US Rates Strategy

Joseph Abate, US Rates Strategy joseph.abate@smbcnikko-si.com 1 212 893-1592

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Digital dollarization

The dollar's share of foreign exchange reserves has fallen over the last decade. Could stablecoins boost offshore (retail) demand for the dollar and what might this mean for near-substitutes?

- The currency composition of official reserves has shifted away from the dollar in the last decade. **Yet nearly all outstanding stablecoins are in dollars**.

- **Dollarized stablecoins are likely to be especially attractive in areas with significant unbanked populations, or regions with unstable domestic units and high remittance fees**.

- **This also helps explain the significant offshore demand for physical US currency – particularly, the $100 bill**. Between 50 and 60% of the $2.2trn in outstanding paper dollars is held offshore.

- **Potential demand for dollar stablecoins as substitutes for large denominations and as lower-cost remittance vehicles could exceed $1trn over the next decade.** This might translate into $600-700bn in incremental demand for bills over the period.

- **However, substituting U.S. currency with stablecoins would mean replacing a non-interest-bearing liability with an interest-bearing one, even if the stablecoin holder does not receive interest directly.**

Stablecoin demand

The dollar's share of foreign currency reserves has steadily declined since 2016—from 65.4% to 57.8% in 2025. This shift has been accompanied by a rise in "non-traditional" reserve currencies such as the Chinese yuan, Canadian dollar, and South Korean won.[1] Notably, the increase in yuan holdings accounts for roughly a quarter of the dollar's decline over this period.

The move away from the dollar likely reflects a combination of factors, including geopolitics, sanctions, interest rate differentials, and evolving trade patterns. That said, the dollar remains the dominant reserve currency—the next largest is the euro, at 20%.

Retail demand for dollars is likely higher than foreign reserve holdings suggest, given the dollar's role as an international store of value and medium of exchange. As discussed below, this is evident in the substantial share of U.S. paper currency held abroad. Dollar-denominated stablecoins may also serve

[1] See "Dollar Dominance in the International Reserve System: An Update", S. Arslanalp, B. Eichengreen, C. Simpspon-Bell, IMF, June 11, 2024.

this demand. In fact, they could be especially appealing in regions with large unbanked populations or unstable domestic currencies. Demand may be particularly strong where remittance costs are high.

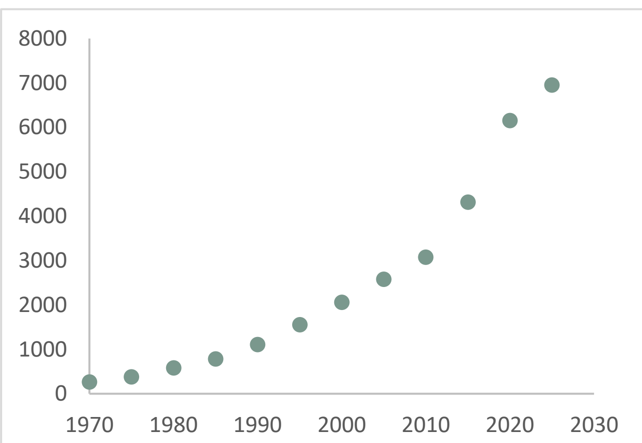
While domestic demand for stablecoins is harder to gauge due to existing payment alternatives, offshore interest is likely to be significantly stronger.[2] To assess this potential, we first examine demand for a close substitute—the $100 bill—and then consider the cost of dollar remittances.

All that paper

Bertaut et al. estimate that roughly $1 trillion of the approximately $2.2 trillion in U.S. notes is held overseas.[3] Other estimates are slightly higher, suggesting that between 50% and 60% of publicly held currency is offshore.[4] Measuring currency holdings is inherently difficult, given households' reluctance to respond to surveys and concerns over privacy and security.

