We believe this post explains the risks and benefits of USDe better:

Risk Assessment - USDe Morpho Lending Integration [Maker Core

](/c/maker-core/92)

The following is a risk analysis and review of integration details for Ethena's USDe stablecoin (referred to by Ethena as a "synthetic dollar") as collateral via the Morpho Blue lending protocol. Morpho Risk Factors Technical Implementation The Morpho Blue lending protocol and accompanying Metamorpho vault aggregation protocol has only been on mainnet for a few months, and to date has reached roughly $250 million in total deposits. As the protocol is relatively new and has not held significant …

It helps us get straight to the point with an idea we've been working on, which we believe is worth comparing to this new initiative.

We want to bring up two important points that haven't been talked about:

1. Volatility of Profit Rate:

USDe/SUSDe, due to the nature of its profit source, exhibits a highly volatile rate. Currently standing at 30%, it is considerably lower than the initial APY discussed in this forum.

1. Excessive DAI Dumping:

Every USD generating profit translates to 1 DAI sold, both for Morpho's leverage and D3M in direct ownership.

Our main question is: Does USDe adequately compensate for the risks inherent in its mechanism, considering the volatility of its returns and the dumping against DAI?

** Does the perceived yield from USDe outweigh these factors?*

It appears there is a significant missed opportunity. Why opt for USDe when it could potentially be ESDAI "Enhanced Saving DAI"?

ESDAI

Maker stands as the only infrastructure piece capable of achieving a product akin to USDe in a permissionless, decentralized, risk-free, intermediary-free, scalable, and customizable manner, totally on-chain.

1. Creation of SubdaoLST:

Maker has the capability and infrastructure to create its own LST. We propose establishing "SubdaoLST

", where user sends ETH and receives METH (LST issued by "SubdaoLST"), which not only carries minting power but also functions as a source of fees for validators, akin to LIDO but with inherent minting capabilities.

1. Integration with SparkLend:

SparkLend

will complement this setup.

The Hedged Position:

METH Vault - on SubdaoLST

WETH Borrow - on SparkLend

DAI Lending - on SparkLend

On Napkin Model:

The parameters governing the strategy's configuration must ensure a healthy and adaptable position, even under scenarios of high volatility. The level of automation of these parameters and the security of these mechanisms will precisely define the capital efficiency.

Example:

With the following considerations (based on random data/parameters):

METH:ETH (1:1)

ETHDAI: 4K

SubdaoLST: LTV:87%, HF:90%, MP:78%

SPARK: LTV:87%, HF:90%, BP:78%

Therefore:

For 20K DAI

0 Flash Loan:

31.2K DAI + 20K DAI User

1 Spark

Supply: 51.2K DAI -51,2*,78=40 (borrowing power for 10WETH)

2 Spark

Borrow: 10 WETH

3 SubdaoLST:

10 METH

4 SubdaoLST

Borrow: 31.2K DAI

5

Return of FL

Business Model and Key Concepts Included:

By using SparkLend as a hedge for an LST position (which mints DAI at the same cost it lends), we find that the Stability Fees would net out. Essentially, the placement and financing rates are equivalent due to Maker's ecosystem mechanism.

We need to establish a fee model in line with this mechanism. Our suggestion:

The fee should be variable with respect to the "Global DAI Rate"

, although we haven't found evidence if this concept has been utilized or measured. It essentially refers to the average fee generated per each DAI in circulation.

Example:

55% of DAI emissions come from PSM + RWA, yielding an average rate of 3.87%*

45% of DAI emissions come from crypto collateral, with an average rate of 16%*

*These examples are purely hypothetical and do not reflect actual rates.

This results in a global average rate per DAI used of 9,3285% (GF)

1- Establishing Global Fee (GF) as SF for SubdaoLST

We will use GF for METH, and after observing results, a spread may be added if deemed necessary.

We must distinguish between DAI in circulation

and D3M DAI

Initiatives based on Ethena issue DAI collateralized with the product itself, USDe/SUSDe. All earnings stem from this new exposure, without any prior collateral; just like RWA. These alternatives create POA (Protocol-owned Assets).

