

Ahead of the curve

Market Update

Bitcoin reclaims \$100k

Seven back-to-back green days saw BTC book a 9% weekly gain as it reclaimed \$100k. The new year has seen a revitalized demand for BTC after a Christmas selloff, as ETFs had net inflow days over 9,000 BTC in the past two trading days. MicroStrategy, on the other hand, has slowed down its purchases announcing on January 6 a purchase of "only" 1,070 BTC. ETH followed BTC closely throughout the week, while ETHBTC hovers around 0.036.

U.S. macro data releases are set to drive sharp reactions across all markets this week, although there is an equity trading Holiday this Thursday. Wednesday's FOMC minutes release is the main focus following the reaction after the December 18 meeting.

CME holds moderately positive bias, but offshore traders are not convinced

CME open interest rose by 7,200 BTC on Monday alongside soaring ETF inflows. Despite this spike, exposure remains low at 177,580 BTC when compared to the past two-month average. Non-ETF dominance sits at three-month lows of 43.8%, suggesting CME cautiousness. However, premiums have trended higher throughout the week, indicating a moderately positive outlook overall from institutional traders.

In contrast, a strong BTC recovery has not swayed perp traders into longs as funding rates hovered at or below neutral throughout the last week. Ambiguity in funding rates and a sharp 11,000 BTC rise in OI since January 5 increases liquidation risks in either direction for the week ahead.

Ethena boosts ETH open interest

Ethena's synthetic dollar (USDe) earns a yield from delta-neutral strategies in ETH, BTC and SOL. When USDe is minted, Ethena opens a short in perps on these pairs. Due to a tendency for considerable funding rates to stay positive far more often than not, delta-neutral strategies are very profitable. Ethena currently represents 10% of the notional ETH open interest in perps, with current short exposure in ETH sitting at 463,083 ETH.

Ethena's activity may be dampening funding rates, enticing longs to enter due to lower carry costs. This would partly explain the recent surge in ETH perp open interest, as it sits at all-time highs of 4.75m ETH after having grown by 116% since April 24. However, Ethena holds a similar market dominance in BTC of 10% without having the same influence.

Strong New Year ETF flows while Saylor slows down

The past two trading days have seen inflows of 22,800 BTC in BTC ETPs, the strongest two-day flow since November 12, following 2 weeks of consistent outflows. Whether the influx is driven by pre-Trump positioning or the new year bringing mandates for funds to invest, shifts from big steady outflows to aggressive inflows have rarely been short-lasting.

On Monday, MicroStrategy announced its smallest weekly BTC purchase of 1,070 BTC since the firm started its 21/21 plan in November. The company announced it had not made any new sales of shares to buy BTC between January 1-5. However, MicroStrategy also announced plans to raise up to \$2bn through the sale of perpetual preferred stock. The contrast of recently diminished MicroStrategy buys with strong BTC performance and rising ETF demand paints a positive picture, as it indicates more robust market demand.

Figure 1: Ether Perpetuals: Notional Open Interest



Source: Laevidas

Digital Assets

Signals from the market

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By the numbers

BTCUSD \$100,874
7d: **9%**
30d: **1%**

ETHUSD \$3,634
7d: **8%**
30d: **-9%**

Open Interest (BTC futures and perps)

\$52.0bn
516,000 BTC (**1.3%** last seven days)

Average daily BTC spot volume

\$2.9bn (**-15%** last seven days)

BTC 90-d correlations (weekly change included)

ETH	Gold	S&P 500	DX
0.79 (-0.01)	0.03 (-0.01)	0.45 (-0.02)	0.03 (0.01)

Percentage of Total Market Capitalization

Weekly change in percentage points

BTC	ETH	Stablecoins	Rest
56.2% (-0.4%)	12.3% (-0.1%)	5.2% (-0.3%)	26.3% (0.8%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainners			
1	XLM	37%	38%
2	ADA	32%	35%
3	RENDER	26%	20%
Losers			
1	HYPE	-4%	6%
2	LEO	1%	0%
3	VIRTUAL	2%	-2%

Things Take Time

January Outlook

Digital Assets

January Outlook

Bitcoin faced immense strength from the election until the December 18 FOMC. The Trump momentum was solidified by aggressive purchases from MicroStrategy and robust ETF flows. MicroStrategy tapered its aggression alongside its enterprise value premium to BTC naturally contracting following huge share dilution, whereas the ETF flow regime shifted from bullish to bearish following a hawkish FOMC press conference.

FOMC me here and FOMC me there

The broad market read a lot into the FOMC conference, which offered an updated dot plot trajectory of two cuts rather than four cuts in 2025. Crypto market participants read even more into it, following Jerome Powell's statements that the Federal Reserve is not allowed to hold bitcoin. This statement received far more coverage than it deserved, as a Strategic Reserve plan is not the Federal Reserve's to make. The decision is in Trump and the U.S. Congress' hands.

Trump may launch a reserve (or stockpile of existent holdings) via an executive order, potentially allowing Trump to leverage the Exchange Stabilization Fund to buy BTC. A grander reserve plan requires congressional approval, and if so happens, Jerome Powell and the Federal Reserve will have to abide by the new act.

De-risked into the new year

The resolute selling in late December was likely initiated by the FOMC and accelerated due to factors such as tax planning, with traders setting aside funds to pay off the 2024 tax bill. The correction cleansed the derivatives books of high leverage and spiraled other derivatives traders into de-risking, pushing funding rates into neutral to below neutral terrain. This has made the overall market environment far healthier.

We're now in a new tax year, with Trump's inauguration 13 days away, and I am staying fully exposed for now, as the setup favors strength in the two coming weeks.

