title: [ARFC] Aave Liquidity Committee Funding Phase V

author: [@karpatkey_TokenLogic](#)

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Summary

This publication presents the Aave Liquidity Committee (ALC) Phase V request.

Phase IV Update

Buoyant market conditions in November drove strong demand for stablecoin debt that resulted in the composition of DEX liquidity pools being increasingly concentrated in GHO, and outflows from the the GSMs. Three small Borrow Rate increases were implemented with minimal effect and ultimately GHO's peg began showing signs of stress from November 12th up until the 1st December.

From late October to early November, GHO's debt continued to expand leading to a noticeable shift in the composition of the Balancer 3pool liquidity pool in favour of GHO. A few days later, the GSMs started experiencing outflows resulting in GHO being burnt and USDC plus USDT reserves being distributing.

Note: The composition of the Balancer 3pool started shifting on October 28th, prior to the GSM experiencing outflows on the 3rd November and eight days before the Curve NP Pool's composition began favouring GHO. This is due to the high amp in the 3pool and the current the fees configuration on the GSMs.

Source: [Aave Analytics | TokenLogic](#)

Between the 4th to 10th November, ~16M units of GHO were burned and all but small amount of the 8M units of USDC and 8M units of USDT remain in the GSM.

Source: [Aave Analytics | TokenLogic](#)

Three Borrow Rate amendments were pushed by the GHO Stewards, 50bps on 7th November, 75bps on 12th November and 50bps on the 18th November. All three Borrow Rate increases were ineffective and demand from prevailing market conditions proving more influential with ETH trading from 2,720 USD on the 7th November to 3,204 USD on the 18th November.

ON the 11th November, DEX pools heavily nominated in GHO and the GSMs depleted, GHO's spot price began to come under pressure. On the 12th November, the GHO Stewards increased the Borrow Rate for a second time and reduced the Borrow Cap to prevent new GHO from being borrowed.

Over the next few days, GHO was redeemed from Maverick and borrowed on Fluid, before being swapped to other assets which resulted in downwards pressure on the weak peg.

Source: [Aave Analytics | TokenLogic](#)

The third Borrow Rate increase, 50 bps on the 18th November, had minimal affect and on the 20th November, the GHO Stewards increased the Borrow Rate by 300bps to recover the peg.

The 300bps increase was successful with 12.3M units of GHO being repaid. Soon afterwards, general stablecoin borrow rates increased across Aave v3 and this resulted in users borrowing GHO causing the peg to deteriorate.

A second 350bps Borrow Rate was implemented resulting in 14.5M units of GHO debt being repaid and resulted in GHO trading 0.999 USD.

Source: [Aave Analytics | TokenLogic](#)

The Paraswap v6 integrating on the main frontend facilitated swaps into GHO helping recover the peg as users migrated away from GHO debt. The ability to change between to and from GHO debt on the frontend has proven to be both a critical growth and peg stability tool.

Ethereum

DEX Liquidity

During Phase IV, buoyant market conditions resulted in GHO's peg to experiencing more volatility than the prior reporting period.

The returns from a 5M GHO to USDC swap is shown below and highlights the low quoted price impact of performing the swap. The primarily consideration in the image below is the spot pricing of GHO being 0.9980.

Source: https://swap.defillama.com

Overall, AUM in G=DEX liquidity pools is $37M with around half, or 19.4M units, being nominated in GHO.

Source: Aave Analytics | TokenLogic

Source: Aave Analytics | TokenLogic

The recent reduction in GHO within DEX liquidity pool correlates with GHO's circulating supply contracting due to users repaying GHO debt in response to the recent 350bps Borrow Rate increase.

The wBTC/GHO/wstETH Tricrypto Pool and GHO/wstETH 80/20 Weight Pool on Curve and Balancer respectively have been consolidated into cbBTC/GHO/wETH on Curve. The consolidation of two pools into a single pool is expected to result in a cost saving to the ALC. The timing of this was dictated by the largest LP in the 80/20 pool developing the ability to hedge both BTC and ETH price exposure.

Funding Rates

Perp funding rates have increased significantly over recent weeks making providing liquidity in DEX pools less attractive. With asset prices generally trending higher, the GHO liquidity rewards have been able to continue offering a competitive yield. However, sustaining the amount of the liquidity is resulting in elevated spending levels.

InstadApp - Fluid Integration

Launching GHO on InstadApp's Fluid for lending has proven successful with over 12M of GHO deposited. The largest LP in this pool has a collateral and a GHO debt position on Aave.

Ahead of launching GHO as Smart Collateral and Smart Debt on Fluid, the ALC coordinated with GHO Stewards to recover the peg via second large Borrow Rate increase. The ALC views the Smart Collateral and Smart Debt features as beneficial for supporting swaps and providing deeper liquidity.

PYUSD/GHO Liquidity

With funding received, members of the ALC are actively working with various fund managers to source the GHO/PYUSD liquidity. Seeding this 8M of liquidity when GHO is at peg will help the ALC to retain GHO's peg. At the time of writing, the ALC expects the 8M of PYUSD/GHO liquidity to be seeded week starting 1st December 2024.

