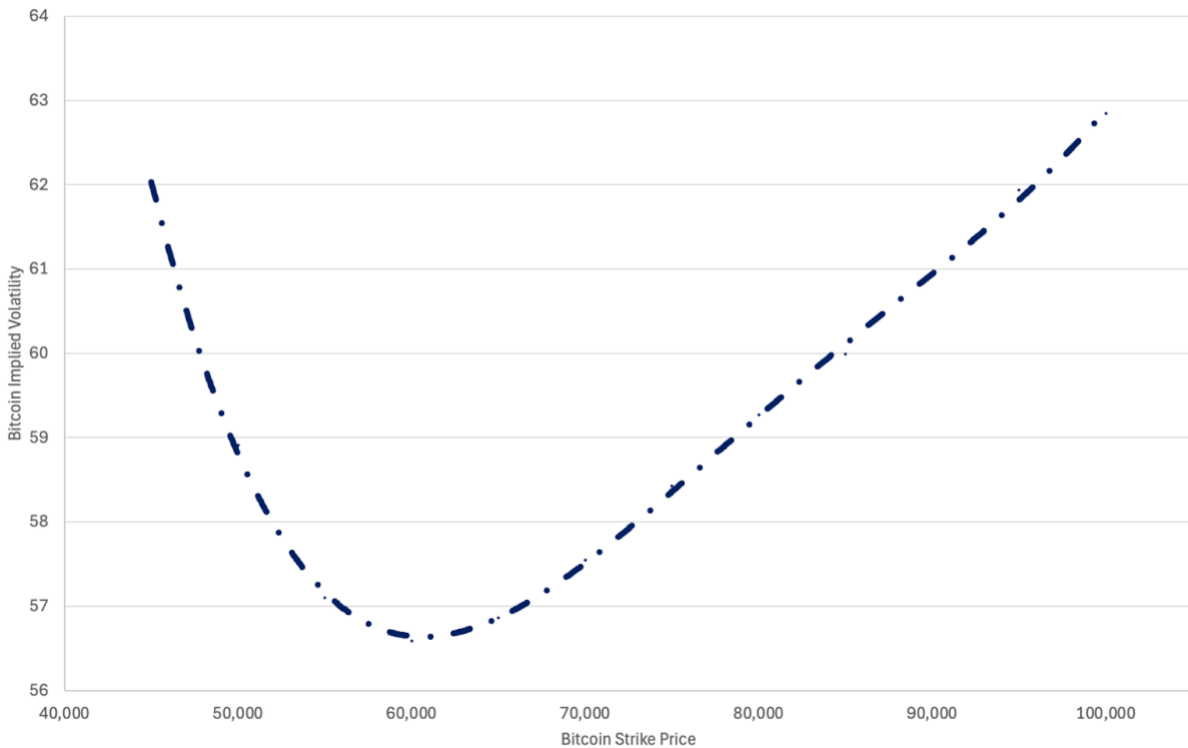


market notes - Options Approved... and BTC Vol Smiles.

Tired of waiting for the next elevator ride upward? Pushing the options button on Bitcoin ETFs won't make the elevator rise any faster, but it opens the door to more dynamic and engaging asset management strategies.

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Figure 1: Bitcoin's Smile — Upside Grin



Source: Amberdata Derivatives. CBAM Calculations. December 27, 2024 expiration. Bitcoin forward reference price \$66,722.48.

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9/27/24 – Marcel Kasumovich, Deputy CIO, Coinbase Asset Management

1. Five floors. It's a simple journey and a privilege to take. Yet, habit and convenience draw me to the elevator every time—before a run and after a workout, even though the stairs would be the perfect cooldown. It's almost absurd how we trust this metal box with zero margin for error, its posted limits—15 people, 1,600 kilograms—more amusing than reassuring. And still, we all find ourselves **jabbing** the call button impatiently—always in a rush to go nowhere.
2. It's the same story of irrational impatience that drives the adoption of crypto technologies. Just as we expect elevators to work with greater speed, finance is

pressured to match our accelerating desires. But the stakes are high when we trust machines to carry us upward—and even higher when we entrust our money to digital networks. This creates tension between bold innovators pushing the limits and cautious regulators holding the line, inching forward.

