

MARKET UPDATE

- The options market continues to show the same characteristics and structure that has defined it for a few months now.
- One thing that is noteworthy, is the lack of levity in voldespite a strong spot move, and positive spot/vol correlation. The move higher in BTC earlier in the month led to only a brief spike in ATM vol, and that too in the front-end. It appears the market has assigned a nominal premium to the back-end and treats moments of volatility with a bid for gamma, not unlike the developments we observe in global macro markets. Now of writing, front-end vol has drifted below 50, while 6m is straddling 60.
- The term structure, though attempting to show tendencies of normalcy, often caves at points of low vol, with premium-capture plays still attractive to coinbalance sheet holders.
- Smile has correspondingly struggled to define itself, with mids showing a slight bid for puts, but realistically trades on both sides of par between maker/taker dynamics.
- The wings continue to offer the most attractive exposure. Historical distributions show high levels of kurtosis, and under those parameters, deep OTM options provide value. Even with disregard towards patterns of historical distribution, wings don't price anywhere close to what a high-vol EM currency might offer. For instance, as a rule of thumb the 25d RR is typically 1/3-1/4 the ATM vol for many EM currencies, and this has held true for various market cycles. At the same time, commodity riskies often show a distinct bid to the call with clear regime changes. In the case of BTC, we currently observe it to be 1/25th - 1/30th of ATM, with seesaw directional preference, and that is without adjusting for liquidity; it is virtually non-existent. This is in part due to natural supply of volatility as well as the structuring of solutions to help manage balance sheet exposure countered by a nascent options interest.
- Given the lack of sophistication in BTC options trading, concentrated short gamma positions are likely to amplify market momentum and present opportunities for owners of OTM optionality.

BTC ATM VOLATILITY STRUCTURE



BTC 3 MONTHS 25-DAY SKEW



DERIBIT IMPLIED VOLS VS. CORRADO SU KURTOSIS MODEL

