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FLASH: Bitcoin healthy cool off over weekend resets margin leverage but does not signal end of bull market as “Dogecoin” retail traders are now entering the market

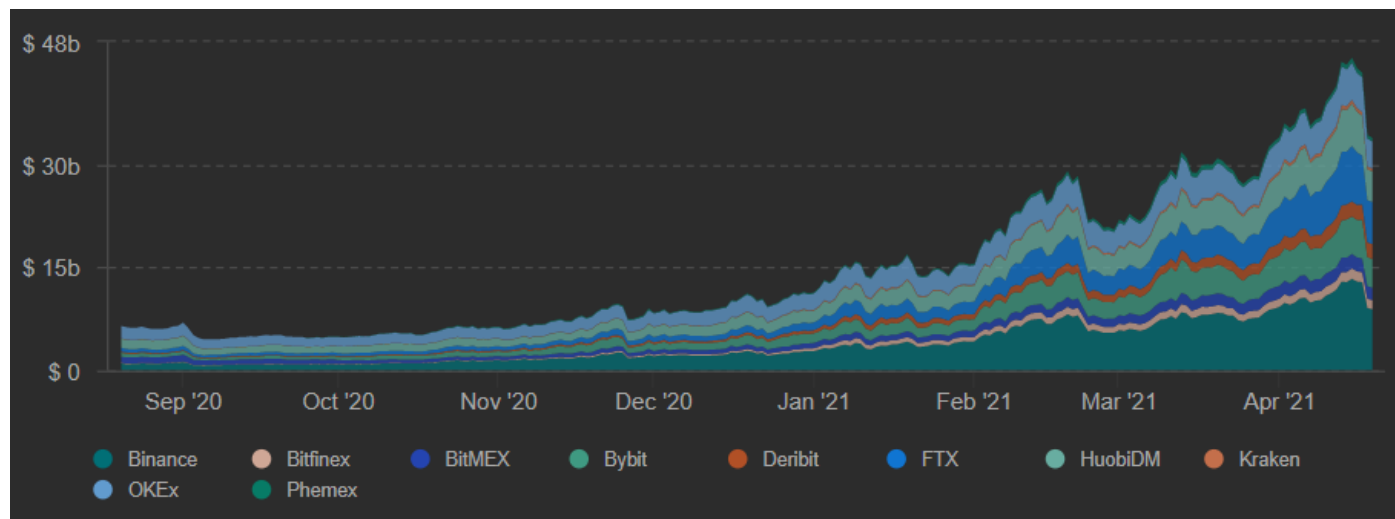
Bitcoin made new ATHs last Wednesday as investors piled in ahead of the Coinbase IPO. As we mentioned in our note last Friday ([click this link](#)), we thought a “crypto cooling off would be healthy” – and that’s what we got over the weekend.



Source: Fundstrat, Glassnode

Futures open interest saw a significant drop alongside price

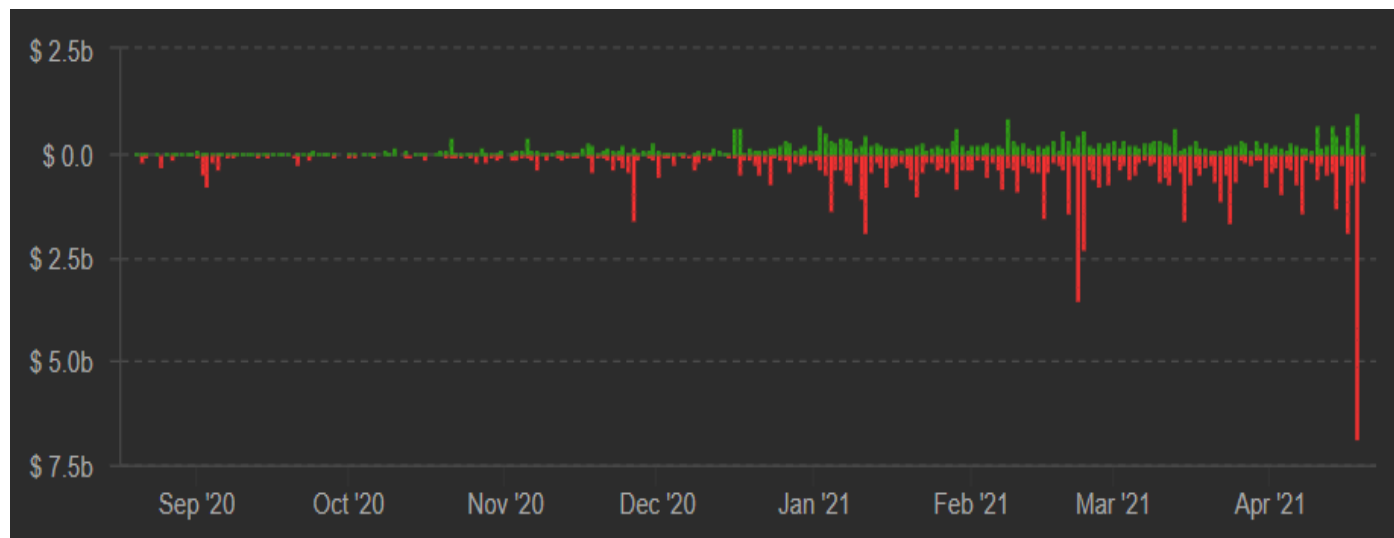
Bitcoin futures open interest, which had been rising with the price, saw an even steeper correction over the weekend starting Saturday night as the market sold off.



