Stablecoins & Crypto-assets

Jump Capital

1. **Venture Capital firm** funded exclusively by owners & employees of Jump Trading

2. Founded in 2012, and have **invested in 60+ companies** in the Fintech, IT & Data Infrastructure, B2B SaaS and Media sectors. Typical investment is $4-$10mm.

3. **Invested in 15+ crypto companies**

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Jump Capital's Core Crypto Theses

1. **Bitcoin** will be digital gold for the digital age, and it will have a place in most investor portfolios

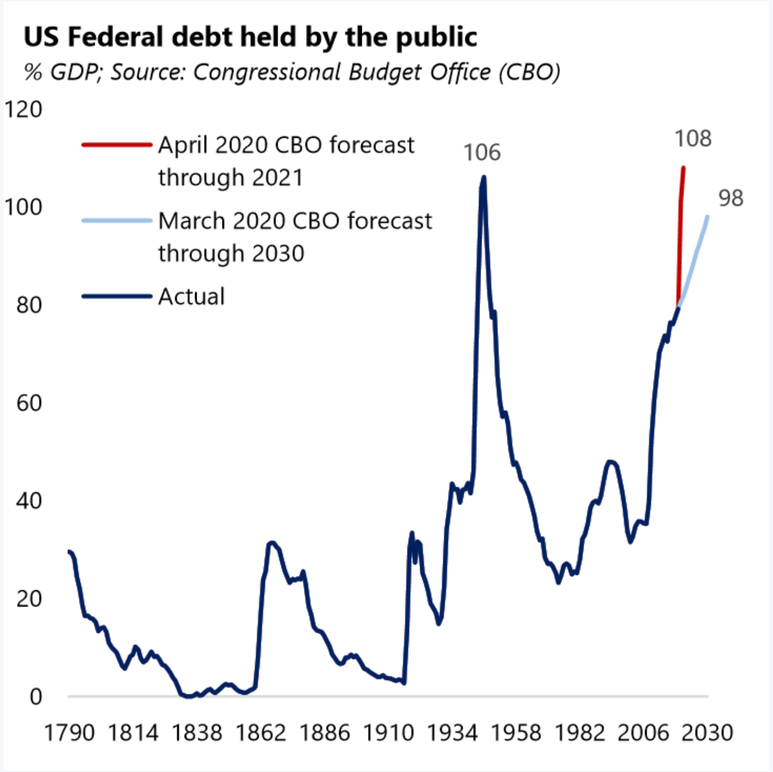
2. **Stablecoins** will provide a new global money movement rail and will enable dollarization of much of the world

3. **Crypto** has enabled a great global casino for traders and speculators

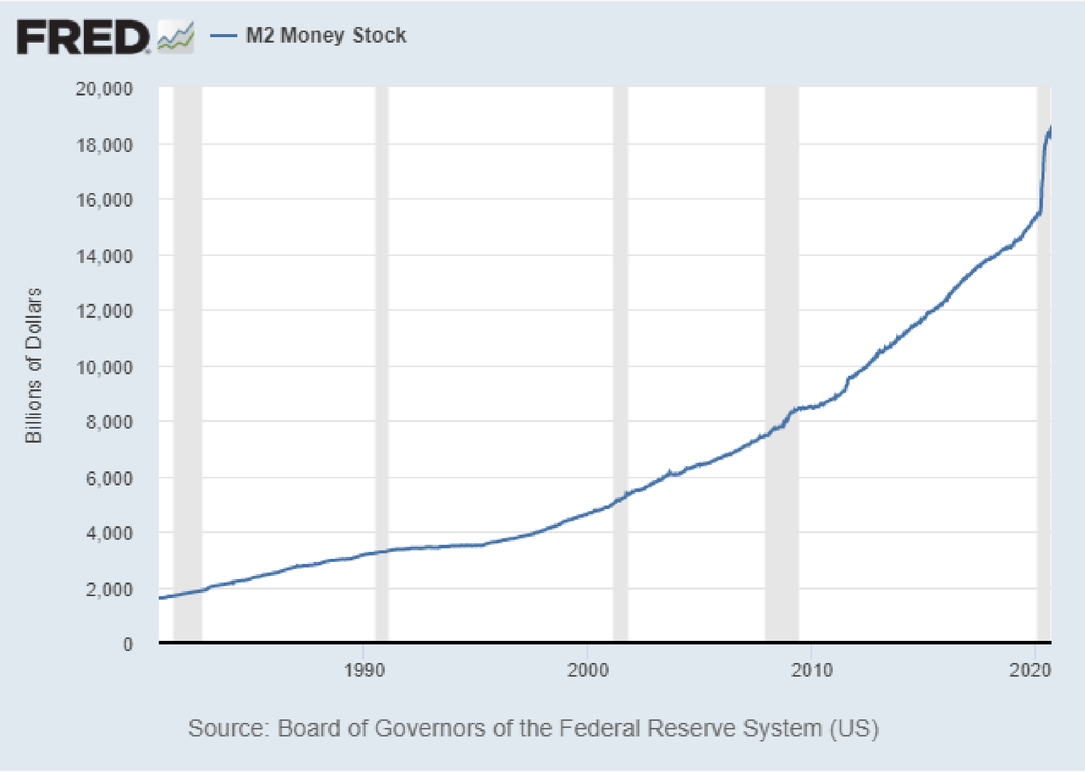
Bitcoin

Risks of Inflation or Instability Heightening

Fiscal responses to COVID have pushed Debt-to-GDP ratios to levels last seen during WW2
Monetary responses have significantly increased the monetary base



Source: "Market Outlook – Macro Perspective" from May 2020 by Paul Tudor Jones and Lorenzo Giorgianni



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Bitcoin Rates Well As a Potential Store of Value

