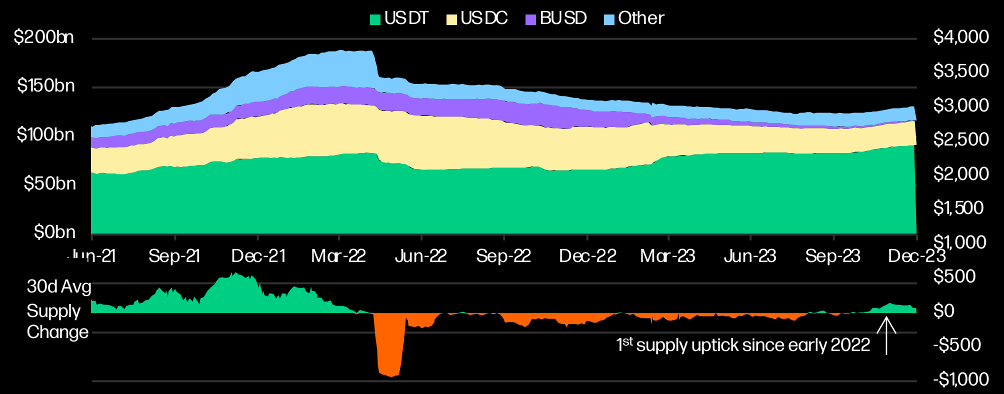
galaxy | Research

Stablecoin Adoption and Growth

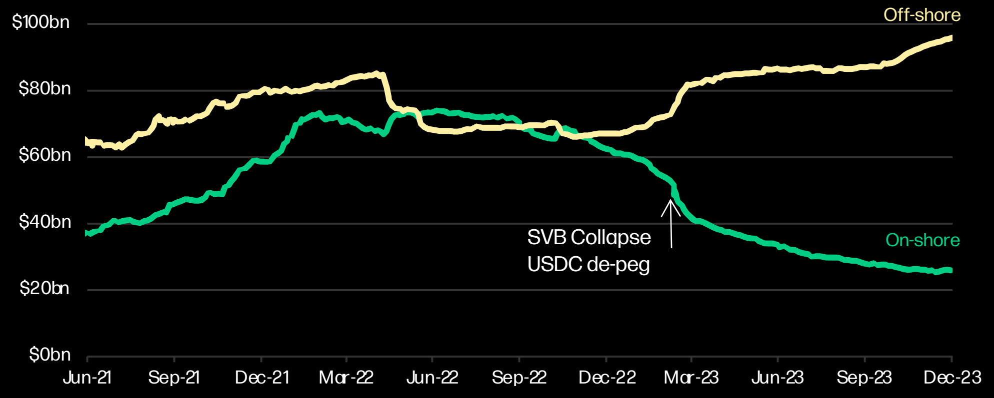
Increasing Competition and Establishing New Norms

