Stablecoin Flows, Dollar Convenience Yields and Exchange Rates

Discussion of Huang, Lou, Shao, and Wang

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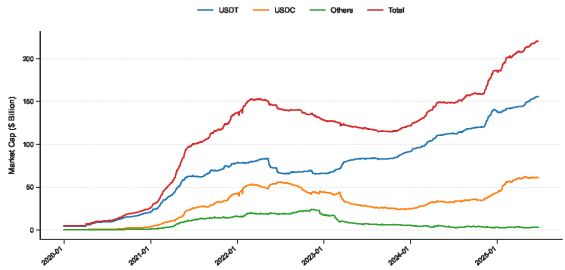
Why this paper matters

- Stablecoins are now a $300bn+ **dollar balance sheet** outside the banking system, and one of the largest marginal buyers of T-bills.
- They bundle three objects: a claim on dollar safe assets, a digital payment rail, and the on-ramp between fiat and crypto.
- So they sit right on top of our core questions: safe-asset demand, convenience yields, dollar dominance, FX, and financial stability.



Source: Huang, Lou, Shao, and Wang, Figure 1.

What the paper does

- **Question:** do USD stablecoin inflows move dollar convenience yields and exchange rates?
- **Setup:** daily data, 2021Q1–2025Q2; convenience yield (Φ) measured from CIP deviations (Du et al.).
- **Identification — three complementary strategies:**
  - panel regressions of 21-day flows on next-month convenience-yield and FX changes;
  - **IV**: instrument flows with *lagged crypto-market shocks* — the part of the BGCI orthogonal to a set of macro factors;
  - **event study**: the 2024 U.S. election as a crypto-demand shock.

Flow object: net issuance of USD stablecoins, proxied by the monthly change in market cap.

Main results — and the real puzzle

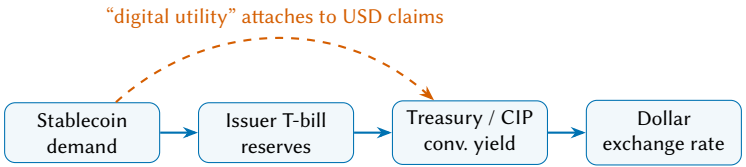
- One s.d. inflow ($5.87bn) → convenience yield +1.3 bps (OLS), +4.1 bps (IV); dollar +0.87% over 21 days, *larger at longer horizons and not reversing*.
- Stronger for **USDC**, for tight pegs, and when convenience yields / VIX are already high.
- This paper's logic: reserve buying pushes down short-term Treasury yields ⇒ textbook UIP says the dollar should *depreciate*; they find *appreciation* ⇒ they read this as a convenience-yield effect.

The sign is robust. The question is what it identifies. Three comments follow.

Comment 1: a new dollar *attribute* — or a new dollar *buyer*?

- The headline claim is bold: stablecoins add a **third convenience attribute**—"digital utility"—to Treasuries and the dollar.

- But every fact here—$\Phi\uparrow$, dollar $\uparrow$, no reversal, stronger when safe-asset demand is already high—is the signature of **inelastic safe-asset demand from a new, large buyer** (Jiang–Krishnamurthy–Lustig; Gabaix–Maggiori). *No new attribute required.*



Identified: the blue quantity chain (= JKL with a new buyer). The red arrow is the paper's contribution — and it is the one the design does not yet isolate.

Comment 1: three reasons the evidence doesn't pin the new channel

- **"No reversal" does not separate the channels.** A permanent dollar move rules out *transitory* order-flow pressure (Evans–Lyons), *not* demand: a permanent shift by an inelastic buyer gives a *permanent* price (Gabaix–Maggiori; Koijen–Yogo). Permanence is what a new buyer predicts too.

- **Your two headline results are one equation.** In the convenience-yield theory the dollar *is* the present value of convenience yields, so $\Phi\uparrow$ and dollar $\uparrow$ aren't two independent observations — one relation seen twice $\Rightarrow$ run the FX result as an **over-identification test** of the theory's magnitude.

- **Your own cross-section leans toward reserve quality.** The effect is stronger for **USDC** (Table 3)—the more Treasury-backed coin—than for the more transactional USDT, pointing more to *reserve quality* than to pure digital usage.

All three push the same request: separate the "new buyer" channel from the "new attribute" channel.

Comment 1: how to isolate the new attribute

- **Decompose the flow with issuer-level reserve data:**
  - *direct*: net out T-bill purchases, test residual effect on Φ;
  - *matched*: benchmark against equivalent non-stablecoin demand;
  - *cross-issuer*: exploit USDC vs. USDT reserve composition.

- **Measure digital usage directly:** tie effects to on-chain volume, velocity, DeFi TVL, or settlement activity, not only AUM.

- **Find the premium in the token's price:** test whether stablecoin convenience premia comove with Treasury convenience-yield effects.

If these tests work, the red arrow becomes the contribution rather than the assumption.

Comment 2: the instrument is a crypto shock — but stablecoins are crypto's safe asset

- First stage is strong ($F \approx 50$); the margin is the **exclusion restriction**.

