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Rashad Ahmed and Iñaki Aldasoro

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Stablecoins and safe asset prices*

Rashad Ahmed Iñaki Aldasoro

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Abstract

This paper examines the impact of dollar-backed stablecoin flows on short-term US Treasury yields using daily data from 2021 to 2025. Using local projections and an instrumental variable approach that exploits idiosyncratic cryptocurrency market price variation purged of traditional financial market correlations, we find that a 2-standard deviation inflow into stablecoins lowers 3-month Treasury bill yields by 2.5-3.5 basis points (bps), with limited to no spillover effects on other tenors. The price impact is state-dependent: effects are statistically insignificant in periods of ample bill supply but increase to 5-8 bps during periods of bill scarcity, as measured by Federal Reserve reverse repo facility growth and debt ceiling standoffs. Stablecoins' influence on Treasury yields may thus be particularly pronounced during periods of market stress or supply constraints, with implications for monetary policy transmission, stablecoin reserve transparency and financial stability.

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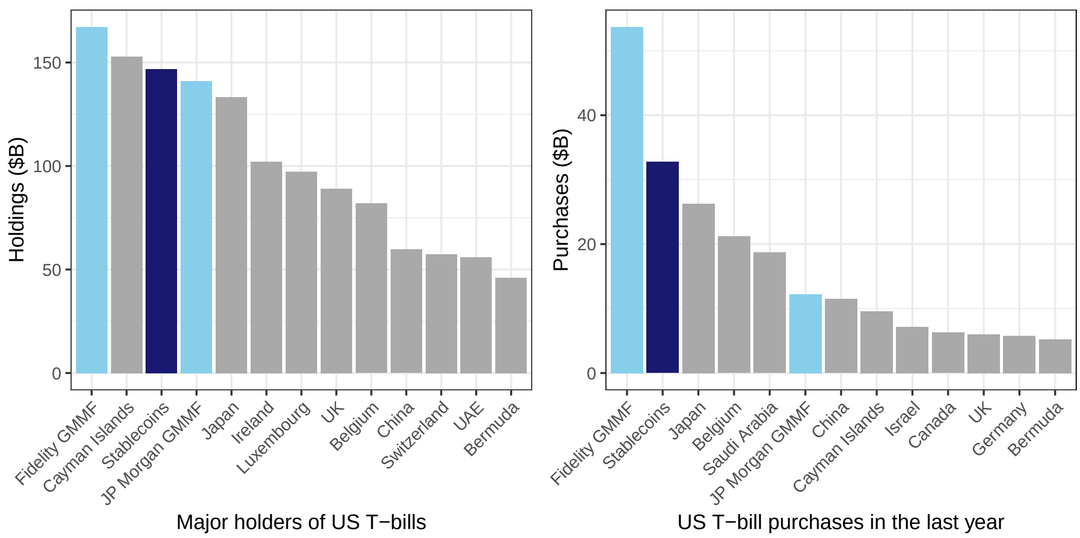
*Rashad Ahmed: Andersen Institute for Finance and Economics, rashad.ahmed@andersen.com; Iñaki Aldasoro (corresponding author): Bank for International Settlements (BIS), Centralbahnplatz 2, CH-4002 Basel, Switzerland, inaki.aldasoro@bis.org. We thank Giulio Cornelli, Ricardo Correa, Jon Frost, Niels-Jakob Hansen, Ulf Lewrick, Gordon Liao, Ariel Zetlin-Jones, Peter Zimmerman, and seminar participants at the American Bankers Association, BIS, Bank of England, Bank of Korea, Bundesbank, Circle, European Systemic Risk Board, Federal Reserve Board, the International Monetary Fund, the Investment Company Institute, the 2025 Cleveland Fed Financial Stability Conference, and the G7 Conference on the International Monetary System and International Payments for helpful comments and suggestions. The views expressed here are those of the authors only and not necessarily those of the Andersen Institute or affiliated institutions, nor the BIS.

1 Introduction

Dollar-backed stablecoins have seen remarkable growth and are poised to reshape financial markets. As of December 2025, the combined assets under management of these cryptoassets exceeded $270 billion (B), with reserve positions in US Treasury bills (T-bills) of $153 billion, surpassing the holdings of some major foreign investors and domestic money funds (Figure 1, left-panel). Stablecoin issuers, notably Tether (USDT) and Circle (USDC), back their tokens mostly with US T-bills and money market instruments, positioning them as significant players in short-term debt markets.[1] Following roughly $35B of T-bill purchases in 2024, issuers of dollar-backed stablecoins purchased $33B of US T-bills in 2025, on par with the largest investors (Figure 1, right-panel). While prior research focuses on stablecoins' role in cryptocurrency volatility (Griffin and Shams, 2020), their impact on commercial paper markets (Barthelemy et al., 2023) or their systemic risks (Bullmann et al., 2019), their interaction with traditional safe asset markets remains underexplored.

Figure 1: Stablecoin issuer holdings and purchases of US T-bills relative to other holders



Note: Foreign country holdings as of November 2025, government money market fund (GMMF) holdings as of December 2025. Stablecoin holdings is the sum of USDT T-bill positions as of December 2025 and USDC T-bill positions as of November 2025, and these positions include indirect T-bill exposures from MMF holdings. Data are from US Treasury TIC, OFR, and USDT and USDC reserve reports. Purchases are calculated as the change in T-bill positions over a 1 year period (i.e., December to December for GMMFs, November to November for countries, December to December for USDT and November to November for USDC.)

[1] According to their most recent reserve disclosures, Tether and Circle held about 63% and 32% of their reserves in US T-bills, respectively.

This paper investigates whether stablecoin flows exert measurable demand pressures on US Treasury yields. This topic has attracted significant public attention, as government officials have argued that stablecoins could generate trillions of dollars of new demand for US Treasury securities.[2] Using local projections and an instrumental variable approach, we document two key findings. First, stablecoin flows compress short-term T-bill yields, with effects comparable to that of small-scale quantitative easing on long-term yields.[3] In our most stringent specification, which aims to overcome endogeneity concerns by using an crypto-derived instrument that affects stablecoin flows but not Treasury yields directly, we find that 5-day stablecoin inflows of $3.5B, or 2 standard deviations, lower 3-month T-bill yields by about 2-2.5 basis points (bps) within 10 days. Second, we document substantial heterogeneity in these effects across liquidity regimes. When Treasury bill supply is ample (proxied by periods when the Federal Reserve's overnight reverse repo facility is draining) stablecoin flows have minimal measurable impact on yields. However, during periods of bill scarcity, including reverse repo facility growth and debt ceiling standoffs, the same magnitude of flows compresses yields by 5-8 basis points. These findings suggest that stablecoins' price impact may operate not only through pure demand effects but also through scarcity channels.

Our empirical analysis is based on daily data from January 2021 to March 2025. To construct a measure of stablecoin flows, we collect market capitalization data for the six largest dollar-backed stablecoins and aggregate them into a single number.[4] We then use 5-day changes in aggregate stablecoin market capitalization as our proxy for inflows into stablecoins. We focus the 3-month Treasury bill yield as our outcome variable of interest as the largest stablecoins have either disclosed or publicly stated this tenor as their preferred habitat.

We take a two-pronged approach to overcome endogeneity concerns.[5] First,

[2] US Treasury Secretary Bessent's official statement on the GENIUS Act and Federal Reserve governor Miran's speech titled 'A Global Stablecoin Glut' both explicitly allude to stablecoin demand for Treasuries as a key force likely to reshape financial markets.

[3] See e.g. Krishnamurthy and Vissing-Jorgensen (2011) and D'Amico and King (2013).

[4] In addition to USDT and USDC, this includes TrueUSD (TUSD), Binance USD (BUSD), First Digital USD (FDUSD), and PayPal USD (PYUSD).

[5] A simple univariate local projection of changes in 3-month T-bill yields on 5-day stablecoin flows is likely subject to severe endogeneity bias. Indeed, estimates from this 'naïve' deliver estimates comparable in magnitude to a Federal Reserve policy rate cut (25 basis points). Such large estimates can be explained by the presence of endogeneity that biases the estimates downward (i.e., larger negative estimates relative to the true effect), due to both omitted variable bias (as potential confounders are not controlled for) and simultaneity bias (as Treasury yields may affect flows into stablecoins).

we control for a wide array of potentially confounding factors including forward changes in Treasury yields across the curve, cryptocurrency prices, money market fund (MMF) flows, short-term Treasury ETF flows, T-bill supply and monetary policy surprises. Second, we instrument 5-day stablecoin flows using the unforecastable component of cryptoasset returns based on the Bloomberg Galaxy Crypto Index (BGCI) and after controlling for a variety of financial market indicators (Aldasoro et al., 2025).[6] This series, which we henceforth refer to as 'crypto shocks', capture idiosyncratic but persistent crypto market booms and busts. First-stage regressions confirm strong instrument relevance, while event study evidence (around the Terra-Luna collapse, FTX bankruptcy, US election and TRUMP token launch) supports the exclusion restriction: these events meaningfully impacted crypto markets and stablecoin flows but exhibited minimal correlation with broader financial conditions.[7]

Our baseline result with controls and an IV point to a meaningful impact of stablecoin flows on T-bill yields. In particular, a $3.5B inflow into stablecoins lowers 3-month T-bill yields by 2.5-3.5 basis points. Decomposing the baseline impact by issuer reveals contributions roughly proportional to market share:[8] USDT accounts for approximately 67% of the aggregate effect, USDC contributes 21%, and other issuers comprise the remainder, punching slightly above their weight.

Our baseline results prove robust along several dimensions. First, to address the robustness of the stablecoin flows measure, we verify that our findings hold when constructing these directly from blockchain-level minting and burning data rather than market capitalization, with results becoming quantitatively slightly stronger. Second, to address concerns that the Treasury yields we use as controls might be highly correlated with the dependent variable, we confirm robustness to alternative specifications: results persist when we use the 3-month to 6-month T-bill spread as the dependent variable and replace correlated yield controls with principal components extracted from the

[6] In particular, we purge the BCGI index of correlations with traditional financial market indicators including equity prices, Treasury yields, dollar exchange rates, volatility (i.e. the VIX index), gold and oil prices, and financial conditions.

[7] We argue that the exclusion restriction is satisfied because idiosyncratic crypto booms are sufficiently isolated as to not meaningfully impact Treasury market pricing – except through flows into stablecoins, that issuers use to purchase Treasuries.

[8] As of January 2026 and their latest reserve disclosures, USDT is the largest stablecoin in circulation at $186B, holding 63% of their reserves in T-bills. USDC has a market cap of about $72B with 32% of their reserves in T-bills.

yield curve. Third, results also hold when we employ 1-day rather than 5-day flow measures (controlling for lagged flows to address autocorrelation). Fourth, spillover tests reveal that effects are concentrated in stablecoins' preferred habitat: the 1-month tenor exhibits some impact (albeit imprecisely measured), while 6-month, 1-year, 2-year, 5-year and 10-year yields show limited to no response.[9]

Critically, we find that the baseline effects mask substantial heterogeneity across liquidity regimes. We examine state-dependence using two complementary measures: the growth/drain status of the Federal Reserve's overnight reverse repo facility and episodes of elevated debt ceiling risk (identified through Google search intensity). Under normal conditions with ample bill supply, instrumented stablecoin flows show statistically insignificant effects on yields. By contrast, during periods of bill scarcity, the same $3.5 billion inflow compresses 3-month yields by 5-8 basis points – roughly double the baseline estimate. These results are consistent with theoretical predictions that demand shocks have larger price impacts when the marginal investor becomes less price-elastic due to supply constraints (D'Avernas and Vandeweyer, 2024; Stein and Wallen, 2025).

