Blockchain Focus

Hyperliquid: The HYPE Begins

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Biden Cho I Corporate Strategy Manager

biden@prestolabs.io

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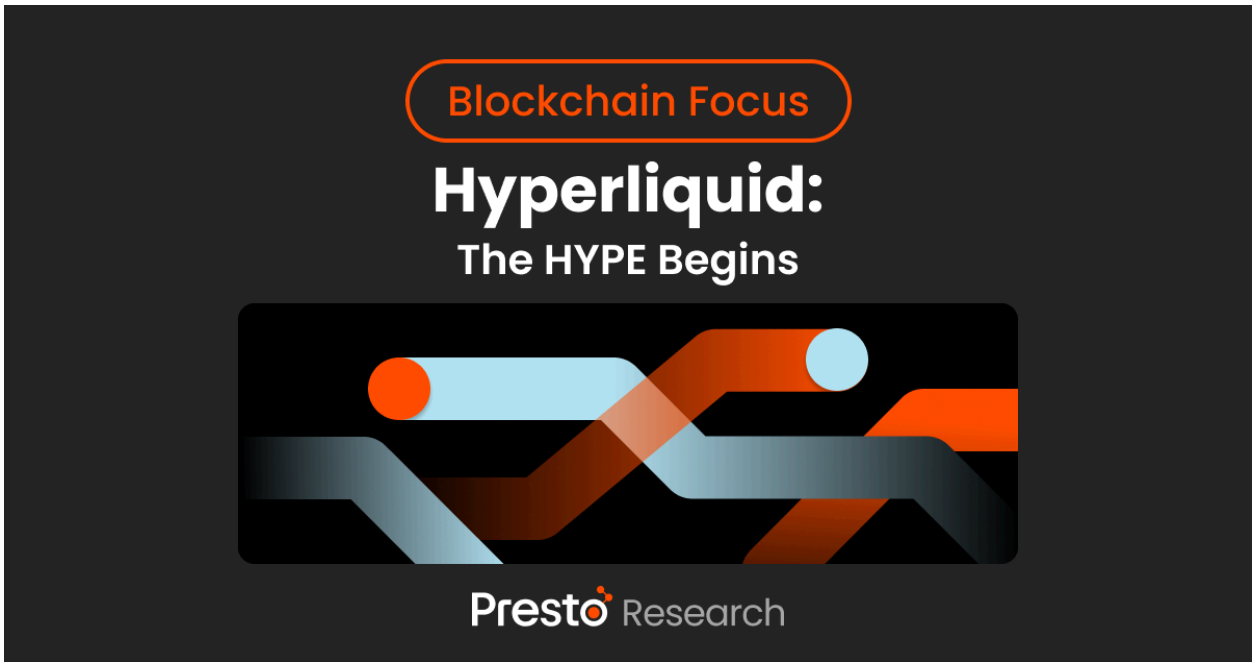

Summary

- Hyperliquid, a high-performance L1 blockchain and leading perp DEX, aims to evolve into a comprehensive on-chain financial system, distinguishing itself through organic growth, a self-funded team, and a product-first approach.

- Hyperliquid's upcoming $HYPE token will unlock transformative components, including HyperEVM deployment, validator decentralization, and code open-sourcing, positioning the protocol as a comprehensive, high-performance blockchain platform for DeFi.

- Hyperliquid aims to consolidate the entire financial stack onto a single platform, leveraging its comprehensive approach and proven track record to attract attention from investors in an evolving crypto landscape seeking quality assets.

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1. Introduction

In just two years, Hyperliquid has rapidly emerged as a dominant force in the crypto derivatives market, establishing itself as one of the most actively traded perp DEXs in the sector's history. However, Hyperliquid's ambitions extend far beyond its current success as a DEX. At its core, Hyperliquid is a high-performance Layer-1 blockchain with aspirations to evolve into a comprehensive, on-chain open financial system. Conceived as a sovereign blockchain from its inception, Hyperliquid has recently marked a significant milestone with the announcement of its native token, $HYPE. This development comes on the heels of a meticulously executed two-year points program, which concluded in September 2024.

Despite its notable achievements, Hyperliquid has faced scrutiny regarding its decentralization status. Critics have pointed out that the network is currently maintained by only four validators, all of which are members of the core team. While this observation is accurate, it is important to note that the introduction of $HYPE is designed to serve as the cornerstone for the decentralization of Hyperliquid's HyperBFT Proof-of-Stake consensus mechanism. The pertinent question now shifts from whether Hyperliquid will decentralize to how it will maintain its impressive performance post-decentralization.

Furthermore, Hyperliquid distinguishes itself in several key aspects within the blockchain ecosystem:

1) **Product-First Approach**: Unlike many Layer-1 blockchains, Hyperliquid prioritized building a successful product before expanding into a full-stack ecosystem.

2) **Organic Growth**: The platform has demonstrated remarkable growth without relying on incentives, particularly evident during periods in May and October, when trading volumes continued to grow despite the lack of incentives (Figure 1).

3) **Financial Independence**: Hyperliquid stands out as a self-funded team, operating without external capital while equitably distributing generated revenue among the community.

This analysis will delve into Hyperliquid's achievements to date, explore the implications of the $HYPE TGE, and offer projections on Hyperliquid's future trajectory. Additionally, we will incorporate insights from active traders and developers within the Hyperliquid ecosystem to provide a comprehensive perspective on this innovative platform.

2. About Hyperliquid

2.1 Overview of Hyperliquid

Hyperliquid is a high-performance Layer-1 blockchain featuring a fully on-chain order book perpetual swap DEX as its flagship native application, known as the Hyperliquid DEX. Hyperliquid Labs, the core contributor to the blockchain, boasts an impressive team of graduates from prestigious institutions such as Harvard, MIT, and Caltech. Team members bring valuable experience from leading firms including Airtable, Citadel, Hudson River Trading, and Nuro. The team's background in proprietary market making within the crypto and DeFi sectors since 2020 has been instrumental in driving their mission to develop a product that addresses existing challenges in DeFi protocols while delivering a seamless trading experience to users.

A key technical achievement of Hyperliquid is its sub-second latency while processing over 200,000 orders per second. This remarkable performance is attributed to the HyperBFT consensus mechanism, which draws significant inspiration from Hotstuff and its successors. This innovative approach allows Hyperliquid to continue sequencing transactions without waiting for the hash of the current block to be executed. Notably, under normal block production conditions, there is no synchronous timescale embedded in the consensus algorithm itself. Blocks are produced as rapidly as a quorum of validators can communicate, a property often referred to as "optimistic responsiveness."

The implementation of HIP-1 and HIP-2 represents a significant milestone in Hyperliquid's evolution. HIP-1 introduces a native token standard for spot trading, enabling the creation of native spot tokens and orderbooks within the Hyperliquid ecosystem. HIP-2, dubbed "Hyperliquidity," introduces an innovative mechanism for permanently committing liquidity to spot orderbooks for HIP-1 tokens. These Hyperliquidity strategies operate entirely on-chain and synergize effectively with users' orderbook liquidity. The successful deployment of HIP-1 and HIP-2 has ushered in a new era for Hyperliquid, positioning it as a comprehensive trading venue for both spot tokens and perpetuals.

This strategic expansion of capabilities underscores Hyperliquid's commitment to creating a versatile and robust financial ecosystem, further solidifying its position in the competitive landscape of decentralized finance.

