

# Ahead of the curve

Week 49, 2022



Provided by **arcane**  
research

# Market Update



## Busy macro week

- Bitcoin has stabilized further in the last week, trading in a tight range at \$17k, pushing the 7-day volatility to new lows, while GBTC's discounts have widened to -48%. ETH trades in tandem with BTC, leading the correlation to push towards unusual highs. The crypto market is idle. The brief stint of vibrant institutional activity on CME has halted, evident by CME's OI nosediving, pushed by a sharp decline from active market participants.
- While BTC and ETH have both risen modestly in the past week, BNB has seen a steep 8% drop in price. This downward trend can be attributed to a series of challenging circumstances surrounding Binance, such as the possible money laundering charges being considered by US prosecutors, the ongoing feud between Binance and Coinmama, leading [Binance to suspend Coinmama and share customer support messages in public](#), and Binance's failure to disclose liabilities in their Proof of Reserves. These events have contributed to a decrease in BNB in addition to causing an uptick in exchange outflows from Binance.

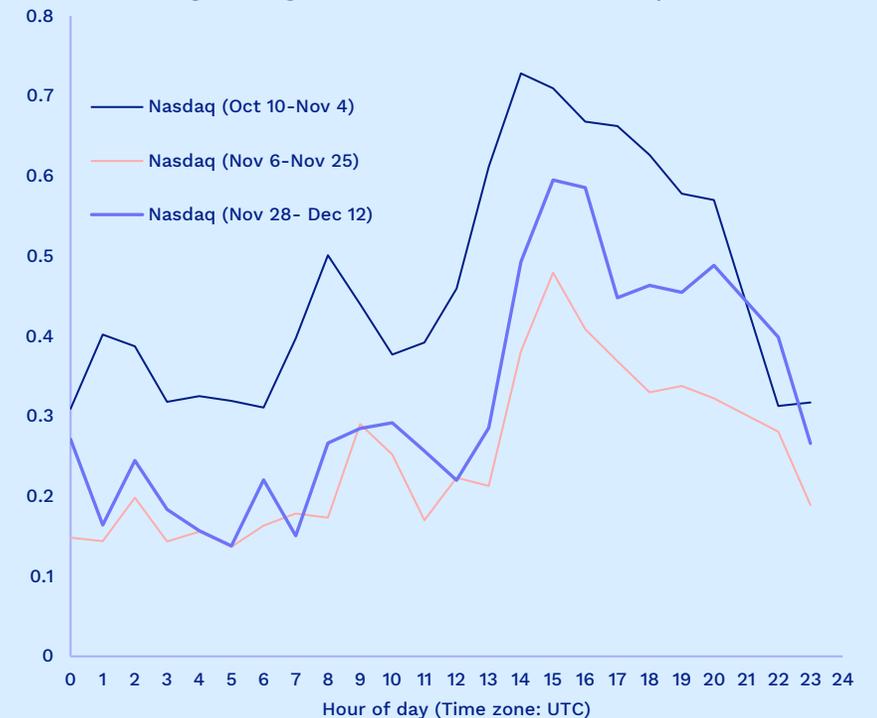
## Important macro catalysts ahead

- While Bitcoin has stabilized around \$17k with no material action in the last few weeks, this week could be volatile due to several important economic events. Today's CPI release today came in lower than expected at an MoM growth of 0.1%, leading BTC to push toward \$18,000. Tomorrow's FOMC will likely cause a sharper market reaction, and market participants are currently pricing in an 80% chance for a 50bps hike vs. a 20% chance for a 75bps hike. In addition to the nearest hike, clues provided by Jerome Powell regarding the forecasted hiking schedule for 2023 will likely contribute to causing a volatile environment. Also, the BoE and ECB will hike interest rates this week, which may have spill-over effects on bitcoin as it may directly impact dollar strength.
- Correlations between BTC and the Nasdaq appear to be reappearing. The figure on the right illustrates correlations at a granular hourly level based on minute returns of BTC and Nasdaq. The purple line illustrates correlations from November 28 until December 12, indicating that BTC is following the Nasdaq more closely now than it did back in November. In other words, with all these macro-economic catalysts and reappearing correlations in play, it may be time to buckle up and prepare for volatility.

## Inflated and artificial open interest?

- In the past year, the BTC futures market has experienced major changes, with some exchanges experiencing huge growth in open interest. However, some may be inflating their numbers to appear more significant. To better understand open interest relative to assets held on an exchange, we gauge open interest relative to disclosed proof of reserves. Although a high OI to PoR ratio does not necessarily mean malicious activity is taking place, it is still something to be aware of.
- The exchange with the highest OI to reserves ratio is Bitget at 680%, followed by Phemex at 361% and Bybit at 153%. If you seek to trade derivatives, a cautious approach may be to avoid the exchanges with the highest OI relative to reserves.