Things take time - Why reducing some exposure in January makes sense

Trump and his administration are undoubtedly a positive development for the crypto market. We can expect a more fruitful regulatory environment for the U.S. crypto industry and tier-1 banks to launch crypto custody solutions following a SAB-121 overturn. Further, a stockpile of current holdings or a strategic reserve is clearly in the books and will be a topic attracting vast attention throughout the year. The silver lining behind all these developments is that they are processes that take time, and we're currently in the dark without meaningful information on when these processes will be initiated.

Frontrunning and selling news

Expectations for Trump's presidency and its impact on the crypto market are enormous. Still, we might once again be in a state of traders frontrunning with overzealous expectations of the pace of change.

Bitcoin's history is riddled with speculative peaks tied to major events: CME futures in 2017, Coinbase's listing in 2021, and El Salvador's adoption. Even the launch of BTC ETFs in 2024 saw a three-week selling spree before extraordinary supply absorption throttled markets higher.

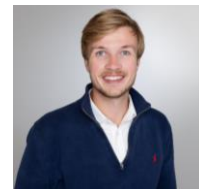
All these news events have been monumental in pushing BTC to its current highs. ETFs would not have happened without the CME futures launch, and CME is now the dominant derivatives market in Bitcoin and its key source for price discovery. Coinbase went public, showcasing the maturing crypto industry, allowing asset managers to get exposure to the crypto industry, and being a testament to sound business models arising from crypto. El Salvador's adoption was a pilot for other governments to follow, highlighting that adopting BTC treasuries is not as far-fetched as once thought.

Frontrunning the inauguration and leading the inauguration to become a sell-the-news event would be an archetypal crypto reaction. We have already seen a nice 48% run since the election and may see further enthusiasm in the 13 days until the inauguration, offering a nice opportunity to take some chips off the table.

I'll look to the inauguration to reduce exposure, eyeing the event as a solid event to stifle momentum for quite some time. 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. If the market proves me wrong in the days following the election, I'll happily buy back higher.

But let's be clear - Trump's crypto courting is nothing but bullish in the long term

Bitcoin is now frequenting on the lips of the most powerful human on the planet, with the aim of solidifying innovation in the United States. Donald Trump has a vested interest in crypto's success and is far from alone in the administration in holding pro-crypto views. The years have seen Bitcoin regimes move from anarcho-capitalists to speculators to institutions. All these actors are still present. The second Trump term is well positioned to mark a new regime change for Bitcoin as it leaps into Nation State relevancy. Going into such a regime, you want to hold onto most of your exposure and ignore short-term price impulses.



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Spot Market

Steadily higher

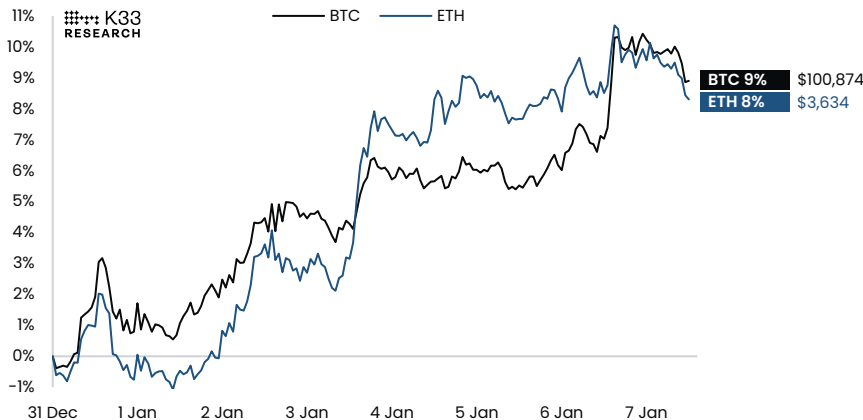
Bitcoin has pushed to three-week highs by reclaiming \$100,000 after seeing a solid weekly return of 9%. The week has seen a consistent trend higher, with BTC seeing seven consecutive days of positive daily returns, a relatively rare observation in BTC. ETH tracked BTC closely throughout the past week, with ETHBTC still hovering in the 0.036 range.

Bitcoin faced new buying demand as we entered 2025. The Christmas holiday season saw considerable outflows from ETFs and heavy momentum. This downtrend has changed going into January, with ETFs seeing back-to-back net inflow days above 9,000 BTC in the past two trading days. We also see strong and healthy growth in open interest, indicative of traders returning to the market.

While some bidders resume, MicroStrategy's 1,070 BTC purchase announcement on January 6 informed that the BTC balance of MicroStrategy was unchanged from January 1 to January 5, indicating a pause to MicroStrategy's purchasing spree.

The coming week is crowded with U.S. macro data releases, alongside an equity trading Holiday this Thursday. As BTC continues to trade in a highly correlated regime to U.S. equities and the DXY, we expect these releases to set the directional tone in the coming week. Wednesday's FOMC minutes release is of particular interest following the sharp downturn after the December 18 meeting.

Figure 2: Performance BTC and ETH, Last Two Weeks

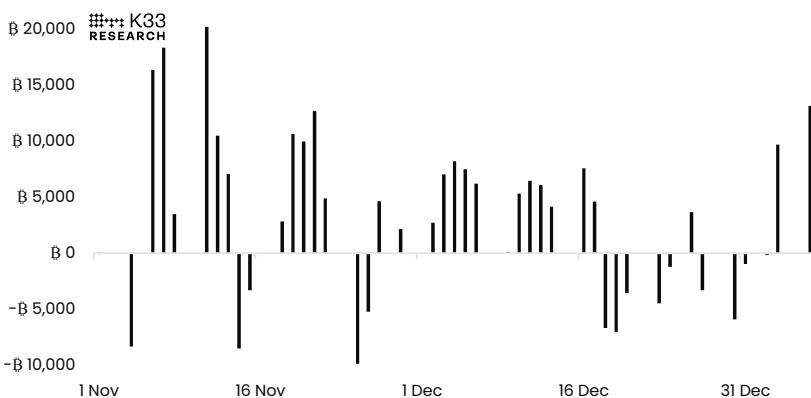


Source: Tradingview, (Coinbase, Binance)

Inflows are back

After rocky holiday flows, ETFs have resumed absorbing supply, adding a massive 22,484 BTC over the past two trading days. The growth is led by U.S. spot ETFs, where inflows have been spread across all ETF issuers, with Fidelity's BTC for now leading the 2025 scoreboard in terms of net inflows.

