K33 RESEARCH

Market Research
July 1, 2025

Ahead of the curve
Market Update

Digital Assets

Signals from the market

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Watching paint dry
Markets have entered a lull with trading volumes at 9-month lows and volatility hitting 21-month lows, signaling a potential summer slowdown despite an active July ahead. BTC rose 1% last week but dipped early Tuesday as political developments such as Trump's budget bill and tariff chatter has resumed.

Trump aims to finalize the budget bill by July 4, while the tariff pause expires on July 9, both of which could sway BTC depending on whether fiscal expansion or trade uncertainty dominates. Additionally, reduced liquidity from the July 4 holiday may add to near-term market uncertainty and discourage traders from taking risks.

Traders remain defensive
CME crypto futures activity remained muted over the past week, with traders avoiding new directional bets, as annualized BTC futures premiums softened to 6.5%, an 8-day low. Leveraged ETFs saw outflows and little new activity, reinforcing the low-risk enivornment.

Perps also reflects traders' defensive stance: seven-day annualized funding rates average 2.5%, far below the neutral 10.95%. This indicates a sustained reluctance to take on new long positions, which has kept perps trading below spot. Open interest in BTC perps remains well below May's highs and mostly stagnant, sitting at 266k BTC after only a slight rebound from last week's lows.

Together with subdued CME futures premiums and limited leveraged ETF flows, these signs of low leverage and modest yields suggest limited immediate risk of leverage-driven market squeezes.

A thriving altcoin-derivatives market
Altcoin markets have seen a sharp rise in relative leverage over the past year, with open interest in perpetuals nearly doubling relative to market cap, from 3% on July 1, 2024, to 5.6% today. This indicates far more active leveraged trading compared to a year ago. Notional open interest has surged 68% in ETH and 115% in SOL, while BTC's OI has stayed largely flat, underscoring traders' growing focus on altcoins.

Altcoin funding rates have trended close to or below BTC's rates during H1 2025, signaling a cautious risk-off stance despite steadily climbing open interest, which points to restrained positioning rather than exuberant leverage chasing.

The loud low season is coming
BTC spot trading volumes in June 2025 fell to their lowest since September 2024, continuing a trend of subdued activity typical for the summer months. Historically, only 32% of annual BTC trading volume occurs from June through October despite this period spanning 43% of the year. Average volatilities mirror this seasonal lull, remaining lower in July, September, and October even during past Julys marked by major market events like China's mining ban (2021), crypto firm bankruptcies (2022), and significant political shocks in 2024. Although July 2025 brings potential catalysts, including Trump's budget bill, tariff decisions, and a crypto executive order deadline, seasonal patterns suggest markets may continue drifting in low-volume, low-volatility doldrums despite the busy news backdrop.

By the numbers

BTCUSD $106,601
7d: **1%**
30d: **2%**

ETHUSD $2,453
7d: **2%**
30d: **-2%**

Open Interest (BTC futures and perps)
$53.0bn
498,000 BTC (**3.7%** last seven days)

Average daily BTC spot volume
$2.2bn (**-34%** last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DXY
0.81 (-0.01)	0.02 (0.02)	0.48 (-0.01)	0.05 (0.02)

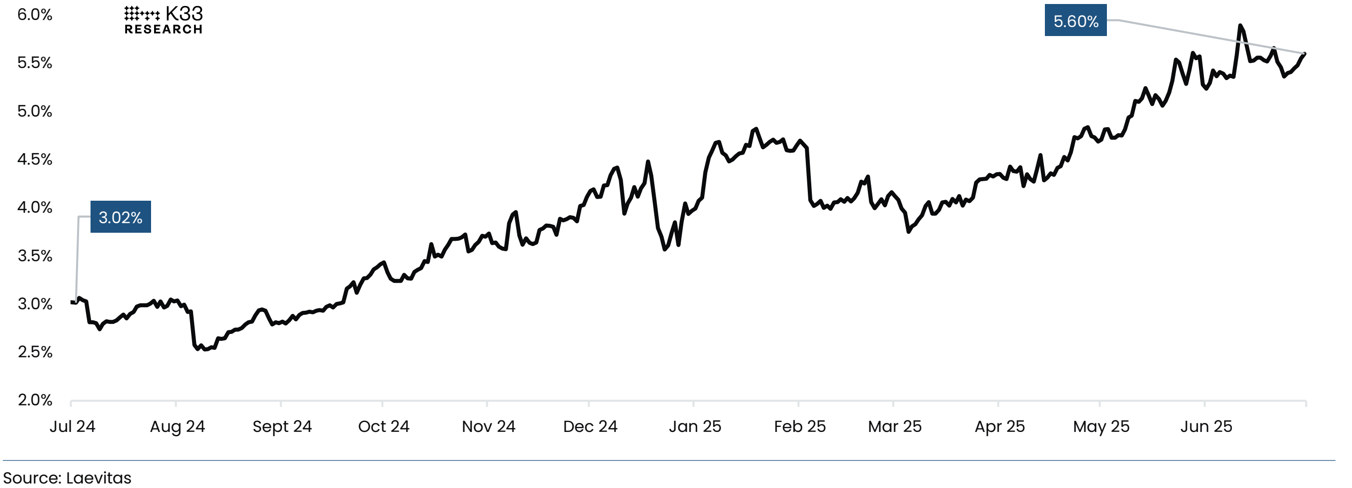
Percentage of Total Market Capitalization
Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
64.6% (0.1%)	9.0% (0.0%)	6.5% (0.0%)	19.7% (-0.1%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainers			
1	BCH	12%	20%
2	APT	9%	-46%
3	BGB	6%	-24%
Losers			
1	TAO	-9%	-26%
2	CRO	-5%	-43%
3	ADA	-4%	-34%

Altcoin Open Interest Relative to Market cap (OI/Total 2 Index (Minus USDT and USDC))



Source: Laevitas

Another quiet summer?
July Outlook

Digital Assets

July Outlook

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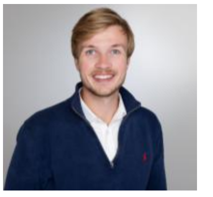


July is flooded with market-moving events, and conditions should be vivid. That said, all four past Julys have been filled with traumas or blessings, with prices staying steadfastly firm and traders touching grass rather than the order book. Is it a fallacy to expect different behavior this year?

