Summary

A proposal to increase:

- USDC — Supply and Borrow Cap

- WETH — Supply and Borrow Cap

Motivation

The recommendations below were made utilizing Chaos' supply and borrow cap methodologies after analyzing user positions for each asset.

USDC

The supply cap for USDC on Base V3 is currently at 91% utilization, while the borrow cap utilization stands at 89%.

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Total supplied and borrowed has continued to climb since last week's cap increase.

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This is tied to a broader increase in TVL and volume on Base.

Supply Distribution

The top supplier of USDC has borrowed $2.7M of WETH against $4.3M USDC. The second largest supplier has borrowed $2.5M WETH against $4M USDC. They represent about 95% of all borrows against USDC collateral.

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Both users have a health of 1.28, which has declined as WETH's price has increased. Together, they represent about 60% of all USDC supplied in this market; that figure has declined since the recent cap raises, as other users have deposited USDC. The current on-chain liquidity distribution is adequate to execute liquidations in the event of continuous price appreciation of the underlying debt asset without corresponding debt repayments.

Borrow Distribution

USDC borrows are significantly more distributed, with differing health across the top wallets.

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$8.7mn WETH, $2.19M wstETH, and $1M cbETH and is being used as collateral to borrow USDC.

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Considering the liquidity on Base and the composition of supply and borrows, we recommend increasing the supply and borrow caps to 30M and 27M, respectively.

WETH

The supply and borrow cap utilization of WETH stand at 84% and 57%, respectively.

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Both have grown in the past 90 days as Base activity has surged.

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Supply Distribution

The top suppliers are distributed and exclusively borrow USDC and USDCbC

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USDC represents 88% of the value of assets borrowed against WETH.

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Borrow Distribution

The borrowing is well distributed, with the exception of the top borrowers, who are the same USDC suppliers mentioned above.

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Besides these users, the most common collateral asset to borrow WETH is cbETH and wstETH, both of which are correlated with WETH.

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Considering the liquidity on Base and the composition of supply and borrows, we recommend increasing the supply and borrow caps to 12K and 6K, respectively.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Base

USDC

15,000,000

30,000,000

13,500,000

27,000,000

Base

WETH

8,000

12,000

4,000

6,000

Next Steps

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

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