2.2 Exchange Metrics

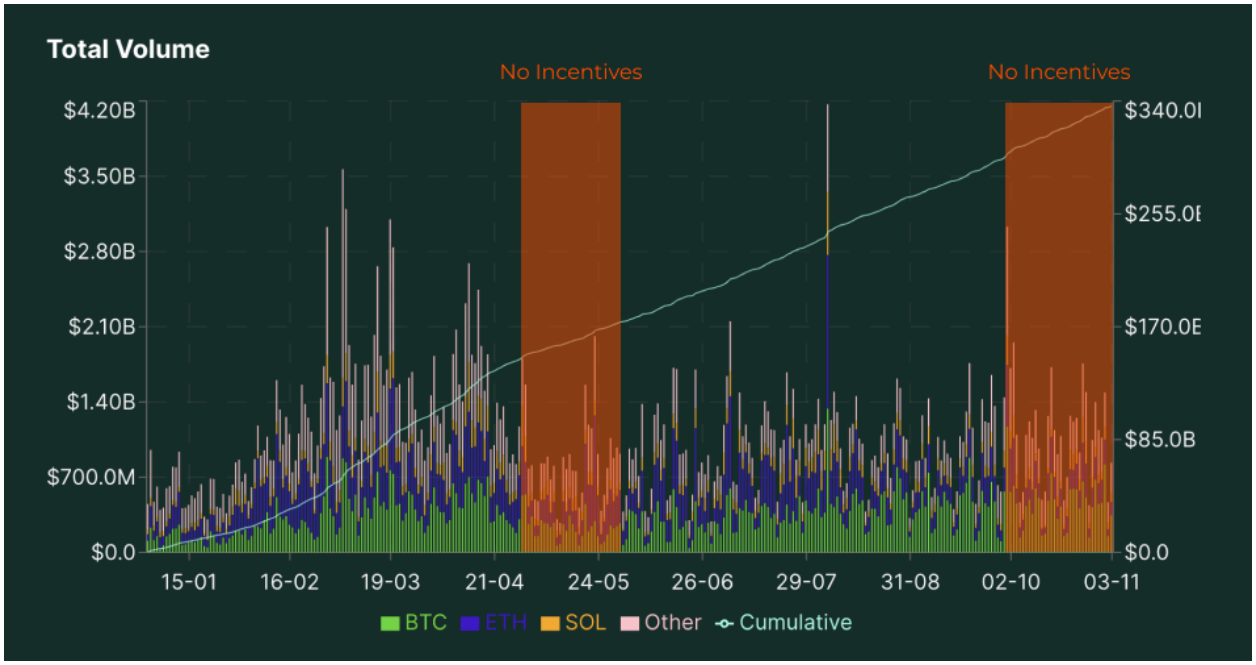
Hyperliquid has consistently maintained its position as one of the top perpetual DEXs throughout the year. The strong performance in May and October, when the points program was completely suspended, is particularly significant as they represent performance without any incentives. This suggests the platform's inherent value to users beyond just incentive-driven participation.

2.2.1 Trading Volume

Hyperliquid has demonstrated robust trading activity (Figure 1):

- Year-to-Date Daily Average Volume: $1.05B
- Peak Trading Volume: $4.2B (August 5th)
- Daily Average Trading Volume in May (without incentives): $818M
- Daily Average Trading Volume in October (without incentives): $1.11B

Figure 1: Overall Trading Volume on Hyperliquid (YTD)



Source: Hyperliquid Stats by Thunderhead, Presto Research

2.2.2 Open Interest

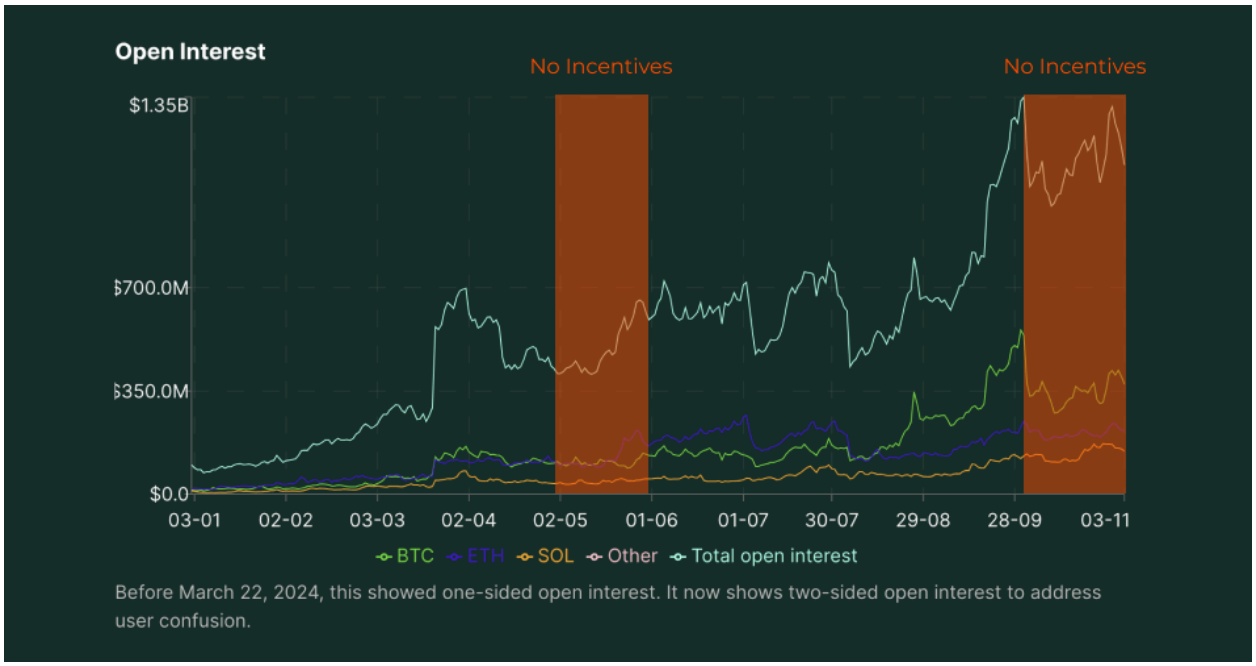
Open Interest (OI) is a crucial metric in derivatives markets, representing the total number of outstanding contracts that have not been settled. For perpetual swaps, the total open interest is the sum of all open long and short positions. High open interest is generally indicative of higher

liquidity and organic trading activity, as it cannot be easily manipulated through frequent turnovers, unlike trading volume.

Key Open Interest Metrics for Hyperliquid (Figure 2):

- Total Open Interest: $1.1B+ (as of November)
- Open Interest in May (without incentives): $400MM+
- Open Interest in October (without incentives): $1B+

Figure 2: Total Open Interest on Hyperliquid (YTD)



