FX Insight

Stablecoins Spotlight

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Insight

Top Takeaway: Stablecoins are not displacing fiat, but their shift from the crypto periphery to the financial mainstream could reshape US Treasury demand, reinforce the dollar's dominance, and transform the structure of the crypto market.

- Stablecoins remain small relative to money supply but are becoming institutionalized, with regulatory clarity and bank participation boosting adoption.
- Their heavy Treasury holdings may compress front-end yields, though limited impact should be expected on long-term borrowing costs.
- Stablecoin growth slows the decline of dollar dominance while supporting alternative blockchains over Bitcoin. It will also accelerate the tokenization of real-world assets.

TRADE RECOMMENDATIONS	INITIATION DATE	RETURN
LONG ETH/BTC	SEP 12 / 2025	–

Stablecoins have increasingly captured the attention of global markets as their scale grows and their implications for the financial system deepen. BCA Research has been closely monitoring these developments, recently publishing a series of reports analyzing stablecoins through three lenses.

In the Bank Credit Analyst Special Report, Chief Strategist Chester Ntonifor, examined their "money" qualities and role in the broader financial and monetary landscape. Chief Global Asset Allocation Strategist Juan Correa explored the impact of stablecoins on the US Treasurys market and their potential to lower bond yields. Meanwhile, Chief US Equity Strategist, Irene Tunkel, conducted a deep dive into the rising significance of stablecoins, and the broader crypto ecosystem, within public equities.

What Are Stablecoins?

Stablecoins are crypto tokens designed to maintain a stable value by pegging themselves to a credible asset. In most cases that asset is fiat currency, with USD-pegged tokens accounting for over 99% of the market. Broadly, stablecoins fall into four categories: fiat-backed, commodity-backed, crypto-backed, and algorithmic (**Diagram 1**).

DIAGRAM 1
Stablecoin Taxonomy

FIAT-BACKED

Collateralized using fiat currencies

Tether, USDC

COMMODITY-BACKED

Collateralized using commodities such as gold

Pax Gold, Tether Gold

CRYPTO-BACKED

Uses smart contracts to hold other cryptocurrencies of equivalent value (collateralized debt positions)

Dai Coin

ALGORITHMIC

Uses algorithms and smart contracts to manage supply of tokens in circulation to control price

Terra USD

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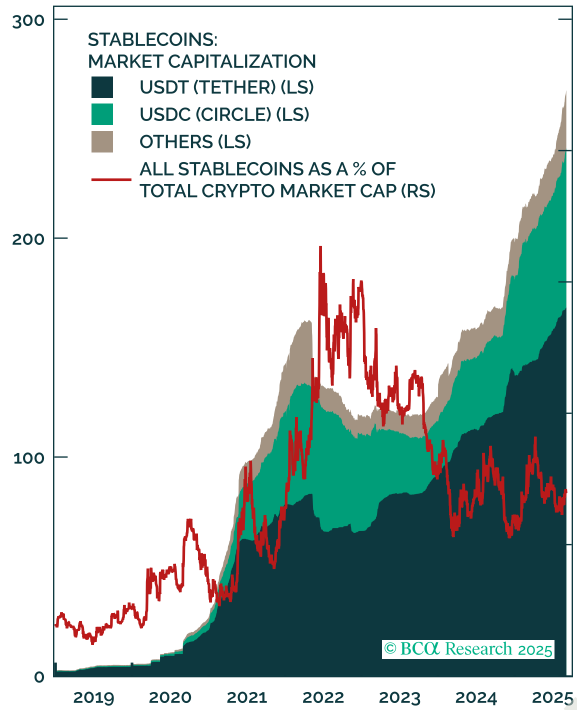
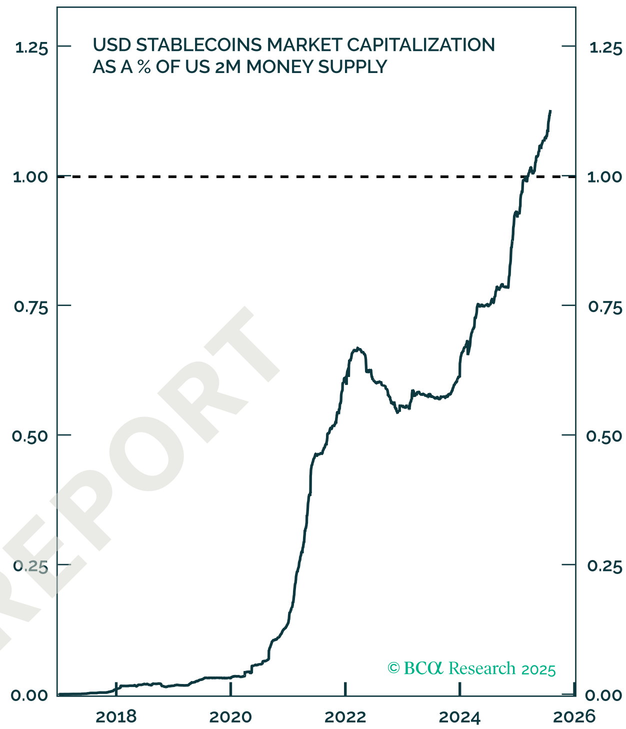
CHART 1
Stablecoin Market Is Concentrated



SOURCE: COINMARKETCAP.COM.

CHART 2
Stablecoins Have Surged But Remain A Fraction Of Total US M2 Money Supply



SOURCE: FEDERAL RESERVE, COINMARKETCAP.COM.

The stablecoins market is highly concentrated. Tether (USDT), now headquartered in El Salvador, commands close to 60% of total capitalization, while Circle (USDC) – backed by US domiciled reserves and listed as a public company – holds another 25% (**Chart 1**). Tether has enjoyed an early mover advantage but has also capitalized on its offshore status, providing access to USD for foreign investors. This came at the expense of USDC which temporarily lost its dollar peg following the Silicon Valley Bank collapse and faced heightened regulatory scrutiny in the US. Yet, Circle has been slowly regaining market share, as regulatory clarity improves, and USDC's US domicile and transparency are emerging as advantages.

Despite the surge in market capitalization, stablecoins remain small in monetary terms, representing just above 1% of US M2 money supply (**Chart 2**). Their main use case is within crypto markets – providing liquidity for on-chain trading and lending, serving as a bridge between fiat and digital assets, and giving offshore investors simplified access to dollar liquidity. Broader adoption for cross-border and domestic payments has been limited **(Chart 3)**.

THIS IS A SAMPLE REPORT.

Our team will be in touch shortly with the full report.

If you do not receive a call, please contact our Client Success team clientsuccess@bcaresearch.com