Reasoning:

Introducing 0.01% trading fees for stablecoin pair liquidity pools onto the UniSwap v3 Polygon network can be a great step to expand the use of 0.01% fees onto the second largest chain running on UniSwap v3 and bring more liquidity into the UniSwap v3 ecosystem. Currently UniSwap v3 Polygon has a TVL of $57.87 M, only behind the Ethereum liquidity pools. More importantly, based on research compiled from earlier in the month, the top ten pools on UniSwap v3 Polygon were ~6x more capital efficient based on 7 day volume / TVL compared to pools on UniSwap v3 Ethereum, Arbitrum, and Optimism. The Polygon market has seen over $2B of cumulative trading volume in less than 2 months.

Why 0.01% fees for stablecoin pair liquidity pools is a strategic move?

Currently there is a competition for stablecoin liquidity between UniSwap v3 and Curve. All of Curve’s pools have a trading fee set at 0.04%, including the Curve Polygon pools. UniSwap v3 Ethereum pools for stablecoins have trading fees at 0.05% and for select pools they have 0.01% fees. The introduction of 0.01% fees for stablecoin liquidity pools on UniSwap v3 caused a large amount of volume from the 0.05% pools to move into the 0.01% pools, which have also seen higher trading volumes as a result. Curve had an advantage when they had the lowest fees at 0.04%, however the tides may be changing as the 0.01% fee pools have seen great success on Ethereum. Following this success, it is important to expand the use of 0.01% fees for stablecoin pairs onto UniSwap v3 Polygon to create an advantage over the Curve Polygon fees, and hopefully bring that liquidity over to UniSwap.

Why Polygon?

Liquidity providers may be worried that lowering fees from 0.05% to 0.01% would decrease their fee earnings, but the results have been the complete opposite. Take for example, the DAI-USDC pools on UniSwap v3 Ethereum. The 0.01% fee pool has ~$50 M more in TVL compared to the 0.05% pool at $134.25 M vs $85.18 M, and the 0.01% pool has had 7.7x more trading volume in the past 7 days at $635 M compared to $77.15 M. Lower trading fees tend to make up for the lower fees by the large increase in trading volume that occurs as a result of the cheaper fees, which can be seen in the graphs below.

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Impressive capital efficiency means that the introduction of 0.01% fees on stable coin pools for the Polygon network can create higher amounts of trading fees for liquidity providers while also providing lower fees for those who wish to buy from the pools. This proposal can create a win-win for both parties. Considering the DAI-USDC 0.05% pool on Polygon is over 3x more capital efficient than the same pool on Ethereum, it would be expected that the 0.01% pool would also see better use of capital compared to the Ethereum pool.

Polygon also has a massive user base with over 100+ million unique user addresses. This massive user base, with the incredibly cheap gas fees on Polygon can be a massive advantage for UniSwap if they introduce 0.01% fee pools for stable coin pairs on the Polygon network.