Summary

A proposal to:

- Increase wstETH’s supply cap on Aave’s Base deployment.
- Increase WETH’s supply cap on Aave’s Metis deployment.
- Increase WETH’s supply cap on Aave’s Scroll deployment.
- Increase wstETH’s supply and borrow caps on Aave’s Scroll deployment.
- Increase WETH’s borrow cap on Aave’s Arbitrum deployment.
- Increase BAL’s supply and borrow caps on Aave’s Ethereum deployment.

Motivation

wstETH (Base)

wstETH has reached 92% supply cap utilization on Base, and its borrow cap is at 20% capacity.

Supply Distribution

Most top wstETH suppliers borrow WETH, with a few borrowing USDC. The total supply is fairly distributed across wallets, with no single supplier dominating the market. The largest open positions have low liquidation risk, as wstETH and WETH are closely correlated assets with moderate volatility.

Overall, WETH represents 84.41% of the value borrowed against wstETH.

Borrow Distribution

Most top wstETH borrowers use WETH as collateral, with some using USDC or a combination. The largest borrower doesn’t dominate the market, as borrowing is fairly distributed across multiple wallets. The largest 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 37.42% 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 by 50% and leaving its borrow cap unchanged.

WETH (Metis)

WETH has reached 85% supply cap utilization on Metis, and its borrow cap is at 19% capacity.

Supply Distribution

Most top WETH suppliers on Metis borrow m.USDC and m.USDT, with some maintaining deposit-only positions. The largest WETH supplier represents a significant proportion of the total market, contributing over 50% of the supply. The largest open positions have moderate liquidation risk, as they primarily involve borrowing stablecoins against WETH collateral.

Overall, m.USDC represents 48.19% of the value borrowed against WETH.

Recommendation

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

WETH (Scroll)

WETH has reached 95% supply cap utilization on Scroll, and its borrow cap is at 51% capacity.

Supply Distribution

Most top WETH suppliers borrow USDC, with some borrowing wstETH or maintaining deposit-only positions. The total WETH supply is fairly distributed across wallets, with no single supplier dominating the market. The largest open positions generally have low liquidation risk, as they primarily involve borrowing stablecoins against WETH collateral or borrowing wstETH, which is closely correlated with WETH.

Overall, USDC represents 67.28% of the value borrowed against WETH.

Borrow Distribution

The majority of top WETH borrowers primarily use wstETH as collateral, with some also using USDC. The total supply and borrow is fairly 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 wstETH.

In aggregate, wstETH represents 87.68% of the value backing WETH loans.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing WETH's supply cap by roughly 25%.

wstETH (Scroll)

wstETH has reached 100% supply cap utilization on Scroll, and its borrow cap is at 100% capacity.

Supply Distribution

Most top wstETH suppliers borrow WETH, with a few maintaining deposit-only positions. The total supply is fairly distributed across wallets, with no single supplier dominating the market. The largest open positions have low liquidation risk, as the supplied and borrowed assets (wstETH and WETH) are closely correlated.

Overall, WETH represents 98.04% of the value borrowed against wstETH.

Borrow Distribution

Most top wstETH borrowers primarily use WETH as collateral, with some also using USDC. The largest borrower represents a significant portion of the total market, but there's still distribution across multiple wallets. The largest open positions have moderate liquidation risk due to the use of WETH as collateral against wstETH borrows, both being moderately volatile assets.

In aggregate, WETH represents 82.58% of the value backing wstETH loans.

Recommendation

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

WETH (Arbitrum)

WETH has reached its borrow cap following consistent growth in supply and borrows over the last two weeks.

Borrow Distribution

Borrowing is well distributed, with the largest user representing 7.5% of the total market.

weETH and wstETH are the only collateral assets for the top borrow positions, which are thus at limited risk of liquidation given their correlation.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing WETH's borrow cap to allow for 90% utilization given current supply. Ensuring utilization stays below 90% will keep leveraged ETH yield positions profitable.

BAL (Ethereum)

BAL has reached its borrow cap and continues to maintain full supply cap utilization following consistent growth in borrows over the last few months.

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Supply Distribution

Supply is dominated by one user, who borrows just $31K USDT against $4.5M BAL. The next two largest suppliers do not borrow against BAL, putting this market at limited risk of large scale liquidations in its current state.

Overall, USDT represents 98.04% of the value borrowed against BAL, which is in turn just 0.55% of BAL collateral deposited.

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Borrow Distribution

BAL borrowing is fairly concentrated, with the largest borrower representing 27% of the total market. The wallet's position is the least healthy among the top ten (though still healthy at 1.26), whereas the remainder are all above 1.65.

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WETH is the primary collateral asset for BAL borrows, representing 58.5% of all collateral.

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Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing BAL's supply cap by roughly 80% and doubling its borrow cap.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Base

wstETH

9,000

14,000.0

400

-

Metis

WETH

2,000

2,300

720

-

Scroll

WETH

37,000

45,000

34,000

-

Scroll

wstETH

16,500

17,500

1,400

2,800

Arbitrum

WETH

112,000

-

90,000

100,000

Ethereum

BAL

2,100,000

3,800,000

250,000

500,000

Next Steps

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

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