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Marcel Kasumovich
Coinbase Asset Management

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1/26/24 – Marcel Kasumovich, Deputy CIO, Coinbase Asset Management

1. "Simple can be harder than complex. You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains." Steve Jobs mastered the art of user experience by working backward to the tech. But you need a strong foundation to build upon. Compelling applications can then emerge and drive adoption. Stablecoin is the one in crypto markets – readying for mainstream payments.

2. High volume. Outflow. Inflow. Extinction. Stablecoins have lived through it all in the past two years – the best of all stress tests. The ones that survive enter the next cycle with proven resilience – it works! It's not only that stablecoins were the safe-haven asset of choice. Established players like PayPal were busy integrating stablecoin rails for old-school reasons – it's better, cheaper, faster tech that will help profitability. New competitors like X are emerging.

3. At $135 billion in assets, stablecoins account for nearly 10% of total crypto capitalization. The digital US dollar dominates, a strange bedfellow to crypto assets designed as tools to move away from traditional fiat rails. Don't judge. Old habits die hard. Global finance and trade are US dollar markets, making digital dollars the natural starting point for stablecoin. More peculiar is the regulatory environment, where the US has yet to embrace its gift of digital dominance.

4. It's nothing against stablecoin. US lawmakers have not passed a single meaningful piece of legislation to guide crypto assets. Stablecoin is an easy place to start – putting rules around digital dollars would raise global dollar demand and keep the assets backing those stablecoin in the United States. Instead, financial centers like Hong Kong and Singapore are leading guidance on the rules around the programmable dollars, offshoring precious liquid assets.

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5. The US Clarity for Payment Stablecoins Act can change the narrative. And there is a narrow window for its passage given this year's US election. It's now or not for a long time – political cycles are hostage to instant gratification that crypto can't deliver. Still, the details of prospective US laws provide clues for others to follow. Stablecoin is neither a security nor a commodity. Non-banks can issue and even choose their regulator. But the Fed has ultimate oversight.

6. Other countries aren't waiting for US regulatory clarity. Of the 42 countries advancing with formal crypto laws, 34 include stablecoin. Implementation of the travel rule – precise recording of cross-border money transfers – is the key regulatory unlock in those countries. It's a peculiar outsourcing – the US dollar and its demand are of critical sovereign importance. Yet, the first steps of its regulatory frameworks are being designed outside of the United States.

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7. Where there is regulation, there will be unintended consequences of linear rulemaking. Take the digital euro. The market has no interest – the largest euro stablecoin has a 0.1% market share today. To protect its monetary sovereignty, Europe's Markets in Crypto Asset regulations will limit non-euro transactions. It can backfire. Large-value transactions can migrate to non-euro subsidiaries if the digital dollar is preferred, limiting the digital euro to a cafe currency.

8. Letting others blaze the trail, US regulatory hopes rest on a second-mover advantage. It's unlikely to be effective for the tech. This play is about financial incentives, not tech – the tech is proven now. It's like Apple International Limited in Ireland. The Apple subsidiary accounted for nearly 60% of Apple's pre-tax income on the latest figures – this is tax management borne from regulatory arbitrage. Even an Irish debt crisis in 2010 could not purge those tax incentives.

9. Despite obstinate domestic rulemaking, all is not lost for the US dollar. It's the US currency, but still the world's problem. Think back to the 2008 Great Financial Crisis. Abysmal US mortgage underwriting was the problem. But it was a shared global stress as investors in all corners of the world had leveraged exposure. US lending standards were forced into austerity – yet US capital markets kept their dominance. The digital US dollar poses a similar superpower.

10. The US dollar's future as a reserve asset hinges on its digital representation. But the "soft-skills" may matter most. The market preference for the digital dollar is not in the full faith of fiscal policy; instead, it's in the rules around the collateral backing the stablecoin assets. Rules like foreign ownership of US assets, the ability to move those assets across borders, and tax reciprocity agreements across jurisdictions. Second mover may not be so bad after all.

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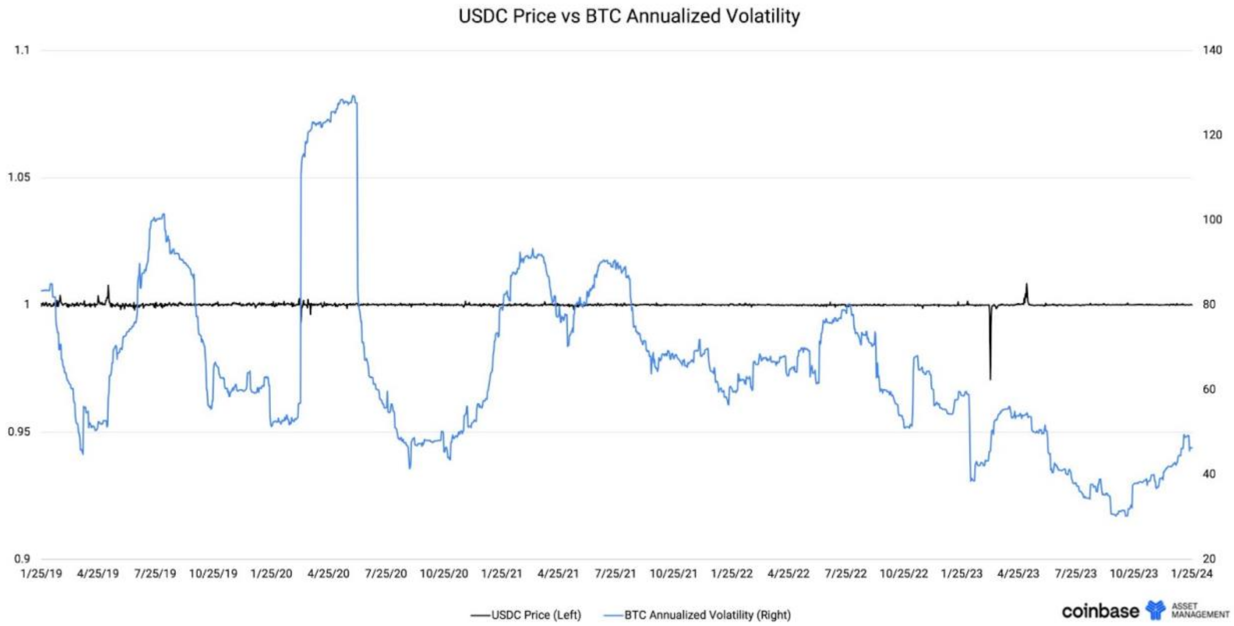
Figure 1: Stablecoin Flatline – If it looks dead, it's working



Source: Coin Metrics. BTC Volatility is measured by the rolling three-month standard deviation of one-day returns.

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