



May 12, 2023

# GSR OTC Trading Commentary

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GSR OTC Trading Desk

## MACRO + CRYPTO SUMMARY

The Fed hiked rates another 25 bps last week to 5.00-5.25%, in line with market expectations. Although futures are pricing in 2-3 rate cuts by the end of the year, some may argue that the Fed will hold current rates for longer, with CPI remaining elevated (+4.9% year-over-year in April) and nonfarm payrolls growth remaining solid (+253,000).

The banking situation in the US remains fragile, with a number of regional banks still holding large unrealized securities losses and depositors making a run on the bank as a result. Case in point is First Republic, which was recently seized by the California banking regulator after experiencing significant deposit outflows, and its assets were subsequently sold to JP Morgan. Given continued banking worries, the SPDR S&P Regional Banking ETF fell 15% over the past month. With respect to crypto, many US banks appear tentative to bank digital asset clients, though several non-US banks are increasing their efforts to gain market share.

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### *Fed Funds Probabilities*

TOTAL PROBABILITIES				
MEETING DATE	DAYS TO MEETING	EASE	NO CHANGE	HIKE
6/14/2023	33	0.00 %	92.80 %	7.20 %
7/26/2023	75	43.73 %	52.47 %	3.81 %
9/20/2023	131	81.50 %	17.43 %	1.07 %
11/1/2023	173	98.94 %	1.06 %	0.00 %
12/13/2023	215	100.00 %	0.00 %	0.00 %
1/31/2024	264	100.00 %	0.00 %	0.00 %
3/20/2024	313	100.00 %	0.00 %	0.00 %
5/1/2024	355	100.00 %	0.00 %	0.00 %
6/19/2024	404	100.00 %	0.00 %	0.00 %
7/31/2024	446	100.00 %	0.00 %	0.00 %
9/25/2024	502	100.00 %	0.00 %	0.00 %
11/6/2024	544	100.00 %	0.00 %	0.00 %

Source: CME, GSR

## RATES, FUNDING AND BASIS

Fed Funds Rates in the US have touched 5%. The divergence between traditional "risk free" rates compared to onchain yields offered by the likes of Aave and Compound continues to grow. When combined with the increased risks associated with transacting onchain, many market participants appear to favor deploying excess capital into traditional markets, at least for now.

Limited access to fiat rails, in conjunction with increased regulatory scrutiny and tax considerations, continue to pose a challenging environment for many crypto institutions. Although we've seen an increasing number of market participants try to offer solutions to bridge

this gap, either via fund or SPV solutions, there continues to be a sizable growth opportunity in the space.

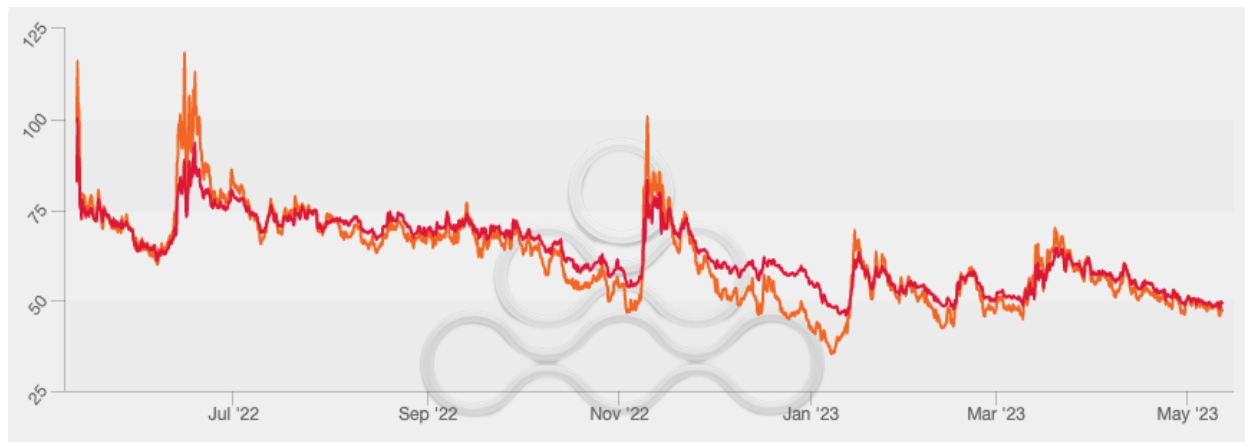
## DERIVATIVES

Both BTC and ETH implied vols have compressed considerably over the past few months from the elevated levels at the start of the year and in March.

