



The Rumors of My Death Have Been Greatly Exaggerated

Week Ending May 3



Ari
May 3



	5/3/2022	4/26/2022
BTC	38230	39146
ETH	2820	2897
BTC Implied Yield (Qtly)	1.90%	2.20%
BTC 1M Implied Vol	58	60
BTC 7 Day Realized	50	30
BTC 1M 0.5 std dev skew	-5.8	-6.2
Implied 1 Std Dev Move	1160	1229
Avg Daily Move	770	514
Avg Daily Range	1570	1548

[Download Chartbook Here](#)

If the USD could speak, that is probably what it would say.



This is a chart from [TradingView](#) of the USD index from July 9 2021 to the present — less than one year. That’s a significant — almost 12% move. For those of us used to charts of s***-coins going to the moon, the chart may look rather tame. Remember that much of the world has significant portions of its debt denominated in USD. They are leveraged short the USD, so make no mistake that this is a pain trade for foreign corporate issuers and emerging markets. And this pain is in addition to the pain of higher short rates.

As it turns out, the FOMC is meeting tomorrow to make a decision on whether and how much to raise rates. Given the importance of the USD for corporate and sovereign borrowers plus the impact of higher interest costs on carry style trades domestically *plus* the impact of the largest volatility seller ever seen (in the form of buying bonds, most especially mortgage bonds) at a time when 1) we are seeing very large inflation prints, 2) formerly dovish FOMC members are calling for 50 bps hikes, and 3) there is war in Europe taking place in the fields of ~20% (or more) of global annual wheat production. For me, this brings together a lot of uncertainty into what combination of interest rate and balance sheet announcement we may get out of the Fed. And even more uncertainty about what the market reaction might be.

There is not much too interesting going in basis, although, dispersion of BTC quarterly futures basis across exchanges is encouraging.

Between the USD and the US 10Yr yield, we’ve traveled a long distance. The Fed is in danger of “moving fast and breaking things” which I don’t think that they want to do. So far, they

seem to be playing a game of “good cop, bad cop” where there is a lot of hinting at very aggressive moves but then Jerome Powell comes out looking slightly dovier than expected. To be clear, I don’t have any special insight here. And May Fed Funds futures suggest a 50bp tightening. Again, I suspect that the Fed wants the market to do its “dirty work”. My inclination is that the on-balance risk is to a risk asset rally in relief against potential expectations.

That’s bullish for crypto if it happens. Looking at BTC options, The May 6 straddle is looking like \$1570. The past week’s average move was \$770 and average range was \$1570. As it turns out, pretty much like the week before. In my eyes, then, May 6 gives you “normal day pricing” but with the potential for an FOMC move. The at the money straddle or just out of the money put makes the most sense to my eye. After all, with options, you want pick the option that is as far away as possible from where the underlying asset ends up — because that means that you got a lot of movement. After that? I’d guess back to our normal snoozer. Gosh, I hope I am wrong.

Shhh: An Open Secret

I remember when Bloomberg was a market news outlet and there was music on MTV.

Reading [this article](#) on Bitcoin miners selling call options, I came across this gem:

Open Secret

The firms are exploiting an open secret in the options market: contracts frequently expire worthless. When that happens, the owner of the contract gets nothing, and the person -- in this case, a Bitcoin miner -- who sold it to them gets to keep whatever the buyer paid to purchase the option.

Miner (calls favorite option desk): “I’d like a quote on a call stupid”

Coverage: “Sure! What strikes”

Miner: You know ... the ones expiring worthless

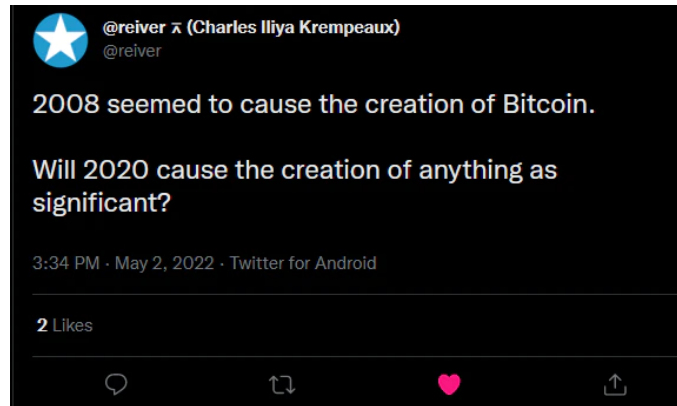
Coverage: “...”

What I’ve Read recently:

Michael Pettis (no, I'm not a shill for him but I am a fan) had a good thread on the USD and China [here](#).

“Let them eat diesel” by [Doomberg](#)

As we are a crypto crew, I thought that this [tweet](#) got me thinking:



Best

Ari

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