USDT perpetual contract trading

The USDT-based perpetual contract is a digital asset derivative product where users can profit from price fluctuations by buying long or selling short contracts. Functioning like a collateralized asset spot market, it is denominated in USDT with prices closely aligned to benchmark indices, anchored primarily through capital fees. Unlike traditional contracts, USDT-based perpetual contracts have no expiration date, allowing users to hold positions indefinitely.

Mechanisms of the USDT-based perpetual contract market:

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

The ratio of guaranteed assets in the portfolio = account equity/used guaranteed assets * 100% -adjustment coefficient;

The total collateral asset ratio = equity in the account / ∑ all contracts of the full account (the occupied collateral assets * adjustment coefficient) - 100%

The role of digital currency contract trading:

1、 Hedging, the role of hedging risks.

Currently, contracts can serve two main purposes for users: leveraging small investments to maximize returns and hedging risks. The leverage mechanism allows users to amplify profits, while most contract-based risk hedgers are miners. The principle of risk hedging works as follows:

If the price of BTC rises, then futures will lose money, the number of BTC will decrease, and the total value will remain essentially the same.

If the price of BTC falls, then the futures will earn and the number of BTC will increase, while the total value remains the same.

In the futures market, contracts are traded with identical spot quantities but opposite directions. This mechanism allows investors to hedge against price risks by using profits from one market to offset losses in another. Futures prices are influenced by both spot prices and economic factors, supported by a delivery mechanism that ensures long-term price consistency between futures and spot markets.

In addition, the existence of a contract will make the price in a unilateral rise or fall, there will be a counterforce to push the price back to a relatively ideal state, control the spot market price, so that short-term irrational prices return to rationality.

2、 Increasing the liquidity of assets is conducive to more institutional investors entering.

As many institutional investors cannot invest directly in Bitcoin, the big exchanges have introduced derivatives that give them access to the bitcoin market.

3、 Expand the way of trading and compete for the pricing power of Bitcoin.

Contract trading allows for diversified strategies in virtual asset trading, enabling both short and long positions. Meanwhile, the spot market and contract market continue to drive each other's flows, expanding the overall volume of the cryptocurrency market.