BTC's rolling 30 day ATM implied vol hovers around 48% (11th percentile over a one-year lookback), with realized vols around 43%.

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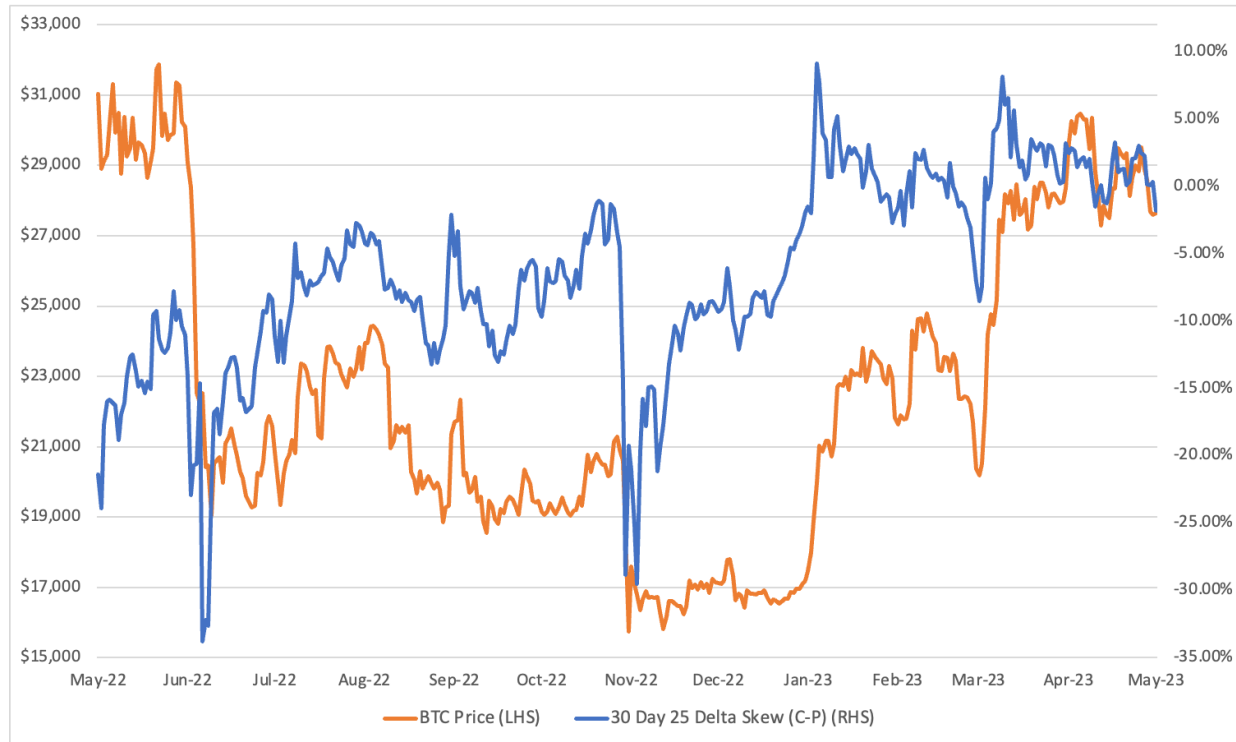
### *BTC ATM Implied Volatility (30 and 90 Day)*



Source: Amberdata, GSR

Although less pronounced when compared to the start of the year, we continue to observe positive spot-vol correlation in BTC, with 30 day 25D skew hovering around -2% (69th percentile over a one-year lookback) with calls trading under puts.

