



ENIGMA



# Monthly Report

November 2019



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Every month, the Enigma Team brings together financial, economic, legal and political expertise to provide a comprehensive, global overview of the state of the cryptocurrency market in its Monthly Report. In it we review all crypto-related news and developments in the industry during the month broken down by topic and region, statistics and financial analysis on the top cryptocurrencies by market capitalization, and a Monthly Spotlight where we conduct an in-depth examination of a relevant topic.

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## Opening Review

There is no time for pause in the ever-evolving cryptocurrency market and the month of November was no exception in abundance of news. Following developments in October, this month's opening saw widespread bullish sentiment dominate markets, particularly following bitcoin's price surge and China's perceived endorsement of cryptocurrencies.

But as more news from China reached across the globe, from an elusive Phase One Trade Agreement between the U.S. and China, to riots in Hong Kong, accusations of brutality, to finally the renewed crackdown on cryptocurrency exchanges in the country, Enigma has unsurprisingly chosen to focus this month's Spotlight issue on the crypto industry and internal policy developments in China.

In other news, as the crypto bulls and bears continued to battle for dominance this month, an intriguing study by researchers John M. Griffin and Amin Shams, respectively from the University of Texas and Ohio State University, was reported by Bloomberg. The study claimed that a single whale was responsible for driving up Bitcoin's price during its 2017 bull run, peaking at above \$20K in early 2018. The study was a hot topic for debate amongst analysts and industry professionals, with strong disagreements with the theory being voiced.

Also, Enigma continues to monitor developments with Facebook's Libra. While a senior official from the United States has expressed the urgent need for the Federal Reserve to launch its own real-time payment system as a result of Libra, David Marcus, Calibra CEO, attempts to distance the cryptocurrency project from Facebook's questionable reputation with regard to data protection and privacy. Recently at the New York Time Deadbook Conference he stated that the cryptocurrency wallet is considering auditing its separation practices from its originator to provide proof of data protection and has assured that the wallet will not intermingle financial data from the wallet to personal data on the platform.

And as the cryptocurrency industry continues its efforts to evolve and bridge the gap with traditional finance, Ripple CEO Brad Garlinghouse has made a bold statement early this month that only 1% of cryptocurrencies will survive. Whatever the outcome, Enigma Securities will continue to use its extensive knowledge and experience to provide its very best financial solutions to its institutional clients, sharing its insight into cryptocurrency markets through Weekly and Monthly reports.

# News of the Month

## Global Policy and Regulation

The crypto industry is increasingly becoming an issue that governments cannot ignore. As it continues to evolve daily, regulators and policy makers must also evolve their stances accordingly, and November was not short in related news.

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### Europe



The first week of the month immediately saw Reuters report that the European Union drafted a document stating the European Central Bank (ECB) should consider issuing a public digital currency. This comes as an additional international response linked to Facebook's announcement of the Libra project. The ECB then officially stated at a joint-conference with the National Bank of Belgium on November 26th that it is exploring the development of a digital currency as an alternative to cash, so that European citizens may continue to use central bank money. Benoit Cœuré, outgoing executive board member of the ECB and presently newly appointed head of the Innovation Hub at the Bank for International Settlements as of January 1, 2020, stated that the ECB and other central banks are currently investigating the potential effects of digital currency on existing financial systems.

Meanwhile, in a slow but steady break from their traditional skepticism, the European

Union has proposed a new bill on the fourth Money Laundering Directive set to take effect in 2020, which would provide relief to financial institutions and allow banks to buy, hold and sell Bitcoin to their customers. Jumping at the opportunity, the German Bundestag issued its own bill to implement it. While it is still pending further developments and approvals, Germany has been regarded as pioneering cryptocurrency regulation as the country is on its way to becoming a crypto haven.

Furthermore, although suspicious of crypto, the EU nonetheless acknowledges the importance of blockchain, DLT and broadly technological innovations as it sees the European Investment Fund (EIF) together with the European Commission launch what is estimated to be a €400 million fund to support blockchain and AI projects. With the U.S. and China spending large amounts of capital in related development projects, the EU does not want to be left behind.

Other countries in the region are also working towards regulating and integrating digital currencies into their markets this month, such as Turkey with the digital lira being added to the 2020 Annual Presidential Program. According to the Program, testing of the blockchain-based digital lira is set to finish by the end of 2020. Also, the Federal Council of

Switzerland has officially announced that it wants to improve blockchain regulation. According to the official announcement, the proposal is aimed at increasing legal certainty, removing barriers for applications based on distributed ledger technology (DLT) and reducing the risk of abuse.

In the UK, advances are made in developing a framework for the adoption of crypto as the United Kingdom Jurisdiction Taskforce of the LawTech Delivery Panel published a statement in mid-November on the status of crypto assets and smart contracts. This marks an important milestone on the road to legal clarity, which many believe to be the primary impediment to widespread cryptocurrency adoption. However, a speech on November 20th by the FCA's Executive Director of Strategy and Competition Christopher Woolard said that the UK's financial regulator is considering issuing a ban on cryptocurrency derivatives connected with concern over "integrity issues".

