

Hey everyone,

Summary

This proposal asks for 200k SCRT from the community pool to be deployed as community owned liquidity for the SCRT xlp pool on the Levana Osmosis perpetuals platform. The liquidity is to be managed by a multisig of 5 representatives of the Secret Network community.

About Levana Osmosis

Levana is a perpetual futures market on Osmosis following the GMX model where traders trade against a pool of assets supplied by LPs. Levana has done over 2.5b in volume since launch from over 20,000 users. Levana can offer a market for any IBC asset that is supported with price feeds by Pyth and will launch a leverage market for the same asset to function as the market for the perpetual contract. Users can go long and short with up to 10x leverage or supply assets to the LP to earn trading fees and share in the cumulative losses/winnings of the traders.

How it will work

We will propose the funds to go to a multisig owned by community contributors (Lisa Loud, Alex - saturn, Luigi, Mohammed-SecureSecrets, Ertemann - Lavender.Five) after which the SCRT is transferred to an Osmosis multisig of the same members. There it will be deployed in the SCRT LP for the SCRT/USD perpetual market as a base of liquidity for users of the platform to utilize. The LP shares will be locked to participate in the higher yield of the Levana xLP vaults. Any yield earned will be auto compounded every quarter.

The Secret community pool will lose any direct access to the funds after passing of the proposal but the multisig owners are expected to follow any follow-up instructions coming in from the on-chain proposals.

Additionally, if no additional proposal is passed to extend the period the multisig signers are expected to return the funds in full + potential profit to the community pool no later than 6 months after proposal execution.

The multisig signers will commit to changing ownership of the funds to a DaoDao contract on osmosis with Veto power (over IBC) by secret governance, within 2 months of mainnet launch of CosmosSDK 0.50. Please be aware that this proposal requires some participation from the Osmosis DaoDao deployment to enable Secret-4 gated DAOs and there might be delays due to multisig handover problems and withdrawal timelines set by the Levana xLP vaults...

Why is the liquidity needed

Currently SCRT has no market on Levana. As part of the Secret Network foundation business development strategy the Ecosystem team reached out to Levana to see if this can change. After a lengthy integration process with Pyth oracles for SCRT price feeds, this market can now be created.

To enable a bare-minimum of market liquidity (to start arbitrage and general perp trades) it is important that the pool has at least 50k USD of liquidity. This proposal seeks these required funds from the community pool so the market can be bootstrapped and the community can earn rewards on the idle SCRT in the community pool.

Enabling more Perpetual markets for SCRT allows people to perform cash and carry arbitrage with SCRT potentially increasing the net holder base. The LP pool is also an interesting opportunity for SCRT holders that want consistent yield for a longer time horizon, potentially increasing the net holder base for SCRT. More on-chain activities to perform with SCRT can also help reduce the existing supply on exchanges.

Benefit for Secret Network

1. Export of SCRT:

The export of SCRT throughout the cosmos is a good way to expose SCRT to more users and generate interest. Osmosis is a big liquidity hub for SCRT already and Levana has a large active userbase to tap into. Having additional utilities within that ecosystem for SCRT could be an attractive opportunity.

1. Enhanced DeFi usecases:

Enabling SCRT as LP option and trading option on Levana will allow the Secret community to perform more DeFi strategies that enhance their yield and bring in true fees. With both DemEx and Levana people can now go long/short Secret with various collateral. Levana xLP also brings a form of true yield to native SCRT which enables more liquid SCRT holders to be active in yield generation outside of staking. Over time we might see more Perp markets support SCRT which should allow for funding arbitrage, broadening the yield base for the SCRT coin and increasing interest.

1. Yield for the community pool:

Levana xLP pools often earn ~10-60% APR, seeing as the community pool doesn't stake this will add funds to the community pool over time that they can leverage to outpace inflation.

Negatives of this proposal

1. Not native:

The liquidity would be deployed outside of Secret Network. There is a smart contract and chain risk involved with this liquidity provision.

1. Decentralisation:

With DaoDao not yet live the funds would be managed by a multisig, this puts the secret network community at risk of malicious behavior by those trusted parties.

1. Risk of total Loss:

Due to the exposure the community pool would gain to the xLPSCRT assets and the associated smart contract risk it could lose all the deployed funds.

1. Risk of partial Loss:

In the Levana system LPs are the counterparty to traders. If Levana sees many successful traders on the SCRT market then the xLP pool might be lossmaking for extended periods of time returning less SCRT than initially provided.

Curious to hear all your thoughts!

Note: We thank the SNF for creating this relation and getting the Pyth integration done, Lavender.Five and myself are just here to bring the proposal to the community.

Best,

Ertemann

Lavender.Five Nodes