



May 25, 2023

GSR OTC Trading Commentary

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GSR OTC Trading Desk

MACRO + CRYPTO SUMMARY

The macro picture of the last two weeks is that of abating US inflation (UK and EU inflation is still hot) where headline inflation in April rose 4.9%, down from +5.0% the month prior. Despite tightening credit conditions for households and businesses, the jobs market is robust, consumer spending is strong, and other macro indicators like industrial production and manufacturing indices are solid. At the same time, however, the yield curve suggests an imminent recession.

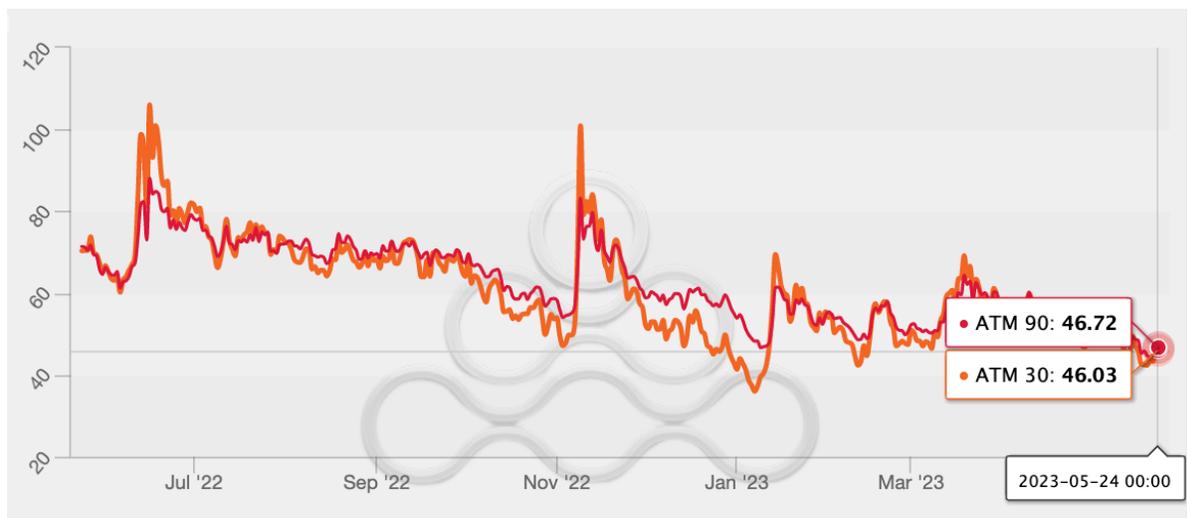
The broader macro markets have been interesting to watch, with overall yields higher after the most recent FOMC meeting, stocks roughly unchanged, gold down slightly, and the US dollar back up from its recent leg lower. Though higher than two weeks ago, the VIX is still hovering at levels that are not historically high.

In the near term, the largest unknown variable is the US debt ceiling, which provides some headline roulette if one believes the process is genuine and that a last-minute deal is not a given. The cynical among us, which includes the author, take it for a political Kabuki and don't give it much heed, at least with regard to its potential to spur volatility.

DERIVATIVES

Implied volatility levels remain relatively muted across the majors, with price action range bound. BTC's rolling 30-day and 90-day ATM vol is pricing around 46% and 47%, respectively, representing the 8th and 2nd percentiles over the past year and showcasing a relatively flat vol term structure (there is only a 3 vol contango between the 1-month and 6-month parts of the curve).

