2024's 0.83, as other factors such as treasury company acquisitions and OG whale sales have contributed meaningfully to delivering or absorbing supply from the market. Ultimately, this highlights that a firm strengthening of net flows to BTC ETPs is a necessary requirement to reignite BTC's momentum.

CME turning long, or are traders gone?
Following the August futures expiry, CME markets have shown early signs of a potential regime shift, with BTC futures trading at a premium to ETH and the futures curve steepening to levels not seen since July.

ETH basis contracted sharply from 10% to 6.5%, while BTC maintained stable premiums, leading to a 1.5% BTC basis premium, its highest since April. Despite this, CME's next-month BTC futures exposure is at historic lows, driven by low trader participation and ongoing outflows from BITX, the 2x leveraged long BTC ETF, which now holds its lowest BTC-equivalent exposure of 2025.

By the numbers

BTCUSD $109,962
7d: **0%**
30d: **-4%**

ETHUSD $4,374
7d: **0%**
30d: **23%**

Open Interest (BTC futures and perps)
$58.2bn
530,000 BTC (**0.1%** last seven days)

Average daily BTC spot volume
$2.9bn (**-20%** last seven days)

BTC 90-d correlations (Weekly change included)

ETH	Gold	S&P 500	DXY
0.74 (0.00)	-0.09 (0.02)	0.37 (0.02)	-0.06 (-0.04)

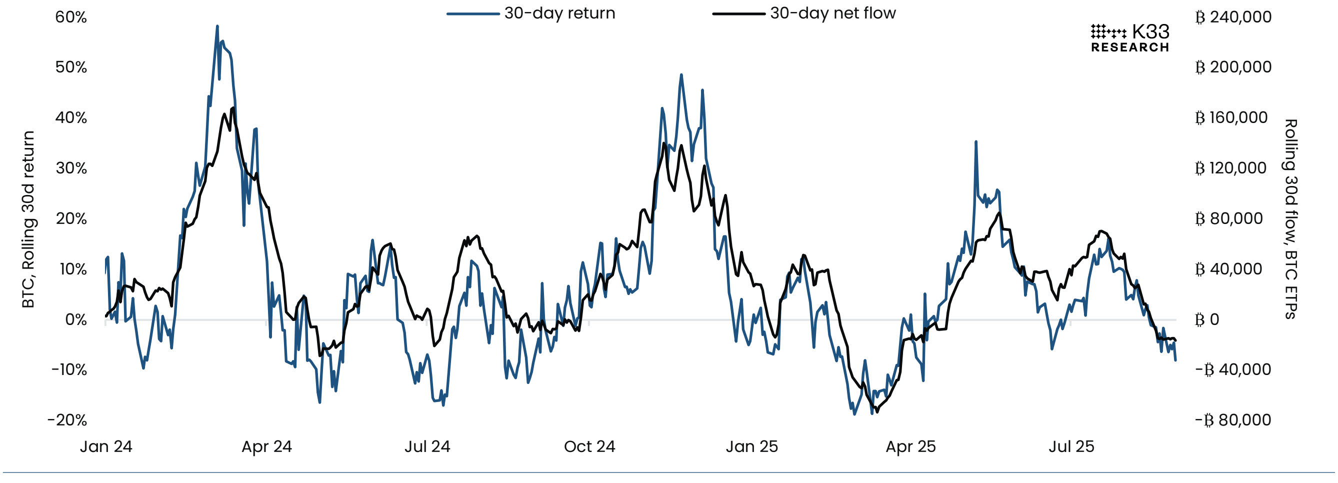
Percentage of Total Market Capitalization
One week change in percentage points

BTC	ETH	Stablecoins	Rest
57.3% (0.1%)	14.4% (0.2%)	6.1% (-0.1%)	22.2% (-0.2%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainers			
1	CRO	59%	50%
2	POL	20%	-38%
3	BGB	10%	-15%
Losers			
1	HBAR	-9%	-21%
2	XLM	-7%	8%
3	AAVE	-7%	-1%

Figure 1: 30-day BTC returns vs. 30-day BTC ETP flow



Source: K33 Research

The forgotten tariffs
September Outlook

Digital Assets

September Outlook

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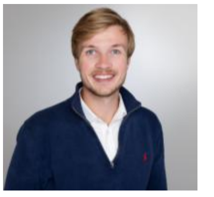


The fear of Q1 is now a reality, but no one really cares as markets trade at all-time highs. Will this all change once the impact starts to trickle into economic data in September?

The yearly wheel

Here we are again, in September, a month in bitcoin circles best known for its clear tendency to be the weakest month of the year in terms of BTC returns. Average bitcoin returns in September since 2011 are negative at 4.6%, making it the only month of the year with average negative returns in BTC. Expecting a similar trajectory this September based on past patterns is a lazy approach, but there are general reasons to enter yet another September with modest expectations.

In Q1, asset owners fumed over the selling button. Tariffs were coming; they were due to be huge, and their impact even more so. Global trade would crumble and inflation would soar. That was the narrative, and that was the hectic nature of the sell-off culminating in the farce that was Liberation Day. Liberation Day was quickly followed by a 90-day tariff pause, with an additional extension until August. Equities and bitcoin recovered massively during this welcome tariff hiatus, returning to the comfortable state of all-time highs.

Comfortably numb

To all-time highs we went, and near all-time highs we stayed. This, despite no indication of Trump chickening out. Broad tariffs have been live and well since August 7, and while a Federal appeals court has ruled the tariffs as illegal, the enforcement of the decision is put on pause until mid-October, meaning that the tariffs are due to stay, at least for a little while.