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

Headlines last week

[MicroStrategy expands '21/21 plan' with \\$2 billion preferred stock offering for bitcoin purchases](#)

[Base in 'exploratory phase' of bringing COIN to the layer 2 for US citizens](#)

[Pro-crypto Pierre Poilievre leads Polymarket odds to become Canada's next prime minister, replacing Justin Trudeau](#)

[MARA says 16% of its BTC reserves has been loaned to third parties for 'modest' yield](#)

[Terraform Labs co-founder Do Kwon pleads not guilty to criminal charges in Manhattan court following extradition](#)

Calendar

- Tuesday, January 7
 - U.S. JOLTs Job Openings (Exp: 7.73m)
- Wednesday, January 8
 - ADP Nonfarm Employment (Exp: 136k)
 - FOMC Minutes
- Thursday, January 9
 - U.S. Stock Markets Closed on Carter day of Mourning
- Friday, January 10
 - Nonfarm Payrolls (Exp: 154k)
 - U.S. Unemployment (Exp: 4.2%)
- Tuesday, January 14
 - U.S. PPI

Spot Market

Volumes decline to pre-election levels

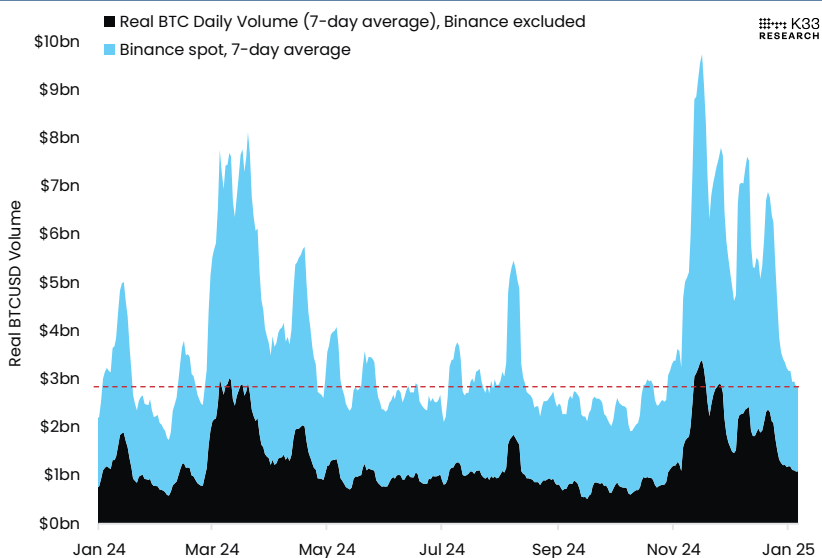
Trading volumes continued to slump lower throughout the past week, with average daily trade volumes over the past week falling to \$2.9bn, a low not seen since October 28.

Neither MicroStrategy nor ETF traders were particularly active during the Christmas Holiday, increasing the impact of the marginal spot seller. Softening volumes amidst BTC's recent steady grind higher suggests that Christmas sell side aggression is subsiding. Volumes have declined by a further 15% this week compared to last week, while ETF flows have shown clear signs of revitalizing, a factor likely leading to a volume reversal in the coming days.

Fear and Greed

Now: 78 (Extreme Greed)
Last week: 65 (Greed)
Last month: 75 (Greed)

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



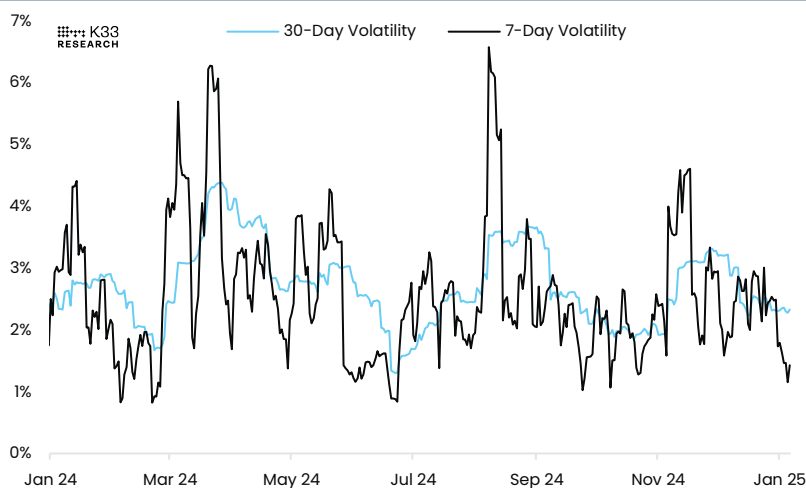
Source: Tradingview, Bitcoinity *Includes Bitwise 10 exchanges

Steady grind higher

Bitcoin has seen seven consecutive green trading days, marking its longest streak of positive returns since November 11.

While the trend has generally been green, daily returns have been soft throughout most of the past week pushing 7-day volatilities to lows not seen since October.

