K33 RESEARCH

Market Research
October 7, 2025

Ahead of the curve

Market Update

Digital Assets

Signals from the market

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

All-time highs, even on European soil
Bitcoin reached new all-time highs this week in both USD and EUR, marking its first euro-denominated record since January 2025. The rally has been driven by consistent daily gains, with BTC rising 8% over the week despite low volatility, while surging derivatives and ETF exposure indicate a mildly overheated market.

Ethereum closely tracked Bitcoin's movement, showing slight outperformance on Tuesday as BTC momentum eased. Grayscale's introduction of staking to its ETH products could spark further ETF interest, and altcoins may benefit from increased enthusiasm once the U.S. government shutdown concludes. Meanwhile, Morgan Stanley's 4% crypto allocation cap for aggressive portfolios signals growing institutional adoption.

Spiking activity in derivatives
Activity on CME has surged, with BTC futures open interest jumping by 14,830 BTC over the past week, its largest 5-day increase since January 21. Despite the sharp rise, overall exposure remains modest, still well below January highs. Futures premiums have climbed to 3-month highs, with the annualized basis exceeding 10% amid long-side demand.

Perpetual swaps saw a sharp rise in leverage, with open interest climbing by 16,642 BTC, the largest weekly gain since July, pushing OI back to mid-September highs. Funding rates hit their highest since August, driven by long-side aggression, raising the risk of long squeezes if prices drop.

The 4-year cycle is dead, Long Live the King
Historical bull market durations suggest BTC could be nearing a peak, with the current cycle sitting just 1,051 days past the 2022 bottom, similar to the ~1,060-day expansions seen in previous cycles. However, we firmly reject the outdated four-year cycle framework, arguing that Bitcoin has entered a new structural regime shaped by institutional adoption, ETF integration, and macro policy shifts. Instead, we evaluate risk using a custom set of froth indicators, only two of which, spot/perp divergence and overbought RSI, currently flash warnings, suggesting the market is not yet in an extreme danger zone.

Our house view is clear: the four-year cycle is dead. Past peaks were driven by dreams of institutional adoption; in 2025, that dream is reality. Unlike in 2017 or 2021, today's market includes BlackRock managing $100bn in BTC, Morgan Stanley advising crypto ETF allocations, and a U.S. policy landscape turning increasingly crypto-friendly. The dangerous-looking 1,060-day fractal may stir fear, but this time is fundamentally different. Even if it triggers a sell-off, we believe any correction is a buying opportunity, not a 4-year cycle confirmation.

... but risks of short-term reversals are definitely elevated
The past week marked the strongest BTC accumulation of 2025, with a combined 63,083 BTC added across U.S. ETFs, CME, and perpetual futures, surpassing the previous May record. This surge comes without a clear macro catalyst and is driven by widespread long positioning, as yields rose sharply in both CME and perps. Historically, similar bursts in exposure have often coincided with local tops, and the current setup suggests a temporarily overheated market with elevated risk of short-term consolidation.

By the numbers

BTCUSD $123,748
7d: **8%**
30d: **11%**

ETHUSD $4,696
7d: **11%**
30d: **8%**

Open Interest (BTC futures and perps)
$66.3bn
538,000 BTC (**5.9%** last seven days)

Average daily BTC spot volume
$4.7bn (**56%** last seven days)

BTC 90-d correlations (Weekly change included)

ETH	Gold	S&P 500	DXY
0.74 (0.00)	0.04 (0.03)	0.44 (-0.02)	-0.15 (-0.04)

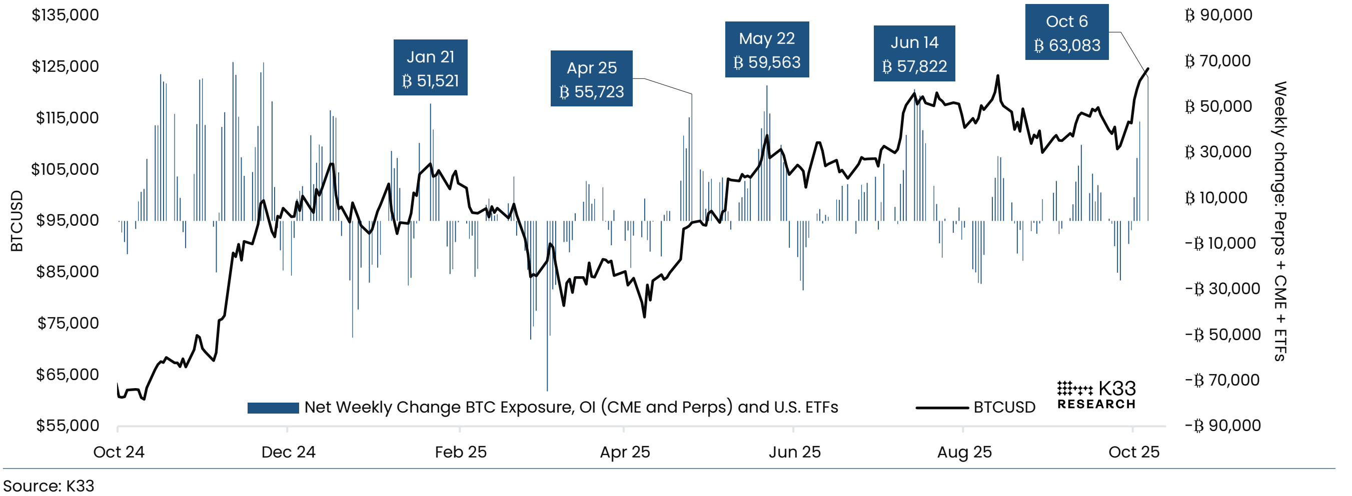
Percentage of Total Market Capitalization
One week change in percentage points

BTC	ETH	Stablecoins	Rest
58.4% (0.3%)	13.0% (0.1%)	6.0% (-0.3%)	22.6% (0%)

Last week of top 50 by market cap

	Ticker	7d	YTD
Gainers			
1	BNB	30%	87%
2	MNT	26%	81%
3	APT	25%	-40%
Losers			
1	WLFI	-5%	0%
2	AVAX	-1%	-18%
3	LEO	1%	7%

Figure 1: Combined Change in Notional BTC Exposure, Perps and Future OI + ETFs

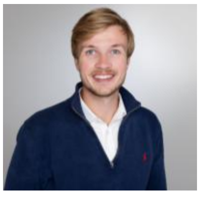


Source: K33

Digital Assets

October Outlook

Long live the King
October Outlook



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

While BTC shows signs of short-term overheating, the structural backdrop is radically different from prior cycles. The classic 4-year halving cycle playbook no longer applies in a world where institutional adoption has evolved from dreams into reality.

