

Summary

A proposal to:

- Increase weETH's supply cap on Aave V3's Ethereum deployment.
- Increase weETH's supply and borrow caps on Aave V3's Base deployment.

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Motivation

Following the [community decision](#) signaling a positive sentiment towards more aggressive exposure to weETH, we are prepared to facilitate additional cap increases via the caps steward.

weETH (Ethereum)

weETH has reached its supply cap on Ethereum, while its borrow cap stands at 57% utilization.

Supply Distribution

The top suppliers are entirely composed of users looping weETH with ETH-correlated assets, putting this market at a lower risk of liquidation.

The largest supplier continues to be [Ether.Fi](#) itself, who is providing an automated looping strategy.

Overall, WETH, wstETH, and weETH represent 99.6% of the value borrowed against weETH, slightly up from 99.3% at the time of our last recommendation.

Borrow Distribution

The largest [borrower](#) is borrowing weETH and WETH against WETH, weETH, and wstETH; the rest of the top ten exhibits similar behaviors. This borrowing profile presents limited risk to the market, given the correlation between the assets.

Recommendation

Given on-chain liquidity, user distribution and behavior, we recommend increasing the supply cap by 100K; we do not recommend increasing the borrow cap at this time.

weETH (Base)

weETH has reached its supply and borrow caps on Base following rapid deposits and borrows after the last cap increase.

Supply Distribution

The majority of large suppliers are borrowing WETH (or weETH) against their weETH, with only one of the top 10 borrowing USDC. Overall, the market is at relatively low risk of large scale liquidations.

Borrow Distribution

The top two borrowers are borrowing weETH against itself; the third largest is also using USDC as collateral, though with enough weETH to prevent liquidation should weETH's price rise. The borrowing positions in this market do not present major risks at this time.

Recommendation

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

Specification

Chain

Asset

Current Supply Cap
Recommended Supply Cap
Current Borrow Cap
Recommended Borrow Cap
Ethereum
weETH
450,000
550,000
150,000
No Change
Base
weETH
600
1,200
120
240

Next Steps

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

For transparency, we aim to execute the risk steward transaction on June 26th at 1pm GMT

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