Figure 5: BTC-USD Volatility



Source: Tradingview (Coinbase)

Derivatives

CME, Futures and ETFs

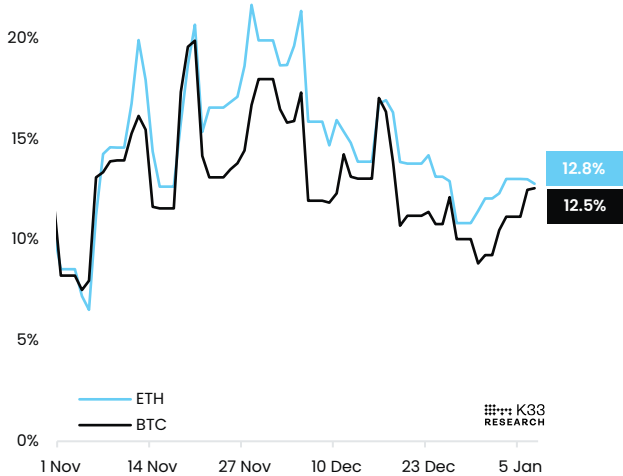
CME exposure has slightly increased over the past week alongside upward-trending premiums, but exposure reigns at lows not seen since early November.

Open interest on CME sits at 177,580 BTC after climbing by 7,200 BTC on Monday alongside the exploding ETF inflows. This is the largest daily growth in CME OI since November 19, with the growth being evenly distributed between active market participants (+3,645 BTC) and futures-based ETFs (+3,590 BTC).

While yesterday showed spiking activity on CME, exposure overall remains low compared to the past two-month average. Open interest fell to a two-month low of 169,580 BTC following the December futures expiry and still hovers at two-month lows. Non-ETF dominance sits at three-month lows of 43.8%, suggesting an overall cautious outlook on CME.

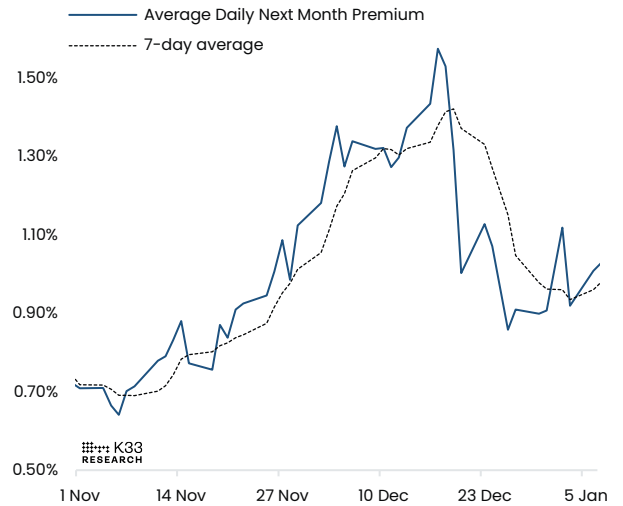
That said, futures premiums have trended higher throughout the past week, with annualized BTC premiums rising to 12.5%, a level not seen since December 19, while the contango stabilizes at a healthy 1%. The basis has faced an uptrend throughout the past week, indicative of a moderately positive bias among institutional traders.

Figure 6: Uptrend in premiums
CME BTC and ETH Futures Annualized Rolling 1mth Basis



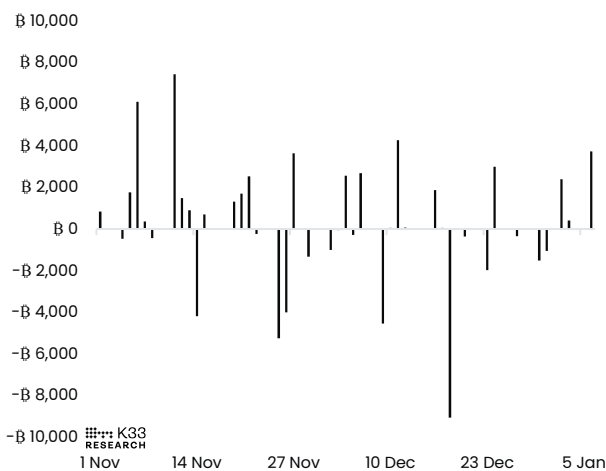
Source: Tradingview

Figure 7: Stabilizing contango
CME BTC Futures: Average Daily Next Month Premium



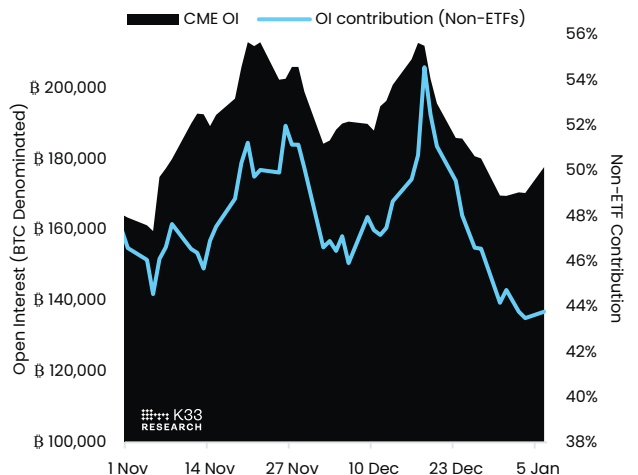
Source: Tradingview

Figure 8: Inflows return to VolatilityShares
Futures-based ETFs: Net Flow – BTC Equivalent



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

Figure 9: Open interest recovers amidst solid ETF flows
CME BTC Futures: Open Interest



