Networked Liquidity – Radar Relay – Medium

[Radar Relay](#)   Oct 6, 2017

Radar Relay facilitates wallet to wallet trading using an open order book. There are no accounts, no limits, and no deposits.

Networked Liquidity

Projects solving the chicken and egg problem

At Radar Relay we are excited for the arrival of the new Modular Trade Network (MTN) ecosystem. In fact, we created https://relayer.network to lay out our high-level vision of the future. While it is fun to dream about what the future landscape of decentralized applications will look like, we are still in the very early days. This post focuses on looking into the short term of MTNs, projects developing there, and how Radar and other relayers fit in.

Networked Liquidity

We'll be using the phrase "networked liquidity" quite a bit. For those new to the term, we've defined our perspective.

Similar to network effects, the phenomenon where a product or service gains additional value as more people use it, decentralized networked liquidity aggregates liquidity pools from projects built on Øx for enhanced utility and value.

Chicken and Egg Problem

Networked liquidity is about to face an age-old dilemma: the chicken and egg problem. For the liquidity networked by relayers to be useful it must also be functional, and for it to be functional there must be enough utility and volume to not disrupt its other utilities.

Modular Trade Network Participants

While trustless peer-to-peer trading is the initial utility relayers will bring to MTNs, the following sections describe other functionality coming soon to this emerging ecosystem.

Single-Use Token Abstractions

The Ethereum community is currently building the low-level protocol stack of what is coming to be known (ironically) as Web 3. Already, protocols for exchange ([Øx](#)), payment ([Request Network](#)), storage ([Storj](#)), and distributed computation ([Golem](#)) are being developed. Similar to the explosive growth of web applications built on the Internet Protocol, future dApps will increase in complexity and functionality. Consider a simple use case of transforming and storing data: a simple dApp could leverage the Golem network for computation and the Storj network for storage. A user coming to this dApp may not hold either token or have any knowledge of such, but like the

Internet Protocol, the user does not need to. Instead, the dApp can instantly and trustlessly take the user's Ether or other tokens and use networked relayer liquidity to convert exact token amounts necessary for the single dApp function.

Stable Coins

Currently, one problem with holding value in digital assets is the market separation from physical assets (cash, gold, oil, etc) and dealing with volatility. There are several live and developing stable coin projects attempting to create tokens that have values pegged to non-blockchain based assets or maintain low-volatility using economic principles.

- **Tether.to** is a live system which issues and maintains tokens with values tied directly to an asset held in Tether's reserves. The maintained value of the issued tokens is dependent on Tether's ability to keep their reserves. If they are shut down or become insolvent then Tether token holders will not be able to reclaim their equivalent value.
- **Dai** is a project pioneered by the MakerDAO team to decentralize the creation and management of Collateralized Debt Positions (CDPs) using smart contracts to mint Dai tokens with a low-volatility value (close to $1) provided by an oracle. CDPs release their locked up collateral when the owner burns an equal amount of Dai that was created in the respective CDP. UserA creates a tradable CDP using their tokens as collateral to generate Dai which can be sold on the market to UserB seeking to trade their assets for a low-volatility USD stablecoin (Dai). UserB receives stable tokens and UserA is left with a CDP and the tokens received in their trade with UserB, meaning they are leveraging exposure to the assets in their CDP. The solvency of the Dai collateral system can be determined by a set of risk parameters.
- **Sai** is a less complex version of Dai. All CDPs are collateralized with ETH and the USD price oracle comes from the Maker Admin Multisig. This approach sacrifices on decentralization to test some of the other

mechanisms in Dai as laid out in Maker's blog.

- **Digix.global** is using a proof-of-asset system to create a DGX token pegged with a gram of gold and other physical assets.
- If either proof-of-asset or oracle-based CDP methods prove to be successful in creating value-stable tokens many other assets (blockchain-based, stocks, gold, real estate, etc) will become tokenized on Ethereum.

Decentralizing Traditional Trade Vehicles

One of the primary value propositions of Ethereum is the elimination of the middle man via programmatic smart contracts. These smart contracts provide a foundation for decentralizing traditional trading vehicles. Users coming from traditional finance will have access to the trading mechanisms they're accustomed to while established token traders will have an opportunity to learn how to leverage these new instruments to maximize gains or mitigate risks.

Lending

Decentralized peer-to-peer lending allows token holders to become credit system participants using smart contracts.

- **Dharma** protocol is being developed to enable these interactions on Ethereum, so a borrower can tap into a line of credit without a central authority and a lender has an opportunity to make interest on lent funds. Dharma uses a reputation system to determine how much credit a particular borrower should have access to.

Derivatives

Derivatives markets are the largest worldwide (~$1.2 quadrillion) far outweighing any other financial asset. As Ethereum matures and more assets become tokenized users will have access to derivative markets implemented via smart contracts.

- **dYdX** is a protocol being developed to bring trustless, decentralized derivative markets to Ethereum. The dYdX protocol will enable a suite of financial strategies including short sells (allows users to take a position against price decrease), collateralized loans, and options to hedge risk on a market position. Since dYdX will be using Øx there is an opportunity for dYdX to tap into relayer networked liquidity and visa versa.

Oracles

Oracles are entities, on-chain or off-chain, that provide sources of information to smart contracts or dApps. Oracles can be centralized and fully trusted or several can be used to find a consensus.

Prediction Markets

Prediction markets like Augur have already committed to using Øx in their stack. This makes sense since as prediction marketplaces grow they will harness large pools of (potentially diverse) liquidity on their order books. Some may even build a relayer themselves and participate in networked liquidity. In the future, as MTNs develop, prediction markets may rely on relayer trade oracles to find true market price and volume.

DAOs and Protocol Improvements

Related to the trade oracles discussed above, networked trade information could be fed into Distributed Autonomous Organizations (DAOs) to be used as triggers for governance or unlocking functionality. For example, a DAO for a project could unlock founder funds when a certain price for the token is reached. Similarly, a DAO could choose a protocol fork in a project by using volume and/or price oracles as a factor for deciding which fork the DAO should support.

Conclusion

Modular Trade Networks are coming and relayers, like Radar, will provide

the foundation for token abstraction, stable coins, traditional trading mechanisms, oracles, and many other utilities. Teams all over the world are committed to this decentralized vision and everyday our ecosystem gets one step closer to realizing true networked liquidity.

Join us on Slack

If Modular Trade Networks and networked liquidity are interesting to you, or if you have any questions, join us on slack!

One clap, two clap, three clap, forty?

By clapping more or less, you can signal to us which stories really stand out.

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Radar Relay maintains a Øx order book and provides an interface to facilitate signing, finding, and filling Øx orders.

Write a response…

Jeremy Clark