



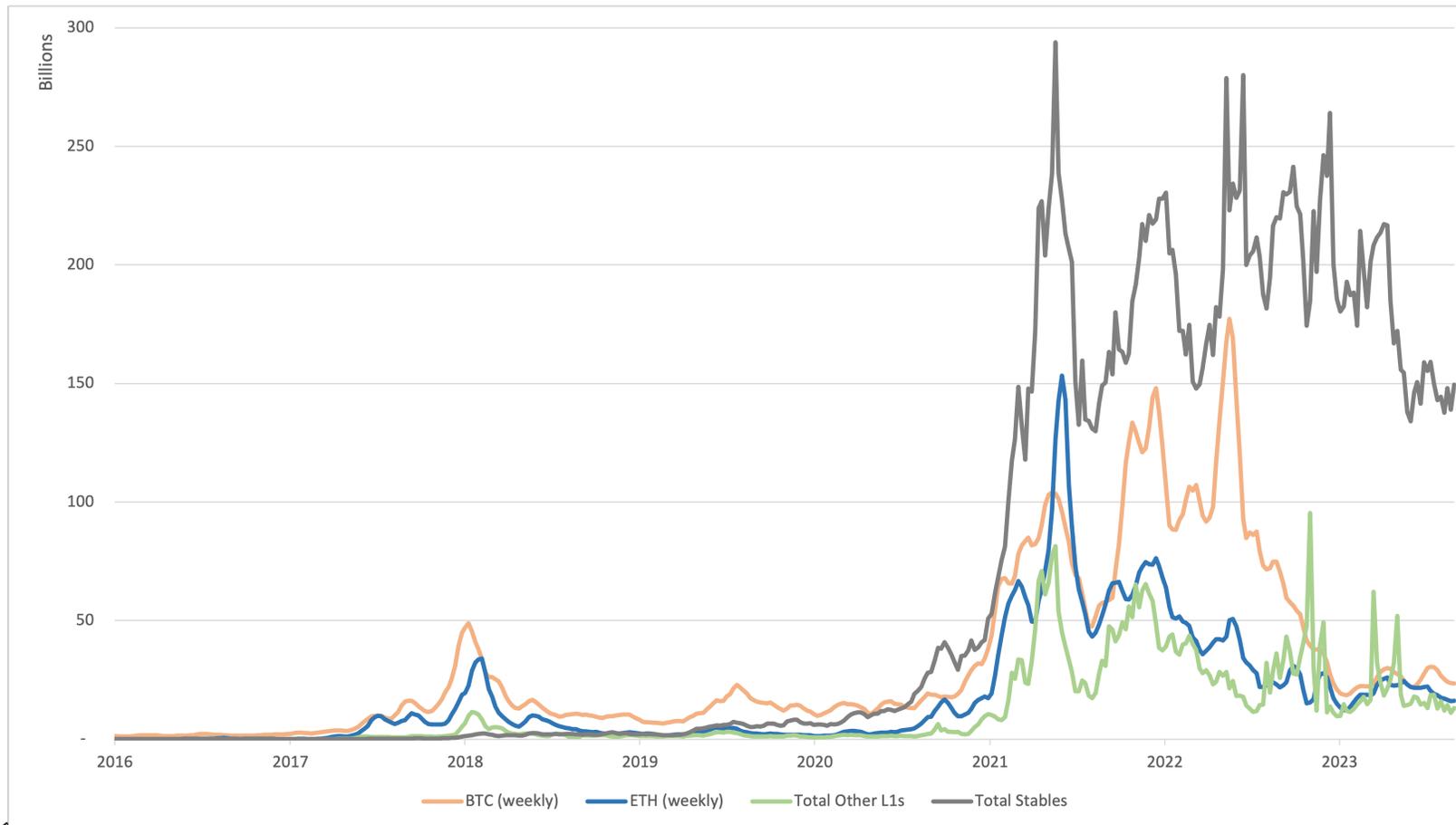
**CASTLE ISLAND**  
VENTURES

# Will stablecoins serve or subvert U.S. interests?

Messari Mainnet · 09/21/23 · Nic Carter

# Blockchains are all about dollars

## Weekly value settled on-chain by type



Stables have emerged as the market leader for MoE on blockchains

Data sampled:

- Native tokens: BTC, ETH, LTC, XRP, TRX, Matic, Avax, BSC, SOL, ARB
- Stablecoins: USDT, USDC, DAI, TUSD, BUSD, FRAX, USDP, USDD, GUSD

