

Ahead of the curve

Market Update

Morale is improving

2026 has started strongly, with BTC up 8% over the past week amid robust ETF inflows, setting a positive tone for the year. BTC ETFs saw net inflows of 12,318 BTC last week, including the strongest daily inflow since October, which may support continued ETF absorption through January. Strength has broadened across the sector after a stagnant December, with ETH gaining 10% over the same period. This rebound follows a very quiet holiday season marked by multi-year low BTC volatility and depressed trading volumes.

Despite the recent price strength, overall market activity remains subdued, with spot volumes, volatility, and derivatives leverage still near pre-December 2025 lows. Sentiment is improving but remains cautious. Attention now turns to a labor-heavy week of U.S. data that could influence rate expectations, even as markets price an 83.9% probability of unchanged rates at the January 28 FOMC.

No signs of optimism in derivatives

CME positioning remains largely passive, with leverage only modestly recovering from year-end lows, futures premiums ticking slightly higher, and open interest still concentrated in front-month expiries as traders avoid longer-dated exposure. Although CME open interest has rebounded 11% from late-December lows alongside stronger BTC prices, it remains well below most of 2024 and 2025, underscoring cautious participation. In perpetual swaps, BTC funding rates remain subdued and briefly turned negative, signaling defensive positioning, even as notional open interest has gradually increased to six-week highs, pointing to a measured and structurally healthy buildup in exposure.

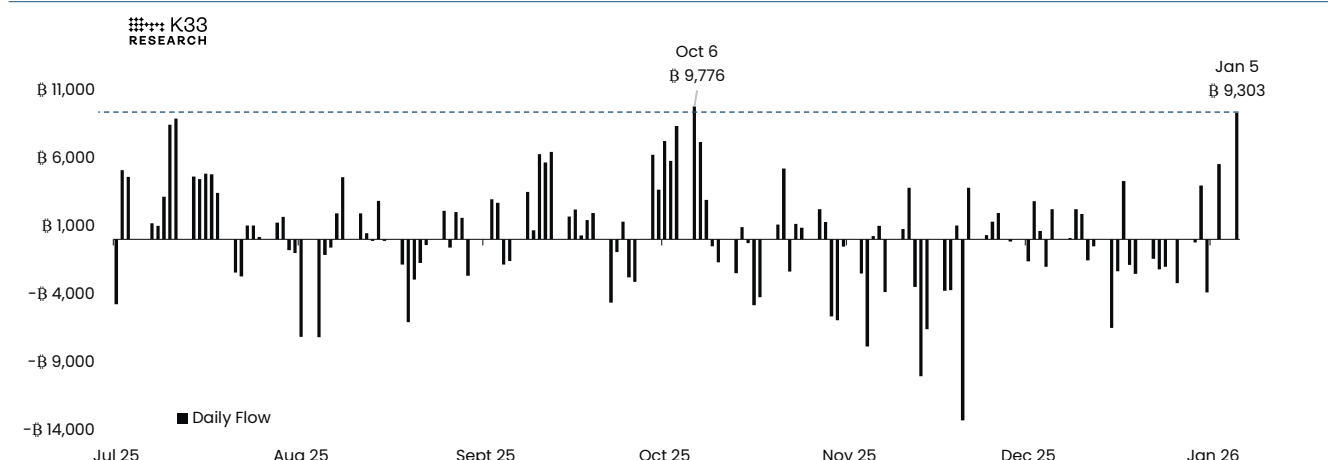
A favorable 2026 outlook

2025 concluded as an unusual and disappointing year for BTC, which fell 6.3% and became the worst-performing major asset, marking the first time it failed to outperform other asset classes over its typical three-year cycle. It was only the second year in BTC's history with negative returns alongside a positive S&P 500, which rose 16.1%. While the underperformance was driven largely by sustained distribution from long-term holders, on-chain data now suggests this pressure is easing, valuations look attractive, and upcoming regulatory developments could act as catalysts, leaving the outlook for BTC increasingly favorable into 2026.

Rebalancing tailwinds?

BTC's relative underperformance in Q4 2025 is likely a key driver behind the strong start to the year, with early ETF inflows supporting the view that portfolio rebalancing is contributing to renewed demand. Many funds target fixed BTC allocations and are forced to buy when bitcoin lags broader markets, a dynamic observed in past quarters and potentially repeating now. While historical data shows rebalancing does not always dominate month-end flows, the combination of quarterly and yearly underperformance, easing sell-side pressure, and improving headline risk has created favorable conditions for a reversion narrative and stronger BTC demand early in the year.

Figure 1: Daily BTC ETP Inflows, Past 6 months



Digital Assets

Signals from the market

Vetle Lunde

Head of Research
vetle@k33.com
+47 416 07 190

By the numbers

BTCUSD \$93,758
7d: **8%**
30d: **6%**

ETHUSD \$3,323
7d: **10%**
30d: **5%**

Open Interest (BTC futures and perps)

\$44.0bn
470,000 BTC (**-1.1%** last seven days)

Average daily BTC spot volume

\$2.5bn (**22%** last seven days)

BTC 90-d correlations (Two Week change included)

ETH	Gold	S&P 500	DX
0.89 (0.0)	0.15 (0.03)	0.49 (0.0)	-0.04 (0.06)

Percentage of Total Market Capitalization

One week change in percentage points

BTC	ETH	Stablecoins	Rest
58.2% (-0.6%)	12.1% (0%)	8.2% (-0.7%)	21.4% (1.3%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainers			
1	PEPE	68%	70%
2	SUI	38%	35%
3	SHIB	32%	26%
Losers			
1	ZEC	-3%	0%
2	LEO	1%	-7%
3	TRX	2%	3%

New year, new opportunities

January Outlook

Digital Assets

January Outlook

With a promising crypto-specific event calendar ahead and BTC trading at a deep relative value compared to other assets, we favor full allocation in BTC, expecting a strong month ahead.

New year, new me

Humans are fascinating. We have system and order. Systems and order cause behavioral patterns. One such system is our calendar. Every year, a new year begins.

