



March 30, 2023

GSR OTC Trading Commentary

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GSR OTC Trading Desk

MACRO + CRYPTO SUMMARY

There is growing perception that the unrealized losses in bank held-to-maturity securities portfolios (which sparked runs on Silicon Valley Bank and others) will stop the Federal Reserve from raising rates in the future to fight inflation. Since the second week of March, year-end Fed Funds rate expectations have come down 100 bps (at one point dropping as many as 200 bps). After a knee-jerk reaction lower on initial banking fears, BTC has rallied nearly 50% to \$28,200 as the market implies that the banking crisis is due at least partly to the higher interest rates and the only way out is for the Fed to lower them. Bitcoin is many things to many people, sometimes demonstrating a strong correlation to more speculative assets like NASDAQ growth stocks and at other times acting more like a store of value similar to gold. It appears that this latter narrative has taken hold. If the Fed is forced to table its inflation fighting mandate to prevent a wider systemic banking crisis, BTC seems like a pretty good place to park capital to maintain purchasing power.

RATES, FUNDING AND BASIS

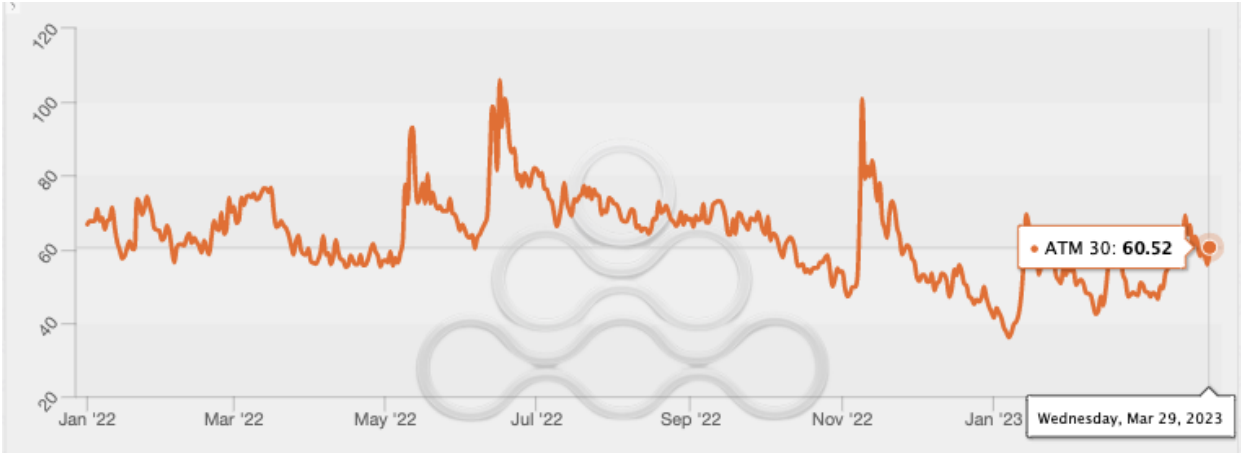
The banking crisis and the overall macroeconomic situation over the past couple of weeks has led to a significant repricing in USD rates, with expectations for front-end rates implied by the futures markets down by more than a percentage point. Funding rates across venues have continued to be stable and biased slightly positive, in-line with the bullish sentiment that seems to be driving crypto markets at the moment. The bilateral lending market continues to be fairly muted, with a spectrum of lenders of different kinds looking to build back the market, but progress has been slow.

DERIVATIVES

BTC Derivatives

BTC 30 day implied volatility is back to long-term fair value around 60%, and is displaying a high positive correlation with price. As such, implied vol may pick up significantly if BTC breaks above \$29,000. For comparison, 30 day implied vol was 55% on Tuesday when BTC was at \$27,000. In addition, 30 day realized vol is currently 66%.