Data: Coin Metrics & Allium



# The stablecoin market is overwhelmingly dollarized

Share of Ethereum Fiat Stablecoin Supply (in USD) by Currency



Non-USD stables are less than 1%



Dollars have almost always been >99% of all stablecoin UoA

SOURCE: THE BLOCK  
UPDATED: JAN 17, 2023

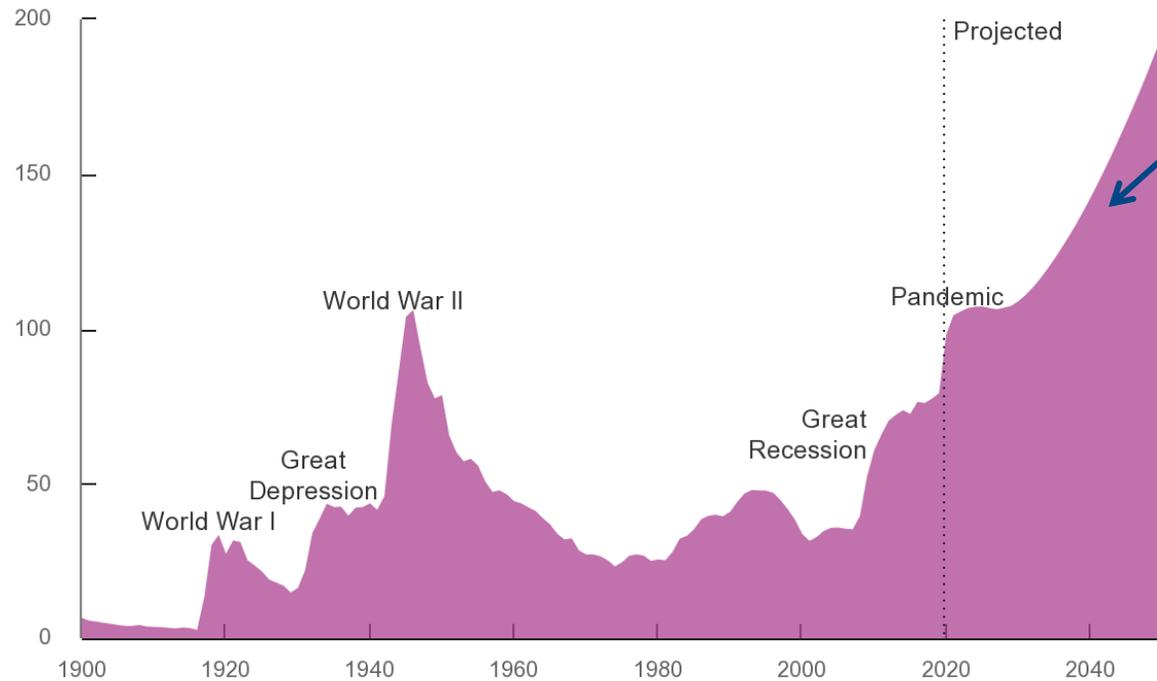


Chart: The Block

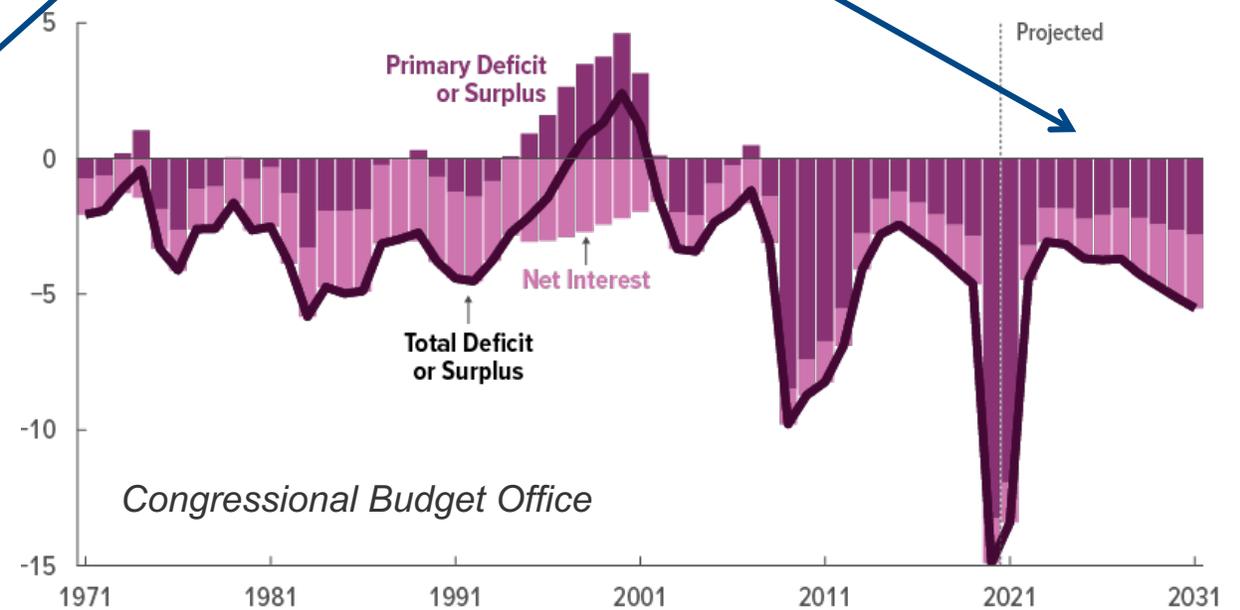
# The U.S. is issuing more debt than ever...

