

Stablecoin Dashboard: 1H21

Increasing Relevance in Short-Term Credit Markets

Stablecoins, such as Tether and USDCoin, are increasingly relevant participants in the short-term credit markets, says Fitch Ratings, due to their ownership of short-term securities backing outstanding coins. Stablecoins are typically used by cryptocurrency investors to hold realised profits, for conversions between cryptocurrencies, or as a means of payment.

There is a large number of stablecoins in the market; however, only six had a market capitalisation of over USD 1 billion as of 30 September 2021, according to CoinMarketCap. Fitch estimates that total stablecoin market capitalisation growth was around 420% as of 30 September 2021.

Stablecoins have a broad asset allocation. Tether's assets include precious metals and secured loans, which may be more volatile than short-term securities such as commercial paper (CP). Both USDCoin and Tether focus on investment-grade quality: Tether's minimum credit quality is 'F3' or equivalent, and USDCoin can hold corporate bonds rated 'BBB+' or higher. However, USDCoin materially altered its security portfolio between June and August 2021, shifting the vast majority of its assets into cash equivalents.

Tether's portfolio has a maximum maturity of 365 days, while USDCoin can extend maturity up to three years. Estimating the share of assets with very short maturities (i.e. overnight and within one week) is not possible given disclosure limitations. However, available data suggest longer maturities: within Tether's CP and CD portfolio, the bulk of exposures mature beyond six months.

What to Watch

Significant Portion of CP: Fitch estimates that stablecoins had aggregate CP holdings equivalent to 3%-5% of the total onshore US CP market (USD1.1 trillion as of end-June 2021 according to Fed data) – assuming most stablecoins have a similar underlying asset allocation to Tether and USDCoin. Given the growth rate of the stablecoin market, and the relatively stable US CP market, stablecoins could soon hold a more significant part of the US CP market.

Limited Transparency: Tether reports quarterly and USDCoin reports monthly. Both provide summary information only, known as asset attestations. Tether's reporting is a legal requirement, whereas reporting is voluntary for other stablecoins. Portfolio information is limited overall, and not directly comparable.

Material Volatility: Stablecoins had material price volatility in early 2020. The largest daily price move was -5.1% on 13 March 2020 for Tether; however, this is still less volatile than most cryptocurrencies.



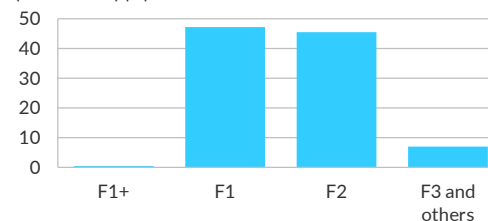
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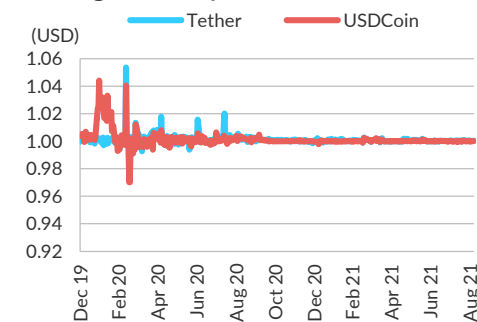
Tether CD and CP Portfolio Evenly Split Between 'F1' and 'F2'

As of end-June 2021
(of CPs/CDs) (%)



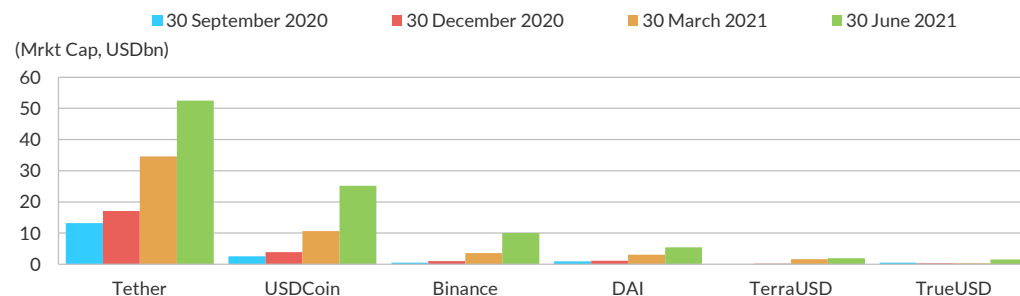
Source: Fitch Ratings, Tether Holding Limited

Pricing Volatility



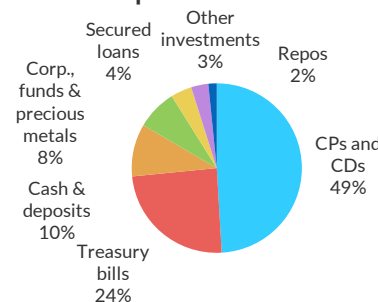
Source: Fitch Ratings, Yahoo Finance

Stablecoin Sector Dominated by Tether



Source: Fitch Ratings, CoinMarketCap

Tether Asset Split



Source: Fitch Ratings, Tether, June 2021

Assets Changed Significantly in the USDCoin Portfolio



Source: Fitch Ratings, USDCoin

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