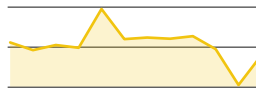




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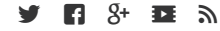
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# China's Market Dominance Poses Questions About Global Bitcoin Trading Flows

Joon Ian Wong (@jooonian) | Published on September 27, 2014 at 18:06 BST

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China's position as the most active bitcoin trading market has come to attention again as Beijing exchange OKCoin topped daily dollar trades for the first time earlier this week. This comes weeks after Shanghai exchange BTC China highlighted that yuan trades comprised more than 70% of trading volume.

As Chinese exchanges jostle for the top spot in global trading volumes, yuan trading is now three times greater than dollar trades. Analysts and exchange operators say China's dominance in bitcoin trading is largely due to macro factors like China's investment environment, but caution that current volume figures may mask an accurate picture of bitcoin trading flows.

Raffael Danielli, an economist who tracks digital currency trading at his Matlab Trading blog, took a macro view of China's dominance in the bitcoin markets:

"It should not come as a surprise if we see more volume growth coming from Asia than from the West as it would simply reflect the existing disparity in economic growth."

## Trading volume data

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Bitcoin trading volume was dominated by US dollar trading until the end of 2013. USD-BTC trades routinely accounted for more than 70% of traded volume, according to data from Bitcoinity.

Last October, dollar dominance began to slip, while yuan-bitcoin trades shot up. This came after the news that the US government had [shut down](#) the Silk Road black market, and as 2013 came to a close, CNY and USD trading took turns as market leaders.

By March, however, yuan trades began a decisive climb away from dollar trades, breaking the 70% mark of trading volume. Dollar trades plunged to under 25%, and the end of June saw the widest spread in the share of trading volume between yuan and dollar trades: the Chinese currency accounted for 79% of trades, while greenbacks comprised just 16% of the share.

Weekly trading volume [data from Bitcoinity](#) was used to look at trading volume trends and features over the last two years. Bitcoinity data was chosen because the three top Chinese exchanges were represented, along with the major exchanges outside China.

Kacper Cieřła, who runs Bitcoinity, says the data on his site is all self-reported by each exchange. There is a gap in OKCoin data for Nov 2013 to May 2014, which Cieřła attributes to a technical issue at the exchange (OKCoin confirmed that there was a halt in data collection by Bitcoinity for the period).

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Source: [Bitcoinity](#), [Get the data](#)

### Macro factors and data accuracy

OKCoin's chief technology officer Changpeng Zhao echoed the macro theme brought up by Danielli, and noted that the range of assets available for retail investors in China is relatively limited, with [tight controls](#) on real estate, for example:

*"There is not much else one can invest in. This, combined with the increase in buying power – people naturally look to bitcoins."*

Arthur Hayes, who runs cryptocurrency derivatives exchange [BitMEX](#) in Hong Kong, agreed that Chinese trading volumes should outpace trading in the rest of the world, given the Chinese economy's growth.

Hayes cited China's larger population, restricted investment environment and more Internet-friendly banking system as specific reasons for greater bitcoin trading in that country, but he cautioned that the trading volume data may overstate China's dominance, because it's self-reported.

"China definitely is number one, but quantifying its lead is debatable. But I don't doubt that China trades more bitcoin than any nation globally," he said.

Questions about the veracity of self-reported exchange volume data have [dogged](#) Chinese exchanges in the past. OKCoin's Zhao insisted that his exchange provided accurate data. BTC China founder Bobby Lee didn't respond to a request for comment.



Huobi's chief executive, Leon Li, suggested instead that users place a 100 BTC market-sell order on various exchanges to confirm market depth themselves – a suggestion that was also offered by BitMEX's Hayes.

"That is an empirical method, which provides more useful information than self-reported exchange transaction volume," Li said.

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## Huobi and OKCoin now in the lead

As the share of yuan trading has grown, the amount of trades handled by Chinese exchanges has increased with it. The yuan share spiked last October, closely tracked by an increase in trading volume on BTC China. That exchange briefly held the largest share of trades, accounting for 48% of trades at its peak, from last October to December.

By contrast, the amount of trading activity on large exchanges outside China, like Bitstamp and BTC-e, has declined steadily since last autumn. Total trading volume has increased at a steady rate this year, after a growth spurt around the end of last October.

BTC China then lost its pole position to Huobi, which overtook the share of trades in mid December and continued to rocket to 67% of trades by January.

Huobi was surpassed by OKCoin this year, and Bitcoinity data shows that OKCoin emerged as the trading volume leader in late May.

OKCoin's own trading data shows that it completed trades worth just over 1m BTC in the last week of March, while Bitcoinity data shows Huobi trading volume for the corresponding period was 729,686 BTC.

