Citi Research

September 2025

Digital Assets Strategy

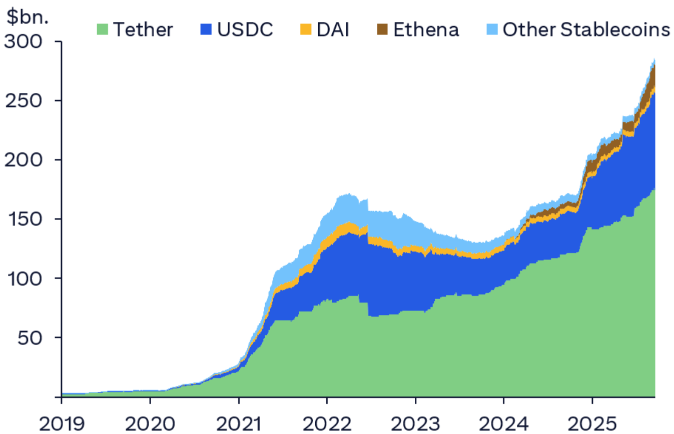
Stablecoins discussion slides

Alex Saunders[AC]
Director
alex.saunders@citi.com
+1 212-723-1058

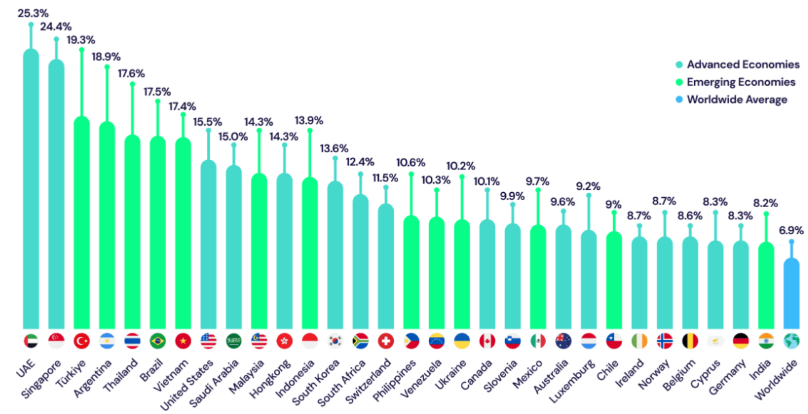
Nathaniel Rupert[AC]
Assistant Vice President
nathaniel.rupert@citi.com
+1 212-723-8921

Stablecoins: Activity, Use-cases, and Adoption

Stablecoins serve as an on-ramp to the crypto realm



Who owns crypto? Mix of emerging and developed economies

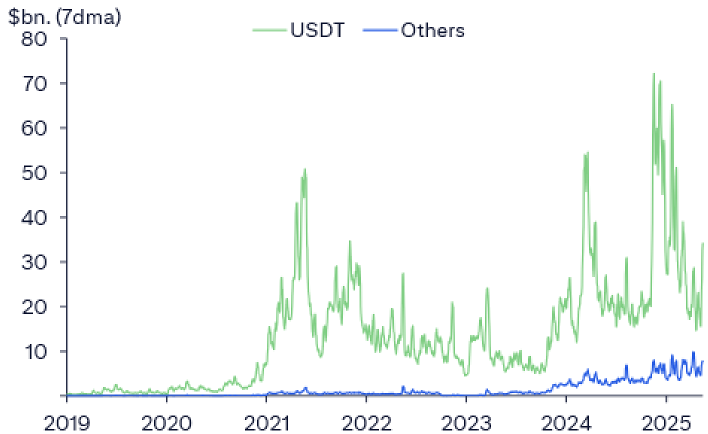


- Stablecoins have been, and will continue to serve as, an on-ramp for investors into the crypto ecosystem
  - Stablecoin market cap growth will be a strong proxy (or, at the very least, an input) to measure broad crypto adoption
- The long-term drivers for the asset class will be use-cases and utility
  - Adoption has been picking up across both emerging and developed economies, in part driven by the global inflation shock
  - Adoption is high in fragile and high-inflation countries
  - Commercial and institutional use-cases and adoption – including the development of private blockchains and tokenization of real-world assets – will continue to grow and shift crypto usage away from speculation, the dominant use-case today
  - Network activity will be key to track as speculative usage wanes (proportionally) over time, and has been in focus over the past year with Ethereum Layer 2s seeing exponential user growth
- Payments may be an important use-case and is growing but more work needs to be done in terms of UI.

