

# The Beatings Will Continue Until Morale Improves

Week ending 9/13



Ari

19 hr ago

	9/13/2022	9/6/2022
BTC	20975	19804
ETH	1585	1663
BTC Implied Yield (Qtly)	0.60%	-1.00%
ETH Implied Yield (Qtly)	-4.0%	-20%
BTC 1M Implied Vol	74	67
ETH 1M Implied Vol	106	104
BTC 7 Day Realized	72	17
BTC 1M 0.5 std dev skew	-4	-10.5
Implied 1 Std Dev Move	832	694
Avg Daily Move	600	168
Avg Daily Range	993	585

[Get Chartbook Here](#) (note that we shifted this week to Dec Quarterlies)

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Hi All,

Honestly, I think that gets funnier every time I read it. It is a clear reminder of how disconnected directors can get from the directed. Today's CPI number was the beatdown. Of course, no one thinks that this figure is forward looking. Everyone simply had to go back to their interest rate forecasts and jam in more action from the Fed. After all, Powell made clear he is ready to destroy demand for goods & services since the Fed cannot create more supply. I question the wisdom of this exact path forward but it does not matter. I will channel Kevin Muir and remind you that opinions don't make you money. You have to trade the market as it is, not as you want it to be.

To that end, let's remember back to 2020 or so, when there would be regular complaints that ran something like "I can't make any money, the central banks have rigged the game so that stocks only go higher." Uh, that was the trade (to be clear, I missed it). Now, we have the reverse. as longs are saying "I can't make any money, the central banks have rigged things to tighter financial conditions." Yah. Long positions in every asset class are facing headwinds. Well, except the dollar.

I don't think a one-off ([here](#)):

Because the inflation wasn't just supply chain issues.  
It was also the fiscal and monetary component.  
Flooding the system with broad money resets  
aggregate prices higher, permanently.

John Authers @johnauthers · 2h  
This chart from @TheTerminal shows why this #CPI number is so disappointing.  
The contribution of energy has declined, as expected; but services inflation is  
now rising sharply. Not what the #FOMC will have wanted to see.

9:42 AM · Sep 13, 2022 · Twitter for Android

Merge by the numbers:

Poloniex ETHW	\$25
9/30 calendar implied ETHW price	\$19
Sep-Dec Implied Forward Rate	+0.7%
Dec-Mar Implied Forward Rate	+0%
Next critical "date" (really hash level)	RED ZONE 24-48 hrs

From the above it is worth noting that ETHW has dropped appreciably (more so than the calendar spread has moved in). Sep-Dec is now positive (from negative) and Dec-Mar

is now flat (from positive). Also worth noting that March futures should be listed on FTX and other venues within the next week. My expectation is that we should see as a guide around -\$11 per 3 months of basis or each 3 month quarterly should be \$11 less than the prior. This is due to implied staking. Also, when you check out the chartbook, note that ETH implied yields are all about the dollar price related to ETH PoW fork. All calendars on Deribit are around -\$15 so the yields look very, very high up front.

There is no doubt volatility is high in ETH options. With an almost \$200 range today, it is paying for itself. My personal opinion prior to this move was that if the Merge goes well it will be a dud event. If it goes haywire, then things go wacky fast. In light of that, I prefer puts to calls. And in light of the vol being unsustainable but with clear potential for movement, I prefer selling calendars. That is, sell longer dated volatility meaning October or longer (one month goes for long dated in crypto) and holding short term options against. This provides short vega and long gamma. Remember that there is no free lunch and this situation is a lot of risk. I have no idea if it is right for you. So this is not advice.

We have a lot going on today here at Digital Gamma central, so I'm going run through a lightning round format:

1. CME launches ETH options on futures. I'm both excited and not. On the one hand, that's great, but clearly the traction on BTC options has not been stellar despite being an active futures contract.
2. Treasury market liquidity is an issue. Harald Malmgren (father of Pippa) is a great follow and here he retweets some quoted comments from BofA on structural problems in the US Treasury market. Why is this important? The US Treasury bond market, along with the US Repo market, is “the source” for all of global finance. As I tweeted

A screenshot of a Twitter post from the user **breakeven** (@std\_dev). The post is dated Sep 7. The profile picture shows a cartoon character with glasses and a pipe. The tweet reads:  
i remember trading options leading up to ltc collapse. a friend called said  
it was hard getting a decent market in 10yr notes.  
my thought "then i sure as heck am not making a decent market in single  
stock options"

3. Help me with this because this is not where I'm focused. This is from Blockworks Daily and it does not seem like an encouraging sign.

The merge will result in two competing Ethereum tokens: an Ethereum Foundation supported PoS coin and a miner supported PoW alternative "ETHW". Controversy surrounding the PoW coin's chain ID is prevalent on CT. Although ETHW's official Twitter announced they will be utilizing chain ID [10001](#) to curb [replay attacks](#), the code does not seem to have been altered to reflect it. If a new chain ID is not implemented, ETH holders who choose to sell their PoW coins could be vulnerable to malicious actors replaying those transactions on the PoS chain and forcibly losing their holdings for pennies on the dollar. Before giving too much thought to PoW Ethereum's credibility, remember, their [white paper](#) contains nothing but 9 pages of "this page is intentionally left blank".

Things I'm reading / listening to / interested in:

- [It's probably nothing](#). Quoth the statistician
- [Crypto Vol and hashrate](#) from Block Scholes / Deribit
- Genesis Vol interviews [Toby Chapple of ZeroCap](#)
- Given the CPI figure, worth a re-read of the [Kevin Muir's take on MMT](#) from 2019. FYI he is pay only but you can also find him on the [Market Huddle](#). Beers, markets, and Canadians. What could be better, eh?

Tell me (how) I'm wrong,

Ari

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