A confusing statement from the CEO of a Russian blockchain platform, Universa, led many online media outlets to publish that Tunisia became the first country to digitize its national currency and issue a blockchain-based CBDC. However, the Central Bank of Tunisia responded with statements denying these reports, asserting that the rumours were unfounded and that it has not engaged in any relationship with national or foreign providers with the aim of creating a digital dinar. The bank did admit it was examining digital currencies, but there are yet no plans for a Tunisian CBDC to be issued at present.

## United States



In the United States, pressure is mounting as many believe the superpower is falling behind its adversaries on the digital currency front. As November opened, the U.S. debt hit a staggering 23 trillion dollars. The Head of the Federal Reserve, Jerome Powell, has openly stated that current economic policy is not sustainable as the country's national debt grows faster than nominal GDP. In this context, cryptocurrencies and specifically Bitcoin, for which the 2008 economic crisis was a key motivation behind its creation, have garnered attention as proponents cite it as a solution due to its decentralized quality as opposed to fiat currencies which are subject to manipulation via economic policy. However, in a letter responding to two U.S. congressmen, Powell also stated that the development of a CBDC is more compelling for countries that have seen "rapid migration by consumers away from cash" and those that lack "otherwise fast and reliable digital payment services", as opposed to the U.S. suggesting that despite high-level discussions into the eventual development of a digital dollar, the Fed is still nowhere near its realization at this stage. This in turn begs the question of whether a digital dollar would be better served if it were produced by the private sector, as Coinbase's Legal Chief Officer, Brian Brooks has argued in an essay published earlier this month.

Still, U.S. officials are keeping an eye on developments in the industry. While the Fed is

continuing its investigation into the possible benefits of a CBDC, in early November the Director of the Federal Bureau of Investigation Christopher Wray spoke of the matter in front of the U.S. Senate Homeland Security and Government Affairs Committee, saying cryptocurrency is a “significant problem that will get bigger and bigger.”

Meanwhile a bipartisan team of senators have reportedly introduced a new bill this month, the “Managed Stablecoins are Securities Act of 2019,” which would classify Facebook’s Libra coin as a security under United States law. This would bring the infamous Libra project under greater regulation if adopted.

In addition, Wyoming has enacted new blockchain-friendly legislation as it gets ready for cryptocurrency banking. These 13 new laws have made the Western state the only one to offer a comprehensive legal framework enabling innovation in the crypto and blockchain sphere, which provides a new path for businesses that have struggled to get the notorious New York BitLicense.

## BRICS and Asia



While the U.S. still debates on the implications of digital currencies, the BRICS nations have made their sentiments clear this month during the 11th BRICS Summit as they engaged in discussions of a single cross-border payment system between the countries through the development of a common cryptocurrency in order to reduce the countries’ economic dependence on the U.S. dollar. For countries like Russia, who have long been the target of U.S. sanctions, this new system could further provide an attractive alternative to the global financial messaging network SWIFT system reducing the impact of the implemented sanctions on its economy. However, Russia has also been rumoured to be working on a potential ban of cryptocurrencies as a method of payment. Although these rumours remain unsubstantiated, the Bank of Russia has openly stated that it would back such a ban.

In India, despite its ambivalent relationship with cryptocurrencies and partial crypto ban, the country has reaffirmed its enthusiasm for blockchain this month as the government is reportedly preparing a National Blockchain Framework supporting the use of distributed ledger technology. The country is further expected to present a draft bill on crypto regulation this December.

Also, this month saw the Monetary Authority of Singapore (MAS) bring cryptocurrency derivatives under its purview by subjecting the

to the Securities and Futures Act, thus allowing them to be traded on approved domestic exchanges. This comes as a response to heightened institutional demand as hedge funds and asset managers look to

hedge against the renowned volatility of digital assets.

## Finance Meets Crypto: A rapprochement?

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November was an especially interesting month in the bridging of the digital asset industry with traditional finance. One such method is through the elusive process of IPOs for crypto-related companies.

Starting the trend this month is Silvergate Bank, known for its pro-crypto stance and the Silvergate Exchange Network (SEN), a system facilitating efficient USD transactions between its members. Silvergate started trading on the NYSE on November 7th under the ticker SI, at a price of \$12.75 per share, 6.2% above its initial IPO valuation of \$12. By the end of November, Silvergate's stock had risen by 36.8%, reaching a peak of \$16.4 a share on November 29th. This case marks one of the major milestones on the road to successful integration between the cryptocurrency industry and mainstream capital markets.

Additionally, November saw the return to bid of bitcoin mining giant Canaan Creative in its third attempt at an IPO, first filing with the SEC. However, things looked dicier for Canaan as it has initially sized its IPO at \$400 million, but with the notably loss of its lead underwriter, Credit Suisse, instead netted gains of only \$90 million, over 75% below its

initial estimates. As Bloomberg reports, Credit Suisse appeared concerned on whether the offering would secure sufficient funds. Nonetheless, this marks the first successful IPO amidst bitcoin mining giants, as Canaan beats rival Bitmain, who is also reportedly planning for its third IPO to be listed with the SEC, amidst internal struggles. As the company reels from the ousting of co-founder Micree Zhan by co-founding partner Jihan Wu, the company which was initially valued at \$15 billion in a private valuation in 2018, and then reportedly seeking an IPO of \$300 to \$500 million last June could also be looking at a hard time ahead. This especially so if Micree Zhan moves forth with legal steps to return to Bitmain, as he announced earlier this month.