Modestly sidelined

I've been cautious since the August peak. In mid-August, I moved partly into cash and gradually rotated some of that cash back into BTC and SOL. Yet, I still have cash on the fence, as I am not particularly fond of everything I've seen in the market over the past month.

My caution has rational explanations. Notional perp open interest in BTC has been, and currently is at, yearly highs. Activity in other parts of the market has been hollow. A U.S. government shutdown and the Asian Holiday season could've further weakened liquidity. The market structure we saw one week ago typically invites violent squeezes, and such regimes typically favor cautious positioning.

Instead, we got a good old-fashioned sticky rally of relentless gains and ATHs. Exposure outside of perps faced a sudden, but enormous expansion, seemingly out of nowhere, with no distinct catalyst. And here I am, slightly sidelined, arguing that the recent expansion shows signs of overheating.

Why SOL?

Altcoin ETFs are coming. When depends on the length of the U.S. government shutdown, but they will come for more than a dozen altcoins once Uncle Sam resumes business. Many altcoins will fight for attention once ETFs go live, but none are as well-positioned as SOL. Solana is distinct in its lack of Grayscale overhang and distinct in its active user base. With no Grayscale hostages seeking to sell, and a nice narrative to cling to an ETF release, the stars align for a strong SOL response following the inevitable ETF launch.

Overheated in the near term

BTC accumulation, either through ETFs or derivatives, has suddenly exploded. The weekly growth in exposure across ETFs, CME, and perps is currently at a 2025 high. Throughout the year, consolidation and a mean reversion have typically followed such explosive spikes.

BTC's underperformance in Q3 2025 against equities and gold may have triggered a structural rebalancing. Advisory-driven allocations to BTC are gaining traction, with Morgan Stanley recently guiding toward a 0–4% crypto exposure depending on risk profile, echoing similar moves by other institutions. Such rebalancing flows can materially impact markets. When BTC lags, it's rebought to maintain target weights in portfolios with quarterly rebalancing mandates. This structural bid can fuel rallies following relatively weak quarters like Q3.

When such rotations occur in low-liquidity conditions, the flows may reignite momentum, drawing in fresh demand and setting off a reflexive loop, potentially explaining the sharp move we've just seen. Given how one-sided the recent surge has been, I expect a mild pullback and see no urgency to redeploy sidelined capital at these levels, but I will seek to regain full allocation through any material dip, as I adamantly oppose the idea of a new 4-year cycle repeat.

The 4-year cycle is dead, Long Live the King

Fractals of past cycle patterns point toward an imminent global peak in BTC. While visually compelling, these fractals fail to account for how BTC has entered a completely different regime now compared to past peaks. This is a bold statement, but this time is different.

The 2017 cycle peaked alongside a ***dream*** of an institutional frenzy from the launch of CME futures. The 2021 cycle peaked alongside a ***dream*** of an institutional frenzy from the launch of BTC ETFs, a dream shattered by an arbitrary and capricious SEC denial. In 2025, dreams have become reality. Bitcoin **is** a material part of the global institutional market.

This time is indeed different

BlackRock did not manage $100bn worth of BTC and Morgan Stanley did not guide advisors to recommend allocations in crypto ETFs at the peak in 2021 or 2017. The SEC and CFTC were not working together on a crypto-friendly approach. The U.S. president did not sign executive orders aiming to expand the $9tn suite of 401(k) plans to include cryptocurrencies within the next half-year, neither had any President launched a Strategic Bitcoin Reserve.

During the 2021 climax, tighter monetary policy and expected post-COVID sobriety coincided with the peak. In 2026, Trump is expected to replace Jerome Powell with a rate-cutting marionette, putting out the fire from the expansionary Big Beautiful Bill with gasoline. Abundance, rather than restrictive austerity, is on the books, a setup clearly favoring scarce assets like bitcoin.

What we have left is the dangerous-looking fractal, a scary reminder that BTC usually tops around 1,060 days after it bottoms. A simple chart, stripped of substance, but so scary-looking that some may act on it. And if they do, and a sell-off emerges mid- to late October, I would be more than comfortable with spending what I have left on the fence on BTC, as nothing points toward another repeat of the dreaded 4-year cycle.

Spot Market

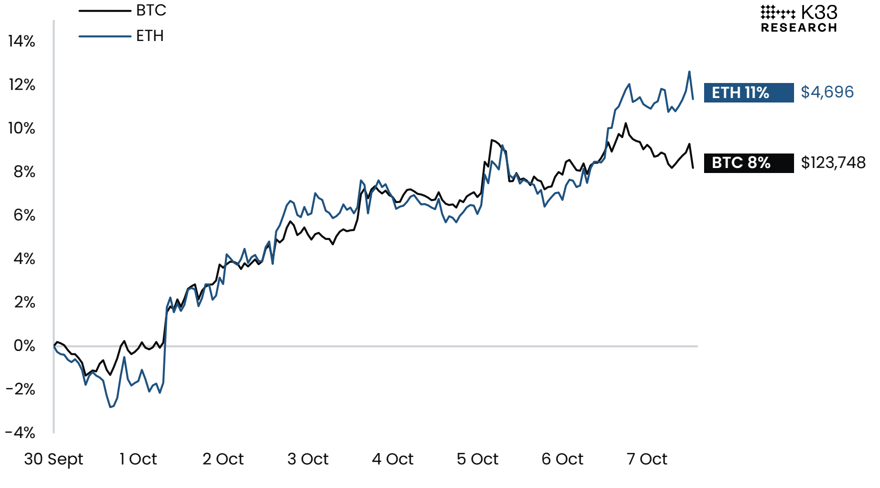
All-time highs, even in European terms
Bitcoin pushed to new all-time highs this week measured in both USD and EUR. This marks BTC's first euro all-time high since January 20, 2025 as parts of BTC's yearly strength in 2025 stem from broad dollar weakening.

