

Overview

Chaos Labs is pleased to provide a comprehensive review of the third trading season on the dYdX Chain. This analysis encompasses all facets of exchange performance, emphasizing the impact of the Launch Incentive Program.

We are diligently fine-tuning the incentives, ensuring they effectively meet their intended goals. By monitoring a broad spectrum of indicators, we aim to understand the rewards program's dynamics and outcomes.

Key Stats:

- dYdX Chain has seen over \$55bn in trading volume across 62 live markets. This is an increase of 66% on season 2 volumes.
- Over 5800 traders actively earn points through the launch incentive program. This up over 81%.
- Funding rates initially increased along with the market volatility in the first half of the season, but have since reduced in both magnitude and volatility as the market has calmed down generally.
- The dYdX Chain has grown to approximately \$115m USDC in TVL at the end of season 3, up 102% from the beginning of the season.

dYdX Chain Trading

The dYdX Chain has seen over \$55bn in trading volume across 62 live markets. This is an increase of 66% on season 2 volumes. The growth seen in previous season continues to compound, particularly whenever markets exhibit upside volatility.

Most positively the number of active trades continues to increase as the trader base grows, setting dYdX up for long term sustainable growth.

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 continued to trend higher. The last few days of season 3 were affected by the software upgrade and therefore appear as a blip.

[

Untitled - 2024-04-15T152008.392

1149×357 29.8 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/6/6672df278475d3c53b0809cb5042c30224af92e5.png)

Equally impressive is the growth in open interest, which has grown 75% from \$80m to \$140m at the end of Season 3. This growth in open interest could be the result of traders putting more weight into trading performance to rank high in the four trading leagues, as well as a significantly broader trader base.

Open interest fluctuates significantly with market conditions, but the overall trend is consistently higher peaks and higher troughs.

[

Untitled - 2024-04-15T152010.688

1150×361 50.2 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/b/b2554ce94b58302aaeab283a9920840eb422cee7.png)

And there have been some incredible trading performances in the leagues as a result. The leagues are intended to motivate traders to invest their time and energy into improving their trading performance. This leads to them gaining more enjoyment and utility from the dYdX Chain.

[

Untitled - 2024-04-15T152051.890

1194×302 24.7 KB

](https://europe1.discourse-

cdn.com/standard21/uploads/dydx/original/2X/9/92d1825ed6f8d5cd08306677b9a90b190ddda1c0.png)

[

Untitled - 2024-04-15T152054.807

1194×302 25 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/4/46ea38b2834b847c668242004e8bdbfb44a47892.png)

[

Untitled - 2024-04-15T152057.215

1189×299 24.3 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/f/f5f4b792111a1968e1e056647077cfd33cc23220.png)

[

Untitled - 2024-04-15T152100.273

1196×303 24.8 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/c/c2187a6de773365b4c2fe395880355b6bf1eb28e.png)

Traders have paid almost \$16.6m in fees to stakers securing the dYdX Chain since inception. \$9.4m of this came in season 3 of the launch incentive program.

[

Untitled - 2024-04-15T152214.786

1149×355 33.2 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/4/4518f6650a206575a1161ebbd99774405cc23361.png)

dYdX Chain Liquidity

Liquidity in the majors, as measured by median liquidity within 100bps, has continued to migrate to the most in-demand markets. The addition of 23 new markets over the season has both added gross dYdX liquidity and created significantly tougher competition for this liquidity between markets.

See the table below for liquidity trends in some major markets.

[

Untitled - 2024-04-15T152223.272

782×594 18.3 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/f/f97e47225440110d1ab30b5bb37640e6add7454d.png)

Funding

Average funding rates in most major markets have increased in magnitude over season 3. This has been relatively in line with funding rate behavior elsewhere, and we continue to take comfort in the convergence to the broader market as a sign of maturation.

