

# The Rise & Rise Of Stablecoins



# Jump Capital

- Venture Capital firm founded in 2012 and backed by ownership of Jump Trading Group
- Initiated crypto investing strategy in 2014
- Investing out of \$350mm 7<sup>th</sup> fund
- Global investor w/ 100+ investments, including 40+ crypto investments
- Work closely with Jump Trading crypto team (~100 traders and builders)

## Select Jump Crypto Investments



VOYAGER



## What is a Stablecoin?

“

Cryptographic tokens which circulate on public blockchains and aim to track the value of sovereign currencies.”

## What is a Stablecoin?

“Cryptographic tokens which circulate on public blockchains and aim to track the value of sovereign currencies.”

- 1 Ownership determined by public key infrastructure (Cryptography)  
Owner possesses private key which can permission spend from an address on a distributed ledger where the token resides
- 2 Circulates on a public blockchain  
Allowing any third party to interact with the asset and audit key metrics
- 3 Intended to track the return or some sovereign currency  
Targets the value of USD or other currency, and but may deviate from peg

# Why Stablecoins Matter

---

1

## Open Network Dollars (and other fiat currencies)

For the first time ever, people and entities throughout the world can hold, receive and send digital dollars

- All that is required is a crypto wallet (open-source software) - “Digital Cash”
- All other ways to hold and transact in digital dollars require joining closed networks (SWIFT, banking system, PayPal, etc. etc.)

# Why Stablecoins Matter

---

2

## Programmable Money

Money that can be owned and completely controlled by software / smart contracts  
Smart contracts can interact with each other to build financial systems (“Money Lego Blocks”)

3

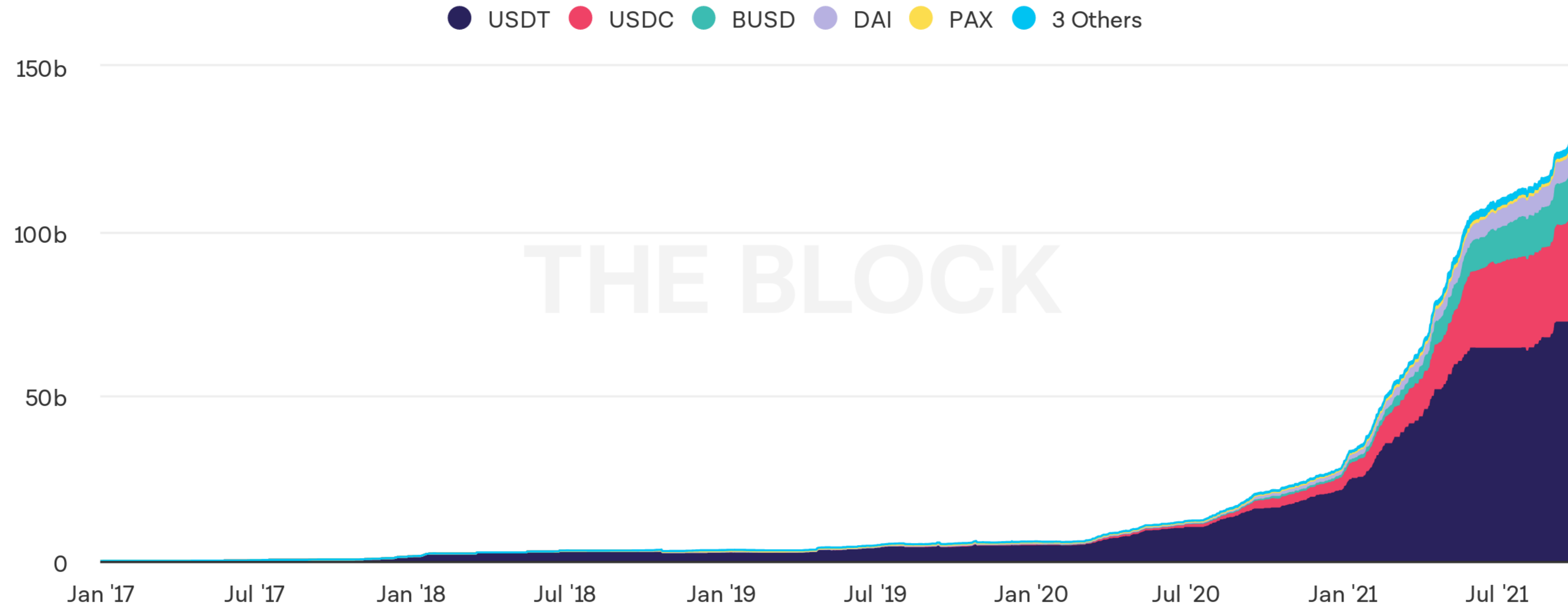
## 24/7, Low-Cost, Near-Instant Final Settlement