## Federal Debt Held by the Public, 1900 to 2050

Percentage of Gross Domestic Product



Uh oh...



Congressional Budget Office



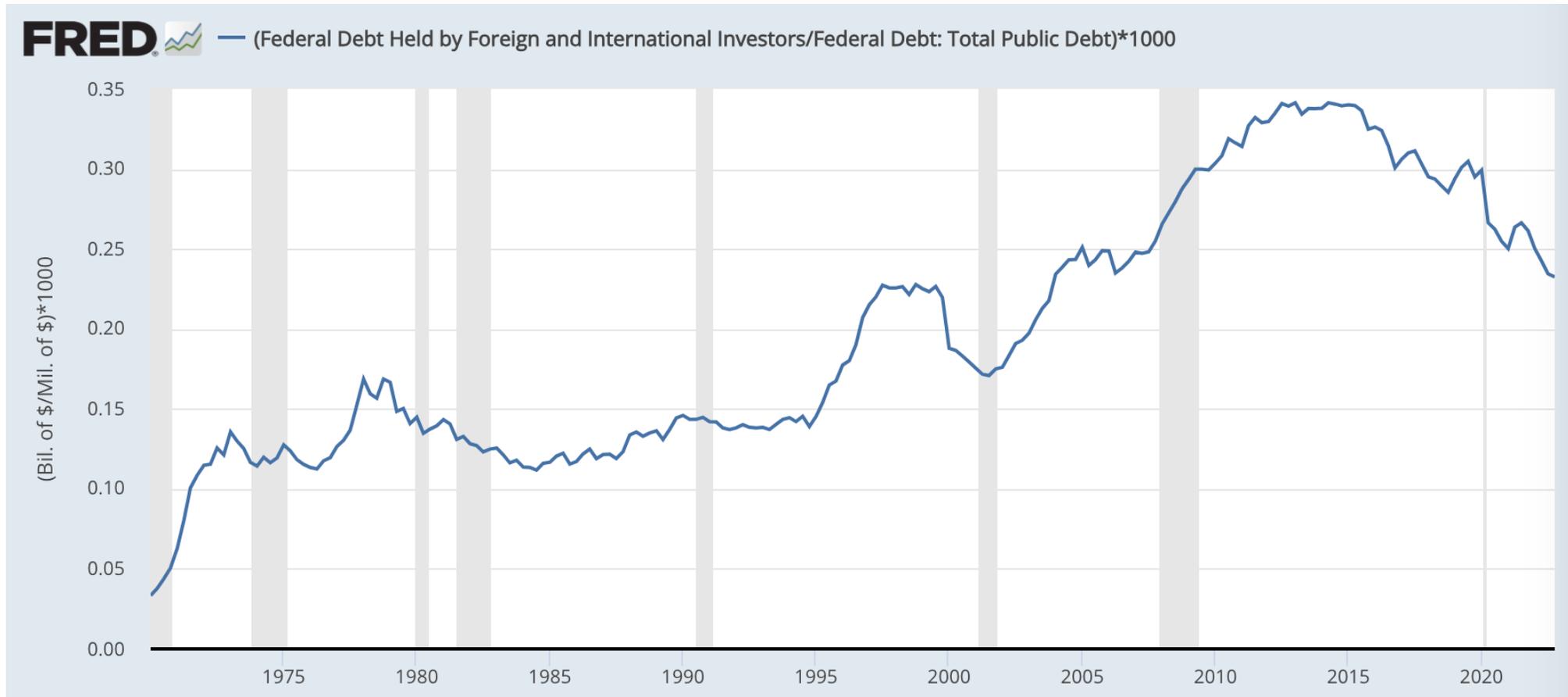
# But China is selling down its U.S. Treasury position



