We Still Have Our Health

Week Ending June 14

Ari
Jun 14

	6/14/2022	6/7/2022
BTC	22640	31274
ETH	1248	1843
BTC Implied Yield (Qtly)	1.8%	2.5%
BTC 1M Implied Vol	99	61
BTC 7 Day Realized	98	67
BTC 1M 0.5 std dev skew	-15	-6.5
Implied 1 Std Dev Move	1165	996
Avg Daily Move	1454	854
Avg Daily Range	1979	1292

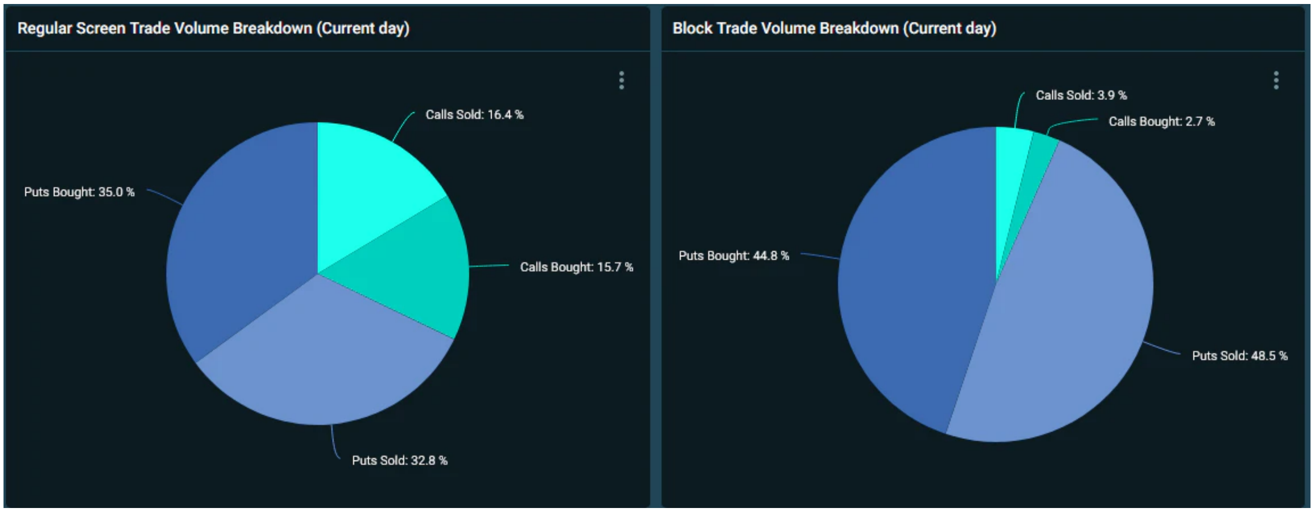
Chartbook Download Here

The good news: it's summer and the weather is great here! The bad news: pretty much everything else.

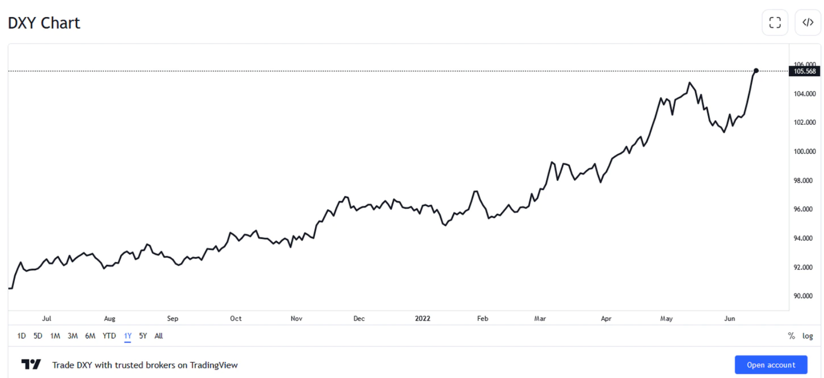
For better or worse, crypto lives in the finance neighborhood. Right now we are getting to that stage where various pundits are pulling out their normal distribution ruler and telling us about how this is 388 standard deviations from whatever with only 1/googolplex likelihood of occurring. 🙄

Things you need to know:

1. Puts or it didn't happen. It is all about puts, puts, puts. With implied volatility to match.



2. Dollar strength — one of the dollar indexes is going to be the most pure form of both cause and effect of what is going on in the market right now. Talking about liquidity or interest rates, the dollar is the best benchmark right now for gauging "tightness" in the market.

