fija Strategy Overview

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GMX ETH Strategy

Strategy Headline

High yields on Ethereum by providing liquidity to GMX liquidity pools and hedging volatility and open interest risks on Aave for a fully Ethereum delta-neutral strategy.

The strategy operates on GMX, a leading DeFi platform, by providing liquidity in the form of ETH to the ETH-USDC pool. Returns are generated through trading and borrowing activities of traders in the pool. To offset Ethereum price fluctuations, the strategy builds a hedge on Aave with a short position. The strategy includes automated rebalancing and risk management triggers to optimize performance and reduce risks.

Key Facts

- **Blockchain:** Arbitrum One
- **Deposit Currency:** ETH
- **Tokens used:** USDC, ETH
- **Protocols used:** GMX, AAVE

Average APY

30-day APY: **19.3%**
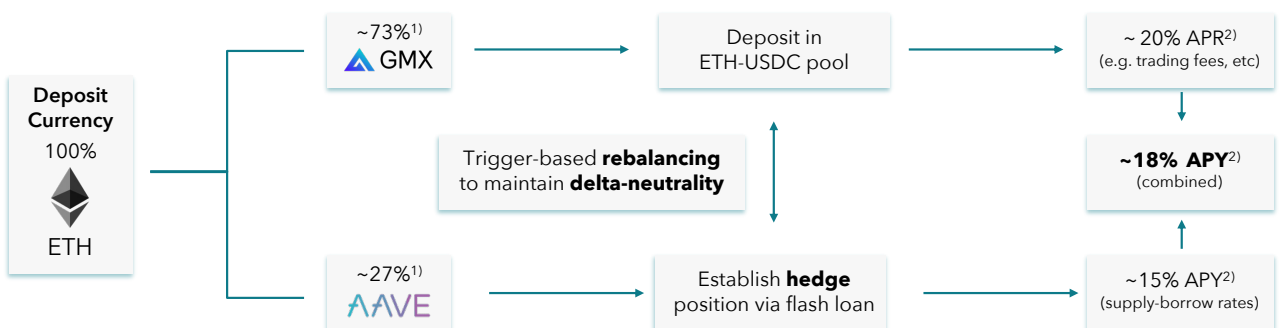
90-day APY: **17.8%**

fija Safety Score

Safety Score: 6.7

10 = low risk
1 = high risk

Learn how it is calculated.

Investment flow / distribution[1]

~73%[1] GMX → Deposit in ETH-USDC pool → ~ 20% APR[2] (e.g. trading fees, etc)

Deposit Currency 100% ETH

Trigger-based **rebalancing** to maintain **delta-neutrality**

~27%[1] AAVE → Establish **hedge** position via flash loan → ~15% APY[2] (supply-borrow rates)

~18% APY[2] (combined)

[1] Initial distribution of the investment. The rebalancing mechanism can lead to shifts in the allocation.
[2] Exemplary APY figures.

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Strategy Description

The „GMX Delta Neutral Strategy – ETH " is based on the decentralized perpetual exchange [GMX](#) that operates on the Arbitrum and Avalanche networks. The platform has undergone an update to V2 in 2023 (read more about V2 [here](#)) and since then has been one of the most used platforms for traders and liquidity providers in the DeFi space.

Liquidity providing on GMX

To generate a return, the strategy provides liquidity in the deposit currency ETH to the GMX liquidity pool ETH-USDC which facilitates various activities for traders including long/short positions and swap trades. Providing liquidity generates returns from several streams such as trading & swap fees, trader liquidations and borrowing fees that traders pay for using the provided liquidity. The annual return generated by the pool is dynamic and dependent on the trading activity within the GMX ecosystem. The more trading volume generated by traders, the higher the return of the strategy.

Hedging on Aave

By providing liquidity to the ETH-USDC pool on GMX, part of the deposit currency ETH gets automatically swapped to USDC as the pool is composed of both assets. As the strategy is delta-neutral with regards to ETH, it's imperative to keep the full exposure to the price behavior of Ethereum. The strategy achieves this through a hedging mechanism utilizing the decentralized lending platform Aave, where USDC is borrowed and used to buy ETH which is also provided as collateral, effectively creating a long position for ETH. While this procedure is a capital-efficient way to eliminate the USDC price exposure of the strategy, there is one more aspect that needs to be considered to achieve full ETH delta-neutrality. The liquidity pools serve as counterparty for users on GMX trading the respective market pairs (in this case ETH-USDC). This means that liquidity providers stand to gain when traders incur losses and vice versa. As the positions of traders and hence their wins and losses continuously change, the strategy constantly monitors the open interest of the trading pair which is a clear sign if traders are currently long or short on the trading pair. The net effect of the open interest on the liquidity pool is included in the hedging mechanism, effectively reducing or increasing it depending on the net positions of traders.

Risk Management & Optimization

To ensure the delta-neutrality of the strategy and the effectiveness of the hedge mechanism, the strategy has two distinct rebalancing mechanics and triggers. The strategy constantly monitors the effective exposure to the Ethereum price (which is intended to be 100%). Should that ETH exposure become <98% of the total strategy value, the rebalancing mechanism is triggered, the hedge adjusted, and the ETH exposure re-gained.

The second rebalancing mechanic concerns the hedge mechanism itself. The efficiency of the hedge position on Aave can be tracked using their so-called [Health Factor](#). The Health Factor measures the relation between provided collateral and loans that are borrowed against that collateral. The Health Factor has a lower limit where positions with a Health Factor <1 are subject to liquidation. The strategy has a defined target Health Factor of 1.5. The rebalancing of the strategy will trigger should the Health Factor fall below the value of 1.2 to avoid liquidation. On the upper side, the strategy will also rebalance should the Health Factor rise above 1.7 to ensure maximum capital efficiency.