

Hyperliquid: a brief breakdown

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What is Hyperliquid?

Hyperliquid is a decentralized perpetual exchange (DEX) built on its own Layer 1 blockchain, Hyperliquid L1. It is designed to address the challenges of decentralized finance (DeFi), by using combining features of centralised exchanges with DeFi advantages.

- Unlike most DEXs that rely on automated market makers (AMMs), Hyperliquid features a **fully on-chain order book** to offer real-time, transparent trading with minimal latency. This provides a user experience similar to centralized exchanges (CEXs) while maintaining decentralization.

Hyperliquid was the highest fully-diluted valuation (FDV) project to launch in 2024, with a notional valuation of US\$27.2B and achieving ~US\$1 trillion in trading volume within weeks of launch.

So how does it work?

First, let's examine how an order book works...



Just move this onchain?

Not so simple...writing to a blockchain is usually slow and expensive. Most blockchains can't handle a high-speed order book.

The Hyperliquid advantage

Hyperliquid's own Layer-1 blockchain(L1) is built to handle the transactions at high volumes, enabling their fully on-chain order book.

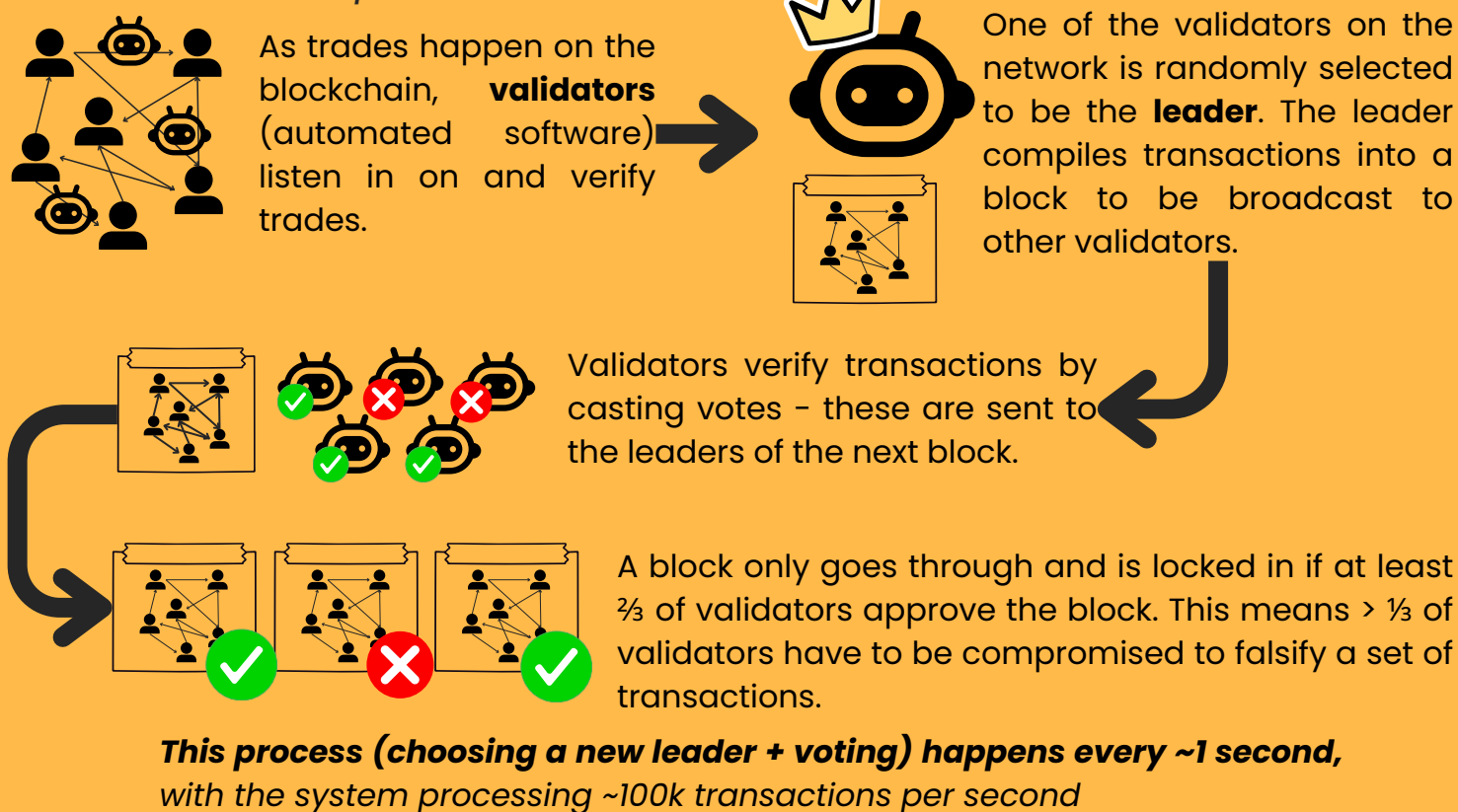
- Hyperliquid's L1 also provides a standardized interface for developers to build interoperable financial applications to drive growth.

