



CASTLE ISLAND
VENTURES

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.

VS.

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

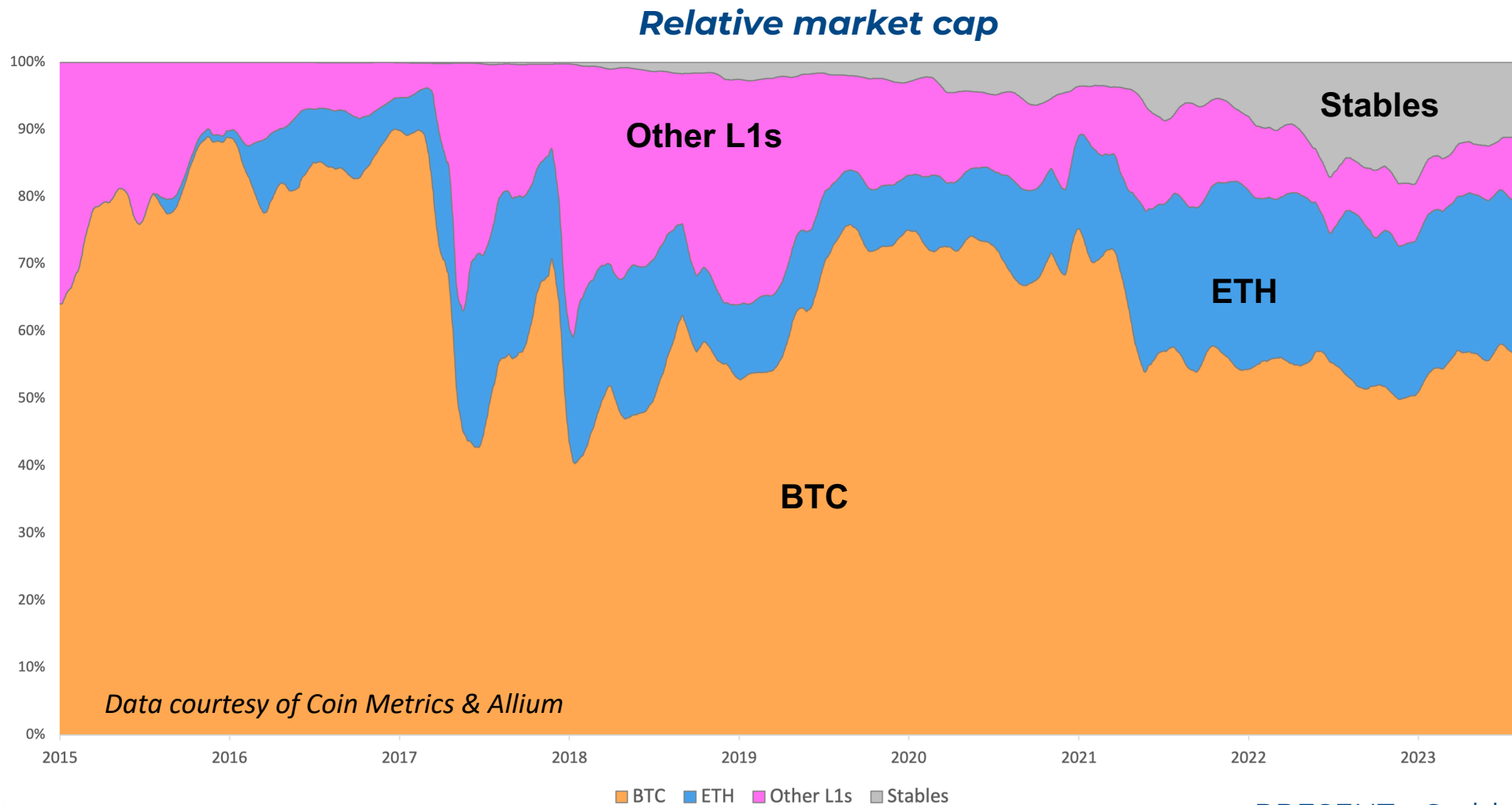


Predictable regulatory responses

	<u>APATHY</u>	<u>FEAR</u>	<u>ENGAGEMENT</u>
	<i>First they ignore you...</i>	<i>Then they worry about you...</i>	<i>Then they accept and integrate you</i>
Eurodollars	50s, early 60s	60s, early 70s	1973 onwards
Stablecoins	2015-2018	2018-2023	2024?