However, a potential rapprochement did not only manifest itself through a series of IPOs. Big news from Grayscale Bitcoin Trust (GBTC) as its sponsor, Grayscale Investments, files a Registration Statement on Form 10 with the SEC. If successful, Grayscale would become the first cryptocurrency fund to attain the status of a reporting company by the SEC.



## Corporate & Crypto

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In keeping with the yet uncertain crypto regulations in the United States, Huobi Global has announced earlier this month that it plans to freeze all accounts of its U.S.-based customers, stating that its user agreement does not allow them to use its platform.

Big news out of the Texas as U.S.-based Whinston entered into a merger agreement with German Northern Bitcoin this month, set to build the largest mining farm in the world and largest data center in North America on an area of approximately 100 acres. According to a press release, construction is already under way, with its first phase scheduled for completion in the first quarter of 2020.

Also, Charles Schwab has announced its intent to acquire TD Ameritrade in a 26-billion-dollar merger, leaving many concerned over what this would mean for the resulting stance on cryptocurrency. While Charles Schwab has maintained reservations regarding the crypto market, TD Ameritrade has approached with more enthusiasm offering Bitcoin futures products to its clients since 2018. Thus far, the investment giant has stated that it holds no plans to offer cryptocurrency trading to its customers, viewing cryptos as “purely speculative instruments.”

Matrixport, a Singapore-based cryptocurrency start-up founded by Bitmain's co-founder Jihan Wu, has announced its

expansion plans into Europe with the establishment of a new office in Zurich, Switzerland.

Meanwhile Bitcoin payment app Fold has list Airbnb on its rewards program, allowing customer to receive 3% cashback in Bitcoin thought the cryptocurrency's Lightning Network. Strong proponents of the cryptocurrency has claimed that this payment protocol which operates on top of the bitcoin blockchain will cause bitcoin's future valuation to soar into the six-digit range.

Revolut, a crypto-friendly investing provider based in the UK, has reportedly been in talks to to raise \$500 million and increase their workforce from 1800 to 5000 by the end of 2020, as it aims for global expansion.

PayPal, which last month was the first to leave the Libra Association, is now leading a \$4.2 million funding round for TRM Labs, the first cryptocurrency risk management platform.

Furthermore, crypto-friendly Silvergate Bank, who enjoyed a successful IPO this month has seen Kraken, one of the largest and oldest cryptocurrency exchanges, join the Silvergate Exchange Network (SEN), enabling rapid no-fee transfers between account holders for its users. Other clients of Silvergate include Coinbase, Gemini, Genesis, Bitstamp, Circle, Bittrex and Paxos.

It has also been an excellent November for Bitcoin ATMs, as Cointelegraph reported their reaching a new global installation

milestone with over 6000 teller machines now installed worldwide, 65% of which are located in the United States. And with American ATM operator Bitstop entering into a partnership with the country's largest mall operator, Simon Malls to install additional machines, as well as its CEO's announcing their intent to grow and increase their presence in over 500 locations by the end of 2020, that number is only set to grow.

For cryptocurrency exchange giant Binance, November has been an eventful month. Following denials of a reported raid on its offices in Shanghai, CEO Changpeng Zhao has threatened to sue The Block for false reporting and damaging the exchanges' reputation. Meanwhile the company has also looked to expand operations in India, a country which so far has been broadly hostile to cryptocurrencies, ahead of competitor

Bithumb, with the acquisition of local exchange WazirX. This acquisition has led some to speculate in hope that such a development may influence Indian authorities to shift their stances on cryptocurrencies, however the situation remains uncertain.

As for the American arm of the company, Binance.US has continued to struggle in its early days as its volume shrank to below \$5 million, however it hopes to improve the situation as it announced a new partnership with crypto brokerage firm Tagomi to provide institutional liquidity to its clients.

## Hacks and Security

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The risk of hacking has continuously caused suspicion and concern for existing and potential investors in the still nascent cryptocurrency industry, with many custodial companies setting up operations amongst growing demand for security. According to cryptocurrency intelligence company CypherTrace's Q3 report, 2019 resulted in an estimated loss of \$4.4 billion in cryptocurrency fraud and theft incidents.

The November Upbit hack was another reminder of the potential danger of storing cryptocurrencies on exchanges. According to

Coindesk, the South Korean exchange hack is in fact the seventh largest crypto exchange hack of the year, losing \$49 million in Ether at 9:00 UTC on November 26, 2019. In an official statement on the 27th the CEO of Upbit's parent company Dunamu, Lee Seok-woo informed Upbit's users of the suspicious transaction to an unknown wallet amounting in 342 000 ETH. The company has stated that it will use cover user assets with corporate funds.

