Summary

A proposal to increase the supply and/or borrow caps on the following assets:

Ethereum

- USDC supply and borrow caps
- USDT supply and borrow caps
- wstETH borrow cap

Arbitrum

- weETH supply cap
- WETH supply cap

Base

- weETH supply and borrow caps
- WETH supply and borrow caps
- wstETH supply cap

Motivation

USDC (Ethereum)

USDC has reached 85% supply cap utilization on Ethereum, and its borrow cap is at 74% capacity.

Supply Distribution

Most top USDC suppliers maintain deposit-only positions, with a few borrowing small amounts of WETH or WBTC. The largest USDC supplier represents an outsized proportion of the total market, contributing significantly more than the others. The majority of positions have no liquidation risk due to being supply-only, while the few positions with borrows have low liquidation risk as they involve stablecoins paired with moderately volatile assets.

Overall, WETH represents 25.24% of the value borrowed against USDC.

Borrow Distribution

Most top USDC borrowers use a combination of WETH and wstETH as collateral, with some also using WBTC. The total USDC borrow is fairly distributed across wallets, with no single borrower representing an outsized proportion of the market. The largest open positions have moderate liquidation risk due to the use of volatile assets like WETH, wstETH, and WBTC as collateral against USDC borrows.

In aggregate, WETH represents 35.78% of the value backing USDC loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing USDC’s supply and borrow caps.

USDT (Ethereum)

USDT has reached 85% supply cap utilization on Ethereum, and its borrow cap is at 68% capacity.

Supply Distribution

All of the top USDT suppliers maintain deposit-only positions. The total supply is fairly distributed across wallets, with the largest supplier representing less than 25% of the total. The majority of positions have zero liquidation risk due to being supply-only, while the few borrowing positions that do exist have low liquidation risk as they involve stablecoins or moderately volatile assets.

Overall, WETH represents 62.71% of the total value borrowed against USDT.

Borrow Distribution

The top USDT borrowers primarily use a combination of WETH and WBTC as collateral, with some also utilizing stablecoins like USDC. Total USDT borrows are fairly distributed across wallets, with no single borrower representing an outsized proportion of the market. The largest open positions have moderate liquidation risk due to the use of volatile assets like WETH and WBTC as collateral.

In aggregate, WETH represents 36.47% of the value backing USDT loans, followed closely by WBTC at 29.68%.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing USDT's supply and borrow caps.

wstETH (Ethereum)

wstETH has reached 83% supply cap utilization on Ethereum, but its borrow cap is at 100% capacity.

Supply Distribution

Most top wstETH suppliers borrow WETH, maintain deposit-only positions, or borrow stablecoins. The largest open positions generally have low liquidation risk, as they are either supply-only or involve borrowing assets closely correlated to the supplied collateral.

Overall, WETH represents 48.79% of the value borrowed against wstETH.

Borrow Distribution

The majority of top wstETH borrowers primarily use weETH as collateral, with some also using WETH. The largest open positions have low liquidation risk due to the use of closely correlated ETH derivatives (weETH, WETH) as collateral against the borrowed wstETH.

In aggregate, weETH represents 63.51% of the value backing wstETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend doubling wstETH's borrow cap and leaving its supply cap unchanged.

weETH (Ethereum) - No Recommendation

weETH has reached 100% supply cap utilization on Ethereum, and its borrow cap is at 46% capacity.

Supply Distribution

Most top weETH suppliers borrow WETH, with some recursive weETH borrowing taking place as well. The total supply is fairly distributed, with the largest suppliers representing substantial but not outsized proportions of the market. The largest open positions have low liquidation risk, as the supplied and borrowed assets (weETH and WETH) are closely related.

WETH represents 80.98% of the value borrowed against weETH.

Borrow Distribution

The majority of top weETH borrowers use weETH as collateral, with some also using WETH and wstETH. The largest open positions have minimal liquidation risk.

Overall, weETH represents 91.28% of the value backing weETH loans.

Recommendation

While liquidity and user behavior would support an increase of weETH's caps on Ethereum, WETH is currently at 89.8% utilization. An influx of weETH would lead to more WETH being borrowed, bringing utilization above 90% and increasing borrowing rates, likely making looping unprofitable for a period of time. Given this, we do not recommend increasing weETH's caps at this time.

weETH (Arbitrum)

weETH has reached 100% supply cap utilization on Arbitrum, and its borrow cap is at 51% capacity.

