



April commentary

News Highlights

1. [Visa CEO announces plans to move into crypto in a “very big way”](#)
2. [Venmo adds support for crypto purchases](#)
3. [German institutional funds “Spezialfonds” now allowed to invest in crypto assets](#)
4. [SEC Delays VanEck Bitcoin ETF Decision until June](#)
5. [EIB issues digital bond on the Ethereum blockchain](#)
6. [JPMorgan Prepping to Offer Managed Bitcoin Fund](#)
7. [Tesla takes profit on 17% of its Bitcoin holdings, to “test market liquidity”](#)
8. [\\$7.6 billion in crypto long positions liquidated in one hour as bitcoin drops more than 10%](#)
9. [Bank of England begins hiring for central bank digital currency team](#)
10. [A16z is raising as much as \\$1 billion for a new crypto fund](#)

Chart of the month:

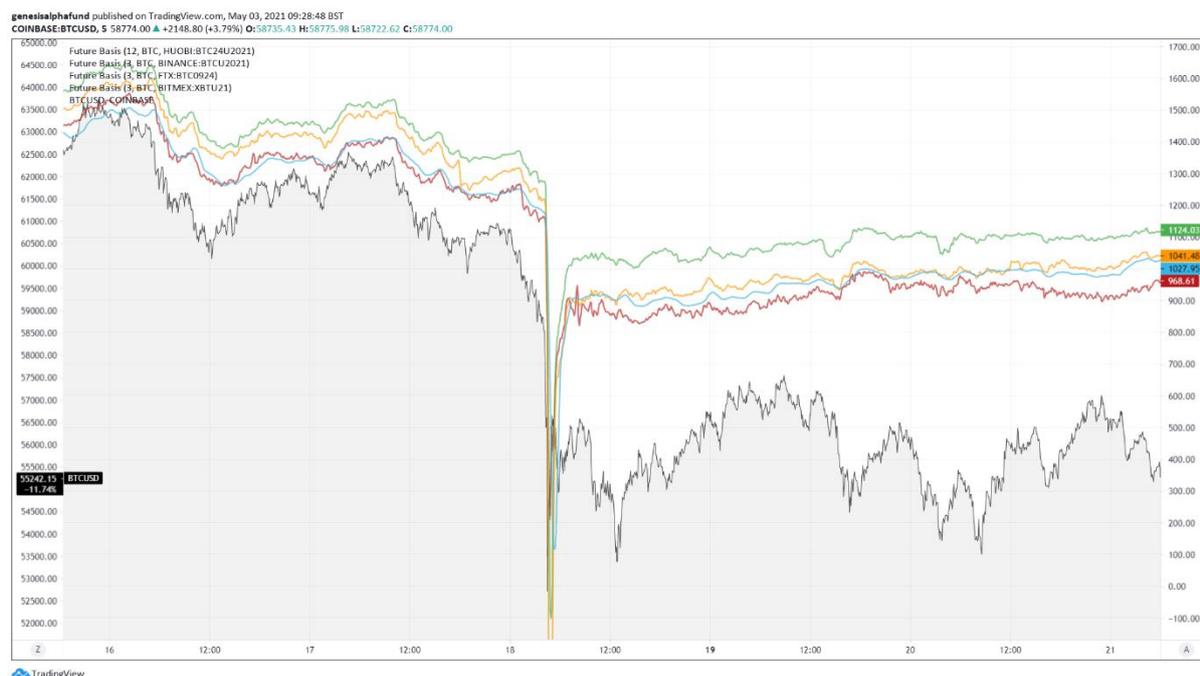


Figure 1: Market participants were caught off guard on April 18th when Bitcoin broke the \$60,000 support, causing more than \$7bn in derivative position to be liquidated. The selling pressure from the liquidations caused severe discounts on these contracts, with the highest levered exchanges seeing the basis on June futures turning negative while arbitrageurs sourced the physical that needed to be sold against the purchase of the discounted derivatives. Leverage got washed out of the system and since then rates have remained low despite the strong price action that was, arguably, spot driven.

