

title: [ARFC] wstETH Supply Cap Increase Arbitrum v3

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Summary

This publication proposes increasing the wstETH Supply Cap on Arbitrum v3 from 4.65k unit to 17.35k units.

Abstract

The wstETH Supply Cap on Arbitrum v3 is at 100% utilisation. This publication presents the community an opportunity to raise the wstETH Supply Cap by around 373% to 17.35k units.

There is ample liquidity for wstETH to wETH to USDC swaps to occur when liquidating the largest wstETH holdings. At the time of writing, wstETH supply on Arbitrum is [34,699.59 units](#), 50% of the supply is 17.35k units.

Motivation

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Screenshot 2023-05-07 at 19.42.52

818×519 34 KB

](<https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/c/caab7bf388a64bf2c69e83cc56f24c1f43fb5aa4.png>)

The utilisation of wstETH on Arbitrum is at 100%. The current Supply Cap of 4.65k units is equivalent to 13.4% of supply on Arbitrum. Increasing the cap to 50% of circulating Supply would increase the Supply Cap to 17.35k units. Given the relative small Supply Cap in place, this publication seeks to increase the Supply Cap by 373%, to 17.35k units.

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Screenshot 2023-05-07 at 19.44.46

1282×481 46.9 KB

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19,00 wstETH can be swapped to USDC for 1.01% price impact via Paraswap on Arbitrum. The swap routing highlights that the wstETH to stable coin swap is routed via wETH. Essentially, the wstETH Supply Cap can be likened to wETH's Supply Cap. The current wETH Supply Cap is [70k units](#).

This compares favourably when the largest aARBwstETH holding is 960.3 units, details shown below.

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Screenshot 2023-05-07 at 19.43.27

1378×702 72.7 KB

](<https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/5/5c63de9fb6a7ebbcf6af133c2b822265d17cb418.png>)

Increasing the wstETH Supply Cap to 17.35k units will enable approximately 11.43k units of wETH to be borrowed with a 90.00% LTV value via the ETH eMode. This assumes 100% of wstETH is deposited for the sole purpose of maximising yield. If this was to occur, the wETH Borrow Cap will likely need to be increased.

With the Borrow Cap for wETH able to be increased from [11.17k to 20k units](#), and the wstETH Supply Cap being increased, users will be able to enter the yield maximising strategy. Based upon current liquidity conditions there is a lot of upside for the wstETH / wETH yield maximising strategy on Arbitrum v3.

With reference to the new [ARFC Aave V3 Caps update Framework](#) it is possible to ship several upgrades to gradually increasing Aave's exposure to wstETH over time.

Specification

The following risk parameters have been proposed by Llama for the community to review and discuss in the comments section.

Ticker: wstETH

Contract: [arbitrum: 0x5979D7b546E38E414F7E9822514be443A4800529

](<https://arbiscan.io/token/0x5979d7b546e38e414f7e9822514be443a4800529>)

Parameter

Current Value

Proposed Value

SupplyCap

4.65k units

17.35k units

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