

Hey everyone,

Summary

This proposal asks for 100k SCRT from the community pool to be deployed as community owned liquidity for the upcoming sqSCRT/SCRT concentrated liquidity pool on osmosis.zone. The liquidity is to be managed by Margined protocol and ~2 (to be chosen) representatives of the Secret Network community. This will enable enough liquidity for sqSCRT to be launched as an asset on Margined protocol.

About Margined protocol

Margined protocol is a decentralized power perpetuals platform build on osmosis. Power perpetuals are a DeFi native instrument first introduced by Oyn on Ethereum that allows traders to go long the squared price of an underlying asset without liquidation risk. People go long by buying sqAssets on the open market and receive an asymmetric/convex risk profile in comparison to a 2x leverage position. In return they pay an in-kind funding rate which is determined by the deviation of the mark price from the asset index price. Short instead deposit the base asset as collateral (SCRT in this case), mint an associated amount of sqSCRT and can sell this on the open market. Short traders are essentially going short volatility, as long as an asset ranges the in-kind funding from the longs will reduce the collateral they need to return to pay back the loan. If the asset goes very volatile they might be liquidated and longs will make outsized returns. Power perpetuals can be combined with standard linear perpetuals to form a so-called crab strategy which does well in times of low volatility or combined with CL/LOB pools to perform delta-neutral/hedged CL liquidity provision. You can find more information about Margined on the documentation: <https://docs.margined.io/>

How it will work

We will propose the funds to go to a multisig owned by community contributors (within or outside of SNF/Labs as community wishes) after which the SCRT is transferred to osmosis. The Osmosis CL liquidity can be managed by Margined/community together where having ownership be with Margined would be easiest but combined ownership through DaoDao or native multisig is possible as well. - We would love to get any recommendations by the community as to how this should be managed, it is fluid - The more security/decentralisation is chosen the harder the liquidity will be to manage. Margined has in-house managing scripts and analysis they would like to leverage to manage the liquidity as efficiently as possible. Alternatively the community could decide on a more wide CL range with less active management if it so desires.

Why is the liquidity needed

Margined needs to be able to liquidate shorts on Osmosis directly and also retrieve its pricing for the index from an Osmosis spot pool; a significant size pool needs to exist in order to facilitate this. They believe ~30-40k is enough to bootstrap the market after which it can grow on its own. Holding an sqSCRT/SCRT LP position that is often rebalanced equals to being roughly 1.5x long on SCRT. The community pool would gain additional SCRT leverage by deploying this liquidity.

Benefit for Secret Network

1. Export of SCRT:

The export of SCRT throughout the cosmos is a good way to expose SCRT to more users and generate interest. Osmosis is a big liquidity hub for SCRT and having additional utilities within that ecosystem could be an attractive solution.

1. Enhanced DeFi usecases:

Enabling sqSCRT on Margined will allow the Secret community to perform more DeFi strategies that enhance their yield and bring in true fees. With both DemEx and Margined people can now go long and short SCRT volatility and combining it with integrations like Nodus or Shade LOB people can farm funding rates and swap fees while being ~neutral on their position. sqSCRT might be used later down the road in the Shade money market for even more interesting usecases.

Negatives of this proposal

1. Not native:

At this point in time Margined does not have the necessary infrastructure to do cross-chain liquidations, this makes us unable to keep the sqSCRT/SCRT liquidity on the secret network itself. Additionally Margined is in the Asset expansion phase and is not able to deploy natively on Secret network as of yet.

1. decentralisation:

The optimal way of managing the liquidity can never be very decentralized while a more secure/decentralized setup would be less efficient liquidity. This trade-off is hard to navigate.

1. Risk of total Loss:

Due to the exposure the community pool would gain to the sqSCRT power perpetual asset, it is getting additional downside risk on the price of SCRT.

Curious to hear all your thoughts!

Best,

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