

ZOMBIELAND THE SEQUEL

Just Crypto #6
The Crypto Circular #11

Signature

FIRST
REPUBLIC
BANK

svb

CREDIT SUISSE

silvergate

QCP Capital



Summary

Business Update & Outlook (Q1 2023)

Strong start to the year | Historic first DVOL trade executed

Zombieland! (The Sequel)

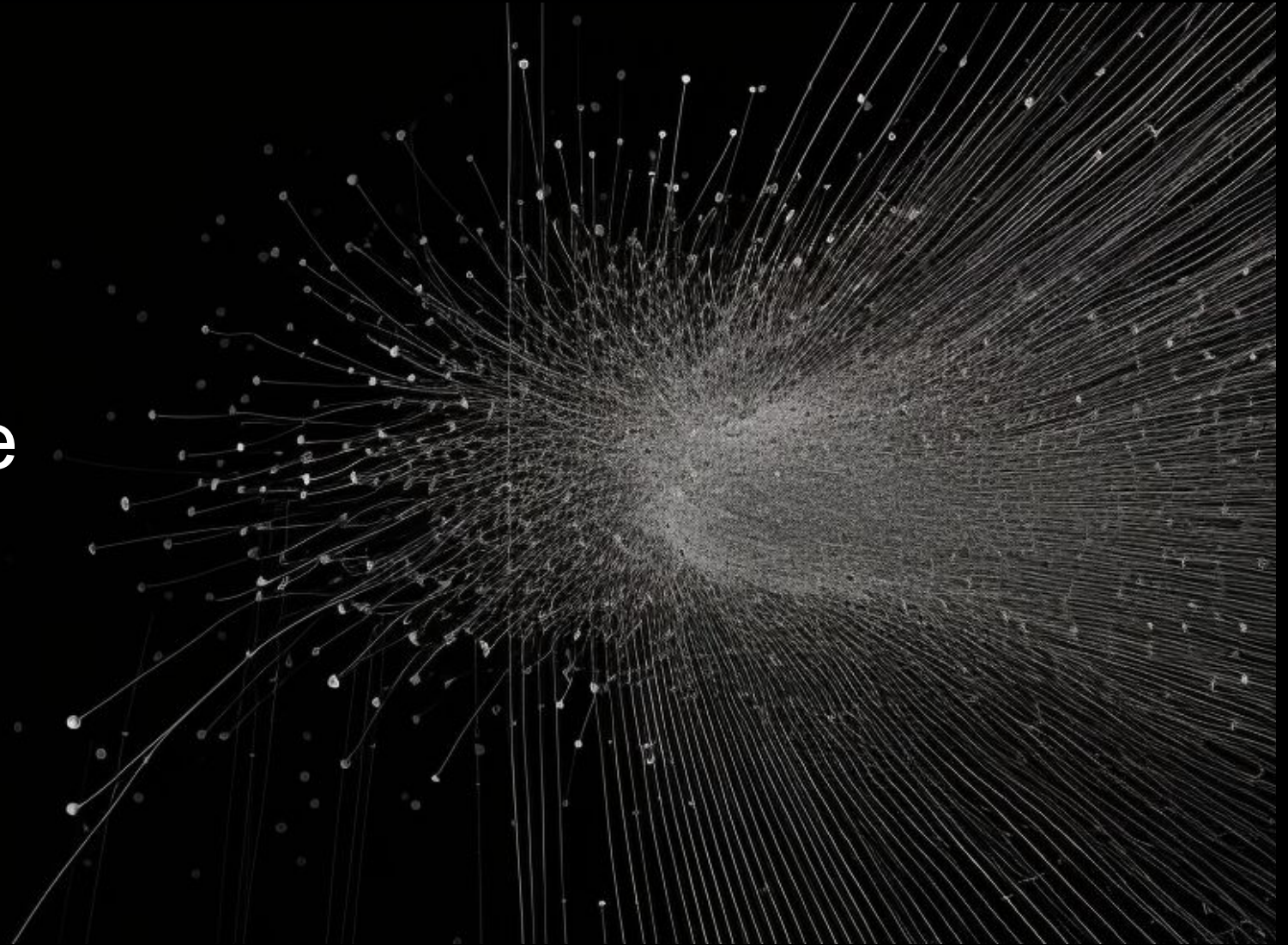
Fragility of the financial system | Malfeasance of the incumbents

2023 Risk Events Calendar

Trade Update



QCP Capital Business Update Q1 2023

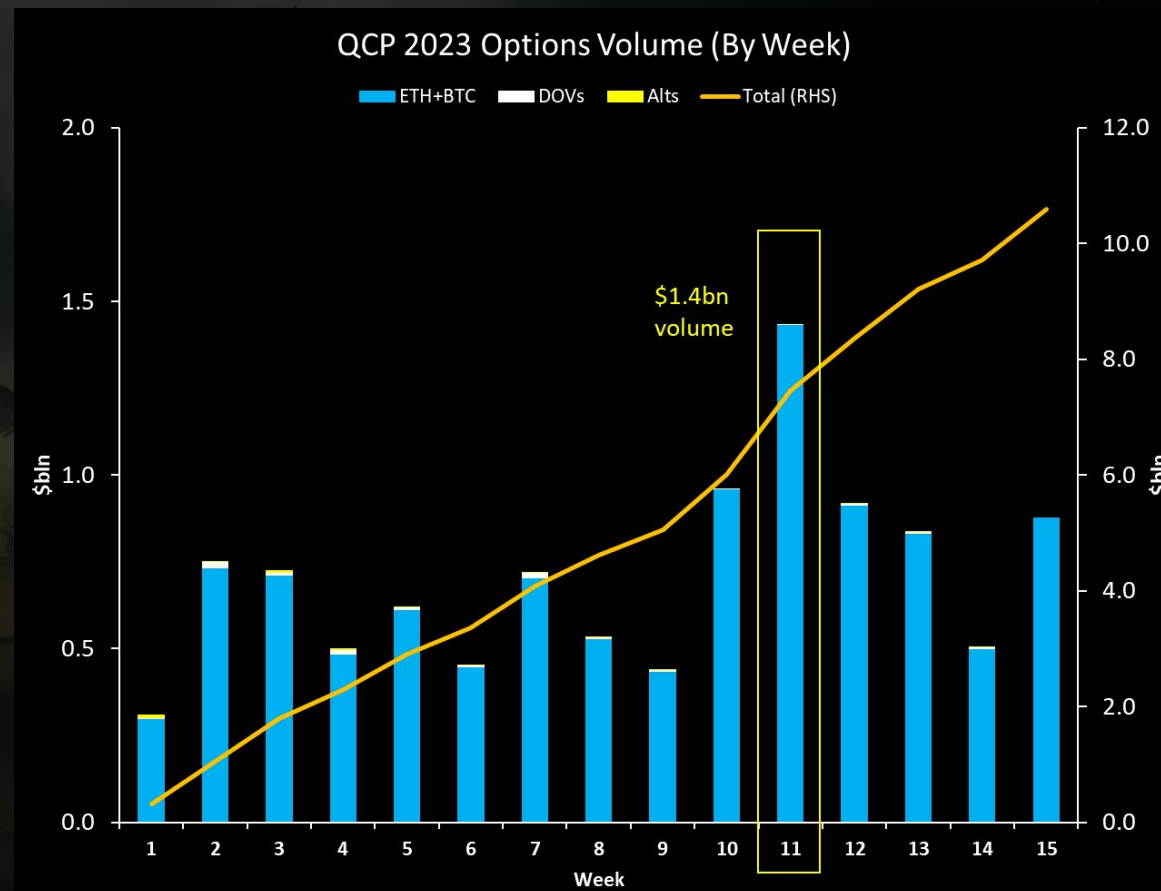




Total option volumes have remained robust in Q1 this year, with interest picking up dramatically towards the end of the quarter, following the US banking crisis.

In particular, weekly volumes reached a record of \$1.4bn in the 2nd week of March at the height of the banking crisis.

*2023 YTD till 13 Apr



QCP Capital made history again, executing the milestone inaugural DVOL blocktrade on Deribit.

The launch of a tradable benchmark volatility index is a significant milestone that brings the crypto options industry closer to other mature asset classes.

Similar to VIX for equities and MOVE for bonds, DVOL will be a quoted benchmark that outside observers will use to assess the state of the crypto volatility market, and QCP Capital is proud to be part of making this happen.

[Read more here](#) about what makes DVOL so important.