Stablecoins only compose ~10% of crypto market cap



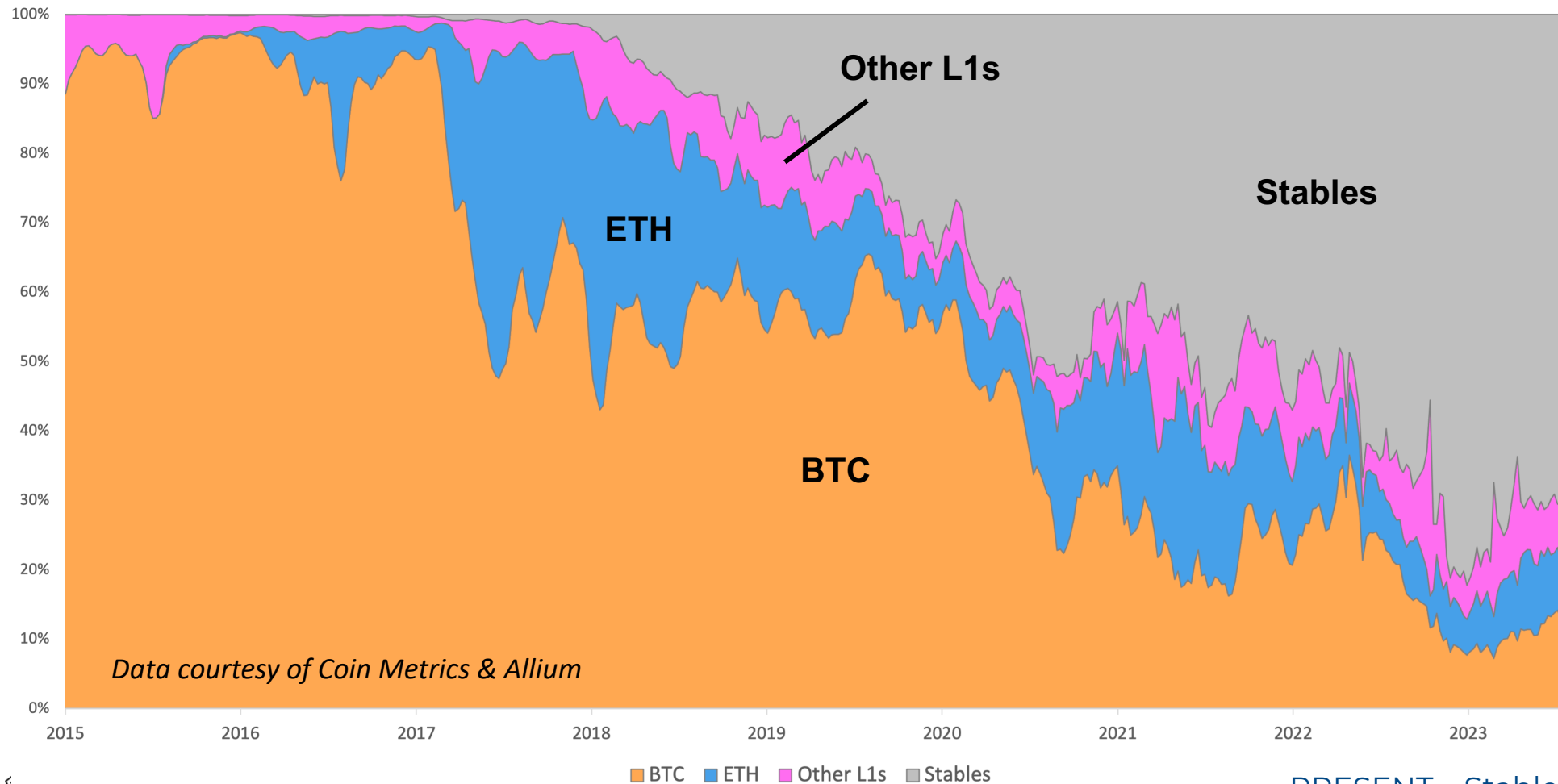
Data sampled:

- 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

PRESENT – Stables are the killer app

...but they dominate on-chain transaction volume

Relative on-chain transaction value, USD terms

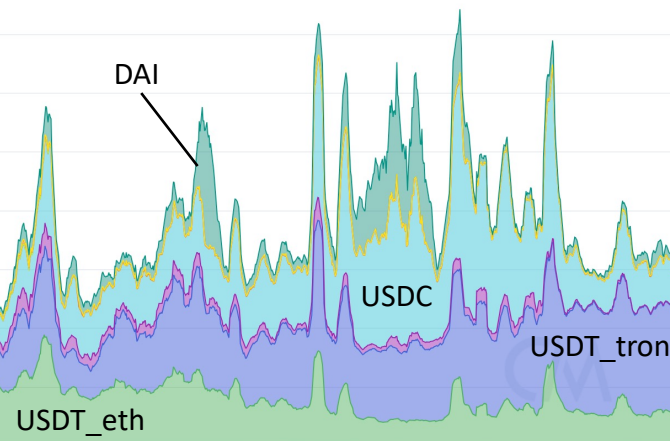


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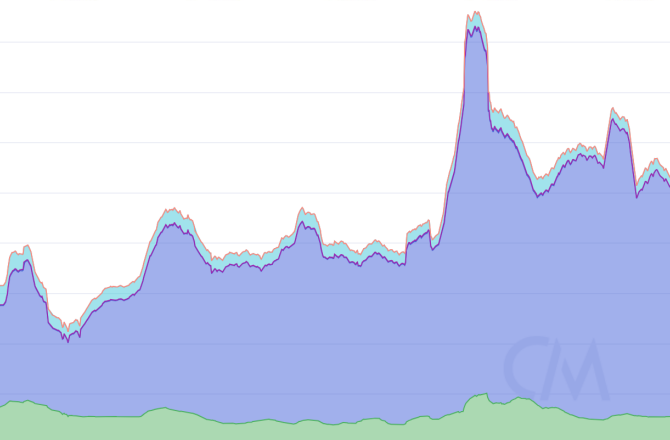
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PRESENT – Stables are the killer app

