

Summary

A proposal to:

- increase the weETH supply and cap on Aave V3's Ethereum deployment
- increase the weETH supply and borrow caps on Aave V3's Arbitrum deployment
- increase the pyUSD supply and borrow caps on Aave V3's Ethereum deployment
- increase the GNO borrow cap on Aave V3's Gnosis deployment

weETH (Ethereum)

Motivation

weETH has again reached full supply cap utilization, while borrow cap utilization stands at 35%.

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Supply Distribution

Supply is relatively concentrated, with the largest [supplier](#) representing 55% of the total amount supplied. This wallet is tagged as Liquid, a yield generating platform offered by [Ether.fi](#), and is currently looping weETH and WETH. 8 of the top 10 suppliers are looping weETH and WETH, while one is looping weETH with itself and another is borrowing stablecoins against weETH and WBTC collateral.

Overall, weETH and WETH represent 98.9% of the value borrowed against weETH, putting this market at lower risk of large-scale liquidations.

Borrow Distribution

Borrowing is relatively limited, and the largest is borrowing weETH against itself.

Recommendation

We recommend increasing the supply cap to 200K; there is no need to increase borrow caps at this point in time.

weETH (Arbitrum)

Motivation

weETH has reached its supply and borrow caps on Arbitrum following rapid new deposits after the last cap increase.

Supply Distribution

Supply on Arbitrum is less concentrated than on Ethereum, with the largest supplier accounting for 19.4% of the total. All of the top 10 suppliers are looping weETH with WETH, wstETH, or weETH itself, putting this market at lower risk of large-scale liquidations.

The three ETH-correlated assets represent 96.7% of the value borrowed against weETH, again reducing the likelihood of liquidations.

Recommendation

Given user distribution and on-chain supply, we recommend doubling the supply and borrow caps.

PYUSD (Ethereum)

Motivation

PYUSD has reached 77% and 56% supply and borrow cap utilization, respectively, following a steady increase in both over the past month. Note that PYUSD cannot be used as collateral.

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Supply Distribution

Supply is dominated by three users supplying \$30.5M of the \$30.7M total.

Borrow Distribution

Borrowing of PYUSD is significantly more distributed, with the largest position being \$2M PYUSD borrowed against \$4.7M WBTC, carrying a health score of 1.42.

WBTC, WETH, and wstETH are the most popular collateral assets against PYUSD, representing 87.8% of the total collateral against the asset.

These positions are at risk of liquidation in the event BTC or ETH's price falls, though on-chain liquidity would likely support efficient liquidations.

Recommendation

Based on on-chain liquidity and user distribution, recommend increasing the supply and borrow caps.

GNO (Gnosis)

Motivation

GNO on Ethereum has reached 62% and 92% supply and borrow cap utilization, respectively, with steady growth in total borrowed. Note that GNO is in isolation mode.

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Supply Distribution

Supply is very concentrated, with the top two suppliers representing 88.9% of the total; the largest has a health score of 2.85 while the next does not borrow against its deposits.

Given this, and the fact that it is in isolation mode, there is very little collateral at risk, even in the event of a significant drop in GNO's price.

Borrow Distribution

Borrows are more distributed, with the largest position representing 32% of the total amount borrowed.

Borrows are primarily against WETH and WXDAI collateral, putting these positions at risk of liquidation if GNO's price increases or WETH's decreases.

Recommendation

Given the on on-chain liquidity and user distribution, we recommend doubling the borrow cap; there is no need to increase the supply cap at this time.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum

weETH

130,000

200,000

29,500

No Change

Arbitrum

weETH

16,000

32,000

1,600

3,200

Ethereum

PYUSD

40,000,000

60,000,000

30,000,000

48,000,000

Gnosis

GNO

60,000

No Change

2,200

4,400

Next Steps

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

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