Average rolling 60 minute correlation, Nasdaq and BTC



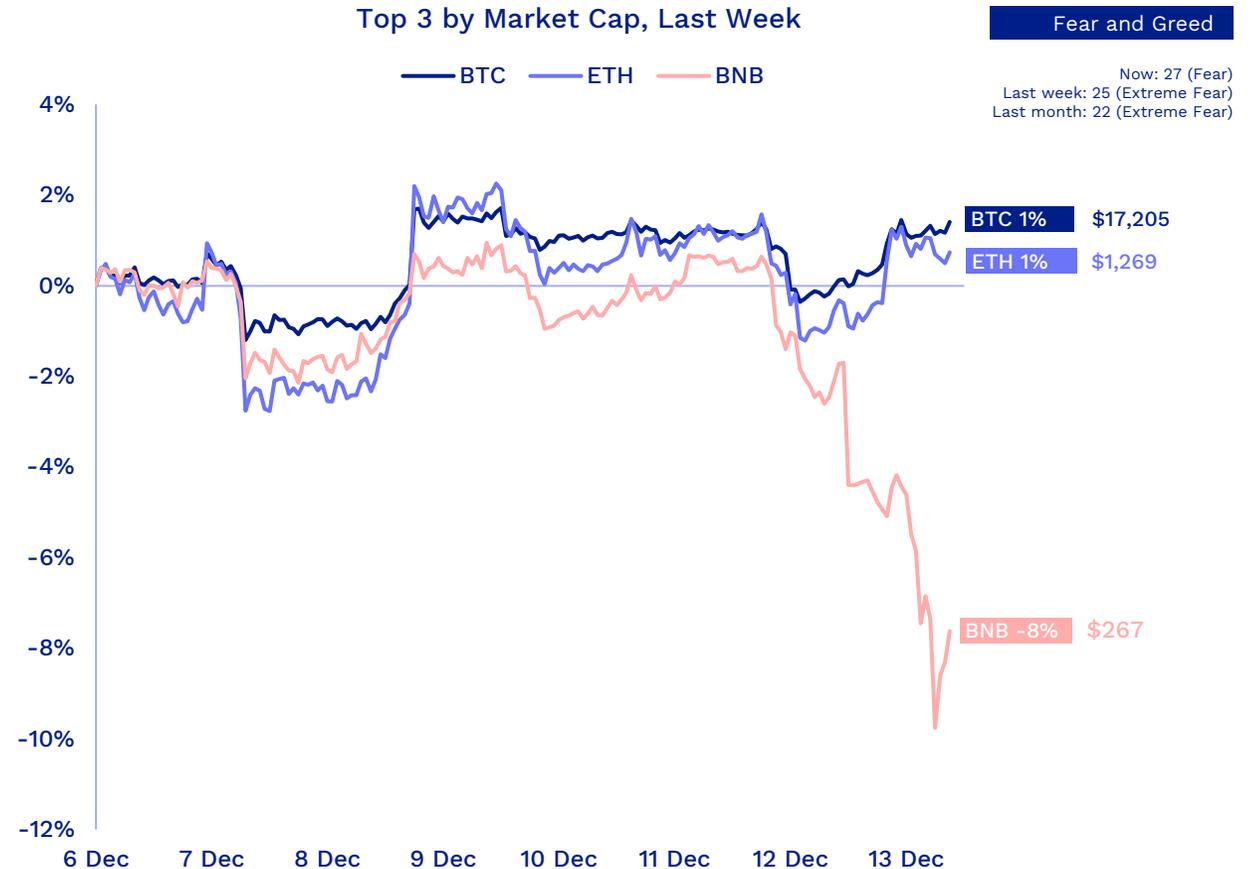
Source: Tradingview (Coinbase, CME Group)

**Spot Market**



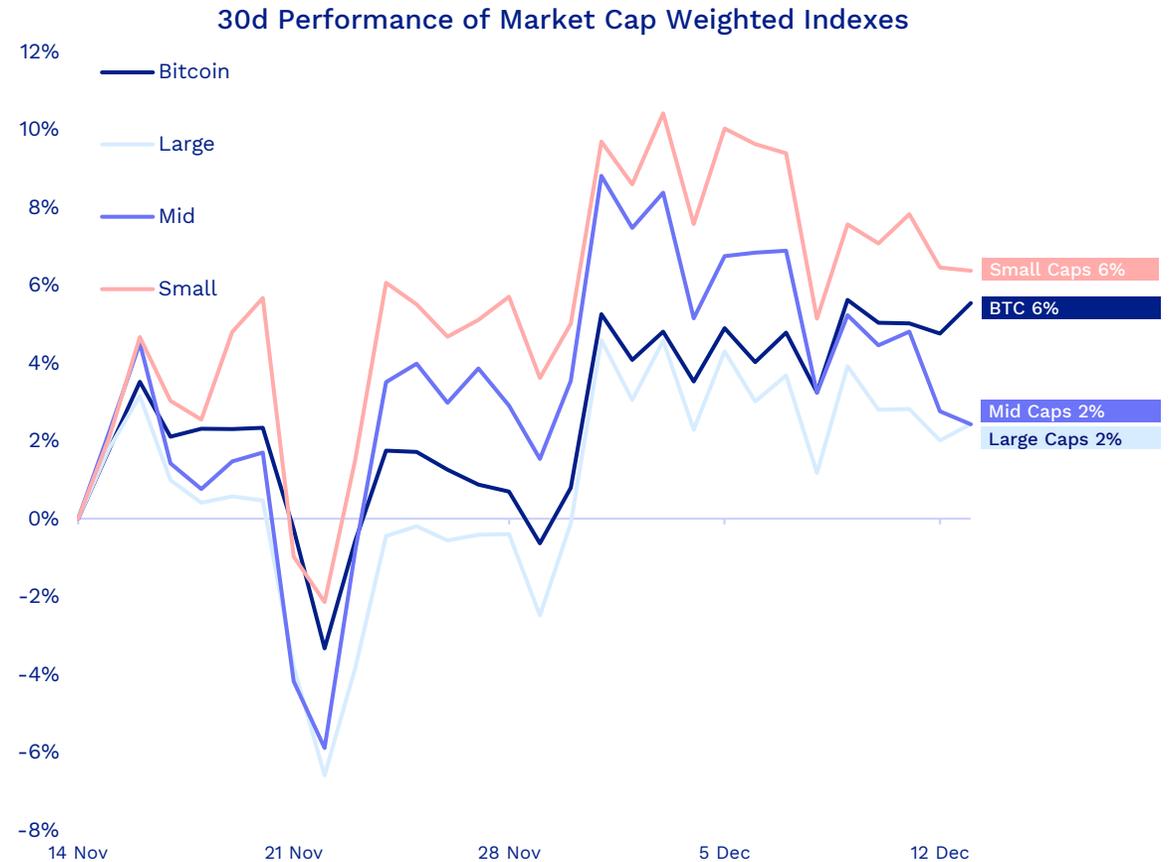
# Busy macro week

- Bitcoin has stabilized further in the last week, trading in a tight range at \$17k, pushing the 7-day volatility to new lows. ETH trades in tandem with BTC, leading the correlation to push towards unusual highs. The crypto market is idle.
- The brief stint of vibrant institutional activity on CME has halted, evident by CME's OI nosediving, pushed by a sharp decline from active market participants. While BTC reigns directionless, this week offers several potential volatility catalysts due to a myriad of important macro events, in particular, related to Wednesday's FOMC press conference.
- While BTC and ETH have both risen modestly in the past week, BNB has seen a steep 8% drop in price. This downward trend can be attributed to a series of challenging circumstances surrounding Binance, such as the possible money laundering charges being considered by US prosecutors, the ongoing feud between Binance and Coinmamba, leading Binance to suspend Coinmamba and share customer support messages in public, and Binance's failure to disclose liabilities in its Proof of Reserves. These events have contributed to a decrease in BNB in addition to causing an uptick in exchange outflows from Binance.