The hectic chain of events ahead

No month passes without mentioning the Don. His actions impact markets, skew risk sentiment, and move Bitcoin. July is crowded with latent Trump volatility, with the budget bill tariff pause and even the latest crypto executive order deadline on the agenda.

Trump aims to sign the budget bill by the 4th of July this Friday, a bill that has been associated with considerable controversy given its expansionary nature. DOGE's cost-cutting is dwarfed by the increased spending in the budget bill, which could increase U.S. deficits by $3.3 trillion. An expansionary fiscal budget is poised to reflect well on a scarce asset such as BTC, but the bill might be overshadowed by resumed tariff chatter.

The 90-day tariff deadline ends on July 9. As a result, we expect more comments from Trump directed at various countries, with the fallout of new tariffs to be disclosed and adjusted throughout the month. With February to April fresh in mind, tariff uncertainties are well-equipped to dampen market momentum, weighing down on BTC.

A third crypto-specific U.S. policy dish that may be served shortly is some form of public announcements on the administration's crypto policy track. The final crypto executive order deadline awaits on July 22. By this deadline, the working group is mandated to submit a report recommending legislative and regulatory policies to advance a federal regulatory framework and evaluate a digital asset stockpile. The digital asset stockpile faced another executive order with the launch of the Strategic Bitcoin Reserve. While all deadlines for that executive order has passed, no information has yet been disclosed to the public related to current U.S. BTC holdings, potential future purchases, or the process of reimbursing victims such as Bitfinex.

While we might not receive any more information following the July 22 deadline, decisions and announcements related to the SBR are always lingering and should be expected any time.

An eternal, but constantly evolving Trump-trade

Trump's actions move the markets; that's an undeniable fact, and in his first half year in office, global uncertainty has grown. This has led to a more lethargic market, particularly in crypto. Looking purely at market metrics such as funding rates, open interest, leveraged ETF exposure, trading volumes, and options skews, one would not think that BTC trades a meagre 5% below its former all-time high. In the current uncertain environments, the risk appetite through such instruments remain modest, with the consequence being that prices and risk tolerance are in a very different structural regime now compared to past strong momentum eras.

We interpret the subdued risk tolerance as a positive signal for BTC ahead. The limited exuberance reduces liquidation risks if momentum were to turn meaningfully. There are few reasons to expect a massive broad deleveraging of the crypto market, as crypto-leverage remains contained. This favors maintaining spot exposure and staying patient as we progress into a period well known for its seasonal apathy.

From 2021 to 2024, July has been the second-least active month of the year in terms of trading volume, despite July representing a month crowded with past market-moving headlines. 2021's bull market correction came to an abrupt end in July. Further, in July 2022, Three Arrows Capital and Celsius entered bankruptcy. Last year was the most eventful, with Trump being shot and attending BTC 2024, while Biden resigned during a month where BTC endured significant bearish overhang from Mt. Gox distributions and the German government selling bitcoins. Despite all this, July has seen the second-lowest monthly trading volume of the year in these four years, with the market enduring a summer hibernation.

Expecting a new repeat this summer might strike the reader as a lazy assumption, particularly given the U.S. policy moves ahead. Nonetheless, my base case for the month is that nothing is new under the sun and that the best path ahead is to stay patient and hold your spot exposure.

Attempts to outperform BTC

Currently, my portfolio consists of spot BTC exposure and LEO exposure. The case for LEO has been repeated multiple times this half-year. Essentially, the trade is a bet on Bitfinex receiving 96,000 BTC from the U.S. government, with 75,708 BTC being spent on buying and burning LEO in the aftermath. My LEO was bought with LEO's market cap trading at NAV with the market cap of BTC, and I reduced some exposure when LEO traded at an 8% premium to BTC earlier in June. I will add to the trade if prices return to NAV as I expect and eventual delivery of Bitfinex's bitcoins to result in an outsized positive response in LEO. In essence, this trade represents a small but appealing avenue to outperform BTC, in a market otherwise constrained by low risk tolerance and swift rotations.

Spot Market

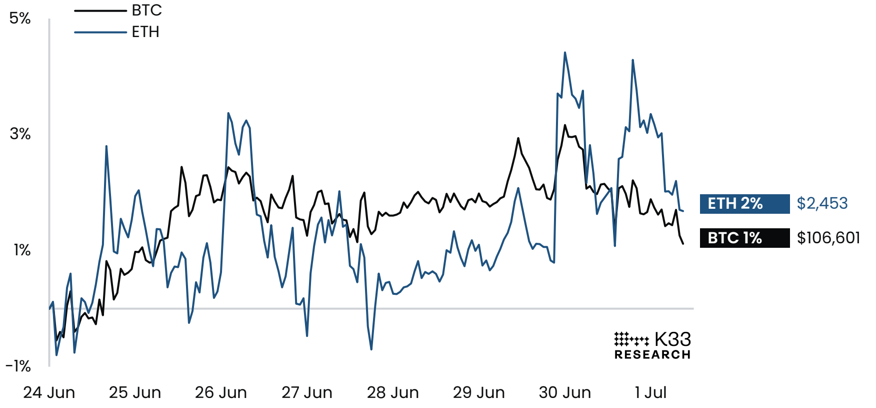
Watching paint dry
Trading volumes have hit 9-month lows, 7-day volatilities have hit 21-month lows and options skews have contracted toward neutral levels across tenors. The lengthy directionless markets, and accelerated snooze over the past week poises us to ask whether the common summer hiatus is due to repeat, despite a busy July on the horizon.

