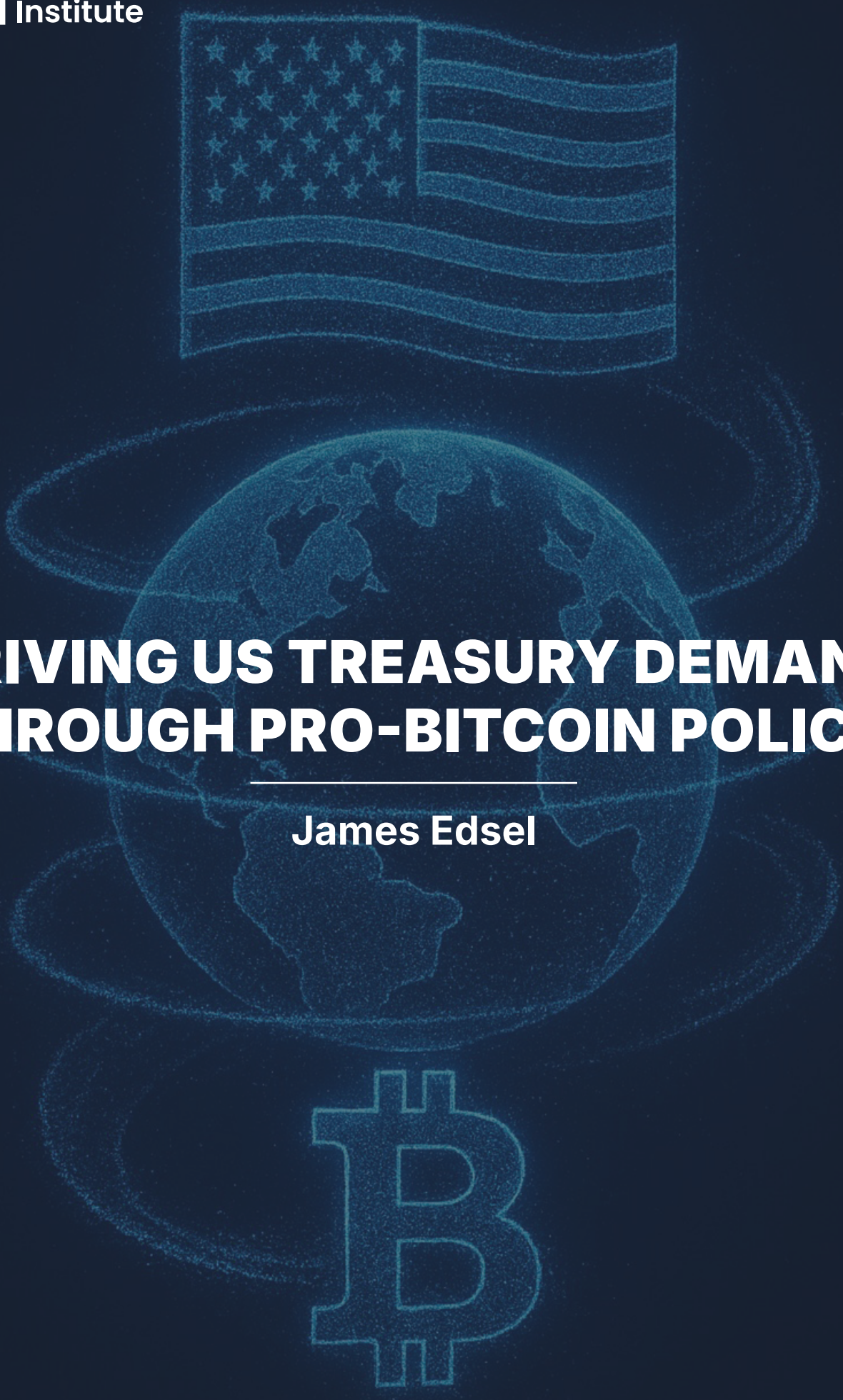
Bitcoin Policy Institute



DRIVING US TREASURY DEMAND THROUGH PRO-BITCOIN POLICY

James Edsel

ABOUT THE AUTHOR

James Edsel is a consultant and educator focusing on Bitcoin, artificial intelligence, energy and geopolitics. Previous work in Bitcoin includes flared gas bitcoin mining, datacenters, and bitcoin-native financial services at Unchained. In addition to Bitcoin, James has over a decade of experience in oil & gas and energy, where he has served in finance, analytical, and business development roles. He has also worked in geopolitical forecasting and language education. Mr. Edsel holds an MBA in Entrepreneurial Business and a BA in History.

ABOUT THE BITCOIN POLICY INSTITUTE

The Bitcoin Policy Institute (BPI) is a non-partisan, non-profit think tank. It is dedicated to educating policymakers and the public on Bitcoin and disruptive digital technologies, providing research-based insights to inform sound policy in the United States.

The BPI team comprises experts in economics, law, philosophy, energy, and environmental science, working together to explore the impacts of new technology on existing US public policy interests. The views expressed in this publication do not necessarily reflect the views of all Bitcoin Policy Institute management or its affiliated scholars.

Bitcoin Policy Institute

EXECUTIVE SUMMARY

Driving US Treasury Demand Through Pro-Bitcoin Policy

KEY IDEA: BITCOIN DEMAND DRIVES TREASURY DEMAND.

Any policy agenda over the next decade will require outside financing as mandatory spending and interest on existing debt obligations exhaust all tax receipts. Stablecoins, backed by short term US Treasury instruments, represent an important new source of US government financing. Bitcoin's unique properties and market dominance catalyze digital asset markets, which account for roughly 90% of stablecoin value. Unlike other potential stablecoin use cases, demand for bitcoin and digital assets is capable of driving interest-rate-insensitive Treasury demand at the scale and timing relevant to US policymakers.

BITCOIN-LED STABLECOIN DEMAND FOR US TREASURIES COULD FINANCE:

AT CURRENT SCALE (2024 BUDGETS)

National Security: US Marine Corps, DOJ, US Coast Guard combined

Domestic: Dept. of Labor, GSA, NSF combined

Outdoors: Dept. of Interior, Corps of Engineers, NASA combined

BY GOLD PARITY ($1.2 MILLION / BITCOIN)

National Security: 5 Years of Combined 2024 Budgets of US Army & Navy

Infrastructure: 14 Years of Department of Transportation 2024 Budget

Full Government: 1 Year of Prospective $2 Trillion Full Deficit

BITCOIN IS THE PROPER LEVER FOR TREASURY-BACKED STABLECOINS

- **Interest-Rate-Insensitive:** Demand continues as interest rates fall
- **Proven:** Other demand sources are speculative or lack scale and/or timing
- **Effective:** Only asset capable of catalyzing broad bull market for digital assets
- **Dominant:** >50% of digital asset market and 4-5x larger than nearest competitor
- **Ethical:** No centralized issuer; anti-authoritarian

POLICIES TO SUPPORT

Blockchain Regulatory Certainty Act or equivalent language in the CLARITY Act to protect developers

Right to Self Custody as per Keep Your Coins Act or adjusted language in the CLARITY Act

Exemptions from Capital Gains Tax Reporting for Transactions of De Minimis Amounts of bitcoin

Legislative Establishment of Strategic Bitcoin Reserve and Budget Neutral Bitcoin Acquisition (BITCOIN Act)

Creation of Global Pro-Bitcoin Policy Frameworks at IMF, World Bank, and BIS

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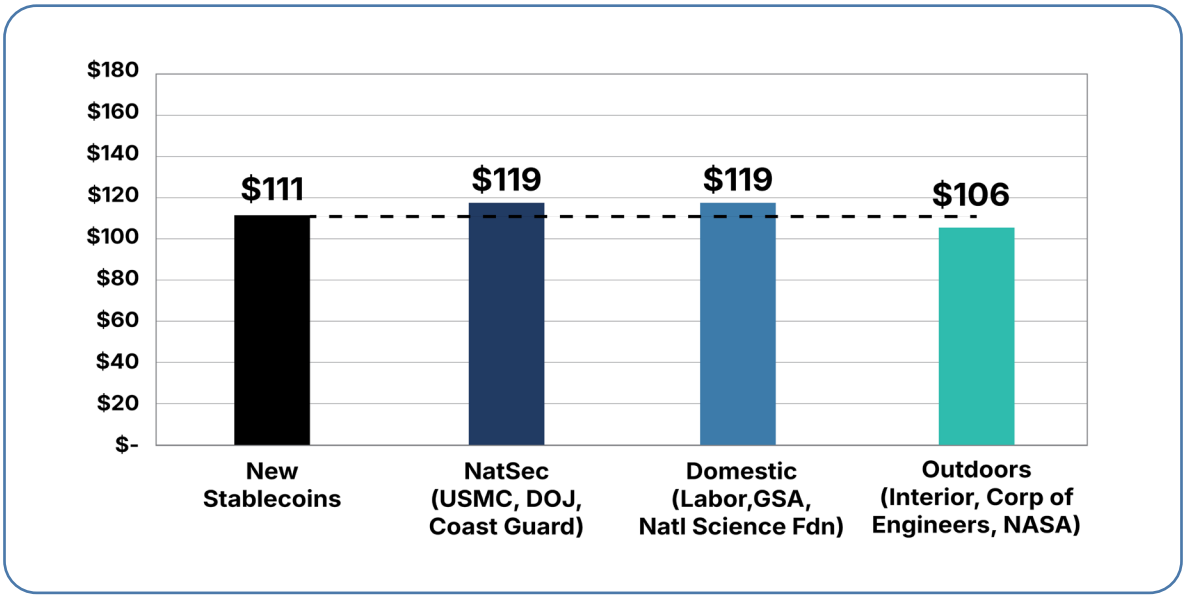
INTRODUCTION

Since the approval of spot bitcoin ETFs and subsequent policies of the Trump administration and 2025 Congress, pro-bitcoin and digital asset policy in the United States has driven over $110 billion in payment stablecoin growth in less than two years.[1] **If these new stablecoins had been backed 1:1 by short-term US Treasuries as per the newly-signed GENIUS Act, US pro-bitcoin and digital asset policy since 2024 alone could have indirectly financed the equivalent of:**

- The combined FY24 budgets of the US Marine Corps, Department of Justice & US Coast Guard, or
- The combined FY24 budgets of the Department of Labor, General Services Administration, and the National Science Foundation.[2,3]
- The combined FY24 budgets of the Department of Interior, Corps of Engineers, and NASA.[4]

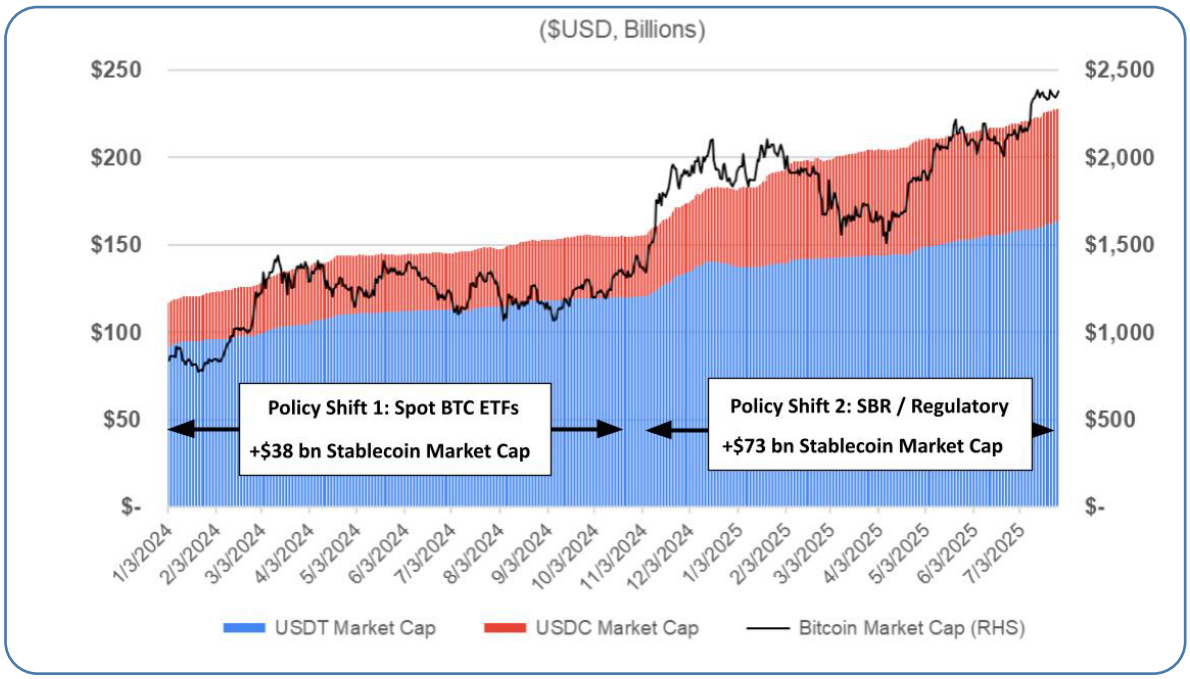
Figure 1: 2024/25 Pro-Bitcoin Policies Drive Funds to US Government



With the right mix of policies and action, government functions dear to policymakers on every side of the aisle can be funded by bitcoin, whose increased adoption drives a concurrent increase in stablecoins backed by US Treasuries.