# Flat since the storm

- All crypto indices have traded in a low volatility flat regime in the last 30 days, following BTC closely.
- The strong correlation between the indices and BTC suggests that market participants are largely passive at the moment, with few notable rotations evident to or from altcoins.



Source: Bletchley Indexes, Tradingview (Coinbase)

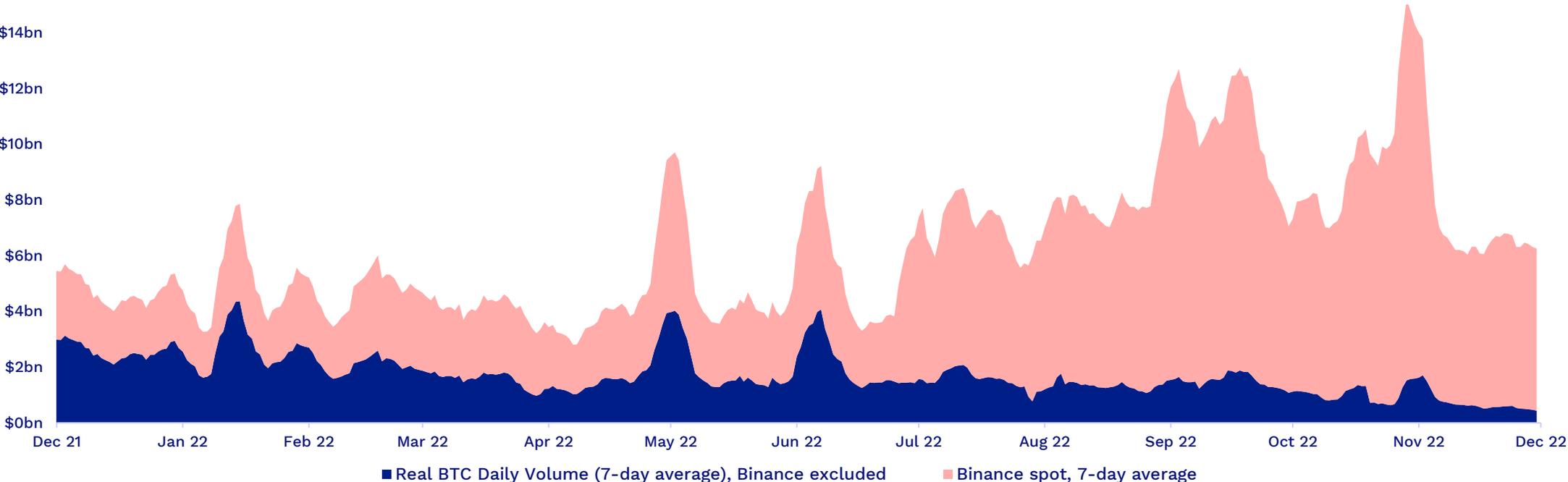


# Nothing new under the sun – market standstill ensues

Volumes outside of Binance keep on falling. Last week's lows of \$510m were broken as the 7-day average trading volume reached \$436m on Monday, December 12.

Trading volume is the bread and butter of exchanges, and the current inactive trading regime directly affects their revenues. This has obvious second-order implications. To prepare for slower days, Kraken, Bybit, and BitMEX have recently announced a headcount reduction of 30% to withstand a market slumber. New restructuring and headcount reductions may occur onwards as crypto businesses are pressured due to lackluster speculative demand in crypto.

Real BTCUSD Daily Volume\* (7-day average)



