

# Gauntlet recommendation to lower stMATIC, MaticX non-emode LT

## Summary

Gauntlet recommends lowering stMATIC, MaticX non-emode LT to improve the risk profile associated with MATIC LSTs.

Reducing MATIC LST non-emode LT to lower borrowing power can help combat the following.

- Risks of reduced WMATIC supply in the future, which may cause long-term growth risk for Polygon v3
- The staking yield from stMATIC and MaticX can offset borrowing costs for stablecoins.
- As a result, without sufficiently lower non-emode borrowing power for LST (or some other tradeoff), this may cause users to migrate their collateral from WMATIC to stMATIC or MaticX for stablecoin borrowing.
- WMATIC supply is incredibly important to the sustainability of Polygon v3 as the source of lending for LST-WMATIC recursive strategies.
- The staking yield from stMATIC and MaticX can offset borrowing costs for stablecoins.
- As a result, without sufficiently lower non-emode borrowing power for LST (or some other tradeoff), this may cause users to migrate their collateral from WMATIC to stMATIC or MaticX for stablecoin borrowing.
- WMATIC supply is incredibly important to the sustainability of Polygon v3 as the source of lending for LST-WMATIC recursive strategies.
- Risks of reduced capacity for recursive LST - WMATIC borrowing
- Risks associated with increased stablecoin borrowing against LST collateral, amidst decreasing MATIC LST liquidity

We welcome the community to read our below analysis for more color.

## Recommendations

We present two options for the community.

Option

stMATIC LT changes

MaticX LT changes

stMATIC LTV changes

MaticX LTV changes

1

0.65 → 0.60

0.67 → 0.62

0.50 → 0.45

0.58 → 0.45

2

0.65 → 0.56

0.67 → 0.58

0.50 → 0.40

0.58 → 0.40

For transparency, we recommend gradually reducing stMATIC and MaticX LT to 0.37, roughly half that of WMATIC LT. The above recommendations will be the first iteration of our recommendations.

Option 1 will liquidate 1 account with ~\$10 of borrows, option 2 will liquidate ~\$26k worth of borrows as of data on 2023-09-15. See the appendix for the full breakdown of accounts.

## Analysis

### Higher non-emode borrowing power for LST may disincentivize WMATIC collateralized stablecoin borrowing.

- Collateralizing WMATIC to borrow stablecoins represents a method for users to obtain leverage and has traditionally been the largest use case outside of emode for Polygon v3.
- Since MATIC LST naturally capture MATIC staking interest, collateralizing MATIC LST to borrow stablecoins is a superior strategy to collateralizing WMATIC to borrow stablecoins.
- Accrued staking yield can offset the cost to borrow stablecoins.
- Without lower non-emode borrowing power for LST (or some other tradeoff), users may be incentivized to migrate their WMATIC - stablecoin positions into MATIC LST - stablecoin positions.
- This has empirically begun happening with whale user 0x1e5b92c66e4cad7963e8dacf1e8d642304c172c8.
- Accrued staking yield can offset the cost to borrow stablecoins.
- Without lower non-emode borrowing power for LST (or some other tradeoff), users may be incentivized to migrate their WMATIC - stablecoin positions into MATIC LST - stablecoin positions.
- This has empirically begun happening with whale user 0x1e5b92c66e4cad7963e8dacf1e8d642304c172c8.
- Across Polygon v3, WMATIC supply has ~35% from 70m to 45m over the past few months.

### As a result, lowered WMATIC supply hinders LST - WMATIC recursive borrowing.

- Smaller WMATIC supply indicates less WMATIC borrow can be taken out before rates spike due to slope 2.
- Gauntlet has highlighted decreasing emode borrowing and the associated added risk in our [original WMATIC IR recommendations](#).

### Decreasing LST liquidity increases the risk profile for LST collateralized stablecoin borrowing.

- Decreasing liquidity for MATIC LSTs increases their risk profile, especially since they are collateralizing more stablecoin borrows. This decreasing liquidity may impact healthy liquidations during high volatility. Reducing MATIC LSTs LT will lower the borrowing power of these LSTs outside of emode and thus improve their risk profile.

## Next steps

Welcome community feedback and aim to put up snapshot with the above two options on 2023-09-26.