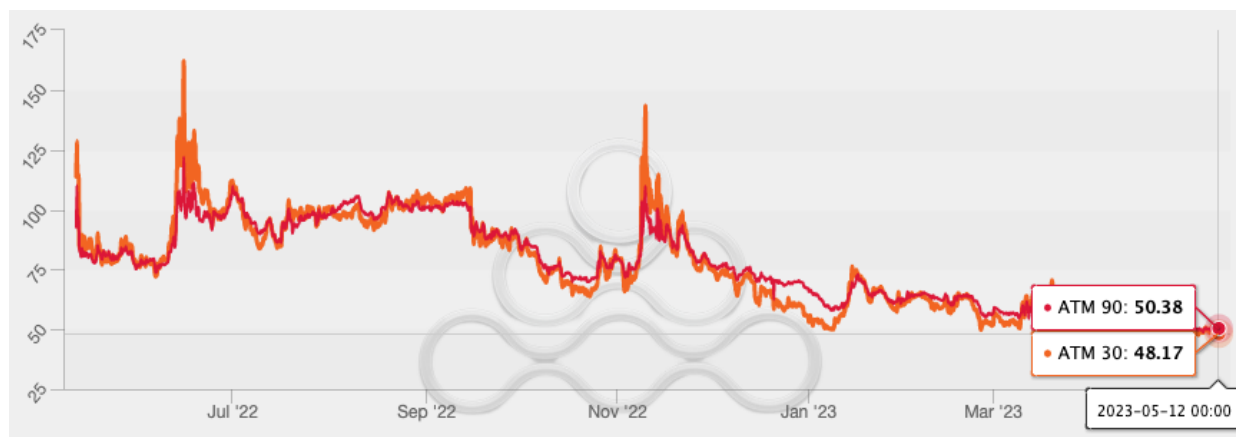
## BTC Price vs 30 Day 25D Skew (C-P)



Source: Amberdata, GSR

The market is pricing the 30 day ATM implied vol difference between the majors around historic lows (1st percentile over a one-year lookback).

## ETH ATM Implied Volatility (30 and 90 Day)



Source: Amberdata, GSR

ETH 30 day risk reversals remain relatively elevated compared to earlier in the year at -1.79.

## ETH - BTC ATM Implied Volatility Diff (30 Day)

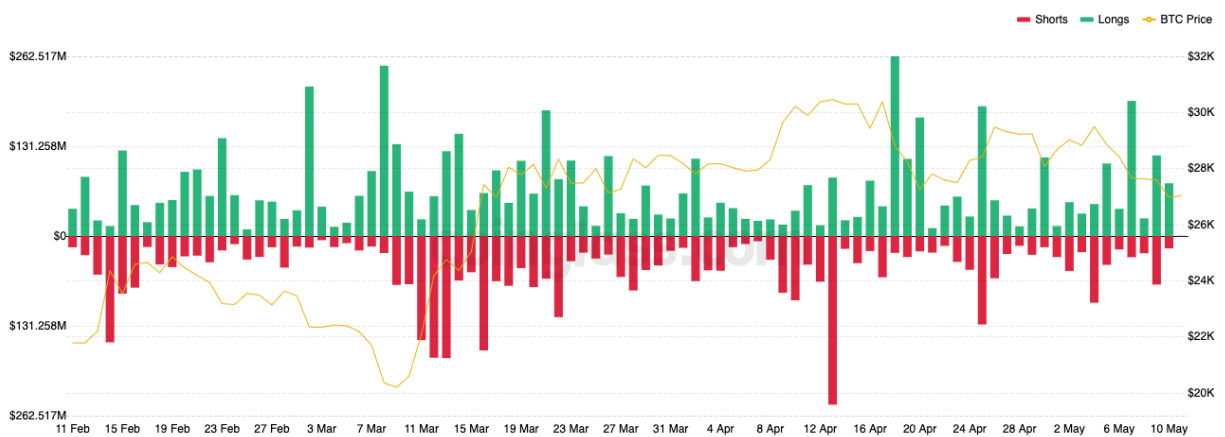


Source: Amberdata, GSR

## LIQUIDATIONS

Longs have continued to feel the brunt of the liquidations over the last two weeks, especially with yesterday's sudden selloff. Despite this, the broader market has been relatively range bound and Bitcoin and Ethereum futures open interest has remained relatively stable.

## Total Liquidations



Source: Coinglass, GSR

## Altcoin Vol

Outside of some [memecoins such as PEPE](#), volumes and volatility have been lower among most alts, as ETH and BTC continue to trade in the \$27k- 30k range. Altcoin vols have followed the significant ETH vol selloff (60% to 50%) in the past month, a trend often seen when the market trades flat to down small as retail loses interest in alts and there are fewer random movements. The PEPE rally demonstrates that there is still fomo and greed in the market, but it seems to be targeting memecoins more so than actual projects. This likely indicates that we are going to need a more significant rally in the majors before alts begin to gain substantial interest again.

## DeFi

Memecoin mania continues to be the focus, with the number of wallets swapping on Uniswap close to an all-time-high. And it is not just ERC-20 tokens that are the rage, as traders have launched memecoins on the Bitcoin blockchain using Ordinals. Bitcoin network fees have soared as a result, with some blocks even seeing fees surpass the 6.25 BTC block reward for the first time since 2017.

## Authors

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