ESGMX Liquidity

Introduction:

My name's Crypto_Joe, have worked with the Bancor DAO, and run the telegram channel @CryptoJoe100

with 1.5k members – A strong proponent and supporter of GMX.

I see a lot of potential with ESGMX that isn't currently being utilised, with over $60m in ESGMX collateral, a lot of which isn't being vested or staked, and simply lost. This, in my view, is capital inefficiency which a somewhat liquid market could solve and generate significant extra revenue for the protocol.

Current suggestion:

Create an option for liquidity provider to swap ESGMX for GMX 10:1.

Issues:

- Arbitrary nature of 10:1 swap ratio (Not market driven)
- Uses up protocol liquidity to burn esgmx
- Creates short term negative price pressure on GMX

Altered suggestion:

Offer an OTC market for ESGMX swaps, allow the market to decide the price, and issue a significant tax levy (2-5%) on ESGMX sell swaps which are then burnt. The levy could be constructed in a multiple of different ways, this is just a suggestion.

Pros:

- Incentivises Long term liquidity, and shakes out short term liquidity
- Burns ESGMX, less in supply
- No short term price pressure on GMX
- Creates extra revenue through swap fees, and volume
- Unlocks significant capital efficiency which otherwise would've been lost.

Incentivising long term liquidity

Longevity of the protocol liquidity is crucial to long term success. The current ESGMX staking rewards are an attractive incentive for long term liquidity providers, but will end in June. This is not an immediate issue, however, it will cause short term liquidity to exit, and could be detrimental to the protocol. By offering an OTC ESGMX market, it allows long term liquidity providers to access more esgmx, thereby incentivising long term liquidity provision through the vesting process. On top of this, short term liquidity providers are incentivised to reduce their ESGMX holdings, burning ESGMX in the process. Ultimately, by creating an OTC market, it solidifies, and incentivises long term liquidity provision.

As much as having protocol liquidity 'lost' seems like a good thing on the surface, it disincentivises long term GLP holders, and locks in capital which could be used to the advantage of the protocol far more effectively. On top of that, it can be designed in such a way that isn't too difficult to implement.

Burn ESGMX

Here is a very crude model assuming that 1.5% of ESGMX trades a day, with increasing volume as the ESGMX that gets minted increases, and the protocol increases (if you'd like me to share the model, please ask and I'll send it). Assumes a 5% tax on ESGMX sells.

It estimates that by June we could've burnt 53,290 ESGMX. This is just a minor feature of ESGMX, and will help reduce inflation in the long term. The other points mentioned in this proposal are more primary benefits of an OTC market.

On top of that, by the end of the year over 202,000 ESGMX could've been burnt this way (over 10% of the final supply). Reducing inflation, and one huge long term benefit of enabling an OTC market.

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Screenshot 2022-01-15 at 19.42.06

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No short term price pressure

While swapping ESGMX for GMX would be a good start, that creates short term price pressure on GMX. Since those selling ESGMX are unlikely to be long term holders, and wish to exit, they are also more likely to sell their GMX, and is more inflationary in the short term.

The alternate suggestion allows users to buy ESGMX with any product, USD/ETH, and allow more long term capital enter into GMX at a discount, thereby incentivising long term holders of GMX and GLP.

Conclusion

In conclusion, creating an OTC market unlocks a lot of potential advantages from burning, to long term price appreciation, reduced inflation, and unlocks significant capital for the protocol. On top of that, it’s something that users definitely want, and can be designed in such a way that maximises benefits to the protocol. This proposal also points to a broader potential issue in ESGMX rewards ending. Whether or not they ought to be extended is a different question, and one I don’t want to get diluted through this thread.