

DIGITAL MONEY, MARKETS & PAYMENTS SERIES

#2: CRYPTO SPOT MARKETS

What is the Crypto Spot Market?



- Trading of cryptocurrencies for immediate settlement (on the “spot”)
- Occurs on digital exchanges, both centralized (CEXs) and decentralized (DEXs)¹
- Market is 24/7, globally accessible, and blockchain-based

What Does Crypto Enable?²

- **Financial inclusion:** Enables access for unbanked populations
- **Settlement efficiency:** Crypto payment rails have enhanced money movement
- **Open innovation:** Participants can launch financial applications or tokens, open a digital wallet, and access the Decentralized Finance (DeFi) ecosystem

Who Participates?

- Greater access for retail investors, who represent greater activity relative to traditional FX markets^{3 4}
- Growing institutional participation (hedge funds, trading desks, ETFs)
- Open to anyone with an internet connection

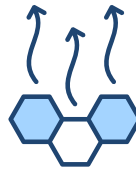
How Does Trading Occur?

Crypto spot trades settle near-instantly (especially with stablecoins), while FX spot trades settle on T+1 or T+2 basis⁵



Crypto spot market (~\$100B/day)^{6 7} = small compared to FX (\$7.5T/day)

- Crypto total market cap ~\$2T – 3T⁸ (smaller than daily FX volume)
- Top 4 tokens drive most volume: BTC, ETH, USDT, XRP⁹
- Stablecoins act as primary trading pairs, linking crypto and fiat
- There are thousands of tokens, but most have low liquidity



Crypto is highly volatile vs. fiat currency

- Daily price swings of 3–10% are common for top tokens
- Market sentiment, speculation, and other factors drive prices
- DeFi protocols - DEXs and Automated Market Makers (AMMs) like Uniswap - allow peer-to-peer swaps without intermediaries¹⁰
- ~10% of total crypto spot volume occurs on-chain and rising¹¹

Monetary Policy



- No central banks — protocols set monetary rules
- Bitcoin supply is capped; Ethereum burns tokens periodically^{12 13}
- Governance procedures take the place of central bank control in crypto ecosystems

New Token Issuance



- Constant launch of new tokens/projects
- Considered analogous to IPOs or bond offerings in traditional finance
- More than 20,000 tokens created daily; many are early-stage or speculative

¹ <https://www.britannica.com/money/centralized-vs-decentralized-crypto> ² Global Standards Mapping Initiative: <https://www.gbpc.io/uploads/reports/gsmi50/DeFi-Stand-Alone.pdf>

³ <https://finance.yahoo.com/news/crypto-retail-market-changed-142003457.html> ⁴ https://www.bis.org/statistics/rpfx22_fx.htm

⁵ <https://www.finra.org/investors/insights/understanding-settlement-cycles> ⁶ <https://finance.yahoo.com/markets/crypto/all/>

⁷ <https://www.reuters.com/markets/us/global-fx-trading-hits-record-75-trln-day-bis-survey-2022-10-27/> ⁸ <https://coinmarketcap.com/> ⁹ <https://finance.yahoo.com/markets/crypto>

¹⁰ <https://blog.uniswap.org/what-is-a-decentralized-exchange> ¹¹ <https://a16zcrypto.com/posts/article/state-of-crypto-report-2024/>

¹² <https://bitcoin.org/bitcoin.pdf> ¹³ <https://cointelegraph.com/explained/what-is-the-ethereum-eth-burn-address>