Source: Fundstrat, Coinalyz

Highest level of futures liquidations in at least 8 months

The decline in Bitcoin futures open interest was heavily influenced by the highest level of trader liquidations we've seen in at least the last 8 months.

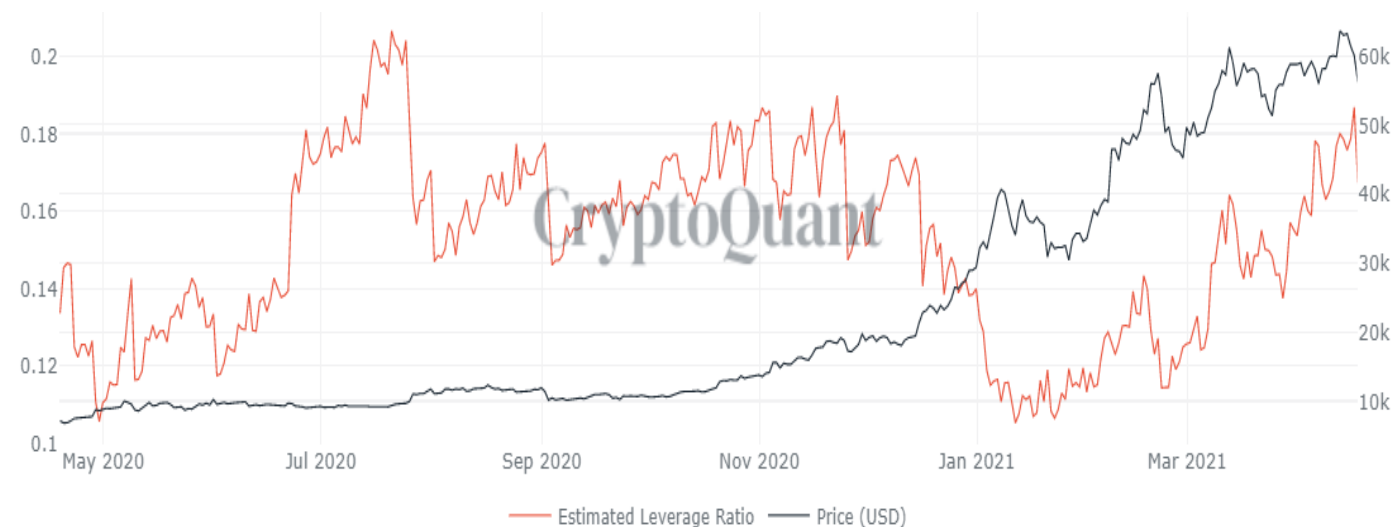


Source: Fundstrat, Coinalyz

Rising margin leverage resetting with the recent pull back

The absolute level of futures open interest, which can rise with the price, is not as important as the amount of margin leverage behind those positions. Many offshore crypto exchanges offer uses up to 100x leverage on futures positions. One metric for estimating margin leverage is to look at the total open interest relative to the BTC and stablecoin collateral held on those exchanges using on-chain data.