Source: Tradingview

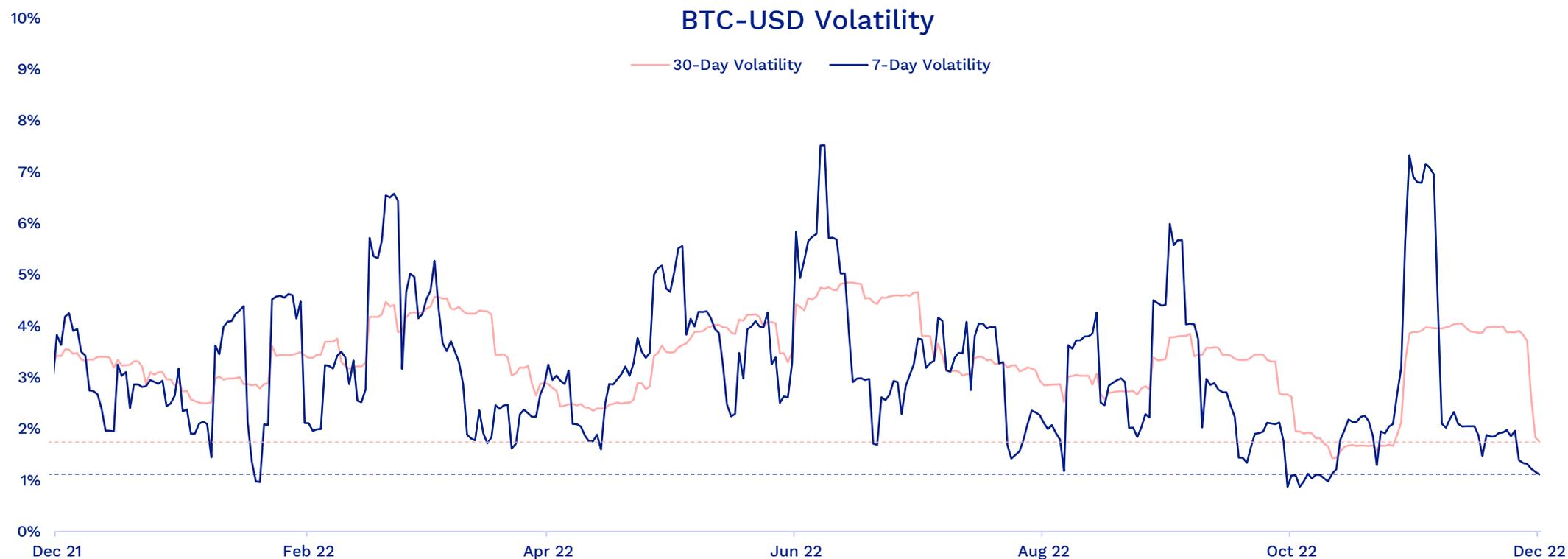
\*Includes Bitwise 10 exchanges and FTX



# Volatility plunging towards yearly lows

Bitcoin has traded stubbornly in a completely flat environment over the last seven days, sitting firmly at \$17k. This has caused the 7-day volatility to drop to 1.1%, the lowest reading since late January and mid-October 2022. The 30-day volatility has also taken a nosedive, as time has passed from the market impact of the FTX collapse. Currently, the 30-day volatility sits at 1.8%. In the past year, bitcoin has only experienced a lower 30-day volatility in October, illustrating the flat and stable market conditions of late.

While bitcoin reigns eerily flat, this week is filled with macro catalysts that might reignite the market, in particular related to Wednesday's FOMC press conference. As implied volatilities falls, straddles might be a promising short-term trading strategy.



Source: Tradingview (Coinbase)



**Derivatives**

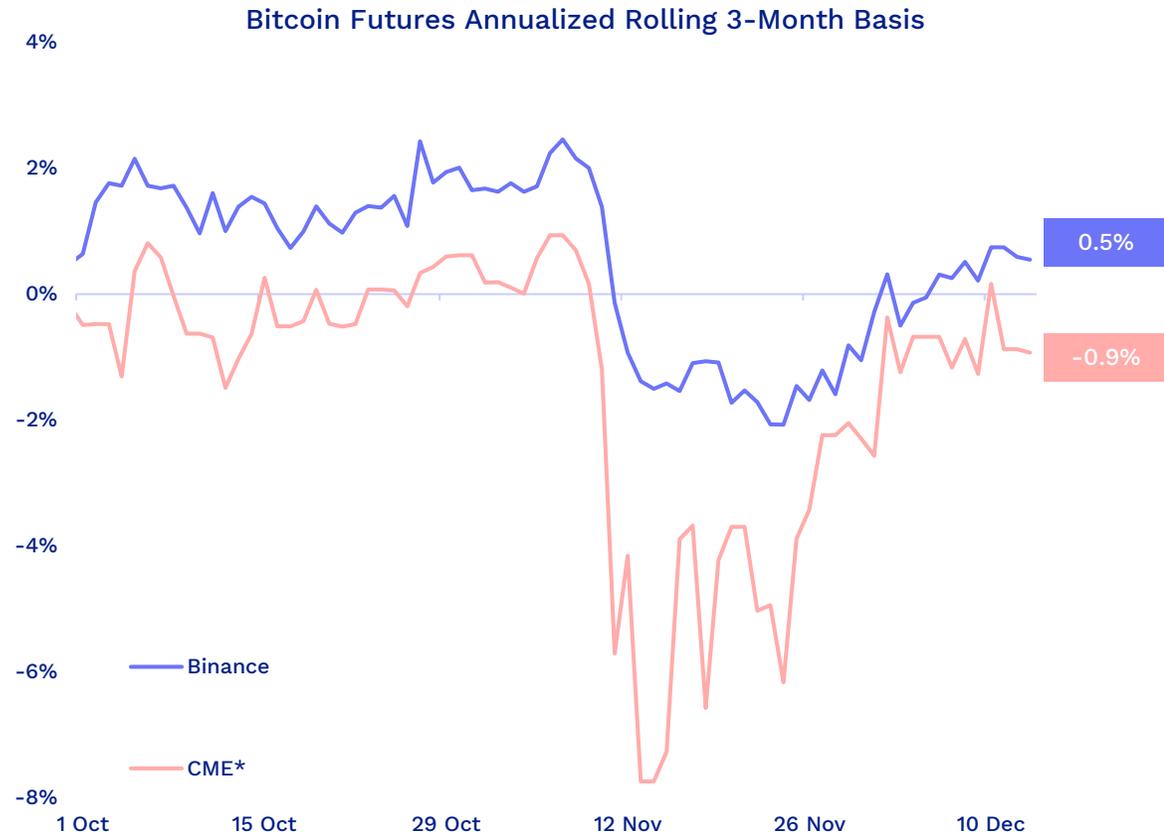


# Stabilizing futures basis

- Over the past seven days, the futures market has been trading in a largely flat basis regime, with CME's 3 month futures trading at an annualized negative basis of -1%.
- This regime has been consistent throughout December, with a marked decrease in institutional trader participation.
- On Tuesday morning, CME's futures briefly climbed to a premium, as CME futures reached \$18,000 on increased trading volumes while bitcoin simultaneously pushed to a one-month high of \$17,500 on Binance.
- The premium was short-lived, however, and CME is now trading flat versus the spot market.

## Futures term-structure still in backwardation

- CME's BTC traders continue to remain conservative on the platform as the futures-term structure stays in a state of backwardation. The next-month contracts have been trading at a 50bps discount compared to the front-month contract, a trend that has been consistent over the past few weeks.
- Furthermore, the volume for the next-month contracts has been rather low, with the majority of the flows coming from the nearest contract.



