



dYdX Chain Launch Incentives

Trading Season 1

Mid-Season Review



December 19, 2023

Summary

Chaos Labs presents this mid-season review of full trading on the dYdX Chain. All aspects of the exchange performance are covered with a focus on the impact of the Launch Incentives Program.

Key Stats:

- The platform has seen more than \$4.1 billion in trading volume spread across 33 different markets.
- Over 1,500 traders and 800 market makers are actively earning points through the Launch Incentives Program.
- To date, there have been over \$7.7 million in total liquidations, contributing approximately \$40,000 to the insurance fund.
- Since November 28th, the majority of markets have experienced positive realized funding rates.
- The dYdX Chain has attracted over 18 million USDC in deposits.

dYdX Chain Trading

There has already been over \$4.1 billion in trading volume across 33 markets. This compares reasonably favorably to over \$21 billion across dYdX v3 markets over this period, \$2.9 billion across GMX v2 markets during this period, and \$1.5 billion on GMX v1.

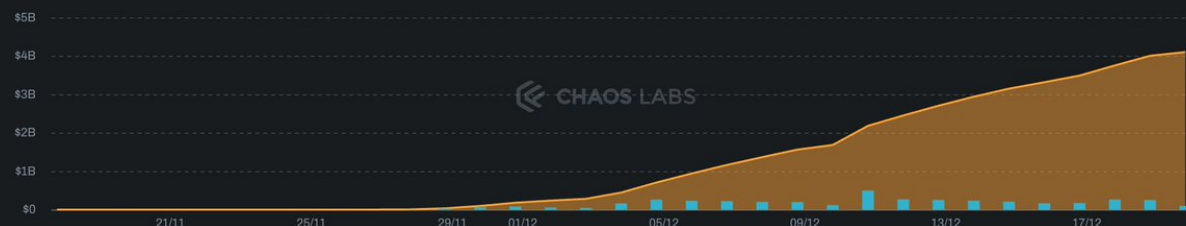
The launch incentive program's focus on rewarding traders migrating their activity to the dYdX Chain early has had a significant effect as daily volumes have grown to sustain between 25% and 35% of v3 for the past 7 days. Traders are aware that they will earn more in fees than they pay in rewards and are adapting their behavior accordingly.

Trading Volume Over Time

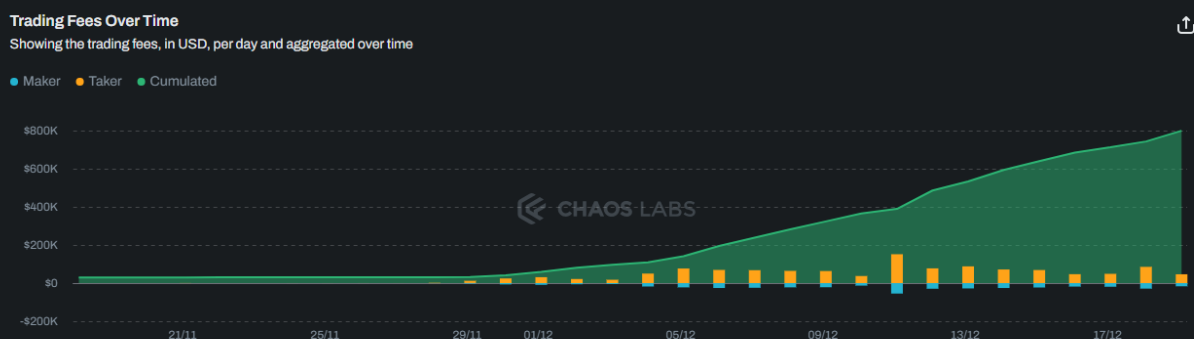
Showing the trading volume in USD, per day and aggregated over time