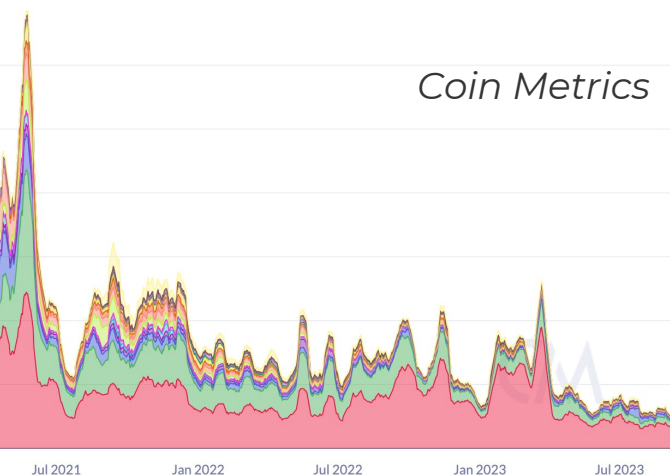
On-chain
stablecoin txn
value



On-chain
stablecoin MAUs



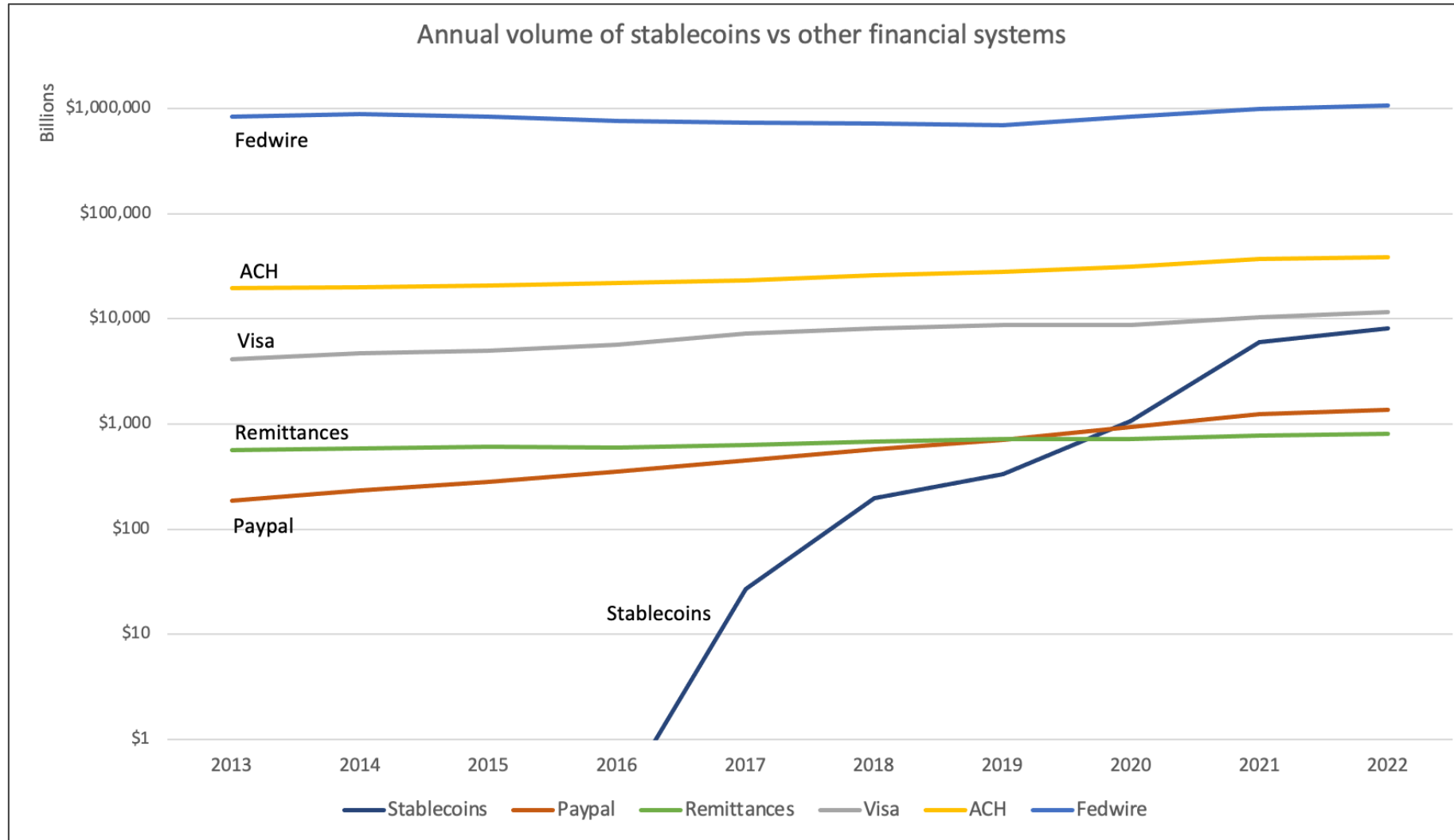
Trusted spot
exchange volume,
major L1s



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

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

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

Stables are a global financial backend

EM fintech apps



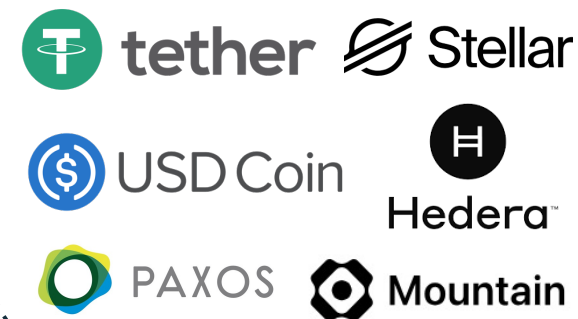