BTC gained 1% over the past week, staying above $107k for a majority of the week before trailing lower in the early Tuesday trading session. Monday saw two topics resume on the timeline, which we expect to be key market movers in July. Musk returned to criticize the budget bill, while Trump responded by highlighting Musk's dependency on subsidies. Further, Trump resumed tariff chatter by commenting on Japan's reluctance to import rice from the United States.

Trump aims to sign the budget bill into law by July 4, while the 90-day tariff pause ends on July 9. Monday's murmuring about these topics may represent early innings of increased focus on these matters, which may again condition traders to adjust risk exposure. The budget bill's expansionary nature could reflect well on BTC, whereas the tariff uncertainty could weigh in the opposite direction. In sum, this point toward uncertain weeks ahead, which naturally disincentivizes traders from adding risk.

Fourth of July will result in an early market close on Thursday and a full U.S. banking holiday on July 4, which may subdue market liquidity. Further, another set of important macro data awaits this week, as U.S. employment data will be available from today until Thursday, which again may impact the market's interest rate expectations. Jerome Powell's current term at the Fed ends on May 15, 2026, and the market currently expects a new chair who supports Trump's lower interest rate agenda.

Figure 2: Performance BTC and ETH, Last Week

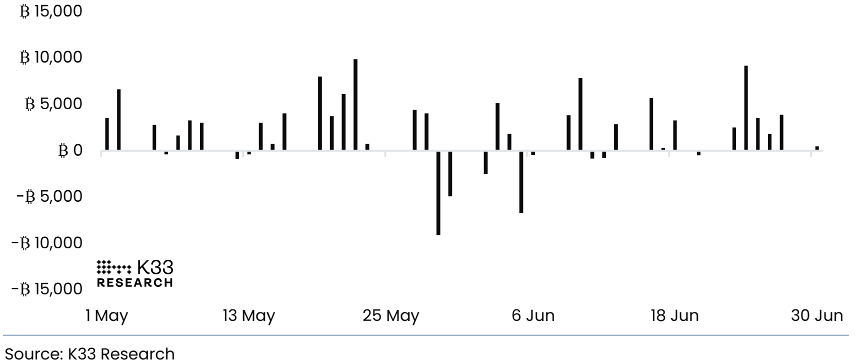


Source: Tradingview, (Coinbase, Binance)

Robust flows despite drowsy price action
Bitcoin ETPs saw 1-week net inflows of 18,877 BTC over the past week, almost single-handedly led by considerable flows to U.S. spot ETFs. This is the strongest 1-week flow seen in BTC ETPs since May 28.

The strong inflows stand in contrast to the stagnant price, indicative of considerable sell-side pressure with BTC struggling to make a move beyond the $108k resistance.

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

Headlines last week

Rex-Osprey to launch 'first-ever staked crypto ETF in the US' for trading on Wednesday

Robinhood to offer tokenized shares of OpenAI, SpaceX to EU users in growth push

Germany's largest banking group Sparkassen adds cryptocurrency trading services

Circle applies for US banking license, enabling it to act as custodian for USDC reserves

Trump-backed American Bitcoin raises $220 million to buy bitcoin and mining equipment

Kazakhstan plans national cryptocurrency reserve using seized assets, state-mined coins

Dinari first to secure US license to offer tokenized stocks

White House, lawmakers target September to move sweeping crypto legislation

Calendar

Tuesday, July 1
- JOLTs Job Openings (Exp: 7.32m)

Wednesday, July 2
- ADP Nonfarm Employment Change (Exp: 105km)

Thursday, July 3
- U.S. Independence Day, Early Market Close at 13:00 EST.
- U.S. Unemployment Rate (Exp: 4.3%)
- Nonfarm Payrolls (Exp: 120k)

Friday, July 4
- U.S. Independence Day – US Banking Holiday
- Trump aims to sign budget bill

Thursday, July 9
- 90-day tariff pause ends

Spot Market

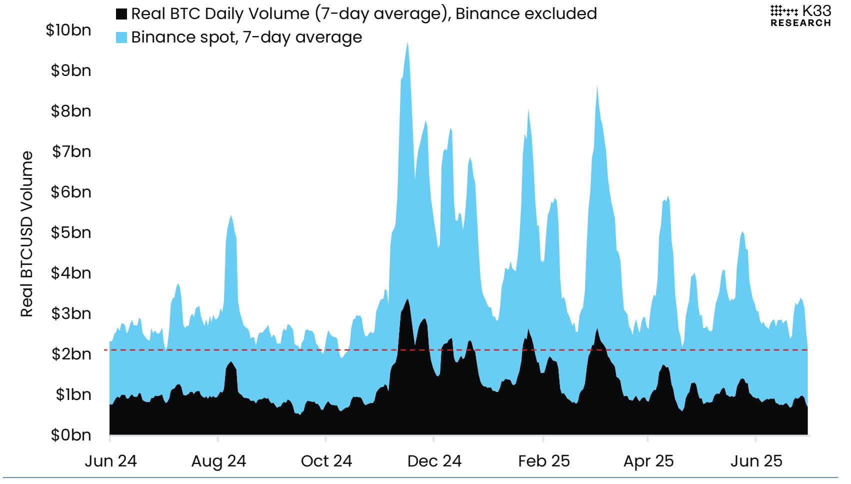
Fear and Greed

Now: 64 (Greed)
Last week: 65 (Greed)
Last month: 56 (Greed)

Spot volumes hits lowest level since October
Trading activity dampened further over the past seven days. Over the last week, average daily trading volumes have fallen by 34% compared to the week prior, with 7-day ADVs hitting $2.18bn, the lowest recorded 7-day trading volume since October 15, 2024.