The Hyperliquid L1 blockchain

Hyperliquid's Layer 1 blockchain centers around the proprietary HyperBFT consensus mechanism and integrated components like the HyperEVM.

The HyperBFT Consensus Mechanism

A custom Proof-of-Stake (PoS) consensus algorithm drawing inspiration from the HotStuff protocol



Success factor: optimized product for traders

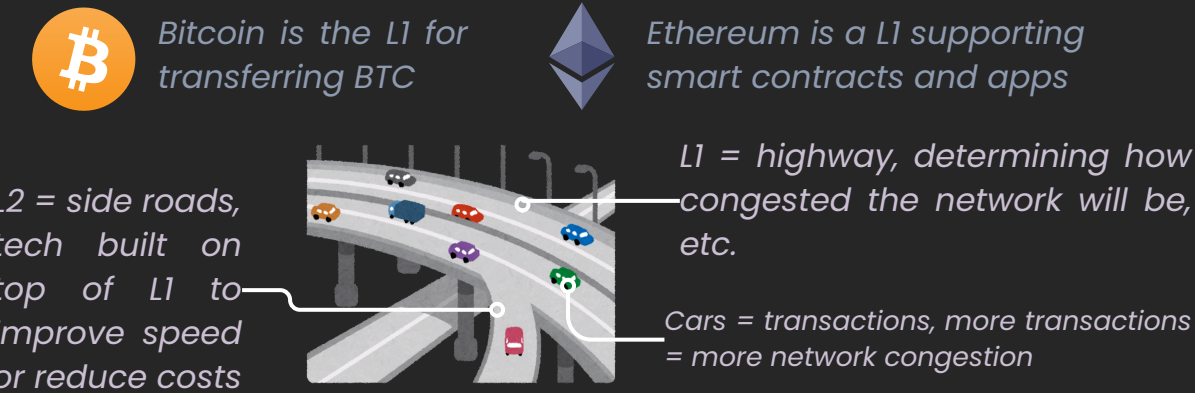
The on-chain order book matches orders directly at user-specified prices, minimizing slippage*: this reliability makes it ideal compared to the AMMs used by many DEXs.

(CoinGecko)

What's a Layer 1 blockchain?

A Layer 1 (L1) blockchain is the foundational level of blockchain architecture: it provides the base protocol for transaction validation, dApp infrastructure, etc.

- L1s operate independently and are not reliant on other blockchains for functionality.
- L1 sets the rules, speed, and capacity of the system