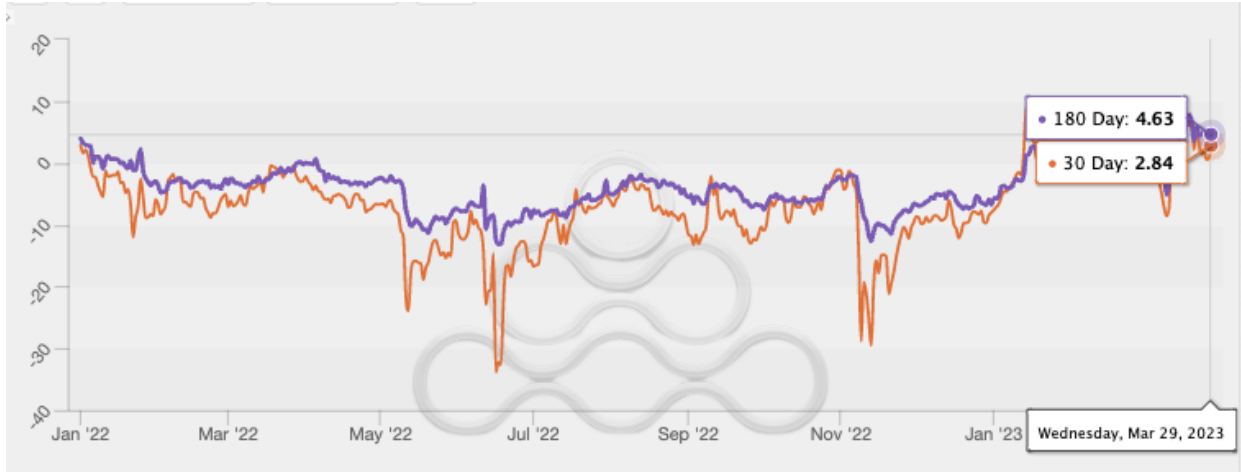
BTC ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

BTC 25d risk reversals (call over) continues to remain strong (having rallied from the earlier lows), while still retaining further upside given the previously mentioned positive spot-vol correlation in the context of the current market sentiment.

BTC 25 Delta Call Skew (30 Day & 180 Day)

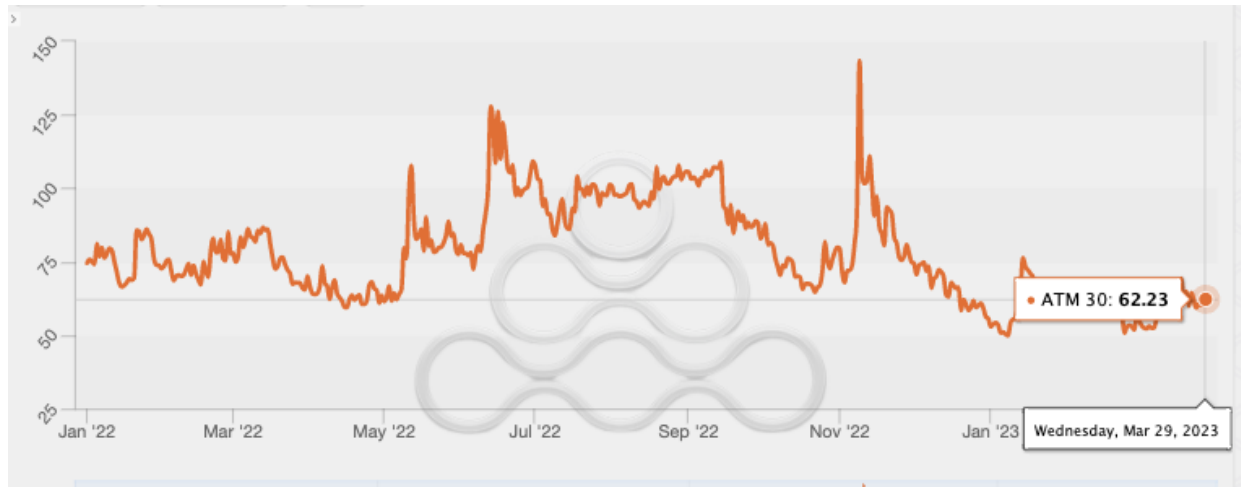


Source: Amberdata, GSR

ETH Derivatives

ETH 30 day implied volatility is currently 62%. This is just 3% above that for BTC, while the ETH / BTC implied volatility ratio has historically been around 25% over.

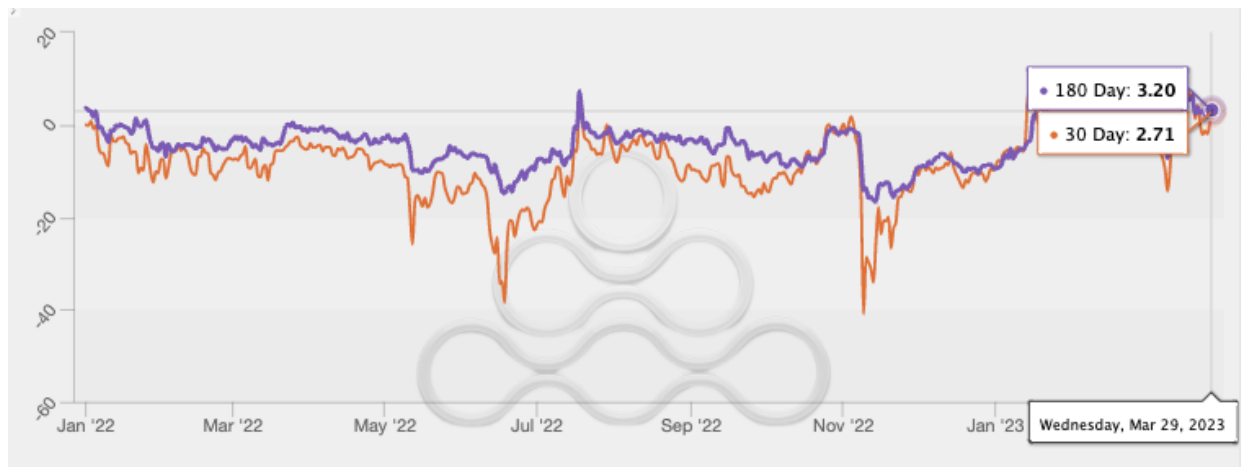
ETH ATM Implied Volatility (30 Day)