At an individual level, the new year represents an opportunity to reassess one's personal flaws and create half-assed resolutions to improve on said flaws. At a corporate level, attention shifts to strategic wins and faults from the past year, as well as how to avoid losses in the next year.

Practitioners of the market, ranging from retail to professionals, examine their past year's P&L and risk profile, and how to improve performance in the next year. To improve performance, one must make informed guesses about future narratives and asset pricing. This is far from a simple exercise, but it may be simplified by looking at past-year returns of different assets, relative pricing compared to other assets, and fundamental developments in various sectors.

Market practitioners may find themselves between a rock and a hard place after another year of booming equities and roaring commodities. AI is well-positioned to deliver new efficiency gains in the year ahead, and is welcomed by a flexible regulatory regime. However, the sector is steeply priced, and that steep pricing has caused broad equity indices to be priced steeply. Low-barrier cross-border trade and globalized trust have taken a significant hit in 2025, pushing neutral hard commodities to considerable all-time highs. Gold's momentum in 2025 has been rational, but it, too, may be viewed as steeply priced following its dramatic rally throughout the year.

In a market where everything seems expensive, it might make sense to a market practitioner to expand the lens and look toward assets that have underperformed in 2025. Ideally, an asset that has underperformed while its fundamental backdrop has strengthened.

After a quick review of assets, a eureka moment may emerge for any market practitioner seeking to outperform the market in 2026. Neglected, underpriced, and forgotten throughout H2, 2025, but with a fundamental backdrop as strong as ever before. Bitcoin.

The initial conundrum of discovering that BTC and the broader crypto sector closed the year in the red may spook market practitioners. Access to simple and safe exposure through major banks only improved throughout the year. The United States launched a strategic bitcoin reserve and wrote stablecoin regulation into law.

Something must stink. As the market practitioner ponders the question, some research provides the answer. The underperformance stemmed from long-term holders with 10-100x gains doing the reasonable, taking profits. The sector endured a significant sell-off by large hands selling large quantities of inventory to many small hands, leading to a decline in prices and BTC trading below pre-Trump election levels compared to other assets.

It does not stink. It's an opportunity.

Neglected. Extremely accommodating regulatory developments. Scarce and neutral, as sovereigns fight over land, resources, and taxes. Better yet, it has several near-term catalysts. Market plumbing regulation is expected to pass within the next month, with a potential inclusion in 401(k) frameworks on February 3. Financial fiduciaries are gradually opening the guardrails for 1-4% allocations to BTC in the period ahead, even launching trading initiatives. This feels like a narrative to stick. An asset worth the risk, with good risk-reward to achieve outperformance in 2026, realizes the market practitioner.

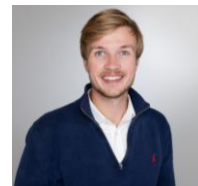
Fully allocated

While the above section deviates from the typical style of our monthly outlook, it highlights several important nuances. Bitcoin is priced relatively cheaply compared to other assets. There are several positive catalysts in the near-term event horizon, and asset managers use the new year to assess portfolio components and weights. These factors themselves speak in favor of a full allocation in BTC. Structurally low leverage and tendencies of subsiding on-chain sales pressure further enforce this view.

With BTC trading 48% below its ATH relative to gold, 32% below its ATH relative to SPX, and 26% below its ATH in USD, we expect BTC to recover and view January as a month stacked with opportunities for BTC to push higher.

Vetle Lunde

Head of Research
vetle@k33.com
+47 416 07 190



Spot Market

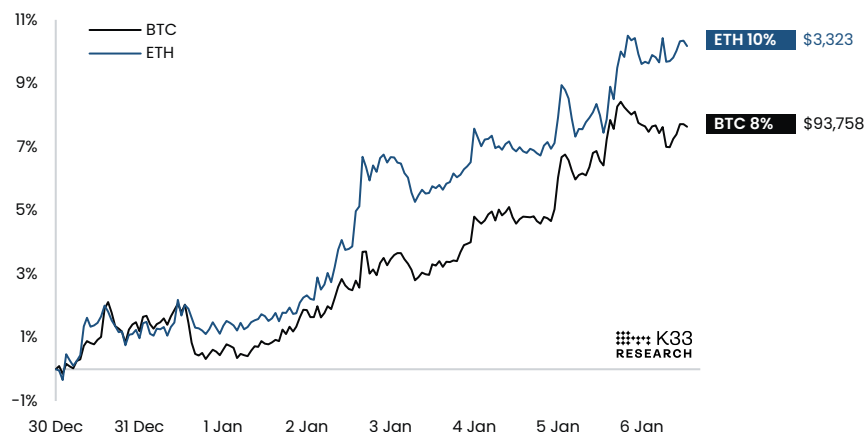
Morale is improving

2026 has gotten off to a great start, with BTC experiencing 8% gains over the past week following strong inflows into ETFs, creating a buoyant beginning to the year. Strength has been evident across the entire sector after a month of stagnation, with ETH experiencing 10% gains over the past seven days.

The buoyancy has emerged after a very dormant Holiday season, during which BTC volatility reached multi-year lows, amid trading volumes slumping to levels not seen since 2024. While activity has increased, the market remains broadly idle, with volumes and volatility hovering near pre-December 2025 lows. Leverage and activity in derivatives also remain idle and defensive. While morale is showing signs of improvement, sentiment remains largely cautious and hands-off, despite the recent uptrend.

Onwards, several U.S. labor data releases may skew interest rate cut expectations this week, as we enter a labor-heavy week from Wednesday through Friday. The market is currently pricing in an 83.9% chance for unchanged rates during the January 28 FOMC, and will be sensitive to any releases potentially impacting the trajectory ahead, despite Jerome Powell vocally opting for a wait-and-see approach following last month's FOMC.