Source: Hyperliquid Stats by Thunderhead, Presto Research

2.2.3 Exchange Reserves

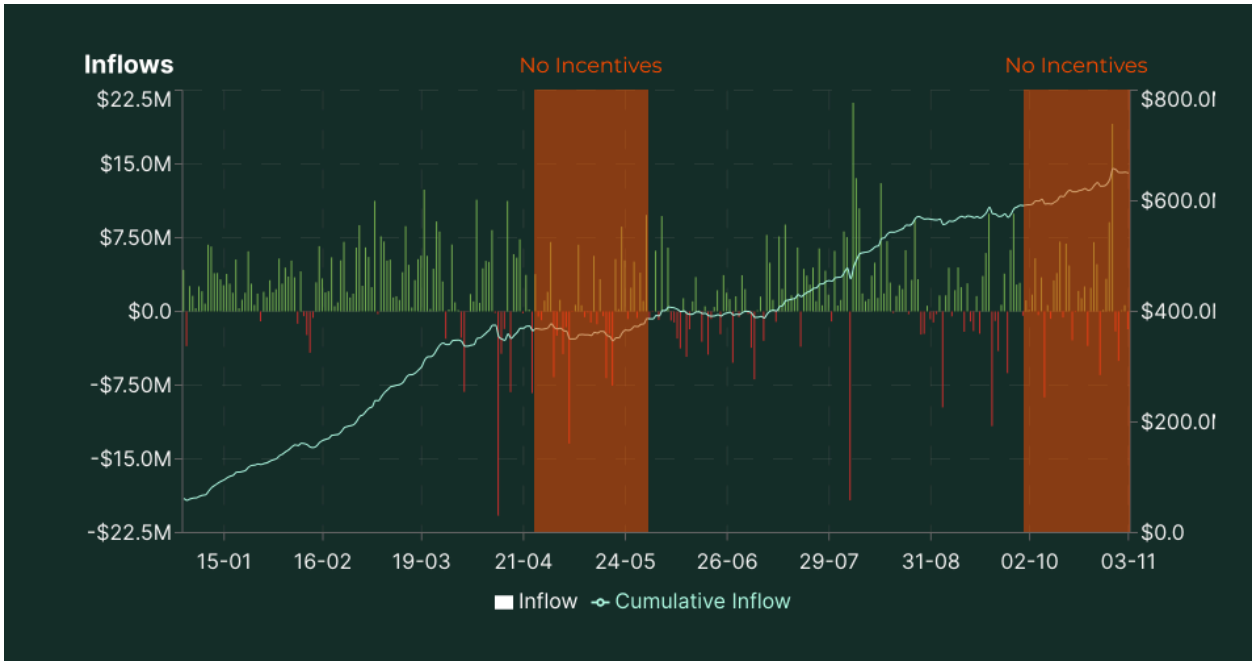
Exchange reserves are a critical indicator of liquidity and solvency. Hyperliquid accepts native USDC on Arbitrum (with USDT and USDC.e deposits available via LiFi conversion), currently holding $700M in reserves—nearly 50% of Arbitrum's native USDC supply (Figure 3). This substantial reserve base not only enables efficient trade execution and lower slippage but also demonstrates Hyperliquid's dominant market position and robust financial health.

Figure 3: Top Holders of Arbitrum Native USDC

Rank	Address	Quantity	Percentage	Value
1	Hyperliquid: Deposit Bridge 2	707,292,242.979028	49.4954%	$706,237,670.24
2	0x47c03123...573170703	66,754,126.078926	4.6714%	$66,654,595.68
3	0x70d95587...10Bee6336	38,341,063.686802	2.6831%	$38,283,897.16
4	Binance 54	33,677,033.813095	2.3567%	$33,626,821.36
5	0xC6962004...88e09E8D0	21,970,246.877241	1.5375%	$21,937,489.24
6	0x3931dAb9...0fe4cC857	20,811,494.314305	1.4564%	$20,780,464.38
7	Aave: aArbUSDCn Token	15,726,699.155294	1.1005%	$15,703,250.65
8	0x09400D9D...900Af03C9	13,999,023.017727	0.9796%	$13,978,150.47
9	Coinbase 2	13,123,689.930605	0.9184%	$13,104,122.51
10	GMX: Vault	11,937,206.795564	0.8354%	$11,919,408.42

Source: Arbiscan, Presto Research

Figure 4: Cumulative Inflows to Hyperliquid (YTD)



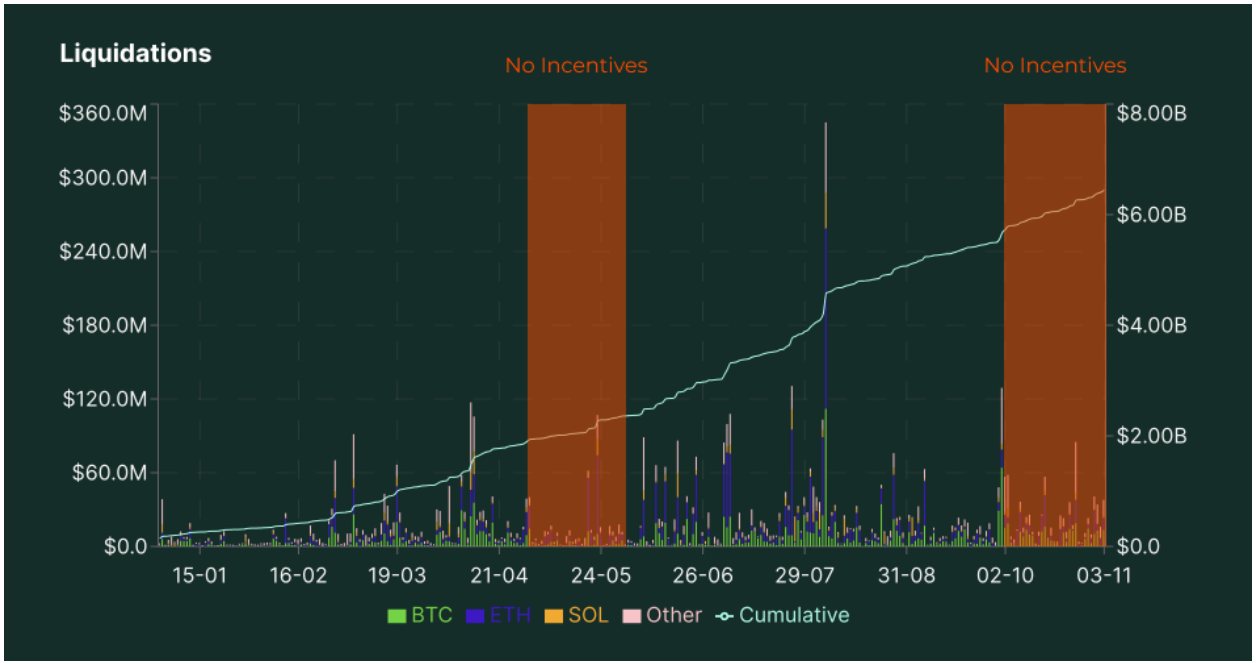
Source: Hyperliquid Stats by Thunderhead, Presto Research

2.2.4 Liquidations

Liquidations are a crucial aspect in evaluating an exchange's performance and stability. The ability to handle substantial liquidations without disrupting the orderbook or compromising the exchange's solvency is paramount. It's also noteworthy that exchanges with few liquidations might raise suspicions of inorganic trading activity, as wash traders typically close their positions before liquidation occurs.

Liquidations on Hyperliquid use a mark price combining external price quotes, enhancing stability during high volatility. As of November, Hyperliquid has processed $6.44B in liquidations YTD, with a peak of $350M on August 5th (Figure 5). Two erroneous liquidations in 2023 ($YGG and $FRIEND contracts) were fully compensated through the insurance fund, demonstrating both the platform's robust risk management and commitment to user protection.