Source: Citi Research, Triple-a

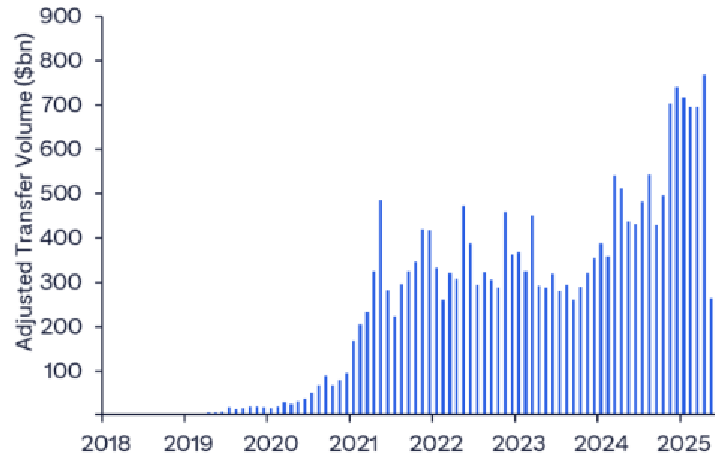
Stablecoins as a medium for exchange

USDT dominates in terms of current trading activity



Source: Citi Research, Coin Metrics

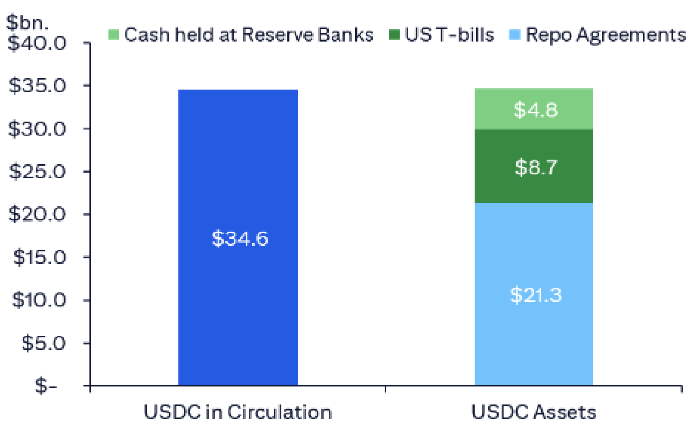
Adjusted transfer volume has been growing…



Source: Citi Research, Allium

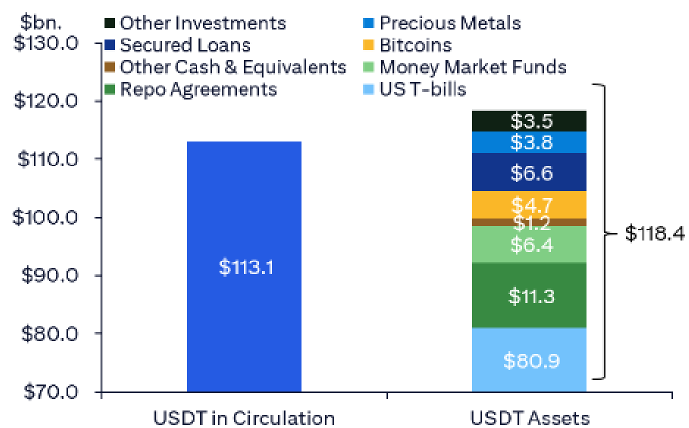
Digital Asset Monthly - Stable-flows May 25

Holdings of current stablecoins are largely US t-bill based, codified in the GENIUS Act



Source: Citi Research, Circle

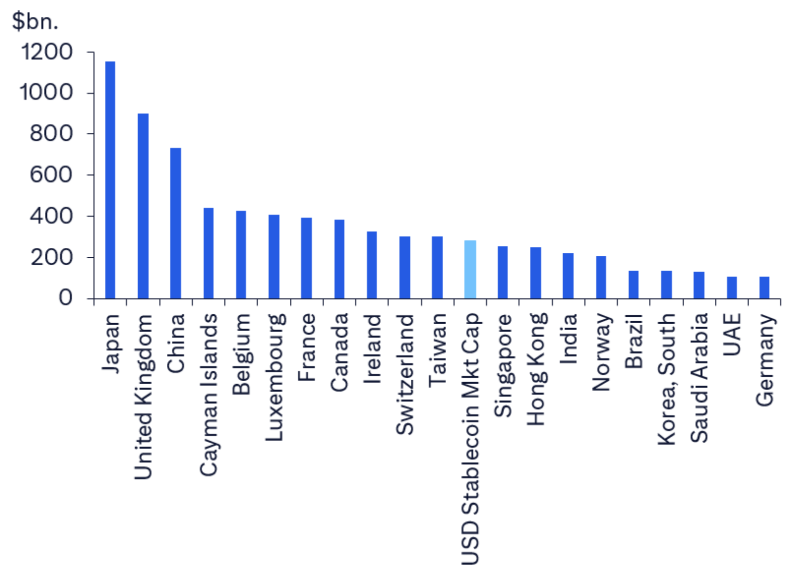
Digital Asset Take - A Framework for Stablecoins