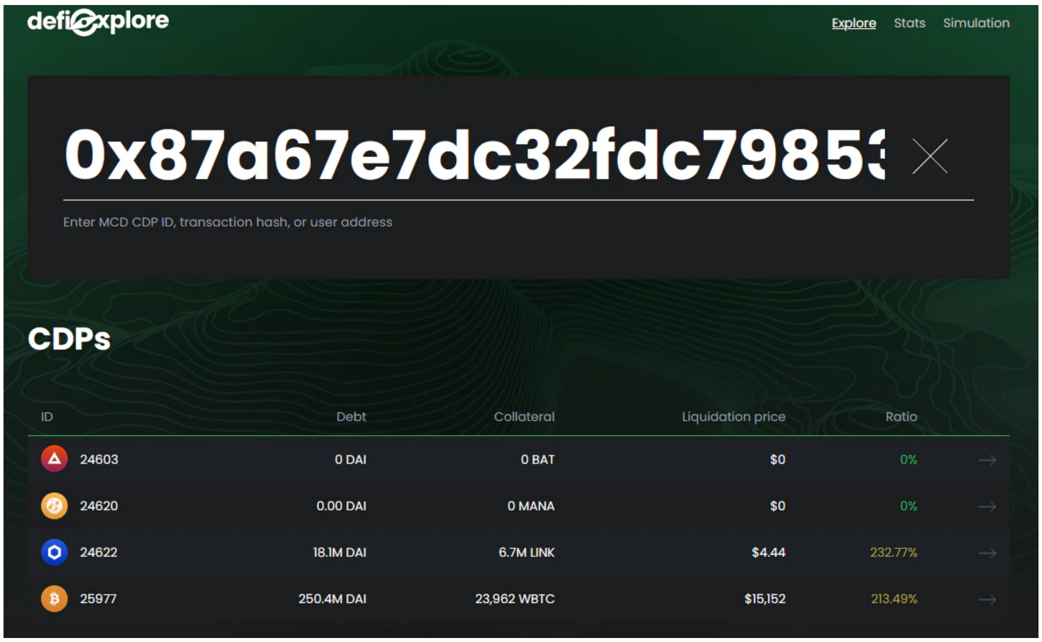


3. Treasury Market Illiquidity: Tracy Alloway and Liz McCormick write about lack of liquidity in Treasuries. Duh. The fundamental uncertainty of the path of interest rates is sky high. With uncertainty, it takes more movement to get real participation. When things are certain, the difference in basis points feels big. Now? From a fundamental perspective, a basis point is nothing with a Fed that is doing 50, 75, or 100 bps of hiking. Further, it is a vicious cycle: the movements come about when people back off, then more back off, which exacerabates the whole system. Probably a good time to ask whether the amount of liquidity participants had become used to are a good benchmark to measure against.

4. Turning up the heat at Celsius (I know, I know, but honestly, *someone* had to use it). Celsius has shut down withdrawals and is rumored to have struck a deal to get liquidity on its stEth position (staked ETH which is still close to full value but for which they have no liquidity). Although I feel for the customers locked out of their

accounts, I think that this is actually a positive outcome. If they are solvent, eventually everyone will be okay. Seems far better than just hoping for getting your money out.

5. Stops. First, Celsius has a lot posted with Maker against WBTC (wrapped BTC). The good news is that they have been on top of their account and have pushed the liquidation price from 22K down to here showing $15.1K. That's a healthy sign. Second, of course, there is still the MicroStrategy stash. According to the firm, they will merely need to post more BTC rather than liquidate. For now, that seems more "meh" than "yikes".

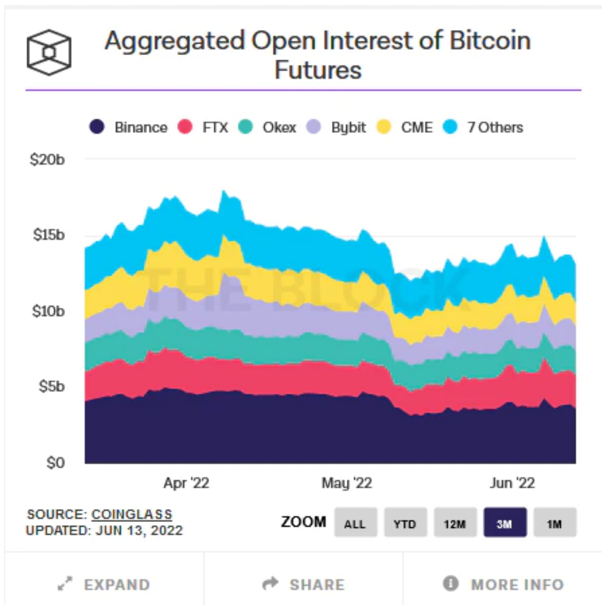


Unsurprisingly, volatility is far, far higher. The general rule of options trading is that when vol is statistically cheap, sell it, and when statistically expensive, buy it. Basically, participants are reluctant to move their prices to extremes (unless forced to). Also, not bad to consider selling vega and buying gamma. Although, my take on that, is that the yield curve is both backwardated and a bit steep. Need to be choosy here. And — this is a big and — gotta be strike selective. Calls and puts are priced totally differently.

My overall take right now is that 1) Celsius appears to have stabilized *for now*, 2) the market has spoke and puts have been aggressively repriced even from their prior high skew, and 3) at this point, there is an overwhelming fear of Fed action and dollar/funding/liquidity tightness. I feel like a relief rally is coming post FOMC. If all that happens a 75bps hike, the market will feel like it got away with stealing something.

Still, that's an empty prediction. What do you do if you feel like you just have to hedge, you don't want to ditch your exposure, and vol is too expensive? Thankfully, that is exactly what options are made for — spreading. Consider looking at put spreads for downside protection. If you are not going to be dynamically hedging, and you are just putting on a put spread to protect a long position, then take advantage of the market: sell something like the 15K or 18K strike puts where everyone has taken a concentrated bet (for good reason, too!) and look at purchasing a put with a far lower implied volatility. Or, instead of buying puts, look at replacing (selling) your long crypto position with calls or call spreads.

Our open interest for BTC futures is Binance and that has dropped off. Check this out from the Block research. You can see that OI is lower, but did not drop off a cliff.



Best

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