And so is the largest holder, Japan



# Foreign buyers have been divesting from Treasuries since 2013

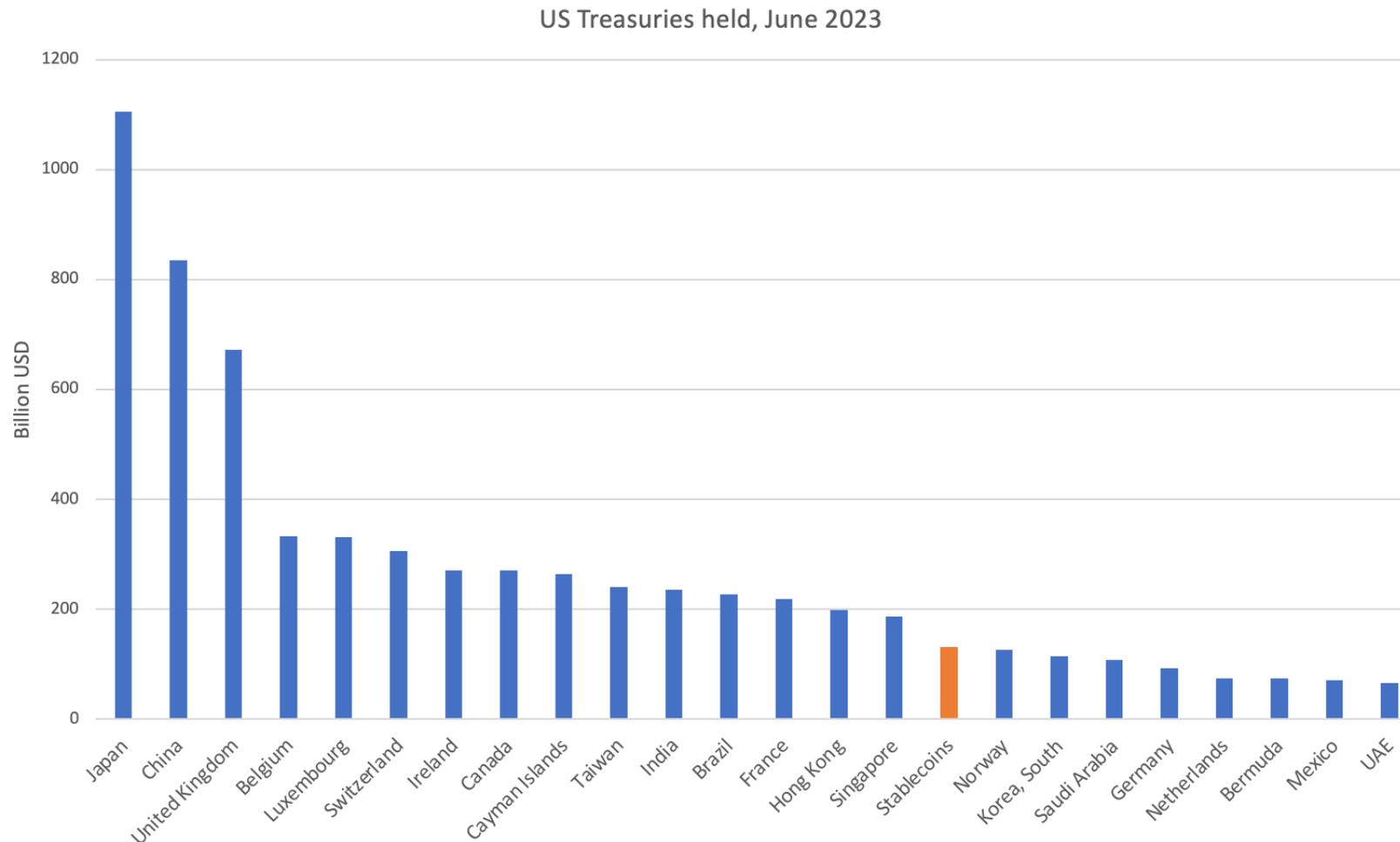


Treasury  
needs to find  
new buyers



Data: FRED

# Stablecoins create net new demand for U.S. Treasuries

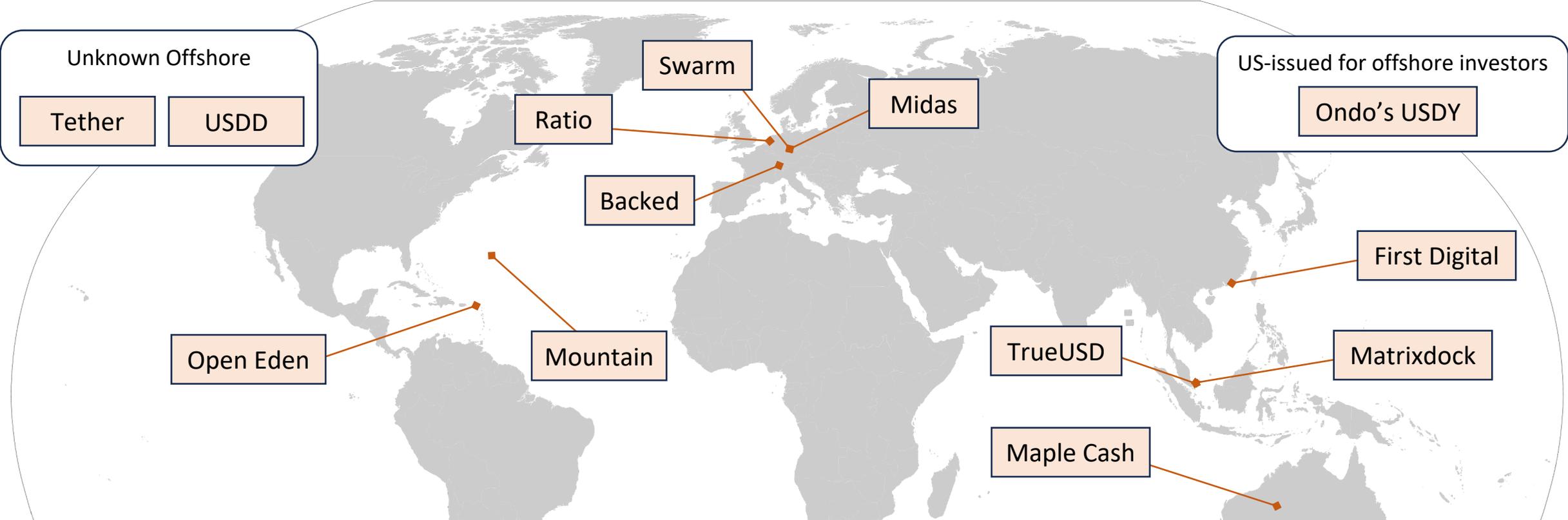


Stables are small, but they would be the 16<sup>th</sup> largest sovereign holder of USTs

