

Summary

A proposal to:

- Increase LINK's supply cap on Aave's V3 Ethereum Core instance.
- Increase cbETH's supply cap on Aave's V3 Base instance.
- Increase USDC.e's supply and borrow cap on Aave's V3 Gnosis instance.
- Increase rsETH's supply cap on Aave's V3 Ethereum Core instance.

All increases are backed by [Chaos Labs' risk simulations](#), which consider user behavior, on-chain liquidity, and price impact, ensuring that higher caps do not introduce additional risk to the platform.

LINK (Ethereum-Core)

LINK has reached 96% supply cap utilization, and its borrow cap is at 1% capacity.

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Supply Distribution

The supply distribution of LINK shows limited liquidation risks. The largest supplier currently represents around 4% of the total supply, which poses no concentration risk. Although LINK's volatile nature, all the top suppliers maintain robust health scores, thus not presenting significant liquidation risks.

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Currently, stablecoins dominate the majority of borrowed assets against LINK, with USDT accounting for 41.73% of the total distribution and USDC comprising 39.86%.

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Liquidity

The liquidity of LINK remains stable on Ethereum, with a 200K LINK sell incurring less than 3% slippage. While the liquidity is relatively small compared to the total supply, users' robust health scores mitigate any significant risks.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 20M LINK.

cbETH (Base)

cbETH has reached 94% supply cap utilization, and its borrow cap is at 22% capacity.

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Supply Distribution

The supply of cbETH is fairly distributed. The top cbETH supplier accounts for approximately 9% of the total supply, posing minor concentration risk. Additionally, most top suppliers are borrowing ETH-correlated assets such as WETH, weETH, and wstETH, which minimizes liquidation risks.

The only three positions not borrowing correlated assets are borrowing USDC and cbBTC. While this introduces some liquidation risk, these positions are maintaining safe health scores and actively managing their positions to avoid liquidations.

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The distribution of borrowed assets against cbETH aligns with our previous analysis of top suppliers, with WETH being the largest borrowed asset, accounting for 48% of the total distribution.

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Liquidity

The liquidity of cbETH remains generally stable, with a 1K cbETH sell incurring less than 1% slippage, supporting a increase in the supply cap.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 6K cbETH.

USDC.e (Gnosis)

USDC.e has reached 99% supply cap utilization, and its borrow cap is at 83% capacity.

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Supply Distribution

Currently, USDC.e's supply is largely dominated by a single top position, which supplies \$2.59 million worth of USDC.e, accounting for 86% of the total supply and posing a concentration risk. However, since this top position has no borrowing activity, it does not present any liquidation risk at this time.

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GNO is the largest borrowed asset against USDC.e, comprising 99.81% of the total distribution. However, the borrowed amount is small, translating to just \$1.64K.

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Liquidity

The liquidity of USDC.e remains robust and stable, with a 600K USDC.e sell incurring less than 1% slippage.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 6,000,000 and borrow cap to 2,800,000.

rsETH (Ethereum-Core)

The supply cap of rsETH has reached nearly 100% utilization, while its borrow cap utilization stands at 5% utilization.

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Supply Distribution

The top suppliers of rsETH present limited liquidation risks. All but two of the top ten suppliers are borrowing wstETH or WETH, both of which are highly correlated with rsETH. The top supplier represents 45.83% of the total supply, making the market relatively concentrated. However, given the composition of the largest positions, this concentration does not present a significant risk.

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Overall, wstETH accounts for 98.1% of all borrowed assets against rsETH.

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Liquidity

The liquidity has been somewhat volatile but is sufficient to support a cap increase given the asset’s primary use case carries little risk of liquidation. Currently, a 3,000 rsETH-to-USDC swap incurs less than 1% slippage.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap by 20,000 rsETH. We continue to conservatively assess cap increases in rsETH given the current relative size of the reserve and the associated risk/reward pronounced in the asset.

Specification

- Chain
- Asset
- Current Supply Cap
- Recommended Supply Cap
- Current Borrow Cap
- Recommended Borrow Cap

Ethereum-Core

- LINK
- 15,000,000
- 20,000,000
- 13,000,000

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Base

- cbETH
- 3,000
- 6,000
- 800

-

Gnosis

- USDC.e
- 3,000,000
- 6,000,000
- 1,400,000
- 2,800,000

Ethereum-Core

- rsETH
- 320,000
- 340,000
- 1,900

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Next Steps

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

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