	Bitcoin	Gold	Fiat
Censorship Resistance	No entity can seize wealth or prevent transactions from occurring on the network.	No entity can seize wealth or prevent transactions from occurring on the network.	No entity can seize wealth or prevent transactions from occurring on the network.
Established History	Bitcoin is still only 11 years old. However, with each day of continued operation its longer-term success becomes more likely.	Gold has been used as a monetary instruments for thousands of yours. It is the most enduring money to ever exist.	Fiat currencies as we know them are relatively recent. Historically they have not survived. The average age of a fiat currency is ~27 years.
Verifiability	The bitcoin blockchain provides ironclad cryptographic assurances.	Gold is surprisingly easy to fake vs the cost required to verify it. Illegitimate gold is a large international criminal industry.	Whilst fiat currency is generally easy to verify, it is constantly counterfeited and not always properly checked.
Portability	Bitcoin can be transferred from one side of the globe to another in minutes. It can be stored entirely in your brain.	Gold is incredibly heavy and therefore highly impractical to transport.	Digital transfer of fiat is very easy but transporting large quantities of cash remains impractical.
Fungibility	Growing merchant support for bitcoin means you can now purchase most things with it. Any bitcoin can be traded for any bitcoin.	An ounce of melted down gold is always equivalent to any another ounce.	Fiat is generally fungible, although there have been instances where certain denominations are treated differently.
Durability	As long as the bitcoin software is run by someone, somewhere then the entire network will remain perfectly intact.	Gold is nearly indestructible, highly resistant to corrosion, and does not rust.	Fiat is only as 'durable' as the institutions issuing it and thus — not very.
Divisibility	Every bitcoin is capable of being divided into 8 decimal places. The smallest units are called satoshis, after bitcoins creator.	Gold can be melted down into any quantity, yet it is highly impractical for commerce.	Easy to divide given their units allow for up to two decimal places.
Scarcity	Bitcoin has a programmatically fixed total maximum supply of 21 million coins. This number will be reached in the year 2140.	Reserves beyond Earth remain unreachable, for now it has one of the highest stock-to-flow ratios out of any asset.	Fiat is not even remotely scarce. Governments repeatedly issue more of it to help stimulate precarious economies.

Source: Delphi Digital

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Most Investors Should Have an Allocation to Bitcoin

BTC Market Cap Today
~$120B

BTC Price ~$10k

Potential TAM for dominant, non-sovereign monetary store of value cryptoasset
= $4.7T - $14.6T

= $260,000 - $800,00 per BTC

An investment with a 26x – 80x upside requires a probability of 1.3% - 3.9% to be positive net expected value

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Top Institutions Buying Bitcoin is a Catalyst

Paul Tudor Jones Buys Bitcoin as a Hedge Against Inflation

By Erik Schatzker
May 7, 2020, 12:55 PM EDT *Updated on May 7, 2020, 3:46 PM EDT*

Legendary Macro Investor Paul Tudor Jones recently announced that his fund was buying BTC futures as a hedge against excessive government borrowing and what he terms "The Great Monetary Inflation"

"At the end of the day, the best profit-maximizing strategy is to own the fastest horse. Just own the best performer and not get wed to an intellectual side that might leave you weeping in the performance dust because you thought you were smarter than the market. If I am forced to forecast, my bet is it will be Bitcoin."

Paul Tudor Jones
Founder & CEO, Tudor Investment Corp

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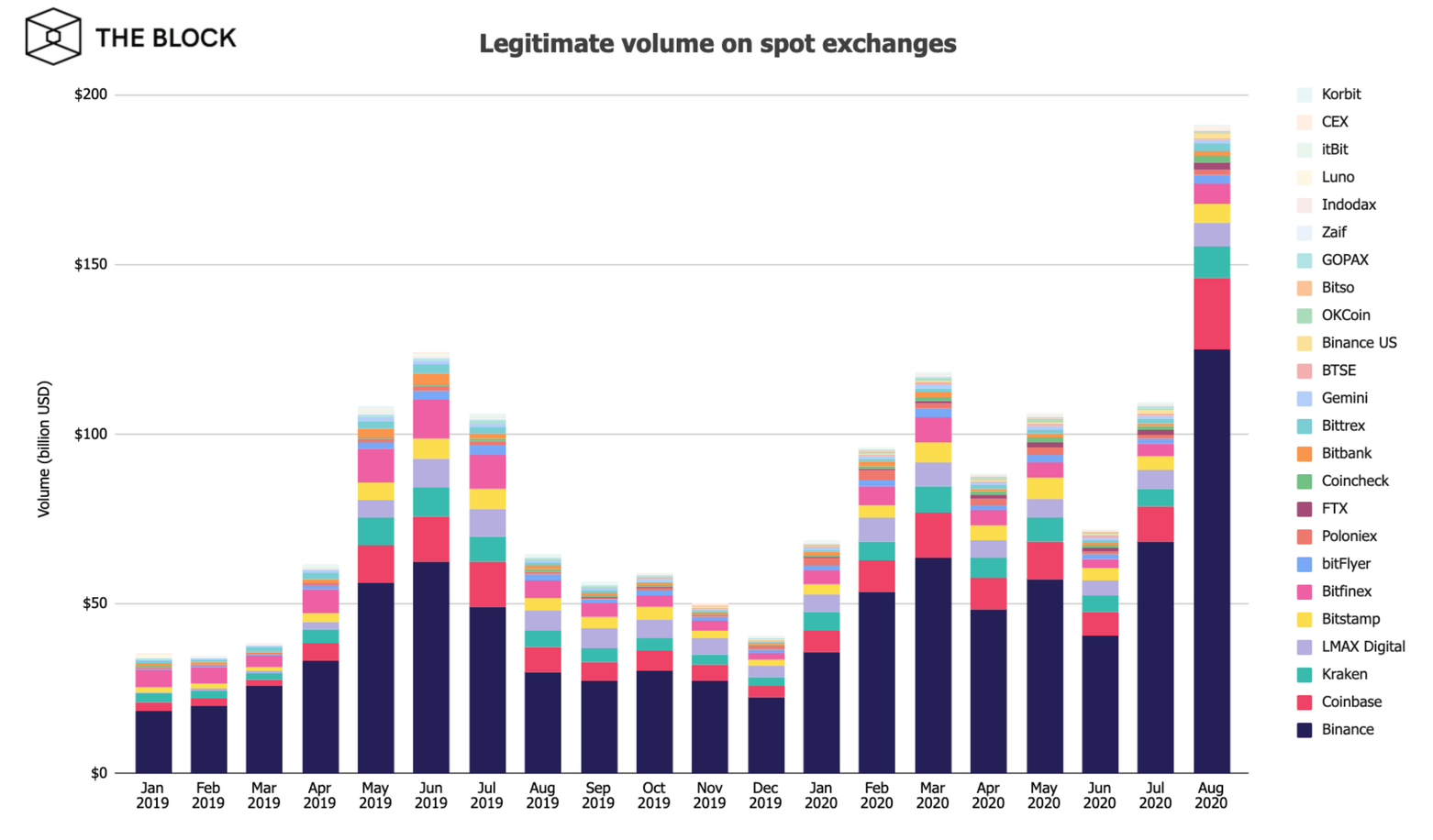
Crypto Trading

