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Solana Trench Warfare

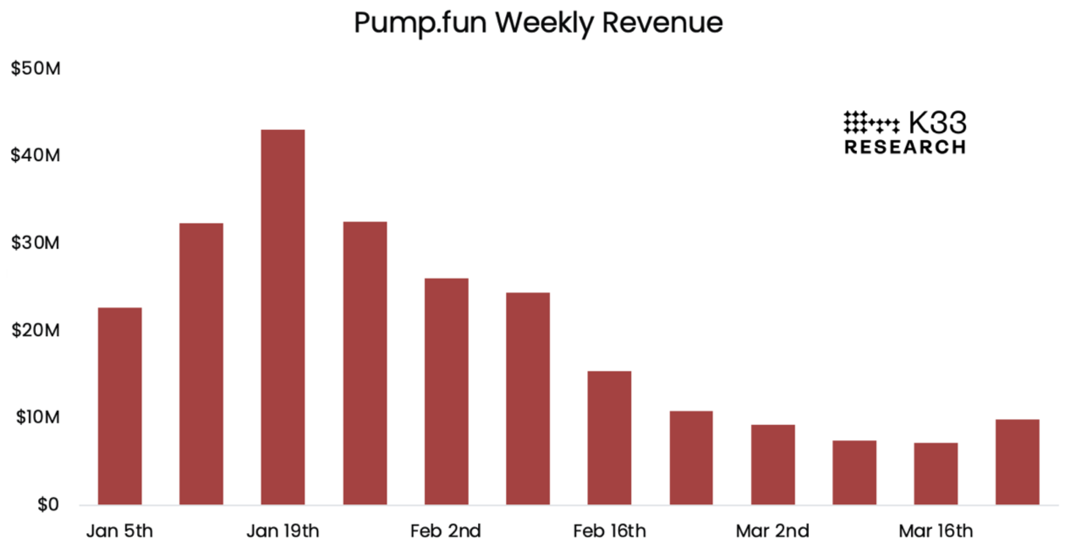
TLDR

- Pump.fun (Pump) ended its partnership with Raydium, launching its own AMM – PumpSwap. Memecoins that used to migrate from the Pump launchpad to Raydium now list on PumpSwap instead, allowing Pump to capture more value in the memecoin market.
- Since the dropoff in sentiment in January, Pump's revenue has been steadily declining, spurring the team to control the entire funnel in an attempt to capture more revenue.
- Since around two weeks from its March 15 launch, PumpSwap has seen over $3 billion in trading volume, a peak of 4.4 million in daily swaps, and generated fees of nearly $8 million.
- Raydium, which used to dominate "graduated" Pump memecoin trading with 75% of volume, has announced its own memecoin launchpad - LaunchLab - in response.
- PumpSwap's 0.25% fee split (0.20% to LPs, 0.05% to the protocol), potential airdrops, and possible future revenue-sharing models for token creators could secure liquidity dominance and grow user loyalty.
- Raydium dominated Solana trading in 2024 with a 53% share of total Solana DEX volume. However, 24% of total Solana DEX volume in 2024 was derived from memecoins launched on Pump. Losing the volume from future Pump launches will have an impact on Raydium.
- PumpSwap's rise threatens Raydium's dominance, but Pump's AMM is only 2 weeks old. Both platforms are expected to leverage incentive models to maintain relevance and grow volume as they hope for market sentiment to rebound.
- Pump's pivot to take control of the Pump token lifecycle was driven by a dropoff in revenue amid waning memecoin trading activity. For Pump to return to its glory days in terms of revenue, the team will still need to be blessed with a return of market-wide bullish fervor.

Solana Trench Warfare

Solana's memecoin and DEX landscape has become a battleground, with Pump.fun (Pump) and Raydium at the center of the action. Pump made a strategic shift mid-March, cutting ties with its DEX partner Raydium to launch PumpSwap – Pump's very own dedicated AMM. In a similar vein to the rise of sovereign dApps, this is not just about capturing trading volume but who controls the entry points and liquidity in Solana's memecoin machine.

Memecoin mania tempered off following the LIBRA fiasco in January, and Pump's revenue began to see a steep decline amid a dropoff in on-chain activity and memecoin sentiment. It appears this dropoff in revenue spurred the Pump team to consider how they could capture more value in the memecoin trading market.



