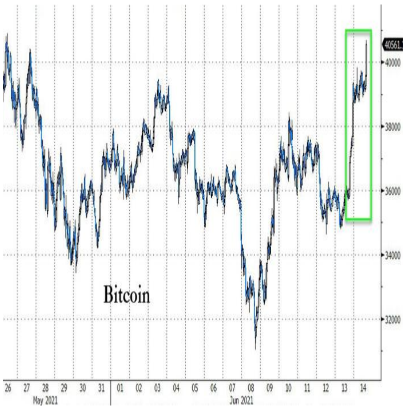
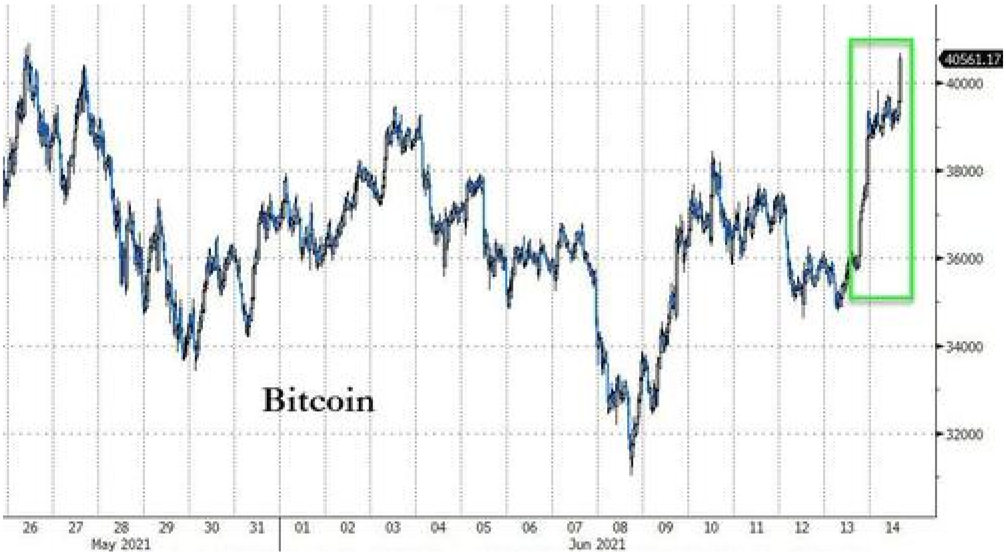


Bitcoin Surges Above $40k After Latest JPM Hitpiece

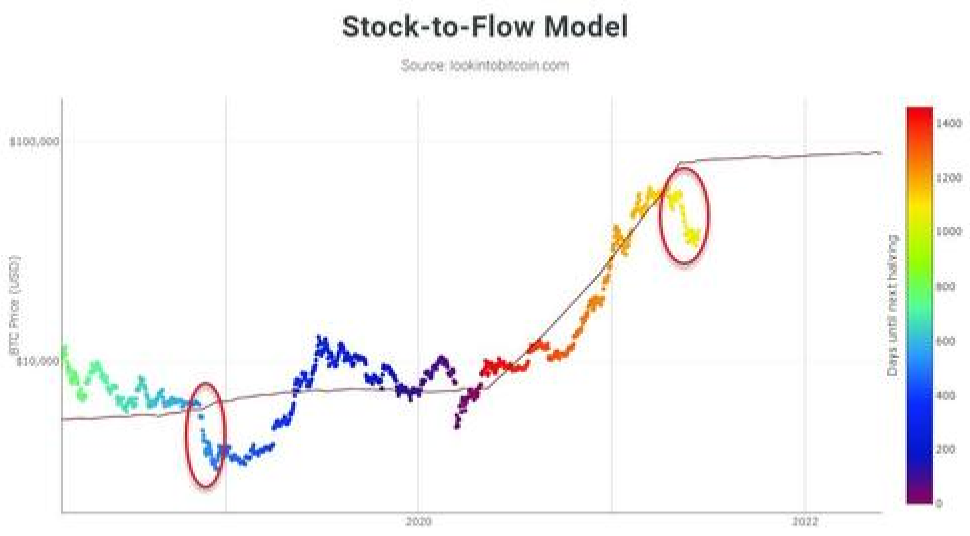
Description

Bitcoin prices are up over 30% from last week's lows, breaking above $40,000 for the first time in three weeks following headlines from **Elon Musk**(flip-flopping to a supportive stance), **MicroStrategy's** successful launch of their upsized $500 bond offering (to be used to buy bitcoin), and the **Dutch finance minister** dissing advisors who demanded bitcoin be banned.



