

Summary

An overview of the recent USDP price spike and its effects on the Aave protocol.

Analysis

On April 16, 2024, at 12 pm ET, following a temporary spike in the price of USDP on several exchanges, including Coinbase and Binance (shown below), the stablecoin's price reported by the Chainlink Oracle reached a high of over \$1.20.

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Coinbase

Binance

As USDP cannot be used as collateral, the risk to the Aave protocol was limited. However, as it is a borrowable asset on Aave V2 on Ethereum, the 16.75% price increase in a single update — from \$1.064 to \$1.243, led to liquidations, causing small amounts of bad debt, described below.

In total, \$2.4M worth of collateral was seized, \$1M of which came from a single [user](#) who now maintains a health score of 1.31.

Bad Debt

Overall, the protocol incurred bad debt amounting to ~\$1.36k, by to 2 accounts.

1. The [largest](#) had over \$500K worth of USDC collateral seized and currently holds a health score of 0.02, with bad debt worth \$1.3K.
2. The second [user](#) with bad debt was liquidated for \$250K, has a health score of 0.4, and bad debt currently worth \$426.

This occurred when the USDP's oracle price surged by 16.5% in a single update, pushing respective debt positions well above the liquidation threshold. Consequently, as these positions' health fell below 1, they began to be liquidated at the inflated relative debt value, with the liquidation bonus further siphoning collateral.

Next Steps

As part of the ongoing efforts of deprecating V2 markets, we will share a proposal for LT reductions on major stablecoins and the deprecation of smaller non-collateral stablecoins across V2, including USDP, for the community's consideration.