Dissonance in liquidity

The proposed model based on an MKR CDP (single token) is negative for the same system.

I am in favor of using MKR as collateral for DAI; there are no bad collateral assets, but only bad parameters; As long as these are well designed, any asset can function as collateral without representing a problem for the health of the protocol.

One of the qualities that makes a collateral asset quality is its on chain liquidity; SE proposed to use MKR as collateral while eliminating its liquidity; while implementations to increase MKR liquidity are working, (DAI/MKR LP UNI-V2), SE success can bring its own failure.

The case of CRV, an asset with a large part of its market cap locked, which means that price changes are caused by the trading of a very small portion of tokens; a strong asset with microcap volatility; this is bad by all analyses, especially if we want to incorporate it as a CDP; The data to be analyzed to define its parameters will show us low liquidity for liquidators and a greater volatility than that of a similar asset that has its market cap free.

Let's prevent MKR from becoming the next CRV

; Unlike bad debt in Aave, in our case, the inability to liquidate MKR would generate it within MakerDao and the resulting potential depeg.

What we propose

Lock an LP token, of the type: "Vebal" (80BAL20WETH).

This keeps the holder with their asset locked without eliminating liquidity; maintaining a corresponding volatility, both optimal parameters for its new CDP role

Modify the single MKR stake for 80MKR20ETH

This formula has proven to be successful from the following aspects:

- Deep liquidity: lower volatility, lower slippage.
- Additional profit: swap fees + rewards.
- Asymmetric upside and reduced impermanent loss:

[

IL 8020

720×412 105 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/e/c/eccad2f22e2e3ae3b3d5ec3a2e49a8beacf818bb.png)

If this is the first time you are seeing this term, please refer tothis article by @pintail

. In summary, impermanent loss is the loss in value when investing liquidity in a pool compared to just holding tokens.

The following chart shows the impermanent loss for three different Balancer pools: 50/50, 80/20 and 95/5. The x axis represents the relative price change between the two assets in the pool as measured at the moments of adding and removing liquidity — 1 represents no change — and the y axis represents change in value of the pool compared to holding — 1 means the pool is worth the same as holding. Notice that we did not consider any trading fees for simplicity's sake.

With a 5x change in price, the impermanent loss for a standard 50/50 pool would be 25.4% whereas in a 95/5 pool it would be only 3.88%, over 6.5 times smaller. (fuente: 80/20 Balancer Pools. One of the main motivations behind… | by Fernando Martinelli | Balancer Protocol | Medium)

- Most exposure to MKR: 80>50
- Efficient incentive programs: The pool's tvl is no longer an isolated interest of Maker; an ecosystem of new interested protocols intervenes, generating incentives (which Maker does not have to pay) - Keeping liquidity incentivized is key for a CDP asset that also aims to be the governance center of MakerDao.
- Non-toxic-flow for their LPs: non-toxic flow incentive.

Some verifiable success stories:

The adoption of multiple protocols such as:Aave, Balancer, Radiant, Timeless, y2k finance, Paraswap, Unsheth, Tetu y Alchemix Fi

Everyone has started leveraging a streamlined solution for protocol governance.

Radiant Capital milestone 1M profit vs 0(single token) Although it is not the KPI in question, it is capital efficiency, which does not entail costs, and does not find negative aspects.

Because this can also improve governance?

If SE becomes a center of capital efficiency and incentives, it will bring liquidity; Linking that liquidity to MakerDao governance will achieve more diversified governance and more distributed vp; These are the bases of governance that can grow organically.

Enhanced Sagittarius Engine (ESE) will have profit for:

- MakerDao Fees
- Lockup Exit Fee
- Swap Fees
- Bribes Rewards
- Subdaos Token Farming

Also including:

- Voting Power
- Borrowing Power

We are working on a global proposal, which includes my previous posts; ESE can be a great recipient of profits from the ecosystem; We are excited because this is bringing external interests, and thus capital, to encourage the growth of MakerDao.

This proposal is part of a set of research that we are working on; We believe possible, and necessary, a comprehensive change regarding tokenomic and capital efficiency factors within MakerDao