When trying to gauge the potential yield of ESDAI for Maker, we encounter a point of uncertainty. Starting from the premise that "every DAI in circulation generates income for Maker" and that the DAI emitted by ESDAI is "DAI in circulation

", then, since this DAI generates an implicit rate (not directly perceived by the product), how do we net out the yield of ESDAI for the DAO? What do we apply to evaluate this? Including this indirect perception is a way to incorporate all income

concepts of ESDAI.

Initially, we thought of using the “Stability Collateral Yield Benchmark” since the PSM seems to be the entry point to ESDAI, with no liquidity limit and without exposing to crypto collateral for the minter. The minter switches from USDC to DAI through PSM and from there to ESDAI.

However, we encounter possible scenarios where this rate exceeds that of minting from crypto collateral. In such cases, we would be subsidizing a deficit rate, especially if the demand for ESDAI surpasses that of minting from crypto collateral.

Thus, we revert to the earlier concept: Global Fee (GF). GF will always self-regulate and represents the rate the protocol receives for each DAI in circulation. Therefore:

If a user enters ESDAI, what they are paying for those DAI, regardless of their source, is already included in GF. Considering this indirect payment is a way to net out the comparison of ESDAI performance against POA alternatives like USDe or RWA.

2- Establishing Equivalent Subsidy to Global Fee (GF) for Capital Inflow into ESDAI:

This will keep the final yield of ESDAI netted for MakerDAO.

The subsidy application will be through DAI minting from METH:

(minted DAI - initial DAI) * GF

Given the example provided earlier:

Cita

Therefore:

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Borrow: 10 WETH

3 SubdaoLST:

10 METH

4 SubdaoLST

Borrow: 31.2K DAI

31,2K - 20K = 11,2K * (GF) = 1044,792 DAI

Clarification:

ESDAI performs due to:

1. Arbitrage: “Borrow Rate WETH”

vs. “LST performance”

1. Arbitrage: “Net GF of DAI”

(Mint LST - Supply In (positive GF)) vs. “Rate Lending Spark”

Let’s see how much ESDAI yields

Considering almost all data, parameters, and rates are napkin data (hypothetical):

Simulator: ESDAI

Conclusions:

Considering a TVL of 1.300MM absorbed by USDe, with an average 30% APY, for a product that is relatively new and hasn't gained as much trust as MakerDao yet, we believe that ESDAI's potential APY can attract significant interest, surpassing the TVL achieved by Ethena in the short term.

We simulated revenues for Maker core and Subdaos, with a TVL of 1500 MM:

This includes some assumptions:

- We use the parameters described above.
- For the Spark case, current rates are used, without considering that single-sided demand may impact these spreads.

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Captura desde 2024-03-28 10-12-21

1258×130 20.8 KB

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We highlight advantages not perceived in other products:

- **More stable rates for users and the DAO.**
- **Revenues for the DAO and the rest of the ecosystem can be very high with neutral TVL projections if current parameters are maintained.**
- **There is no DAI dump, which requires less effort to balance holding/selling.**
- **With USDe yielding 30%, if the example parameters are sustainable, ESDAI would lead the Stable YB space.**
- **Increase in DAI resilience, referring to STA12 as a key point for scalability, decentralization, and improvement on ALM.**
- **If ESDAI generates a lower yield (measured in APY) for the DAO compared to other products, revenues can potentially be higher since the risk of ESDAI does not need to limit the debt ceiling as much as it does for other products. For example, an interesting exercise could be comparing ESDAI with the direct implementation of acquiring sUSDe; we didn't find if a debt ceiling has been defined here based on the net APY perceived by the Dao and its debt ceiling; how much will Maker's income be with this Ethena product? Then, based on the APY of ESDAI, calculate the TVL needed to achieve the same income for the Dao. So, coming to the final point of the conclusion; the debt ceiling is tied to perceived risk, ESDAI has advantages in this regard, it doesn't need to limit itself; this is where we see the risk/reward exemplified and mathematically calculated.**