Deribit
@DeribitExchange

1/3

Introducing [#DeribitExchange](#) DVOL Futures! 🚀 Launched today at 12 UTC

First quotes are now live in the market, and we've already seen initial on-screen trades 🏆

Cheers to the milestone inaugural block trade executed between [@GenesisTrading](#) & [@QCPCapital](#)
🎉🎉
[#Bitcoin](#) ₿

LAUNCHED

Bitcoin DVOL Futures

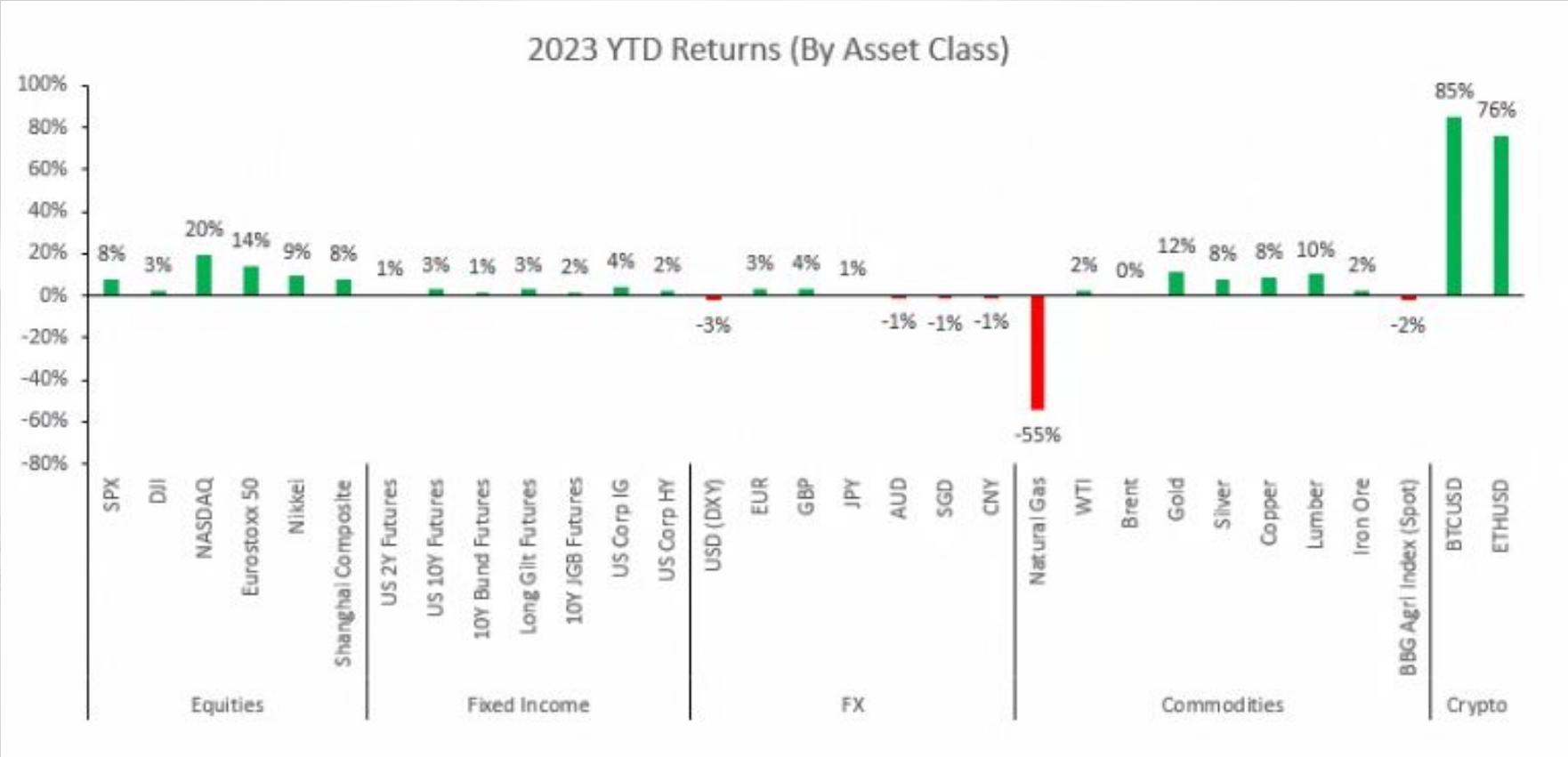
First BTC Volatility Trading Contracts



10:58 PM · Mar 27, 2023 · 17K Views



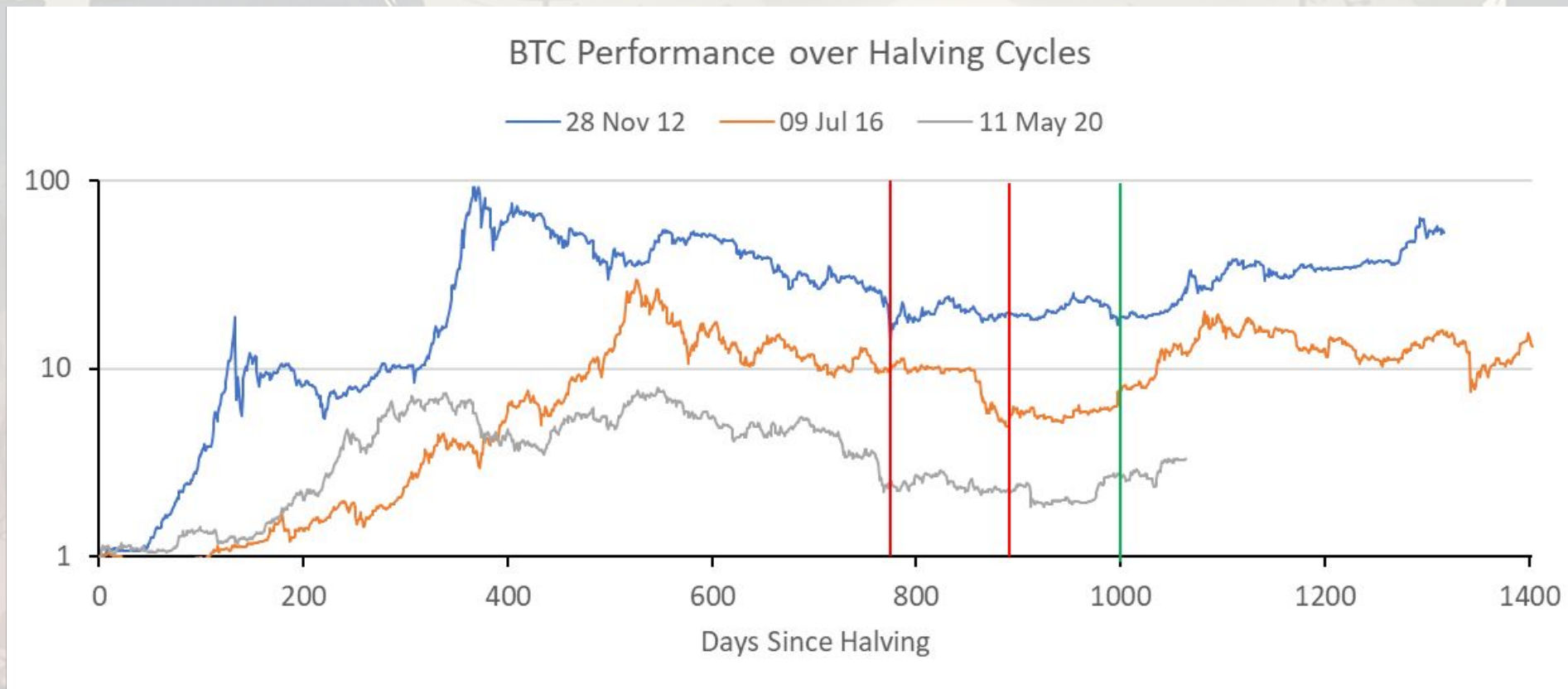
Crypto has been the standout asset class thus far in 2023, with many other asset classes stuck in a tight range.



*2023 YTD till 13 Apr

And by the looks of it we are just getting started, if BTC performance leading up to prior halving cycles are anything to go by.

In this piece *Zombieland! (The Sequel)*, we will show why recent actions by the Fed is making BTC and crypto even more attractive to own.



Source: QCP Insights

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Barely a year after our release of Zombieland! (Part 1), we have now written a sequel.

And like all sequels, this one is much worse than the original.





Last year, Zombieland! (Part 1) focused on the crypto landscape.

We showed early on, how the Terra/Luna crash almost turned the industry into a Zombieland - with many crypto institutions becoming zombie companies and threatening to take the rest of the industry down with them.



This year, in Zombieland! (The Sequel), we turn our attention to the US financial system.

