

Smug is in the air ...

Week Ending July 19



Ari
Jul 19

	7/19/2022	7/12/2022
BTC	23541	19865
ETH	1573	1075
BTC Implied Yield (Qtly)	2.00%	1.85%
BTC 1M Implied Vol	77	67
BTC 7 Day Realized	72	59
BTC 1M 0.5 std dev skew	-5.9	-8.25
Implied 1 Std Dev Move	947	696
Avg Daily Move	683	527
Avg Daily Range	1146	1053

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Considering the long history of financial fraud that continues right up until this day (SPACs anyone?) it still is surprising how much glee that TradFi has at crypto issues (and vice versa, too). Nevertheless, I can still laugh when it is funny! Which I did this week and I feel obligated to share. So here is the “ooh, burn” issue:

Coinbase from [Bloomberg](#):

Perhaps Coinbase CEO Brian Armstrong should send the Securities and Exchange Commission a thank-you [tweet](#) for killing the crypto exchange's [Lend program](#) in the cradle last year?

3AC also from [Bloomberg](#):

“They might have been stupid and misguided, especially in a market like this that’s buckling under macro pressures,” he says. “But they really believe this stuff, and you can see it in their books, right? You wouldn’t have traded this way, if you didn’t believe that this was true.”

They turned out to be “degens,” crypto slang for degenerate gamblers, like everyone else, says one trading-firm executive who asked not to be named.

And via twitter:



From [The Verge](#):

ENTERTAINMENT \ TECH \ CRYPTOCURRENCY \

The new South Park movie is basically just one long crypto roast

Fortune favors the brave

By [David Pierce](#) | Jul 14, 2022, 11:58am EDT | 21 comments

Mike “darn wrong” Novogratz [self-roast](#):

"We need to self regulate or the regulators are coming ... At times the whole industry looks like a bunch of idiots."

Mike Novogratz

Founder of crypto firm Galaxy Digital Holdings

A chastened crypto billionaire reflects on the industry's complicity in the market turbulence this year

So this one is not crypto, but as @theemilyaccount said “omg”



It's all about the dollar. For those of you with kids, you know that all you needed to know about your infant or toddler was in the diaper. It's the same with the dollar. The dollar is not the cause per se, but it is the summary of all of the information that is necessarily driving the market right now. It encompasses the combination of short term rates, expected path of FOMC moves, global funding needs, and overall market liquidity. And it is the denominator for an overwhelming number of assets.

What you need to know (well, and that I am aware of):

1. While put skew is still there, it continues to flatten. 1.5 std dev calls are up above at-the-money volatility. For short term expiries, even 0.5 std dev calls are above ATM vol.
2. BTC Sep quarterly implied yield is up and in most places back up above 2%. CME is not, but even there it is a bit higher than usual. Next week is the roll.
3. Next week is also FOMC meeting. 75 expected; the worry number is 100. Or as Tom Keene likes to say "one stick"
4. Alt-coins have been heavily negative. This is starting to ease up. There is significantly more positive, lower lending rates, and the negatives are generally lower. Notable exceptions are ETH, BCH, and TRX. XRP not great either. Overall I see this as stress leaving the system
5. Genesis had 2.36B of loans outstanding (at 80% collateralization) to 3AC. DCG covered the losses and is now the holder of significant GBTC and ETHE. One has to think that these are diamond hands. The 2% management fee is basically a pass through. Effectively a large chunk of selling pressure on GBTC and ETHE just left the system. The DCG bailout obviously helps the whole system with confidence in Genesis.
6. BlockFi has reported themselves completely out of their GBTC position.
7. GBTC discount has contracted from a low of -34 to around -28. ETHE moved even more from a low of around -35 to now -25. See #5
8. Public miners sold BTC in June. Arcane predicts this will continue and that makes sense — an ongoing funding of business rather than a levered BTC play (we have MSTR for that).

9. Circle puts out their holdings and looks exactly like a bank would want to see it.
10. ETH is up 50% this week. ETH/BTC crossed .07 and now is .066. Wow.

Overall my take is that we are at the end of the beginning of the recovery from the Crypto Credit Panic of 2022. What's ahead?

1. Crypto lending has changed. We are going to head back to normal TradFi level out of control leverage ratios rather than nosebleed degen crypto levels.
2. Less liquidity. Whether market makers blew up or not is not the material thing. There is just going to be less leverage provided overall and the lending that is done will be with higher collateral. And all of this to probably fewer firms.
3. If there is a pattern that follows past markets in commodities, stocks, and bonds, then there is likely to be a long, boring sideways-ish situation while some continued distribution from weaker to stronger hands continues.
4. Circle will likely continue to attract increasing market share and/or Tether will find religion and open up their books.

I do expect that USD will continue to be the strong hand in crypto and that some sort of real futures/basis curve will return. It should trade higher than domestic rates and may even begin to show credit curves. So, figure that a BTC curve should like, say 3.25% (2 year note yield) + 300 bps of spread. That is likely where it makes sense for institutional money to come in and take the other side of basis on reputable exchanges. Obviously, all of this is going to be flows driven. There will need to be demand from futures traders and, potentially, borrowers unable to get direct loans (for the option geeks out there, think clients evading credit limits by trading boxes) going to exchanges to get money (sell spot, buy future).

Some additional resources:

- Eric Falkenstein's Finding Alpha book in PDF (free on his blog). Not (yet) a recommendation but looks interesting
- Spoofing! I wrote an analysis of spoofing a few years ago and interjected myself into a conversation. @hidenotslide liked it and tweeted it here. Matt Levine (yes that one) liked it! woo me.

Tell me I'm wrong

Ari

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