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market notes: First 100 Days…US Policy Opportunity

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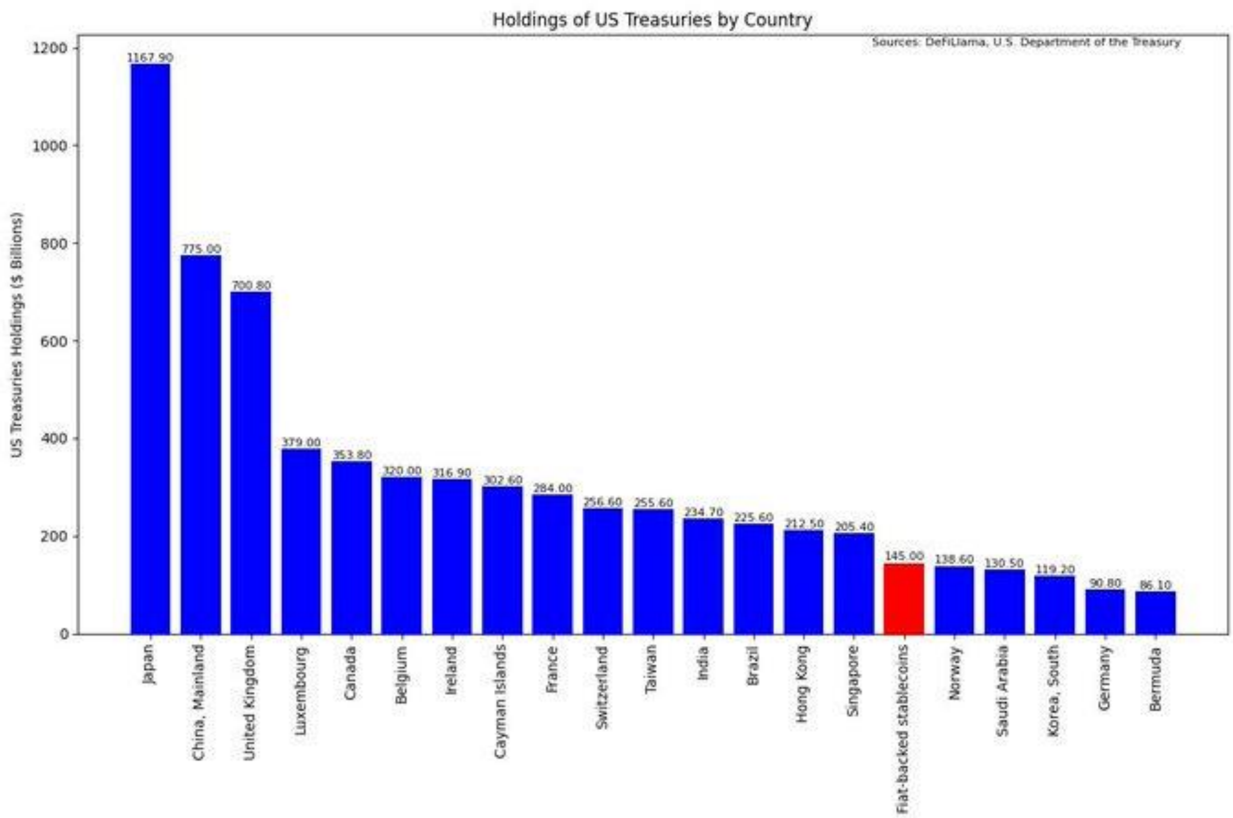
Figure 1: Stablecoin UST Holdings… Like A Big Sovereign



Source: Kunle Blogpost.

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11/01/24 – Marcel Kasumovich, Deputy CIO, Coinbase Asset Management

1. 100 Days. As the US election looms, a new president will inherit a century-old tradition: the critical first 100 days in office. Franklin D. Roosevelt masterfully harnessed radio, a new technology, to signal a bold break from the past. Now, as Trump or Harris steps into this pivotal role, the question remains: will they rise to the challenge of a transformative agenda? These first 100 days could launch a new era in American innovation, with the future of crypto technologies in the US hanging in the balance.

2. Can the United States benefit from a second-mover advantage? Our recent travels to Singapore, Dubai, and Hong Kong leave no doubt that US policy is well behind other global experiments and experience. Still, the US market is the US market, the crown jewel of global capital. It can regain a competitive edge through regulatory adjustments, infrastructure investment, and talent acquisition. But the time is now to commit to policies that drive innovation—complacency and innovation are incompatible.