Today, OKCoin trades take up about 30% of volume while Huobi accounts for around 20%. BTC China, however is climbing quickly, adding 10 basis points over September to take 18% of the volume pie.

Created with [Datawrapper](#)Source: Bitcoinity, [Get the data](#)

## Zero fees and wash trades

While macro factors may account for China's lead in bitcoin trading, specific details like fee structures on Chinese exchanges give a further boost to the amount of trades on Chinese exchanges.

Danielli pointed to OKCoin's margin-trading structure as one reason trading volumes have grown on that exchange. As users trade more, they accumulate 'reward points' that allow them to borrow more yuan for margin trading. CNY-BTC trading is free on OKCoin and Huobi.

"People are 'trading with themselves' to increase volume and get to [the desired points level]," Danielli said.

The sort of trading described by Danielli is illegal in US equities and commodities markets, where it's known as 'wash trading'. In these transactions, a security doesn't technically change hands, and is effectively being traded by one party who takes both sides of the deal.

Such trades are outlawed because they distort market information about a security and can mislead other investors, according to the [US Securities and Exchange Commission](#). Hayes, formerly an equity derivatives trader at Citi, said the zero-fees structure used by Chinese exchanges means that the chances of wash trading on those platforms are high:

*"Wash trading is a very big deal in traditional finance, but in bitcoin-land, I could just say I traded \$1tn in bitcoin derivatives yesterday, but if you're stupid enough to believe me, then go ahead."*

Tim Swanson, who has written books on business in China and works for Hong Kong-based altcoin exchange [Melotic](#), pointed out that even with possibly-inflated yuan trading volumes, dollar trades may actually be far greater, but aren't represented in the data because they're traded [over-the-counter](#).

Swanson noted that miners and US-based 'universal' bitcoin firms like BitPay or Coinbase could be processing thousands of coins daily with counterparties with large fiat and bitcoin holdings, but are never traded on an exchange.

"The OTC and off-chain liquidity inventory is not being factored into most of the overall discussion on trade volume. The aggregate volumes of OTC or 'dark inventory' numbers may actually be larger in US dollars than [yuan]," he said.

## Impact on wider bitcoin economy

Even if trading volume on Chinese exchanges is inflated by wash trades, it's unclear how the exchanges stand to gain from occupying the top spot in global trading volumes, since they don't earn any revenue from the activity.

Swanson thinks pumped up trading volumes could simply be used to build a user-base that would

then pay for revenue-generating products. Huobi, for example, has launched a [fixed-term certificate of deposit](#) that requires a minimum deposit of 1 BTC.

"[Chinese exchanges] are busily trying to answer that question with a variety of value-added services like margin trading and issuing derivative products as well as integrating with API services," he said.

China maintains strict controls on foreign exchange, although the government is said to be [loosening](#) these restrictions gradually. Current rules mean companies and individuals can only move small amounts of funds in and out of the country.

For Hayes, China's currency controls and the large amount of genuine trading taking place mean the bitcoin markets are divided into those that can tap Chinese markets and those that can't.

Institutional investors in financial centres like New York or London already face regulatory obstacles to accessing Chinese equity markets, for example. As a result, Chinese markets are walled off, and their dominance may have little impact on traders outside the country.

Hayes said:

"China might have 70% of the volume, but institutional investors will not trade Bitcoin onshore in China [...] The market is bifurcated. As a non-Chinese person, you can't interact with the Chinese banking system. Yuan is still a restricted currency. It means a global investment firm has to trade bitcoin-dollar, because they're in New York or London."

**Update (28th Sept, 10:10 GMT):** An earlier version of this article stated that Huobi CEO Leon Li had declined to comment on the veracity of his exchange's volume data. Li had actually stated it was competitors' data he did not wish to comment on, and he stood by his own company's statistics.

Yuan and dollar image via [Shutterstock](#)

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Many Western traders are on Chinese exchanges because of the fees. Volume is not coming all from China.

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**Wong Joon Ian** Mod → Umi · 6 months ago

But they'd be trading yuan/BTC right? They'd lose something trading back to USD, EUR or whatever other currency?

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**Umi** → Wong Joon Ian · 6 months ago

After they are long bitcoin, they can go back to their USD or EUR exchanges to cash out. Nothing is lost.

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**Guest** · 6 months ago

An error in the article needs to be changed. The author writes:

"Huobi's chief executive, Leon Li, declined to comment on the veracity of his exchange's volume data"

Leon Li was asked by the author to comment on OKCoin's data, which he declined. He was not asked to comment on Huobi's data. Had he been asked, obviously he would have affirmed the veracity of his exchange's volume data.

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**Jon** Mod → Guest · 6 months ago

Article has been amended to reflect that, thank you.

