Ahead of the curve
Market Update

Digital Assets

Signals from the market

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

David Zimmerman
Senior Analyst
david@k33.com

It's Trump's world, markets are just enduring it
Trump headlines continue to cause sharp market moves as the President pursues his Tariff regime while uncertainty grows surrounding his geopolitical strategy. The uncertainty has led to de-risking, as the Nasdaq and the S&P 500 saw their worst 2-week returns since August 2024. BTC has largely followed broader markets with an 9% loss for the week. ETH continues its relative weakness as Lazarus Group has now converted 83% of the stolen Bybit ETH to BTC via THORchain.

Trump caused a Sunday rally, announcing via social media that a national crypto reserve was going ahead with the inclusion of BTC, ETH, XRP, SOL, and ADA. The inclusion of assets beyond BTC has drawn criticism with which we align. We firmly believe that BTC is the only cryptocurrency that logically fits as a potential reserve asset for nation-states.

Both CME and offshore traders further reduce exposure
De-risking on CME continues as open interest has fallen to 139,000 BTC following a sharp drop by 20,775 BTC over the last week. A Sunday Trump-pump was not enough to entice CME traders to go risk-on, with premiums remaining in the single digits throughout the brief rally. The CME gap produced by the weekend move was promptly filled yesterday. CME gaps have been predominantly filled as price revisits these levels. March 10, 2023's gap at $19,965 is the only exception to this rule.

BTC perp open interest fell by 33,200 BTC over the past week, currently sitting at 251,000 BTC. This fall in open interest has been matched with funding rates venturing into progressively negative territory, as average daily funding rates on both March 2 and March 3 hit negative levels for the first time since September. Falling open interest and increasingly negative funding rates indicates a reduction in long exposure rather than aggressive shorting, reducing odds of a short squeeze in the near term.

Traders throw in the towel as they face high volatility
Traders have significantly reduced exposure over the last week as volatility picked up, largely due to Trump's tariffs and Ukraine negotiations. Offshore leverage and CME leverage have hit lows not seen since the late summer market crash, as traders look to reduce directional risk amidst considerable market uncertainty. CME active market participant exposure has only been lower on three occasions in 2024: during the February 2024 sell-off, the April-May sell-off, and after the August 5 market collapse. At the same time, leverage in offshore perps currently sits at levels not seen since early September.

Record ETP outflows
Bitcoin ETPs saw enormous outflows of 36,990 BTC last week in a panicked market as BTC firmly broke down below $90,000. This week marks the fourth consecutive week of net negative flows for BTC ETPs, a streak matched only once before in April-May 2024. February net flows came in at -52,613 BTC, the largest monthly net outflow to date and more than twice the notional size of outflows seen following the collapse of 3AC.

Bitcoin ETPs globally held an exposure of 1,379,277 BTC as of March 3, the lowest net exposure since December 9, 2024. Notably, the pre-Trump inauguration run-up has seen a full reversal as BTC ETP holders have exited their positions.

By the numbers

BTCUSD $82,893
7d: **-9%**
30d: **-17%**

ETHUSD $2,066
7d: **-18%**
30d: **-33%**

Open Interest (BTC futures and perps)
$37.1bn
449,000 BTC (**-12.2%** last seven days)

Average daily BTC spot volume
$8.7bn (**143%** last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DXY
0.70 (-0.01)	-0.02 (0.02)	0.37 (-0.03)	0.04 (0.01)

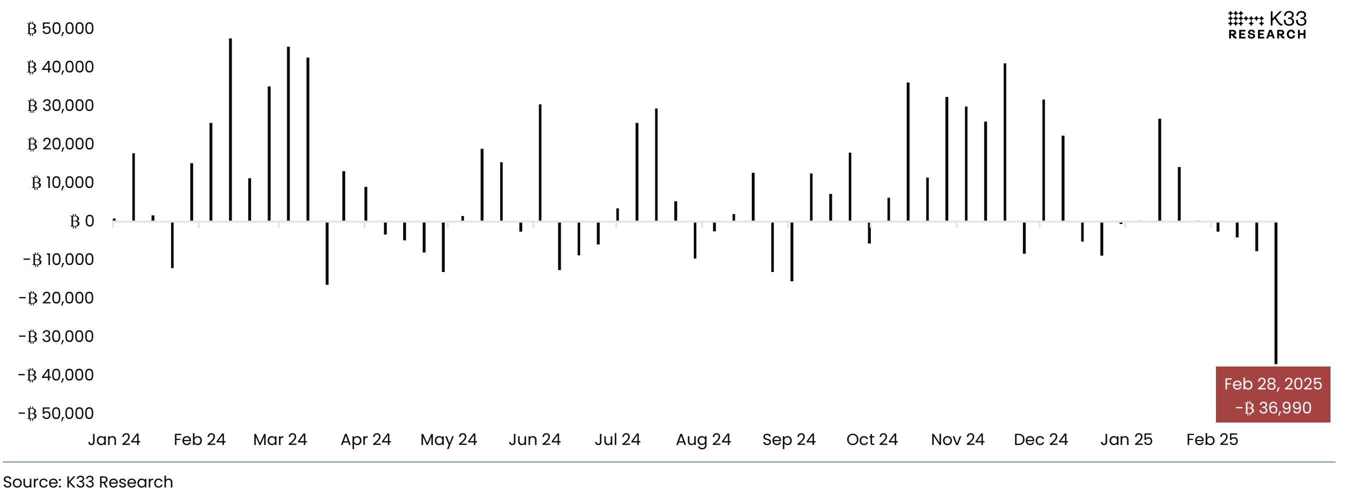
Percentage of Total Market Capitalization
Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
60.3% (-0.5%)	9.1% (-1.0%)	7.3% (0.5%)	23.3% (1.0%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainers			
1	HBAR	22%	-12%
2	ADA	22%	-3%
3	LEO	10%	7%
Losers			
1	TAO	-27%	-38%
2	KAS	-21%	-37%
3	SUI	-17%	-41%

Figure 1: Weekly Net Flows: All BTC ETPs Globally



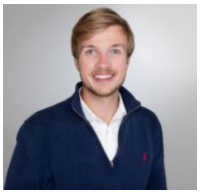
Source: K33 Research

Uncertain times, attractive entries
March Outlook

Digital Assets

March Outlook

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



While the hectic news cycle and volatility clearly point toward a non-leveraged approach, Bitcoin's considerable reversal in February has moved the market toward more attractive areas to bid.