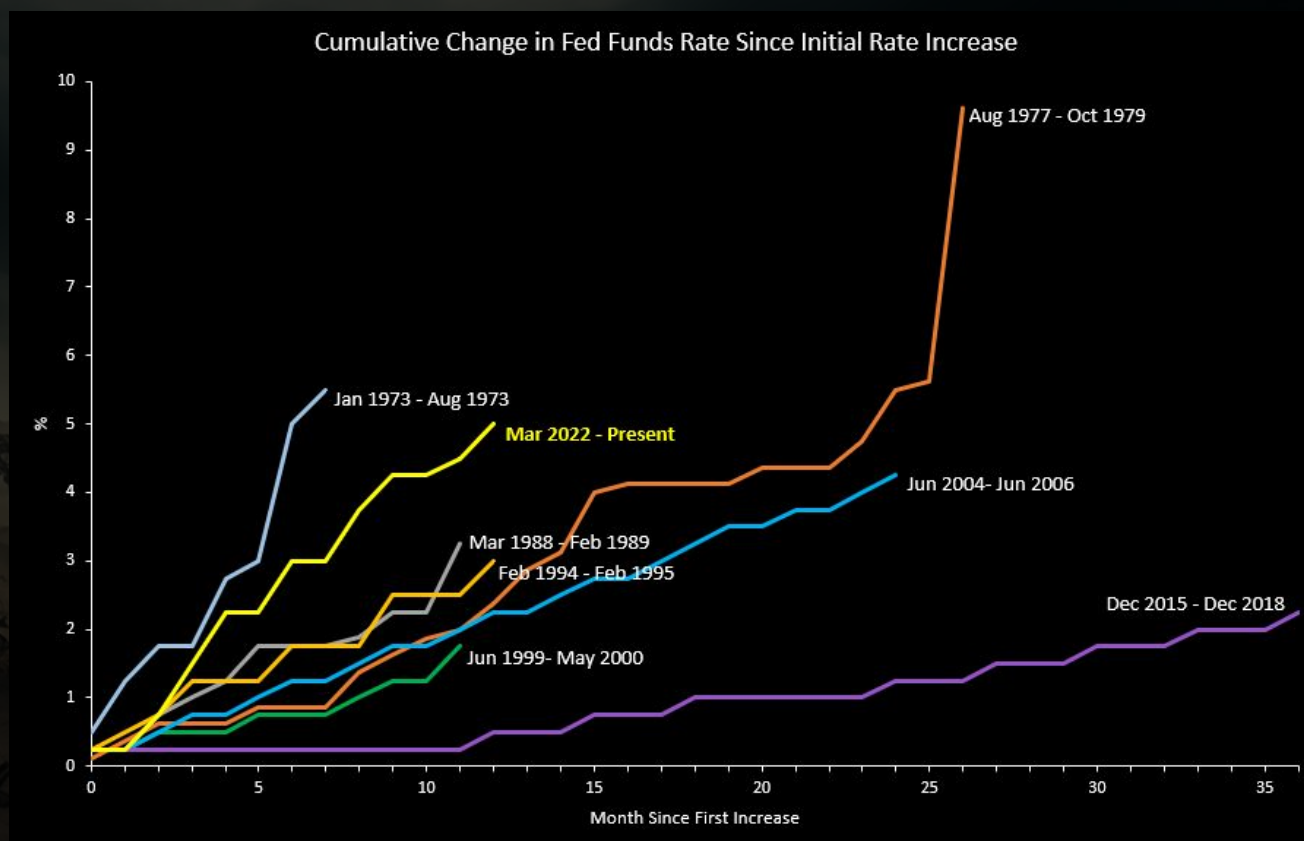
The historic pace of the Fed's rate hike cycle has exposed the fragility of the fractional banking system - a system that has stood for over 300 years, but is now under threat in the digital age.

And we show why the events of this quarter further justify the need for a hedge outside the existing financial system.

A year ago, the Fed kicked off this hiking cycle with a 25bp hike in March 2022.

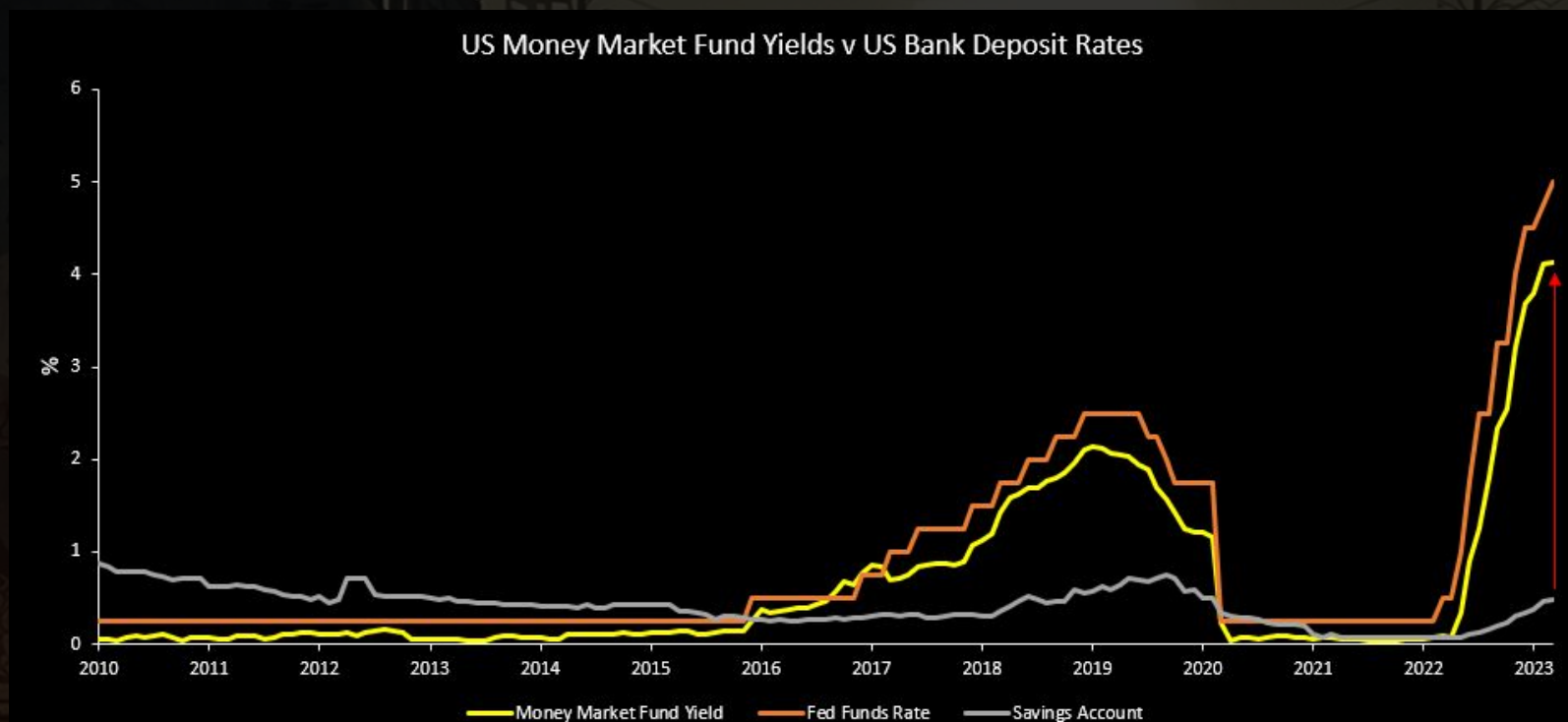
Since then, with multiple 75bp hikes, they have made this the fastest hiking cycle since the 1980s, completely dwarfing the pace of other hiking cycles since.

Source: QCP Insights, Bloomberg



With this unprecedented pace of hikes, we have seen the yield banks are paying their depositors reach the widest margin on record below what money market funds (MMFs) are offering.

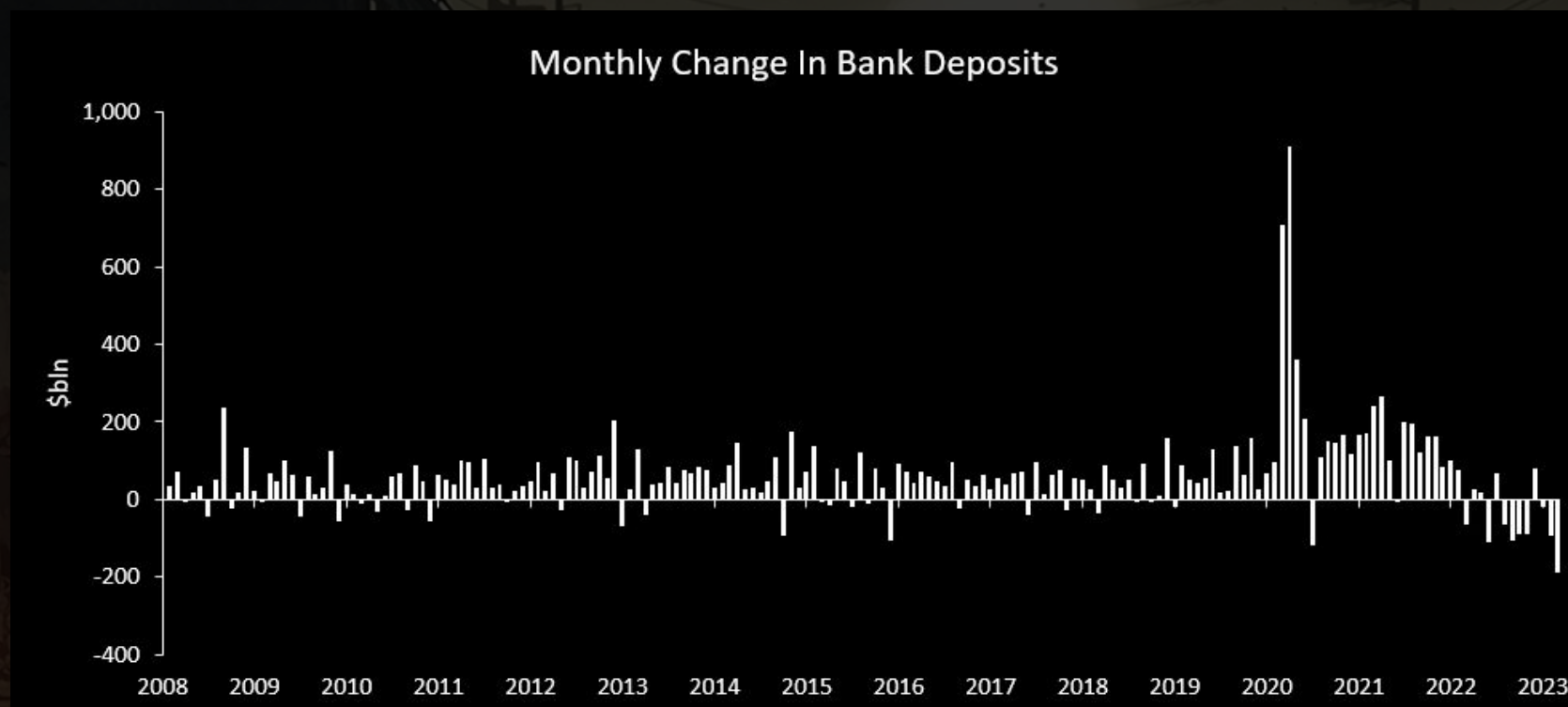
MMFs are able to offer such high yields because they function as a direct pass-through - taking cash from investors and parking more than half directly in the Fed's reverse repo facility, which is currently at 4.80% annualized for overnight cash.