The rally has emerged from back-to-back consistent days of gains, with BTC seeing a weekly gain of 8%, despite modest rolling 7-day volatilities of 1.4%. Amidst the momentum, exposure has surged in derivatives in ETFs, an observation pointing toward a mildly overheated market in the near term.

ETH has mirrored BTC closely over the past week but has seen a moderate hint of outperformance during the Tuesday session following subtle tendencies of BTC plateauing. ETH ETFs may face elevated enthusiasm onwards as Grayscale has added staking to its ETH products. Beyond ETH, other altcoins are well positioned to face enthusiasm onwards as plenty of ETF launches are expected once the U.S. government shutdown ends.

On October 1, Morgan Stanley's Global Investment Committee (GIC) recommended capping cryptocurrency exposure at up to 4% in its most aggressive client portfolios. GIC advises 16,000 financial professionals overseeing $2 trillion in assets, marking this as a major development, both in terms of potential market impact and as further validation of Bitcoin's growing institutional adoption.

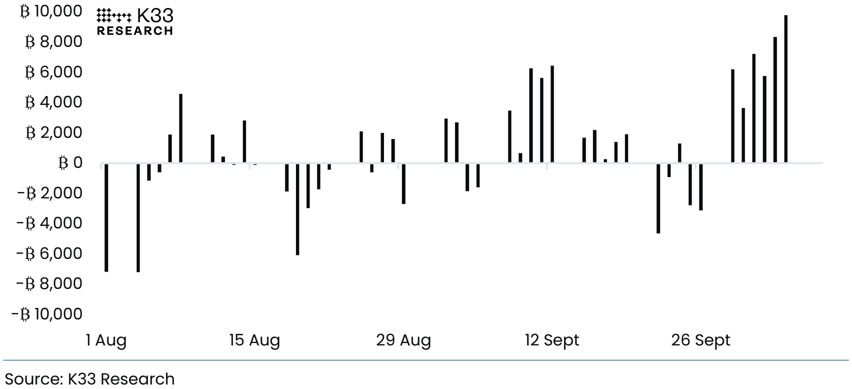
Figure 2: Last week's Performance BTC and ETH



Source: Tradingview, (Coinbase, Binance)

ETP flows from 0 to 100
The past week saw BTC ETPs add 34,741 BTC, marking the strongest notional ETP flow since April 28. The weekly flow is even more remarkable in USD terms, with $3.9bn flowing into U.S. BTC ETFs alone over the past week, the second-strongest weekly BTC ETF flow ever, second only to the post-election surge in mid-November. IBIT is closing in on $100bn in AUM and has become BlackRock's most profitable ETF, per Eric Balchunas.

Figure 3: Daily Global Net BTC ETP Flows



Source: K33 Research

Headlines last week

Morgan Stanley sets 4% crypto cap for 'opportunistic' portfolios

Grayscale enables staking for its spot Ethereum ETFs in the US

S&P Global to launch first hybrid index combining cryptocurrencies and crypto-related stocks

Coinbase pursues OCC federal charter as it looks to bolster innovation between crypto and tradfi

BNY Mellon weighs tokenized deposits to address legacy payment constraints

NYSE parent firm ICE to invest $2 billion in Polymarket's prediction platform

Calendar

Wednesday, Oct 8
- FOMC Minutes

Friday, Oct 10
- U.S. Unemployment Rate (Exp: 4.3%)

Oct 1- Oct 8:
Chinese Banking Holiday.

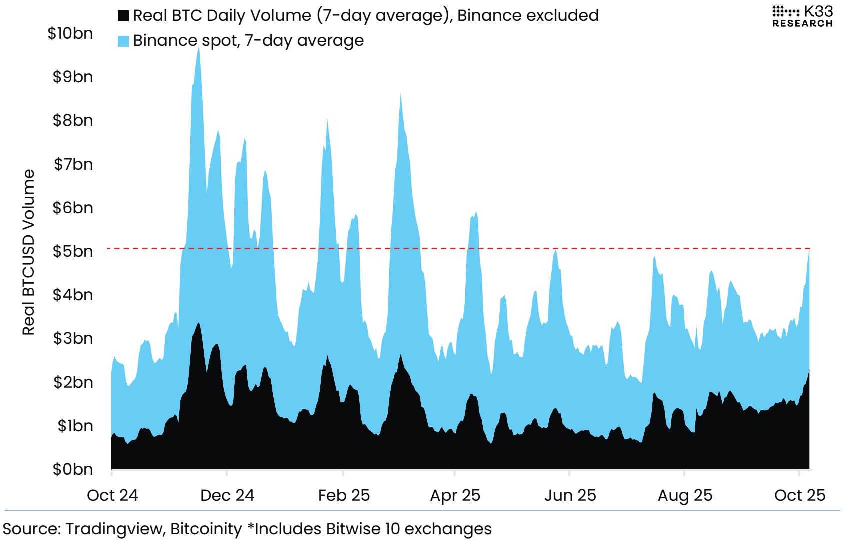
Oct 3- Oct 9:
South Korean Banking Holiday.

Spot Market

Momentum backed by strong volumes
Bitcoin's steady lift-off has coincided with consistent elevated spot volumes. BTC spot volumes have jumped to 6-month highs with average daily volumes reaching $4.7bn over the past week.