Source: The Block, US Treasury Data



# Blockchains are globalizing USD and Treasuries

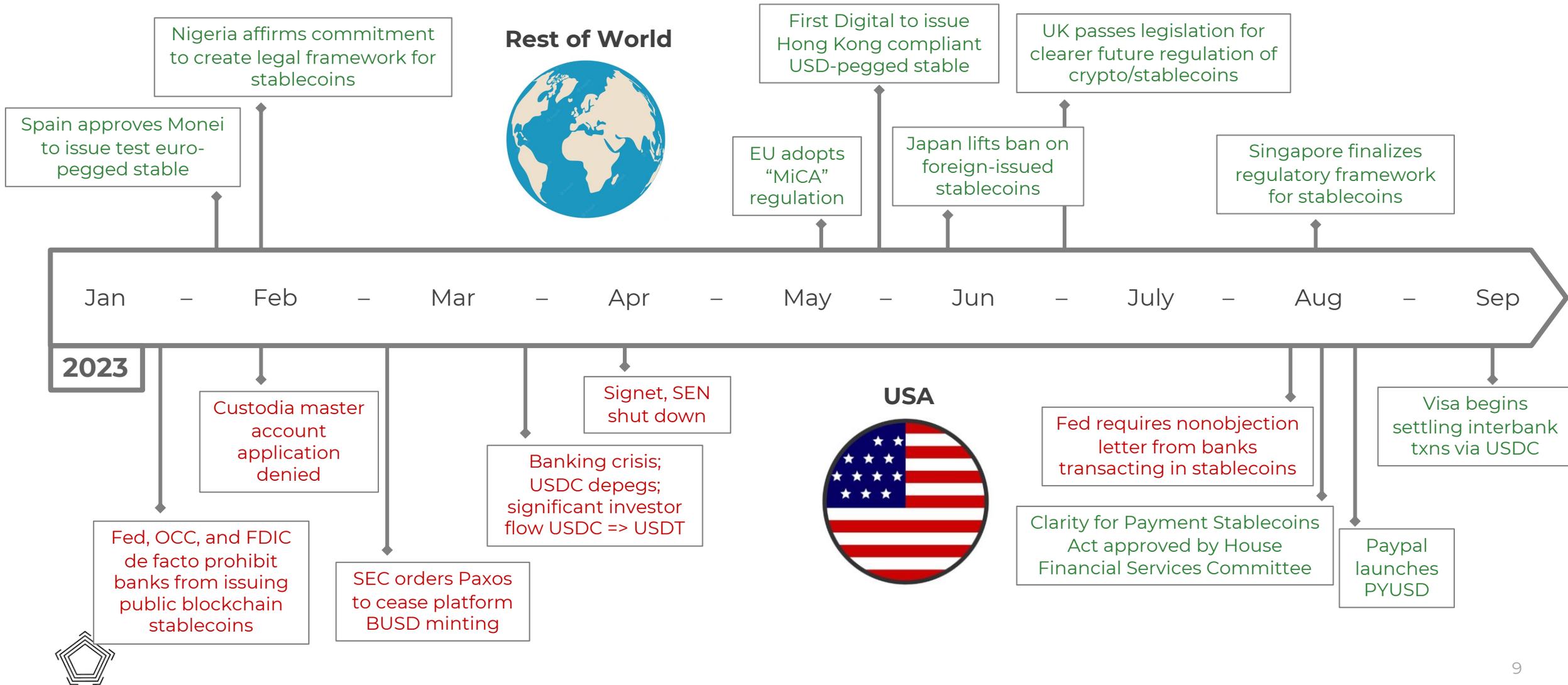


~75 percent of USD stablecoins are *offshore crypto-eurodollars*\*

\* Includes stables issued against crypto collateral



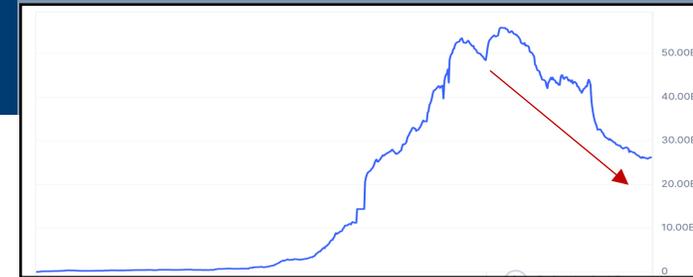
# Yet the U.S. is actively marginalizing the stablecoin market