^ | ▾ · Share &gt;

**Attila** · 6 months ago

Some chinese billionaire use bitcoin to convert their yuan to usd without any limit, so btc price could go under the mining cost ( + 10-20 % ) in short term ( ask yourself how many billionaire live in china and how many of them want to convert their yuan to usd and how many of them enough to keep the price down by dumping btc on usd exchanges) (+ otc buying and exchange selling)

2 ^ | ▾ · Share &gt;

**Ned** · 6 months ago

"yuan trades comprised more than 70% of trading volume", no surprise there as the article pointed out it's free to trade cny/btc over in China.

Let's take an active trader using some conservative figuers buying 2.5k usd and selling 2.5k usd worth of Bitcoins 5 days per week over at Bitstamp.

Bitstamp would charge you 0.20% in fees on that 5k usd per day so that works out to  $0.20\% \times 5k \text{ usd} = \$10 \times 5 \text{ days} \times 52 \text{ weeks a year} = \$2600$  in fees.

So trading 5k usd a day in China saves me \$2600 in fees a year and obviously more if I trade more. Seems a no brainer where I take my business.

2 ^ | ▾ · Share &gt;

**Orchideric** · 6 months ago

October 1st Begins China's "National Day" week festivities... They're all gonna cash in to party this week, hahahaha

^ | ▾ · Share &gt;

**Donald McIntyre** · 6 months ago

1. If there is suspicion of volumes because they self report and nobody can check if there is fraud in their reporting how can it be said that it is without a doubt the biggest market?

2. What is the absolute evolution of trading volumes ex-CNY? This would tell us what is the growth of BTC exluding the fake volumes of China and give an indication of evolution of the currency.

^ | v · Share ›



**Orchideric** · 6 months ago

China also does all this WITHOUT PBOC BANKS!

^ | v · Share ›



**Umi** → Orchideric · 6 months ago

You can deposit dollars on BTCChina... They convert it to CNY for you. Fiat channels are not closed completely.

^ | v · Share ›



**zeek** · 6 months ago

trading is irrelevant. most 'trading' on wall street is churning of volume or rebate trades to high frequency machines.

what is relevant is transactions for goods and services, rather than for swaps of money/crypto-coin.

online gambling itself is kind of a gray area, as you are paying for the service somebody created of running gambling software on a server. it is technically a service, but it scales to so many people, that, like a trading platform, you are essentially churning trades through the platform to speculate. some trading is arguable for 'hedging', which is ultimately a form of speculation when it is not actual instantaneous arbitrage.

the utility of a currnecy in the long run is not the utility of being a casino chip that they provide you in any las vegas casino, or even an 'internet casino token' that is currently accepted widely in on the net, but as a medium of exchange for goods and services.

bitcoins volume on black market drug bizzare websites is actually a far more important indicator of it's current and projected utility patterns. and of course, those statistics are hard to come by==AS THEY SHOULD BE.

see more

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**Pheasant\_Plucker** → zeek · 6 months ago

I have difficulty reconciling your prediction of the BTC price remaining \$100-\$300 with the historical data of exponential increase in wallets and merchants. Are you implying that merchant and wallet growth will plateau for the next 6 years? How do you explain the large ETFs being planned and BTC usage to transform the international remittance market? Will that not happen and if so why?

1 ^ | v · Share ›



**darl** → Pheasant\_Plucker · 6 months ago

it appears the increase in wallets and merchants has little if any bearing on price, if there is exponential growth in wallets and merchants its not reconciling with a change in price, if anything the price is dropping with that increase in growth.

The increase in wallets and merchants also has not translated into an increase of daily transactions, that seems fixed at around 3000.

Which is probably mainly the result of mining sales.

^ | v · Share ›



**zeek** → Pheasant\_Plucker · 6 months ago

bitcoins' climb from last year to now is all ALL ABOUT expectations for future growth. only a kool-aid drinker believes bitcoin has already taken over the world.

expectations for future growth are frequently greater than actual historical future growth , when looked at from bubble peaks.

even the fed right now says we have a bubble. everyone does. there's a huge GLOBAL financial bubble.

all the money , dollars yuan, yen, etc...pouring into bitcoin through trading platforms is at a peak now because the aformentioned financial bubbles that exist in the general economies of the world.

bitcoin is not an island. it is not divorced from the economies of the world. it in fact is entirely dependent on them right now. the imaginations of many a dreamer focus on a future day when bitcoin surpasses critical mass and supports it's own virtuous circle of transactions.




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 **Berkelake** [→](#) [zeek](#) · 6 months ago  
where do you think the Dow will be in one year? Where are you putting your money?  
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"expectations for future growth are frequently greater than actual historical future growth , when looked at from bubble peaks."  
"actual historical future growth" !! what is that again?  
where is this place you talk of "Bubble peaks" ?  
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You must have bought bitcoin at 1000 or more USD Hoping it would promptly go to 10k .  
  
Its called exponential growth. It doesn't continue forever.  
  
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