

Weekly Hot Take

Mt. Gox Repayment:
A Catalyst For Long BTC Short BCH Pair Trade?



July 2, 2024

Summary

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- The Mt. Gox's Rehabilitation Trustee plans to distribute multi-billion dollars worth of BTCs and BCHs to the Mt. Gox creditors between July 1st and October 31st, 2024. This can create a shift in supply/demand dynamics in BTC and BCH during this 4 months period, potentially opening up a pair trading opportunity.
- Our analysis shows that the selling pressure for BCH will be four times larger than for BTC - i.e. 24% of the daily trading value for BCH vs. 6% of the daily trading value for BTC. The assumptions are: 1) for BTC, only a fraction will be sold, given that the creditors are mostly 'diamond-handed' wealthy Bitcoiners; 2) for BCH, 100% will be sold in the near term, given its much weaker investor base.
- Long BTC perpetuals paired with short BCH perpetuals is the most efficient market-neutral way to express this view, barring funding rate risk. Those looking to lock in a funding rate can explore other approaches, such as shorting term futures or borrowing BCH in the spot market.

Figure 1: BTC/BCH Ratio Trending Up

Source: TradingView, Presto Research



Introduction

The “Notice regarding Commencement of Repayments in Bitcoin and Bitcoin Cash” from the Mt. Gox’s Rehabilitation Trustee on June 24th made it clear that the repayment for the Mt. Gox creditors who opted for the so-called ‘Early Lump Sum Payment (explained below)’ will take place between July 1st and October 31st, 2024. This creates a shift in supply/demand dynamics in BTC and BCH during the 4 months period, potentially opening up a pair trading opportunity. This report will examine this in detail.

The Mt. Gox’s Civil Rehabilitation Plan: Quick & Dirty

Mt. Gox was once the world’s biggest Bitcoin exchange, until it closed in early 2014 after losing nearly 1mn BTCs held by customers. Some of the holdings have subsequently been found. The trustee is working to reimburse creditors under the Civil Rehabilitation Plan.

Under the Plan, Mt. Gox creditors have the option to be compensated ‘early’ with a small haircut based on the assets recovered thus far, rather than wait for the ‘full recovery.’ This option is commonly referred to as ‘Early Lump-Sum Payment (ELSP)’ and would be the preferred choice for creditors who want certainty of the upfront reimbursement. An alternative is to hold out and hope for further progress in asset recovery while taking the various risks that could eat into the repayment amount, such as the CoinLab lawsuit currently underway. Since outcomes on neither issue are certain and there is no definite timeline, most creditors would prefer an early exit. The highlights of the ELSP are as follows (Figure 2).

Figure 2: The ELSP Details

Source: CoinTelegraph, @intangiblecoins, Presto Research

| | | |
|-------------------------|---|--|
| Recovered Assets | : | 141,868 BTCs, 141,868 BCH, JPY63bn in fiat (\$520mn) |
| Repayment Period | : | July 1st, 2024 through October 31st, 2024 |
| Haircut | : | 10-11% |
| Facilitators | : | BitGo, Kraken, Bitstamp, Bitbank, SBI VC Trade |

The dominant narrative currently is that the multi-billion dollar repayment will flood the supply and lead to a sell-off, as the recipients of the repayment rush to cash out in droves. While such prospects can certainly spook the market, assessing whether it will actually have material impact requires a more careful analysis. Generally speaking, so-called ‘overhang’ risk in any market materializes only when 1) the seller is under time-pressure, or 2) the opportunity cost of holding the asset is perceived to be high. Evaluating these two points for the two assets in question, namely BTC and BCH, one can observe that different dynamics are at play.

Delving Into Mt. Gox Creditors

Our analysis is inspired by [‘X’ thread from Alex Thorn](#), the Head of Research at Galaxy Digital, which provides an excellent framework for thinking through the issue. We have reproduced his table below, supplemented with additional data for clarity.

