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Week Ending Feb 1

Hi All,

	2/1/2022	1/25/2022
BTC	**38570**	**35500**
ETH	**2773**	**2430**
BTC Implied Yield (Qtly)	**4%**	**5.5%**
BTC 1M Implied Vol	**62**	**75**
BTC 7 Day Realized	**63**	**108**
BTC 1M 0.5 std dev skew	**-5.4**	**-9**
Implied 1 Std Dev Move	**1251**	
Avg Daily Move	**261**	
Avg Daily Range	**1745**	

I'm very glad that I just added the stats at the bottom of the table. Allow me to draw your attention to them. First, the average daily move of BTC since last week's note was $261. Hard to believe, really (there is a bit of data discrepancy between the 35500 price and the data used for these calcs as we are transitioning into this process being automated rather than me eyeballing). In contrast to the $261 change in daily value, BTC had a daily range of $1745 this week. And options (as of right now) implies a $1251 one standard deviation move. To put it in price terms, mid-market on the ATM straddle for Friday 8a UTC is $1460 for which you get 2 ½ days of price action. All that at a 30%-ish discount to the average daily range. Sure, $261 daily change. I get it. But from a straddle selling perspective, that's threading the needle.

One nice thing about trading very short dated options is that you don't care about what other people think about your trade. Sure, stock picking is a Keynesian beauty contest where you have to guess what stock everyone else is going to like and that holds for longer dated options. That's vega for you. But if you buy a $1500 2.5 day straddle and BTC moves $2K overnight, you win (if you gamma scalped it properly!) whether or not anyone else wants to pay more for it. My bias for owning options is clearly showing through and I'm okay with that. My recent pnl is less happy with me but the measure of a trade starts is more in the decision making than the outcome.

A long volatility bias is a good segue back into the macro context that I wrote about last week. Why again this week? It really is that important. One of the sayings that we like to overuse and abuse at DG is "it is very hard to predict. Especially the future." So I can't claim that I know the path of the Fed's transition away from the zero bound of interest rates and away from QE. I observe, however, that for now, the FOMC is putting on a determined face. Alpha Exchange posted a nice thread touching on this on Jan 26th. The TLDR here is that the Fed has been extending "get out of jail free" cards to the market alongside volatility dampening promises of extended 0% rates, Treasury purchases, and (my add) massive outright open market volatility

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selling by buying mortgage backed securities (buying an MBS is purchasing a bond with an embedded short call). All of this volatility selling and dampening behavior is going away (predictably??) at the moment when institutional and retail systematic volatility selling is, arguably, at its largest.

In addition, the US mortgage market is probably the biggest asset backed fixed income market ever created (take that number with a grain of salt or reach out to correct me). And the recent continued, relentless home price appreciation caps the well known action by private equity to buy real estate. Things are changing, as noted by the WSJ. Bottom line is that the support underlying calm markets (meaning fixed income and equity) are being chiseled away. Many investors have been happy with their non-mark to market investments in private equity as compared to those "volatile" public market securities. If things go as the Fed is predicting, then these PE firms will be at risk of a large amount of non-performing assets.

I promise you that I cannot tell the future. But I can price risk. Look at the leverage in the financial system, the determination of the Fed to begin withdrawing monetary accommodation, the newfound love of governments for Keyenesian/fiscal policy leading to inflation, and geopolitical risk out of Russia and China. Right now these are all what in physics are called "potential energy". So options are cheap – at least in crypto land. If things become kinetic energy, real volatility movement will be back aggressively. To me, this is a disconnect. It does not mean that one will make money from owning options. Just that the price of options/risk does not match the context. Systematic (passive) flows are overwhelming judgment calls and this happens when markets change regimes.

Come for the low variance risk premium and intra-day ranges. Stay for the quantitative tightening-inflation-geopolitcal risk. As per usual, read the disclaimer and DYOR.

Best,

Ari

Chartbook

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