



January 11, 2023

GSR OTC Trading Commentary

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GSR OTC Trading Desk

MACRO + CRYPTO SUMMARY

The markets were quiet over the holidays, with the exception of the recent DXY sell off that some attributed to a reversal of year-end window dressing. Yields are slightly softer, and the remainder of the market is rather unremarkable. Investors will now focus on the Fed, where current odds of a 25 bp hike are 78% and the rest for a 50 bps hike. Thursday's US CPI report will be particularly important, and we expect the Fed to remain the main driver of macro themes this quarter.

RATES, FUNDING AND BASIS

The collapse of FTX and BlockFi in Q4 2022 brought the unsecured lending markets to a near standstill as lenders tried to side-step the contagion and protect capital in an increasingly uncertain market. Liquidity dried up across both OTC lending markets and DeFi platforms that facilitate permissioned or permissionless lending.

As we enter 2023, we are starting to see activity gradually pick back up. The reality is that there is on-chain capital that is mandated to earn a yield, and in low-vol directionless markets, lending is one of the few ways to do that, even though principal is at risk. We expect there to be increased due diligence and greater borrower scrutiny as the market slowly comes back to life. It's hard to posit where rates may end up - while one could argue that the risk premium has gone up, the need for cash from borrowers in the current market has gone down.

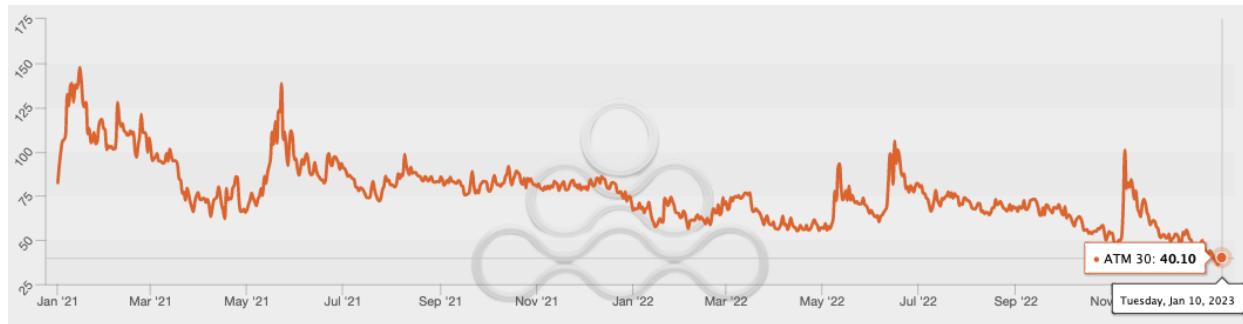
Rates in the traditional markets continue to inch higher, with risk-free rates already in the low 4s and expected to increase further as the Fed continues its hiking campaign. Several firms are looking to introduce T-bills and bonds in an on-chain format that will give on-chain USD capital a way to earn a low-risk yield that is substantially higher than rates at Aave and Compound. This may be a game changer by creating a long needed bridge between traditional assets and on-chain capital, and will likely impact pricing of not only debt in crypto, but also futures and perp funding rates.

DERIVATIVES

BTC Derivatives

BTC implied vol continues to make new all-time lows with 30 day IV currently at 40.1%. Carry, however, remains expensive with 30-day realized vol at 26%. Even with the 2023 rally, realized vol is not picking up, and the 30 day implied versus realized ratio is 1.60.

