

Summary

A proposal to:

- Increase WETH's borrow cap on Aave's V3 Optimism main instance.
- Increase sUSD's supply cap on Aave's V3 Optimism main instance.
- Increase USDC's supply cap and borrow cap on Aave's V3 Base main 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.

WETH (Optimism)

WETH has reached 100% borrow cap utilization and 70% supply cap utilization.

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Borrow Distribution

The borrow activity of WETH is well distributed. Most top borrowers are collateralizing wstETH to borrow WETH, and because wstETH and WETH are highly correlated assets, liquidation risk is minimal.

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The distribution of collateral assets against WETH aligns with our analysis on top borrowers. At the moment, wstETH is the largest collateral asset against WETH, accounting for 88.26% of the whole distribution. WBTC is the largest uncorrelated collateral asset at just \$2.61M.

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Liquidity

WETH's liquidity alongside USDC remains strong on Optimism, with a 1K WETH for USDC swap able to be completed under 2% price slippage.

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Recommendation

Given on-chain liquidity and user activity, we recommend increasing the borrow cap to 32,000 WETH.

sUSD (Optimism)

sUSD has reached 99% supply cap utilization while its borrow cap utilization stands at 30%.

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Supply Distribution

The supply distribution of sUSD shows limited liquidation risks. The largest supplier currently represents around 40% of the total supply, which creates some concentration risk. However, because this top supplier has no borrowing activity, it does not pose any liquidation risk at this moment. The rest of the top suppliers who do borrow maintain robust health scores and borrow correlated assets, thus they do not present significant liquidation risks.

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Currently, the largest borrowed asset against sUSD is USDC, accounting for 52.25% of the total borrowed assets. The second-largest borrowed asset is USDT, comprising 40.53% of the total distribution.

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Liquidity

The sell liquidity of sUSD has fluctuated but has recently exhibited an upward trend. Currently, 2 million sUSD can be swapped with less than 1% price slippage. Buy liquidity has fallen, though this does not present a significant risk given limited borrowing of the asset.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 22,000,000 sUSD.

USDC (Base)

USDC has reached 96% supply cap utilization and 95% borrow cap utilization.

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Supply Distribution

The supply of USDC is fairly distributed. Currently, the largest supplier holds approximately 16% of the total supply, which does not pose concentration concerns. Unlike other stablecoin markets, the top three suppliers are all borrowing uncorrelated assets against USDC, creating greater risk of large liquidation events.

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All three appear to be related with one another and are programmatically adjusting their positions to avoid liquidation. While this is higher risk than deposit-only positions, the active management and lack of concentration reduces the risk associated with these positions.

At this moment, the largest borrowed asset against USDC is WETH, accounting for 71.09% of the total borrowed assets.

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Borrow Distribution

The borrow distribution of USDC poses limited liquidation risk. Currently, most top borrowers maintain health scores above 1.2 and all large borrows are against highly liquid collateral in the form of either WETH or cbBTC.

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The largest collateral asset against USDC is WETH, accounting for 54.23% of the total collateral, which translates to a notional value of \$55.49 million.

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Liquidity

The liquidity of USDC remains stable and strong. Currently, 20M USDC can be swapped with less than 1% price slippage.

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Recommendation

Given user behavior and on-chain liquidity, we recommend increasing the supply cap to 240,000,000 USDC and the borrow cap to 216,000,000 USDC.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Optimism

WETH

35,900

-

19,745

32,000

Optimism

sUSD

11,000,000

22,000,000

10,000,000

-

Base

USDC

120,000,000

240,000,000

108,000,000

216,000,000

Next Steps

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

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