



January 27, 2023

# GSR OTC Trading Commentary

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GSR OTC Trading Desk

## MACRO + CRYPTO SUMMARY

The CPI on January 12th was in line with expectations and caused market participants to expect a smaller hike at the Fed's next meeting (the probability of a 25 bp hike increased at the expense of a 50 bp hike). A mild risk-on mode ensued, and added support to risk assets in particular. Crypto markets performed extremely well with BTC up 30% and ETH up 20%, though there were no clear smoking guns as to the exact cause. The odds of a smaller Fed hike now appears priced in, and the market is clearly hoping for a dovish Fed. The Bank of Canada hiked rates and explicitly signaled it will hold rates here, a policy pivot that is often well-coordinated between central banks.

## RATES, FUNDING AND BASIS

The rally in crypto markets over the last two weeks has left its mark on the perp funding markets, with funding rates in BTC and ETH seeing sharp moves higher across venues. Funding rates arguably should not move deeply positive in efficient markets, as arbitrageurs with a lower cost of USD capital come in to take advantage. One effect of the collapse of FTX, however, has been a greater awareness of exchange credit risk, which may make such funding rate biases much more persistent.

OTC lending markets continue to slowly pick up, with survivors recalibrating their risk models and new players carefully treading the waters. There is an indisputable demand for unsecured capital in the market, and a need for yield among holders of that capital - the market just needs to find the right balance to start operating again.

## DERIVATIVES

### *BTC Derivatives*

30-day BTC volatility is currently 54% after having ranged from 36% to 70% this year and currently shows a tight correlation with the market direction (volatility firms as prices rally). 30 day realized vol is 40% after an exceptionally quiet December where daily realized was ~28%.

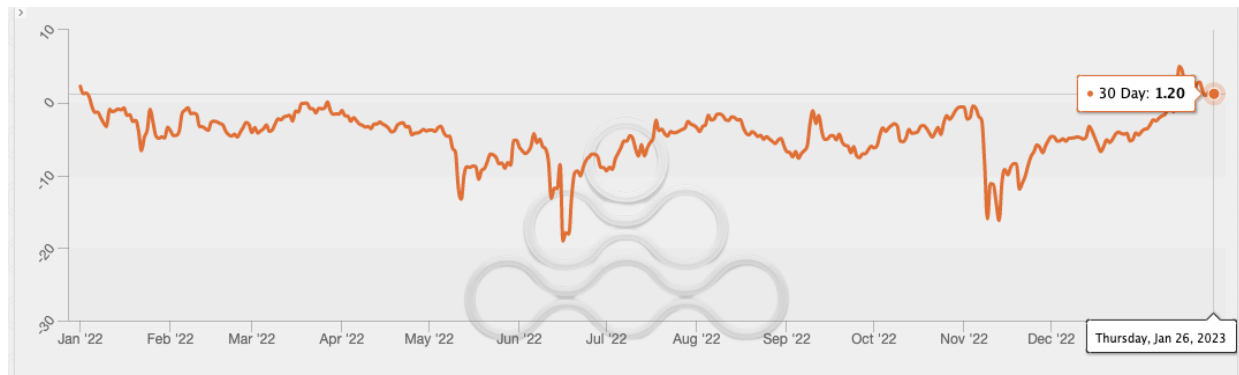
## BTC ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

30 day BTC call skew is 1.20 (calls are now over puts), signaling continued bullish sentiment. While this is off the highs of 5.0, it is still above average.