Source: Citi Research, Tether

Stablecoins and US T-bill Demand

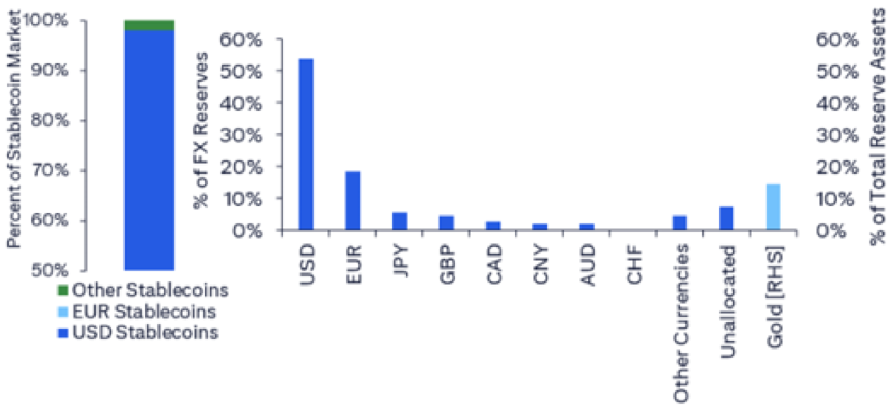
Stablecoin demand for US T-bills is growing relative to foreign demand.



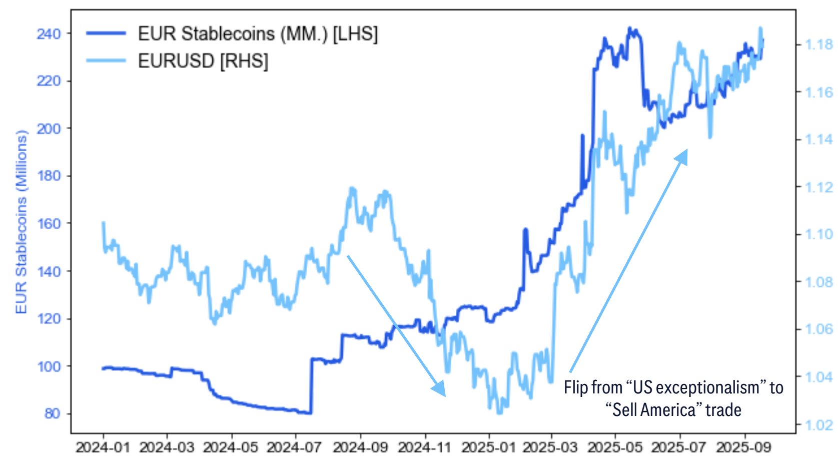
- Stablecoins are an important part of the crypto ecosystem and have been a legislative focus of the current US administration. Legislation has now passed in the US.
- Stables are a growing source of US T-bill demand and are predominately USD-based. Two reasons cited by the commerce (Bloomberg, Apr 10, 2024) and treasury (Axios, Mar 7) secretaries for the passage of US legislation has been as a source of demand for short-term treasury paper and to cement the US dollar's position as a reserve currency.
- The large stablecoin providers have become bigger holders of treasuries, as shown in the figure above. Given the proposed legislation mandates holding short-term paper, we expect this demand to remain in place.
- While unequivocally a benefit for short-term US debt demand, there are two mitigating factors. Firstly, to the extent any inflow comes from existing T-bill holdings, either directly or indirectly, the demand-effect is mitigated. For example, a transfer from funds held in money-market funds into stablecoins would represent a substitution but would not have a net effect on overall demand. Secondly, although supportive of front-end demand, longer-term debt demand would likely not be affected. Our rates team is focused more on demand for coupon i.e. long-dated treasury notes rather than bills in terms of overall financing risk.