Figure 2: Last Week's Performance BTC and ETH



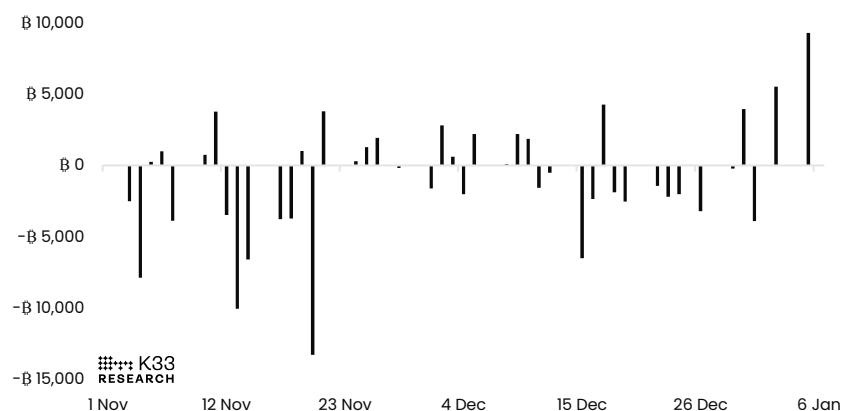
Source: Tradingview, (Coinbase, Binance)

2026 starts with very strong flows to BTC ETFs.

The past week has seen net inflows to BTC ETFs of 12,318 BTC driven by a very strong start to the year, with net inflows of 5,536 BTC on January 2 and 9,303 BTC on January 5. The January 5 inflow is the strongest daily net inflow seen in BTC ETFs since October 6 and the 10th-highest notional daily inflow to BTC ETFs since January 1, 2025.

While the flows may originate from rebalancing effects, as discussed on page 8, the strong start to the year and several positive near-term catalysts may set the stage for continued ETF absorption as January progresses.

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

Headlines last week

[Morgan Stanley files with SEC for spot Bitcoin and Solana ETFs](#)

[Iran moves to accept crypto payments in weapon sales to evade sanctions](#)

[Ledger customers alerted to data leak at third-party e-commerce partner Global-e](#)

[China to let banks pay interest on digital yuan to drive adoption](#)

[Turkmenistan legalizes crypto mining and trading under new framework](#)

[Bitfinex hacker Ilya Lichtenstein says he is being released early as part of 'Trump's First Step Act'](#)

Calendar

Wednesday, Jan 7

- U.S. JOLTs Job Openings (Exp: 7.64m)
- ADP Nonfarm Employment (Exp: 50k)

Thursday, Jan 8

- Initial Jobless Claims

Friday, Jan 9

- U.S. Nonfarm Payrolls (Exp: 57k)
- U.S. Unemployment (Exp: 4.5%)

Tuesday, Jan 13

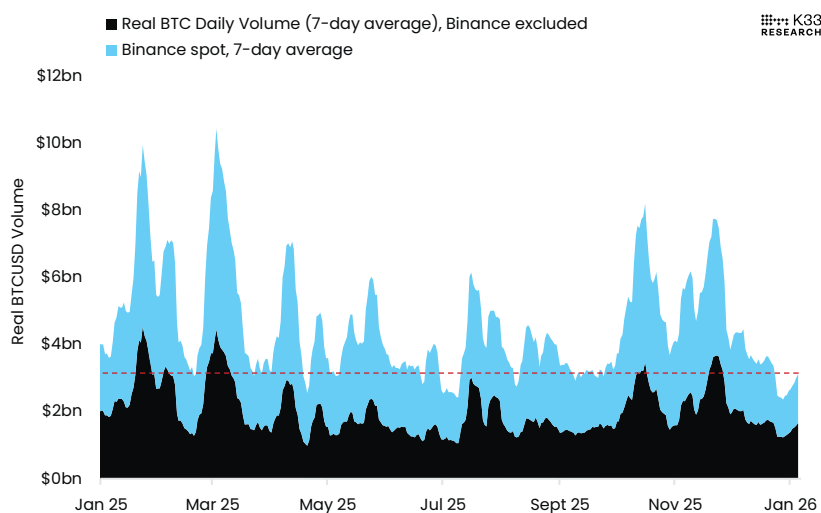
- U.S. CPI (Exp: 0.3% MoM)

Spot Market

Moderately recovering spot volumes

The stable grind higher in BTC has seen volumes recover from yearly lows toward its September plateau as activity has reappeared following the Christmas doldrums. Average daily volumes over the past week increased by 22% to \$2.5bn, as fewer banking holidays resulted in more trading days in equity markets and a slightly more vibrant BTC spot market.

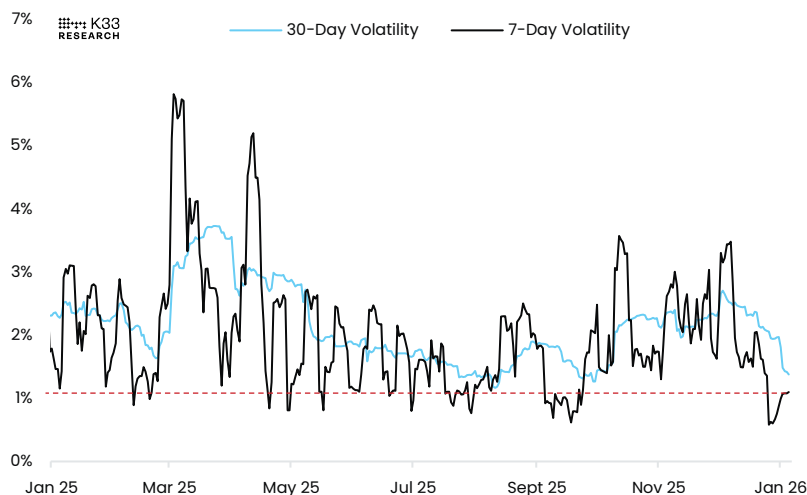
Figure 4: Real BTCUSD Daily Volume* (7-day average)



Mild uptrend in volatility

BTC's volatility trend mirrors that of the spot volume, recovering from yearly lows towards levels established during the September plateau. Last week's 7-day volatility read of 0.6% was uniquely low, whereas current levels of 1.1% are consistent with typical lows. Thus, while we see subtle hints of expanding volatility, price fluctuations remain well below the norm.