## Appendix - Liquidated accounts

Option 1

Liquidated accounts

user\_address

supply\_balance\_usd

borrow\_balance\_usd

hf

hf\_new

supplied\_symbols

borrowed\_symbols

0x15429b6fc30fa2eb44c80884cfe4c50960283d1f

9.0

6.13

1.04

1.00

[WMATIC, USDC, stMATIC, DAI]

[USDC]

Accounts at the border (new HF <= 1.03)

user\_address

supply\_balance\_usd

borrow\_balance\_usd

hf

hf\_new

supplied\_symbols

borrowed\_symbols

0x15429b6fc30fa2eb44c80884cfe4c50960283d1f

9.0

6.13

1.04

1.00

[WMATIC, USDC, stMATIC, DAI]

[USDC]

0x22bfb2e7d20546216982bcff13446d29eea359d4

359.0

219.15

1.08

1.00

[WMATIC, stMATIC]

[SUSHI, agEUR, EURS]

0xdbfe5e94a0208c5324c7e4396dcebd312af01b33

6.0

4.50

1.01

1.00

[USDC, stMATIC, AAVE]

[USDC, GHST, DAI]

0x167b799026473d79c2c75309b94a5648794e2a40

43729.0

25510.72

1.11

1.03

[WMATIC, stMATIC]

[USDC]

0xfe65ca7a0ed4bdbdcecf8ab99d2f4536ebddccf3

17.0

10.19

1.11

1.03

[stMATIC]

[DAI]

0xaa4f6ebddfec945844a60d43415b5c3a53e803c

0.0

0.08

1.07

1.02

[WMATIC, MaticX]

[WSTETH]

0xc47df064bdc1b2cbf6fd85aae4db8beaf7c350ac

927.0

557.50

1.11

1.03

[MaticX]

[USDC]

Option 2

Liquidated accounts user\_address

supply\_balance\_usd

borrow\_balance\_usd

hf

hf\_new

supplied\_symbols

borrowed\_symbols

0xc47df064bdc1b2cbf6fd85aae4db8beaf7c350ac

927.0

557.50

1.11

0.96  
[MaticX]  
[USDC]  
0x7c33692980c23c3df99a8cb2ae1405952a6afa3e  
151.0  
89.17  
1.13  
0.98  
[MaticX]  
[USDC]  
0x777863157576954417bf3bda95ad34dbbfe357c9  
148.0  
86.62  
1.14  
0.99  
[MaticX]  
[USDC]  
0xd6ff66977fc45ad25d4f0d3db813d070606d8772  
52.0  
30.18  
1.15  
0.99  
[MaticX]  
[DAI]  
0x167b799026473d79c2c75309b94a5648794e2a40  
43729.0  
25510.72  
1.11  
0.96  
[WMATIC, stMATIC]  
[USDC]  
0x22bfb2e7d20546216982bcff13446d29eea359d4  
359.0  
219.15  
1.08  
0.94  
[WMATIC, stMATIC]

[SUSHI, agEUR, EURS]

0xb8d188efcfc9b30d53ceb8bd9f833629481c4b47

72.0

41.01

1.14

0.98

[stMATIC]

[USDC]

0xfe65ca7a0ed4bdbdcecf8ab99d2f4536ebddccf3

17.0

10.19

1.11

0.96

[stMATIC]

[DAI]

0x15429b6fc30fa2eb44c80884cfe4c50960283d1f

9.0

6.13

1.04

0.96

[WMATIC, USDC, stMATIC, DAI]

[USDC]

0xc99da3a663604c43f6296f3f95e9ea7b6481f01f

4.0

2.34

1.01

0.88

[WBTC, stMATIC]

[WMATIC, MaticX]

0x29e026820d44508fe53f0ac834a3245d2cb817bc

2.0

1.42

1.15

0.99

[stMATIC]

[WMATIC]

Accounts at the border (HF <= 1.03)

user\_address  
supply\_balance\_usd  
borrow\_balance\_usd  
hf  
hf\_new  
supplied\_symbols  
borrowed\_symbols  
0xc70f26184fc556bbbba9c3078ee35411e42e7b1ac  
52639.0  
30195.91  
1.17  
1.01  
[MaticX]  
[WMATIC]  
0x82a2f9d1f005b0ed761dfa7285d3eef4e661a2b0  
13.0  
7.68  
1.17  
1.01  
[MaticX]  
[MaticX]  
0xdbfe5e94a0208c5324c7e4396dcebd312af01b33  
6.0  
4.50  
1.01  
1.00  
[USDC, stMATIC, AAVE]  
[USDC, GHST, DAI]  
0xd23b97041b323176c8b595c85b9851b91922e2a9  
1.0  
0.49  
1.01  
1.00  
[WMATIC, WBTC, USDC, stMATIC, WETH, DAI, USDT]  
[WBTC, GHST, WETH, USDT]  
0x2c71c4909e6776c2f48f8999980a10ea1546f6d0  
5.0

2.56

1.19

1.02

[stMATIC]

[DAI]

0x0ee01410d9ac0c4ba49a407fe857b5d30d217c21

9.0

5.10

1.19

1.03

[stMATIC]

[USDC]