Speculation Currently Primary Crypto Use Case

BTC is not digital gold yet (it's only 11 years old after all) – it's still a bet that it will be digital gold in the future.

The largest volumes are on lightly regulated platforms that offer a high number coins and stablecoin pairs



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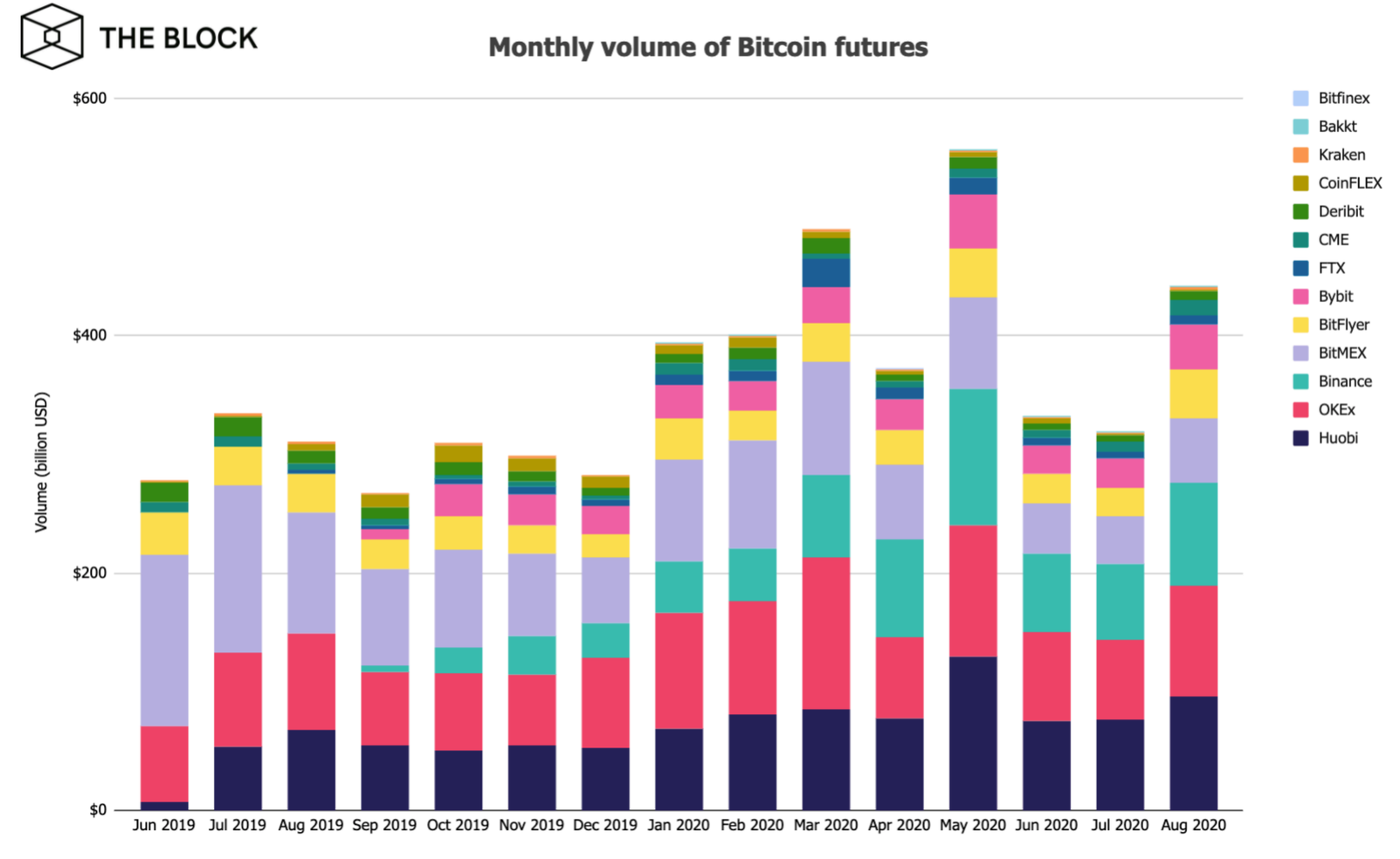
Volumes on Some Derivative Exchanges <$400bn / Month

Volumes primarily on lightly regulated international platforms which offer high leverage (e.g. 100x) and stablecoin pairs



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Stablecoins

What is a Stablecoin?

