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A Brief Glance at Decentralized Crypto Exchange (DEX)

DEX charges users much lower fees than centralized traders, but can be more difficult to navigate and use.

Decentralized crypto exchanges (DEXs) are blockchain-based applications that coordinate large-scale trading of crypto assets between many users. They do this entirely through automated algorithms, rather than the traditional method of acting as a financial intermediary between buyers and sellers.

The algorithms used by DEXs are examples of smart contracts. They are pieces of code written on top of a [blockchain](#) network such as Ethereum that trigger various outputs when given specific inputs.

The idea behind a DEX is “disintermediation,” which means removing middlemen to allow regular people to do business directly with each another. A DEX doesn’t offer custody of users’ crypto assets. Instead, users directly hold all their assets in their own wallets at all times.

The largest crypto DEXs had begun to challenge some of the largest centralized exchanges (CEXs) in terms of trading volume by late 2021, according to a report by global accountancy KPMG. Just as [exchanges](#) are the largest crypto firms, DEXs are the largest decentralized organizations.

Typically, DEXs do away with conventional exchange order books – where buyers and sellers are matched based on order prices and volume – in favor of “liquidity pools.” These are pots of crypto assets sitting under the surface of the exchange, waiting to clear any buy or sell orders that appear. The assets in the pool are sourced from investors, who deposit them in order to earn a yield from transaction fees charged to users of the pool.

The largest DEX is Uniswap, created in 2018 on the Ethereum blockchain by a former mechanical engineer who learned to code only after being fired by Siemens the previous year. By the end of 2021, it was processing over \$1 billion worth of transactions per day.

As of February 2022, Uniswap's version 3 protocol processed nearly \$2 billion in transactions on some days, according to CoinGecko. Its trading volume is typically about three times that of its closest DEX competitors, such as PancakeSwap, which typically has a daily volume of \$300 million to \$600 million.