Soon, very soon, the impact of these tariffs will start showing up properly in the release of U.S. economic data. Any reminder of macro surprises even close to the fears of Q1, 2025, may shake market participants out of their ATH-riddled state of comfortable numbness. September offers plenty of data for the market to absorb and digest.

I perceive risks of asset owners reengaging with the beloved selling button from Q1 as elevated and am positioned accordingly.

Cash is cash

Therefore, when returning from vacation in mid-August, I made the painful decision to rotate *some* of my hard orange coin exposure to cash. Despite a clean drawdown in BTC over the following weeks and a modestly appealing chart, I maintain the same exposure. I am cautious of the risks of rugged conditions following U.S. macro data releases, namely the mid-September PPI and CPI releases.

Bitcoin is bitcoin

A rational, well-tested strategy is to buy and hold BTC. In the long run, the honey badger does not care about global turmoil and restrictive global trade conditions. It's also an asset well-positioned to shine in an environment where the sitting U.S. president does what he can to influence the perceived independence of the Federal Reserve.

Rate cuts and more expansionary policies are accommodative factors to propel bitcoin higher, and so are initiatives to expand the suite of 401 (k) retirement plans to crypto. In a not-too-distant future, these factors are poised to strengthen demand for bitcoin, and in such environments, sitting in cash is painful. That's why I don't intend to keep cash sitting on the fence for long, and will look to reenter as we progress through September, with the market potentially busy digesting the impact of tariffs.

Squeezable perps

The past summers have shared two common traits: lower volatility and higher leverage. These traits are interconnected. Traders juice exposure in a market lacking oomph. A similar pattern has emerged this summer, albeit with a delay compared to the last years.

A not-so-harmonious crescendo typically follows a harmonious build-up in notional open interest in BTC perps. Open interest in BTC perps is at yearly highs, while funding rates are painfully erratic, leaving BTC considerably exposed to squeezes in either direction.

In September, potential neglected downside catalysts from macro data may be a potent trigger to squeeze the linearly growing leverage, opening an opportunity for swift entries at attractive support areas such as $101k and $94k.

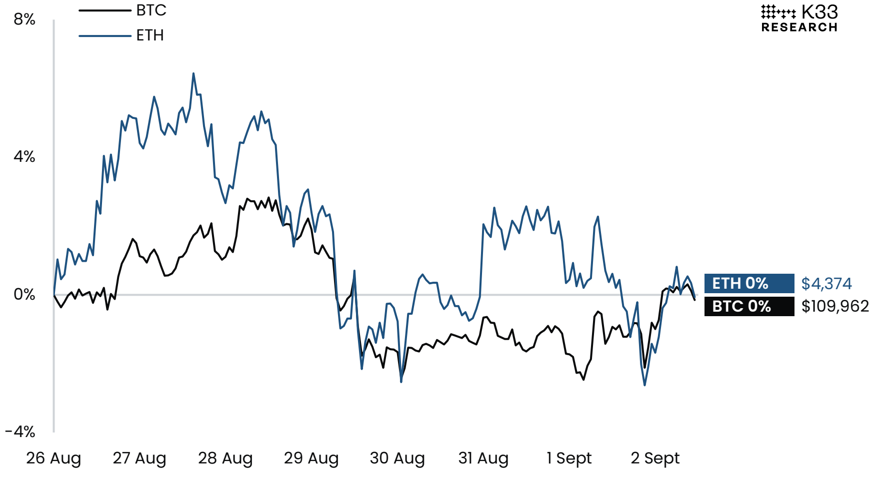
Spot Market

Gold hits all-time highs
Both bitcoin and ETH close the week flat after enduring considerable volatility. After a steep Friday sell-off, Bitcoin retested early July lows of $107,200 during the weekend, extending BTC's three-week downtrend of lower lows. The sell-off impacted the crypto market broadly, with ETH's weekly performance mirroring BTC closely. ETHBTC has now consolidated at 0.04 for the past ten trading days, with signs of dampened CME enthusiasm starting to show.

Amid bitcoin's consolidation over the past week, gold soared to new all-time highs. Gold has traded in substantial consolidation since late April, steadily and gradually hitting higher lows as it continues to face solid demand amid lasting global uncertainty following the launch of U.S. trade barriers and tariffs. Gold's rally in 2025 has pushed central bank gold holdings as a % of foreign reserves above U.S. treasuries for the first time since 1996.

While we and others tout bitcoin as a digital gold with safe-haven properties, bitcoin is far from mirroring gold's price action. Current 30-day correlations between gold and bitcoin sit at 0.11, whereas 90-day correlations sit at -0.09. The rolling 365-day correlation between the two assets sits at 0.026, meaning that the two assets face return profiles more or less independent of each other. There should be plenty of arguments for investors motivated by hedging inflation risks and global unrest to hold exposure in both assets.

Figure 2: Last week's Performance BTC and ETH

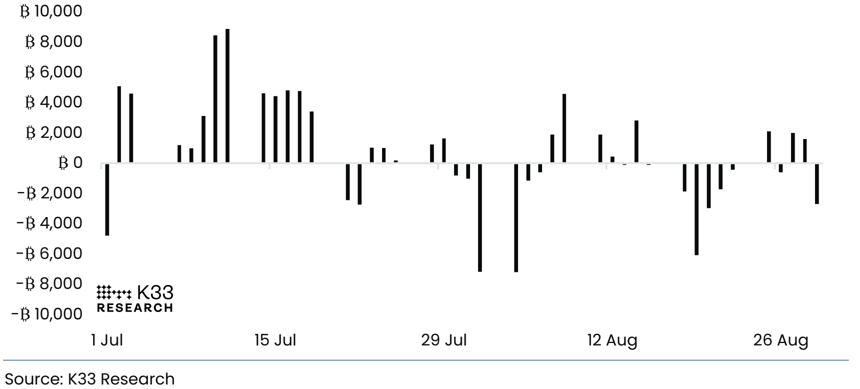


Source: Tradingview, (Coinbase, Binance)

Modest inflows, but still stagnant
Bitcoin ETPs globally saw modest inflows of 2,395 BTC over the last week. While this marks a robust improvement from the 9,100 BTC outflow noted last week, activity in BTC ETP vehicles remains predominantly stagnant.