The muted activity has been driven by the narrow consolidation and a relatively soft week in terms of news flow. As we elaborate on page 8, seasonal effects may further explain the soft activity of late. Over the past years, trading volumes have been far softer from June to October compared to the rest of the year, as traders tend to maintain a hands-off approach throughout the summer, regardless of the intensity of news throughout the summer months. Patterns from the past point toward another calm summer, will tariffs, budget bills and the crypto executive order deadline suffice to break the trend?

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

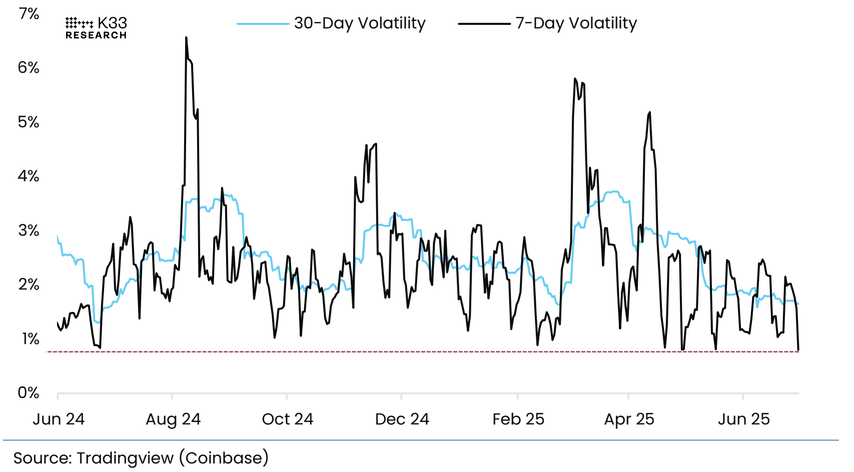


Source: Tradingview, Bitcoinity *Includes Bitwise 10 exchanges

7-day volatility at lows not seen since October 2023
Bitcoin has consolidated in a very narrow range throughout the week following the Iran de-escalation recovery, with the 7-day volatility declining to 0.79%, the lowest recorded 7-day volatility since October 14, 2023.

Similar 7-day volatility contractions have been short-lived throughout the year and followed by sharp moves. The longest consecutive period of back-to-back days of sub 1% 7-day volatilities in the last year has been two days, suggesting that a more material near-term move could be on the horizon.

Figure 5: BTC-USD Volatility



Source: Tradingview (Coinbase)

Derivatives
CME, Futures and ETFs

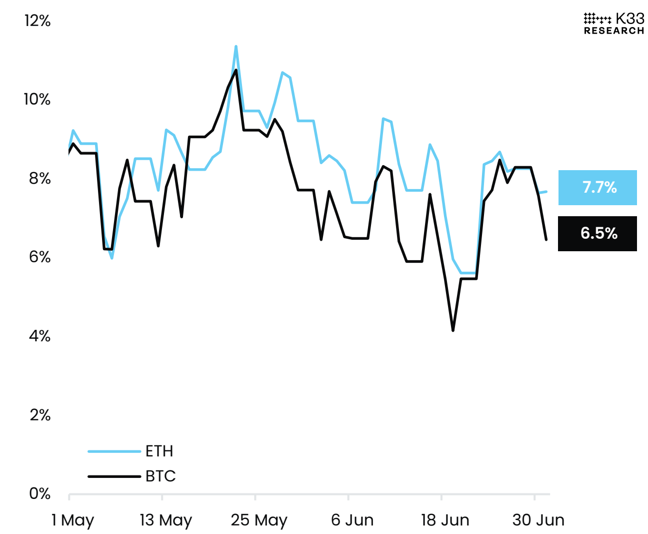
Nothing of substance has changed on CME's crypto futures over the past week. CME traders continue to exhibit reluctance to add directional exposure, and changes in exposure remain flat despite the significant June expiry.

The annualized futures premiums remain soft, hovering around 7-8% over the past week. They declined in the early hours of today's trading session, with current 24-hour average BTC premiums sitting at 8-day lows of 6.5%.

Leveraged ETFs have seen modest activity throughout the week, with back-to-back days of minor outflows since Thursday. Lately, no material flows have been seen in leveraged instruments, indicative of the low-risk bias holding firm.

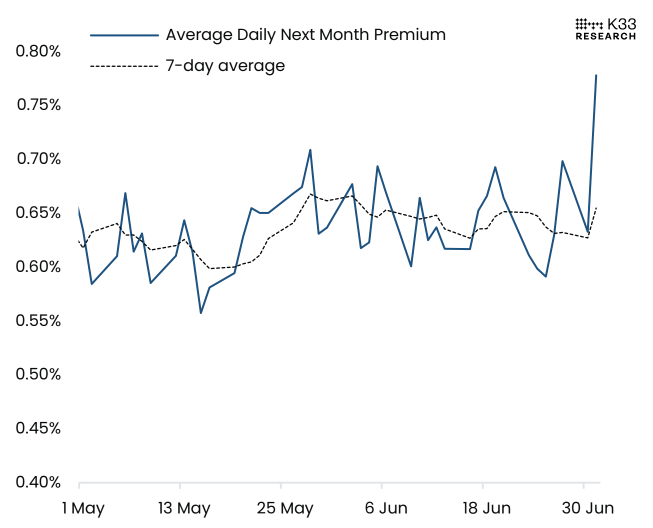
Open interest has declined by 2,105 BTC over the last week. The decline is largely driven by traders holding 8,960 BTC worth of June contracts to the expiry, leading to a sharp decline in OI during Monday's trading session. Over the past eight weeks, open interest has hovered in a relatively narrow range of 145-160k BTC, with BTC holding above $100k.