Source: Amberdata, GSR

ETH risk reversal (call over) is also very firm, currently at a 15-month high.

ETH 25 Delta Call Skew (30 Day & 180 Day)



Source: Amberdata, GSR

BTC implied volatility is below realized volatility over shorter time periods, both absolutely and relative to that of ETH.

BTC and ETH Implied vs. Realized Vols

RV	BTC	ETH	ETH/BTC
48H	52.6	52.5	1.00
7d	70.3	65	0.92
30d	66.3	64.7	0.98
90d	53.1	56.5	1.06
IV			
7d	60.4	61.0	1.01
30d	60.5	62.2	1.03
60d	60.5	62.3	1.03
90d	59.9	62.2	1.04
180d	59.5	61.9	1.04
Implied Vol/ Realised Vol			
7d	0.86	0.94	
30d	0.91	0.96	
90d	1.14	1.10	

Source: Amberdata, TradingView, GSR

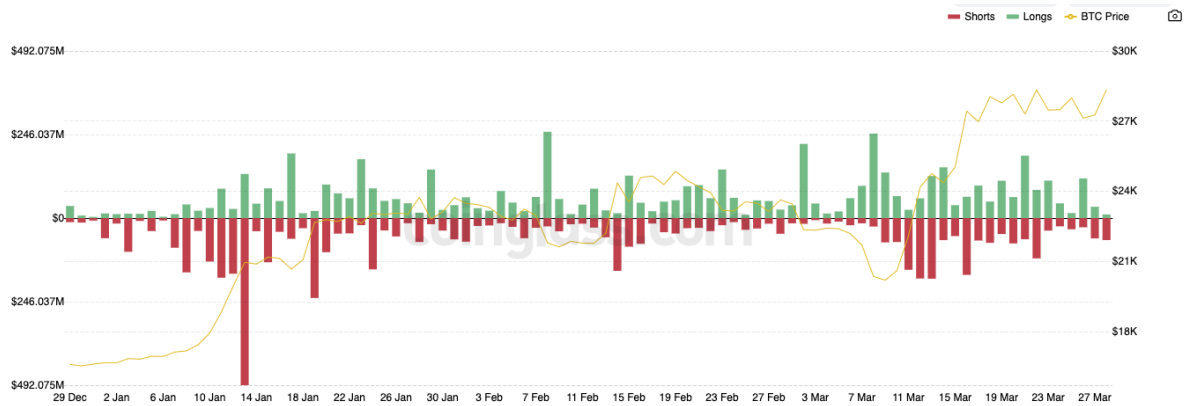
Altcoin Volatility

Over the past month, ETH realized volatility has rallied significantly, though this has not flowed to long-term ETH IV's nor altcoin realized vols. This collapse in the ETH IV/ETH RV may potentially lead to slightly lower long-term vols for alts compared to a month ago. On the other hand, rallies more so than collapses have triggered extremely high vol periods lately. With the increase in spot vol correlation, call skew on alts, especially in the short-term, has risen significantly. This is similar to what occurred in the mid-2021 bull market; as soon as a token caught a bid, massive flows would generally overpower token holders cashing out at elevated prices. This is indicative of market sentiment turning a bit more positive.

LIQUIDATIONS

Liquidations over the past few weeks have been elevated as price action has experienced increased volatility. Interestingly enough, liquidations haven't been one sided, as the indecisive, yet volatile price action has caused liquidations on both the short and long side of the spectrum. The most noticeable liquidations occurred after the USDC depegging event, with a large amount of longs liquidated on the move lower followed by late-to-enter shorts forced out of their positions on the subsequent rally. With recent consolidatory price action and a reversal of the downside move likely caused by the regulatory action taken against Binance, one can assume some shorts may be liquidated around the \$30,000 price level, although it's difficult to pinpoint liquidation points.

Total Liquidations



Source: Coinglass, GSR

Authors

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About GSR

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