How Tokenmak rebuilds liquidity staking market ?

Protocol mechanism, token economics, and the development status of Tokenmak

Cyberhang, Sep 15
Global Coin Research

Background

While Liquidity is the fuel to power DeFi applications, the liquidity market today is facing problems:

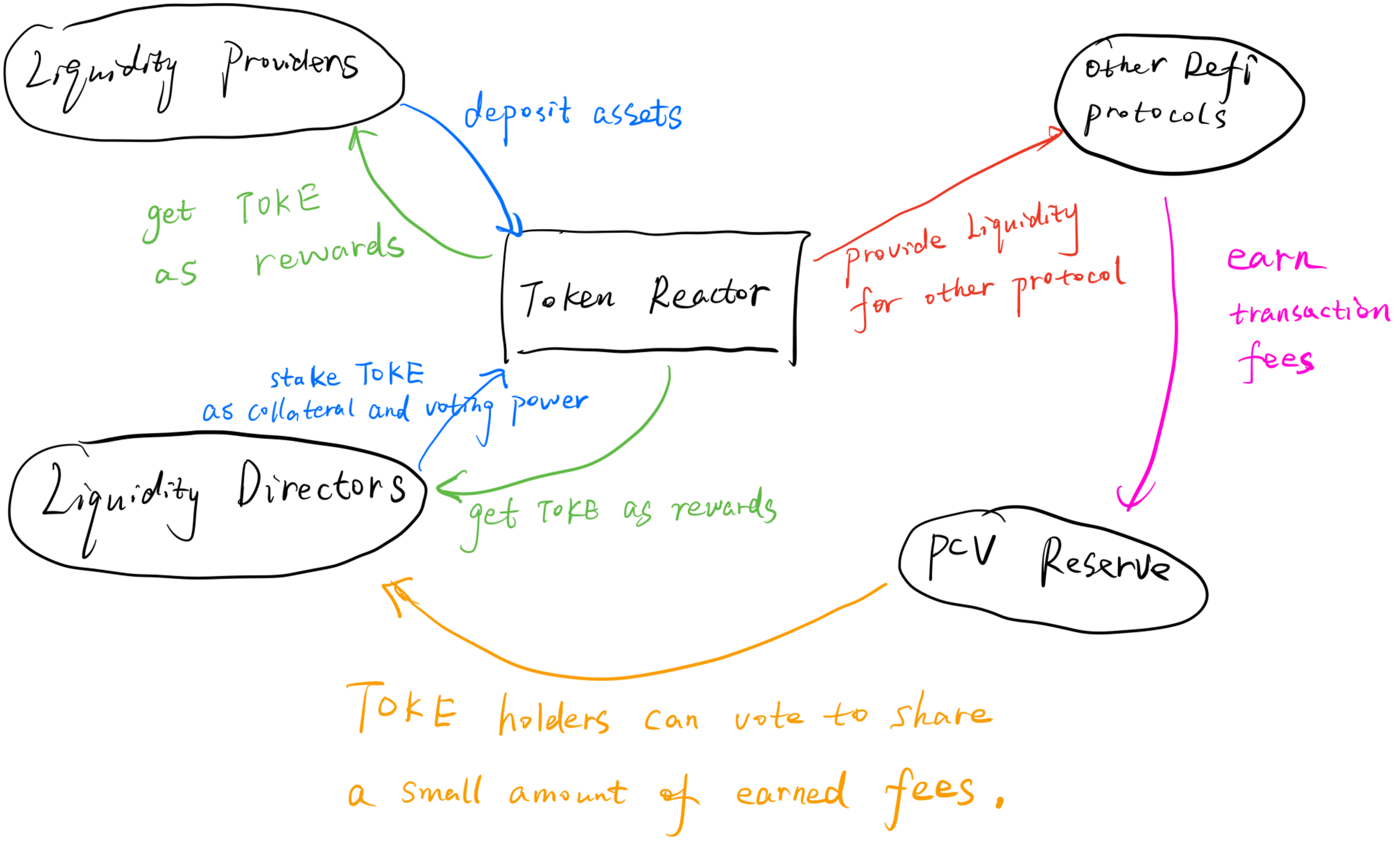
- Liquidity is expensive. For example, new DeFi protocols usually spend a lot to attract LPs, even though it is unsustainable.
- Liquidity is mercenary. Liquidity always search for the highest risk-adjusted yield.
- With the risk brought by the Impermanent Loss, it is hard for ordinary investors to serve as a LP.