The following summary statistics cover the largest dYdX Chain markets:

[

Untitled - 2024-04-15T152242.377

855x833 25.8 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/0/05a7f4c71c7a01dacdb528a8afa2def2776d87e9.png)

Liquidations

A surge in downside volatility in mid-March caused 6 straight \$8m+ liquidation days, all handled safely by the liquidation engine.

The insurance fund now sits at over \$4.2m, bootstrapped predominantly by protocol liquidation fees.

[

Untitled - 2024-04-15T152257.439

1175x475 46.6 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/6/6f8cda6a851537fb553612e114ceced9ee1256bc.png)

TVL and Deposit Metrics

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

At the end of Season 3, approximately 115m USDC was deposited on the dYdX Chain, up from 57m USDC at the start of the season.

Much room still exists to grow towards the approximately \$340m TVL still in dYdX v3.

Program Efficiency Metrics

Much of the above analysis focuses on aggregate metrics, which can be influenced by a small number of traders. Our analysis of the program also encompasses a bottom-up assessment of the impact it has in growing the number of active traders.

This section provides a deep dive into trader-level metrics to highlight the program’s impact across a range of dimensions. This, in turn, forms the basis for the long-term projections around the program’s impact and efficiency.

Daily and Weekly Active Traders

The number of weekly active traders has grown to a high of over 1600 last week. After an initial volatility-driven slowdown in weekly active traders, we have seen a recent surge, despite only seeing a moderate uptick in volatility.

Growing the number of average daily and weekly active traders on dYdX is a guiding principle of the Launch Incentive Program, and significant care is taken to ensure that the incentives appeal to a diverse segment of traders.

Week

Ave Daily Active

Weekly Active

Average Weekly Volatility

2024/1/8

537

1,371

46%

2024/01/15

403

1,096

28%
2024/01/22
439
1,136
33%
2024/01/29
439
1,088
25%
2024/02/05
512
1,235
26%
2024/02/12
630
1,461
31%
2024/02/19
623
1558
30%
2024/02/26
965
2,280
31%
2024/03/04
1,313
2,704
47%
2024/03/11
1,500
2,916
50%
2024/03/18
1,595
3,016
53%

2024/03/25

1,710

2,768

54%

2024/04/01

1,689

2,882

32%

2024/04/08

1,195

2,285

37%

[

Weekly Active Traders against Average Weekly Volatility

1024x676 61.3 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/1/194a43e08bb1ec2c01c2b7674f091bf9c4bad3ea.jpeg)

- Weekly active traders are defined as traders who make at least one trade during a week.
- Volatility is measured as the variance of minute-by-minute log returns of BTC. This short time frame accurately measures the volatility experienced by dYdX Chain traders in its largest market better than the traditional daily volatility.

Trader Engagement

Trader engagement is defined as how frequently the active user interacts with the dYdX Chain. This is analyzed across a few dimensions. The ratio of average daily active users to weekly active users broadly signals what portion of weekly active traders make a trade on a given day in the week. When this ratio is high, more traders find value in the product and return for this utility.

From a Launch Incentive Program perspective, the incentives should appeal to traders who are likely to become more regular traders and, therefore, likely to be stickier over the long term.

This ratio remained steady between 38% and 45% during seasons 1 and 2, before increasing throughout season 3, peaking over 60% in late March. The relatively high level for an exchange indicates that a sizable segment of users are finding value and sticking around to use the dYdX Chain for their trading.

[

Weekly Retention Rate

1024x636 91.5 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/b/b4daae71416dca216fb5b657d66f5c43509d8acb.jpeg)

Another measure analyzed is the number of days traders have been active during season 3.

This long-tailed distribution is typical of trading exchanges. We are encouraged that only 19.5% of traders traded on a single day and 12% on two days. This is a significant improvement on seasons 1 and 2. Most traders are trying out the dYdX Chain over multiple days, potentially aspiring to score well in one of the trading leagues.

Data on the number of days each trader has been active in season 3 drops off quickly from 1 day to 7 days before flattening out significantly. 17% of traders have traded on at least half the days this season. 50% have traded at least five times. These are also improvements on earlier seasons.

