

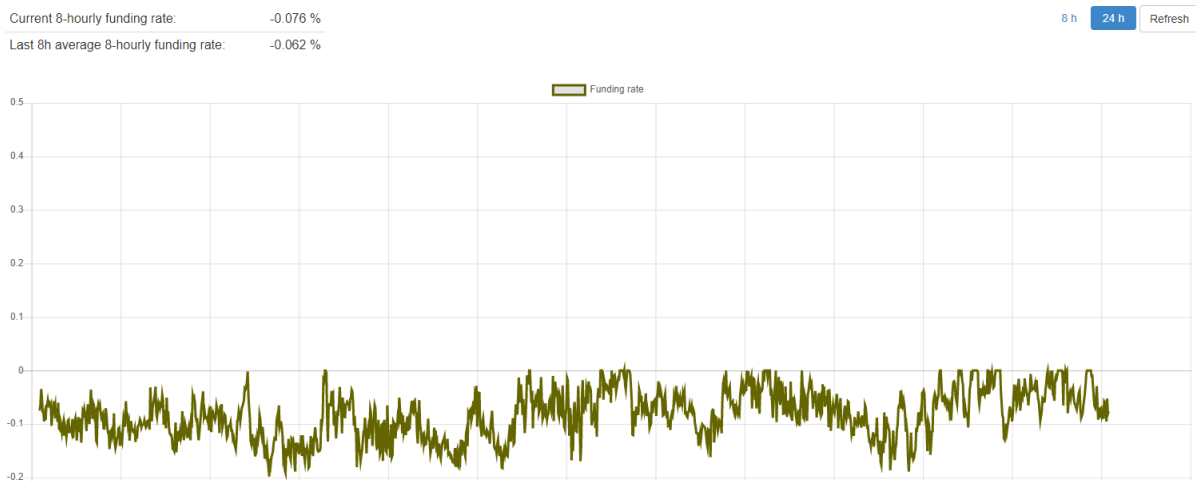
MARKET UPDATE

The past 10 days have witnessed a strong move in Bitcoin alongside the emergence of very peculiar market mechanisms.

As the price of BTC in USD made its ascent from the mid-\$5k range to above \$6k, funding - as measured by the rates applied on leveraged financial longs on offshore exchanges - started to go deeply negative. Repo desks also increased the bid for short-term borrowing needs, and futures markets accelerated into strong backwardation.

In observing this behavior, the catalyst seems to be stemming from exchanges without margin provisions, but with strong USD onramps. More specifically, the levered exchanges offering perpetual swaps- who are indexing to these other exchanges- witnessed their product consistently lagging the index, and thus started applying stronger funding rates in an effort to re-align their products.

Below we see that on one such exchange, the average funding rate over the past 24h has been rewarding longs of perpetual swaps to the tune of 7bps/day or 25.5% annualized. On another exchange, rates exceeded 100% annualized earlier this week.



So long as the spot-bid persists on the indexed exchanges, we expect this phenomenon to continue.

Furthermore, as a function of spot-demand for BTC [through channels that have strong KYC/AML policies], we are seeing BTC dominance, or % of BTC's market-share to the rest of the ecosystem climb steadily. This is reducing the perceived valuation of the commonly labelled altcoins and creating inertia around BTC as a gateway to the digital assets ecosystem. At the time of writing, dominance is back to the highs last witnessed in Sep 2018

at 60%, though still off the Dec 2017 levels near 70% where we witnessed euphoric BTC buying.



Volatility however remains somewhat subdued. With term structure and surface still largely flattish, we have noticed a slight uptick in a bid for gamma. However, it appears the market is not willing to assign higher levels of probability to continued outsized moves, as vol for the most part continues to hover heavily about the high 50s/low 60s region. This is likely a sign that structural volatility ascribed to BTC is too high and there will be asymmetric performance in favor of lower implied volatility.

Taken in aggregate, the above conditions are encouraging signs of market maturation. Especially amidst a relatively turbulent week in global markets as well as within the ecosystem, Bitcoin has gained on both relative and absolute measures, giving wind to the narrative of it being an uncorrelated asset class that is beginning to find an initial use-case amongst the uncertainties of monetary and fiscal policies. This train looks to be gathering steam.

We remain constructive, yet opportunistic.