Introduction

On March 8, 2024, article 3.3 in the Stability Scope was enacted by the Stability Facilitators by initiating an accelerated governance cycle to implement non-standard changes to the Dai Savings Rate (DSR), Stability Fees (SFs) of Maker Core Vaults, and the Spark DAI Effective Borrow APY.

Since the accelerated proposal on March 8,@BA-Labs have been following market developments and Maker Protocol dynamics closely, and aim to provide analyses and parameter change proposals when relevant. The main goal of this work is to provide useful data and input that can help safely navigate the Maker Protocol during the period in which SFs, the DSR, and the Spark DAI Effective Borrow APY are subject to out-of-scope decision making processes under article 3.3.

For example, on March 20, we postedImpact Analysis: March 8 Accelerated Proposal Based on the findings of this analysis, we proposed an overall decrease of SFs, the DSR, and the Spark Effective DAI Borrow Rate by 2 percentage points.

Article 3.3 in the Stability Scope states that once market risks have subsided, the Dai Savings Rate and Base Rate should be reverted to their ordinary values. However, since March 8, wider market changes, as well as changes to internal Maker governance procedures and Scope related language, have resulted in previous Stability Scope parameters becoming relatively outdated. Before returning to a more normal Stability Scope procedure for determining rates, we believe that MakerDAO first needs to define and implement new ways to adapt to increased market volatility in order to minimize the risk of additional Out-of-Schedule Executive Votes.

We are currently working on updating the rate system language in the Stability Scope, including a new iteration of the Exposure Model. Our objective is to make sure that the system as a whole will be able to adjust rates more gradually and effectively in the future. However, this will require some more research and development time.

Until the new rate system language has been ratified by Maker governance,@BA-Labs will continue to provide regular updates on Maker Protocol dynamics and provide parameter change proposals if we believe that any additional changes need to be made.

With this post, we aim to review competitive rates in DeFi as well as the resulting protocol dynamics following the most recent parameter change proposal from March 20, 2024.

Impact Analysis

Exposure Over Time

The chart below shows the change in DAI supply from March 20 (time of most recent parameter change proposal) to April 18 (time of writing). The most recent parameter changes were passed on March 28, and executed on-chain on March 29.

At the time of writing, exposures stand at ~43.37% crypto collateral, ~42.85% RWA (including Coinbase Custody), and ~13.77% Stablecoins. From a liquidity perspective, the protocol is currently in a healthy position. At the time of writing, the PSM and Coinbase Custody amount to ~1.68 billion. Monetalis Clydesdale and BlockTower Andromeda together make up another ~818 million in exposure.

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Chart

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Source: Makerburn

By looking at protocol data since the March 8 accelerated proposal, we see a clear trend of decreasing crypto collateral exposure and a relative increase in RWAs. Stablecoin exposure has rebounded from its initial low around the March 8 proposal, and since then, experienced moderate growth in exposure over time.

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Source: Makerburn

DAI from RWA

Taking a closer look at the RWA category, we see that the recent relative increase in RWA exposure (Monetalis, Blocktower, and Coinbase Custody currently represent ~89% of RWA exposure) was caused by a proposal to increase Coinbase Custody utilization on March 22, to a current total allocation of 986 million.

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Source: Makerburn

DAI from Maker Core Vaults

In total, DAI from Maker Core Vaults has decreased by approximately 213 million, from ~1.27 billion on March 20, to ~1.06 billion on April 18. The largest outflows came from the WSTETH-A vault, resulting in total net DAI outflows of ~147 million within the same time period.

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Source: Makerburn

As illustrated in the chart below, in the observed period, the largest WSTETH-A withdrawals and unwindings occurred between March 20 - March 22.

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Source: Maker Risk Dashboard

According to Arkham Intelligence, a wallet related to Nexo accounted for the largest withdrawals. As illustrated in the chart below, these unwindings were already ongoing before the March 20 parameter change proposal.

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Source: Maker Risk Dashboard

Spark DAI Market

Borrows in the Spark DAI Market have decreased by circa 112 million, from ~954 million on March 20, to ~842 million on April 18.

