

What are Perpetual Futures

The terms 'Perpetual Swaps' and 'Perpetual Futures' are interchangeable. They refer to the same product.

What are Perpetual Futures?

Perpetual futures are a type of derivative instrument. The value of a perpetual futures position comes from the price of its underlying index or asset (usually a spot trading market).

Perpetual futures are the most liquid derivative instrument in decentralised finance and it accounts for more volume than their spot market counterparts.

Why use Perpetual Futures?

Perpetual futures can be used for three main purposes:

1. Hedging
2.
 - insuring against uncertain price movements or asset exposure. You can easily long or short perpetual futures.
3. Speculating
4.
 - speculating on particular assets or markets, including with leverage.
5. Access
6.
 - liquid access to markets and assets that would otherwise be more difficult to trade (e.g. commodities and trading indexes).

Hedging

Perpetual futures can be used to hedge your exposure to particular assets and insure against market volatility.

Example 1:

You bought SOL at 55 and it now sits at 80. You believe SOL's fair value to be 120 and you don't want to sell just yet. But at the same time, you think that there'll be a short-term pullback in price and want to lock in some profits in the meantime. What can you do?

You can take a short position at 80 using a SOL-PERP contract to hedge against the spot SOL you hold.

If the pullback happens and SOL drops to 60, then your SOL-PERP position will be in profit and you would have locked in your profit from when SOL was at 80 dollars without having to sell your SOL.

This puts you in a comfortable position whilst waiting for your SOL target of 120.

Speculating

Perpetual futures lets you speculate on whether the price of an asset will go up or down. This is accomplished via longing and shorting perpetual futures.

Longing & Shorting

If you believe that the price of an asset will decrease, you can short it using perpetual futures contracts — and when you believe that the price of an asset will increase, you can long it using perpetual futures contracts.

- Shorting means you are speculating on the price of the asset going down.
- Longing means you are speculating on the price of the asset going up.

Example 1:

The current price of SOL is at 100 and you believe it's overvalued. What can you do?

You can take a short position using SOL-PERP to bet against the price of SOL. This means you will make money if the price of SOL goes down and you will lose money if the price of SOL goes up.

If the price of SOL decreases to 80 and you shorted it at 100, then you will have made money and will be in profit.

Example 2:

The current price of SOL is 100 and you believe it's undervalued. What can you do?

You can take a long position using SOL-PERP to bet on the price of SOL. This means you will make money if the price of SOL goes up and you will lose money if the price of SOL goes down.

If the price of SOL increases to 120 and you longed it at 100, then you will have made money and will be in profit.

Leverage

Trading perpetual futures contracts also gives you access to leverage.

Leverage allows you to increase the exposure you have to a particular asset with the same amount of collateral. This increases your exposure to both the upside and the downside of your position.

Example 1:

The current price of SOL is 100 and you believe it's undervalued. You have 1,000, but think this is not enough. You have high conviction and want more exposure. What can you do?

You can take a long position using SOL-PERP to bet for the price of SOL to go up. However, you can also use 10x leverage on your 1,000 collateral - bringing your total collateral size to 10,000.

You now have a 10,000 long position on SOL-PERP.

This means that if the price of SOL goes up by 1%, your position will be in profit by 10%.

This also means that if the price of SOL goes down by 1%, your position will be down by 10%.

If however, the price of SOL goes down by 10%, this means your underlying position will go down by 100%, and you will be liquidated.

For more information on liquidations visit [Liquidations](#).

[Perpetuals Trading Funding Rates](#)