Uniswap - What is this?

Uniswap is a decentralized exchange where you can trade any token based on the Ethereum blockchain technology for another token based on the same Ethereum technology, paying a very low fee for executing the transaction. To facilitate the exchange of one token for another and many other tokens, the exchange needs a basket of tokens in which they can be held for trading. The quantity of tokens in the basket (LP) is limited, and if the demand for one of the tokens exceeds the supply of the other token you want to exchange, the fee for the exchange increases according to the protocol established by the exchange. It's obvious that when exchanging one token for another, you contribute to one pool while depleting another. To prevent excessive token leakage from the basket, a system was introduced that makes the exchange of such tokens unprofitable at a certain point. This is a safeguard designed to protect the exchange from uncontrolled fund outflows and, above all, to ensure liquidity and customer trust.

Additionally, by exchanging tokens and providing one, you increase the supply, reducing the price. Conversely, by selecting the other token from the basket, you automatically decrease its supply on the exchange, causing its price to rise. For widely used cryptocurrencies, small transactions have almost no impact on price fluctuations. However, for tokens with small LP values, these fluctuations can be significantly larger. LP (Liquidity Pool) is simply the total amount of cryptocurrencies in circulation on the exchange, and liquidity providers create the LP. These are individuals who provide liquidity to the exchange, and in return for having their cryptocurrencies used and locked, they earn fees associated with the exchange of their cryptocurrencies.

On the Uniswap exchange, you can be one of two people. You can use the exchange like a currency exchange office, trading cryptocurrencies just like FIAT currency in a physical exchange office. Alternatively, you can become a liquidity provider and earn transaction fees on the decentralized exchange (DEX). Uniswap is an exchange that has its own token, the Uniswap token, representing the exchange. This cryptocurrency has no intrinsic value and is not used outside of other protocols. However, by holding it, you have the right to participate in governance, meaning you have voting rights proportional to the amount of tokens you own.

In conclusion, there are indications that in the future, fees collected during transactions will be transferred not in the form of cryptocurrencies introduced into the LP but in the form of the Uniswap token. However, for now, these are just speculations. Nevertheless, this concept seems very enticing.