

US Rates Strategy

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Stablecoins and a lower r^*

Could the demand for stablecoins pull the economy's equilibrium interest rate, r^* , lower? This depends on how widely the payment tokens are adopted outside the US and the degree to which they crowd out existing Treasury bill demand. A lower r^* may also require the Fed to hold more bills on its balance sheet.

- In theory, if stablecoins are a new source of loanable funds in the US economy they could lower r^* . **Stablecoin demand is expected to increase between \$1 and \$4trn over the next decade.**
- A \$2trn increase might boost their demand for Treasury bills by as much as \$1.5trn. **In turn, this could reduce r^* by between 30 and 40bp over 10y.**
- In addition to the breadth of their adoption, **stablecoin's influence on r^* depends on the extent to which the tokens do not replace existing Treasury demand from banks, money funds, and offshore investors.**
- We suspect that net incremental demand for Treasury bills from stablecoins is likely higher outside the US where investors may be looking for a safe, easily transferrable asset. **As a result, we think the effect on r^* may be less than 30bp.**
- A lower equilibrium interest rate would mean that Fed is normally closer to the zero lower bound (ZLB). We think this increases the probability that it might need to use maturity extension purchases (MEPs) in a future recession. It also suggests that the Fed's bill holdings will be higher.

Lower interest rates

The natural rate of interest, or r^* , is the equilibrium real rate of interest where aggregate supply and demand in the economy are in balance and inflation is stable.¹ Estimates of r^* fell in the early 2000s and again, more steeply, after the financial crisis (Figure 1). **One explanation for this decline is that the supply of loanable funds increased faster than the demand for this financing.** That is, savings exceeded investment demand. Bernanke argued that a *global* savings glut emerged in the late 1990s and Greenspan puzzled over why the Fed could raise short-term interest rates between 2004-05 while 10y yields fell.² Several factors may have contributed to the global saving glut. Households and businesses began hoarding cash amid the uncertainty caused by the dotcom bust and the financial crisis. Similarly, developing economies either changed or imposed constraints on capital inflows after the funding crises in the late-1990s. And pension managers shifted their investments in anticipation of a wave of retirees.

¹ See "Are Financial Markets Good Predictors of R-Star?", S. Cho and J. Williams, Federal Reserve Bank of New York, August 25, 2025

² See, "The Global Saving Glut and the US Current Account Deficit", Federal Reserve Governor Bernanke, March 10, 2005 and Federal Reserve Board Semi-Annual Monetary Policy Report to Congress, Federal Reserve Chair Greenspan, February 16, 2005.

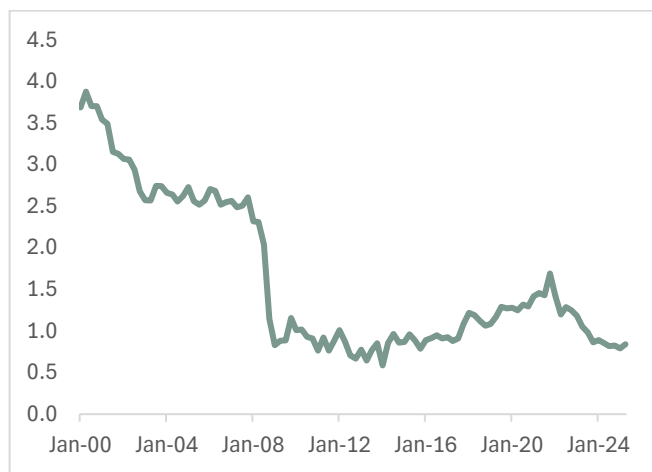
The global savings glut and a shortage of dollar safe assets helped to pull r^* down 200bp between 2001-2010 (Figure 1).

Looking forward, could there be another savings glut that pulls r^* lower?