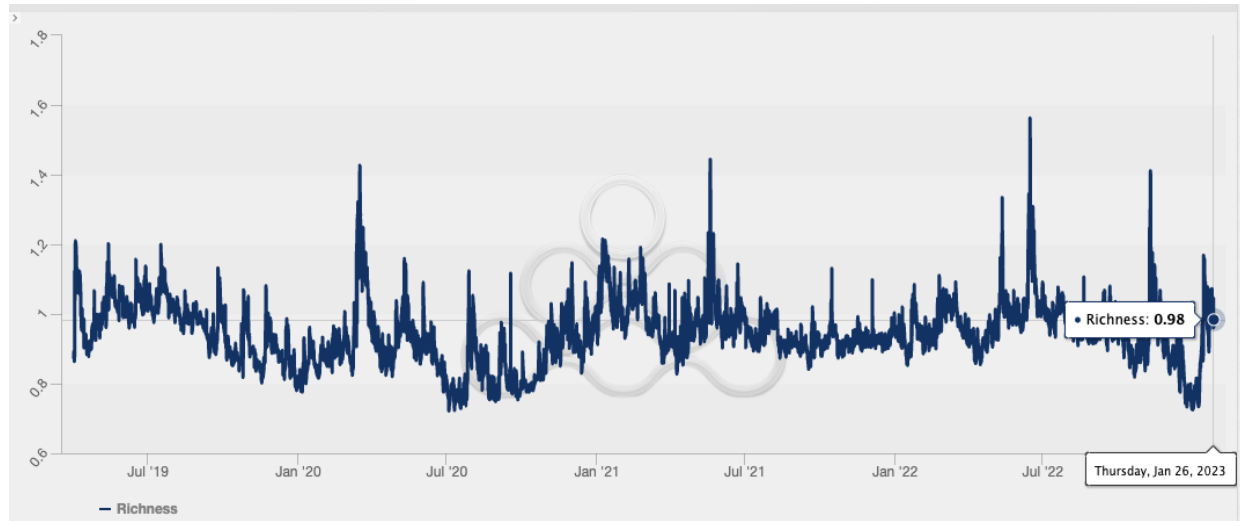
## BTC 35 Delta Call Skew (30 Day)



Source: Amberdata, GSR

The term structure is currently flat at 0.98, reflecting recent gamma performance and the upcoming FOMC meeting that concludes on February 1st.

## BTC Term Structure Richness

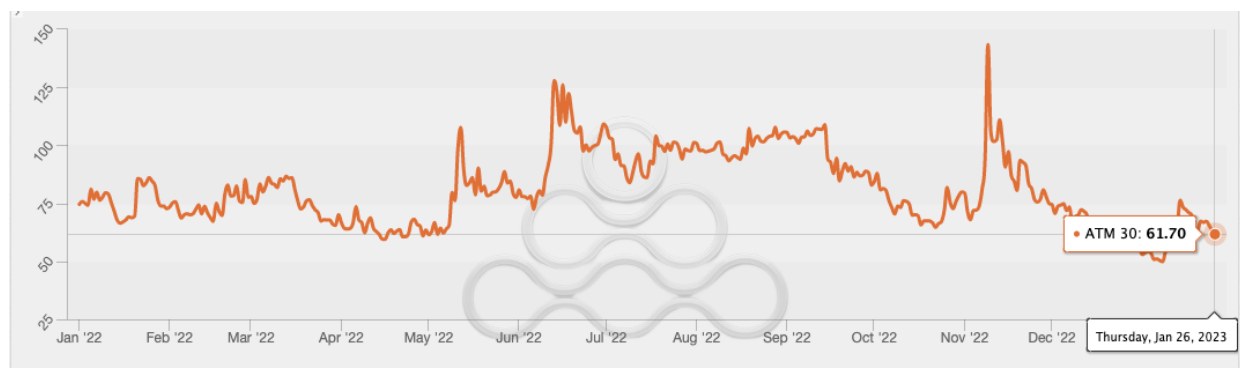


Source: Amberdata, GSR

## ETH Derivatives

30 day ETH vol is currently 62% after having ranged from 50% to 76% and is also historically low. However, 30 day realized vol is still only 46%.

## ETH ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

30 day ETH call skew is rich at -0.4 (calls are slightly under puts), reflecting the BTC dominant rally.

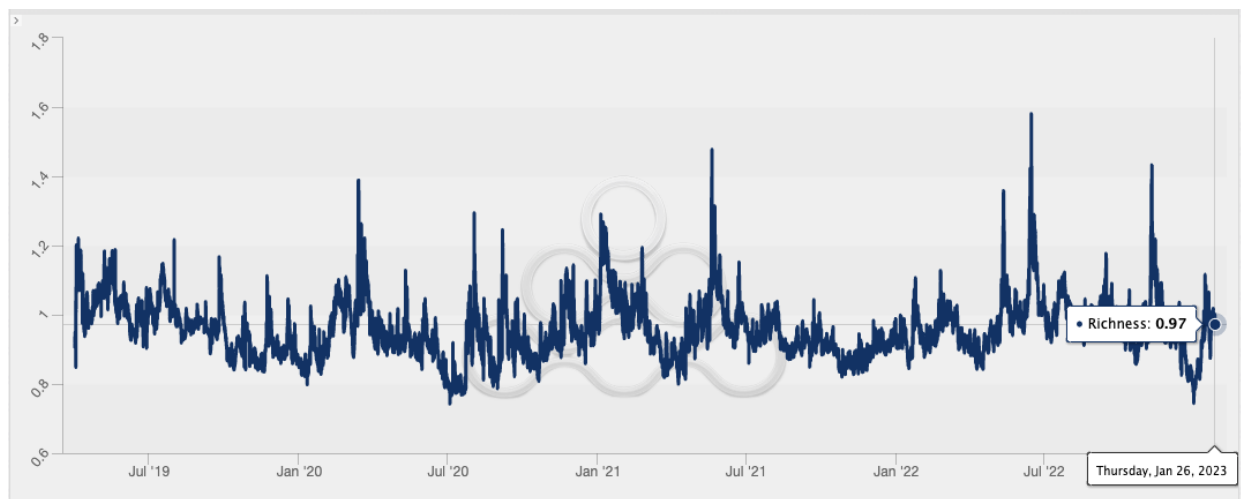
## ETH 35 Delta Call Skew (30 Day)