[1] CoinMarketCap: (USDT + USDC). USDT = +$72B; USDC = +$39B; Total = $111B added since 1/1/2024 as of 7/29/2
[2] U.S. Department of the Treasury. (n.d.). Agency explorer. USAspending.gov. Retrieved August 05, 2025, from https://www.usaspending.gov/explorer/agency
[3] Loewenson, I. (2024, March 11). Corps seeks $274M to fix billions-dollar barracks problems. Marine Corps Times. https://www.marinecorpstimes.com/news/your-marine-corps/2024/03/11/corps-seeks-274m-to-fix-billions-dollar-barracks-problems/
[4] U.S. Department of the Treasury. (n.d.). Agency explorer. USAspending.gov. Retrieved August 05, 2025, from https://www.usaspending.gov/explorer/agency

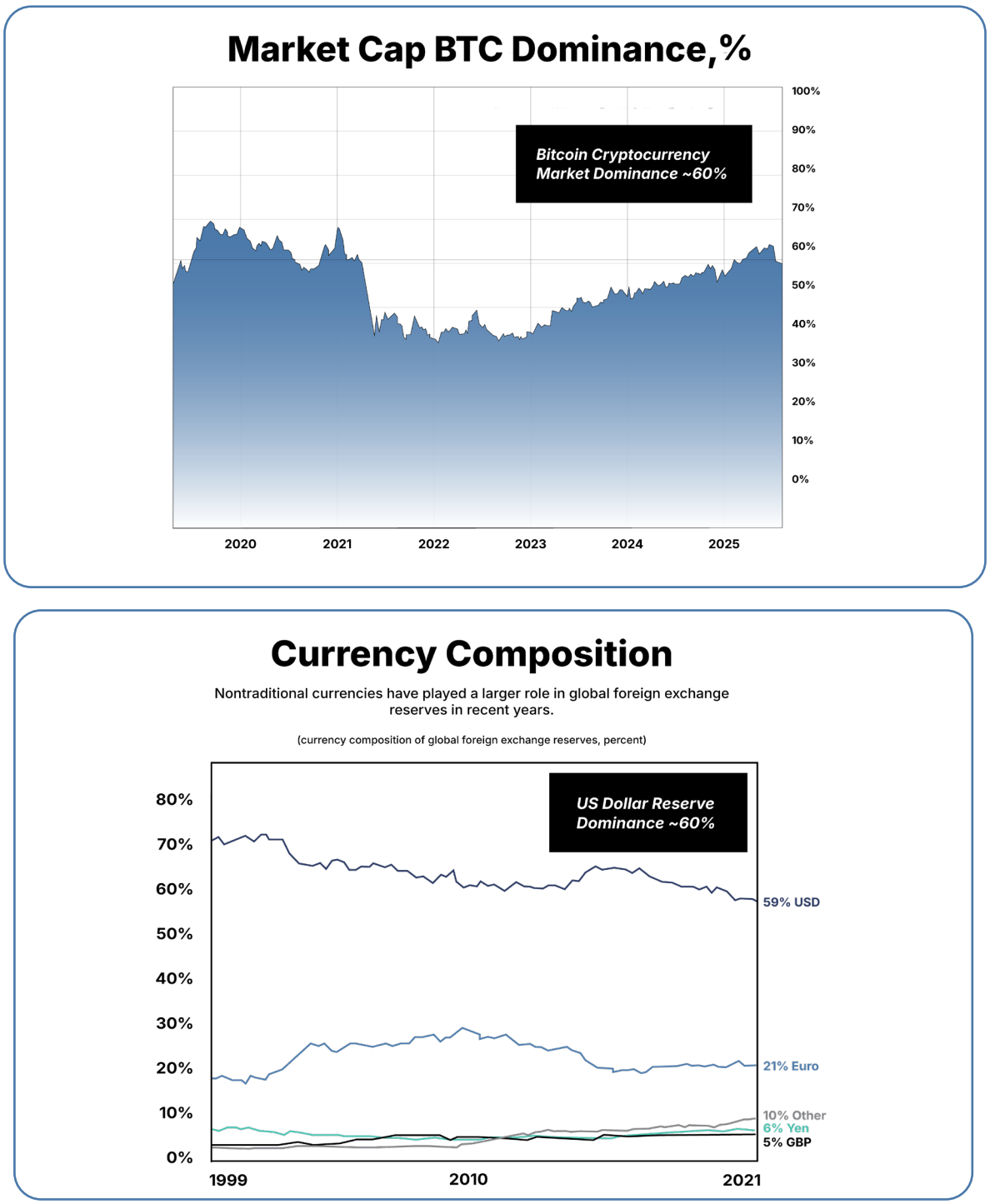
Figure 2: Tether (USDT) & USD Coin (USDC) Growth Since 2024



Tether (USDT) and Circle (USDC) dominate the market for fiat-backed stablecoins, together accounting for some 90% of the market.[5] While bitcoin drives the macro conditions of the overall digital asset market, stablecoins themselves are issued and traded on whichever low-fee, technically-appropriate rails their centralized issuers choose.[6] These rails are important because they enable and increase stablecoin functionality. But the specific rails change and do not themselves drive comparable stablecoin demand, in the same way that a concert venue does not itself drive ticket sales comparable to a superstar performer. Bitcoin, at 50-60% of the total market and roughly 4 - 5 times the size of the next largest digital asset, is that star performer, dominating cryptocurrency markets in roughly the same percentage that the US dollar dominates global reserves and catalyzing global demand for UST-backed stablecoins.[7,8]

[5] Yokoyama, A., Fernandez Dionis, G., Nikolaou, K., Abouelmakarem, M., Shang, Q., & Li, Y. (2025, May 23). Crypto-assets monitor: 2Q25. International Monetary Fund. https://www.imfconnect.org/content/dam/imf/News%20and%20Generic%20Content/GMM/Special%20Features/Crypto%20Assets%20Monitor.pdf
[6] See Technical Appendix "Stablecoin Market Dynamics"
[7] TradingView (n.d.). Market Cap BTC Dominance, %. Retrieved August 5, 2025 from https://www.tradingview.com/chart/?symbol=CRYPTOCAP%3ABTC.D
[8] Arslanalp, S., Eichengreen, B., & Simpson-Bell, C. (2022). Dollar dominance [Chart]. International Monetary Fund. Retrieved August 05, 2025, from https://www.imf.org/wp-content/uploads/2022/06/COTW-dollar-dominance-blog.jpg

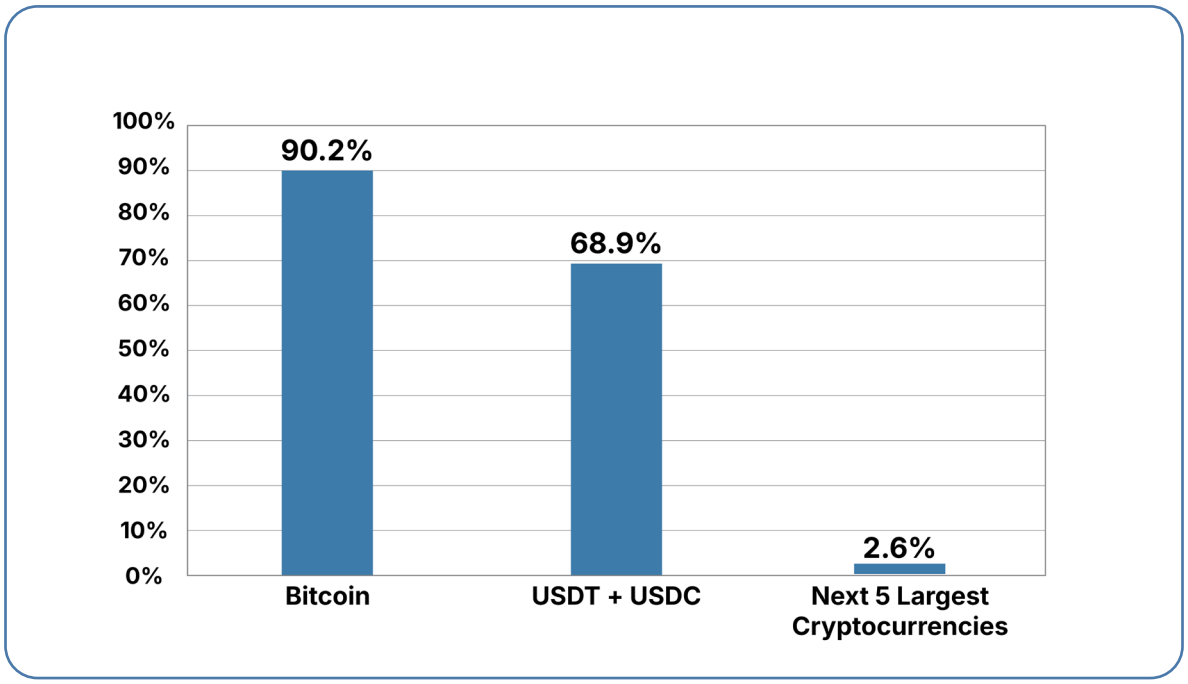
Figure 3: Comparable Dominance of Respective Ecosystems



Source: TradingView (n.d.). Market Cap BTC Dominance, %. Retrieved August 5, 2025 from https://www.tradingview.com/chart/?symbol=CRYPTOCAP%3ABTC.D

Bitcoin's role as stablecoins' driver can be seen in recent data since the US pivoted toward a pro-bitcoin and digital asset policy regime. While the market cap of bitcoin and payment stablecoins are both significantly higher than their prior all-time highs in 2021 and 2022 respectively, the same is not true for the next five largest non-bitcoin cryptocurrencies.

Figure 4: Change in Market Cap from Previous Cycle's All Time Highs

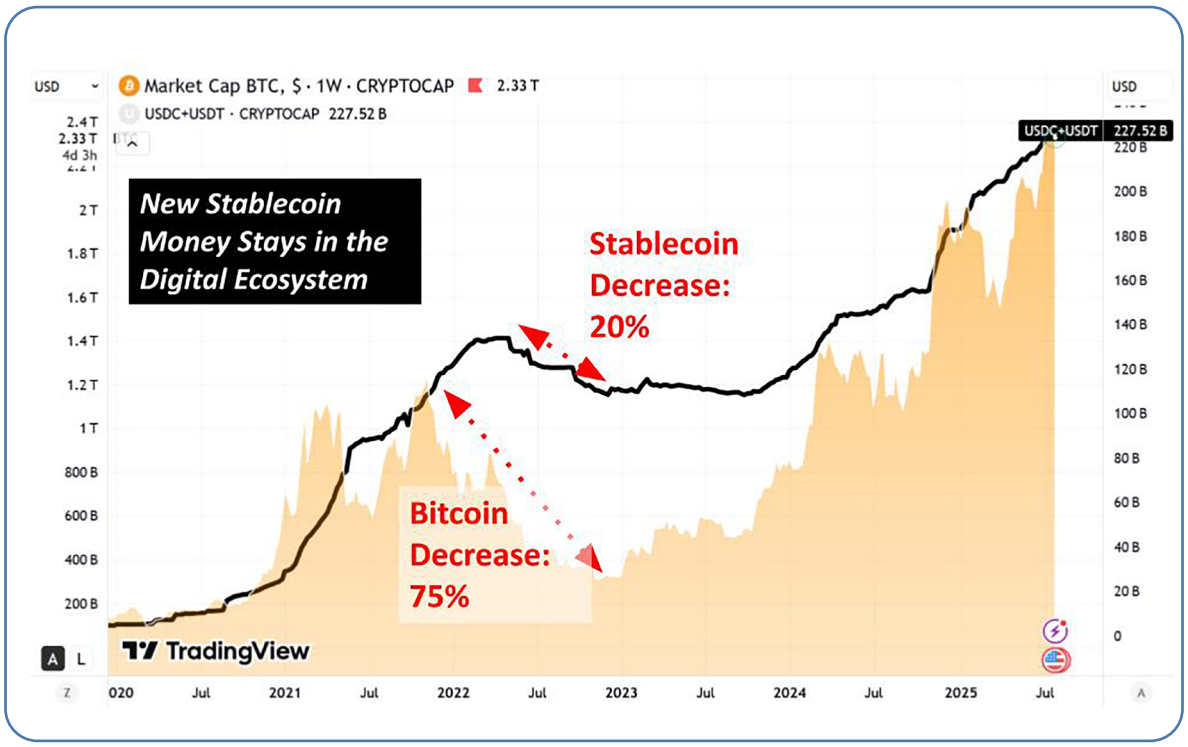


Source: CryptoCap, as of 7/28/25

From the peak of the 2021/22 bull market until July 2025, bitcoin's market cap is up 90% from its previous all-time high, combined market cap for payment stablecoins (USDT+USDC) is up 69% from its previous high, but the combined market cap of the next five largest cryptocurrencies is up only 2.6% from their collective prior all-time highs.[9]

[9] TradingView; CryptoCap; basket of five largest non-bitcoin cryptocurrency [ETH, SOL, XRP, DOGE, BNB] $871 bn (cumulative total of respective 2021 highs) vs $894 bn as of 7/28/2025 TradingView. (2025). CryptoCap: Market capitalization data for basket of five largest non-Bitcoin cryptocurrencies (ETH, SOL, XRP, DOGE, BNB) [Data set]. https://www.tradingview.com/markets/cryptocurrencies/global-charts/

Figure 5: New Stablecoin Money Stays in the Digital Ecosystem



Source: TradingView, https://www.tradingview.com/markets/cryptocurrencies/global-charts/

Once inside the cryptocurrency economy, money may stay focused on bitcoin, such as in 2024, or such funds may create momentum for further trading into smaller, alternative coins or other leveraged bets as investors look to outperform bitcoin, such as in late 2021. However, the long-term driver for new money coming into the cryptocurrency space demonstrably remains bitcoin. Every major cryptocurrency bull cycle has begun with bitcoin dominance at its peak, near bitcoin-specific events, and with investors touting the merits of bitcoin, indicating that bitcoin's unique properties draw new investors into the digital asset sphere, creating a wave of momentum across the entire digital asset space that powers the next bull market.

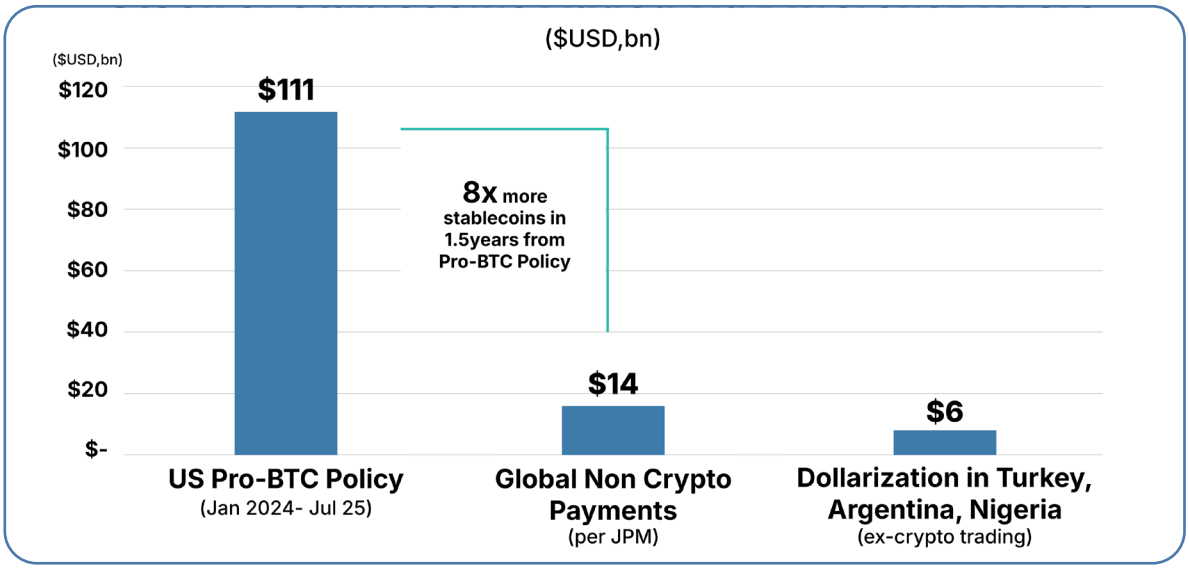
Policymakers concerned with driving new fiat from the rest of the world into the US Treasury markets are prudent to focus on bitcoin as the relevant lever in the system. Currently and since 2020, when the stablecoin market matured, about $10 in bitcoin market cap has been accompanied by $1 in payment stablecoin market cap. This metric is called the Stablecoin Supply Ratio (SSR) and in this analysis, an SSR of 10 is assumed, which is both the current SSR and in line with historical trends.[10] An SSR of 10 means that $10 of bitcoin market cap is accompanied by $1 in stablecoin market cap.[11] Simplistically, were all payment stablecoins to be backed 1:1 by US Treasuries, the US Treasury would gain $1 of new Treasury demand for every $10 of bitcoin market cap growth.