In a less severe hacking news, the crypto derivative exchange Bitmex's official Twitter

account was hacked, following a sensitive data leak whereby the company accidentally divulged user data by failing to blind copy its customers' information in a mass email. While plugged in to the Bitmex Twitter account, the hackers were able to post a series of messages such as "hacked" or "take you bitcoin and run" on the feed. Bitmex swiftly responded and issued a statement claiming the security of its customers' information and funds were not compromised.

Additionally, a software security firm in Slovakia has discovered that responsible parties behind the Stantinko botnet have been using Youtube to distribute a malware designed to discretely utilise its victims' CPU power in order to mine Monero (XRM). The

botnet has been active since 2012, infecting approximately 500,000 devices geographically spread predominantly in Russia, Ukraine, Belarus and Kazakhstan. It was reportedly similar to another cryptojacking malware, Dexphot, revealed by Microsoft Security analysts this month to have infected approximately 80,000 devices. This type of malicious code has grown in popularity amongst hackers over the past years, allowing them to generate thousands of dollars of profit in cryptocurrency.

## Industry News

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The arrival of Bitcoin futures trading was a big event for the crypto industry this year, and especially for trading platform Bakkt following their September launch. Following initial lacklustre performance, November marked a very positive month for the platform as its futures trading volume soared to an all-time high at over \$42.5 million by the close of the month. Bakkt further announced this month its intent to offer cash-settled bitcoin futures in Singapore.

In other industry news, a new study by blockchain analysis company Chainalysis published in mid-November has shown that an increasing number of large crypto exchanges are no longer reporting fake

trading volumes, although there remains a number that likely still continue to do so. The release of such reports and tools similar to CoinMarketCap's new metric allowing liquidity comparison amongst cryptocurrency exchanges show the increased effort of the crypto industry to establish a more legitimate reputation.

Also, Paxos a regulated blockchain company has announced the release of its Fiat Gateway, a service allowing its users to easily swap between U.S. dollars and stable coins, which Binance was quick to follow in becoming the first cryptocurrency exchange in implementing the new technology. Paxos has further announced the launch of its new

API, Stablecoin Swap, that allow easy swap execution between Paxos-based stablecoins.

On the energy front, with loud objections to the environmental impact of bitcoin mining having repeatedly been heard, November welcomed the report by researchers in Aalborg University in Denmark, published in the New Scientist technology magazine. The report suggests that carbon emissions associated with the mining industry may be lower than what has generally been assumed.

Finally, November saw another luxury real estate property sold for Bitcoin, marking an increase in the number of real-estate transactions using cryptocurrencies. The Manhattan Upper East Side condo sale was reported by The Real Deal New York real estate magazine for the sum of \$15.3 million in Bitcoin.



## Bull and Bears by the Numbers

Following the bitcoin and correlated altcoins surge in October with China's Xi Jinping endorsing blockchain technology, the start of November saw bullish sentiment dominate bearish concerns. Binance CEO Changpeng Zhao went as far as to predict a Bitcoin price of up to \$16K in a Tweet, albeit with the caveat of an uncertain timing.

However, despite the opening sentiment, November 2019 registered as Bitcoin's worst month of the year, dropping 21.3% from its opening above \$9000 down to \$6550, to close at \$7343 on November 30th. Other altcoins didn't fare much better, with total market capitalization falling 17.6% from \$246.5 billion to \$202.9 billion.

The drop on November 21st did spark an increase in mainstream consumer interest in cryptocurrencies, specifically Bitcoin, as Google noted "bitcoin" and associated keywords rank at their highest search ranking since the coin's last spike in October. The tech giant has further noted that the interest seems to be primarily originate in Africa, with Nigeria, South Africa and Ghana ranking in the top three, followed by Australia and Switzerland.

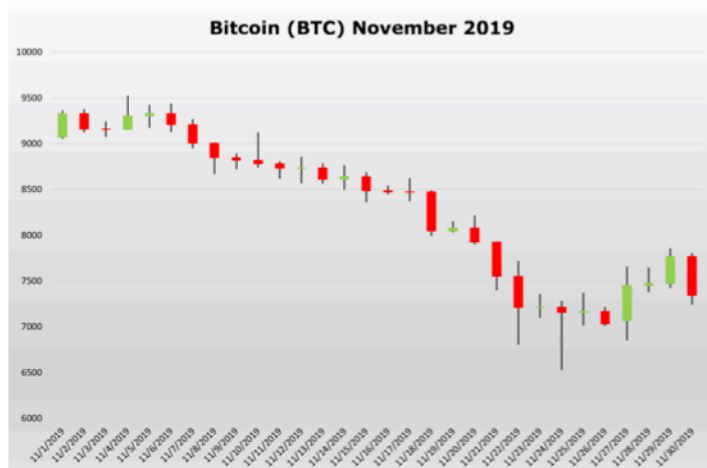
| Ticker     | Price 30.11 | 7D    | 1M     | 6M     | 12M    | Cap 30.11 |
|------------|-------------|-------|--------|--------|--------|-----------|
| <b>BTC</b> | 7343.6      | 2.2%  | -21.3% | -14.5% | 85.8%  | 134.9B    |
| <b>ETH</b> | 148.2       | -1.1% | -19.2% | -45%   | 28.4%  | 16.6B     |
| <b>XRP</b> | 0.2217      | -3%   | -24.5% | -50%   | -38.7% | 9.5B      |
| <b>BCH</b> | 212.97      | 1.5%  | -24.5% | -51.4% | 3.9%   | 4.1B      |
| <b>LTC</b> | 46.6        | -1.1% | -20%   | -59.3% | 47.8%  | 2.98B     |
| <b>EOS</b> | 2.71        | 3.4%  | -19.4% | -64.9% | -4.9%  | 2.64B     |

