

USDT Perpetual Swap Trading

USDT-margined perpetual swaps are a digital asset derivative product. Users can profit from rising or falling digital asset prices by predicting price fluctuations and choosing to buy long or sell short. Similar to a margined spot market, USDT is denominated in USDT and its price is close to the underlying reference index. Funding is the primary mechanism for anchoring the spot price. USDT-margined perpetual swaps do not have an expiration date, allowing users to hold their positions indefinitely.

Mechanics of the USDT-margined perpetual swap market:

Margin ratio and forced liquidation: When the margin ratio is less than or equal to 0, the position will trigger forced liquidation.

Isolated margin ratio = Account equity / Occupied margin * 100% – Adjustment factor;

Cross-margin margin ratio = Account equity / $\sum$ (Occupied margin * Adjustment factor) of all contracts in the cross-margin account – 100%

Purposes of digital currency contract trading:

1. Hedging and risk mitigation.

Currently, futures contracts primarily serve two purposes for users: leveraging a small investment for a large return and hedging risk. Leveraging a small investment for a large return is easy to understand, meaning it amplifies returns through leverage. Most people who use futures contracts for risk hedging are miners. The principle of risk hedging is as follows:

If the price of BTC rises, the futures contract will lose money, the amount of BTC will decrease, and the total value will remain essentially unchanged.

If the price of BTC falls, the futures contract will gain money, the amount of BTC will increase, and the total value will remain unchanged.

In the futures market, futures contracts are traded for the same product and quantity as the spot contract, but in the opposite direction. Profits in one market offset losses in the other, mitigating price risk. Futures prices are driven by both spot prices and economic factors. With a delivery mechanism, futures and spot prices remain consistent over the long term.

In addition, futures contracts create an opposing force when prices rise or fall unilaterally, pushing prices back to a relatively ideal state. This helps manage spot market prices and restore short-term irrational prices to a more rational state.

Second, they increase asset liquidity, facilitating the entry of more institutional investors.

Since many institutional investors are unable to invest directly in Bitcoin, major exchanges have introduced derivatives products, providing these investors with access to the Bitcoin market.

3. Expanding trading methods to compete for Bitcoin pricing power.

Contract trading diversifies virtual asset trading strategies, enabling both short and long positions. Furthermore, the spot and contract markets will channel traffic to each other, increasing the overall size of the digital currency market.