Uncertainty – A word broadly disliked by Mr. Market

Things are moving fast—extremely fast. The newsreel is running at an immense pace, and staying up to date on the relevant storylines is a task beyond mortal men. This rapidly evolving post-Trump landscape introduces a well of uncertainties, the long-term implications of which are near impossible to assess in real time. The pragmatic and rational response to these uncertainties in financial markets is to derisk and reassess.

In the crosshairs of the stiff Ukraine/Russia negotiation and tariff interpretations, we find BTC and the broad crypto market grinding through week after week of weak price action. Uncertainty is weighing on the market, and the timeline of when this uncertainty will settle is, well, uncertain.

The market hates uncertainty. In BTC, we have seen the impact of uncertainties for weeks. ETF flows and derivatives exposure have been stagnant since the inauguration. Traders' current modus operandi has been to reduce risk while adopting a wait-and-see approach. Traders have been responsive to news, selling into new tariff announcements while maintaining nimble and cautious strategies.

Settling into a new range

All this risk aversion and uncertainty has pushed crypto prices toward more attractive levels. As of writing, BTC is trading at $83,100, down 24% from its all-time high. I reduced exposure on inauguration day, a move motivated by clear tendencies of froth running into January 20. At current price levels, I am gradually re-entering the market.

The grind lower throughout February has altered froth into apathy. The response of traders has been roaring clear for weeks now; exposure has been on a downward trend in the institutional side of the market (CME), and yields have plummeted. Demand to add long exposure amidst the ongoing global chicanery is not here. Further, leveraged ETFs are holding exposure equivalent to pre-election levels, open interest in perps is at September lows, and funding rates point toward a substantially lower likelihood of long squeezes ahead. Apathy like this is rarely a short-lived market phenomenon, but it represents an attractive area to rebuild exposure.

My base case is that Bitcoin will spend some time consolidating within this lower range. The rapid and intense post-election rally propelled BTC from $75K to $88K in a matter of days—an area where I expect the market to settle and establish a foothold in the coming weeks. In my January outlook explaining my intention to sell the inauguration, I wrote, *"I'll then look for entries at lower levels, with $75,000 striking out as a likely area for the price to return sometime in 2025, both to retest the former ATH and to fill the post-election CME gap.",* a plan that I am currently committing to.

A softening storm?

The storm of tariff shocks that have taken the market aback may soon be settling (announcements involved uncertainties, and going live means business); all the while, we should brace for European tariff announcements before we can well and clearly see a path ahead in the world of tariffs. Tariffs will impact company earnings, but reduced corporate taxes may pull U.S. equities in the opposite direction. BTC, with its natural correlation to U.S. equities, may again catch a bid as these policies are resolved and are absorbed thoroughly by the market.

Several positive crypto-specific changes are also due to materialize in the months to come. With SAB-121 rescinded, digital asset bank initiatives are on the horizon. Further, with Trump's executive order on crypto, crypto-friendly regulation and a potential U.S. crypto reserve are within reach.

Some market participants believe that governments should not own Bitcoin. I disagree. The elegant features of BTC enabling individuals to donate to WikiLeaks or Alexei Navalny, buy drugs on the internet, buy and hold for the long run, or move wealth across borders, are similarly relevant for governments, albeit at a different scale. Apolitical, uncensorable, unseizable and scarce Bitcoins are powerful tools to secure sovereign values, whether you are a sovereign individual or a sovereign nation-state. Including other digital assets, however, does not make sense through lenses of correlations (higher beta), liquidity (greater price impact), and decentralization (concentrated ownership).

Erasing uncertainty?

March will also offer insights (erase uncertainty) on the working group's progress with the White House crypto summit on March 7. Today, on March 4, Trump will speak in front of Congress to "say it like it is," which sounds dangerous, to say the least. Once his statements get fully absorbed during the Wednesday session, the crypto market might be well positioned to see drummed-up excitement in the two days running toward the summit, creating an interesting setup to bid on Wednesday afternoon and hold for the remainder of the week.

Spot Market

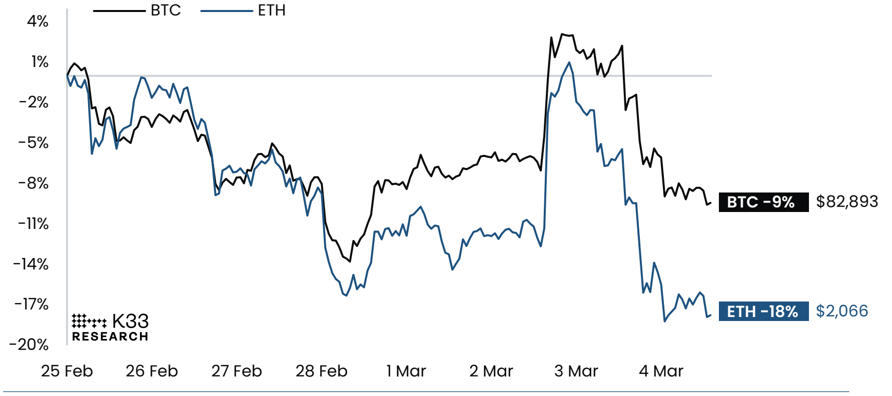
Tariffs and Casino Reserves
Trump's policies and statements continue to wreak havoc on broad financial markets, and crypto is far from behaving like a safe haven asset amidst the global market uncertainty. Trump's confirmed tariffs on Canada, China, and Mexico (to come into effect today), retaliatory tariffs expected on Apr 2, and potential European tariffs have led to a broad market de-risking, with both Nasdaq and the S&P 500 seeing their worst 2-week performances since August 2024. Bitcoin has primarily followed broad markets, ending the week down 9%.

