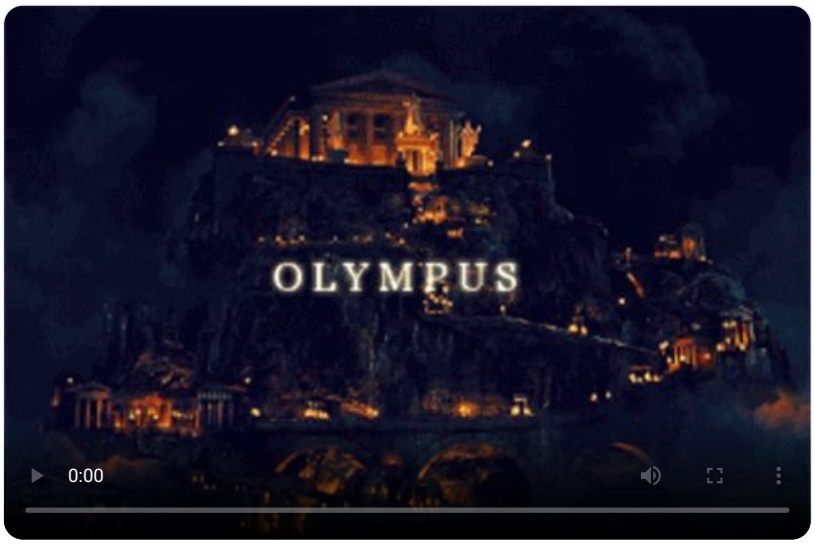
Haym Salomon @SalomonCrypto

Jun 4 • 26 tweets • SalomonCrypto/status/1533012221151784960

(1/25) Want to know which project I'm STILL the most bullish on? I'll give you a hint, it will be the center of DeFi…

…Of the whole econOHMy!

Let's talk about @OlympusDAO and Bonding.



(2/25) There was the time before, and then there was Bitcoin…

Then @ethereum, then De-Fi, then a whole lot of incredibly exciting developments.

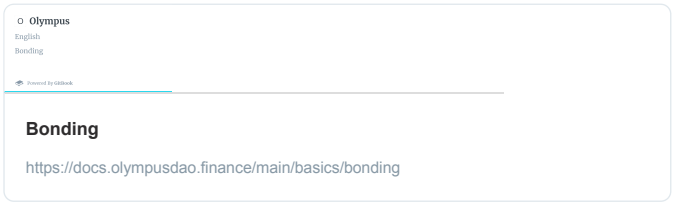
Our story begins when @ohmzeus led us to @OlympusDAO.

(3/25) @OlympusDAO is a complicated protocol with very complicated history, so we'll save the story. For now...

Olympus is built around the concept of Protocol Controlled Value (PCV); assets in the protocol are (permanently) owned by Olympus.

(4/25) In order to capture PCV, @OlympusDAO uses a system called Bonding.

Tl;dr bonding is an economic primitive that offers a fixed amount of future $OHM at a discount in exchange for assets.



(5/25) Example:

@OlympusDAO offers a bond for $1,000 worth $ETH. The starting offer is $900 of $OHM paid in 5 days. This is a bad offer.

If no one takes the offer, Olympus increases the bid, let's say to $925... $950... $975. No takers.

Then Olympus offers >$1000.

(6/25) When the offer is more than $1000 of $OHM for $1000 of $ETH, people become interested. Each will decide how much extra $OHM they need to compensate for the 5 day lock. When the premium is right, they bond.

When the bond is filled, the process starts over.

(7/25) Bonding key takeaways:

- Core tool of @OlympusDAO, used to permanently acquire assets
- $OHM is "sold" at a discount, but bonders must wait to access proceeds
- Bonding provides a pricing mechanism independent of 3rd parties like DEXs or Oracles

(8/25) Alright so you get how bonding works... let's talk about how it's used.

@OlympusDAO deploys bonds to grow its treasury, always. But by strategically choosing the parameters of the bonds, Olympus controls the flow of assets between LPs and the treasury.

(9/25) Aside... For this thread, we're going to hand wave away dilution.

- Dilution = total inflation - staking reward rate
- Total Inflation = new bonding supply + new reward supply
- Because @OlympusDAO controls all variables, the DAO decides dilution (or sets it to 0)

(10/25)

(For examples, I'm using only $FRAX and pretending there's only 1 LP. In the real world it's much more complex.)