This has led Pump to push for control of the entire "funnel," capturing projects moving from creation on Pump.fun to liquidity provision on its own AMM. This move has left Raydium scrambling to maintain relevance in a space it once dominated, having consistently averaged around 75% of Pump token volume once new Pump tokens "graduated" from the launchpad to the broader Solana DEX market. Raydium's counterattack, LaunchLab, is a strategic attempt to recapture the market share it has lost due to PumpSwap's launch. But will it work?

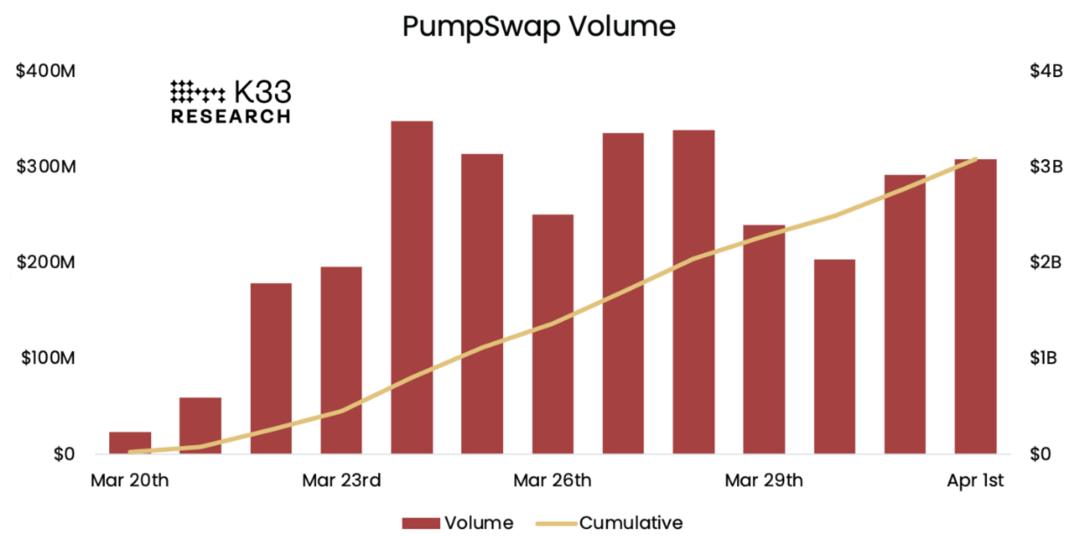
PumpSwap's Strong Start

Pump.fun initially took Solana by storm, offering a frictionless platform where anyone could launch memecoins in seconds. It gained rapid traction since its launch in Q1 2024, and reached $137 million in revenue for January this year – its peak month. But one of the most intriguing parts of Pump's rise was not the user adoption, but the massive trading volume it generated.

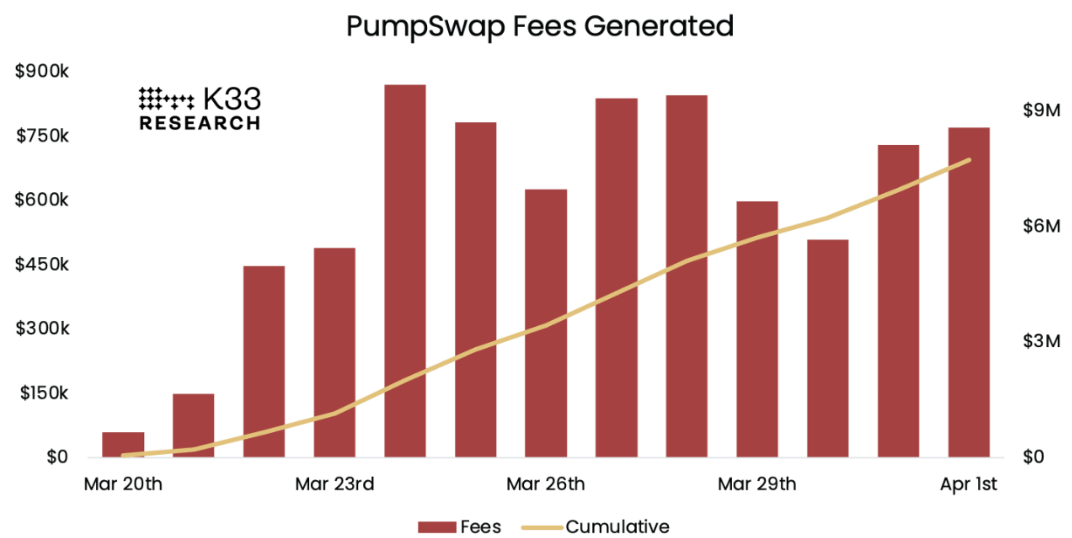
Up until recently, Pump had a partnership with Raydium to handle the liquidity and trading activity generated by its "graduated" memecoin launches. Now, instead of tokens migrating from Pump's launchpad to Raydium once their market cap hits $69,000, they will directly and instantly list on PumpSwap without any additional fee. The previous partnership was mutually beneficial to a certain degree - Pump.fun brought volume and activity to Raydium, while Raydium's liquidity offered a transition for coins destined beyond micro-cap status. However, Pump was leaving value on the table by outsourcing this part of the memecoin journey.