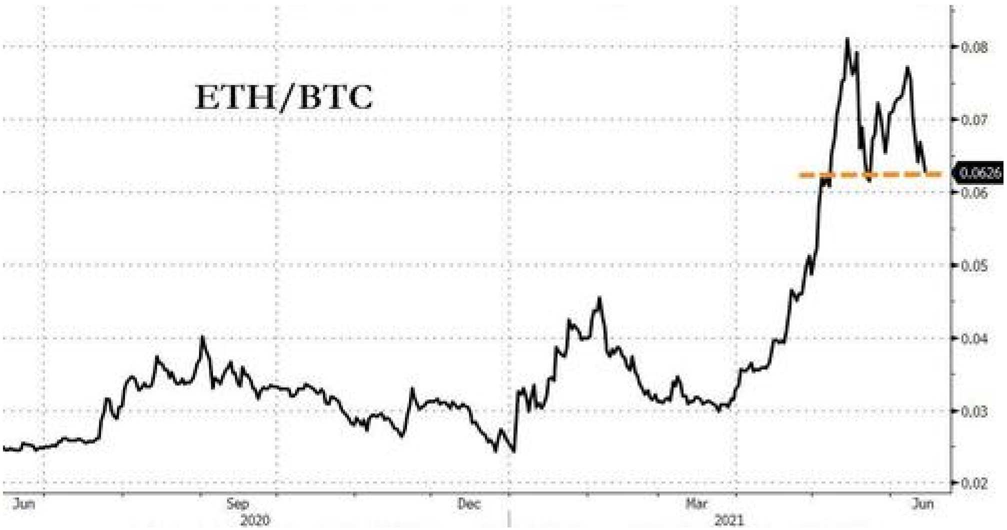
Source: Bloomberg

We have seen this level of 'cheapness' for bitcoin before…



[*Source*]

Ethereum is underperforming notably (but rising still), pushing the ETH/BTC ratio back to key support…



Source: Bloomberg

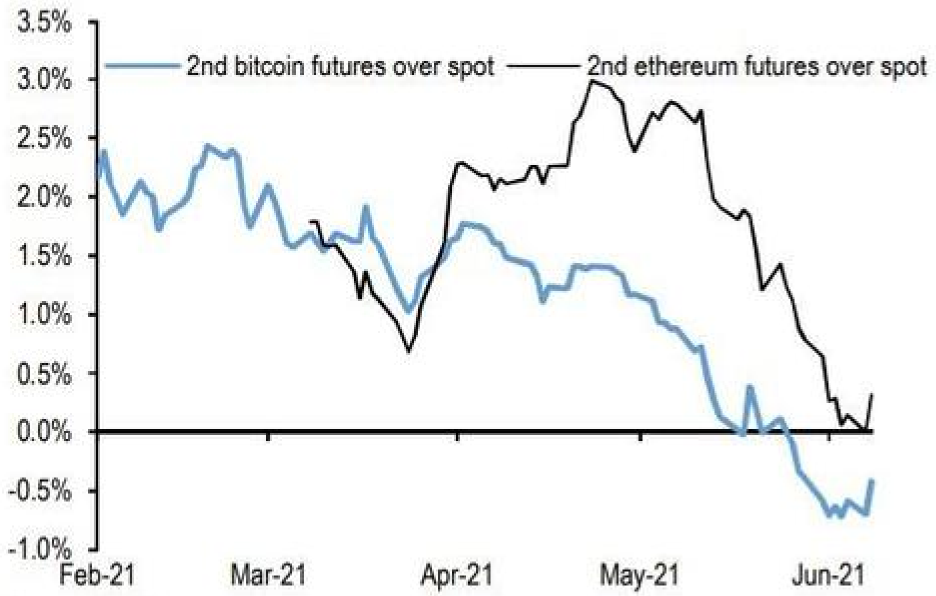
Perhaps the most notable aspect of this resurgence is the fact that **JPMorgan's Nikolaos Panigirtzoglou issued yet another bearish hitpiece on bitcoin** based on the fact that BTC futures are no longer in contango

> **The shift in Bitcoin futures into backwardation is a bearish signal**
>
> The past month's correction in crypto markets saw bitcoin futures shifting into backwardation for the first time since 2018.

