

Introduction

BA Labs continues with observations of market dynamics and monitoring internal systems. In the past weeks since the recent rate cuts, main development is in the external rate environment which has notably dropped, including the defi protocols and cefi funding rates. Main impact on the internal system had thus been an increase in DAI supply and stablecoin reserves which is a product of DSR being very attractive rate and positions being refinanced to cheaper alternatives across defi space.

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 then, [@BA-Labs](#) has been following market developments and Maker Protocol dynamics closely. We have provided regular data, analyses, and parameter change proposals, with the main goal of aiding Maker Governance in navigating protocol and market changes and managing Stability Scope parameters.

For an overview of [@BA-Labs](#) work regarding Stability Scope parameter change proposals and protocol dynamic analyses since the March 8 Accelerated Proposal, refer to the links below:

- [Impact Analysis: March 8 Accelerated Proposal \(March 20, 2024\)](#)
- [Stability Scope Parameter Changes #11: Under STA Article 3.3](#)
- [Impact Analysis: March 20 Parameter Change Proposal \(April 19, 2024\)](#)
- [Stability Scope Parameter Changes #12: Under STA Article 3.3](#)

Maker Exposure Trends

The area chart below measures DAI debt exposure distribution over time. We have created four categories to track exposures:

- Cash RWA (T-bill Exposure): BlockTower Andromeda (RWA015-A) & Monetalis Clydesdale (RWA007-A)
- Crypto: ETH-A, ETH-B, ETH-C, WSTETH-A, WSTETH-B, WBTC-A, WBTC-B, WBTC-C, Spark D3M, and Morpho D3M
- Legacy: 6s Capital, New Silver, ConsolFreight, Harbor Trade Credit, Fortunafi, H. V. Bank, BlockTower S3, BlockTower S4
- Stablecoins: PSM(USDC), Coinbase Custody, half of GUNI-DAI/USDC 0.01%, and half of GUNI-DAI/USDC 0.05%

Since our last exposure update, on April 19, the most notable change has been the increase in Stablecoin exposure as a result of DSR being very attractive, and some positions being refinanced to cheaper alternatives across the defi space. This, in turn, resulted in more capital being deployed to Cash RWA since the target Cash Stablecoin exposure has exceeded the 30% threshold.

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Source: [Makerburn](#)

DSR Changes

As seen in the chart below, over the last few months, there has been an upward trend of DAI in the DSR. The DSR utilization is currently at 38.1%. Since the main source of new DAI is from PSM, which is then deposited into the DSR, the protocol profit generation has been decreasing. This will likely change assuming this proposal is implemented, since crypto lending will become more attractive which will likely result in increased exposure, which yields more compared to Coinbase Custody and Cash RWA.

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Source: [Makerburn](#)

External Rates Environment

As seen on the charts below, the cefi funding rates and defi borrowing rates are in a downward trend which will likely remain until market sentiment changes and price dynamic starts to increase. At the time of writing, the ETH OI-weighted funding rate is 10.93%.

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Source: [CoinGlass](#)

Furthermore, as depicted in the chart below, borrowing rates among the largest lending markets in defi continue to decrease. This means that Maker is still more expensive compared to competitors, which suggests that an additional rate reduction may be warranted.

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We are continuing the work on updating the rate system language and corresponding interest rate model in the Stability Scope, where good progress has been made. The development on this front will be revealed and shared for feedback with the community in the coming weeks followed by a proposal to include it into the Stability Scope. Hopefully this new interest rate model and Stability Scope rate system will be able to replace and improve what currently exists, resulting in a very predictable methodology for rate setting going forward. Until then, the rates will be managed out-of-scope under the Stability Scope article 3.3.

Additionally the latest [MIP102-SP proposal](#) which was formally submitted attempts to allow the rate changes to be proposed by the Stability Facilitator based on the recommendation of the Advisory Council without the need of using article 3.3., until the aforementioned rate system is implemented.

Given that the current DSR is very attractive and that borrowing rates across crypto lending engines are above the external rate environment, BA Labs believes that a general rate cut is necessary.

BA Labs recommends the Stability Facilitator to perform the following parameter changes to the Maker rate system, which can go directly to the upcoming executive vote according to the language of the Stability Scope article 3.3:

- ETH-A: Decrease the Stability Fee by 2 percentage points from 10.25% to 8.25%
- ETH-B: Decrease the Stability Fee by 2 percentage points from 10.75% to 8.75%
- ETH-C: Decrease the Stability Fee by 2 percentage points from 10.00% to 8.00%
- WSTETH-A: Decrease the Stability Fee by 2 percentage points from 11.25% to 9.25%
- WSTETH-B: Decrease the Stability Fee by 2 percentage points from 11.00% to 9.00%
- WBTC-A: Decrease the Stability Fee by 2 percentage points from 11.75% to 9.75%
- WBTC-B: Decrease the Stability Fee by 2 percentage points from 12.25% to 10.25%
- WBTC-C: Decrease the Stability Fee by 2 percentage points from 11.50% to 9.50%
- Spark: Decrease the Effective DAI Borrow Rate by 2 percentage points from 11.00% to 9.00%
- DSR: Decrease the Dai Savings Rate by 2 percentage points from 10.00% to 8.00%

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