ETH has underperformed BTC for yet another week, with ETHBTC on a path to revisit the Feb 3 low of 0.0238. Lazarus has converted 83% of the ETH to BTC via THORchain, likely contributing to ETH's relative underperformance.

One wild exception from the highly correlated sell-off occurred during illiquid market hours on Sunday, as Trump posted about a strategic crypto reserve on Truth Social, adding that the working group would move forward on a reserve holding BTC, ETH, XRP, SOL, and ADA. The inclusion of other digital assets shook the market, with heavy hitters criticizing either the reserve idea broadly or the inclusion of assets beyond BTC.

We strongly believe that BTC is the sole cryptocurrency that makes sense as a potential nation-state reserve asset. Our rationale behind this belief is based on correlations, liquidity and decentralization. Correlations within the crypto market are generally high - where BTC moves, altcoins tend to follow on a higher beta. BTC suffices to diversify reserves from foreign currency reserves, gold, and SDRs at the IMF. Further, liquidity in alts is generally far weaker than in BTC, leading to significantly higher price impacts on either purchases or sales. Third, the distribution of BTC and degree of decentralization is far stronger than in projects such as XRP, where the issuer holds significant control of the outstanding supply. Per AI and Crypto Czar David Sacks, more information on the reserve will be shared during the White House Crypto Summit on Mar 7.

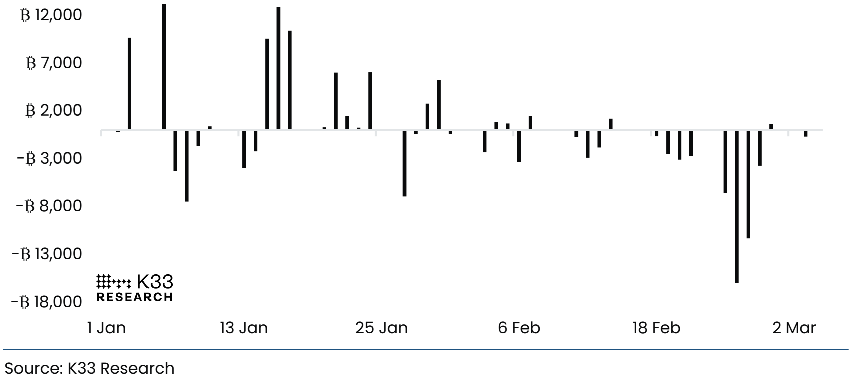
Figure 2: Performance BTC and ETH, Last Two Weeks



Source: Tradingview, (Coinbase, Binance)

Record-breaking outflows
Traders are aggressively reducing risk. Last week, a record-breaking net weekly outflow of 36,000 BTC was recorded following a mass exodus in exposure amidst the steep tariff-induced sell-off. Feb 25 saw the largest daily outflow since the launch of U.S. spot ETFs in 2024, with Feb 26 seeing the third largest daily outflow in the same period.

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

Headlines last week

Trump says Crypto Strategic Reserve will include Bitcoin and Ethereum

Trump to address industry leaders at first Crypto Summit on Friday, as regulators abandon key lawsuits

Bybit CEO says 20% from $1.4 billion theft has 'gone dark' as hackers swap to bitcoin

SEC's crypto task force set to hold its first roundtable later this month

Coinbase case officially dropped by SEC

SEC agrees to drop case against crypto exchange Kraken, firm says

Binance to delist Tether and other non-MiCA compliant stablecoins for EEA users

Strategy buys another 20,356 bitcoin for $2 billion as its total holdings reach 499,096 BTC

Calendar

Tuesday, March 4
- Trump Speech, Joint Remarks to U.S. Congress.

Wednesday, March 5
- U.S. ADP Nonfarm Employment Change

Thursday, March 6
- ECB Interest Rate Decision (Exp: 25bps cut)

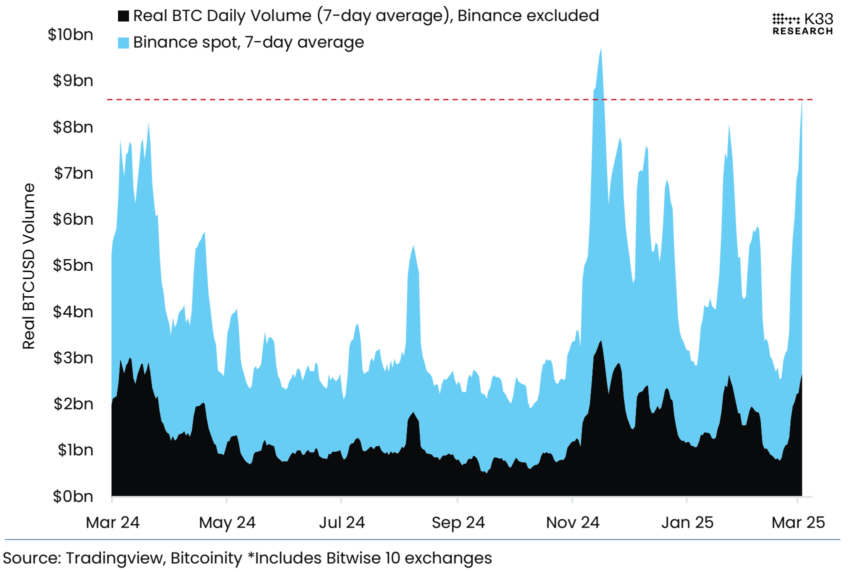
Friday, March 7
- White House Crypto Summit
- Fed Chair Jerome Powell Speech – Economic Outlook
- U.S. Unemployment Rate (Exp: 4%)
- U.S. Non-farm payrolls (Exp: 156k)

Spot Market

Frantic week
7-day average daily spot volumes surged to $8.7bn over the past week, marking its highest level since the post-election rally. Both these periods of volume bursts saw BTC trade wildly within the briefly visited 80k range, an area that for now represents tremendous volatility and activity. This area is well positioned to be tested more harmonically at lower volumes but has, for now, at least seen volumes in the deca-billions following massive activity over the past week.