Our findings have important implications for policy, not least if the stablecoin market continues to grow.[10] The state-dependent nature of our findings carries particular weight: stablecoins' footprint appears most pronounced precisely when Treasury markets face supply constraints – conditions that may coincide with broader financial stress. Regarding monetary policy, our yield impact estimates suggest that if the stablecoin sector continues to grow rapidly, it may eventually affect the pass-through of monetary policy to Treasury yields. Stablecoins' growing footprint in Treasury markets may also contribute to safe asset scarcity for non-bank financial institutions, potentially affecting the liquidity premium (D'Avernas and Vandeweyer, 2024). Regarding stablecoin regulation, our results highlight the importance of transparent reserve disclosures that allow for the effective monitoring of concentrated stablecoin reserve portfolios. Finally, our results can be interpreted as evidence of stable-

[9]The 10-year tenor does display some small effect after approximately 20 days, suggesting possible spillovers. Such effects could for example arise through indirect channels such as collateralized reverse repo positions or dealer inventory adjustments.

[10]A recent report by Citigroup for example estimates that the stablecoin market may grow to $1.6 ($3.7) trillion in a base (bull) case by 2030. The Treasury Borrowing Advisory Committee estimates a potential for $2 trillion market capitalization by 2028.

coins creating a bridge through which shocks to the cryptocurrency ecosystem transmit to traditional financial markets.

There are potential financial stability implications that arise when stablecoins become large investors in Treasury markets. For one, it exposes the market to potential fire sales in the event of a run on a major stablecoin. The magnitude of our estimates is likely to be a lower bound of potential fire sale effects, as they are obtained from a sample largely based on a growing market and thus likely underestimate the potential for non-linear effects under severe stress. Moreover, part of the investments of stablecoins themselves for example through reverse repo agreements backed by Treasury collateral may facilitate arbitrage strategies such as the Treasury basis trade, a first order concern for regulators.[11] Equity and liquidity buffers may alleviate some of these financial stability risks (Goel et al., 2025; Liao et al., 2024).

Related literature. Our work relates to research on the demand for safe assets. Krishnamurthy and Vissing-Jorgensen (2012) show that demand for liquidity and safety suppresses Treasury yields. Lower short-term rates may in turn incentivize the issuance of risky short-term debt, potentially undermining financial stability (Greenwood et al., 2015). Chaudhary et al. (2025) study the impact of various investor types on the aggregate Treasury market. D'Avernas and Vandeweyer (2024) in turn present a model to show how T-bill shortages affect the pricing of short-term safe assets. Doerr et al. (2023) present evidence that MMFs can influence the price of near-money assets such as repos and Treasuries. Stein and Wallen (2025) look at how MMFs act as front-line arbitrageurs in the T-bill market and analyze how this changes when T-bills become scarce. Foreign demand has also been shown to affect Treasury yields (Ahmed and Rebucci, 2024). Stablecoins, whose balance sheets look very similar to those of MMFs, may contribute to such effects, but their marginal impact remains unquantified despite their growing role in the market.

Moreover, we contribute to a growing body of work on stablecoins. Much of this literature studies stablecoin stability (Arner et al., 2020; D'Avernas et al., 2023; Lyons and Viswanath-Natraj, 2023; Kosse et al., 2023), adoption (Bertsch, 2023), runs (Ahmed et al., 2025; Gorton et al., 2022) and market structure (Ma

[11] This could materialize, for example, through money market funds managing stablecoins' cash reserves. Money market funds' cash lending in sponsored repo mirrors the short positions on Treasury futures by hedge funds (Aldasoro and Doerr, 2023, 2025), a tell-tale sign of the scope of such arbitrage strategies.

et al., 2023), among others. Azzimonti and Quadrini (2025) and Ferrari Minesso and Siena (2026) study the international implications of broader stablecoin adoption. Closer to our paper, Barthelemy et al. (2023) and Kim (2025a) study the effect of stablecoin investments in the commercial paper market. Our paper focuses instead on the reserve asset that has come to dominate major stablecoins' reserves, namely Treasury securities. In a contemporaneous paper, Kim (2025b) presents evidence of the effect of Tether minting on Treasury exchange-traded funds and use a macro-finance model to argue for a potential non-linear effect of stablecoins on the Treasury market if the former were to grow substantially.

Roadmap. The rest of the paper is structured as follows. Section 2 presents the data sources and methodology, and discusses the instrumental variable approach used and provides evidence to support the validity of the instrument. Section 3 presents the main results, along with robustness checks and extensions. Section 4 discusses magnitudes, mechanisms, policy implications and limitations. Finally, Section 5 briefly concludes.

2 Data and methodology

2.1 Data sources

We base our analysis on data at the daily frequency from January 2021 to March 2025, from various sources. First, we collect market capitalization data from CoinMarketCap on six USD-backed stablecoins: USDT, USDC, TUSD, BUSD, FDUSD, PYUSD. We aggregate across these stablecoins to arrive at a measure of aggregate stablecoin market capitalization, and then compute its 5-day change.[12] For robustness, we also collect mint and burn data from blockchain-level stablecoin transactions to validate our baseline measure of aggregate stablecoin flows: we use data from Ethereum (for USDT, USDC, TUSD, BUSD and PYUSD), and Tron and Omni (for USDT).[13] We collect daily prices for Bitcoin and Ether, the two largest cryptocurrencies, from Yahoo Fi-

[12] We also report the five-day change separately for USDC and USDT, as we also use them separately in parts of our analyses. Because stablecoin data are published 7-days per week but traditional US market data is available only for trading days, we merge our dataset over trading days and therefore, 5-day flow measures refer to 5 trading days.

[13] We could not obtain data for FDUSD.

nance.

We collect daily series of US market interest rates. We source data on the federal funds rate (FFR) along with the US Treasury yield curve from FRED. We consider the following Treasury maturities: 1-month, 3-month, 6-month, 1-year, 2-year, and 10-year. Table 1 reports summary statistics.[14] We rely on data from LSEG Datascope to obtain high-frequency monetary policy surprises by capturing changes in 3-month OIS rates from 30 minutes before to 30 minutes after FOMC policy rate announcements.

We also collect data for various potential confounders that may affect T-bill yields. This includes daily data on money market mutual fund (MMF) flows, which are large investors in Treasury market (sourced from iMoneyNet), as well as daily data on short-term Treasury ETF flows aggregating net flows across the seven largest short-term Treasury ETFs by assets under management.[15] Data on T-bill supply, measured using US Treasury auction issuance, are obtained from the US Department of the Treasury.

Table 1: Summary statistics

Variable	T	Mean	St. Dev.	Min	Max
5-day stablecoin flow ($B)	1,091	0.812	1.747	−4.019	11.539
5-day USDT flow ($B)	1,091	0.555	1.202	−8.684	5.308
5-day USDC flow ($B)	1,091	0.247	1.148	−6.533	7.716
5-day MMF flow ($B)	1,090	22.075	70.741	−296.427	315.523
5-day ETF flow ($B)	1,091	0.437	1.202	−3.673	5.904
3-month T-bill auction ($B)	1,091	13.738	27.893	0.000	92.305
Fed funds rate (%)	1,049	3.054	2.264	0.050	5.330
1-month US yield (%)	1,046	3.105	2.343	0.000	6.020
3-month US yield (%)	1,046	3.214	2.302	0.010	5.630
6-month US yield (%)	1,046	3.276	2.218	0.020	5.610
1-year US yield (%)	1,046	3.224	2.061	0.040	5.490
2-year US yield (%)	1,046	3.115	1.800	0.090	5.190
10-year US yield (%)	1,046	3.212	1.176	1.040	4.980
Bitcoin price ($)	1,091	45,230.03	21,628.71	15,787.28	106,146.30
Ether price ($)	1,091	2,429.25	860.46	1,038.19	4,812.08

Note: Daily data ranging from January 8, 2021 to March 14, 2025. Cryptocurrency data feature a larger sample size because they are also observed over weekends. Stablecoin flows are the sum the flows from the following six dollar-backed stablecoins: USDT, USDC, TUSD, BUSD, FDUSD, and PYUSD. US yields refer to US Treasury securities. Flows are calculated as the 5-day change in stablecoin market capitalization.
Sources: Bloomberg, CoinMarketCap, ETF.com, FRED, iMoney.net, Yahoo Finance, US Department of the Treasury.

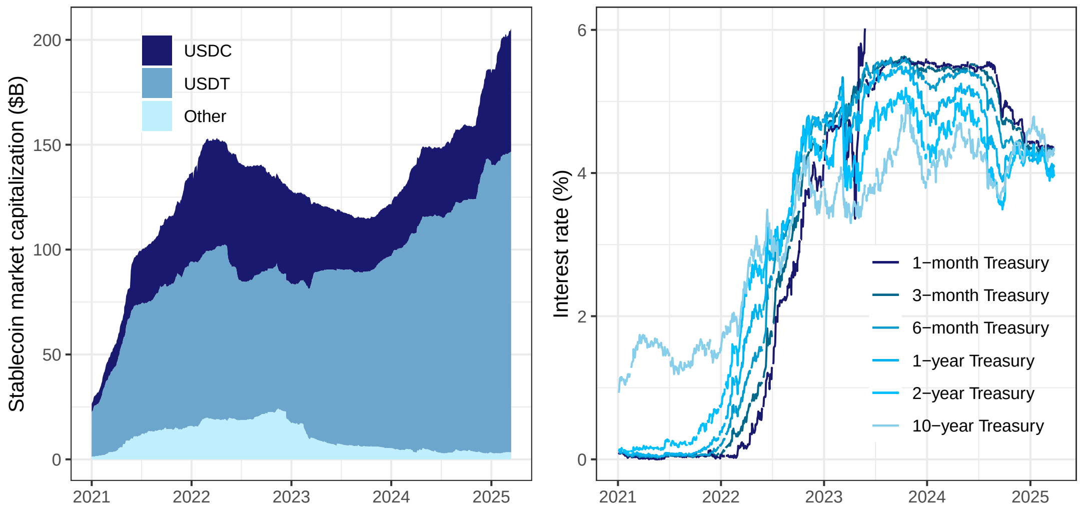
Figure 2 shows USD-backed stablecoin market capitalization and US Trea-

[14]We also collected additional data to compare the size and growth of stablecoins against other sectors (see Figure 1). Data on foreign holders and purchases of US money market securities, including T-bills, come from the Treasury International Capital (TIC) database. Data on US government money market funds are from the Office of Financial Research (OFR).

[15]Tickers for these ETFs are: BIL, SGOV, SHV, SHY, VGSH, SCHO, SPTS. These data are sourced from ETF.com.

sury yields over the sample period. Since the second half of 2023 stablecoin market capitalization has been on the rise, with a notable increase in early and late 2024. The sector is very highly concentrated. The two largest stablecoins (USDT and USDC) account for over 95% of outstanding amounts. Treasury yields in our sample capture both the hiking cycle as well as the pause and subsequent easing period that began around mid-2024. The sample period also covers an episode of a clear curve inversion, as seen most notably through the dark blue line going from the bottom to the top of the yield complex.

Figure 2: Stablecoin market capitalization and US Treasury yields



Note: The left-panel plots the daily market capitalization of six USD-backed stablecoins: USDT and USDC, with 'Other' containing the sum of TUSD, BUSD, FDUSD, and PYUSD. The right-panel plots daily US Treasury yields for several maturities.