Massive ETF flows and strong spot demand have enabled BTC's push higher, whereas all-time highs reactivate sellers, lifting volumes following a prolonged period of idle consolidation.

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

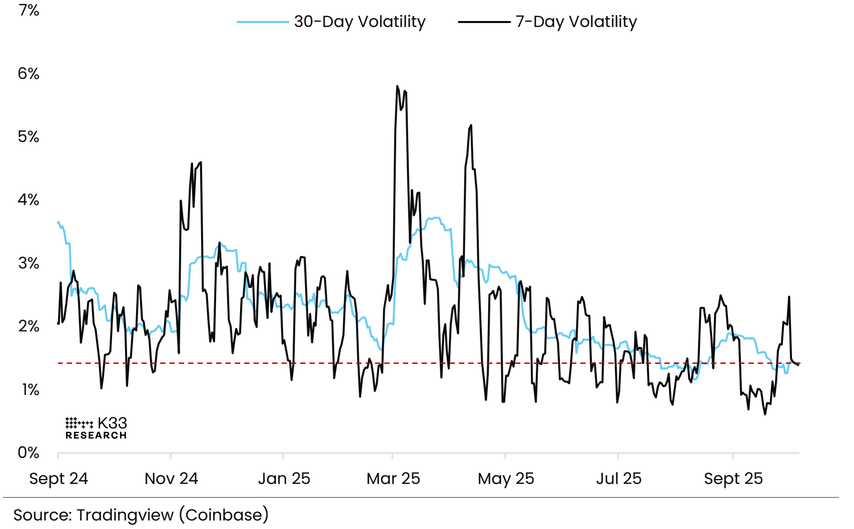


Source: Tradingview, Bitcoinity *Includes Bitwise 10 exchanges

Strong growth during soft volatility
While bitcoin has experienced a remarkable rally this week, volatility has compressed following consistent back-to-back days of mild gains. 7-day volatility has declined toward 1.4%, and 30-day volatility remains near yearly lows at 1.4%.

It's unusual to see volatility narrow amidst such a strong rally, and it reflects the steady nature of this leg higher, in contrast to BTC's typical breakout structures.

Figure 5: BTC-USD Volatility



Source: Tradingview (Coinbase)

Fear and Greed

Now: 70 (Greed)
Last week: 50 (Neutral)
Last month: 44 (Fear)

Derivatives
CME, Futures and ETFs

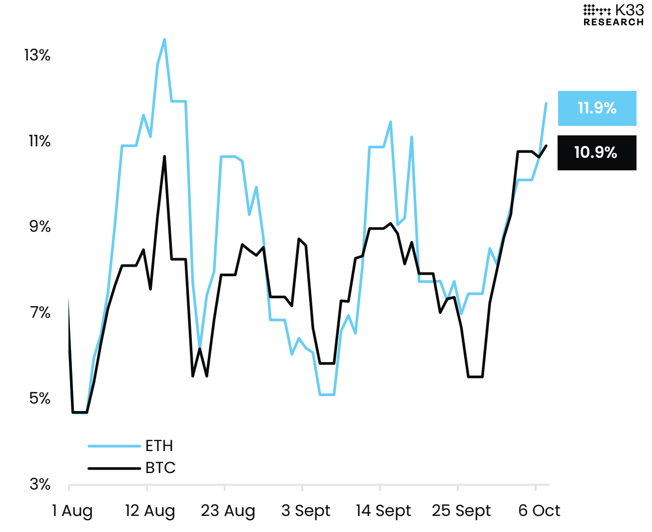
Activity is surging higher on CME. Open interest has quickly returned to September highs, whereas futures premiums have pushed to 3-month highs.

CME's BTC futures saw notional OI grow by 14,830 BTC over the past week. This marks the biggest 5-day growth since Jan 21. While the growth, seen in isolation, is massive, we emphasize that the burst in exposure emerged from an unusually passive environment, as OI hovered at 15-month lows one week ago. CME OI is currently 44,945 BTC below it's Jan 21 high of 192,780 BTC, with overall exposure staying comparatively modest.

Low exposure in VolatilityShares compared to early January remains the primary explanation for the soft OI. BITX has seen increased activity, with its exposure climbing to two-month highs of 45,385 BTC, still well below its Jan 21 level of 72,300 BTC.

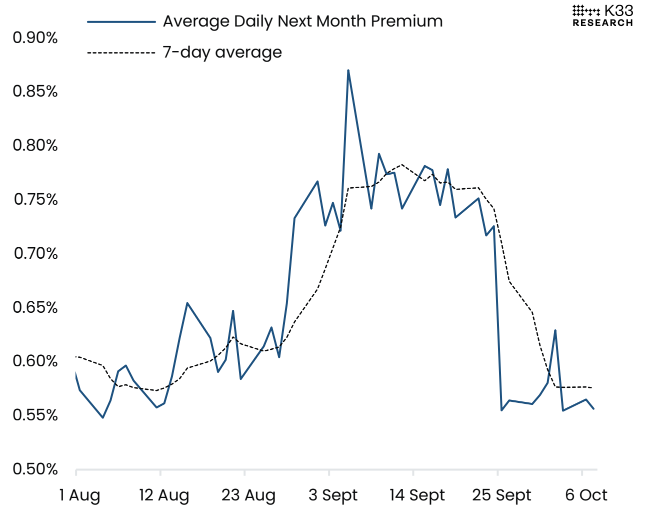
The annualized futures basis on CME has pushed above 10% amidst the rally, reaching highs not seen since July 15, as the jump in OI has been driven by long aggression. ETH futures maintain a mild premium to BTC. While front-month premiums soar, activity remains tame in the November contract, with the daily next-month premium hovering at August lows throughout the week.