Two days last week saw trading volumes exceed $10bn (Feb 25 and Feb 28) and two days of volumes north of $8bn on Sunday and Monday.

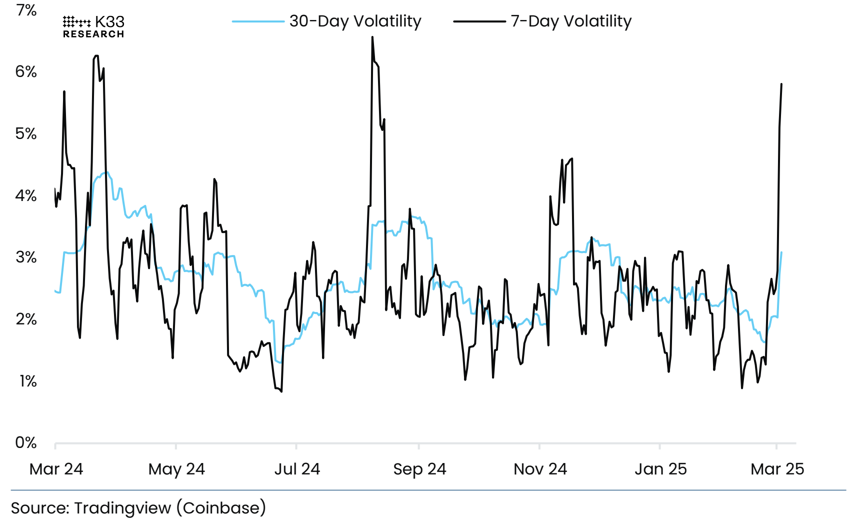
Figure 4: Real BTCUSD Daily Volume* (7-day average)



Source: Tradingview, Bitcoinity *Includes Bitwise 10 exchanges

Volatility returns
Relentless selling throughout the past week, the Sunday Trump pump, and the ensuing Monday reversal have propelled 7-day volatilities to highs not seen since August 2024. 30-day volatilities have naturally followed higher, reaching levels not seen since early December 2024.

Figure 5: BTC-USD Volatility



Source: Tradingview (Coinbase)

Fear and Greed

Now: 15 (Extreme Fear)
Last week: 25 (Extreme Fear)
Last month: 72 (Greed)

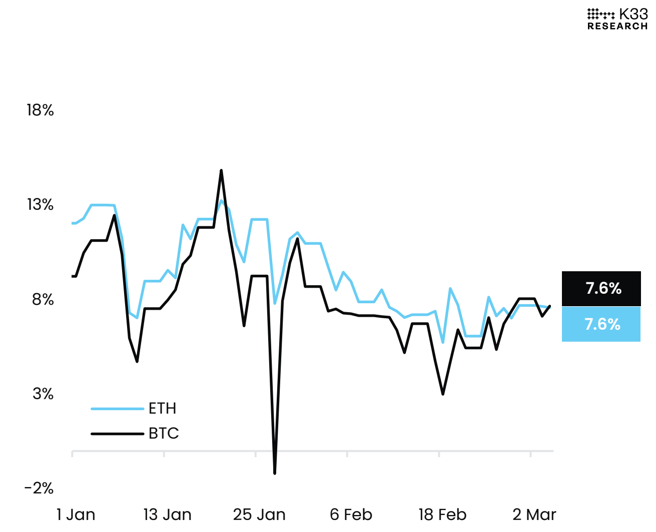
Derivatives
CME, Futures and ETFs

CME traders remain in relentless de-risking mode with notional exposure hitting 7-month lows amidst shallow futures premiums. Current premiums stay stagnant in single digits while the contango remains in a general downtrend.

CME OI has fallen to 139,000 BTC after plunging by 20,775 BTC over the past week. The decline stems from ongoing de-risking witnessed in futures-based ETFs and among active market participants, in addition to a considerable 13,060 BTC being held to expiry.

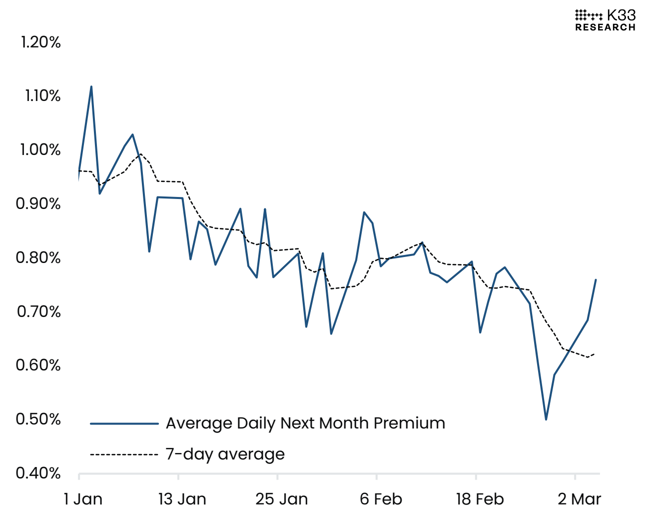
The Sunday Trump pump in the market did nothing to strengthen CME sentiment, with the basis remaining in the single-digits throughout BTC's brief recovery, indicative of institutional traders rightfully fading the Sunday move that generated yet another CME gap. This gap was promptly filled amidst yesterday's reversal. Another material CME gap was also filled over the past week, as the November 8 gap at $77,360 was filled 110 days after opening. The rationale behind these gaps eventually being filled is not necessarily clear-cut, but they originate from massive weekend moves in BTC and leave price and liquidity levels "untested" in the market. Past gap history points toward a clear tendency of gaps being filled, with March 10, 2023's gap at $19,965 remaining the only current exception from this rule.