[10] See Technical Appendix, "Changing Market Dynamics and the Stablecoin Supply Ratio"
[11] See Technical Appendix, "Digital Dollarization"

Pro-Bitcoin Policy Versus Non-Cryptocurrency Digital Dollarization

Much has been made of digital dollarization of weaker currencies, separate and apart from bitcoin and cryptocurrencies. But the two are integrally related and if digital dollarization is artificially segmented from cryptocurrency demand, it is insufficient to address near-term US funding needs.[12] Stablecoin growth driven by pro-bitcoin and cryptocurrency policy over the one and a half year period since 2024 is estimated to be many multiples of all the stablecoins that have been added from payments or digital dollarization of weaker currencies from demand sources unrelated to cryptocurrency.[13] Bitcoin and digital asset-driven growth also dwarfs other projected uses of stablecoins (FX, interbank payments, etc.) which to date have driven almost no significant stablecoin demand compared to cryptocurrency-based demand.[14]

Figure 6: Stock of Stablecoins Added via Different Drivers



Source: Internal Estimates; see Technical Appendix, "Digital Dollarization of Weaker Currencies

The conclusion is clear: pro-bitcoin and digital asset policy in the United States can help fund the US government to a significant degree. Bitcoin and digital assets are the only historically-proven source of sizable stablecoin demand. As such, driving bitcoin demand globally should be a key policy focus of US policymakers. Bitcoin demand creates Treasury demand via stablecoins—and Treasury demand of the best type for policymakers: interest-rate-insensitive Treasury demand.

[12] See Carter et al for the overlapping use cases between digital dollarization and cryptocurrencies
[13] See Technical Appendix, "Digital Dollarization of Weaker Currencies"
[14] See Technical Appendix, "Stablecoins and FX Markets"

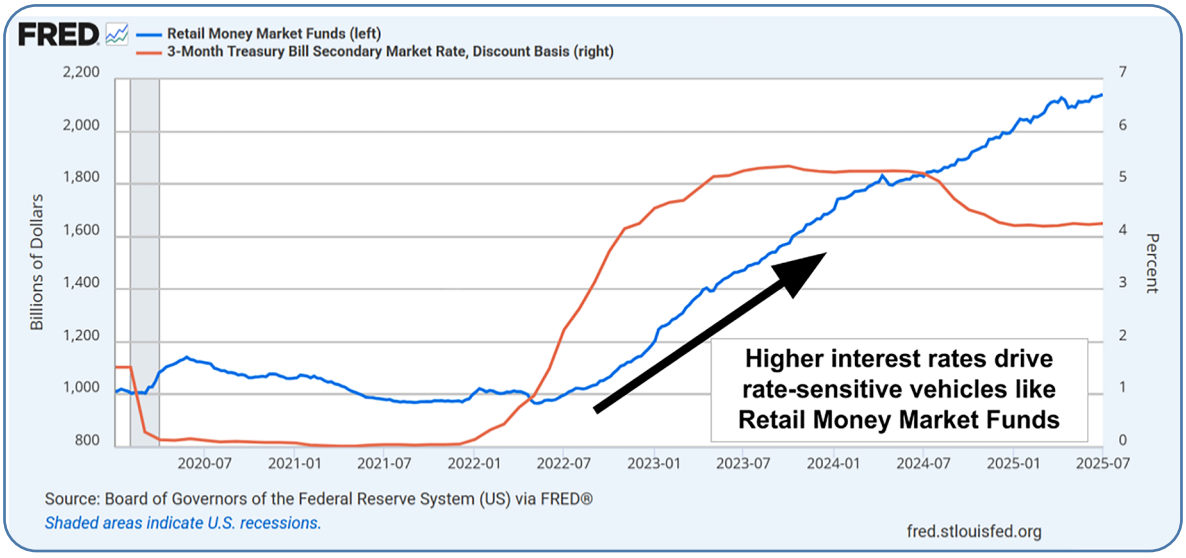
Interest-Rate-Insensitive Demand

Payment stablecoins like USDT and USDC have a property that is likely of interest to policymakers: interest-rate-insensitive demand. A critical driver of demand for most US Treasuries, particularly short term Treasury securities, comes from their interest rate. When interest rates are higher, more investors park their money in short term US Treasury securities or proxies like Money Market Funds. This dynamic will likewise be true in the cryptocurrency world as well: higher interest rates means more demand for digital assets like "Yield-Bearing Stablecoins" or "Tokenized Money Market Funds".[15] But higher rates mean greater interest expense for the US government, which exacerbates the debt problem. Without sufficiently high interest rates, necessary buyers are not present in sufficient scale. But with sufficiently high interest rates, the government's interest expense burden becomes onerous. Thus, policymakers face a dilemma.

Payment stablecoins offer a unique alternative. Their underlying source of demand is not the interest rate on Treasury securities, but demand for bitcoin and digital assets. As such, they maintain their demand when Treasury yields decrease—unlike almost other marginal buyers of government debt. In fact, stablecoin demand is inversely related to government interest rates, as investors move further out on the perceived risk curve into bitcoin and digital assets as interest rates are lowered. A recent paper entitled "The Stablecoin Discount: Evidence of Tether's U.S. Treasury Bill Market Share in Lowering Yields" estimates that "Tether's market share of US Treasury bills...[resulted] in roughly $10 billion in annual interest savings for the US government."[16]

Given policymakers' preference for low interest rates and the favorability of lowering interest expense, the interest-rate-insensitivity of bitcoin-led payment stablecoins is an attractive feature for policymakers caught in a bind between Treasury demand and expense.

Figure 7: Rates Drive MMF Demand



Source: Board of Governors of the Federal Reserve System (US) via FRED, fred.stlouisfed.org

[15] See Technical Appendix, "Yield-Bearing Stablecoins"
[16] https://arxiv.org/abs/2505.12413, Ante et al

At Gold Parity

By the time that bitcoin reaches parity with gold at a market cap of $23.6 trillion, assuming current stablecoin liquidity dynamics, bitcoin-led cryptocurrency markets will have driven over $2.1 trillion in incremental Treasury demand via stablecoins to the United States government.[17] Bitcoin-driven stablecoin demand will have financed the equivalent of the 2024 US Army and Navy budgets, combined, for approximately five years.[18] Seen another way, bitcoin and digital assets will have been responsible for stablecoins owning more short-term US Treasuries than possibly any other source.[19] The only larger source currently at that level would be Money Market Funds (MMFs), whose Treasury holdings will likely decrease in a lower interest rate environment.[20] Once at that level, stablecoins, being propelled by bitcoin, will likely still be growing at a rate far exceeding any other Treasury holder.

Figure 8: Stablecoins Add $2.1T in UST Demand at Bitcoin-Gold Parity

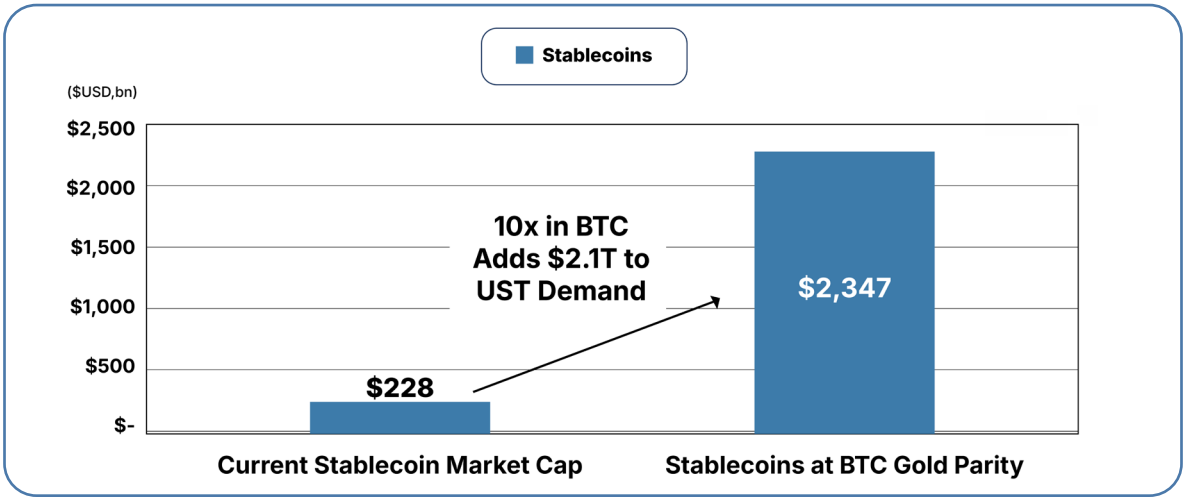
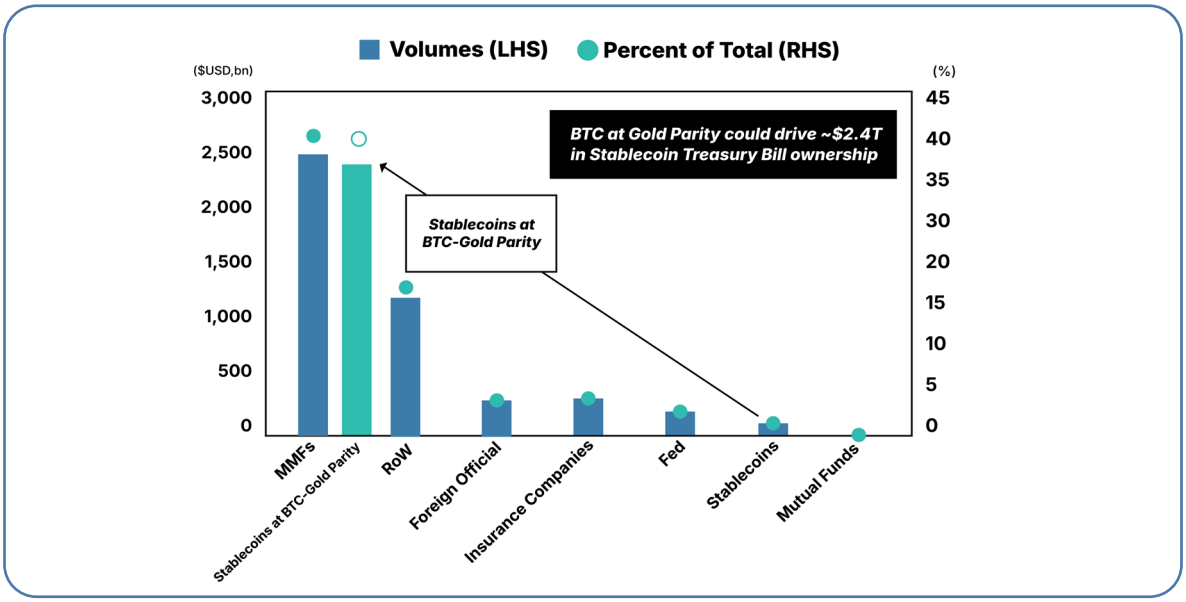
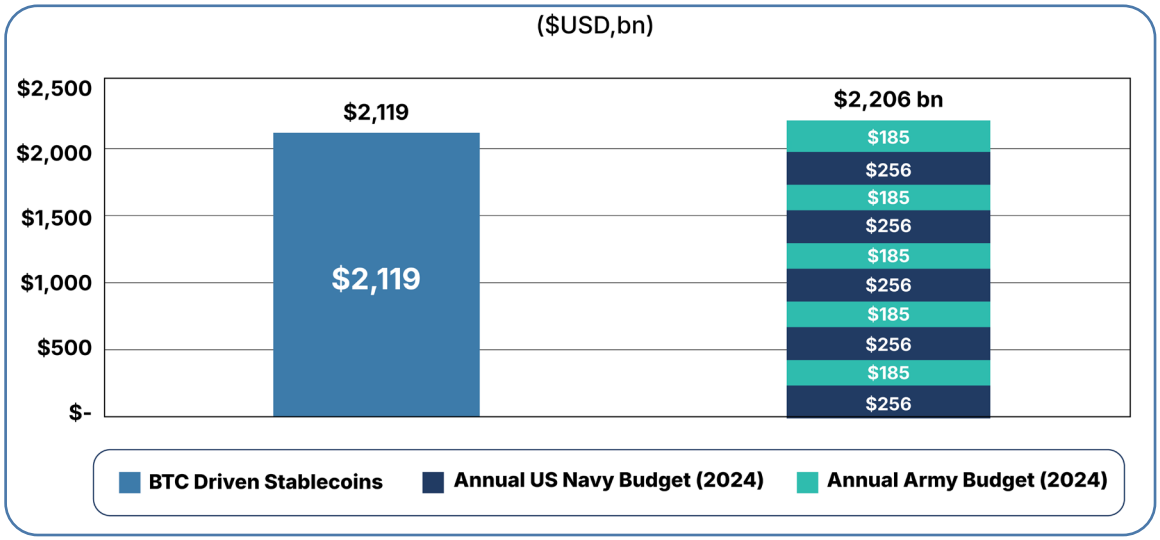


Figure 9: Ownership of US Treasury Bills (US$ Billions)



[17] XAUUSD (OANDA): 8/4/25 & WGC Gold Supply EO24; Assumes $1 in stablecoin market cap growth for every $10 of bitcoin market cap growth. See Technical Appendix, "Changing Market Dynamics and Stablecoin Supply Ratio".
[18] DoD, National Budget Defense Estimates for FY 2024, Table 6-7, FY24 Army = $185.3bn + FY24 Navy = $255.9bn
[19] IMF, Crypto-Asset Monitor: 2Q25, overlaid with internal estimates
[20] IMF Q2 2025 CryptoAsset Monitor + Internal Estimate Based on SSR of 10 & Gold Market Cap of $23.6T

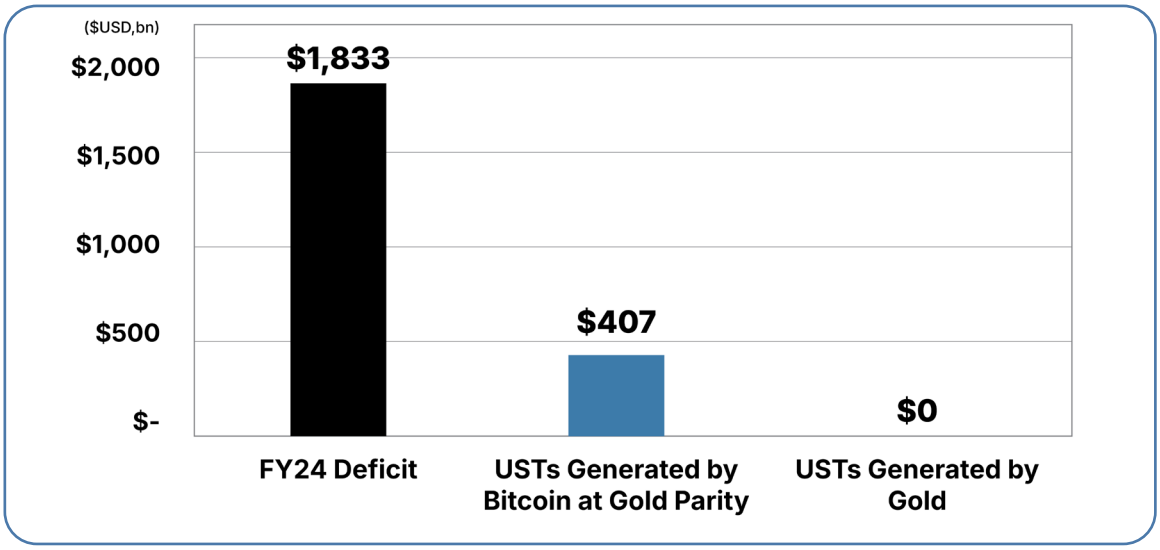
Figure 10: At Bitcoin-Gold Parity, Bitcoin-Driven Stablecoins Add Enough USTs to Support ~5 years of Army and Navy Budgets



Source: US Navy, https://www.navy.mil/Press-Office/Press-Releases/display-pressreleases/Article/3345410/fiscal-year-2024-department-of-the-navy-budget-materials/; US Army, "Army Fiscal Year 2024 Budget Overview"

Gold, meanwhile, at the same scale has driven billions of dollars in Treasury *outflows* and buoyed foreign balance sheets. For context, in 2024, gold gained $4 trillion in market capitalization.[21] If bitcoin, at the same size, had gained the equivalent amount, it would have driven over $400 billion in Treasury demand in 2024, equal to more than one-fifth of that year's deficit.[22] It would have driven even more in 2025, almost $500 billion as of August. Instead of generating Treasury demand via stablecoins, gold drove no demand and potentially increased US government financing rates via cannibalization as holders sold their Treasuries to buy gold.