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

Derivatives

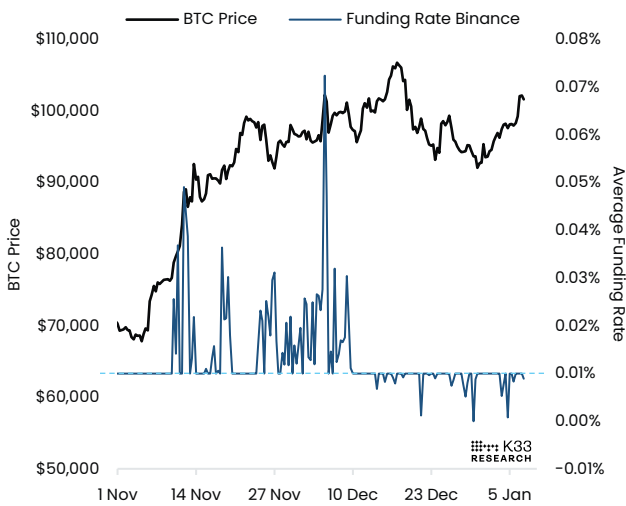
Perpetual Swaps and Options

Perpetual swaps

Bitcoin's strong recovery over the past week has not swayed perp traders into aggression, as funding rates continued to hover at neutral to below neutral rates throughout the past week with perps trading at moderate discounts to the spot market. Thus, positioning in perps remain cautious for the time being.

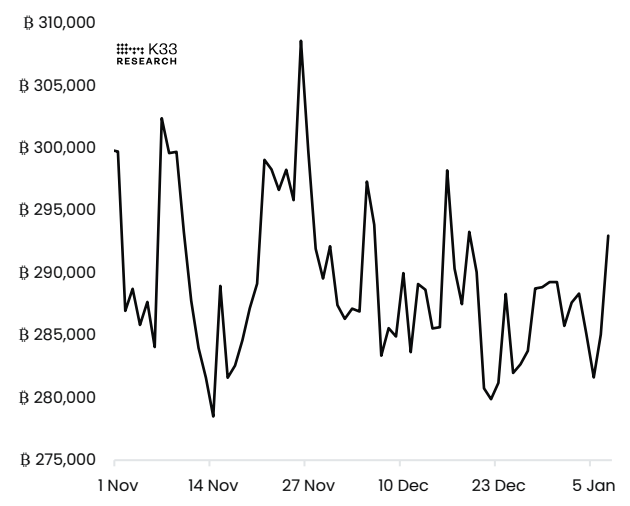
While funding reigns neutral, more leverage was added following BTC's push above \$100,000. Perps have added 11,000 BTC worth of open interest since January 5. Ambiguity in funding rates and a sharp increase in OI heighten liquidation risks in either direction in the week ahead.

Figure 10: Neutral to below neutral funding rates
Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Binance, Laevidas

Figure 11: 11,000 BTC increase in BTC OI over the past two days
Bitcoin Perpetuals: Open Interest

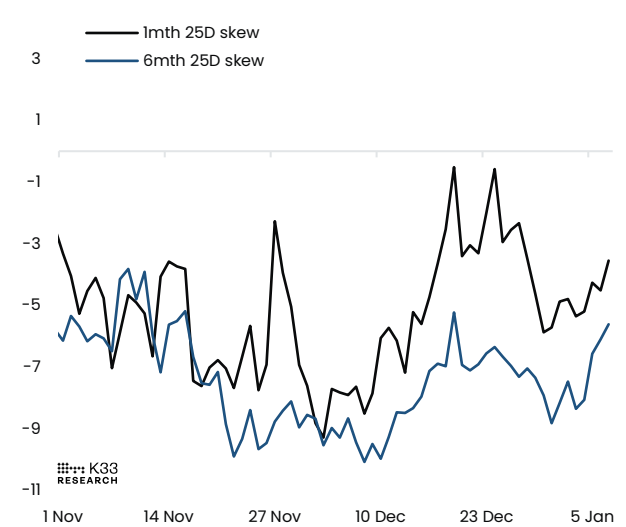


Source: Laevidas

Options

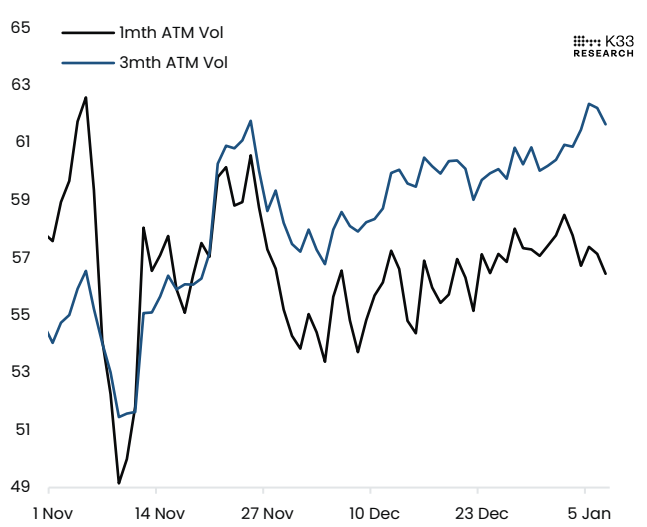
While options traders maintain a bullish bias, we have seen a subsiding call premium across tenors during the recovery over the past two days, with 1-month skews climbing to a 10-day high of -3.5, whereas 6-month skews have climbed to 3-week highs. This suggests that hedging demand has increased with BTC resuming to 6-digit territory.