Figure 5: Liquidations on Hyperliquid (YTD)



Source: Hyperliquid Stats by Thunderhead, Presto Research

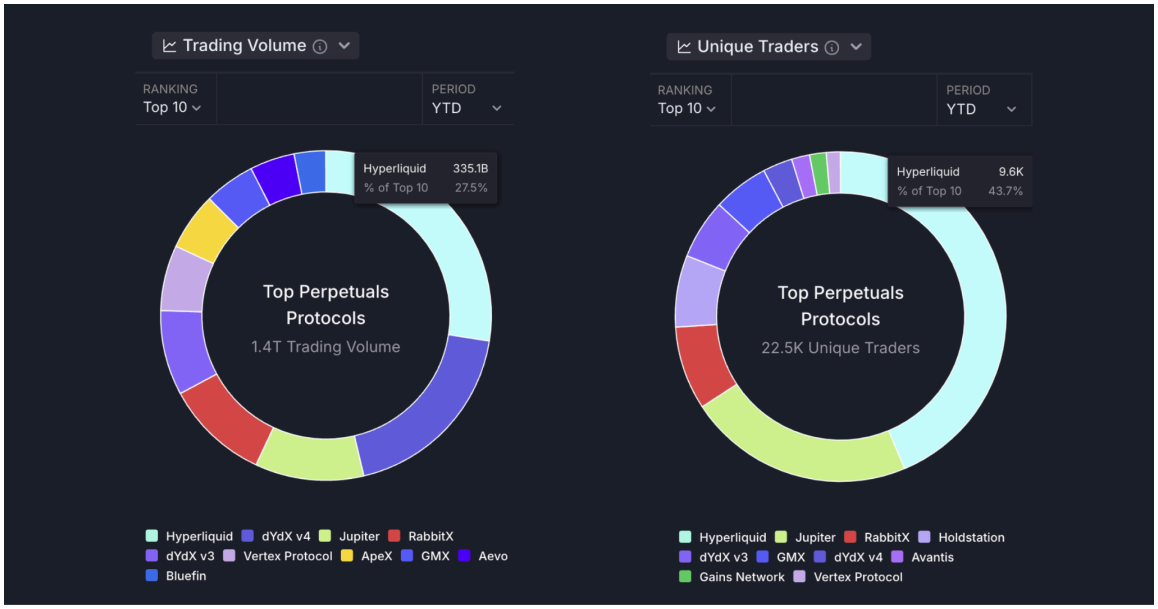
2.2.5 Market Dominance

Hyperliquid has established itself as the most performant perp DEX across multiple metrics, solidifying its position as a market leader. The platform's dominance is evident in several key metrics (Figure 9):

1) Trading Volume (YTD):
   - Highest cumulative trading volume: $335B
   - Market share: 27.5% among the top 10 perp DEXs
2) User Engagement (YTD):
   - Daily average of unique traders: 9.6K
   - Market share of active traders: 43.7% among the top 10 perp DEXs
3) Recent Performance (Last 30 Days):
   - Cumulative trading volume: $30.8B
   - Open interest: $1.1B

These figures not only highlight Hyperliquid's dominance in the DEX space but also demonstrate its competitiveness with established centralized exchanges like Kucoin, MEXC, and Deribit (Figure 7). Capturing over a quarter of the cumulative trading volume among top perpetual DEXs while engaging nearly half of active traders, Hyperliquid has successfully addressed key user needs in liquidity, user experience, and trading features. This market penetration and dominance provides Hyperliquid a solid foundation of growth in the broader crypto derivatives market.

Figure 6: Trading Volume and Unique Traders Comparison (YTD)



Source: Artemis, Presto Research

Figure 7: Trading Volume and Open Interest Comparison

Trading Volume Comparison

(excluding Binance, OKX, and Bybit)

as of November 4th

Exchange	Category	Trading Volume (1d)	Trading Volume (7d)	Trading Volume (1m)	Open Interest (24h)
Gate.io	CEX	$2,241,855,792	$17,756,969,576	$68,825,955,683	$2,937,139,367
HTX	CEX	$1,793,644,779	$13,521,926,595	$46,760,979,329	$2,951,460,279
Kucoin	CEX	$1,185,682,276	$9,229,212,071	$35,818,026,792	$1,681,333,531
MEXC	CEX	$1,185,682,276	$9,229,212,071	$35,818,026,792	$3,990,086,968
Hyperliquid	DEX	$889,832,405	$7,424,143,725	$30,828,779,225	$1,108,767,257
Deribit	CEX	$595,345,219	$6,170,503,748	$20,372,268,846	$2,143,141,022
Jupiter	DEX	$447,180,822	$3,863,626,451	$14,285,573,196	$811,003,008
dYdX	DEX	$269,091,838	$2,574,999,184	$9,998,232,150	$234,434,909
Vertex	DEX	$205,120,811	$1,472,755,903	$6,024,568,090	$42,047,522
Drift	DEX	$124,718,215	$953,979,509	$3,511,464,120	$162,606,076

Source: Coingecko, DefiLlama, Presto Research

2.3 Advantages Over Competitors

Hyperliquid has successfully established itself as the dominant Perp DEX in the market through several key advantages. We dive into the edges that Hyperliquid has against two competitor groups, CEXs and DEXs.

2.3.1 Advantages Over CEXs

As a decentralized exchange, Hyperliquid offers several distinct advantages over centralized counterparts:

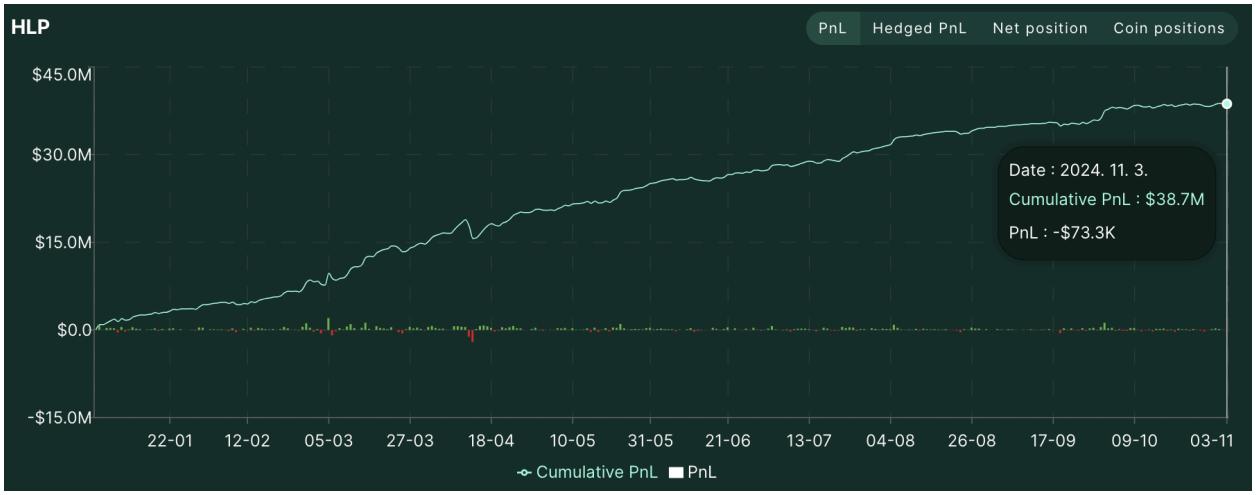
1) **Accessibility and Transparency:** Hyperliquid enhances accessibility by eliminating KYC procedures, lowering entry barriers for global users. It provides full transparency of reserves, allowing public verification through its Arbitrum bridge contract and on-chain dashboard, which is crucial in the context of recent centralized exchange controversies.

2) **Agile Asset Listings:** Hyperliquid demonstrates superior flexibility in listing new assets, particularly long-tail assets. Notable examples include being among the first $1B+ volume exchanges to offer $SCR pre-launch perpetuals and $GOAT perpetuals, catering to aggressive traders seeking leverage before major exchange listings.

