

Summary

With this publication, Chaos Labs proposes reducing the Slope2 parameter and increasing the UOptimal of WETH on Aave V3 Prime instance. Furthermore, we use this publication to inform and explain the recent increase of the Slope1 parameter by 40 bps for the same asset.

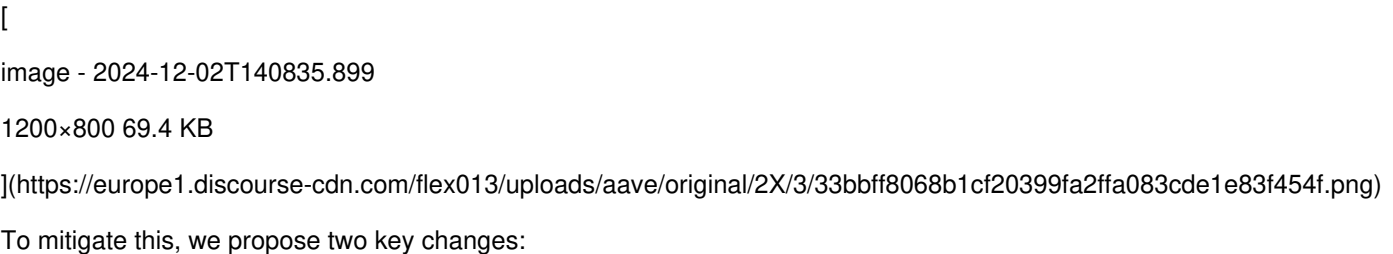
Borrow Rate

Following the process detailed in the [AGRS Dynamic WETH Borrowing Rates](#), Chaos Labs executed an increase of 40bps to the WETH Slope1 on the Lido instance, implemented as a result of consistently elevated wstETH supply rates. The increase in WETH Slope 1 has resulted in a current borrow rate of 3.30%, which is compensated by the 1.10% wstETH supply rate, reaching a net borrow cost of 2.20%. This is well within the 2.70% profitability target required for Lido yield leveraging.

While the wstETH borrow rate is expected to decrease following the [Prime & Core Instance wstETH Reserve Update](#), we expect the changes to not disrupt the market's profitability.

Slope 2 and UOptimal

The WETH reserve has frequently exceeded 90% utilization in recent data, driven by rapid increases in borrow demand stemming from elevated wstETH supply rates. These spikes in utilization have pushed the borrowing rate into the Slope 2 range, leading to significant volatility that disrupts market stability.



- Reducing Slope 2 from 70% to 20%
- Increasing UOptimal from 90% to 92%.

Lowering Slope 2 will moderate the rate at which borrowing costs increase once utilization surpasses UOptimal, creating a more predictable borrowing environment during high-demand periods. At the same time, increasing UOptimal to 92% provides a larger buffer before Slope 2 is triggered, accommodating greater utilization while maintaining stability.

This adjustment is possible thanks to WETH's current status as a non-collateral asset, which reduces the necessity for withdrawal liquidity during liquidation events; hence, this change presents minimal risk.

The combined effect of reducing Slope 2 and raising UOptimal is expected to create a more stable borrowing environment for WETH. Given the recent increase in WETH borrow rates due to the Slope 1 adjustment, utilization is not expected to cross 92% under current market conditions.

Specifications

We recommend the following parameter adjustments for the WETH reserve on the Prime instance:

Parameter

Current Value

Proposed Value

Slope 2

70.00%

20.00%

UOptimal

90.00%

92.00%

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