

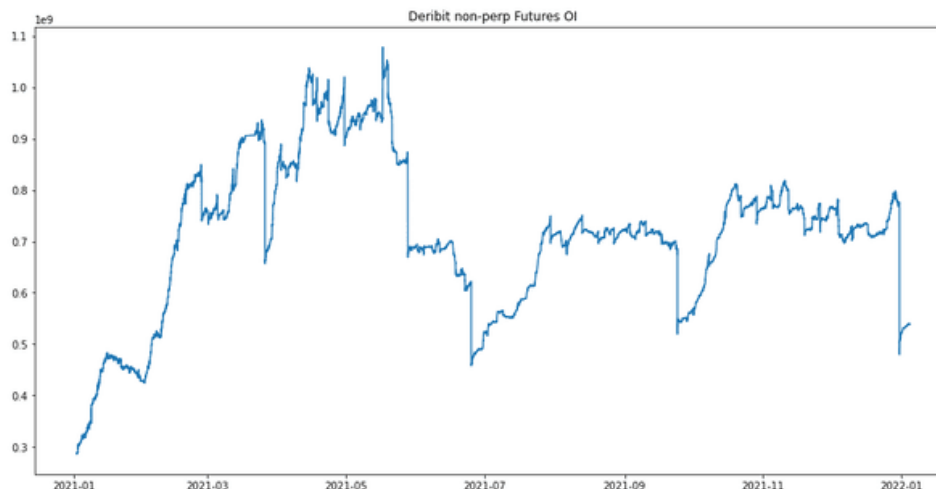
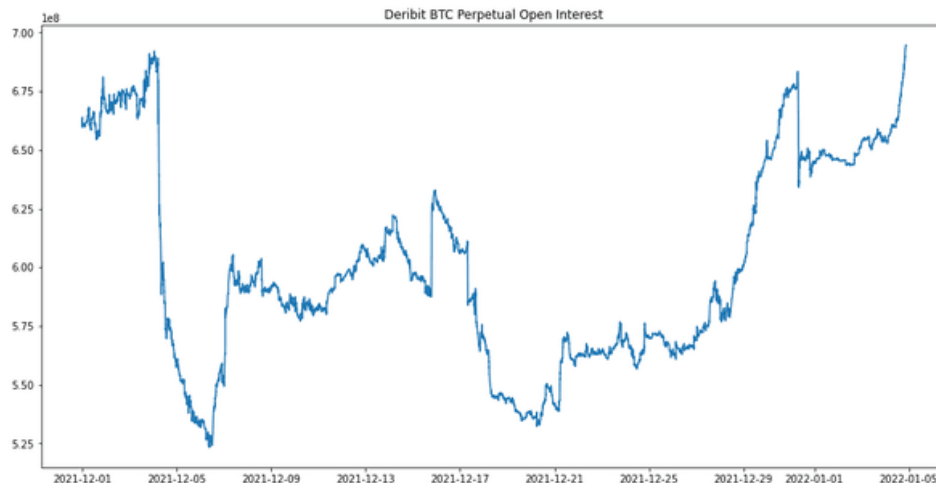
Week Ending Jan 4

Hi All,

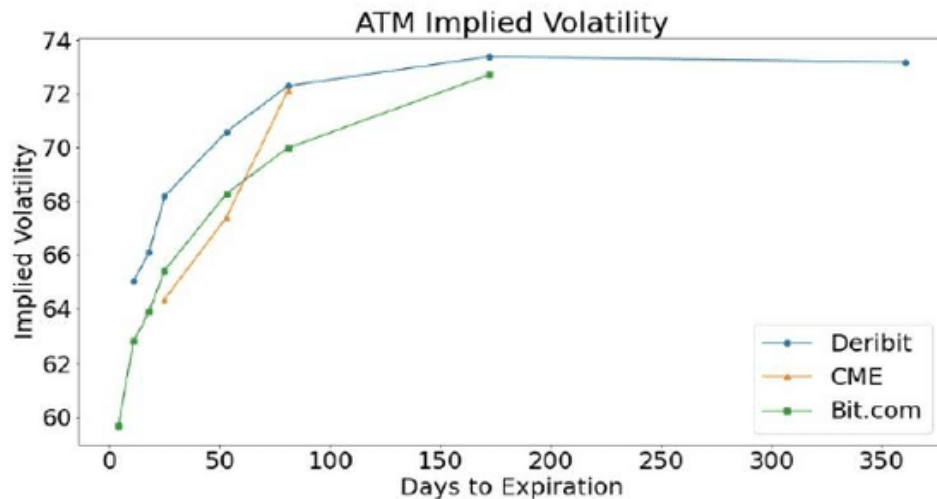
Welcome to the New Year. Here at Digital Gamma we are very optimistic about 2022. Are you making New Year resolutions? I am a very big fan of Charles Duhigg's "The Power of Habit" and, specifically, the idea of [keystone habits](#) – adopting certain practices/processes/habits will start a virtuous cycle in our life or business. For me, I'm committing to two big ideas: align my day with my strategic goals (both personal and professional!) and keep a schedule. I'll leave it at that, but if anyone wants more information, I'm happy to share. Obviously we talk a lot about markets here and I try to stay on message, but ultimately our careers and business should be working for us and not the other way around. We all know this, yet it is easy to forget – I certainly regularly do.

