



Scarcity Value

Week of July 5

 Ari
9 hr ago



	7/5/2022	6/28/2022
BTC	19481	20669
ETH	1090	1190
BTC Implied Yield (Qtly)	2.0%	0.6%
BTC 1M Implied Vol	75	80
BTC 7 Day Realized	51	56
BTC 1M 0.5 std dev skew	-10.75	-10
Implied 1 Std Dev Move	764	865
Avg Daily Move	337	509
Avg Daily Range	1048	971

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Hi All,

Thanks for reading Digital Gamma Weekly Commentary! Subscribe for free to receive new posts and support my work.



I hope everyone had a safe and fun weekend. My thoughts go out to Highland Park. And, honestly, to everyone else, too. We should all be able to wake up and feel safe. IL, NY, or elsewhere.

This was an amazing day for markets. Not amazing as in good, but amazing as in gobsmacking market moves. Crude oil dropped at one point almost 10%, the dollar index was up ~1.5% (huge for a currency, especially a currency index), copper down 4+%, bonds up big. The DBC commodity index was down almost 7%! There are a couple of interesting things going on here. First, dollar strength and crude weakness. Yes, this is “supposed” to work this way, but it has not recently. We have shifted from “stuff hard to get and FOMC fights inflation” back to what passes to more usual economics. Meanwhile, BTC & ETH held up. I don’t look at that as economics per se.

I see crypto strength in the face of dollar weakness as a sign that, primary liquidation needs are over. As per usual, this is a probabilistic exercise trying to tease out messages from the market. So it is definitely possible that this is not over. Still, we appear to be in a place where the tools to address chaos have been put into place. Liquidation price for Celsius WBTC is down to \$2722. At least some large miners have capitulated. Remember that there is a business in selling both doom and hype. But typically there is information content in markets that move up on bad news and down on good news. That speaks to offside positioning having more power than actual information.

Combine that with a couple of other information markers. Collateral scarcity continues but far better for btc and eth. This is a sign of health ... for now. It will be directional. It is possible that loans have been called and the collateral squeeze is mostly behind us. For the time being, though, I view short basis (short futures, long cash) as an expression of long vol and short crypto. Saying it in that way is stylistic and does not help in terms of pricing it relative to options – and really that is not a great fit. But I do like classifying positions in my head in terms of how it fits in the bigger picture. And if that fails to materialize, then that is worth considering either to change my understanding or let me know there is a new regime.

Put implied volatilities have come in dramatically over the past two weeks. This is especially so for the farther out of the money puts — the crash puts. Is it possible that the risk is still there but participants are holding off for a down leg? Sure. But the fact that it is not so much of an emergency — buy at **any** price — is an indication that forced selling has subsided. The narrative in crypto now is that there is a process for handling these events, there are parties (ok, FTX) ready to stand in to purchase assets at firesale prices *but still backstop customers*, and that relevant parties have stepped in to shore up their margin positions. That’s a compelling story. I don’t recommend an expectation of back to ATH’s just yet. More like dead money for a while; which after liquidation Saturday a couple of weeks ago sounds like heaven (and then that, too, will be lousy).

Also worth noting that DeFi seems to be proving itself as a platform. Yes, of course, there were bad incentive structures, bad actors, and too much FOMO. The prices crashed. That, however, is not the failure of a platform. That is too much marketing success and greed. But it does appear that DeFi liquidations went smoothly, were publicly known, and even DeFi bankruptcy worked.

A couple of highlights of recent readings:

1. Genesis Volatility talks “e” Although overall great for options traders, personally, I liked his explanation of what -200% annualized meant. Don't take my word for it (really thinking of changing the name of this commentary series to that).
2. Alternatives to buying puts as downside protection by jp*JellyR@ll. He highlights using a “broken-wing-butterfly”. “There is no optimum solution, just pros/cons of different strategies”. Well done. Also, to be clear, this can work the other direction, too.
3. How to Succeed as a Sell Side Trader. Good article and not specific to sell side traders. Good overall advice. Brent Donnelly has been on a tear.

Best

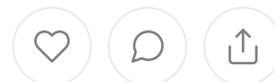
Ari

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