Summary

A proposal to increase the supply cap for wstETH on V3 Ethereum

Motivation

The supply cap for wstETH on Ethereum V3 is currently at 92% utilization.

Utilizing our supply cap methodology we recommend an increase in the supply cap of wstETH without introducing significant risk to the protocol. We recommend increasing the supply cap for wstETH on the Ethereum network to 1,100,000 wstETH.

Borrow Distribution

Predominantly, wstETH collateral on Aave Ethereum V3 is being used to borrow WETH in E-Mode, ~$577M out of ~$920M accounting for ~62% of the borrows against wstETH.

Top Suppliers

The top ten suppliers on Aave Ethereum V3 collectively contribute approximately $911 million in wstETH, accounting for about 52% of the total wstETH supply. Notably, the [largest](#) of these accounts, belonging to Morpho, is responsible for supplying $538 million in wstETH, which is nearly 30% of the entire supply and borrows roughly $350 million in WETH against its supply in E-Mode.

Although this represents a significant concentration within the market, its usage and risk profile do not alter our current recommendations regarding the asset.

Stress Tests

Analyzing our stress scenarios, we observed no increase in VaR while increasing the supply cap and simulating a ~33% drop in wstETH price.

We start seeing an increase in VaR when simulating a 43% price drop and when increasing the supply by 1.8X - to ~1,400,000 wstETH.

It is important to note that our analysis assumes no significant price divergences between WETH and stETH

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum

wstETH

850,000

1,100,000

24,000

No Change

Next Steps

Once we receive feedback from [@Gauntlet](#) on the above recommendations, we will move forward to implement these updates via the Risk Steward process.