Source: Tradingview



Commentary:

April has been characterised by a great dispersion of returns, with coins like BTC finishing the month flat, or slightly negative, while other tokens have returned 100% or more over the same time-period. Among the bigger projects, Solana, PancakeSwap, Ripple, Polygon, Binance chain and Thorchain have been the best performing. The underlying narrative still appears strong across the market, but liquidity proved fragile in the early morning of April 18th, when a number of rumours helped push the Bitcoin price below the \$60,000 support line. After a few days of sideways action, the bottom was reached on April 23rd, from which point the trend has been mostly upward for the remaining week. Not enough for Bitcoin to recover its losses, but enough to propel market indices like SHIT-PERP (+46%), MID-PERP (+40%) and DEFI-PERP (+30%) above their pre-crash highs.

Due to excess capital in the industry, most projects have skyrocketed from the dips without a major help from levered products, with the rally being fed by spot buying. Premia across coins and venues on derivative products reset after the crash on April 18th, that brought the contracts on higher leverage and more retail oriented venues into a short-lived discount to the spot prices, while arbitrageurs were dealing with the usual blockchain confirmation time.

Never has the role of prime brokerage services been more apparently needed than during such abrupt market moves, while the market is short on liquidity. Credit fuels efficient markets, allowing risk takers to step-in, and correct the transient mispricings caused by forced liquidations on a book without bids.

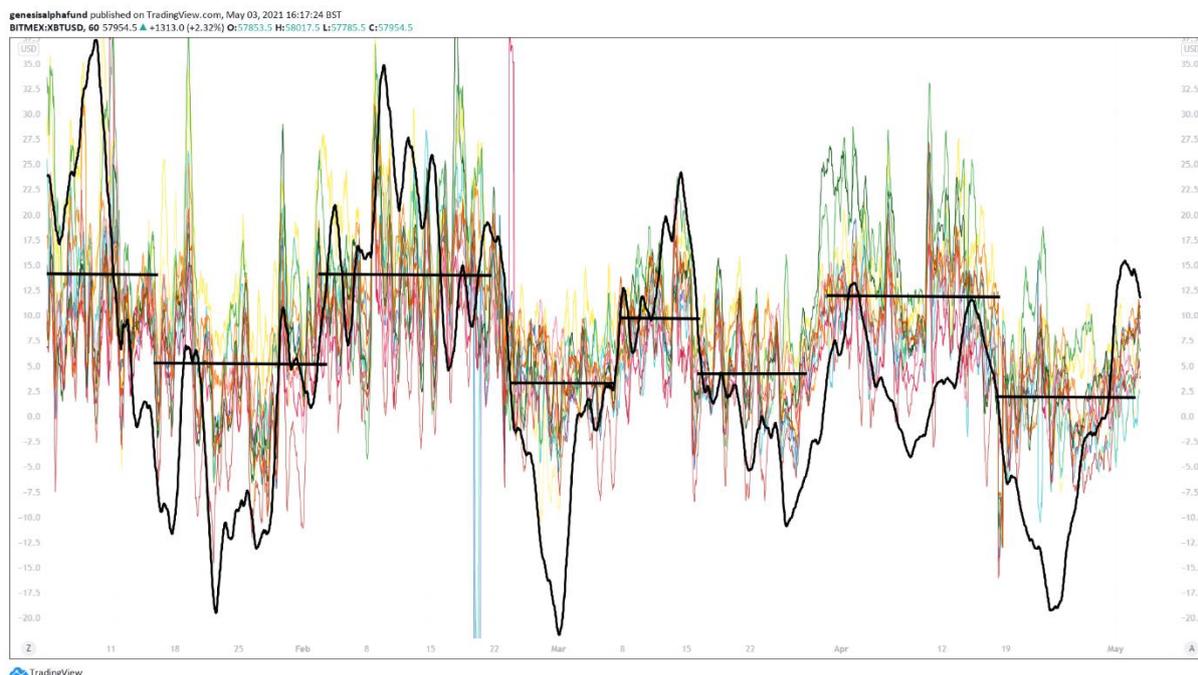


Figure 2: 12-hours rolling average of hourly premiums, in basis points, of perpetual swap contracts for BTC and ETH on the most popular trading venues since the beginning of the year (RHS axis). It can be observed, albeit to the extent of a hand-waving argument, the cyclical behaviour of the leverage with periods of low premiums shortly followed by periods of high premiums and high demand for leverage. Superimposed, in black and on the LHS axis, the 24-hours rolling average of the % weekly returns for BTC.

Source: Tradingview

Despite the strength of the recovery, past April 26th in particular, premia on derivatives have remained subdued, with funding rates at neutral-to-negative level, and with the Future yield curve flattening at levels half as attractive as they were pre-crash.

