March 3, 2023

GSR OTC Trading Commentary

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GSR OTC Trading Desk

MACRO + CRYPTO SUMMARY

The past couple of weeks have seen a sharp reversal of post-FOMC exuberance. US CPI data for January came stronger than expected, as did the PPI, and then Wednesday's ISM print added to inflation worries. US Treasury yields increased steadily as a response, and global equity markets have generally grinded lower over the last couple of weeks. Crypto prices were initially a bit more resilient than traditional markets, but eventually caught up, with BTC and ETH down 5% and 4%, respectively, over the last two weeks. A reversal from here would likely require a change of course in the macro data, and investors will closely watch the next US CPI release on March 14th. The FOMC next meets on March 21st and 22nd, and futures are pricing in 72% chance of a 25 bps hike at the meeting and a 28% chance of a 50 bps hike.

RATES, FUNDING AND BASIS

Rates continue to inch higher in traditional markets, with the Fed Funds rate expected to be well past 5% into the summer. Funding rates in perp markets continue to be largely positive as a bullish bias persists. Structurally higher USD rates should also imply a generally higher bias in funding rates, as market participants will have a higher opportunity cost of holding a long spot position.

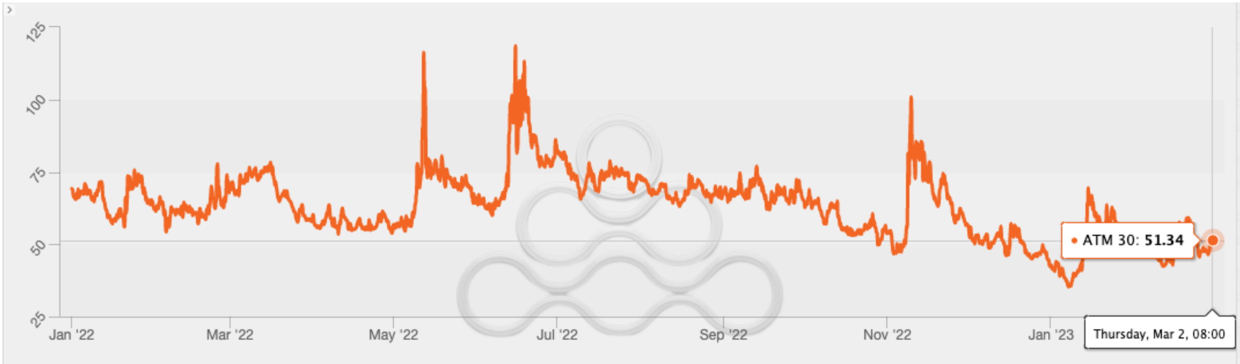
The discrepancy between low-risk/risk-free interest rates in crypto (Aave/Compound < 2.0%) versus traditional markets (4.5%-5.0%) has caused a number of projects to work on solutions to bridge the gap. A number of crypto-native institutions are stuck with stablecoin capital, either because of an inability to move money into fiat or an unwillingness to do so for regulatory/tax reasons. These projects are trying to solve this by creating fund or SPV structures that can take in stablecoin deposits, swap into fiat USD, invest into T-bills or money market funds, and issue receipt tokens in return. The biggest challenge to this market though could potentially be the high chance that such receipt tokens are classified as securities, which would restrict them in terms of geographies and/or client types.

DERIVATIVES

BTC Derivatives

With BTC price unchanged in February, 30 day implied volatility sits at a relatively low level of 51%. However, owning and hedging the straddle will carry negatively if realized volatility remains around its 30 day average of 45%.

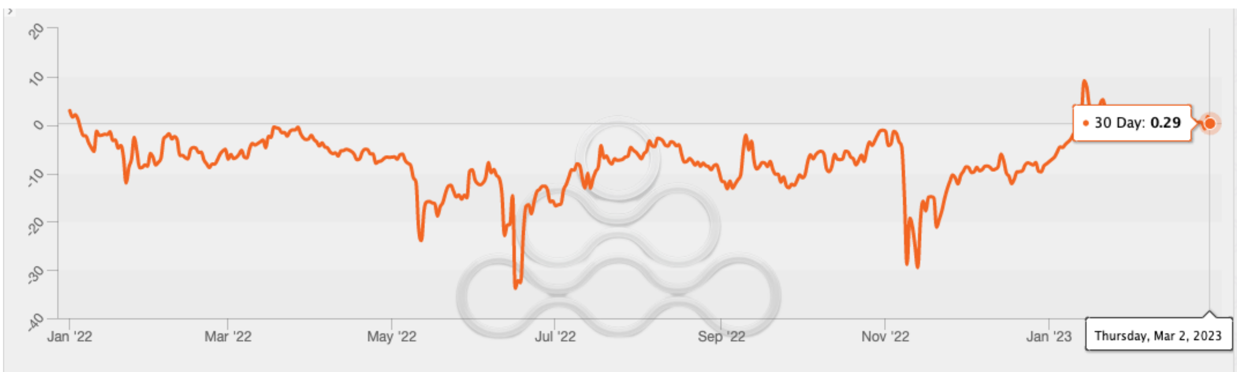
BTC ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

Call skew is currently elevated at 0.29.