August marked the first net monthly outflow since March, and the second-worst net notional outflow since the launch of U.S. spot BTC ETFs in January (page 7).

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

Headlines last week

Trump family's crypto wealth balloons by $5 billion on paper following WLFI token debut

Bitcoin whale ramps up BTC-to-ETH rotation, amassing $4 billion in Ethereum

Fed Governor Lisa Cook sues Trump as he tries to fire her amid tensions at the central bank

Nasdaq-listed KindlyMD plans $5 billion equity offering for bitcoin treasury push

CFTC left with single commissioner as Johnson exits, crypto oversight in limbo

Trump Media, Crypto.com plan $6.4 billion CRO token treasury based largely on equity line of credit

Calendar

Tuesday, Sep 2
- Trump to make announcement at the Oval Office

Wednesday, Sep 3
- JOLTs Job Openings (Exp: 7.39m)

Thursday, Sep 4
- ADP Nonfarm Employment Change (Exp: 71k)

Friday, Sep 5
- Nonfarm Payrolls (74k)
- U.S. Unemployment Rate (Exp: 4.3%)

Wednesday, Sep 10
- U.S. PPI

Spot Market

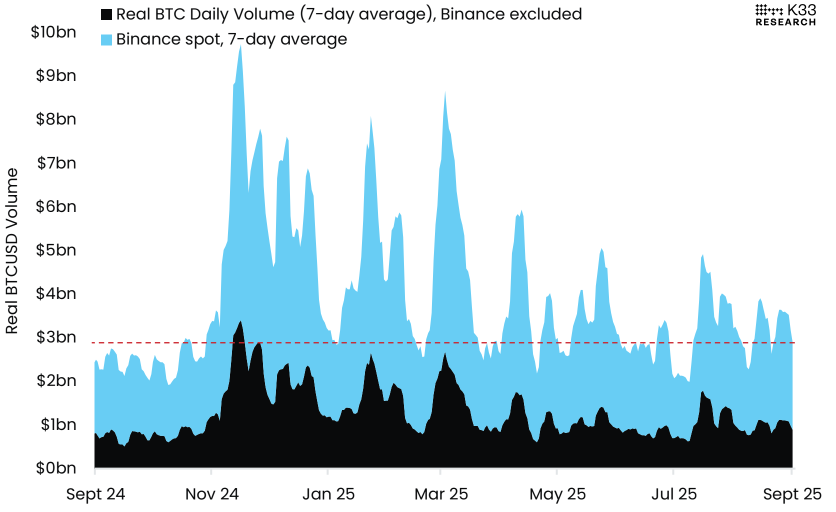
Fear and Greed

Now: 49 (Neutral)
Last week: 48 (Greed)
Last month: 55 (Greed)

20% decline in weekly spot trading volumes
The average daily spot trading volume declined to $2.9bn this week, down 20% compared to last week.

While trending lower, activity has been consistently high with less weekly variance since mid-July compared to Q2, a sign of a vibrant spot market amidst BTC's continued consolidation in the $110,000 range.

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

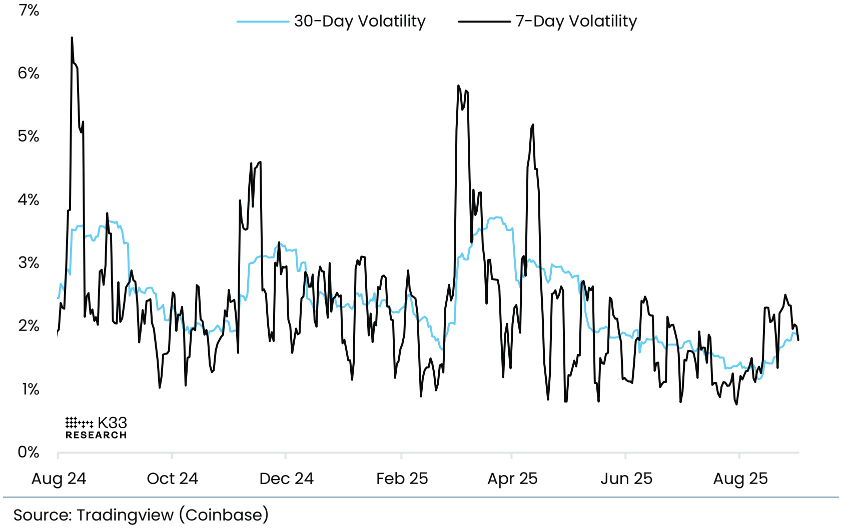


Source: Tradingview, Bitcoinity *Includes Bitwise 10 exchanges

Volatility stays elevated
Price fluctuations remained relatively big over the past week as BTC retested 2-month lows of $107,200 following a considerable 3.7% drawdown on Friday.

The end of the summer slumber further materialized in the market over the past week. 7-day volatilities sit at 1.7%, well above the July doldrums, with 30-day volatilities climbing toward 1.9% for the first time since early June.

