

Summary

A proposal to:

- Increase the BAL supply cap on Aave V3's Ethereum deployment.
- Increase the WETH supply cap on Aave V3's Metis deployment.
- Increase the MaticX supply cap on Aave V3's Polygon deployment.
- Increase the wstETH borrow cap on Aave V3's Arbitrum deployment.

Motivation

BAL (Ethereum)

BAL has reached full supply cap utilization following a large deposit over the weekend; borrows remain relatively limited. This asset is in isolation mode with a debt ceiling of \$2.9M, currently 31% utilized.

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Supply Distribution

The largest [supplier](#) represents 70% of the total BAL supplied and is borrowing \$890K USDT against their collateral, representing a health score of 2.26.

This user has an additional \$1M BAL in their wallet that may be deposited if caps are lifted. However, on-chain liquidity would likely support the efficient liquidation of this position, even if it increases in size.

Most of the other top suppliers are not borrowing against their BAL, putting them at low risk of liquidation.

Borrow Distribution

Borrowing of BAL is limited, with the largest position being just \$205K BAL borrowed against USDC collateral.

Recommendation

We recommend increasing the supply cap by 50%, along with a small increase to the borrow cap.

WETH (Metis)

WETH on Metis has reached full supply cap utilization while borrows remain limited; new deposits have been consistent over the past three months.

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Supply Distribution

Supply is concentrated in a single wallet, which supplies 58% of the total WETH in this market.

This [user](#) borrows m.USDC against their WETH collateral and maintains a relatively low health score of 1.19. However, they are very active on Aave, registering more than 30 transactions on May 19 alone; this likely puts them at lower risk of liquidation.

Recommendation

Given on-chain supply of 4,029 WETH, we recommend a supply cap increase to 2,000 WETH; we do not recommend increasing the borrow cap at this time.

MaticX (Polygon)

MaticX has reached 96% and 4% supply and borrow cap utilization, respectively, following continued deposits.

Supply Distribution

The top supplier accounts for 32% of the MaticX supplied, while the top three combined account for 57% of the total.

The top [supplier](#) is primarily borrowing USDC.e against their MaticX collateral, putting this position at risk of liquidation should MaticX's price fall. However, they have a fairly strong health score of 2.15. Additionally, we find that an \$8M MaticX for WMATIC swap can be completed with minimal slippage, indicating that this position could be liquidated efficiently.

Overall, 74% of the value borrowed against MaticX is WMATIC, putting these looped positions at lower risk of liquidation.

Recommendation

Given on-chain liquidity and user distribution, we recommend increasing the supply cap to 97M MaticX. We do not recommend increasing the borrow cap at this time.

wstETH (Arbitrum)

Borrows of wstETH have surged in recent days as a result of increasing looping against weETH collateral.

Borrow Distribution

The largest borrower of wstETH represents 53% of the total wstETH borrowed; this debt is against weETH collateral.

All of the top wstETH borrowing positions are at relatively low risk of liquidation given they are against ETH-correlated collateral.

Recommendation

Given user distribution and on-chain liquidity, we recommend doubling the borrow cap while leaving the supply cap unchanged.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum

BAL

1,400,000

2,100,000

244,200

250,000

Metis

WETH

1,800

2,000

720

No Change

Polygon

MaticX

90,000,000

97,000,000

5,200,000

No Change

Arbitrum

wstETH

69,000

No Change

2,400

4,800

Next Steps

We will move forward and implement these updates via the Risk Steward process.

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