

BITCOIN v. DOLLAR and DOLLAR v. BITCOIN

“Bitcoin was probably invented in a department of the Federal Reserve!” was a comment made by Fekete at an economics conference a while back †. Whether or not that is true about bitcoin’s genesis, what *cannot* be denied is that bitcoin’s ‘value’ is ‘measured’ in terms of Federal Reserve notes or ‘quantities of fiat.’

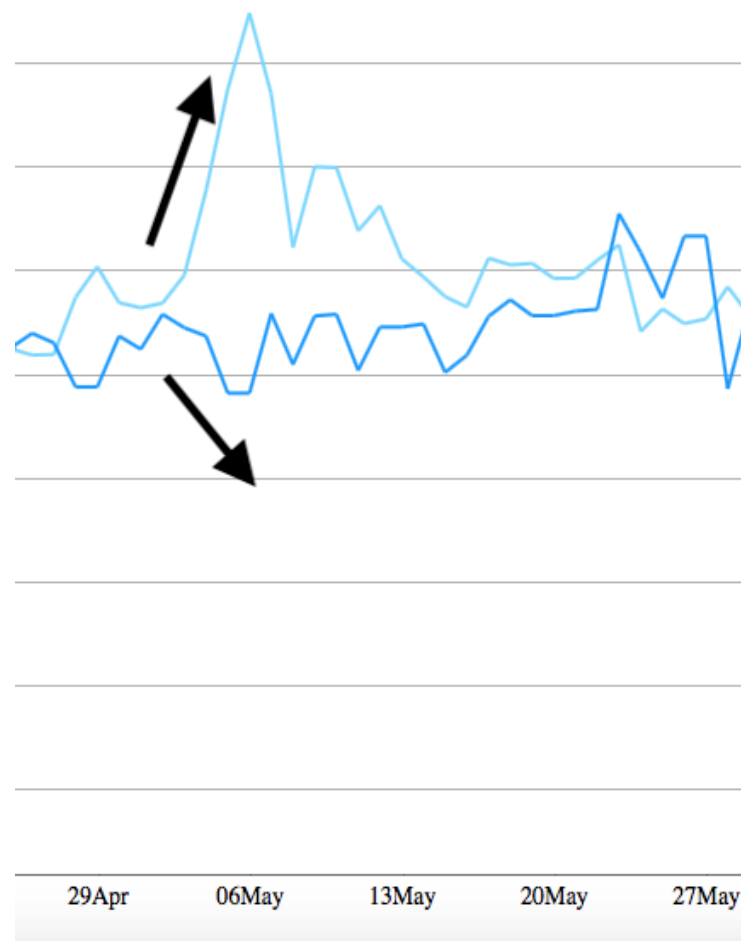
In this way, we could view ‘bitcoin’ as fiat’s twin propping up fiat’s validity – not fiat’s nemesis; notwithstanding marketing word-gimmicks such as ‘blockchain.’

At the end of last year, Chicago Mercantile Exchange (CME) and Chicago Board Options Exchange (CBOE) introduced a bitcoin futures contract adding new dimensions of observation. These contracts are not ‘deliverable in bitcoins’ but settled in dollars at the exchanges’ respective ‘reference rates.’ They complemented those futures offered by derebit.com – which are only tradable by (initially) exchanging dollars for bitcoin and taking delivery in bitcoin. What if some hypothetical fundamental difference between bitcoin and dollar were to occur, putting their twinned nature in jeopardy? *Bitcoin might turn into dollar’s nemesis...if the public at large wish to exchange all of their dollars for bitcoin...and dollar might turn into bitcoin’s nemesis if the public at large wish to exchange*

their bitcoins for dollars. This is where basis theory enters for bitcoin/dollar ††. With that theory, there is now sufficient data to support it. Sharp price moves in either direction are preludes to supposed differences in bitcoin v dollar...and basis theory shows when large moves are likely to occur.

There is an analogy here with gold/silver backwardation: gold/silver ounces are ‘priced’ and traded against fiat...a forced twinning between something organic and something abstractive. Bitcoin and fiat dollars, both being something abstractive, are a lot easier to analyse; in a slight degradation of word ‘analyse!’

The chart on the previous page shows two basis lines calculated from the different futures exchanges mentioned above. The lighter blue line represents swaps ‘from \$ to bitcoin’ and darker swaps ‘from bitcoin to \$.’ When the latter is rising/falling *in*



conjunction with the former falling/rising, doubly-confirmed ‘trading signals’ occur. As marked by arrows, on 1st May, ‘from \$ to bitcoin’ basis began to rise in conjunction with ‘from \$ to bitcoin’ basis falling. The peak in ‘from \$ to bitcoin’ basis occurred on 5th May and over that period, bitcoin went from c.\$8,954 to c.\$10,195.

For those who trade bitcoin, all information pertaining to bitcoin/dollar/bitcoin basis trading will be on a new website www.cryptocobasis.com which will be live sometime during summer. The quickly changing nature of this data means that real-time updates and changes will be posted live on the website. For those who cannot devote time to monitoring such things, a newsletter will be offered; sent upon changes on the website being made.

16th July 2018.

† <https://www.youtube.com/watch?v=8yfZlYTi9SY>

†† <http://purelytheoreticalresearch.com/upload/Bitcoin-and-bitcoin-futures.pdf>