Figure 5: BTC-USD Volatility



Fear and Greed

Now: 44 (Fear)
Last week: 24 (Extreme Fear)
Last month: 23 (Extreme Fear)

Derivatives

CME, Futures and ETFs

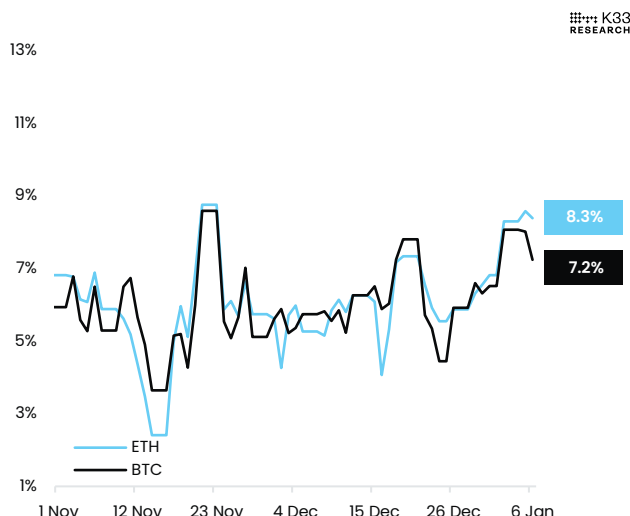
Broadly, CME exposure remains remarkably passive. Toward year-end, leverage declined to deeper lows, but has seen a modest recovery during the first days of the year.

Futures premiums have experienced a slight uptrend over the last trading days, reflecting a slightly improved sentiment. ETH's basis has climbed to 8.3%, a high not seen since December, whereas BTC premiums trade slightly below ETH.

Traders remain reluctant to hold exposure in further-dated expiries, evident by the consistently narrow next-month premium, and 86% of OI being concentrated in the front-month expiry.

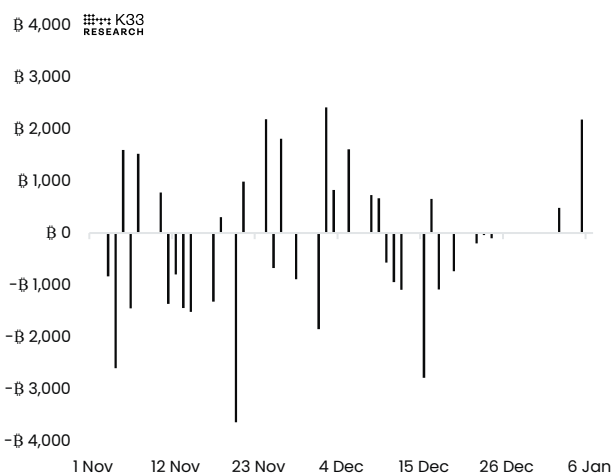
On December 29, open interest on CME closed the day at 100,000 BTC, reaching new 20-month lows as traders continued reducing exposure into the year-end. Exposure has since seen an 11% increase to 111,130 BTC amid BTC's robust price action. Nonetheless, the current open interest reflects a reversion to pre-Christmas levels and sits lower than any OI print on CME between March 2024 and November 2025, reflecting the omnipresent docile hands-off conditions on CME.

Figure 6: Basis trends higher
CME BTC and ETH Futures Annualized Rolling 1mth Basis



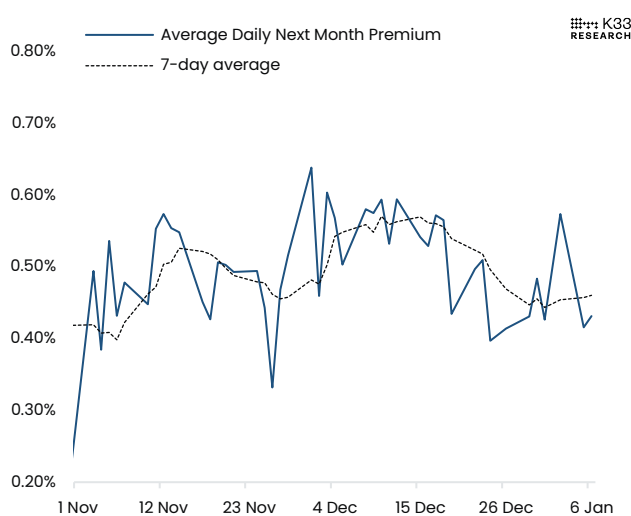
Source: Tradingview

Figure 8: ETF flows strengthen
Futures-based ETFs: Net Flow – BTC Equivalent



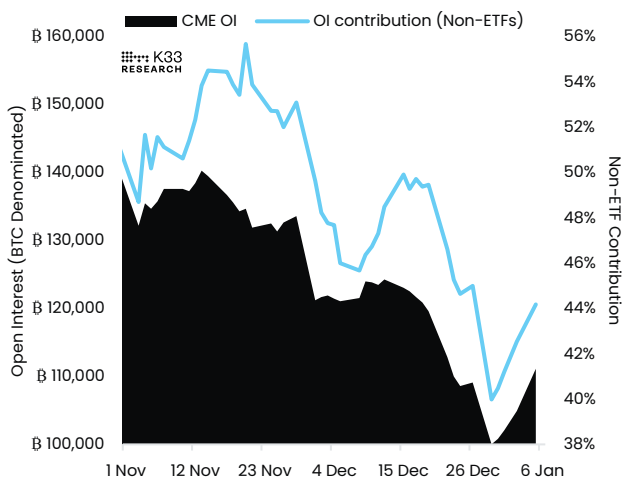
Source: ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

Figure 7: Contango remains soft
CME BTC Futures: Average Daily Next Month Premium



Source: Tradingview

Figure 9: CME OI recovers after touching lows of 100k BTC
CME BTC Futures: Open Interest