Figure 5: BTC-USD Volatility



Source: Tradingview (Coinbase)

Derivatives
CME, Futures and ETFs

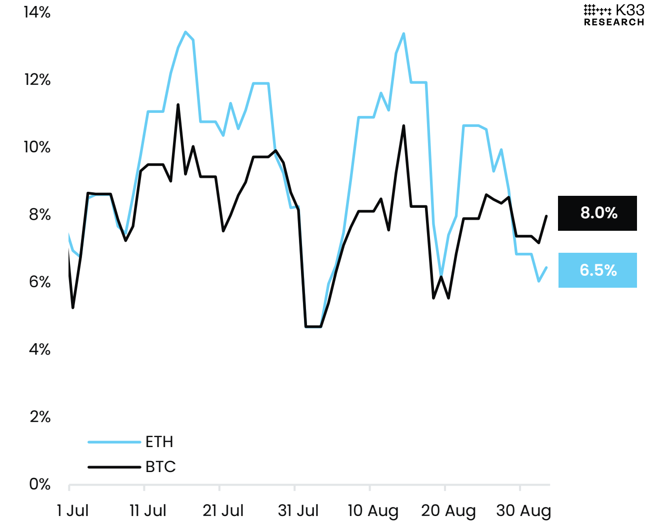
Following the August expiry, a modest hint of a changing regime on CME has emerged. In the past trading days, BTC futures traded at a relative premium to ETH futures, whereas the contango has recovered to levels not seen since July.

This week, BTC futures premiums stayed stable in a range, while ETH saw a considerable basis contraction, declining from 10% on Aug 27 to 6.5% on Sept 2. BTC basis currently trades at a 1.5% premium to ETH, a relative high not seen since April.

The BTC futures curve has also dramatically shifted following the August roll. Since mid-July, BTC futures saw their next month premiums plummet from 0.7% to 0.55% amid reluctance to add long exposure in longer contracts. Early post-roll signals suggest that this defensive sentiment is improving.

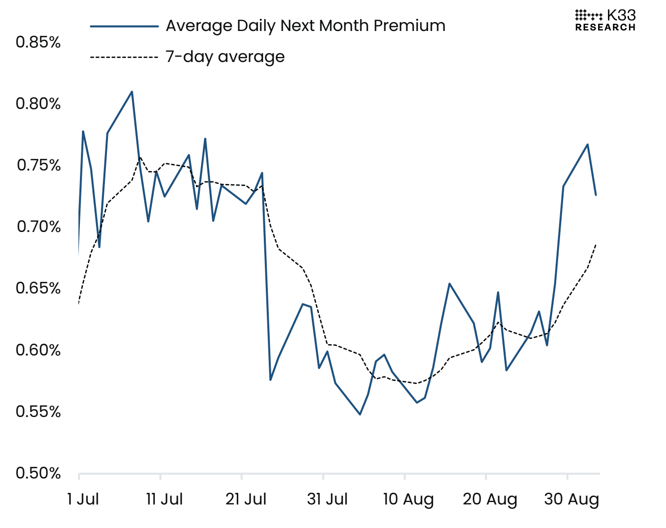
That said, traders are heavily concentrated in the September contract. Following the August expiry on Aug 29, only 1,783 contracts were held in the October expiry, equivalent to 6.5% of the global OI. This is the lowest notional next-month contract exposure seen in CME's BTC futures since May 2022, and the lowest recorded relative exposure in the next-month contract since August 2021. With such low next-month contract exposure, it takes little to widen the basis, particularly for a market heavily aware of VolatilityShares' eventual rotation from September to October contracts.

Figure 6: Largest bitcoin basis premium since April
CME BTC and ETH Futures Annualized Rolling 1mth Basis



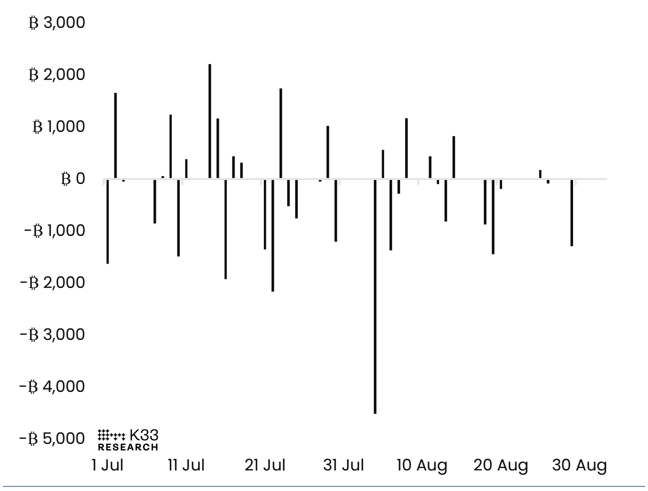
Source: Tradingview

Figure 7: Contango expands to July levels post roll
CME BTC Futures: Average Daily Next Month Premium



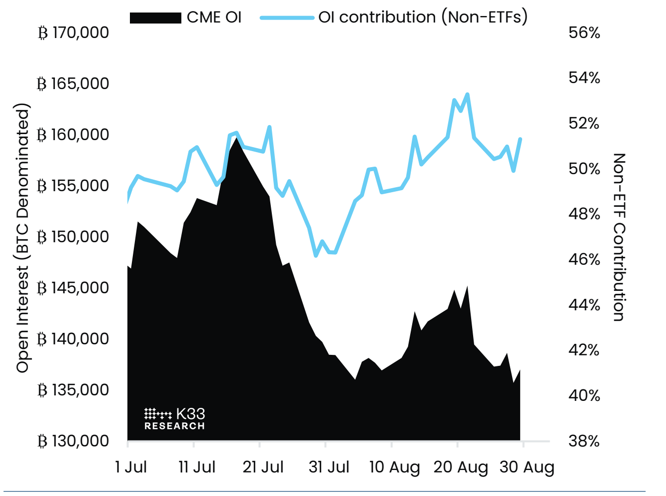
Source: Tradingview

Figure 8: VolatilityShares exposure hits 16 month low
Futures-based ETFs: Net Flow – BTC Equivalent