Figure 6: Caution looms as we enter H2
CME BTC and ETH Futures Annualized Rolling 1mth Basis



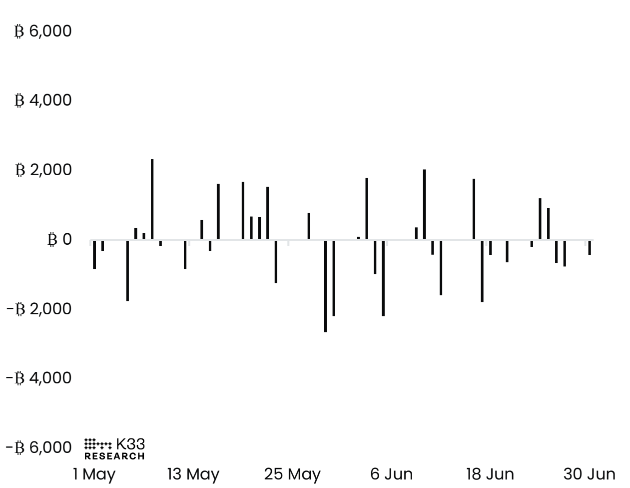
Source: Tradingview

Figure 7: Contango widens, low activity in next-month contract
CME BTC Futures: Average Daily Next Month Premium



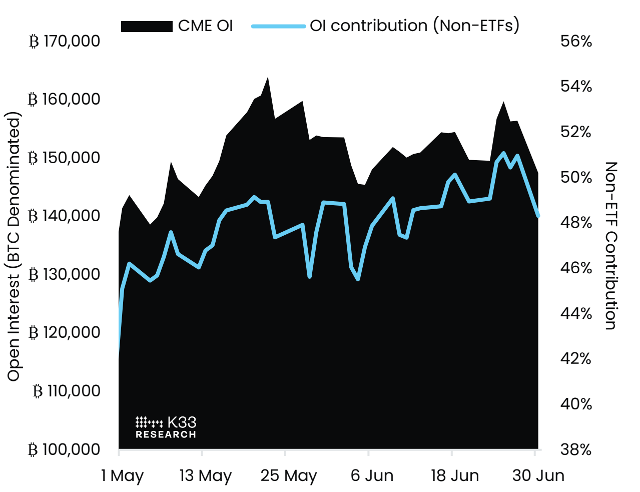
Source: Tradingview

Figure 8: Modest activity in futures ETFs
Futures-based ETFs: Net Flow – BTC Equivalent



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

Figure 9: June expiry sees OI decline by 8,960 BTC
CME BTC Futures: Open Interest



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

Derivatives

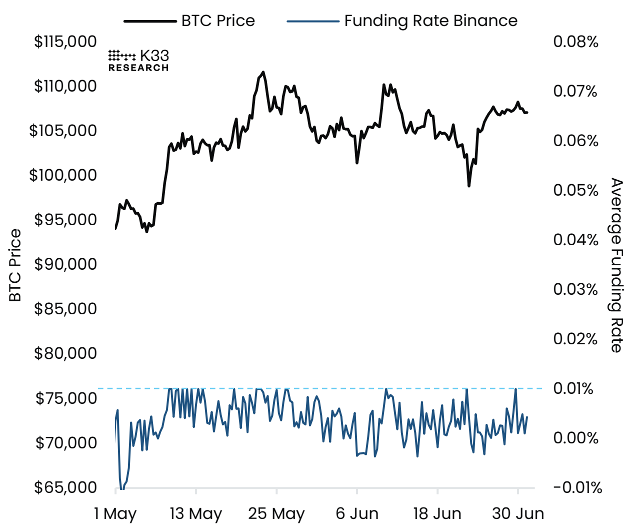
Perpetual Swaps and Options

Perpetual swaps

Annualized seven-day funding rates have averaged 2.5% over the last seven days, well below the neutral 10.95% APY, as traders remain reluctant to add exposure, maintaining a defensive posture, leading perps to trade well below spot. Open interest in BTC perps has stayed well below its May peak and has been stagnant throughout the week, currently sitting at 266k BTC, a modest uptick from last Tuesday's low of 257k BTC.

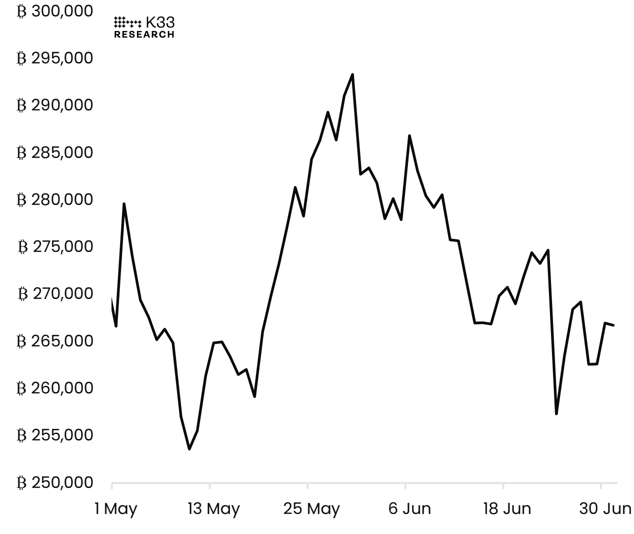
Overall, low leverage and modest yields point toward low risks of leverage-amplified squeezes in the immediate term.

Figure 10: No sign of risk willingness in perps
Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Binance, Laevitas