3. Recent regulatory responses to the options market highlight a contrast —[delaying](#) options trading for Ethereum ETFs while [approving](#) iShares Bitcoin Trust ETF (iBIT). Unlike the broader acceptance of ETFs, iBIT stands out as the only crypto-related ETF approved for options trading. Although this decision didn't attract much attention, it's a big step. Investors can utilize various option strategies to manage Bitcoin exposure with better alignment to investment goals.
4. Size matters in the crypto world, and Bitcoin's growing influence is undeniable. With its current market cap, Bitcoin would rank among the [top ten](#) companies in the S&P 500 alongside giants like Google, Meta, and Berkshire Hathaway. These companies feature robust options markets—options contracts outstanding in Meta alone account for [8.2%](#) of its total [shares](#). Such markets facilitate efficient risk transfer across speculators, arbitrageurs, and investors.
5. Options markets are also rich in detail—trusting in math over rants on X.com. For all market players, evaluating the future hinges on risk-reward— assessing the probability of future outcomes that can be precisely gauged in options pricing. During market downturns, for example, a surge in the implied volatility of put options signals excessive long speculation is driving markets. It also offers a reliable signal of a market bottom.
6. Avoid a narrow, US-centric perspective. Just as the introduction of ETFs indicated growing demand for Bitcoin, the evolution of its options market signals a similar maturation. Bitcoin options have been around since 2015, with Deribit leading the market after [weathering](#) multiple boom-bust cycles. And despite reaching a sizable value of \$21.1 billion, Bitcoin options represent less than 2% of Bitcoin's overall market cap—highlighting significant room for growth.
7. Will the option tail wag the Bitcoin dog? It's the element of drama with Bitcoin options. Those versed in options trading are attentive to the unique features of Bitcoin—volatility rises with prices. This can lead to exposures that force option underwriters to buy more Bitcoin on the way up, a [pattern seen](#) in single-named equities. That reverses sharply when companies respond by issuing more stock, something that cannot happen in Bitcoin.
8. It's possible, but not likely. If the options market were likely to drive Bitcoin prices, we would expect to see a surge in demand for low-probability, high-upside Bitcoin call options. This hasn't happened. And while the options market has the potential to impact Bitcoin prices, its influence may not be as dominant as speculative demand that has

driven boom-busts. After all, supply-side Bitcoin predictions have [failed](#) spectacularly with this year’s reward halving.

9. Equity-option markets reinforce the point. For larger assets like Bitcoin and similar-sized companies, options trading tends to foster a virtuous cycle—increased market liquidity attracts institutional investors, who use these markets to manage risk and generate returns through strategies like selling covered calls. This dynamic supports market stability and growth, unlike the speculative volatility often associated with smaller assets.
10. What is the option market telling us today? Bitcoin volatility is still high by large equity standards. At a one-month rate of [48%](#), it is still [1.8-times](#) higher than the average of the top ten S&P 500 companies, barely [outpacing](#) NVIDIA. Investor expectations are heavily influenced by recent volatility rather than upcoming events. It is indicative of a short-term, myopic focus, less tied to future events like the US election—inviting features for active asset management.
11. Perhaps the biggest lesson from Bitcoin options markets—don’t forget to smile, no matter what life throws at you. Bitcoin options do so with a “cheeky grin” to the upside (Figure 1). It is also a unique feature—usually investors are more worried of assets crashing down than up, paying a premium for downside protection. Options markets are best at identifying the “pain trade.” And until institutional adoption matures, the smile is clear—it’s to the upside,
12. This optimism tells us that, for now, the market is poised for another upward move—just be patient and wait for Bitcoin’s next elevator ride up.

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