Figure 6: BTC basis at highest level since July 15
CME BTC and ETH Futures Annualized Rolling 1mth Basis



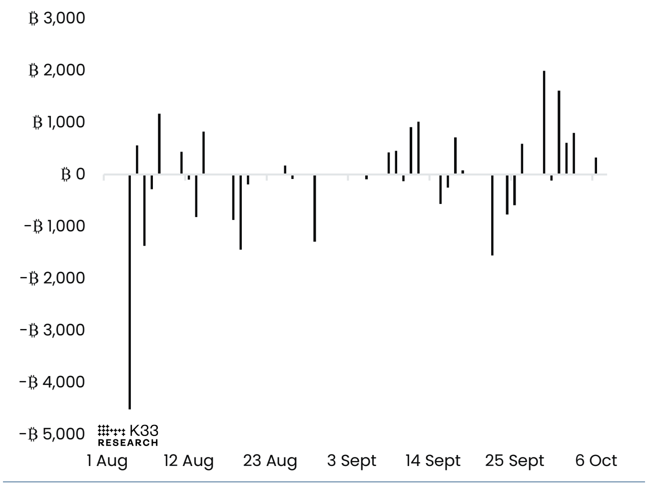
Source: Tradingview

Figure 7: Long activity concentrated in October contract
CME BTC Futures: Average Daily Next Month Premium



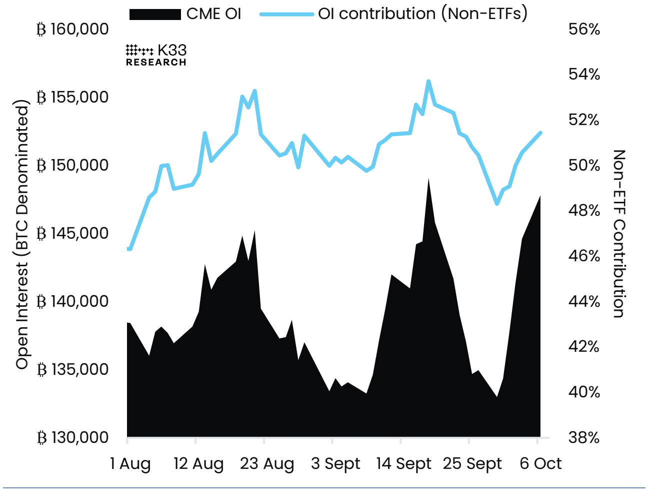
Source: Tradingview

Figure 8: Steady inflows to futures-based ETFs
Futures-based ETFs: Net Flow – BTC Equivalent



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

Figure 9: CME OI sees largest 5-day growth since January 21st
CME BTC Futures: Open Interest



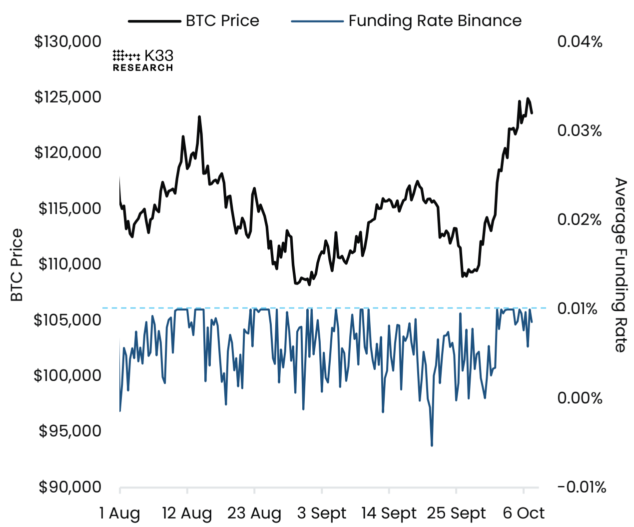
Source: CME, ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

Derivatives
Perpetual Swaps and Options

Perpetual swaps

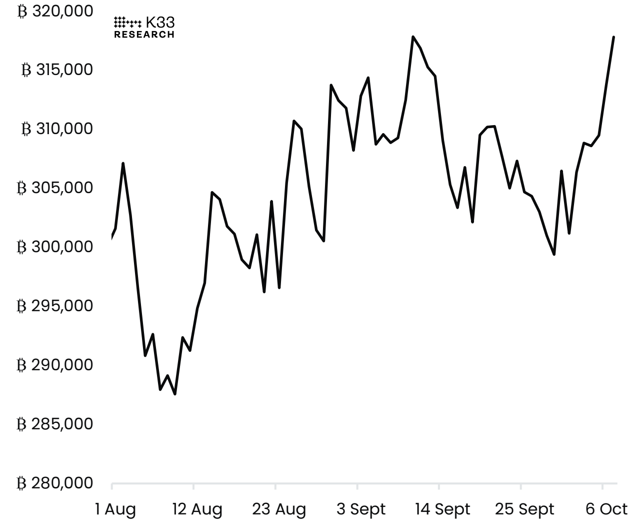
Surging leverage accompanies this week's rally. Open interest has risen by 16,642 BTC in perps over the past week, the largest 7-day increase in OI since July 17. The growth emerged from an already elevated open interest, leading OI to return to the yearly highs from mid-September. Amidst the growth, funding rates have climbed, with 7-day average annualized funding rates pushing to 8.98%, the highest level since August 17. This week's directional aggression has originated from longs, and with elevated leverage, risks for long squeezes should lower prices be tagged are considerable.