Final settlement in a bearer asset – not reliant on a credit system  
(as almost all other payment systems are)

# The Meteoric Rise of Stablecoins



## Total Stablecoin Supply



SOURCES: COIN METRICS, THE BLOCK  
UPDATED: SEP 26, 2021

# Types of Stablecoins

## Convertible

1

Fiat Backed

- Reserves typically held in cash and cash equivalents
- *E.g., Tether, USDC*

## Synthetic

2

Crypto Collateral Backed

2a

Overcollateralized

- *E.g., Dai*

2b

Swap-Based

- *E.g., UXD*

3

Algorithmic

- Value stabilized using algorithms and smart contracts
- *E.g., Terra USD*



## Know Your Stablecoin – USD Coin (USDC)

Value Outstanding	\$31 billion
Stablecoin Type	Convertible – Fiat Backed
Backed By	Full reserves held in bank deposits and U.S Treasury Bills
Create / Redeem Mechanism	USDC tokens issued/redeemed by Centre Consortium issuers (Circle and Coinbase) for dollars

## Know Your Stablecoin – Tether (USDT)

Value Outstanding	\$73 billion
Stablecoin Type	Convertible – Fiat Backed
Backed By	Full reserves held offshore in commercial paper, bank deposits, and other assets
Create / Redeem Mechanism	USDT tokens issued/redeemed by Tether Limited (company) for dollars

## Know Your Stablecoin – DAI

Value Outstanding	\$6.5 billion
Stablecoin Type	Collateral Backed - Overcollateralized
Backed By	Crypto assets held in Maker smart contracts, primarily ETH, USDC, and WBTC
Create / Redeem Mechanism	\$1 in DAI issued when >\$1 in crypto collateral (e.g., \$1.50 in ETH) is deposited in a smart contract. Liquidation mechanism ensures that DAI is always overcollateralized.

