

## Week Ending Feb 8

	2/8/2022	2/1/2022
BTC	43250	38570
ETH	3080	2773
BTC Implied Yield (Qtly)	2.8%	4%
BTC 1M Implied Vol	64	62
BTC 7 Day Realized	70	63
BTC 1M 0.5 std dev skew	-1.9	-5.4
Implied 1 Std Dev Move	1292	1251
Avg Daily Move	1317	261
Avg Daily Range	2063	1745

Hi All,

Anyone else have \$320M burning a hole in their pocket? Because I kinda feel like maybe Jump is making some outsized profits. My takeaway from the Wormhole debacle isn't "look how everyone is helping each other out and this is good for the long run and kumbaya". It is "Jump felt it was worth tossing \$320M at a problem to make it disappear so it could go back to making money." I mean, WOW. La Maquina. I have no issue with Jump spending its money but begs the industry to decide on its spirituality: is code law, is it meritocratic, or are we just subsidizing corporate interests. At the very least, you'd think that Jump might put some strings on it, like, code review? Or investing in something that might be long term more useful. Makes you wonder if that is the goal or not.

I guess related is that the government traced \$3.6B in money laundered from the Bitfinex hack. While I love a good cringe rapper, this seems to demonstrate that the blockchain is the tool of choice for law enforcement for money laundering. Ari Redbord of TRM labs is quoted saying "This is further proof that the nature of the blockchain -- the forever open ledger -- allows investigators to follow the money in ways impossible in complex webs of shell companies and bulk cash smuggling." That seems to deviate from at least part of the spirit of BTC as an alternative to the sovereign monetary system.

The general rule of thumb for vol is that cheap is expensive and expensive is cheap. Volatility is generally recognized as mean reverting. So when it becomes statistically cheap (rich) on an historical basis it tends to be higher (lower) than realized. The market tends to mis-price on the

extremes with an expectation of things returning to normal. That's not what we are seeing in BTC options. Not only is volatility historical on the cheap side – in the 60's – but options are trading substantially below realized volatility. Partly that is due to elevated levels of realized and persistent volatility selling. But even the more stable 60 day realized is making options look cheap.

Perhaps unsurprisingly, skew is very directional. It seems customer flow or dealer inventory is going with Toyota style “just in time” delivery. So puts get bid on the way down and calls on the way up. I mean, of course, relative to ATM options because there is not aggressive option buying.

After weeks of BTC basis staying stable around 4.5-5.5% in the quarterly, the market seems to have broken. Certainly many of the weekly contracts for BTC and ETH have either drifted to negative rates or been chronically negative. After weeks of staying in the 5-6% range, FTX 3/25 has fallen to 3.5%. A real surprise, however, has been that CME has moved in the opposite direction this week. Feb 25 CME had been trading negative and jumped to positive – in the \$50 range the last 24-48 hours. And March has moved to an implied yield around 2.5-3%. I mean, the whole thing is a bit ironic. I often talk about how the crypto market is isolated from the US banking world so USD trades at a premium. Now, the CBs are making fiat scarcer/more expensive and implied yields are going ... down?? SMH

Also in the double take category: check out the skew graphs on page 4 of the chartbook. The  $\frac{1}{2}$  standard deviation graph runs the opposite of the 90-110 risk reversal. I thought it was an error, but it actually makes sense. A 10% out of the money call or put is much farther away than a  $\frac{1}{2}$  standard deviation option. For example, 10% out of the money call is ~47460 but for Feb 25 options, the 0.5 std dev call strike is 45917. So some of the smile dynamic pulls up the calls as they are more like 1 std dev calls. All of the skews end up negative (higher for puts), but the term structure looks opposite.

Best,

Ari

[Chartbook](#)

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