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May 16 · 25 tweets · [SalomonCrypto/status/1526275021718577152](#)

(1/25) I know someone is getting rich over at [@GMX_IO](#) but I don't know how... I did hear "perp," Is everything legal?

Different kind of perp! Perpetual Futures are a financial instrument so large they dwarf the actual buying and selling of crypto. Let's learn more!



(2/25) NOT FINANCIAL ADVICE

Want to know what's more confusing and riskier than options? Perps.



(3/25) Perpetual Futures (perps) were a concept developed in the 90s but not really tried until @BitMEX released crypto perps in 2016.

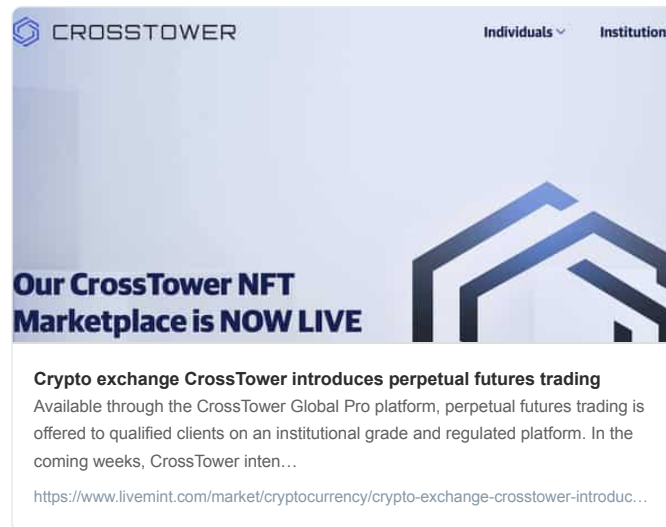
After less than a decade, they are MASSIVE.

https://en.wikipedia.org/wiki/Perpetual_futures

(4/25) "Bitcoin perpetual futures... hit record open interest in 2021, with avg volumes of ~\$62B per day"

Ever wonder why [@FTX_Official](#) or [@dYdX](#) are worth so much? Or where [@binance](#) or [@kucoincom](#)'s revenue growth is coming from?

\$62B per day in 2021!!!



(5/25) Definitions:

Futures Contract - agreement to buy/sell an asset for a fixed price at a known future date

Perpetual Future - futures contract without an expiry date

In human: a contract that tracks price of an asset without control of it



(6/25) Before we go any deeper into mechanics, let's talk about the purpose of perps.

I mean, if want to bet on the price of an asset, why don't you just buy it? Especially in crypto where assets don't take up space. We aren't talking about oil or wheat.

(7/25) The most important reason for perps is to give traders exposure to asset prices but with the properties inherent in futures contracts.

Futures are a capital efficient way to speculate on assets.



(8/25) It's much easier to see this in the real world.

- Natural gas
- 2 traders
- 6 months
- 1 trade/week/trader

Normal trading: natural gas needs to actually move around the world 54 times

Futures: natural gas stays in 1 place, moved once in 6 months

(9/25) Futures don't require the time/effort/cost of moving the gas each trade.

Also think about the implication of the time value of money. Whatever buying gas today costs, it will cost considerably less to buy the promise of it in 6 months (assuming neutral market/price).

(10/25) Same in crypto, but since it's all digital it's hard to conceptualize. We'll save it for later.

For now, futures are capitally efficient because they allow the economic activity to happen before a single, final settlement.

Perps remove the need for final settlement.

(11/25) The issue with perps is that because they never settle, they've lost their tether to the underlying asset.

Perp: future with no end date

Future: promise to deliver an asset at an end date

Ummm...

(12/25) Enter the Funding Rate (FR)

The FR is a flow of payments between long and short traders.

When the price of the perp is above the price of the real assets, funding rate is positive and long traders pay short traders (and vice versa).

What is the funding rate for perpetual swaps? | by Aditya Palepu | Deri...

The funding rate is the secret sauce behind perpetual swap contracts, crypto's most popular trading product. But what is it? How does it affect your trading strategy? The funding rate is how the...

<https://medium.com/derivadex/what-is-the-funding-rate-for-perpetual-swaps-a0335c42...>

(13/25) As perp price deviates from real asset price, the magnitude of the FR increases. This creates opposing pressure on the price of the perp; people sending FR will close, people receiving FR will open.

The FR acts as an automatic stabilizer and keeps perp price accurate.

(14/25) How it works:

- 1) Deposit initial collateral
- 2) Select leverage multiplier
- 3) Open position at current market price
- 4) Value is added or taken from collateral account as market moves
- 5a) Close position
- 5b) Get liquidated

(15/25) A liquidation happens when your liability exceeds your collateral

A perp trader needs to manage (at least) two things in order to avoid liquidation: spot price and FR impact

Spot price will effect the size of your liability. FR will effect the size of your collateral

(16/25) Normally this is example time, but I'm having trouble coming up with anything that isn't super basic (leverage, hedging) or incredibly sophisticated.

