A Tale of Two Strikes

Week ending 5/24

Ari
May 24

	5/24/2022	5/17/2022
BTC	29237	30128
ETH	1947	2060
BTC Implied Yield (Qtly)	3%	1.75%
BTC 1M Implied Vol	75	80
BTC 7 Day Realized	70	85
BTC 1M 0.5 std dev skew	-10.5	-13
Implied 1 Std Dev Move	1147	1260
Avg Daily Move	1139	986
Avg Daily Range	1542	2800

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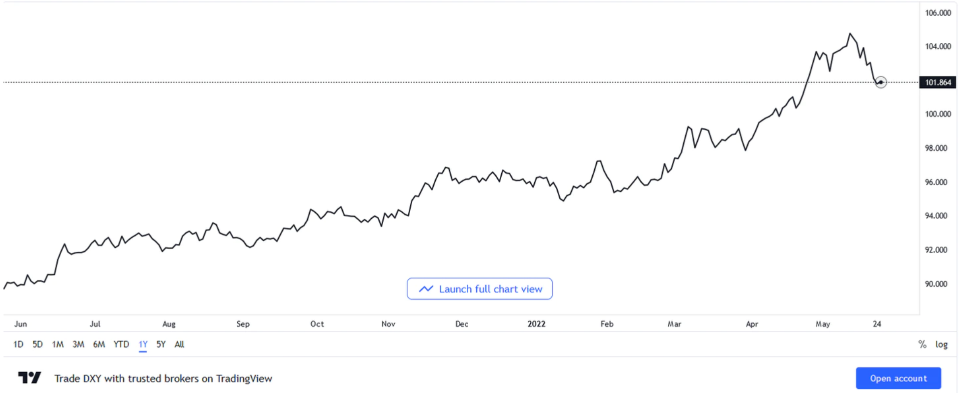
After the intensity of the past 2 weeks, the energy level is far lower. Are we out of the woods? Are we in the eye of the hurricane? Hard to say. I think it is easier to say 2 things:

1. Crypto, and especially BTC, is by design and function an anti-dollar. To some extent, any asset priced in dollars will exhibit this behavior (what I mean by denominators matter). For BTC and gold, this is very explicit since their use as either a payment system or store of value is set directly against other currencies.
2. A strong dollar is equivalent to tighter liquidity conditions. Partly because there is so much borrowing/leverage denominated in dollars and partly because the pricing of the dollar is a measure of its demand/scarcity.
3. Most of the non-BTC crypto world is solidly in the “risk asset” category and is most impacted by liquidity flows.

Would it surprise you that the LUNA/UST debacle occurred at peak USD?



It may be hard to see in this screen grab but the second, highest peak on the page is May 12. The trouble in UST began in that lead up to the May 12 high. I don't have an explanation for the run-up. Maybe it was tax payments leaving the system. Who knows? However, we have come off 4% in the USD index which is a significant move. And while I don't know where the dollar goes next, I feel comfortable that you should be keeping a close eye on the USD.

Check out the chartbook: Deribit options open interest is climbing to the highs of the past year. No doubt it is due to trades like this monster:

And if you think the size is monster, check out the vol difference! That's not crypto FOMO, that's FOGBO (fear of getting blown out). At just under 20 vols difference, that is 2/3 of the VIX! Also noteworthy is that I'm starting to see some delta neutral trades going through on Paradigm (as it turns out another one was 100 BTC similar collar in Dec options).

The dynamic for trades like this is self-perpetuating because the hedger — and, yes, I'm presuming that volumes like that with vol diffs like that are customer driven — is not going to dynamically hedge. A few consequences:

1. Market makers or dynamic hedgers generally are, right here, long gamma and collecting theta! What is not possible in a single option can happen in an option combo!
2. Most likely any move down will cause dynamic hedgers of #1 above to scramble for short term puts every now and again as a better hedge than just selling futures.

3. In the meantime, they will likely keep ranges muted right here and more so if we go higher.

It is no wonder that we have the dynamic that we do: vol negatively correlated to spot market, a very flat futures curve, and long periods of low vol punctuated by panic. And, yes, the usual "basis is boring" comment (note that the 5/24 carry in the table is Sep and the 5/17 is June). This too shall pass, but I'm having trouble moving on from those 20% APR carry days.

Best

Ari