Figure 12: Options skews soften
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevidas

Figure 13: IVs reign flat
BTC Options - Implied Volatility



Source: Laevidas

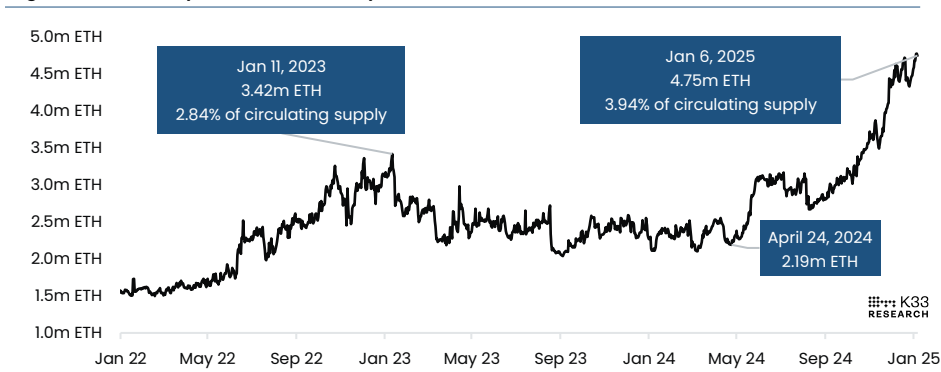
A deeper dive

Ethereum and its peculiar open interest

Notional open interest in Ethereum perps is at all-time highs of 4.75m ETH, equivalent to 3.94% of the circulating ETH supply. Notional open interest has grown by a massive 116% since April 24 and sits 39% higher than its January 11, 2023 peak.

The growing open interest in ETH may stem from a series of factors. We discuss one substantial delta-neutral short contributor below, whereas other hedging-related shorts from staked ETH may further elevate the short side. Still, funding rates in ETH have mostly been at par with BTC throughout the Q4 surge, indicative of a comparable long demand in BTC and ETH of late.

Figure 14: Ether Perpetuals: Notional Open Interest



Source: Laevidas

Ethena – 10% of ETH perp OI

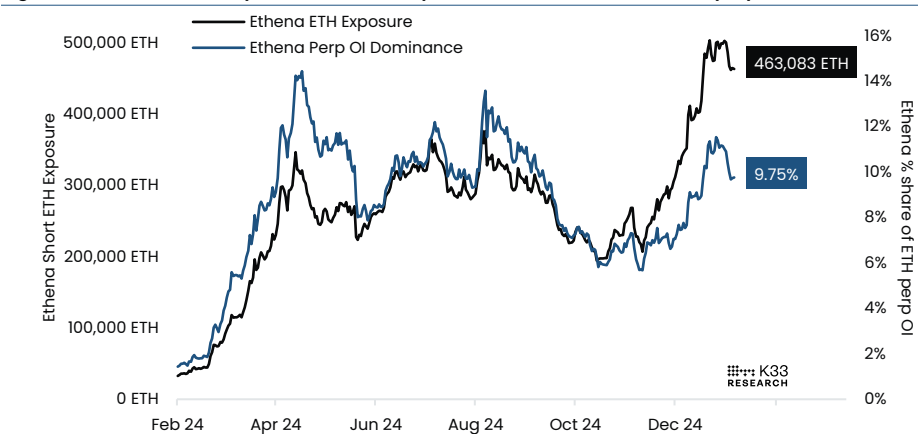
Ethena is a project behind a synthetic dollar (USDe) that earns a yield from delta-neutral strategies in ETH, BTC and SOL. When USDe is minted, Ethena opens a short in perps in either of the pairs above. Generally, crypto traders prefer taking the long side, as evidenced by the fact that funding rates tend to be positive. The positive drift in funding rates is further exaggerated by most exchanges holding onto neutral funding rates at 10.95%, making delta-neutral strategies in crypto particularly rewarding.

Ethena’s strategy is hedged; its exposure is to varying yields. The project is not exposed to short squeeze risks due to its delta-neutral nature, bar operational mishaps, or execution errors. The project has counterparty risk to exchanges but has aimed to soften this risk via off-exchange settlement solutions from Copper, Ceffu, and Fireblocks.

Ethena currently represents 10% of the notional ETH open interest in perps. Its ETH market share peaked at 14% in April, when Ethena added BTC to its yield strategies to scale its operation. At the time, ETH’s open interest was at 2.2m ETH, far lower than its current ATH level. Ethena’s current short exposure in ETH sits at 463,083 ETH, a material size.

With a big and relevant shorter in Ethena, funding rates may naturally compress, increasing the appeal of long traders to enter due to lower carry costs. This may structurally attract longs to enter, further elevating open interest and explaining ETH’s high open interest. That said, Ethena holds a similar market dominance in BTC of 10% but has not had the same material impact, with notional BTC open interest in perps still trailing 31% below its November 2022 all-time high, suggesting that there are several other factors at play in ETH’s massive relative leverage.

Figure 15: Ethena: Short Exposure in ETH vs. Open Interest dominance in ETH perps



Source: Laevidas, Ethena, K33 Research

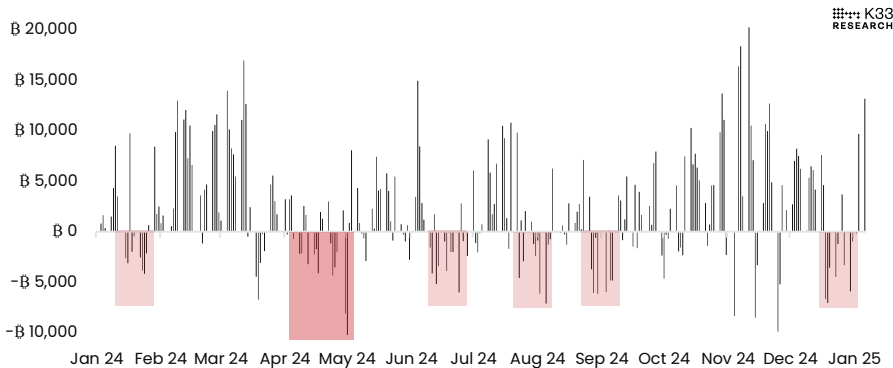
A deeper dive

The ETF aggression returns, while Saylor rests

Demand returned to BTC as we entered a new calendar year. The past two trading days have seen inflows of 22,800 BTC in BTC ETPs globally. This is the strongest two-day flow to BTC ETFs since November 12, following 2 weeks of consistent outflows.