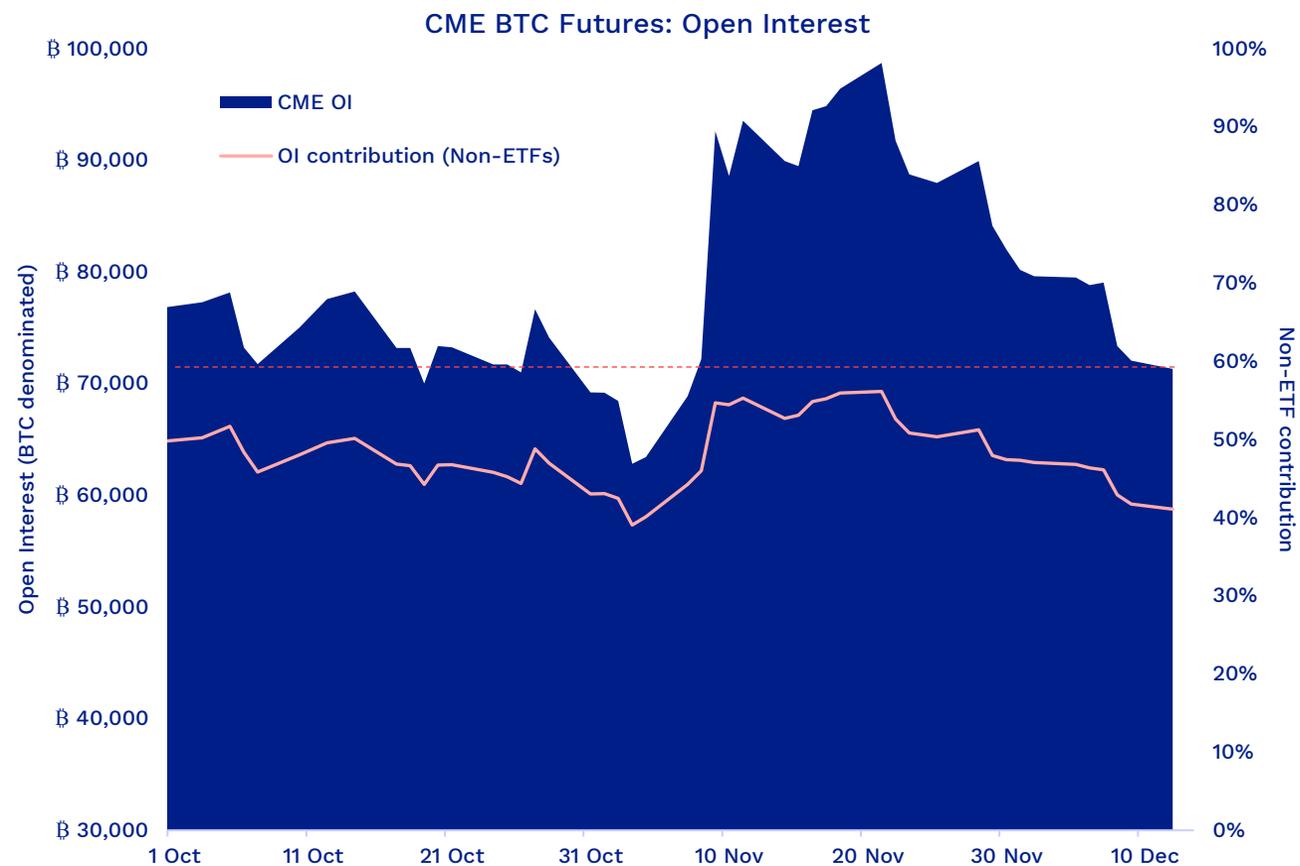
Source: Skew, Laevidas, Tradingview, CME

\*Closed Saturday - Sunday



# CME's BTC OI down to mid-October levels

- Open interest on CME has retraced to October levels, with open interest currently sitting at 71k BTC. As ETF flows remain stagnant, this decline in open interest may be explained by active market participants exiting positions.
- The share of open interest held by active institutional market participants has fallen to 41% from 56% on November 21.
- The brief stint of vibrant institutional market participation has thus died down, and institutional speculators have resumed to a hands-off exposure to bitcoin.

