**Paradigm Insights | DOV Auctions And The Friday Problem**



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Since Ribbon Finance pioneered the first DeFi Options Vault (DOV) and turned it into a huge success, DeFi ecosystems have witnessed a phenomenal surge in DOV projects. There are currently over 40 DOVs across different blockchains and despite a cooling market, new DOVs continue being launched.

An overwhelming majority of these vaults revolve around selling vanilla call and put options in exchange for premiums. Professional market makers, on the other side, outbid each other to buy these options through an auction process that runs on fixed schedules every week, typically on Fridays.

Here is a hidden problem: every DOV wants to run the auctions around the same time on the same weekday (Friday). Historically, this was because options with Friday expiries are the most liquid contracts on Deribit (the primary CeFi options trading venue), making it easier for market makers to hedge the DOV flows. However, with more sophisticated market makers entering the space, options with expiries other than Fridays are increasingly liquid.

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With all the DOVs trying to sell options on Fridays, it comes as no surprise that the market goes under intense selling pressures. As traders have learnt to anticipate these selling flows, implied volatility consistently sells off before the auctions. In the end, the DOVs sell options at the worst levels and DOV investors are the ones getting hurt.

To demonstrate the impact, we have looked at hourly data of 1-week ETH-USD ATM implied volatility (IV) over the past year. Every hour, we compare the IV against its average over the prior 24 hours and we plot the differences.

A striking pattern has emerged. On average, the implied volatility around the auctions time on Fridays is 4 vols below the prior 24 hours. Friday is the lowest point in the week, the worst time to sell options.

**When is the best time to sell options in a week?**

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Source: OrBit Markets

How does that translate to premiums? For 1-week 10 delta call options, 4 vols lower approximately equate to 0.10% less in premiums, or if annualized, 5.35% missed gains in APY. This means that DOV investors could have earned an extra 5.35% yield over the past year if the auctions had not been concentrated on Fridays.

Based on the above findings, we recommend DOVs to adopt different auction times instead of all at the same time. For example, Mondays seem like a better time to sell options based on the chart above. Scattering the auctions will help smooth out the market impact and improve returns for DOV investors.

While gathering a sufficient number of market-makers and organizing an auction may have been an operational challenge in the past, the process has been made easy by Paradigm. With an user-friendly UI as well as API connectivity built by Paradigm for DOV auctions, spawning an auction on a different day has become a real possibility.

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Market impact can also be mitigated through product diversification. As a path forward, DOVs should consider more advanced strategies rather than simple call/put selling. It’s exciting to see Ribbon Finance recently launching a new vault built with exotic options（奇异期权）. DOVs are still in their nascent stage of development and there is still tremendous opportunity in this space if the projects can differentiate between themselves.

**About OrBit Markets:**

OrBit Markets is an institutional liquidity provider of options and structured products in digital assets. Founded by a team of former executives in trading and computer science, and backed by Matrixport and Brevan Howard Digital, OrBit brings its expert know-how in options to the crypto market. Headquartered in Singapore, OrBit serves institutions across CeFi, DeFi and TradFi looking for more sophisticated investing and hedging solutions in digital assets. For more information, visit[www.orbitmarkets.io](http://www.orbitmarkets.io/).

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**About Paradigm:**

Paradigm is an institutional liquidity network for crypto derivatives traders and crypto protocols across both CeFi and DeFi ecosystems. The platform provides traders and crypto protocols unified access to multi-asset, multi-protocol liquidity on demand without compromising on execution preferences, costs and immediacy. The firm’s mission is to create a platform where traders can trade anything, with anyone and settle it anywhere.

Paradigm has the largest network of institutional counterparties in crypto with over 700 institutional clients trading over $10B per month including Hedge Funds, OTC Desks, Lenders, Structured Product Issuers, Market Makers, and prominent Family Offices.