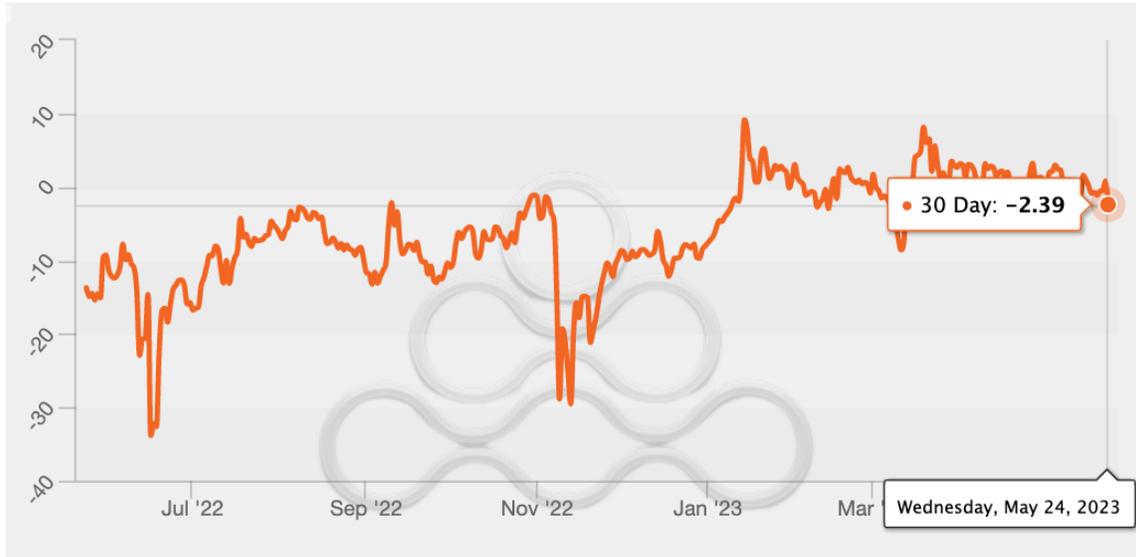
BTC ATM Implied Volatility (30 and 90-Day)



Source: Amberdata, GSR

BTC 30-day 25 delta risk reversals have reverted to the range we've observed since the end of 1Q23, pricing calls nearly 2 vols under puts (equating to the 63rd percentile over a one-year lookback).

BTC 30-day 25 Delta Skew (C-P)



Source: Amberdata, GSR

ETH implied vol levels are pricing on par with BTC, with ETH 30-day and 90-day levels hovering around 44% and 46% (near the 1st percentile over the past year).

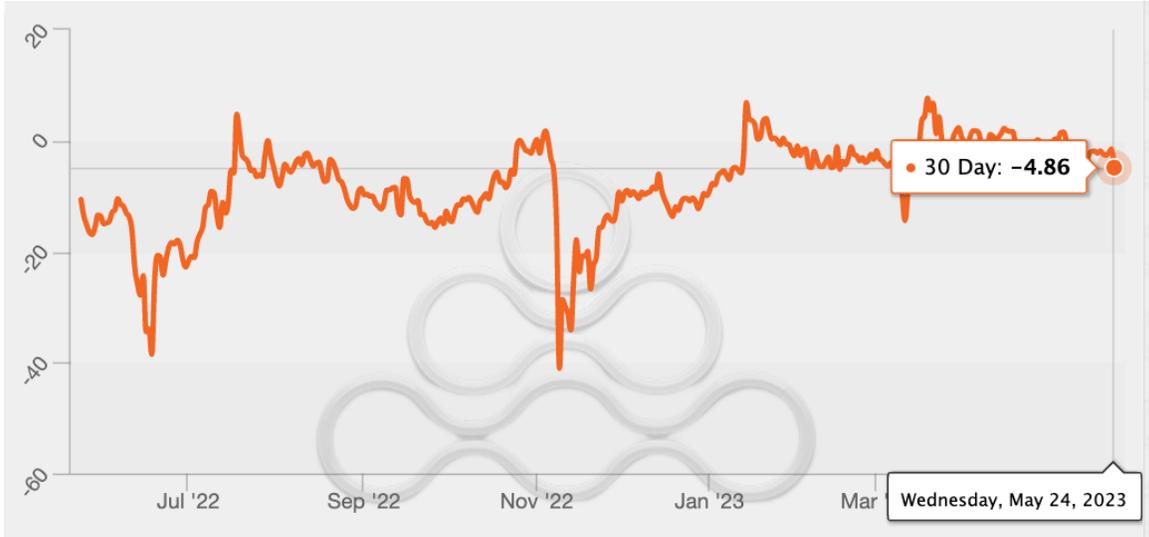
ETH ATM Implied Volatility (30 and 90-Day)



Source: Amberdata, GSR

With call premiums having retraced, ETH 30-day 25 delta risk reversals are pricing call skew nearly 5 vols under puts (60th percentile over a year).