Figure 11: Gold vs Bitcoin at Parity: Equivalent 2024 Treasury Demand



[21] XAUUSD: OANDA; Gold price as of 1/1/24 and 12/30/24; Supply of 216,265 tonnes per World Gold Council
[22] Assumes current SSR of 10 ; see Technical Appendix "Stablecoin Market Dynamics and the Stablecoin Supply Ratio"

Timeline Until Gold Parity

Given the anticipated scale and timing of bitcoin and its positive effects on reducing yields via Treasury demand from stablecoins, US policymakers should encourage and expect bitcoin to continue driving stablecoin demand at ever-larger scales. At its current 4-year compounded annual growth rate (CAGR) of 40%, bitcoin reaches parity with gold's current $23.5T market cap in just 7 years. At a 20% CAGR, bitcoin reaches gold's current level by 2038.

Table 1: Years Until Gold Parity

CAGR	Years Away	Year
50%	6	2031
40%	7	2032
30%	9	2034
20%	13	2038
10%	24	2049

Room To Grow

When it comes to stablecoins, bitcoin-driven cryptocurrency demand remains the largest, if not only, game in town. Yet bitcoin remains a relatively small global asset, at just 1/10th the size of gold. Bitcoin at the size of gold – approximately $1.2 million per bitcoin – would not distort financial markets. But it would drive significant Treasury demand via stablecoins. And importantly, **unlike all other sources of Treasury demand, bitcoin-led stablecoin demand does not decrease with low interest rates. In fact, unlike every other source, it may increase as interest rates fall. The room to scale and interest rate insensitivity make bitcoin demand a unique tool in the policymaker's toolkit.**

Non-Bitcoin and Cryptocurrency Sources of Stablecoin Demand Are Insufficient

Policymakers have been told that stablecoin use cases unrelated to cryptocurrency will drive trillions of dollars of Treasury demand in the near-term. FX markets, digital dollarization sans crypto, cross-border payments, retail adoption for everyday payments, banknote conversion and more have for years been offered as likely sources of new stablecoin demand unrelated to bitcoin. With the exception of digital dollarization, which has product-market fit but whose size and timing are insufficient for policymakers, other proposed use cases to date have been failures to find product-market fit of sufficient scale for relevance to policymakers.[23,24]

Many proponents of non-cryptocurrency-related stablecoin uses have referenced "regulatory clarity" as the missing piece that will unlock trillions in demand. But cryptocurrency-related payment stablecoins themselves went from $0 to almost a quarter of a trillion dollars in market cap *despite* having an enormous lack of regulatory clarity. Nevertheless, their product-market fit was overwhelming and users were unperturbed by such a lack of clarity. While all incremental sources of stablecoin demand are welcome, policymakers are wise not to mistake projections for certainties. Doubly so, if it risks ignoring the only actionable, historically-proven stablecoin use case, which also happens to be interest-rate-insensitive and growing at a prodigious rate: cryptocurrency stablecoins driven by demand for bitcoin and other digital assets.

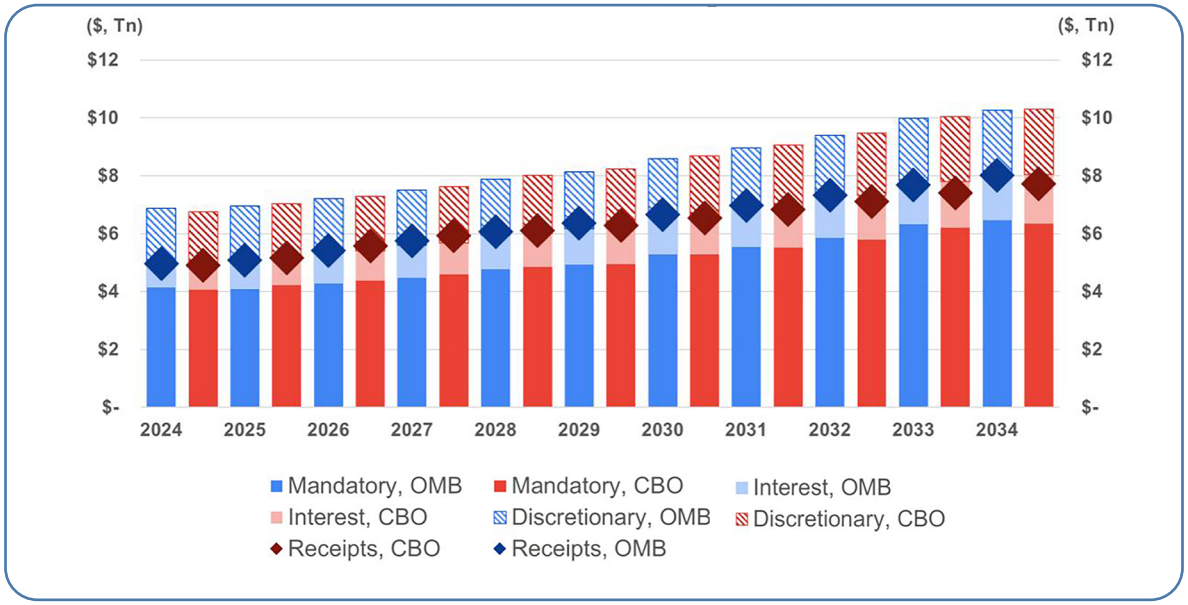
[23] See Technical Appendix on "Digital Dollarization"
[24] See Technical Appendix on "Yield Tokens", "FX Markets", and "Payments"

Why Policymakers Should Care

Policymakers on both sides of the aisle find themselves constrained by the US fiscal situation. From today forward, any discretionary spending sought by politicians will most likely have to be covered by outside financing beyond tax receipts. In FY2024, mandatory spending (Medicare, Social Security, etc.) and interest payments accounted for more than all of the government's tax receipts. Together, mandatory spending and interest expense of $5 trillion consumed all of the government's $5 trillion in receipts. This means that all tax receipts were already exhausted before any defense or other discretionary program funds were considered. While exact projections differ, OMB's 2025 Budget projects annual deficits to average $1.9 trillion over the next ten years, while the CBO projects closer to $2.5 trillion deficit each year.[25, 26] The base case is that roughly $2 trillion in new financing sources will have to be found—each year, for the next decade.

All policymakers, however different their respective agendas, will find themselves starting with these same fiscal constraints. Effectively all discretionary spending will require more debt. That debt needs a buyer. If you are a policymaker in DC with a more ambitious policy agenda than merely distributing interest payments and disbursing entitlements, bitcoin is for you.

Figure 12: Any Discretionary Spending Requires Further US Treasury Sales (OMB & CBO Data; $USD, Tn)



[25] Office of Management and Budget. (2025). Budget of the United States Government. The White House. https://www.whitehouse.gov/wp-content/uploads/2024/03/budget_fy2025.pdf; Congressional Budget Office. (2025). The budget and economic outlook: 2025 to 2035 [Data file]. https://www.cbo.gov/system/files/2025-01/51118-2025-01-Budget-Projections.xlsx

[26] Per CBO, 2024 entitlements (Medicare, Medicaid, etc.) were $4.1T and interest expense was $0.88T, totaling $4.98T against $4.92T in receipts. Congressional Budget Office. (2025, March 20). The federal budget in fiscal year 2024: An infographic. https://www.cbo.gov/publication/61181

Conclusion

In an environment of limited policy choices for government financing, ranging from the challenging to the nihilistic, the bitcoin-driven growth strategy stands out as plausible, constructive, and hopeful. It is a simple, values-aligned, free-market strategy: encourage the global adoption of bitcoin to further drive stablecoin demand through pro-bitcoin policy decisions and strategic acquisitions.

Unlike physical gold—which has diverted demand from U.S. Treasuries—bitcoin has driven billions into the U.S. Treasury by increasing demand for stablecoins, despite significant governmental resistance. While the bitcoin network is agnostic to policymakers' decisions, bitcoin's user base and market cap responds to good policy. Policymakers' initial cessation of hostilities against bitcoin in 2024, followed later by pro-bitcoin policies, fueled a price surge that has to date funneled over $100 billion into stablecoins, which will equate directly to US Treasury demand going forward. Further pro-bitcoin and digital asset policy from both the Legislative and Executive branches will only accelerate this dynamic.

American values and security can only be protected and projected from an environment of economic strength. Such economic strength is more than financial. It must come from supply chain assurance, free market growth, protection of free speech and private property rights, and many other things that are beyond the scope of this paper. But for longer term policy efforts to bear fruit, they must be given time to mature. Time is not a luxury that the mathematics of the US' current financial situation allows. To rebuild the base layers of our society to ensure peace, prosperity and promotion of American values, policymakers and politicians need to act quickly and boldly to solidify the country's financial position. There are many proposals to do this, but none are as simple as aligning ourselves with global bitcoin adoption through pro-bitcoin policy and acquisition.

For over a decade, the global free market has been telling policymakers that it wants bitcoin and it wants digital US dollars. The US government did not link the US dollar to the adoption of bitcoin: the free market did, long ago and willingly. The proposals in this paper are an encouragement to policymakers to simply acknowledge the value to the United States of what the free market is demanding: digital dollars backed by Treasury bills to use to buy and sell bitcoin, a natively-digital asset built around the most American of values: hard work, rules without rulers, and a well-designed system of checks, balances and incentives that promote economic stability.

POLICY RECOMMENDATIONS

The overarching US policy objective with respect to bitcoin should be to increase its global adoption, particularly from large pools of capital, nation states, and citizens of non-dollarized nations. This begins with the United States serving as a global beacon of support for the underlying principles that give value to bitcoin in the first place: decentralization, peer-to-peer transactions, and the right to self-custody. Bitcoin's financial value is downstream of these principles and cannot be divorced from them. Bitcoin users must have their rights to self-custody, mine, and develop software protected. As capital flows to where it is treated best, US policymakers' choices about how robustly to defend these principles will determine whether the nexus of the future of digital capital will be located in the United States or abroad. If, as this paper argues, there is a significant link between the financial value of bitcoin and demand for US Treasuries, it would be in the US government's financial interests to safeguard and propagate these core values by codifying them into law.

The subsequent policies will preserve the value of bitcoin and maximize the breadth and scale of net new money going into the Treasury market via stablecoins.

Specific Recommendations

1. Protect the US bitcoin and digital asset ecosystem by passing legislation to support the Blockchain Regulatory Certainty Act (BRCA), separately or as part of the CLARITY Act.

- **Blockchain Regulatory Certainty Act:** Representative Emmer's Blockchain Regulatory Certainty Act (BRCA) creates a federal safe harbor so that blockchain developers and service providers are not treated as money transmitters if they do not control users' assets. This protection is simple, common-sense and critically important. Without the adequate clarifications and protections that come from the Blockchain Regulatory Certainty Act, developers will not feel comfortable operating in the United States. Digital policy that comes out of London, Brussels, Moscow, or Beijing looks very different from the digital values of the United States. The primacy of the modern US tech sector was due in large part to the digitalization of American values—over and against the objections of some pro-surveillance forces within US institutions. If restrictive, pro-surveillance US policies had prevailed over free speech oriented protections, such as during the PGP encryption battle, Silicon Valley—a key locus of modern American power—would not be what it is today. Moreover, privacy-preserving features help to facilitate bitcoin and digital asset demand in foreign countries opposed to cryptocurrencies, similar to how VPNs allow foreigners in restricted internet regimes access to information beyond government propaganda. If policymakers' goal is to drive foreign funds into the US Treasury system via bitcoin and cryptocurrency demand for stablecoins, then it is critical to allow skilled US developers to work on such programs without fear of prosecutorial overreach and bureaucratic misalignment in the United States. The language in the Blockchain Regulatory Certainty Act (BRCA), currently being discussed as part of the CLARITY Act, addresses several critical, outstanding issues on this front.

- **Opposing DAAMLA and Attacks on the Bitcoin and Digital Asset Ecosystem:** Successfully opposing Senator Warren's Digital Asset Anti-Money Laundering Act (DAAMLA) was critical because it sought to treat builders and operators of neutral, non-custodial digital asset infrastructure, such as wallet developers, miners/validators, and node operators, as Bank Secrecy Act (BSA) "financial institutions", compelling surveillance that would attack self-custody, privacy, and Bitcoin's censorship-resistant design. Similar legislation, counter to US legal, technological and financial values, must continue to be opposed should it manifest itself in the future.

- **Enshrine the Right to Self-Custody:** Protecting an individual's right to private property is a cornerstone of US legal and economic success. Capital flows to the US in large part knowing that it has robust protections. Explicitly extending these protections to digital capital supports these same policies and protections that have made the US a global economic powerhouse.

Example Policies to Support:

- **Blockchain Regulatory Certainty Act (BRCA)** introduced by Rep. Emmer or BRCA-equivalent language included in the **Digital Asset Market Clarity Act (CLARITY)** proposed by Rep. Hill.

- **Legislatively enshrining the right to self-custody:** Variants include **Keep Your Coins Act** prohibits federal agencies from restricting a person's use of convertible virtual currency for their own purposes or from transacting through a self-hosted wallet, similar language in the CLARITY Act, Section 22, "Protection of Self-Custody"—provided that no BSA or related backdoors exist that could later be exploited by overreaching or misguided regulators with self-interested opposition against bitcoin and digital assets, contrary to the legal and financial interests of the United States and its people.

2. Exempt de minimis amounts of bitcoin spent from capital gains tax reporting requirements

- **De Minimis Exemptions:** The Treasury income that will result from incentivizing US businesses to develop global innovative payment solutions based on market experimentation and feedback will more than offset the marginal taxes collected via self-reported purchases under $600. The biggest obstacle to citizens globally adopting stablecoins is their initial entry into the digital ecosystem. Innovative ways to increase these on-ramps result in more channels between global capital and US Treasuries. These can interact with other stablecoin applications and further increase the rate at which people across the world are drawn into the digital ecosystem.

Example Policies to Support:

- **Virtual Currency Tax Fairness Act,** a nonpartisan act cosponsored by Democrat, Independent, and Republican Senators, to exempt any individual cryptocurrency transaction under $200 from capital gains taxation, similar to foreign currency exemptions. The Act includes aggregation provisions to mitigate abuse through transaction slicing.

- **Crypto Tax Bill,** sponsored by Sen. Lummis, that includes a $300 de minimis exemption, capped at $5,000, along with other pro-cryptocurrency taxation adjustments.

