Optimistic Alchemix OP Incentive Proposal

NOTE: This is an updated version of the cycle 7 proposal with the DeFi Committee A recommendation to reduce from 500k OP over 1 year to 250k OP over 6 months. [REVIEW] [GF: PHASE 1 CYCLE 7 PROPOSAL] Alchemix

Project Name:

Alchemix

Author Name:

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Contact Info:

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, @Ov3rkoalafied

I understand that I will be required to provide additional KYC information to the Optimism Foundation to receive this grant:

Yes

L2 Recipient Address:

0xC224bf25Dcc99236F00843c7D8C4194abE8AA94a

Which Voting Cycle are you applying for?:

Voting Cycle 8

Grant Category

DeFi

Is this proposal applicable to a specific committee?:

DeFi Committee

Project Description

Alchemix allows users to leverage the time value of money by borrowing up to 50% of future yield on deposited collateral with no risk of liquidation, in the form of synthetic assets alUSD and alETH. User collateral is deposited into underlying yield strategies, and yield earned is used to pay down user debt. Because liquidation is not possible and the primary interaction is front-loaded (deposit and take initial loan), Alchemix depositors are far stickier TVL than other forms of DeFi yield farming, which means that users that come to Alchemix on Optimism are likely to remain.

Project links:

- Website: https://alchemix.fi/
- Twitter: https://twitter.com/AlchemixFi
- Discord: Discord
- Forums: https://forum.alchemix.fi/public/

Additional team member info (please link):

- Scoopy Trooples (https://twitter.com/scupytrooples)
- theTechnocratic (https://twitter.com/thetechn0cratic)
- N4n0 (https://twitter.com/n4n084191635)
- Toyvo (https://twitter.com/toyvo_)

Relevant Metrics:

Mainnet/Fantom Metrics:

https://alchemix-stats.com/

Current Optimistic Alchemix TVL:

Launched Sept 28th, live here: Alchemix

Optimistic Alchemix alAsset liquidity:

$1.5M alETH/ETH, $1M alUSD/USDC (both on Velodrome) incentivized / farmed via AIP-59

Competitors, peers, or similar projects

No major direct competitors - similar projects include https://abracadabra.money/ , https://www.euler.finance/ , and https://twitter.com/0xC_Lever, but all offer distinct differences that may appeal to different types of users with different goals (ie, Abra denominates all loans in MIM, euler is more akin to a pure interest rate swap, 0xC_Lever is a fork but only for vlCVX).

Is/will this project be open sourced?:

Yes, the Alchemix front end and smart contracts are open source.

Optimism native?:

Alchemix has deployed on Ethereum mainnet and Fantom.

Deployment date:

Deployed Sept 28th, via AIP-62. Vaults can be viewed here: Alchemix

Ecosystem Value Proposition: (200 words)

Many DeFi protocols are built around DeFi power users. Alchemix is a tool that benefits power users, as well as users that wish to remain minimally active, or route real-world finances and spending through DeFi as an alternative to traditional means. We are passionate about providing DeFi users a safe way to gain capital efficiency on their assets, and believe users should be able to do so in a cheap environment without having to sacrifice Ethereum's security. Alchemix is built on external yield solutions, so assets deposited will contribute to increasing TVL of other protocols throughout the Optimism ecosystem. This TVL is not just vanity or temporary - the proven use case of Alchemix will drive additional actual usage and fee revenue to integrated protocols (at first, AAVE and Velodrome). At the time of writing Alchemix is responsible for 46% of the liquidity in the yvDAI vault and 26% of the yvWETH vault on Yearn. Furthermore, the liquidity demands of providing synthetic asset redeemability will greatly increase TVL of AMMs we partner with. Alchemix is responsible for ~122m of combined alUSD3CRV and alUSDFBP liquidity, and ~56m of alETHCRV liquidity in mainnet Curve, which is ~3% of Curve's total (all chains) TVL. Alchemix also owns a locked veVELO position that has built up $2.9m of incentivized liquidity on Velodrome, between alETH and alUSD pairs. Alchemix has also (as of Sept 14th) accumulated additional VELO as well as migrated a portion of protocol owned alETH liquidity to Velodrome per AIP-59. Alchemix has also recently acquired a veSDL position and is pursuing ways to incentivize liquidity on Optimism thru Saddle. Even before the impact of veSDl and AIP-59, Optimism is already Alchemix's largest home for alAsset liquidity, aside from mainnet Ethereum.

Finally, Alchemix believes public goods are good, and contributed $100,000 total to Gitcoin Grants in rounds #13

and #15

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Has your project previously applied for an OP grant?

No

Number of OP tokens requested:

250,000 OP

Did the project apply for or receive OP tokens through the Foundation Partner Fund?:

No

If OP tokens were requested from the Foundation Partner Fund, what was the amount?:

N/A

How much will your project match in co-incentives?

- We are primarily matching incentives on the liquidity side of the Alchemix system, as that is where incentives are typically needed most. Since the passing and execution of AIP-59 Alchemix has over 6.5 million veVELO power and $1m of protocol-owned alETH liquidity farming on Velodrome.
- Should the deposit caps on Optimistic Alchemix quickly fill, that will be indicative to Alchemix that we should look to re-allocate some bribes from CRV/CVX on mainnet to veVELO on Optimism to further scale the deployment.
- Per the token distribution below, the incentives are expected to create more demand on the TVL side than the demand side (partially because this TVL is stickier and therefore more desireable).
- As deposits grow, more liquidity will be necessary than what our current incentives + VELO grant can provide.
- Alchemix can redirect emissions, including from CRV/CVX bribes on mainnet, to meet this liquidity demand
- Based on a target alAsset liquidity of at least 1/2 of TVL on Optimism, bribes worth approximately 500k OP (paid in ALCX) would be necessary to direct to Velodrome
- The end result is that Alchemix is providing incentives to make Optimistic Alchemix feasible for launch, Optimism provides incentives start the growth, and then we can step in with more incentives to sustain the growth.
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Proposal For Token Distribution

How will the OP tokens be distributed?