Figure 10: Funding rates turns neutral
Bitcoin Perpetuals: Funding Rates vs BTC Price



Source: Binance, Laevitas

Figure 11: OI returns to yearly highs
Bitcoin Perpetuals: Open Interest

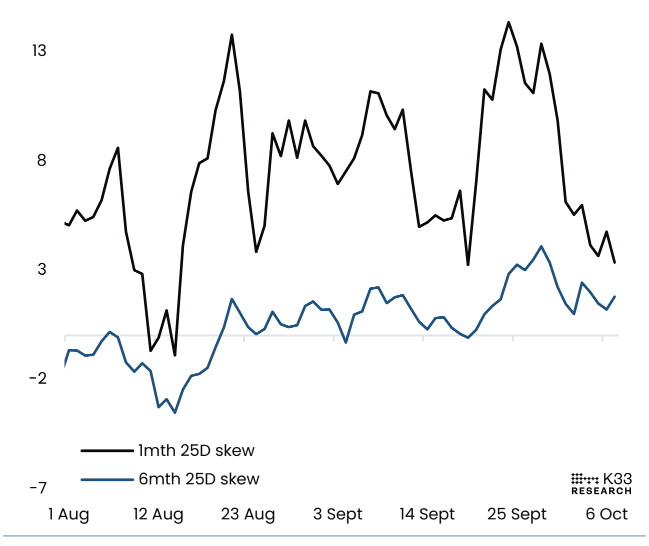


Source: Laevitas

Options

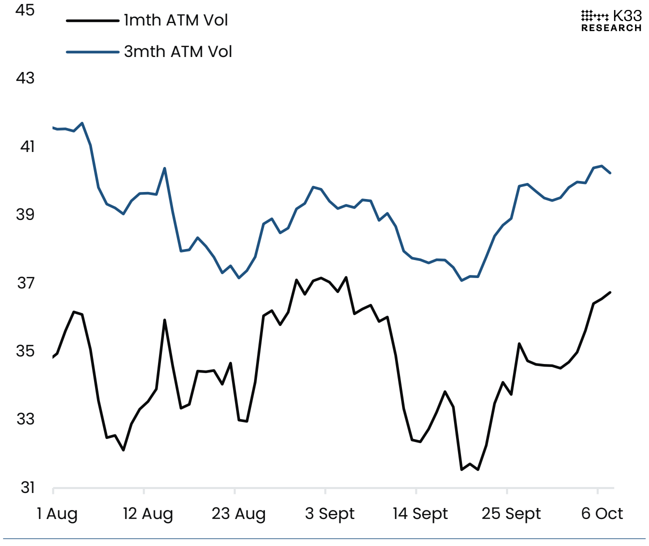
Skews remain modestly positive despite the consistent momentum in BTC over the past week, albeit with shorter tenors seeing a markedly improved sentiment compared to September as skews have approached 2-month lows.

Figure 12: Narrowing, but still positive skews
BTC Options - 25D Skew (1mth + 6mth)



Source: Laevitas

Figure 13: Implied volatility climbs higher
BTC Options – Implied Volatility

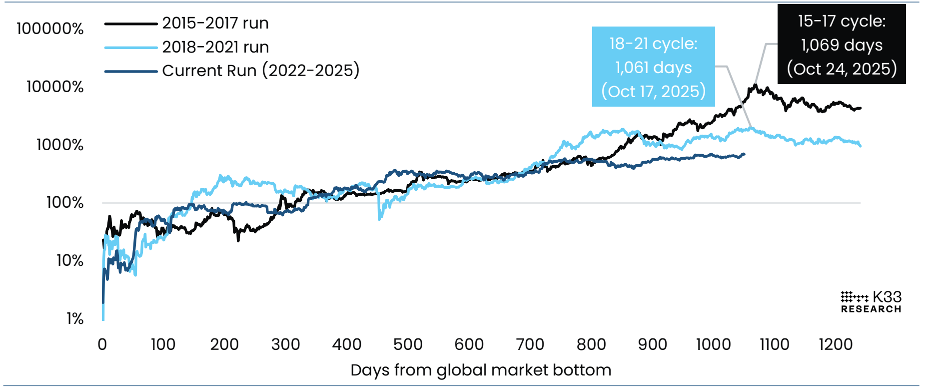


Source: Laevitas

A deeper dive
Peaking in October?

Past bull runs sheds a mildly alarming perspective on BTC onwards. From BTC's global market bottom in 2015 and 2018, BTC saw 1,069 days and 1,061 days of expansion until a global peak was reached. We are currently 1,051 days from BTC's global bottom on November 21, 2022. If the pattern holds firm this time around, a peak could be near. That said, we do not believe in the four-year cycle framework, structural shifts such as ETFs, regulation, and sovereign adoption, have diminished the halving's influence and reshaped bitcoin's market dynamics.

Figure 14: BTC, from cycle bottom to cycle peak. 2025 Equivalent Duration in parenthesis.



Source: Tradingview

Fractals are lazy. Let's assess indicators.
Instead of following past fractals, we aim to assess the current state of the market through a superset of market risk factors. Of course, the data we choose has a selection bias, in that we opt for froth indicators that have coincided with past peaks. Nonetheless, by examining a combination of time-weighted moving averages and concrete binary observations, we can form an informed view on the risks in the market.

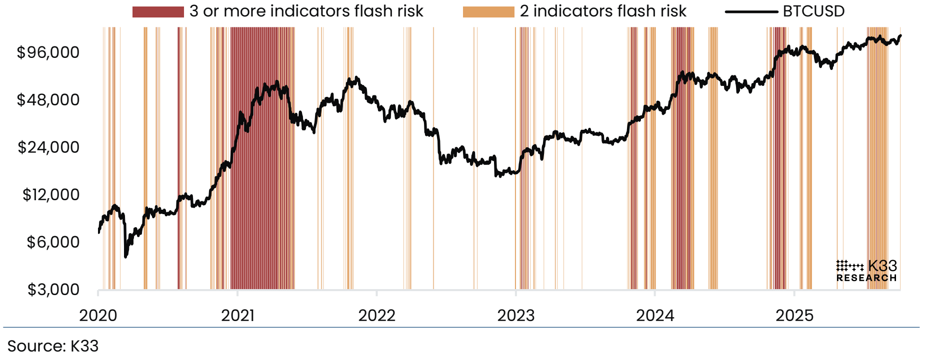
We have assessed the following indicators in a combined framework
1) Has more than more than 60% of the last 30 days seen TOTAL 2 outperform BTC? Current: *No.*
2) Are funding rates above the 95 percentile? Current: *No.*
3) Is the daily volume weighted perp price above the volume weighted spot price? Current: **Yes.**
4) Google Trend Social Spike, Material "Buy bitcoin" surge. Current: *No.*
5) Is the 3mth change in 1y active supply spiking above the 10y 75 percentile level? Current: *No.*
6) Is daily RSI overbought. Current: **Yes**.