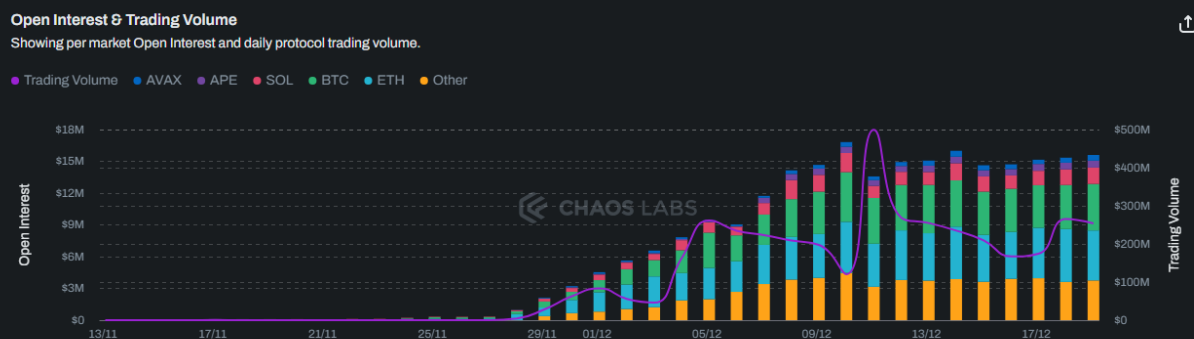
● Daily ● Cumulated



Over \$700,000 in net trading fees have been paid by traders. Driving volumes and fees is the primary objective of the launch incentive program.

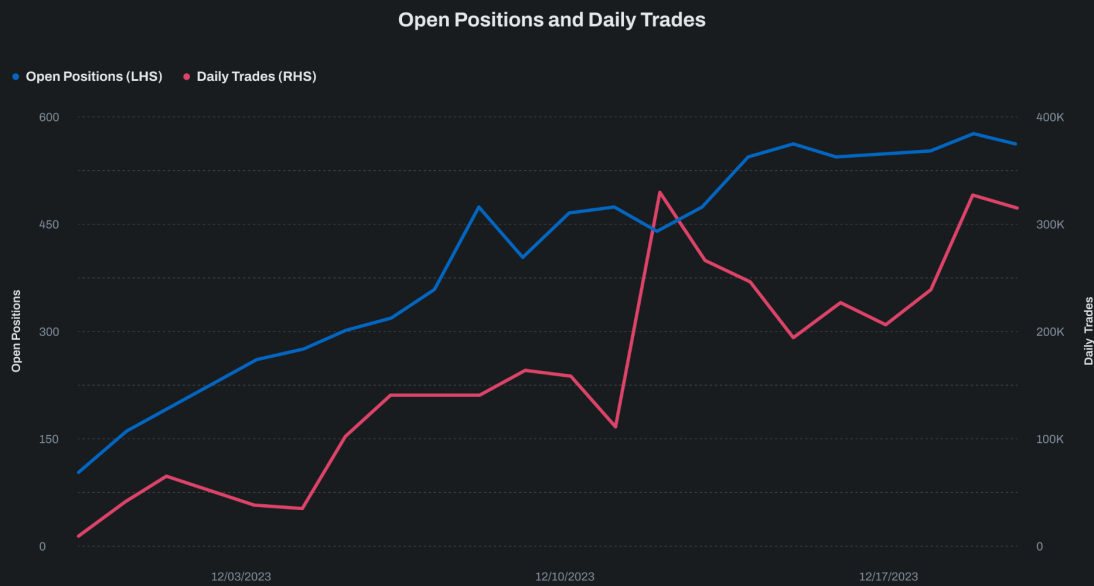


The dollar value of open interest is sensitive to market prices, and it is not unusual for it to peak at the market top. Daily open interest and volumes both peaked over a week ago, although daily volumes appear to have recovered. December 18th has had the second-highest volumes to date.

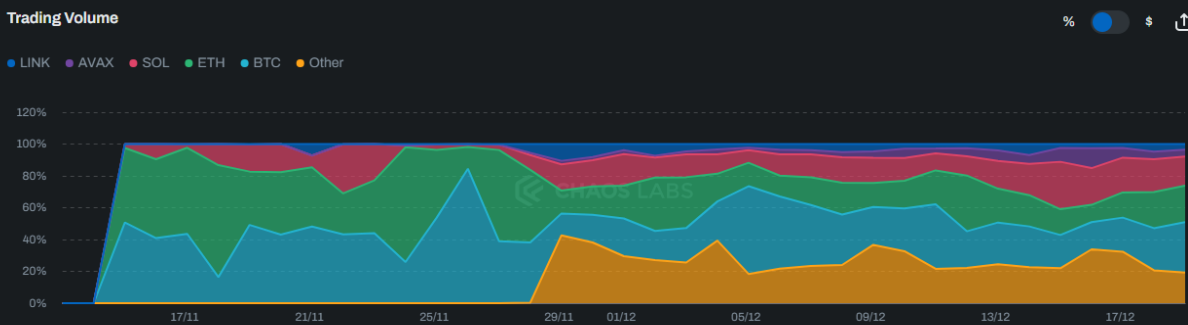


Underlying trend growth in both the number of open positions and the number of daily trades indicates a broadening of the base away from fewer, larger trades. A greater diversity of positions and flows should benefit market makers' ability to monetize spreads, organically drawing in further liquidity.