2.2 Variable construction

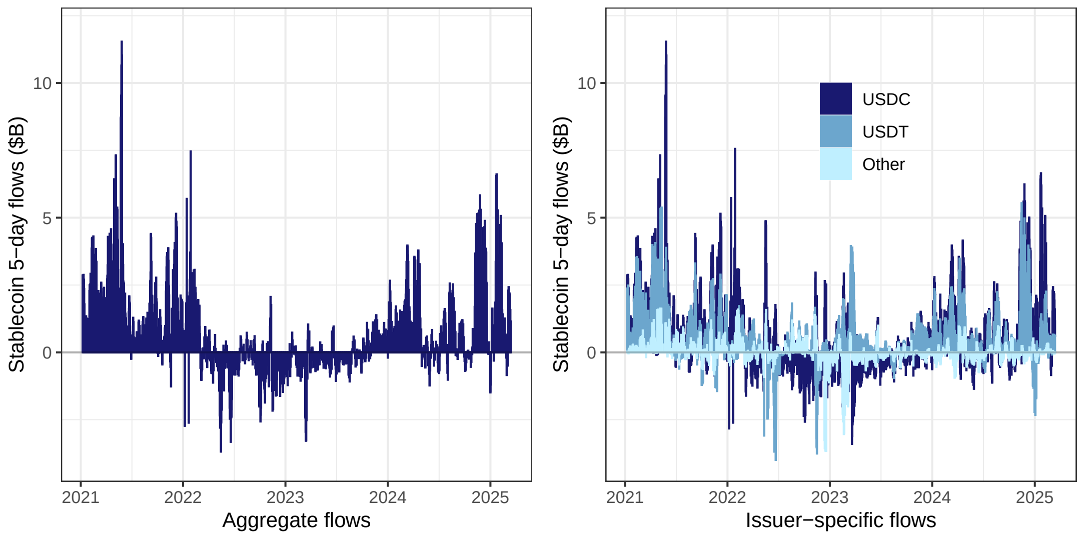
We seek to estimate the effect of stablecoin flows on Treasury bill yields. To this end, we use the market capitalization variable to compute a 5-day stablecoin flow measure as the difference in market capitalization, in order to capture weekly liquidity movements, although we also consider 1-day flows for robustness:

$$Flow(5d)_t = MC_t - MC_{t-5}, \tag{1}$$

where MC_t is stablecoin market capitalization on day t. Note that MC_t can be expressed as the product of the stablecoin price and outstanding supply: $P_t \times S_t$, where flows are inferred from changes in S_t. Therefore, Equation (1) makes the simplifying assumption that stablecoins maintain their peg of $P_t = \$1 \; \forall \; t$. Empirically, these USD-backed stablecoins have maintained relatively tight pegs over time, with a few exceptions that have typically been short-lived (most notably the de-peg of USDC around the collapse of Silicon Valley Bank in March 2023).[16]

Figure 3 plots $Flow(5d)_t$ over the sample period along with flow measures for USDT and USDC. Stablecoin flows are positive on average during the sample period, with average 5-day flows of \$0.82B. They are also highly volatile, with a standard deviation of \$1.747B. The right-panel of Figure 3 shows that the largest contributors to total stablecoin flows are USDT and USDC – the largest USD-backed stablecoins with a market capitalization exceeding \$140B and \$55B respectively as of March 2025.

Figure 3: 5-day aggregate and issuer-specific stablecoin flows



Note: The left-panel plots aggregate 5-day stablecoin flows ($Flow(5d)_t$) of six USD-backed stablecoins. The right-panel plots issuer-specific $Flow(5d)_t$ for USDT and USDC, with 'Other' containing the sum of TUSD, BUSD, FDUSD, and PYUSD flows.

[16]As mentioned above, we validate our measure of stablecoin flows using blockchain-level transaction data. We find that aggregate stablecoin supply constructed from blockchain minting and burning has a correlation above 0.99 with our baseline measure. We show that our main results are robust to using either approach to measure flows.

2.3 Instrumental variable

As part of our identification strategy, we construct a measure of the unforecastable component of the Bloomberg Galaxy Crypto Index, an index that captures broad crypto market developments.[17] This measure, which is inspired by Aldasoro et al. (2025), is used as the instrument for stablecoin flows in our baseline specifications.

We refer to the instrument as our crypto shock series. Concretely, we purge financial market developments from the BGCI through the elastic net, a simple supervised learning algorithm. We estimate the following model:

$$\min_{\beta_0,\beta} \left[\frac{1}{2N} \sum_{t=1}^{N} \left(S_t - \beta_0 - X_t^T \beta \right)^2 + \lambda P_\alpha (\beta) \right], \tag{2}$$

with the penalization function:

$$P_\alpha (\beta) = \frac{(1-\alpha)}{2} ||\beta||^2 + \alpha ||\beta||. \tag{3}$$

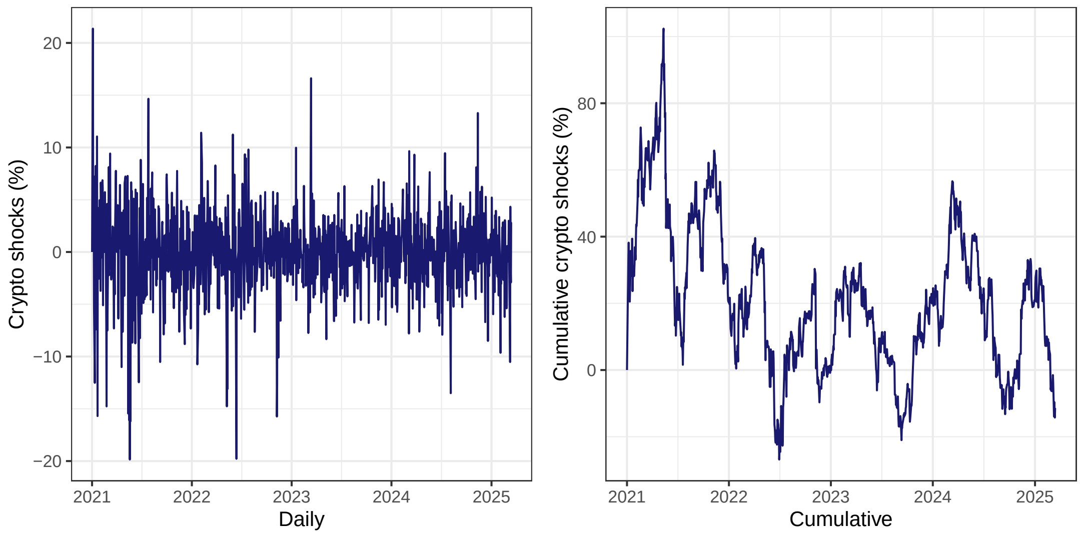
in Equation (2), S_t is the (log) change in the index at week t and X a matrix of candidate controls including the contemporaneous and lagged values of: the change in the US 3-month yield, the (log) gold price, the Citigroup economic surprise index, the (log) of the VIX, the (log) of the oil price, the (log) of the US dollar nominal effective exchange rate (NEER), the (log) of the S&P 500, the US term spread, and the Goldman Sachs financial conditions index (FCI). We also include the lag of the (log) change in the BGCI. β_0 is the loading of the constant and β is a vector of loadings for each variable in X, whereas α and λ are scaling parameters that govern the size of the penalty for including more regressors. We estimate Equation (2) following Zou and Hastie (2005) and Hastie et al. (2009). For further details, see Aldasoro et al. (2025).

Figure 4 presents the crypto shock series. The left-hand panel presents the daily series. As discussed in Aldasoro et al. (2025) (Appendix A), this series captures relevant events in crypto markets. The series is rather volatile, with little or no autocorrelation. These features suggest that the shocks are plausibly exogenous. But, if used in their raw form, they may not adequately re-

[17] Importantly, the BGCI does not include stablecoins among its constituents. See the documentation page and the Bloomberg Galaxy Crypto Index factsheet for more information on the BCGI.

flect periods of persistent crypto booms and busts that are typically associated with large changes in the demand for cryptocurrencies and hence stablecoins (Adams et al., 2024). Moreover, lead-lag correlations between crypto shocks and stablecoin flows may be irregular and change over time. Therefore, it may be difficult to capture correlations between crypto shocks and stablecoin flows using the crypto shocks in raw form. The right-hand panel Figure 4 presents in turn a cumulative summed version of the crypto shocks.[18] The cumulative series does not exhibit trending behavior, while persistent booms and busts are clearly present.

Figure 4: Daily and cumulative idiosyncratic cryptocurrency price shocks



Note: the left panel presents our raw crypto shock series, whereas the right panel presents the cumulative sum of the crypto shocks. Both series multiplied by 100.

These cumulative crypto shocks serve as a useful instrument for stablecoin flows because they satisfy both instrument relevance and exogeneity conditions.

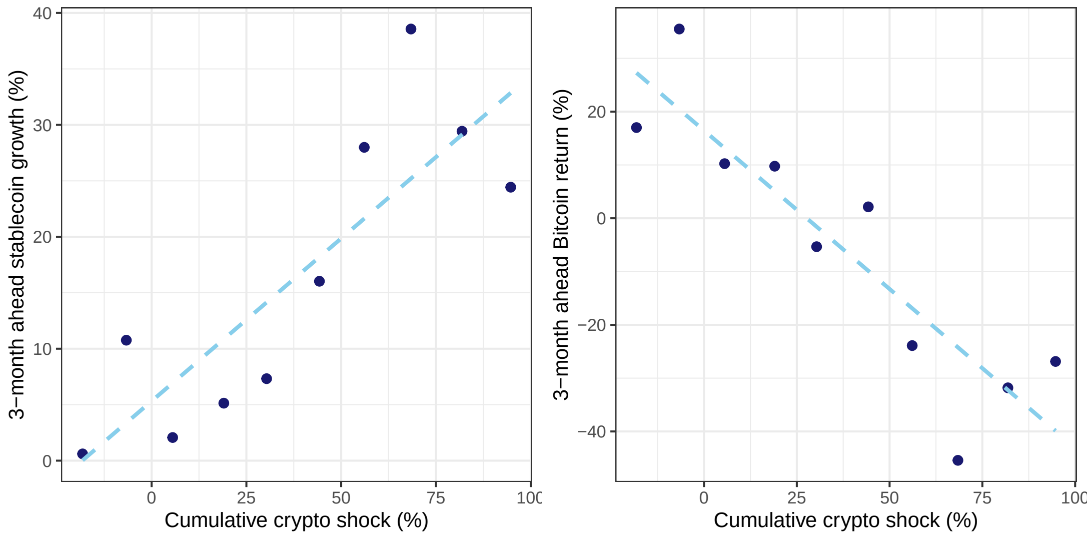
Regarding relevance, stablecoin demand is closely linked to its use as a facilitator of cryptocurrency trading and decentralized finance (DeFi) activities [19]. Wealth effects or return-chasing could also induce traders to hold larger stablecoin balances when crypto prices rise (Aiello et al., 2023). Such motives

[18] We choose to take the cumulative sum of crypto shocks due to the additive properties of log returns over multiple periods.

[19] Most cryptocurrencies outside the few largest are quoted stablecoins, not fiat. On DeFi platforms, users typically lend stablecoins to borrowers, who secure their stablecoin loan by overcollateralizing it with volatile cryptocurrencies. When crypto prices rise, borrowing constraints relax, allowing for further stablecoin lending and borrowing.

are consistent with a positive first-stage coefficient from a regression of stablecoin flows on cumulative crypto shocks (see below). Meanwhile, substitution effects and portfolio rebalancing motives could induce holders to increase stablecoin positions when crypto prices rise, but due to lower expected returns on high-priced crypto.[20] Figure 5 presents evidence consistent with a rebalancing motive. High values of the cumulative crypto shock series *today* predict high stablecoin growth and lower returns on bitcoin *going forward*. Figure 13 shows that the predictive power persists over both short and long horizons from 1 day to 1 year.

Figure 5: Binned scatterplots of cumulative crypto shock versus 3-month ahead growth of stablecoin market capitalization (left) and Bitcoin price (right)



Note: Each point represents the average 3-month ahead growth/return within a cumulative crypto shock decile. Each bin contains roughly 103 observations. 3 months refers to 63 trading days. Cumulative crypto shock series as portrayed in the right-panel of Figure 4.

