

“Stablecoins and Safe Asset Prices”

by Rashad Ahmed and Iñaki Aldasoro

Discussion by: Ariel Zetlin-Jones (CMU)

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Stablecoins

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 - Units of account on distributed ledgers redeemable 1-for-1 with USD

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 2. Fractional-reserve 📌 less than \$1 (or \$1 of risky assets) held in reserve for each stablecoin issued
- Growing agenda studying implementation and implications for regulation
 - Are we putting the cart before the horse?
 - How to study implementation and regulatory risks without clear understanding of stablecoin *value-added*?

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- My Discussion:
 - Focus on key empirical findings
 - Highlight implications of empirics for stablecoin value-added

The Raw Empirical Specification

Goal (or the raw model):

$$\Delta y_t^{3M} = \beta_0 + \beta_1 \Delta Q_t + u_t$$

- How does change in stablecoin issuance ΔQ_t impact yields Δy_t^{3M} ?
 - Raw result: \$3.5 billion $\uparrow$ implies 25bps $\downarrow$ in yields over next 30 days

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 - 3-month market about \$1 trillion daily volume
 - Average 30-day yield change (since 2020) about 5bps
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- Obvious concern: safe asset demand correlated with treasury yields

The IV Empirical Specification

First Stage:

$$\Delta Q_t^{3M} = \beta_0 + \beta_1 \hat{P}_t^{crypto} + v_t$$

- How does an unpredictable rise in crypto prices impact stablecoin issuance?
 - Raw result:
 - 1% $\uparrow$ in unpredicted cumulative prices implies a \$3.2 bn $\uparrow$ in stablecoin issuance
 - Strong instrument, reasonable justification for the exclusion restriction
 - IV estimate $\Rightarrow$ a modest, 2.5 bps fall in yields

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- Why is money demand *increasing* in asset prices?
- Conventional wisdom
 - Asset price $\uparrow$ implies wealth effect ($\uparrow$) and substitution effect ($\downarrow$)
 - Contrast a crypto “Baumol-Tobin” effect ($\uparrow$) from a standard “Friedman” effect ($\downarrow$)
 - Expect ambiguous effect of prices on (crypto)money demand, find strong $\beta_1 > 0$

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 - Who is significantly accumulating stablecoins when crypto prices rise?

Challenges for the Theory

- Crypto wealth effects are “paper gains” (and quite risky)
- Suggests thinking through lens of asset substitution (crypto to stables)
 - Self-custody tokens relatively illiquid (txn fees and vol)
 - Exchange-custody tokens are liquid, but many safe asset substitutes
 - e.g. Cash account on Coinbase
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 - Even if strong wealth effects, why rise in *stablecoin* demand?
- More generally, what is role of crypto volatility?
 - Interpret rise in demand as hedging/speculative motives?
 - Is there similar increase in perpetual futures flows driven by unexpected price shocks?

Challenges for the Theory



- Crypto volatility different from asset market volatility
- Interesting to test unexplained crypto volatility as instrument?

Summing Up

- Evidence of transmission from stablecoin markets to treasury markets
- Surprising implications for price changes on stablecoin demand
 - Opportunity to better understand drivers of stablecoin value-added
- Interesting to adapt analysis to explore competing hypotheses on drivers of stablecoin demand

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