The sudden regime change in flows may be caused by pre-Trump positioning or the new calendar year marking new mandates for funds to invest. Flow trends from 2024 paint a comforting picture for upcoming flows. Regime changes from steady and large outflows to aggressive inflows have rarely been short-lasting and have typically marked a sticky inflow trend. This could imply that the market may face a new wave of supply absorption from ETFs.

Figure 16: Daily Global Net BTC ETP Flows



Source: K33 Research

MicroStrategy purchases subsiding

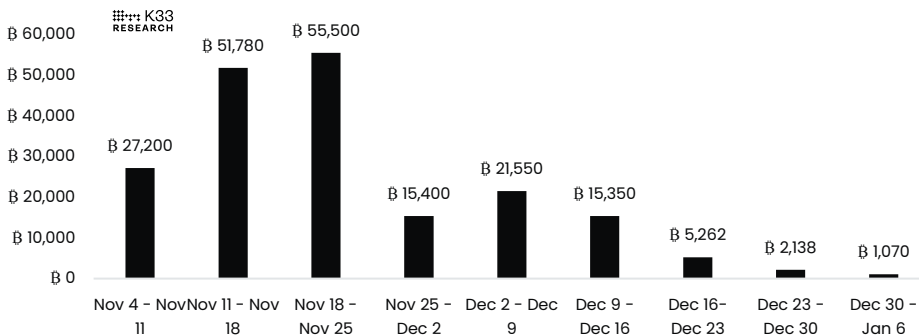
On Monday, January 6, MicroStrategy announced its smallest weekly BTC purchase of 1,070 BTC since the company initiated its 21/21 plan in November. Weekly MicroStrategy BTC purchases have eased throughout December, with yesterday's announcement adding that last week's purchasing occurred between December 30 and 31.

In early January, the company made its first BTC purchasing pause since the launch of the plan. The press release made clear that the company had not made any new sales of shares under the sales agreement to buy BTC between January 1 and January 5 and that the company still has \$6.77bn in shares available for issuance under the sales agreement. MicroStrategy's premium to NAV has compressed from a peak of 3.4x on November 20 to 2.05x on January 6, potentially motivating the moderating share dilutions.

MicroStrategy also announced plans to raise up to \$2 billion through the sale of perpetual preferred stock as part of its broader "21/21 Plan," which aims to raise \$21 billion each in equity and fixed-income instruments over three years. The stock, which will take priority over class A common stock, may include features such as convertibility to common stock, cash dividends, and redemption options.

Softened MicroStrategy purchases amidst strong BTC performance and signs of elevated demand in ETFs are positive observations in our book. Since the election, MicroStrategy has been a fundamentally important size in pushing prices. While MicroStrategy's share price is held up by willing buyers accepting the dilution, the company manages the timing of purchases. ETFs and spot market activity, in contrast, mark independent and direct decision-making processes from millions of investors, and recent flows are a reassuring indication of potent broad demand as we enter the new year.

Figure 17: Weekly MicroStrategy BTC Purchases

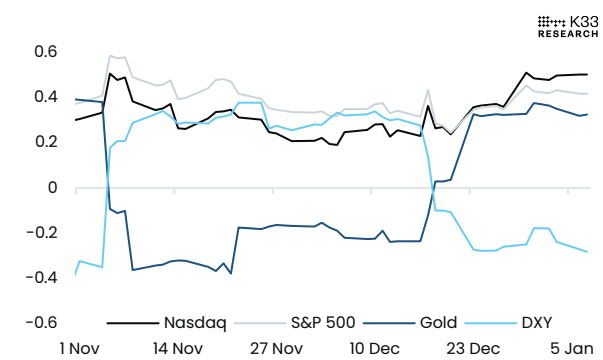


Source: MicroStrategy

Market Related Charts

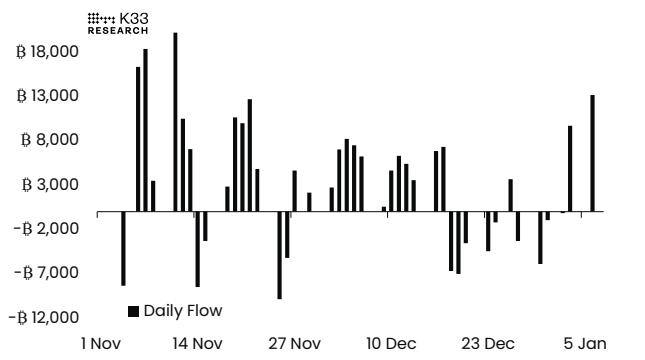
Data updated Tuesday, January 7, 2025

Figure 19: BTC 30-d correlations*



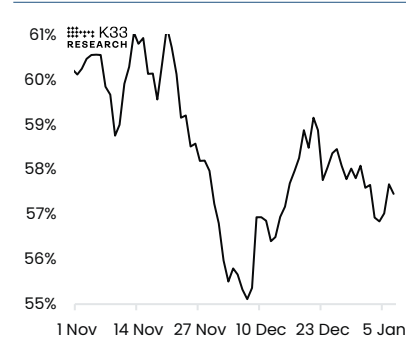
Source: Tradingview *Pearson

Figure 20: Daily Flows (BTC ETFs)



