Cryptodollars and the Hierarchy of Money

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Crypto-banking & bridging TradFi and DeFi

Created the first Core Unit of MakerDAO (Real-World Finance)

Worked on >10 real-world assets deals for $2,000M

Initiated financial statements for on-chain protocols

Trying to figure out what crypto-banking is

Steakhouse Financial

🐦 @SteakFi
https://steakhouse.financial/

Crypto-native financial advisory

Enabling the DeFi ecosystem to be the next gen financial system

Experts in finance and real-world assets

Working with Tier 1 DeFi protocols

MAKER   LIDO   ENS
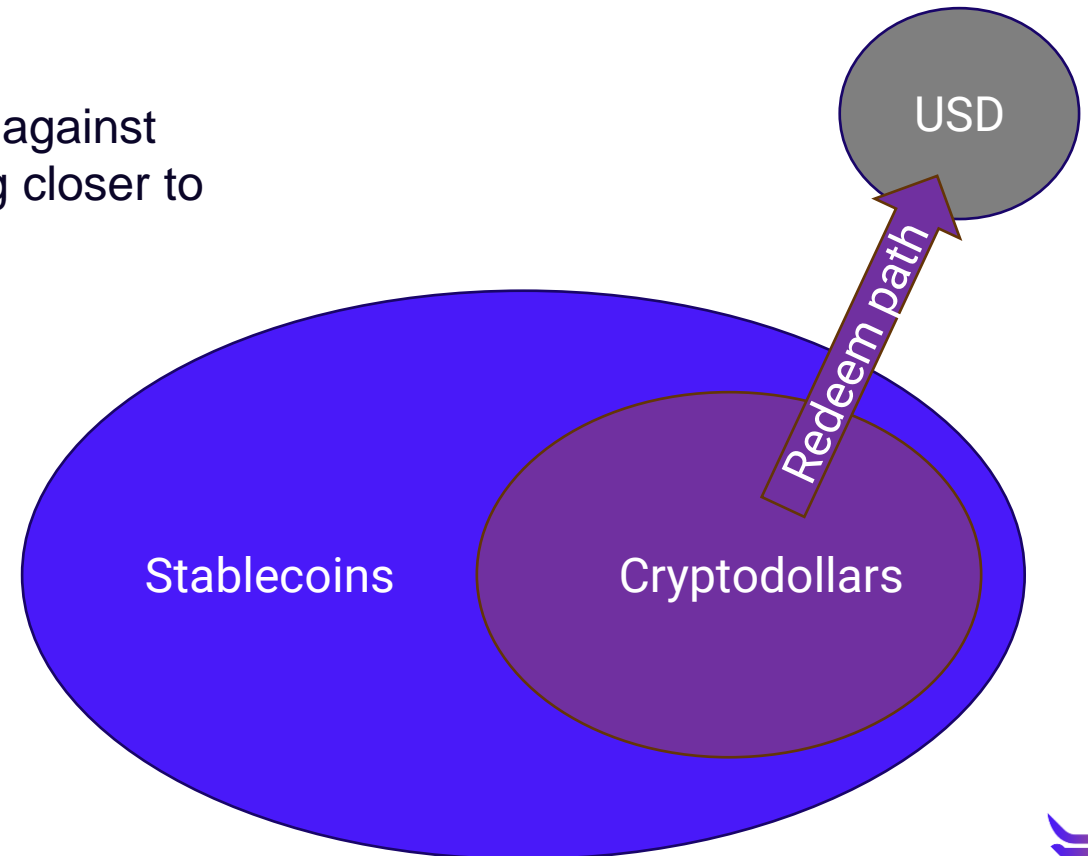
Morpho   ANGLE

Stablecoins vs Cryptodollars?