- Stablecoins are the **safe haven *within* crypto**: inflows spike during crypto stress (flight to the safe coin). Crypto stress also coincides with global risk-off $\longrightarrow$ dollar$\uparrow$, $\Phi\uparrow$ *directly*. Same direction as the result $\Rightarrow$ *upward* bias in the IV coefficient.

- Orthogonalizing BGCI to VIX/S&P removes *spanned* risk, not crypto-native risk appetite. And the IV pools *opposite-signed* shocks: risk-on inflows (to buy crypto) vs. flight-to-safety inflows carry opposite macro correlations.

A strong crypto-*demand* shifter — not yet a clean stablecoin-*only* shock.

Constructive: split ± crypto shocks and split sample by risk-on / risk-off; use stablecoin-specific events (USDC/SVB depeg Mar-2023, Terra/UST May-2022, GENIUS Act, MiCA, reserve attestations, large issuance/redemption events); show dynamic paths with no pre-trends.

Comment 3: put the coefficient on a demand curve

- \$5.87bn $\longrightarrow$ 4 bps Φ and a *persistent 21-day* 0.87% broad-dollar move $\approx$ **0.15% per \$bn** (= 0.87%/5.87).

- Cannot extrapolate: \$250bn stock $\times$ 0.15%/\$bn $\longrightarrow$ $>$ 35% dollar move *that did not happen*. So the IV is a **local, possibly risk-correlated, elasticity** — what disciplines it?

- Benchmark against recognizable demand curves: FX intervention studies; T-bill supply elasticities (Greenwood–Hanson; Du–Im–Schreger); the inelastic-markets multiplier (Gabaix–Maggiori; Koijen–Yogo). Note your per-\$ impact *rivals* Evans–Lyons daily order flow — **magnitude says order flow, persistence says not**.

Report bps-per-\$bn and %-per-\$bn next to known elasticities. The state-dependence (high Φ/VIX) is a strength: *scarcer safety $\longrightarrow$ steeper demand $\longrightarrow$ larger impact.*

Bottom line

- I like this paper a lot: it is the first to bring stablecoins into mainstream international finance, and the central empirical finding is robust.

- My one big ask: separate "a new **buyer** of dollar safe assets" from "a new **attribute** of the dollar" — and discipline the magnitude on a demand curve.

- My punchline: *even if* it is "just" a new, large, inelastic buyer of Treasuries, that is a first-order fact for safe-asset demand and dollar dominance. **So the paper matters either way.**

An important paper on a topic international finance should take seriously.

Appendix

Backup: the stability section (Tables 9–10) is the soft spot

- **Biggest claim, thinnest design.** Unlike the rest of the paper, this section has *no* IV and *no* event study — OLS of future vol on current market size, with obvious reverse causality (size tracks the crypto cycle, which itself drives TradFi vol). Yet it carries the "transmission channel" and "regulatory oversight" message.

- **Inference, not trend.** `CapRatio` is *one* slow-moving, highly persistent series — few independent moves, not 7,606. Time-clustering fixes cross-currency, not low-frequency persistence ⇒ the *** overstate precision (Granger–Newbold).

- **The paper's Table 10 is unstable.** The level effect of `CapRatio` flips from $\mathbf{+0.22}^{***}$ (Table 9) to $\mathbf{-0.38}^{***}$ once the crypto-vol interaction enters — a collinearity flag. The *interaction* is the defensible object; reframe around it.

- **Reconcile the two roles:** safe haven *within* crypto (Sec. 4–5.1) vs. volatility conduit (5.2) pull opposite ways — when does each dominate?

Backup: does "appreciation" really rule out the rate channel?

- The paper's inference: $\Phi\uparrow$ *and* dollar $\uparrow$ together "rule out the interest-rate channel" and confirm convenience yield.

- But the benchmark is **pure UIP**, where a lower U.S. yield predicts depreciation. In that frictionless world a quantity/demand shock moves *nothing* — so a $6bn flow that moves prices is already outside it.

- The on-impact appreciation is a **portfolio / order-flow** effect (investors must buy USD), not a rate effect. Under convenience-yield UIP (JKL),

$$(i_{US} - i_*) + \lambda \;=\; \mathbb{E}_t[\$ \text{ depreciation}],$$

  a safe-asset demand shock *appreciates* the dollar on impact, *lowers* the yield, and *raises* λ — and λ is exactly what reconciles a lower yield with a stronger dollar.

So the *sign* can't separate "rate" from "convenience": the demand shock *is* the convenience channel. Identify it by **magnitude** (JKL mapping) and **permanence**, not sign.

Backup: literature I would engage more

- **Demand systems / inelastic markets:** Gabaix–Maggiori (2015), Koijen–Yogo — the natural home for the magnitude and the "new buyer" reading.

- **The CIP basis as the convenience-yield proxy:** Du–Tepper–Verdelhan — the 3-month basis is driven heavily by dealer balance sheets and quarter-end effects; worth showing the result survives quarter-end controls.

- **Stablecoins & safe assets:** Ahmed–Aldasoro and Aldasoro et al. (BIS) on T-bill prices; Ma–Zeng–Zhang on runs — useful for both the instrument and the stability channel.