> “Digital units of value that are not a form of any specific currency (or basket thereof) but rely on a set of stabilisation tools which are supposed to minimize fluctuations of their price in such currency(ies).”
>
> — ECB 2019

Bullmann, Dirk, Jonas Klemm, and Andrea Pinna. "In search for stability in crypto-assets: Are stablecoins the solution?." ECB Occasional Paper 230 (2019).

What is a Stablecoin?

> “Cryptographic tokens which circulate on public blockchains and aim to track the return of sovereign currencies.”
>
> — Castle Island Ventures, 2020

What is a Stablecoin?

“Cryptographic tokens which circulate on public blockchains and aim to track the return of sovereign currencies.”

1. **Ownership determined by public key infrastructure (Cryptography)**
   Owner possesses private key which can permission spend from an address on a distributed ledger where the token resides. Typically a bearer asset (possession of private key determines ownership)

2. **Circulates on a public blockchain**
   Allowing any third party to interact with the asset and audit key metrics

3. **Intended to track the return or some sovereign currency**
   Targets the return of USD or other currency, and but may deviate from peg

Why Stablecoins Matter

1

Open Network Dollars (and other fiat currencies)

For the first time ever, any person or entity in the world can hold, receive and send digital dollars

- All that is required is a crypto wallet (open source software) - “Digital Cash”
- All other ways to hold and transact in digital dollars require joining closed networks (SWIFT, banking system, PayPal, etc. etc.)

Why Stablecoins Matter

2

Programable Money
Money that can be owned and completely controlled by software / smart contracts
Smart contracts can interact with each other to build financial systems (“Money Lego Blocks”)

3

24/7, Low-Cost, Near-Instant Settlement
This is offered by stablecoins…..(but hypothetically should also be possible with centralized systems)

Types of Stablecoins

Convertible

1 Bank System Liability Backed - Onshore

- Full reserves held by U.S. / locally domiciled and regulated banks
- *E.g., USDC, PAX, TUSD*

2 Bank System Liability Backed - Offshore

- "Full reserves" held by offshore banks
- *E.g., USDT (Tether)*

Synthetic

3 Collateral Backed

3a Swap Based

- *E.g., Valiu Dollar*

3b Overcollateralized

- *E.g., Dai*

4 Algorithmic Monetary Policy

- Value stabilized using algorithmic monetary policy
- *E.g., Terra, Celo, Basis*

Types of Stablecoins

Centralized Issuance / Redemption

Convertible

01 Bank System Liability Backed - Onshore

- Full reserves held by U.S. / locally domiciled and regulated banks
- *E.g., USDC, PAX, TUSD*

02 Bank System Liability Backed - Offshore

- "Full reserves" held by offshore banks
- *E.g., USDT (Tether)*

Decentralized

Synthetic

03 Collateral Backed

3a Swap Based

- *E.g., Valiu Dollar*

3b Overcollateralized

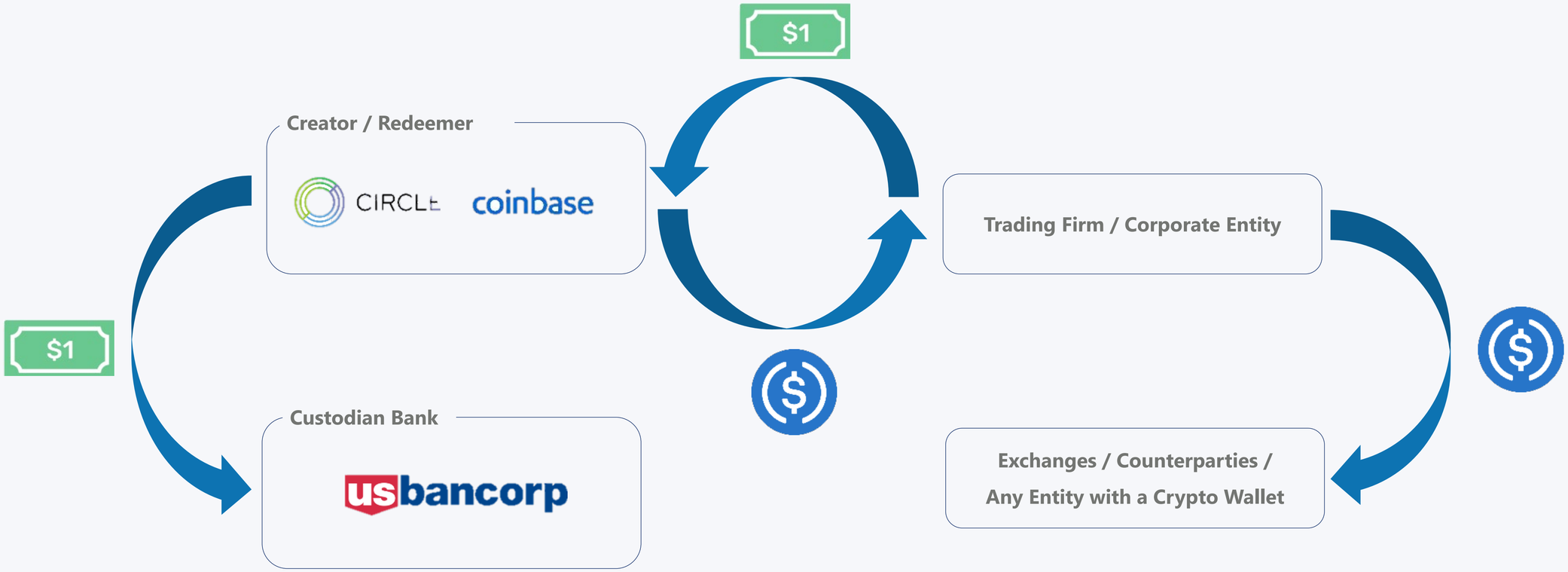
- *E.g., Dai*

04 Algorithmic Monetary Policy

- Value stabilized using algorithmic monetary policy
- *E.g., Terra, Celo, Basis*