# The USG's 2023 pincer attack on stables

## 2023 Anti-Stablecoin Campaign

Part of Operation Chokepoint 2.0



**Date** Nov. 22 - present

**Location** Cyberspace

### Outcome

- Domestic stables crushed
- Massive Tether victory
- Strategic win for HK, Singapore, EU, offshore domiciles

### Belligerents



USG



Crypto Bros

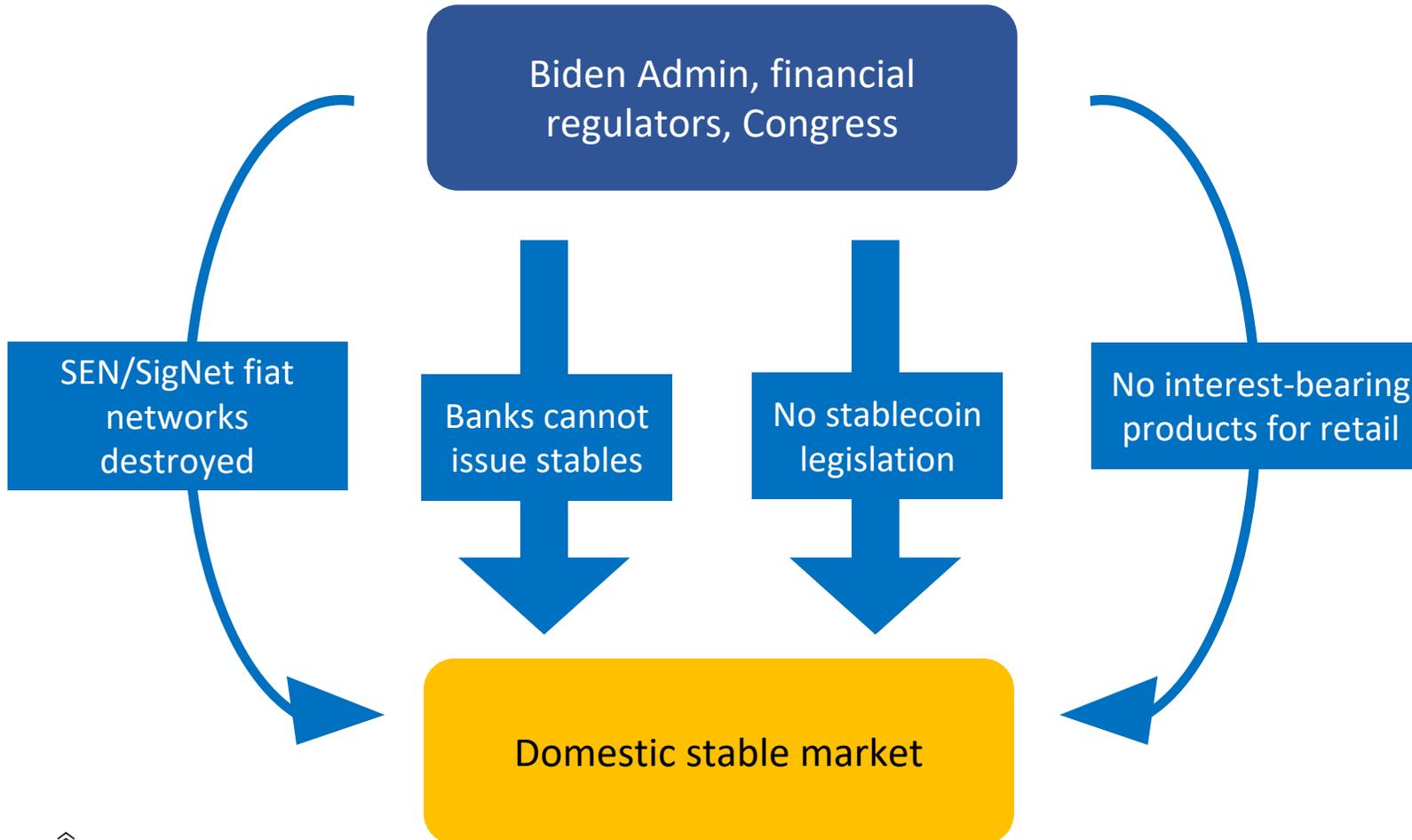
### Commanders and leaders

- Sen. Warren
- Fed, OCC, FDIC, White House
- Circle
- Paxos
- Coinbase

### Casualties and losses

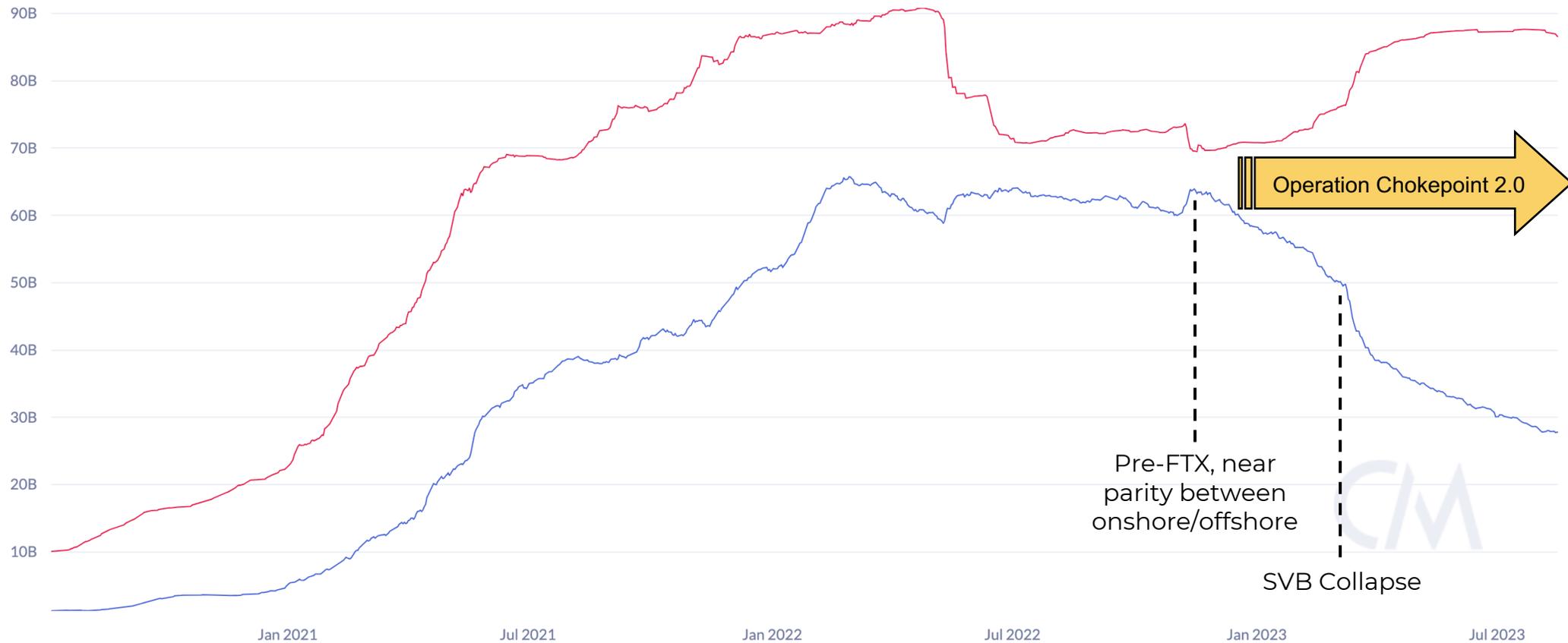
Loss of confidence in domestic stable industry

