AAVE currently supports a number of tokenised fiat currencies as collateral. In this same vein, would users benefit from being able to make use of their tokenised commodities (such as gold) as collateral?

I believe that currencies such as tokenised gold could be a useful form of collateral for AAVE users. Although tokenised gold can be controversial and at the very least a bit polarising, I believe that in the future, the addition of a gold-backed token as collateral on AAVE could be beneficial to users.

Tether Gold (XAUT) currently has a market cap just shy of $100 million, and PAX Gold just below $60 million. It is worth mentioning that the latter appears to have a much larger trading volume than the former. I believe these are the largest (by market cap) commodity-backed tokens on the market right now, and both are erc20 tokens.

The benefits of adding such a type of token as collateral I have thought of are:

- Users may prefer to hold such an asset as opposed to a fiat-backed stablecoin, to reduce their exposure to inflation
- While commodities such as gold can and are currently used as collateral for loans available through other companies and services, I believe the ability to do so through AAVE would be an improvement in efficiency and ease-of-use
- Commodity price fluctuations are less likely to be correlated to that of the general cryptocurrency market, in the case of a market flash crash for example

The drawbacks I have so far considered are:

- Borrowing rates may be lower than some of the other forms of collateral currently available on AAVE such as fiat-backed stablecoins
- There may be legal limitations to working with commodity-backed tokens on AAVE
- In my understanding, commodities investors at large may not yet be comfortable working with cryptocurrencies and tokenised representations of their assets

I concede that it is extremely early to be introducing this topic, but at the same time I am interested to find out what the members of this community think about this possibility for the future.