This is something we're watching as a healthy indicator that the dYdX Chain launch incentive program is creating long-term benefits.



dYdX Chain launch incentives initially flowed disproportionately to long-tail markets beyond the big three, as seen in the bump in the yellow area in the chart below. We observed traders using these less active markets to churn positions with less competition as soon as rewards were enabled on November 28th. As more traders have come online and competition for liquidity has increased, volume dominance has shifted towards the BTC, ETH, and SOL markets.

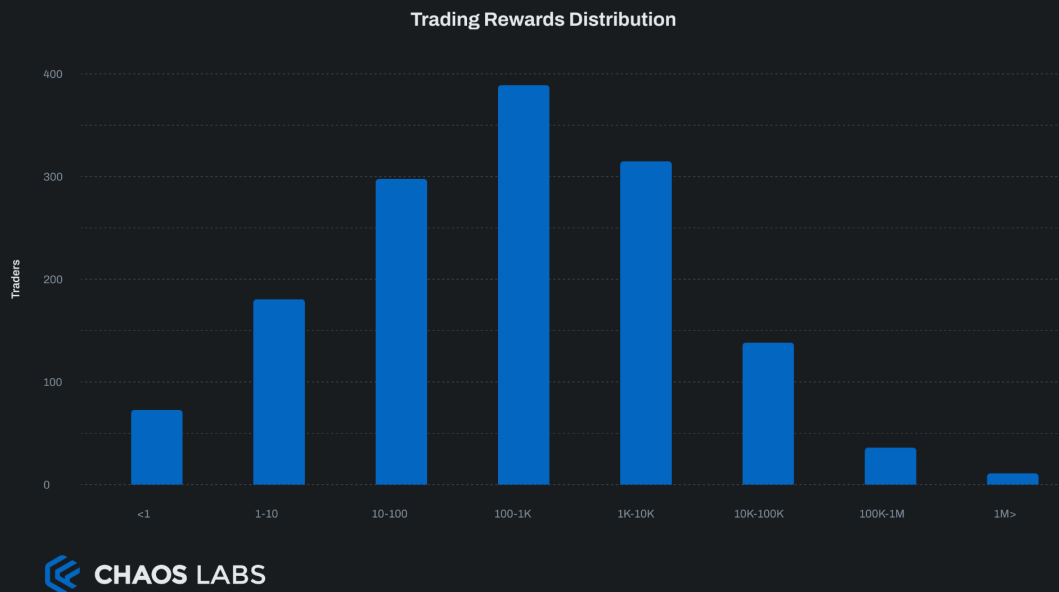


Season 1 Leaderboards

Leaderboards have launched with over 1,500 traders and 800 market makers earning points already.

1,366 distinct users have visited the leaderboard page 22,417 times since launch.

Over 48m trading points have been earned with the following distribution of rewards earned by bucket:

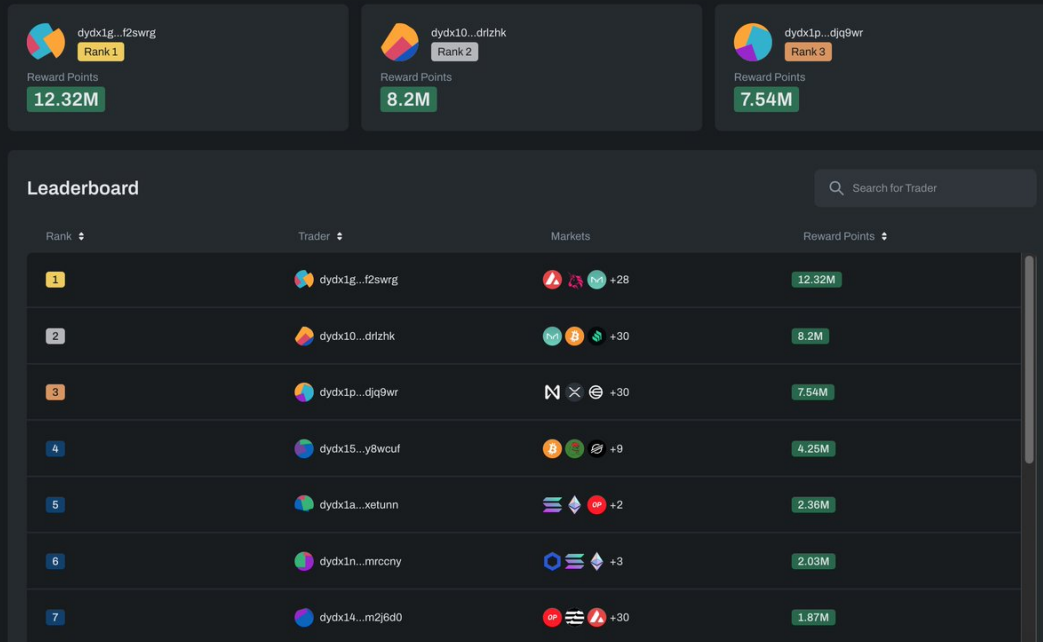


Over 11m market-making points have been earned with the following distribution of rewards earned by bucket:

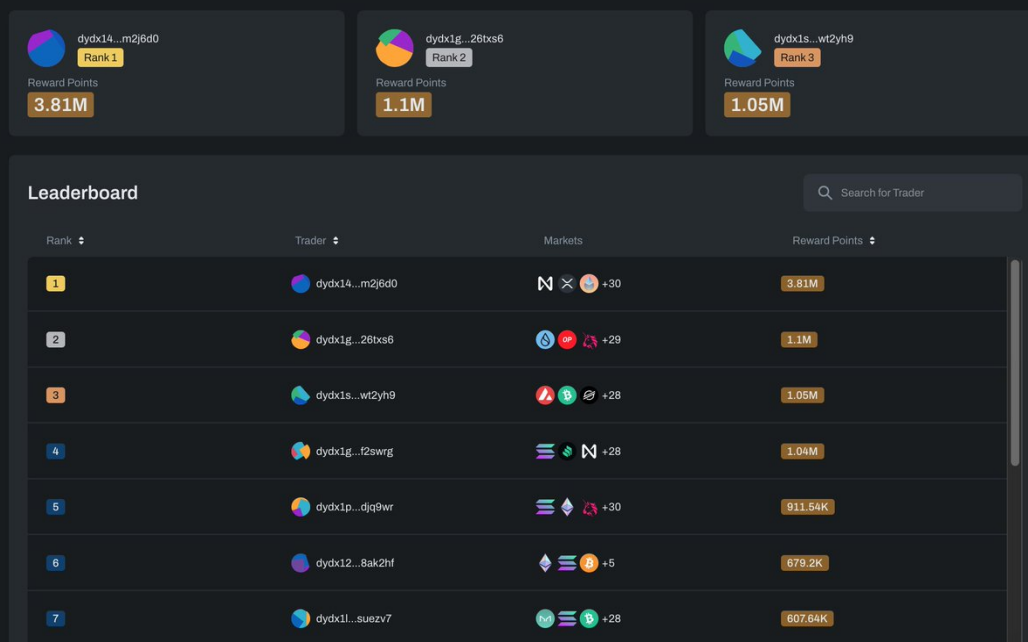


Both trading rewards and maker rewards are quite heavily dominated by the top earners. 77% of trading rewards and 83% of maker rewards have currently accrued to the top 10 accounts in each category. This is before any wash trading removal, which will be covered separately.

Trading Leaders



Market Making Leaders



dYdx Chain Liquidity

Liquidity on the dYdX Chain is still bootstrapping and has a way to go before getting on par with v3 as a benchmark. The v3 liquidity benchmark is measured as the 95th percentile least observed liquidity during epoch 29, while because dYdX Chain is expanding, the median is used as a fairer comparison.

Most markets' order books are deeper on December 19th than the median over the season, showing growth in order book liquidity over the season.