### Bitcoin (BTC)

Bitcoin opened in November at \$9,193, climbing to a monthly high of \$9,505 in its early days, after which it began a downward trend to its monthly low of \$6,524 on November 25<sup>th</sup>, which has been widely connected to Chinese crackdowns on cryptocurrency and raids on the offices of Binance and Bithumb in Shanghai, both of which have been denied by the companies in question.

Bitcoin traded at an average volume of \$22.4B, peaking at \$42.6B on November 25<sup>th</sup>, as Bitcoin reached its six-month low.

Market capitalization fell by 24.4% (\$32.7B), closing at \$134.4B.

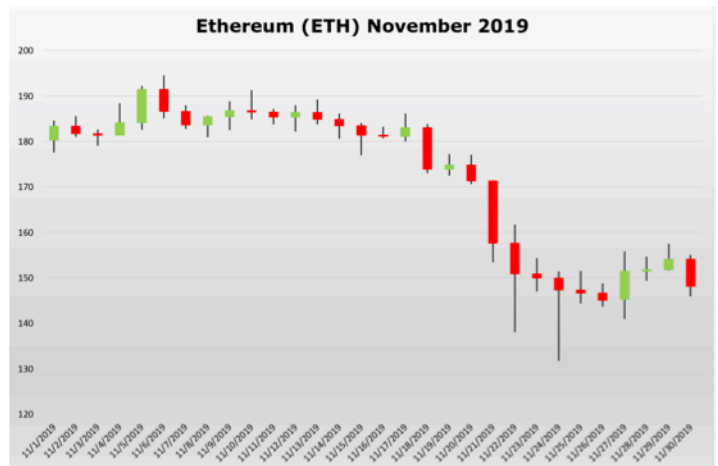


## Ethereum (ETH)

ETH opened in November at \$183.8 climbing to a monthly high of \$191.26 in the first days, after which it began trending downward to reach a monthly low of \$133.8 on November 25<sup>th</sup>, which correlates with Bitcoin's data.

ETH traded at an average volume of \$8.4B, peaking at \$12.01B on November 22<sup>nd</sup>.

Market capitalization fell 16.8% (\$3.5B) over the month, closing at \$16.6B.

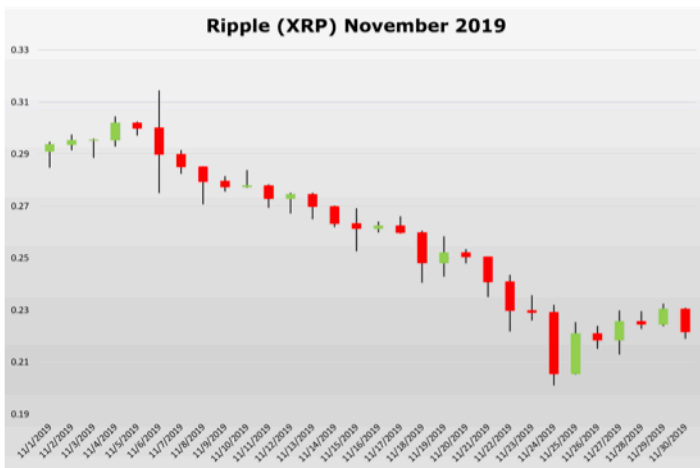


## Ripple (XRP)

XRP opened in November at \$0.2963 climbing to a monthly high of \$0.3102 in the first days, only to trend bearish reaching a monthly low of \$0.2070 on November 25<sup>th</sup>.

XRP traded at an average volume of \$1.8B, peaking at \$9.4B on November 25<sup>th</sup>.

Market capitalization fell 22.5% (\$2.8B) over the month, closing at \$9.5B.

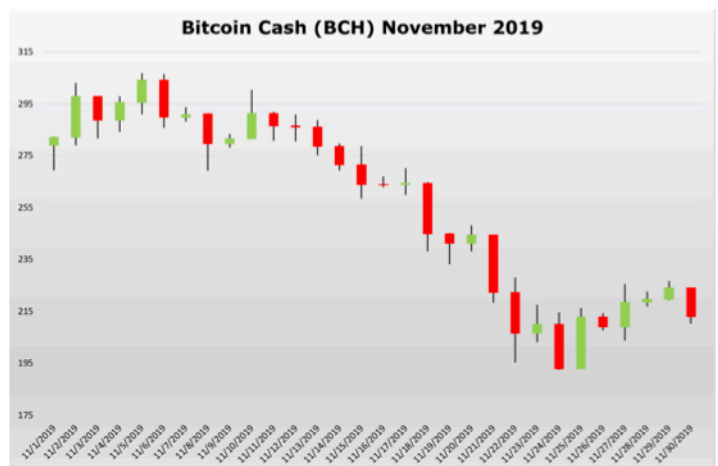


## Bitcoin Cash (BCH)

Bitcoin Cash opened in November at \$284.5 climbing to a monthly high of \$307.4 in the first days, after which it began trending downward to reach a monthly low of \$194.8 on November 25<sup>th</sup>.