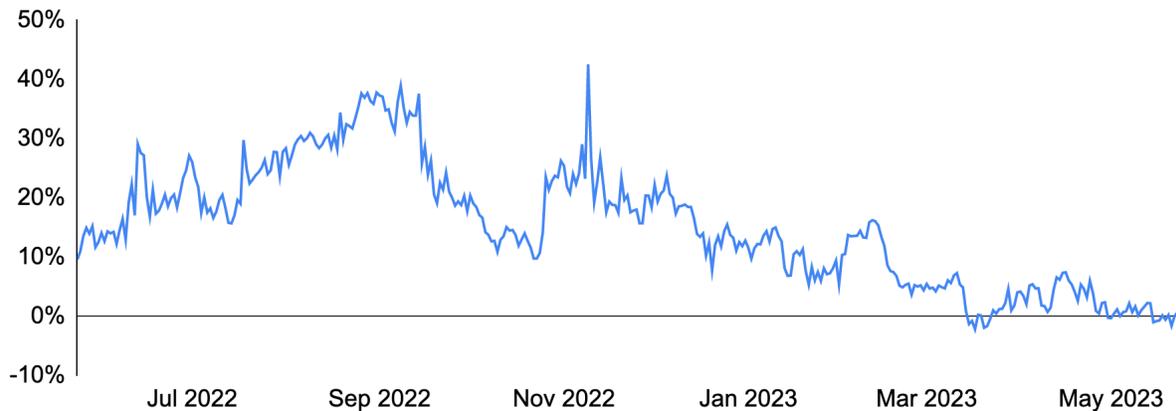
ETH 30-day 25 Delta Skew (C-P)



Source: Amberdata, GSR

Moreover, the vol spread between ETH and BTC remains compressed, with ETH 30-day ATM implied vols pricing nearly 2 vols below BTC (1st percentile over the past year). One of the largest contributing factors to depressed levels of ETH implied vol has been the sizable calendar rolls that went through the market, with 63k of the Jun23/Sep23 2200 calendar rolls trading (selling ~150k+ vega), further flattening the vol term structure.

30-Day ATM ETH vs BTC Implied Vol Spread



Source: Amberdata, GSR

30-Day ETH and BTC Realized Volatility

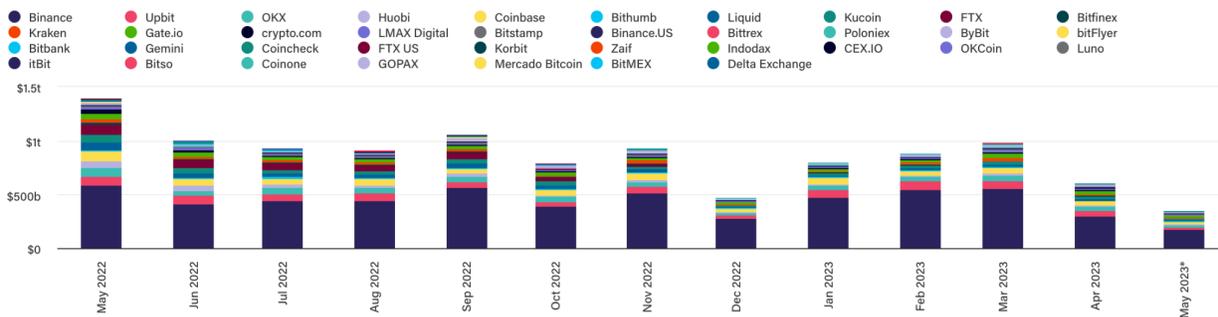


Source: CoinGecko, GSR

FLOWS AND LIQUIDATIONS

Overall flows and liquidations have been quiet with realized volatility at the lows. It goes hand in hand with the current narrative of low liquidity with large institutional players pulling liquidity in the current regulatory environment. As a result, we have seen overall exchange, trading, and general flow volumes decrease.

Cryptocurrency Monthly Exchange Volume



Source: The Block, GSR

Note: May 2023 volume is through May 24.

Altcoins

We've seen a number of interesting occurrences recently in the altcoin space, including:

- The market has seen notable interest in different convexity plays for Litecoin (\$LTC) in the form of outright calls, call spreads, and straddles over the past week. With the next

Litecoin halving two months out (and the block reward falling to 6.25 LTC), 30-day realized vol continues to remain range bound between 50-60%.

- Although most of the well-established alt-coins continue to perform in line with the majors when it comes to realized volatility, there are a few notable exceptions including LooksRare (\$LOOKS), where the rolling 30-day has spiked to ~130%.
- Synthetix (\$SNX) has seen an uptick over the past two weeks, rallying 11%, partly driven by Kain Warwick's proposal to potentially split and buy back tokens (and subsequently burn them) as a means of motivating broader participation in the network.
- Mania around Pepe (\$PEPE) has fallen drastically, with a \$250m reduction in market cap over the past two weeks, despite its recent listing on Bitfinex.

Authors

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GSR has over a decade 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 250 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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