

# Boom Boom (ETH)Pow

Week ending August 9



	8/9/2022	8/2/2022
BTC	23119	22851
ETH	1691	1611
BTC Implied Yield (Qtly)	1.60%	2.50%
BTC 1M Implied Vol	72	72
BTC 7 Day Realized	39	72
BTC 1M 0.5 std dev skew	-2.5	-4.7
Implied 1 Std Dev Move	871	861
Avg Daily Move	385	527
Avg Daily Range	759	1093

[Download Chartbook Here](#)

Hi All,

*Just because you're paranoid doesn't mean they're not after you.*

- Joseph Heller in Catch-22

Is your wallet, is your problem? Crypto notables (and Jimmy Fallon) are targeted by individual by sending small amounts of ETH from Tornado Cash to protest or just annoy by making these wallets subject of US Treasury tarnishing. Original story on Tornado Cash blacklisting [here](#). Me being me, I can't help but visualize the "individual" being Janet Yellen or Gary Gensler (yes, this 100% my imagination and not real news) and saying "Excellent" in a hiss.

Writing posts is great when you get things right. However, missing something is less great. So I'm thankful to Brandon Elsasser of Victoria Capital Management for reaching out to me and taking the time to talk about the Merge. We spoke about the upcoming 1)

staking rewards, 2) potential for the proof of work hard fork, and 3) how both impact basis trading for ETH. The Merge and ETH generally, has become the focus of my trading and research life.

To reflect that, the chartbook will soon have more on ETH options. Below is a volatility and straddle run from my software. The vols are in yellow and the straddles are the second white line from the bottom. I added the percentage of the underlying that it represents directly below each theoretical straddle price. The snapshot is from late in the day on 8/9.

8/12/2022	8/19/2022	8/26/2022	9/30/2022	10/28/2022	12/30/2022	3/31/2023	6/30/2023
12-Aug-22	19-Aug-22	26-Aug-22	30-Sep-22	28-Oct-22	30-Dec-22	31-Mar-23	30-Jun-23
2.4	9.4	16.4	51.4	79.4	142	233	324
0.00665	0.02582	0.04500	0.14089	0.21760	0.39021	0.63952	0.88884
104.75%	98.53%	99.48%	105.86%	105.36%	104.44%	101.35%	98.53%
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
115	213	284	526	645	844	1042	1186
7%	13%	17%	31%	39%	51%	63%	72%

There have been some massive trades going through in ETH. Yesterday watched a 6000 ETH Dec 3000-3500-4000 butterfly trade on Paradigm / Deribit. And then nearly back to back 5000 ETH Dec 2500-3000 call spreads. It's good to be the broker and exchange!

The merge is interesting for a number of reasons. First, ETH PoS (which I will call ETH2 going forward) will have a staking yield. That means that forwards will have to account for the earnings that one can get from spot and not from futures/forwards. That means that, all things being equal, ETH futures should trade at a discount to spot with an implied yield indicating the staking yield (along with details on ease of staking plus whether anyone actually needs it and, of course, the cost of borrowing USD). Right now the staking yield will be 6-7% as compared to the current yield of 4.2%. That's the boring-ish part. Lopping off 1% for convenience and 2.5% for USD cost of funding leaves, say -3% implied yield as a starter kit for fair value.

The interesting part is that the ETH mining community has a lot to lose once proof of work (PoW) ETH goes away. The best tweet by far is:



I will admit that, unlike Arthur Hayes, I do not know Mr Guo personally or even in a business setting. Still, this woke the market up to the game of playing for the fork. Proof of work ETH may continue — called ETHPoW and having a ticker for trading of ETHW. Anyone owning ETH will “get” ETH2 + ETHPoW. No one, as far as I know, is expecting ETHPoW to be the dominant chain but “it ain’t nuthn either”. So the futures basis needs to represent the value that spot represents for both future staking yield and the value of ETHPoW. [Poloniex](#) and [Bitmex](#) have listed futures on ETHW. And there is still stETH vs ETH ratio to watch & trade.

What is the value of ETHW? That’s a tough question. If you ask me, I’d answer that I don’t see why ETC (Ethereum classic) is still traded. Is there room for a PoW ETH? It is possible but the situation is aligned against ETHW. [Circle](#) and [Tether](#) won’t be supporting it. I’m not a technical smart contract or dApps guy, so I can’t say how that might work out. So if Guo and the ETH miners are serious about this, then they need to solve those problems. The conventional wisdom is “I’ll play for the option on ETHW” so there is a lot of money coming in. This is likely going to be a play where people are going to trade angry rather than just about an expected distribution of outcome. Yay! That’s good for those of us who want to trade impassively.

Anyway, this is one of those trades where size matters (oh grow up — tbc, not that I have). There may be some reasonable terminal value of ETHW, be it zero or be it \$1B or \$10B or whatever. In the meantime, there is a good chance it is all over the place. There is no particular anchor for value at the moment. Positioning, emotion, and newsflow can move ETHW around — especially until the hard fork occurs and there is an actual spot market.

Brandon is a smart guy and we had a good conversation. He brought up that in this post-3AC crypto world, that lenders are very reasonably concerned about credit risk.

Uncollateralized credit extension is harder to come by and collateralized credit does not help trading firms looking for capital efficiencies. Digital Gamma started out trying to offer trading & prime style services to traders. It was hard to get traction and, from what I can tell, it was tough sledding for even the most high profile firms looking to offer prime brokerage. I think now may be the time for crypto PB. Trading firms will be able to use their positions as collateral against loans. Curious if anyone reading this is working on that or has an opinion they would like to share.

Things I found interesting / listening to / reading:

- [Taiwan is now Arrakis](#): perhaps someone in crypto is into Dune / SciFi (I see you Ms D). Chips are our spice and right now Taiwan Semiconductor is the source. It is not a want to have, but a need to have.
- [Gvol.io podcast interviews Euan Sinclair](#). Euan is the very rare PhD that is also a super grounded, practical trader & risk manager. Downloaded but not yet listened to.
- [Andrew Huberman on mastering sleep](#). The first Huberman podcast that I (finally) listened to. (hat tip Ms N).

Tell me I'm wrong (please)

Ari

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## 1 Comment



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**Mark Phillips** Writes The Till Aug 10  Liked by Ari

I love the analysis of the basis impact of the merge!

 1 Reply Collapse ...