

# wstETH and WETH on Aave V3 on Arbitrum

## Summary

A proposal to:

- increase wstETH supply cap on Arbitrum
- increase WETH supply and borrow cap on Arbitrum

## Motivation

The following recommendations were made using Chaos' supply and borrow cap methodologies after analyzing user positions for the asset.

### wstETH

The supply and borrow cap utilizations for wstETH on Arbitrum V3 are currently at 88% and 12%, respectively. Supply has grown consistently since February, while borrows remain low.

The community has previously agreed to allow maximum supply caps for LSTs at 75% of circulating supply on a given chain, which would equate to 69K wstETH on Arbitrum. Given this, we recommend the supply cap be increased to 69K wstETH.

### Supply Distribution

All of the top wstETH suppliers have borrowed only ETH against their collateral, putting them at low risk of liquidation despite low health scores.

\$133M of the \$153M borrowed against wstETH is ETH.

### Borrow Distribution

Borrows of wstETH are relatively small and well distributed.

Given borrow utilization, there is no need to increase the borrow cap at this point in time.

### Recommendation

Considering the current liquidity and user positions on Arbitrum, we recommend increasing the supply cap to 69K wstETH.

### WETH

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](<https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/7/720916be3de6b0321697b0529bde3ea5517b6805.png>)

The supply and borrow cap utilizations for WETH on Arbitrum V3 are currently at 85% and 79%, respectively.

### Supply Distribution

The top suppliers of WETH are well-distributed

and in relatively good health.

Stablecoins are the most common assets borrowed against WETH collateral, putting the positions at risk of liquidation should WETH's price decrease. However, given WETH's liquidity, liquidations would not pose a risk to the protocol.

### Borrow Distribution

Large borrows of WETH are almost exclusively against wstETH, with users looping the assets. These positions are at a relatively low risk of liquidation, as mentioned above.

WBTC, USDC, and USDT are also used as collateral to borrow WETH.

## Recommendation

Considering the current liquidity and user positions on Arbitrum, we recommend increasing the supply and borrow caps by 20% each to 84K WETH and 72K, respectively.

# Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Arbitrum

wstETH

60,000

69,000

2,400

No Change

Arbitrum

WETH

70,000

84,000

60,000

72,000

## Next Steps

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

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