Figure 3: Analyzing ELSP Repayment

Source: @intangiblecoins, Presto Research

| | Today | At Bankruptcy |
|---------|----------|---------------|
| BTC/USD | \$63,500 | \$451 |
| BCH/USD | \$473 | N.A |

| | BTC/BCH | Asset | USD Value Today |
|--|------------|-------|------------------|
| Lost customer BTC | 940,000 | BTC | \$59,690,000,000 |
| Recovered customer BTC | 141,868 | BTC | \$9,008,618,000 |
| BCH forked/airdropped | 141,868 | BCH | \$67,103,564 |
| % recovered in BTC | 15.09% | | |
| BTC's USD value increase | 14,079.82% | | |
| % recovered in USD (141,868 BTC in USD value today / 940,000 BTC in USD value at bankruptcy) | 2,140.80% | | |
| ELSP haircut | 11% | | |
| Estimated % of recovery taking ELSP | 75% | | |
| BTC sought in | 106,401 | BTC | \$6,756,463,500 |
| BCH sought in ELSP | 106,401 | BCH | \$50,327,673 |
| BTC less 11% haircut | 94,697 | BTC | \$6,013,252,515 |
| BCH less 11% haircut | 94,697 | BCH | \$44,791,629 |
| After ELSP | | | |
| BTC held by claim funds | 20,000 | BTC | \$1,270,000,000 |
| BCH held by claim funds | 20,000 | BCH | \$9,460,000 |
| BTC held by Bitcoinica bankruptcy | 10,000 | BTC | \$635,000,000 |
| BCH held by Bitcoinica bankruptcy | 10,000 | BCH | \$4,730,000 |
| BTC held by individual creditors | 64,697 | BTC | \$4,108,252,515 |
| BCH held by individual creditors | 64,697 | BCH | \$30,601,629 |
| Number of individual creditors | 20,000 | | |
| Ave. BTC per individual creditors | 3.23 | BTC | \$205,413 |
| Ave. BCH per individual creditors | 3.23 | BCH | \$1,530 |

Assessing how the creditors are likely to behave upon receiving repayment requires a closer look at who they are. The table above shows that the two largest cohorts of creditors outside individual creditors are 'claim funds' and Bitcoinica. The claim funds are essentially institutional 'vulture funds' whose purpose is to purchase bankruptcy claims at deep discounts. Fortress Investment Group and Off The Chain Capital are the main players in the Mt. Gox's case. Over the course of the last few years, the claim funds have accumulated sizable BTC claims from distressed sellers, which now represents 20,000 BTC according to Alex's estimate. Bitcoinica is a defunct New Zealand-based Bitcoin exchange which had as much as 10,000 BTC deposits at Mt. Gox.

Alex states in his thread that,

- His analysis assumes 75% of the creditors take the ELSP.
- The claim funds are unlikely to sell immediately as their LPs are comprised of early bitcoiners who are already wealthy and looking to accumulate more at a discount.
- Bitcoinica is unlikely to liquidate their holdings as a defunct exchange going through its own bankruptcy process.
- The current group of individual creditors are likely to be 'diamond-handed,' given they chose to hold onto their claims for ten years, resisting aggressive bidding from the claim funds. Weak-handed creditors had plenty of chances to exit, and they likely have.

Reflecting the above, we have expanded Alex's original analysis by adding assumptions for the portion of the creditors' repayment hitting the market. Specifically, for BTC, we assume only a fraction will be sold for the reasons cited above. For BCH, we assume 100% will be sold in the near term (Figure 4). Considering the Bitcoin Cash fork occurred 3 years after the Mt. Gox bankruptcy, the assumption here is that the Mt. Gox creditors are oblivious to Bitcoin Cash's cause and more likely to treat their BCH payment like any degen traders would do with an airdrop - i.e. immediately cashing out or converting it into BTC. We apply these assumptions to the data in Figure 3 to arrive at the USD value of the likely BTC and BCH liquidations. Against BCH's much smaller trading volume vs. BTC's, the result is much greater selling pressure for BCH than BTC - i.e. 6% of the daily trading value for BTC vs. 24% of the daily trading value for BCH.

Figure 4: BCH's Selling Pressure 4x Greater Than BTC's

Source: @intangiblecoins, Presto Research

| Sale in the market (%) | | |
|-----------------------------------|--------|-----|
| BTC held by claim funds | 0% | |
| BCH held by claim funds | 100% | |
| BTC held by Bitcoinica bankruptcy | 0% | |
| BCH held by Bitcoinica bankruptcy | 100% | |
| BTC held by individual creditors | 10% | |
| BCH held by individual creditors | 100% | |
| Sale in the market (units) | | |
| BTC held by claim funds | 0 | BTC |
| BCH held by claim funds | 20,000 | BCH |
| BTC held by Bitcoinica bankruptcy | 0 | BTC |
| BCH held by Bitcoinica bankruptcy | 10,000 | BCH |
| BTC held by individual creditors | 6,470 | BTC |
| BCH held by individual creditors | 64,697 | BCH |

| | Estimated Total Sales | USD Value | Daily Trading Value (1yr average) | % Daily Trading Value |
|-----|-----------------------|---------------|-----------------------------------|-----------------------|
| BTC | 6,470 | \$410,825,252 | \$6,787,129,080 | 6.1% |
| BCH | 94,697 | \$44,791,629 | \$189,320,907 | 23.7% |