After the conclusion of its two-month liquidity mining program that ran between September-November 2020 and in which LPs were incentivised with UNI rewards, the TVL fell by nearly 49.5%.

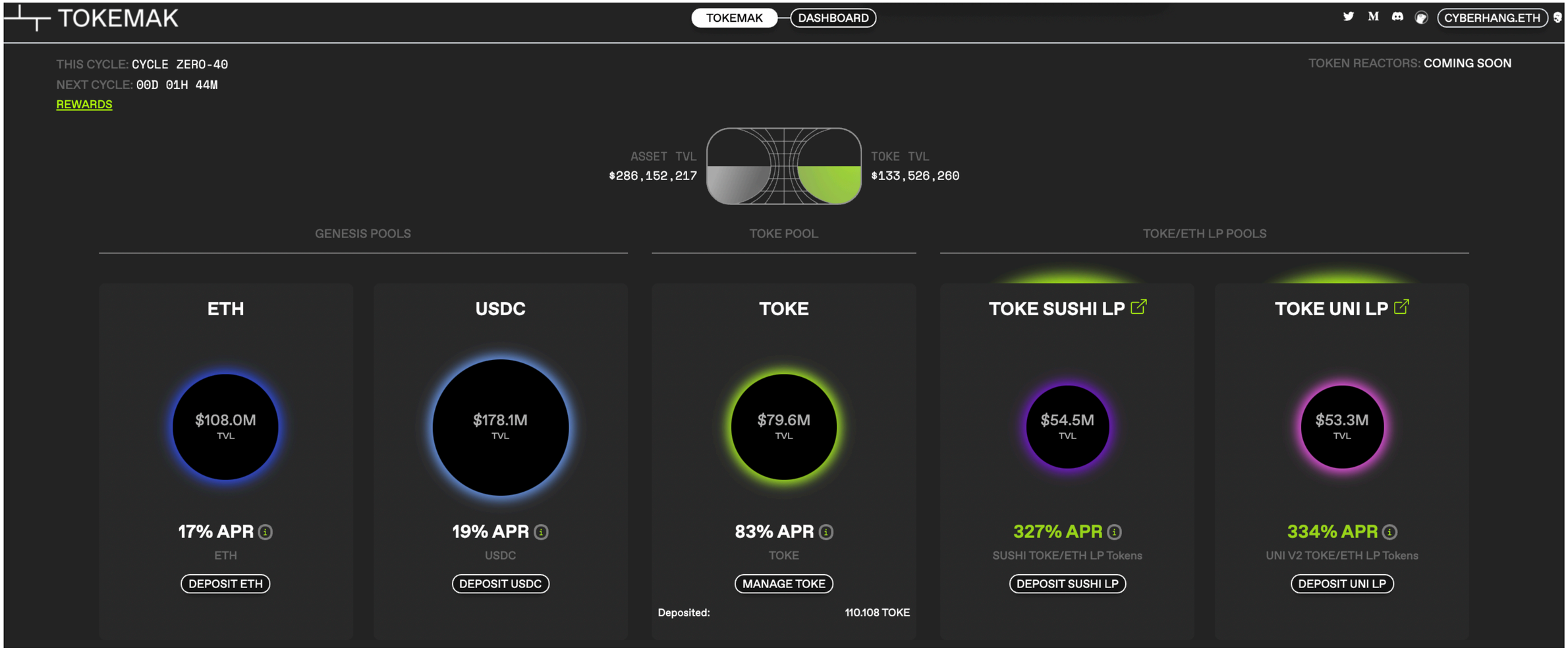
Tokemak: Liquidity as a Service

Tokemak creates sustainable DeFi liquidity and Capital efficient markes through a convenient decentralized market making protocol. The system is built upon the following components:

- Liquidity Providers/LPs: Single asset depositors into ‘token reactors’ to be utilized as liquidity, and all LPs are rewarded with TOKEs from the protocol’s Reward Emission.
- Liquidity Directors/LDs. Token stakers who vote to direct assets as liquidity to supported exchanges or protocols. All LDs are rewarded with TOKEs from the protocol’s Reward Emission
- Token Reactors: Reactors are hubs through which deposits of a given asset are pooled, forming the connection between liquidity providers (LPs) and liquidity directors (LDs).
- Protocol Controlled Asset Reserve (PCA Reserve): The reserved assets managed by TOKE holders. All revenues from the liquidity staking/mining will go to the PCA Reserve, which can be used the insurance Vault.


