

Frequent CEX Bankruptcies | How to Select the Right Decentralized Exchange

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In the past year, after the frequent bankruptcies of top crypto service providers such as Luna, Three Arrows Capital, FTX and Genesis, users have become more vigilant about the collapse, market manipulation and asset misappropriation of exchanges. Although centralized exchanges (CEXs) are still the centers for Web 3.0 users, the trend of assets migration to decentralized exchanges (DEXs) has become increasingly obvious. From Binance and OKX to [MetaTdex](#), both leading CEXs and new DEXs have started layout in the DEX field. The decentralized platforms have become a consensus among the general public and service providers. So how to select a reliable decentralized exchange?

The reliability of decentralized exchanges depends on multiple dimensions, including operation mode, trading performance, technological innovation, products & operation capabilities, community development, token model, investment institutions, etc. Among them, operation mode, decentralization degree and cross-chain capabilities are core indicators.

Operation Mechanisms and Modes

Currently, DEX protocols adopt four major types of matching modes: reserve pool, orderbook, synthetic assets, and P2P. As for operation modes, DEXs provide users with various trading experience and yield modes. For example, UniSwap's reserve pool and MetaTdex's orderbook are two mainstream DEX mechanisms.

1. Reserve Pool (liquid pool): The reserves are managed by a reserve management agency, with fast settlement performed by smart contracts (e.g. UniSwap, Curve, PancakeSwap). Taking UniSwap as an example:

- Trading Model: Automated Market Maker (AMM). Users deposit assets proportionally ($x * y = k$)

constant) and trade with liquidity pool. It will take a long time for new DeFi players to learn and adapt. The advantage of this model is that UniSwap can quickly conclude transactions even when the long-tail token pool is very small.

- Yield Model: Deposit assets into the UniSwap pool to obtain liquidity mining yields. The Annual Percentage Rate (APR) is fluctuating and affected by the proportion of tokens in the pool.
- Highly Gratuitous Losses: LPs will suffer losses automatically when the price ratio of the collective assets deviates from the price at the time of deposit. During the transaction, the greater the price changes, the more losses will be. Therefore, AMM usually needs some tools to set slippage limits since the relevant parameters will affect user profits.

2. Orderbook: All buying and selling orders are stored in the orderbook. These orders are matched, traded and settled according to the orderbook conditions. Taking MetaTdex as an example:

- Trading Model: MetaTdex provides a smooth trading experience consistent with CEXs (human-to-human transactions) .
- Yield Model: MetaTdex provides an incentive model of "Trade Mining", where users can earn rewards when trading without depositing assets in smart contracts. The yields are influenced by the user's current trading activity.
- 0 Gratuitous Losses: MetaTdex transactions require only low gas fees without gratuitous losses. MetaTdex eliminates the need for complex parameter management, reducing the possibility of human intervention.

3. Synthetic Assets: Expand matching to multiple buyers and sellers, digital assets, and exchanges to improve the speed of trade matching. There are many discussions about the matching mode in the industry, but it has not yet been adopted by mainstream DEXs on a large scale.

The reserve pool and orderbook have different characteristics, users can choose according to individual needs. AMM is able to provide infinite liquidity, but the impact cost is higher for traders with large capital and great price sensitivity. Given the demands for fast interactive experience, low transaction fees and avoidance of gratuitous losses, it's more suitable for new DeFi players to choose MetaTdex or some other DEXs with orderbook mode.

Cross-Chain Capability

As DEXs are built on public blockchains and cannot directly trade with the assets of other blockchain protocols, cross-chain capability is a key indicator to measure decentralized exchanges. For example, Ethereum-based DEXs only support the transactions of ERC20 tokens. Cross-chain capability is necessary for the asset interaction of different blockchains. DEXs have experienced the cross-chain stage evolution from assets to applications.

Asset Cross-Chain: Realized via token bridge. Equal amount minting when transferring in and synchronous destruction when transferring out. For example, WBTC, an ERC20 token pegged to Bitcoin, is able to circulate in Ethereum DEXs. Before 2021, DEX assets enter other public

blockchains and circulate mainly through the cross-chain bridge. For example, if BSC-based BUSD wants to enter the HECO-based DEXs and circulate, it needs to build a token bridge.

Application Cross-Chain: Emerged in the second half of 2021 and gradually adopted by DEX developers. For example, after deployed on Polygon, MATIC can circulate on HECO-based MetaTdex without a token bridge. In essence, multi-chain deployment is a scheme in which application cross-chain replaces asset cross-chain, facilitating the process of making profits on DEXs for users from other blockchains.

In terms of asset transfer via the token bridge, both exchanges need to support the bridge. During the transfer, user asset losses often occur, further underlining the advantages of application cross-chain. Several top exchanges such as Uniswap, Curve, MetaTdex and SushiSwap are all practicing multi-chain deployment, and the competition for cross-chain capability has also turned to the choice of high-performance public blockchains.

If a DEX neither builds a token bridge nor conducts a multi-chain deployment, it will lack competitiveness.