Merchant settlement



Corporate finance



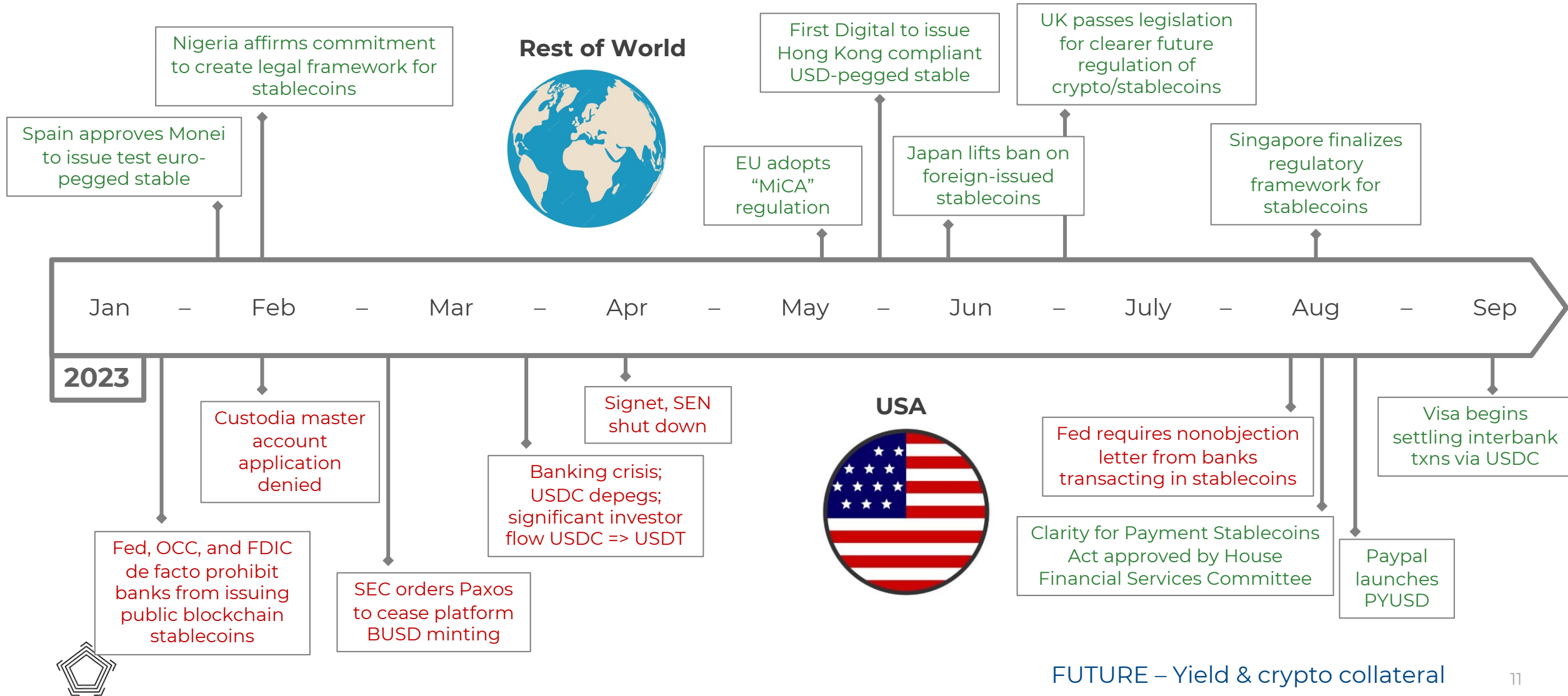
EM focused stable infra



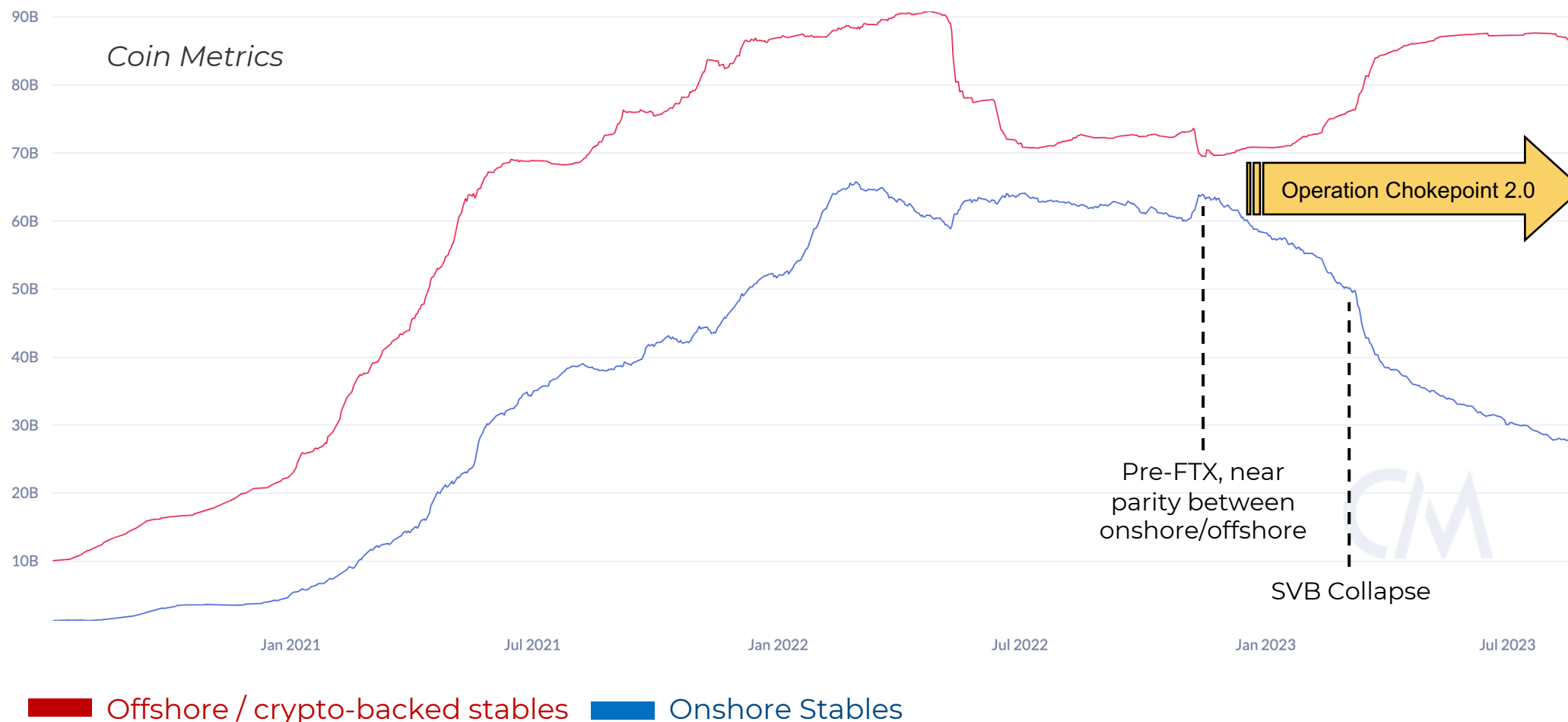
Remittances



Hostility in the US means opportunity elsewhere



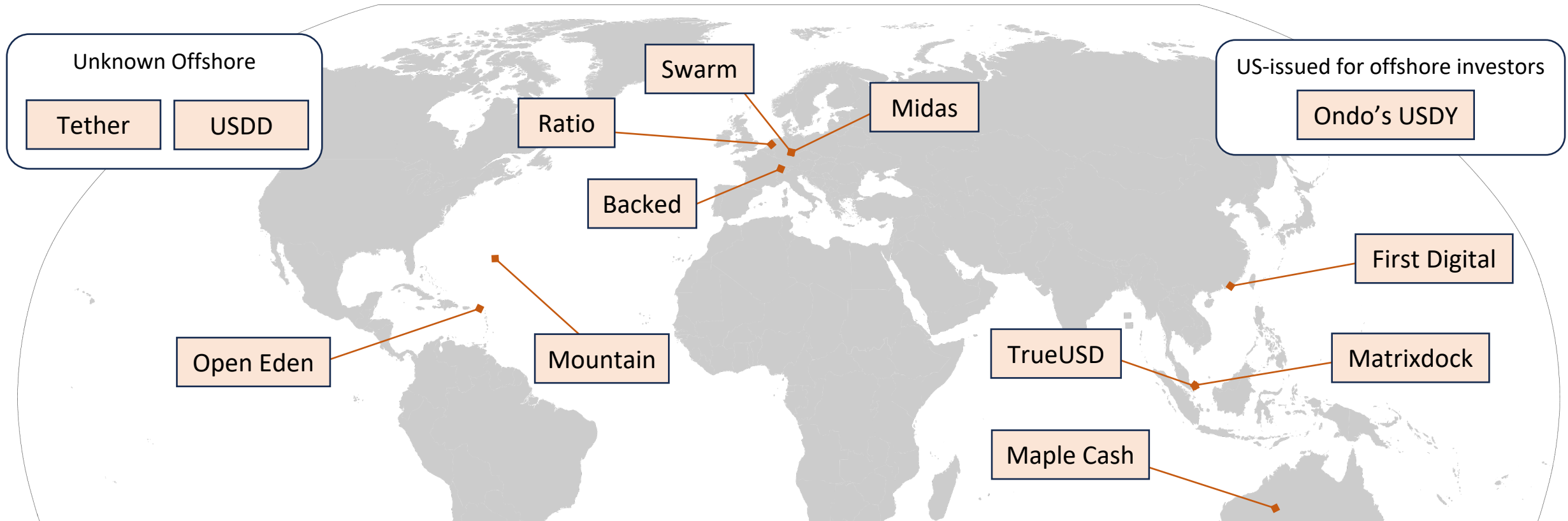
U.S. policy choices have led to stable offshoring



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



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

stETH Yield Accrued		
2021	2022	2023
6.5%	5.0%	5.7%
+		
OI Weighted Average Rate +/-		
2021	2022	2023
16%	(-0.3%)	8.3%
=		
Excess Spread		
2021	2022	2023
22.5%	4.7%	14%

Data from Ethena

Synthetic stETH-backed



Overcollat stETH-backed



* sDAI is backed by RWA as well as wstETH

The future of stablecoins

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



Thank You

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