



Daily Macro Insights: The stablecoin boom

22/07/2021

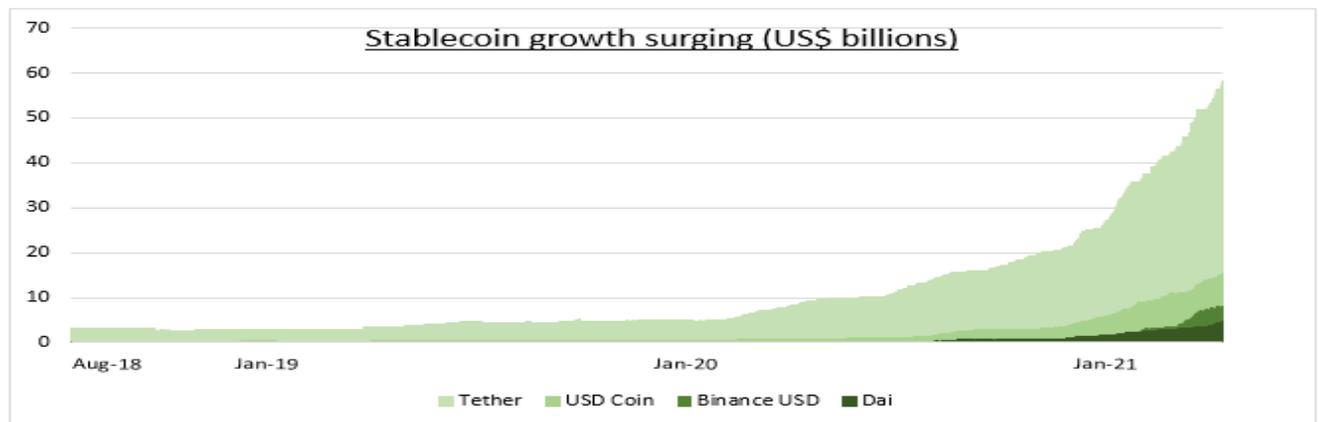
WHAT ARE THEY: Stablecoins like Tether (USDT), USD Coin (USDC), and Binance USD (BUSD), are cryptocurrencies collateralized by an underlying asset to provide a stable digital payments system. Collateral is often 1:1 with fiat currency like the USD (as dollar was once tied to gold), but also with other crypto assets (see DAI), or even algorithmically (see TerraUSD), as they aim for transparency, decentralization, and speed, but without the volatility. Adoption is surging and we see them as complementary to eventual central bank digital currencies (CBDC).

RECENT GROWTH: Usage surged (see chart) with overall market cap reaching \$115 billion, despite the crypto correction, as they held their \$1.00 value, and are now 3 of the largest crypto assets. Uses are growing, from facilitation of crypto trading and enabling DeFi development, to now mainstream cross-border trade and remittances. They differ from CBDCs, which will have a direct claim on a central bank but likely limited size, rather than against a private-sector issuer.

CONTROVERSY: Market leader Tether is only 'fractionally reserved' with 50% collateralized by commercial paper and rest in other low, but not no-risk assets. This prompted alternatives, such as USD Coin (USDC) with more collateralization and transparency, and also regulatory interest.

REGULATION: Regulators are focused on anti-money laundering and financial stability. They look to the 'breaking of the buck' by \$65 billion US money market fund Reserve Primary in the global financial crisis, as its 56% of commercial paper assets came under threat. This forced its liquidation and Government intervention to backstop the \$3.3 trillion money market industry.

TODAY: ECB meeting in focus after shift in inflation target to an asymmetrical and dovish '2%'. ECB is set to significantly lag Fed in tightening policy, undermining EUR but helping equities.



Source: CoinMarketCap, eToro calculations

Ben Laidler, Global Markets Strategist. Email: benla@etoro.com

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