Figure 11: Stagnant activity in perps
Bitcoin Perpetuals: Open Interest

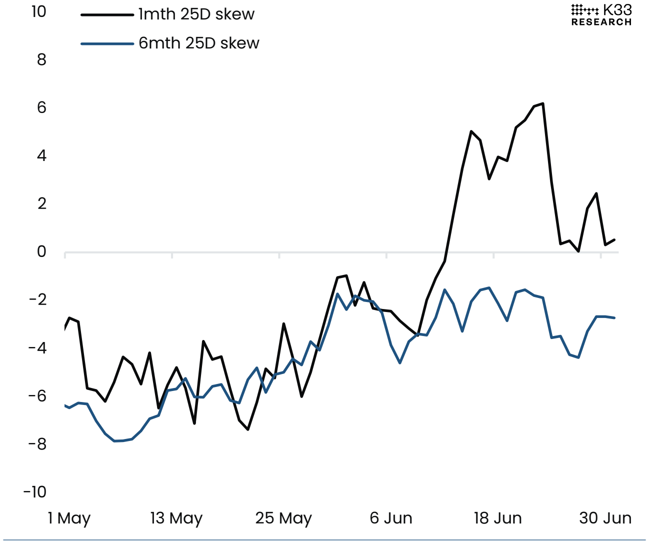


Source: Laevitas

Options

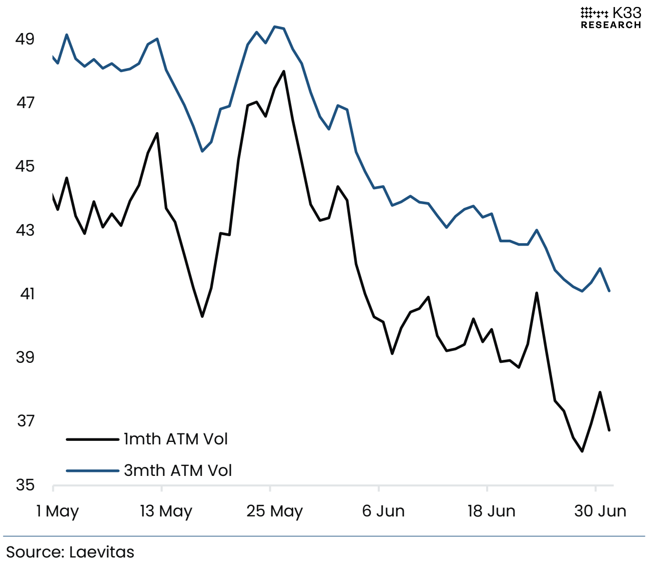
Bitcoin's prolonged directionless price action and low trading activity have subdued the demand to make directional bets via options, neutralizing skews across tenors. Further, the lengthy consolidation has compressed IVs to new yearly lows, as the market prepares for another slow-moving summer.

Figure 12: Skews neutralize across tenors
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Figure 13: Implied Volatilities hits another yearly low
BTC Options – Implied Volatility



Source: Laevitas

A deeper dive

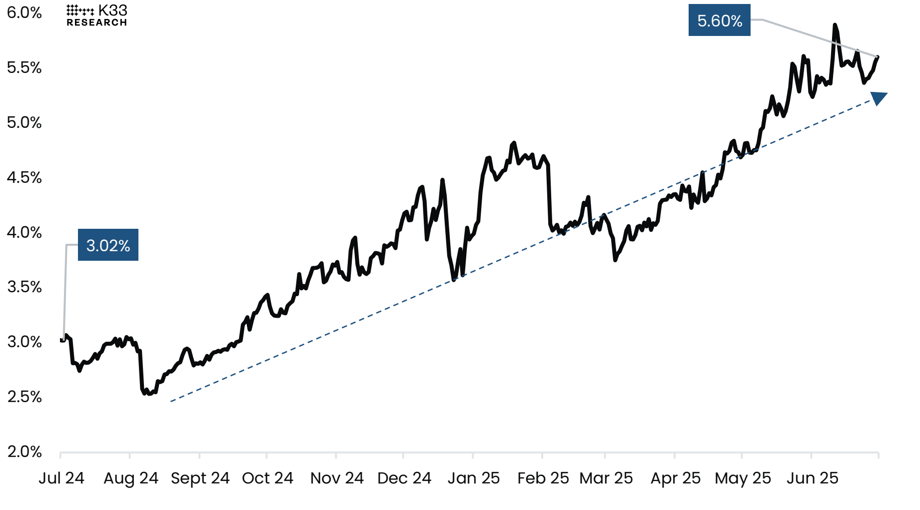
Linear growth in altcoin leverage, still

Open interest in altcoins relative to their market cap has been on a one-year linear uptrend, with the relative leverage in altcoins nearly doubling over the past calendar year.

Traders are far more actively engaging in leveraged trades in altcoins today than one year ago. A substantial portion of the altcoin market cap is currently sitting in perps, likely driven by a combination of pair-based long/short strategies, hedging of staked exposure, and directional bets using linear perps.

On July 1, 2024, perp altcoin open interest divided by altcoin market cap sat at 3%. Today, it sits at 5.6%. ETH has seen its open interest surge by 68% from 3.5m ETH to 6.88m ETH. The surge is even more material in SOL, where notional OI has grown by 115% from 13.2m SOL to 28.3m SOL. This stands in sharp contrast to BTC, where the notional OI developments are comparatively flat, with notional BTC OI sitting at 263k on July 1, 2024, compared to 266k on July 1, 2025.

Figure 14: Altcoin Open Interest Relative to Market cap (OI/Total 2 Index (Minus USDT and USDC))