Source: QCP Insights, Bloomberg

As a result of this record spread, US banks have started losing deposits at the fastest and most sustained rate to date - with the majority of the >\$1tn lost by banks in the past year going to MMFs.

In March 2023 alone, banks lost >\$400bn of deposits, with the AUM of MMFs increasing over \$300bn to a record \$5.2tn.



Source: QCP Insights, Bloomberg

And it is not just the magnitude of deposit losses, but the rapid pace of which this happened.

The Silicon Valley Bank (SVB) bank run occurred in just 48 hours - when over \$100bn (60% of total deposits) were queued for withdrawal!

This would have been both unthinkable and impossible in the days before mobile banking and social media.

SVB Expected \$100 Billion in Outflows on Day it Was Seized, Fed's Barr Says

After the failed bank experienced \$42 billion of customer withdrawals on March 9, more than double that was expected to leave on March 10, Federal Reserve Vice Chair for Supervision Michael Barr told lawmakers Tuesday.

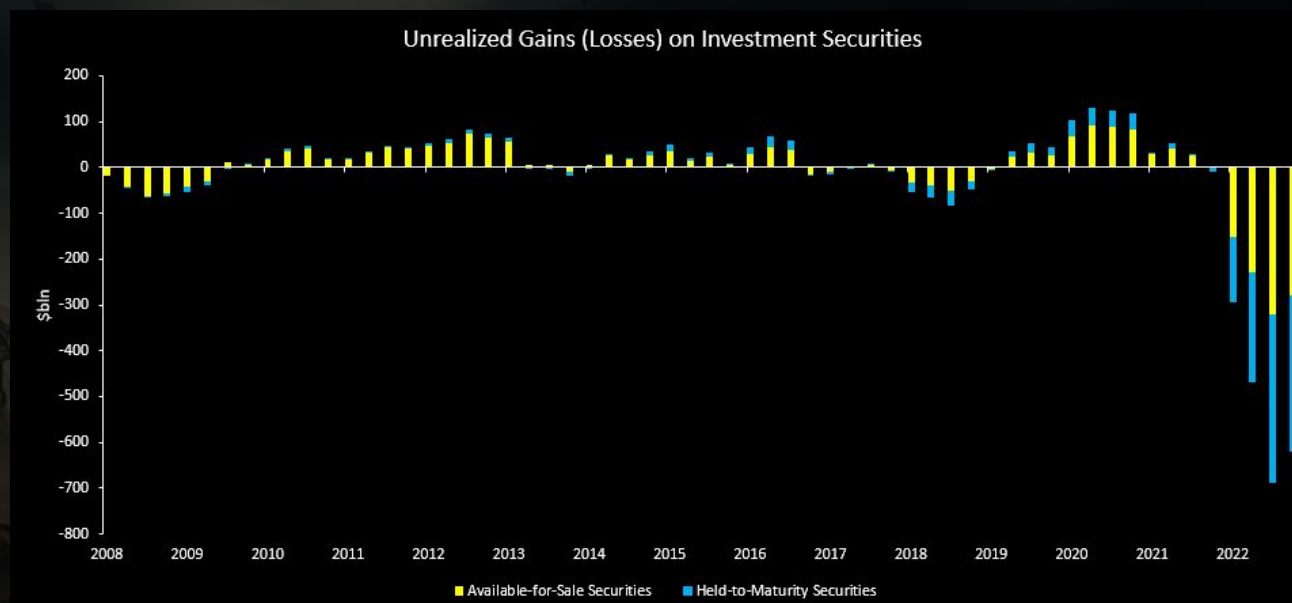
"That morning, the bank let us know that they expected the outflow to be vastly larger based on client requests and what was in the queue," Mr. Barr told lawmakers. "A total of \$100 billion was scheduled to go out the door that day."

Source: Wall Street Journal

Crucially this deposit flight is happening at a time where banks are facing massive unrealized security losses on their balance sheets.

Following the global financial crisis (GFC), banking regulation emerged which ironically forced banks to use yields on securities rather than loans to generate positive net interest margins, believing the system would be safer with banks doing less risky lending vs. holding more riskless government bonds.

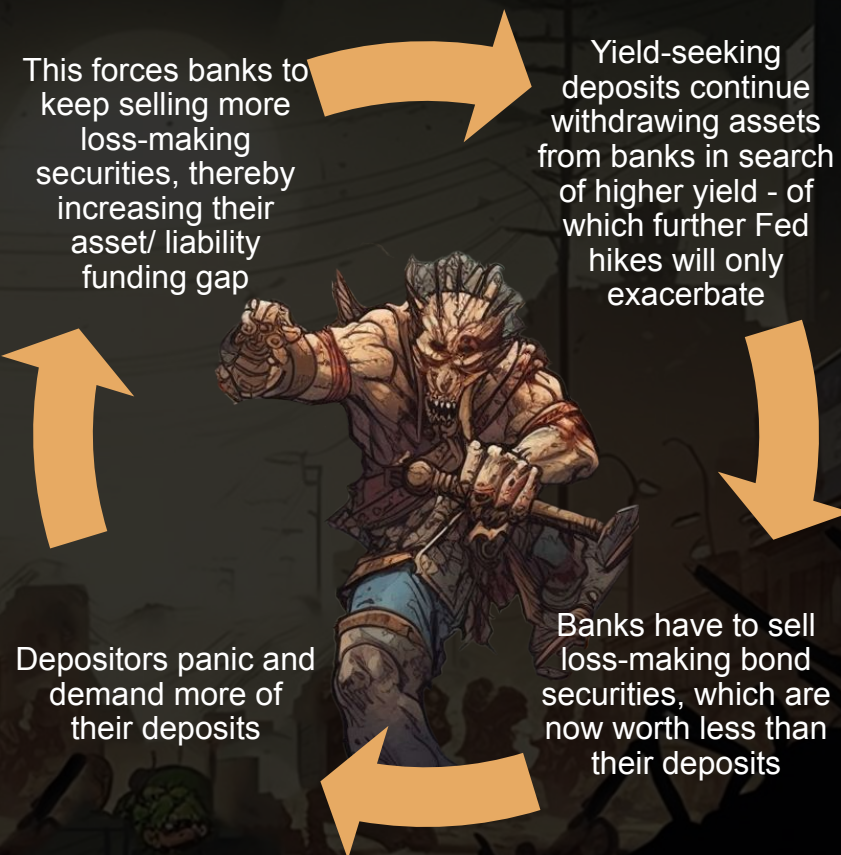
Source: QCP Insights, FDIC



Unrealized losses in their bond portfolios generally don't matter until banks start losing deposits. Until then, they are able to meet liabilities using their (fractional) deposit reserves, and can hold sub-par bond securities until maturity thereby redeeming them for par.

However once a deposit run occurs, they will need to sell their assets suddenly to meet their liquidity needs - and with these huge losses, many banks have now found out they are insolvent (assets < liabilities).