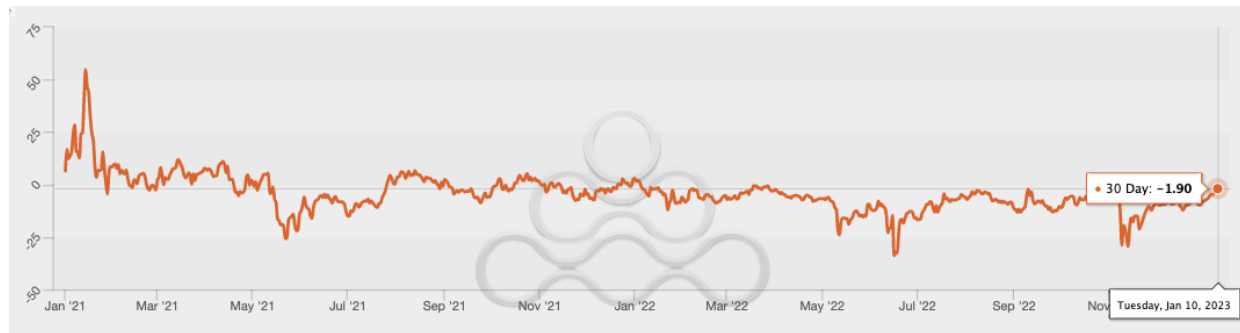
BTC ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

25 delta call skew is firming, now at -1.90. One could conclude with low vol and relatively firm call skew / soft put skew, that puts are quite cheap.

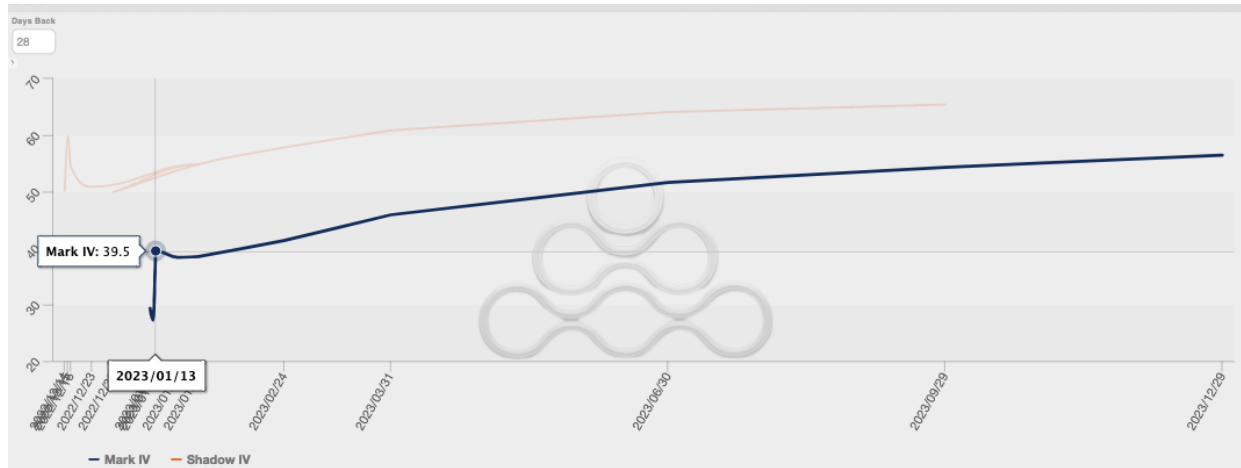
BTC 25 Delta Call Skew (30 Day)



Source: Amberdata, GSR

The current term structure is in contango and compared to 28 days ago, shows a significant drop in the entire vol curve. Note the slight premium in the January 13th expiry, as it covers Thursday's CPI release.