Figure 6: **Basis reigns shallow**
CME BTC and ETH Futures Annualized Rolling 1mth Basis



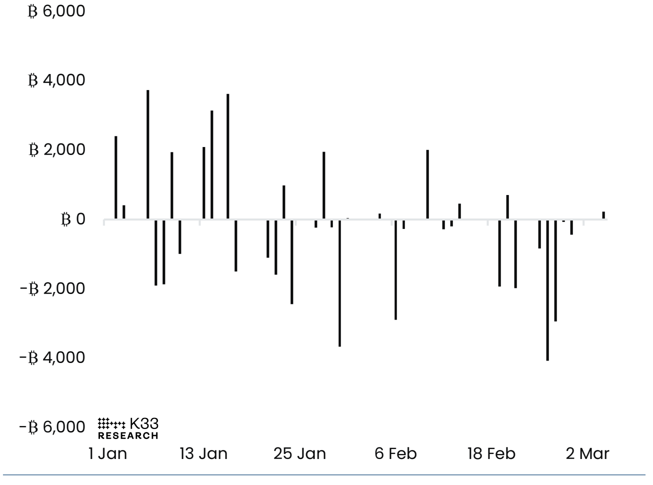
Source: Tradingview

Figure 7: **Contango recovering**
CME BTC Futures: Average Daily Next Month Premium



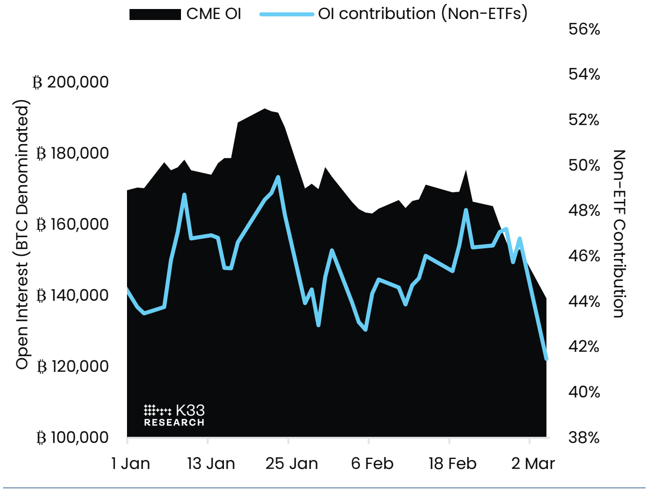
Source: Tradingview

Figure 8: **Heavy outflows throughout the week**
Futures-based ETFs: Net Flow – BTC Equivalent



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

Figure 9: **CME OI at 7-month lows**
CME BTC Futures: Open Interest



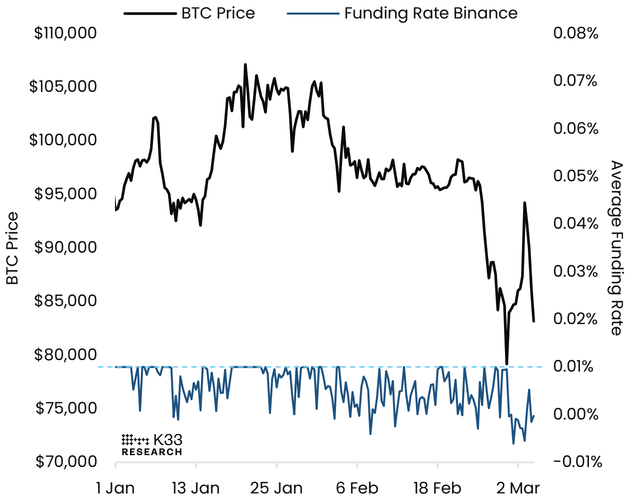
Source: CME, ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

Derivatives
Perpetual Swaps and Options

Perpetual swaps
Notional open interest in BTC perps plunged by 33,200 BTC over the past week and has fallen to 251,000 BTC—a level not seen since early September 2024. Amidst the declining open interest, funding rates have moved into more aggressively negative territory, with average daily funding rates on both March 2 and March 3 reaching negative levels for the first time since September.

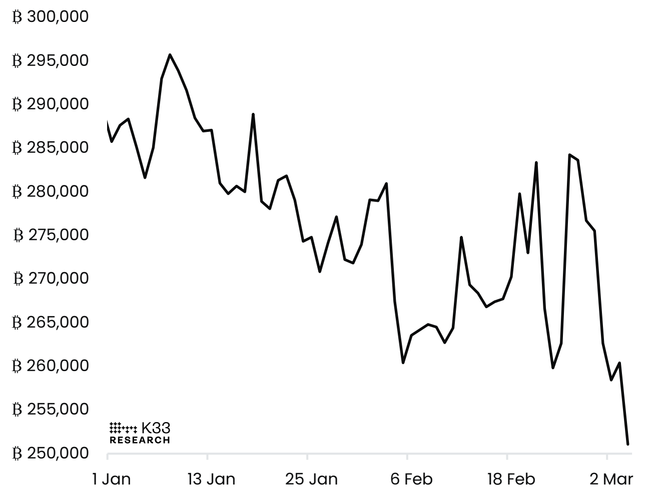
The combination of net daily reductions in open interest and negative funding rates indicates that the dominant activity in perps over the past week has been a winddown of longs rather than aggressive shorting, softening the likelihood of a short squeeze in the near horizon.

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



Source: Binance, Laevitas

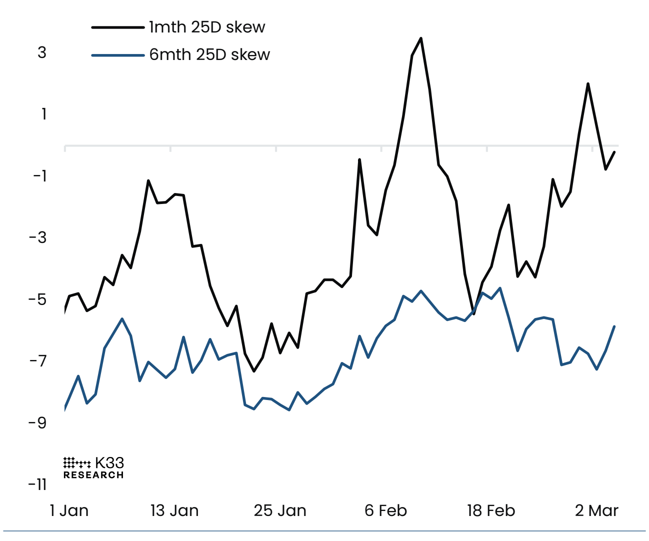
Figure 11: Deleveraging aggressively
Bitcoin Perpetuals: Open Interest