3) **Active Yield Opportunities:** The HLP (Hyperliquidity Provider) vault offers an attractive option for traders to park funds when not actively trading. By contributing to the HLP vault—a vault dedicated to market making and liquidations—users can benefit from fee revenue and additional trading gains. As of November, the HLP vault has generated $38M year-to-date, with $172M USDC locked, highlighting its effectiveness and user appeal. (Figure 8)

These advantages collectively position Hyperliquid as a formidable alternative to traditional centralized exchanges, offering enhanced transparency, accessibility, and innovative financial products.

Figure 8: HLP Vault Performance (YTD)



Source: Hyperliquid Stats by Thunderhead, Presto Research

2.3.2 Advantages Over DEXs

Hyperliquid distinguishes itself from other decentralized exchanges through several key features:

1) Fully On-chain Trading: Hyperliquid's founder Jeff Yan emphasizes that a perp DEX must operate on its own L1 blockchain to scale effectively, ensuring reliable liquidation, funding, and solvency. Unlike most perp DEXs that execute trades off-chain and settle on-chain, all activity on Hyperliquid DEX is fully on-chain. The on-chain performance is facilitated by the robust design of the Hyperliquid L1, purpose-built as a perpetual swap exchange from inception. All transactions and positions are publicly verifiable via explorers:
Official Hyperliquid Explorer (Link)
Community-built Explorer Hypurrscan (Link)

2) User Experience Comparable to CEXs: Hyperliquid offers a smooth trading experience with low latency, rivaling that of centralized exchanges. All transactions on Hyperliquid are gasless and do not require wallet confirmations; only fund movements necessitate on-chain signatures. The bridging process resembles a perp DEX deposit procedure rather than a typical bridge, while allowing users to easily generate new trading wallets via email using Privy.

3) The Community: A key asset of Hyperliquid is its strong culture and community, often underappreciated in DEX projects. Unlike other airdrop-based DEXs, Hyperliquid has cultivated a vibrant community, driven by its zero VC funding and community-first approach. This aligns with the need for token-based DEXs to be community-driven and aim for core decentralization.

This combination of full on-chain transparency, CEX-like user experience, and a strong community foundation positions Hyperliquid uniquely in the DEX landscape. The platform's commitment to these principles not only enhances its operational efficiency but also fosters trust and engagement within its user base, setting a new standard for decentralized exchanges in the crypto ecosystem.

3. The Next Chapter for Hyperliquid

On October 15th, Hyperliquid announced its forthcoming $HYPE token generation event, marking a pivotal moment in the platform's development. While the token itself is significant, the true value lies in the transformative components it will unlock. As the foundational element of Hyperliquid's Layer 1 blockchain, the $HYPE token is set to catalyze three critical advancements: the deployment of HyperEVM, the decentralization of validators, and ultimately, the open-sourcing of the blockchain's code base.

3.1 HyperEVM

HyperEVM, an Ethereum Virtual Machine (EVM) designed to operate in tandem with Hyperliquid's native Rust-based HyperVM, represents a comprehensive approach to L1 scaling rather than a mere feature addition. This dual-VM architecture strategically channels high-volume transactions through optimized native components, creating substantial blockspace for a diverse array of applications. The integration of EVM capabilities is poised to enhance Hyperliquid's native order books through robust bridging mechanisms, asset diversification, and heightened liquidity.

The HyperEVM architecture is underpinned by two crucial components that facilitate seamless integration between Hyperliquid's native L1 and the EVM environment:

1) **System Contract**: This specialized bridge enables real-time access to critical L1 data within the EVM ecosystem. By allowing developers to retrieve up-to-date information, it ensures that EVM-based applications operate with precision and accuracy. The continuous synchronization of the system contract's values with L1 block production maintains consistency across both environments, providing a stable foundation for decentralized applications.

2) **Native Token Transfer Mechanism**: This innovative feature enables fluid asset movement between the L1 and EVM ecosystems. By linking native spot assets with their ERC-20 counterparts on the EVM, it creates a unified asset representation across both environments. Users can seamlessly convert between native and EVM-based assets via a designated system address, streamlining asset management and trading processes. This interoperability is fundamental to Hyperliquid's vision of becoming a comprehensive platform for global finance, facilitating atomic composability and enhancing liquidity across the ecosystem.

The launch of HyperEVM has the potential to unveil a new frontier in the EVM ecosystem for Hyperliquid. The implementation of atomic transfers between HIP-1 native spot assets and their corresponding ERC-20 contracts will enable a wide spectrum of financial activities, including lending, options trading, cross-chain bridging, and payment solutions. Developers will have the ability to deploy smart contracts using familiar EVM tooling, seamlessly integrating with Hyperliquid's popular CEX-like trading interface.

If HyperEVM successfully attracts a critical mass of users and liquidity, it could evolve into a robust ecosystem for Hyperliquid, mirroring the role of BNB Chain for Binance. Drawing a parallel, BNB Chain's success in facilitating Binance's expansion into decentralized finance—attracting over 1,400 dApps and processing millions of daily transactions—provides a compelling benchmark for HyperEVM's potential impact on Hyperliquid's growth trajectory.

3.2 Validator Decentralization

As of early November 2024, Hyperliquid's L1 operates with a limited set of four validators, all managed by the core team. This centralized validator structure has been a point of contention, with critics arguing that the chain's performance is artificially inflated due to its small, controlled validator set. However, the introduction of the $HYPE token is set to address this concern by enabling external validators to participate under the HyperBFT Proof-of-Stake consensus mechanism.

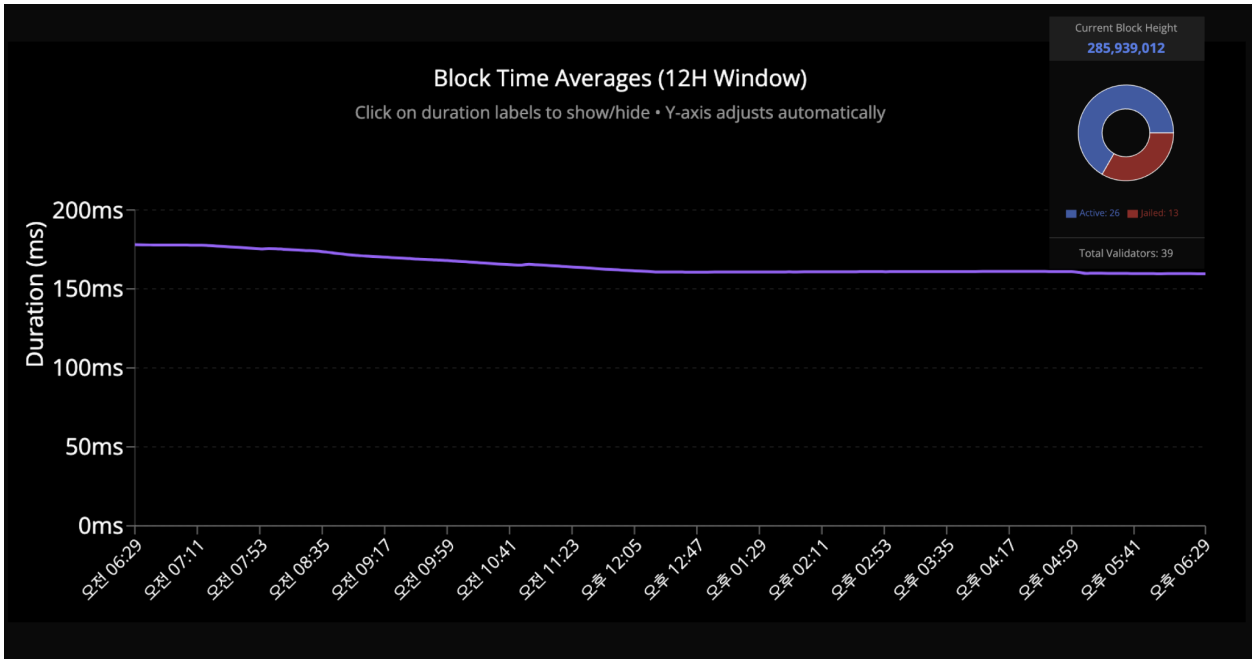
Validators play a multifaceted role in Hyperliquid's ecosystem, extending beyond transaction validation to include critical functions such as managing price oracles and overseeing the official Hyperliquid bridge to Arbitrum. These responsibilities are integral to maintaining the security and integrity of the perpetual swap exchange. Consequently, the expansion of the validator set is a delicate process that requires a balance between decentralization and operational security. The Hyperliquid team's cautious yet proactive approach to validator decentralization reflects an understanding of these complexities.