BTC Shadow Term Structure

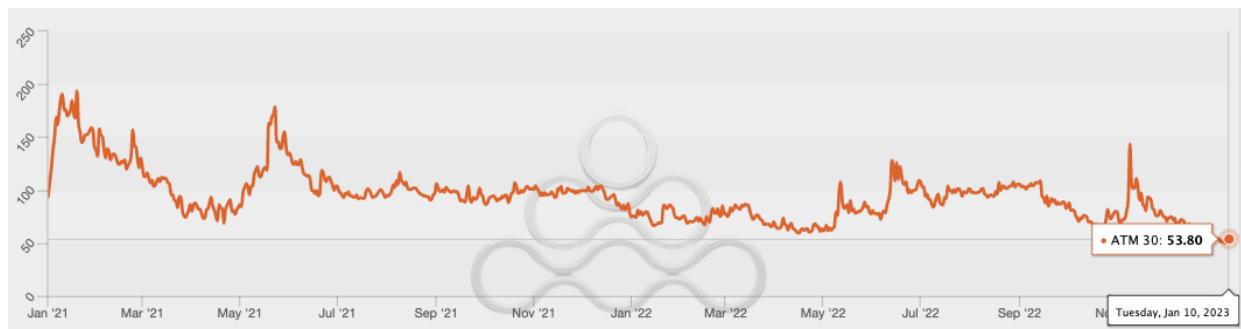


Source: Amberdata, GSR

ETH Derivatives

30 day realized vol for ETH is 42% while implied vol also reached new lows of 53.8%. The 30 day implied versus realized ratio now stands at 1.5.

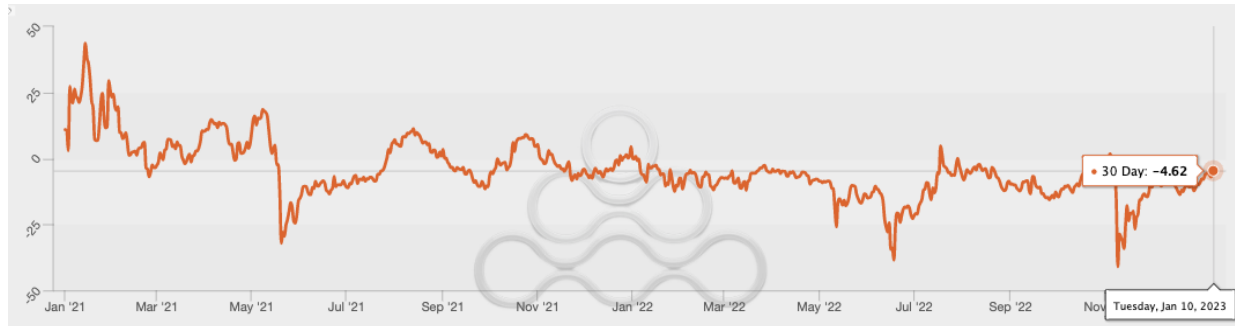
ETH ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

ETH 25 delta call skew is in line with recent trends at -4.6.

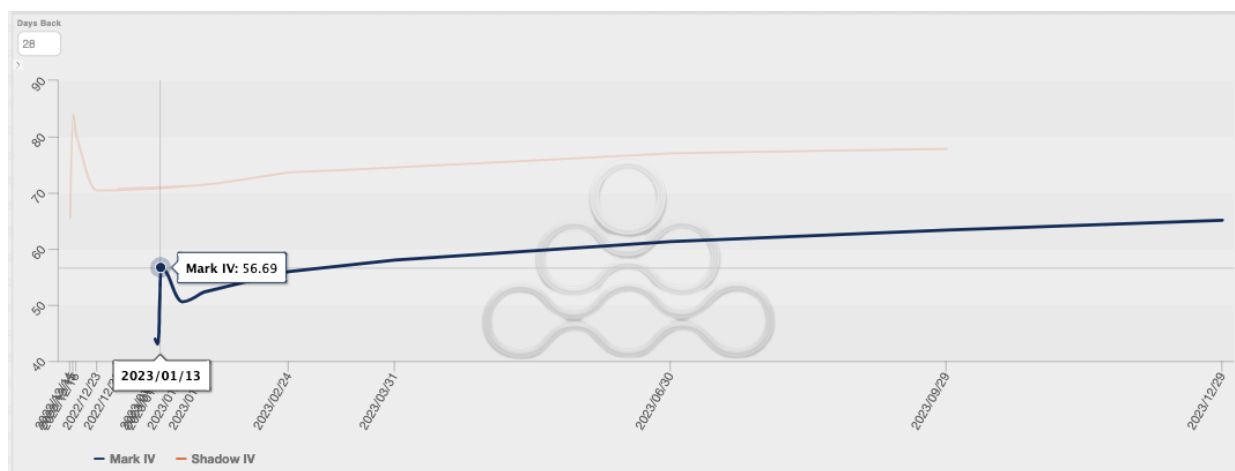
ETH 25 Delta Call Skew (30 Day)



Source: Amberdata, GSR

ETH term structure compared to 28 days ago also shows a significant drop in vol across the curve, with the January 13th tenor at a premium.

