

Cryptocurrency Derivatives Market: Soon-to-be Reality or a Distant Dream?

2024 is on course to be Bitcoin's blockbuster year with the SEC ETF approval early this year and the Bitcoin halving slated for April 2024. Many investors who are bullish on Bitcoin are largely optimistic as they are anticipating another price surge once the halving of Bitcoin has taken place.

This optimism is not unfounded as there has historically been price spikes and a general increase in price levels of Bitcoin during the past halvings. Additionally, Bitcoin prices soared above the US\$50,000 mark since 2021, attributable to strong demand generated from the spot ETFs.

With all the hype and buzz around Bitcoin this year, will it be the year the cryptocurrency industry finally shakes the numerous scandals that we have witnessed? Not quite there yet but there are encouraging and healthy signs. Firstly, Bitcoin has now cemented its status as a publicly traded mainstream investment product as an increasing number of institutional and/or retail investors are seeking to add Bitcoin for diversifying their existing portfolios. Secondly, the narrative for Bitcoin and other cryptocurrencies as an alternative asset class is starting to take shape.

As we have discussed in our previous article, it will be a matter of time before options on Bitcoin ETFs will be commonplace which solidifies the use case of cryptocurrencies as a unique asset class with risk management tools. Lastly, sustained elevated trading volume and interest in Bitcoin even after the SEC approval announcement is a strong indicator of renewed confidence in investors which indicates a growing acceptance of Bitcoin as an investment product and less so as a speculative tool.

A nascent derivatives market around cryptocurrencies would mark the beginning of a huge win not just for the wider industry but also for institutional and/or retail investors. Currently with just the spot Bitcoin ETFs available, risk factor aside, there is not much difference between buying into the ETF and buying the actual Bitcoin itself.

Therefore, it is highly plausible that an options and/or derivatives market will be soon to follow which would make sense. With options like ODTes which were discussed in our previous article, it would open many doors for investors to hedge and manage their risks better. Once that has been achieved, more spot ETFs could follow suit with options contracts on their spot ETFs as well. Ultimately, the goal would be to build an ecosystem where there are ETFs on not just a singular digital

asset but a basket of them coupled with a variety of options and derivatives products for both institutional and retail investors.

Once this has been completed, it would mark the complete integration of cryptocurrencies into mainstream finance. While there has not been an indicative timeline provided on when these derivatives or new ETFs will be introduced, the cryptocurrency space will undoubtedly be watched closely as investors eagerly await new developments in this space.

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