Currently, two out of six indicators are in an area we would classify as "the danger zone". Typical froth indicators such as abnormally high funding rates, social volume, excess supply distribution, and altcoin accelerations remain soft.

This framework is not the holy grail when deciding when to de-risk in BTC. All market peaks, except for November 2021, saw three or more indicators flash high risk. If you waited for more froth to emerge, you would've maintained exposure through a 1-year 75% drawdown. Other periods, such as Q1 2021 and Q1 2024, saw a lasting and strong rally throughout a 2-4-month-long "danger zone" period. If you sold early here, you missed out on some of the most material gains in BTC over the past 5 years.

Still, the framework offers perspective on whether the market is entering unhealthy levels of froth. For now, with only two time-sensitive components flashing red, BTC's health is not alarming. Still, as we highlight on the next page, the extreme surge in exposure over the past week point toward a temporarily overheated market.

Figure 15: Cumulative BTC Returns by Trading Session, 2025



Source: K33

A deeper dive

Yearly high 1-week growth in BTC exposure

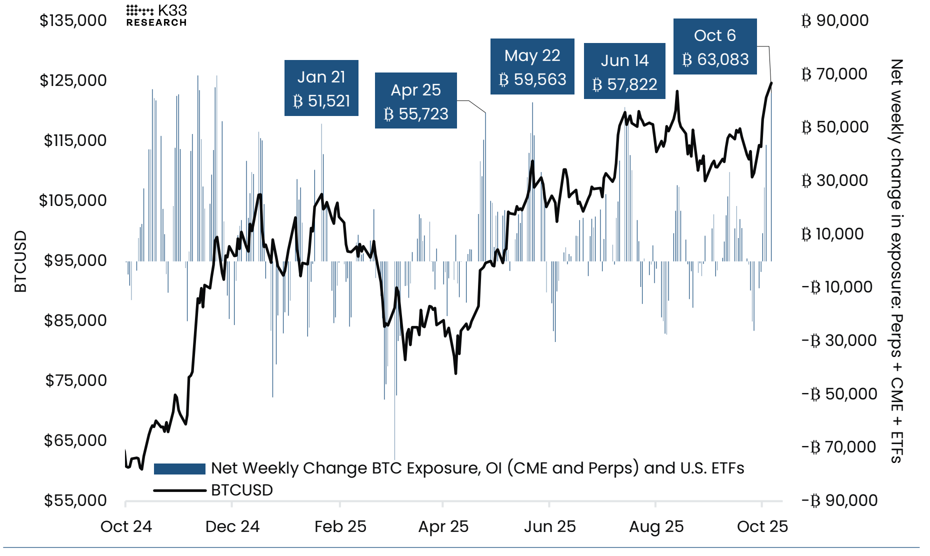
The past seven days mark the strongest seven-day accumulation of BTC in 2025, as assessed through derivatives and ETFs. We combine open interest changes on CME and in perps with ETF flows to assess relative weekly exposure expansion.

U.S. ETF exposure surged by 31,610 BTC, notional OI in perps grew by 16,643 BTC, and CME OI grew by 14,830 BTC. Combined, the three have seen exposure grow by 63,083 BTC in the last week. This marks the sharpest exposure spike in 2025, with May 22 seeing the past record of 59,563 BTC.

Such aggressive bursts in exposure have typically coincided with local highs in 2025, with the April burst marking an exception, as illustrated in Figure 16. It's worth noting that the spike in April emerged after two months of consistent sharp decline in exposure, in contrast to the other expansions throughout the year, and the September decline is dwarfed in comparison.

Q4, 2024, highlights a different trend. Throughout Q4 last year, exposure across these products grew massively week over week. The catalyst behind this steady surge was the U.S. election, with the market positioning for a markedly more crypto-friendly U.S. administration. Any single catalyst of similar proportions does not accompany the recent spike.

Figure 16: Combined Change in Notional BTC Exposure, Perps and Future OI + ETFs



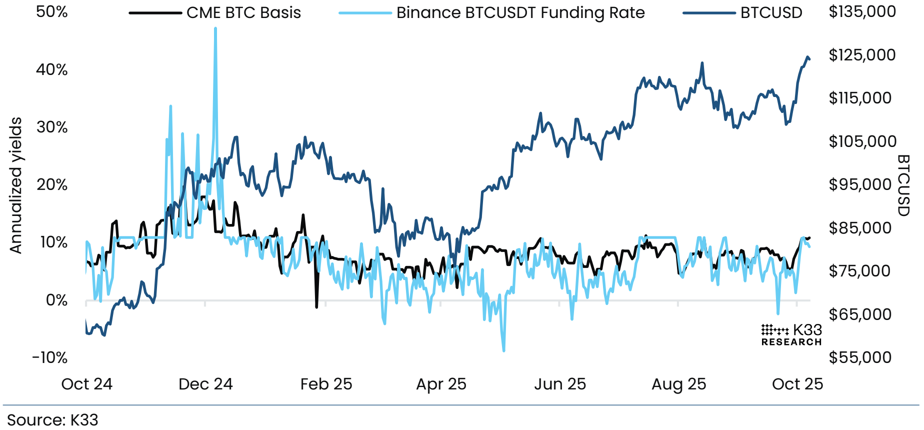
Source: K33

Longs entering, both on CME and in perps

The current risk appetite regime shows a significantly broader long bias compared to April. Back then, during the expansion in exposure, perpetual futures traded at negative yields while CME futures saw rising yields. This week, however, both instruments are showing strong signs of long demand, with yields increasing sharply across the board.

Concentrated long demand, and a rally based on no obvious catalyst, point toward a temporary overheated market, increasing the likelihood of a short-term reversal and consolidation ahead.