Consider a simple bond: @OlympusDAO wants sells a $FRAX bond, minting new $OHM.

We'll call this a Reserve Bond (RB).

(11/25) Now @OlympusDAO could add to the LP by pairing treasury with newly minted $OHM and deposit it into the pool...

But we are on @ethereum, where money is programmable! Bonding acquires asset like $FRAX, which is just a ERC-20 token...

Well so is a $FRAX / $OHM LP token!

(12/25) Let's try it out:

@OlympusDAO sets a bond for the LP token

A bonder takes half his $FRAX and swaps it for $OHM. Then he deposits the $OHM & the rest of the $FRAX, creating an LP token. Finally LP is bonded, minting new $OHM

We'll call this a Liquidity Pool Bond (LPB)

(13/25)
1) $FRAX deposited, $OHM removed
2) $OHM and $FRAX deposited back into the LP

A LPB bond has the net effect of increasing the $FRAX in the pool and keeping the $OHM constant.

Other ways of saying this:
- it is harder to access the pool's $OHM
- $OHM price go up

(14/25) Think like this:

(an OTC transaction does not effect the DEX price of an asset)

A Reserve Bond is like minting and OTC selling $OHM. A Liquidity Bond forces a market buy of $OHM before minting and OTC selling $OHM.

(Typo in linked thread: with ➡️ without)

(15/25) @OlympusDAO directs the flow of assets between the LP and the treasury by allocating between RB and LPB.

RB sends assets to treasury; LPB sends assets to the LP, but in doing so applies positive pressure on $OHM price.

(16/25) If RB and LPB both acquire value for the protocol and have roughly the same effects on dilution, but LPB provides price support, why wouldn't @OlympusDAO always deploy LPB?

Well there's no free lunch. Let's talk about Recycling.

(17/25) So far we've only discussed a bonder that is aligned with @OlympusDAO.

Sometimes a bonder is short term profit seeking; he still might be interested in bonding for $OHM if the discount is high enough, however he intend to sell ASAP.

Maybe over and over.

(18/25) Effects of a Recycled Reserve Bond (rRB):

- $OHM enters pool, $FRAX leaves
- new $OHM minted, $FRAX enters treasury

The recycling drives the price down, but the rRB is a transaction that doesn't affect price (like an OTC transaction).

(19/25) Effects of a Recycled Liquidity Pool Bond (rLPB):

1) $OHM enters pool, $FRAX removed
2) $OHM and $FRAX deposited back into the LP. There is now more $OHM and same $FRAX.

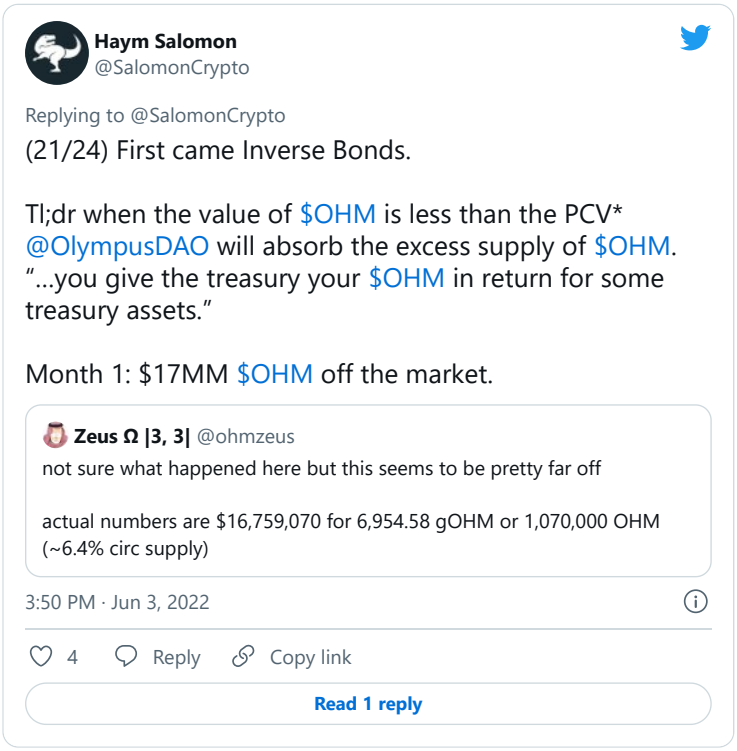
The recycling drives the price down AND rLPB makes the $FRAX harder to access ($OHM price go down)

(20/25) As @OlympusDAO rises (make no mistake, Olympus is RISING), it is learning how to deploy bonding in all sorts of market conditions.