Bitcoin Cash traded at an average volume of \$2.05B, peaking at \$3.4B on November 25<sup>th</sup>.

Market capitalization fell 21.3% (\$1.08B) over the month, closing at \$4.1B.

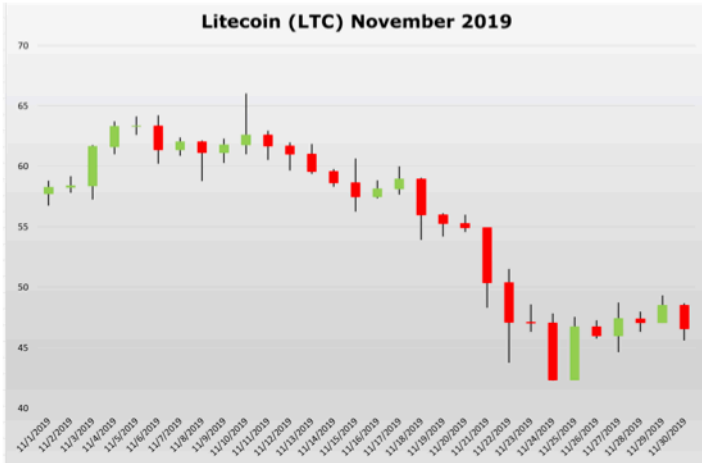


## Litecoin (LTC)

Litecoin opened in November at \$58.7 climbing to a monthly high of \$64.4 in the first weeks, after which it began trending downward to reach a monthly low of \$42.96 on November 25<sup>th</sup>.

Litecoin traded at an average volume of \$3.2B, peaking at \$4.7B on November 6<sup>th</sup>.

Market capitalization fell 18.7% (\$700M) over the month, closing at \$2.98B.

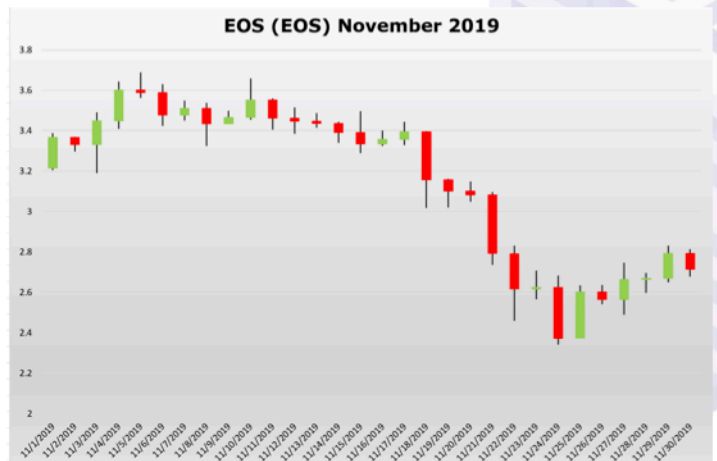


## EOS (EOS)

EOS opened in November at \$3.28 climbing to a monthly high of \$3.67 in the first days, after which it began trending downward to reach a monthly low of \$2.37 on November 25<sup>th</sup>.

EOS traded at an average volume of \$2.2B, peaking at \$3.6B on November 22<sup>nd</sup>.

Market capitalization fell 17.4% (\$549M) over the month, closing at \$2.64.



# Monthly Spotlight

## Cryptocurrencies and China



Today, China remains one of the most important and influential players in the cryptocurrency industry. Due to the availability of cheap electricity representing around 90% of mining costs, it is home to some of the world's largest bitcoin mining farms. According to a study published in June 2019 on The Bitcoin Mining Network, an estimated 60% of global mining occurs in China. Furthermore, according to data from Chainalysis, 20 of the top 50 cryptocurrency exchanges in the world are located in the Asia Pacific region and accounted for an impressive 40% of total Bitcoin transactions in the first half of the year.

Despite the Chinese government's continuous tradition of crackdowns on the industry, many still consider the country's stance and actions

on cryptocurrency to have an important effect on the valuation of bitcoin. Just last month a speech delivered by President Xi Jinping which endorsed blockchain technology and encouraged its development incited a market frenzy whereby bitcoin's price experienced a surge of 40% between October 24<sup>th</sup> and 27<sup>th</sup>. This behaviour came about as a result of the general perception that Xi Jinping's statement increased the legitimacy of cryptocurrencies in the country. Galaxy Digital CEO Mike Novogratz went as far as to state at the Reuters Global Investment Outlook 2020 Summit in New York that the Chinese President had "credentialized" cryptocurrencies and blockchain.

