

title: [TEMP CHECK] GHO Liquidity Pools

discussions: TBA

shortDescription: Initial liquidity pools supporting the GHO launch

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## Summary

This publication presents the community with initial GHO liquidity strategy for discussion.

## Abstract

With GHO expected to launch in the near future, this publication presents the community with an initial liquidity strategy.

The strategy consists of primary and secondary liquidity pools, with the potential to include some pools in the Aave Safety Module (SM) at a later date.

At a high level, the primary liquidity pools at launch are shown below:

1. GHO / bb-a-USD - ComposableStablePoolFactory
2. LST / GHO (80/20) - Weighted Pool Factory
3. GHO / LUSD - ComposableStablePoolFactory

With veBAL support from beyond Aave DAO expected, we believe concentrating effort across several pools will best serve the DAO launch strategy. A later proposal will detail pool sizes, yield estimates and how this could affect the \$1 peg.

## Introduction

When shaping the liquidity strategy for GHO, we assessed various options with three main considerations:

- Trading Pair
- Decentralised Exchange (pool type)
- Holistic Business Strategy

The largest trading pairs in Defi are ETH and USDC. For this reason we favour creating a USD stable coin liquidity pool and a LST / GHO liquidity pool.

- USD stable coin liquidity pool
- LST liquidity pool

Deep stable coin liquidity helps GHO to retain its \$1 peg. Arbitrage trading is profitable with small price variations at large trade sizes. Therefore it is important to create a liquidity pool sufficient in size to facilitate large trade sizes with minimal price impact.

At launch, it is reasonable to expect volatility and minimal integrations in place at launch. As a result, the initial bootstrapping phase is to be heavily dependent upon incentives to sustain liquidity and create peg resilience. When a spot price based oracle becomes available, we expect more sophisticated peg arbitrage strategies to become more readily available as yield strategy for various collateral types.

The Aave DAO and friend's veBAL holding is expected to play a material role in bootstrapping liquidity. Based upon our initial conversations, we believe Aave DAO will receive support in the form of veBAL to bootstrap GHO liquidity pools on Balancer.

- Aave DAO
- Reallocation of Protocol Fee Vote Incentive (PFVI)
- Balancer Community Members

- Aura Finance Community Members
- Potentially Liquidity
- And Others

Although gauges take some time to deploy, we anticipate the gauges being in production within as little as 1 week after launch.

## Safety Module Considerations

The most dominant stable coins in Defi have centralised dependencies such as multisigs and off-chain counterparty risks etc... These centralised dependencies are less suitable for inclusion the SM. Similarly, any pool that includes an Aave Linear Pool, or aToken, shall be excluded from the SM due to systemic risk.

The following types of pools and assets are excluded from the SM:

- Aave Linear Pools
- USDC

Adding GHO liquidity tokens into the SM helps achieve the following:

- Sustain GHO liquidity
- Diversifies the SM assets
- GHO revenue slightly offsets SM costs

LUSD is immutable and the most decentralised stable coin making it ideal for inclusion in the SM. More on this later.

## Sustainability

A key benefit of Aave Linear pools is that they deposit liquidity in Aave v3 and growing the Aave Boosted Pool on Balancer offers strategic benefit to Aave. A portion of yield derived from Aave Protocol is used attain BAL incentives, 32.5%. Lido DAO and Rocket Pool have both grown liquidity pools that can be mostly sustained by veBAL votes attained from Balancer's PFVI flywheel.

There is also the ability for Balancer DAO to redirect protocol fees used for bribing from the Aave Boosted Pool (bb-a-USD) towards the GHO/bb-a-USD or LST/GHO pool. The bb-a-USD pool currently has [\\$28.2M](#) of liquidity.

Naturally, TokenLogic can work with the Balancer community to redirect Balancer protocol fee funded vote incentives to preferential pools.

Given the DAO's veBAL holding, our preference is for the primary pool to be on Balancer where BAL incentives will exceed the trading fee revenue generated on other DEXs. Curve and Convex are further progressed along there inflation schedule relative to Balancer and Aura. Therefore, whilst minimising dependencies on non Aave DAO voters, Balancer is a relatively better option than curve. We do support the CRV/sdCRV position be used to support GHO on Curve Finance.

With respect to the 80/20 pool, by having a larger allocation to an Yield Bearing Token (YBT), more yield is generated to fund vote incentives via the PFVI mechanism. Aave will have the option to incorporate this pool into the SM and the emissions will lead to reduced SM expenditure over time.

## Primary Liquidity Pools

We propose the following primary liquidity pools for GHO:

1. GHO / bb-a-USD - ComposableStablePoolFactory
2. LST / GHO (80/20) - Weighted Pool Factory
3. GHO / LUSD - ComposableStablePoolFactory

Of the three pools, pools 1 and 2 qualify as core pools on Balancer with >50% of the pool generating yield.

With the SM integration being very unlikely at launch, we view adding BPTS to the SM as a longer term GHO growth option for the community to consider. The Aave SM budget is expected to be the main source of incentives for sustaining the GHO/LUSD pool which contains no YBT and does not qualify as a Core Pool on Balancer.

Upon completing the SM upgrade, the PFVI and SM budget can be reallocated. For example, pool 2 PFVI could

be redirected to pool 1 because pool 2 and 3 are sustained from the SM budget. The SM integration has the potential to create long lasting and sustained liquidity for GHO. It also could lead to additional assets being sustained within the SM using the same budget.

Discussions with Liquity relating to LUSD/GHO pool are promising. Liquity has a small v1AURA holding which can be used to support liquidity on Balancer. Gauges can be created when GHO is launched and then, if the Aave community supports the BPT being added to the SM, a new smBPT gauge can be deployed.

With the prospect of the LST/GHO pool being added to the SM, we are open to LST communities commenting below and volunteering initiatives that support growing this pool.

## Secondary Pools

Every liquidity pool that contains GHO is positive for the Aave ecosystem. Therefore, we are open to experimenting and working with as many teams as possible.

To summaries, the following GHO secondary pools are being explored on a variety of DEXs:

- GHO / FRAX
- GHO / MAI
- GHO / OHM

Several teams are keen to incorporate and support GHO liquidity pools. A GHO / FRAXBP pool is one example within the Curve Finance ecosystem and other early integrations could include Olympus, Sommelier, Mellow, Maverick, Uniswap, Swaap and MAI Finance (Qi DAO) and more.

We favour creating many secondary liquidity pools over time across a variety of protocols.

## Future Considerations

The following considerations will influence the expected size of the liquidity pools:

- GHO Supply cap (100M units)
- veBAL support beyond Aave DAO
- v1AURA support

## Specification

GHO primary pools on Balancer v2 are shown below:

1. GHO / bb-a-USD - ComposableStablePoolFactory
2. LST / GHO (80/20) - Weighted Pool Factory
3. GHO / LUSD - ComposableStablePoolFactory

## Next Steps

After discussing and agreeing upon the GHO liquidity Pools, we will prepare a proposal for sizing the liquidity pools and present a plan for how to grow the liquidity.

We are hoping for comments below that indicate support from other communities which we will incorporate into the next proposal.

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