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

Figure 9: Exposure stays low on CME
CME BTC Futures: Open Interest



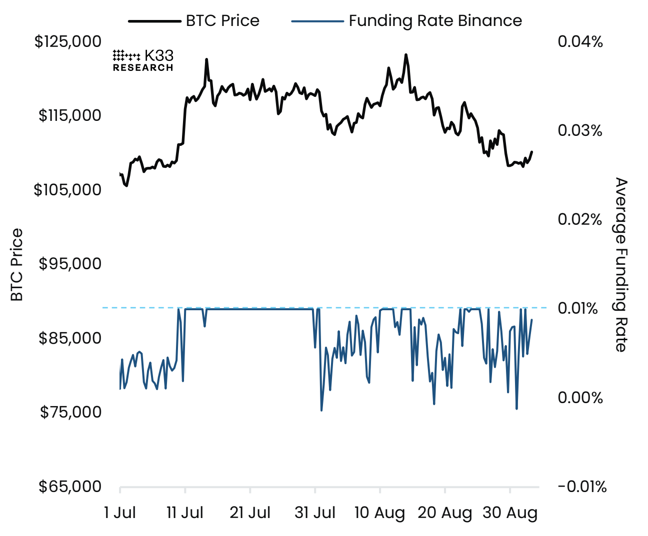
Source: CME, ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

Derivatives
Perpetual Swaps and Options

Perpetual swaps
Activity in perps remains heated. Notional open interest in perps has behaved erratically alongside fluctuating funding rates throughout the week, printing lows of 300,000 BTC on Aug 30 before surging to 313,000 BTC on Aug 31. Funding rates have bounced vividly, printing both negative and neutral levels as traders remain undecided on BTC's path ahead.

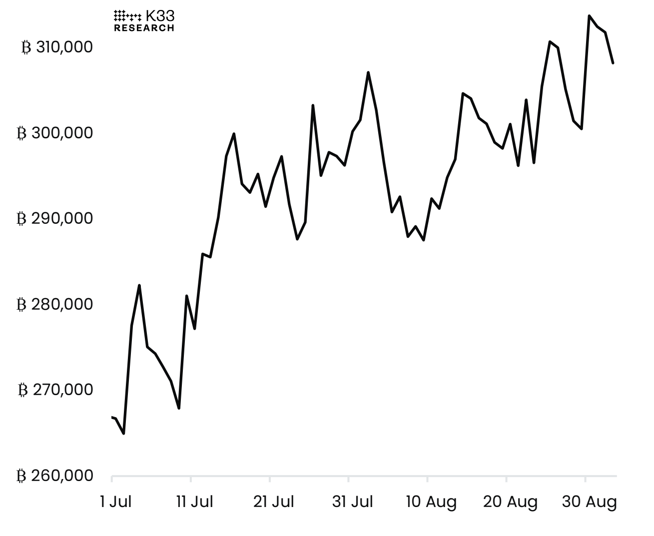
The highly leveraged exposure continues to elevate amplified volatility due to heightened liquidation risks, while an erratic funding rate regime offers directional ambiguity. Nonetheless, the setup is ripe for broadening volatility ahead.

Figure 10: Undecided market – erratic funding rates
Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Binance, Laevitas

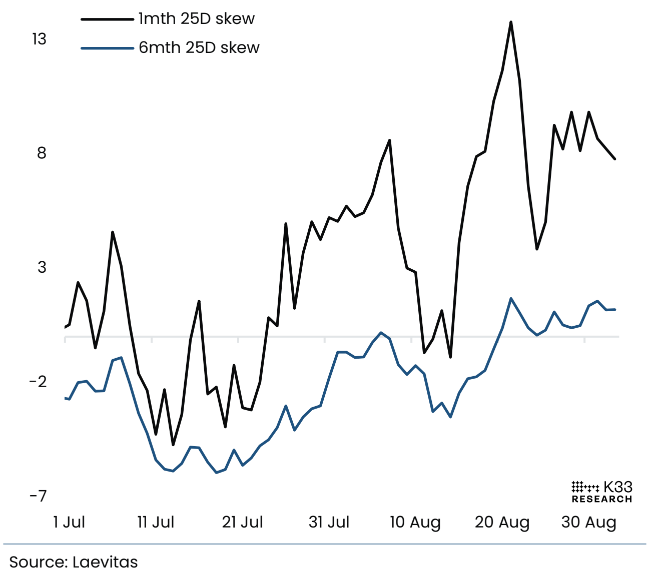
Figure 11: Open interest stays at yearly highs
Bitcoin Perpetuals: Open Interest



Source: Laevitas

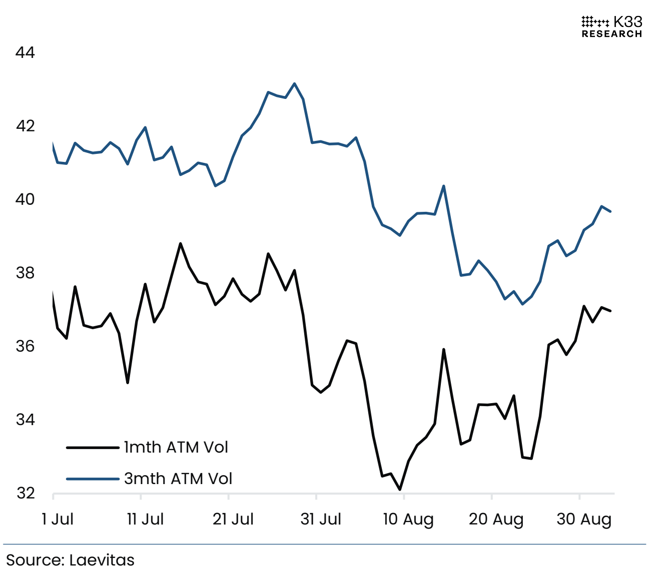
Options
Skews across tenors remain positive, as options traders maintain a defensive bias amidst BTC's consolidation near $110k. Widening daily volatilities have elevated IVs, but 3mth IVs remain compressed at levels only periodically visited in 2023 between June and October.