Orderbook Liquidity within 40bps of the Mid Price

Market	dYdX Chain 12/19	dYdX Chain Median	V3	dYdX Chain Median % of V3
BTC	\$254,659	\$183,100	\$4,451,375	4%
ETH	\$227,970	\$174,090	\$4,142,252	4%
SOL	\$104,315	\$87,820	\$960,580	9%
LINK	\$79,637	\$69,290	\$656,547	11%
AVAX	\$55,648	\$33,640	\$443,115	8%
MATIC	\$42,781	\$30,500	\$524,792	6%
ATOM	\$32,364	\$28,880	\$427,189	7%
TRX	\$33,695	\$26,920	\$645,850	4%
ADA	\$40,602	\$26,180	\$199,408	13%
XRP	\$34,060	\$24,080		
APE	\$34,697	\$23,080		
UNI	\$36,699	\$21,900	\$316,036	7%
BLUR	\$21,703	\$20,620		
DOGE	\$31,084	\$19,190	\$560,882	3%
SUI	\$10,900	\$12,050		
ETC	\$23,399	\$11,810		

WLD	\$14,507	\$11,550		
OP	\$17,950	\$11,330		
DOT	\$25,447	\$9,960	\$553,619	2%
NEAR	\$25,577	\$9,910	\$406,030	2%
MKR	\$17,406	\$9,510	\$377,752	3%
FIL	\$26,851	\$9,270		
LDO	\$12,233	\$9,120		
XLM	\$21,544	\$9,050	\$476,390	2%
APT	\$15,417	\$8,880		
COMP	\$22,033	\$8,800	\$249,595	4%
LTC	\$13,477	\$8,360	\$584,037	1%
ARB	\$20,402	\$8,330		
BCH	\$30,604	\$7,580	\$660,683	1%
SEI	\$5,084	\$7,480		
CRV	\$12,357	\$7,000	\$378,892	2%
SHIB	\$4,054	\$3,490		
PEPE	\$6,389	\$1,640		

Most liquidity remains close to the touch, competing for maker volume to earn maker rewards. At this stage, most open positions outside the top three markets have been less than \$100,000 meaning this is not an issue at this stage. As open interest and position sizes continue to grow, the total quantity of liquidity will need to grow and this dynamic will continue to be monitored.

Funding

Markets have mostly traded with positive realized funding rates since November 28th. This could be a function of positive market price action over this period or due to early retail adopters having a natural long bias.

There was one instance on December 7th, where the APE market averaged over 400% funding which took three days to resolve to the point it averaged under 100% on December 10th.

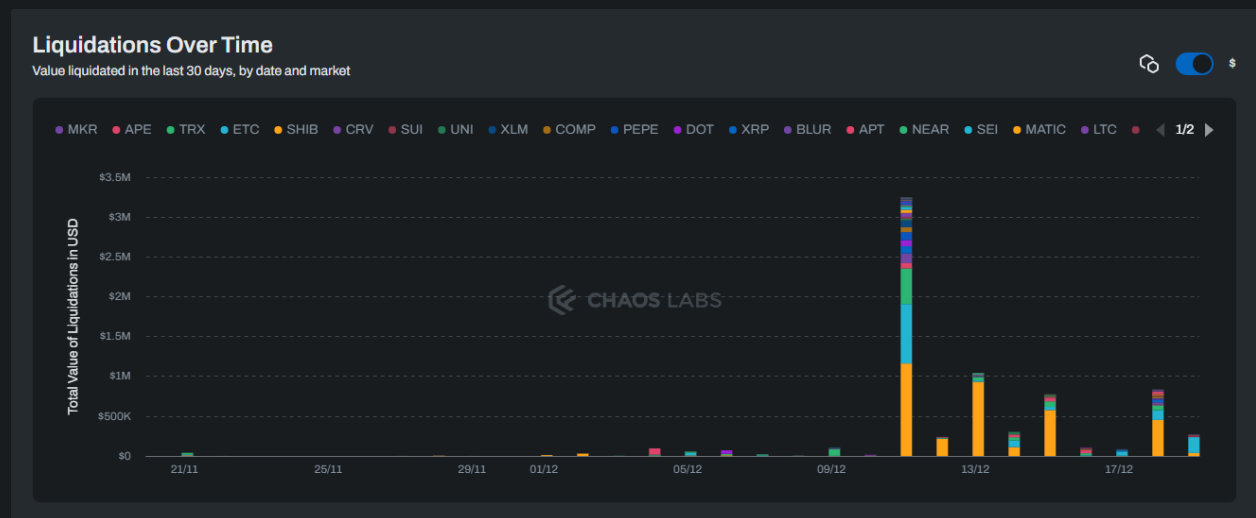
Daily Average Realized Funding Rates Annualized %