Table 2 presents statistical evidence of relevance of our instrument through first-stage regressions. Column 1 reports the first stage regression using aggregate stablecoin flows, while columns 2 and 3 show that crypto shocks are significantly associated with issuer-specific flows of USDC and USDT, respectively. Overall, our instrument is significantly and positively correlated with stablecoin flows. The reported robust F statistics are generally large, indicat-

[20]For similar reasons as described here, when the *volatility* of cryptocurrencies increase, traders may be inclined to hold larger stablecoin balances. We also find that the conditional volatility of crypto shocks is significantly correlated with stablecoin flows, but the relationship is weaker than that with our preferred measure of cumulative crypto shocks.

ing that the risk of a weak instrument is low.[21] These results are consistent with cryptocurrency booms generating demand for stablecoins, as stablecoins facilitate cryptocurrency activities.

Table 2: First stage IV regressions of stablecoin flows on crypto shocks

	Dependent variable:			
	Aggregate $Flow(5d)_t$	USDC $Flow(5d)_t$	USDT $Flow(5d)_t$	Other $Flow(5d)_t$
	(1)	(2)	(3)	(4)
Intercept	−0.028 (0.072)	0.075 (0.053)	-0.014 (0.062)	−0.089 (0.0312)**
Cumulative crypto shocks	3.955*** (0.270)	0.811*** (0.189)	2.680*** (0.187)	0.463*** (0.100)
Observations	1,091	1,091	1,091	1,091
Adjusted R^2	0.247	0.023	0.239	0.033
F Statistic	213.5***	18.399***	204.29***	21.073***

Note: Daily data. Aggregate stablecoin flows are the sum the flows from the following six dollar-backed stablecoins: USDT, USDC, TUSD, BUSD, FDUSD, and PYUSD. The series of crypto shocks are constructed as an extention of Aldasoro et al. (2025). Newey-West standard errors with '*', '**', '***' referring to significance at the 10%, 5%, and 1% level, respectively. F-statistics are adjusted for heteroskedasticity and autocorrelation.

We argue that crypto shocks also satisfy the exogeneity condition. While the crypto market has grown to roughly $3 trillion as of 2024, it is still dwarfed by traditional financial markets, suggesting that shocks in cryptocurrency markets are unlikely to have a systemic impact in the market for US Treasuries, which stands at roughly $35 trillion. To further support the exogeneity condition, it is worth noting that these crypto shocks are constructed from the unforecastable component of cryptocurrency prices. Therefore, it is unlikely for these shocks to have any meaningful causal impact on Treasury bill pricing, *except* through the stablecoin demand channel. Finally, we present event study evidence in the next section, offering additional support for instrument exogeneity.

3 The effect of stablecoin flows on Treasury bill yields

3.1 Event studies

We start our empirical investigation by presenting evidence from event studies that is suggestive of a measurable effect of stablecoin flows on T-bill yields.

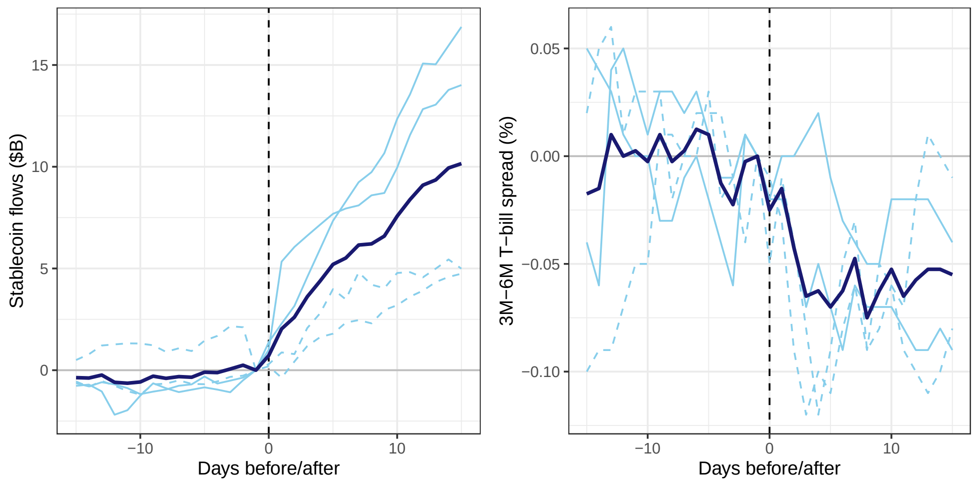
[21]The sensitivity of USDT flows to crypto shocks is stronger than that of USDC flows and other stablecoins (2.68 vs 0.81 and 0.46, respectively), consistent with their size differences. That said, the positive coefficients suggest that crypto shocks encourage inflows across all stablecoin issuers, rather than merely reallocating flows between them.

We select four plausibly exogenous stablecoin flow-inducing events:

- May 9, 2022: Terra-Luna crash (outflows)
- November 8, 2022: FTX collapse (outflows)
- November 6, 2024: US presidential election (inflows)
- January 17, 2025: Launch of 'TRUMP' token (inflows)

The first two events were crypto-specific shocks to large institutions within the industry. The November 6 election resulted in the election of Donald Trump, who ran on an openly pro-crypto agenda. The January 17 launch of the 'TRUMP' token was a crypto-specific surprise, announced unexpectedly three days before the presidential inauguration.

Figure 6: Change in stablecoin flows (left) and T-bill spreads (right) around flow-inducing events (all events normalized to inflows)



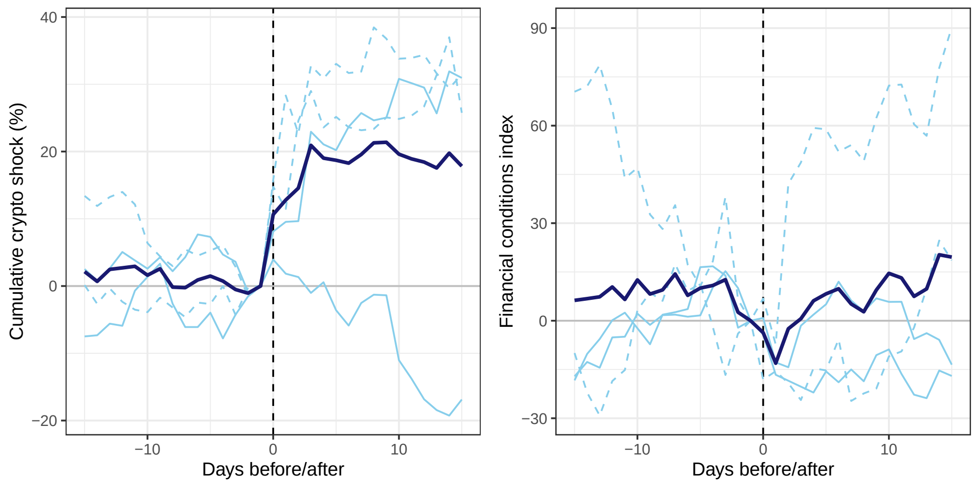
Note: the four events refer to (i) May 9, 2022 Terra-Luna crash, (ii) Nov 8, 2022 FTX collapse, (iii) Nov 6, 2024 US presidential election, (iv) Jan 17, 2025 Trump launches memecoin. The thin dashed lines refer to outflow-inducing events (i) and (ii), and the thin solid lines refer to inflow-inducing events (iii) and (iv). The dark thick line is the average over four the events. All series are indexed 0 on day prior to the event day (time $t-1$=0).

We evaluate the behavior of stablecoin flows and T-bill spreads (computed as the 3-month minus the 6-month yield) around these events. Figure 6 traces the average change in stablecoin flows and the T-bill spread around the 15 days before and after these events. To make outcomes comparable across inflow and outflow events, we normalize all flows to inflows. A stark change in the rate of stablecoin inflows in the days following these events is accompanied by a notable compression of the 3-month yield relative to the 6-month yield. In contrast, ahead of the events both stablecoin flows and the T-bill spread hover closely around zero.

Figure 7 presents similar event study plots for the cumulative crypto shock series and the Goldman Sachs FCI, respectively. These events induced an immediate and persistent impact on the cumulative shock series, consistent with the types of shocks we aim to capture with our instrument. Before the events, the cumulative crypto shock series hovered around zero. By contrast, the FCI eases modestly and quickly reverts to its pre-event baseline.[22]

Taken together, these event studies provide supporting evidence for our instrument satisfying the exogeneity condition: they induced a notable change in in crypto shock series, stablecoin flows and T-bill yields, but with little to no change in the FCI.

Figure 7: Change in crypto shock (left) and financial conditions (right) around flow-inducing events (all events normalized to inflows)



Note: the four events refer to (i) May 9, 2022 Terra-Luna crash, (ii) Nov 8, 2022 FTX collapse, (iii) Nov 6, 2024 US presidential election, (iv) Jan 17, 2025 Trump launches memecoin. The thin dashed lines refer to outflow-inducing events (i) and (ii), and the thin solid lines refer to inflow-inducing events (iii) and (iv). The dark thick line is the average over four the events. All series are indexed 0 on day prior to the event day (time $t-1$=0).

[22]It is worth noting that the FCI includes US Treasury yields as an input, so some of the FCI decline is a mechanical result from the decline in the 3-month yield reported in Figure 6.

3.2 Regression specification

Our main analysis investigates the relationship between stablecoin flows and US T-bill yields. As our benchmark outcome variable, we consider the 3-month T-bill yield for two reasons. First, this is likely to be the most representative tenor for the preferred habitat of stablecoin issuers.[23] Second, because this tenor is the most liquid and widely quoted among short-term Treasuries.

Our empirical strategy uses local projections to obtain estimates of the effect of interest.[24] Simple univariate linear projections that regress 3-month T-bill yields on our measure of stablecoin flows are likely subject to endogeneity bias arising both omitted variables (as many confounder variables may simultaneously affect T-bill yields) and reverse causality (because T-bill yields themselves may also affect stablecoin flows). In Appendix A we present evidence that such biases can be quite large.

We start with the following specification:

$$y^{3M}_{t+h} - y^{3M}_{t-1} = \alpha_h + \beta_h Flow(5d)_t + \sum_{k \in K} \gamma_h [y^k_{t+h} - y^k_{t-1}] + \\ \theta_{1h} Q^{3M}_t + \theta_{2h} \mathbf{1}_{t[Q^{3M}_t > 0]} + \theta_{3h} MPS_t + \sum_{p \in P} B^p_h X(5d)_{p,t} + e_{t+h}, \quad (4)$$

where β_h provides a sequence of estimates that trace the impulse response function (IRF) of 5-day stablecoin flows, $Flow(5d)_t$, on h-day changes in 3-month T-bill yields, $y^{3M}_{t+h} - y^{3M}_{t-1}$, conditional on a number of controls.

Equation (4) conditions the estimate of β_h on several sets of control variables. The first, $y^k_{t+h} - y^k_{t-1}$ with $k = \{FFR, 6M, 1Y\}$, controls for the forward evolution of short-term yields aside from the 3-month yield. Specifically, we control for proximate, but potentially *untreated* tenors: the FFR, 6-month and

[23] USDC reserve disclosures provide securities positions at the CUSIP level and rarely report holdings with maturities beyond three months. While USDT's reserve disclosures are less transparent, Tether's CEO has publicly stated that the issuer focuses on T-bill investments maturing no later than 90 days; see for example the interview in the Odd Lots podcast.

[24] In our setting, local projections are advantageous over standard regression models because they allow for asynchronous effects of flows on yields. Such asynchronous effects could arise if stablecoin issuers facing inflows choose to re-allocate these proceeds from cash or bank deposits to T-bills with a lag. They could also arise due to stablecoin issuers minting coins in advance before circulating them. Tether has publicly disclosed its practice of advanced minting. One instance occurred in July 2025 when it minted $1 billion on both Ethereum and Tron. The CEO clarified that these coins were minted in advance but were not yet circulating, because they anticipated increased demand.