Following the market peak in January, Pump's record month for revenue, the dropoff in activity was clear and the team was pressured to come up with ways to capture more value. Enter PumpSwap. Launched with a 0.25% fee structure - 0.20% going to liquidity providers and 0.05% retained by the protocol - PumpSwap allowed the Pump.fun team to capture value in-house while improving the UX and reducing costs for platform users, while giving LPs an attractive incentive to migrate liquidity from competing DEXs.

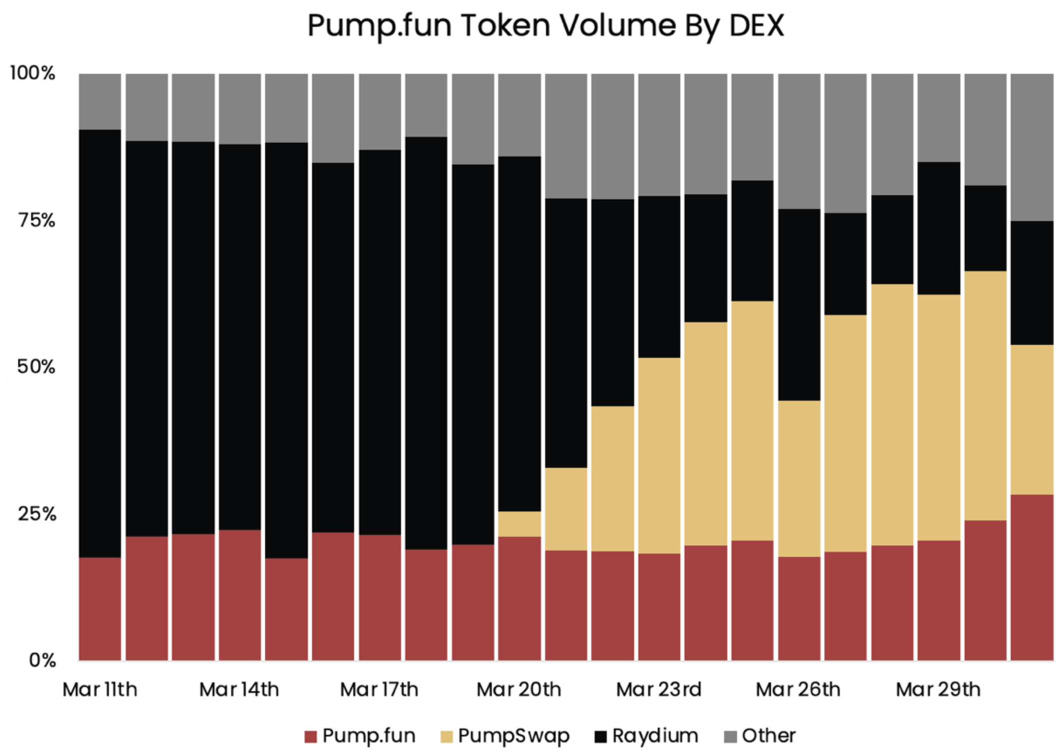
Launching on March 15, PumpSwap's initial stats show some promise. The platform has seen over $3 billion in trading volume after two weeks. The new AMM managed to reach a peak of over 240K daily active wallets and a record 4.4 million daily swaps.



By creating an ecosystem where memecoins graduate directly to PumpSwap, the team successfully built a self-contained liquidity loop, keeping trading fees and incentives within its own network. PumpSwap can now attract liquidity and trading activity from Raydium to effectively cut Raydium out of the value chain, positioning PumpSwap as a serious contender to become Solana's memecoin trading volume leader. A little over 2 weeks since launch, the bustling activity has translated to nearly $8 million in fees generated.