Liquidity Providers
deposit assets
get TOKE as rewards
Other Defi protocols
Token Reactor
provide Liquidity for other protocol
earn transaction fees
stake TOKE as collateral and voting power
Liquidity Directors
get TOKB as rewards
PCV Reserve
TOKE holders can vote to share a small amount of earned fees.

The staked TOKE's voting power is determined by that amount of TOKE in a given token reactor. If there is a large supply of assets in a token reactor but a small amount of TOKE directing those assets, those TOKE have a greater liquidity directing power. Then the APR offered for TOKE staked to that reactor will adjust variably to attract LDs to stake more TOKE to solve the imbalanced state.



The risks of LPs are minimised:

1. Tokemak makes LPs whole by drawing the asset in deficit from the PCA reserve.
2. Tokemak draws system-wide asset surpluses into the PCA.
3. When PCA cannot cover the immediate amount requested to be withdrawn, the TOKE staked to that reactor comes into play as a backstop.

It means LPs will only suffer from the contract risks, which exists in all DeFi protocols and all blockchains. Thus, it will incentivise more LPs to deposit their assets into the Tokemak, which in turn enhances the power and reputation of Tokemak.

TokEnomics and Emissions

Only 20% of the total supply will be in circulation at the end of the first year.

Total Supply: 100,000,000 TOKE

30%: Reward Emissions (emitted over 24 months)

5%: Cycle Zero's DeGenesis Event and CoRE (Collateralization of Reactors Event), the first distribution of TOKE

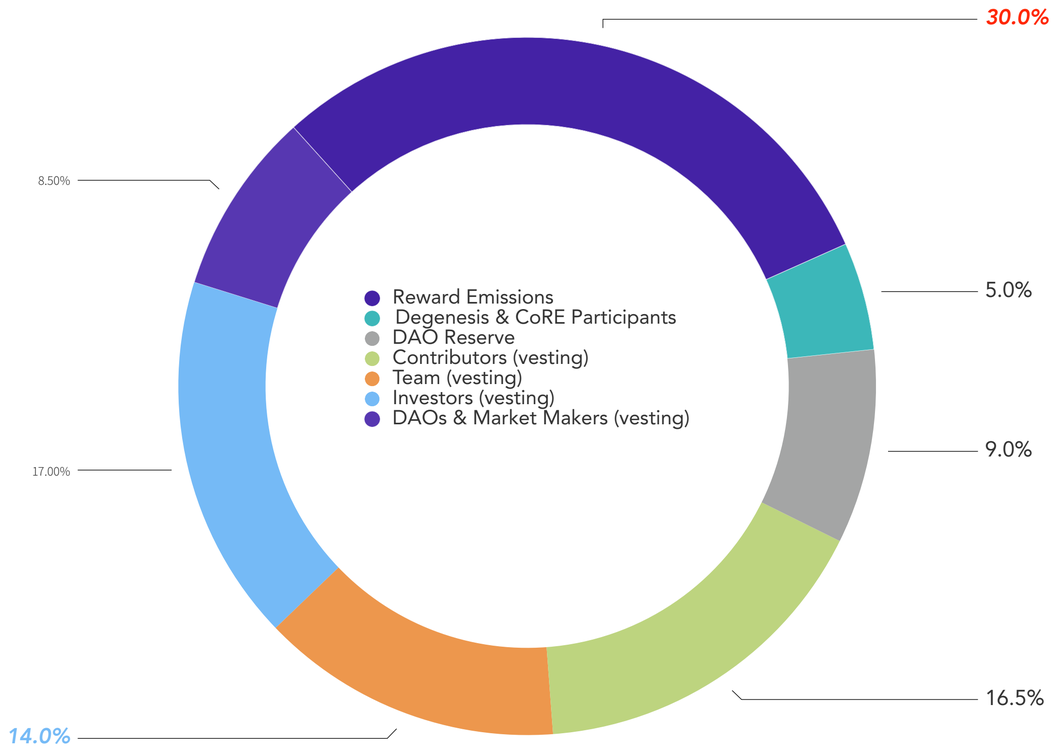
9%: DAO Reserve

16.5%: Contributors (12 month cliff + 12 month linear vest)

14%: Team (12 month cliff + 12 month linear vest)

17%: Investors (12 month cliff + 12 month linear vest)

8.5%: DAOs & Market Makers (12 month cliff + 12 month linear vest)



The Value of TOKE

Should I buy some TOKE now?

1. The intrinsic value of TOKE is directly correlated with the liquidity staked into Tokemak, because it represents how much liquidity TOKE holder can use. When the power of TOKE is growing, DeFi projects may seek opportunities to spend only a small amount of money to buy some TOKE and direct a larger amount of liquidity to themselves. This will lead to a high demand of TOKE and its price will go up.