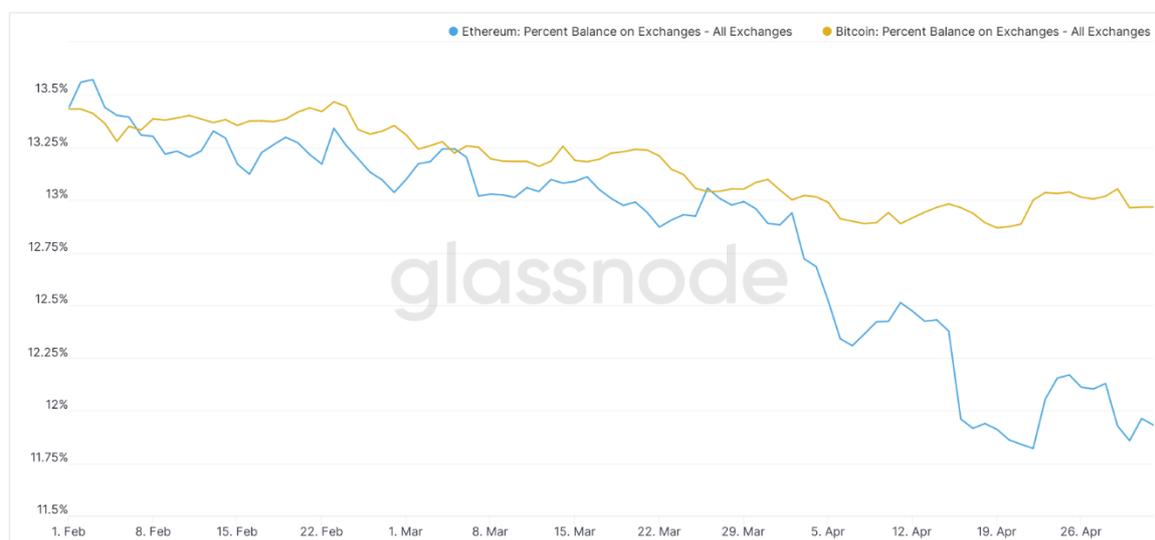
In Figure 2 we display the 12-hours rolling average of hourly premia of perpetual swaps for BTC and ETH on the main trading venues. It can be observed how during the last three months demand for leverage has been characterised by cyclical dynamics. For the pattern to continue, we would expect rates to pick up again within 2-to-3 weeks since the cool-down on April 18th. Unsurprisingly, we can notice that the peaks and troughs of the weekly return time series for Bitcoin coincide with times of decisively higher, or lower, premiums on derivative contracts.

High volatility assets are bound to move both up and down, and irrespectively of the underlying bull markets, severe drawdowns are to be expected as market participants try to outpace each other in a competition for the highest returns. Least of all, such drawdowns should be seen as a judgment of the market over the current developments in the industry, as these could not be more positive for the asset class.

After years of hopes, and months of triumphant disbelief, crypto maximalists can call their mission successful. The pace of adoption of the underlying technology, as well as the involvement of the most disparate institutions with crypto-native projects is a clue that the tipping point is behind us, the crypto ecosystem is here to stay. Central Banks bought into it, bulge bracket investment banks bought into it, Visa and Mastercard bought into it, PayPal and Venmo bought into it. Charlie Munger... did not buy into it, and rather recently called Bitcoin “disgusting and contrary to the interests of civilization”.

But the industry these days has more to offer than Bitcoin: what about Ethereum, Mr. Munger?

Ethereum: Percent Balance on Exchanges - All Exchanges vs. Bitcoin: Percent Balance on Exchanges - All Exchange...



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Figure 3: On-exchange balances, proportional to the total supply, for BTC and ETH since the 1st of February. While both balances have decreased during the last 3 months, ETH has seen a considerably higher outflow than BTC, with the number of ETH on exchange decreasing by more than 10%.

Source: glassnode

The fundamentals for ETH have been constantly improving over the year, with real world usage and adoption experiencing impressive growth, and radical changes to its protocol rules to achieve what is sometimes referred to as “ultra-sound money” (as opposed to Bitcoin, sound money).