1-year bill yield. These maturities are close to the 3-month tenor, but they likely fall outside the preferred habitat of stablecoin issuers.[25] Conditional on these controls, estimates of β_h can be interpreted as the effect of stablecoin flows on 3-month T-bill yields in excess of changes to yields of proximate maturities.

Second, we control for 3-month T-bill issuance. T-bills have auctions roughly once per week or two, so the daily frequency issuance data has several zeroes. To account for the high density of zeroes in the daily data, we control for both the quantity of issuance, Q_t, and issuance days with an indicator variable, $\mathbf{1}_{t[Q_t^{3M}>0]}$.

Third, we control for high-frequency monetary policy shocks, MPS_t. As standard in the literature, we compute this shock series using changes in 3-month OIS rates in +/- 30 minute window around FOMC meetings.

Lastly, we introduce a set of control variables measured in 5-day changes that include yield changes, crypto asset price changes, and 5-day MMF and ETF flows.[26] We do this to further isolate the plausibly exogenous component of 5-day stablecoin flows that are unrelated to changing macro-financial and crypto market conditions over the same 5-day period. We include a wide range of yields (FFR, 1M, 3M, 6M, 1Y, 2Y, 10Y) and flows via MMFs and short-term Treasury ETFs to control for macro-financial conditions and potentially confounding demand for T-bills, and we include Bitcoin and Ether prices to control for crypto market conditions.

While carefully selected controls may help reduce endogeneity bias in β_h, they may not fully eliminate it. Therefore, in addition to introducing controls, we consider an instrumental variable for $Flows(5d)_t$ in Equation (4) using the measure discussed in Section 2.3, which captures plausibly exogenous variation in cryptocurrency prices.

3.3 Main results

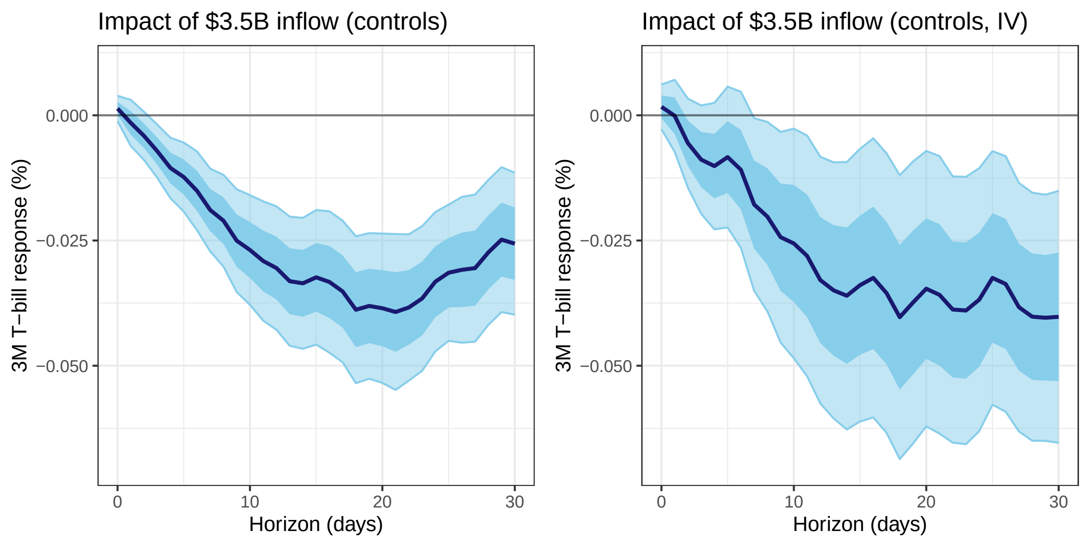
Our linear projection analysis shows a significant impact of stablecoin inflows on T-bill yields, consistent with the event study evidence above. Figure 8 presents local projection IRFs after including controls (left-panel) and incorpo-

[25] The GENIUS Act restricts reserve positions in Treasury securities to those maturing in 93 days or less, while the FFR is an interbank overnight rate.

[26] Results are unchanged if we also control for 5-day changes in the broad dollar index.

rating instrumental variable in addition to controls (right-panel). After including controls, we estimate that a $3.5B aggregate stablecoin inflow (roughly two standard deviations in our sample) compresses 3-month T-bill yields by about 2.5 bps within 10 days, and roughly 3.5 bps within 20 days. When in addition we use our IV to instrument for stablecoin inflows we find an impact of about 2.5 bps within 10 days and roughly 3.5 bps thereafter. We refer to this finding as our baseline effect.

Figure 8: IRF of $3.5B stablecoin inflow on 3-month T-bill yields



Note: IRF estimate produced from local projection specified in Equation (4). A $3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively. The right-panel instruments 5-day stablecoin flows in the local projection with a measure of idiosyncratic crypto price shocks.

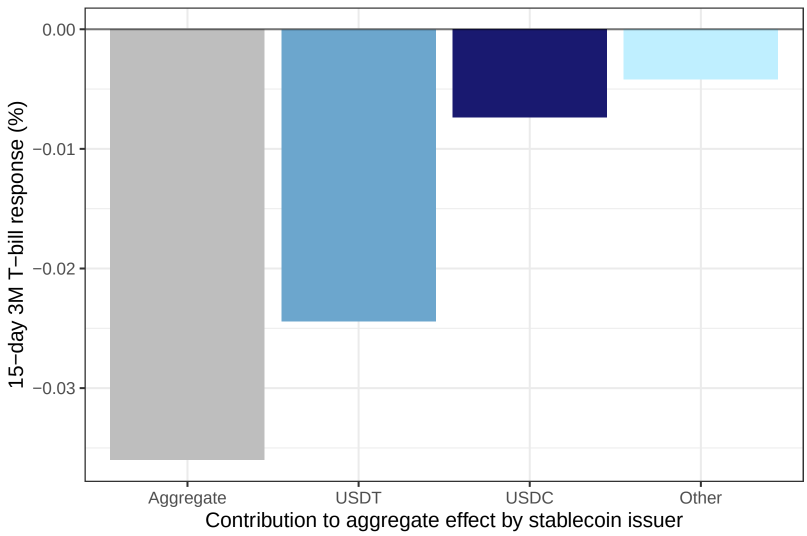
Overall, the results point to substantially smaller effects when endogeneity concerns are addressed. Compared to Figure 12 in Appendix A, the effect size is considerably attenuated after including controls – consistent with omitted variable and simultaneity biases pushing estimates deeper into negative territory relative to the true value.

We decompose the baseline effect into issuer-specific contributions that are broadly in line with market shares. Using the issuer-specific first stage IV estimates from Table 2, we decompose the average impact of aggregate flows on T-bill yields into the contribution USDT, USDC, and others.[27] Figure 9 consid-

[27]We can do this because the first stage coefficient for aggregate flows (3.95) is approximately the sum of coefficients across the disaggregated flows reported in columns 2, 3 and 4. For example, we can estimate the contribution of USDT flows on T-bill yields by multiplying

ers the 15-day impact of aggregate stablecoin flows on 3-month yields, which is about -3.6bps per $3.5 billion inflow (right-panel of Figure 8). USDT's contribution stands at about -2.4bps or 67%, consistent with its size and relatively larger share of T-bills ($186 billion market cap with 63% of their December 2025 reserves in T-bills). USDC's contribution is also meaningful at about 21% ($72 billion market cap with 32% of their November 2025 reserves in T-bills). The 'Other' issuers have the smallest contribution on average, of about 12%, but this is still sizable relative to their current market capitalization.

Figure 9: IRF of $3.5B stablecoin inflow on 3-month T-bill yields



Note: Aggregate bar is the 15-day cumulative impact of aggregate stablecoin inflows on 3-month T-bill yields from IRF estimates produced from the local projection specified in Equation (4) instrumenting 5-day stablecoin flows with crypto price shocks. A $3.5B inflow is approximately a 2-standard deviation flow. Issuer-specific bars report estimated contributions by stablecoin issuer using coefficient estimates from Table 2.

Additional analyses. To test the robustness of the stablecoin flows measure based on stablecoin market capitalization, we also construct a measure of stablecoin flows directly from blockchain transaction data. We use mint and burn data for the following stablecoins (and blockchains): USDT (Ethereum, Tron, Omni), USDC (Ethereum), TUSD (Ethereum), BUSD (Ethereum), and PYUSD (Ethereum). We calculate daily net stablecoin mints as the difference between gross mints and burns, aggregate them across stablecoins, and cumulate them over time to arrive at a measure of outstanding stablecoin supply. The cor-

the total impact by the quotient of their first stage coefficient over the aggregate first stage coefficient ($\frac{2.68}{3.95}$).

relation between this measure and our baseline indicator based on market capitalization is above 0.99. We then proceed to compute flows as the 5-day change, as for our baseline measure. Figure 14 reproduces the baseline IRF results using this alternative indicator of stablecoin flows. The estimated effects are very similar to the baseline results of Figure 8.

One potential concern regarding our results is that the Treasury yields used as controls in Equation (4) are highly correlated with the dependent variable. We use an alternative specification that makes two key changes. First, we use the spread between the 3-month and 6-month T-bill yield as dependent variable, while removing the forward change in the FFR, 6-month and 1-year T-bill yield as controls. Second, we replace the controls for the 5-day change in yield curve variables (e.g., 5-day changes in the FFR, 1M, 3M, 6M, 1Y, 2Y, 10Y yields) with the first two principal component (PCA) factors estimated from this set of yields. Figure 15 in Appendix B presents the results for both non-instrumented and instrumented versions of this local projection. The IRFs are qualitatively similar, while the estimated coefficient size is slightly stronger, i.e. more negative.

A second concern relates to using 5-day stablecoin flows. This has the benefit of reducing daily noise in flows (e.g., from issuers minting coins in advance), but it also generates autocorrelation. In our baseline estimation we use the appropriate standard errors to ensure that any inference accounts for autocorrelation and heteroskedasticity. But we also re-estimate the local projection specification in Equation (4) using 1-day stablecoin flows, $Flow(1d)_t$, and controlling for 1-day changes across the covariate set (e.g., we replace $X(5d)_{p,t}$ with $X(1d)_{p,t}$), while also adding lagged 1-day stablecoin flows to the set of controls, $Flow(1d)_{t-1}$. Figure 16 reports the results, which are again very similar to our benchmark IRFs.

Lastly, we investigate whether effects on yields are limited to the tenor associated with stablecoin issuers' preferred habitat. We test the effects of stablecoin flows on other yields by replacing the 3-month yield as dependent variable in Equation (4) with yields of other maturities. For most tenors, we do not make any other regression specification changes. For the 6-month yield regression we need to remove the 6-month yield from the set of k controls, so $k = \{FFR, 1Y\}$, and for the 1-year yield we remove the 1-year yield from the set of k controls, so $k = \{FFR, 6M\}$. Figure 17 reports instrumented IRFs for the 1-month, 6-month, 1-year, 2-year, 5-year, and 10-year yield following a

$3.5B stablecoin inflow. The 1-month yield, which falls within the investment set of stablecoin issuers, declines and becomes statistically significant at about 20 days. There is little impact of stablecoin flows on all other yield tenors beyond 3-months, and we do not find any meaningful effect on 10-year yields over the first 10 to 20 days. These results are consistent with the impact of stablecoin flows being concentrated among T-bills, i.e. within the preferred habitat of stablecoin issuers. The estimates point however to some impact on the 10-year yield after about 20 days, suggesting the possibility of some indirect spillover effects to select maturities.[28]

3.4 Liquidity conditions and state-dependent price impact

Our baseline estimate is large relative to the literature. While focused on long-term Treasuries, the literature studying the effect of Fed QE suggests estimates in the minus 5-15 basis points range for $100 billion in QE purchases (Sack et al., 2011; D'Amico and King, 2013; Swanson, 2021).[29] Our estimated effects on T-bill yields lie closer to some recent studies on the impact flows on similarly short-term yields. For example, Alquist et al. (2025) find higher repo market spreads of 2-6 basis points for a $3 billion drawdown in Treasury balances by foreign central banks, while Doerr et al. (2023) report a one standard deviation increase in the share of MMF portfolios allocated to T-bills and Fed's reverse repo facility (RRP) lowers T-bill yields by at least 10 basis points relative to the RRP rate.