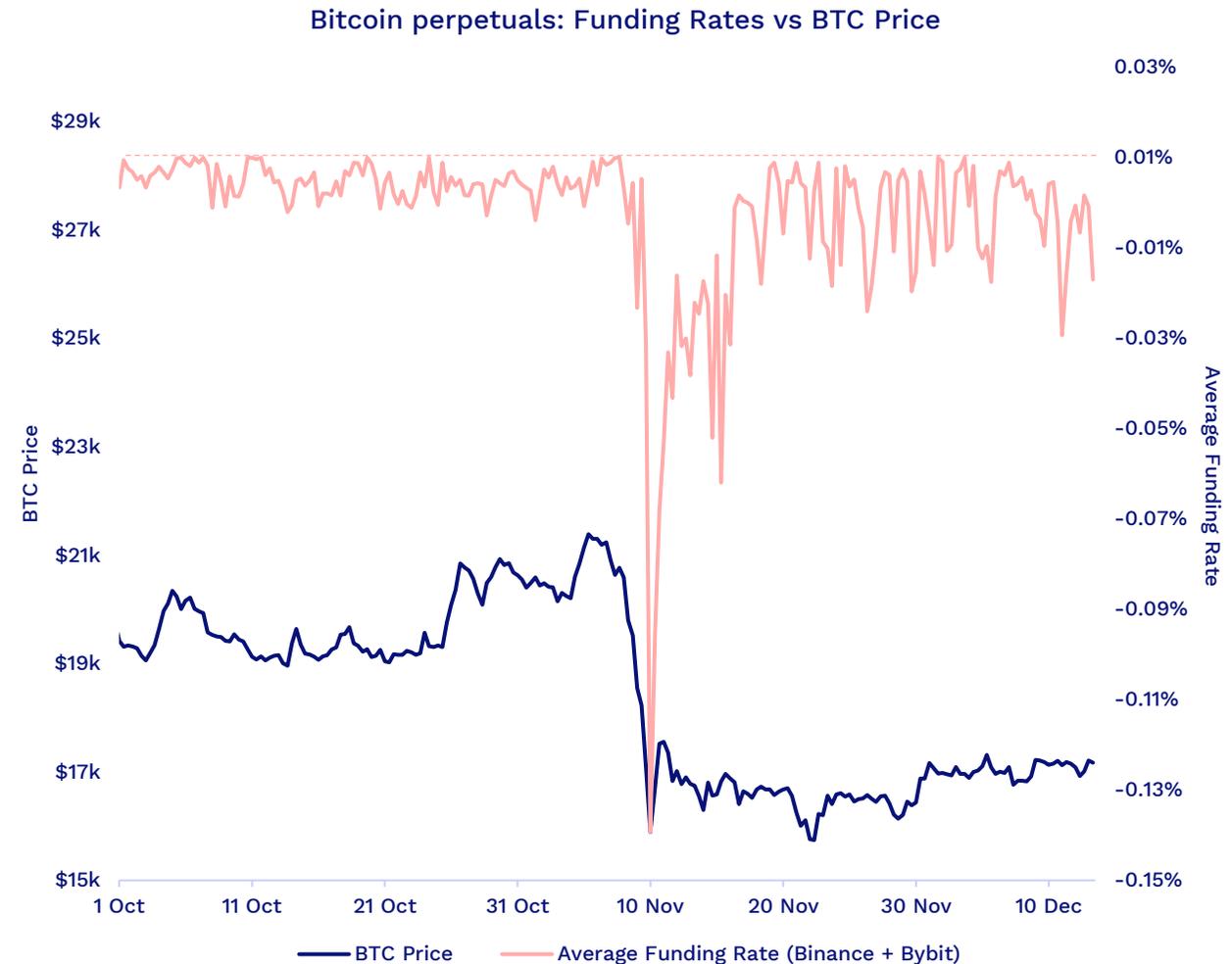


Source: Coinglass, ProShares, Valkyrie, VanEck



# Funding rates slightly more negative

- Funding rates have been slightly more negative throughout the week compared to what we saw in late November.
- Perpetual swaps are also exposed to a noticeable plunge in trading activity. Activity in perps remains exceptionally low, and trading volumes continue to trail at multi-year lows, suggesting that the speculative appetite in the market remains severely reduced.

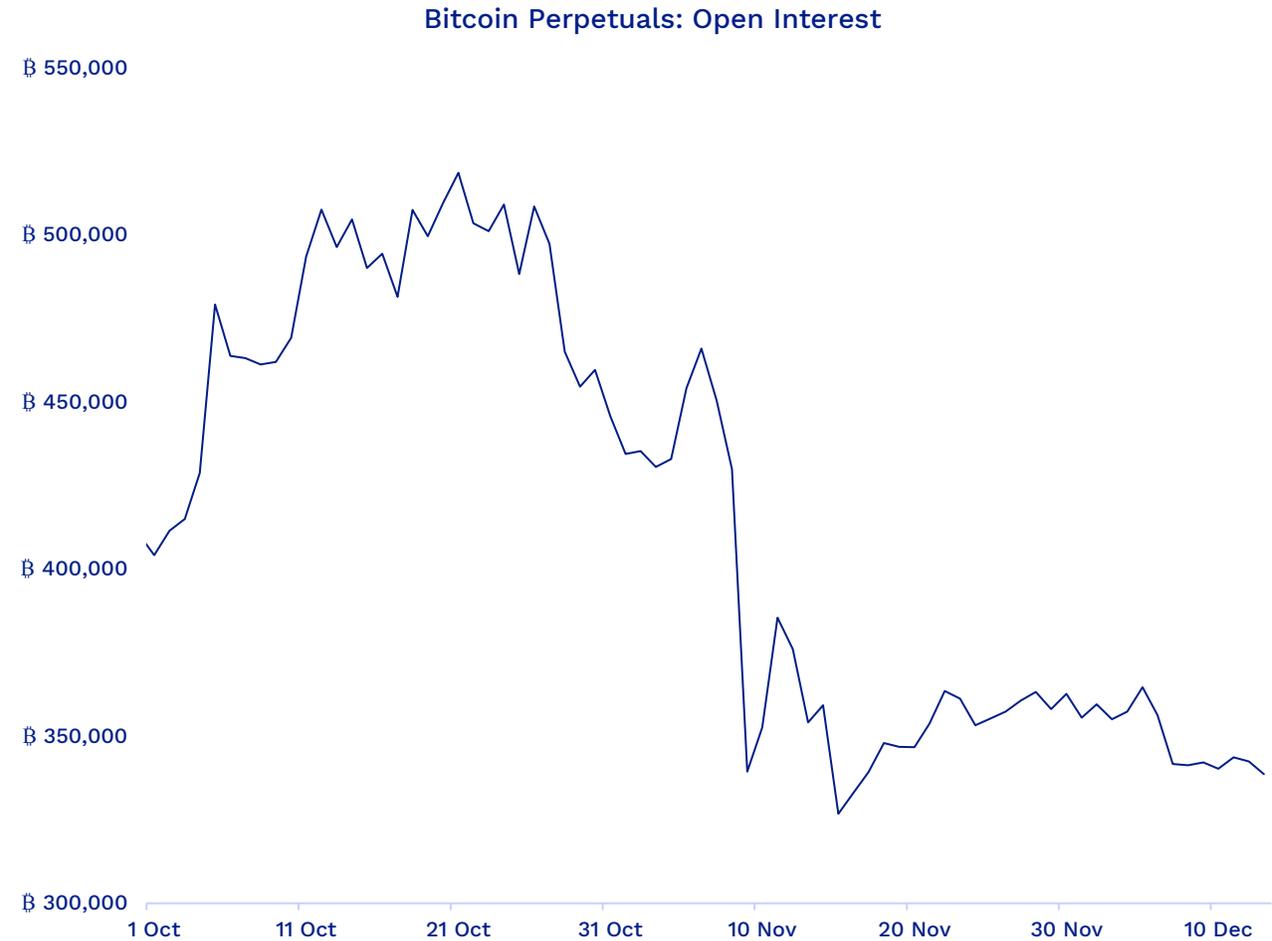


Source: Bybit, Binance, Tradingview (Coinbase)



# Open interest see slight decline

- The open interest in perps has declined further, currently sitting at 339,000 BTC, down from 357,000 BTC last week. Most of the decline originates from a sharp reduction in Binance's BTCUSDT perp.
- In essence, while open interest has fallen, there have been no material changes to neither sentiment, leverage, or activity in perps over the past week.



