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Crypto Liquidity - How to Choose the Best Liquidity Provider

Original:

<https://www.btcc.com/en-US/academy/crypto-basics/crypto-liquidity-how-to-choose-the-best-liquidity-provider>

This guide includes an in-depth explanation of crypto liquidity and how it works, to help you choose the best crypto liquidity provider.

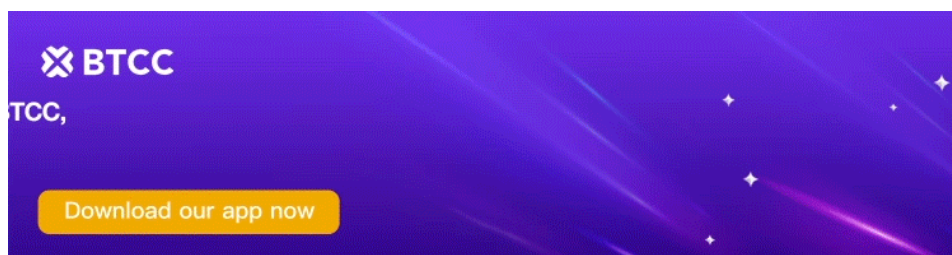
What is Crypto Liquidity?


The term liquidity is generally used in the financial markets to describe the ease by which an asset can be converted into cash without difficulty. In terms of cryptocurrencies, [liquidity](#) is the ability of a coin to be easily converted into cash or other coins.

Liquidity is important for all tradable assets including cryptocurrencies. Low liquidity levels mean that market volatility is present, causing spikes in cryptocurrency prices. High liquidity, on the other hand, means there is a stable market, with few fluctuations in price.

It is thus easier to buy or sell [cryptocurrencies](#) in a liquid market since buy or sell orders will be filled more quickly due to the larger number of market participants. Essentially, this means it is possible to enter or exit a trade at any moment, given the fast-paced nature of the cryptocurrency markets.

Liquidity is a concept that is important to understand when dealing with cryptocurrencies. In terms of defining liquidity, it is essentially the ability of an asset to be quickly converted into cash. In the context of cryptocurrency liquidity it refers to the ease in which a coin can be converted into cash or other coins.

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Why Does Liquidity Matter?

High liquidity in the marketplace is an ideal situation as it makes for improved prices for all concerned due to the large number of buyers and sellers in the marketplace. A buoyant marketplace with a high level of trading activity tends to create an equilibrium market price that is acceptable for all.

High liquidity also ensures that prices are stable and not prone to large swings resulting from large trades which could affect cryptocurrency prices while fuelling increased volatility and risks for the general market. In a liquid market, prices are stable enough to withstand large orders because of the large number of market participants and their orders.

High liquidity also allows for greater technical analysis accuracy since price and charting formation in a liquid market is more developed and precise.

What Factors Will Affect Liquidity?

One of the key factors affecting liquidity in the cryptocurrency market is trading volumes. You can check out any cryptocurrency market cap rankings website to see daily volumes, with a higher volume indicating that more people are buying and selling coins. Inadequate knowledge and clear-cut guidelines by authorities has so far limited these activities mainly to enthusiasts but interest in bitcoin trading and cryptocurrency trading in general is attracting more and more people to get started.

A higher number of cryptocurrency exchanges provides more opportunities for more people to trade their coins and in recent years the number of exchanges has multiplied. The increase in frequency and volume of trading helps to enhance liquidity.

Usability is another factor affecting liquidity. The more cryptocurrencies are used as a medium of payment, the more liquid they become. This is why it is important for cryptocurrencies to be accepted by merchants as a means of payment, so as to further boost the use of cryptocurrencies for transactions.

Finally, regulations play an important role. Different countries have adopted different stances on cryptocurrencies with them being banned in several, allowed in some or disputed in others. Despite the situation, cryptocurrencies are growing at a fast pace, so a clear stance by the authorities on issues like consumer protection and taxation should result in more people getting involved thereby affecting its liquidity.

In order to source the best liquidity provider, brokers need assess their own specific needs and make an informed choice based on a number of factors.



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Things to Consider When Selecting A Crypto Liquidity Provider

In order to source the best liquidity provider, brokers need to assess their own specific needs and address several factors:

What's On Offer. Primarily, a broker should look at the overall package on offer relating to what assets and the kind of liquidity being provided. It is essential that multi-asset liquidity is provided by the liquidity provider together with access to the FIX protocol and historical data. In addition, a nominated account in different currencies should ideally be an option, as well as the ability to accept all major stable tokens and cryptos for depositing and withdrawal.

Market Depth. Market depth is another key consideration. This provides an indication of the liquidity and depth for a particular currency. The higher the number of buy and sell orders at each price, the higher the depth of the market.

Fast Executions. A liquidity provider must be able to offer fast trade executions with re-quotes or slippage, particularly during times of high impact market news.

Pricing. A liquidity provider's price offering must include spreads which are competitive as well as low commissions and swaps with no compromise either side.

Data Feeds. A liquidity provider should be able to offer client data feeds which are stable and reliable. Price feeds must reflect real-time prices from all relevant exchanges as well as the interbank forex market. Any delays in price data delivery may result in gaps.

Authenticity. Liquidity providers should be regulated in the same way as brokers to ensure they are operating under the industry's best practices and have a prime broker to support the liquidity provider.

Software. A liquidity provider should be able to implement FIX protocol and other APIs, MT4/MT5 bridge connections and FIX bridges.

Reporting Requirements. A crypto liquidity provider should be able to provide an automated and robust reporting system to enable them to meet regulatory requirements. Typical reports include trade reports, FIX bridge reports, swaps and rollover reports and order book access.

Read more:

[*Terra LUNA 2.0 And LUNA Classic \(LUNC\): Get It All in One Guide*](#)

[*XRP Price Prediction: 2022-2030, Ripple vs. SEC Lawsuit Entangles*](#)

[*5 Best Crypto Apps For Cryptocurrency Trading In July 2022*](#)