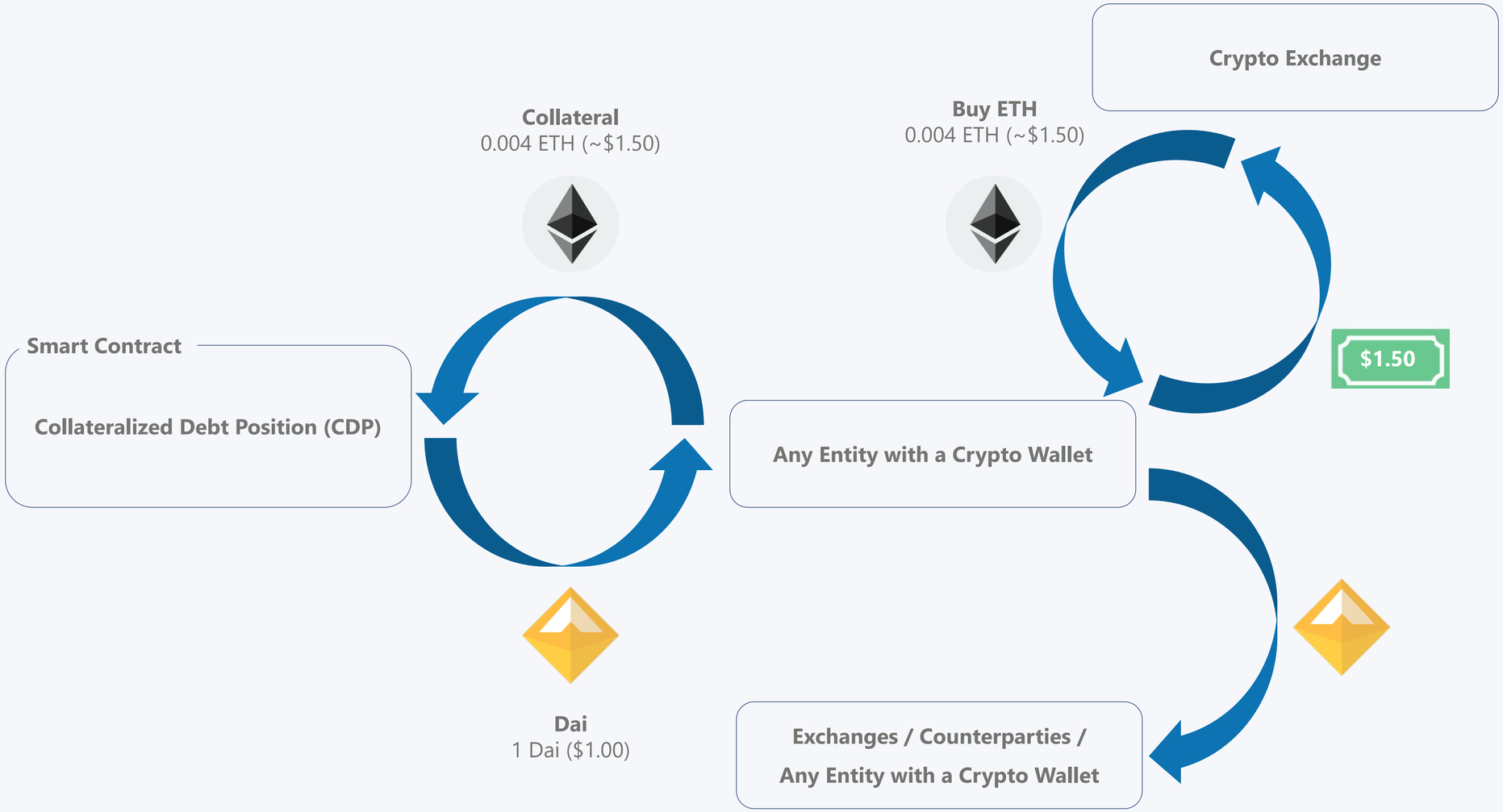
Example - USDC

Centralized / Redeemable Stablecoin



Example - Dai

Decentralized Overcollateralized Stablecoin



**Highly simplified schematic*

Full Maker Dai system is complex and includes price oracles for determining value of collateral, liquidators to liquidate undercollateralized positions, Maker governance token, and stability fees.

