Summary

A proposal to:

- Increase USDT's supply cap on Aave's V3 Ethereum Core instance.

- Increase ETH's supply cap on Aave's V3 BNB instance.

- Increase SCR's supply cap on Aave's V3 Scroll instance.

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.

USDT (Ethereum-Core)

The supply cap of USDT has reached 92% utilization and the borrow cap utilization has reached 78%.

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Supply Distribution

The supply distribution of USDT presents limited liquidation risk. The top supplier holds approximately 17% of the total supply, posing a minor concentration risk. However, since this position has no borrowing activity, it does not present any liquidation risk at this time. The remaining top suppliers either maintain relatively high health scores (above 1.9) or have no borrowing activity, further minimizing the likelihood of liquidation.

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Currently, the top three borrowed assets against USDT are WETH, WBTC, and USDC. WETH accounts for 70.79% of the total distribution, translating to only $92 million.

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Liquidity

The liquidity of USDT has remained strong and stable over the past three months, with a 100M USDT sell for USDC incurring less than 1% slippage, supporting a supply cap increase.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 5.25B USDT.

ETH (BNB)

ETH has reached 99% supply cap utilization, and its borrow cap is at 39% capacity.

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Supply Distribution

The supply of ETH is fairly distributed, with the top supplier contributing $2.1M worth of ETH, representing approximately 12% of the total supply, which poses no concentration risk.

The top supplier has collateralized 650 ETH ($2.1M) and 16 BTCB ($1.48M) and borrowed 3,500 WBNB ($2.43M). While this presents some liquidation risk because WBNB is not directly correlated with ETH or BTCB, the position is also actively managed and the holder maintains a health score of 1.19. Therefore, we do not consider this a significant liquidation risk at the moment and on-chain liquidity is sufficient to support liquidation.

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The top three borrowed assets against ETH are WBNB, USDT, and USDC, which represent 35.61%, 30.32%, and 17.98% of the total value borrowed, respectively.

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Liquidity

The liquidity of ETH has remained stable for the past three months, with a 1K ETH sell incurring less than 2% slippage.

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Recommendation

Given user behavior and on-chain liquidity, we recommend doubling the supply cap to 10K ETH.

SCR (Scroll)

SCR has reached 100% of its supply cap while its borrow cap is 2% utilized.

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Supply Distribution

SCR cannot be used as collateral and thus presents no liquidation risk.

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Liquidity

The recent liquidity of SCR is strong, with a 100K SCR sell for USDC incurring less than 3% slippage, supporting a supply cap increase.

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Recommendation

Given user behavior and on-chain liquidity, we recommend doubling the supply cap to 720K SCR.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum-Core

USDT

3,500,000,000

5,250,000,000

3,250,000,000

4,720,000,000

BNB

ETH

5,000

10,000

4,000

-

Scroll

SCR

360,000

720,000

180,000

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Next Steps

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

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