To ensure optimal network performance and reliability, the HyperBFT consensus incorporates a sophisticated "jailing" mechanism. This feature sets stringent performance standards for validators, requiring them to maintain a round-trip communication time of 200ms or less with at least one-third of the network's validators, weighted by staked amount. Validators who fail to meet these exacting criteria face "jailing," a state where they can still relay messages but are restricted from proposing new blocks or participating in voting. By implementing this mechanism, Hyperliquid effectively ensures that only high-performing validators actively contribute to the consensus process, thereby maintaining robust network connectivity and overall system efficiency.

The testnet phase of validator expansion has shown promising results. As of November, 39 whitelisted validators are participating, successfully maintaining sub-200ms block times (Figure 9). This performance in a more decentralized environment has bolstered confidence in the network's ability to maintain its high-performance characteristics post-decentralization.

For more information about running a validator node, refer to Hyperliquid's Github.

Figure 9: Testnet Validator Status



Source: ASXN Hyperliquid Dashboard, Presto Research

3.3 Open-Sourcing HyperBFT

Hyperliquid's exceptional performance is attributed to the HyperBFT consensus mechanism. On Blockwork's 0xResearch podcast, co-founder Jeff Yan differentiated HyperBFT from Tendermint, another prominent BFT consensus protocol from Cosmos. Both protocols are based on partially synchronous timing assumptions; however, Jeff emphasized that HyperBFT operates in a more "asynchronous manner," allowing validators to cast votes on the latest state of the chain without built-in waiting periods.

HyperBFT's design appears to draw inspiration from Hotstuff, a pipelined BFT consensus protocol proposed by Yin et al. These consensus protocols are well-known for their application in high-performance L1 blockchains, such as Monad. Presto's blockchain research analyst Jaehyun Ha speculates that HyperBFT may be an advanced iteration of these Hotstuff implementations,

offering improved fault tolerance against liveness issues, based on the statement that "a more asynchronous BFT was used."

While Hyperliquid's source code remains undisclosed due to ongoing development, the team has committed to eventual open-sourcing. This disclosure is expected to follow the successful deployment of HyperEVM and the decentralization of validators. The open-sourcing event will be a pivotal moment for Hyperliquid, addressing skepticism about its reported performance metrics and potentially positioning it as a formidable competitor in the high-performance EVM L1 space, alongside projects like Monad, MegaETH, and Sonic.

This strategic roadmap—encompassing validator decentralization, consensus optimization, and code transparency—positions Hyperliquid to emerge as a leading player in the next generation of blockchain infrastructure. The successful execution of these initiatives could significantly enhance Hyperliquid's market position and technological credibility in the rapidly evolving landscape of decentralized finance.

4. Predictions

This section presents forward-looking analyses and projections regarding Hyperliquid's potential development following the TGE of $HYPE. It is crucial to emphasize that the following content is derived from independent research based on publicly available information and does not incorporate any unofficial statements or insider information from Hyperliquid or its affiliated entities.

4.1 Decentralization

4.1.1 Hyperliquid will be one of the most decentralized L1s in the industry, and this will play a critical role in growth.

Hyperliquid is poised to emerge as one of the most decentralized L1 blockchains in the industry, a factor that is expected to play a pivotal role in its growth trajectory. The absence of external funding in Hyperliquid's development has led to a distinctive token distribution model, primarily allocating the supply among three key stakeholders: genesis airdrop recipients from the points program, future incentives for validators and users, and the foundation.

This distribution strategy stands in stark contrast to many L1 blockchains launched since 2021, where a significant portion of tokens was often allocated to 'insiders.' The impact of such concentrated token distributions has been evident in the market performance of recent L1 tokens. According to CoinMarketCap data, among the top 20 L1 tokens by market capitalization, only a handful of those launched since 2021 have managed to achieve substantial size, despite their explosive ecosystem growth compared to older blockchains. This trend underscores the challenges faced by newer L1s in achieving significant market capitalization, largely due to difficulties in fostering a loyal community base when early price discovery occurs predominantly in private investment rounds.

A comparative case study is Bittensor ($TAO), which achieved success through a fair launch model. $TAO's distribution metrics are noteworthy, with the top 10 accounts (including exchanges) holding only 25.2% of the circulating supply and 9.3% of the total supply. Hyperliquid's distribution also demonstrates a strong commitment to decentralization. Estimates suggest that the top 10 point holders control less than 3% of total points. Even accounting for team allocations (expected to be under 30%), the concentration at the top remains significantly low compared to many industry peers, with the top 10 token holders at genesis estimated to control less than 33% of the total supply.

This decentralized distribution model is anticipated to be a key factor in maintaining an engaged and diverse community over time, potentially leading to more sustainable growth and adoption.

4.1.2 Validator decentralization should affect latency but at a minimal margin.

The current validator onboarding process for Hyperliquid involves a whitelist system, a strategic decision aimed at minimizing network disruptions during the critical early stages of deployment. This cautious approach is expected to continue until the validator set reaches a threshold that ensures consistent network performance, potentially extending beyond a year. As the validator set expands and the Hyperliquid ecosystem grows with the launch of HyperEVM, some impact on network latency is anticipated. However, based on testnet performance data, the team has demonstrated capabilities to mitigate these effects, suggesting that any performance degradation could be minimal.

4.1.3 If the latency becomes an issue as validators set size grows, there may be a different set of validators involved in EVM and the DEX layer.

Looking ahead to scenarios of substantial growth, where the validator set might exceed 1,000 nodes, maintaining sub-200ms block times could become challenging. Additionally, if the HyperEVM ecosystem achieves scale comparable to established networks like Solana, network capacity could face significant pressure. To address these potential scalability challenges, several architectural adaptations could be considered. One option is a DPoS model, which would continue the whitelisting approach by limiting the set of active validators contributing to consensus. Another possibility is implementing differentiated validator sets, with distinct validator groups for the EVM and DEX layers, potentially adopting a subnet model similar to Avalanche's architecture.

While these are speculative scenarios, they represent potential pathways for Hyperliquid to maintain its performance edge while pursuing increased decentralization. The ultimate direction will likely be influenced by network growth patterns, technological advancements, and the team's commitment to balancing decentralization with operational efficiency.