ETH Shadow Term Structure

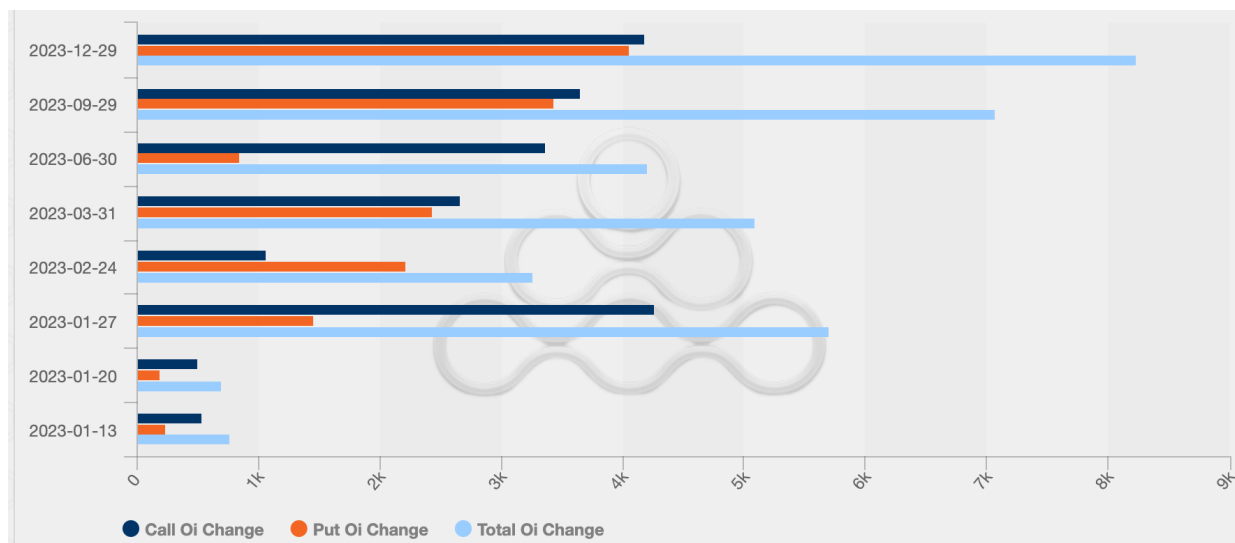


Source: Amberdata, GSR

FLOWS AND LIQUIDATIONS

2022 ended with one of the largest option expiries in recent times with over \$2.3b in BTC and ETH options expiring on December 30th. The change in open interest by expiration for BTC shows the December 29th 2023 expiry as having the largest increase in open interest, with balanced sentiment between calls and puts. Short dated expiries show call open interest outweighing puts.

