Regime change in stablecoins

Token 2049 • 09/15/23 • Nic Carter
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Understand Eurodollars, understand Stablecoins

**Eurodollar**

A dollar-denominated liability of a bank located outside the U.S.

**Stablecoin**

Typically dollar-denominated liability of a (mostly non-US) issuer, circulating on a public blockchain

Most stablecoins are **tokenized eurodollars (~75%)**

The emergence of stablecoins **closely analogizes to the origins of eurodollars**
Parallels between Eurodollars and Stablecoins

1. Emerged as a reaction **US asset seizure & capital controls**

2. Growth powered by **search for yield**

3. More flexible and suited to a globalized market than onshore banking

4. Opportunity for **ex-US jurisdictions** to create **USD financial hubs**

5. Initially peripheral, **later backstopped** by central banks
Predictable regulatory responses

<table>
<thead>
<tr>
<th>Period</th>
<th>APATHY</th>
<th>FEAR</th>
<th>ENGAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>50s, early 60s</td>
<td>First they ignore you…</td>
<td>Then they worry about you…</td>
<td>Then they accept and integrate you</td>
</tr>
<tr>
<td>60s, early 70s</td>
<td>1973 onwards</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Eurodollars

<table>
<thead>
<tr>
<th>Period</th>
<th>2015-2018</th>
<th>2018-2023</th>
<th>2024?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stablecoins</td>
<td>2015-2018</td>
<td>2018-2023</td>
<td></td>
</tr>
</tbody>
</table>
Stablecoins only compose ~10% of crypto market cap

PRESENT – Stables are the killer app

Data sampled:
- Native tokens: BTC, ETH, LTC, XRP, TRX, Matic, Avax, BSC, SOL, ARB
- USDT (ETH, Tron, Omni, BSC, Avax, Matic, Arb)
- USDC (ETH, Tron, BSC)
- DAI (ETH, BSC, Matic, Avax)
- TUSD (ETH, Tron)
- BUSD (ETH, BSC)
- FRAX, USDP, USDD, GUSD

Data courtesy of Coin Metrics & Allium
…but they dominate on-chain transaction volume

**Relative on-chain transaction value, USD terms**

Data sampled:
- Native tokens: BTC, ETH, LTC, XRP, TRX, Matic, Avax, BSC, SOL, ARB
- USDT (ETH, Tron, Omni, BSC, Avax, Matic, Arb)
- USDC (ETH, Tron, BSC)
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- FRAX, USDP, USDD, GUSD

PRESENT – Stables are the killer app
On-chain stablecoin txn value

Stable volumes and MAUs remain robust despite declines in crypto volume and activity

Stables today do >5m WAUs and >10m MAUs on chain

PRESENT – Stables are the killer app
Stables are catching up to established settlement networks

In the space of 6 years, stables have gone from ~0 to near parity with Visa.

Stablecoin figures are adjusted on-chain transaction value for major stables via Coin Metrics.

PRESENT – Stables are the killer app
Stables are a global financial backend

EM fintech apps
- Yellow Card
- DolarApp
- airtm
- mercado libre
- Félix
- Vita Wallet
- buenbit
- littio
- LEMON
- Num
- buda.com

Merchant settlement
- VISA
- PayPal
- USD Coin
- worldpay
- nuvei
- checkout.com
- stripe

Corporate finance
- CRE
- Maple
- Goldfinch
- jia
- Sapling
- kravata

Remittances
- afriex
- Bitso
- ripio
- ciinko
- MoneyGram
- zulu
- Shinhan Bank
- Standard Bank

PRESENT – Stables are the killer app
Hostility in the US means opportunity elsewhere

- EU adopts "MiCA" regulation
- First Digital to issue Hong Kong compliant USD-pegged stable
- UK passes legislation for clearer future regulation of crypto/stablecoins
- Japan lifts ban on foreign-issued stablecoins
- Singapore finalizes regulatory framework for stablecoins
- Spain approves Monei to issue test euro-pegged stable
- Nigeria affirms commitment to create legal framework for stablecoins
- Fed, OCC, and FDIC de facto prohibit banks from issuing public blockchain stablecoins
- SEC orders Paxos to cease platform BUSD minting
- Banking crisis; USDC depegs; significant investor flow USDC => USDT
- Signet, SEN shut down
- Clarity for Payment Stablecoins Act approved by House Financial Services Committee
- Visa begins settling interbank txns via USDC
- Paypal launches PYUSD
- Fed requires nonobjection letter from banks transacting in stablecoins

2023


Rest of World

USA

FUTURE – Yield & crypto collateral
U.S. policy choices have led to stable offshoring

Loss of faith in US regulation and hostile environment for stables has driven holders into crypto-eurodollars

Onshore Stables
Offshore / crypto-backed stables
Vibrant offshore market emerging for USD stables and tokenized treasuries

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

* Includes stables issued against crypto collateral
Native crypto yields enable capital efficient crypto-backed stables

Example model: Long spot staked ETH + short ETH futs = synthetic USD

- Crypto-backed USD stablecoins have long been considered a ‘holy grail’
- The emergence of positive carry on ETH makes this possible
- Benefits include greater decentralization and native yields

<table>
<thead>
<tr>
<th>stETH Yield Accumulated</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.5%</td>
<td>5.0%</td>
<td>5.7%</td>
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<table>
<thead>
<tr>
<th>OI Weighted Average Rate +/(-)</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>16%</td>
<td>(-0.3%)</td>
<td>8.3%</td>
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Excess Spread

<table>
<thead>
<tr>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td>22.5%</td>
<td>4.7%</td>
<td>14%</td>
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Data from Ethena

* sDAI is backed by RWA as well as wstETH
## The future of stablecoins

<table>
<thead>
<tr>
<th>Trend</th>
<th>Prediction</th>
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<tbody>
<tr>
<td>Dollar dominance as stable UoA</td>
<td>USD continues to dominate stable UoA with &gt;95% market share</td>
</tr>
<tr>
<td>Rise of interest-bearing stables</td>
<td>Within 2y, &gt;30% of stables bear interest (&lt;1% today)</td>
</tr>
<tr>
<td>Rise of crypto-collateralized stables</td>
<td>Within 2y, &gt;25% of USD stables are issued against crypto collateral (&lt;5% today)</td>
</tr>
<tr>
<td>Dollarization of public blockchains</td>
<td>&gt;70% of on chain tx volume remains stables</td>
</tr>
<tr>
<td>Crypto-Eurodollar-ization</td>
<td>Singapore, HK, UAE, Bermuda become major USD-denominated issuer jurisdictions</td>
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Thank You

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