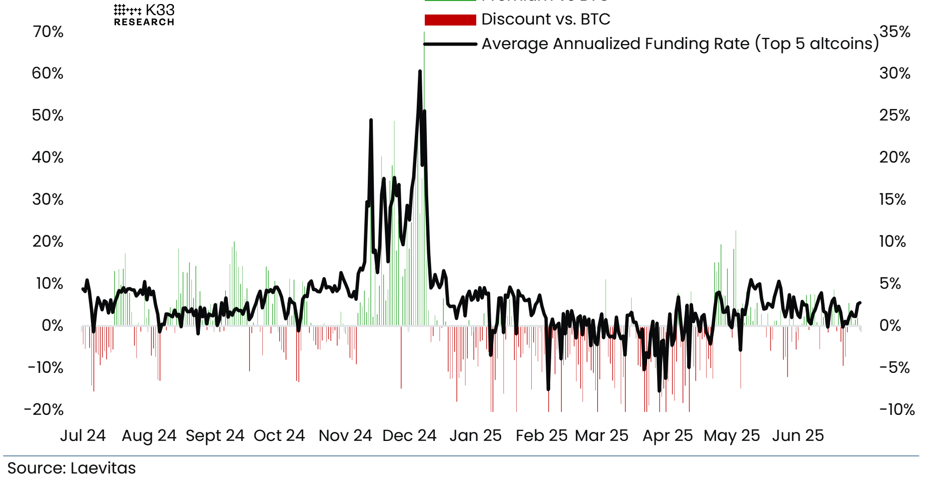
Source: Laevitas

Altcoin funding rates paints a picture of a cautiously positioned market

Beyond leverage, altcoin funding rates may be assessed to understand directional aggression in derivatives. In Figure 15 below we illustrate the annualized funding rates of the five biggest altcoins by market cap over the past year (ETH, XRP, SOL, BNB and DOGE) and compare it with the annualized funding rates in BTC. The chart highlights a massive risk-on sentiment in November/December, with funding rates for the 5 largest altcoins averaging at 60% at its peak 35 percentage points above BTC funding rates at the same time. Throughout H1, 2025 however, funding rates has mirrored BTC closer, typically trading at discounts vs. BTC; highlighting a risk-off sentiment.

The steady growth in open interest throughout the past six months accompanied by the modest funding rate regime point toward cautious positioning throughout the market.

Figure 15: Funding Rates: Top 5 altcoins



Source: Laevitas

A deeper dive

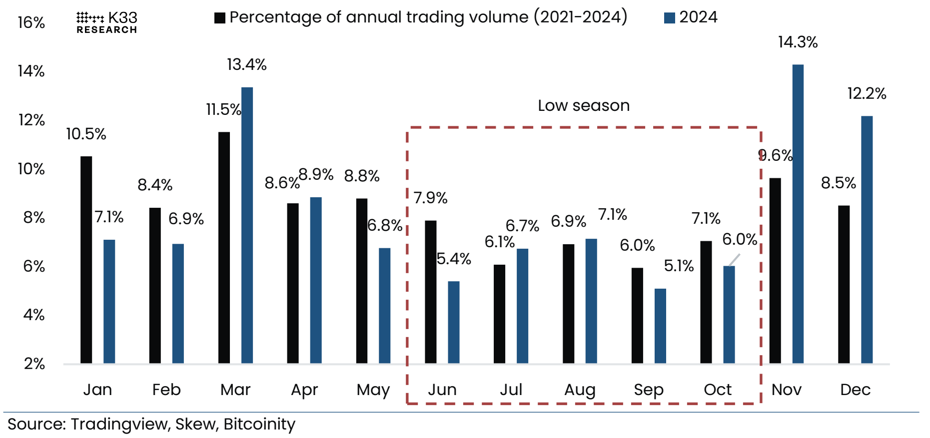
The loud low season

BTC spot trading volumes in June 2025 were the lowest since September 2024, as the market reigned in docile consolidation throughout most of the month. Seasonal patterns from the past three years suggest that the drowsy conditions may last for months to come.

Under the assumption that volumes and activity are equally distributed throughout the year on each month, BTC spot trading volumes per month divided by annual trading volumes should come in at 8.2%. However, as we illustrate in Figure 16, this is far from the reality in BTC over the past few years.

A distinct pattern is clear. Activity levels in the market tend to be far lower from June through October compared to the remainder of the year. Despite this period representing 43% of the days of the year, only 32% of the annual trading volume from 2021 to 2024 happened during the summer months and Q3. Historically, July (6.1% annual volume) and September (6% annual volume) tend to be the idlest months of the season.

Figure 16: Percentage of annual trading volume per month (2021-2024 avg + 2024)



Source: Tradingview, Skew, Bitcoinity

Hints of similar idleness when assessing volatility

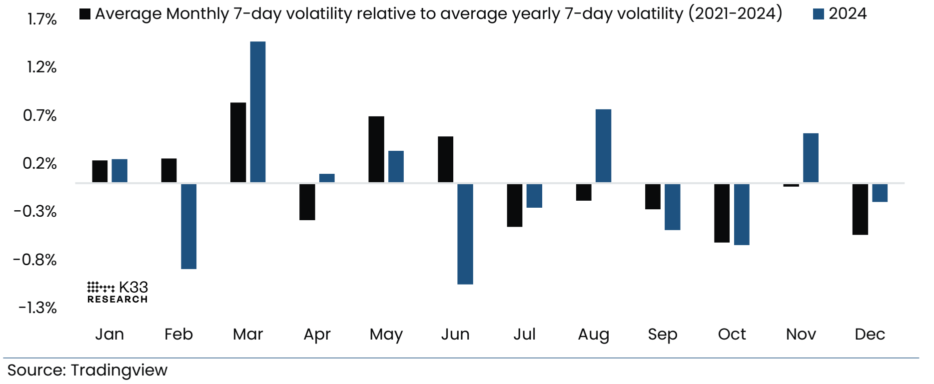
The same situation explored by comparing monthly average 7-day volatilities to yearly average 7-day volatilities generates a mirroring pattern, albeit less pronounced. July, September, and October have been considerably less volatile than the rest of the year.

The observation is surprising, particularly the volatility drought in July, given the many market-moving happenings in July over the past three years. In 2021, BTC collapsed to yearly lows in July following China's ban on BTC mining. In July 2022, Three Arrows Capital and Celsius declared bankruptcy. July 2023 was less eventful after BlackRock's BTC ETF filing.

2024 was all but quiet. Mt. Gox distributions were initiated at the start of the month, an assassination attempt on Donald Trump occurred mid-month, Biden resigned from the presidential election, and the month concluded with Donald Trump headlining the BTC conference. Despite all of this occurring throughout the month, volatilities reigned more suppressed than the yearly averages.

We're now entering another July filled with potential market-moving headlines stemming from U.S. policies. Trump aims to sign his budget bill quickly. The 90-day tariff pause deadline occurs on July 9, and Trump's crypto executive order faces its deadline on July 22. All of these events should instill volatility in the market. Still, based on past patterns, the likeliest outline seems to be drought, also this July, as the market drags into its typical summer hiatus.