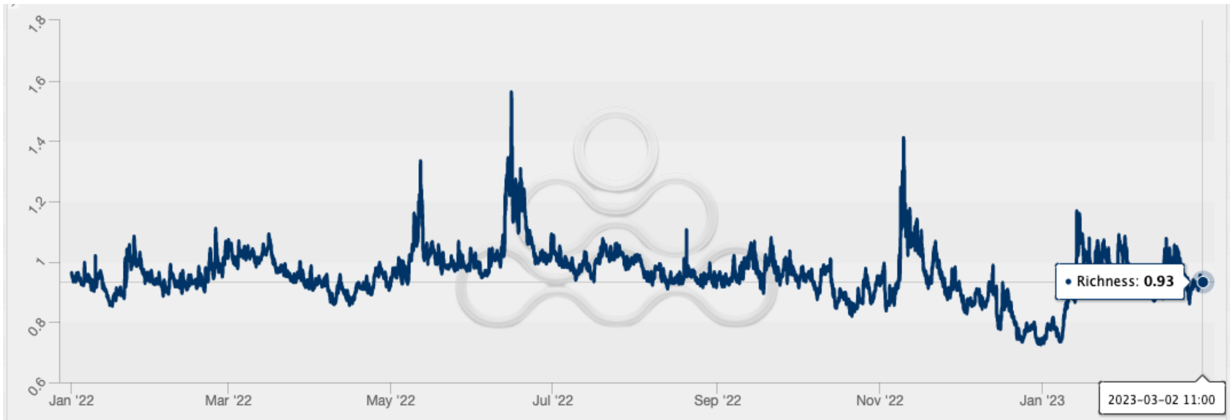
BTC 25 Delta Call Skew (30 Day)



Source: Amberdata, GSR

BTC term structure richness is in contango at 0.93 and indicates the recent reduction in gamma performance.

BTC Term Structure Richness



Source: Amberdata, GSR

ETH Derivatives

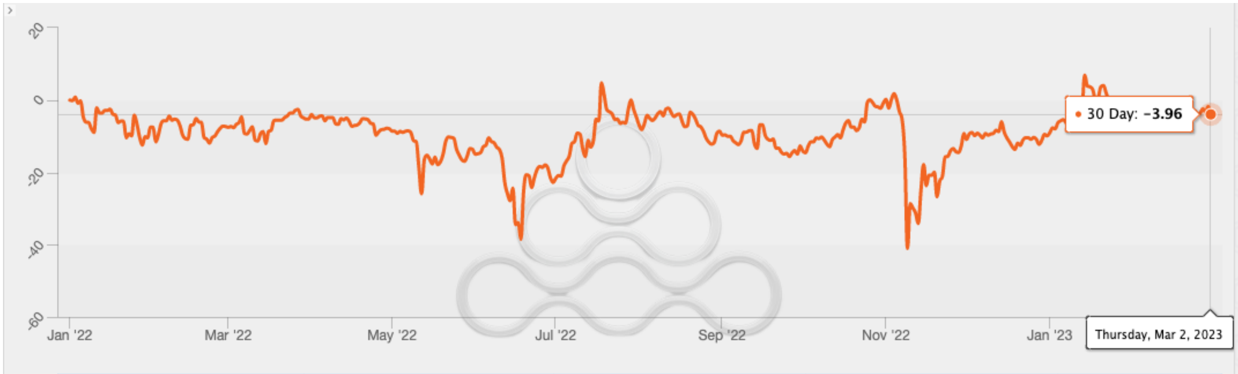
ETH implied volatility is at 14 month lows at 55.8%, which is understandable with price relatively unchanged since January 20th. Owning and hedging the straddle will also carry negatively if 30 day realized volatility remains at the current level of 51%.

ETH ATM Implied Volatility (30 Day)

Source: Amberdata, GSR

ETH call skew is also relatively elevated at -4.0.