## Know Your Stablecoin – TerraUSD (UST)

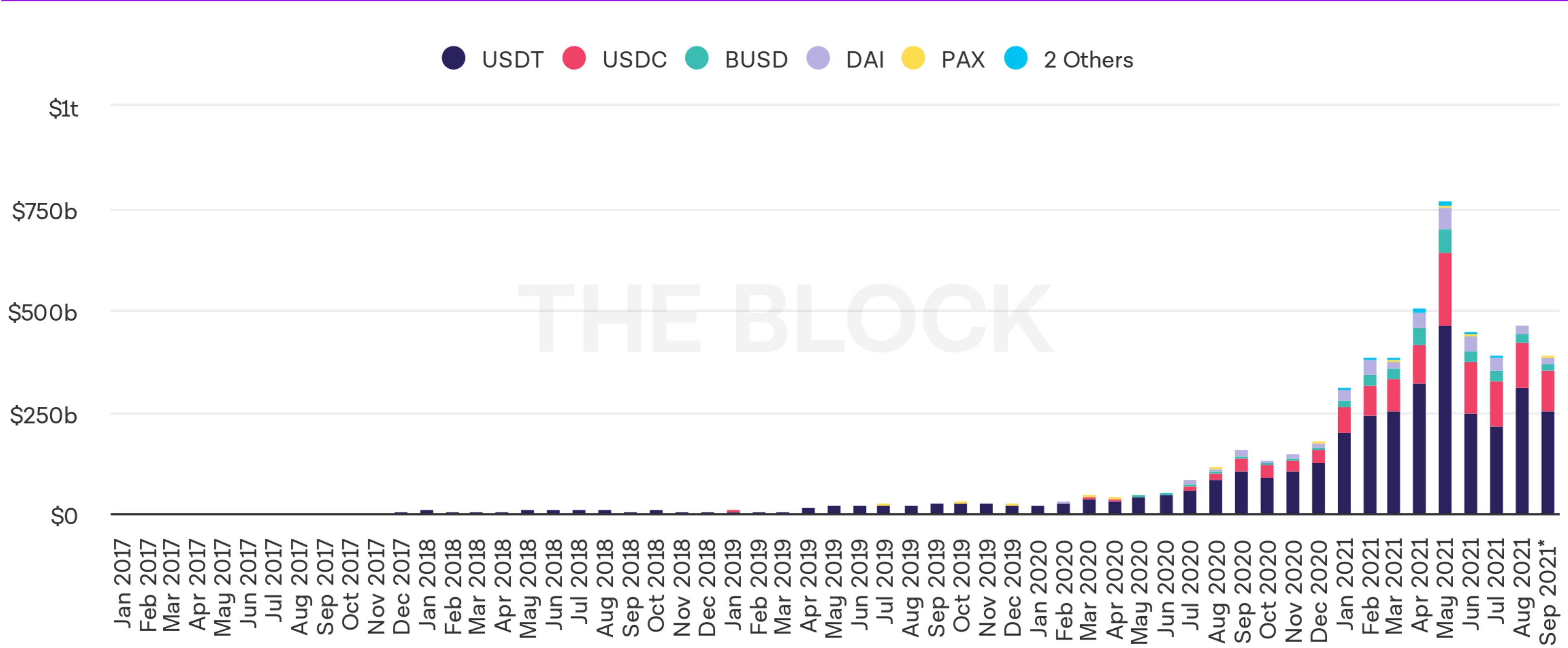
Value Outstanding	\$2.7 billion
Stablecoin Type	Algorithmic
Backed By	Ability to redeem \$1 in UST for \$1 worth of LUNA
Create / Redeem Mechanism	<p>The UST system uses a second token (LUNA) which has a floating value. To create \$1 in UST, \$1 worth of LUNA is deposited into a smart contract and burned.</p> <p>To redeem UST for dollars, \$1 in UST is redeemed for \$1 worth of LUNA, which can then be immediately sold for \$1 in USD on a crypto exchange.</p>

# On-Chain Transaction Volume >\$400bn / Month

*~20x increase over last 18 months*



## Adjusted On-chain Volume of Stablecoins



SOURCE: COIN METRICS  
 UPDATED: SEP 26, 2021

# Stablecoin Use Cases

---

1

## Trading

USD value stablecoin trading / settlement account for crypto traders

- Enables USD equivalent trading and settlement for exchanges and traders - **without requiring USD bank accounts**
  - Very high demand for these pairs – most liquid / highest volume markets
  - ~75% of crypto spot volume has a stablecoin as the base pair, while only ~12% of volume as USD as the base currency
- Enables traders to quickly settle with counterparties and move USD between exchanges (24/7)

# Stablecoin Use Cases

---

2

## Cross-Border Transactions

Enables easier capital flows between international market participants

- E.g., Enables manufacturer Asia to easily pay supplier in Latin America, or U.S. company to pay individual workers in emerging markets
- Stablecoins can be used as cross-border leg of fiat-fiat transaction (e.g., convert USD to USDC, send USDC to foreign crypto exchange, convert USDC to local currency)

# Stablecoin Use Cases

3

## Local Economies / World Dollarization

There is an insatiable demand for USD around the world

- See Eurodollar market and USD cash savings / usage in emerging markets....
  - *2/3rds of USD currency is already held outside U.S.*