To rationalize our baseline findings, we explore whether the pass-through from stablecoin flows may be larger under certain regimes. In particular, we test the hypothesis that the price impact of stablecoin flows on T-bill yields depends on Treasury market liquidity conditions, in line with (D'Avernas and Vandeweyer, 2024; Stein and Wallen, 2025), who highlight that T-bill scarcity can create conditions where price impact magnifies. For example, Stein and Wallen (2025) show that bill shortages raise the relative attractiveness of the

[28]Possible mechanisms that explain the effect on 10-year yields could include long-term Treasuries that are used to collateralize stablecoin reverse repo positions, or second-order effects through stablecoin flows impacting dealer inventories. The lack of transparent data across stablecoin issuers impedes a proper empirical assessment of these mechanisms.

[29]See Mian et al. (2025) and Eren et al. (2023) for broader analyses of the demand for government debt and Krishnamurthy and Vissing-Jorgensen (2012) for estimates of the link between debt/GDP changes and the convenience yield on 3-month T-bills. Other studies found sizable effects of Treasury flows on longer term yields (Bernanke et al., 2004; Bordo and Sinha, 2023; Ahmed and Rebucci, 2024; Phillot, 2025).

Fed's RRP for MMFs. When these MMFs exit the bills market, less price-elastic investors step in as the marginal investors.

We study state-dependence in two complementary ways, borrowing respectively from Stein and Wallen (2025) and D'Avernas and Vandeweyer (2024).

First, we assess liquidity conditions through the lens of the Fed's overnight (O/N) RRP facility. We extend Equation (4) to allow the impact of stablecoin flows on 3-month yields to vary depending on whether the RRP is draining or growing (e.g., reflecting ample T-bill supply and T-bill scarcity). We define RRP regimes using the trailing 60-day change in the RRP facility. We refer to drain states (relatively high liquidity in the market) whenever this is negative, and to growth states when it is positive (relatively low liquidity). We capture this with the indicator variable $\mathbf{1}_{t[\Delta \text{RRP}>0]}$,[30] which is interacted with instrumented stablecoin flows:

$$
\begin{aligned}
y^{3M}_{t+h} - y^{3M}_{t-1} = \alpha_h + \beta_{1h} Flow(5d)_t + \beta_{2h} Flow(5d)_t \mathbf{1}_{t[\Delta \text{RRP}>0]} + \\
\sum_{k \in K} \gamma_h [y^k_{t+h} - y^k_{t-1}] + \theta_{1h} Q^{3M}_t + \theta_{2h} \mathbf{1}_{t[Q^{3M}_t>0]} + \\
\theta_{3h} MPS_t + \sum_{p \in P} B^p_h X(5d)_{p,t} + e_{t+h}. \quad (5)
\end{aligned}
$$

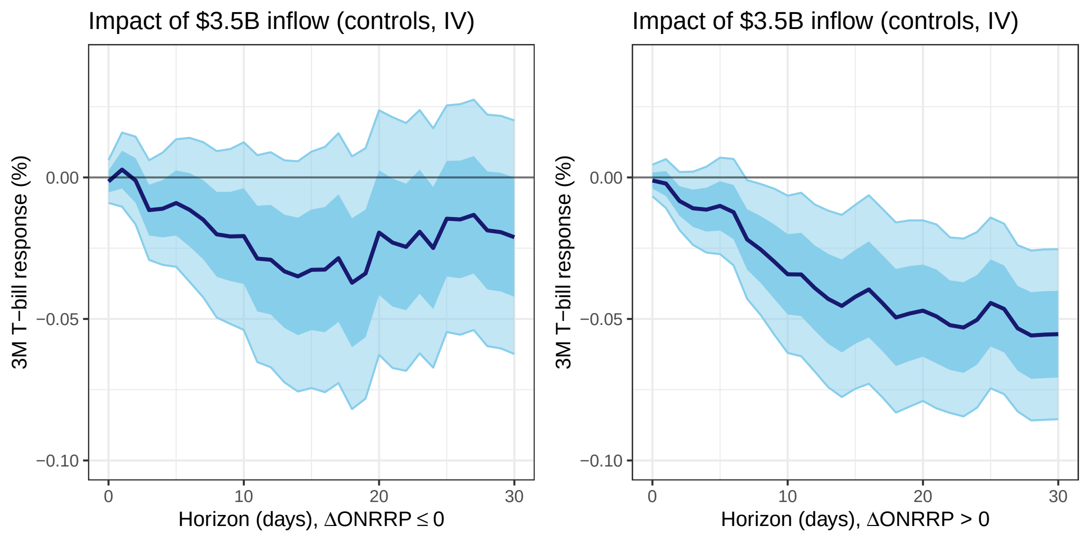
The evidence from this first exercise points to an important role for liquidity conditions. Figure 10 reports the IRFs obtained from estimating Equation (5). The left-panel shows that under 'normal' states of a flat or draining RRP facility (e.g., ample bill supply), the effect of stablecoin flows on 3-month yields decreases to about 2.5 basis points or less, and becomes statistically insignificant. The right-panel shows in turn that the effect size increases to about 5 basis points and becomes highly statistically significant in states of T-bill scarcity (i.e. when the O/N RPP facility is growing).

As a second measure of bill scarcity regimes, we consider periods of elevated US debt ceiling risk. During these periods bill issuance slows or stops as the Treasury department tries to stay within the statutory debt limit. To quantify debt ceiling risk, we construct a 30-day rolling average from daily Google search data for the term 'debt ceiling'.[31] Figure 18 in Appendix B plots

[30] Figure 18 in Appendix B plots the 60-day change in the RPP facility in our sample period.

[31] Because Google Trends only allows daily frequency data to be downloaded 90 days at a time, we use the API to download batches of daily data, which are spliced together and normalized using a variant of Chow and Lin (1971).

Figure 10: IRF of $3.5B stablecoin inflow on 3-month T-bill yields under O/N RRP drain (left) and growth (right) states



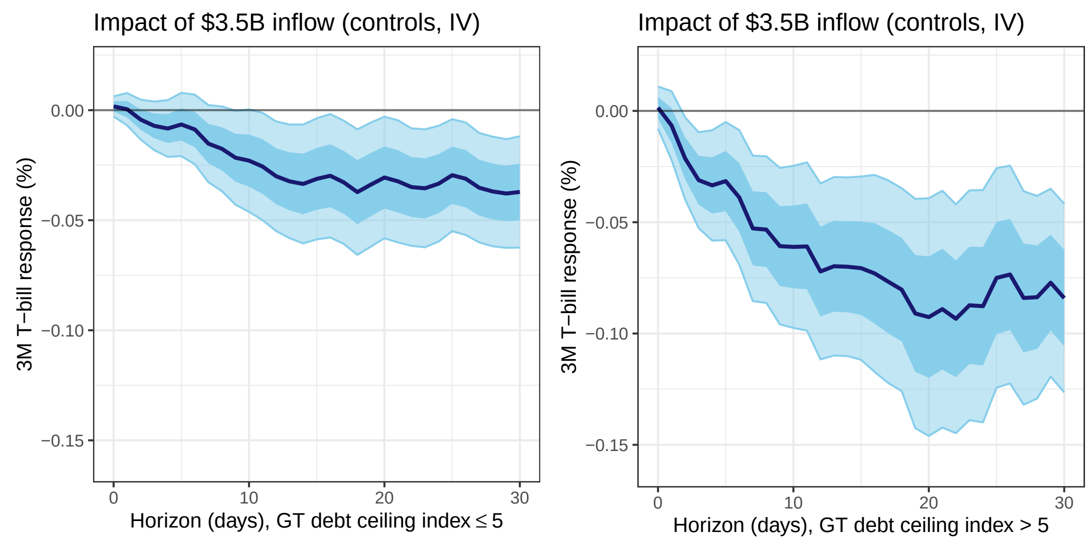
Note: IRF estimate produced from local projection specified in Equation (5). A $3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively. The right-panel instruments 5-day stablecoin flows in the local projection with a measure of idiosyncratic crypto price shocks.

the series, with visibly stark jumps in 'debt ceiling' search intensity marking the start of each debt ceiling crisis within our sample period: October 2021, January 2023 and June 2023, and December 2024.

We define a bill scarcity state as periods when the debt ceiling index exceeded 5 (Figure 18). This value clearly distinguishes debt ceiling crisis periods from non-crisis periods. Moreover, while debt ceiling states serve as an alternative state variable for T-bill scarcity, it is worth noting the weak correlation between the two measures we consider (RRP growth states and debt ceiling states, correlation of 0.04).

Again, evidence of state-dependent price impact is present. Figure 11 reports the IRFs from local projections which replace $\mathbf{1}_{t[\Delta\text{RRP}>0]}$ with an indicator for the 'debt ceiling' search index exceeding 5, e.g., $\mathbf{1}_{t[\text{D-Ceiling}>5]}$, in Equation (5). The results suggest a roughly 2.5 basis point impact of stablecoin flows on 3-month T-bill yields outside of debt ceiling crises when bill supply is not constrained. However, during debt ceiling crises, when bill supply is relatively scarce, the impact of stablecoin flows is not only significantly larger (7-8 basis points) but also more precisely estimated.

Figure 11: IRF of $3.5B stablecoin inflow on 3-month T-bill yields



Note: IRF estimate produced from local projection specified in Equation (5). A $3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively. The right-panel instruments 5-day stablecoin flows in the local projection with a measure of idiosyncratic crypto price shocks.

4 Discussion and policy implications

Sizing up the implications of potential future growth. If the stablecoin sector continues to grow, it is not unreasonable to expect its footprint in Treasury markets to also increase. Our baseline estimates can be used to assess the potential implications stablecoin growth scenarios of stablecoin market growth for Treasury yields. Suppose the stablecoin sector grows 10-fold to $2 trillion[32] by 2028 (as suggested by the Treasury Borrowing Advisory Committee) and the variance of 5-day flows increases proportionally. Assuming that this growth represents new net demand for T-bills (i.e. that growth does not come at the expense of other entities that are already invested in T-bills, such as MMFs), then a 2-standard deviation flow would amount to roughly $11 billion, with an estimated impact of -7.85 to -11 bps on T-bill yields.[33] These

[32] As of end-2024, the market capitalization of the universe of stablecoins we consider was around $200 billion.

[33] The sample variance of 5-day stablecoin flows is about $(\$1.75 \text{ billion USD})^2 = 3.06$. If multiplied by 10, this results in a standard deviation of flows of $30.6^{1/2} = 5.53$, or a 2-standard deviation flow of about $11 billion if we assume that the variance of flows increases 10-fold when the size of the stablecoin sector increases 10-fold. A similar calculation using Citigroup's prediction of $1.6 trillion by 2030 implies a yield impact of -7 to -9.8 bps following a 2-standard deviation inflow.

estimates suggest that a growing stablecoin sector may eventually suppress short-term yields to an extent that meaningfully influences the transmission of Fed monetary policy to market-based yields.

Mechanisms. There are at least three channels through which stablecoin flows can impact Treasury market pricing. The first is through direct demand, as stablecoin purchases reduce available bill supply so long as the flows into stablecoins would not have otherwise made their way into T-bills. The second channel is indirect, as demand for Treasuries from stablecoins could relieve dealer balance sheet constraints. This, in turn, impacts asset prices, as it would reduce the quantity of Treasury supply that dealers need to absorb. Another indirect channel arises through stablecoins' reverse repo positions collateralized by Treasury securities, which at least theoretically could impact the supply of Treasuries available to the market. The third channel is through signaling effects, as large inflows may serve as a public signal for institutional risk appetite or lack thereof, which investors then price into markets.

