



February 10, 2023

GSR OTC Trading Commentary

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GSR OTC Trading Desk

MACRO + CRYPTO SUMMARY

The long-awaited FOMC meeting finally arrived last week, where the Fed hiked rates by a reduced 25 bps and provided commentary that was interpreted by markets as dovish. This led to a risk-on environment, with yields coming off, the dollar falling, and stocks, gold, and other risk assets rallying. Many questioned the wisdom of such an interpretation, as some did not believe the FOMC statement and press conference to be that dovish. US payrolls data was released a few days later, which beat expectations by a significant amount, though the beat may have been helped by seasonal adjustments. Yields have since retraced and moved up past pre-FOMC levels, while gold has fallen and the dollar has risen. Looking ahead, the CPI on Tuesday and PPI on Thursday will be closely watched, and it remains to be seen whether the current expectation for eventual rate cuts will actually be met.

RATES, FUNDING AND BASIS

Funding rates across major perpetual venues continue to generally be biased positive as the market retains its bullish stance. As the Fed hike cycle continues and the cost of capital for large institutional players inches higher, it is possible this bias towards high funding rates sustains unless and until there's a broader sell-off in the market.

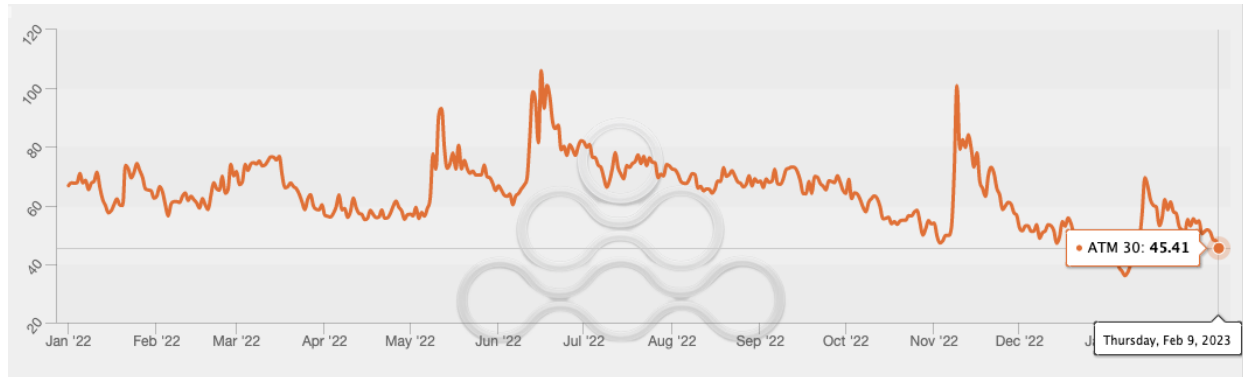
Activity in lending marketplaces continues to be muted. There is capital looking for yield and borrowers looking for leverage, but the heightened level of caution in the credit market continues to win out and reduce activity.

DERIVATIVES

BTC Derivatives

Vols have come in steadily since January 14th, with BTC 30-day implied volatility notably falling from 66% to 45%. Up to January 14th, BTC had rallied 30% on the year from \$16,500 to \$21,500 and realized volatility was around 100%. Since then, prices have stabilized at ~\$23,000 and 10-day realized vol is now 38%. The US CPI, scheduled for release on February 14th, may cause a breakout from the recent range.

BTC ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

As the price rally abated, 25 delta call skew drifted back to just under zero.

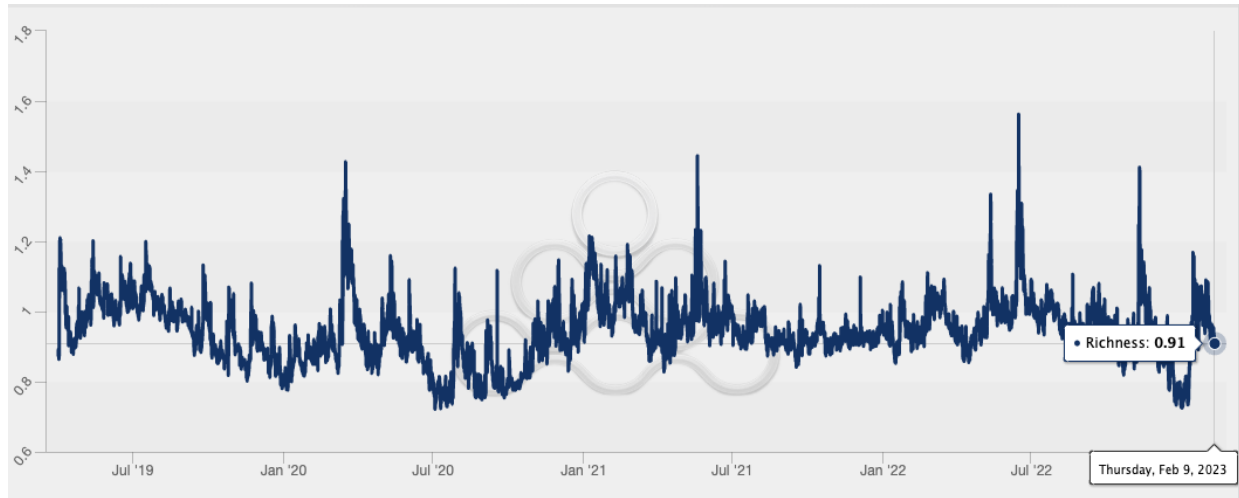
BTC 25 Delta Call Skew (30 Day)