Stablecoin

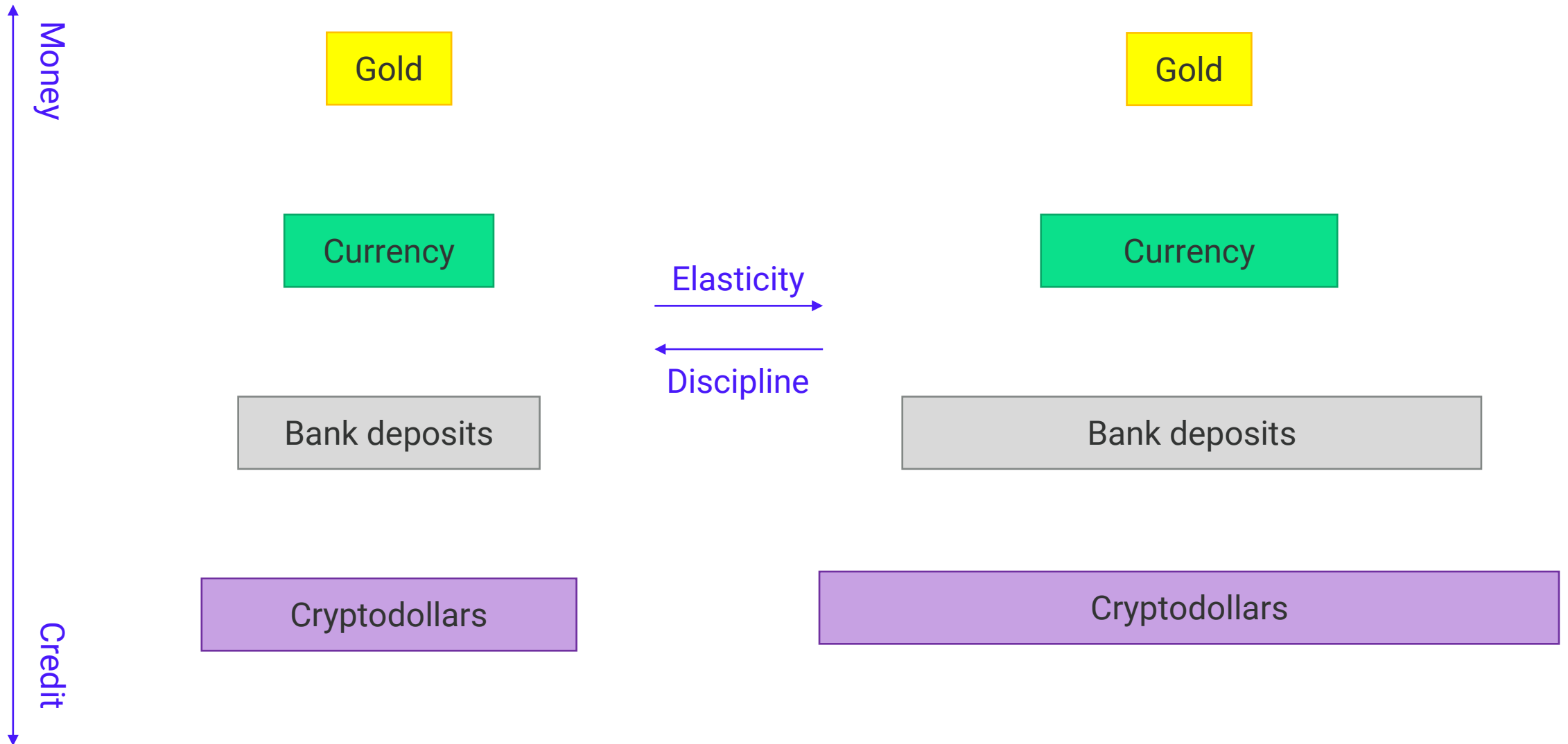On-chain issued liabilities that promise to maintain value relative to a reference asset (eg USD)

Cryptodollars

Stablecoins that are redeemable on demand at par (1:1) against higher-level money (i.e. the reference asset or something closer to the reference asset)