3. What's the value of a second mover? It can extract the maximum value from scaling new technologies. The US didn't invent the automobile, but Detroit became the global hub of auto manufacturing. It also didn't pioneer mobile technology, yet Silicon Valley captured the value of the smartphone market. The US can still lead in crypto by shaping an ecosystem attractive to talent and capital after others have tested initial models. And it's still early enough to build this ecosystem as institutions are in the experimental phase.

4. Take tokenization—the buzzword of 2024. It's the preferred path of institutional engagement in crypto, the intersection of the assets they know and new technologies they don't (yet). Tokenization paves the way for cost savings and opens doors to new audiences. Yet, it is only in its infancy, with $185 billion of traditional assets trading in token form, a modest $13 billion outside of stablecoin. US household assets are more than $185 trillion and financial assets more than $1,500 trillion globally. It's early.

5. But complacency kills. The US rise to innovation stardom was intentional—innovators flocked to incentive-rich environments. Public-private partnerships, government investment, venture capitalists, and willing consumers all made the US fertile ground to lead. Yet, its recent focus on marketing and distribution has led to a global shift in innovation. The US has fallen to tenth place on global export complexity, a 25-year downward trend. This coincides with a decline in global innovation rankings.

6. The issues reach far beyond crypto—AI, industrial infrastructure like power, and environmental policies (water, for example), are all converging in the current technological industrial revolution. Crypto is merely the tip of the spear, a global and nomadic market that is controlled by nobody and responds instantly to its incentives. China's "ban" on Bitcoin mining cut capacity by nearly 50%, and the protocol suffered no downtime. It was a boon for the United States, who quickly absorbed mining share.

7. And the United States is still the capital of capital. The US dollar is the global currency of choice, not because of its sound macro policies, but for its commitment to free-flowing global capital and adherence to market principles. US equity capitalization is 42% of the world's total, nearly double its share of global GDP and almost four times greater than the next largest market. But nomadic crypto markets are not loyal to a historical narrative. Even the "capital of capital" moniker is being openly challenged.

8. Consider trading volumes in dominant crypto assets—almost exclusively paired against the US dollar. In derivative markets, the US dollar is the trading pair for Bitcoin in the top 87 offerings by volume, with the Japanese yen only appearing at a distant and irrelevant 88th place. In spot markets, the Korean won is the only trading pair outside of the US dollar in the top fifty by volume. Almost all that activity is also on centralized exchanges—and more than 90% is offshore to the United States.

9. It is quite the riddle. Crypto technologies have been pushed offshore, yet the crypto universe trades with the US dollar. This is the power of the past, an earned US privilege. But it also cannot be taken for granted. Most crypto trading activity is in stablecoin, shunned by government bodies with no alternative regulatory pathway offered. In the meantime, users are voting by their experience. It's far from ideal for the most pristine US capital—short-term money-market paper—to migrate offshore.

10. Traditional investors are especially puzzled. Why hold a stablecoin that doesn't offer yield? This misses the point. Nobody is forced to hold stablecoin. If yield is what an investor is after, they can easily liquidate stablecoin into money funds. This is ordinary for "crypto banks" like Xapo. Stablecoin is an effective tool for moving funds, not holding them. It's a high-velocity payment tool. And low-/lower-income countries are using crypto technologies more than rich ones.

11. Financial stability should be front of mind for policymakers. The dollar dominates today—a privilege, not a right. The high velocity of stablecoin also means that users can switch to an alternative, like gold stablecoin, quickly. Today, stablecoin issuers hold US Treasurys on a scale comparable to major nations (Figure 1). Moving away from the US dollar would pose a significant challenge to both liquidity and the dollar itself. Getting issuers into the US regulatory mainstream serves the self-interest of US policy.

12. So, 100 days. The radio has been replaced with social media as the communication tool. But the issues endure—with carefully crafted policies, the US can capitalize on its second-mover advantage. For the first time in my memory, foreign players view US policy silence as an opportunity to gain share rather than a destabilizing risk. Empires fall imperceptibly over long periods, the saying goes. But it is not predetermined. The US shines in competition. Get your sunglasses ready for the first 100 days.

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