Figure 12: Options traders remain defensive
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Figure 13: Implied volatility recovers, but stays compressed
BTC Options – Implied Volatility



Source: Laevitas

A deeper dive

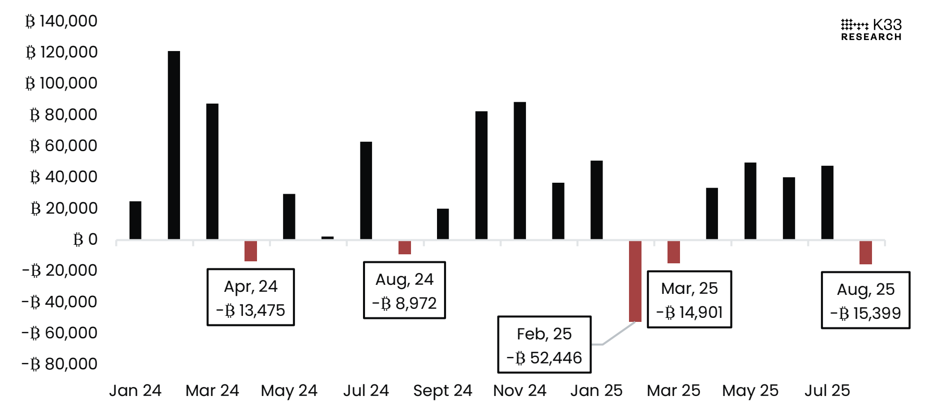
Second-worst BTC ETP month since U.S. ETF launch

Bitcoin ETPs globally experienced net notional outflows of 15,399 BTC in August, marking an abrupt end to a four-month streak of solid net monthly inflows. The August net outflows are the second-highest recorded in BTC ETPs since the launch of U.S. spot ETFs, only behind the massive outflows faced throughout February.

Since the U.S. spot ETF launch, net monthly inflows have been the norm. Only 25%, 5 out of 20 months, have resulted in net outflows, whereas the average monthly flow for the entire period sits at a solid 33,682 BTC.

Most of the months affiliated with net outflows have been associated with global market unrest. Financial markets faced broad de-risking throughout February and March as they adjusted to Trump's tariff policies. Similarly, August 2024 saw broad de-risking following the yen-carry trade unwind. Contextually, August 2025 more closely resembles April 2024, where flows softened amid weakening BTC momentum on the backdrop of a correction from ATHs.

Figure 14: Net Notional Monthly Flows, BTC ETPs



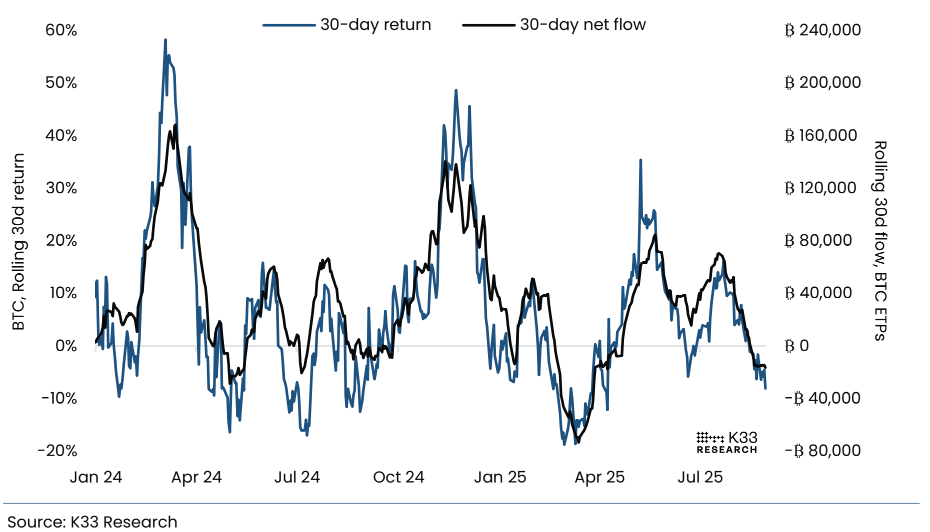
Source: K33 Research

Flows still a material directional contributor

It's clear that ETP flows are a materially important driver of BTC directionally, and this has been the case ever since the U.S. spot ETF launch. Figure 15 visually illustrates the relationship between BTC 30-day returns and 30-day flows, whereas the regression in Figure 16 highlights the strong relationship between the two components, with an R^2 of 0.793 since launch. The R^2 in 2025 has weakened relative to 2024, sitting at 0.755 in 2025 vs. 0.83 in 2024, as other factors such as treasury company acquisitions and OG whale sales have contributed meaningfully to delivering or absorbing supply from the market.

