Its Not About the Nail

Week Ending April 26

Ari
Apr 26

Hi All,

	4/26/2022	4/19/2022
BTC	39146	41395
ETH	2897	3113
BTC Implied Yield (Qtly)	2.20%	2.50%
BTC 1M Implied Vol	60	58
BTC 7 Day Realized	30	41
BTC 1M 0.5 std dev skew	-6.2	-6
Implied 1 Std Dev Move	1229	1256
Avg Daily Move	514	804
Avg Daily Range	1548	1472

Download Chartbook here

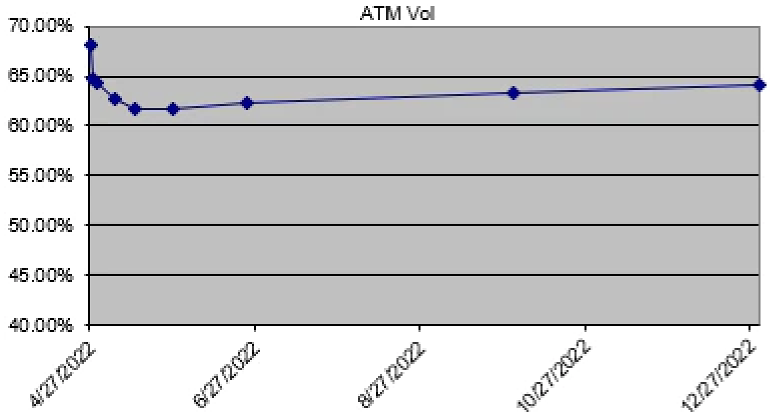
There is a very well done video on active listening for couples called "It's Not About the Nail" from all the way back in 2013. Okay. It is not a how-to video. It is funny. You can find it here and I hope you also find it funny. What does this have to do with crypto? SBF was recently on the Odd Lots podcast. In the intro, Tracey Alloway says "I'm surprised in this environment BTC is not performing better." I do try not to repeat myself (too much), but as the rest of the world insists on speaking about this wrongly, I shall do it anyway: Denominators Matter. If you are analyzing BTC/USD and ignore the USD part, you are doing it wrong. But maybe when smart people say something that is clearly incorrect, that's not their point. Joe W is a high level troll (not Musk level, but high level). So maybe "Its not about BTC relative performance".

And the dollar has been a story. Of course, when the Fed has talked the two year note up from around 0.8% to 2.5% in a world that includes negative rates, the currency is going to appreciate. Brent Johnson of Santiago Capital has his milkshake theory — that the USD is going to drink eveyone (fiat currency) else's milkshake and appreciate on a relative basis. Then, it will have problems. It is similar to the "cleanest dirty shirt" theory as to why the dollar has not fallen off a cliff. And this is playing out. See Brent's thread here. This is important because the major benchmark for digital assets is the USD, so if the USD is the denominator, it will have a major impact on performance (and volatility).

We are seeing at least a partial milkshake theory or cleanest dirty shirt scenario. Remember, it is not just about the Yen per se. The dollar is the reserve currency for two reasons – neither of which is that crude oil is denominated in dollars. First, the USD offers a deep liquid market of investable assets. The second, and this is the relevant part for right now, is that because of #1, USD is the easiest market to raise large amounts of debt financing in. So people, businesses, and governments do. Issuing debt in USD when USD is not your native currency is a short dollar position. So when you think about inflation and USD devaluation, remember TSLA. I don't care whether you like or dislike Musk or Tesla or EVs. All you need to know is that large short positions can lead to big short squeezes. So as that dollar rises, it causes increasing stress for those entities along with covering, risk management, stop losses, and margin calls all associated with that short dollar position. This means that despite money printer go brrr, there is also a mega short dollar position that is there to offset some or all of the brr-ing.

Basis remains boring as both an investment and in volatility terms. For the relative value crowd, BTC June 24 basis in implied yield terms is *30 bps under USD 2 year notes*! It has been more interesting to get involved raising USD in extremely short dated (1 and 2 week) BTC futures than in earning yield on USD. Short dates at Deribit for ETH have been consistentaly negative (paying you for ETH balances). CME has actually been one of the more volatile marketplaces for basis.

At the time of this writing, implied volatility has firmed up in BTC on the move down in spot. Term structure has gone to backwardation.



It will come as no surprise to readers here that even at these "elevated" levels that this is hard for me to get excited about it. 5/13 straddle is $4K and we moved $3100 today. I'll add that simply because it moved $3100 or had a $3100 does not make it sufficiently tradable in and of itself. Putting together a hedging strategy is a critical aspect of trading a long options portfolio and it often is easier to sell options. Sadly, it is hard to get excited trading either direction at these levels.

Looking at the chartbook, I'm surprised at how ETH perpetual open interest has come down. April 29 option expiration will be a big chunk of the open interest but much of it is in far OTM calls. Let's hope that players want to get back in it and build up into May and June. Given the movement and the skew, owning calls over spot does offer a reasonable play for directional players.

Best,

Ari