4.2 HyperEVM Ecosystem

4.2.1 HyperEVM ecosystem will become one of the largest ecosystems this cycle.

Hyperliquid's unique approach of establishing a successful product before expanding into a Layer 1 ecosystem positions it advantageously in the blockchain space. This strategy diverges from the typical path taken by most L1 blockchains and offers several key advantages. On the liquidity front,

Hyperliquid has already secured established liquidity, with $700M in USDC bridged to its chain, placing it among the top 10 blockchains in terms of stablecoin supply (Figure 10). This substantial liquidity base provides a solid foundation for the HyperEVM ecosystem.

In terms of user engagement, Hyperliquid boasts a robust user base of over 210,000 onboarded users, demonstrating significant traction. The integrity of this user base is particularly noteworthy, as the volume-centric points program inherently resists Sybil attacks, ensuring a genuine and engaged user community. The combination of existing liquidity and a substantial user base addresses two critical pain points typically faced by new L1/L2 networks: attracting and retaining users and liquidity.

The upcoming token generation of $HYPE is expected to further catalyze ecosystem growth. The anticipated introduction of Liquid Staking Tokens (LSTs) for $HYPE could play a pivotal role in shaping the DeFi landscape within the Hyperliquid ecosystem. Since 2022, LSTs have become a dominant force across various blockchain ecosystems, including Bitcoin. With multiple liquid staking protocols proposed for Hyperliquid, $HYPE LSTs are poised to become the backbone of its DeFi ecosystem, potentially driving the development of decentralized exchanges, lending protocols, and CDP stablecoins. This development is expected to not only boost Hyperliquid's TVL but also encourage $HYPE holders, primarily traders receiving airdrops, to actively engage with the nascent ecosystem.

4.2.2 Native USDC and CCTP will be deployed on HyperEVM, unlocking more inflows than before.

The deployment of native USDC and Circle's Cross-Chain Transfer Protocol (CCTP) on HyperEVM is set to unlock significant inflows into the Hyperliquid ecosystem. As mentioned above, Hyperliquid has $700M in USDC bridged from Arbitrum, surpassing the combined stablecoin supply of emerging Layer 1 networks like Sui and Aptos (Figure 10). The introduction of HyperEVM will further enhance Hyperliquid's stablecoin ecosystem by enabling the creation of permissionless third-party bridges, thereby expanding connectivity with other blockchain networks.

Given Hyperliquid's substantial USDC holdings, which exceed those of all networks except Ethereum, Base, Arbitrum, and Solana, it is well-positioned to attract native USDC deployment from Circle (Figure 11). Additionally, integrating Circle's CCTP will streamline USDC transfers from major networks, eliminating the need for users to bridge through Arbitrum first.

Figure 10: Top Blockchains in Terms of Stablecoin Supply

	Name	Protocols	Active Addresses	TVL	Stables
1	Ethereum	1205	349,500	$85.013b	$85.327b
2	Tron	34	2.06m	$6.732b	$60.623b
3	BSC	806	869,669	$5.432b	$5.47b
4	Arbitrum	721	502,126	$2.39b	$4.462b
5	Solana	172	6.12m	$12.674b	$3.717b
6	Avalanche	410	34,862	$1.301b	$2.188b
7	Polygon	581	504,572	$1.329b	$2.122b
8	Optimism	269	58,740	$649.35m	$1.187b
9	TON	38		$654.69m	$1.018b
10	Near	28		$423.06m	$578.38m
11	Sui	43		$1.289b	$381.86m
12	Fantom	331		$121.43m	$317.67m
13	Celo	54		$109.47m	$297.88m
14	Aptos	48		$1.218b	$281.68m
15	Blast	142		$586.36m	$209.69m

Source: DefiLlama, Presto Research

Figure 11: Native USDC Supply on Each Chain

Source: Circle, Presto Research

5. Community Insights

The community is the backbone of Hyperliquid and a key differentiator against competitors. This section presents valuable insights from active community members, offering a multifaceted view of Hyperliquid's ecosystem. We have gathered perspectives from traders, validators, and builders to provide a comprehensive understanding of the platform's impact and potential.

5.1 Traders: Presto & Stalequant

Lucas Yoo, Quant Trader, Presto
Stalequant, Independent Quant Trader

These experienced traders offer unique insights into Hyperliquid's trading environment, liquidity dynamics, and overall market performance. Their perspectives provide valuable information on how Hyperliquid compares to other trading platforms and its potential for growth in the competitive crypto derivatives market.

1) What is the general trading experience like?

Presto: “It's similar to general perpetual trading at CEXs. It typically experiences larger funding rate movements compared to other exchanges. The main difference is that every symbol is quanto (settled in a different currency than the underlying asset), and I'm curious about the reason for this approach.”

Stalequant: “The general trading experience is pretty close to a CEX, which is good. The main caveat is, of course, no fiat currency listings.”

2) Does the trading activity feel ‘organic’, and why?

Presto: “Their metrics show that activity on the exchange is organic. It transparently displays most of the traders' activity compared to other exchanges. The growth patterns in OI, TVL, and trading volume are similar, indicating a healthy status.”

Stalequant: “I think the trading activity is almost entirely organic. I was a major market maker there up until may but stepped due to other priorities/health reasons. If anything, I think the volume on HL is much more "retail" than other exchanges, which is good in many ways. E.g., most of the volume on Binance is HFT firms sniping each other, that's much less of HL's volume. The analysis I've done is also consistent with that, TVL is high/growing and matches volume. With that said, I

think the pre-May perp volume was inflated due to points, but perps haven't really received much points subsidy since then and volume is still high."

3) What are some points that could be improved from a trader perspective?

Presto: "A more varied fee structure might be beneficial for active traders. Also, better programs (Market Maker program, Liquidity Provider program, etc.) could attract many institutional traders, which could lead to improved liquidity."

Stalequant: "I think the two biggest questions are about decentralization across all aspects that includes the underlying blocks (public validators are still in testnet), the management structure (a small team that doesn't announce much in terms of plans), and the other infrastructure."

5.2 Validators: HypurrCo/Nansen

HypurrCo and StakeWithUs (Nansen)

This collaborative validator team, combining the expertise of HypurrCo and StakeWithUs from Nansen, shares their experience in operating a validator node on Hyperliquid. Their insights shed light on the technical aspects of network validation and the overall health of the network from a validator's perspective.

1) How is the validator experience so far at testnet?

HypurrCo & StakeWithUs: "The testnet is pretty robust at the moment with 39 validators, with the team pushing up node updates frequently in view of the mainnet soon - I would say that the overall experience has been good."

2) How is the tech support from the Hyperliquid Team?

HypurrCo & StakeWithUs: "The HL team is responsive on Discord to assist with any validation related questions. The Node operator community is also extremely helpful and chimes in when the team is not around to answer questions. Some even provide scripts and public goods to get newer operators up to speed."

3) Will the HyperEVM launch and validator decentralization affect performance in your view?

HypurrCo & StakeWithUs: “We are unsure if HyperEVM itself will affect performance, but there will always be tradeoffs when it comes to decentralizing the operator set. The recommendation/advice is to run nodes in Japan to further reduce latency, even if the operator set increases.”

5.3 Builders: HyperLend & Felix

HyperLend, Lending Platform
Felix, CDP Stablecoin Protocol

As projects poised to deploy on HyperEVM, HyperLend and Felix represent the emerging ecosystem built on Hyperliquid's infrastructure. Their insights provide valuable information on the development experience and the potential for DeFi innovation on Hyperliquid.

1) How is the experience so far at testnet?

HyperLend: “The building experience on the testnet has been incredibly enjoyable. It's amazing to see the whole community come together and unite around this project. While there aren't many projects publicly building directly for the HyperEVM yet, we believe that will change soon once TGE and the mainnet rolls out. We're excited for what's to come next.”