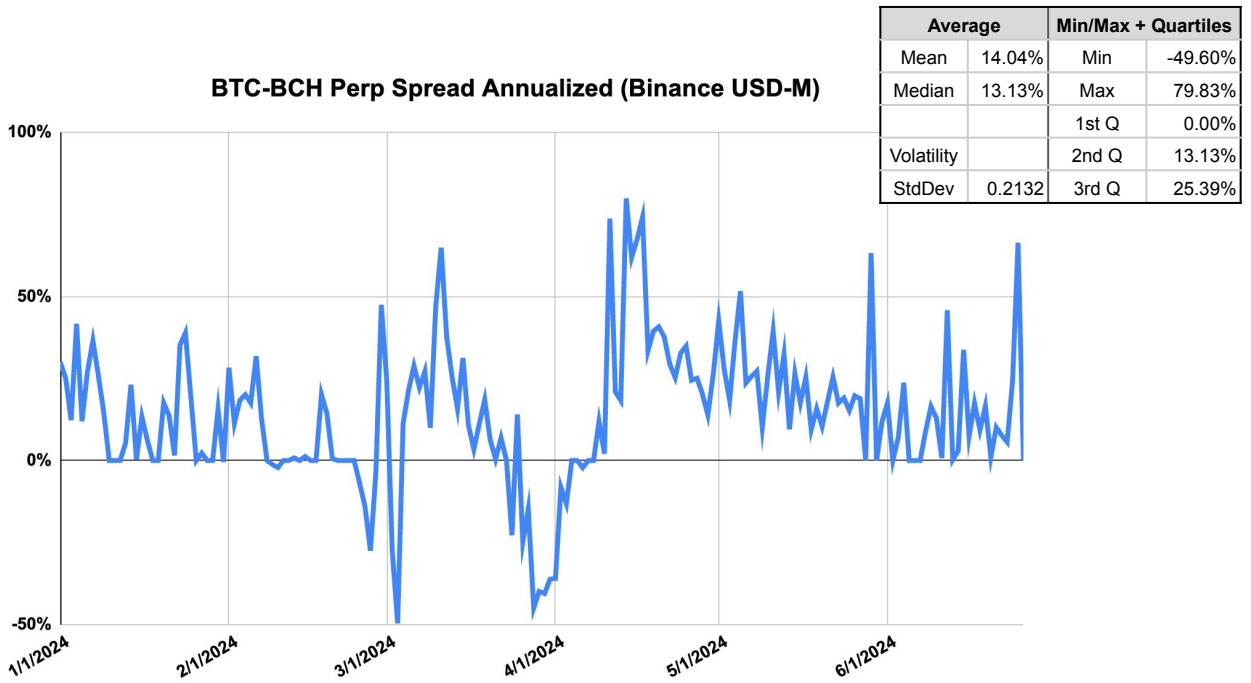
Express Yourself

The best way to capitalize on this asymmetric supply risk in a market-neutral fashion is to go long BTC exposure paired with short BCH exposure. This can be expressed in several different ways but the most efficient would be in a perpetual futures (perps) market. Perps are exposed to the risk of funding rate fluctuations (see [Crypto Derivatives Series I: Futures](#) for more on how the perps market works) but the risk is easily dwarfed by the convenience with which two-sided bets can be quickly established and unwound.

Let's take a look at expressing this trade via Binance USD-M futures for instance. In 2024, the average net annualized funding rate to go long BTCUSDT perps and short BCHUSDT perps has been 13% (Figure 5). If you were to enter this trade for 3 months, the breakeven hurdle would be 3.25%. Given that BTC/BCH ratio is currently at 161, the ratio's move up to the 193 local top (+20% upside) would clear the hurdle rate and generate a 17% market-neutral return net of the funding cost. The ratio's all-time-high was 252 in May 2023.

Figure 5: Funding Cost For The Pair Trade

Source: Binance, Presto Research



Alternatively, those looking to lock in a funding rate can explore other approaches, such as shorting term futures or borrowing the underlying in the spot market. Some exchanges offer trading in BCH/BTC pairs, albeit with low liquidity (Figure 6).

Figure 6: 24hr Volume On BCH/BTC Trading Pair At US\$2.3mn

Source: Binance



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