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Food for Thought

Weekly Commentary March 29, 2022

	3/29/2022	3/22/2022
BTC	47393	42647
ETH	3408	3009
BTC Implied Yield (Qtly)	5.1%	4.30%
BTC 1M Implied Vol	60	66
BTC 7 Day Realized	33	50
BTC 1M 0.5 std dev skew	-2	-2
Implied 1 Std Dev Move	1488	1473
Avg Daily Move	789	744
Avg Daily Range	1586	1472

Hi All,

In the original Conan the Barbarian movie with the former governor of California, there was a fun quote that I've managed to keep kicking around in my head:

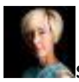
> "What is good in life, Conan?" Conan: "To crush one's enemies, drive them before you, and hear the lamentations of the women"

No! Basis! Basis is what is good in life. To meet demand with supply and get paid a nice yield in the process. You can imagine how empty my life has been with a payout in 3 month ETH futures that looked like … a USD 2 year note. EWWW. Look, we are not back at 20% implied APR but finally there is something to be had in the 5-6% range. Oddly, this comes at a time with perpetuals sporting a negative yield. I'd like to aggregate our data for all futures and for the time being, you can check it out on The Block's Research portal for data. You can see that overall futures data has rebounded significantly higher than just for the Binance perp. I suspect that with basis low moving out the calendar that investors find it makes more sense to take a known low-ish financing cost vs. the unknown and potentially catastrophic funding in perpetuals.

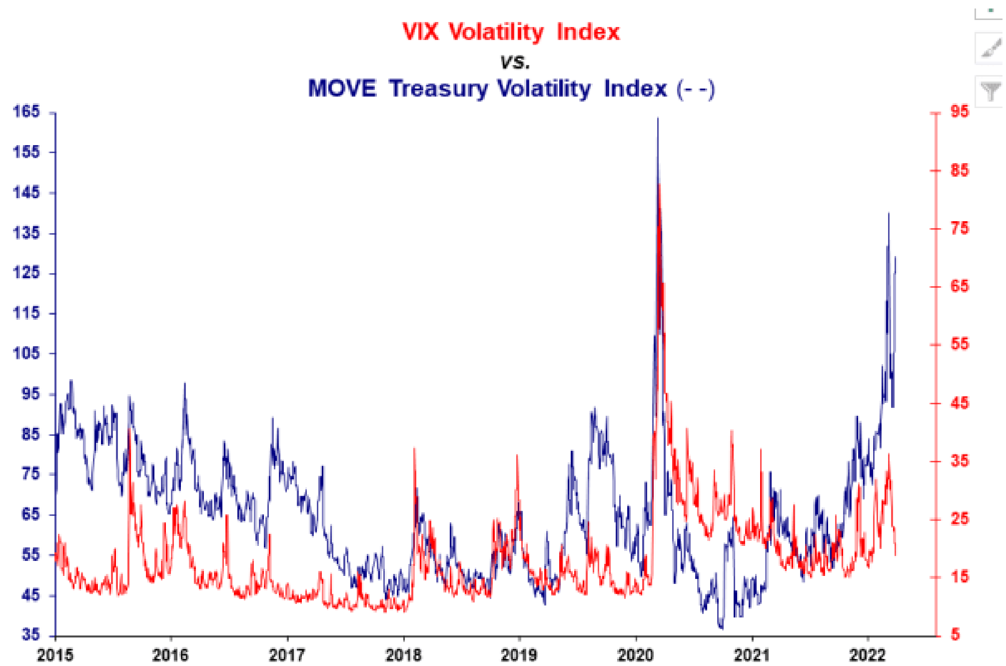
Meanwhile, the options action is jawdropping. Sure, realized volatility is down. However, ultimately we don't trade "vol", we trade dollars or BTC. And BTC moved nearly $5K this past week. That is far in excess of how a 7 day straddle gets priced even at 65% volatility. Right now the 9-day (April 8) straddle is priced for $3300. No idea if buying it makes money or not as that involves the future. I do know that it does not represent a comfortable sale to these eyes (and risk appetite). And that is not even taking into account the headline risk from Europe, the Fed, and politicians generally right now.

Food for thought:

1. From Steph Pomboy on twitter points out that volatility in US Treasuries (interest rates) are high and climbing vs equity volatility. These tend to be related and not diverge as much as they currently have.

**steph pomboy** @spomboy

Better chart.....



steph pomboy @spomboy
One of these is wrong. I know where my bet lies. https://t.co/CBPXXCpvYs

March 29th 2022

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2. The potential for a Russian debt default on 4/4 is more likely than not. Hard to see that not causing cascading problems, but I've not heard of anything just yet. Although it did take a little while for the

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Thai baht problem to start ricocheting. Ironically enough that was what ended up leading toward a Russian default in the summer of 1998.

3. Everyone — and, of course, by everyone I mean everyone on twitter and bloomberg — is talking about 2s-10s inverting. Meaning that the 10 year US Treasury note is yielding roughly the same (or just under) what the 2 year note yields. That implies that the market thinks that interest rates will not rise above the 2 year note level and may actually decline (typically investors want additional yield to lock up their money for longer). There is a bit of debate on whether this should allow stocks to rally but I think the typical reaction is that if there is economic weakness (but not total catastrophe) then monetary policy will kick in for more financial market stability for stocks.
4. This article. To be clear, I have all sorts of problems with this. For one thing there is an implication that our current system is good, better, or even better off without some sort of non-sovereign competition. I don't agree. Still, there is a real problem with investor protection and incentive alignments for new projects. Most importantly, we must always be checking our assumptions and that can only be done by listening to diverse opinions and viewpoints. So deal with it.
5. About a week ago I read a tweet that roughly went "owning European bank stocks is like punching oneself in the sensitives". I can't find it and I probably would not simply quote it as it is not family friendly. I came very very close to immediately buying EUFN (European financials ETF) but the news flow has just been so bad. Obviously it went straight up. So here is my thought for all of us: what if the Ukraine invasion is the wake up call for Europe? They start providing for their common defense, begin fiscal policy initiatives, and look like a neutral party vis a vis US and China. One of the key points that I have been making in arguing for the viability of some sort of crypto (presumably BTC) to be a reserve currency is that it is stable, a neutral currency for countries that want to engage both the US and China, and not the Euro because it seemed like a basket case. To be clear, this is not a prediction. Right now this is just a thought in my head to watch. I'm not an expert on Europe and the appetite for fiscal stimulus has not been there. But war, potential famine, and an energy crisis are powerful motivators.

Best,

Ari