Figure 17: Annualized CME BTC Futures Yield and Binance BTCUSDT Funding Rate

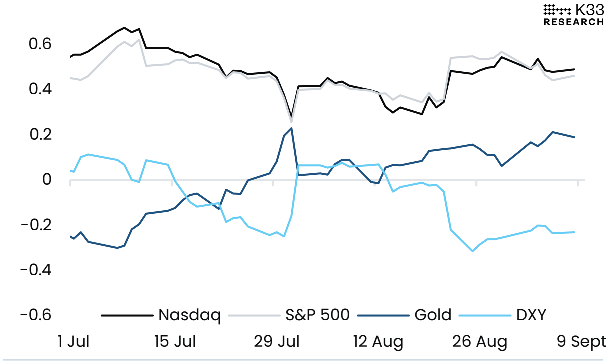


Source: K33

Market Related Charts

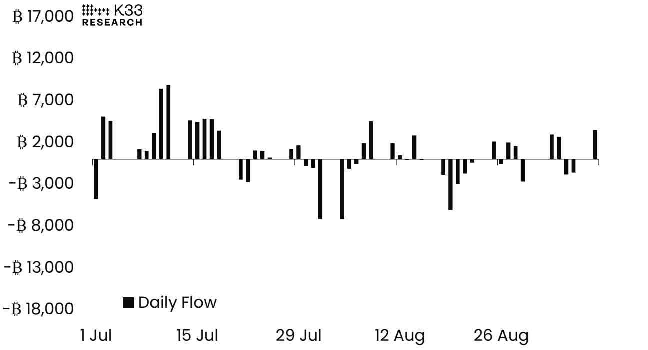
Data updated Tuesday, October 7, 2025

Figure 19: BTC 30-d correlations*



Source: Tradingview *Pearson

Figure 20: Daily Flows (BTC ETFs)



Source: K33 Research

Figure 21: BTC Dominance

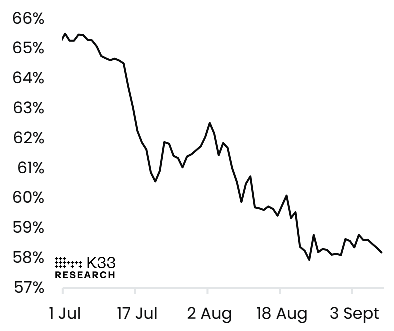


Figure 22: BTC + Stables Dominance

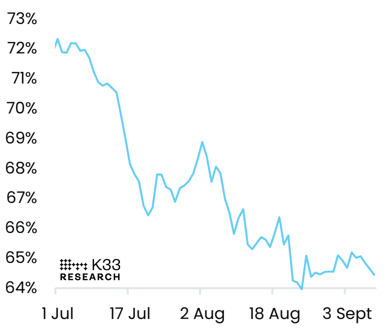
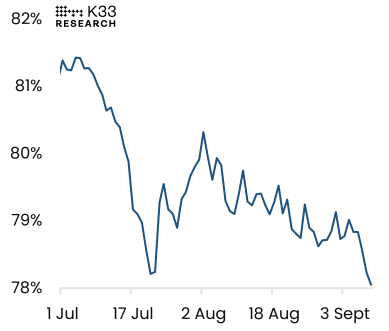
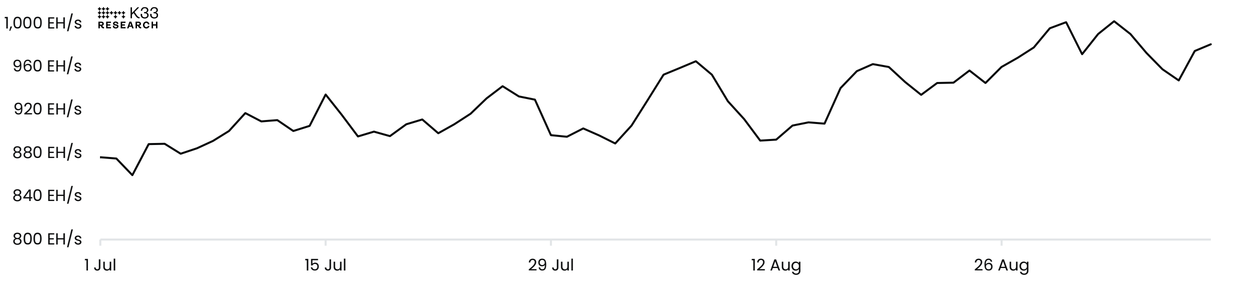


Figure 23: BTC + Stables + ETH Dominance



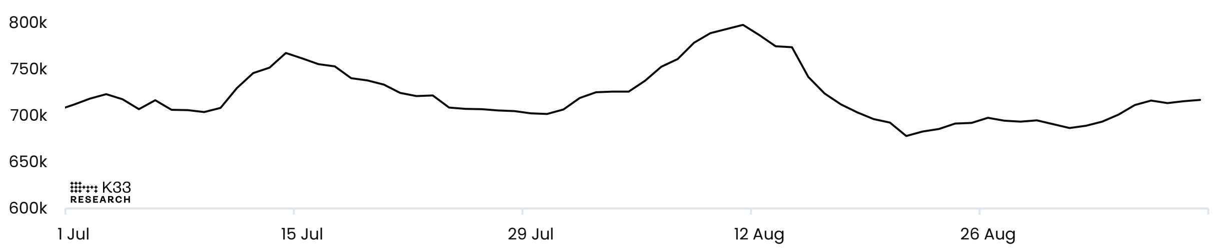
Source: Tradingview

Figure 24: Bitcoin Hashrate (7-day average)



Source: Coinmetrics

Figure 25: Active Addresses (7-day average)



Source: Coinmetrics

Why we choose the charts we do

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

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

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

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

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

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

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

Spot Primer

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

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

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

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

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

Derivatives primer

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

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

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

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

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

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

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

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

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

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

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

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- K33 Research is a department within K33 Operations AS, org. 994 608 673, and can be contacted at research@k33com or bendik@k33.com