Source: Amberdata, GSR

BTC term structure richness is at 0.91 and is a sign that realized volatility is softening. BTC term structure is in contango with shorter-dated tenors trading under long-dated tenors.

BTC Term Structure Richness

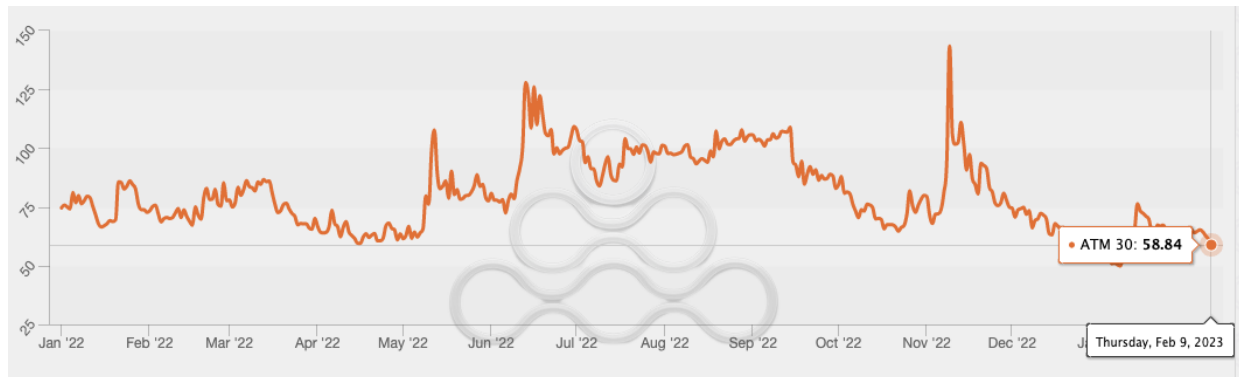


Source: Amberdata, GSR

ETH Derivatives

ETH 30-day implied volatility is sitting above its one-year low of 50%, currently at 59% while 10-day realized volatility is 53%.

ETH ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

ETH call skew is in line with the relatively muted price action versus BTC and has struggled to go positive.

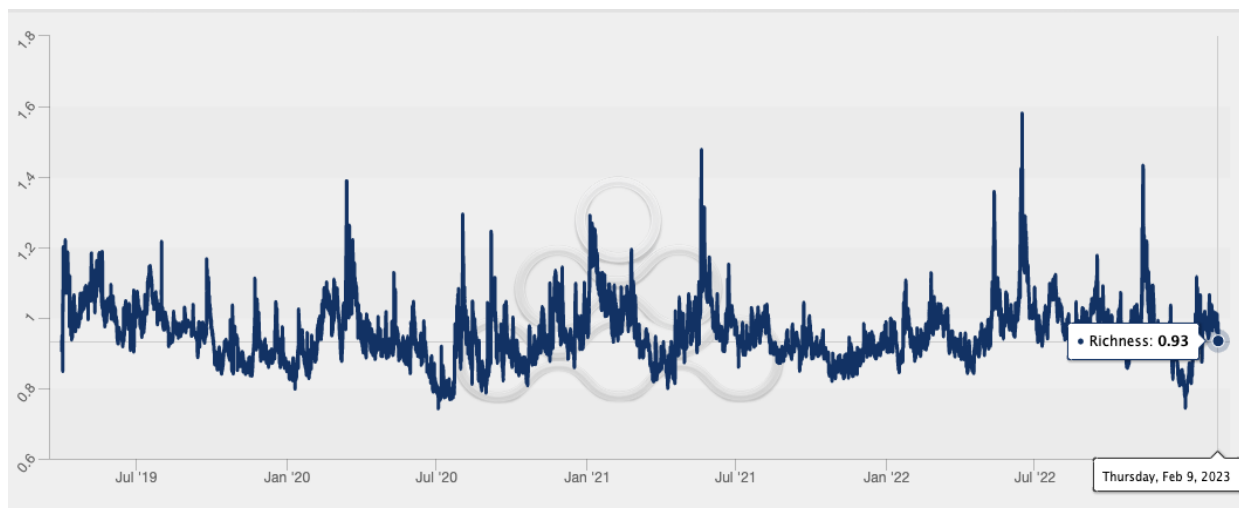
ETH 25 Delta Call Skew (30 Day)



Source: Amberdata, GSR

ETH term structure in contango at 0.93.