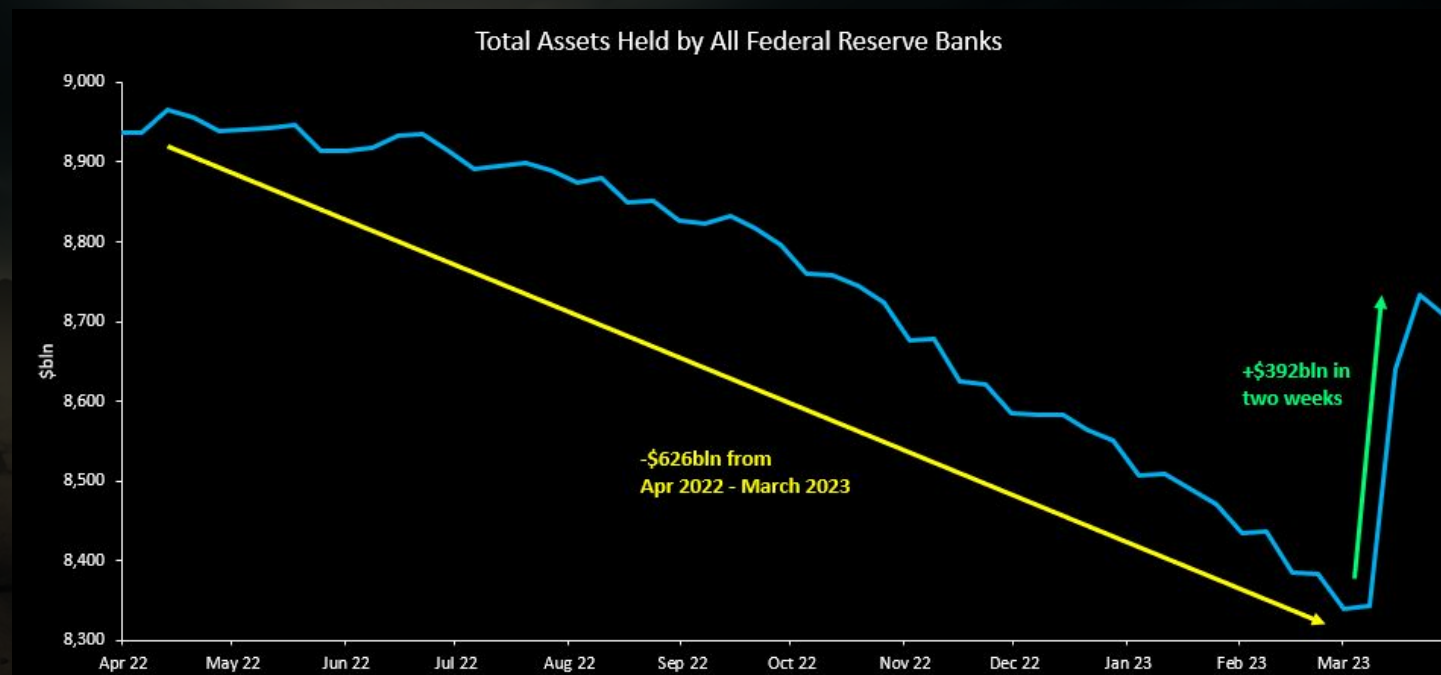
Hence, this is where a vicious cycle started developing:



The fear of such a vicious cycle developing has made the Fed preemptively inject massive amounts of liquidity into the system.

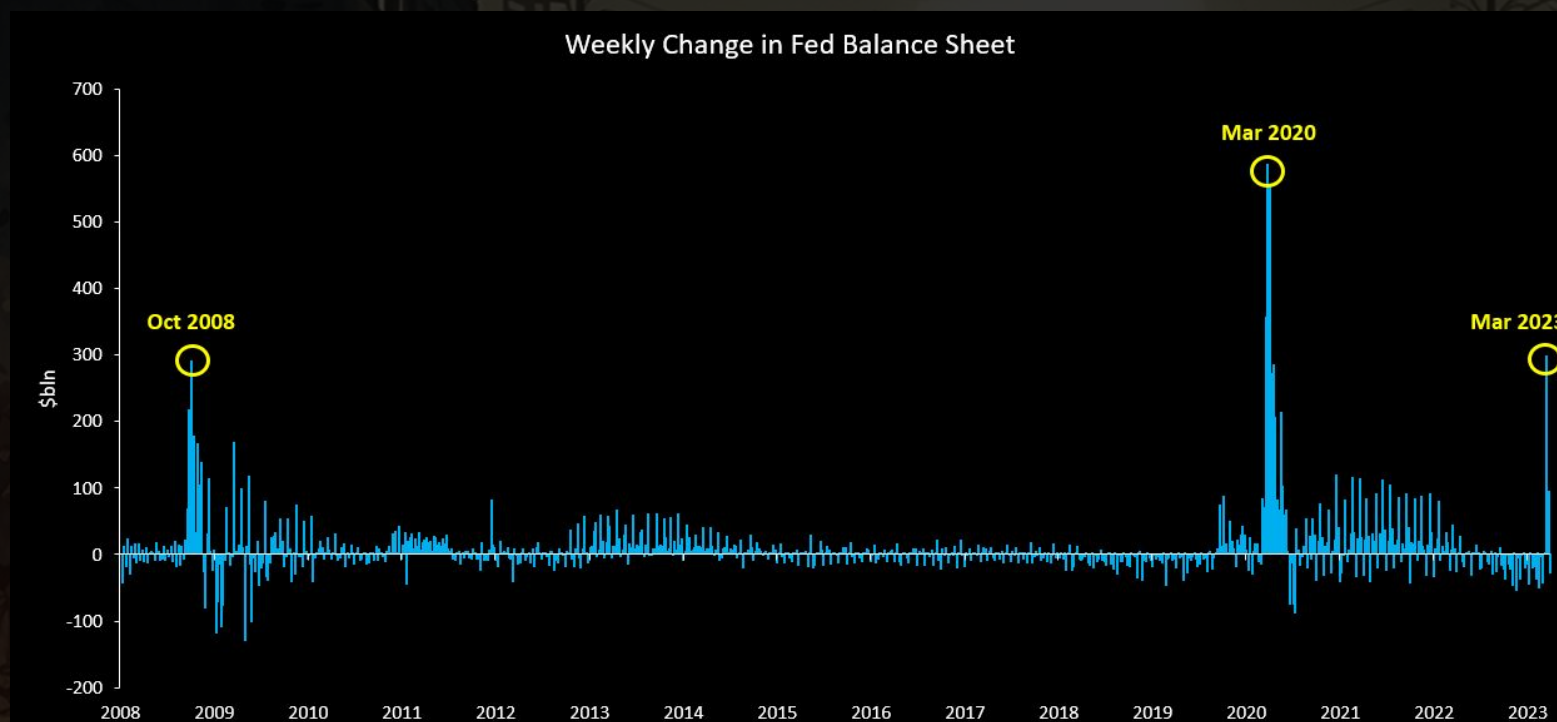
The Fed's balance sheet, which over a year of painstaking QT shrank by \$626bn, has reversed 63% of that in just 2 weeks!

Source: QCP Insights, FRED



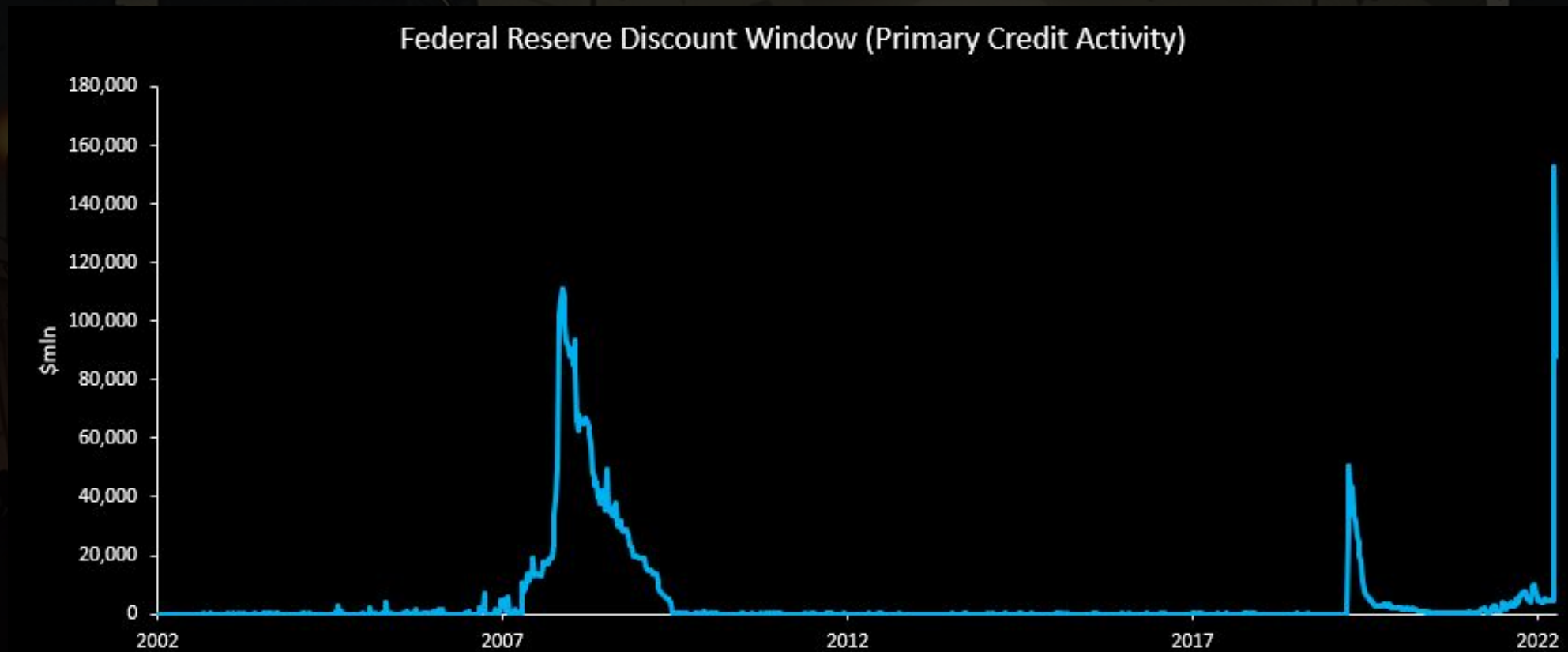
When measured in terms of the weekly rate of change of the Fed's balance sheet, this 'crisis' has now is now on par with 2008 GFC levels!