GALAXY RESEARCH ▪ JANUARY 2024

Total Stablecoin Market Cap & 30d-avg Chg



Stablecoin Supply: On-shore vs. Off-shore

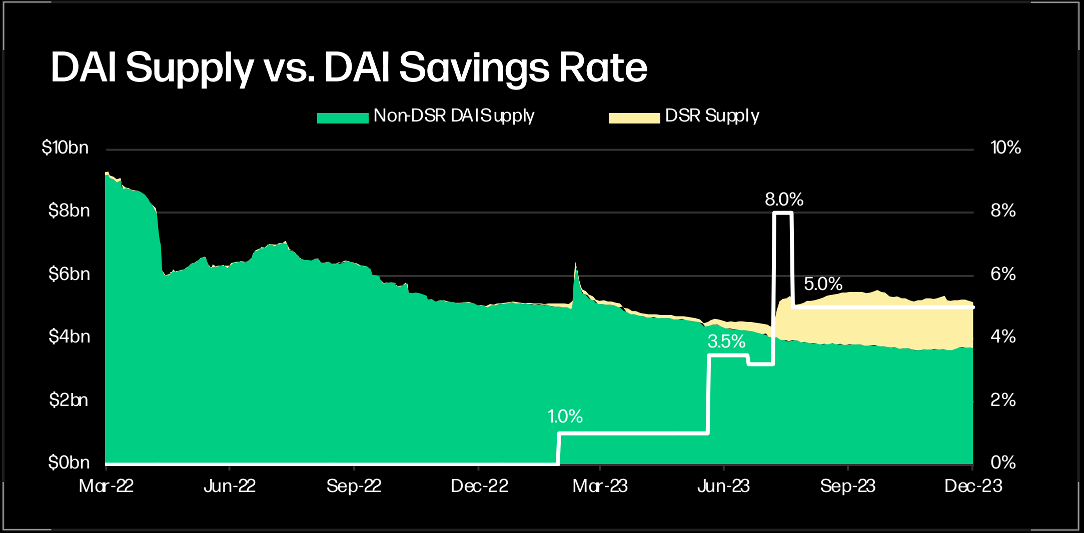


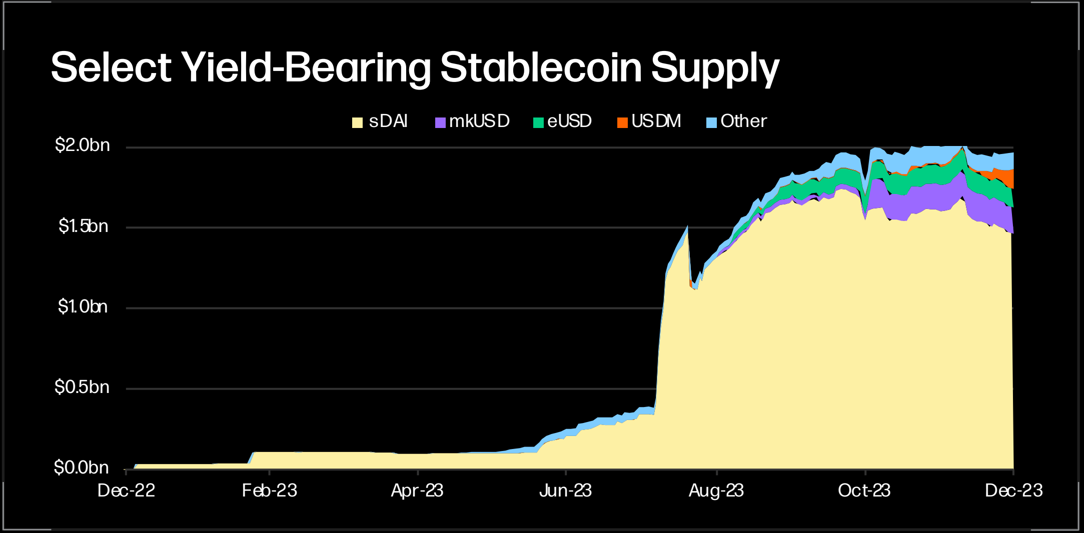
Data: DeFi Llama. 'Off-shore' includes USDT, TUSD, FDUSD; 'On-shore' includes USDC, BUSD, USDP, GUSD, PYUSD.

Stablecoin market cap ended 2023 at $130bn, down 5% since the start of the year and 30% off the previous ATH of $188bn set in March 2022. USDT is still the dominant leader in the stablecoin market – USDT started the year at $66bn and grew supply to new ATH of $87bn (+32%) with stablecoin market dominance up from 48% to now 69%.

Predictions for Fiat-backed Stablecoins

- Stablecoin supply will reach new highs. Towards the end of 2023, the stablecoin market saw its 1st supply uptick since early 2022 to end the year at $130bn. Stablecoin supply will likely increase in 2024 to challenge the previous ATH of $189bn as overall crypto adoption continues to grow and demand for leverage returns.
- Further competition between on-shore vs. off-shore. In early 2023, USDC experienced its first major de-peg following US banking turmoil and Paxos' BUSD entered wind-down only mode – this flight to off-shore stablecoins including Tether's USDT, TUSD (issued by Asia-based Techteryx Ltd) and FDUSD (issued by Hong Kong-based First Digital). Stablecoin legislation has the potential to reshape the market and change the on-shore and off-shore competitive dynamics - various bills have been proposed in the US, UK, EU and other markets but most have yet to pass.
- Circle will reverse supply slide in USDC through with continued innovation and utility improvements. Circle added native USDC support on new chains (e.g., Polygon, Arbitrum, Optimism, Cosmos), launched Cross-Chain Transfer Protocol (CCTP), and partnered with Visa to expand stablecoin settlement capabilities to merchant acquirers. These new integrations and capabilities have yet to find meaningful adoption but will be important differentiators for USDC to grow its supply and market share among stablecoins. In addition, new payment-focused use cases could drive a new wave of demand for USDC and PayPal's newly-launched PYUSD, issued by Paxos and one of the only new on-shore fiat-backed stablecoin products to launch in recent years.





Data: Dune

The rising interest rate environment coupled with risk-off sentiment and falling DeFi yields have increased the attractiveness of traditional credit instruments such as U.S. Treasuries and private credit. On-chain demand for this off-chain yield in DeFi settings has led to a resurgence in DeFi yields for stablecoin products.

In 2023, Maker's DAI saw a resurgence with its interest-bearing stablecoin product. DAI supply broke out of its 1.5-year downward trajectory after Maker re-introduced the DAI Savings Rate (DSR) this year, which briefly offered an 8% "enhanced" yield generated via Real-Word Asset (RWA) / tokenization initiatives.

Predictions for crypto-native stablecoins

- Yield-bearing offerings will become the new norm for stablecoins. MakerDAO led demand for yield-bearing stablecoins, which now represent over $2bn after starting the year at near-zero levels. Other offerings such as Prisma Finance's mkUSD and Lybra Finance's eUSD use a variety of strategies to pass yield to tokenholders.
- Other overcollateralized stablecoins may see resurgence as DeFi activity picks up and risk-on appetite returns. Launched in 2023, Curve's crvUSD and Aave's GHO stablecoins have seen relatively muted demand so far – however, these overcollateralized stablecoins will likely experience greater supply expansion as demand for leverage improves in 2024 (ideally to healthier, safer levels than the prior cycle).