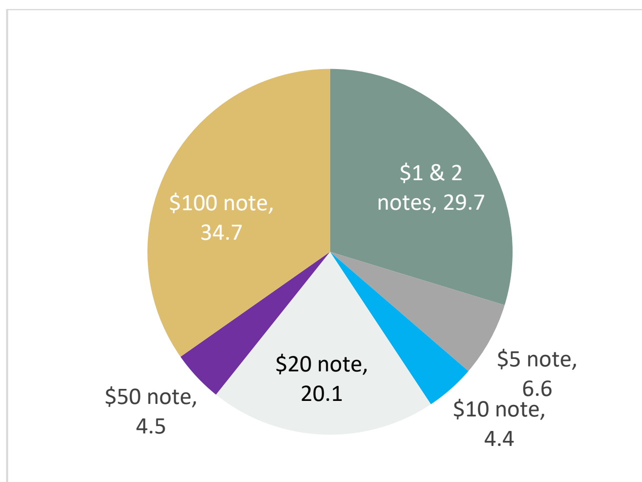
That said, U.S. per capita currency holdings are strikingly high—nearly $7,000 (Figure 1). Surveys conducted in October 2024 indicate that the average amount of currency carried on person was $67, while the average amount held elsewhere was $306.[5] This implies either that some households possess *very* large (and likely under-reported) cash reserves, or that a substantial portion of the per capita total is held offshore.

Figure 1: Per capita US currency ($)



Source: US Treasury, SMBC Nikko

Figure 2: Currency by denomination (% of total)



Source: US Treasury, SMBC Nikko

Currently, there are approximately 19 billion $100 bills in circulation, accounting for about 35% of the total stock of U.S. paper currency. The next most common denomination—the $1 bill—makes up 27% of the

[2] We recently reviewed this in "Stablecoins and bill demand: Less than it looks", June 30, 2025.
[3] See, "The International Role of the US Dollar – 2025 Edition", C. Bertaut, B. v Beschwitz, and S. Curcuru, Federal Reserve Board, July 18, 2025.
[4] See, "The Death of Cash? Not so Fast: Demand for US Currency at Home and Abroad, 1990-2016", R. Judson, Federal Reserve Board, April 2017.
[5] See, "2025 Findings from the Diary of Consumer Payment Choice", B. Bayeh, I. Nardone, S. O'Brien, and H. Phelps, Federal Reserve Finance Series, May 2025

total (Figure 2).[6] Notably, annual growth in $100 bills has outpaced that of $1 bills, even though lower denominations (up to $20) are more frequently used in everyday transactions.

Demand for all denominations has slowed since the Federal Reserve began raising interest rates in 2022. Since then, currency has grown more slowly than nominal GDP. As a share of GDP, currency has declined from 8.5% in 2022 to 7.6%.

Even demand for the globally popular $100 bill has cooled—rising just 1.4% year-over-year at the end of 2024, which is slower than growth in demand for the $1 bill. Some of this deceleration may be overstated, given the rapid stockpiling that occurred during the COVID-19 pandemic. The pandemic likely pulled forward future demand for dollars (and $100 bills), both domestically and abroad.

Remittances

The World Bank estimates that U.S. workers remitted approximately $86 billion abroad in 2023—about 10% of the global total.[7] Remittances received across countries tend to show a high degree of synchronicity, driven by common global factors such as income disparities between developed and developing economies, geopolitical conflicts, and even climate-related migration patterns.[8] Other major influences include the global financial crisis, which depressed remittance flows, and the COVID-19 pandemic, which temporarily boosted them.

However, sending remittances remains costly. At the end of 2023, the World Bank estimated the average cost to send $200 from a G20 country was 6.5%. In the U.S., the cost was slightly lower at 5.8%. That figure is expected to rise in 2025 due to a new 1% excise tax introduced under the OBBB. The tax applies only to remittances of “cash or similar instruments,” excluding bank wires and credit/debit card transactions.

Among remittance channels, banks are the most expensive, with an average cost of 12%. Money transfer companies typically charge around 5.5%, while mobile transfers—though the least expensive at 4.4%—account for less than 1% of global remittance volume.

Stablecoins

Nearly all of the roughly $250 billion in outstanding stablecoins is pegged to the U.S. dollar. Much of this demand is tied to the performance of crypto assets rather than real-world transactions. While domestic transaction demand remains uncertain due to existing U.S. payment alternatives, we believe offshore demand could be considerably higher. This reflects the advantages of stablecoins as cheaper and more transferable payment media compared to bank remittances or physical currency. Additionally, dollar stablecoins benefit from strong network effects, given the dollar’s widespread use in international trade and invoicing.