The last time money printing exceeded this level was only during the Covid pandemic in March 2020. The magnitude of which has ironically, through the inflation surge and resulting rate hikes, led us to where we are today.



Source: QCP Insights, FRED

We are struck by the fact that the usage of the Fed's discount window, a sign of banking stress, has exceeded the amount of the 2020 Covid pandemic and even the 2008 Financial Crisis!



Source: QCP Insights, Bloomberg (FARWOLPC Index)

The Fed jumping in to bail out the banking industry once again at the slightest inkling of trouble sets a terrible precedent, described by European regulators as “killing a fly with a sledgehammer”.

Source: Financial Times

European regulators criticise US ‘incompetence’ over Silicon Valley Bank collapse

Critics label handling of Californian lender’s failure a ‘disaster’ and claim Washington is failing to adhere to global rules

One senior eurozone official described their shock at the “total and utter incompetence” of US authorities, particularly after a decade and a half of “long and boring meetings” with Americans advocating an end to bailouts.

Europe’s supervisors are particularly irate at the US decision to break with its own standard of guaranteeing only the first \$250,000 of deposits by invoking a “[systemic risk exception](#)” — despite claiming the California-based lender was too small to face rules aimed at preventing a rerun of the 2008 global financial crisis.

“From a financial stability perspective, they really killed a fly with a sledgehammer,” said Nicolas Véron, a regulation expert at the Washington think-tank the Peterson Institute. Designating SVB as systemic was, Véron added, a “very questionable” decision that set a dangerous precedent for further bailouts of uninsured deposits.



Why was Silicon Valley Bank (SVB), a non-systemic bank, bailed out when it was clear that their risk systems were arguably just as bad as the crypto companies who blew up and received all kinds of flak for it last year.

Source: Reuters

Silicon Valley Bank and Fed supervisors: what's known so far

By Ann Saphir

Fed Vice Chair of Supervision Michael Barr has promised full disclosure as part of his supervisory review due out May 1.

Supervisors deliver an additional MRA "based on the inaccuracy of their interest-rate risk modeling" which was "not at all aligned with reality," Barr said.

"The models suggested they earn more money when they were losing more money," he said.

Double standards have appeared to breed moral hazard in the finance industry. The message seems to be banks are allowed to take excess risk in boom times but automatically get rescued when the Fed raises interest rates and they consequently become insolvent.

Source: Bloomberg News

SVB Failure Sparks Blame Game Over Trump-Era Regulatory Rule

That certainly played out at SVB. In late 2020, the firm's asset-liability committee received an internal recommendation to buy shorter-term bonds as more deposits flowed in, according to documents viewed by Bloomberg. That shift would reduce the risk of sizable losses if interest rates quickly rose. But it would have a cost: an estimated \$18 million reduction in earnings, with a \$36 million hit going forward from there.

Executives balked. Instead, the company continued to plow cash into higher-yielding assets. That helped profit jump 52% to a record in 2021 and helped the firm's valuation soar past \$40 billion. But as rates soared in 2022, the firm racked up more than \$16 billion of unrealized losses on its bond holdings.



Policy makers were even considering bailing out all banks if the crisis developed further, by possibly insuring all deposits!

This would have encouraged an even greater moral hazard in the worst possible way - because if insurance is unlimited, deposits will flow to the banks paying the highest yields, incentivizing banks to pay higher yields by only engaging in the riskiest activities.

From **Bloomberg QuickTake**

A once-unthinkable measure is being floated in Washington's corridors of power as a possible way to ease the strains suddenly bearing down on small and regional US banks. Normally, the Federal Deposit Insurance Corp. guarantees bank deposits up to \$250,000, a limit high enough to make most bank customers sleep easily at night. But recent stresses in the banking industry have put a temporary increase of the cap, or scrapping it, on the table.



In fact, if we look back in time, bank failures are nothing new.

9,000 banks failed in the wake of the 1929 stock market crash — 4,000 in the few months before newly elected President Roosevelt signed the FDIC depositor insurance into law.

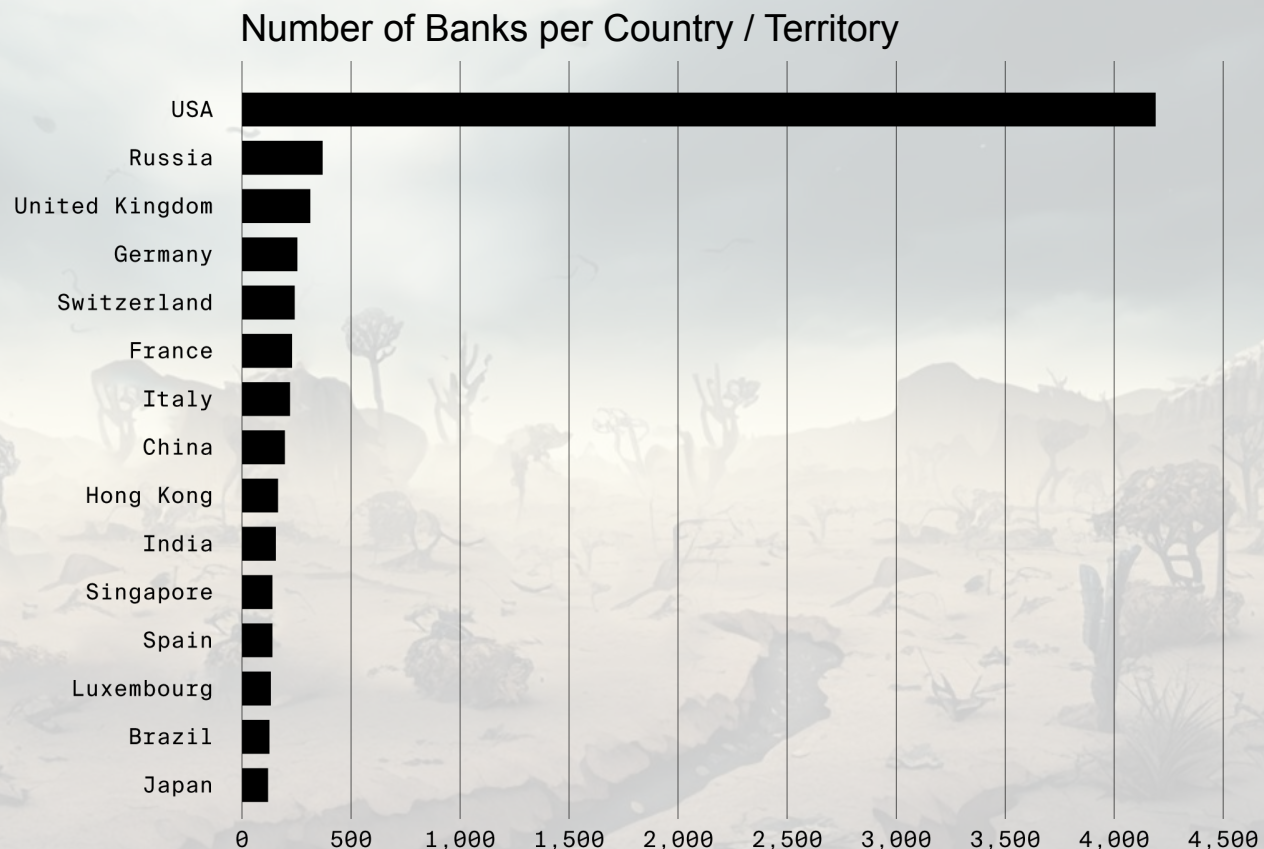
Between 1988 and 1992, there were 1,831 bank failures in the US (including savings and loan “thrift” banks).

Banks, like any other businesses, should be allowed to fail especially if the bank is non-systemic and has become insolvent.

This unhealthy protectionism of the finance industry has led to a disproportionate number of banks in the US. There are still over 4000 banks in the US today, an unbelievable number in the digital age.

In the past, when depositing/withdrawing money required queuing up at a branch, or getting a loan required meeting your banker in person, having thousands of banks in every community made sense.

Today with the digitalisation of finance, all this is made redundant.