Few of the milestones ahead are the EIP 1559 (Ethereum Improvement Proposal) that will introduce a burn mechanism, and a bigger block size (although the target will be to have blocks only 50% full, to allow more flexibility), as well as the full transition to ETH 2.0, the Proof-of-Stake evolution of the current Ethereum network (based on Proof-of-work) that we are used to.

One clear determinant of prices is supply and demand, where the former can be, at least partially, proxied by the number of coins held on exchange, and therefore ready to be sold. In Figure 3 we show the balance of BTC and ETH on centralised exchanges relative to the total supply, over the last 3 months. During April in particular, ETH outflows have dwarfed BTC, which has actually experienced a net inflow to exchanges. This should not be too surprising however, with ETH being a yield generating asset through countless DeFi applications and the recently launched staking rewards on the ETH 2.0 beacon chain.

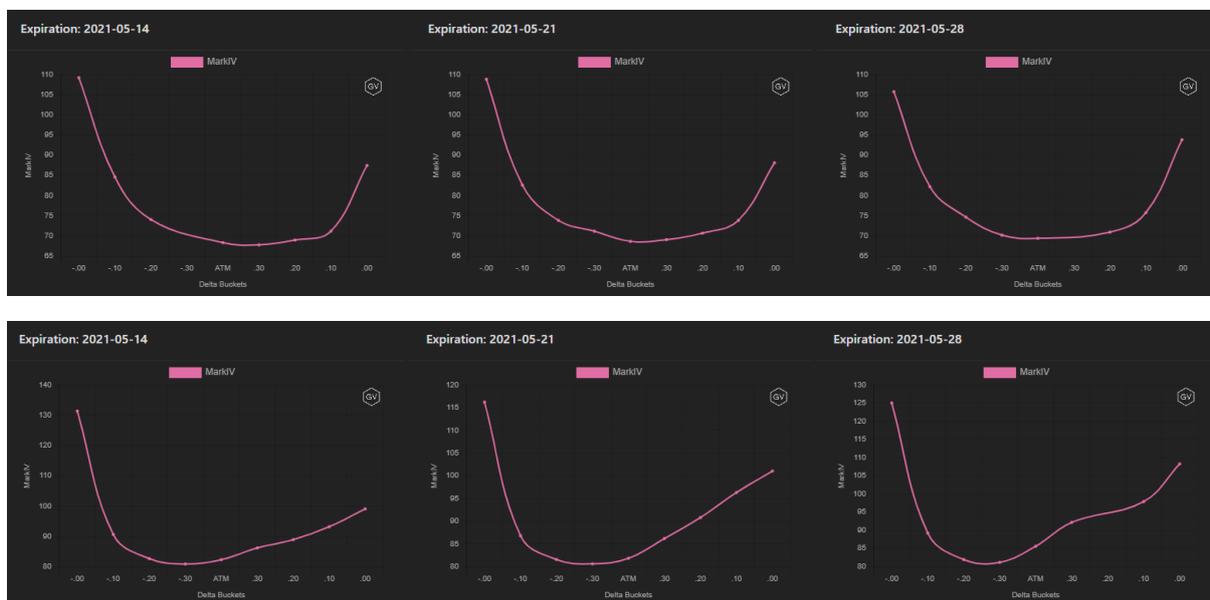


Figure 4: Volatility structure comparison between BTC (top panel) and ETH (bottom panel) for short-dated maturities. It can be observed how ETH volatility is positively skewed, with calls being more expensive than comparable puts (with the exception of deep OTM puts), while BTC call options trade at a discount to puts for all OTM strikes.

Source: Genesis Volatility

The bullish sentiment on ETH is reflected on its volatility structure, clearly skewed positively with calls trading at higher implied volatility than puts on most deltas (with the exclusion of deep OTM puts). In Figure 4 we display the volatility structure of 3 short-dated maturities for BTC and ETH, and the difference between the two is striking. Bitcoin volatility structure reflects the demand for protection in the market, for Ether, on the other hand, it reveals an underlying demand for levered upside exposure that has not yet reached the linear-payoff products, as discussed earlier.

Searching for other clues about the demand for leverage on ETH, we observe the Open Interest (OI) on derivative contracts for Bitcoin and Ether and compare their change over the two weeks following the crash on April 18th. In both charts in Figure 5, it can be easily noticed the date of the

crash, marked by a vertical jump in the OI being reduced by the forced liquidations, with little to no buyers opening positions against them. Since the reset of system-wide leverage, BTC and ETH started behaving very differently, with OI growing in the latter and shrinking in the former. So far, demand for levered long exposure has not caused an increased to the rates, most often highly correlated across the market. Potentially however, an interesting scenario would be one where market rates for BTC and ETH long exposure decouple, offering new trading opportunities for relative value strategies.



