

Stablecoin Dashboard: 1Q22

Stablecoin Assets Shrink Amid the Collapse of Terra

The stablecoin market shrank between end-March and end-May 2022 for the first time since Fitch Ratings began tracking it, mainly due to the collapse of TerraUSD (UST). UST's market capitalisation plummeted to USD300 million at end-May from USD16 billion at end-1Q22. The aggregate market capitalisation was USD162 billion at end-May, a 14% fall from USD188 billion at end-1Q22. UST's collapse was triggered by the failure of the algorithmic mechanism pegging its value to the US dollar. The prices of other algorithmic stablecoins also decreased, with FRAX and DAI similarly falling by 47% and 32%, respectively, between end-1Q22 and end-May.

The development team behind UST has since launched a new blockchain - Terra 2.0 (LUNA) - but without an algorithmic stablecoin. Nonetheless, new algorithmic stablecoins have been launched that have rapidly gained market share, partly due to aggressive staking promotions. For example, USDD was launched in May 2022 and is already the eighth-largest stablecoin by market capitalisation (USD576 million), following time-limited staking rewards of 30%-60% (annual yield).

UST's de-pegging caused volatility in the rest of the market, with Tether's value falling to 0.9958 on 11 May. Tether's market cap fell by 11% between end-1Q22 and end-May. UST's failure has led to calls for increased regulatory oversight. The UK is consulting on proposals that would see failed systemic stablecoin issuers placed into special administration under the Bank of England.

The market remains concentrated, with Tether and USDC accounting for about 63% of total assets at end-May. Tether's portfolio has reduced its credit risk and duration, and increased its liquidity. As of end-1Q22, less than 0.5% of the CPs and CDs in the reserve portfolio were rated 'F3' or below. It holds 48% of its portfolio in the form of US treasury bills.

What to Watch

Portfolio Composition: The stablecoin market seems to be moving towards more conservative reserve portfolio composition and more frequent disclosure of these portfolios. USDC now produces weekly USDC reserves breakdowns. At end-1Q22, all of USDC's reserves assets were backed by cash or Treasuries.

Increasing Price Volatility and Contagion Effect: Stablecoin volatility has increased since end-1Q22, following the collapse of UST. As of end-May, the values of Tether and USDC diverged from 1 US dollar by 49bp and 16bp, respectively.

Increasing Number of Aggressive Stablecoins: New stablecoins are entering the market with large market capitalisation and aggressive offers, attracting retail and institutional investors. Once staking promotions for new stablecoins expire, further moves in market cap may occur.

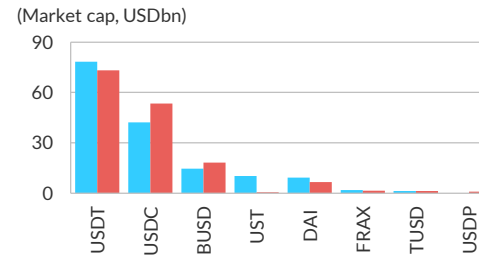


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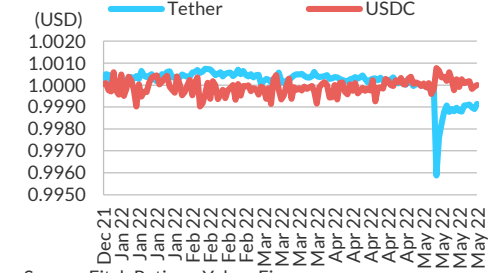
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Material Changes in the Composition of Stablecoin Market



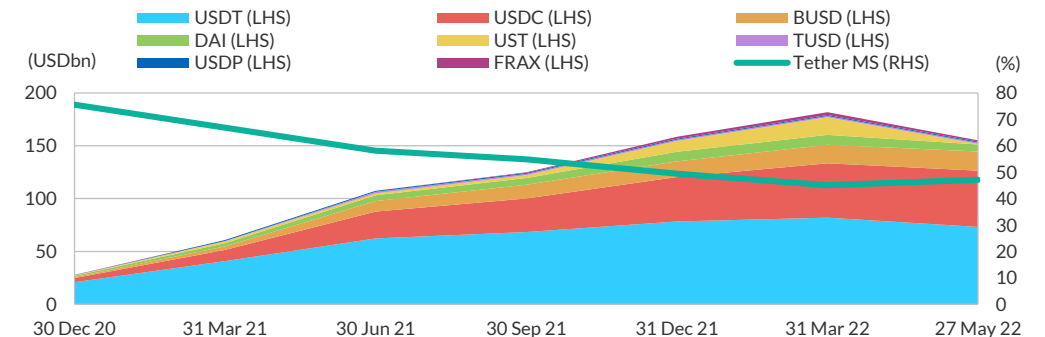
As of end-4Q21 and end-1Q22
Source: Fitch Ratings, CoinMarketCap

Price Volatility of Tether and USDC Is Increasing



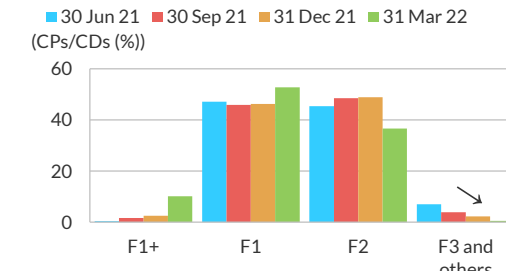
Source: Fitch Ratings, Yahoo Finance

Changes in the Market Shares of the Largest Stablecoins



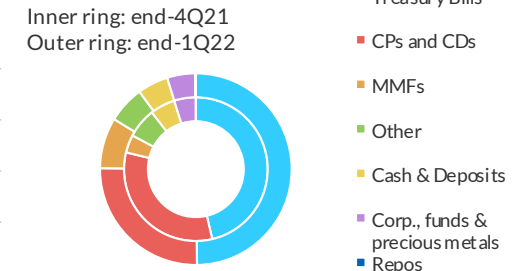
As of 14 March 2022
Source: Fitch Ratings, CoinMarketCap

Very Limited Exposure to Lower-Rated CDs and CPs in Tether Portfolios



Source: Fitch Ratings, Tether Holding Limited

More US T-Bills and MMFs in Tether's Reserves



Source: Fitch Ratings, Tether Holding Company

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