- Executive support for even higher de minimis exemption amounts of $600.

3. Formalize the US Strategic Bitcoin Reserve legislatively.

This allows domestic—and crucially, foreign—policymakers to see that bitcoin accumulation is cemented as a national objective by the largest economy in the world. It is a demand signal that policymakers and global capital allocators must respond to, driving bitcoin demand.

Example Policies to Support:

- **The BITCOIN Act of 2025** in the Senate, proposed by Sen. Cynthia Lummis with 4 co-sponsors, proposes to acquire 1 million bitcoin on behalf of the United States and hold for a minimum period of 20 years.

- Companion Bill to Senate's BITCOIN Act in the House, proposed by Rep. Nicholas Begich with 9 House co-sponsors.

4. Acquire bitcoin for the Strategic Bitcoin Reserve in a budget-neutral fashion

- While a legislatively-enshrined SBR itself is an unmistakable symbol of US support, adding bitcoin via budget-neutral acquisition is a catalyst for rapid global adoption by the world's largest capital allocators. The US has leverage that no other country possesses in that the mere fact that it is acquiring bitcoin will drive the price up, which will in turn bring in more stablecoins that are backed by US Treasuries. The US will thus benefit doubly, with increased purchasing power from their bitcoin investments plus increased Treasury demand from the extra stablecoin liquidity associated from rising bitcoin market cap. **Bitcoin is by far the largest source of stablecoin demand that US policymakers can actively influence.** Prudently executed purchases and communication means increased Treasury demand via stablecoins. There are billions of dollars of budget-neutral funds that have been identified for the purpose of bitcoin acquisition. These funds can acquire more bitcoin with the added benefit of an increase in Treasury demand via stablecoins.

Example Policies to Support:

- **The BITCOIN Act of 2025** in the Senate, proposed by Sen. Cynthia Lummis with 4 co-sponsors, should be supported. The BITCOIN Act proposes to acquire 1 million bitcoin on behalf of the United States and hold for a minimum period of 20 years.

- In the House, support of the related resolution**,** proposed by Rep. Nicholas Begich with 9 House co-sponsors, which is a companion bill to the Senate's BITCOIN Act.

5. Proactively drive pro-bitcoin policy at the international level by guiding the International Monetary Fund (IMF), Bank for International Settlements (BIS), World Bank, Financial Stability Board (FSB), and other standard-setters away from open regulatory hostility and opposition to global adoption of bitcoin.

- The IMF and World Bank, led in part by previous US anti-bitcoin and digital asset policy, have consistently opposed nation-state adoption of bitcoin for years. Post-GENIUS, such antagonistic policies now directly and measurably hurt the sale of US Treasuries via stablecoin-linked demand.

- Crypto-antagonistic global policies promote the expansion of rival global financial vehicles like CBDCs and foreign debt diplomacy and infrastructure initiatives. It is in the financial and values-based interest of the United States that such international policies are not only rescinded but replaced. Certain of these international policies were rescinded by Executive Order 14178, which among other things revoked Treasury's "Framework for International Engagement on Digital Assets".[27] While revocation of bad policy is a good start, establishment of comprehensive international pro-bitcoin policy frameworks is needed.

- A good first step is international policy placing other nations at parity with official US domestic financial policy, which acknowledges the US's view of bitcoin as a global digital savings asset. The use of bitcoin by countries like El Salvador (with a GDP roughly equivalent to Chattanooga, TN) or the Central African Republic (whose annual GDP is less than 1 month of Wall Street bonuses) poses no threat to the US debt market.[28] Policies, frameworks and political statements which oppose such global adoption efforts make the US financial markets appear insecure and weak.

Example Policies to Support:

- Replace the restrictive, anti-bitcoin international frameworks rescinded in Executive Order 14178, which used US influence to steer policy at the IMF, Multilateral Development Banks (including the World Bank), the G7 and G20, and Bank of International Settlements (BIS), with pro-bitcoin frameworks.

[27] https://home.treasury.gov/news/press-releases/jy0854
[28] https://data.worldbank.org/country/central-african-republic, https://www.investopedia.com/average-wall-street-bonus-fell-2-percent-in-2023-to-usd176500-8610928

TECHNICAL APPENDIX

Stablecoin Market Dynamics

Claim: *Bitcoin isn't the driver for stablecoin inflows because almost none of the stablecoin issuance nor DeFi activity occurs on bitcoin.*

Rebuttal:

It is a fact that effectively none of the stablecoin issuance nor DeFi activity occurs on the bitcoin protocol. Centralized stablecoin companies issue stablecoins on blockchains that have the lowest fee, Turing-complete architecture, and sufficient liquidity.[29] Stablecoin issuers are to a large extent chain-agnostic. Thus Tether, the world's largest stablecoin issuer, issues its USDT stablecoin on twelve different blockchains, the largest being Tron.[30] Circle's USDC, the second largest stablecoin, is directly minted and redeemed on 24 different blockchain networks.[31]

Bitcoin's design by contrast prioritizes simplicity, security, and decentralization over Turing-completeness, low fees and speed. Therefore, although the first instance of stablecoins was built on top of bitcoin in 2014 and Tether is working on a future release using bitcoin's low-fee Lightning network, the bitcoin base layer does not serve as a rail for stablecoin issuance or venue for activity.[32,33]

Similarly, during times of sustained bitcoin price increases, money may flow into digital assets other than bitcoin in an attempt to outperform bitcoin's returns. Likewise, stablecoins will be used in all manner of ways that are first-order unrelated to direct purchases of bitcoin.

But these assets need bitcoin demand to first drive interest and liquidity into the digital asset system before they can attract users. This is why sustained bitcoin price narratives precede other assets in cryptocurrency cycles, bitcoin dominance is at its highest in the beginnings of a crypto bull market, and why sustained cryptocurrency price runs have—to date—all occurred around bitcoin's halving cycle.[34,35] Demand for bitcoin benefits the entire cryptocurrency market and bitcoin in turn benefits from access to the stablecoin liquidity provided by cryptocurrency rails.

Thus while blockchains other than bitcoin support the lion's share of stablecoin activity and issuance, it is important not to confuse concepts. Supporting stablecoin activity and briefly trading as beta to bitcoin are not the same as driving sustainable stablecoin demand.

Concert venues by themselves do not draw large crowds: fans show up for a headline entertainer. Likewise, the presence of opening bands or follow-on acts does not negate the fact that the headliner drives ticket sales. It is expected that concert venues will encourage other bands to play around the headliner, as it drives their underlying concession and merchandise sales. But without the headliner, the crowds don't show up.

[29] See Technical Appendix entry "Stablecoin Market Dynamics" for a definition of Turing completeness
[30] Tether. (n.d.). Supported protocols. Retrieved August 05, 2025, from https://tether.to/ru/supported-protocols/
[31] Circle. (n.d.). Multichain USDC: Experience the power of Multichain USDC. Retrieved August 05, 2025, from https://www.circle.com/multi-chain-usdc
[32] kriptomat.io/cryptocurrency-prices/tether-usdt-price/what-is/#Who_Are_the_Founders_of_Tether_History_of_USDT
[33] https://tether.io/news/tether-brings-usdt-to-bitcoins-lightning-network-ushering-in-a-new-era-of-unstoppable-technology
[34] https://www.blockscholes.com/research/bybit-x-block-scholes-the-altcoin-rotation-why-and-when-altcoins-outperform-bitcoin
[35] https://changelly.com/blog/bitcoin-halving-effect-on-altcoins/

We see these dynamics playing out in the cryptocurrency space as well. Exchanges (both decentralized and centralized) are incentivized to add more tokens when liquidity is high. But none of these tokens perform well when bitcoin is falling for a sustained period, most fall to zero against bitcoin after several years, and bitcoin is quadruple or quintuple the size of the nearest competitor at any time. Likewise, stablecoins move blockchains whenever fees get high or technical limitations occur. The majority of Tether's issuance is on Tron, not because Tron is the best network or drives global stablecoin demand, but because it is the cheapest network that satisfies its operating criteria.

It would be a mistake to conclude that a large crowd is present because of a given venue. If the concert venue was torn down, a different one would be built and the headliner would perform there. If the concert venue takes too big of a cut, the headliner will perform elsewhere. This is exactly what has played out multiple times as the underlying crypto trading venues fees have grown too high and stablecoins have migrated to cheaper blockchains.

This paper is not to debate the relative merits of each ecosystem: Tron, Ethereum and other cryptocurrency blockchains, particularly in their Turing completeness (defined in the subsequent Technical Appendix entry), do many things that bitcoin does not do. But they do not drive overall cryptocurrency demand in the same way as bitcoin and consequently they do not drive similar levels of demand for stablecoins and ultimately US Treasuries. It should be noted that the argument applies for different bitcoin layers as well. In 2024, Tether announced an intent to use bitcoin's lightning layer-2 for USDT issuance.[36] It is currently in the design and implementation phase. Were the majority of stablecoin issuance and DeFi trading to switch to the Lightning network, the Lightning network would not itself then become the driver for cryptocurrency and thus stablecoin demand.

Narratives aside, crypto payment rails and DeFi applications should not be confused for stablecoin demand drivers. If policymakers make this error, they would be championing concert venues in hopes of creating crowds, when they should have been focused on booking the headliner. On the whole, headliners drive ticket sales, not concert venues or opening bands. Perhaps bitcoin will not always be the headliner, but that is a different question and it has not happened to date. Policymakers looking to draw audiences to digital dollars are wise not to confuse the two.

[36] https://tether.io/news/tether-brings-usdt-to-bitcoins-lightning-network-ushering-in-a-new-era-of-unstoppable-technology/

Stablecoin Market Dynamics and the Stablecoin Supply Ratio

Claim: ***The Stablecoin Supply Ratio (size of bitcoin market / size of stablecoin market) prior to 2020/1 was significantly higher than the modern band of 5 - 20 used in this analysis (baseline: 10).***

Rebuttal:

In the short lifespan of stablecoins (only 11 years), market dynamics around stablecoins have undergone several profound changes. While further gradation is possible, the modern payment stablecoin market can be categorized roughly into two epochs: pre-2020 and post-2020. At its inception in late 2014, Tether's USDT (the world's first stablecoin) settled on the Omni layer, which was tied to the bitcoin network's 10 minute block times, limiting use cases. Further limiting use cases was the bitcoin network's purposeful lack of Turing completeness (defined below), which prevents smart contracts from running on the bitcoin base layer in the same way as other Turing complete blockchains like Tron, Ethereum and others.

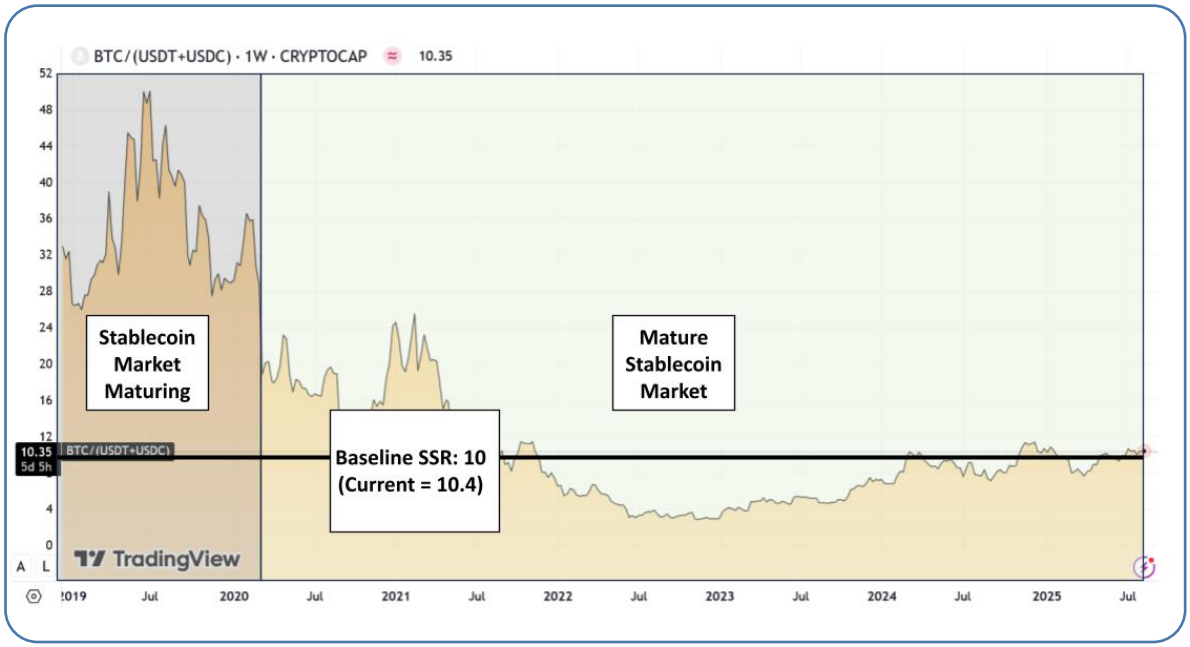
Definitions:

"Turing completeness" is a technical term that describes a system which, given sufficient memory and time, can perform any algorithmic computation. "Turing incompleteness" as it relates to bitcoin means a system that is intentionally limited not to express all possible computations, which reduces its complexity and attack surface. This is why both smart contracts and complex hacks occur on blockchains like Ethereum, Tron and others rather than on bitcoin.

Prior to 2020, payment stablecoin use (mainly, USDT) was primarily focused around trading on Central Exchanges ("CEXs"), with the same stablecoin turning over extremely quickly on internal ledgers. This meant that the velocity was quite high and a smaller stock of stablecoins could support a significant number of trades. The result is a high Stablecoin Supply Ratio (SSR), which is exactly what occurred in this period, with SSRs > 50 compared to the modern period of a banded range of 5 - 20. Furthermore, in this period, cryptocurrencies (BTC, ETH, others) were still the dominant trading and collateral asset, further reducing the total stock of stablecoins needed.

Figure 13: Payment Stablecoins: Pre vs Post-2020

Stablecoin Supply Ratio (SSR): Bitcoin Market Cap / Combined Market Cap of USDT + USDC



Source: TradingView, Cryptocap | Bitcoin Market Cap / Combined USDT & USDC Market Caps (Retrieved 7/28/2025)

By contrast, post-2020, fiat-backed stablecoin use has proliferated to all corners of the cryptocurrency ecosystem. Derivatives ecosystems both grew and switched predominately to stablecoin-backed collateral from coin-backed collateral. Stablecoins are now also the core settlement and collateral asset used in decentralized exchanges (DEXs) and smart contracts. And perhaps most importantly, confidence in the reputability and backing of stablecoin issuers like Tether and Circle allowed traders and others to hold stablecoins for longer periods, decreasing their velocity, thus the same stablecoin can no longer be counted on to process nearly as many payments.

All of these items served to markedly increase the amount of stablecoin stock in the cryptocurrency ecosystem, which brought the Stablecoin Supply Ratio down from >50 to the modern band of around 5 to 20. It has briefly exceeded these ranges, during periods of extreme runups or crashes in cryptocurrencies. But in general, this range has held since 2020, giving historical as well as logical backing to the ranges estimated in this paper. An SSR of 10 used as the baseline for this paper represents a historically-defensible middle ground that can be expected going forward, unless market dynamics change significantly. Such changes might include a massive increase in non-cryptocurrency uses or a change in the cryptocurrency market mechanics, such as ETFs, which are addressed elsewhere in this Technical Appendix.