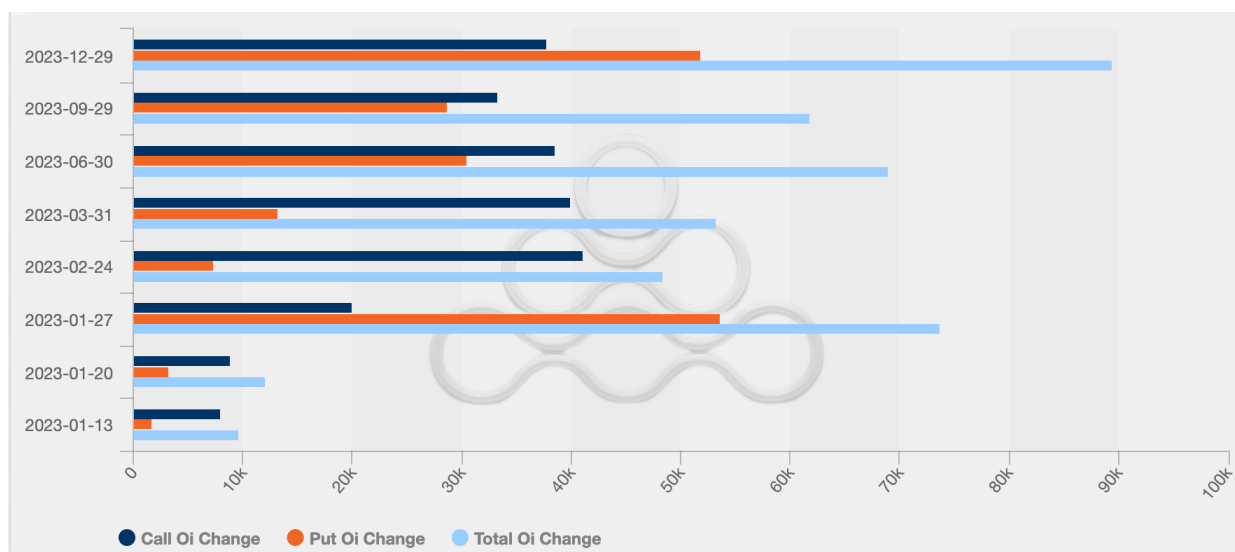
BTC Historical OI Change By Expiration



Source: Amberdata, GSR

ETH options similarly show December 29th, 2023 as having the largest growth in open interest. However, unlike BTC, the January 27th expiry exhibited a larger amount of open interest in the puts.

ETH Historical OI Change By Expiration



Source: Amberdata, GSR

The most popular trade over the past few weeks has been the June 30th 2023 ETH 400 puts purchased on Deribit on January 5th with over 25k lots done and a resting bid persisting for a few days after.

The most popular trade in BTC has been large purchases of January 27th 2023 18/19k calls, which occurred on January 10th.

Liquidations have mainly been concentrated on the short side with January 8th experiencing \$160m in overall short liquidations as we break out above current resistances at \$17K and \$1,300 for BTC and ETH, respectively.

Total Liquidations



Source: Coinglass, GSR

DeFi

The crypto markets started the year off right with altcoin volumes on exchanges showing a nice recovery, which was also accompanied by strong on-chain volumes as well.

Liquid staking derivatives (LSD) have been in the spotlight recently. LSDs like LDO, SWISE and RPL saw strong interest as ETH devs confirmed that they are pushing for the Shanghai upgrade, which will enable staked ETH to be unstaked pending a queue. The upgrade is expected to drive more staking volumes to these providers, significantly increasing protocol revenue. Further, LSD protocols have had to give significant incentives for secondary liquidity for their liquid staking tokens, and this cost should also fall if users can instantly unstake.

Elsewhere, NFTs are also seeing some of the strongest volumes in months. Some of these volumes are driven by developments in NFT-Finance (NFT-FI) that have allowed NFT traders to leverage their exposure by borrowing against existing holdings. The launch of the blur.io platform with its innovative liquidity incentive structure has also significantly improved market liquidity for NFTs. As an example, Bored Ape NFTs can now be sold for less than 30 bps slippage, compared to the previous 5%+.

Authors

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About GSR

GSR has nine years of deep crypto market expertise as a market maker, ecosystem partner, asset manager, and active, multi-stage investor. GSR sources and provides spot and non-linear liquidity in digital assets for token issuers, institutional investors, miners, and leading cryptocurrency exchanges. GSR employs over 300 people around the globe, and its trading technology is connected to 60 trading venues, including the world's leading DEXs. We have a culture of approaching complex problems with tenacity and imagination. We build long-term relationships by offering exceptional service, expertise and trading capabilities tailored to the specific needs of our clients.

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