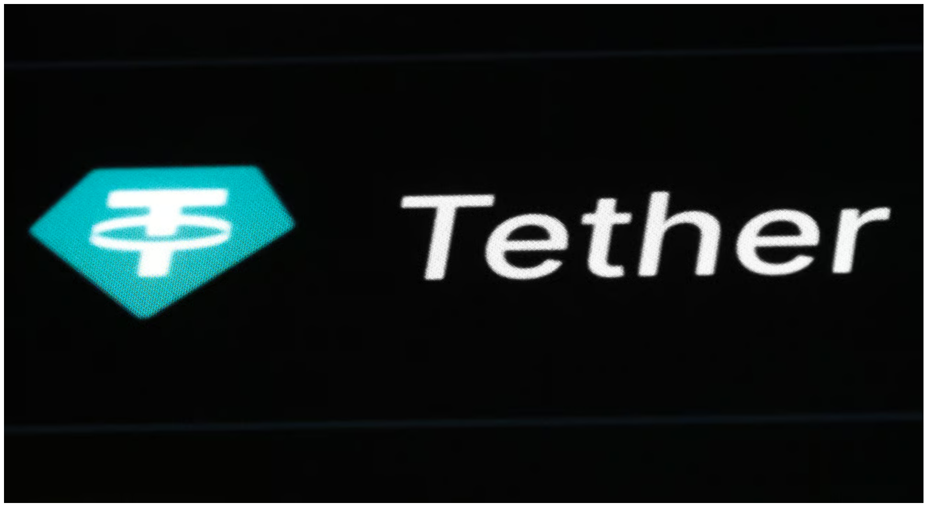
Stablecoins can boost US dollar hegemony, Tether CEO says

Stablecoin giant Tether has amassed $182 billion in US government bonds, almost enough to match the sum China has sold over the past three years.



"Tether is clearly a great ally for the United States when it comes to helping U.S. dollar hegemony … That is a given," Ardoino said. | Silas Stein/Picture Alliance via Getty Images

by Izabella Kaminska • 17 HOURS AGO • 8 MINUTES READ

LUGANO — The world's biggest stablecoin issuer has become an unexpected ally of the U.S. Treasury, offsetting China's sales of U.S. government debt by amassing its own vast holdings of short-term government debt.

Tether chief executive Paolo Ardoino told POLITICO in an interview at the group's "Plan B" conference in Lugano, Switzerland, that the stablecoin issuer now holds around $182 billion of U.S. Treasuries — a stash large enough to offset Beijing's recent divestments from U.S. debt markets.

"Tether is clearly a great ally for the United States when it comes to helping U.S. dollar hegemony … That is a given," Ardoino said.

His comments highlight how a crypto company once viewed as a regulatory outlier has quietly become a major, if unconventional, player in the global financial system and a supporter of U.S. dollar dominance.

Indeed, it could hardly be closer to the establishment these days. Currently, the group gains access to the U.S. dollar system via its custodial relationship with Cantor Fitzgerald, whose former CEO and chairman, Howard Lutnick, is now U.S. Trade Secretary.

The Trump administration — which still has an uncomfortably large amount of debt to sell — appears to be appreciative. At one press conference, Trump singled out Ardoino to thank him for fostering the stablecoin market and went on to describe stablecoins as "perhaps the greatest revolution in financial technology since the birth of the Internet itself."

Last week, the White House revealed that Tether America was among several cryptocurrency firms that had donated to President Trump's ballroom extension project.

The connection between Tether's growing establishment ties and its financial footprint lies in the nature of stablecoins themselves.

To emulate the properties of national currencies, stablecoins invest directly in the government bonds or cash equivalents of the respective states. That one-to-one backing contributes to a steady source of new bond demand, easing government borrowing costs.

Washington's critics — among them Russian officials — have been quick to argue that the sector's legalization this year under the U.S. GENIUS Act amounts to a form of financial statecraft on behalf of the U.S. Treasury. Tether's Italian boss dismissed such suggestions but said the effect was clear.

"There is no Machiavellian strategy," Ardoino said, but he acknowledged that: "We are acting as a compensation force for the U.S. Treasury market."

According to Ardoino, stablecoins help the government by diversifying demand for U.S. T-bills. "With China holding the T-bills, one single guy can press a button and say 'Oh, let's not renew the T-bills' or 'let's sell the T-bills' … but with USDT [dollar-backed Tether stablecoins] you would need half a billion people deciding all together one day to sell."

Interest-rate sensitivity

Stablecoins operate as privately-issued parallel dollars that can be transacted independently of the banking system thanks to the innovation of cryptocurrency payment rails. They were born in 2015 as a way for traders to move in and out of volatile cryptocurrencies without having to interface with the traditional banking sector, which often refused to serve crypto clients.