Source: Laevitas

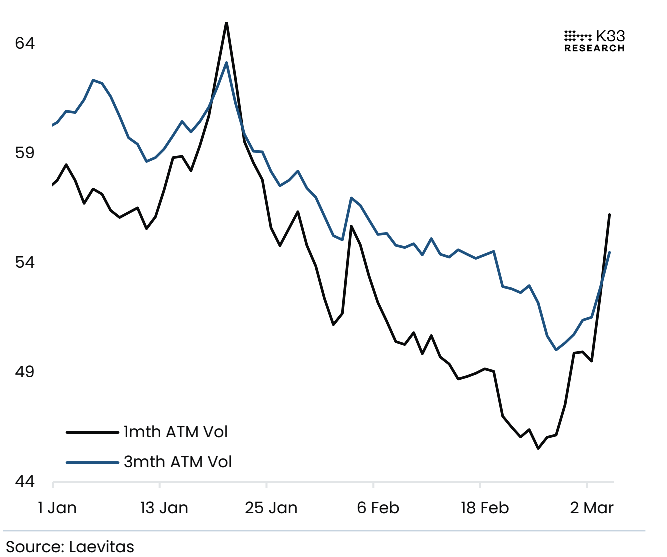
Options
Huge daily volatility has naturally had spill-over effects on options IVs, with 1mth IVs recovering to levels not seen since January. Options traders hold a defensive bias in the short term, which puts trading at a premium to calls.

Figure 12: Put premium for shorter tenors
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Figure 13: Ivs recovering after massive short-term vol
BTC Options – Implied Volatility



Source: Laevitas

A deeper dive

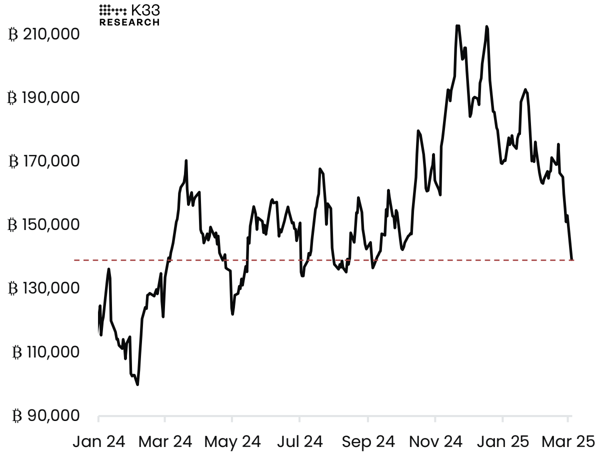
Leverage shrinking to August lows

Traders across vehicles have aggressively reduced exposure during the past week's massive volatility. We observe that both offshore leverage and CME leverage hit lows not seen since the late summer market crash, as traders broadly aim to reduce directional risk amidst considerable uncertainties related to Trump tariffs.

Following the February futures expiry, CME's open interest has declined to 139,000 BTC. This is the lowest CME exposure seen since September 5 and signals considerable defensiveness among institutional traders.

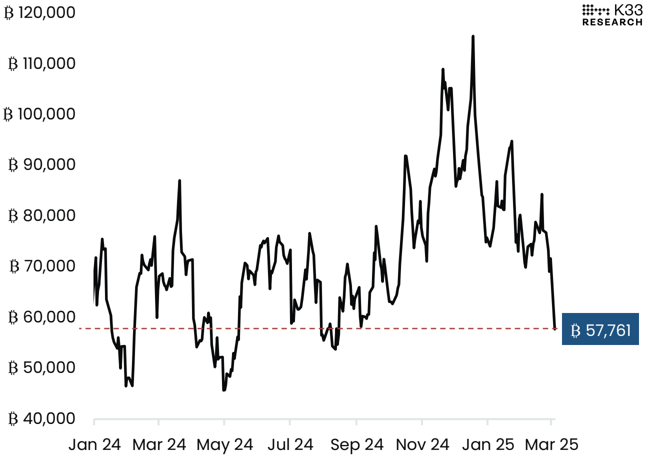
Parts of this decline may be attributed to considerable outflows from futures-based ETFs. Still, Figure 15 clearly shows that active market participant exposure (the open interest not attributable to futures-based ETFs) has fallen aggressively over the past month, currently sitting at 57k BTC. The active market participant exposure has only been lower on three occasions in 2024, during the February 2024 sell-off, the April-May sell-off, and following the August 5 market collapse.

Figure 14: CME Bitcoin Futures: Notional Open Interest



Source: CME

Figure 15: CME exposure, active market participant cohort



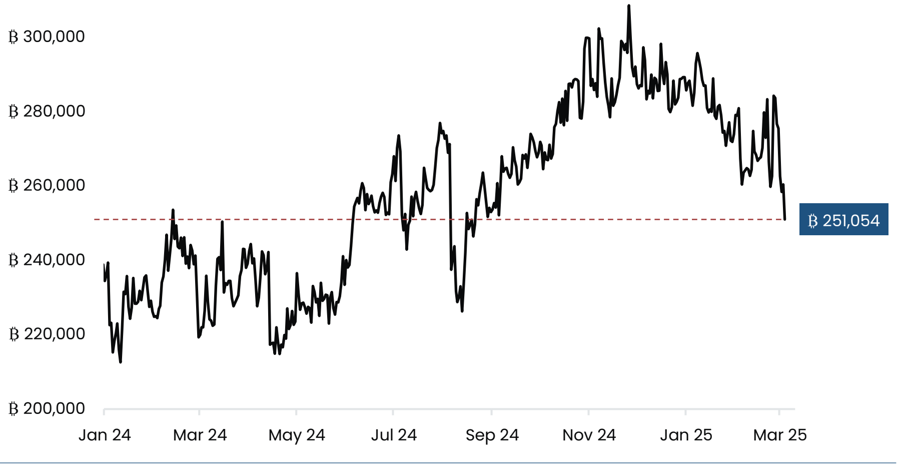
Source: CME, ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

Deleveraging prevalent across the board

Deleveraging is happening broadly across the market, with perp activity closely mirroring what we see on CME. Leverage in offshore perps has declined by 33,000 BTC since February 25 and currently sits at levels not seen since early September of 251,000 BTC.