ETH Term Structure Richness



Source: Amberdata, GSR

ETH realized vol has recently outperformed BTC (147% 7-day vs. 120% 30-day) and consequently 7-day implied vol is only 112% over realized vol compared to BTC at 129% over.

BTC and ETH Implied vs. Realized Vols

	BTC	ETH	ETH / BTC
7day IV	44%	56%	127%
30day IV	45%	59%	131%
7day RV	34%	50%	147%
30day RV	50%	60%	120%
7D IV / RV	129%	112%	
30D IV / RV	90%	98%	

Source: GSR

FLOWS AND LIQUIDATIONS

Some of the most interesting flows over the past few weeks has been the demand for longer-dated upside calls in BTC as represented by outright purchases of the 31MAR23-32K calls happening about a week ago. A noticeable trend in these blocks is the demand for outright calls occurring over a week ago, whereas two large blocks of call sellers occurred this past week.

Deribit BTC Block Trades, Last Two Weeks

Uni Trade	Amount	NR Trades	Average Days Ago	Average Index
buy BTC-31MAR23-32000-C	1,600	17	8	23,315
buy BTC-24FEB23-26000-C	1,575	8	11	23,133
buy BTC-28APR23-28000-C + sell BTC-28APR23-34000-C + buy BTC-31MAR23-27000-C + sell BTC-31MAR23-32000-C	1,500	1	8	22,986
buy BTC-31MAR23-26000-C + sell BTC-31MAR23-30000-C	1,412.5	11	2	22,988
sell BTC-24FEB23-24000-C	1,200	13	4	23,061
sell BTC-17FEB23-25000-C	1,175	5	4	23,076
buy BTC-31MAR23-30000-C	1,175	5	4	23,001
sell BTC-24FEB23-26000-C + buy BTC-30JUN23-40000-C	1,000	1	6	23,963
buy BTC-24FEB23-25000-C	1,000	13	9	23,118
buy BTC-10FEB23-24500-C + sell BTC-17FEB23-27000-C	975	9	5	23,375

Source: Amberdata, GSR

ETH block trades were mainly focused on short-dated tenors with 10FEB23 and 17FEB23 the primary targets for outright options trades. Noticeably, however, there was a large block buyer of 29SEP23 3K ETH calls around 13 days ago. Recent trades show an interest in demand for call skew as the 28APR23 risk-reversal blocked around 10,000 contracts.

Deribit ETH Block Trades, Last Two Weeks

Uni Trade	Amount	NR Trades	Average Days Ago	Average Index
buy ETH-10FEB23-1700-C	22,013	13	5	1,624
buy ETH-10FEB23-1550-P	19,400	10	6	1,619
buy ETH-29SEP23-3000-C	17,000	2	13	1,582
buy ETH-10FEB23-1750-C	14,750	21	5	1,656
sell ETH-31MAR23-1600-P + buy ETH-31MAR23-1700-C	10,000	2	3	1,627
sell ETH-28APR23-1400-P + buy ETH-28APR23-2400-C	10,000	4	1	1,684
sell ETH-10FEB23-1650-P	9,800	6	3	1,643
buy ETH-10FEB23-1650-P	8,013	6	3	1,674
sell ETH-17FEB23-1800-C	8,008	5	2	1,635
buy ETH-10FEB23-1500-P	7,750	6	8	1,565

Source: Amberdata, GSR

In terms of liquidations, longs have been under fire over the past few days whereas the long/short liquidations were a bit more balanced two weeks ago. The recent reversal and rejection of key levels such as the \$1,700 region in ETH and \$24,000 level in BTC has led to new shorts opened, longs liquidated, and a stalemate in terms of establishing a new range higher in both of the majors.

Total Liquidations



Source: Coinglass, GSR

ALTCOIN VOLS

Altcoin vols remained relatively static at the beginning of the recent rally, increasing a point or two in aggregate off the back of a few tokens. As belief in the rally began to grow, the shape of the vol curves changed as call skew grew more expensive relative to put skew. In the past week, altcoin vols have exploded higher with trailing 3-month vols up an average of 10 points. This reinforces the idea that altcoin vols are directly proportional to market speculation, rather than inversely proportional to price as we often see in equities.

Authors

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John Cole – Derivatives

Christopher Newhouse – Flows and Liquidations

Mitch Galer – Altcoin Vols



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