Huobi DeFiLabs Weighs DEXs against CEXs

Monday 8 February, 2021

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LONDON,
Feb 8, 2021,
Huobi DeFiLabs, one of the leading DeFi research, investment and ecosystem building platform has recently released a report on the market scenario and performance of these on-chain derivatives.

Published earlier today, the Huobi DeFiLabs report compares spot and derivatives trading volumes on both centralized and decentralized platforms to identify the prevailing trends when it comes to crypto trading and make market cap projections. The platforms considered for this exercise are Huobi Global – a centralized crypto spot and derivatives trading platform, Uniswap for decentralized spot trading and dYdX decentralized derivatives platform.

It was found that during a 6-month period from Aug 6, 2020 to Feb 1, 2021, the daily trading volumes on DEXs, represented by Uniswap registered a 3.6x increase as against 1.6x increase in spot trading volumes on CEXs, as represented by Huobi Global Spot Markets. The study also found that derivatives trading is more popular on centralized exchanges than their decentralized counterparts, not to mention the absence of any direct correlation between spot and derivatives volumes on DEXs.

Comparison of Huobi Spot, Huobi Derivatives, Uniswap, and dYdX Trading Volumes

According to available data, spot trading on Huobi was about 19% of its derivatives trading volumes, whereas spot trading on Uniswap was 331% more than decentralized derivatives trading on dYdX. The distribution of volumes between spot and derivatives on CEXs is almost consistent across top 5 platforms, with derivatives trading 4.82 times the spot volumes. On the day DEXs reach parity with CEXs, average derivatives trading volume on dYdX based on Uniswap's performance in the past 30 days is projected to hit $4.7 billion.

The Huobi DeFiLabs report indicates that among decentralized derivatives perpetual swap protocols continues to lead, with volumes worth $67.7 million. Based on the earlier projection, perpetual swap offerings have the potential to grow 50 times the current size. At present, there are 5 decentralized perpetual contract trading protocols – dYdX, DerivaDEX, Perpetual Protocol, FutureSwap and AlphaX, all with their own strengths and shortcomings. However, they all face one common issue which is shortage of adequate liquidity. Only FutureSwap using vAMMs and AMMs with low slippage liquidity mining seems to do a bit better than the rest. The shortage of liquidity on the rest is attributed to a higher percentage of market-place orders from short-term traders, resulting in increased deviation from latest prices.

Trading
statistics of major decentralized perpetual swap protocols

Considering
the average daily trading volumes and transaction counts, the Huobi DeFiLabs report concludes that Perpetual Swap is best suited for retail investors whereas dYdX and FutureSwap are favorable to professional traders and large investors with on-chain hedging needs.

In
conclusion, Huobi DeFiLabs reports that decentralized perpetual swap protocols are gradually gaining ground as popular DeFi trading products. But only if significant changes happen in terms of user-friendliness, liquidity provisions and network efficiency of these platforms. These changes can be brought about by

- Adopting
  a combination of Layer 2 (sidechain, roll-up) and off-chain order book or AMM
- Implementation
  of aggressive liquidity mining programs
- Reliable
  oracles and more accurate index price calculation
- Professional,
  user-friendly interface with technical indicators and analytical tools.

As
DeFi catches on, these proposed improvements are expected to happen in due course, maybe much sooner than everyone expects. Once in place, it could slowly shift the usage trend from centralized platforms to decentralized ones.

Read
Huobi DeFiLabs' full
report here

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