In a recent speech, Fed Governor Miran, observed that robust demand for stablecoins might have a similar effect on r^* as the global savings glut.³ An expected “glut” of stablecoins would increase the supply of loanable funds in the economy relative to investment, pulling r^* lower *assuming investment demand does not also increase*.⁴ “Glut” might be an appropriate way to describe expected stablecoin demand. **Treasury Secretary Bessent noted that the “stablecoin market could grow 10-fold by the end of the decade”.**⁵ This would mean that stablecoins could hold more than \$2.5trn in short-term assets by 2030 up from around \$250bn now (Figure 2). Such rapid growth represents an extrapolation from the current trend.

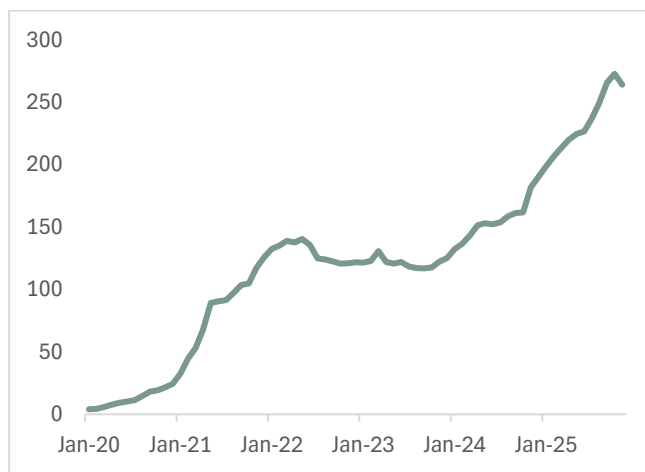
As the tokens are fully collateralized with Treasury bills and repo, such an increase would potentially boost the demand for Treasury bills by as much as \$1.5trn. This is roughly 1/3 the size of Bernanke’s estimated global savings glut. **Extrapolating from the 2005 effect, stablecoin demand could lower r^* by 30bp.**

Figure 1: Estimated r^* (%)



Note: Holston, Laubach, and Williams, real time estimates.
Source: New York Federal Reserve, SMBC Nikko

Figure 2: Stablecoins (\$bn)



Source: Visaonchainanalytics, SMBC Nikko

Given the novelty of stablecoins, there are few studies about their effect on interest rates. Azzimonti et al. consider a model in which dollar stablecoins are primarily used as a global safe asset.⁶ **Based on their model calibration, a \$2trn increase in stablecoin demand might reduce r^* by 40bp.** A separate study examined the effect on 3m bill yields of inflows into stablecoins.⁷ Ahmed et al. find that a 2-standard deviation inflow (~\$3.5bn) over a 5d period lowers bill yields by between 2 and 2.5bp over the following

³ See, “A Global Stablecoin Glut: Implications for Monetary Policy”, Federal Reserve Governor, S. Miran, November 7, 2025.

⁴ Perhaps because of an increase in funding needed to expand and power data centers.

⁵ See, “Remarks by Secretary Bessent before the Treasury Market Conference”, November 12, 2025.

⁶ See, “Digital Economy, Stablecoins, and the Global Financial System”, M. Azzimonti, and V. Quadrini, NBER, July 2025.

⁷ See, “Stablecoins and Safe Asset Prices”, R. Ahmed and I. Aldasaro, BIS, May 2025.

10d. The effect is asymmetric so that outflows tend to increase bill yields by 6-8bp. The authors find evidence of spillover effects on 10y yields although the exact transmission between stablecoins whose assets are limited to bills and repo is a bit unclear.

Any reduction in interest rates rests on two key assumptions. First, the demand for stablecoins must reflect new demand for dollar safe assets rather than a transfer or substitution of existing demand from other, alternative dollar assets. Second, it is assumed that stablecoins are collateralized with Treasuries rather than non-dollar assets. The authors consider an alternative specification in which the tokens are collateralized with crypto assets. In this specification the growth on stablecoins might *raise* r^* as investors shift from dollar-based safe assets to the crypto coin. Any crypto based stablecoin would need to be overcollateralized given the inherent price volatility of the assets.⁸ Algorithmic stablecoins – that maintained par through the arbitrage of the stablecoin with another token – have fared poorly. We are skeptical about a crypto-collateralized alternative stablecoin. But that does not exclude the possibility of a stablecoin denominated in another currency using that country's safe assets.