Yet, in more recent news China reaffirmed its historic hostility to the crypto industry through



a renewed commitment to clamp down on cryptocurrency exchanges. This came after state media cautioned the public against excessive speculation, calling for rationality, following October's frenzy. As financial regulators took decisive action issuing a warnings and public notices directing individuals to report businesses engaged in digital asset trading to the central bank, bitcoin's price plunged almost 10%, reaching a six month low of \$6524 on November 25th, marking this month its worst since November last year, even as it rebounded to the low \$7K range a few days later.

The same day the crypto market turned red, news outlets reported that Binance's Shanghai Office had been raided and shut down by Chinese authorities, a fact which has been disputed by the company. Instead the company stated that as a global decentralized movement, it does not have fixed offices in Shanghai which would make such a raid impossible. It furthermore claims that the

news report was a result of increased negative press against Binance and so not only has it encouraged the media to verify their sources, but Binance CEO Changpeng Zhao has gone as far as to threaten legal action against The Block for publishing an article on the supposed raid.

Nonetheless, the news has been connected to the widely accepted interpretation of the price drop, linking bitcoin valuation to developments in China once more. As the country prepares to unveil its CBDC in the coming year, industry professionals are intently monitoring the situation in the country. Thus for its inaugural Monthly Spotlight issue, Enigma Securities' Research Team chooses to delve deeper into the topic and explore the development of the crypto industry in China at a time when digital currencies are becoming a new frontier in the global "tech war", as countries, particularly the U.S. and China, compete for supremacy in advanced and innovative technologies.

## **Cryptocurrencies and their Legal Status in China**

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Only a few years after their original inception, bitcoin and decentralized cryptocurrencies in general became a target for Chinese financial authorities, as they built their efforts to control the market through a series of strict and, to a certain extent, hostile laws. Since as early as 2013, China was already moving to ban banks and financial institutions from engaging in any kind Bitcoin transactions, sending its price at

that time tumbling down 41% in the space of a day. In those early days however, cryptocurrency exchanges were still largely left alone and bitcoins came to be recognized and protected under the virtual property legal framework. This designation and its legality were additionally reaffirmed this past July during the settlement of a legal dispute involving bitcoin when the Hangzhou Internet

Court ruled that the digital coin's properties meet the requirements of "virtual property."

Although this was not the first time a judiciary body has recognized the legality of digital assets in the country, with the Shenzhen Court of International Arbitration ruling in 2018 that ownership of bitcoin and its derivatives was not prohibited under Chinese regulations, China has nonetheless maintained a strict stance on cryptocurrency trading, notably citing efforts to fight capital flight, fraudulent and criminal activity associated with the crypto market as well as preventing the emergence of risky investment bubbles.

This stance was strongly enforced in the September 2017 crackdown, which really marked China as one of the harshest jurisdictions for cryptocurrency operations. That month, regulators issued the ban on all local cryptocurrency exchanges, warning them to stop operations by the 30th, and declared ICOs as an unauthorized fundraising activity which is illegal in the country. What ultimately resulted from these actions is that while people are, to this day, allowed to own cryptocurrencies, they are no longer allowed to engage in any kind of trading activity via the banned platforms. China has strongly emphasized that it in no way recognized bitcoin and other altcoins as any kind of legal currency. Still, despite the ban on mainland exchanges, peer-to-peer trading still remains on the borderline of legality, allowing cases of citizens to trade cryptos in conforming will required legal declarations. Correspondingly since the 2017 ban, OTC came to dominate

fiat-to-crypto trading volumes in China through the use of payment apps such as WeChat and Alipay. However, these are now hardening their stances towards OTC trading, with WeChat for instance banning merchants from conducting cryptocurrency payments.

Now November 2019 witnessed the next big cleanup wave of its financial sector since 2017 as Chinese regulators issued warnings and performed raids, resulting in a number of Chinese cryptocurrency businesses ceasing operations or shutting down altogether. Exchanges Bitsoda and Aktex ceased operations, while Biss reportedly paused its services to collaborate with Chinese regulators in an ongoing investigation. Idax moved to prevent its service from being used by domestic clients and Btuex announced it was shutting down operations but plans to reopen in the future to service clients overseas.

Interestingly however, despite its repeated action enforcing strict cryptocurrency regulation, China has not issued any bans on cryptocurrency mining. In fact, in a move perceived as a starting step towards integrating digital currency into its economy as the country gets ready to issue its CBDC, the National Development and Reform Commission, a high-ranking Chinese economic agency, has removed virtual currency mining from its list of industries it looks to eliminate in the published version of its "Industrial Structure Adjustment Guidance Catalog." This document, which is set to take effect on January 1, 2020, had previously contained mining in its draft list of industries

pending elimination, causing a flurry of speculation on the upcoming banning of the industry in the country. Now, some expect to see further relax some of its crypto-related

policies as it further embraces blockchain technology and the launch of its digital currency approaches.

## Chinese Digital Yuan

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The People's Bank of China today stands ready to become the first central bank to issue a CBDC and although the release date of the digital yuan has yet to be specified, it is broadly expected to be coming sometime in 2020.