To estimate potential offshore demand for stablecoins, we make the following assumptions:

- We assume that interest rates on 3-month Treasury bills match the Congressional Budget Office’s

[6] This is closer to 30% (as plotted) if we include the $2 bill. This note and the dollar coin are seldom encountered in transactions and our sense is that most are held in banks.
[7] See, “Remittances Slowed in 2023, Expected to Grow Faster in 2024”, World Bank, June 2024.
[8] See, “Global Remittances Cycle”, O. Monterroso and D. Vilan, Federal Reserve Board, February 27, 2025.

most recent 10-year projection, averaging about 3.1%—lower than current levels. This would imply somewhat faster growth in demand for currency across all denominations.

- Based on historical periods with similar interest rates, we estimate currency demand growth at roughly 3% annually.

- We focus specifically on $100 bills, which are most likely to be used as a store of value and medium of exchange abroad. At 3% annual growth, the volume of $100 bills would reach 26.5bn by the end of 2035, or an increase of $700 billion.

We further assume that perhaps as much as 75% of this amount (or about $550bn) is fully replaced by stablecoins. This excludes additional sources of demand and offsets from lingering preferences for physical currency. Offshore holders may also seek to convert their existing stock of paper dollars, particularly old or worn-out bills. However, this source of demand may be limited if most 100s are used as stores of value rather than for transactions.

Stock conversion demand could be substantial, consistent with Gresham's Law: "good money" (i.e., convenient, low-cost stablecoins) may be hoarded, while less attractive $100 bills are spent or returned to banks and money changers. These bills would likely flow back to the U.S. through the same Federal Reserve districts from which they have been exported over the past 40 years. Of course, this depends on how easily large quantities of $100 bills can be converted into stablecoins without triggering tax or regulatory scrutiny. **More broadly, tracking the growth of $100 bill issuance may serve as a key indicator of offshore stablecoin demand**.

The World Bank estimates that remittances will grow between 2.5% and 3.0% over the next two years. Extrapolating this pace over the next decade would bring annual U.S. remittances to roughly $115 billion. As a rough estimate, we assume that half of these remittances are made via lower-cost stablecoins. We do not account for the possibility that traditional remittance costs could fall to match the efficiency of distributed ledger transfers.

Taken together, these assumptions suggest that offshore demand for dollar stablecoins could—under conservative estimates—exceed $1trn over the next decade. The largest stablecoins currently hold about 60% of their reserves in Treasury bills. As a result, our estimate implies between **$600–700 bn** in incremental demand for bills.

A recent BIS study notes that flows into stablecoins can have a surprisingly large impact on bill yields.[9] Ahmed and Aldasoro observe that sustained inflows of $3.5 billion over five days reduce 3-month bill yields by 2–2.5 basis points. This effect seems large to us given the scale of bill auctions, repo market dynamics, and flows out of the reverse repo facility (RRP). Nevertheless, sustained non–money market demand of this magnitude over a decade could help prevent bill yields from rising—even if the Treasury increases the bill/debt ratio to above 25%.

Thus far, our focus has been on the traditional functions of money—as a store of value and medium of exchange. However, stablecoins offer the potential to combine these conventional roles with non-monetary uses that could drive demand beyond the projections outlined here. For example,

[9] See "Stablecoins and safe asset prices," R. Ahmed and I. Aldasoro, Bank for International Settlements, May 2025.

integrating stablecoins with social media platforms or other digital ecosystems could significantly expand their utility and appeal, surpassing the narrow scope of large-denomination notes and remittances.

Caveats

There are two key caveats to these estimates, beyond the inherent uncertainty in our assumptions about remittance flows and currency demand:

- **Crowding Out Other Bill Buyers:** Stablecoins could displace other buyers of Treasury bills, particularly government-only money market funds. While they may also crowd out bank deposits, the impact on bill demand would be smaller, as banks typically invest in longer-maturity Treasuries. If stablecoins merely shift demand from money funds, the estimated $600–700bn in incremental bill demand could represent a reallocation rather than net new demand. Moreover, both money funds and banks are actively exploring tokenization of shares and deposits, which could reduce the relative attractiveness of stablecoins.

- **Treasury Liability Dynamics:** Replacing $100 bills with stablecoins would effectively convert a non–interest-bearing liability into an interest-bearing one—since the stablecoin issuer holds interest-bearing bills, rather than piles of 100s. Beyond the higher interest cost from replacing currency, increasing the share of bills in debt outstanding would heighten the sensitivity of interest expenses to changes in Federal Reserve policy.

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