Source: Laevis



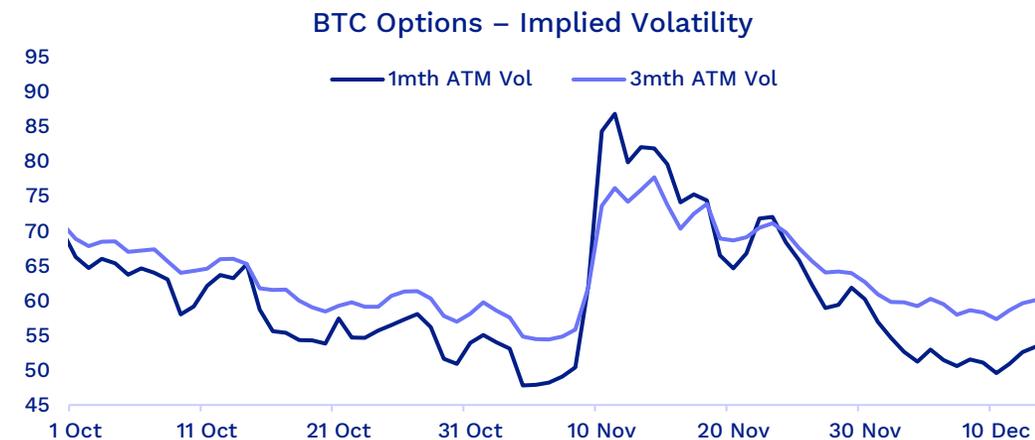
# Bitcoin options: Still high demand for downside protection

## Skews gradually trending lower, but demand for puts still high

- Options skews still trail in positive terrain, albeit at a slightly downward trending path. The 6mth skew currently sits at 7, on par with levels from mid-October. Similarly, the 1mth skew has retraced back towards mid-October levels.
- Yet, puts still remain in high demand as skews stay firmly positive, suggesting that downside protection remains the key priority in the market.

## IV also back to Mid-October levels

- Implied volatility (IV) has stabilized at shallow levels alongside a fall in realized volatility due to BTC stabilizing at \$17k. The current IV levels now reflect levels seen in Mid-October, similar to our observations related to both CME's OI and within options skews.
- The 3 month IV currently sits at 60, which has previously been an attractive area for straddle strategies.



Source: Laevidas



# The Deep Dive



# A Big Macro Week

## Important macro catalysts ahead

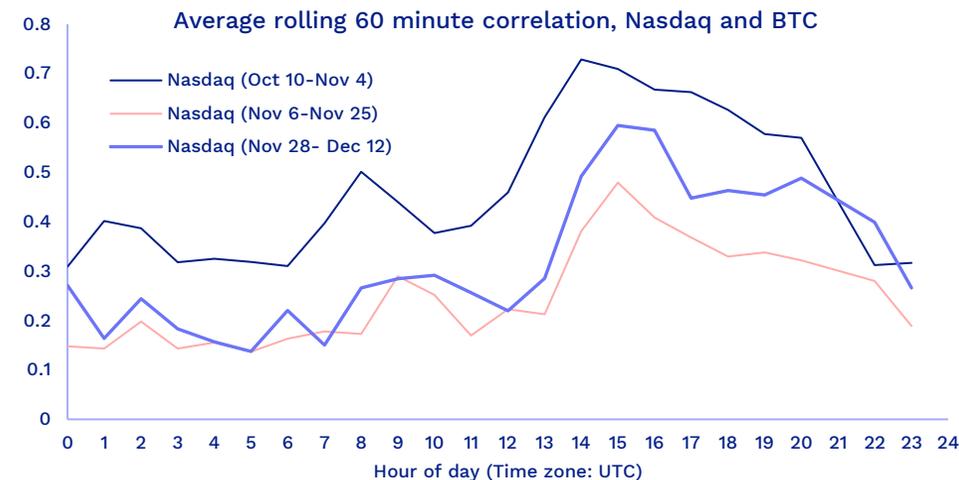
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Though the market has become less correlated since the aftermath of FTX's collapse, correlations appear to be reappearing. The chart below illustrates correlations at a granular hourly level based on minute returns of BTC and Nasdaq. The dark blue line illustrates correlations from November 28 until December 12, indicating that BTC is following the Nasdaq more closely now than it did back in November. In other words, with all these macro-economic catalysts and reappearing correlations in play, it may be time to buckle up and prepare for volatility.

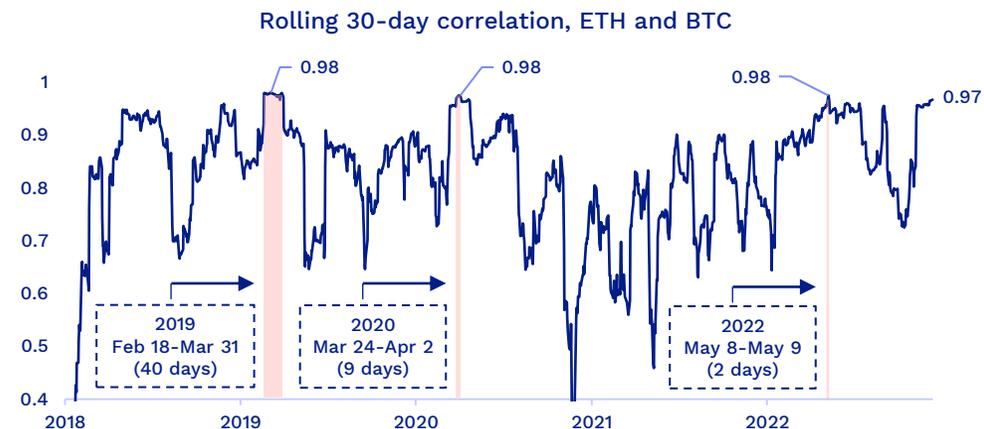
## Speaking of correlations: ETHBTC 30-day correlation

The 30-day correlation between ETH and BTC currently sits at 0.97. This is extremely high, and the rolling 30-day correlations between ETH and BTC have only been higher in three periods prior to this. First, from February 18 to March 31, 2019. This was a slow period in the market, as bitcoin reigned directionless at \$4k throughout March, with ETH following BTC closely. Correlations firmed as BTC rallied from early April till the end of June. The second period of higher correlation than the current lasted for 9 days from March 24 to April 2, 2020, after the COVID meltdown. The third period occurred this year and lasted for two days, from May 8 to May 9.