Cryptodollars are a subset of stablecoins

USD

Redeem path

Stablecoins   Cryptodollars

Hierarchy of money*

Money

Credit

Gold

Currency

Elasticity →

← Discipline

Bank deposits

Cryptodollars

Gold

Currency

Bank deposits

Cryptodollars

*Assumes gold standard

Natural hierarchy of money by P Merhling

Fractional vs full reserve

Full reserve

The Cryptodollars (lower-level money) are backed 100% by higher level money (e.g. bank deposits and t-bills).
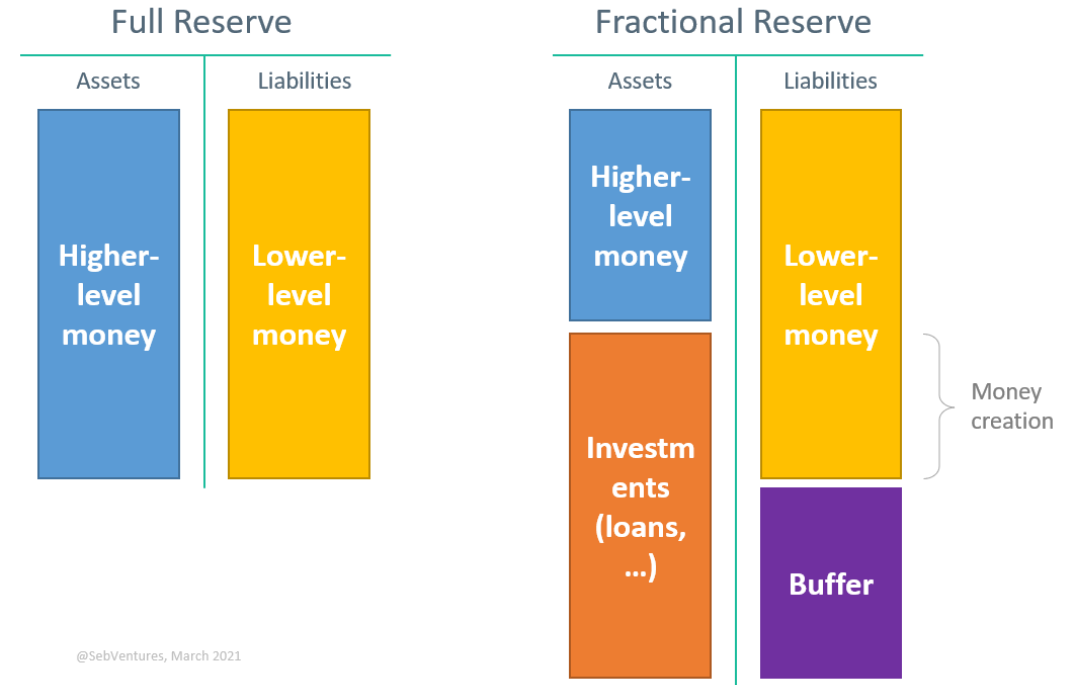
Ex: PYUSD, USDC

Fractional reserve

The Cryptodollars are backed by a portion of higher-level money (liquidity reserve) but also other investments that are less liquid and/or riskier.