Markets

## Venezuela Is Now More Than 50% Dollarized, Study Finds

By [Fabiola Zerpa](#)

November 5, 2019, 2:51 PM CST

ANALYSIS STABLECOINS

## Why stablecoins are starting to take off in Argentina

by [Kristin Majcher](#)

[Download PDF / Print](#)



# Stablecoin Adoption Cycle



# Future Stablecoin Use Case?

4

## FX on Stablecoin Rails

Once major currencies' value is reflected on blockchains as stablecoins and in sufficient supply, are FX markets settled in stablecoins?

- These markets would be completely accessible to any person or entity in the world (*Open network*)
- 24/7, near-instant, near-free settlement of any currency trade
- Could settle using simultaneous exchange of assets using smart contracts

Or does just one-side of FX transactions become crypto-based? (i.e., rise of fiat/USDT pairs)

# Stablecoin Risks

---

1

## Solvency Risk

- Risk that stablecoin issuer will be unable to redeem stablecoins at par due to loss of value of collateral backing stablecoins
- Low risk for fiat-backed stablecoins with deposits held in cash and cash equivalents at trustworthy custodians. Potential issue if reserves are held in riskier assets.
- Low risk for overcollateralized crypto-backed stablecoins with robust system for maintaining collateralization (liquidations)

2

## Liquidity Risk

- Risk that stablecoin issuer will be unable to redeem stablecoins at par due to lack of liquidity in collateral
- Risk if collateralized stablecoin issuer engages in maturity transformation

# Stablecoin Risks

---

3

## Fraud Risk

- Risk that stablecoin issuer defrauds depositors (e.g., embezzles deposits)

