

Summary

A proposal to:

- Increase weETH's supply cap on Aave V3's Ethereum deployment
- Increase weETH's supply and borrow caps on Aave V3's Arbitrum deployment

Motivation

Following the [community decision](#) signaling a positive sentiment towards more aggressive exposure to weETH, we are prepared to facilitate additional cap increases via the caps steward.

weETH (Ethereum)

weETH has reached its supply cap on Ethereum, while its borrow cap stands at 70% utilization.

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Supply Distribution

All but one of the top 10 suppliers is looping weETH, either with WETH or with itself. These positions are at limited risk of liquidation given the calculated oracle for weETH.

Following the last cap increase, there were 59 deposits of 100 weETH or more, with the three largest, totaling 43.9K weETH, coming from a single [wallet](#) representing Liquid's weETH-ETH yield-generating strategy; the current position of this wallet is \$372M weETH supplied and \$213M WETH borrowed.

Overall, WETH and weETH represent 98.52% of the value borrowed against weETH, nearly identical to the value of 98.6% at the time of our last recommendation.

Borrow Distribution

The largest [borrower](#) is borrowing against a combination of WETH and wstETH; the rest of the top 10 exhibits similar behavior.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend no changes to the borrow cap, along with increasing the supply cap by 50,000 weETH.

weETH (Arbitrum)

Motivation

The Arbitrum weETH market has reached full supply and borrow utilization following a recent increase in both caps.

Supply Distribution

All of the ten largest suppliers are looping weETH with ETH-correlated assets, putting this market at relatively low risk of large-scale liquidations.

The top [supplier](#) is new to the market, having deposited 6.5K weETH since May 27. Since May 24, there have been 44 deposits larger than 100 weETH, made by 16 distinct wallets.

Overall, weETH, wstETH, and WETH represent 97.8% of the value borrowed against weETH.

Borrow Distribution

The top collateral asset against weETH is weETH itself, representing 95.6% of total collateral. This puts weETH borrow positions at a relatively low risk of liquidation.

Recommendation

Given on-chain liquidity and user distribution, we recommend increasing the supply cap by 50% and doubling the borrow cap.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Ethereum

weETH

250,000

300,000

59,000

80,000

Arbitrum

weETH

48,000

72,000

6,400

12,800

Next Steps

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

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