Disclosures

: I'm a FOLD token holder, but not a pre-sale or MISO participant. All my holdings are organic, market-bought, free range FOLD tokens. My opinions on this matter have been formed by my own experience as a degen, yield farmer, and at times-- community member/bagholder.

The Problem:

Manifold, a protocol still quite early in its life cycle, suffers from a lack of DEX liquidity and is currently unable to absorb even modestly sized orders without significant price slippage. At the time of publication, a $10k USDC purchase of FOLD results in 1.59% slippage with a $100k order resulting in 11.4% slippage. Turrible

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The Problem, Continued:

Typically, a "traditional" pool2 liquidity mining incentive program is suggested. For those of you new to DEXs, liquidity provision, or DeFi in general-- this type of program pays out incentives in the form of FOLD tokens in exchange for users providing liquidity on a DEX.

This model was once a novel solution for bootstrapping liquidity and has occasionally been utilized with great success. However, as the defi markets have matured, it has become readily apparent that this model has some fairly limiting drawbacks for most protocols:

- Yield mercenaries - liquidity providers who farm and dump tokens in the pursuit of higher yield on their capital. Their incentives will never be aligned with the protocol or community. Half measures can be made to help mitigate the impact of these participants (token lockups, etc.), but they typically only delay the inevitable.
- Cost - streaming tokens to liquidity providers is very expensive! These programs require a constant emission of tokens and when the liquidity incentives stop, most liquidity providers will pull liquidity, as the swap fees do not typically outweigh the risk of impermanent loss for these participants. Protocols get trapped on the hamster wheel of incentivized liquidity and are forced to continually "rent" liquidity from the market.

A great primer on the considerations surround liquidityis available from the Mechanism Capital team here. As laid out in the Mechanism Capital post, the worst case outcome of these programs is a death spiral in which yield mercenaries sell their token rewards, driving down the APR, which eventually causes liquidity providers to pull their liquidity, which amplifies the effect of further token dumping… A constant influx of new capital is required in order to maintain the token pricing and liquidity with these constant emissions liquidity mining programs.

A Potential Solution:

I won't delve into the ideology or mechanics of Olympus DAO, butthey have developed a program called Olympus Pro. The team behind Olympus Pro deploys and manages LP token bonding contracts on behalf of other defi protocols in exchange for a modest fee (3.3% of all bonds sold).

"Bonding

" in this instance is just a mechanism for users to sell LP tokens directly to the protocol in exchange for discounted tokens. These discounted tokens then are unlocked to the user linearly over a certain period of time, typically 5-7 days. The discount rate is dynamically optimized to ensure the best returns for the protocol, but it is ultimately determined by the market's appetite for bonds. More demands for bonds = a smaller discount offered.

Example

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1. User 1 provides 10 FOLD (trading at $56 per FOLD) and $560 worth of ETH to pair in the Sushi FOLD-ETH liquidity pool. The SLP tokens are worth ~$1,120.
2. User 1 then bonds their LP tokens to the Manifold protocol contracts (operated by Olympus Pro) in exchange for FOLD tokens at a discount of X%, which is set by the protocol in coordination with the Olympus Pro team. (Let's use an 8% discount for this example),
3. User 1 receives a total of 21.73 FOLD tokens (market value of $1,217.39) in exchange for $1,120 of FOLD-ETH SLP tokens. These discounted tokens are vested linearly over 7 days to prevent immediate market dumping.

Additionally, the Olympus Pro bonding mechanism can be configured to accept tokens outside of just LP tokens-- USDC, ETH, etc. If this proposal is ultimately accepted and an acceptable level of initial liquidity is generated, I'd propose that an auto-compounding FOLD vault strategy be researched and implemented. This strategy would claim the USDC yield from staked FOLD tokens, bond the USDC to the protocol for additional discounted FOLD tokens, claim and stake said FOLD tokens, and continuously this cycle ad infinitum.

The benefit to the protocol in the above example is a gain of permanent liquidity

! Instead of “renting” liquidity from the market and continuously paying FOLD rewards out (knowing that liquidity would significantly decrease once the rewards spigot was closed), the protocol now owns

the liquidity and can use it to generate additional income via swap fees. As a comparison, the OHM (Olympus DAO) is now the 12th deepest liquidity on Sushi and the DAO owns 97% of the liquidity, generating multiple millions of dollars a year via swap fees.

With the upcoming launch of Trident on Sushi, the protocol-owned liquidity could be used to seed even deeper liquidity via the tools that accompany that upgrade, leading to less slippage and potentially higher fees for the protocol.

Proposal

First off, I'm not 100% certain how the governance process is set to work with Manifold as of yet. However, I'd like to set forth a general proposal to stimulate discussion and serve as a temperature check with the community. The items below will likely refined further prior to a snapshot vote.

1. Enlist the services of Olympus Pro to establish a bonding/liquidity incentive program for Manifold (FOLD). This program can be standalone or operated in tandem with a traditional liquidity mining program.

2. Research and establish liquidity goals and other metrics to help guide and measure the success of this program.

3. Once we've reached the liquidity thresholds established above, develop and implement an auto-compounding FOLD vault strategy to enable FOLD stakers to bond their USDC yields back into the protocol.

References

Olympus Pro docs - Introduction - Olympus Pro

Olympus Pro dashboard - Olympus Pro

Alchemix Improvement Proposal discussion (as a reference) -[AIP-21] ALCX Bond Program - Alchemix Governance