How much stablecoin demand?

Stablecoin demand projections are all a bit speculative.⁹ Fed Governor Miran cites estimates of potential demand ranging from \$1trn to \$4trn. Assuming a 60-70% allocation to bills, this suggests incremental bill demand of between \$600bn - \$2.4trn. **But this assumes that stablecoins do not cannibalize the existing demand for bills from banks, money funds, and offshore investors.**

Domestic token demand must compete with existing payment media such as bank wires, currency, and more significantly, credit and debit cards which account for most monthly household purchases.¹⁰ Our assumption is that domestic token demand may compete most closely with currency as other payment media often come with other services – most, importantly, the provision of credit. Legally, token issuers are unable to pay interest, but the exchanges on which they trade have been able to offer interest-like “rewards”. **Our sense is that offshore demand may be stronger.** Dollarized stablecoins are likely to be attractive in areas with significant underbanked populations, or in regions with unstable domestic units and high remittance fees. We think overall demand might be closer to \$1trn than \$4trn over the next decade. In his speech, Fed Governor Miran uses \$2trn as an illustration.

Cannibalizing existing demand

For stablecoins to reduce interest rates all the money flowing into the tokens must come from sources other than products that already buy bills. The extent to which stablecoins are new product versus a competing one that cannibalizes demand for safe asset is widely debated. Banks argue that stablecoins offering yield “rewards” could pull money from deposits, especially as a significant portion of these balances (22% or \$4trn) are non-interest bearing (Figure 3). Although they may not be paying interest on these deposits, banks provide, other, unpriced services for their depositors including asset custody, cash management, and importantly credit that may not be available from stablecoins. Deposit substitution by stablecoins would mean banks have less and more expensive funding available to make loans.

The effect on r^* is a bit unclear as banks tend to hold longer maturity Treasuries than the bills that stablecoins are required to hold. As a result, it is possible bank demand for longer maturity paper could

⁸ And, under the Genius Act, it would not be considered at payment token.

⁹ See, “Stablecoins and tokenization”, SMBC US Rates Strategy, October 2025.

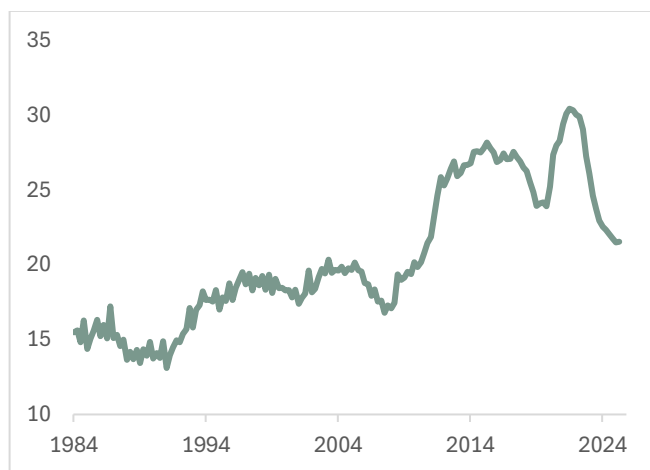
¹⁰ See, “Payment Choice”, K. Foster, C. Greene, and J. Stavins, Federal Reserve Bank of Atlanta, May 2025.

decline pushing those yields higher while stablecoin demand simultaneously pulls bill yields lower. The effect on bill rates would be more balanced if stablecoins pull money from government-only money funds.