Ex: DAI, USDT, early USDC

No reserve

The Stablecoins aren't backed by any higher-level money. No peg arbitrage. Not Cryptodollars.
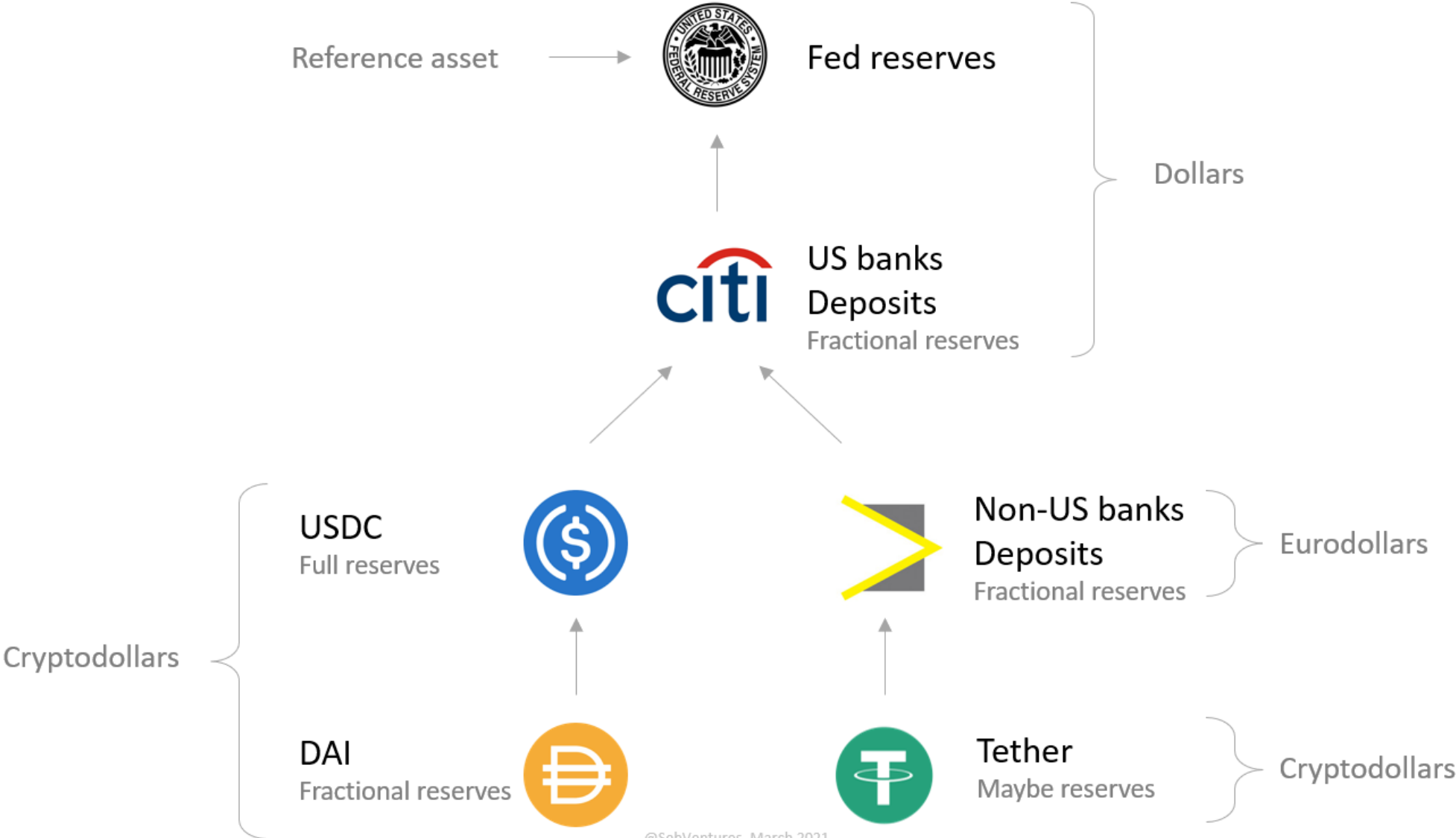
Ex: LUSD, early DAI

⚠️ Fractional reserve is about asset composition (liquidity and risk), not about the absence of assets (Terra)

Hierarchy of money in the stablecoin era

Primary vs secondary markets

Primary markets

Minting and redemption at the issuer. Par (price of the stablecoin) is usually enforced.

Secondary markets

Exchanges (Cex and Dex) where price is driven by supply/demand and arbitrage opportunities.

