For Market Makers

The **DutchX** is an open, decentralized trading protocol for ERC20 tokens using the Dutch auction mechanism to determine a fair value for tokens.

Arbitrage Challenge

- There is currently an ongoing arbitrage opportunity on the DutchX
- Gnosis will in addition place $1,000,000 in DAI/ETH orders to attract market makers and demonstrate the system
- Please read the details and regarding the timing here

Exec Summary

- Create Magnolia Tokens and benefit from reduced liquidity contribution (to 0.05%)
- Obtain liquidity contribution paid by other participants thanks to a redistribution model
- Magnolia token holders may have partial ownership of the DutchX via the dxDAO
- Impact of Magnolia token holders may increase over time by obtaining voting power on decisions
- When participating as a bidder: factor into the amount you are willing to pay any cost (liquidity contributions and gas costs) and benefit from paying this or less

If you need more information, please check the blog posts available here

Benefits of being a Market Maker

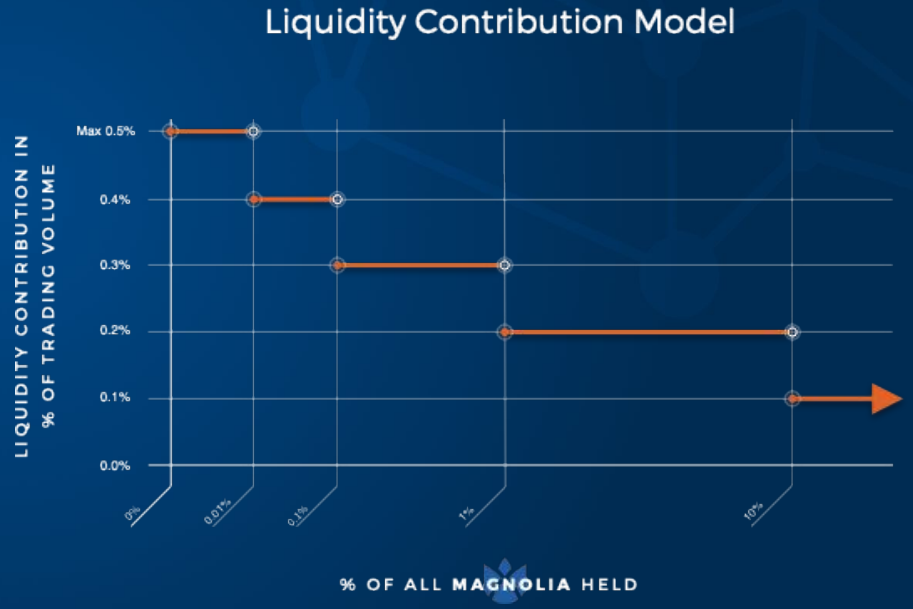
1. Reduction of own liquidity contributions

Liquidity contribution reduction through Magnolias (down to 0.1%)

+ Magnolias are generated and credited by trading on the exchange:
  1 Magnolia for every 1 ETH worth of trade of whitelisted tokens

+ Magnolias are locked by default for use; if requested to unlock: tradable after 24h

+ Revenue from selling Magnolia is possible



Benefits of being a Market Maker

2. Obtaining liquidity contributions of other participants

Payment Of liquidity contributions

1. Individual liquidity contribution rate is calculated based on the number of Magnolia tokens held
2. Optional liquidity contribution payment in OWL (maximal up to half; 1 OWL equals 1 USD; OWL are generated by locking GNO)
3. Remainder of liquidity contributions to be paid in the participating Token

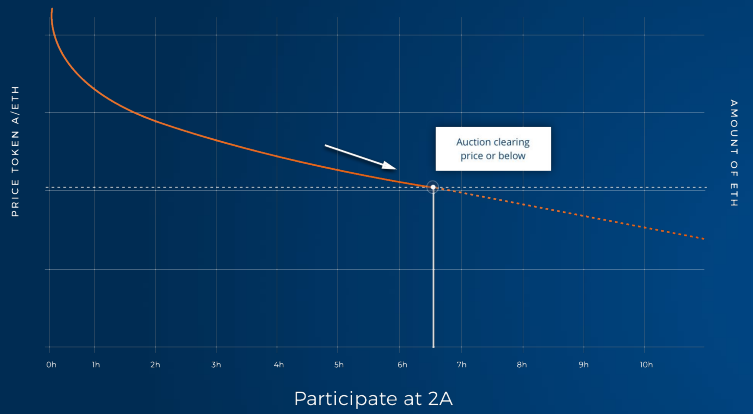
Beneficiary of liquidity contributions

+ liquidity contributions do NOT go towards Gnosis
+ liquidity contributions paid in OWL are burned
+ liquidity contributions paid in any Token stay in the DutchX ecosystem and will be attributed to the next running auction of the same pairing
+ You may, therefore, obtain liquidity contributions of other participants (true for all following strategies)