Stablecoins and USD Dominance

FX reserves are currently primarily USD.



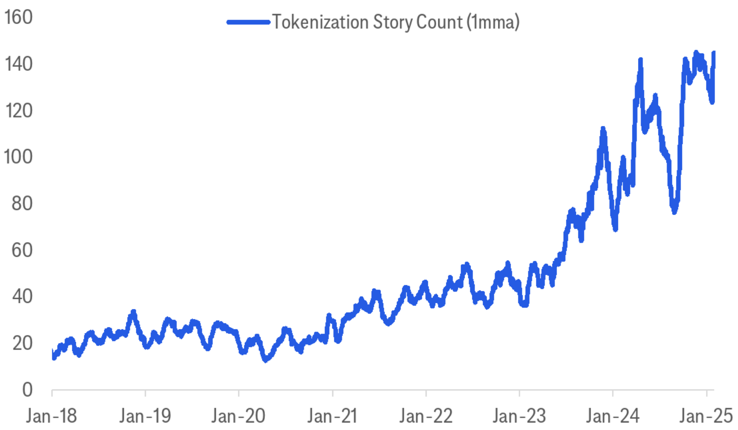
EUR-backed stablecoins vs EURUSD – both rising.



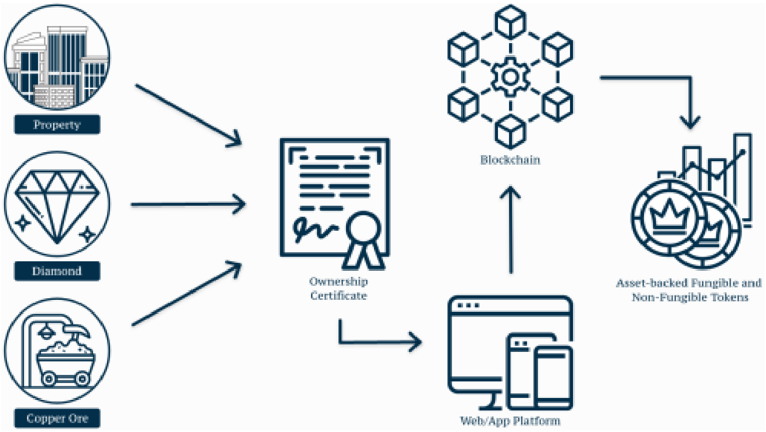
- US stablecoins are already the dominant player in the ecosystem; we think this derives from the dollar's position as the reserve currency of choice rather than some first mover advantage. The figure on the left shows that the relative percent of FX reserves held still favors the dollar.
- We think network effects will likely mean the dominant currency-stablecoin will have a larger market share than we see in reserves, just as we see for FX transactions, but that is dependent on the "IRL" (in real life) reserve currency status.
- Since the launch of EUR-stablecoins under the European MiCA legislation, we have seen an increase in market cap, which has coincided with USD currency weakness and cracks in the "US exceptionalism" narrative (see figure on the right).
- Currently, the EUR-based stables are a tiny fraction of the USD-based ones even as the USD share of FX reserves is around 50% and FX transactions closer to 80%.

Tokenization a Key Route to Institutionalization

Interest in tokenization broadly continues uptrend



Tokenization spans vast range of financial and physical assets



- Institutions and governments are increasing their involvement in the tokenization of financial and real-world assets
- In addition to fractionalization of assets, tokenization (via blockchain technology) allows for reduced fragmentation across financial/trade infrastructure by facilitating heightened connectivity across networks
  - This will continue to lead to shorter settlement times, which should improve liquidity and reduce systemic risks
  - Increased operational efficiency (along with security) is a main driver for institutional and governmental adoption
  - Tokenization also facilitates increased usage of assets as collateral, which should further enhance liquidity across markets
- Tokenized mutual funds have already launched on the Ethereum blockchain
  - This is likely to become much more mainstream, following in the footsteps of fractionalized equity shares
- Increased tokenization is fueled by, and therefore promotes the usage of, smart contracts, which could be a long-term driver for adoption of blockchain and other digital asset technologies
- Headwinds for the space – beyond regulatory issues – include a potential lack of end-user demand for tokenized assets and lack of interoperability between blockchain technology systems

Related Publications

Digital Asset Strategy: The Future of Crypto

Digital Asset Monthly: Stable-flows

Digital Asset Take: A Framework for Stablecoins

Digital Asset Take: 2025 Outlook – A New Hope