The country has been conducting research into digital currencies and a potential issuance since 2014. However, it was Facebook's announcement of Libra which truly catalysed development. With its potential billions of users through the social media giant's network, U.S.-based Libra has shaken the international status quo, sending governments and financial regulators into a flurry of activity to assess the potential dangers of such a venture. Facebook is famously banned in China; however popular access has been noted occur through the common use of virtual private networks (VPN). Suddenly, China found itself accelerating development, in a race not only for supremacy in technological innovation, but for what it perceives to be the preservation of its monetary sovereignty.

One of China's primary concerns with Libra is that its widespread adoption would lead an increase in the country's reliability on the U.S.

dollar. Reversely, the issuance of its CBDC would lead to a greater global presence of the yuan and thus further bolster China's economy. Another important concern, which has previously been cited, is the increased facilitation of cross-border transactions leading to capital flight from the country. This issue is one that financial authorities are continuously attempting to address, with some analyst believing them unaware of 5% to 10% of these transactions. With the introduction of the digital yuan, the central bank will be able to tighten security and better monitor both domestic and international transfers.

Once issued, the way the currency would reportedly work is designed to be similar to the physical yuan. Users would be able use their mobile devices to download a digital wallet issued by the central bank which would connect them to their commercial bank accounts, allowing them to load cash. People would then be able to freely use it with any business that would accept the digital coins, as well as generally make and receive payments from anyone else holding a similar wallet.

Although the basis on which this technology is being developed has not yet been clarified, considering China's recent heightened support of it, it will most likely be blockchain based. However, this raises concerns over whether blockchain inherently has the ability to support the large number of transactions that are presently register in the country. After all, not only is China the most populated

country in the world, but it is also one of its biggest cashless societies. Mobile payment systems have a very high societal integration rate, with 2018 seeing a volume of domestic transactions in the 40 trillion-dollar range. Yet, according to reports from Chinese officials, the system would supposedly have the capacity of processing 300,000 transactions per second.

## China vs. U.S. – A Crypto Race

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Amidst economic tensions between the U.S. and China, ongoing since President Trump's initial tariff imposition on the world's second largest economy in 2018, and the competition for advancement in the crypto sphere between U.S.-based Libra and the Chinese CBDC, the crypto industry has increasingly been cited as the new frontier of the so-called "Tech War" brewing between both countries. With more people beginning to accept the concept of digital currencies, the pressure to advance, innovate, excel only mounts.

Within this competitive context, one researcher put forth the possibility that cryptocurrencies may actually be benefiting from the trade war. Garrick Hileman, Head of Research at [Blockchain.com](https://www.blockchain.com) and researcher at the London School of Economics has posited

that there exists a strong inverse correlation between Bitcoin's price increase and the Chinese yuan's decrease as a result of tariffs. He emphasized however, that this correlation in no way implied that one event cause the other.

At present, the sentiment surrounding Sino-American bilateral relations is one of cautious optimism, after October negotiations resulting the Trump's announcement of a "very substantial Phase One Deal," which would address American concerns over intellectual property and financial services access. The world now eagerly awaits news on the status of this deal before the key date of December 15th when U.S. tariffs on Chinese exports are set to increase.

# We Recommend Reading

## Enigma November weeklies

(<https://www.enigma-securities.io/research>)

Enigma's clients have access to highly regarded research, including "The Enigma Weekly", a weekly report featuring Enigma's latest thoughts on the market. Topics covered include the regulatory environment, upcoming market catalysts, as well as deep-dive analysis of pertinent themes in the crypto and blockchain world.

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### **The big Bitcoin bleed** (27 November 2019)

In this issue, the focus is on November's unusual move down from \$9000 — 'the bleed' — and explains how it needs to be understood in terms of an unusual dynamic between Western and Asian markets. It also offers a legal perspective on smart contracts.

### **ASOL in aberration and the mempool dump** (20 November 2019)

In this issue, the focus is on the ASOL metric, an assessment of its extreme spike registered this week and a discussion of whether it should be taken seriously. It also examines how on-chain metrics can be distorted even in the case of legitimate activity.

### **The difficulty drop in context** (13 November 2019)

In this issue, the focus is on the 'difficulty drop', and whether we are yet approaching the risk cases for a loss of miner confidence. It also looks at the legal situation of cryptocurrency in Russia moving forward.

### **Ethereum in the era of accumulation** (6 November 2019)

This issue takes a look at Ethereum's close — but uneasy — relationship with Bitcoin in price terms, and examines whether their points of divergence create any opportunities. It also explores the SEC's no-action relief agreement with Paxos and its implications.

## About Us



Enigma Securities is a leading, regulated liquidity provider, offering its clients bespoke liquidity solutions through the use of a proprietary electronic trading platform and API access.

The firm was founded in 2017 as a subsidiary of Makor Partners Limited (UK), amid growing institutional demand for digital asset trading. Looking to seize the new, exciting opportunities presented by cryptocurrencies and blockchain technology, Enigma became one of the first regulated brokerage firms to set up banking relationships and custody solutions to meet institutional standards.

Since its launch, the firm has expanded its capabilities to the broader Fintech arena, leading innovation while working to bridge the gap between the traditional financial services industry and cryptocurrency markets.

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