43 traders have been active every day this season, up from 38 in season 2. 857 traders, making up over 17% of the total, have been active on at least half the trading days in season 3.

[

Number of Days Active in Season 3

1024×636 59.2 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/7/71307f5e41f61d3705a68d7f7639a478bc7a892b.jpeg)

Weekly Trader Breakdown and Retention

Impressively, there continue to be new traders onboarding to the dYdX Chain over 19 weeks into the Launch Incentives Program. Each week, between 400 and 900 new traders enter the ecosystem, and continued growth in this segment further will be a focus in season 4.

The nature of a trading exchange makes retention metrics challenging, as there can be cases of traders missing a week but remaining loyal users. To avoid mismeasurement of these traders as a churn (as one would in a SaaS business, for example) while retaining granular measurement of weekly behavioral trends, we separate retained traders (traded in the previous, and current week), and returned traders (traded in at least one week prior to the previous, and the current week). This highlights the compounding nature of growing these engaged users as the base continues to grow with them due to their relatively lower churn than newer traders.

[

Weekly Trade Breakdown

1024×668 54.7 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/a/afdcee9aea35430b7162c24c237c30e8bd80ed08.jpeg)

The weekly trader retention rate this season indicates that traders are becoming increasingly engaged with the dYdX Chain over time.

[

Weekly Retention Rate (1)

1024×636 86.2 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/2X/2/29440a15e2d0d92c9569f7def0dcab5a66f62b86.jpeg)

The marginal weekly trader retention rate shows how likely it is for a trader who has traded for a certain number of weeks to trade for one more. This is a slightly different methodology from the retention rate above, as returning traders are treated the same as retained traders here, hence the higher retention numbers.

What is apparent is how much better traders retain the more weeks they have been active. The goal is to get a trader active for at least six weeks, as the data suggests traders are incredibly sticky.

This also quantitatively represents what the Launch Incentive Program intends to achieve. Bring traders on board who come from the rewards but end up staying for the utility of the dYdX Chain.

Marginal Weekly Trader Retention Rate

Weeks

Retention Rate

1

73%

2

80%

3

84%

4

86%

5

85%

6

90%

7

89%

8

93%

9

91%

Summary

There have been many aspects contributing to the growth of the dYdX Chain since the launch incentive program began. Attributing growth to specific factors is not an exact science and we acknowledge the impact market conditions have on trading activity. Given that, here are some highlights from our analysis:

- Stakers have earned over \$9.4m in fees during season 4, the program will pay out \$5m in rewards.
- Over 7,200 traders used dYdX Chain dYdX Chain during season 3. Much of the growth has been on the back of previous seasons.
- Retention rates trending higher the longer the season lasts.
- Traders are trading more frequently, as seen in the trending DAU/WAU ratio.
- Traders who trade for 6 weeks or more retain at over 90%. The impact of trader acquisition from the rewards will be felt long after the program ends. Disclaimer

Disclaimer

This report is for informational purposes only and does not constitute an offer to sell, a solicitation to buy, or a recommendation for any security, nor does it constitute an offer to provide investment advisory or other services by Chaos Labs. No reference to any specific security constitutes a recommendation to buy, sell, or hold that security or any additional security. Nothing in this report shall be considered a solicitation or offer to buy or sell any security, future, option, or other financial instrument or offer or provide investment advice or service to any person in any jurisdiction. Nothing contained in this report constitutes investment advice or offers any opinion with respect to the suitability of any security, and the views expressed in this report should not be taken as advice to buy, sell, or hold any security. The information in this report should not be relied upon for investing. In preparing the information in this report, we have not considered any particular investor's investment needs, objectives, and financial circumstances. This information has no regard for the specific investment objectives, financial situation, and particular needs of any specific recipient of this information, and the investments discussed may not be suitable for all investors. Any views expressed in this report were prepared based on the data available when such views were written. Changed or additional information could cause such views to change. All information is subject to possible correction. Information may quickly become unreliable, including market or economic changes.

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.