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

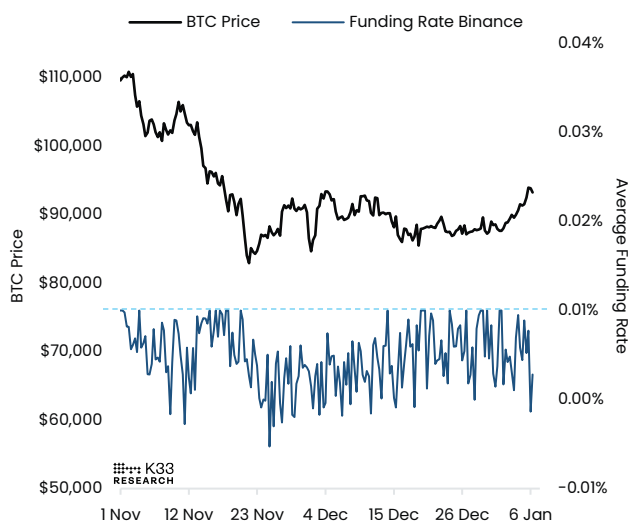
Derivatives

Perpetual Swaps and Options

Perpetual swaps

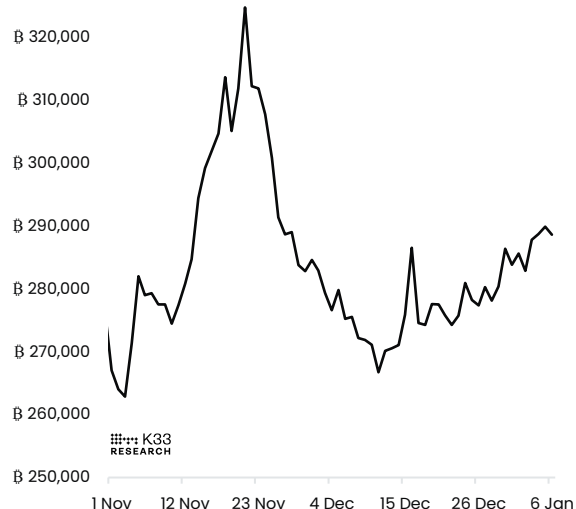
Funding rates remain modest in BTC perps, averaging at 5.67% over the past week, hitting negative levels on January 5 as BTC revisited December highs. The current yields reflect continued defensive positioning in BTC perps and point toward a continued healthy structural regime in perps. While funding rates have been soft, exposure has gradually climbed, with notional OI in BTC perps seeing a steady uptrend over the past week, hitting 6-week highs of 289,900 BTC on Monday, January 5.

Figure 10: Modest funding rates still
Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Binance, Laevitas

Figure 11: Gradual uptrend in OI
Bitcoin Perpetuals: Open Interest

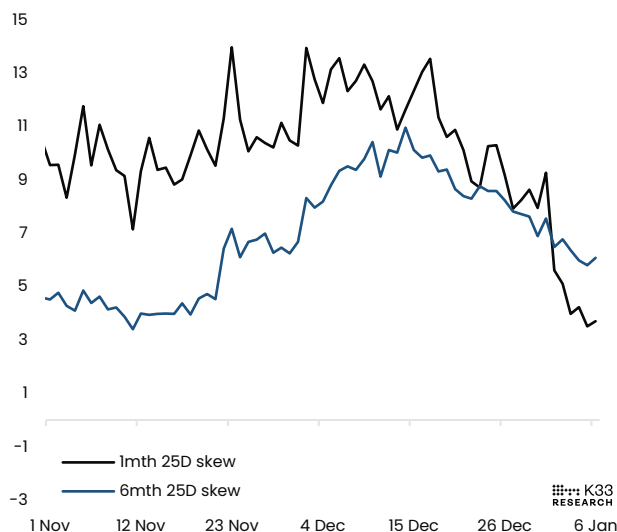


Source: Laevitas

Options

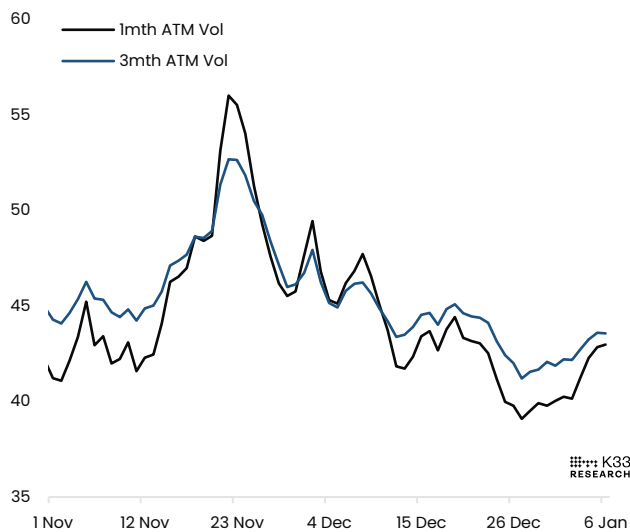
While sentiment remains heavily defensive in options with a still present put premium, skews have moved lower over the past week. The declining skew is particularly pronounced in shorter tenors, where skews have fallen to three-month lows.

Figure 12: Skews hit three month low, still defensive
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Figure 13: IVs stay low
BTC Options - Implied Volatility



Source: Laevitas

A deeper dive

An odd year in the books

2025 is officially concluded, and we can finally summarize the full year briefly. 2025 marked the first year in BTC's history in which BTC did not deliver its typical three-year hat-trick of outperformance relative to other major asset classes, after posting yearly losses of 6.3% and becoming the worst-performing major asset of the year.

For the second time in history, BTC delivered negative returns in a year when the S&P 500 posted positive yearly returns of 16.1%. The only other instance was 2014, which remains the sole drawdown year in BTC's history in which U.S. equities delivered positive returns.

The explanations behind this underperformance were covered at length in our 2025 Year in Review. The main culprit throughout the year was supply distribution from long-term bitcoin holders. Now, we see encouraging on-chain signs that this trend is coming to a halt, while BTC is priced very attractively on a relative basis. Furthermore, we see two crypto-related positive developments in the near term, with the CLARITY Act expected to progress from the Senate in January and a 401(k) verdict expected by February 3, 2026. All in all, we view the setup as highly favorable for BTC going forward and are positioned for strength ahead.