Supply Distribution

Top weETH suppliers near-universally borrow WETH against their weETH collateral. The total supply is highly distributed across wallets, with no single supplier representing an outsized proportion of the market. The largest open positions have low liquidation risk.

Overall, WETH represents 77.29% of the value borrowed against weETH.

Borrow Distribution

Most top weETH borrowers use weETH as collateral, with some also using WETH. The largest borrowers do not represent an outsized proportion of the total market, as the borrow amounts are relatively distributed across wallets. The largest open positions have minimal liquidation risk.

Overall, weETH represents 95.95% of the value backing weETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing the supply cap, noting that we are limited by on-chain supply; there is no need to increase the borrow cap at this time.

WETH (Arbitrum)

WETH has reached 86% supply cap utilization on Arbitrum, and its borrow cap is at 96% capacity.

Supply Distribution

Most top WETH suppliers borrow USDC, with some maintaining deposit-only positions. The largest WETH supplier represents an outsized proportion of the total market, contributing significantly more than other wallets. The largest open positions have moderate liquidation risk due to the volatility of WETH as collateral against borrowed stablecoins.

Overall, USDC represents 62.93% of the value borrowed against WETH.

Borrow Distribution

Most top WETH borrowers use weETH or wstETH as collateral for looping purposes. The WETH borrowing is highly distributed across wallets, with no single borrower dominating the market. The largest open positions have low liquidation risk due to the close correlation between WETH and its derivatives (weETH and wstETH) used as collateral.

In aggregate, weETH represents 58.88% of the value backing WETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing both WETH’s cap slightly, while not increasing the borrow cap so as to maintain utilization below 90%.

weETH (Base)

weETH has reached 100% supply cap utilization on Base; its borrow cap is also at 100% capacity.

Supply Distribution

All of the top weETH suppliers borrow agains their weETH collateral. The total supply is fairly distributed across wallets, with no single supplier representing an outsized proportion of the market. The largest open positions have low liquidation risk, as the supplied and borrowed assets (weETH and WETH) are closely linked.

Overall, WETH represents 79.67% of the value borrowed against weETH.

Borrow Distribution

The majority of top weETH borrowers use weETH as collateral, with some also using WETH.

Overall, weETH represents 97.32% of the value backing weETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing both caps, noting that we are limited in our supply cap increase given on-chain supply.

WETH (Base)

WETH has reached 86% supply cap utilization on Base, and its borrow cap is at 85% capacity.

Supply Distribution

Almost all top WETH suppliers borrow USDC, with a few maintaining deposit-only positions. The largest open positions have low-to-medium liquidation risk due to WETH's moderate volatility when paired with stablecoin borrows like USDC.

Overall, USDC represents 89.99% of the value borrowed against WETH.

Borrow Distribution

The majority of top WETH borrowers use USDC as collateral, with some using wstETH or a combination of both. The largest WETH borrower accounts for a significant portion of the total market, but not an overwhelming majority. The largest open positions have moderate liquidation risk in the event of a spike in WETH's price.

In aggregate, USDC represents 39.89% of the value backing WETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing WETH's supply and borrow caps.

wstETH (Base)

wstETH has reached 94% supply cap utilization on Base, and its borrow cap is at 21% capacity.

Supply Distribution

Most top wstETH suppliers borrow USDC or WETH. The total supply is fairly distributed across wallets beyond the two largest. The majority of positions have low liquidation risk.

Overall, WETH represents 52.74% of the value borrowed against wstETH, reflecting the dominance of looping strategies in this market.

Borrow Distribution

Most top wstETH borrowers use WETH as collateral, with a few using USDC or wstETH. The open positions generally have low liquidation risk, as the borrowed asset (wstETH) is closely correlated with the primary collateral asset (WETH).

In aggregate, WETH represents 49.06% of the value backing wstETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing wstETH's supply cap and leaving its borrow cap unchanged.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum

USDC

1,800,000,000

2,250,000,000

1,600,000,000

2,100,000,000

Ethereum

USDT

2,000,000,000

2,500,000,000

1,900,000,000

2,250,000,000

Ethereum

wstETH

1,300,000

-

24,000

48,000

Base

weETH

2,000

2,100

360

720

Base

WETH

18,000

27,000

9,000

18,000

Base

wstETH

6,000

9,000

400

-

Arbitrum

weETH

72,000

75,000

25,000

-

Arbitrum

WETH

120,000

140,000

90,000

-

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 July 9th at 11 am GMT

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