



Aaaaaannnd It's Gone

Week ending June 28

 Ari
3 hr ago



	6/28/2022	6/21/2022
BTC	20669	21526
ETH	1190	1178
BTC Implied Yield (Qtly)	0.6%	0.9%
BTC 1M Implied Vol	80	93
BTC 7 Day Realized	56	130
BTC 1M 0.5 std dev skew	-10	-13
Implied 1 Std Dev Move	865	1047
Avg Daily Move	509	950
Avg Daily Range	971	2293

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Hi All,

I'm old enough to remember back to like April when I used to write basis was boring and vol was getting driven by DOVs. How quaint. Let's avoid calling it a dead pool and be a bit more aspirational calling it a Icarus pool (Daedalus sounded better but it was pointed out to me that it was Icarus that actually did the striving & falling). Aspirations are falling to earth, victims of the usual financial achilles heel of leverage, huge size, and illiquidity (pick any 2 — credit Victor Haghani / LTCM).

If you buy the leaked Mark Yusko call, BlockFi is done. Meanwhile, SBF appears to be doing the reverse of tradfi and putting depositors first while marking equity holders to zero. If true and I'm understanding correctly, kudos to Zac and Flori for doing the right thing for depositors at their own expense (and yes I realize that also means that it is not only their expense — no perfect choices now). Celsius advised to seek Chapter 11 status. CoinFlex is issuing tokens to raise money on a bailout. 3 Arrows just defaulted on loan to Voyager. Oof.

There still remains the issue of loans backed by mining equipment. The equipment value has imploded and BTC mining has become less profitable (I'm parroting as I'm not an expert here).

One great thing about having an amazing business partner is that I get to discuss this note with him. From Paul re BlockFi:

“What might get missed in all of this, is that this is the way it is supposed to work. Equity in a highly leveraged business is high risk / high reward. We don't know what is really happening behind the scenes but the way it is being reported is *what is supposed to be happening.*”

One might get the impression that crypto is dead. Amazingly, its not. FalconX just raised \$150M. Kaiko just raised \$53M. Chainanalysis raised \$170M. My crystal ball remains broken but observations from last week where I note that there seems to be a playbook for handling these runs leading to some stability still seems to be holding. The market is trading stable. ETH is coming back a bit relative to BTC.

On the other hand, I was wrong about basis being boring. It turned out that I was missing a key warning signal. Basis had been coming down and that turned out to be a function of the lending market. Companies and people had been borrowing USD by posting coins as collateral. That was a great deal because crypto generally had appreciated greatly. And it did not feel so bad that one might post 120-140% of the value of the loan. But as crypto dropped, it meant that borrowers had to make margin calls with increasingly larger amounts of crypto collateral. Not just proportional: geometrically larger amounts of collateral due to the LTV ratio (the 120% or whatever). So entities chose to sell futures and buy spot crypto (across the board, but especially in alts) in order to grab the collateral they needed to make good on their margin calls.

For now, that's where we stay in basis. I expect that this will work its way through over the next 3 months. Loans will come off and the collateral issue will slowly resolve. Surviving exchanges will be stronger and will likely be more able to function as credit intermediaries. So I'm bullish basis but 3 months forward or so. Look for basis to start hitting different levels on different exchanges based on perceived creditworthiness.

Options world has come to a halt. Movement has been cut in half. Average daily move is \$510 vs \$950 last week. Put skew has been hammered. June 24 options expiration cut Deribit open interest significantly. Very likely all of these things will continue as a function of panic

exhaustion and systemic volatility sellers. If history is a guide, crypto won't be making new highs anytime soon. That's a good thing. If WGMI, we need to base out for a while.

SEC's deadline for GBTC is next week. It is still not my base case that they approve a conversion to ETF. However, if the SEC wanted to inject stability into the crypto market in a way that did not involve taxpayer funds whilst also making a massive contrast vs the unregulated wild west that just nukulated, approving GBTC would accomplish that. If it does not pass, it is hard to predict what happens to the GBTC discount. It will really depend on whether the big positions at BlockFi and 3AC are already in strong hands or whether the fundraising to buy distressed crypto assets are in place to scoop it up.

I listened to The Scoop on "The Event" with Frank Chapparo, Larry Cermak, and Evgeny Gaevoy. I found it helpful and refreshingly honest. I should have noted last week, but BITI — the short Bitcoin ETF launched last week. Funny how that works. Would be classic finance if that marked the bottom.

If you have a need to discuss creative ways to try to restructure some debt or potentially creative ways to earn some yield with alts all with paying respect to credit risk, please reach out.

Best

Ari

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