Figure 14: Annual Returns, Select Assets

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Bitcoin 1,319.01%	Bitcoin 217.62%	Bitcoin 5,537.40%	U.S. REITs 30.38%	Bitcoin 33.74%	Bitcoin 123.31%	Bitcoin 1,414.10%	U.S. Bonds 0.01%	Bitcoin 93.95%	Bitcoin 308.17%	Bitcoin 57.52%	Commodities 21.23%	Bitcoin 156.89%	Bitcoin 120.7%	Gold 64.6%
Gold 10.10%	EM Equities 18.63%	U.S. Equities 32.39%	U.S. Equities 13.69%	U.S. REITs 2.52%	Commodities 19.53%	EM Equities 37.75%	Gold -1.56%	U.S. Equities 31.49%	Gold 25.12%	U.S. REITs 49.06%	Gold -0.28%	U.S. Equities 26.29%	Gold 27.2%	EM Equities 28.7%
U.S. REITs 8.69%	DM Equities 17.90%	DM Equities 23.29%	U.S. Bonds 5.97%	U.S. Equities 1.38%	U.S. Equities 11.96%	DM Equities 25.62%	U.S. Equities -4.38%	U.S. REITs 25.84%	EM Equities 18.69%	Commodities 42.60%	U.S. Bonds -13.01%	DM Equities 18.85%	U.S. Equities 23.1%	DM Equities 27.0%
U.S. Bonds 7.84%	U.S. REITs 17.77%	U.S. REITs 2.47%	Gold -1.44%	U.S. Bonds 0.55%	EM Equities 11.60%	U.S. Equities 21.83%	U.S. REITs -4.57%	DM Equities 22.66%	U.S. Equities 18.40%	U.S. Equities 28.71%	DM Equities -14.01%	U.S. REITs 13.74%	U.S. REITs 4.8%	U.S. Equities 16.1%
U.S. Equities 2.11%	U.S. Equities 16.00%	U.S. Bonds -2.02%	EM Equities -1.82%	DM Equities -0.39%	U.S. REITs 8.60%	Gold 13.53%	Commodities -11.18%	EM Equities 18.88%	DM Equities 8.28%	DM Equities 11.78%	U.S. Equities -18.11%	Gold 13.10%	EM Equities 3.2%	Commodities 4.6%
Commodities -2.39%	Gold 7.06%	EM Equities -2.27%	DM Equities -4.48%	Gold -10.41%	Gold 8.14%	Commodities 6.16%	DM Equities -13.36%	Gold 18.31%	U.S. Bonds 7.51%	U.S. Bonds -1.54%	EM Equities -19.74%	EM Equities 10.27%	DM Equities 0.3%	U.S. Bonds 3.1%
DM Equities -11.73%	U.S. Bonds 4.22%	Commodities -6.55%	Commodities -26.43%	EM Equities -14.60%	U.S. Bonds 2.65%	U.S. REITs 5.07%	EM Equities -14.24%	Commodities 12.9%	Commodities -7.53%	EM Equities -2.22%	U.S. REITs -24.51%	U.S. Bonds 5.53%	U.S. Bonds -2.4%	U.S. REITs -1.1%
EM Equities -18.17%	Commodities 4.76%	Gold -28.28%	Bitcoin -57.74%	Commodities -26.68%	DM Equities 1.51%	U.S. Bonds 3.54%	Bitcoin -74.67%	U.S. Bonds 8.72%	U.S. REITs -7.57%	Gold -3.64%	Bitcoin -63.90%	Commodities -5.33%	Commodities -3.00%	Bitcoin -6.3%

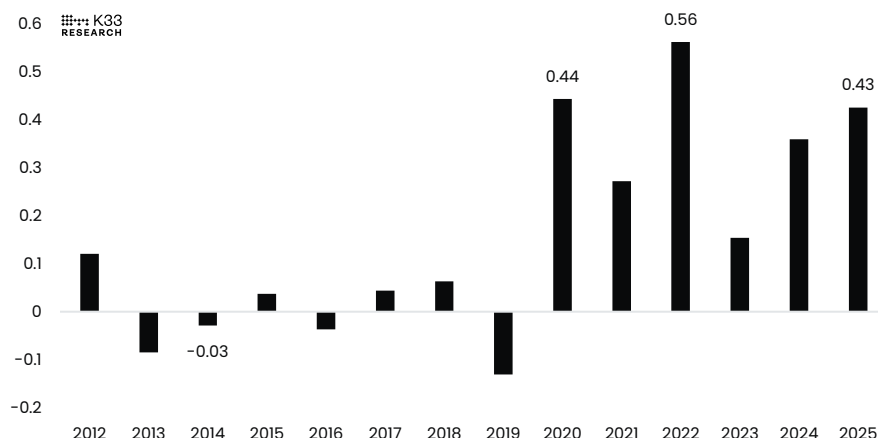
Source: K33 Research

Underperforming in highly correlated environment

Another peculiarity in BTC's performance over the past year emerges when examining correlations between BTC and the S&P 500. 2025 saw the third-highest yearly correlation between BTC and U.S. equities on record, surpassed only by 2020 and 2022.

This stands in stark contrast to 2014, when BTC and U.S. equities moved in opposite directions. In 2014, BTC was effectively uncorrelated with U.S. equities, with correlations at -0.03. In 2025, BTC and equities behaved directionally similar on a day-over-day basis, while the overwhelming supply distribution in BTC contributed to steeper sell-offs and weaker recoveries, particularly in Q4.

