

Summary

A proposal to:

- Increase weETH's supply and borrow caps on Aave V3's Ethereum deployment.
- Increase weETH's supply and borrow caps on Aave V3's Base deployment.

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.

For Arbitrum, we recommend waiting to analyze the impact of the proposal to [Optimize ETH-correlated asset parameters](#) before considering further increasing caps.

Motivation

weETH (Ethereum)

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

Supply Distribution

The top suppliers are entirely composed of users looping weETH with ETH-correlated assets, putting this market at lower risk of liquidations.

The largest supplier continues to be [Ether.Fi](#) itself, who is providing an automated looping strategy.

Overall, WETH, wstETH, and weETH represent 99.3% of the value borrowed against weETH, similar to the 99.72% at the time of our last recommendation.

Borrow Distribution

The largest [borrower](#) is borrowing weETH and WETH against WETH; the rest of the top ten exhibits similar behaviors. This borrowing profile presents limited risk to the market, given the correlation between weETH and WETH.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing the supply cap by 50K and the borrow cap by 10K.

weETH (Base)

weETH has reached its supply cap on Base; it is also approaching its borrow cap.

Supply Distribution

The majority of large suppliers are borrowing WETH against their weETH, with only one of the top 10 borrowing USDC. Overall, the market is at relatively low risk of large scale liquidations.

Borrow Distribution

The top borrower is borrowing weETH against itself, while the second largest is borrowing against weETH and USDC, though with enough weETH to prevent liquidation should weETH's price rise. The borrowing positions in this market do not present major risks at this time.

Recommendation

Given on-chain liquidity and user behavior, we recommend doubling the supply and borrow caps.

Specification

Chain

Asset

Current Supply Cap
Recommended Supply Cap
Current Borrow Cap
Recommended Borrow Cap

Ethereum

weETH

400,000

450,000

140,000

150,000

Base

weETH

300

600

60

120

Next Steps

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

For transparency, we aim to execute the risk steward transaction on June 19th at 5pm GMT

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