Market	Average	Median	High	Low
BTC	41%	36%	97%	11%
ETH	42%	34%	134%	3%
SOL	51%	42%	107%	24%
LINK	25%	23%	57%	-1%
AVAX	23%	21%	109%	0%
MATIC	22%	24%	49%	1%
ATOM	11%	5%	64%	-13%
TRX	7%	0%	34%	-3%
ADA	15%	13%	38%	3%
XRP	22%	23%	44%	0%
APE	63%	44%	428%	-4%
UNI	21%	22%	40%	4%
BLUR	-4%	0%	17%	-57%
DOGE	41%	29%	102%	0%
SUI	41%	31%	136%	0%
ETC	13%	9%	38%	0%
WLD	15%	6%	87%	0%

OP	51%	40%	159%	0%
DOT	3%	1%	23%	0%
NEAR	31%	31%	57%	0%
MKR	26%	26%	61%	2%
FIL	18%	24%	57%	-78%
LDO	18%	18%	53%	1%
XLM	0%	0%	5%	0%
APT	15%	11%	42%	0%
COMP	22%	17%	69%	0%
LTC	13%	8%	54%	0%
ARB	4%	1%	22%	-20%
BCH	2%	0%	13%	0%
SEI	36%	30%	95%	0%
CRV	12%	7%	43%	0%
SHIB	0%	0%	1%	0%
PEPE	0%	0%	0%	0%

Liquidations

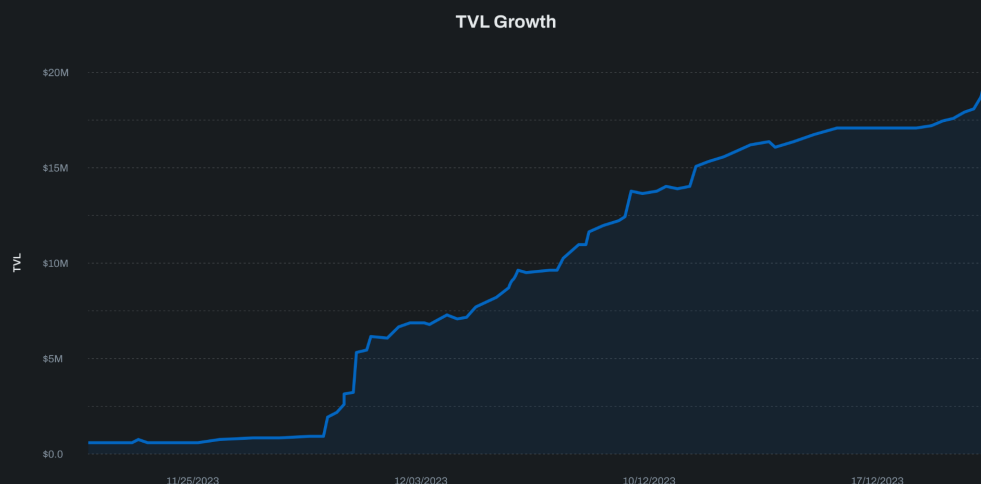
dYdX Chain has cleared \$7.7m in total liquidations so far, earning approximately \$40k for the insurance fund. These were mostly long positions liquidated on December 11th. This caused the drop in total open interest seen in the chart above and appears to have stalled growth in that metric.



TVL and Deposit Metrics

USDC deposits continue to grow, providing a potential leading indicator to further growth in trading volumes.

There are currently approximately 18m USDC deposited in the dYdX Chain, leaving much room to grow towards over \$230m in dYdX v3. This continues to be closely monitored as a potential incentive lever.



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Throughout the program, Chaos Labs' role is confined to providing recommendations regarding the allocation of rewards. The actual implementation and distribution of said rewards are subject to the formal approval process of the dYdX Chain governance votes. Any actions pertaining to reward distribution shall only be executed following affirmative governance votes within the dYdX Chain framework.