- 50% (125,000

) will incentivize vault depositors in the form of boosted yield, for 6 months, split between alETH and alUSD. Estimated to incentivize $25m of deposits (at an approximated market-determined boost of 1% APR on AAVE strategies)

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will incentivize LP providers on Velodrome through bribes, for 6 months, split between alETH and alUSD. Estimated $3m additional liquidity at 10% APR (Alchemix currently incentivizes $2.5m of liquidity on Velodrome)

- No tokens at any point would be delegated or self-delegated

Over what period of time will the tokens be distributed?

- Tokens used for velodrome bribes will be distributed over the course of 6 months.
- Tokens used for depositor boosted yield will be distributed over the course of 6 months.

Trackable Milestones / KPIs

Alchemix is inherently good and positive-sum for Optimism, for the following reasons:

- Alchemix is an attractive DeFi offering due to the reduced risk that comes with not having to worry about liquidations. Because it is built on other yield providers it will simultaneously increase TVL in integrated partners such as AAVE (our initial planned Optimism vault offering) as well. Based on V1 and V2 yearn vault statistics, we would expect at least 25% of AAVE Optimism TVL in aWETH and stablecoins to migrate to Optimistic Alchemix.

(note that some DeFi trackers may double-count this TVL between AAVE and Alchemix while some may subtract the TVL from Alchemix or AAVE).

- Alchemix TVL is inherently sticky, even if alAsset liquidity incentives reduce. This effect is demonstrated by the fact that currently, with no direct incentive to migrate from v1 to v2, AND with globally reducing DeFi yields and liquidity, half of deposits still remain with v1 compared to v2 (note: v1 is being retired October 1st). There is currently $26m of

TVL in V1 and $26m of TVL in V2. Systematically, users can only exit vaults through repaying their debt themselves, waiting for automatic yield repayments to repay their debt, or via self-liquidation (which allows exiting with [collateral] - [debt] of user's deposit). Because of the fact that there is no liquidation risk, there is no penalty for continuous max borrowing, and so the incentive for users is to continue to leverage the time value of money by maximizing their debt at all times. Self-liquidations reduce total underlying collateral earning yield and are therefore undesirable for the user in many cases. In a scenario where the user has max-borrowed, self-liquidating would reduce their capital that is earning yield by 50%, which means the users would have to find a yield source greater than twice that of the underlying Alchemix vault for them to consider leaving. Together these factors create long-lasting and sticky TVL in Alchemix vaults and underlying integrated vault partners. The liquidity requirements for ensuring redeemability of synthetic assets for the underlying assets they represent creates a need to incentivize liquidity in alAsset pools. The yield created by these incentives will drive more LPers to increase TVL of partnering AMMs on Optimism. We expect deposit TVL to increase with liquidity, and in periods of decrease liquidity we expect deposit TVL to decrease at a slower rate.

- By integrating with yield providers such as AAVE, we will be farming OP rewards on underlying vaults as well, which will be passed on to depositors in the form of boosted yield.
- The presence of liquidity on both Optimism and Mainnet, with a large influx of new users on Optimism will create arbitrage opportunities that will drive volume to Optimism bridges and Velodrome. For example - $10m of migrated TVL to Optimism would create $10m of initial bridge volume, $5m of alAsset selling volume, and additional arbitrage volume (on both exchanges and bridges) between mainnet and optimism during the period of higher demand to sell alAssets.

Why will the incentivized users and liquidity remain after incentives dry up?

- The OP incentives are going to immediately grow the Optimism Ecosystem, as is typically expected from liquidity mining incentives. The real test is if this creates new long term users and TVL. Due to both our veVELO growth plan (see two points below) as well as the aforementioned stickiness of Alchemix deposits, this TVL has a much greater retention rate than many other forms of DeFi protocols.
- Alchemix will be able to launch stETH strategies on Optimism once staked ETH unlocks are possible. Additionally, Alchemix will be able to integrate any mainnet strategy that also launches on Optimism (for example, Yearn strategies are planned for deployment as soon as they are scaled up on Optimism). Lastly, Optimism has numerous unique DeFi protocols that could offer yield strategies not available on mainnet (and offers grants to protocols willing to write their own yield adapters!). Many users will prefer the cheaper fees of Optimistic Alchemix and will continue to migrate as the feature set becomes more identical to mainnet.
- With the increased demand will come increased need for liquidity. Alchemix is currently farming VELO through protocol owned alETH liquidity, which will be constantly claimed and locked to create an ever-growing stack of veVELO by which to incentivize liquidity. Additionally, Alchemix has plans to launch a Velodrome alAsset AMO (Similar to the mainnet Curve AMO) that would be able to deposit and farm VELO with excess transmuter funds (and withdraw and burn alAssets when needed to increase price), thus increasing the available alAsset liquidity, alAsset price control tools, and profitability of Optimistic Alchemix. Lastly, Alchemix can re-direct mainnet liquidity driving assets to Optimism if demand is more present there (CVX, CRV, SDL, TOKE).