Policy implications. Policies around reserve transparency are set to interact with stablecoins' growing footprint in Treasury markets. For example, USDC's granular reserve disclosures enhance market predictability, whereas USDT's opacity complicates analysis. Regulatory mandates for standardized reporting could mitigate systemic risks arising from concentrated ownership of Treasury securities by making some of these flows more transparent and predictable. While the stablecoin market is still comparatively small, stablecoin issuers are already a significant player in Treasury markets, and our results point to some effect in yields already at this early stage.

Monetary policy is also set to interact with the role of stablecoins as Treasury investors. For example, in a scenario where stablecoins become very large, stablecoin-driven yield compression may weaken the Fed's control over short-term rates, potentially necessitating coordination among regulators for monetary policy to effectively influence financial conditions. This idea is not merely theoretical – 'Greenspan's Conundrum' of the early 2000's, for instance, rose out of the observation that the Fed's monetary policy was not transmitting as expected to long-term Treasury yields. At the time, it was largely attributed to outsized foreign investor demand for Treasury securities affecting Treasury market pricing. Moreover, demand from a large and growing stablecoin sector may push short-term rates below the floor set by the Fed under an 'ample reserves' regime. The Fed's overnight reverse repo facility ameliorated similar issues with MMFs, but stablecoin issuers currently do not have access to Fed facilities.

Finally, there are clear financial stability implications that arise from stablecoins becoming large investors in Treasury markets. As discussed in the literature on stablecoins, they remain runnable, with their balance sheets subject to both liquidity and interest rate risk, as well as some credit risk exposures. As such, concentrated positions in T-bills, particularly those which are not set to immediately mature, may subject the market to fire sales if a major stablecoin were to face severe redemption stress, not least given the absence of discount window or lender-of-last-resort access (Aldasoro et al., 2023). The evidence we present suggests that the impact of stablecoins is highly contingent on liquidity conditions in the market. It is not unreasonable to foresee scenarios in which runs on stablecoins occur within a broader context of adverse liquidity conditions. In this regard, the magnitudes suggested by our estimates may be a lower bound. The estimates are obtained in a sample mostly featuring a growing market, when there is leeway in the timing of purchases. Under stress, there is less space for discretionary timing of sales, suggesting that the impact of outflows may under some scenarios be larger than that of inflows. The financial stability impact of such fire sales may not be significant while the stablecoin sector is small, but this could change if the stablecoin sector grows. This could exacerbate existing concerns about the stability of the Treasury market and spillovers from the crypto ecosystem.[34]

Limitations. Our analysis presents some of the first evidence of stablecoins' emerging footprint in Treasury markets. However, our results should be interpreted with caution. First, we face data constraints, as the history of stablecoin market data is relatively short and the maturity disclosures of large stablecoins' reserve portfolios, particularly USDT, is incomplete, thereby complicating identification. As a result, we must make assumptions about which T-bill tenor is most likely to be affected by stablecoin flows.

Second, we control for financial market volatility by including Bitcoin and Ether returns, along with yield changes for a variety of Treasury maturities, T-bill issuance, MMF and ETF flows, and monetary policy shocks. However, these variables may not fully capture risk sentiment, macroeconomic condi-

[34] See e.g. Financial Times: How the Treasury market got hooked on hedge fund leverage.

tions, or non-linearities that jointly affect stablecoin flows and T-bill yields. We try to address these issues with an IV strategy and several robustness checks, but we are aware that our IV may itself be subject to limitations, including mis-specification in our local projection model.[35] Moreover, due to data limitations and the high concentration in the stablecoin sector, our estimates rely almost exclusively on time-series variation, as the cross-section is too limited to be exploited in any meaningful way.

5 Conclusion

Stablecoins have already established themselves as significant players in Treasury markets, with measurable and significant effects on short-term yields. Their growth blurs the lines between cryptocurrency and traditional finance, demanding regulatory attention to reserve practices, potential implication for monetary policy transmission and financial stability risks. Future research could explore cross-border spillovers and interactions with money market funds, particularly during liquidity crises.

[35]For example, our baseline local projection specification assumes a constant and linear relationship between stablecoin flows and horizon h T-bill yields, which may not necessarily be the case – especially if structural breaks arise in the relationship as the stablecoin market matures. If this were to happen, however, estimated effects will likely be larger than we currently find, and consistent with non-reported findings of stronger effects in the latter period of our sample. An additional potential concern is T-bill convexity effects – we do not think this is an issue in our analysis given the short maturity we focus on, which implies that the relationship between T-bill price and yield is nearly linear.

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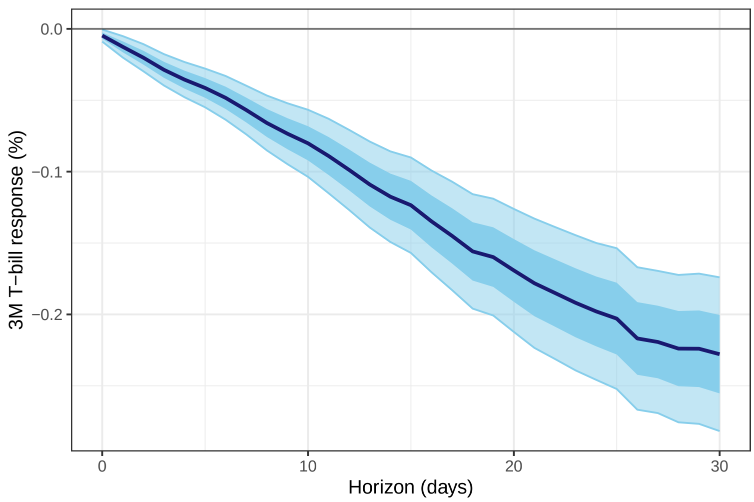
A Stablecoin flows, T-bill yields and endogeneity

In this appendix we present results from local projections that neither control for potential confounders nor use an instrument for stablecoin flows. This helps us illustrate the estimation biases that need to be considered. The estimation equation is given by:

$$y^{3M}_{t+h} - y^{3M}_{t-1} = \alpha_h + \beta_h Flow(5d)_t + e_{t+h}, \qquad h = \{0, ..., 30\}, \tag{6}$$

where as before β_h are a sequence of estimates that trace the raw impulse response function of 5-day stablecoin flows, $Flow(5d)_t$, on h-day changes in 3-month T-bill yields, $y^{3M}_{t+h} - y^{3M}_{t-1}$, absent any controls. Figure 12 reports the IRF, with estimates scaled to a \$3.5B stablecoin inflow (approximately 2 standard deviations).

Figure 12: IRF of \$3.5B stablecoin inflow on 3-month T-bill yields (no controls)



Note: IRF estimate produced from local projection specified in Equation (6). A \$3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively.

The local projection estimates suggest that a \$3.5B inflow into stablecoins is associated with 3-month T-bills compressing up to 25 bps over the following 30 days. These estimates are implausibly large, as they imply an impact on short-term yields similar to that of a Federal Reserve interest rate cut.

The large estimates are likely explained by the presence of endogeneity. Endogeneity from simultaneity, for example, may be at play. Because stablecoins pay zero interest, the opportunity cost of holding them increases with interest rates.[36] As a result, it is possible for high interest rates to negatively impact stablecoin flows and for large stablecoin flows to negatively impact interest rates at the same time. Left unaddressed (as in Figure 12) and under simple but plausible assumptions, such simultaneity biases the IRF estimates downward, making them larger and more negative than the true effect of flows on yields.[37] The lag structure of the local projection specification in Equation (6) may alleviate some simultaneity concerns, but it cannot eliminate it on its own because of the forward-looking nature of financial markets. Moreover, because stablecoin flows do not occur in a vacuum, it is possible that the IRF estimates in Figure 12 are also subject to endogeneity from omitted variable bias. For example, macroeconomic conditions can jointly impact the demand for cryptocurrencies and stablecoins while also impacting Treasury yields.[38]

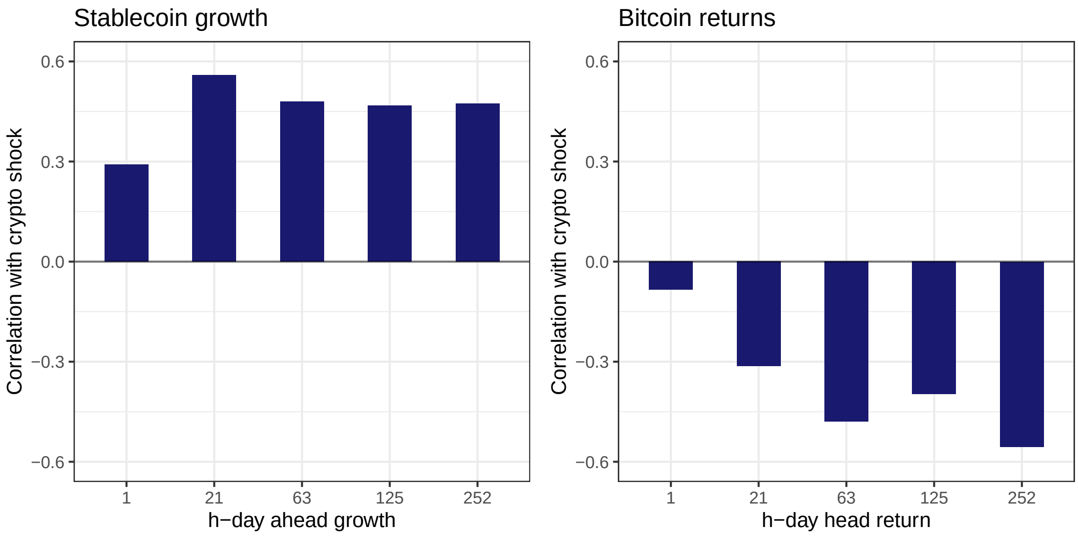
B Additional figures

[36]While stablecoins generally do not pay interest natively, holders can earn interest indirectly by placing balances on third parties such as exchanges or DeFi platforms offering interest or rewards. While it is difficult to recover the precise quantity of stablecoins earning interest indirectly with third parties, it is unlikely that the majority of dollar-backed stablecoins are earning indirect interest. As of Q3 2025, about $15 billion, or 20%, of USDC in circulation was held on Coinbase earning indirect interest, according to their quarterly filings. According to DefiLlama data, under $5 billion in USDC and USDT were locked into the largest DeFi lending protocol, Aave. For comparison, the outstanding supply of USDC and USDT was near $270 billion.

[37]See Ahmed and Rebucci (2024) for an in-depth analysis of signing the bias when estimating the flow effect on Treasury yields.

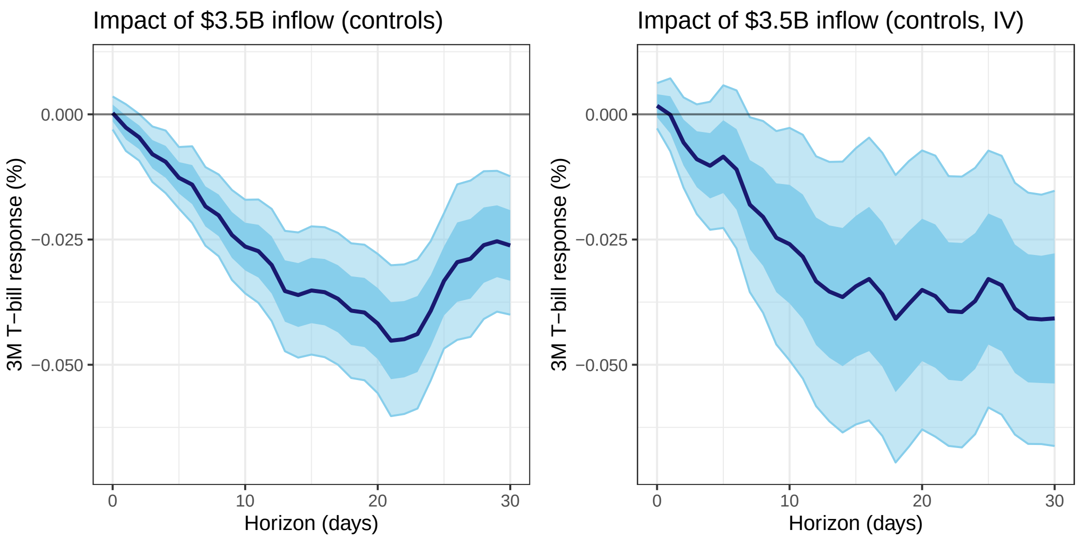
[38]E.g., inflation reduces the real return to holding stablecoins and typically pushes nominal Treasury yields higher. For evidence of how stablecoins react to monetary policy shocks, see Aldasoro et al. (2025). On the macroeconomic drivers of of cryptocurrency adoption, see Ahmed et al. (2024). For a discussion of how adoption of crypto and stablecoins depends on Bitcoin prices (and how retail investors chase past returns), see Auer et al. (2025).