Solana is known as the memecoin chain largely thanks to the overwhelming growth of Pump and some mainstream media coverage of high-profile celebrity memecoin launches in recent months. This is also reflected in the numbers, as Pump's memecoins have been a major source of Raydium's financial success. Blockworks estimated that Pump pools accounted for 36% of Raydium's $154 million in 2024 swap revenue. PumpSwap, therefore, represents a potentially major blow to Raydium's bottom line.



Raydium Strikes Back

Dominating the Solana DEX market in 2024 with over 53% of market share by volume, Raydium was the default choice for graduated Pump memecoins. However, Pump tokens themselves represented 24% of all Solana DEX trading volume in 2024. The battle between Pump and Raydium centers around controlling the memecoin funnel. By making it seamless for projects to graduate from Pump.fun to PumpSwap, the Pump team cut off Raydium's dominance of high-volume memecoins. PumpSwap has not only managed to capture significant trading volume overnight, it has taken control of the Pump token lifecycle and has begun to siphon liquidity from Raydium.

However, Raydium is fully aware of this. To counter Pump's move to capture more market value, Raydium will soon launch LaunchLab - a dedicated memecoin launchpad designed to recapture this lost volume and liquidity. LaunchLab offers projects a seamless way to tap into Raydium's deep liquidity while incentivizing trading activity on the platform. As Raydium team lead Tom told Decrypt, LaunchLab will offer more optionality to customize token launches and tokenomics. Such customization is in contrast to Pump's completely standardized approach. It is expected LaunchLab users will be able to customize total token supply, vesting schedules, liquidity pools, and even adjust the token's bonding curve.

But while Raydium's liquidity pools remain deep and LaunchLab may offer a wider range of features, the challenge is to lure memecoin enthusiasts that typically default to Pump's ecosystem. Raydium's core strength lies in its liquidity dominance, but LaunchLab must deliver a superior product with some form of incentive to entice Pump users to make the switch. Without that, Raydium risks losing out big from Pump's strategic move.

The Fight Has Only Just Begun

As PumpSwap and Raydium compete for dominance, their respective incentive models may dictate future outcomes in a market that must be enticed to do any kind of on-chain activity as sentiment more broadly remains in the tank.

PumpSwap's 0.25% fee structure - 0.20% to LPs and 0.05% to the protocol – should contribute to it attracting and retaining liquidity. However, the real incentives may be yet to come as Pump's co-founder Alon teased a potential revenue-sharing model for memecoin creators. When sentiment improves, we expect a resurgence in memecoins as on-chain participants go more risk-on. If Pump retains its spot as the leading memecoin launcpad, a revenue share model for token creators could be massive considering the protocol brought in $137 million in a single month at its peak. Such a move could further secure loyalty and majorly boost PumpSwap's growth.

In relation to potential revenue share models, speculation grows for a Pump token launch. It is possible that the establishment of PumpSwap and the incentives for LPs is the first step toward a Pump token airdrop, as it is historically common for liquidity providers to be major benificiaries of airdrops in DeFi. While we would not advise to provide liquidity on PumpSwap solely for a potential airdrop, it does provide another incentive for users to move their capital into Pump's latest venture, and it is almost certainly a more profitable exercise than trading new launches on the platform.

Raydium, on the other hand, has lost some ground in the memecoin arena overnight. However, Raydium's broader DEX dominance (beyond memes) and deep liquidity pools remain a valuable asset and continues to secure the DEXs dominance in Solana trading volume for now. Even as PumpSwap grows, Raydium's liquidity gives it the capacity to maintain high-volume trading across various "tech-focused' asset pairs. LaunchLab is expected to launch very soon, and it may come with some major incentives of its own, considering the resources the team has at its disposal. However, Raydium's liquidity advantage does not matter if it cannot recapture the memecoin funnel that now defaults to PumpSwap. LaunchLab is Raydium's best bet to achieve this, but success will require the ability to attract users that are currently either loyal to the Pump ecosystem or altogether risk-averse as market sentiment reigns poor.

Beyond incentives, market sentiment remains the overarching issue, particularly for memecoins. Pump's pivot to take control of the Pump token lifecycle was driven by a dropoff in revenue amid waning memecoin trading activity. For Pump to return to its glory days in terms of revenue, the team will still need to be blessed with a return of the market-wide bullish fervor necessary to generate big memecoin runs.

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