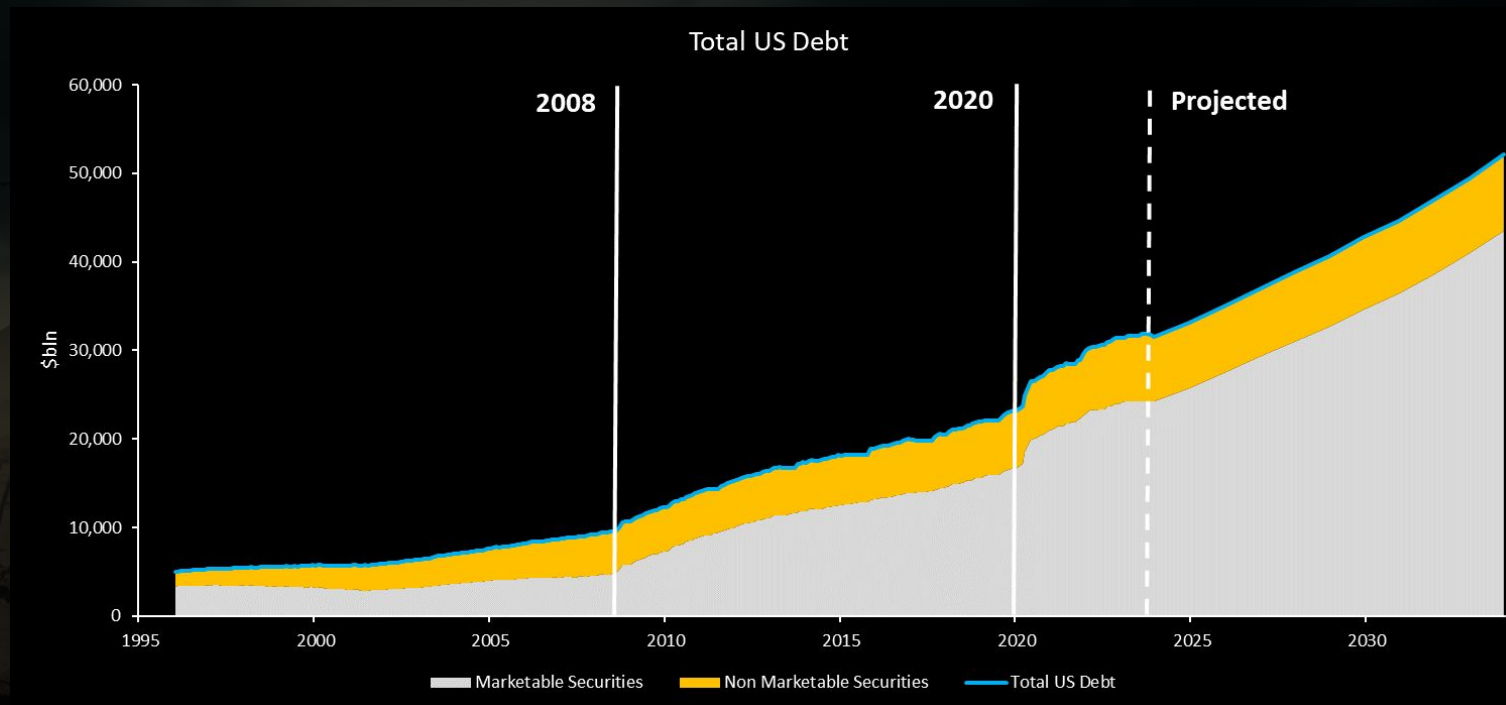


Source: QCP Insights, IMF

Also, this type of protectionism and bail-outs costs a lot of money.

The increasing aversion of policy makers to prevent even any minor crisis from developing is why a hedge is needed against the inevitable monetary debasement - as an exponential increase of debt is the natural consequence of this policy stance.

Source: QCP Insights, CBO

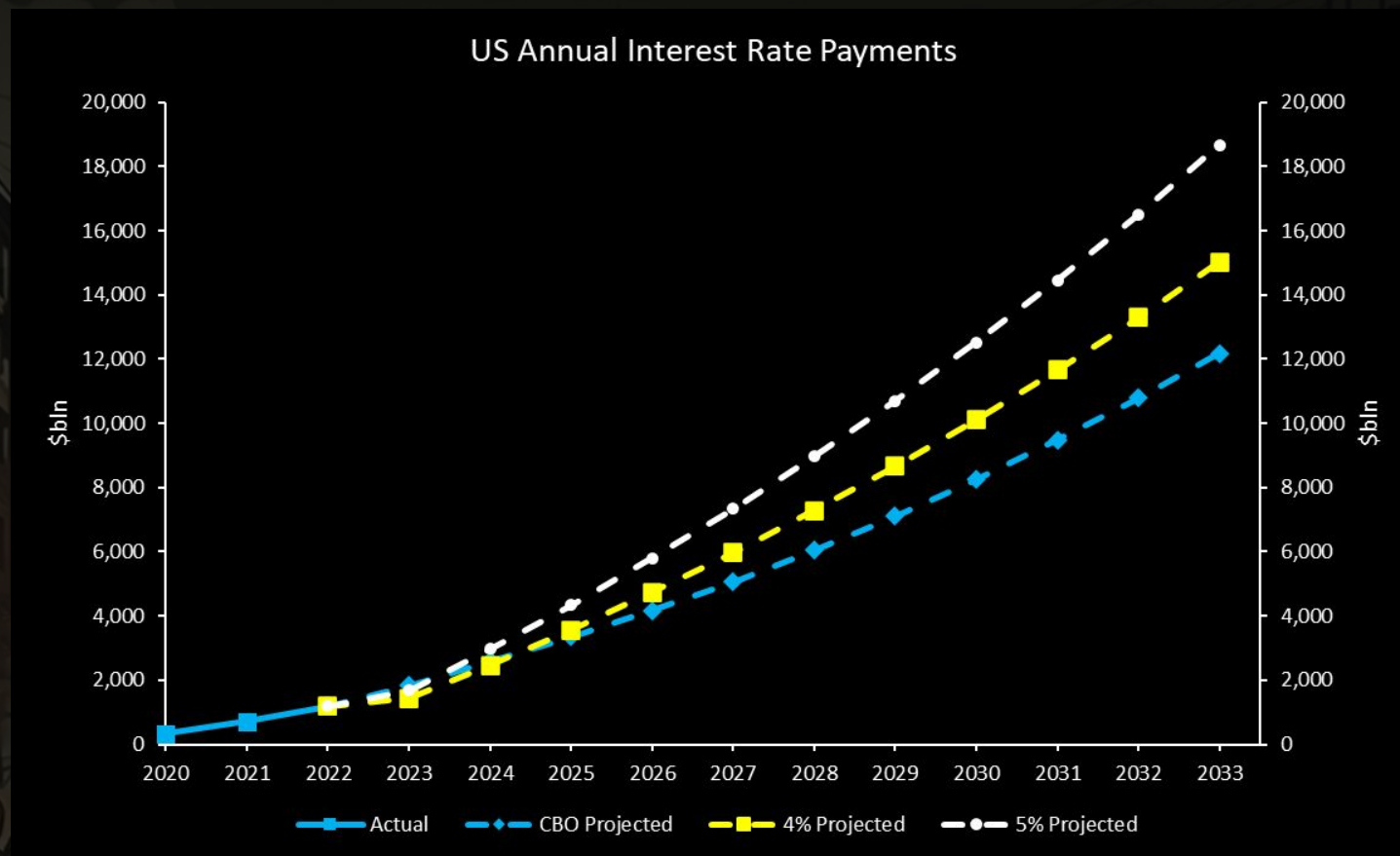




In fact this debt has already reached incredible proportions.

In the US, just the interest servicing costs on the debt pile alone is estimated to reach a total of \$20tn by mid-2030s at current interest rates!

Source: QCP Insights, CBO



This is all very bad news for the USD, and positive for all anti-USD hard assets - such as gold and bitcoin.

The USD Index long-term chart going back 30 years has seen a very bearish false break of the upper trend channel, which implies we will likely be heading back to the lower channel region. Currently we are testing the extremely key pivot of 100-102, which is the 61.8% retracement of the 2001 high and the 2008 low.

We continue to believe the USD will hold the key for macro markets this year.



Source: QCP Insights, Tradingview



There are many parallels between today and 2020 for bitcoin.

In March 2020 we were on the verge of a massive price breakdown below 5k when the Fed unleashed the liquidity tap, resulting in an exponential price increase as we approached the halving cycle the following year.

Similarly in March 2023, we were about to break below 20k on BTC as a result of the banking crisis risk-off, when the Fed again unleashed the liquidity tap to drive us back above 30k, as we head into the next halving cycle next year.

The analog compares BTC price action now (red line) vs. BTC during the 2020 cycle (yellow line) by lining up the March 2020 and March 2022 lows.

