



## It Takes Two to Con-Tango

Week Ending May 17



Ari

42 min ago



|                          | 5/17/2022 | 5/10/2022 |
|--------------------------|-----------|-----------|
| BTC                      | 30128     | 30900     |
| ETH                      | 2060      | 2328      |
| BTC Implied Yield (Qtly) | 1.75%     | 0.90%     |
| BTC 1M Implied Vol       | 80        | 79        |
| BTC 7 Day Realized       | 85        | 95        |
| BTC 1M 0.5 std dev skew  | -13       | -8.75     |
| Implied 1 Std Dev Move   | 1260      | 1277      |
| Avg Daily Move           | 986       | 1920      |
| Avg Daily Range          | 2800      | 2270      |

[Download the Chartbook — Cool Pictures!](#)

Hi All,

We started at the stage where some people noticed that UST was getting rugged on Curve, to twitter, to the morning color, and now Bloomberg Odd Lots is talking Luna. Pretty soon it will be on the Today Show and Good Morning America. But really, I think we are over that and onto the new thing. And there are definitely new things to talk about!

1. At-the-money implied volatility is in contango. Meaning that short term options have a higher implied volatility than longer term options. This does not necessarily mean that short term options are more expensive or a worse value than longer dated options — beauty, after all, is in the eye of the beholder. Plus, of course, we don't yet know the path of volatility.
2. Implied volatility is higher than it has been but lower than it was in the middle of the chaos. Things really began to get unglued when USDT was under pressure. Things

were getting spicy on the options side with both implied volatility and put skew going sky-high.

3. Why the contango? Ok. Sure. More aggressive buyers than sellers. When I saw the contango, my first thought was DeFi option vaults. Sure enough, the total value locked (TVL) for the option vaults had cratered. The pic below is from DeFi Llama.

| Name                   | Chains | 1d Change | 7d Change | 1m Change | TVL       |
|------------------------|--------|-----------|-----------|-----------|-----------|
| 1 Ribbon Finance (RBN) |        | +0.69%    | -35.30%   | -42.46%   | \$176.08m |
| 2 Opyn                 |        | +0.48%    | -35.48%   | -42.29%   | \$175.56m |
| 3 Friktion             |        | +0.24%    | -41.65%   | -42.56%   | \$74.98m  |
| 4 Lyra (LYRA)          |        | +0.30%    | -2.04%    | -8.04%    | \$46.34m  |
| 5 Dopex (DPX)          |        | +2.11%    | -30.34%   | -54.69%   | \$35.02m  |

4. Option open interest is up while futures open interest is less so. Go check out the chartbook and you can see that Deribit options open interest has climbed back up to Dec 2021 levels. And Binance perpetual open interest is at the lows.

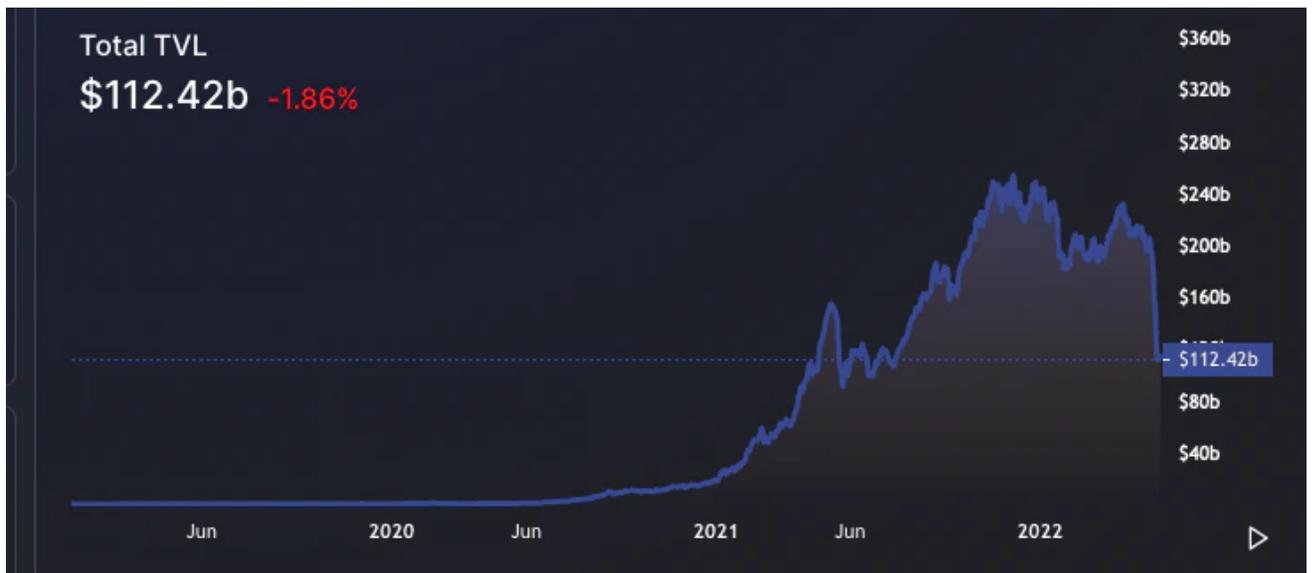
5. Put skew is *aggressive*. With 1/2 standard deviation skew (by our moneyness calculation) around 13 vol difference, this is as far as I've seen put valuation stretch (except during the actual crashing part when different parts of short term vols were 30+ vols different).

6. Basis? Still boring. Try back next week.

What's actionable? As per usual, I have no idea your risk tolerance, access to markets, and I can be wrong. So YMMV, DYOR, blah blah. But consider that when you see big, big differences like this in option markets — meaning the steep put skew — this is the market's way of asking for help. Sure, there is definitely increased risk on the downside. However, that may be risk that certain participants are willing to take — say by simply being long BTC (or ETH or whatever). Option markets are a place to look for “synthetics”: a different way to express the same (or very similar) risk profile. Right now the market is paying for people to sell put & buy call, which is a synthetic long position.

Additional items of note:

1. TVL across DeFi from DefiLlama. Round trip the hard way



2. After a tough slog of a first round playoff series, the Rangers pull off a win against a Penguins team that seemed to be outplaying them. Let's Go Rangers!
3. Even Joe Weisenthal is starting to talk about the aggressive move “from the bottom left to the top right” for the USD. Denominators matter! Causation means correlation!
4. Ari Paul (that guy from BlockTower; not the dynamic duo of Digital Gamma) stirring the pot on Twitter about a coming contraction in credit and a major market maker pulling liquidity from the market.

That's all for now although there is more to be said.

Best

Ari

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