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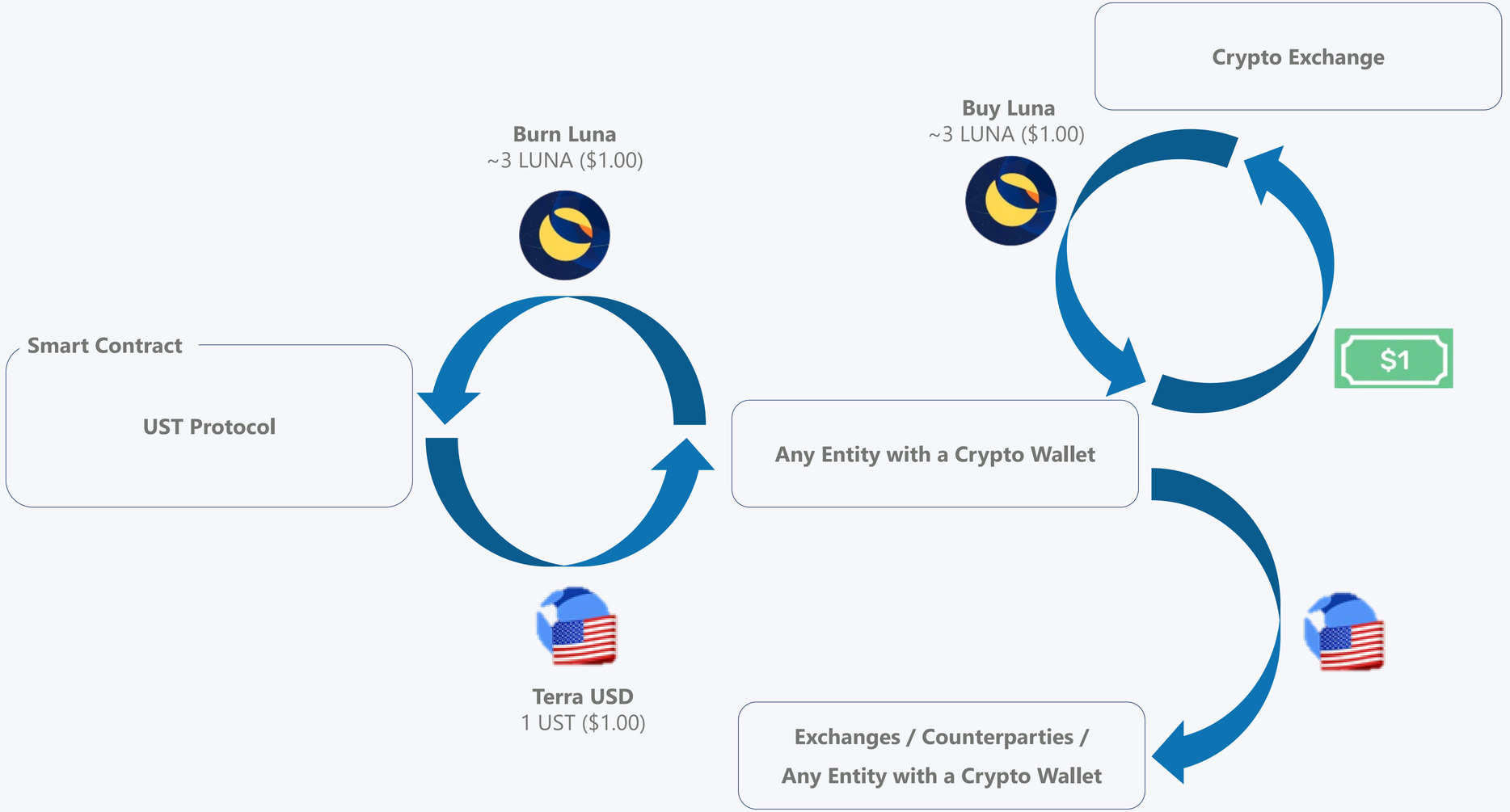
Example - Terra

Decentralized Algorithmic Monetary Policy Stablecoin



Terra is particularly noteworthy as they started in Korea and their Korean Won pegged stablecoin (KRT) powers CHAI Pay, a payments provider with 2mm registered users

**Highly simplified schematic*

Full Terra system is complex and includes price oracles for determining Luna price, transaction fees / staking rewards, etc.

