
29TH AUGUST 2023

Weekly Commentary: Funding Moderates

The selloff in spot prices has had a lasting effect on indicators of bullish demand in both perpetual swap and futures markets. The funding rates of BTC and ETH perps alike are positive once again, but remain depressed compared to the strong rates that we saw paid by long position holders over the last three months. The spot-yields implied by BTC futures prices tell a similar story, with a much flatter term structure that remains close to zero. Whilst the strong bullish demand implied by these indicators before the selloff has not been wiped out, it has certainly abated over the last two weeks.



FUNDING RATE IS SUBDUED

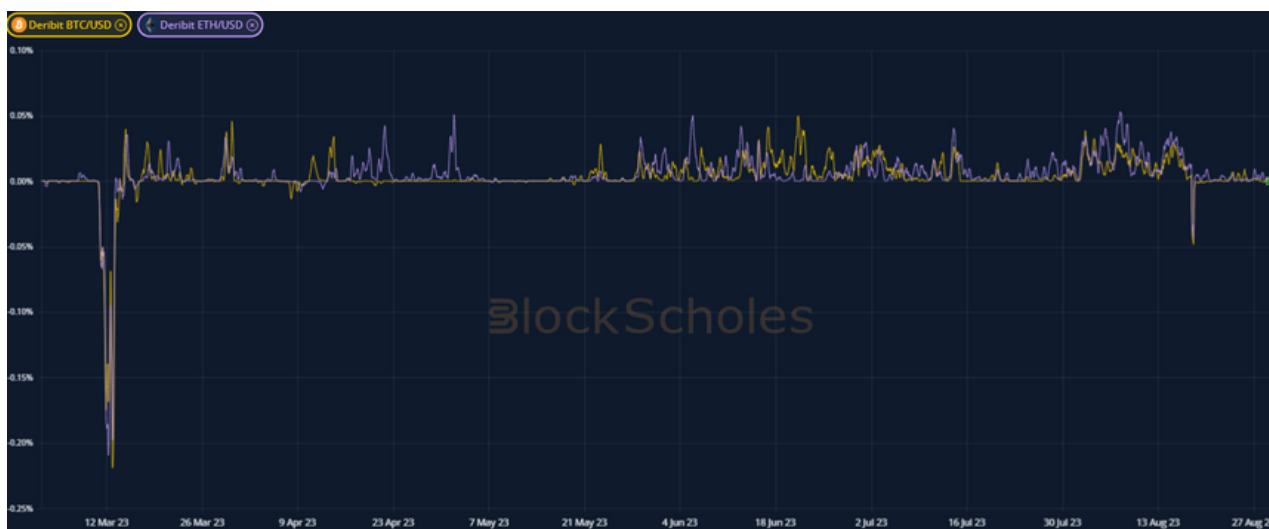


Figure 1 Hourly funding rate of the Deribit traded perpetual swap contract tracking the spot prices of BTC (yellow) and ETH (purple) over the last six months. *Source: Block Scholes*

- The selloff in spot and perpetual swaps on the 18th Aug saw the perpetual swap funding rate spike the furthest negative that we have seen since the 12th Mar this year
- That book-ended a nearly three-month long period of high and positive funding rates for BTC and ETH that began in late May
- Funding rates have remained positive but muted since the strong spike downwards

BTC OPEN INTEREST SLIPS



Figure 2 US dollar-denominated open interest in the BTC (yellow) and ETH (purple) perpetual swap contracts on Deribit since 1st Jan 23. *Source: Block Scholes*

- Open interest in BTC's perpetual swap contract has fallen since the move
- This is not the case for ETH's contract, which has remained at a similar level since the beginning of June
- The open interest of both contracts remains higher than the beginning of the year

POSITIONS CLOSED OUT



Figure 3 Hourly annualised spot yields implied by BTC futures contracts at 1W, 1M, 3M, and 6M constant maturities over the past 30 days (with spike downwards on the 18th Aug truncated to aid visualisation). *Source: Block Scholes*

- The futures market was also impacted by the selloff, showing signs of moderated demand for long exposure in the week and a half since
- Yields spiked strongly negative as the prices of short term tenors plunged below spot, but have since recovered
- We still see positive rates (matching those of the perpetual swaps), but the term structure is much flatter and closer to 0%

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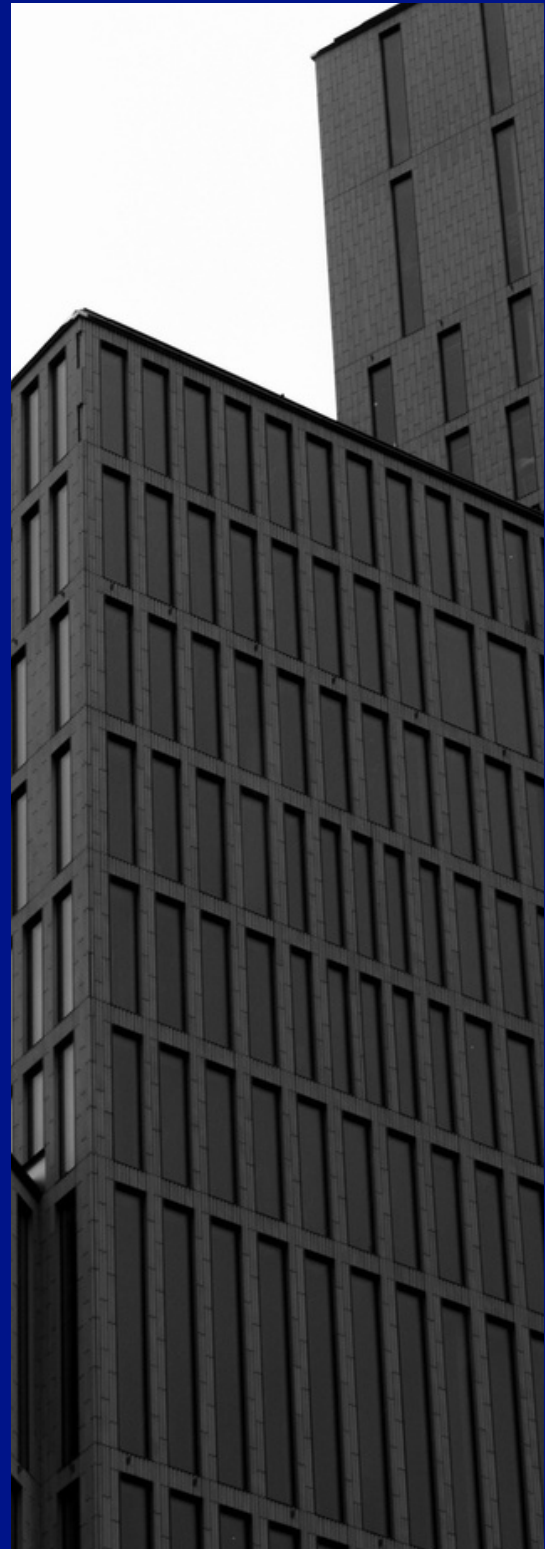
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