Felix: “The experience is alright. Things are functional, but because it's still new, there's areas of improvement. First, a lot of infrastructure is not there like high-quality indexers. Second, the testnet can be unstable especially lately due to their load testing (as expected). A lot of information on mainnet is still not available - like I'm wondering how validators will handle execution from the perps, spot, and the EVM especially during high traffic periods. Overall, this is all to be expected - the HL team is very good and these are constraints that we're prepared for.”

2) What is the key reason you’ve chosen to build on HL?

HyperLend: “We've chosen to build on HL because the team's hard work and dedication are truly inspiring. Operating efficiently with a small team is impressive and motivates us. Additionally, the scalability of the HyperEVM is a significant factor; achieving 100,000 TPS is remarkable, and we anticipate it will continue to improve. Furthermore, when the HIP-1 and HIP-2 news came out, we noticed there wasn't any lending protocol building publicly on the HyperEVM. We decided to seize this opportunity to become the go-to lending platform on HyperEVM.”

Felix: “I think there's just a unique opportunity right now. We don't see ourselves as a low-level infrastructure company, but a product company that is responsible for the last-mile delivery to the users. We do everything in our power to curate a great brand, a great interface, great distribution, etc., but if the infrastructure we're building on top of isn't as good, then we can't deliver as good of a service/experience”

3) How is the tech support from the Hyperliquid Team?

HyperLend: “The Hyperliquid Team has been extremely helpful. Whenever we encounter a problem, they assist us immediately. They also have a specific channel in their Discord for builders facing issues, which has been invaluable. They're consistently helping out whenever they get the chance.”

Felix: “They are very responsive and always try to make sure that we have everything we need to proceed. We like the Hyperliquid team's approach. The Hyperliquid team is product-minded and pragmatic - they think about what features to ship based on what is useful for app builders. A lot of chains will go after big-picture metrics / narratives aka TPS or latency, and that's the core product value proposition. I'm pretty sure HL mainnet will be competitive and state of the art on that front, but the HL team doesn't do much talking on that - instead they talk about the "minor" features that they ship. A good example is the pre-compiles that they shipped recently, which allows things like better composability between the EVM and perp. When you add up all these improvements week-by-week, you're left with powerful and opinionated infrastructure that has a real shot of becoming the L1 for finance over a longer time horizon.”

6. Final Words: Are You HYPEd Enough?

Hyperliquid, having established itself as the dominant perp DEX, is now poised to consolidate the entire financial stack onto a single platform. While this analysis has covered several key aspects, it's important to note that there are additional components with significant potential either not addressed here or still under development, such as built-in oracles and builder codes for third-party integration. On top of these developments, the successful execution of Hyperliquid's TGE and airdrop could mark a pivotal moment in its trajectory, potentially ushering in a new era of growth and innovation.

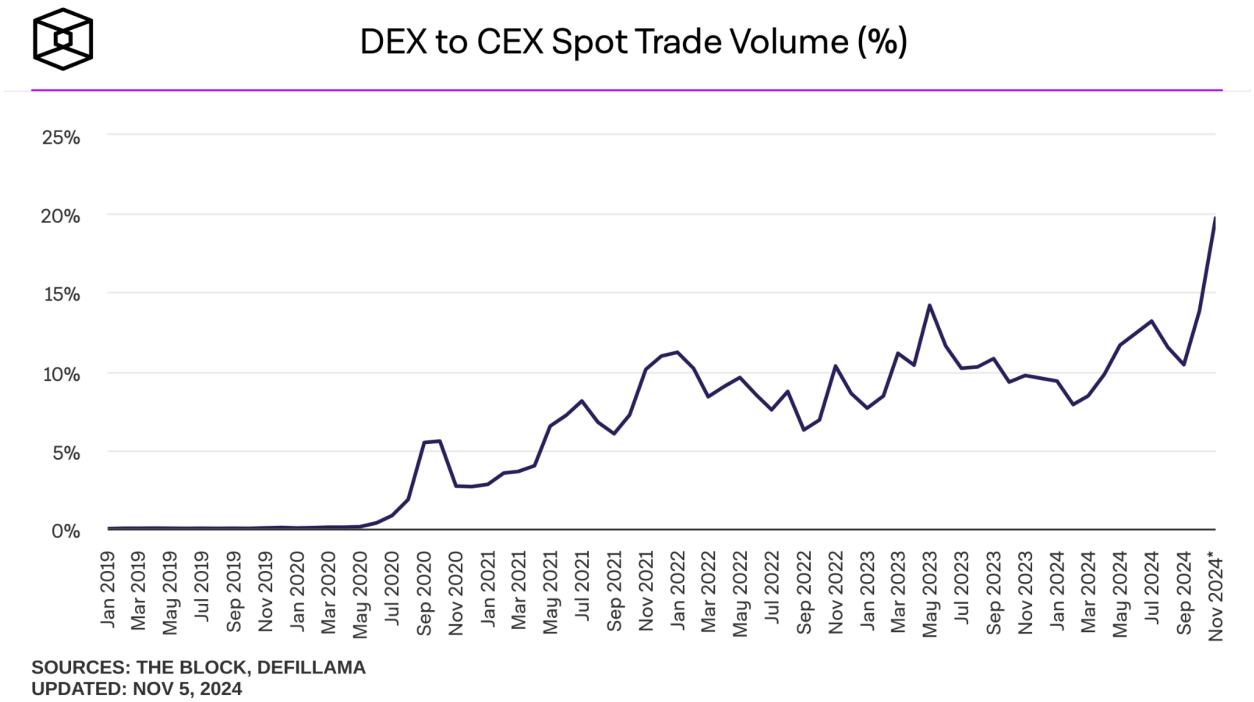
As outlined in our recent analysis 'Three Reasons Why Parabolic Run Lies Ahead', several macro factors are aligning to potentially fuel a significant bull market in the crypto sector. These include global liquidity expansion trends, a favorable regulatory environment under the Trump administration, and currently subdued market expectations. Hyperliquid is strategically positioned to capitalize on these conditions, not only through the launch of its long-anticipated token but also through the expansion of its ecosystem via HyperEVM.

Recent market trends have seen a notable shift, with memecoins capturing significant mindshare and outperforming other sectors since October 2023. Concurrently, Galaxy Research reports that crypto venture capital fundraising has decreased to levels not seen since Q3 2020. This shift doesn't necessarily indicate a more speculative market; rather, it suggests a growing realization that many tokens offer limited holder rights, low cash flows, and empty promises disguised as technology.

However, this recalibration doesn't signal the decline of the crypto industry. Key indicators paint a more nuanced picture: DEX volume relative to CEX volume is approaching all-time highs (Figure 12), platforms like Polymarket have gained prominence in traditional media during the U.S. election cycle, and on-chain user experiences have seen significant improvements across both web and mobile platforms. These trends suggest that, unlike in previous cycles, crypto projects now face increased pressure to demonstrate tangible market demand to justify their valuations.

In this evolving crypto landscape, where market dynamics are shifting and investor expectations are becoming more discerning, Hyperliquid stands out as a project with substantial potential. Notably, in an environment where liquid funds are actively seeking quality assets for investment, yet finding a scarcity of truly investable tokens, Hyperliquid emerges as a compelling candidate. The platform has the potential to be one of the select few projects capable of attracting significant attention from both liquid funds and fundamental investors, positioning it at the forefront of the next wave of innovation and investment.

Figure 12: DEX to CEX Spot Trade Volume at All Time High



Source: The Block, Presto Research

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