Summary

A proposal to increase:

Arbitrum

- rETH - supply cap
- LINK - supply cap

Metis

- m.USDC - supply and borrow cap
- m.USDT - supply and borrow cap
- METIS - supply and borrow cap

Motivation

The recommendations below were made utilizing Chaos' supply and borrow cap methodologies and after analyzing user positions for each asset.

Arbitrum

rETH

The supply cap for rETH on Arbitrum is currently at 90% utilization.

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We recommend doubling the supply cap from 1.7K to 3.4K.

LINK

The supply cap for LINK on Arbitrum is currently at 79% utilization.

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As we recommend capping the supply cap at 50% of the total on-chain circulating supply, we recommend increasing the supply cap from 1.3M to 1.45M.

Metis

Following the launch of the Metis Incentive Program

on Aave, which currently incentivizes borrowing of all Metis-listed assets as well as the supply of METIS and WETH, we've observed full utilization of the supply caps and significant utilization of borrow caps.

While the program has driven increased usage, it's worth noting that a substantial portion of this activity involves users looping the same asset to capture yield. Below, We provide recommendations for increasing some of these caps after analyzing user positions and on-chain liquidity for each asset and utilizing our supply and borrow cap methodology.

m.USDC

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Resource: Chaos Labs Risk Platform

m.USDT

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Resource: Chaos Labs Risk Platform

Utilizing our stress testing framework, we do not observe VaR while increasing the caps for USDC and USDT, as the main use case observed is looping the same asset to earn incentives. Given the on-chain liquidity observed we recommend doubling both supply and borrow caps for these assets.

METIS

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As Metis is listed as a non-collateral asset, we recommend increasing the current supply cap to 360K METIS and doubling the borrow cap to 8K.

WETH

Considering the limited on-chain liquidity of WETH, which is essential for supporting liquidations, we advise against further increasing the supply and borrow cap. Although small, our stress tests indicate an increase in VaR with higher caps. Therefore, we recommend contemplating increasing the supply cap only after observing an improvement in DEX liquidity.

m.DAI

We do not recommend increasing the supply and borrow cap of m.DAI as it currently represents over 50% of the total circulating supply on-chain.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Arbitrum

rETH

1,700

3,400

340

No Change

Arbitrum

LINK

1,300,000

1,450,000

242,200

No Change

Metis

m.USDC

2,000,000

4,000,000

2,000,000

4,000,000

Metis

m.USDT

2,000,000

4,000,000

2,000,000

4,000,000

Metis

METIS

240,000

360,000

4,000

8,000

Next Steps

Once we receive feedback from @Gauntlet on the above recommendations, we will be able to move forward to implement these updates via the Risk Steward process.