💀 SEN, SigNet, BUSD USDC peg (injured)  
\$30b onshore stable mkt cap lost



# And this is causing stables to flee the U.S.

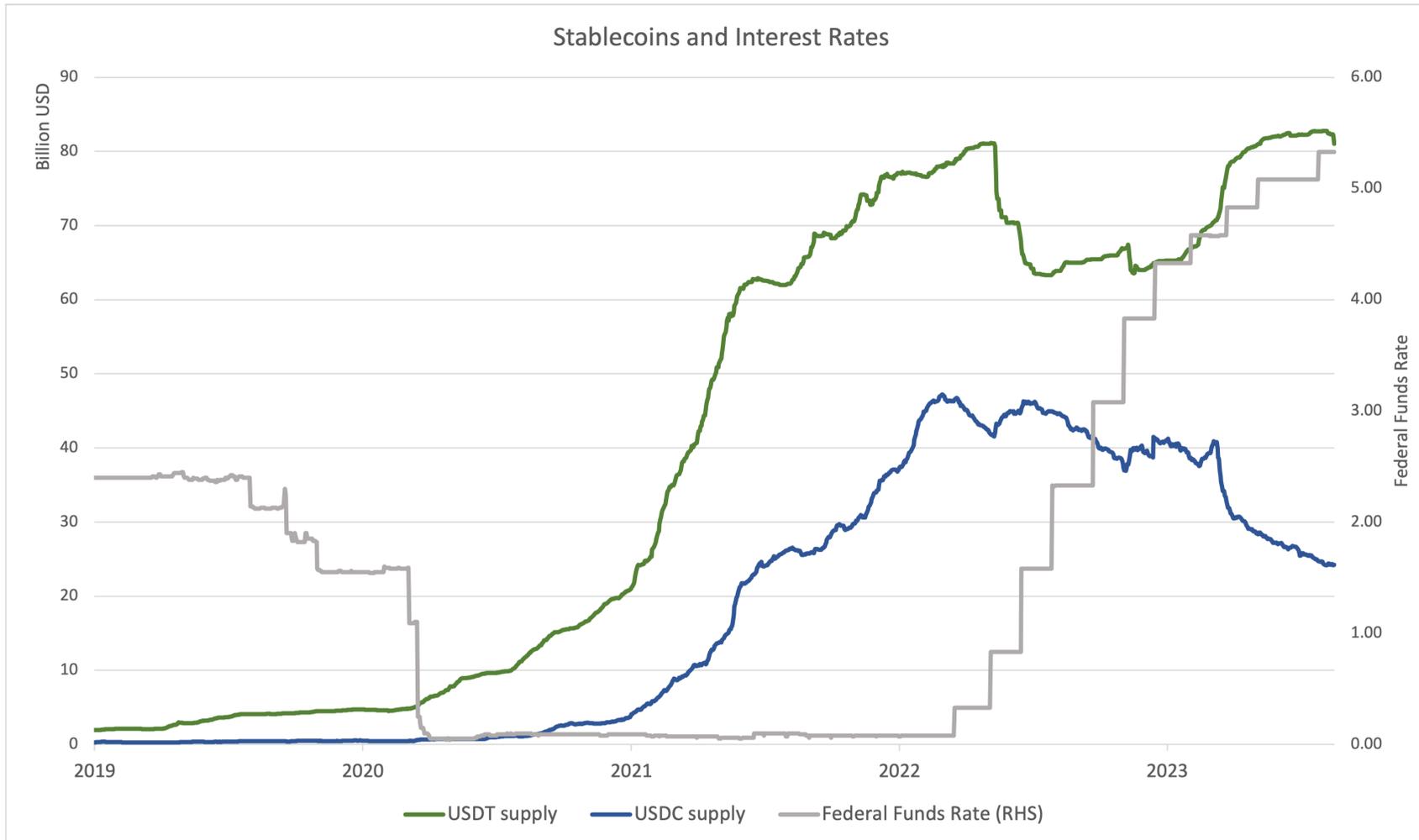
## Stablecoin onshore/offshore market cap



 Offshore / crypto-backed stables  Onshore Stables

Coin Metrics

# Rates are also arguably causing outflows



- USDC holders can easily redeem for fiat, and are thus more rate sensitive
- Stables in the U.S. cannot ordinarily pay interest

Data: Coin Metrics, FRED

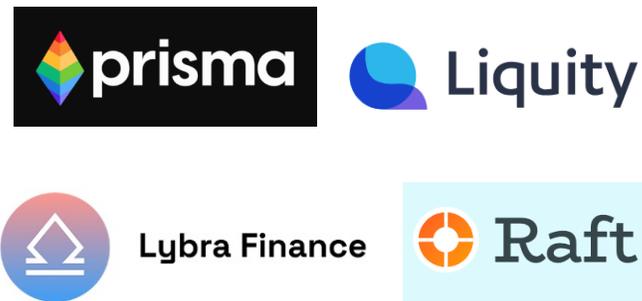


# Promising crypto-backed stable models are also emerging

Synthetic USD backed  
by stETH



Overcollateralized  
stETH backed



Hybrid RWA & stETH



Such models do not accrete to USD assets, and may be more resistant to regulatory supervision



# Major stablecoin concerns have been addressed

## “Stables impair sanctions-making ability”

- Stablecoin issuers maintain ‘freeze and seize’ functionality
- Blockchain analysis tools are increasingly sophisticated

## “Stables are inconsistent with law enforcement needs”

- Onchain transactions leave a permanent record for LEO to scrutinize
- Domestic stable issuers are responsive to courts and law enforcement

## “Stables are a threat to financial stability”

- Fiat-backed stables are fully backed by short-dated, liquid assets
- Stables are no more destabilizing than MMMFs

## “Stables eliminate US centrality in financial markets”

- Stables are just an independent settlement rail
- U.S. currently leads in terms of stable innovation, can harness benefits



# The U.S. has a choice to make

## Onshore paradigm

- More demand for USTs
- Retain ability to use financial rails for power projection
- LEO maintains influence over stable issuers
- US property rights and dollar assurances extended worldwide
- US remains global capital markets hub

vs.

## Offshore paradigm

- More stables issued against crypto-native collateral
- Other jurisdictions advance stables based on their own currencies
- Possible loss of sanctions-making ability
- Offshore, less accountable issuers may not listen to US courts or law enforcement
- US marginalized as capital markets hub



**Thank You**