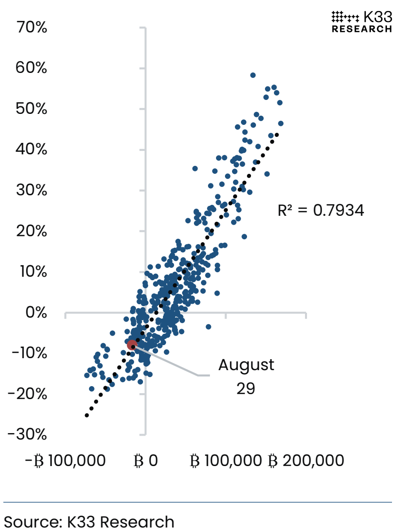
Despite the modest softening of the relationship between flows and returns in 2025, it's abundantly clear that ETF flows directionally impact BTC. It follows that a material change of flows will be needed to alter the current stagnant momentum in BTC.

Figure 15: 30-day BTC returns vs. 30-day BTC ETP flow



Source: K33 Research

Figure 16: 30d flow vs return, regression



Source: K33 Research

A deeper dive

BITX exposure hits 16-month low

Bitcoin activity and exposure have been declining on CME over the summer, with notional open interest hovering relatively idly at lows not seen since late April. On page 5, we remarked on a widening contango and the uniquely low October exposure, a topic we aim to cover in more detail below.

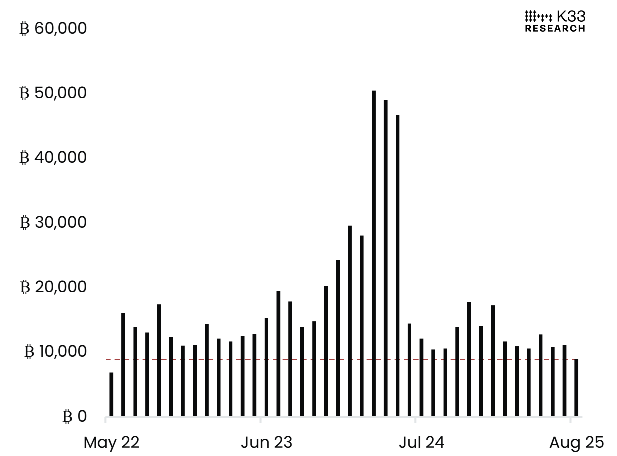
Steady outflows from the 2x leveraged long BTC ETF, BITX, represent a key explanation for CME's low open interest of late. As of the August 29 close, VolatilityShares held a BTC equivalent exposure of 40,970 BTC. This is the lowest recorded BTC equivalent exposure in the leveraged ETF since May 1, 2024, marking a new yearly low, below the April 8 low of 42,650 BTC. The low exposure in BITX reflects broad risk aversion from traders, with steady outflows hitting the fund throughout August as traders predominantly shun risk.

During futures expiries, VolatilityShares's BITX typically holds 10% of its expiry into the next-month expiries, with the entity representing a major holder of these contracts. With a lower AUM, the depth in the next-month contract has naturally weakened, representing the primary explanation for the lowest next-month exposure contract reading on CME since May 2022. While BITX faces dwindling AUM, the market is aware of the eventual rolling of September contracts. This, topped with modest CME October exposure, may explain the newly expanded CME contango.

Figure 17: BTC equivalent exposure, BITX

Source: VolatilityShares

Figure 18: CME: BTC OI, Next-month contract



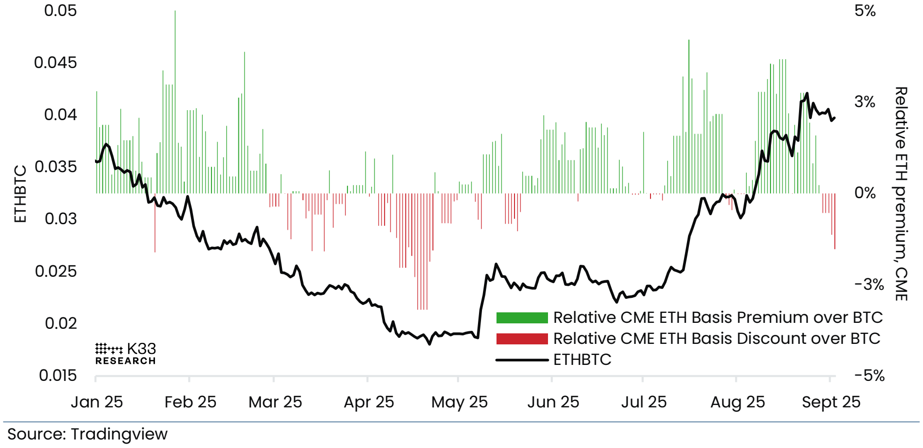
Source: CME

Relative BTC premiums

In the CME section, we also touched upon relative BTC premiums vs. ETH, implying relative risk-aversion for ETH exposure vs. BTC. After ETH's meteoric rise of late, premiums contracted markedly last week, indicative of moderating aggression from ETH longs.

While this signals relative ETH defensiveness on CME, its value as a trading signal is weak. Relative ETH discounts peaked at -3.1% during April's ETHBTC bottom, while relative ETH discounts also appeared during the brief ETHBTC consolidation in early August. Further, ETH premiums were an ongoing theme amid ETHBTC's Q1 bleed lower, highlighting the proxy's weakness as an indicator. Nonetheless, it efficiently illustrates the relative ETH bias vs. BTC on CME, which has flipped defensive in September.

