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Jupiter Risk Monitoring and Alerting Platform (11) (1)

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Summary

Risk management is a cornerstone of Chaos Labs' approach to managing incentive programs. It is crucial that user incentives do not introduce additional risk into the ecosystem in any way. The extreme market price moves over 4 and 5 August 2024 saw rapid market movements not seen since the Covid crisis in 2020. With that external backdrop in mind, we share the following post mortem of the dYdX chain from a risk perspective:

- The dYdX Chain did not suffer any bad debt or auto-deleveraging events over the recent volatility.
- 5 August saw the highest daily volume since April, with over \$2.14bn traded.
- This meant that traders paid \$407k in net fees to DYDX stakers on the day.
- \$68.1m in open interest was liquidated on 4 and 5 August. Most of this ETH and BTC long positions.
- The high liquidation volumes reduced open interest by \$55m on 5 August. This has slowly begun to increase since.
- Funding rates have drifted negative in most major markets, however have not diverged significantly.
- TVL deposited on the exchange has mostly remained.

Analysis Overview

Trading Volumes and Fees

- 5 August saw the highest daily volume since April, with over \$2.14bn traded. This can be attributed to the extreme market volatility experienced in all markets. 83% of this volume was recorded in the BTC (\$818m) and ETH (\$910m) markets, most popular with dYdX Chain traders. Other popular markets included SOL (\$217m), LINK (\$14m) and NEAR (\$12m).

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These high volumes resulted in traders paying over \$407k in net trading fees on 5 August, another high since April.

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Liquidations

\$44.4m in notional value got liquidated on 5 August 2024, following a further \$23.7m on 4 August. Approximately 90% of these liquidations were ETH or BTC long positions, indicating where the most demand for leveraged open interest on the dYdX Chain.

No bad debt or auto-deleverage events were observed, and the large volume of liquidations cleared in a healthy manner.

These liquidations added over \$300k to the dYdX Chain insurance fund over the past two days.

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Open Interest

The \$68m in long liquidations and traders reducing risk over the volatility reduced open interest by \$55m from \$131m to \$75m at COB on 5 August. \$3.5m in open interest has already returned to the markets. \$50m out of the \$55m in open interest drop came from the ETH, BTC, and SOL markets, in line with liquidation behavior.

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Funding

Funding rates began moving negative on Friday, but in all major markets, funding rates have remained well contained, despite all the long liquidations. dYdX liquidity and market structures performed extremely well over this period with the highest average daily funding in all major markets coming in at 20%-40%.

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Total Value Locked

Total value locked has hardly changed despite the big change in open interest. This could be a sign that traders remain engaged with the dYdX Chain as their aggregate collateral remains deposited on the exchange.