

# Summary

A proposal to:

- Increase rsETH's supply cap on the Ethereum Core instance.
- Increase wstETH's supply and borrow caps on the Ethereum Core instance.
- Increase wstETH's borrow cap on the Ethereum Prime instance.
- Increase weETH's supply cap on Arbitrum.
- Increase USDT's supply and borrow caps on Arbitrum.
- Increase wstETH's supply and borrow caps on ZkSync.

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.

## rsETH (Ethereum-Core)

The supply cap of rsETH has reached 100% utilization, while its borrow cap utilization stands at 1% utilization.

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Screenshot 2024-12-11 at 12.11.25 PM

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## Supply Distribution

The supply distribution of rsETH shows limited liquidation risks. All top suppliers are borrowing assets highly correlated with rsETH, such as wstETH or WETH, and maintain healthy health scores (above 1.05). The top supplier has provided \$574 million worth of rsETH, representing 48.02% of the total supply. While this poses some concentration risk, the position's borrowed asset is wstETH, and it is actively managed, indicating minimal liquidation risk.

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Overall, wstETH accounts for 96.8% 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. Currently, a 2,000 rsETH-to-USDC swap incurs only 1% slippage.

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## Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 320,000 rsETH. While Aave is driving growth of the asset, doubling the supply cap to 604K would set its limit well beyond the current on-chain supply of 466K.

## wstETH (Ethereum-Core)

The supply cap of wstETH has reached 75% utilization, while its borrow cap utilization has reached 100%.

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## Supply Distribution

The supply distribution of wstETH shows limited liquidation risks. The largest supplier currently provides \$455 million worth of wstETH, representing 9.7% of the total supply, which does not pose concentration risks. Additionally, this top supplier has a health score of 1.04, and with WETH as the borrowed asset, it does not present any notable liquidation risk.

Furthermore, all other top suppliers maintain high health scores, further minimizing the risk of liquidation.

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Currently, the largest borrowed asset against wstETH is WETH, accounting for 58.28% of the total distribution. In notional terms, this translates to \$1.28 billion.

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## Borrow Distribution

The borrow distribution of wstETH also presents limited liquidation risks. All top borrowers are collateralizing ETH-related assets such as rsETH or WETH. Given that they all maintain decent health scores above 1.05, these positions pose minimal liquidation risks.

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The collateral distribution charts confirm the observations from the top borrower section. rsETH is the largest collateral asset, comprising 93.38% of the total distribution, which translates to a notional value of \$1.01 billion.

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## Liquidity

The liquidity of wstETH currently enables a 5K wstETH-to-USDT swap with less than 1% slippage. While this may seem small relative to the overall supply, it poses limited risk as the vast majority of positions are borrowing WETH, limiting the chance of liquidation.

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## Recommendation

Based on user behavior and on-chain liquidity, we recommend doubling the borrow cap to 480K and increasing the supply cap to 1.6M.

## wstETH (Ethereum-Prime)

The borrow cap of wstETH on Ethereum Prime instance has reached 85% utilization.

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## Borrow Distribution

The borrow distribution of wstETH presents limited liquidation risks. All top borrowers are collateralizing ezETH to borrow against wstETH. Given the correlated nature of ezETH and wstETH, along with the healthy health scores (>1.02) of each top borrower, the risk of liquidation is minimized.

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The collateral distribution aligns with our top borrower analysis. Currently, ezETH accounts for 99.97% of all collateral assets against wstETH.

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## Liquidity

As discussed above, wstETH's liquidity is limited relative to the supply in this market; however, this presents limited risk given the current makeup of the market.

## Recommendation

Given user behavior, we recommend doubling the asset's borrow cap.

## weETH (Arbitrum)

The supply cap of weETH has reached 92% utilization, while its borrow cap utilization stands at 10%.

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## Supply Distribution

The supply distribution of weETH poses limited liquidation risks, as all top weETH suppliers primarily borrow WETH as their major asset. The top supplier has provided 7.04K weETH, representing approximately 8% of the total supply, indicating no concentration risk. Although this top supplier position has a health score of 1.01, the high correlation between its collateralized and borrowed assets minimizes the risk of liquidation.

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The distribution of borrowed assets reveals that WETH accounts for 96.83% of the total borrowed assets against weETH, consistent with our analysis of top supplier behavior.

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## Liquidity

The liquidity of weETH has been volatile, currently allowing a 1K weETH-to-USDC swap with less than 2% slippage. While this may be relatively small compared to the overall supply, there are no significant concerns as the vast majority of weETH collateral positions borrow a correlated asset.

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## Recommendation

Based on user behavior and on-chain liquidity, we recommend increasing the supply cap 110K.

## USDT (Arbitrum)

The supply cap of USDT has reached 94% utilization and the borrow cap utilization has reached 93%.

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## Supply Distribution

The supply distribution of USDT presents limited liquidation risk. The top supplier holds approximately 7.87% of the total supply, which poses no concentration risk. Additionally, as this top supplier has no borrowing activity and thus does not present any liquidation risk at this time. All remaining supplier positions maintain high health scores (above 1.5), further indicating very limited overall liquidation risk.

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The top three borrowed assets against USDT are ARB, WETH, and LINK, which represent 29.55%, 23.62%, and 16.6%, respectively.

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## Borrow Distribution

Borrows of the asset are well distributed, and the two largest borrow positions have strong health scores and are against a highly liquid asset in ARB.

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The mixture of collateral assets against USDT also indicates limited risk — WETH, WBTC, and ARB are highly liquid assets that can be efficiently liquidated.

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## Liquidity

USDC's liquidity on Arbitrum has remained strong and is sufficient to facilitate supply and borrow cap increases.

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## Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply and borrow caps.

## wstETH (ZkSync)

wstETH rapidly reached its supply cap on ZkSync following a recent cap update. Its borrow cap is also fully utilized.

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## Supply Distribution

All of the top suppliers are borrowing WETH against wstETH, presenting limited risk of liquidation.

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All but \$43K of value borrowed against wstETH is WETH, meaning liquidations in this market are unlikely.

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## Borrow Distribution

The top borrowers of wstETH are all borrowing against WETH, presenting a low risk of liquidation. There is limited concentration risk in this market.

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## Liquidity

Given the low likelihood of wstETH-WETH liquidations, we analyze the asset's liquidity paired with USDC, accounting for the possibility that future borrows could be USDC.

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The asset’s liquidity paired with USDC has been volatile but is sufficient to support a supply and borrow cap increase.

Recommendation

Given user behavior and anticipated supply and borrow demand, we recommend doubling both caps.

Specification

Chain

Instance

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum

Core

rsETH

304,000

320,000

1,900

-

Ethereum

Core

wstETH

1,380,000

1,600,000

240,000

480,000

Ethereum

Prime

wstETH

650,000

-

140,000

280,000

Arbitrum

-

weETH

96,000

110,000

25,000

-

Arbitrum

-

USDT

130,000,000

260,000,000

120,000,000

234,000,000

ZkSync

-

wstETH

600

1,200

60

120

## Next Steps

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

## Disclaimer

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