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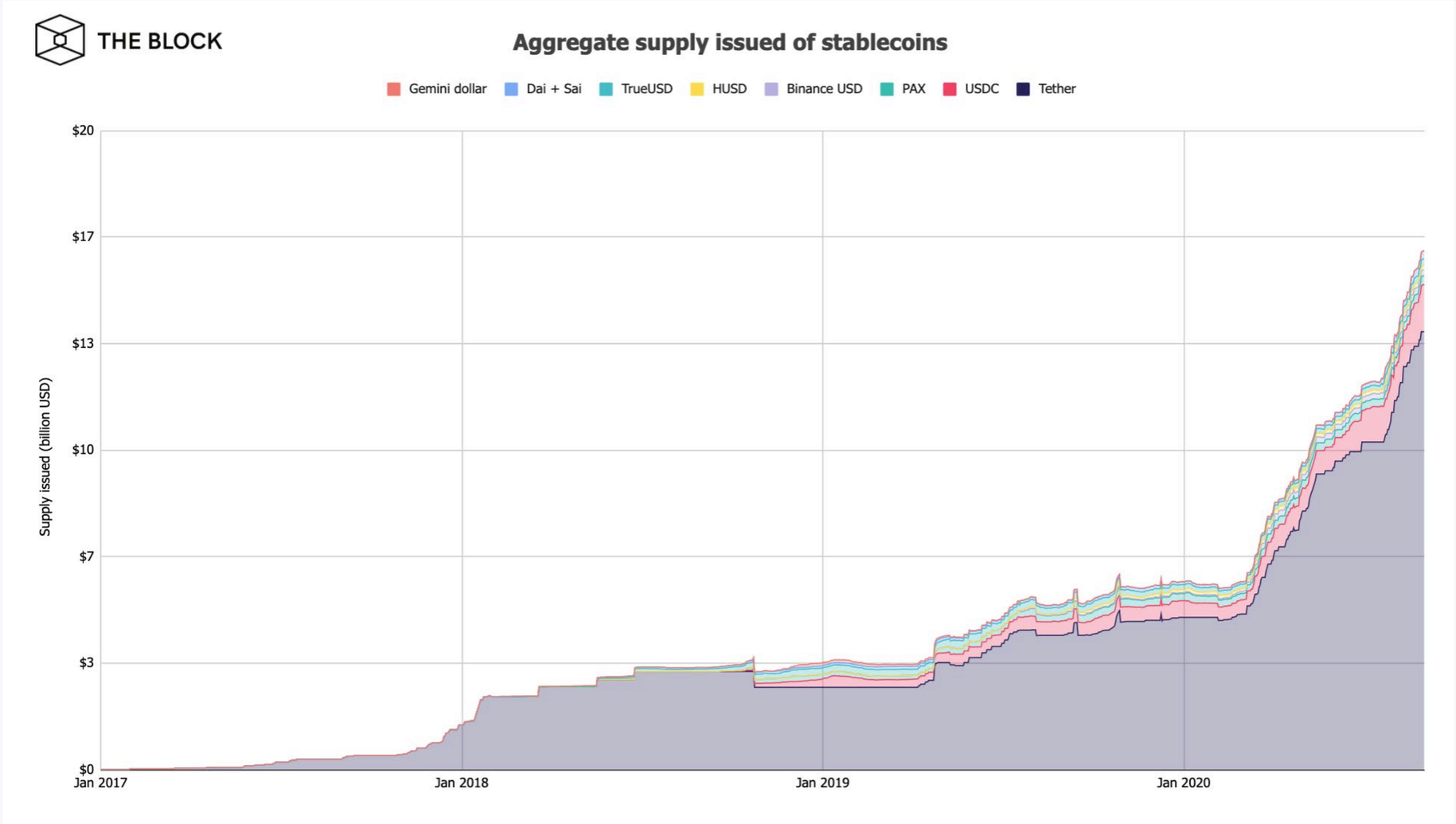
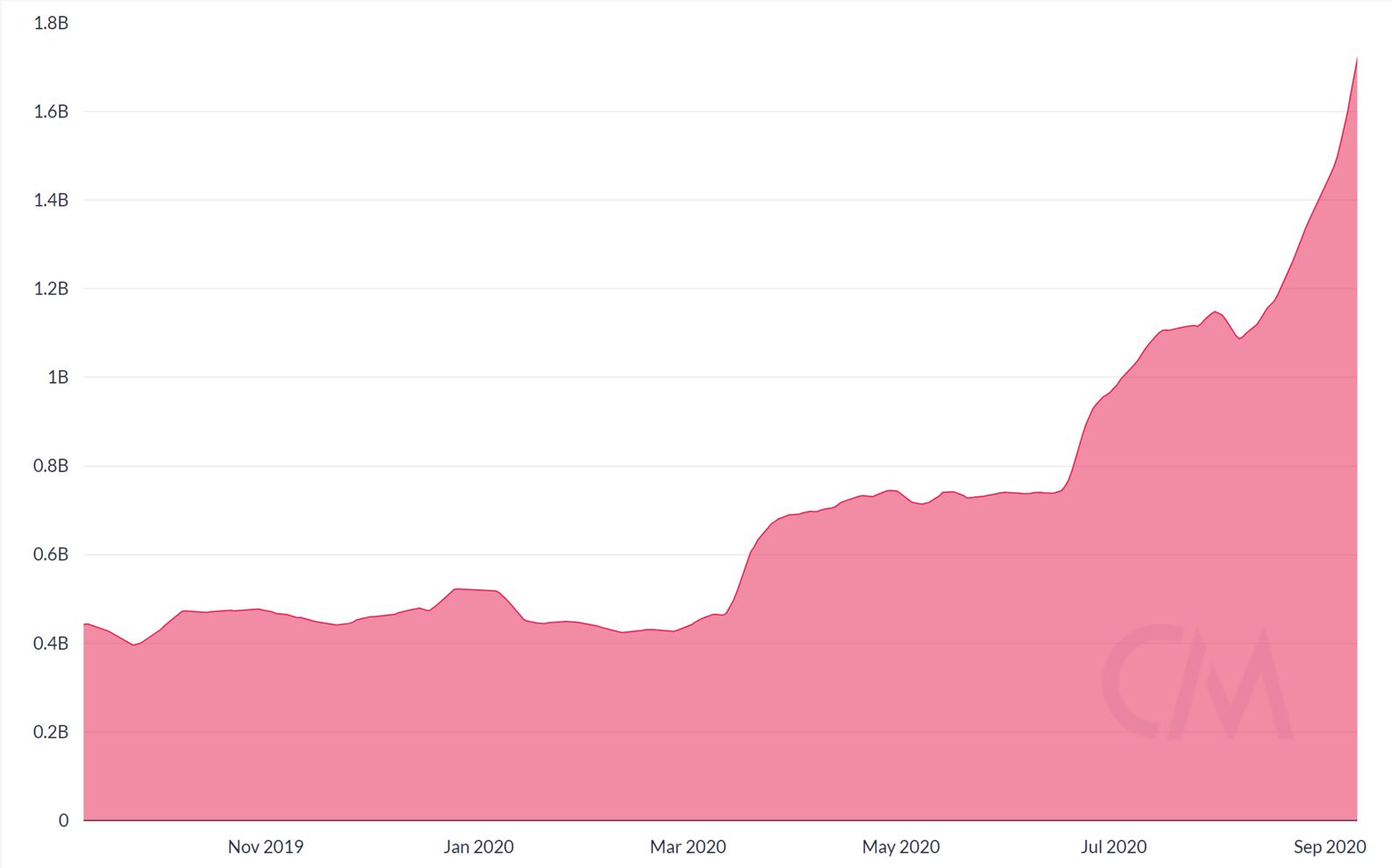
Stablecoin Value Outstanding ~$17bn