Figure 13: Correlations of $t + h$-day ahead stablecoin growth (left) and Bitcoin returns (right) with time t cumulative crypto shock values



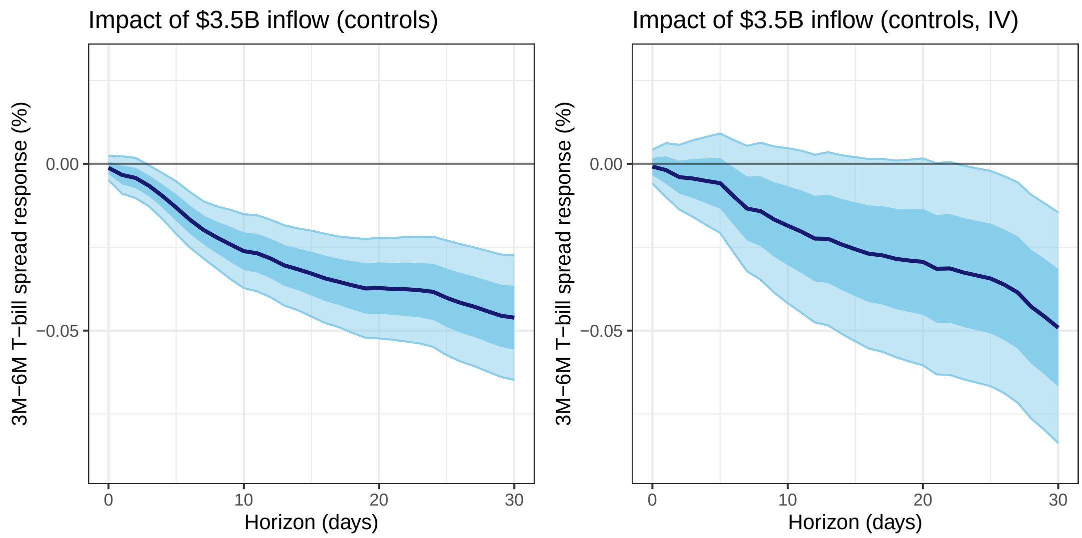
Note: Cumulative crypto shock series as portrayed in the right-panel of Figure 4.

Figure 14: IRF of \$3.5B stablecoin inflow on 3-month T-bill yields, using flows constructed from blockchain mint and burn data



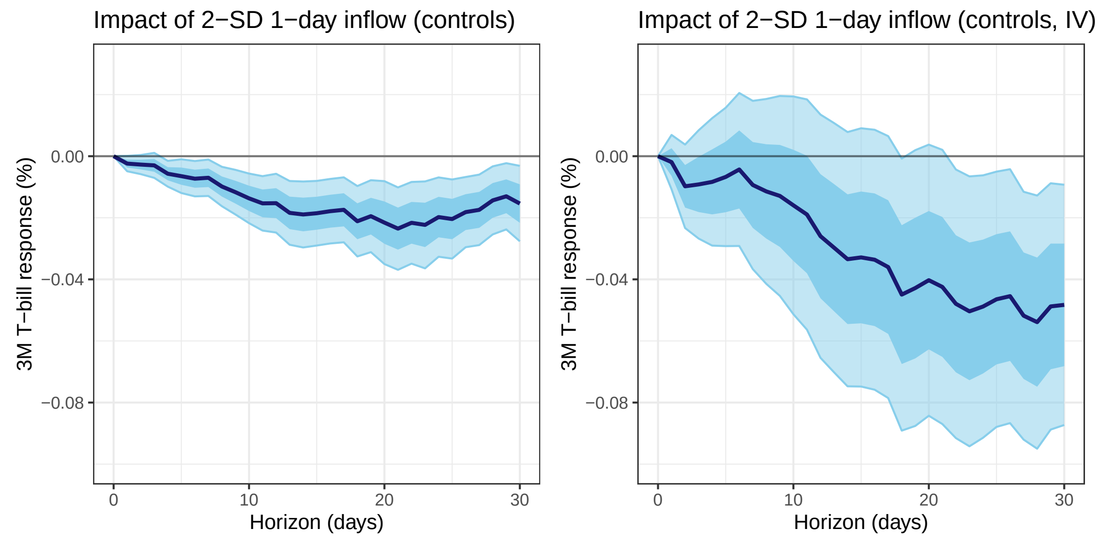
Note: IRF estimate produced from local projection specified in Equation (4), but with stablecoin flows constructed from blockchain-level stablecoin mint and burn data, for USDT (Ethereum, Tron, Omni), USDC (Ethereum), TUSD (Ethereum), BUSD (Ethereum), and PYUSD (Ethereum). A \$3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively. The right-panel instruments 5-day stablecoin flows in the local projection with a measure of idiosyncratic crypto price shocks.

Figure 15: IRF of $3.5B stablecoin inflow on 3-month T-bill yield spread to the 6-month yield under the specification using Principal Components



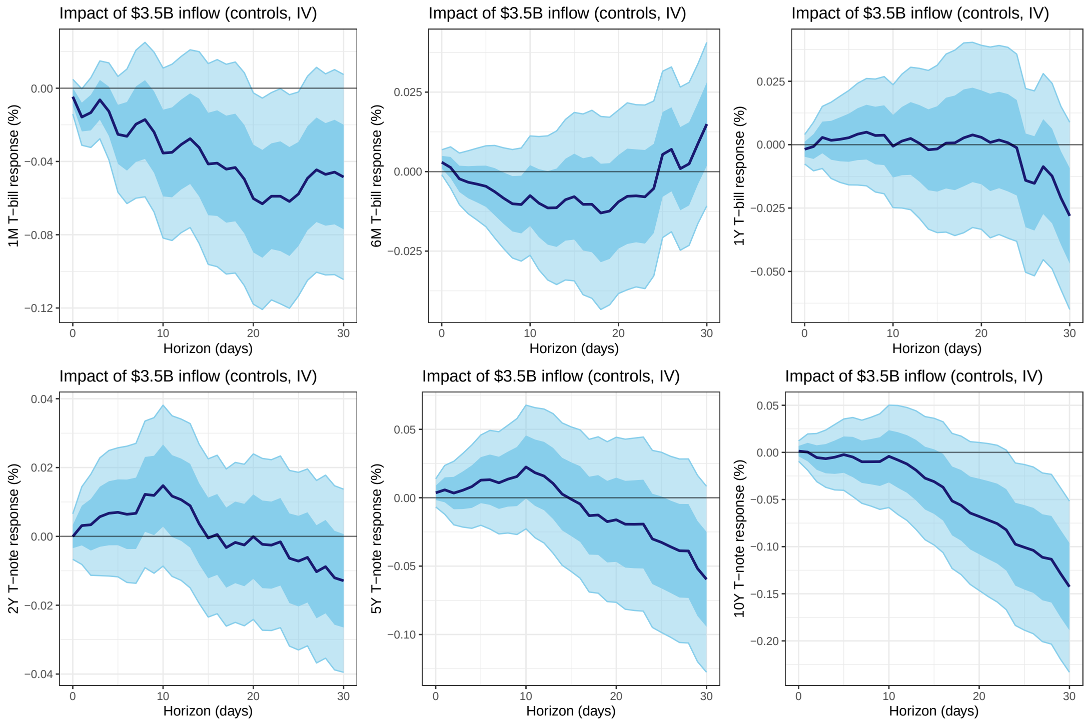
Note: IRF estimate produced from local projection specified in Equation (4), but with $k = k' = \{2Y, 10Y\}$. A $3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively. The right-panel instruments 5-day stablecoin flows in the local projection with a measure of idiosyncratic crypto price shocks.

Figure 16: IRF of 2-standard deviation 1-day stablecoin inflow on 3-month T-bill yields



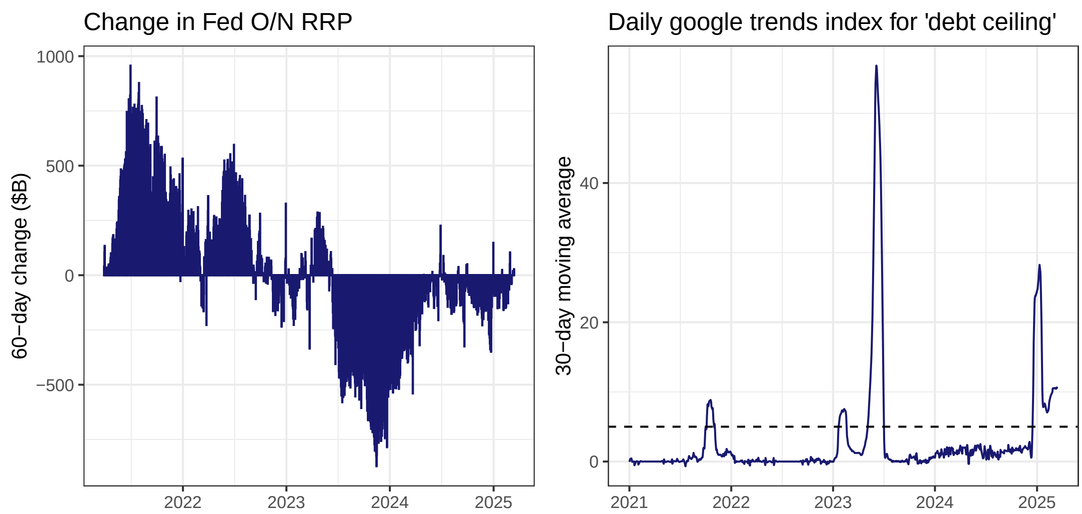
Note: IRF estimate produced from local projection specified in Equation (4), but with 1-day stablecoin flows ($Flow(1d)_t$) and controlling for 1-day changes in the covariate set ($X(1d)_{p,t}$) and adding 1-day lagged stablecoin flows, $Flow(1d)_{t-1}$, as an additional control. A $1.1B inflow is approximately a 2-standard deviation 1-day flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively. The right-panel instruments 1-day stablecoin flows in the local projection with a measure of idiosyncratic crypto price shocks.

Figure 17: Instrumented IRF of $3.5B stablecoin inflow on yields other than the 3-month tenor



Note: IRF estimate produced from local projection specified in Equation (4) instrumented with crypto price shocks, with 1-month, 6-month, 1-year, 2-year, 5-year, and 10-year Treasury yields as dependent variables, respectively. A $3.5B inflow is approximately a 2-standard deviation flow. Darker and lighter shaded regions correspond to 68% and 95% Newey-West confidence bands, respectively.

Figure 18: Bill scarcity state variables: 60-day change in the Fed overnight RRP facility (left) and 30-day average google search index for ′debt ceiling′(right)



Note: Dashed horizontal line in the right-panel indicates a value of 5. These state variables are incorporated into Equation (5) as indicators.

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