Source: Amberdata, GSR

ETH term structure is relatively flat at 0.97.

## ETH Term Structure Richness



Source: Amberdata, GSR

## FLows AND LIQUIDATIONS

Some of the most interesting flow over the past two weeks has been the demand shown in the 27JAN23 18K calls. There is a lot of upside buying happening through block trades on Deribit, mainly targeting the short-dated side.

## Deribit BTC Block Trades, Last Two Weeks

Uni Trade	Amount	NR Trades	Average Days Ago	Average Index
buy BTC-27JAN23-18000-C	3,325	21	14	18,394
buy BTC-3FEB23-28000-C	2,930	22	7	21,219
buy BTC-24FEB23-22000-C	2,880.8	20	10	20,627
buy BTC-24FEB23-28000-C	2,625	30	2	22,695
buy BTC-27JAN23-23000-C	2,164.5	26	7	20,891
buy BTC-24FEB23-24000-C	1,815	19	9	20,607
buy BTC-27JAN23-21000-C	1,574.7	18	7	21,255
sell BTC-31MAR23-19000-P + buy BTC-31MAR23-26000-C	1,350	6	9	21,081
buy BTC-24FEB23-22000-C + sell BTC-31MAR23-30000-C	1,300	18	13	19,114
buy BTC-24FEB23-24000-C + sell BTC-24FEB23-28000-C	1,269.7	24	3	22,950

Source: Amberdata, GSR

There isn't an obvious narrative occurring in ETH, and sentiment in the options market paints a picture of indecisiveness. This can be seen across a variety of activity/strategies, including longer-dated call purchases, debit and credit call spreads opened, short-term put selling, short-term call selling, etc. Perhaps traders in ETH are focusing mainly on dislocations and opportunities in skew and term structure, while in BTC there is a very clear directional narrative playing out.

## Deribit ETH Block Trades, Last Two Weeks

Uni Trade	Amount	NR Trades	Average Days Ago
buy ETH-24FEB23-1700-C + sell ETH-24FEB23-1800-C	33,497	37	9
sell ETH-27JAN23-1250-P	16,000	2	8
sell ETH-3FEB23-1700-C	14,595	10	2
buy ETH-30JUN23-2200-C	12,500	16	12
sell ETH-30JUN23-1600-C + buy ETH-30JUN23-2100-C	12,500	5	7
buy ETH-27JAN23-1300-P	12,020	8	13
buy ETH-27JAN23-1250-P + buy ETH-27JAN23-1300-P + buy ETH-27JAN23-1350-P	10,000	1	14
buy ETH-31MAR23-1900-C + sell ETH-31MAR23-2200-C	10,000	2	13
buy ETH-30JUN23-2500-C	10,000	6	10
buy ETH-31MAR23-1400-C + sell ETH-31MAR23-1800-C	10,000	43	14

Source: Amberdata, GSR

Bitcoin liquidations have been relatively sporadic over the past few weeks, as we've seen some after-hours moves driven by liquidations into illiquid environments. Some noticeable pickups have been spotted, often on Friday's but also more recently yesterday as we wicked up to \$23,800.

## BTC Liquidations



Source: Coinalyze, GSR

In ETH, a similar picture has emerged, although some of the liquidations in ETH have caused noticeably larger moves percentage-wise than in BTC.

## ETH Liquidations



Source: Coinalyze, GSR

## **Authors**

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John Cole – Derivatives

Christopher Newhouse – Flows and Liquidations





## 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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