Summary

Prior to the ZkSync Ignite incentive program, we present a proposal to:

- Increase WETH's supply and borrow caps on the ZkSync Main instance.
- Increase wstETH's supply and borrow caps on the ZkSync Main instance.
- Increase USDC's borrow cap on the ZkSync Main 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.

WETH (ZkSync-Main)

WETH's supply cap is 96% utilized, and its borrow cap is 85% utilized, following significant growth in supply and borrowing demand.

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Supply Distribution

The top suppliers are again highly distributed, with the largest accounting for 10% of the total supply while recursively borrowing WETH.

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As a result, users in aggregate primarily borrow WETH, with a minority also borrowing stablecoins or wstETH. There are $290K worth of ZK borrows against WETH. This distribution presents a limited risk to the protocol.

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Liquidity

WETH's liquidity on ZkSync has continued to grow over the last few weeks, with the ability for a 200 WETH for USDC swap to be completed for under 5% slippage.

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Recommendation

Given user behavior, distribution, and on-chain liquidity, we recommend increasing the supply cap to 3.4K and doubling the borrow cap to 1.8K.

wstETH (ZkSync-Main)

wstETH's supply and borrow caps are 59% and 56% utilized respectively.

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Supply Distribution

As can be seen below, the supply of wstETH is well distributed, with the top suppliers leveraging wstETH staking yields.

Only one of the top 10 suppliers borrow ZK against their wstETH, posing a higher liquidation risk. WETH represents the vast majority of value borrowed against wstETH.

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Borrow Distribution

Borrows are relatively small given the asset's borrow cap relative to its supply cap. The top borrowers are all borrowing wstETH against WETH and are also at limited liquidation risk, given their correlation.

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However, the risk is slightly higher because of wstETH accruing yield, though the small size of the borrows mitigates this.

Recommendation

Given on-chain liquidity, user distribution, and user behavior, we recommend increasing the supply cap to 1.8K and doubling borrow caps. Our risk simulations again support this recommendation, finding limited additional risk to the protocol.

USDC (ZkSync-Main)

USDC’s supply cap is 78% utilized and its borrow cap is 100% utilized following significant growth in both.

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Borrow Distribution

The top borrowers of USDC are concentrated within a singular user, with the largest position being $600K.

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This user is supplying a combination of USDC and USDT as collateral, presenting minimal delta risk, followed by two users borrowing against ZK with relatively strong health scores. This borrow distribution does not present a significant risk.

ZK is the most popular collateral asset against USDC in aggregate, followed by WETH.

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Liquidity

As shown above, USDC’s liquidity paired with WETH and ZK is sufficient to support borrow cap increases.

Recommendation

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

Specification

Market

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

ZKsync

WETH

2K

3.4K

900

1.8K

Zksync

wstETH

1.2K

1.8K

120

240

Zksync

USDC

4M

-

1.8M

3.6M

Next Steps

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

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