Performance Impacts User Experience

Performance is also one of the most critical evaluation indicators of DEXs, especially for user experience. What users care about is the time and gas fees cost by a transaction. If a DEX is subject to the limitations of blockchain and underlying blockchain technologies, it will result in inefficiency and poor user experience. In this case, it is imperative to choose a cheaper public blockchain.

Besides, complete trading history and order management functions are also of vital importance.

The Decentralized Degree of DEX

The degree of decentralization is a key factor in measuring the indicators of DEX security and credibility. In fact, most so-called DEXs now are partially decentralized or multi-centralized, not truly decentralized.

Taking MetaTdex with increasing popularity as an example, there is some common sense to judge the decentralized degree of a DEX: what the registration process usually requires is not email address or mobile phone number but a set of mnemonics; DEXs can be directly connected through the browser wallet; wallet assets can be traded directly.

Normalization

Although DEXs are decentralized and not controlled by centralized institutions, their financial activities are always in a dynamic society and require extremely high security. Normalization ensures that DEXs are able to keep continuous and stable operation in the international financial turmoil. In particular, DEXs should establish positive interaction with user based country

regulators. The normative operation strategies of MetaTdex are as below:

- Security Audit: MetaTdex smart contracts have passed the code audit of Armors Labs and possess high security.
- Compliance: MetaTdex is the first DEX to receive the Dubai DMCC trading license. It has also obtained the US MSB license.
- Risk Control: A good platform token economic model can promote the positive cycle of DEX ecosystem. TT, the native token of MetaTdex, is generated by mining and has high transparency and credibility.

DEX Ecosystem

In addition to the trading businesses, professional supporting DeFi scenarios are also essential to endow assets with value-added opportunities. Crypto asset financing, lending, contracts, mining pools, GameFi, SocialFi and NFT can all be deployed on the blockchain to enrich the DEX ecosystem.

5 DEXs to Focus on in 2023

Uniswap

Ethereum-based Uniswap is a decentralized system providing liquidity automatically. As one of the first automated market makers, Uniswap allows users to act as liquidity providers by donating assets to decentralized liquidity pools. Liquidity providers earn passive income by sharing a portion of the fees generated from their pools.

Uniswap V3 improves the financial efficiency, execution, and infrastructure of the platform. Although some competing protocols with similar interfaces have emerged, the Uniswap team has been committed to keeping the novelty of its platform through consistent developments. As Ethereum performance continues to improve, any move by DEX leader Uniswap is worth attention.

MetaTdex

Deployed on BSC, HECO and Polygon, MetaTdex is a multi-chain aggregated DEX adopting the orderbook matching mode without trading slippage. It combines the high efficiency, depth of CEX and the transparency, security of DEX. MetaTdex has launched several products, including MetaTdex Wallet, TDEX, Trade Mining, Turbo Mining Pool, Dvote, Turbo U Po & TeFi, and TT Stock. MetaTdex currently ranks in the top 10 in the world and plans to go public in Hong Kong, China in 2023, becoming the leading DEX stock of the Web 3.0 concept version.

dYdX

dYdX is not only a decentralized lending protocol built on Ethereum but also a trading platform for decentralized digital currency derivatives. It mainly has three functions: lending, borrowing and margin trading. In addition, dYdX has launched a decentralized Bitcoin perpetual contract market, which aims to solve the problems existing in the perpetual swap trading of centralized trading platforms. It can achieve a certain amount of 0 gas fees, low transaction rates, as well as low capital thresholds.

Curve

Designed for extremely efficient stablecoin trading, Curve is a decentralized exchange liquidity pool on Ethereum. Launched in January 2020, Curve enables users to trade between stablecoins with low slippage, low fee algorithm and fees earning.

Curve is an Ethereum-based decentralized exchange liquidity pool. It was created with the following aims:

- High efficiency, minimal slippage, liquidity provider income, low risk and reliable crypto trading.

PancakeSwap

PancakeSwap, adopting an Automated Market Maker (AMM) structure, is a DEX without orderbook, bidding system or limit & market orders. Instead of trading in these ways, users obtain liquidity from the liquidity pool. After a trade is executed, the liquidity pool is rebalanced by subtracting liquidity from one side of the pool and adding it to the other side. This changes the weights and relative values of assets in the pool. Moreover, PancakeSwap also offers income farms, lottery games, initial farm products, NFT markets, and more.

To better understand the operation status of a DEX, users can log in and learn from the DEX's official website, join the DEX's social media and communities to obtain information, as well as check the DEX's daily trading scale and market share on DEX inclusion platforms such as DeFiLlama and DappRadar. Judging from the rapid expansion of users and the increase in transaction volume of cutting-edge platforms (e.g. MetaTdex), the market share of DEXs is constantly improving and will release greater potential in the future.

Learn more:

1. Download MetaTdex <https://www.metatdex.com/#/download?channel=1>
2. Trade Mining 2.0 Rules <https://medium.com/@MetaTdex/trade-mining-2-0-rules-17ed4d6f274d>
3. Trade Mining 2.0 Q&A: <https://medium.com/@MetaTdex/metatdex-trade-mining-2-0-q-a-5a52a3a13f30>
4. Trade Mining Tutorial <https://medium.com/@MetaTdex/metatdex-trading-mining-tutorial-60c96aebca72>
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