Stablecoin Demand from Digital Assets Besides Bitcoin

Claim: *Stablecoin supply can increase even when bitcoin's dominance is falling—and sometimes at a fast rate—thus bitcoin cannot be the primary driver.*

Rebuttal:

Given that cryptocurrency trading accounts for 80-90% of stablecoins' transaction volumes, it is expected that any digital asset that drives trading volume will likewise cause an increase in stablecoins, at least temporarily. Even memecoins and NFTs can drive billions in stablecoin demand as traders position themselves to profit.[37] Smaller digital assets can and often do outperform bitcoin for periods during these bull markets.[38] Some of these assets serve as DeFi and stablecoin rails; others are simply memetic and unserious. But the question for policymakers is whether these other digital assets, by themselves, can catalyze broad and lasting cryptocurrency demand in the absence of an earlier bitcoin move. On that crucial point, the answer to date has been no.

One simple piece of evidence for this is that every cryptocurrency bull cycle has started with high bitcoin dominance that later falls as assets further out on the risk curve appreciate faster than bitcoin. Then bitcoin, being the only digital asset with value and baseline demand orthogonal to the "crypto" ecosystem—as digital gold, for instance—rebuilds its dominance in a flight to quality.

Cryptocurrencies like ETH, Tron, BNB, and Sol that serve as stablecoin and DeFi rails do increase stablecoin demand beyond bitcoin by itself in two important ways: 1) they serve as the rails to the modern stablecoin and DeFi ecosystems, increasing stablecoin use opportunities, and 2) during times of crypto exuberance, they increase stablecoins minted for trading. Both add to an increase in stablecoins used by cryptocurrency traders.

The question for policymakers is not whether other stablecoin drivers exist (digital dollarization, cross-border payments, tokenized MMF funds): they obviously do. The question is *what is the primary and most relevant lever for driving Treasury demand via those stablecoins*. The answer is demonstrably the cryptocurrency market and within the cryptocurrency market, bitcoin. Pro-bitcoin narratives have preceded every cycle, bitcoin dominance has been a prerequisite for a bull market's ignition, and bitcoin's halving cycles (though lessening in importance) have to date preceded the start of every digital asset expansion wave. Most importantly, bitcoin's value proposition extrinsic to the crypto ecosystem (as digital gold) allows it to bring in new fiat money in a time when other crypto narratives and promises have died. Thus, bitcoin is the driver of the most important component of stablecoin demand and the rising tide that lifts all boats.

[37] Finery Markets. (2024). Crypto OTC market review: 2024 results & 2025 outlook_. https://finerymarkets.com/assets/files/FM_2024_OTC_review.pdf
[38] International Monetary Fund. (2021, October). The crypto ecosystem and financial stability challenges. https://www.imf.org/-/media/Files/Publications/GFSR/2021/October/English/ch2.ashx

Using a Bitcoin-based Stablecoin Supply Ratio

Claim: ***Stablecoin Supply Ratio (Bitcoin Market Cap / Stablecoin Supply) is an arbitrary ratio that could be replaced with any other large cap crypto asset (e.g. ETH Market Cap / Stablecoin Supply) or discounted completely since stablecoin demand is coming from places like digital dollarization and tokenized Treasuries.***

Rebuttal:

The denominator of the industry standard bitcoin-based Stablecoin Supply Ratio (SSR) is a stablecoin market cap driven by all sources of stablecoin demand, not just bitcoin. But as 80-90% of stablecoin demand is for cryptocurrency trading, which on average and since inception has been dominated by bitcoin, it makes sense to express the ratio in bitcoin terms. More importantly, as the only cryptocurrency asset empirically capable of igniting a crypto bull market, expressing the ratio in bitcoin terms makes sense. If other assets consistently dominate futures, spot, and other trading for over a decade—and if those assets can also ignite a broader market rally lasting years while bitcoin fails to meaningfully surpass prior peaks—then it will be a sign that a new cryptocurrency is the driving force behind stablecoin demand. But until then, bitcoin remains the primary asset driving stablecoin demand.

Alternatively, if stablecoin demand unrelated to cryptocurrency trading (such as B2B payments, digital dollarization, yield-tokens, etc.) occupies a significantly larger share of the stablecoin market than 5 – 10%, then a new metric is likely needed. But for reasons listed in the Technical Appendix, the burden of proof is on these new sources of demand to accomplish this. For now, the market for stablecoins is driven by cryptocurrency trading, and the asset underpinning this market is bitcoin.

Changing Market Dynamics Will Alter the Future Stablecoin Supply Ratio

Claim: *New Means of Achieving Bitcoin Exposure, Such As ETFs or Equities, Will Make Stablecoins Less Relevant to Bitcoin in the Future.*

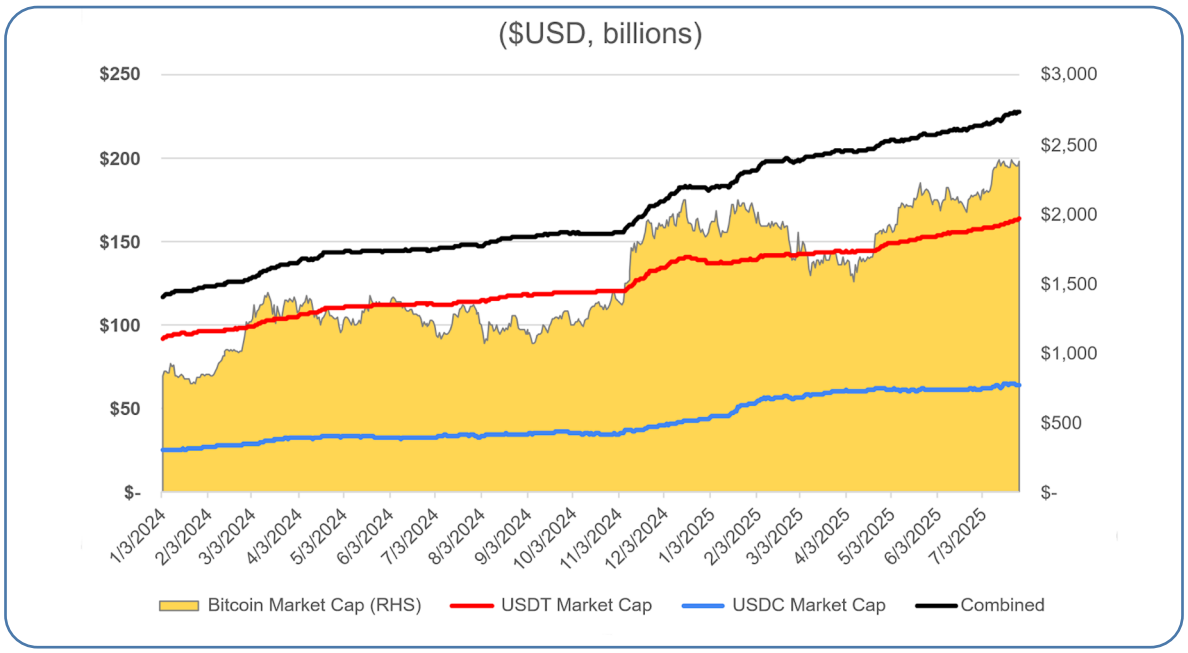
Rebuttal:

The historical case for bitcoin-driven stablecoin demand is readily observed. But is there reason to think that this dynamic will remain going forward given the introduction of new sources of bitcoin exposure such as ETFs and bitcoin-related equities? Evidence suggests that the dynamic persists regardless of these new on-ramps. Since bitcoin ETFs were approved in January 2024, the supply of stablecoins has roughly doubled. According to Finery Markets, OTC markets achieved triple digit growth rates in the quarter following the bitcoin ETF approval.[39] Meanwhile, the ratio of bitcoin market cap to payment stablecoins has only moved from 7 to 10, which is well within normal bounds for a bull market.[40] If bitcoin growth did not translate into stablecoin growth, this ratio would increase markedly. There are mechanical reasons to expect this. Stablecoins are used as a means to source via the OTC markets the bitcoin demanded by ETFs and bitcoin equities, as well as by other market participants drawn in by rising prices. Additionally, trading—the predominant stablecoin use case—is dominated by perpetual futures, which are predominately settled in stablecoins, and respond to price movements. With bitcoin's value being globally validated at all levels of capital and government, and new mechanisms continuing to drive stablecoins in proportion, it is likely to expect that bitcoin-driven US Treasury demand will continue in the future, regardless of the specific on-ramp being used.

Even with the creation of US spot bitcoin ETFs and the rise of bitcoin treasury companies, increases in stablecoin market cap accompanied the largest increases in bitcoin market cap. Bitcoin grew faster than stablecoin demand, which is expected in bull markets for bitcoin. But both grew substantially.

[39] Finery Markets, Crypto OTC Market Review: 2024 Results and 2025 Outlook
40 This metric is called the Stablecoin Supply Ratio (SSR) and can be calculated as bitcoin market cap / stablecoin market cap.

Figure 14: Tether (USDR) & USD Coin (USDC) Growth Since 2024



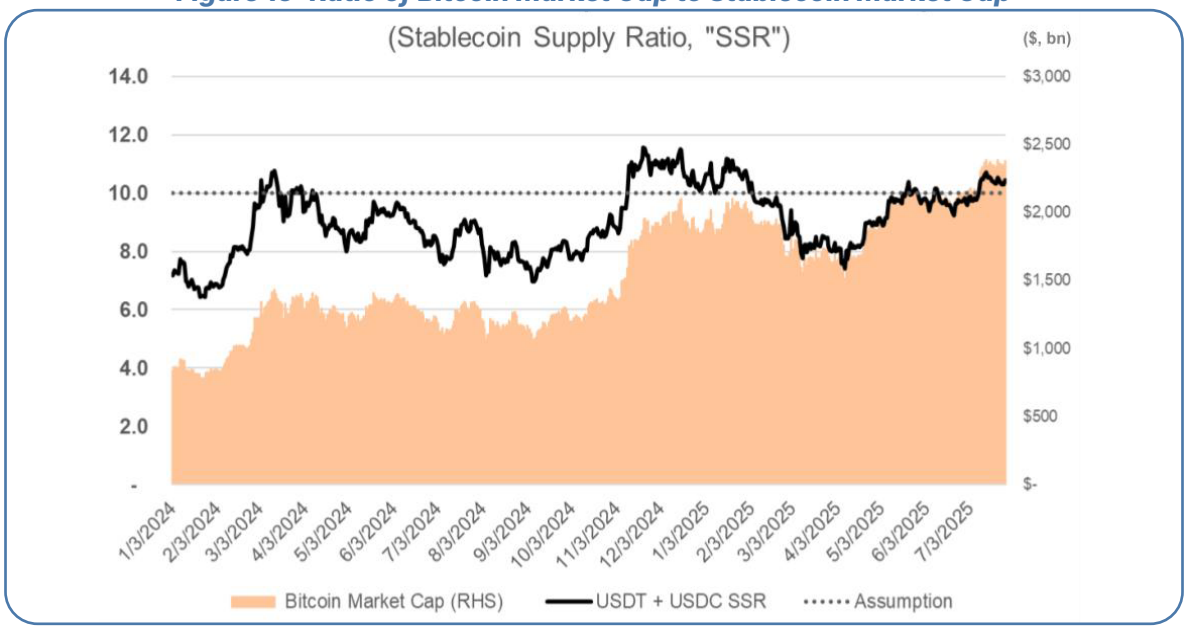
Source: CoinMarketCap, data for USDT, USDC, and BTC (retrieved July 26, 2025). https://coinmarketcap.com

Looking at the Stablecoin Supply Ratio (SSR) of USDT and USDC since 2024, the value fluctuates between 7 and 11. For this analysis, we assume a value of 10, meaning that for every $10 of bitcoin market cap, there exists $1 of stablecoin market cap. At a 1:1 backing of USTs, lower values imply more demand for Treasuries relative to bitcoin price increases.

The relationship does not have to be causal. An increase in bitcoin price can occur without a corresponding increase in stablecoin supply, if no stablecoins were added during a bitcoin price increase. Likewise, stablecoin supply can increase without a corresponding increase in bitcoin, were the demand for stablecoins to increase independently of the demand for bitcoin. But over time, after the initial establishment of a stablecoin market of sufficient scale, a fairly bounded relationship is observed.[41] During periods of rapid bitcoin price increase, value flows into bitcoin (and somewhat out of stablecoins) faster than stablecoin supply increases, driving up the ratio. During periods of rapid bitcoin price decreases, value flows out of bitcoin, other digital assets, and into stablecoins (with a small portion leaving the system entirely), driving down the ratio. This is the expected behavior were the supplies of bitcoin and stablecoin to be related—and this is the behavior that is observed. This observation adds quantitative support to the thesis that bitcoin demand increases stablecoin demand regardless of entry methods, as OTC markets need more liquidity to handle trades and new entrants come into the digital ecosystem drawn by bitcoin's rise.

[41] See Technical Appendix "Stablecoin Market Dynamics and Stablecoin Supply Ratio".

Figure 15: Ratio of Bitcoin Market Cap to Stablecoin Market Cap

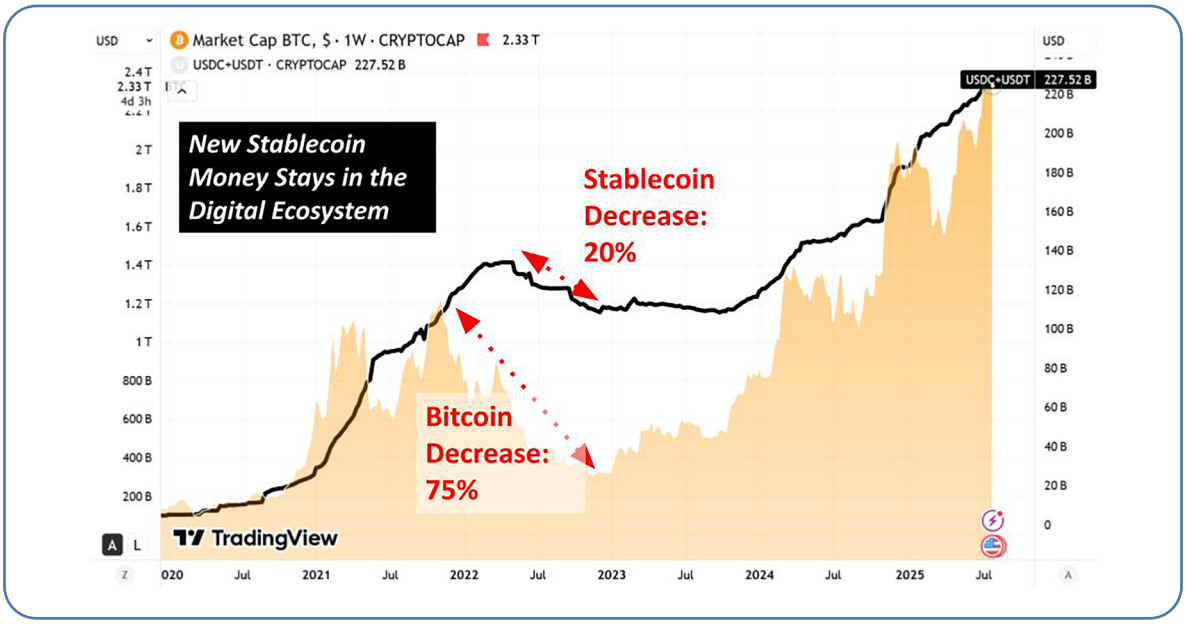


Source: TradingView. (n.d.). CryptoCap: BTC, USDC, and USDT market cap [Data set]. Retrieved August 05, 2025, from https://www.tradingview.com/markets/cryptocurrencies/global-charts/

Importantly, the link between bitcoin and cryptocurrency demand and Treasuries isn't symmetric on the downside, because when bitcoin falls much of the converted fiat remains in the crypto ecosystem as stablecoins. For example, during the 2022/23 bear market bitcoin's market cap plunged 75 percent while payment stablecoins USDT & USDC fell only 20 percent.[42,43]

[42] TradingView. (n.d.). CryptoCap: BTC, USDC, and USDT market cap [Data set]. Retrieved August 05, 2025, from https://www.tradingview.com/markets/cryptocurrencies/global-charts/
[43] TradingView. (n.d.). CryptoCap: BTC, USDC, and USDT market cap [Data set]. Retrieved August 05, 2025, from https://www.tradingview.com/markets/cryptocurrencies/global-charts/

Figure 16: New Stablecoin Money Stays in the Digital Ecosystem



Source: TradingView. (n.d.). CryptoCap: BTC, USDC, and USDT market cap [Data set]. Retrieved August 05, 2025, from https://www.tradingview.com/markets/cryptocurrencies/global-charts/

Bitcoin inflows thus drive Treasury demand in rallies as new liquidity is needed to trade around bitcoin and other cryptocurrencies. Most of that funding stays in stablecoins—and thus Treasuries—in downturns.