While the recent decline in open interest in perps has been aggressive, notional OI remains well above 2024 lows of 215,000 BTC hit during the April 2024 correction and stays well above the August 13 low of 226,000 BTC, highlighting that there is wiggle room in the market for leverage to be wound down further. Nonetheless, the recent aggressive deleveraging across BTC derivatives highlights considerable de-risking amidst growing global uncertainties related to Trump tariffs and the chaotic Ukraine negotiations.

Figure 16: Notional open interest – BTC perps



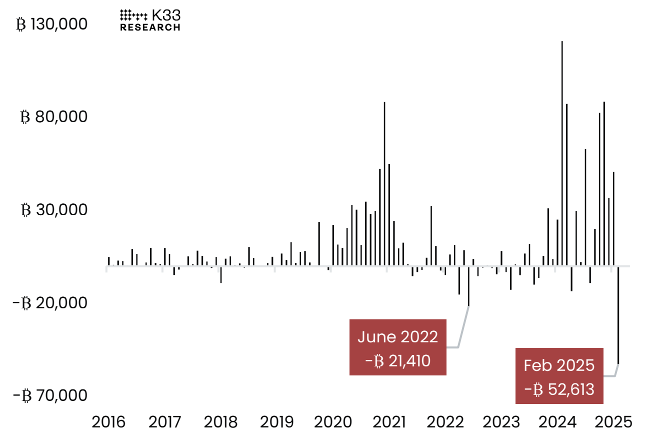
Source: Laevitas

A deeper dive
Record breaking ETP outflows

Bitcoin ETPs saw enormous outflows of 36,990 BTC last week, illuminating the panic witnessed throughout the market following BTC breaking down below $90,000. The aggressive de-risking is the largest weekly net reduction in BTC exposure witnessed in BTC ETPs since the launch of U.S. spot ETFs in 2024.

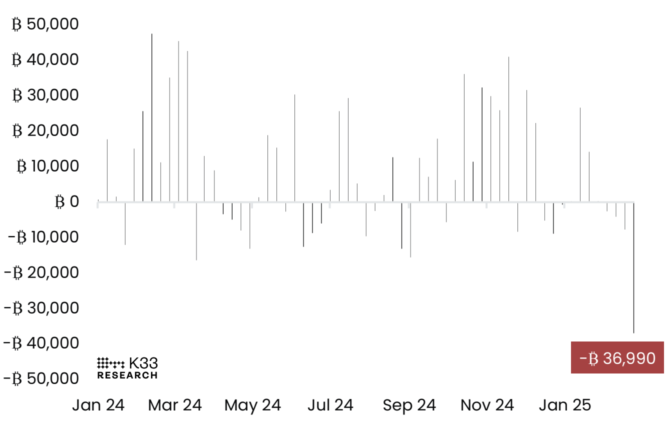
This week was the fourth consecutive week of net outflows in BTC ETPs. A four-week outflow streak has only occurred once since January 1, 2024, during the April 5 to May 3 drawdown. Consistent outflows and last week's very aggressive outflows pushed February net flows to -52,613 BTC, by far the largest monthly net outflow recorded in BTC investment vehicles. This is more than twice the notional size of the post-3AC collapse outflows witnessed in June 2022.

Figure 17: Monthly Global Net Flow to BTC investment vehicles



Source: K33 Research

Figure 18: Weekly Net Flows: All BTC ETPs Globally



Source: K33 Research

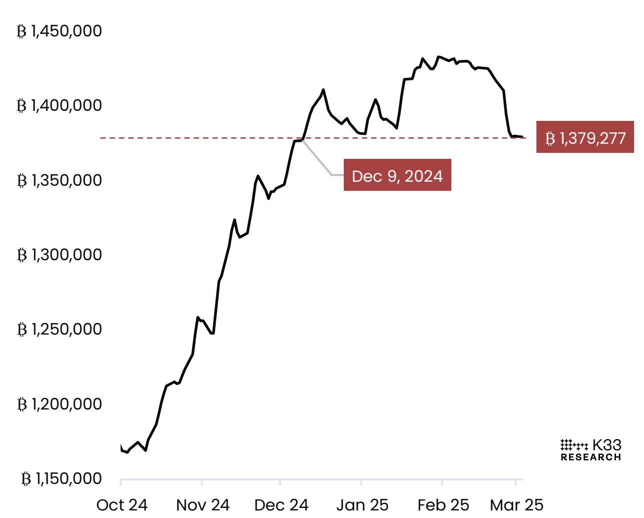
Net yearly flows flip negative

Bitcoin ETPs globally held an exposure of 1,379,277 BTC as of March 3, the lowest net exposure since December 9, 2024. The entirety of the 2025 pre-Trump inauguration run-up has thus been sold off back into the market by BTC ETP holders.

The most aggressive outflows in February were seen in the spot ETFs IBIT (-9,568 BTC) and FBTC (-13,035 BTC), in addition to BITX, VolatilityShares' 2x leveraged long ETF (-13,640 BTC). While USD-denominated outflows in BITX have been half the size of BlackRock and Fidelity, its notional market impact has been the most severe.

