

# Curve stablecoin design

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## Overview

The design of the stablecoin has few concepts: lending-liquidating amm algorithm (LLAMMA), PegKeeper, Monetary Policy are the most important ones. But the main idea is in LLAMMA: replacing liquidations with a special-purpose AMM.

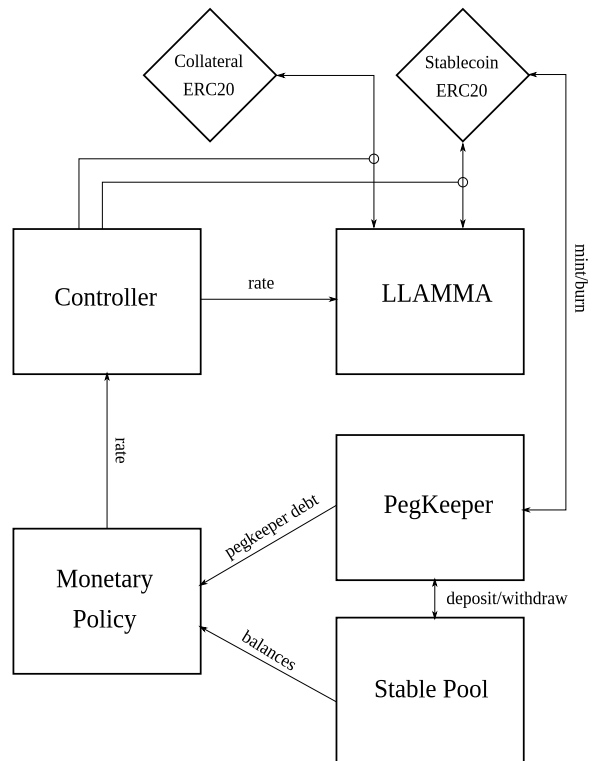


Figure 1: Overall schematic

# AMM for continuous liquidation/deliquidation (LLAMMA)

The core idea of the stablecoin design is Lending-Liquidating AMM Algorithm. The idea is that it converts between collateral (for example, ETH) and the stablecoin (let's call it USD here). If the price of collateral is high - a user has deposits all in ETH, but as it goes lower, it converts to USD. This is very different from traditional AMM designs where one has USD on top and ETH on the bottom instead.

The below description doesn't serve as a fully self-consistent rigorous proofs. A lot of that (especially the invariant) are obtained from dimensional considerations. More research might be required to have a full mathematical description, however the below is believed to be enough to implement in practice.

This is only possible with an external price oracle. In a nutshell, if one makes an typical AMM (for example with a bonding curve being a piece of hyperbola) and ramps its "center price" from up to down, the tokens will adiabatically convert from one to another while proving liquidity in both ways on the way. It is somewhat similar to avoided crossing (also called Landau-Zener transition) in quantum physics (though only as an idea: mathematical description of the process could be very different).

We start from a number of bands where, similarly to Uniswap3, hyperbolic shape of the bonding curve is preserved by adding virtual balances. Let say, the amount of USD is  $x$ , and the amount of ETH is  $y$ , therefore the "amplified" constant-product invariant would be:

$$I = (x + f)(y + g). \quad (1)$$

We also can denote  $x' \equiv x + f$  and  $y' \equiv y + g$  so that the invariant can be written as a familiar  $I = x'y'$ .

However,  $f$  and  $g$  do not stay constant: they change with the external price oracle (and so does the invariant  $I$ , so it is only the invariant while the oracle price  $p_o$  is unchanged). At a given  $p_o$ ,  $f$  and  $g$  are constant across the band. Let's denote  $p_{\uparrow}$  as the top price of the band and  $p_{\downarrow}$  as the bottom price of the band. We define  $A$  in such a way that:

$$\frac{p_{\downarrow}}{p_{\uparrow}} = \frac{A - 1}{A}. \quad (2)$$

The property we are looking for is such that higher price  $p_o$  should lead to even higher price at the same balances, so that the current market price (which will converge to  $p_o$ ) is lower than that, and the band will trade towards being all in USD (and the opposite is also true for the other direction). As an example, this property is satisfied when:

$$f = \frac{p_o^2}{p_{\uparrow}} A y_0, \quad g = \frac{p_{\uparrow}}{p_o} (A - 1) y_0, \quad (3)$$

where  $y_0$  is a  $p_0$ -dependent measure of deposits in the current band, denominated in ETH, defined in such a way that when current price  $p$ ,  $p_{\uparrow}$  and  $p_o$  are equal to each other, then  $y = y_0$  and (by definition of  $p_{\uparrow}$ )  $x = 0$ . Then if we substitute  $y$  at that moment:

$$I = p_o A^2 y_0^2. \quad (4)$$

Price is equal to  $dx'/dy'$  which then for a constant-product invariant is:

$$p = \frac{dx'}{dy'} = \frac{x'}{y'} = \frac{f + x}{g + y}. \quad (5)$$

One can substitute situations where  $p_o = p_{\uparrow}$  or  $p_o = p_{\downarrow}$  with  $x = 0$  or  $y = 0$  correspondingly to verify that the above formulas are self-consistent.