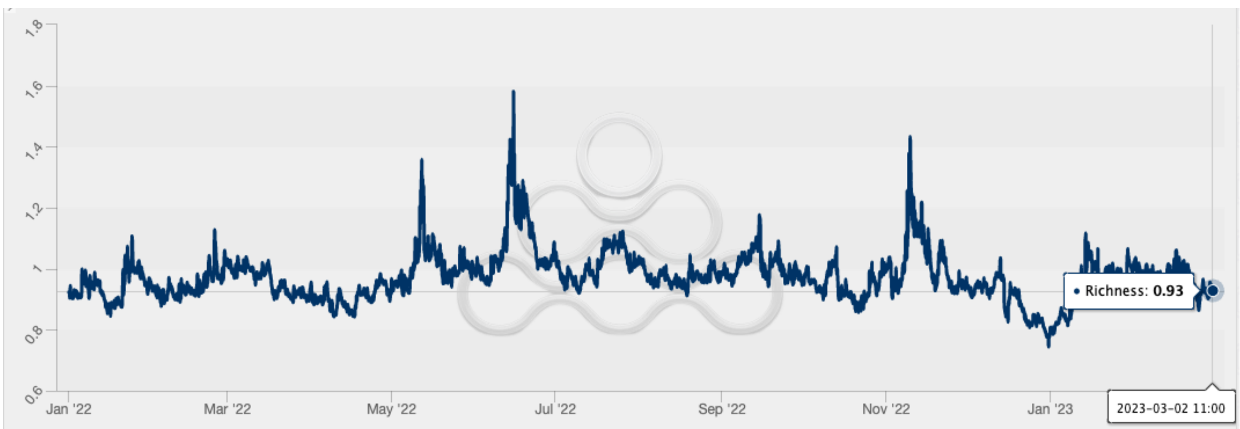
ETH 25 Delta Call Skew (30 Day)



Source: Amberdata, GSR

ETH term structure is in contango at 0.93.

ETH Term Structure Richness



Source: Amberdata, GSR

ETH 30 day implied volatility is relatively cheap at 109% versus 30 day realized volatility, and against the equivalent BTC 30 day.

ETH realized volatility is also performing 114% of BTC indicating a long ETH / short BTC gamma spread would theoretically be profitable.

BTC and ETH Implied vs. Realized Vols

	BTC	ETH	ETH / BTC
7day IV	46.1%	51.1%	**111%**
30day IV	50.5%	55.7%	**110%**
7day RV	41.4%	45.0%	**109%**
30day RV	44.9%	51.0%	**114%**
7D IV / RV	**111%**	**114%**	
30D IV / RV	**112%**	**109%**	

Source: Amberdata, TradingView, GSR

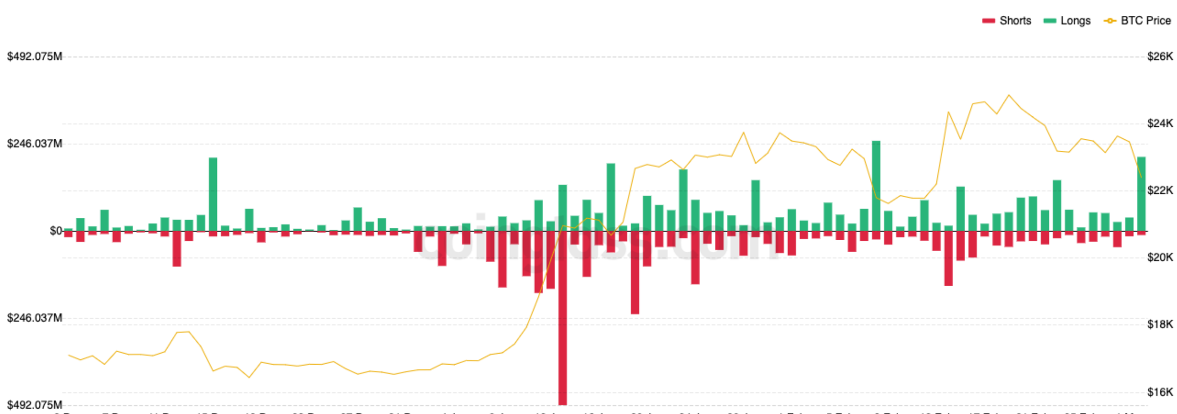
FLOWS AND LIQUIDATIONS

There have been some noticeable liquidations throughout the month of February, with the price action on February 8th leading to the largest amount of long liquidations over the past few months and a flush of leverage as we dipped back below $22,000. A similarly large cascade of liquidated longs shed $1,000 off BTC's price yesterday evening.

In terms of open interest, February had one of the larger option expiries across the majors with around $1.8B in open interest expiring in BTC options alone. Short-term speculation toward the upside had occurred during the multiple tests of $25K, and after multiple rejections dealers are now thought to be net short gamma from the $25K-30K region.

Although the beginning of the month started out with some heavily bullish bets in short and longer-dated tenors, flows towards the end of the month have been mixed to slightly bearish. Interestingly, it looks like some of the longer-term bets on volatility have started to wane as last weekend saw one of the more drastic shifts downward in term structure (surprisingly in the longer-dated tenors, which had previously stayed relatively firm), suggesting the demand for longer-term optionality is starting to decline.

Total Liquidations



Source: Coinglass, GSR

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