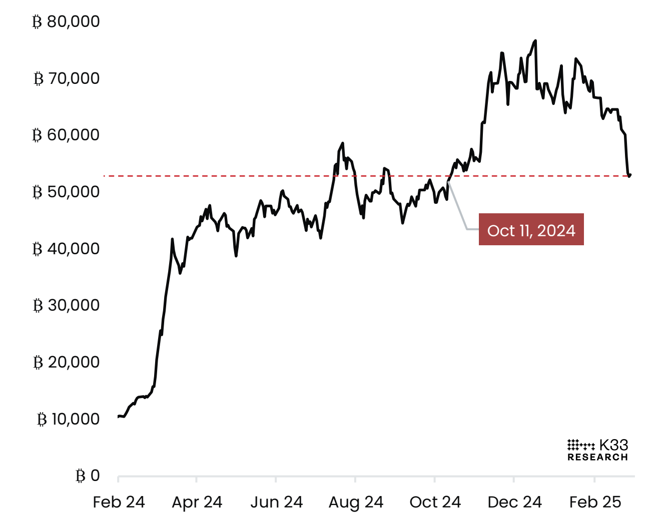
The exposure in BITX (figure 20) closely mirrors observed OI reductions on CME and in perps over recent weeks. Current BITX exposure sits at lows not seen since October 2024, following the considerable sell-off seen in BTC throughout February.

Figure 19: Global BTC ETP Exposure



Source: K33 Research

Figure 20: BITX, BTC Equivalent Exposure

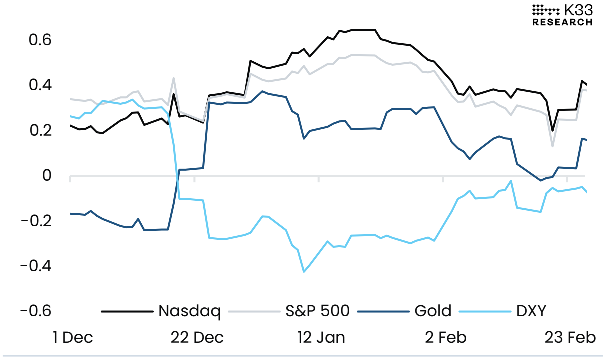


Source: VolatilityShares

Market Related Charts

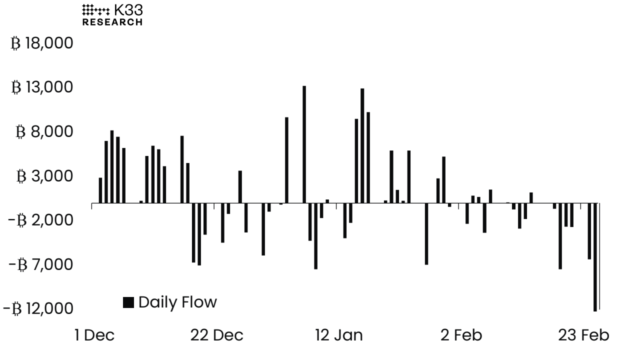
Data updated Tuesday, March 4, 2025

Figure 19: BTC 30-d correlations*



Source: Tradingview *Pearson

Figure 20: Daily Flows (BTC ETFs)



Source: K33 Research

Figure 21: BTC Dominance

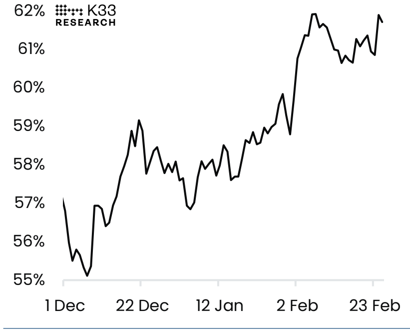


Figure 22: BTC + Stables Dominance

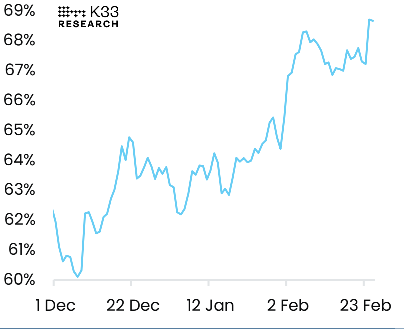
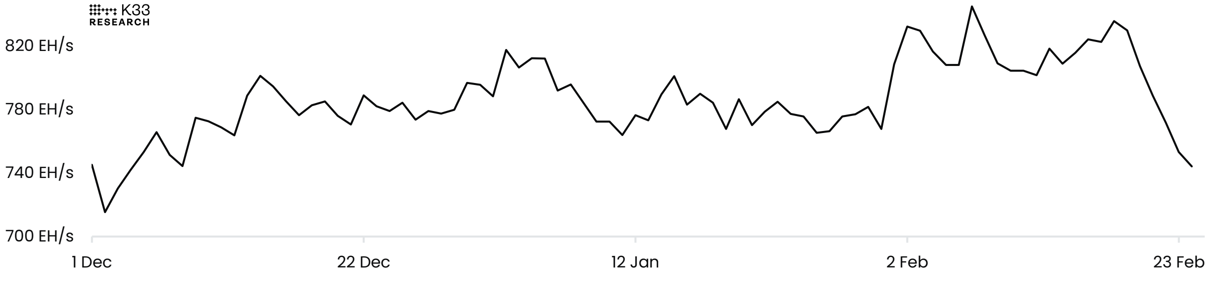


Figure 23: BTC + Stables + ETH Dominance

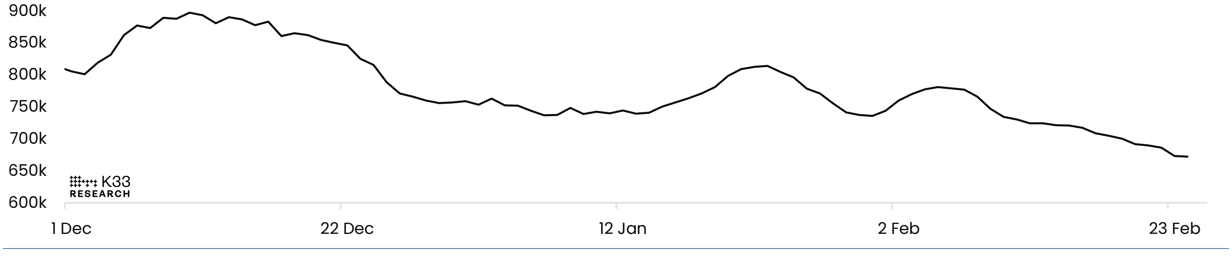
Source: Tradingview

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.

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.
-
- 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