4

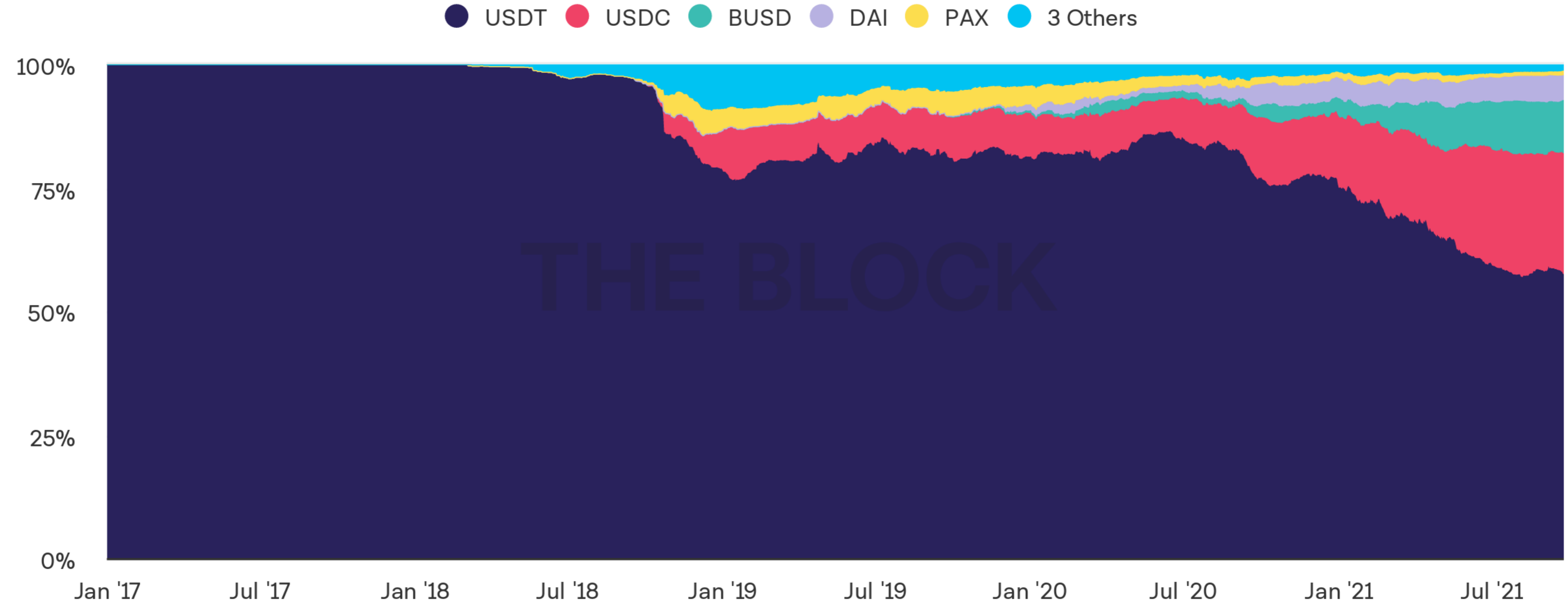
## Illicit Activity Risk

- Risk that stablecoins are used for money laundering or other nefarious activity
- Crypto transactions are permanently recorded on a transparent blockchain and can be fully traced and tracked
  - It is easier for law enforcement to trace the movement of assets on most blockchains than it is to trace cross-border illegal activity using traditional bank transactions, and far easier than cash transactions
  - A 2020 BAE Systems report, commissioned by SWIFT, further noted that “identified cases of laundering through cryptocurrencies remain relatively small compared to the volumes of cash laundered through traditional methods”.

# Free Markets At Work – The Move to Lower Risk Stablecoins



### Share of Total Stablecoin Supply



SOURCES: COIN METRICS, THE BLOCK  
UPDATED: SEP 26, 2021

# CBDCs

## *Design Decisions & Impact on Stablecoins*

	Public Blockchain CBDC	Token-Based Private Blockchain CBDC	Account-Based Private Blockchain CBDC
Description	CBDC issued on public blockchain (e.g, Ethereum)	Central Bank keeps ledger of token transactions, but not individual token ownership	Central Bank effectively gives individuals accounts at the Central Bank
Benefits	<ul style="list-style-type: none"> <li>• True “Digital Cash”</li> <li>• All the benefits of stablecoins, with Central Bank backing</li> </ul>	<ul style="list-style-type: none"> <li>• Close to “Digital Cash”</li> <li>• Does not require comfort with public blockchains</li> </ul>	<ul style="list-style-type: none"> <li>• Does not require comfort with public blockchains or anonymous users</li> </ul>
Issues	<ul style="list-style-type: none"> <li>• Requires comfort with issuing currency on a public blockchain</li> </ul>	<ul style="list-style-type: none"> <li>• Requires comfort with keeping records of token movements by anonymous individuals</li> <li>• Users may not want the Central Bank keeping the ledger</li> </ul>	<ul style="list-style-type: none"> <li>• Closed system does not provide many benefits of stablecoins</li> <li>• Disintermediates commercial banks</li> </ul>
Impact on Stablecoins	<ul style="list-style-type: none"> <li>• Highest potential to replace USDT and USDC to become dominant digital dollar</li> </ul>	<ul style="list-style-type: none"> <li>• Potential to become dominant digital dollar, although users may prefer stablecoins</li> </ul>	<ul style="list-style-type: none"> <li>• Closed system that serves different purpose than stablecoins and will not replace them</li> </ul>

# Summary

---

- Stablecoins matter because they are **open network money** (“digital cash”) that enable market participants to hold blockchain based assets reflecting the value of USD or other currencies
- Stablecoins offer **24/7, Low-Cost, Near-Instant Final Settlement**, and are interoperable with smart contracts
- Growth has been **fueled by the trading use case**, but stablecoins are increasingly being used for **cross-border transactions** and within **local economies**
- Well designed stablecoins have **low solvency and liquidity risk**, and are **poor instruments for illicit transactions**
- A CBDC issued on a public blockchain could make the ideal stablecoin
- At Jump Capital, we believe stablecoins will grow to from the current value of ~\$130bn to several trillion dollars in the coming years, and will have a major impact on the world economy