Summary

A proposal to:

- Increase wstETH's supply cap on the Gnosis instance.

- Increase USDC.e's supply and borrow caps on the Gnosis instance.

- Increase USDC's supply cap on the ZkSync instance.

- Increase USDC's supply cap on the Arbitrum instance.

- Increase USDC's supply cap on the Ethereum Core instance.

- Increase WETH's supply cap and borrow caps on the Ethereum Core instance.

All increases are backed by Chaos Labs' risk simulations, which consider user behavior, on-chain liquidity, and price impact, ensuring that the higher cap does not introduce additional risk to the platform.

wstETH (Gnosis)

wstETH's supply cap on Gnosis has reached 99% utilization, while its borrow cap utilization is at 22%.

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Screenshot 2025-01-13 at 9.15.00 AM

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Screenshot 2025-01-13 at 9.15.18 AM

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Supply Distribution

The supply distribution of wstETH presents limited liquidation risks. The top supplier accounts for approximately 27% of the total supply, indicating some concentration risk. However, as this user does not engage in borrowing activities, it does not pose any liquidation risk at this time.

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The remaining top suppliers either maintain a high health score or are borrowing WETH against wstETH, presenting limited liquidation risk at this time.

The top borrowed asset against wstETH is WETH, accounting for 64.56% of the total distribution, which aligns with the behavior of the top suppliers.

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Screenshot 2025-01-13 at 9.21.28 AM

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Liquidity

Currently, the market allows a 150 wstETH sell to incur less than 4% price slippage, supporting a supply cap increase.

Recommendation

Given user behavior and DEX liquidity, we recommend increasing the supply to 8.2K wstETH.

USDC.e (Gnosis)

USDC.e's supply cap utilization stands at 94%, while its borrow cap is fully utilized at 100%.

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Supply Distribution

The supply of USDC.e is dominated by a single user, accounting for 92% of the total supply. However, as this top supplier currently has no borrowing activities, it does not pose any liquidation risk.

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The top borrowed asset against USDC.e is GNO, accounting for 99% of the total borrowed distribution, which amounts to only $1.44K.

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Screenshot 2025-01-13 at 9.37.39 AM

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Borrow Distribution

The top borrower of USDC.e represents approximately 54% of the total distribution, indicating concentration risk. However, with a high health score of 2.69 and active position management, this position does not pose a significant risk at this time.

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The remaining top borrowers are either borrowing limited amounts or maintaining high health scores, effectively reducing the liquidation risk.

Liquidity

USDC.e's liquidity has remained stable over the past three months, with a 600K USDC.e sell currently incurring less than 1% slippage.

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Recommendation

Given the user distribution and on-chain liquidity, we recommend increasing the borrow cap to 5.4M. However, we do not recommend raising the supply cap at this time, as the current supply cap for USDC.e already matches its total supply on Gnosis.

USDC (ZkSync)

USDC's supply cap on zkSync has reached full utilization at 100%, while its borrow cap utilization stands at 71%.

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Supply Distribution

The supply distribution of USDC presents limited risks. The top supplier accounts for 20% of the total distribution, indicating some concentration risk. However, as this user is borrowing USDC against USDC itself, the liquidation risk remains minimal at this time.

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The remaining top suppliers are either borrowing correlated assets or have no borrowing activities, significantly reducing the risk of liquidation.

The largest borrowed asset against USDC is USDC itself, accounting for 90% of the total distribution, which significantly reduces the likelihood of large-scale liquidations.

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Screenshot 2025-01-13 at 11.09.44 AM

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Borrow Distribution

The borrow distribution of USDC presents limited liquidation risks. Seven of the top ten borrowers are borrowing USDC against USDC and USDT, minimizing liquidation risks. The remaining three positions maintain high health scores, posing no significant risks at this time.

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Liquidity

The liquidity of USDC has increased over the past two weeks, with a 400K USDC sell now incurring less than 4% slippage. Considering the behavior of the top suppliers, the current liquidity supports a cap increase.

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Recommendation

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

USDC (Arbitrum)

The supply of USDC on Arbitrum has reached 84% of its cap utilization, while its borrow cap utilization stands at 66%.