This is shown in Figure 11 and Figure 12, which show the 21-day rolling average of the 2nd CME Bitcoin and Ethereum futures spread over spot since the beginning of 2018.

Figure 11: 2nd CME Bitcoin and Ethereum futures spread over spot

21-day rolling average

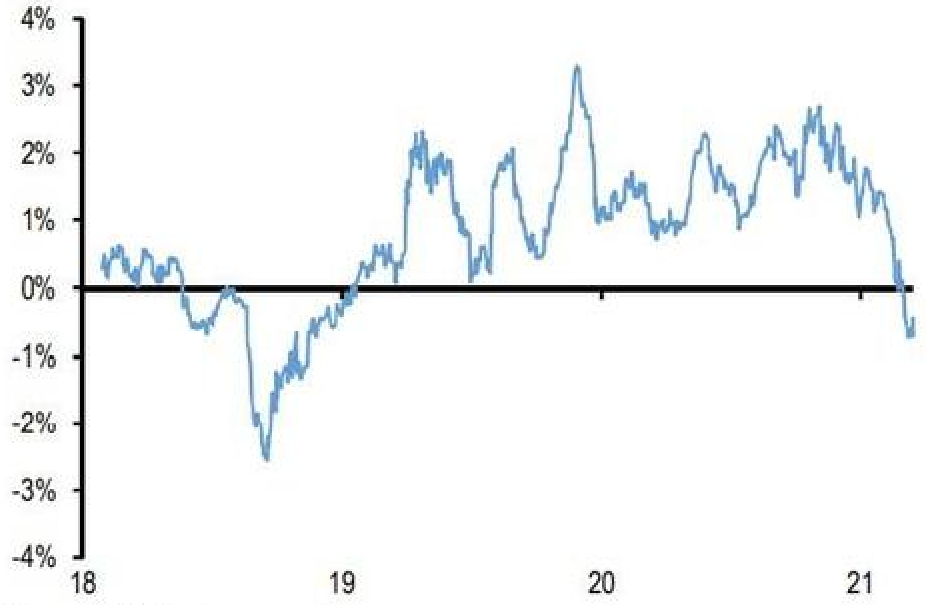


Source: J.P. Morgan

This is an unusual development and **a reflection of how weak Bitcoin demand is at the moment from institutional investors** that tend to use regulated CME futures contracts to gain exposure to Bitcoin.

Figure 12: 2nd CME Bitcoin futures spread over spot

21-day rolling average



Source: J.P. Morgan

In a normal environment when demand for Bitcoin futures is not particularly weak, Bitcoin futures trade at a positive spread over spot, i.e. the futures curve is in contango. As we explained before, the typically high (above 10% annualised) futures to spot spread is likely a function of the high “risk-free” rate or opportunity cost implicit in crypto markets. Lending USD in crypto markets typically attracts annual interest rates of 8-10% and this high “risk-free” rate is a common component in the futures vs. spot arbitrage trade across both Bitcoin and Ethereum futures. This high “risk-free” rate or opportunity cost is likely a reflection of how “crypto-rich” and “cashpoor” crypto markets still are. In the case of Bitcoin, neither the introduction of ETFs last February nor the greater institutional participation in the futures market had managed to change the “cash-poor” nature of crypto markets and cause a normalization of the futures to spot spread. Adding to this elevated “riskfree” rate storage costs of around 2% per annum, as well as similarly high transaction costs given the fragmentation in crypto markets, one can easily see why futures to spot spreads of as high as 15% per annum could be justified in a normal market environment in Bitcoin or Ethereum futures.

But when demand is particularly weak and price expectations turn bearish, the futures curve shifts into backwardation. This was the case for most of 2018 as shown in Figure 12 for CME Bitcoin futures. We believe that the return to backwardation in recent weeks has been a negative signal pointing to a bear market. We are thus reluctant to abandon our negative outlook before the metric in Figure 12 (i.e. the 21-day rolling average of the 2nd CME Bitcoin futures spread over spot) shifts back into positive territory.

Finally, we also heard this morning from infamous trader **Paul Tudor Jones (PTJ), who sang the praises of bitcoin as a hedge against these “bat shit crazy” times.**

by Tyler Durden

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