Tether is Dominant with >$13bn



USDC Outstanding >$1.6bn



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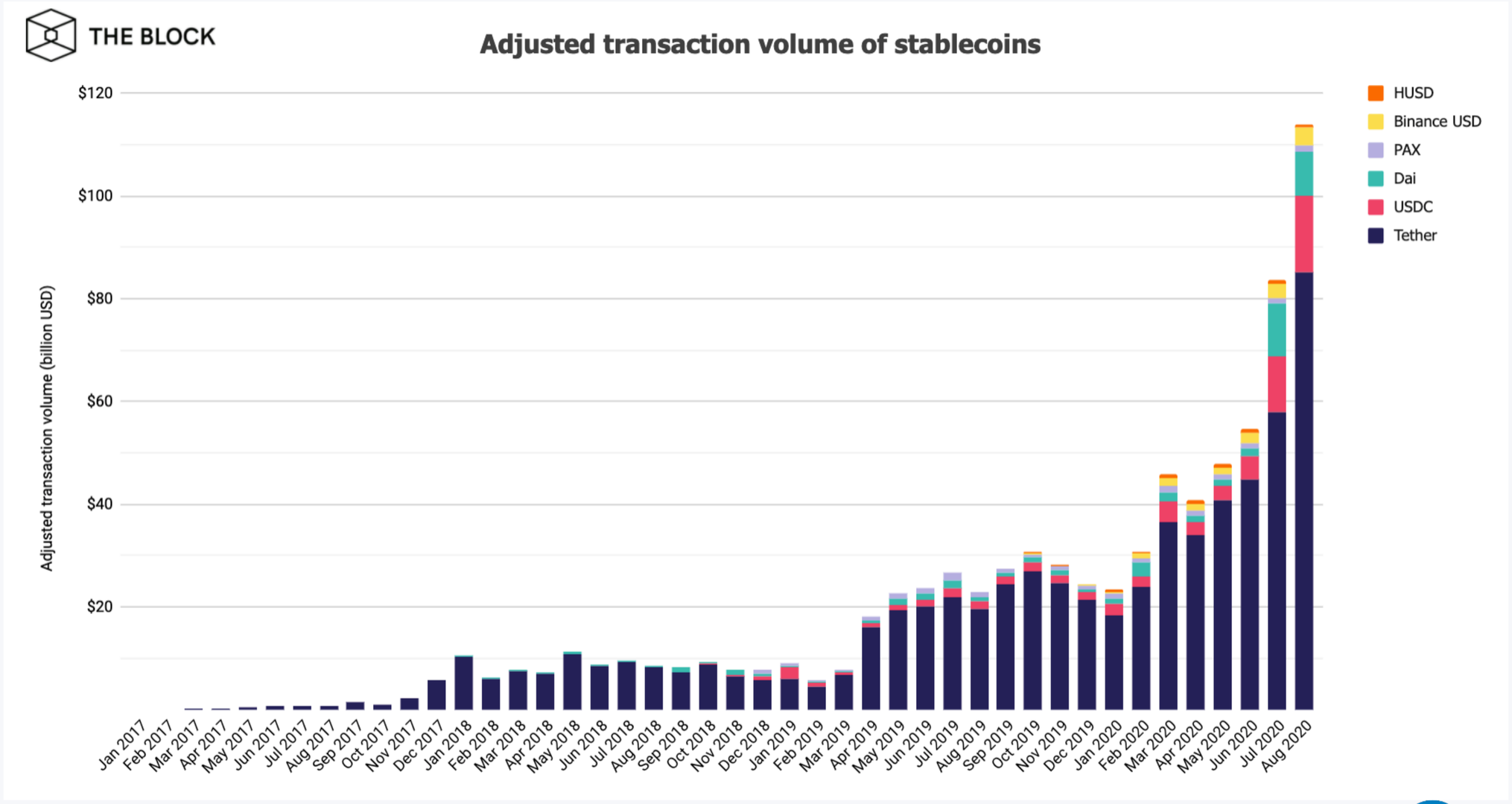
On-Chain Transaction Volume >$100bn / Month



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Stablecoin Use Cases

1

Trading

USD based trading / settlement account for crypto traders

- Enables USD pair trading and USD denominated settlement for exchanges and traders - **without requiring USD bank accounts**
  - Very high demand for these pairs – **most liquid / highest volume markets**
- Enables traders to quickly settle with counterparties and move USD between exchanges (24/7, faster than a wire) – particularly relevant for exchanges not on SEN or Signature

2

International Payments

Enables easier capital flows between international market participants

- E.g., Enables manufacturer Asia to easily pay supplier in Latin America in USD; or U.S. company to pay individual workers in emerging markets in USD

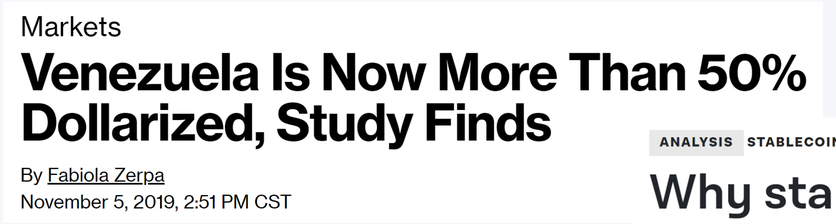
Stablecoin Use Cases

3

Dollarization of the World

There is an insatiable demand for USD around the world

- See Eurodollar market and USD cash savings / usage in emerging markets….
  - *2/3rds of USD currency is already held outside U.S.*
- Enabling anyone, anywhere to hold USD will put pressure on poorly managed currencies…expect significant dollarization in emerging markets



Markets

Venezuela Is Now More Than 50% Dollarized, Study Finds

By Fabiola Zerpa
November 5, 2019, 2:51 PM CST

ANALYSIS STABLECOINS

Why stablecoins are starting to take off in Argentina

by Kristin Majcher

Download PDF / Print

Future Stablecoin Use Case?

4

FX on Stablecoin Rails

Once major currencies are in stablecoins in sufficient supply, is FX market settled in stablecoins?

- These markets would be completely accessible to any person or entity in the world (*Open network)*
- 24/7, near-instant, near-free settlement of any currency trade
- Could settle using atomic swaps / smart contracts for zero counterparty risk

Summary

1. **Bitcoin** will be digital gold for the digital age, and it will have a place in most investor portfolios
2. **Stablecoins** will provide a new global money movement rail and will enable dollarization of much of the world
3. **Crypto** has enabled a great global casino for traders and speculators

Bitcoin, crypto-assets, and particularly stablecoins are creating new market opportunities and making significant impacts on existing markets.

Institutions that embrace these changes will be best positioned to capitalize on them.