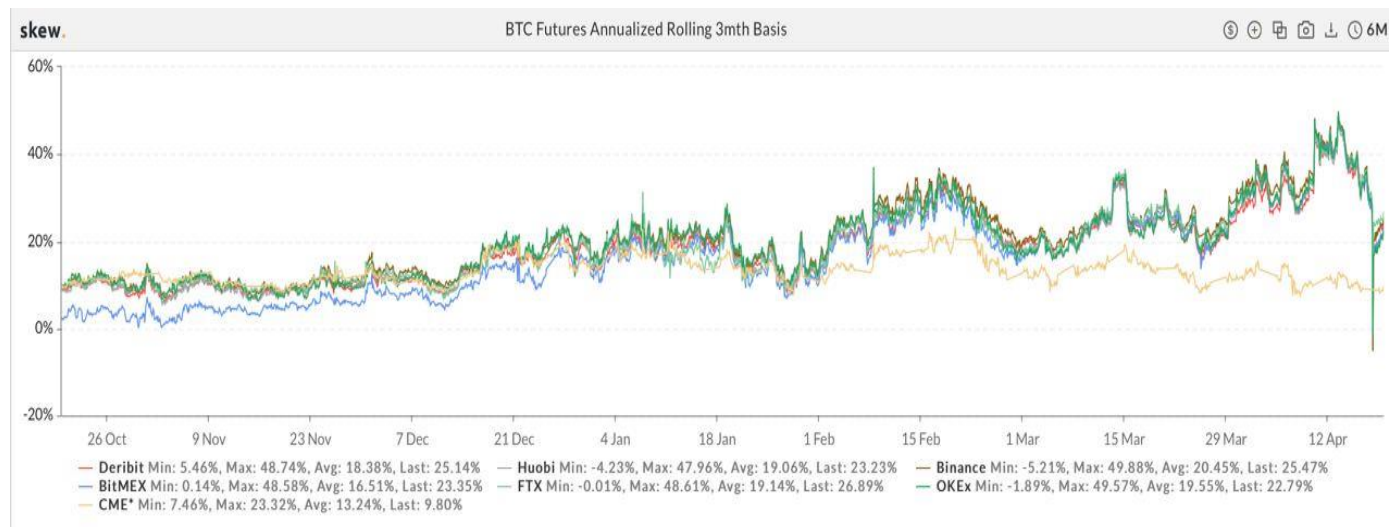
Traders were taking on increasingly leveraged margin positions heading into the new BTC ATH last Wednesday. This trend continued into Friday even as the price started to roll over, and by the weekend we saw a reduction in leverage as futures positions started getting liquidated.



Source: Fundstrat, Cryptoquant

Bitcoin futures basis reached 50% before correcting to -5% and rebounding

Basis is the difference between the futures price and the spot price of an asset. Bitcoin futures annualized basis was trading as high as ~50% heading into Wednesday ATHs. We think this further signals that overly bullish traders were looking to take advantage of the move higher and were using leveraged futures positions to gain increased exposure they could not otherwise hold in the spot market.