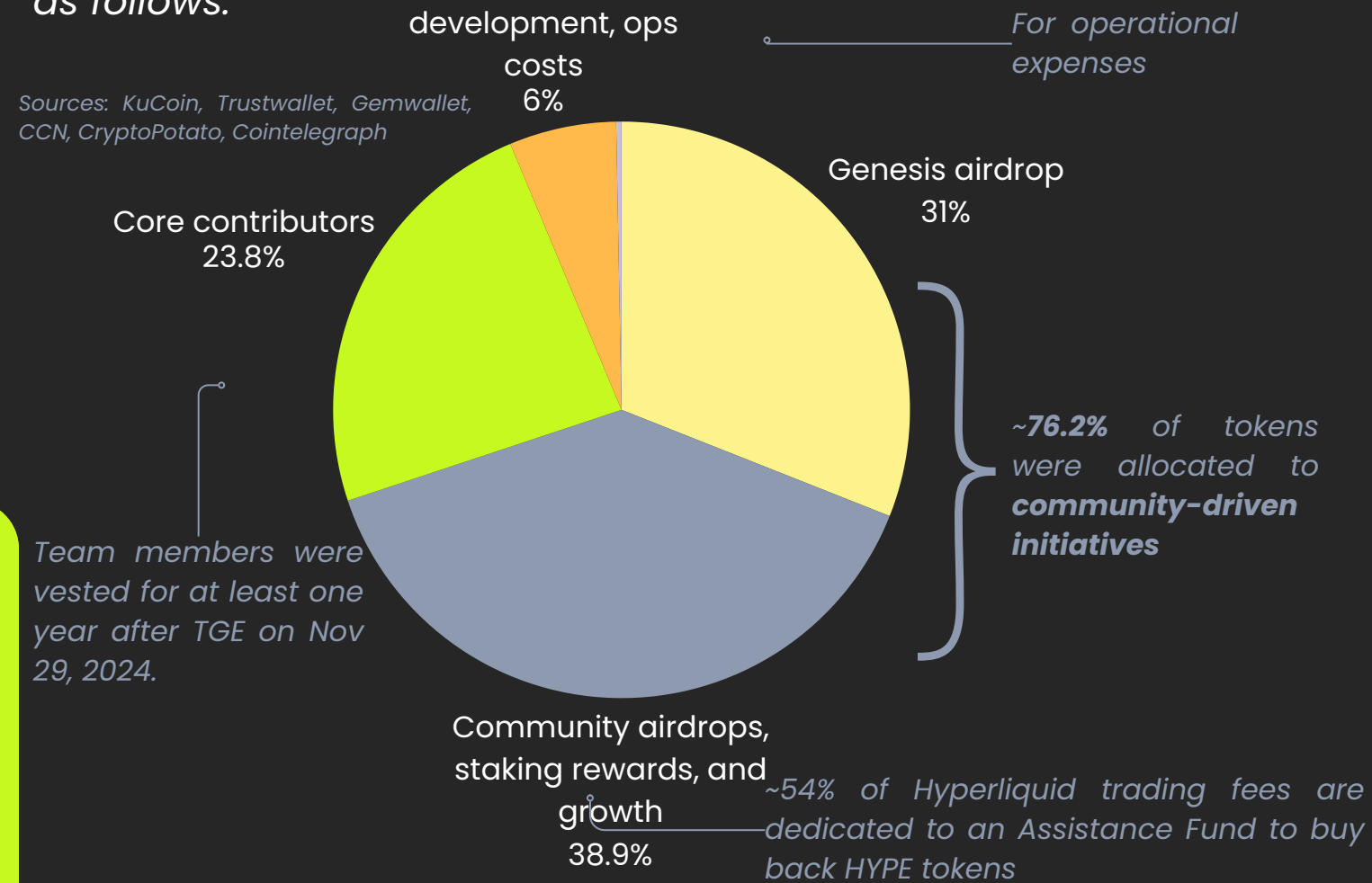
Hyperliquid's community-driven tokenomics

Hyperliquid adopted a unique approach to token distribution: it allocated over 70% of its native token, HYPE, to the community (rather than venture capitalists) through airdrops and rewards.

- Its November 2024 airdrop became the largest in crypto history, distributing tokens to ~94k users, with average allocations worth US\$45k - US\$50k.
- HYPE surged from US\$4 to US\$35 post-distribution.

What's so special about HLP's tokenomics?

Hyperliquid has a fixed supply of 1 billion HYPE tokens, allocated as follows:



Hyperliquid has no private investors, instead using a **heavy community focus** to drive long-term growth:

- ~26% of HYPE's total supply is burnt each year to increase scarcity and token value. This drives scarcity and token value, incentivizing users to hold HLP tokens long-term
- Hyperliquid uses its **revenue to directly buy back HYPE tokens**, creating consistent demand and scarcity.
 - This creates organic demand through a FOMO flywheel
- **Generous initial airdrop** was extremely lucrative and focused on a quality-over-quantity approach.
 - Usual allocations target 500k - 1M users; Hyperliquid made only 94k users eligible for the airdrop with high individual allocations.
 - Using this approach, Hyperliquid **took a risky bet that paid off**. Users usually dump tokens after airdrops - however, the quality-over-quantity approach and community trust caused a >8X surge in value.

Success factor: strong community focus

Hyperliquid generated a cult-like following from its VC exclusion and community focus - this was seen as a return to the "fair distribution" idea in the early days of crypto.

*Slippage refers to the difference between the expected price of a trade and the actual price at execution - e.g. intending to buying BTC at \$100, but having the price rise to \$102 by the time the order goes through. High slippage typically occurs in volatile markets or when there's insufficient liquidity to fulfill an order at the desired price.