In general, the very strong correlation depicts an inactive market with no substantial altcoin rotation. Additionally, it illuminates an apathetic behavior by traders, in which two of three previous events have eventually led to an upside price movement.



Source: Tradingview (Coinbase, CME Group)



Source: Tradingview (Coinbase)



# Open Interest vs. Proof of Reserves

Various exchanges have gradually presented Proof of Reserves (PoR) in the last month, with certain exchanges being critiqued for running Agreed-Upon Procedures. Nevertheless, it is still great to see a push toward more transparency by offshore exchanges.

In the past year, the BTC futures market has experienced major changes, with some exchanges experiencing huge growth in open interest. However, we have doubts about the validity of the data supplied by certain entities, as some may be inflating their numbers to appear more significant. To better understand open interest relative to assets held on an exchange, we gauge open interest relative to disclosed proof of reserves. Although a high OI to PoR ratio does not necessarily mean malicious activity is taking place, it is still something to be aware of.

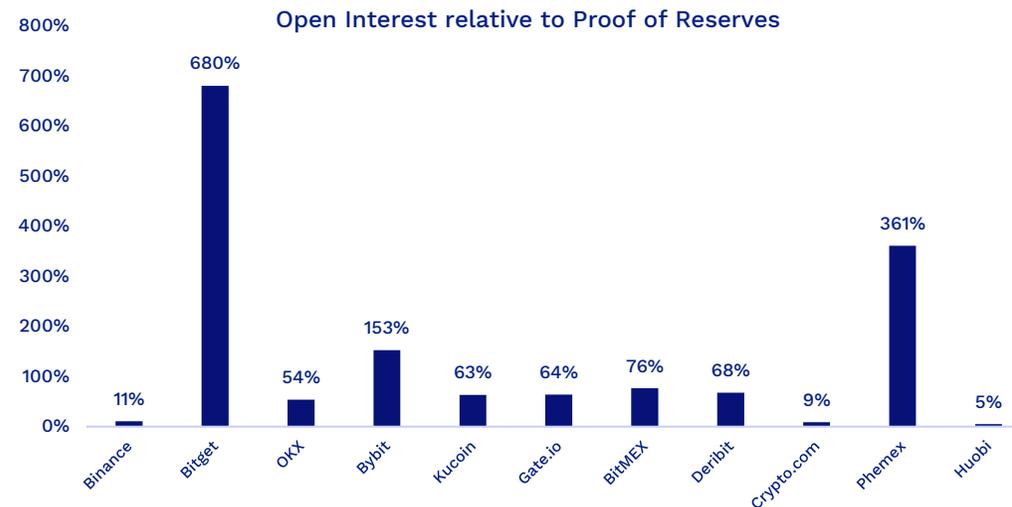
The exchange with the highest OI to reserves ratio is Bitget at 680%, followed by Phemex at 361% and Bybit at 153%. If you seek to trade derivatives, a cautious approach may be to avoid the exchanges with the highest OI relative to reserves.

While BitMEX and Deribit's OI to reserves ratio may seem high, it's important to understand that Deribit solely offers derivatives, and traders at Deribit are likely more inclined to be active with the deployed capital. BitMEX and Deribit may currently be underappreciated for their straightforward isolated margin structure, simplicity, and long-lasting transparency.

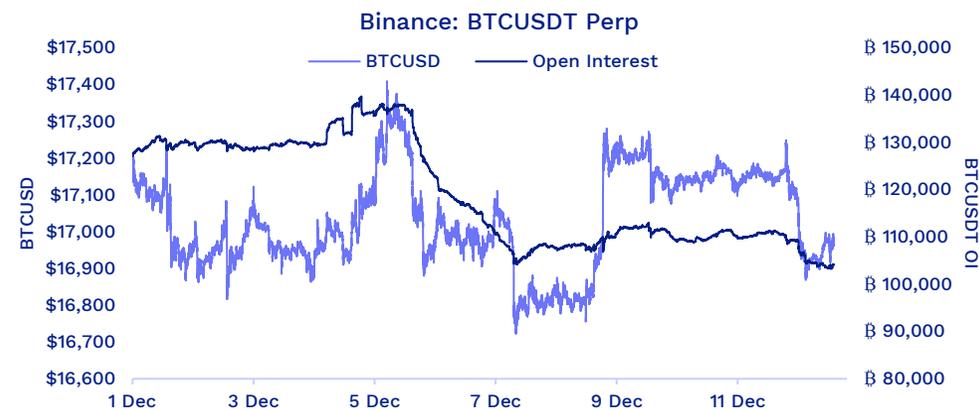
## Binance deleveraging

The open interest in Binance's BTCUSDT perp has seen a substantial fall in the last week and fell by 32,000 BTC from December 5 to December 7, with no meaningful impact on BTC prices, which hovered at around \$17k in the period, albeit on a slight downtrend.

This combination of large changes to Binance's OI and a lack of price volatility is similar to what was seen last December, leading certain traders to question the accuracy of Binance's OI data. The dampened price impact could also potentially be caused by an OTC transaction between two entities on opposite sides of the market.



Source: Coingecko, Binance, Bitget, OKX, Bybit, Kucoin, Gate, BitMEX, Crypto.com, Phemex, Huobi



Source: Tradingview (Binance)



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