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Program Information

- [Velodrome Finance](#)
- Phase 1, Cycle 8, Season 2
- Date Funded: November 25, 2023
- Wallet Funded: [0xb074ec6c37659525EEf2Fb44478077901F878012](#)

Key Takeaways

- Velodrome Finance was mostly successful in accomplishing its set KPIs in the original proposal.
- Although several metrics exhibited anomaly spikes and dips, the result of this delegation was a consistent increase in activity across all metrics.
- Taking a closer look into the reason for these spikes could provide more insight into the incentive program.

Distribution:

As discussed in the [original proposal](#), Velodrome distributed its 4 million OP in three methodologies with their respective KPIs.

1. Locking Incentives - 37.5% (1.5 M OP): incentives for \$VELO holders to lock their tokens for \$veVELO, bootstrapping liquidity for the existing and new protocols.

KPIs:

- Exceeding and maintaining 70% VELO total supply locked
- Doubling the share of OP protocols locking VELO among those with native tokens
- Attracting additional new protocols to the ecosystem that meaningfully improve layer-wide economic activity
- Bribe Matching - 37.5% (1.5 M OP): bribe matching protocols help beat competition, attract more protocols due to Velodrome's lower price to bribe, and add liquidity

KPIs:

- Increasing the total number of protocols bribing
- Increasing number of total pools bribed
- Increasing the total value bribed in \$ / ETH terms
- Building Deep Liquidity - 25% (1M OP): supporting velodrome emissions for key public good pools.

KPIs:

- Increasing TVL for ecosystem pairs
- High number of transactions
- Low slippage for high volume trades

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General Metrics

TVL:

Source: <https://defillama.com/protocol/velodrome> [

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Since the first OP Grant was awarded to Velodrome, their TVL has increased exponentially, starting at ~\$25 million and recently hovering at the \$150 million mark. Since its delegation in November 2022, the TVL has experienced volatility but remains slightly above its initial value. Although TVL is a general metric that can be applied across multiple different protocols, it is especially important to consider for Velodrome, as high liquidity is one of their goals in being a successful DEX for Optimism.

Metrics for Locking Incentives

Velo and veVELO Supply:

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Source: <https://dune.com/usc-blockchain-club/velodrome-analytics-usc-governance-team>

The circulating supply of \$VELO and the total supply of \$veVELO are steadily increasing. The initial veVELO supply spike is explained by the update from V1 to V2 as data was transferred. Theoretically, as the veVELO supply increases, the VELO supply should correspondingly decrease. However, the VELO supply is increasing more than veVELO because the increasing number of VELOs is proportional to the emissions reward levels that Velodrome awards LPs with. The circulating VELO supply is beginning to diverge from the VeVELO supply.

New Pools Created:

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Source: <https://dune.com/usc-blockchain-club/velodrome-analytics-usc-governance-team>

The number of new pairs created (pools) since the OP grant exhibited its highest levels around February of 2023. The number of new pairs has recently reverted to the value during the beginning of the delegation. The number of pairs created is indicative of an increasing number of new token pools employed on Velodrome. This is an implicit measure of bribing as well, as the number of bribes is proportional to the number of new pools created.

Metrics for Bribing

Velodrome Bribes per Day:

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Source: <https://dune.com/usc-blockchain-club/velodrome-analytics-usc-governance-team>

Velodrome has exhibited a consistent number of daily bribes since its delegation disregarding the outliers in August 2022, September 2022, and June 2023. Before November 2022, a few spikes indicated a significant increase in activity. After the OP delegation, we saw more consistent users, instead of a high rate of users during certain periods.

Fees and Bribe Rewards:

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Source: <https://dune.com/0xkhmer/bribes-war>

The absolute value of bribes has exhibited volatility since the OP delegation, peaking in between the 56-64 epoch. Although volatile, Bribes are at significantly higher levels since the OP delegation.

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Source: [Change in Pools' Bribes on Velodrome from 6/2022 - 11/2023 \(dune.com\)](#)

Last August, there was an increase in pools bribed. Aside from a spike in June 2023, and a few instances of increased pool activity in December 2022, February 2023, and September 2023, it seems that a lot of pools are losing their bribes and that perhaps activity has decreased from the protocol end of utilizing velodrome.

Metrics for Liquidity

Transaction Number:

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Source: <https://dune.com/queries/3181585/5313302>

The graph depicts the number of transactions over time for Velodrome, starting from June 2022 to November 2023. There are notable spikes in transaction volume, with the highest peaks occurring around August 2022. After these peaks, the transaction volume shows some volatility but tends to decrease overall, with occasional smaller spikes. There's a pattern of fluctuating activity with no other peaks reaching the same height as those in August 2022. The overall trend suggests periods of high activity followed by stabilization, with the highest number of transactions concentrated in the earlier months, particularly August 2022.

Slippage Rate:

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Source: <https://dune.com/queries/3181602/5313347>

The graph shows the slippage rate for Velodrome from early June 2022 to late November 2023. The slippage rate is generally low, hovering close to zero, but several extreme spikes exceed 300 at certain points. The most notable spike occurs around late August 2022, with another significant peak around late January 2023. After these spikes, the slippage rate returns to lower levels, with some minor fluctuations over time. The extreme values suggest instances of high volatility or possible anomalies in transaction processing or liquidity within the Velodrome platform during those times.

User Metrics

Daily Active Wallets

Source: <https://tokenterminal.com/terminal/projects/velodrome> [

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This chart displays the active daily wallets on Velodrome. Although the numbers remain consistent, there have been several recent spikes in user count. It is important to note that wallets and users are not always 1:1. A user can have multiple

wallets, as well as bots.