Since customer money is usually invested in safe government bonds or cash equivalents, the sector is highly sensitive to interest-rate changes.

Issuers profit from the gap between the interest they earn on customer reserves and the zero interest they pay to customers who hold their tokens. When interest rates are high, that margin increases. In recent years, due to high interest rates, stablecoins like Tether have become immensely profitable: Tether, the world's largest issuer in a market now worth $300 billion, has amassed a capital cushion of more than $20 billion from the yield it has earned on Treasury debt during that period.

Falling U.S. interest rates — and greater competition facilitated by the GENIUS Act — now look set to threaten that. But Ardoino said Tether was well prepared, arguing it would only cement Tether's dominance by squeezing smaller rivals whose business models depend on yield.

"[If interest rates go down], that kills all of them," Ardoino said. "They will not be able to function in that environment."

Nor is he much troubled by the sight of Wall Street's finest looking to protect their deposit businesses by issuing their own stablecoins.

"I'm not sweating at all. Many of these new stablecoins will fail," he said. "If JP Morgan creates a stablecoin, they will offer the stablecoin to their account holders, who are exactly the people that don't need a stablecoin."

Tether is unique in the industry in that it has already survived two periods of intensely low interest rates. In 2015, when it launched, U.S. interest rates were near zero. And in

2020, when the group experienced its largest growth phase, interest rates had once again retreated to zero on the back of the Covid pandemic.

Keeping the regulators sweet

But stablecoin growth doesn't always imply profit. Its competitor Circle, which listed on the New York Stock Exchange in June, posted a loss of $482 million in the second quarter. And, as in traditional finance, risks also tend to build up during low-interest periods, because the pressure arising from thin or negative interest margins encourages firms to look for yield in more risky assets.

Both the Financial Stability Board and the European Systemic Risk Board have said stablecoins pose financial stability risks if the sector continues to grow at its current breakneck rate. The regulators this month warned that providers who issue the same token across multiple jurisdictions are particularly risky, due to local differences in reserve management rules.

Tether has, for years, faced public scrutiny over the transparency and quality of its reserve allocations, as well as questions over the reliability of its audits, but it insists its balance sheet is both clean and sound.

In further signs that the El Salvador-based group is striving for full regulatory legitimacy, Ardoino said Tether is working with over 250 law enforcement agencies across 50 countries, including the U.S. FBI, Secret Service, and Department of Justice, to ensure compliance and combat illicit finance. Earlier this year, it froze the assets of Garantex, a Russian crypto exchange, as part of a multinational operation by money-laundering authorities.

"There was so much misinformation about us," he said. "I went to the United States myself to show lawmakers who we are and how we operate."

To guard against any future regulatory backlash, Tether recently issued its first fully GENIUS-compliant coin, called USAT, aimed exclusively at the U.S. market. The global Tether token, USDT, is expected to become compatible with the GENIUS Act, too, Ardoino said.

From blockchain rails to global trade finance

Some will see it as ironic that Tether, which has thrived on the notion that fiat currencies like the dollar will one day collapse under the crushing weight of government debt, now has one of the world's biggest exposures to the greenback. And sure enough, it has taken care to develop its own 'Plan B', just in case.

The group has jumped on the gold bandwagon, amassing more than 100 tons of physical metal — roughly as much as Hungary — stored in its own vaults in Switzerland, in an effort to transform itself from a crypto issuer into a "stable company."

Broadly, Tether's investments are split into three categories: inflation-hedging assets such as gold, bitcoin, and land; projects that expand its global distribution footprint for USDT, its dollar-backed token; and emerging technologies, ranging from artificial intelligence and brain–computer interfaces to solar-powered energy kiosks in Africa.

Its most recent foray is into the world of commodity trading and supply chains, aiming to make stablecoins the go-to funding source for the sector.

Ardoino said Tether has been partnering with established trading houses in that capacity, but declined to name the firms due to legal agreements. He said most were turning to Tether to better optimize their balance sheets turning to Tether to better optimize their balance sheets.

"Let's say you have $100 million on your balance sheet, and you move it three times per month through traditional means of payment," he said. "With stablecoins, maybe you can do it seven times, because it doesn't take 1-3 days to send money, it takes 10 seconds."

Ardoino estimated that to date, Tether has enabled around $2 billion of commodity-trading volume.

Beyond its role in payments, Tether is also exploring royalty and streaming companies — which finance gold miners in exchange for future revenues — as a way to gain exposure to future gold production while spreading risk. It has invested nearly $300 million into such projects this year alone.

Ardoino said it's "very important to have a portion of the portfolio that, whatever happens, had assets that can hedge everything," adding that the growing popularity of gold reflects that "the world is going toward darkness."

After all, he said, "People are scared because most of the national economies and central banks have huge problems."

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