Strategy of Market Makers

1. Arbitrage with various exchanges and trading platforms

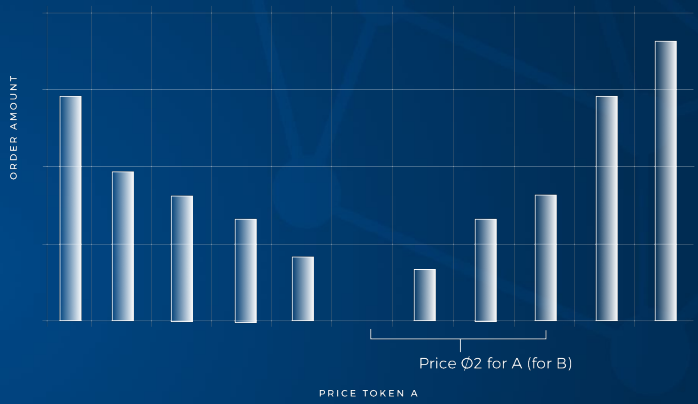
DutchX



Participate at 2A

Another Exchange

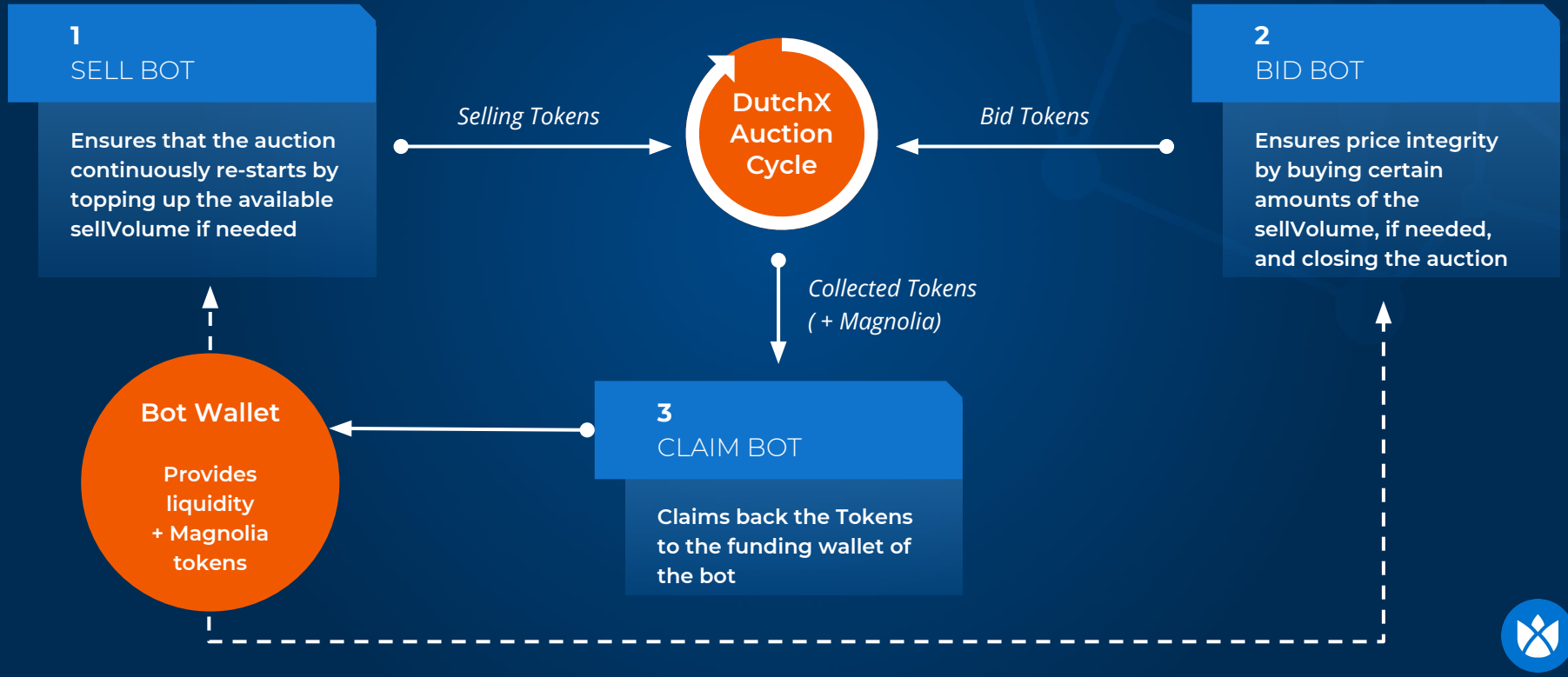
Order Book



Participation as a bidder:	Arbitrage strategy:
+ Economic incentive to participate at one's own highest willingness to pay	+ Become a bidder (using Token A as bidToken) when you can buy Token A elsewhere for a lower price
+ If the auction clears at a lower price point (i.e. later), price will be lower	+ This will provide liquidity to the market