Source: K33 Research

Figure 21: BTC Dominance



Source: Tradingview

Figure 22: BTC + Stables Dominance

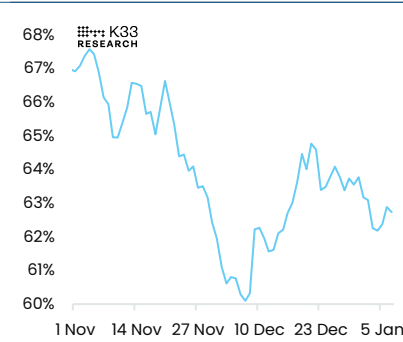
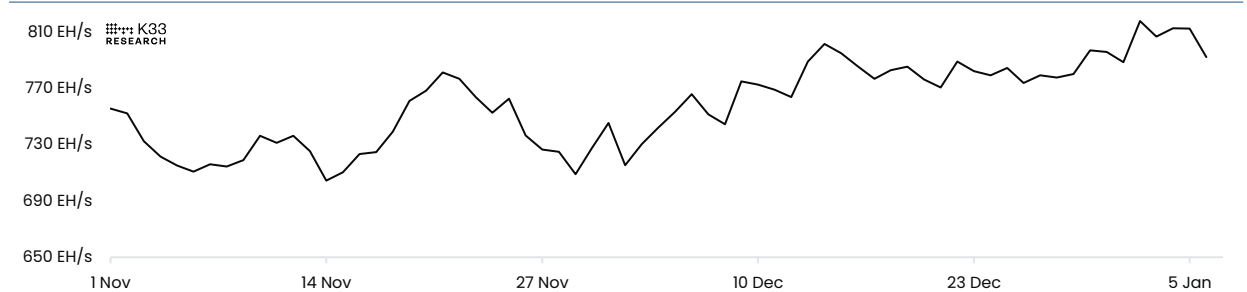


Figure 23: BTC + Stables + ETH Dominance

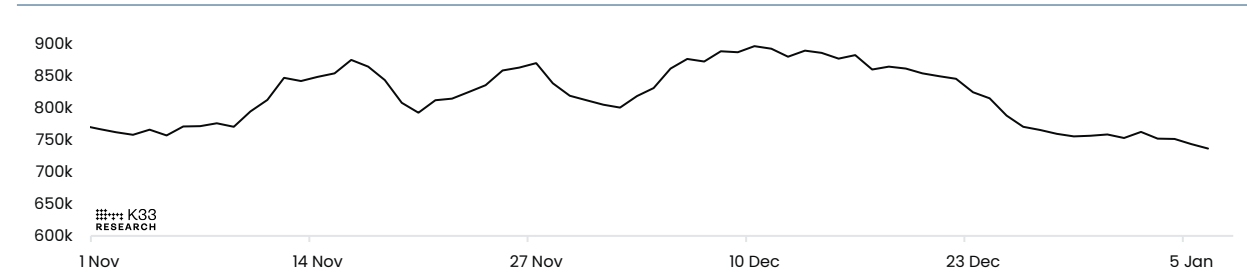


Figure 24: Bitcoin Hashrate (7-day average)



Source: Coinmetrics

Figure 25: Active Addresses (7-day average)



Source: Coinmetrics

Why we choose the charts we do

Heavy Bitcoin focus

The crypto market is heavily correlated. Movements in BTC tend to be reflected by sharper moves in altcoins. In many ways, BTC is the lower beta exposure alternative to crypto and the definite market leader. However, don't worry – whenever we find a topic, a coin, or some tendencies worth drilling deeper into – we will. This report will get you the most important information from the crypto market.

Market by the numbers

We highlight the most critical market data by numbers in this table. A glance at these data should be sufficient to assess the state of the market superficially.

Open interest is an essential underlying market driver. Crypto tends to be very volatile, and leverage exacerbates volatility. We have had frequent massive liquidation cascades throughout the last years, mostly towards the downside, but we've periodically seen short squeezes emerge. During the March 12th collapse in 2020, cascading liquidations were the root cause of the absolute carnage in the market. You should always pay close attention to open interest if you aim to be an active participant in the market. Our derivatives pages will contribute to delivering you a directional assessment of the data.

The spot volume is an efficient way to gain an overview of the general activity in the market.

Correlations have been growingly important in the last year due to the complicated macro picture post-COVID. It's important to be aware of BTC's, for now, close relationship with U.S. equities and its inverse relationship with the dollar strength index (DXY). However, the current correlation regime is unlikely to be as strong as today forever. Through awareness of correlation trends, you may be able to execute trading strategies before the market catches up to correlations breaking.

The simplified market cap distribution box allows you to assess the general risk sentiment in the market quickly. In general, the "Rest" category may be used as a proxy for risk aversion in the market. Currently, BTC, ETH, and stablecoins represent nearly 75% of the crypto market, which is telling for a risk-averse crypto market.

The two charts on the first page illustrate the two most interesting topics covered in our market analysis. A more thorough examination of these charts is found in the last section of the report, where we dive deeper into two topics that currently seem to drive the market.

Spot Primer

Top 3 coins

We explore the last week's performance of the top 3 cryptocurrencies to assess deviations and opportunities within the safer bracket of digital assets. Currently, BTC, ETH, and BNB represent the three largest. Both ETH and BNB have a thriving DeFi user base and unique drivers of price and demand, which could generate temporary or long-term correlations within crypto to decline as trading opportunities arise or spread trade opportunities.

Indexes

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

Volume

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

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

Volatility

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

Derivatives primer

Why should you care about derivatives flows?

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

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

CME – The importance of a cash-based futures market in BTC

Institutional traders strongly impact BTCs price discovery, as identified both by [Bitwise](#) and by [us](#). However, many institutional traders have limitations regarding access to crypto markets or even related to holding BTC. CME provides the most accessible, most efficient access to crypto markets for those traders. CME also has the added caveat of a familiar clearinghouse structure, leading to fewer barriers to entry for crypto exposure for institutional traders.

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

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

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

Perpetual swaps

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

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

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

Options

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

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

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