By contrast, stablecoin issuers point out that they can provide “on chain” lending that works like traditional bank loans. One lender already provides \$41bn in credit that makes it comparable in size to a top 54 bank.¹¹ Currently, this lending does not look anything like traditional consumer or business credit and instead, seems more like market-based financing against crypto assets. **As a result, our sense is that the reduction in bank lending would most likely not be replaced “on chain” and non-government interest rates would rise.**

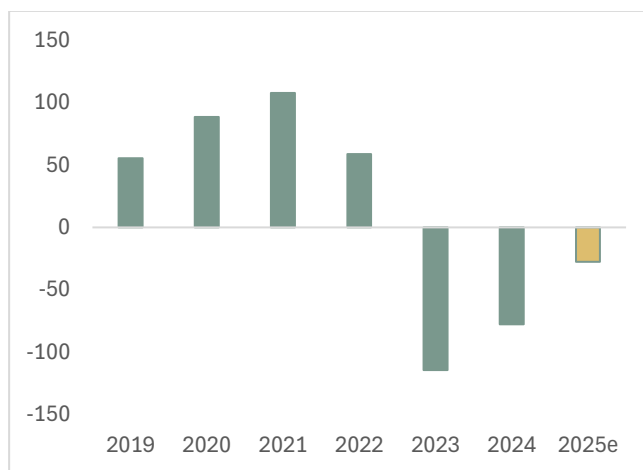
We think incremental demand for bills from stablecoin demand is more likely to come from offshore investors looking for a safe asset and an easier (and cheaper) way to send and receive remittances. Offshore stablecoin demand is less likely to compete with other buyers of bills like domestic banks and money funds. As a result, we think there is more potential indirect bill demand from non-US stablecoin buyers. However, dollar stablecoins are more likely to compete with offshore currency holdings. As stablecoins are easier to store, move, and transact in than paper money, there is likely to be some crowding out of offshore dollar holdings. Replacing some of the estimated \$1.5trn in offshore currency with stablecoins will be a “new” source of bill demand. **Mechanically, this new source of demand will reduce interest rates and lower r^* .**

Figure 3: Non-interest deposits (% total)



Source: FDIC, SMBC Nikko

Figure 4: Federal Reserve net income (\$bn)



Note: We annualized the 2025 earnings to date. Source: Federal Reserve, SMBC Nikko

But offshore stablecoin demand will mean the government replaces a non-interest-bearing liability of the Federal Reserve with its own interest bearing one. Intuitively, this should increase overall interest costs. However, the effect is less obvious because currency is not a direct liability of the Treasury. Less demand for currency will shrink the Fed’s liabilities and mean that its asset holdings need to be correspondingly smaller. A smaller SOMA will reduce the amount of interest the Treasury pays to the Federal Reserve. But it will also mean that, after the Fed deducts its operating expenses, the Fed will remit less income to the Treasury. So, while the Treasury saves some interest expense from a smaller SOMA it also needs to issue more debt to replace the remittances it previously received. The exact effect

¹¹ See, “Beyond the Deposit Debate: Why Stablecoins Complement Banks and Strengthen the Dollar”, S. Bauguess, C. Harper, and JW Verret, Coinbase Institute, September 2025.

is more complicated since it depends on the maturity distribution of the Fed's Treasury holdings which currently are longer than market debt outstanding. Currently, the Fed's negative earnings prevent it from making any remittances to the Treasury (Figure 4).

Finally, a lower r^* will mean that monetary policy is normally closer to the ZLB. We think this increases the probability that the Fed will need to conduct maturity extension purchases (MEPs) in a future recession. In a MEP, the Fed would either sell some of its bills or let them mature while using the proceeds to purchase term debt. MEPs allow the Fed to pull term rates down without expanding the balance sheet as in QE. But to be able to conduct these operations, the Fed's portfolio needs to be more heavily invested in bills. We recently estimated that it might take 4y of bill-directed reserve management purchases to bring the SOMA bill share to a market neutral level.¹²

¹² See, "After QT: The Case for Bills", SMBC US Rates Strategy, October 27, 2025.

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