Non-Cryptocurrency-Related Digital Payments

Claim: *Payments (B2B, B2C, P2P) will drive stablecoins going forward, thus pro-bitcoin policy isn't a relevant future driver of Treasury demand.*

(Note: this analysis refers to payments (B2B, B2C, P2P) unrelated to cryptocurrencies such as remittances and goods and services.)

Rebuttal:

Payments may indeed become a significant driver of stablecoin demand, but the timing and scale are far from certain. Successful pilots have been conducted, but large scale demand comparable to stablecoins used for cryptocurrency trading has failed to emerge. For example, PayPal launched its payment stablecoin PayPal USD (PYUSD) in August 2023, fully-backed 1:1 by dollar deposits, short term US Treasuries, and cash equivalents. It was the first major US fintech firm to roll out its own dollar-pegged stablecoin.[44] Initial reaction was positive: share price rose, analysts lauded it. But despite $100s of billions of broader stablecoin market growth since that time, PYUSD still only has a market cap of $940 million, compared to a combined $226 billion of USDT and USDC.[45] Despite being backed by one of the world's largest fintech firms, with US public company regulation and professional accounting firm audits, after 2 years of operation, PayPal's payment stablecoin has yet to gain significant traction compared to its cryptocurrency-focused competitors.

Payments giant Stripe is another payments data point. In April 2024, Stripe rolled out stablecoin support for merchants, who could now accept Circle's USD Coin (USDC) on Ethereum, Solana, and Polygon, with payments being auto-converted to fiat at settlement.[46,47] It has also acquired Bridge, a stablecoin infrastructure company, which provided it with on/off ramps and cross-border rails. As of its transaction date, investor Sequoia Capital claimed Bridge's annualized total payment volume was claimed to be around $5 billion, which would represent less than half of a percent of Stripe's total $1.4 trillion total payment volume.[48] Stripe executives reported that stablecoin transactions more than doubled in 2024, with Bridge and Visa partnerships adding new payment opportunities worldwide.[49] Yet despite potentially prodigious growth for the company, which may even markedly accelerate in the future, the total stock of stablecoin demand from pure payments is nowhere near the stock used for cryptocurrency activities. The final story has yet to be written. But while the future may be bright for payment stablecoins beyond cryptocurrency applications and individual companies may profit, historical growth rates do not currently support projections that these use cases can achieve comparable scale to bitcoin-driven stablecoins in a timeframe sufficient to match US policymaker financing needs over the next several years.

[44] Shekhawat, J. S., Saini, M., Wilson, T., & Lang, H. (2023, August 7). PayPal launches dollar-backed stablecoin, boosting shares. Reuters. https://www.reuters.com/technology/paypal-launches-stablecoin-crypto-push-2023-08-07/
[45] Kraken. (n.d.). PayPal USD price today - PYUSD price chart & live trends. Retrieved August 05, 2025, from https://www.kraken.com/prices/paypal-usd
[46] Collison, J. [@collision]. (2024, April 25). Crypto is back. @Stripe will start supporting global stablecoin payments this summer. Transactions instantly settle on-chain and automatically [Video attached]. X. https://x.com/collision/status/1783559623511011535
[47] Stripe. (n.d.). Stablecoin payments. Stripe Documentation. Retrieved August 11, 2025, from https://docs.stripe.com/crypto/stablecoin-payments
[48] Sequoia Capital claims $5B annualized TPV: Risley, E. (2024, October 21). Stripe is acquiring Bridge for $1.1 billion the most strategically important transaction since the emergence of crypto. Architect Partners. https://architectpartners.com/stripe-is-acquiring-bridge-for-1-1-billion-the-most-strategically-important-transaction-since-the-emergence-of-crypto/
[49] Crypto-Economy. (2025, February 28). Stripe's co-founders see stablecoins as the future of finance. Retrieved from https://crypto-economy.com/stripes-co-founders-see-stablecoins-as-the-future-of-finance.

Yield-Bearing Tokens

Claim: *Yield-bearing tokens will drive stablecoins going forward, thus pro-bitcoin policy isn't a relevant driver of future US Treasury demand.*

Rebuttal:

Yield-bearing tokens span very different designs, and only a subset of them channel assets directly into U.S. Treasuries. This appendix looks only at the yield-bearing tokens with a direct Treasury link. Crypto-native synthetics (e.g., Ethena's USDe) maintain their peg via delta-neutral derivatives and earn mainly from trading strategies (plus some staking and stablecoin rewards), not from Treasury interest; they therefore do not directly add to Treasury demand and are outside the scope here. Bank-issued deposit tokens represent tokenized deposits. Access is fully permissioned and their economics follow the issuing bank's balance-sheet choices, so any Treasury exposure is indirect. By contrast, tokenized Treasury money-market funds (asset-manager products) hold T-bills/repurchase agreements. They remain SEC-regulated securities, require onboarding/whitelisting, and pass through yield via dividends, rebasing, or NAV changes. Transfers typically occur among eligible wallets, and redemptions route through the fund/sponsor rather than trustless on-chain burning. The bottom line is that not all "yield-bearing" equals "Treasury-funding". For this appendix entry, the relevant category to consider is tokenized Treasury MMFs (and compliant wrappers), not crypto-native synthetics or deposit-token constructs. Compliant wrappers can move tokenized Treasury MMF exposure among eligible, whitelisted wallets (often outside the U.S. or to Qualified Purchasers), but this is not the same as globally permissionless, 1:1 transferability like payment stablecoins. This may change or be rendered moot but currently presents one challenge to assumptions of global demand rivaling Permitted Payment Stablecoins like USDT and USDC.

Just as money market funds in the US are huge, expanding such access to the rest of the world presents a large opportunity. From a Treasury perspective, there are a couple of interesting policy dynamics that differentiate the demand profile from the bitcoin—and cryptocurrency—driven payment stablecoin market (like USDT and USDC) and traditional US money market funds. Unlike bitcoin-driven stablecoins, demand for yield-bearing MMF tokens is sensitive to interest rates. This is a critical distinction for US policymakers. Demand for bitcoin- and cryptocurrency-driven payment stablecoins will occur whether the interest rate is 0% or 5%. Conversely, demand for yield-bearing tokenized MMFs depends primarily on the interest rate: the larger the interest rate, the larger the demand. But expenses from high interest rates are precisely the problem that US policymakers are looking to solve. While stablecoins driven by the cryptocurrency market are insensitive to interest rates—and arguably increase as interest rates fall—yield-bearing tokens work in the opposite direction. Still, for citizens of weaker currencies, a credible MMF token bearing any interest rate may be more attractive than a local savings account. Similar to other failed challengers historically, it remains to be seen if yield-bearing tokenized MMFs can meaningfully overtake the major payment stablecoins USDT and USDC, given the latter group's network effects, simplicity, and regulatory clarity. For now, the market is dominated by stablecoins related to cryptocurrency activities.

Digital Dollarization of Weaker Currencies

Claim: *Beyond cryptocurrencies, digital dollarization of weaker currencies will drive stablecoins going forward, thus pro-bitcoin policy isn't a relevant driver of future Treasury demand.*

Rebuttal:

It is a fact that citizens of countries with weaker currencies are choosing UST-backed payment stablecoins for certain functions over their local depreciating currencies. We can see this dynamic already occurring in large countries with unstable currencies who have adopted stablecoins like USDT for everyday transactions. One argument then suggests that this dynamic will drive stablecoin demand—and thus US Treasury demand—at such a pace and scale that bitcoin-driven stablecoin demand is not critical for US policymakers needing to find buyers for the increasing amounts of US Treasuries.

There is no question that stablecoins are playing a key role in getting dollar access to citizens of countries with weaker currencies for use in everyday payments. We can see this across the globe in Africa, Latin America, and other key countries like Turkey. For policymakers looking to sell US Treasuries at scale, this is an important and beneficial tailwind. The key questions for policymakers considering the digital dollarization of weaker currencies—apart from cryptocurrency use cases—are: *At what scale? Over what timeline? And at what cost?*

At What Scale?

Of all the questions to answer about digital dollarization, one of the hardest to answer with certainty is what is the total stock of payment stablecoins being used for transactions unrelated to cryptocurrency among stablecoins that exist in dollarizing countries today? For example, per Chainalysis, in 2024 Argentines—leading Latin America in cryptocurrency usage—made $56 billion in stablecoin transactions between 2023 and 2024.[50] Chainalysis also estimates that Nigeria had around $22 billion in annual stablecoin transactions in 2023/24.[51] Turkish Lira (TRY) TRY-stablecoins transaction volume was on the order of $40B in the same year period.[52] This information is insightful, but insufficient for several critical reasons:

1. **These numbers represent flows, not total stock, of stablecoins.** Policymakers looking to estimate Treasury volumes care about total stock, as the stock is what is backed 1:1 by short-term Treasuries.

2. **The information likely suffers from double-counting,** in that a single stablecoin may be traded multiple times and counted separately each time.

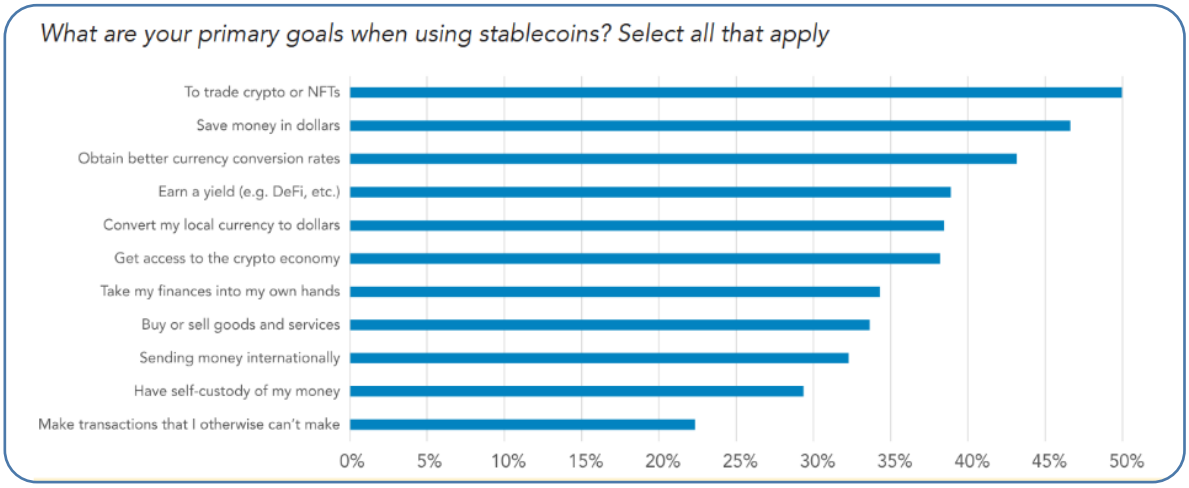
[50] Chainalysis. (2024). 2024 Geography of Crypto Report; $91B crypto txn in 2024 × 61.8% stablecoins = $56B [Data set]. https://go.chainalysis.com/2024-geography-of-cryptocurrency-report.html
[51] Chainalysis. (2024). 2024 Geography of Crypto Report, Total Stablecoins Received by Country, Jul 2023 – Jun 2024 [Data set]. https://go.chainalysis.com/2024-geography-of-cryptocurrency-report.html
[52] Chainalysis. (2024). Stablecoin purchases with the Turkish Lira and inflation rates [Graph]. In The 2024 geography of cryptocurrency report (p. 104). https://go.chainalysis.com/2024-geography-of-cryptocurrency-report.html

3. **The volumes still include direct or indirect demand for cryptocurrencies,** versus pure payment cases. Even stablecoin-to-currency exchanges, which can be tracked, do not specify why a currency was previously in stablecoin form or for what reason it is headed to its new destination. Was it for cryptocurrency trading or to receive a customer payment for a good or service? Professionals can estimate, but the estimates often carry wide error bars.

Nevertheless, important information can still be gleaned from the transaction data when paired with other data. Turkey, Argentina, and Nigeria are among the largest countries in the world that have three elements critical for digital dollarization: high cryptocurrency adoption, rapidly depreciating currencies, and large economies. Combined, they accounted for an estimated $118 billion in stablecoin transactions between July 2023 and June 2024.

In a 2024 Visa-sponsored survey of stablecoin use in Nigeria, Indonesia, Turkey, Brazil and India, Castle Island Ventures and Brevan Howard Digital found that trading was the most popular use of cryptocurrencies in these countries. However, 47% of respondents also reported non-crypto use such as access to dollars, with 34% of respondents using stablecoins to buy and sell goods and services.[53] The uses were non-exclusive, so that a respondent could—and often did—use stablecoins for multiple activities. But for this Technical Appendix entry, the goal is to estimate solely non-cryptocurrency-related use of stablecoins in dollarizing countries, primarily payments.

Figure 17: Survey of Primary Stablecoin Goals



Source: Castle Island Ventures, https://castleisland.vc/wp-content/uploads/2024/09/stablecoins_the_emerging_market_story_091224.pdf

Taking the upper range of 47% as the portion of $118 billion accounting for non-crypto transactions, then $55 billion in transactions in these three countries could arguably be attributed to non-crypto stablecoin use cases.

Based on data derived from the velocity analysis below, the average velocity of non-cryptocurrency-related stablecoin payments in these countries is estimated to be 9 turns per year. (See the Approximating Velocity subsection below for more detail.)