Figure 15: Annual Correlation of Daily Returns, BTC vs SPX



Source: K33

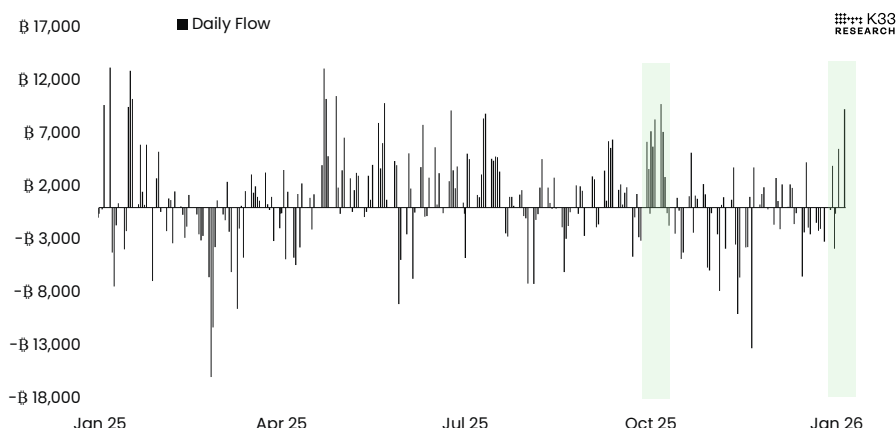
A deeper dive

Rebalancing tailwinds

The relative underperformance in Q4 2025 matters. We believe that one of the major forces behind the strong yearly open in BTC stems from rebalancing, a topic discussed in the past two editions of Ahead of the Curve. Strong ETF flows in the first few trading days support the view that rebalancing may be a leading source behind the strength.

Rebalancing is structural and easy to explain. Many funds have established mandates of holding an x% exposure in BTC relative to portfolio value. Some rebalance at monthly intervals, while most rebalance at quarterly intervals. In a scenario where the broad market is up and bitcoin is down, more BTC needs to be acquired to recalibrate portfolio weights for the new quarter. We saw this in late September and early October and see hints of a similar rotation now.

Figure 16: Daily BTC ETP Flows



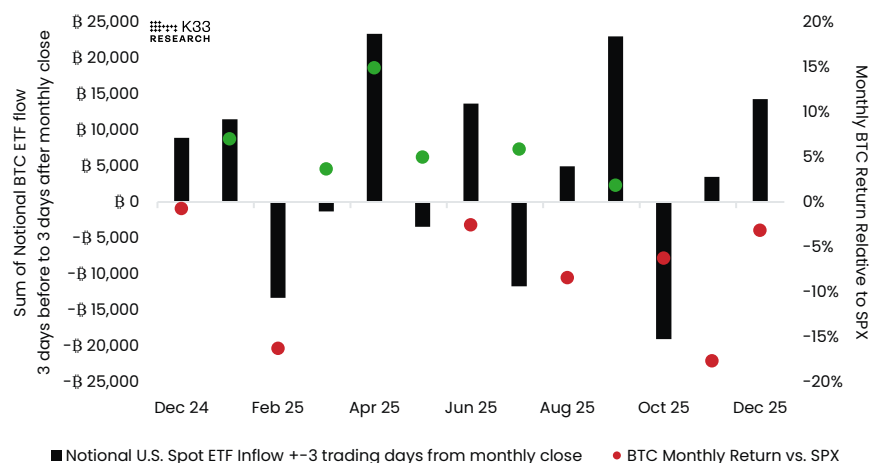
Source: K33

Rebalancing is episodic, rather than consistent

While we have anticipated positive rebalancing effects in BTC, the relationship between past month returns and new month flows does not provide clear-cut evidence of such forces being dominant in the market. Eight of the past thirteen months have seen net weekly notional flows, measured over the period of three trading days before month-end and three trading days after month-end, result in flows opposite to BTC's monthly performance versus the S&P 500. However, several months, such as March, May, and October, saw month-end flows amplify the directional trend in BTC versus the SPX, as the trend heavily overruled rebalancing effects.

Despite this, we expected the start of the year to be accompanied by elevated rebalancing effects due to a confluence of factors, including the end of a quarter with significant underperformance and the end of a year with significant underperformance. This was accompanied by more esoteric factors, such as signs of dampened on-chain sell-side pressure and favorable headline risks in the months ahead, setting the stage for a narrative-motivated expectation of a relative reversion in BTC.

Figure 17: Bitcoin Performance From Bear Market Bottom, Past Three Cycles

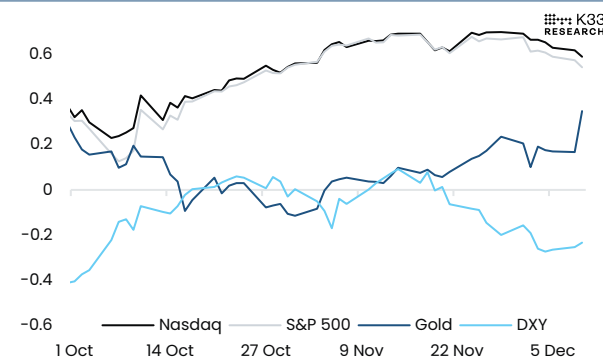


Source: K33

Market Related Charts

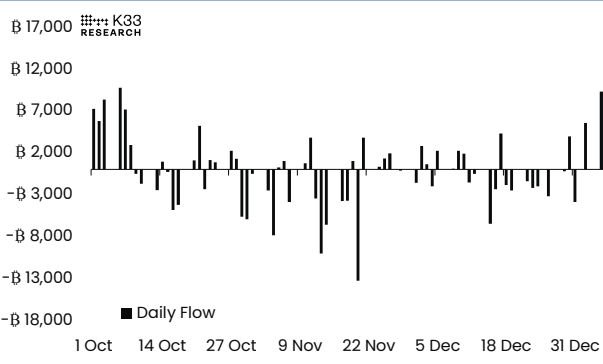
Data updated Tuesday, January 6, 2026

Figure 19: BTC 30-d correlations*



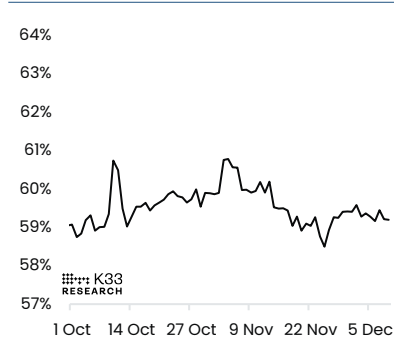
Source: Tradingview *Pearson

Figure 20: Daily Flows (BTC ETFs)