Both primary and secondary markets are important for Cryptodollars

There is usually not a single secondary price

Example of a € fiat-backed stablecoin (secondary market)

May 5, 2024, 13:08:29 GMT+2
Price: €0.988877
Vol: €825,370
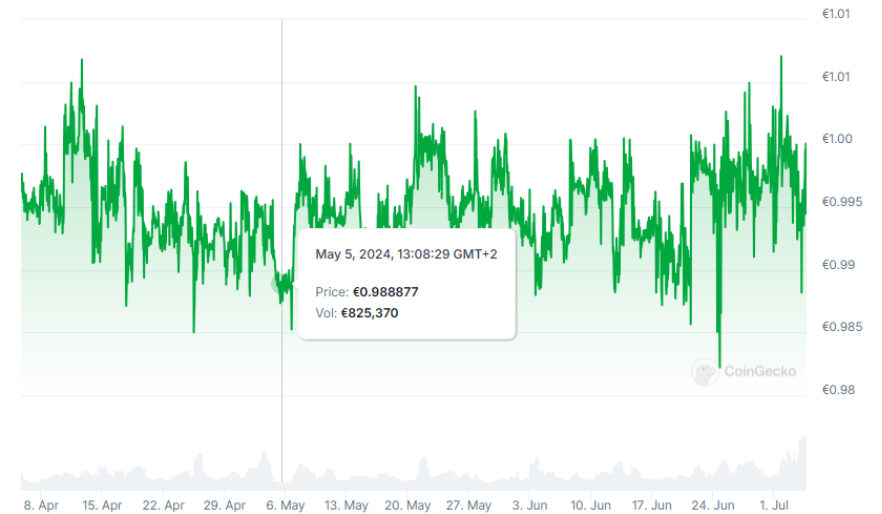
Example of different prices for the same stablecoin

Bancor (V2)	DAI/BNT		$1.03
Quickswap (v3)	USDC/DAI	Live Chart	$0.999874
Sushiswap	DAI/WETH	Live Chart	$1.00
Uniswap V3 (Ethereum)	DAI/USDT	Live Chart	$0.996929

Elasticity of cryptodollars

Gross outflow

Units of stablecoins redeemed over 30 days in percentage of the stablecoins in circulation

Net outflow

Gross outflow minus stablecoins minted with higher-level money over 30 days
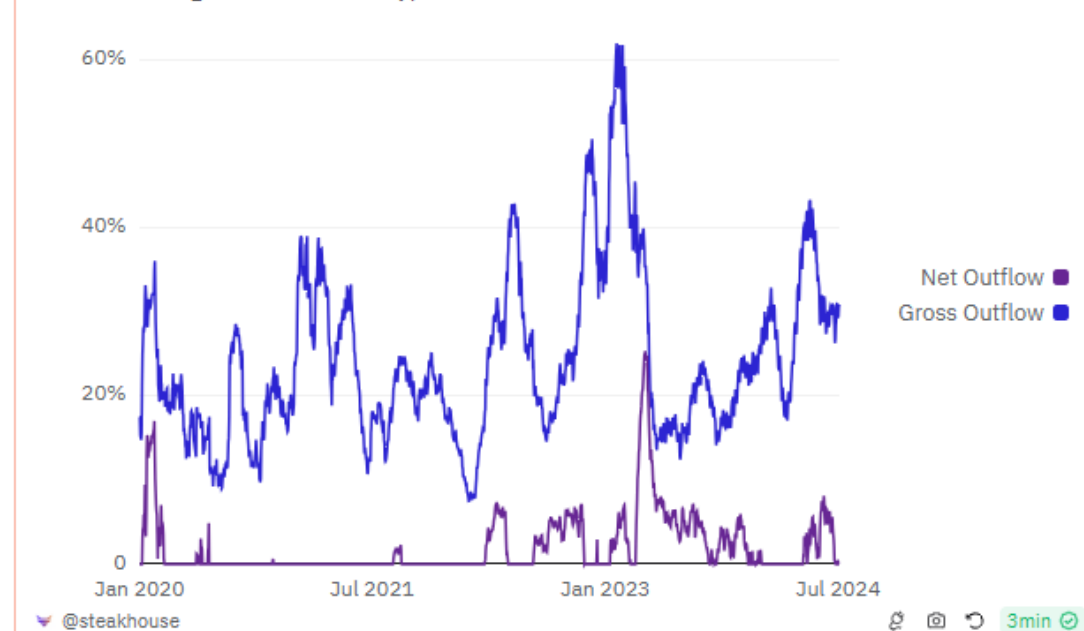
Cryptodollars issuers process a lot of redemptions even when the circulating supply doesn't change

