DYDX and DYDX Token – Everything You Need to Know

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DYDX is a decentralized crypto exchange for margin trading for cryptocurrencies like BTC, ETH, DOT, SOL and many others.

The bulk of dYdX crypto margin trading products reside atop the Ethereum blockchain. However, the exchange recently rolled out on Layer 2 for instantly settled, inexpensive trades.

The hype around dYdX has intensified because the exchange finally presents a clear decentralized alternative to perpetuals exchanges BitMex, FTX, and Bitfinex. But the hype isn't just about the product — it's also about the DYDX airdrop. For some users, the airdrop's value surpassed an astounding $100K.

Should you be trading on dYdX? This beginner's guide to dYdX will help you understand what the exchange is, how its products work, and what the deal is with DYDX token.

What Exactly is DYDX?

Cryptocurrency exchanges like Coinbase, Binance, and Kraken are all quite similar. They're centralized crypto exchanges for spot trading — meaning you buy and sell digital assets directly. A handful of decentralized exchanges like Uniswap, Sushi, Curve, and 1inch offer traders the same capabilities without intermediaries.

However, exchanges like FTX and Bitfinex allow you to margin trade crypto with advanced derivatives products like leveraged tokens for more adventurous traders. There's a massive market for crypto derivatives, as evidenced by the daily $50 billion derivatives trading volume on Binance.

But what if you don't want to trade on a centralized exchange? That's where dYdX comes in.

DYDX is a brilliantly executed decentralized crypto derivatives exchange with a plethora of margin trading and perpetuals options for everyone. Besides having a clever name (dy/dx refers to Leibniz's Notation in mathematics), dYdX has filled a compelling niche within the crypto trading realm.

Founded in 2017 by former Coinbase engineer Antonio Juliano, dYdX garnered immediate investor interest to the tune of $87 million in funding. That significant capital runway allowed the project's developers to build the trading platform to painstakingly high standards.

Early iterations of the dYdX exchange platform allowed traders basic crypto margin trading capabilities with limited assets. Now, dYdX upped its game by rolling out margin and perpetuals for many cryptocurrencies. It also added lending and borrowing services to decentralize the entire trading experience altogether.

This is an excellent place to pause and quickly explain crypto margin trading and perpetual contracts to the new people in the room. If you already understand these concepts, feel free to skip ahead.

What is Crypto Margin Trading?

Margin trading with cryptocurrencies is when you borrow crypto to bet more on your trading position. In margin trading, you can take two positions: margin long or short. Long means you think the asset's price will go up; short means you believe its price will go down.

So, the margin part of margin trading means you use your funds as collateral to borrow more, thus allowing you to trade with a larger stack of assets. The more collateral you deposit, the more you can borrow.

Crypto margin trading entails using different powers of leverage, usually denoted as 5x, 10x, 25x, 100X and so on. Using higher leverage lets you capture more significant gains and entails greater risk since you also capture more downside.

Also Read: ***Things You Must Know About Crypto Leveraged Trading***

5 Steps to Start Crypto Futures Trading the Right Way

What is Perpetual Contracts in Crypto?

Crypto perpetual contracts are a type of derivative trading similar to trading products like BTC futures. The way Bitcoin futures contracts work is straightforward — a buyer and a seller agree to trade BTC at a specific price on a fixed date. If BTC is higher than the agreed price when that date arrives, the buyer wins, and the seller loses.

A crypto perpetual contract is similar, except there is no fixed date specified for the exchange. In other words, you can hold a perpetual contract indefinitely (hence perpetual). The main advantage of trading perpetuals over futures is you aren't stuck with a loss if the trade goes against you. Instead, you can keep riding the position by funding it, allowing for a potential reversal of fortunes later.

The basic flow for trading crypto perpetual contracts on dYdX is straightforward.

1. Fire up the dYdX trading app.
2. Connect your wallet (MetaMask, Ledger, Coinbase, etc.)
3. Deposit funds, then select trade.
4. Open a position with selected leverage (if any) & limits.
5. Track P&L and fund your position as needed.

Traders can also apply margined leverage to perpetual contracts.

How does DYDX Work?

Crypto derivatives exchanges have traditionally relied on centralization to organize lending and borrowing for trading on margin and perpetual contracts. However, smart contracts have enabled decentralized liquidity pools, collateralization, and lending across popular protocols like Uniswap, Compound, and Sushi.

dYdX combines the best decentralized financial technologies for a first-of-its-kind crypto derivatives exchange using crowdsourced liquidity only. In practice, this means that when you deposit collateral to open a leveraged trading position, you're borrowing from a decentralized liquidity pool funded entirely by other traders.

DYDX Token and How to Earn Rewards

Major Metrics of DYDX Token

- Market cap= $1,251,357,416
- Fully diluted = $24,355,536,193
- Total value locked = $694,154,000
- Max supply= 1,000,000,000 DYDX
- Circulating supply= 1,000,000,000 DYDX
- Distribution type= Airdrop

The DYDX token is hugely responsible for the trading platform's success because it's primarily used for generous rewards. Earning rewards on dYdX isn't as difficult as you might think — you just need to participate in the protocol. Here's how.

Liquidity Staking Pools

Decentralized liquidity is the crucial component dYdX needs for success. Without funds deposited by liquidity providers, the exchange simply doesn't have the means to support demand and compete with centralized derivatives exchanges.

To incentivize liquidity providers, dYdX liquidity staking pools reward anyone who deposits USDC in the pool with DYDX tokens. 25 million DYDX tokens are up for grabs as part of the program — a number that accounts for 2.5% of the total token supply.

After you deposit USDC to the protocol, you stake it in the pool to receive stkUSDC. Then, you mark your token as active to add it to the usable liquidity pool. That's when your USDC deposit starts earning DYDX tokens and a share of trading fees.

Trade on DYDX Platform

If you're not ready to provide liquidity, there's another way to earn DYDX tokens by simply trading on the platform. Yes, it's as simple as it sounds!

As you trade, the platform rewards you in DYDX tokens from a 250 million token stash. That's a whopping 25% of the total token supply which shows serious dedication to the users.

Get Discounts on Trading Fees

If you're trading on dYdX, it doesn't hurt to save on trading fees. In a way, that increases your P&L — so it's fair to chalk that up as a reward!

To get discounts on trading fees, you need to hold DYDX tokens in your wallet. Trading fees discounts for the largest holders range from 3% to 50%.

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