Figure 17: Monthly Avg 7-day vol, compared to yearly avg 7-day vol (2021-2024)

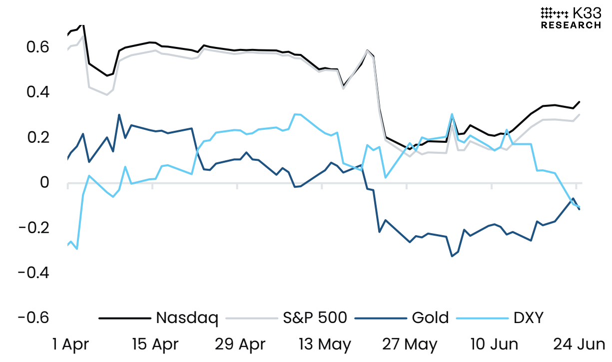


Source: Tradingview

Market Related Charts

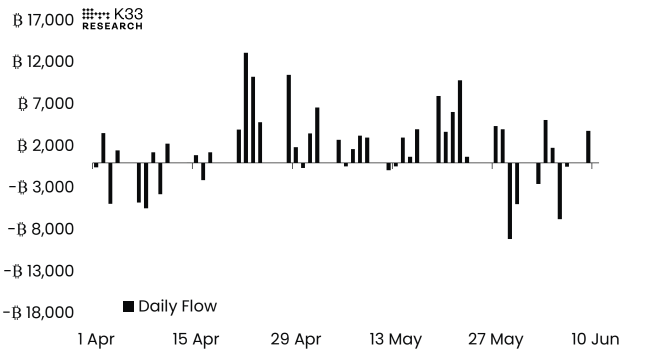
Data updated Tuesday, July 1, 2025

Figure 19: BTC 30-d correlations*



Source: Tradingview *Pearson

Figure 20: Daily Flows (BTC ETFs)



Source: K33 Research

Figure 21: BTC Dominance

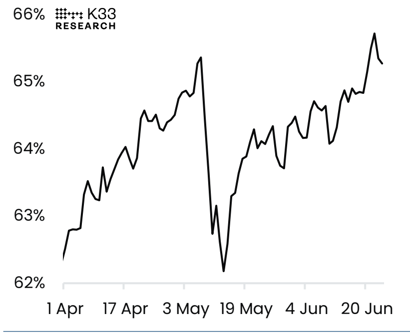


Figure 22: BTC + Stables Dominance

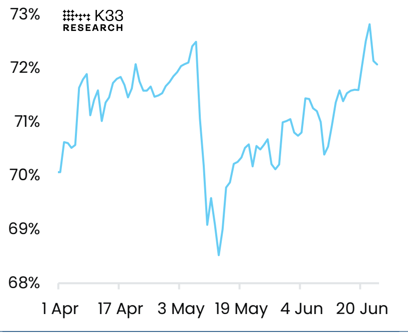
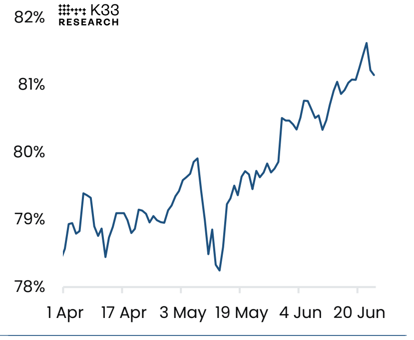
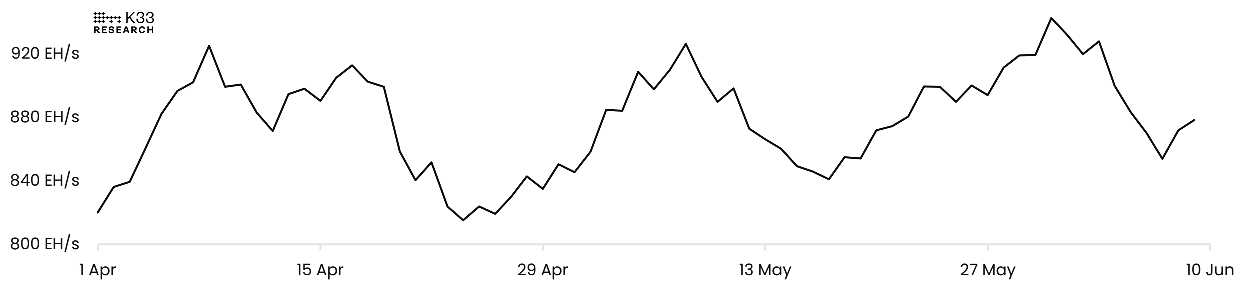


Figure 23: BTC + Stables + ETH Dominance



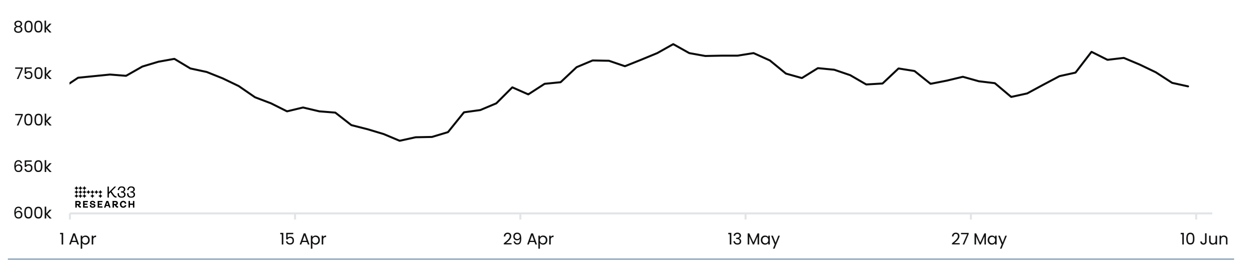
Source: Tradingview

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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