We had updated the EDSR user's DAI source distribution analysis, previous analysis was done on August 10th, so there was plenty of time for positions to reallocate after the Effective DSR was lowered from 8% to 5% in the recent spell on August 18th and LST Native vault types SF was effectively increased. Please note that this analysis was conducted by manually looking at user activity, and it might not be entirely accurate, but it is still accurate enough to give an insight of general dynamics of post rate decrease.

Overall, the effect of EDSR is very positive for Maker, as there was large inflow of capital and new users into DAI and DSR, while the negative effect of increased SF on Native vaults seems to be not significant. The recent DSR decrease was much needed, as users who were doing the rate arb trade from Maker Core had lowered considerably, but not entirely - which is not an issue anymore, as they are either neutral or profitable for the protocol. The dominant source of DAI is currently from PSM/AMM.

Spark arb trade activity actually increased slightly, which is likely to be explained due to the Spark token farming strategy, where users borrow DAI and deposit it into DSR to negate the interest rate accrual, and essentially farm for free not counting for opportunity loss. This is only an issue in terms of service availability for users, as current activity is utilizing a large amount of current 200M DAI available in Spark DDM - which is a net loss when we account for governance tokens which will eventually be a cash outflow for the DAO. The recent MIP102c2-SP16 article 3.2.2 paragraph 3 will likely solve this issue as the EDSR + 0.5% borrow rate for DAI in Spark will likely eliminate this farming strategy and allow for other users to borrow DAI. In the case where these positions do not unwind, the new language also allows for DDM DC increase, which is not problematic risk wise, as positions that borrow in Spark and deposit into DSR are generally low risk as they can unwind very fast without any trades.

DSR Deposits Distribution

In the period since the last analysis on August 10th, the DSR user count, which deposited more than 100 DAI, increased for 625, or 68.7%, which is a considerable achievement given that one of the main reasons for implementing EDSR was to increase DAI demand and user base. There are additional 707 users that have deposits between 10 and 100 DAI, but we must assume that a lot of these are just dust or at least should not be counted as regular users.

As seen below, the DSR DAI source distribution considerably decreased for Maker Core while increasing in the PSM/AMM and Holder category. As mentioned above, Spark category slightly increased, which will likely change once the MIP102c2-SP16 is ratified.

DSR Deposits Distribution Categories;

- Maker Core - user borrows DAI from Core Vaults

- Spark - user borrows DAI from Spark

- Lending Market - user borrows DAI from external lending market

- PSM/AMM - user sold assets into DAI on-chain (in majority of cases this is USDC or USDT, but some users also sold FRAX, WBTC, ETH)

- Holder - user had DAI before the DSR increased, which could also be previously deposited into AMM, lending market or a farming service

Pie charts of above data

The below distribution refers to the portion of DSR deposits which were analyzed - 72.3 on August 10th and 68.6% on August 29th.

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1542×480 74.6 KB

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DSR, Native Vaults and PSM Dynamics

As seen below, the DSR deposits increased considerably after the EDSR was first implemented and later decreased once the effective DSR was lowered from 8% to 5%, followed by the currently increasing deposits trend which are largely sourced from external capital such as USDC, USDT and in lesser extend FRAX, ETH and WBTC.

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1139×727 27.4 KB

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Before the recent effective DSR decrease and changes to LST Native vault SF formula which now uses EDSR instead of DSR, the most popular Native vaults for the arb trade were WSTETH-A and WSTETH-B. After the changes, the debt exposure in these two vaults decreased considerably as rate formula changes intended. Below is the debt exposure of WSTETH-A and WSTETH-B vault types. Given that some of the DAI in the DSR is still sourced from these vault types, it is to be expected that this exposure will eventually also likely be unwinded.

WSTETH-A debt exposure (30 days)

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WSTETH-B debt exposure (30 days)

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1432×834 33 KB

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Large amount of DAI in DSR was sourced from external capital, majority of which was from USDC and USDT. This was done either by directly interacting with USDC PSM, or indirectly as arbitrageurs correct the price on various on-chain markets which eventually corresponds with PSM reserve increase - which is currently specifically USDC PSM as other PSMs have fully utilized DCs.

Below is the USDC PSM reserves chart, we can see the positive effect of EDSR as reserves are notably in an increasing trend. Please note that 125M USDC was returned by Clysdale recently (26th of August) which is not related to EDSR dynamics.

PSM-USDC-A reserves

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1432×834 36.5 KB

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Protocol Integrations

Aavev3 ETH market implementing sDAI as collateral asset is likely the most notable recent implementation, but there are also others such as Pendle, Wormhole Bridge, IPOR, Sommelier, dForce and likely others.

Conclusion

The implementation of EDSR and specifically the new EDSR Upper Limit decrease from 8% - 5% had an overwhelming positive impact on DAI demand, Protocol integrations and the preparation for the upcoming SubDAO token farming planned as part of the Endgame. What is crucial for Maker currently is to make good use of the inflow of PSM reserves which should be allocated towards real yield opportunities asap in order to further decrease the cash outflow impact of the DSR utilization increase.