I tried to take advantage of the last two weeks of 2021 to focus on a couple of projects and be less markets focused. Hopefully that will let me see the current market with some fresh eyes.

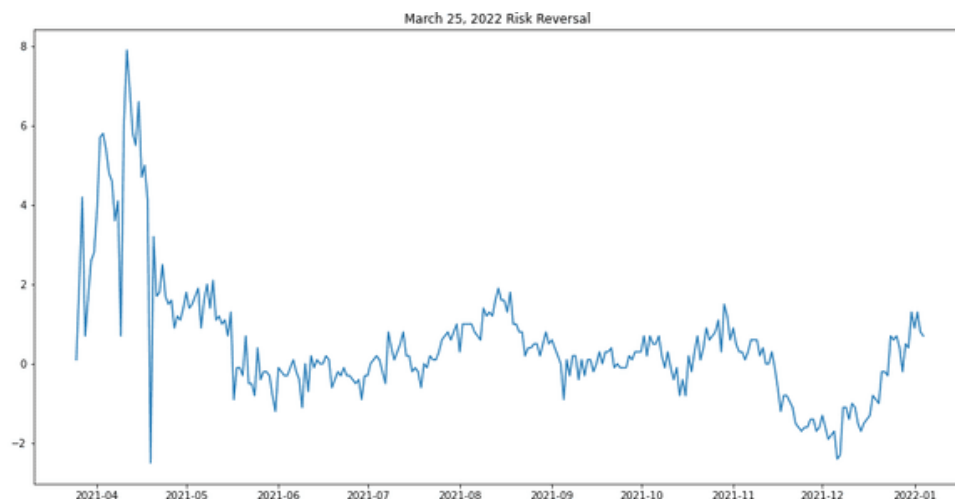
I'm not surprised to see a massive drop off in options open interest post 12/31, but it is hard not to marvel at it. I'm surprised to see a cliff dive of options open interest yet a hockey stick of perp open interest. As you can see below, non-perpetual futures open interest seems to more closely match the move in options.



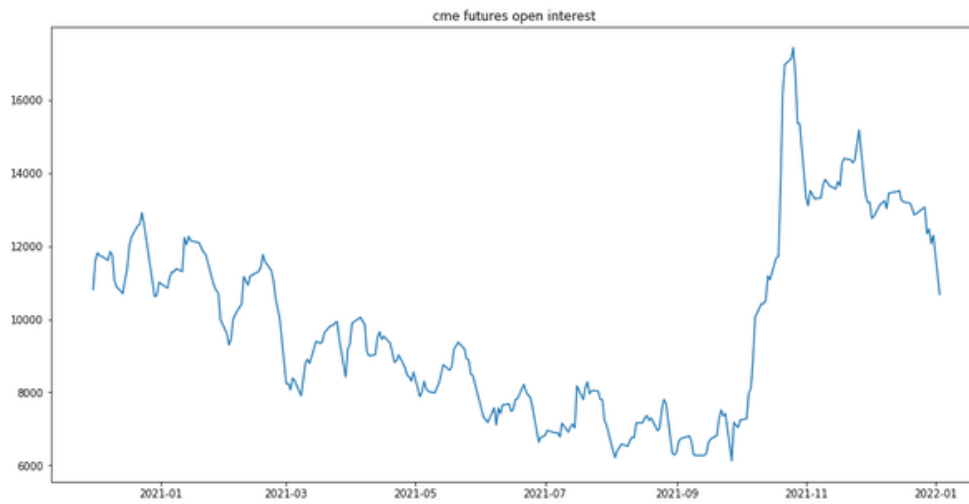
Whether we ought to be surprised about it or not, we are seeing the same phenomenon in volatility term structure as in equities. That is, there are plenty of short dated sellers of volatility, but presumably for increased risk perception and macro stories, less so in longer term options. See thread from Kris Sidal [here](#). **Flows will dominate value**. This has been the decade of “factor” harvesting and there is clearly a section of traders that believes and has made money from “overpriced” short dated options. They do it systematically and I’m presuming that they are in crypto, too. I’m not trying to say that short dates offer value to buy or that longer dates should be sold. I’m just making the point that the sellers will keep selling until past the point that they stop making; it will go on until they blow up and capital moves to the next hot thing. To be honest, Dec 22 does not look like a sale in the low to mid 70s. The point is that there is a set of participants that likes to sell short term options and that creates opportunities for the agnostic.



Now that Dec 2021 options are off the board, call skew has come back. This feels like confirmation that 1) market makers were inventorying large amounts of what initially started as long dated collars to protect long BTC positions, 2) vol sellers relieved some of the pressure by allowing those market makers to buy downside protection in those lower vol expiries which cause the larger put skew in the short dates, 3) those collars rolled off in December leading to the more balanced smile we see now. I’m left wondering what happened to that supply of BTC that was getting hedged. Are those collars going to be re-initiated? It is interesting in the meantime that implied yields going out to Sep and Dec 22 are still 8% at Deribit. That’s an indication that market makers are not hedging collar deltas by selling forwards. Or, maybe hedgers are looking at different structures.



Check out CME open interest ... oops



Best,

Ari

[Options Chartbook](#)

[BTC Basis](#)

[Eth Basis](#)

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