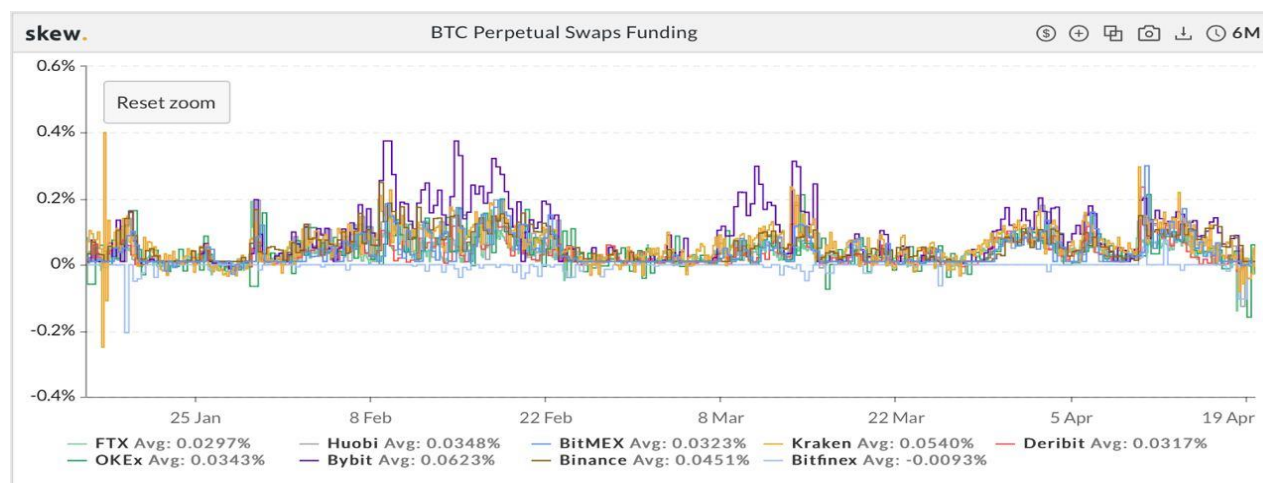


Source: Fundstrat, Skew

Perpetual swap funding flipped long to short

Funding rates are payments used to keep the perpetual futures contracts in line with the spot price. When funding rates are positive it means that the futures price is above the spot price and longs pay shorts, with the opposite being the case when funding rates are negative.

Bitcoin perpetual swap funding rates were in very positive territory on the 16th when the market peaked and flipped to negative over the weekend. This signals traders who were off balance to the long side have now flipped to the short side hoping to hop on the recent pull back.

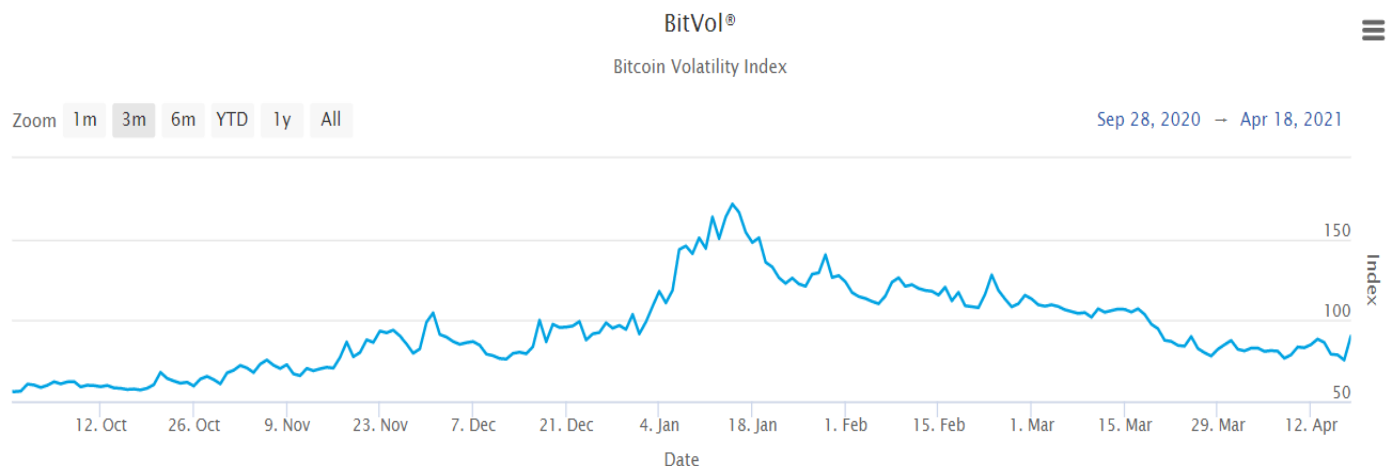


Source:

Fundstrat, Skew

BTC VIX signaled complacency ahead of move but market showing

Implying the market was very complacent, the Bitcoin VIX had been falling heading into the weekend. We saw a slight tick up over the last two days as you would expect during a sell off, but the market is not signaling panic mode in any way at these levels.



Source: Fundstrat, T3 Index

Dogecoin skyrocketing is less likely a sign of a market top and more likely a sign of new retail capital entering the picture

Dogecoin is a cryptocurrency that was created as a joke around the meme of a dog back in 2013. The technology is not unique, but it has been able to gather a large community throughout the years as holders promote the coin to their friends and growth the user base. These waves of adoption have come with periods of price appreciation and volatility like we're seeing today. Most are likely retail investors today, much like BTC in its early years.

We think some bearish investors could be tempted to view the recent surge as a sure sign of a top – akin to the shoeshine boy or taxi driver giving the Wall Street investor stock tips – but we have to remember the market has changed.

Retail has largely not participated in this crypto rally in the way that institutions have up until this point, and we think DOGE, although we don't know how it will end, could be an early sign of more retail investors entering the picture.



Source: Coinmarketcap

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