Royco

With the objective of stimulating demand for GHO in challenging market conditions, the ALC created and funded Quest on Royco to reward users for swapping USDC to GHO and staking the GHO for 30 days before being able to call the cool down function.

The Quest is targeting 5M of USDC being swapped to GHO to help rebalance the composition of the DEX liquidity pools.

Arbitrum

GHO's growth on Arbitrum continues to be slow.

In collaboration with Paxos, the wUSDL/GHO pool on Balancer has been funded and the ALC is working with Paxos to progress this liquidity from a ComposableStable pool type on Balancer v2 to v3 and ideally into a Concentrated liquidity pool type.

GHO was proposed and approved as liquidity on Synthetix v3 and recently, the ALC received feedback for GHO to be added as both Liquidity and Margin on Synthetixs. A Pull Request is currently with the Synthetixs team for review to support onboarding GHO as Liquidity and Margin.

GHO is expected to be listed on Synthetix v3 in the near future and are liaising with several funds regarding the prospect of providing liquidity to kick start the integration.

Phase V Lookahead

Ethereum

In response to recent peg volatility, the primary focus of the ALC is to retain the peg and create deep liquidity supportive of facilitating large swaps with minimal price impact.

Balancer v3

Early December Balancer v3 will launch without any gauges and with some incentives to attract liquidity. Several major GHO liquidity provider are yet to have had the opportunity to review Balancer v3's code base or audits. As a result, we expect the migration to v3 to take some time and may not be pursued until sometime in the new year when all the pools are configured with gauges via governance.

GHO on Aave Prime

GHO is expected to be launched on the Prime instance of Aave v3 with initial seed liquidity provided by the DAO. The sUSDe eMode is expected to create strong demand for stablecoins and GHO alike. The initial seed liquidity is hopefully sufficient enough to entice users to borrow GHO. With adequate GHO debt in the reserve, this should create a high native yield for GHO deposits.

The introduction of dedicated Merit program may be used to help attract deposits.

Royco Quests

Pending the results of the initial Royco Quest, the ALC may continue to use Royco as a means of stimulating demand for GHO and promoting the adoption of GHO in other protocols.

Encouraging GHO Smart Collateral and Smart Debt on Fluid and deposits into Gearbox when Pendle PTs are added remain near term opportunities for the ALC to consider.

Arbitrum

With the GHO intended for Arbitrum used for the INST purchase, the ALC still advocates for additional liquidity to be provided into Aave v3 to support the adoption of GHO on Arbitrum. This is most likely to be achieved with a new facilitator on Ethereum that leads to GHO being minted, bridged and deposited into Aave v3.

As mentioned earlier, in the near future, we expect GHO to be listed on Synthetixs v3 as a deposit asset that earn yields and also as margin. Do note, any un-utilised liquidity is deposited into Aave v3 to earn yield.

A USDe/aGHO ECLP was launched with x30 Sats and has achieved minimal inflows despite ample rewards. The ALC is likely to reduce spend on this pool and reprioritise this portion of the budget.

The ALC is continuing to explore other potential integrations for GHO on Arbitrum with a high frequency oracle being developed by Chainlink to enable new integrations that haven't been technically possible this far.

Base and Avalanche

Phase V will oversee the deployment of GHO on Base and Avalanche, marking the first multi-chain expansion since GHO was successful launch on Arbitrum. These integrations aim to extend GHO's adoption and utility to new ecosystems.

aToken GSMs are expected to help maintain the peg on each respectively network. Leveraging existing relationships, the ALC intends to promote DEX liquidity at launch and a Synthetix integration on Base soon after launch.

Performance Metrics

The below details some high-level GHO metrics:

Description

Ethereum Value

Arbitrum Value

Avalanche Value

Base Value

TVL DEX Liquidity Pools

50M

20M

20M

20M

TVL Utility Liquidity Pools (Excl. stkGHO)

15M

7.5M

7.5M

7.5M

DEX Liquidity Composition

< 50% GHO (< 33% for 3pools)

< 50% GHO (< 33% for 3pools)

< 50% GHO (< 33% for 3pools)

< 50% GHO (< 33% for 3pools)

Swap Price Impact $5M Swap (GHO to USDC)

< 0.10%

< 0.25%

< 0.25%

< 0.25%

Annualised Peg Volatility

< 5.00%

< 5.00%

< 5.00%

< 5.00%

Price level for >90% time

$0.995

$0.995

$0.995

$0.995

Please note, each of the above targets has external dependencies beyond the control of the ALC. The above table serves as a North Star for the ALC to strive towards over the next three months. Having measurable targets provides a clear direction and goal to achieve.

Specification

Swap the following assets to GHO and deposit into the Prime instance on Ethereum.

Ethereum

aEthUSDT (1.25M)

aEthUSDC (1.25M)

Create an Allowance allowaing the ALC to withdraw GHO from the Prime instance for a total of 2,000,000 GHO.

ALC Ethereum SAFE: 0xA1c93D2687f7014Aaf588c764E3Ce80aF016229b

Disclosure

TokenLogic and karpatkey receive no payment for this proposal.

Next Steps

1. Gather feedback from the community.

2. If consensus is reached on this ARFC, escalate this proposal to the Snapshot stage.

3. If Snapshot outcome is YAE, an AIP will implement this proposal.

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