Bitcoin skyrockets, Korea's 'Kimchi Premium' becomes the focus of attention again

Cryptocurrency arbitrage or 'Kimchi Premium' is back in vogue in South Korea as Bitcoin prices hit a new peak in mid-March.

'Kimchi Premium' refers to the price gap between cryptocurrencies, especially Bitcoin when listed in South Korea compared to those listed on US or European exchanges.

While this may be seen as an arbitrage opportunity to some, making quick money is not easy.

Kimchi Premium is back in vogue after Bitcoin hit a record high of $73,000 on March 13, 2024. Bitcoin then fell below $70,000.

As Bitcoin hits new highs, Kimchi Premium also skyrockets. According to cryptocurrency data provider Cryptoquant, the Korea Premium Index reached its highest level since May 2021 on March 16, 2024 and recorded a price difference of up to 10.88%.

That means the Bitcoin trading price in South Korea is about 10% higher than the global Bitcoin spot price.

Using Kimchi Premium as an example, in 2017 FTX founder Sam Bankman-Fried saw an opportunity to arbitrage Bitcoin prices between different exchanges. Sam Bankman-Fried once said that Bitcoin's price difference can sometimes be as high as 60%. The arbitrage opportunity is especially attractive in South Korea, as Bitcoin prices there are regularly significantly higher than in other countries. In 2022, Bankman-Fried said he was attracted to the industry because the widespread arbitrage opportunities seemed 'too good to be true'.

According to a report published in 2019, while Kimchi Premium averaged 4.73% between January 2016 and February 2018, in January 2018 it skyrocketed to 54%. .48%.

Why is there a price difference?

Price arbitrage occurs because cryptocurrencies - unlike stocks or bonds - are decentralized digital assets using blockchain technology that are not controlled by a central authority and can therefore be traded at different prices around the world.

One factor leading to the price difference is the high demand for cryptocurrencies in South Korea – which is sometimes referred to as a 'closed market environment'.

To prevent money laundering in cryptocurrency trading, the Korean Financial Services Commission (FSC) has implemented a so-called 'real name' policy, which requires cryptocurrency trading account names in a person's home country must match the name on their deposit account with the bank.

As a result, only Korean citizens or foreigners with resident registration cards are allowed to open official bank accounts in the country, which locks out overseas access to domestic cryptocurrency exchanges. water effectively.

Cryptocurrency data platform Chainalysis said in a 2023 report: 'South Korea requires a specific type of bank account linked to an individual to open a cryptocurrency exchange account, which making it difficult for institutional market participants to participate in the cryptocurrency market'.

Additionally, Bitcoin prices in South Korea are pushed higher than prices in other global exchanges, as demand is mainly driven by individual investors as institutional and foreign investors cannot Participate freely.

The report also notes that South Korea appears to be the least institutionally driven market in East Asia based on deal size.

'That may be due to local regulations making it difficult for financial institutions to transact,' the report said.

Arbitrage is not easy

Kimchi Premium may seem like an arbitrage opportunity, but it's not that simple.

In theory, investors could buy Bitcoin on an international exchange at a lower price, then transfer the cryptocurrency to a Korean Bitcoin exchange at a higher price and make a risk-free profit by selling it's on the Korean exchange.

However, Baik Seunghoon, Country Manager for Korea of ??cryptocurrency mining company GoMining explained that the fact that the Korean won is regulated makes this arbitrage strategy difficult for investors. international investment.

He also pointed out that the won is a highly restricted currency and the transfer of wons abroad is strictly controlled.

According to research from the University of Calgary, this arbitrage strategy has other risks.

First, transferring Bitcoin from a foreign exchange to an exchange in Korea takes time, and during that time, the price of Bitcoin may change. Transfers can take anywhere from an hour to a day for the cryptocurrency to be transferred to an external wallet.

This means investors run the risk of receiving a smaller Kimchi Premium or disappearing altogether during the arbitrage period.

Paul Brody, global blockchain lead at EY, said that although Kimchi Premium has been around for a while, his view is that it is harder to execute arbitrage today than it was in the past.

'What's different now is that in many other parts of the world, it's getting more and more difficult to send money via blockchain without doing any KYC,' he said, referring to the customer know-how process, in Customers' identities need to be verified by financial institutions to minimize financial crime.

Furthermore, he said exchanges that comply with the regulations will limit an investor's ability to send money abroad unless the investor has the necessary documents and legal support.

In short, the real issue is that time, fees and capital controls can introduce complexity, making taking advantage of this strategy less attractive or not feasible at all.

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