Daily Trading Volume: [Velodrome \(VELO\) - Key metrics | Dashboard | Token Terminal](#)

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Interestingly, the daily trading volume is slightly inverted compared to daily active wallets. The highest levels exhibited from March to April of 2023. Although there was a slight drop-off after these dates, the numbers have remained relatively consistent. It is also important to note that the daily trading volume overall increased exponentially since the OP delegation.

Analysis

Locking Incentives

The KPIs were successfully met for the incentivization of locking VELO. According to the supply of VELO and veVELO graph, 70% of VELO's supply has remained locked, with consistent levels hovering around 75% of the supply locked. Additionally, a large number of new protocols have been added to the ecosystem which is displayed by the new pairs count graph. There has been a consistent number of new pools created since the delegation. Velodrome was successful in its own terms delegating its OP to increase locking incentives.

Bribing

Simply put, on average, bribes and fees have increased and average bribes on a per day basis have increased, albeit marginally, since the OP drop on November 25th. The total change in pools bribed has increased, from the pre-drop average of -6.25 bribes per month, to -2 bribes per month, thus the OP drop has been effective on that front.

It could mean that the OP's utilization through the bribe matching incentive is working. Thus the need for so many bribes becomes inefficient, because the pools that protocols were using were sufficiently liquid, or the other pathways for distribution may have been affected by the switch.

Regardless, immediately after the OP delegation, we see an increase in consistent users, and then after the shift, we see a slight dip. So at least for a while, it seems that bribe matching was more efficient and there was a good amount of demand and utilization over a 8-month period.

Liquidity

The provided histogram for transaction volume on Velodrome from June 2022 to November 2023 can be analyzed to understand the impact of the "Building Deep Liquidity" initiative. To assess the high number of transactions, a key performance indicator (KPI) for the initiative, we look for peaks in the graph that represent increased activity. These peaks would be indicative of successful incentivization if they align with the timing of the OP distributions to support key public good pools.

Upon examination, several spikes in transaction volume are apparent, which may correspond with periods following the distribution of incentives. These are the taller bars in the histogram, suggesting a temporary surge in transactions. However, to truly meet the KPI, these spikes would need to demonstrate sustainability, meaning the high volume is not just a short-term reaction but is maintained over time. The general downtrend in transaction volumes towards the end of the period suggests that the incentivization impact may wane, requiring continuous efforts to sustain engagement.

Comparing these peaks with the troughs—periods of lower transaction volumes—provides additional insight. The troughs could reflect the natural fluctuation in trading activity or periods with reduced or absent incentives. A baseline transaction volume should be established, which can be done by assessing the level of activity before the incentive program began. This would help in understanding the true elevation in activity due to the initiative.

Finally, while the histogram focuses on transaction counts, a comprehensive analysis should also consider external factors that can affect trading volumes, such as overall market conditions and other economic events, which could lead to an increase or decrease in transactions independent of the incentives provided.

Slippage Rate

The histogram displaying Velodrome's slippage rate from June 2022 to November 2023 provides insights pertinent to the platform's KPI of maintaining low slippage rates, especially for high-volume trades. The goal of this KPI, alongside the "Building Deep Liquidity" initiative which allocated 1 million OP to bolster key public good pools, is to ensure that large transactions can be executed without significantly affecting the market price.

A cursory analysis reveals that most of the data points are clustered close to the baseline, indicating that Velodrome typically maintains a low slippage rate. This is an affirmative sign of a liquid market where users can expect their trades to be executed at prices close to their expectations. Such a condition is favorable for traders and is indicative of a healthy trading environment that the initiative aims to foster.

However, the graph also shows several pronounced spikes where the slippage rate exceeds the general low baseline by a substantial margin. These peaks are critical to analyze, as they represent instances where traders experienced higher-than-expected slippage. The reasons behind these peaks could range from market-wide volatility, substantial trades that momentarily outstrip the available liquidity or periodic events that induce larger-than-usual trading volumes.

The frequency and timing of these spikes could yield deeper insights. If the spikes align with known high-volume trading periods or follow incentive distributions, this might suggest that while the initiative is successful in attracting volume, it may simultaneously strain the liquidity pools, resulting in higher slippage. Conversely, if the spikes do not correspond with such periods, they may be attributable to external market factors or isolated large transactions that are less reflective of the overall market condition.

To address these spikes and enhance the platform's resilience against high slippage incidents, it would be crucial for Velodrome to analyze the specific conditions under which these peaks occur. By understanding these conditions, Velodrome could implement strategies to further deepen liquidity or introduce mechanisms to better absorb large trades, thereby aligning with the KPI of ensuring low slippage even during high volume trade periods.

Recommendations

Providing additional OP for locking VELO proved to be successful, as there was a steady amount of users locking their VELO. However, we are beginning to see a slight divergence in the supply of VELO and veVELO. Examining the journey of this divergence should allow for additional insight into this incentive program.

For a more comprehensive analysis of liquidity, additional data linking the OP distribution events to transaction volumes would be needed, especially to assess if these peaks align with the distribution of incentives and to evaluate the sustainability of the transaction volumes as a key performance indicator for the initiative's success.

Looking holistically at all of the graphs regarding both user metrics and KPI analysis, there seems to be a consistent spike in metrics whether it be the number of transactions, daily active wallets, or number of bribes in the spring months of 2023. Examining this cause could provide insight into how to increase incentivization among users.

Source:

<https://dune.com/usc-blockchain-club/velodrome-analytics-usc-governance-team>