Over time, frameworks like these (and much more complicated) are developing the financial system of tomorrow.

(21/25) It's happening so fast that a lot of this thread is outdated.

For example, Inverse Bonds are a new innovation that reverses the bond, allowing @OlympusDAO to consolidate value when the market presents the opportunity.



(22/25) In fact, LPB might be so “outdated” they might not be seen again. An (previously) obscure DEX function called “sync” allows @OlympusDAO to achieve the effects of LPB by directly minting $OHM into the pool (no bonding discount needed).

https://forum.olympusdao.finance/d/1172-oip-93-mint-and-sync

(23/25) So that’s your intro to bonding. @OlympusDAO deploys this primitive to influence the market in complex and subtle ways.

And we aren’t even at the interesting part yet. When Olympus begins issuing bonds on with different durations; we’ll have a $OHM interest rate curve!

(24/25) Some people are in crypto for the profits, some the tech, the community, the promise, the memes… I’m here to watch history be written.

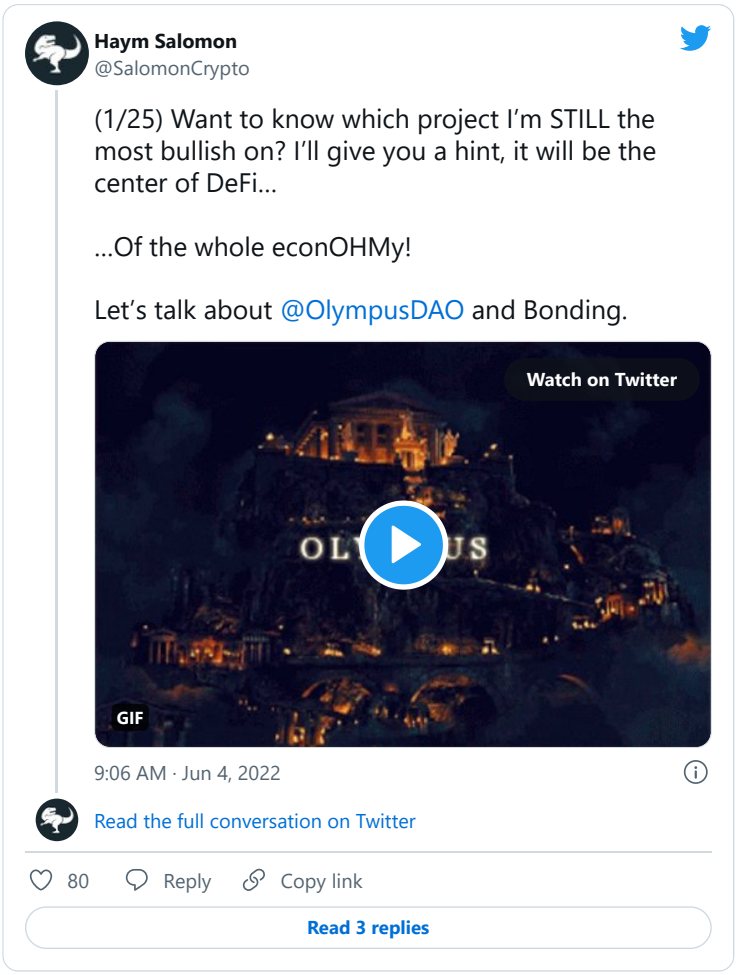
My Opinion? Olympus is the tip of the spear of economic innovation. The future of central banking is being created on The Mount.

(25/25) Acknowledgments

I’ve been dancing around writing about @OlympusDAO because I’m so intimidated by the work being done. This thread is the result of 2+ hours @pottedthings spent making this digestible to my incredible smooth brain. Thank you.

Like what you read? Help me spread the world by retweeting the thread (linked below).

Follow me for more explainers and as much alpha as I can possibly serve.



• • •