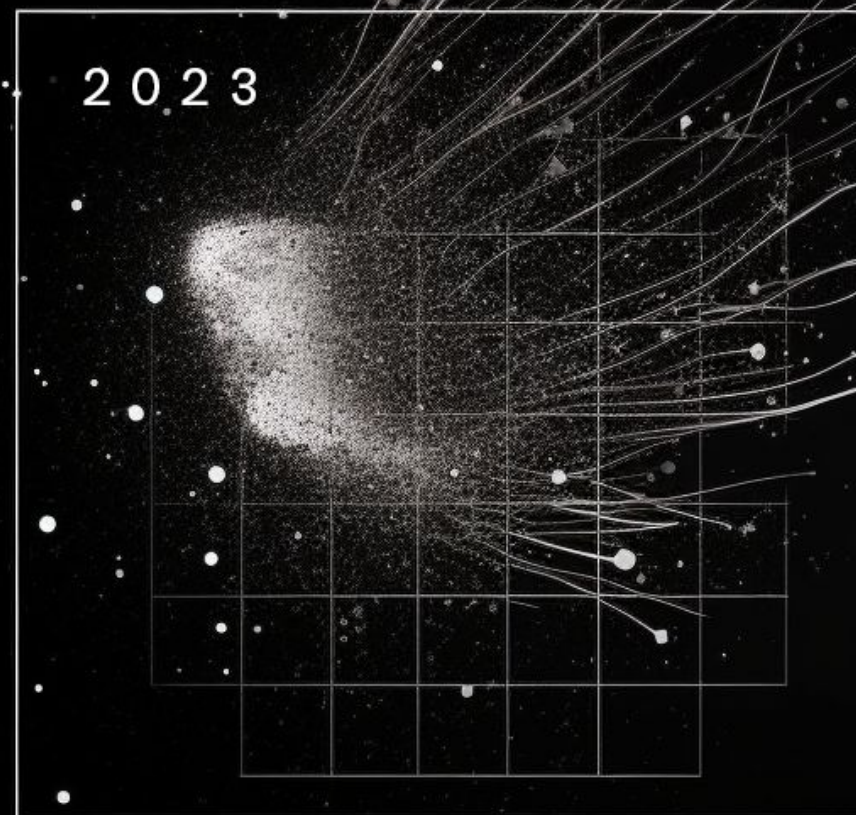
It shows that while we are likely in for a period of consolidation here, the underlying trend ahead is still strongly to the upside.



Source: QCP Insights, Bloomberg



2023 Risk Events Calendar



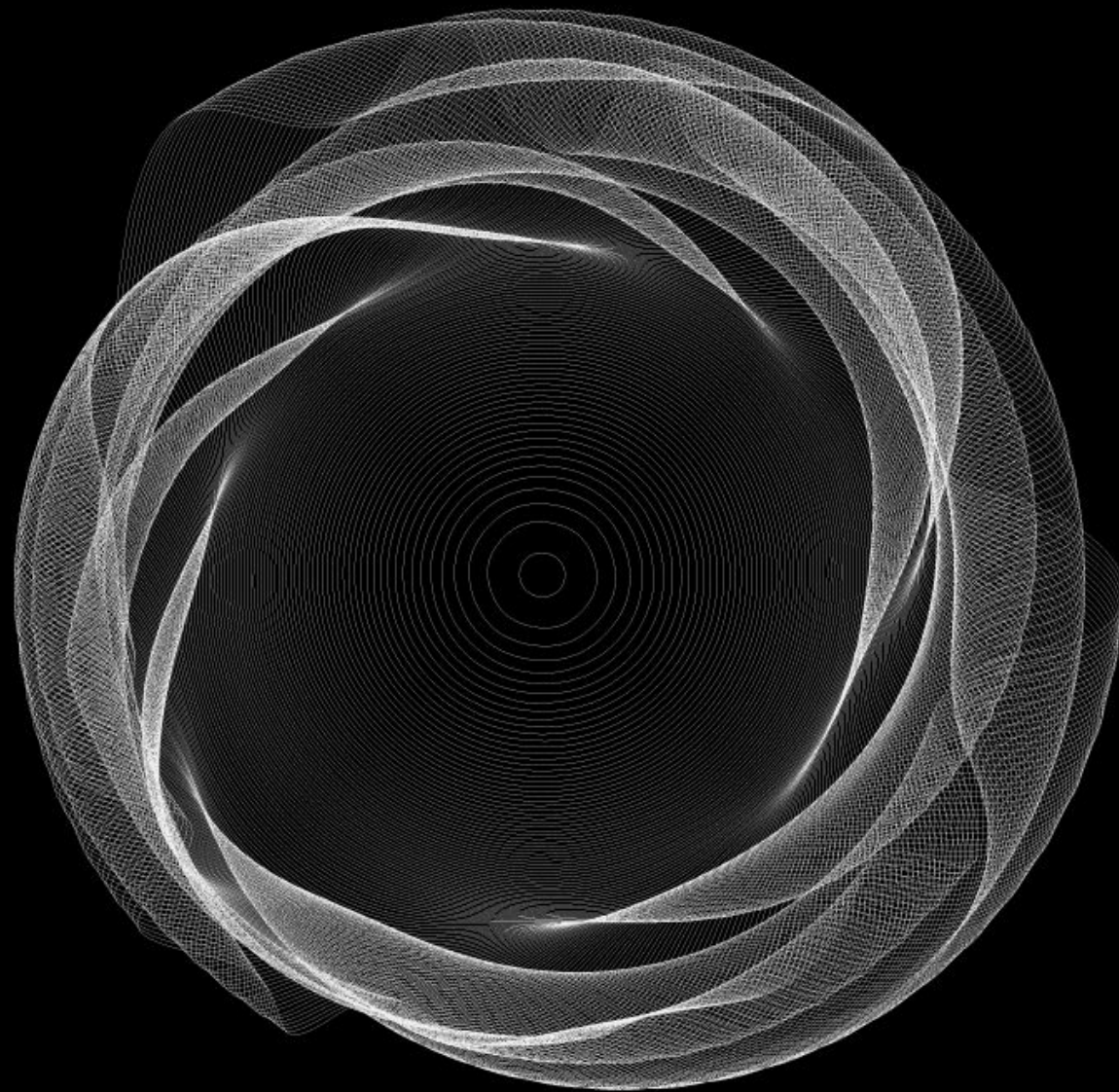


2023 Risk Event Calendar

Date	Event	Remarks
28 Apr	BOJ	New Governor
3 May	FOMC	Pivot Meeting
5 May	Genesis Bankruptcy - Bidder interest deadline	
5 May	US NFP	
10 May	US CPI	
2 Jun	US NFP	
13 Jun	US CPI	
14 Jun	FOMC	With Projections
27 Jun	Genesis Bankruptcy - Asset auction	Assets of Genesis Global Trading, Genesis Global Capital, Genesis Asia Pacific
~Jun	Possible court decision on Ripple vs. SEC	Date unknown - could be late-2023
~Jul/Aug	Debt Ceiling - US Treasury runs out of cash	
7 Jul	US NFP	
12 Jul	US CPI	
26 Jul	US CPI	
26 Jul	FOMC	
4 Aug	US NFP	
10 Aug	US CPI	
13 Sep	US CPI	
20 Sep	FOMC	With Projections
30 Sep	Mt Gox expected lumpsum payout	
2 Oct	SBF trial date	
12 Oct	US CPI	
~Oct	Possible court decision on GBTC ETF vs. SEC	Date unknown - could be late-2023/2024
1 Nov	FOMC	
14 Nov	US CPI	
12 Dec	US CPI	
13 Dec	FOMC	With Projections



Trade Update





Trade Update

Trades 100 BTC/ 1k ETH notional per Trade *All Physically-settled *Portfolio refresh at every quarter-end expiry	At Trade Open	31 Mar 22 (4pm ET) Spot Ref 27706 BTCUSD 1790 ETHUSD
Structures:		
1a. Short Risk Reversal Buy BTC Mar/Jun Calendar Risk reversals (Buy Mar 12k P vs. Sell Jun 28k C) Buy BTC Mar/Sep Calendar Risk reversals (Buy Mar 15k P vs. Sell Sep 25k C) Buy ETH Mar/Jun Calendar Risk reversals (Buy Mar 1k P vs. Sell Jun 1.7k C)	Zero-cost (Dec)	Structure Roll to (Mar): Short 0.5x BTC Dec 35k C Short 0.5x ETH Dec 2150 C
1b. Long Risk Reversal Sell 2x BTC Dec 22.7k P vs. Buy BTC Dec 29k C	Zero-cost (Mar)	
Carry:		
2a. Sell BTC Jun 20k for 20% annualized	Premiums Received: 10 BTC (Dec)	Structure Roll to (Mar): Short 1x Dec 35k C Short 2x Dec 22.7k P
2b. Sell BTC Jun 22k for 14.9% annualized	Premiums Received: 7.45 BTC (Dec)	Structure Roll to (Mar): Short 1x Dec 35k C Short 2x Dec 20k P
Q2 Net Position		
Option	Spot	
1. Long 1x BTC Dec 29k C 3. Short 2.5x BTC Dec 35k C 4. Short 4x BTC Dec 22.7k P 5. Short 2x BTC Dec 20k P 6. Short 0.5x ETH Dec 2150 C	Long 17.45 BTC	

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Head to <https://qcp.capital/trade> to find out more about our onboarding process for [Individual or Corporate Trading Accounts](#).

All account openings are subjected to robust KYC checks in accordance with regulations and best practices.



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You should be aware that the value of DPTs may fluctuate greatly. You should buy DPTs only if you are prepared to accept the risk of losing all of the money you put into such tokens.

You should not transact in the DPT if you are not familiar with this DPT. This includes how the DPT is created, and how the DPT you intend to transact is transferred or held by your DPT service provider.

You should be aware that your DPT service provider, as part of its licence to provide DPT services, may offer services related to DPTs which are promoted as having a stable value, commonly known as "stablecoin".