For significant stablecoins, 20% net outflow over 30 days are rare events

Cryptodollars - DAI outflows
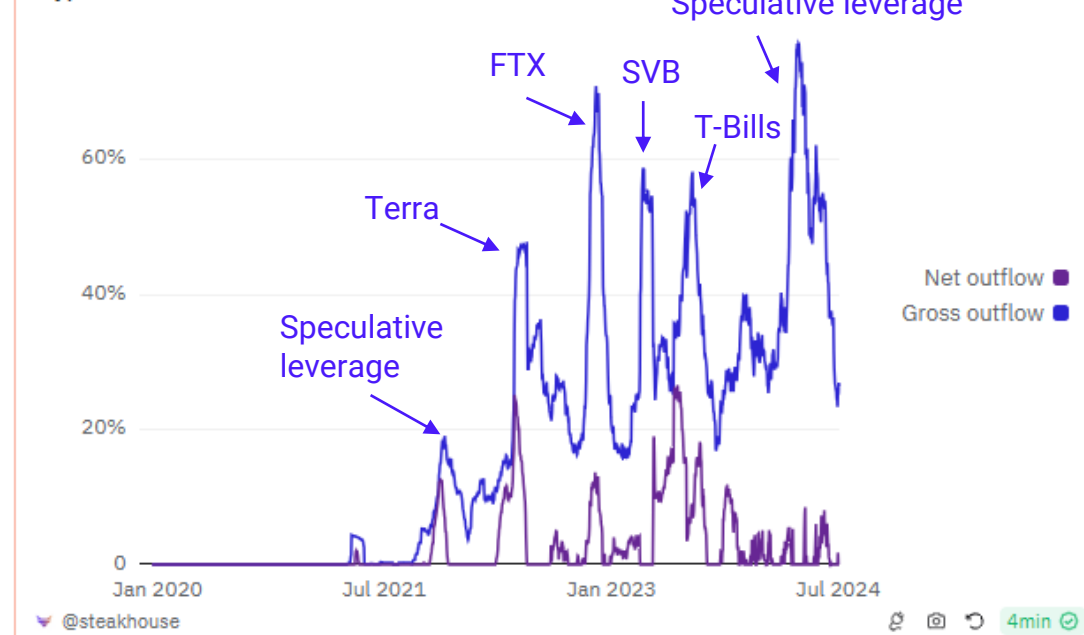
USDC net and gross outflows   Cryptodollars - USDC Outflows
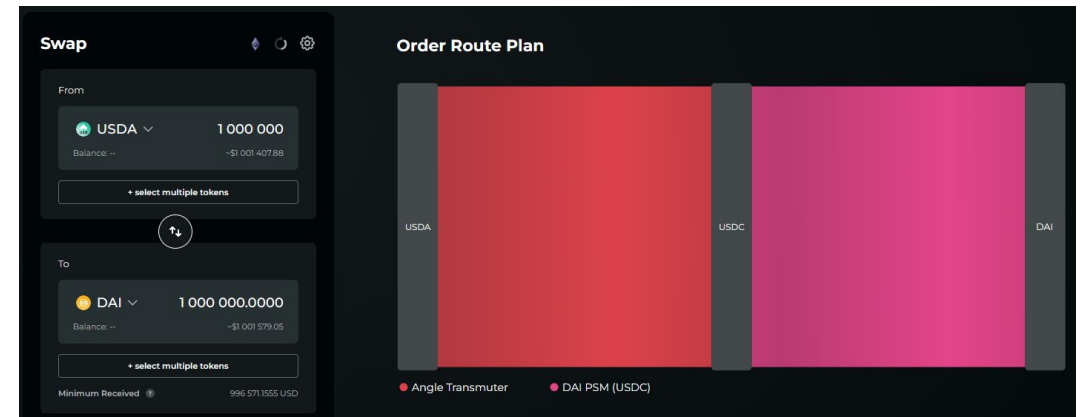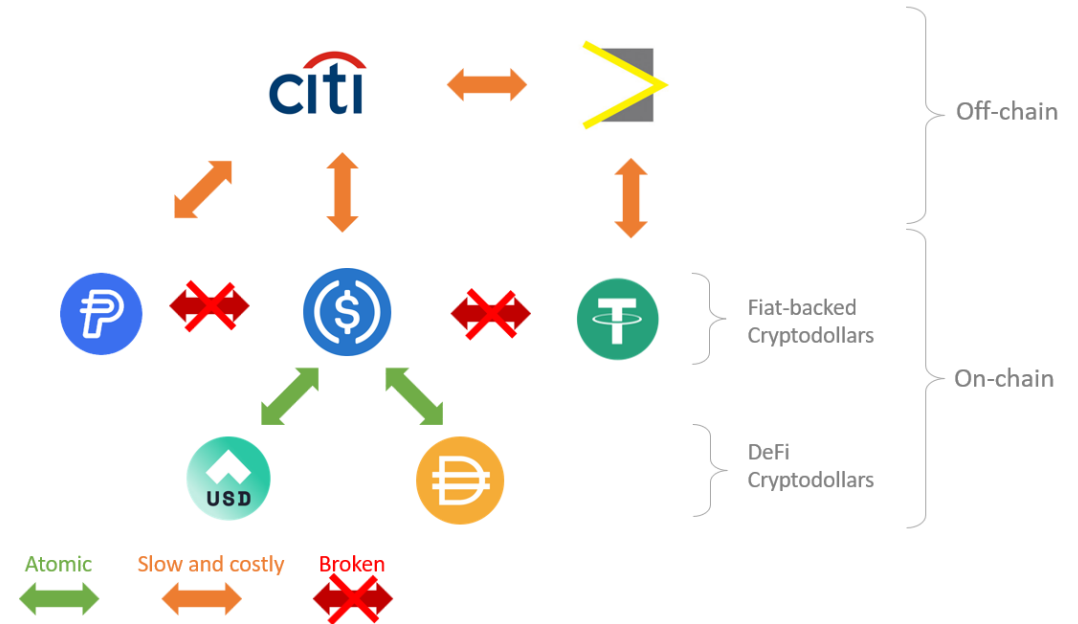
Singleness of money

Singleness of money allows, within a hierarchy of money, to move from one financial instrument to another frictionlessly.
In TradFi the different forms of money are abstracted (€, not BNP or ING) while in DeFi we still have non fungible financial instruments €A, €C, €CV.

The problem is not the lack of CBDC as singleness of money existed without central banks

Regulation and lack of coordination make progress very difficult

Key issue for mass adoption

The evolving hierarchy of money

Eurodollars era

Cryptodollars era?

Fed reserves ← Reference asset → Fed reserves

Dollars

US banks Deposits
Fractional reserves
citi

Eurodollars

Non-US banks Deposits
Fractional reserves

Fiat-backed Stablecoins
Full reserves
Centralized
Non-yielding

DeFi stablecoins
Fractional reserves
Decentralized
Yielding

Dollars ?