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Supply Distribution

The supply distribution of USDC presents limited liquidation risks. Except for one position, all other top suppliers have no borrowing activities, presenting no risk of liquidation at this time. The sole position with borrowing activities maintains a high health score of 2.59, mitigating any large liquidation risks.

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The top borrowed asset against USDC is WETH, accounting for 34.84% of the total distribution, which amounts to only $6.49M.

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Borrow Distribution

The borrow distribution of USDC presents no concentration risk, as the top borrower accounts for less than 10% of the total distribution. Additionally, all top borrowers maintain healthy health scores and actively manage their positions, minimizing the risk of large-scale liquidations.

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Liquidity

The liquidity of USDC on Arbitrum has remained stable over the past three months, with a 15M USDC sell currently incurring less than 7.5% slippage.

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Recommendation

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

USDC (Ethereum-Core)

USDC has reached 86% of its supply cap utilization, while its borrow cap utilization stands at 76%.

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Supply Distribution

Since all the top suppliers of USDC have no borrowing activities, they currently present no risk of liquidation.

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cdn.com/flex013/uploads/aave/original/2X/8/8550db9868d9e8b1c1cbcb22a7a97156d894481a.png)

Borrow Distribution

The borrow distribution of USDC is not concentrated, with the top borrower accounting for only 4% of the total borrowed amount. Currently, all top borrowers are either collateralizing correlated assets or maintaining high health scores, reducing liquidation risks.

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Liquidity

The liquidity of USDC has remained generally stable, with a 150M USDC sell currently incurring less than 2% price slippage.

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Recommendation

Given the user behavior and on-chain liquidity, we recommend increasing the supply cap to 4.8B USDC and borrow cap to 4.32B USDC.

WETH (Ethereum-Core)

WETH has reached 93% of its supply cap utilization, while its borrow cap utilization stands at 83%.

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Supply Distribution

The supply of WETH currently poses limited liquidation risk. The top supplier accounts for 14% of the total WETH supply, indicating minor concentration risk. Additionally, this top supplier has no borrowing activities, eliminating any immediate liquidation risk.

The remaining top suppliers either have no borrowing activities or maintain high health scores, minimizing the risk of liquidations.

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Screenshot 2025-01-13 at 11.39.00 AM

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The top borrowed asset against WETH is USDT, accounting for 51.23% of the total borrowed asset distribution.

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Borrow Distribution

The borrow distribution of WETH is not concentrated, with the top borrower accounting for only around 13% of the total distribution.

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The remaining top borrowers are all borrowing WETH against correlated assets (weETH and wstETH), reducing liquidation risks.

Liquidity

The liquidity of WETH has declined since December but has remained stable thereafter. Currently, a 10K WETH sell incurs less than 2% price slippage.

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Recommendation

Given the user behavior and on-chain liquidity, we recommend increasing the supply cap to 2.2M and the borrow cap to 1.98M.

rsETH (Ethereum Core)

The supply cap of rsETH stands at 100% utilization, while its borrow cap utilization stands at 8% utilization.

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Supply Distribution

There is significant concentration amongst suppliers, with the largest accounting for 43% of the total. However, this risk is mitigated by the user borrowing wstETH against rsETH, significantly limiting the risk of liquidation.

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Overall, wstETH accounts for 98.4% of all borrowed assets against rsETH.

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Liquidity

rsETH's liquidity against USDC, the largest non-correlated borrowed asset, 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 to 400,000 rsETH. We continue to conservatively recommend cap increases in rsETH given the current relative size of the reserve and the associated risk/reward of the asset.

Specification

Chain

Instance

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Gnosis

Core

wstETH

7,500

8,200

400

-

Gnosis

Core

USDC.e

6,000,000

-

2,800,000

5,400,000

ZkSync

Core

USDC

8,000,000

16,000,000

7,200,000

14,400,000

Arbitrum

Core

USDC

350,000,000

700,000,000

320,000,000

640,000,000

Ethereum

Core

USDC

3,000,000,000

4,800,000,000

2,750,000,000

4,320,000,000

Ethereum

Core

WETH

2,000,000

2,200,000

1,800,000

1,980,000

Ethereum

Core

rsETH

340,000

400,000

1,900

-

Next Steps

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

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