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Source: Spark Risk Dashboard

Ethena Exposure

Between March 28 and April 12, during three different stages of allocation, MakerDAO has increased its exposure to the Morpho Spark DAI Vault by 300 million DAI.

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Source: Morpho Risk Dashboard

Last week, @BA-Labs posted USDe and sUSDe Allocation Benchmarks, where we shared an initial benchmark for guiding future allocation across USDe and sUSDe pools in the Spark DAI Vault on Morpho.

The chart below shows our initial recommended rate benchmarking strategy for further DAI allocation.

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Source: USDe and sUSDe Allocation Benchmarks

At the time of writing, the weighted average borrow rate of the vault's supplied assets is ~27%. At a 300 million allocation amount, the current "min borrow rate" should be 27.68%.

If the exposure weighted average borrow rate continues to report below the "min borrow rate" target, this will justify a reduction in exposure. Provided that the weighted average borrow rate continues to report below the target rate, @BA-Labs will post a separate forum post with proposed next steps.

DSR Changes

The chart below shows the DAI in DSR (left axis) and DAI utilization (right axis) from March 8 until the time of writing. Despite the rate reduction of the DSR from 15% to 13%, total DAI in the DSR, as well as the DSR utilization, continues to climb higher over time. From March 29, until the time of writing, total DAI in the DSR has increased by ~81 million. At the time of writing, there is ~1.68 billion DAI in the DSR, with a DSR utilization rate of ~33.59%.

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Source: Makerburn

Rate Environment

External rate environment decreased during April, including larger onchain lending markets and cefi derivatives markets. Recent bearish price action, likely attributed to uncertainty in the macro environment and geopolitics among other factors, had a substantial impact on long leverage demand and subsequently rates in crypto markets.

As seen on the chart below, the ETH OI weighted funding rates decreased during April and even reached negative numbers in some periods, meaning that relative demand for long positions compared to short positions subsided.

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Additionally, as seen on the chart below, borrowing rates in the largest lending markets also decreased, meaning that Maker lending engines are currently more expensive, especially when the “effective borrow rate” is considered which also includes the supply rate which user accrues on their collateral in majority of markets that utilize rehypothecation of collateral.

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Conclusion

From a liquidity perspective, MakerDAO is currently in a very strong position with approximately ~1.68 billion in the PSM and Coinbase Custody, and another ~818 million in Monetalis Clydesdale and BlockTower Andromeda. On the other hand, both Maker Core Vaults and the Spark DAI Market have experienced negative flows, bringing crypto collateral exposure down to ~43.37%.

As it relates to Ethena exposure benchmarks, in the current market environment, it seems as if the weighted average borrow rate of the Morpho Spark DAI Market will not exceed the “max borrow rate” of 38.07% in the near future. In fact, at the time of the analysis, the weighted average borrow rate is slightly below the “min borrow rate”, which should justify an exposure reduction if we do not see any changes soon. Note, however, that since this framework is relatively new, we expect to make iterative changes to the target rate benchmark formula over time, and as such, these requirements may change. Nevertheless, based on the broad heuristics of the new Allocation Benchmark, we can conclude that additional Morpho Spark DAI Vault allocations may not happen within the shorter term.

To incentivise inflows to Maker Core Vaults and the Spark DAI market, an additional reduction in Stability Fees (SFs) and the Spark DAI Effective Borrow APY may at this point in time be justifiable. From a liquidity perspective, and considering that is unlikely that Ethena exposure will increase in the near future, lowering rates at this point in time seems more sustainable.

Despite the most recent DSR rate reduction, we have seen DSR utilization increase over time. At the time of the analysis, DAI in the DSR measured ~1.68 billion, with a DSR utilization rate of 33.59%. If Maker governance decides to lower SFs and the Spark DAI Effective Borrow APY, it may therefore be prudent to also lower the DSR.

Finally, comparing Maker rates with competitors in the DeFi Ecosystem, it is clear that Maker is currently more expensive, which can be seen as another relevant reason for an additional rate reduction.

Based on the findings of this analysis,@BA-Labs will soon propose parameter changes in accordance with article 3.3 in the Stability Scope. In a separate forum post, we will propose a decrease in the Stability Fees, Spark DAI Effective Borrow APY, and the DSR.