Source: K33 Research

Figure 21: BTC Dominance



Source: Tradingview

Figure 22: BTC + Stables Dominance

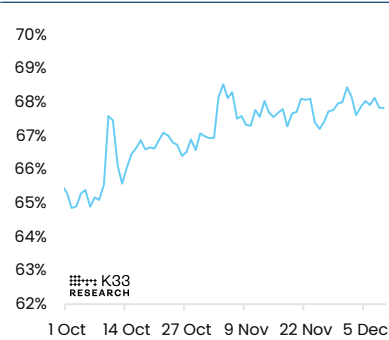


Figure 23: BTC + Stables + ETH Dominance

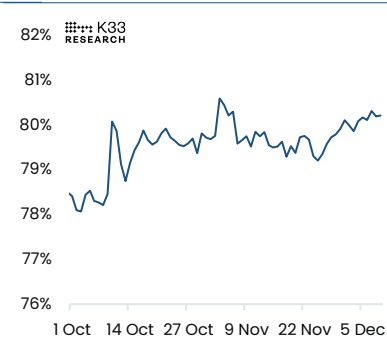
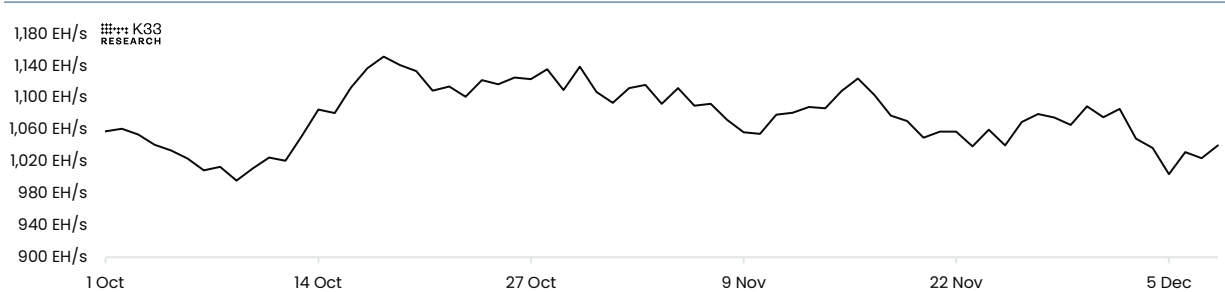
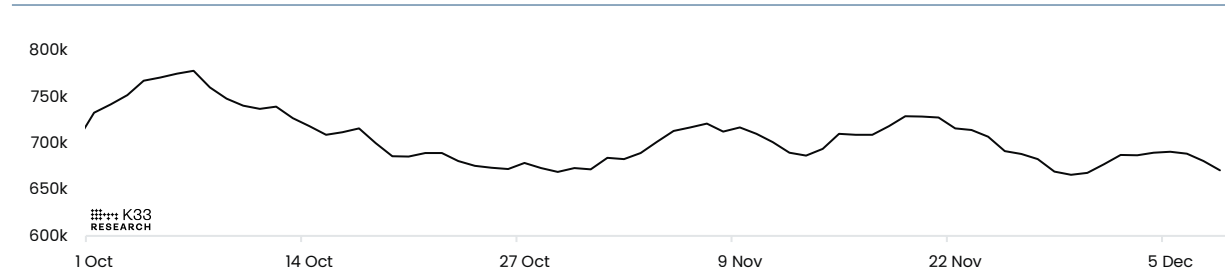


Figure 24: Bitcoin Hashrate (7-day average)



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 "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.

Disclaimer

- Ahead of the curve (the "Report") by K33 Research is a report focusing on cryptocurrencies, open blockchains and fintech. Information published in the Report aims to spread knowledge and summarise developments in the cryptocurrency market.
- The information contained in this Report, and any information linked through the items contained herein, is for informational purposes only and is not intended to provide sufficient information to form the basis for an investment decision nor the formation of an investment strategy.
- This Report shall not constitute and should not be construed as financial advice, a recommendation for entering into financial transactions/investments, or investment advice, or as a recommendation to engage in investment transactions. You should seek additional information regarding the merits and risks of investing in any cryptocurrency or digital asset before deciding to purchase or sell any such instruments.
- Cryptocurrencies and digital assets are speculative and highly volatile, can become illiquid at any time, and are for investors with a high risk tolerance. Investors in digital assets could lose the entire value of their investment.
- Information contained within the Report is based on sources considered to be reliable, but is not guaranteed to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of the date of publication and are subject to change without notice.
- The information contained in this Report may include or incorporate by reference forward-looking statements, which would include any statements that are not statements of historical fact. No representations or warranties are made as to the accuracy of these forward-looking statements. Any data, charts or analysis herein should not be taken as an indication or guarantee of any future performance.
- Neither Research nor K33 Operations AS provides tax, legal, investment, or accounting advice and this report should not be considered as such. This Report is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. Tax laws and regulations are complex and subject to change. To understand the risks you are exposed to, we recommend that you perform your own analysis and seek advice from an independent and approved financial advisor, accountant and lawyer before deciding to take action.
- Neither K33 Research nor K33 Operations AS will have any liability whatsoever for any expenses, losses (both direct and indirect) or damages arising from, or in connection with, the use of information in this Report.
- The contents of this Report unless otherwise stated are the property of (and all copyright shall belong to) K33 Research and K33 Operations AS. You are prohibited from duplicating, abbreviating, distributing, replicating or circulating this Report or any part of it (including the text, any graphs, data or pictures contained within it) in any form without the prior written consent of K33 Research or K33.
- By accessing this Report you confirm you understand and are bound by the terms above.
- K33 Research is a department within K33 Operations AS, org. 994 608 673, and can be contacted at research@k33com or bendik@k33.com