Liquidity bots

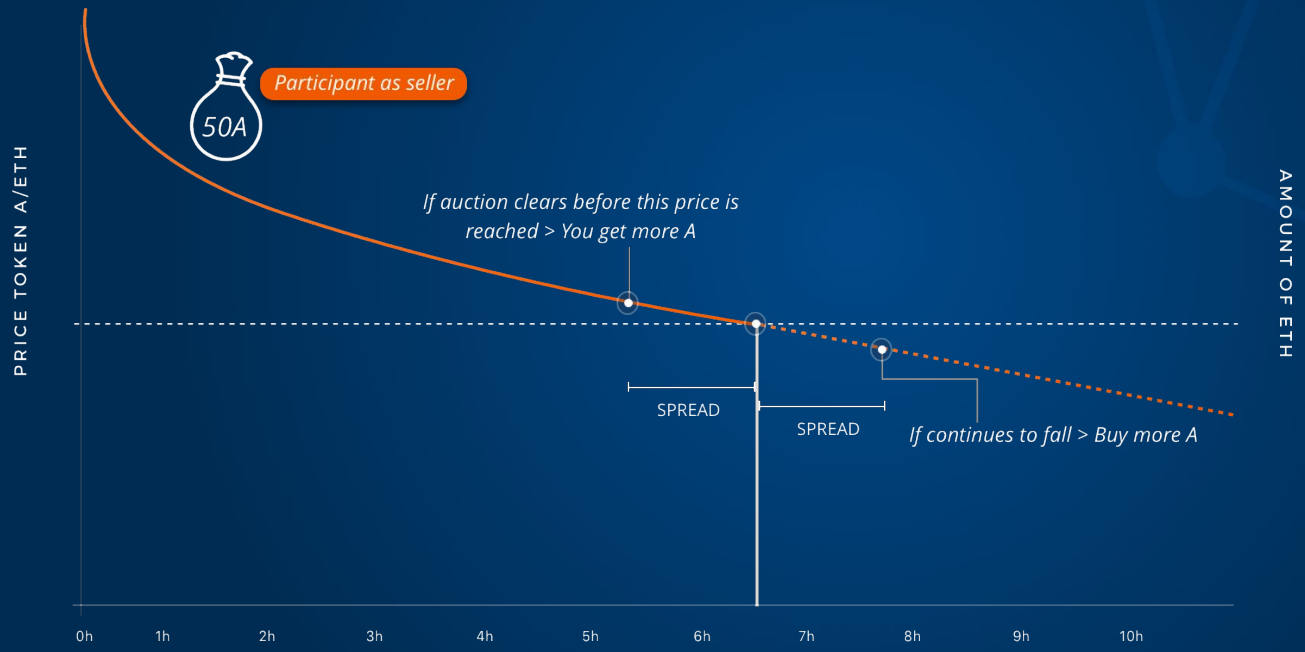
These minimal liquidity bots are designed to interact with the DutchX protocol in the following manner. These could be re-used and re-parameterized if needed.



Strategy of Token Market Makers

2. “True” market making

Strategy: Actively making a market and market price by providing sell and buy liquidity



Buy back the 50A if price is right

Decentralized vs. Centralized Exchanges

What is the difference between a decentralized exchange or trading platform and the DutchX?

+ No account needed
+ On-chain settlement (block time)
+ Slow (may not be exploited by high frequency traders)
+ Note: as a seller, you need to wait for the auction to clear to obtain your bidToken
+ Note: as a bidder, you may claim and withdraw the Token you are buying immediately and in increments until the auction clears
+ See next slide for a gas indication (network fee)

DutchX Gas Costs

Bidder	**gas**
Allowance of token (once)	45k
Deposit (can be once)	49k
Post BidOrder	148k
Claim	50k
Withdraw	48k
Sum (including marginal functions)	340k
Gas for marginal functions only	198k

+ Maximal(!) gas costs due according to function are displayed here

+ Gas costs may be reduced by storing on the blockchain when prices are low and by freeing storage when needed: more info on https://gastoken.io/