If you have any cool examples or ideas you want to walk through, leave a comment on this message! I will respond.

(17/25) Instead, I want to bring your attention back to my true interest: De-Fi. This very basic/generic explanation describes the centralized perp world.

How do things change when you want to trade perps on chain?

(18/25) Let's take a walk over to [@arbitrum](#) and check out [@GMX_IO](#) (also available on [@avalancheavax](#) - for the next tweets just replace \$ETH with \$AVAX)

De-Fi introduces some key differences that change things up & provide some really cool opportunities

gmx.io/dashboard

(19/25) The easiest way to break [@GMX_IO](#) down is by 3 groups: traders, \$GMX, \$GLP

Traders are easy. They get the ability to trade perps with all the benefits of crypto and [@ethereum](#) but with the user experience and cost of [@arbitrum](#).

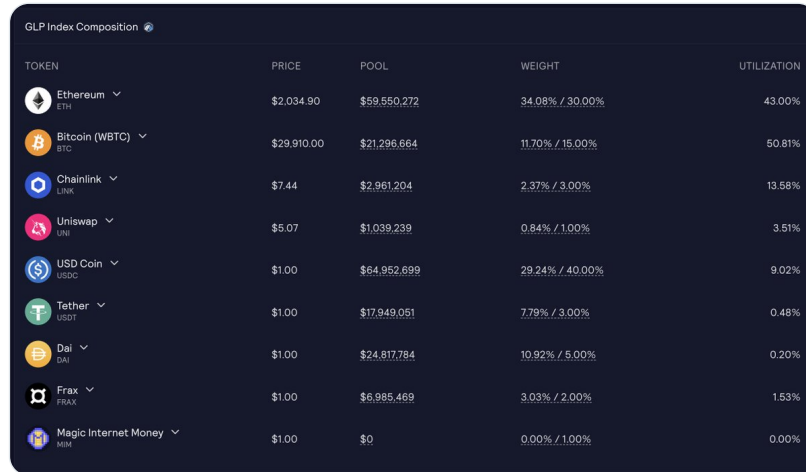
(20/25) \$GMX is the governance token for [@GMX_IO](#). Stakers receive:

- 30% of platform fees in \$ETH (in \$ETH!!!!)
- additional \$esGMX incentives (see #23)
- multiplier points, increasing staking rewards based on how long you have been staking

gmx.io/earn

(21/25) \$GLP are the assets that @GMX_IO uses to facilitate trading. Traders are making (leveraged) bets on the price of assets, \$GLP is the other side of that bet.

It is simply an LP, index or "basket of assets" containing mostly \$BTC, \$ETH and stablecoins.



TOKEN	PRICE	POOL	WEIGHT	UTILIZATION
Ethereum ETH	\$2,034.90	\$59,550,272	34.08% / 30.00%	43.00%
Bitcoin (WBTC) BTC	\$29,910.00	\$21,296,664	11.70% / 15.00%	50.81%
Chainlink LINK	\$7.44	\$2,961,204	2.37% / 3.00%	13.58%
Uniswap UNI	\$5.07	\$1,039,239	0.84% / 1.00%	3.51%
USD Coin USDC	\$1.00	\$64,952,699	29.24% / 40.00%	9.02%
Tether USDT	\$1.00	\$17,949,051	7.79% / 3.00%	0.48%
Dai DAI	\$1.00	\$24,817,784	10.92% / 5.00%	0.20%
Frax FRAX	\$1.00	\$6,985,469	3.03% / 2.00%	1.53%
Magic Internet Money MIM	\$1.00	\$0	0.00% / 1.00%	0.00%

(22/25) \$GLP stakers receive:

- The remaining 70% of platform fees in \$ETH (in \$ETH!!!!)
- additional \$esGMX incentives (see #23)

gmx.io/earn

(23/25) And what is \$esGMX? Escrowed \$GMX is locked to your wallet and can not be traded. It can be staked and receive all the same rewards as staked \$GMX.

In order to unlock \$esGMX, there is a vesting period of 1 year. You also need to reserve/lock your \$GMX during vesting.

(24/25) Ok, 25 is enough. I'm going to wrap up.

[@GMX_IO](#) is an amazing platform bringing perps on-chain. I was not able to do it justice because of how complex and powerful the protocol is, but check out the link before for a great long-form breakdown.



(25/25) Just remember, when you think [@GMX_IO](#) don't just think "Perpetual Futures." \$GMX and \$GLP are so interesting that someone might start developing financial products and strategies directly off of them...

[@UmamiFinance](#) 🙄



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