Typically for a band, we know  $p_{\uparrow}$  and, hence,  $p_{\downarrow}$ ,  $p_o$ , constant  $A$ , and also  $x$  and  $y$  (current deposits in the band). To calculate everything, we need to find  $y_o$ . It can be found by solving the equation for the invariant:

$$\left( \frac{p_o^2}{p_{\uparrow}} A y_0 + x \right) \left( \frac{p_{\uparrow}}{p_o} (A - 1) y_0 + y \right) = p_o A^2 y_0^2, \quad (6)$$

which turns into the quadratic equation against  $y_o$ :

$$p_o A y_0^2 - y_0 \left( \frac{p_{\uparrow}}{p_o} (A - 1) x + \frac{p_o^2}{p_{\uparrow}} A y \right) - x y = 0. \quad (7)$$

In the smart contract, we solve this equation in **get\_y0** function.

While oracle price  $p_o$  stays constant, the AMM works in a normal way, e.g. low ETH on the top / low USD on the bottom. By simply substituting  $x = 0$  for the “current down” price  $p_{cd}$  or  $y = 0$  for the “current up” price  $p_{cu}$  values into the equation of the invariant respectively, it is possible to show that AMM prices at the current value of  $p_o$  and the current value of  $p_{\uparrow}$  are:

$$p_{cd} = \frac{p_o^3}{p_{\uparrow}^2}, \quad p_{cu} = \frac{p_o^3}{p_{\downarrow}^2}. \quad (8)$$

Another practically important question is: if price changes up or down so slowly that the oracle price  $p_o$  is fully capable to follow it *adiabatically*, what amount  $y_{\uparrow}$  of ETH (if the price goes up) or  $x_{\downarrow}$  of USD (if the price goes down) will the band end up with, given current values  $x$  and  $y$  and that we start also at  $p = p_o$ . While it's not an immediately trivial mathematical problem to solve, numeric computations showed a pretty simple answer:

$$y_{\uparrow} = y + \frac{x}{\sqrt{p_{\uparrow} p}}, \quad (9)$$

$$x_{\downarrow} = x + y \sqrt{p_{\downarrow} p}. \quad (10)$$

We will use these results when evaluating safety of the loan as well as the potential losses of the AMM.

Now we have a description of one band. We split all the price space into bands which touch each other with prices  $p_{\downarrow}$  and  $p_{\uparrow}$  so that if we set a base price  $p_{base}$  and have a band number  $n$ :

$$p_{\uparrow}(n) = \left(\frac{A-1}{A}\right)^n p_{base}, \quad p_{\downarrow}(n) = \left(\frac{A-1}{A}\right)^{n+1} p_{base}. \quad (11)$$

It is possible to prove that the solution of Eq. 7 and Eq. 5 for any band gives:

$$p(x=0, y>0, n) = p_{cd}(n) = p_{cu}(n-1), \quad (12)$$

$$p(x>0, y=0, n) = p_{cu}(n) = p_{cd}(n+1), \quad (13)$$

which shows that there are no gaps between the bands.

Trades occur while preserving the invariant from Eq. 1, however the current price inside the AMM shifts when the price  $p_o$ : it goes up when  $p_o$  goes down and vice versa cubically, as can be seen from Eq. 8.

## LLAMMA vs Stablecoin

Stablecoin is a CDP where one borrows stablecoin against a volatile collateral (cryptocurrency, for example, against ETH). The collateral is loaded into LLAMMA in such a price range (such bands) that if price of collateral goes down relatively slowly, the ETH gets converted into enough stablecoin to cover closing the CDP (which can happen via a self-liquidation, or via an external liquidation if the coverage is too close to dangerous limits, or not close at all while waiting for the price bounce).

When a user deposits collateral and borrows a stablecoin, the LLAMMA smart contract calculates the bands where to locate the collateral. When the price of the collateral changes, it starts getting converted to the stablecoin. When the system is “underwater”, user *already* has enough USD to cover the loan. The amount of stablecoins which can be obtained can be calculated using a public **get\_x\_down** method. If it gives values too close to the liquidation thresholds - an external liquidator can be involved (typically shouldn't happen within a few days or even weeks after the collateral price went down and sideways, or even will not happen ever if collateral price never goes up or goes back up relatively quickly).

When a stablecoin charges interest, this should be reflected in the AMM, too. This is done by adjusting all the grid of prices. So, when a stablecoin charges interest rate  $r$ , all the grid of prices in the AMM shifts upwards with the same rate  $r$  which is done via a **base\_price** multiplier. So, the multiplier goes up over time as long as the charged rate is positive.

When we calculate **get\_x\_down** or **get\_y\_up**, we are first looking for the amounts of stablecoin and collateral  $x_*$  and  $y_*$  if current price moves to the current price  $p_o$ . Then we look at how much stablecoin or collateral we get if  $p_o$  adiabatically changes to either the lowest price of the lowest band, or the highest price of the highest band respectively. This way, we can get a measure of how much stablecoin we will which is not dependent on the current *instantaneous* price, which is important for sandwich attack resistance.

## Automatic Stabilizer

## Automatic Monetary Policy