Figure 19: CME Premium: Avg Daily BTC 1mth Basis Minus Avg Daily ETH 1mth Basis vs. ETHBTC

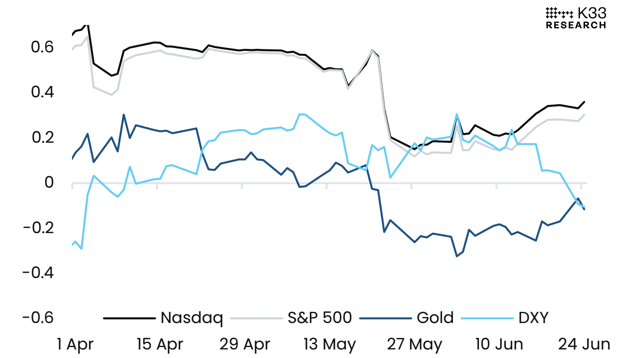


Source: Tradingview

Market Related Charts

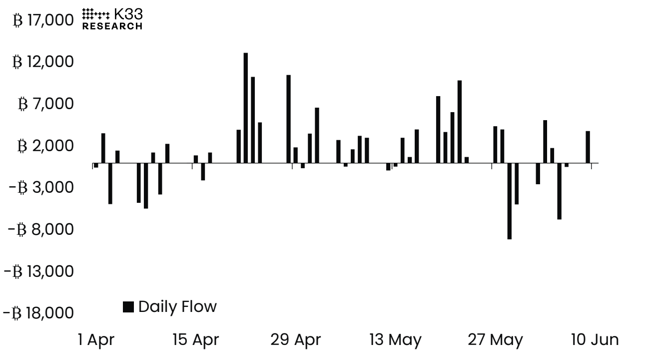
Data updated Tuesday, September 2, 2025

Figure 19: BTC 30-d correlations*



Source: Tradingview *Pearson

Figure 20: Daily Flows (BTC ETFs)



Source: K33 Research

Figure 21: BTC Dominance

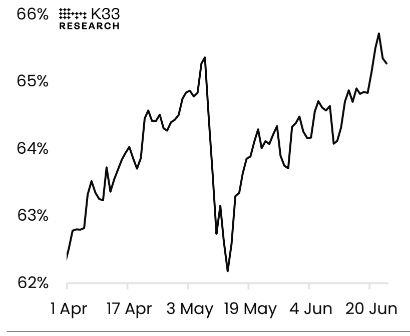


Figure 22: BTC + Stables Dominance

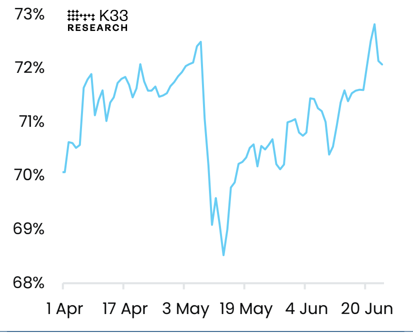
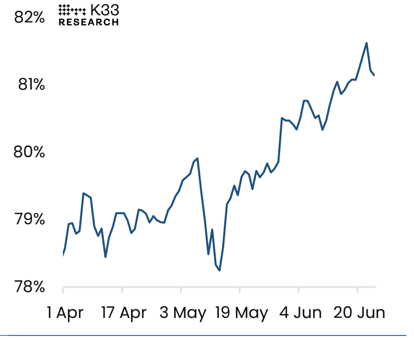
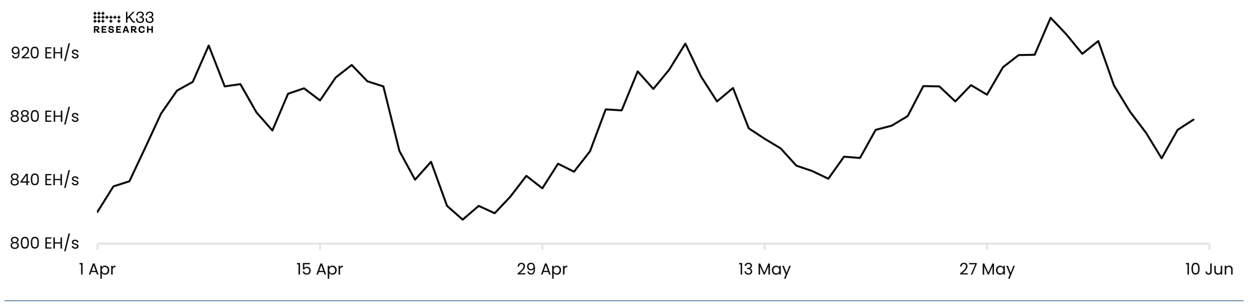


Figure 23: BTC + Stables + ETH Dominance



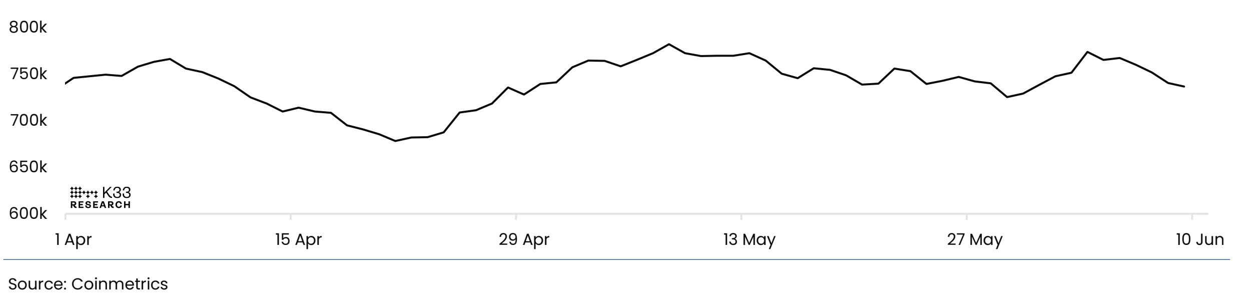
Source: Tradingview

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

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

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

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

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

Derivatives primer

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

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

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

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

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

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

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

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

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

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

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

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