

## Overview

This is a review of Phoenix Labs' proposal for an increase to wstETH supply cap on Gnosis Chain to accommodate market demand and allow for continued growth.

All data updated as of 1 November 2023.

## Purpose

Spark on Gnosis Chain has seen healthy usage in the month since launch. Initial asset cap parameters were set very conservatively to ensure market stability immediately following deployment. wstETH has seen supply hit the cap, and given gradual improvements in liquidity conditions along with sound operation of the GC Spark market so far, it makes sense to increase this cap to allow for continued growth.

wstETH has hit the 5,000 token supply cap for most of the past two weeks. While Gnosis treasury removed idle wstETH liquidity to allow for more external usage, the market has now reached full supply cap utilization again.

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Source: [Block Analitica Dashboard](#)

wstETH seems to be the most preferred collateral asset among external (non-Gnosis affiliated) users with well over 90% of user supplied assets, so ensuring adequate capacity is important for Spark adoption on Gnosis Chain.

## Risk Analysis

The majority of usage is being driven by two whale accounts. The [top account](#) is supplying 4.5k wstETH as collateral to borrow 3 million xDAI, with the funds transferred to a [second account](#) on mainnet and used to repay DAI debt on Spark. While this user has significant borrowings, their health factor for each account is above 2 and they have external volatile assets available to pay down debt or add collateral if necessary. They have also demonstrated responsible usage patterns in the past on the mainnet Spark deployment.

The [second account](#) is undertaking a leveraged staking trade, supplying 450 wstETH to borrow 430 ETH with a health factor of 1.08. While account behavior and composition can change unexpectedly, we can see that the existing exposure on Spark does not present significant risk. The remaining ~55 wstETH of collateral is split between several smaller accounts with either ETH or xDAI borrowed.

Looking at DEX market liquidity, we continue to see healthy growth across Balancer pools, which are the largest and most incentivized pools on Gnosis Chain. In particular, the wstETH/ETH and wstETH/staBAL3 pools have maintained liquidity, while the newly deployed wstETH/sDAI pool has added an additional \$4 million in TVL since launch.

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Source: [Balancer](#)

Growing TVL has resulted in meaningful reduction in market impact from our initial analysis that gathered data at the end of August. This should allow for larger positions to be liquidated more rapidly when necessary, and indicates higher supply

caps can be implemented safely.

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Chart

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Chart

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Source: [Spark Data: \[Gnosis Chain\] Asset Caps](#)

Given deep liquidity, very low cross asset volatility, and conservative liquidation threshold parameters, the wstETH<>ETH looping trade doesn't face a meaningful increase in risk at increased size. The primary risk consideration for wstETH supply caps is therefore wstETH<>USD liquidity levels. With trade sizes at given market impact levels over 2x higher than when the market was deployed, and considering the safety of the largest positions involved, increasing wstETH borrow cap should not present an outsize risk to the protocol.

We recommend an initial supply cap increase to 10,000 wstETH, and will favorably consider further increases to the supply cap if Spark continues to see strong growth in deposits. Additional increases will depend also on composition and risk levels of positions, on-chain liquidity, and evidence of effective liquidations activity on the Spark GC deployment.

## Specification

Spark on Gnosis Chain:

- Increase wstETH supply cap from 5,000 to 10,000 wstETH

## References

- [Proposal to Adjust SparkLend Parameters](#)
- [Balancer](#)
- <https://curve.fi/#/xdai/pools>
- <https://app.sushi.com/analytics?chainId=100>
- [Spark | Block Analitica](#)
- [Spark | Block Analitica](#)
- [Spark Data: \[Gnosis Chain\] Asset Caps](#)