Figure 5: Comparison of Open Interest (OI) change during April between BTC (top panel) and ETH (bottom panel). Each chart reports the OI of inverse contracts in purple (fix dollar size, not affected by spot price), linear contracts in green (fix token amount, OI changes with spot price without any trading taking place) and the underlying spot price in blue. It can be noticed that the demand for ETH derivative exposure has grown much quicker than BTC since the correction on April 18th, despite not having caused a significant rise in rates yet.

Source: Coinalyze

The value of Ethereum is undoubtedly in its network and in the composability offered to all applications running on top of it. It is therefore not surprising that as ETH breaks new ATH, the prospects and expectations on its ecosystem are as rosy as ever. Among the countless applications running on the Ethereum blockchain, decentralised exchanges (DEX) are among the most valuable, slowly but surely capturing an increasing share of volumes from centralised platforms (CEX). Activity on any of these platforms can also offer a proxy for the increasing adoption of Ether and the applications built on top of its blockchain.

In Figure 6 we show the ratio of monthly volumes on DEX vs CEX, and it can be noticed that, despite the astronomical growth in volumes on centralised exchanges, DEX has kept the pace and are now approaching again heights last seen during the 2020 DeFi summer.

The recent news about the European Investment Bank (EIB) issuing €100mn bond offering on the Ethereum blockchain represents one of the latest hints that we might be in for a 2021 DeFi summer in the weeks and months to come.

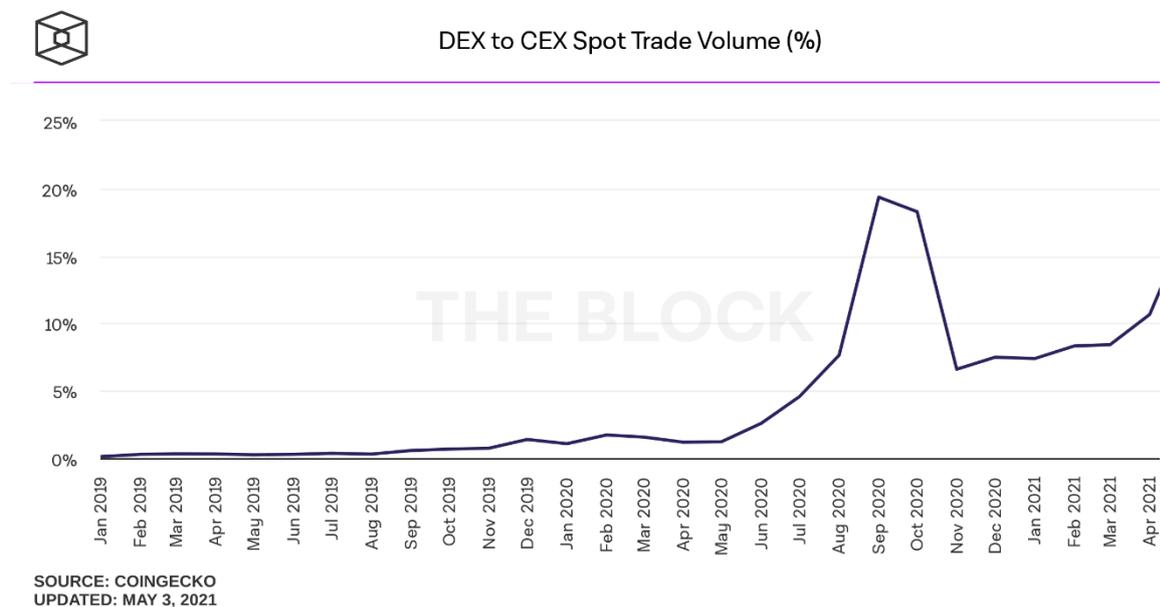


Figure 6: Ratio between monthly DEX and CEX volumes since January 2019. Despite the astronomical growth in volumes on centralised exchanges, DEXes are keeping up, marching towards the heights of the 2020 DeFi Summer, when decentralised venues accounted for almost 20% of the total crypto trading.

Source: The Block