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

weETH (Ethereum)

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.

Motivation

weETH has reached its supply cap on Ethereum, while its borrow cap stands at 17% 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.

There is, however, a [user](#) supplying 2.05K weETH and 382 WBTC, for an overall position of $35.57M supplied and $15.38M USDT and $2.29M USDC borrowed, giving a health score of 1.57. This position is at risk of liquidation should WBTC and/or weETH's price decline, though on-chain liquidity would support efficient liquidations.

Overall, WETH and weETH represent 98% of the value borrowed against weETH.

Borrow Distribution

The largest [borrower](#) is borrowing against weETH against itself; the next two largest are also looping, putting all of these positions at low risk of liquidation.

Recommendation

Given on-chain liquidity, as well as user distribution and behavior, we recommend increasing the supply cap by 1.5x to observe new user behavior before additional increases. We do not recommend an increase in the borrowing cap at this time.

weETH (Arbitrum)

Motivation

The Arbitrum weETH market reached full supply and borrow utilization rapidly after the last cap increase.

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Supply Distribution

Similar to above, the eight largest suppliers are all looping weETH with itself or WETH, putting the positions at low risk of liquidation. However, there are two users ([1](#), [2](#)) who are borrowing other assets against weETH. While both are at relatively low risk of liquidation, on-chain liquidity would support efficient processing in the event their health scores drop.

Overall, weETH and WETH represent 94% of the value borrowed against weETH.

Borrow Distribution

The largest borrower accounts for 68.75% of the total weETH borrowed; this weETH is borrowed against itself, putting the position at low risk of liquidation. Other top borrowers are also borrowing against WETH or weETH.

Recommendation

Given on-chain liquidity and user distribution, we recommend increase the supply and borrow caps.

Specification

Chain	Asset	Current Supply Cap	Recommended Supply Cap	Current Borrow Cap	Recommended Borrow Cap
Ethereum	weETH	84,000	130,000	29,500	No Change
Arbitrum	weETH	8,000	16,000	800	1,600

Next Steps

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

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