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Bitcoin ETFs and the Rising Tide of Leverage

By Joshua Barone | Jul 23, 2025

From Ideology to Infrastructure

The Bitcoin market has entered a new phase—less about ideology, more about infrastructure. Since the SEC greenlit eleven spot Bitcoin ETFs in January 2024[1], capital has flowed in steadily, transforming how traditional finance interacts with digital assets. While we make no judgment about Bitcoin's intrinsic value, we do believe we're witnessing the early stages of a structurally driven price expansion—powered not by sentiment, but by product development, market mechanics, and leverage.

Headline numbers underscore the shift: over $138 billion now sits inside these ETFs[2], with BlackRock's IBIT alone holding more than $50 billion.[3] Monthly ETF trading volume has exploded from $4.6 billion on launch day, January 11, 2024. Year to date, $400 billion has flowed into ETFs.[4] These aren't speculative impulse buys—they reflect deepening institutional participation.

We've also seen the ETF options market take shape. IBIT-listed option volumes now exceed $2 billion in notional value daily, with open interest tracking similarly. Bullish interest dominates, with calls potentially outweighing puts nearly 3-to-1 and up to 87% of activity on the call side.[5] This skews dealer hedging heavily toward spot purchases—creating a powerful mechanical price tailwind through delta hedging.[6]

Yet that's not the whole story. ETF shares require underlying Bitcoin to be created or redeemed by authorized participants, and this process can lag during intense demand. When coin creation trails, ETF shares trade at a premium, effectively introducing leverage as the paper demand outpaces physical supply.[7]

Structural Frictions and Leverage in Coin Creation

As ETF flows surge and underlying Bitcoin must be sourced, the mechanics of coin creation are beginning to strain. Bitcoin operates on a decentralized ledger, and creating or transferring large amounts of BTC increasingly requires navigating a congested network. As the blockchain continues to grow, transaction validation times and fees have risen.[8] This adds latency to the ETF creation process, which relies on timely Bitcoin settlement to keep share prices aligned with net asset value.

Further complicating matters is the concentration of liquidity. Not all Bitcoin is equally accessible—significant portions are held in cold storage or long-term wallets. When demand spikes, only a fraction of supply is truly liquid, intensifying the lag in meeting ETF inflows with actual coin creation.[9] This inefficiency temporarily decouples ETF shares from their BTC backing, embedding structural leverage in the system.

Moreover, institutional custodians and ETF issuers must contend with blockchain finality and risk management protocols, which can add further delays. In a high-volume environment, these frictions make arbitraging premium/discount gaps slower, allowing transient dislocations to persist—again contributing to price momentum that may not reflect real-time, fundamental supply-demand dynamics.

Modern Leverage vs. 2008-Style Complexity

We've noted the parallels to the CDO structures of 2008. Those instruments hid leverage deep within opaque, interbank webs. Today, the leverage is more transparent—delivered through established market mechanics, regulated venues, visible counterparties, and audited structures.[10] But make no mistake: with call-heavy options markets and planned position limit expansions—from 25,000 to 250,000 contracts—this leverage is real, visible, and amplifying.

Layered onto this is MicroStrategy, often referred to as a proxy Bitcoin ETF. The company holds over 214,400 BTC on its balance sheet and funds purchases via convertible debt.[11] Its equity has become a high-beta play on Bitcoin, particularly in jurisdictions without ETF access. When Bitcoin rises, MicroStrategy's stock typically outpaces it—drawing more capital, which is then reinvested into Bitcoin and fueling its own feedback loop.

Adding nuance to the discussion is Jim Chanos. The veteran short-seller has taken a sharply critical view of MicroStrategy's structure, calling its valuation "financial gibberish" and contending that the company's $108 billion market cap far exceeds the value of its ~582,000 BTC holdings (approximately $62 billion).[12] He describes his strategy as "selling MicroStrategy stock and buying bitcoin," arguing direct BTC exposure is more rational than relying on corporate wrappers. He sees the premium as a barometer of speculation and warns that the structural imbalance—equity trading at a premium to NAV—may unwind.

Chanos isn't dismissing Bitcoin itself—he's uncertain where the price is headed—but he argues clearly that the leverage and valuation mechanics surrounding MicroStrategy are structurally flawed. He's betting on the arbitrage: shorting MSTR while directly going long Bitcoin, believing the spread to be unsustainable.

Market Structure as a Price Catalyst

Despite episodic redemption concerns and some profit-taking from whale holders, these structural forces—ETF adoption, derivatives dynamics, wrapper vehicles like MicroStrategy, and the visible leverage they've introduced—are shaping why price is likely to climb near-term. Again, this reflects the power of market structure, not an assessment of Bitcoin's underlying economic value.

What we are witnessing is not simply a rally, but a realignment of capital around new financial instruments. The institutional frameworks now in place—spot ETFs, listed options, corporate proxies—have fundamentally altered the access point and use case for Bitcoin.[13] What was once a speculative asset class on the financial periphery is being retrofitted into traditional portfolios through trusted, regulated channels. This process doesn't just create price buoyancy—it builds staying power.

Still, it's crucial to understand the nature of this expansion. This is not organic demand in the classical sense, nor is it a function of improved monetary utility or widespread commercial adoption. Rather, it's the result of financial architecture: a mosaic of wrappers, hedging obligations, derivative overlays, and public equity proxies. It is a system that rewards flows, not fundamentals, and one that adds mechanical upward pressure as participation increases.

History reminds us that structurally induced rallies can persist far longer than many expect. From the housing-linked mortgage credit bubble to the dot-com era's indexification of internet equities, capital tends to chase packaging and narrative more than intrinsic worth. Bitcoin is now benefiting from that very dynamic—but this time with greater transparency and more robust institutional scaffolding.

For now, the forces driving Bitcoin higher appear durable: continued ETF inflows, expanding options markets, structural leverage via MicroStrategy and similar vehicles, and a growing comfort among advisors and asset managers in allocating capital to crypto-linked exposures. While these forces can reverse, the current momentum is undeniably systemic.

Structure as the Story

In short, we may be early in a cycle where financial innovation, not technological advancement or monetary disruption, is the principal catalyst. That doesn't negate the risks—but it does suggest that understanding the machinery behind the market may be more valuable than debating Bitcoin's final destination. At this stage, the structure is the story.

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