[53] Carter, N., Harris, H., Khosrowshahi, W., Ambrose, C., Johnson, P., Trachtman, R., Yim, A., Benjamin, J., & Sheffield, C. (2024, September). Stablecoins: The emerging market story. Castle Island Ventures. https://castleisland.vc/wp-content/uploads/2024/09/stablecoins_the_emerging_market_story_091224.pdf

This yields a total stock of $6.1 billion in non-cryptocurrency-related stablecoin supply in Turkey, Argentina, and Nigeria.

Sanity-checking that number, JPMorgan estimates that 6% of stablecoin stock is used for payments.[54] Six percent of $240 billion is $14 billion of global non-cryptocurrency related stablecoin payments. This would imply that Turkey, Argentina, Nigeria alone account for 44% of all global non-cryptocurrency-related stablecoin payments, which is likely high, but plausible—and regardless, deferential to the proponents of non-cryptocurrency digital dollarization.

Globally, pro-bitcoin and cryptocurrency policy in the United States since 2024 (bitcoin spot ETFs, Strategic Bitcoin Reserve, etc.) correlated with roughly a $111 billion increase in USDT & USDC payment stablecoin market cap, compared to a total of perhaps $14-28 billion in non-cryptocurrency-related payments stock since inception.[55] Pro-bitcoin and digital asset policy drives significantly more stablecoin demand than other use cases.

This implies that, in just 1.5 years, pro-bitcoin and cryptocurrency policy in the US drove 4-8x more demand for stablecoins (and going forward, for US treasuries) than all of the non-cryptocurrency stablecoin use cases in the 11 years since 2014. Good bitcoin and cryptocurrency policy is the key to driving Treasury demand globally, despite the legitimate product-market fit that digital dollarization of weaker currencies has found.

Importantly, the 2024 Castle Island, Visa, et al. study shows that cryptocurrency use is correlated in a majority of respondents. Not only does the volume of Treasuries driven by cryptocurrency-related stablecoins dwarf the volume of non-cryptocurrency-related coins, but cryptocurrency activity appears to drive non-cryptocurrency stablecoin use cases as well.

Over What Timeline

The effects of digital dollarization of Turkey, Argentina, and Nigeria, which are here estimated to have driven somewhere around $6.1 billion USD in non-cryptocurrency-related stablecoin market cap, have been ongoing since 2014, accelerating since 2020 with the rise of appreciable stablecoin market cap. Per Chainalysis, Nigeria, Turkey, and Argentina are the 2nd, 11th and 15th most penetrated cryptocurrency markets per capita (including stablecoins, bitcoin and other cryptocurrencies).[56] Therefore, they are some of the best examples of the timeline and scale of non-cryptocurrency-related stablecoin adoption. The net effect is that 11 years after stablecoins were created, with at least 5 of those years occurring at sufficient stablecoin global scale, three of the largest countries with rapidly depreciating currencies had accumulated perhaps around $6 billion in total non-cryptocurrency-related stablecoin stock by 2024. The combined M1 of these three countries is roughly $276 billion, growing at 2 – 4% with GDP. Bitcoin-led stablecoins drove almost a quarter of this amount of stablecoin demand in 2024 alone, and are growing ten times faster. Driving stablecoin demand through pro-bitcoin policy is a much more effective policy vehicle for stablecoin demand than non-cryptocurrency-related dollarization uses like payments, both in terms of scale and timing of the Treasury supply backing such stablecoins.

[54] Singh, R., Siddarth, S., & Saini, M. (2025, July 3). JPMorgan wary of stablecoins' 'trillion-dollar' growth bets, cuts them by half. Reuters. https://www.reuters.com/business/finance/jpmorgan-wary-stablecoins-trillion-dollar-growth-bets-cuts-them-by-half-2025-07-03/
[55] JPM Estimate = $14bn (6%); BCG Estimate = 12% of network = 28%: NTD = BGC: https://media-publications.bcg.com/Stablecoins-five-killer-tests-to-gauge-their-potential.pdf | JPM Reference: https://www.reuters.com/business/finance/jpmorgan-wary-stablecoins-trillion-dollar-growth-bets-cuts-them-by-half-2025-07-03/
[56] https://www.chainalysis.com/blog/2024-global-crypto-adoption-index/#top-countries

At What Cost

If done too quickly and in a disorderly fashion, before these countries' M1 money supply is replaced with stablecoins, major portions of their economies—and most relevantly for the US, their banking sectors—would likely collapse as all local currency and deposits are withdrawn from their banking sectors. Their global creditors and banking counterparts would face default, potentially triggering regional or even global financial crises. Currency collapse may be the inevitable result of any fractionally-reserved fiat-backed system, particularly a weaker one, regardless of US policy. But triggering one is presumably not the objective of US policymakers simply looking to sell US Treasuries.

As a country's fiat currency fails and local bank deposits are withdrawn in favor of UST-backed payment stablecoins, local currencies will experience shocks in their exchange rates, bank solvency, interest rates, and general liquidity, among other negative effects. The magnitude of human and economic suffering depends on the rate at which these changes occur, but they mechanically will occur if the changes are fast enough and sufficiently sizable. Given that the timeline under consideration by policymakers currently is roughly a ten-year window in which the US needs to finance potentially $20 trillion or more of cumulative new deficits, the rate at which digital dollarization would need to occur risks undesirable consequences.

While possibly first-order positive for the short-term US Treasury market, potential further order consequences are negative: financial contagion risks as regional and global banks' counterparties fail, international creditors facing default, selling of long duration US Treasuries in an attempt to defend local currencies, and anti-US sentiment and attraction to pro-US rival policies such as foreign infrastructure and debt diplomacy aimed at countering currency failures from UST-backed stablecoins.

Given that the potential scale of the Treasury demand from dollarizing weaker local currencies is rivaled or exceeded by bitcoin-driven cryptocurrency demand, which does not carry these consequences, it is an inadvisable policy to pursue rapid digital dollarization of weak countries' M1 simply in order to drive short-term demand for US Treasuries. This would be pursuing a less effective, higher-cost strategy instead of a more effective, lower-risk one. With accelerated digital dollarization unrelated to bitcoin, some portion of Treasury demand may be achieved, but the costs, including on Treasury market functioning directly, may outweigh the benefits. The collapse may still occur as fractional reserve banking, fiscal imprudence, and weak currencies succumb to a stronger currency, but US policies to induce this effect may lead to artificially exacerbated unintended and undesirable outcomes.

Subsection: Approximating Velocity for Non-Cryptocurrency-Related Stablecoin Transactions

Definitions:

"Velocity" *is a measure of how often a unit of money circulates in an economy. If a given stablecoin can be traded back and forth hundreds of times per day (such as with automated bots), it has an extremely high velocity. Conversely, if it is held for a long time as savings, its velocity will be much lower. All else equal, policymakers interested in selling Treasuries prefer lower velocity, as more Treasury-backed stablecoins are required to support the same volume of transactions. But they must balance velocity and scale targets. A low velocity use case with low demand is not a solution.*

Summary: Below are three methods designed to estimate velocity for non-cryptocurrency use cases of stablecoins, in order to estimate supply. The three methods below indicate velocity at roughly 5, 11, and 11 turns per year, with a mean 9 turns per year.

Velocity Proxy Method 1: Issuer Mint / Redemption Flows (USDC)

- **Data:** Circle's Transparency page reports 365-day issuance of $178.5 B and redemption of $147.5 B (7/29/24 – 7/30/25, Circle).[57]
- **Supply:** USDC circulating supply ≈ $65.0 B (CoinGecko, July 23 2025) CoinGecko.[58]
- **Velocity:** Flow / Stock = $326 B Flow / $65 B Stock = ~5.0 turns / year

Velocity Proxy Method 2. IMF Geographic-Flows Estimation

IMF, July 2025: "We determine that stablecoin flows in 2024 total $2 trillion, the majority of which are international. In absolute terms, we observe the highest volumes in the Asia and Pacific region and North America, whereas we find the lowest volumes in Africa and the Middle East, alongside Latin America and the Caribbean. However, relative to GDP, we find the volumes in these regions to be the most substantial."[59] (Conclusion, pg 37.)

- **2024 Data:** IMF Connect maps **$2T gross stablecoin flows in 2024**, focused on cross-border and within-region transfers IMF ConnectIMF.[60]
- **2024 Supply proxy**: $181.5B combined USDT + USDC; USDT (137.6B) + USDC Supply (43.9B) per CoinGecko.[61]
- **Velocity**: Velocity = Flow / Stock = $2,000B gross stablecoin / $181.5B = ~ 11.0 turns / year in 2024

[57] Circle. (2025, August 7th). Transparency and Stability. https://www.circle.com/transparency
[58] CoinGecko. (n.d.). USDC price: USDC live price chart, market cap & news today. Retrieved August 11, 2025, from https://www.coingecko.com/en/coins/usdc
[59] Reuter, Marco et al, p 37: https://www.elibrary.imf.org/view/journals/001/2025/141/001.2025.issue-141-en.xml
[60] Yokoyama, A., Fernandez Dionis, G., Nikolaou, K., Abouelmakarem, M., Shang, Q., & Li, Y. (2025, May 23). Crypto assets monitor. International Monetary Fund. https://www.imfconnect.org/content/dam/imf/News%20and%20Generic%20Content/GMM/Special%20Features/Crypto%20Assets%20Monitor.pdf
[61] CoinGecko. (n.d.). USDC price: USDC live price chart, market cap & news today. Retrieved August 11, 2025, from https://www.coingecko.com/en/coins/usdc

Velocity Proxy Method 3: Country-Level M1 Velocity Estimates

Country[62]	Velocity_M1 (Calculated)
Nigeria [i,ii]	10.8
Argentina [iii]	14.0
Turkey [iv,v]	7.3
Average Velocity	**10.7**

Conclusion: Taking an average of these three distinct velocity estimates (5,11,11) yields a velocity of 9 turns per year for non-cryptocurrency-related stablecoin use cases. This assumption is used in corresponding analyses in this paper.

[62] M1 Velocity Source Data:
i. Adigun, O. (2025, July 21). Rebased GDP report shows Nigeria's economy hits N372.82 trillion in 2024 – NBS. Nairametrics. https://nairametrics.com/2025/07/21/rebased-gdp-report-shows-nigerias-economy-hits-n372-82-trillion-in-2024-nbs
ii. Nigeria's money supply falls to N107.66 trillion, second decline in 2024. (2024, December 13). Nairametrics. https://nairametrics.com/2024/12/13/nigerias-money-supply-falls-to-n107-66-trillion-second-decline-in-2024/
iii. World Bank. (2025). Gross domestic product for Argentina (MKTGDPARA646NWDB) [Data set]. Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/MKTGDPARA646NWDB
iv. World Bank. (2024). Turkey GDP: USD: Seasonally adjusted [Data set]. CEIC Data. https://www.ceicdata.com/en/turkey/gross-domestic-products-nominal-annual/gdp-usd-seasonally-adjusted
v. Central Bank of the Republic of Turkey. (2025). Turkey money supply M1 [Data set]. CEIC Data. https://www.ceicdata.com/en/indicator/turkey/money-supply-m1

Stablecoins in FX Markets

Claim: *Since FX trading will drive massive demand for stablecoins going forward, pro-bitcoin policy isn't a critical driver of future US Treasury demand.*

Rebuttal:

Another potential non-cryptocurrency stablecoin use case that is mentioned is in global FX markets. The argument in favor of stablecoin use in FX markets is that stablecoins, able to settle atomically and instantly, solve for two of the biggest problems in FX markets: counterparty exposure and settlement delay. This is undoubtedly true, as an instrument that can settle instantly and atomically is better suited to this purpose than one requiring multiple ledger entries amongst multiple counterparties. But the question on the table for US policymakers is "Can FX demand for stablecoins drive a meaningful amount of Treasury purchases in the next 3, 5 and 10 years?" Here, the arguments are less persuasive.

From the standpoint of total stablecoin Treasury demand, FX-driven demand faces three significant challenges: 1) the capital efficiency of the current structure (in particular, netting), 2) the lack of sufficient liquidity in on-/off-ramps for smaller fiat currencies, and 3) implementation and establishment of the network effects needed to replicate the modern FX market.

First, capital efficiency. Of the estimated $7.5 trillion in daily FX turnover, roughly $4.8 trillion (64%) uses some form of netting.[63] The BIS explains netting as "a mechanism that offsets the obligations among participants in order to reduce the number and value of payments needed to settle a set of transactions."[64] In short, payees only have to fund the net difference of their obligations, which drastically reduces capital requirements. Bilateral netting can reduce funding obligations by up to 75%, while multilateral netting can reduce funding obligations by up to 96%.[65,66] Stablecoin FX payments by default require full funding and do not benefit from extremely capital efficient FX netting protocols. No amount of reduced fees on-chain can make up for the capital inefficiency of having to fund 100% of a transfer instead of just 4%. The stablecoin ecosystem appreciates this and is working on smart contracts and other mechanisms to introduce netting. But from the perspective of a US policymaker attempting to sell as many Treasuries as possible, reducing stablecoin funding requirements by 75 – 96% is not welcome.[67] Since netting significantly reduces funding costs for around 2/3rds of the roughly $7 trillion in daily FX turnover, Treasury demand is equivalently reduced. Yet several forecasts that project trillions in FX stablecoin demand are based on growth from the gross number, not adjusting for the reduced capital requirements from netting.

[63] Bank for International Settlements. (2022). Triennial Central Bank Survey: OTC foreign exchange turnover in April 2022 [Annex tables]. https://www.bis.org/statistics/rpfx22_fx_annex.pdf
[64] Committee on Payments and Market Infrastructures. (2022). Facilitating increased adoption of PvP. Bank for International Settlements. https://www.bis.org/cpmi/publ/d207.pdf
[65] Kos, D., & Levich, R. M. (2016). Settlement risk in the global FX market: How much remains? CLS Group. https://www.cls-group.com/media/mrgpmp2c/sringlobalfxoctober2016.pdf
[66] Committee on Payments and Market Infrastructures. (2022). Facilitating increased adoption of PvP. Bank for International Settlements. https://www.bis.org/cpmi/publ/d207.pdf
[67] Bank for International Settlements. (2022). FX settlement risk: an unsettled issue. BIS Quarterly Review. https://www.bis.org/publ/qtrpdf/r_qt2212i.htm

The remaining $2.6 trillion daily FX market is a much harder market segment to address, as is evidenced by the non-existence of netting and payment-vs-payment (PvP) infrastructure.[68] Reasons for this typically include low liquidity in currency pairs, lack of benefits relative to the costs of PvP infrastructure, timing issues, and regulatory constraints. Stablecoins can potentially solve some of these issues, for example timing issues and costs, while others issues such as low liquidity and regulatory constraints are outside of their control.

To summarize, the largest and most liquid segment of the FX market is extremely capital efficient and stablecoins will have to match that to compete, thus limiting Treasury demand. While the remaining portion of the FX market suffers from several intractable issues beyond the scope of stablecoins to address, also limiting Treasury demand. Thus, while stablecoins have properties that make them ideal for global FX markets, the structure of the markets themselves does not lend themselves to the size of near-term demand needed by policymakers. More importantly, the timing of the demand matters most to US policymakers trying to find buyers for Treasuries at massive scale in the near future.

[68] Bank for International Settlements. (2022). FX settlement risk: an unsettled issue. BIS Quarterly Review. https://www.bis.org/publ/qtrpdf/r_qt2212i.htm

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