2. The growth of the LP's deposit also increases the APR of TOKE stakers. It will incentivise more stakers choose to hold and more TOKE new stakers join.

3. While more reactors are deployed and Tokemak functions well, the transaction fees earned from exchanges will maintain the security of Tokemak, which in turn incentivise the growth of LP's deposit.

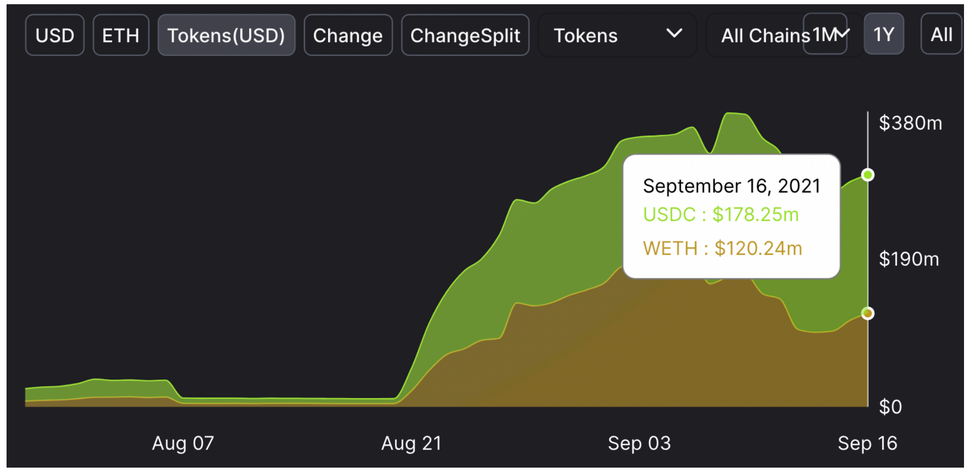
4. TOKE holders can vote to share a little percentage of the transaction fees flowed into PCA Reserve.

5. The risks are the sell pressure coming from the reward emissions, which could possibly lead to the fell of the TOKE price. This will compromise the security of Tokemak and APR of LPs and LDs. The negative cycle might happen without more LPs joining.

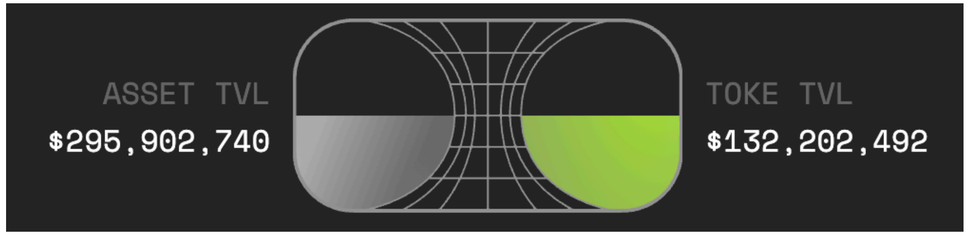
6. From a game theory perspective, as long as the asset deposited into the Tokemak protocol is strong enough, the sell pressure can be ignored.

Current Status of Tokemak

- Currently, even though no Token Reactor has been deployed yet, the Asset TVL has grown to nearly 300M.
- The TOKE TVL is around 44.6% of the Asset TVL, which means each TOKE can leverage 2.24x liquidity of itself on average.
- There are 4,013,979 TOKEs in circulation and 3,636,303 TOKEs are staked in Tokemak. It means 90% of the circulation supply are staked. (The data comes from Coingecko and DeFi Llama)



Asset deposited into Tokemak



Asset TVL vs TOKE TVL

Ongoing plans

1. Tokemak's Collateralization of Reactors Event will begin on September 28.
2. Tokemak is thinking about providing liquidity for the cross-chain transfer.

Fundraising

"The company announced on Tuesday a $4 million investment round led by Framework Ventures, a well-known DeFi investment fund known for its bets on Synthetix and Chainlink. Other major funds such as Electric Capital, Coinbase Ventures, North Island Ventures, Delphi Ventures and ConsenSys also joined the round." — From cointelegrah

Tokemak announced the seed raise on its discord server on Jul 29: $2 per token, with a 2 year vest (12 month cliff + 12 month linear vest from protocol launch) ; Pre-seed Round in May 2020 at $0.2 per token, with the same vesting period. Average from all investors bought TOKE at $1.55 per token.

3M TOKEs are sold on the DeGenesis, at a price of $8 per token.

Thanks