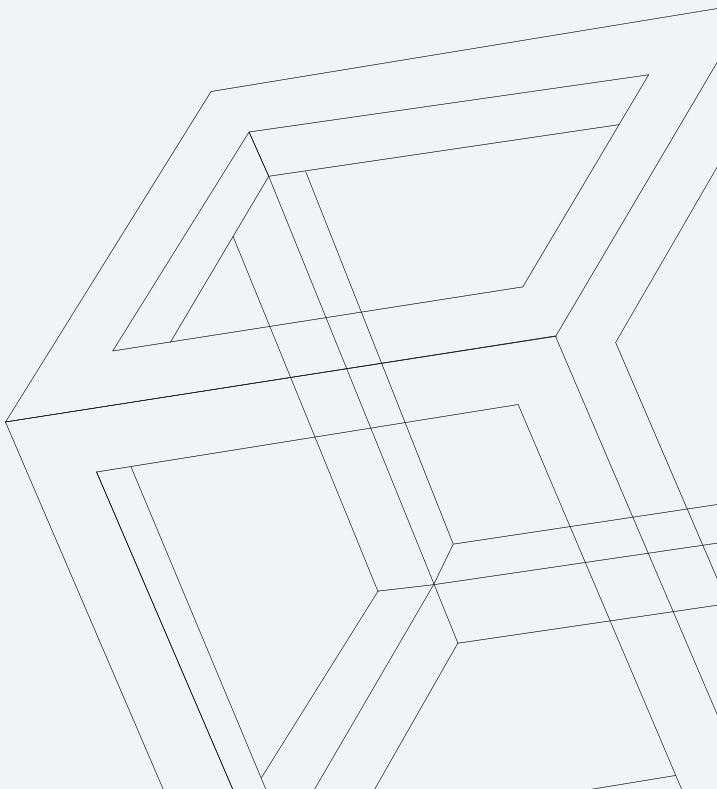
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# The War Premium for Stablecoins

## How the Iran Conflict is Reshaping Stablecoin Demand, Revenue, and Market Structure

**June 2026**



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# 1) Executive summary

The war in Iran, which began in late February 2026, produced an oil shock that pushed Brent crude above $140, a sanctions enforcement campaign that froze $344 million in Iranian central bank crypto holdings, and the first documented case of a sovereign state demanding cryptocurrency payments for transit through critical global infrastructure. Against this backdrop, the stablecoin market posted record supply ($315 billion), record transaction volume ($28 trillion), and the sharpest competitive divergence between USDC and USDT since 2022. This report measures the quantitative effects of the conflict on stablecoin supply, demand composition, issuer revenue, and market structure.

The war did not create stablecoin demand. What it did was compress into a single quarter a set of structural shifts that were already underway but would otherwise have taken years to become visible in the data. Stablecoin supply grew while the broader crypto market contracted by more than 20%, the first time this has happened in the asset class's history. Institutional capital rotated toward the regulated issuer (Circle/USDC), trade finance adoption accelerated as commodity traders were cut off from banking rails, and yield-bearing stablecoins captured more than half of net new supply. Four findings stand out:

**Tether's revenue model is structurally contracyclical.** The mechanism is specific: oil-driven inflation delays Fed rate cuts, which preserves yields on Tether's $141 billion Treasury portfolio, while geopolitical instability sustains demand for dollar-denominated safe havens. The issuer earns more when macro conditions deteriorate. The $1.04 billion in Q1 profit — recorded in a quarter when USDT supply actually contracted — is the proof of concept. This is not an incidental outcome. It is a structural feature of how Tether captures value, and one with direct implications for how investors should model stablecoin issuer revenues under stress.

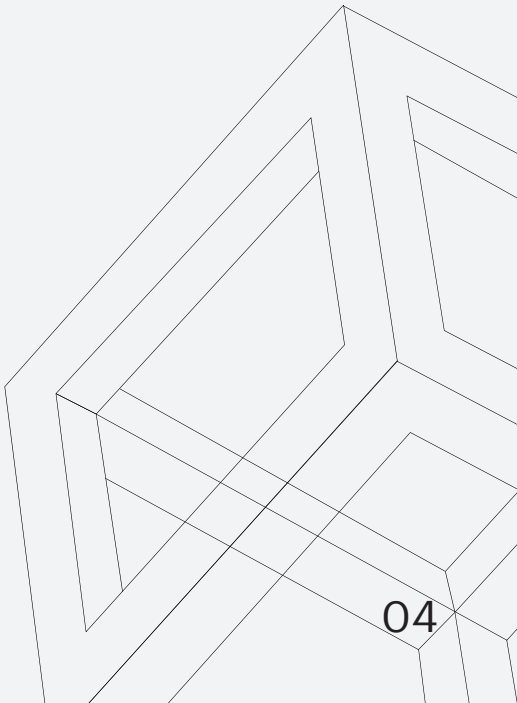
**The compliance premium for regulated issuers is now measurable.** USDC exchange reserves rose 12% while USDT reserves fell 12% over a single quarter — a 16-point swing driven not by yield differentials or redemption terms, but by sanctions enforcement headlines. Institutional capital rotated toward the issuer with monthly Deloitte attestations and SEC reporting obligations. When regulatory risk becomes salient, that rotation is predictable and quantifiable. If the GENIUS Act passes with provisions that

entrench this advantage, the premium becomes structural rather than cyclical.

**The sanctions paradox is a property of the technology, not a feature of this conflict.** The same blockchain infrastructure that makes stablecoins useful for evasion — permissionless, global, fast — is what makes enforcement precise: every transaction is permanently recorded and attributable. Iran's central bank accumulated over $500 million in USDT without Tether's permission; OFAC froze $344 million of it in a single coordinated action. Both capabilities scale with adoption. The $344 million freeze, executed through on-chain attribution, would be operationally impossible to replicate against a hawala network of comparable scale. This dynamic does not resolve when the conflict ends.

**The behavioral changes that matter most are those that create path dependency.** Commodity traders cut off from banking rails over Iran counterparty risk built stablecoin settlement into operations; EUR-stablecoin volumes grew 12-fold in fifteen months as jurisdictions sought non-OFAC rails; dry powder in stablecoins surged from $1.14 billion to $5.14 billion in four days on a single peace signal. These behaviors are unlikely to reverse because the operational advantages – speed, cost, 24/7 availability – are independent of the geopolitical catalyst that triggered adoption.

The effects that matter most for institutional allocators are not the supply and volume records. They are the compliance premium embedded in issuer selection, the contracyclical structure of stablecoin issuer revenues, and the question of whether stablecoins – with $141 billion in Treasuries held by a single issuer and BIS research documenting measurable spillovers into FX and bill markets – have grown large enough to warrant monitoring as macro infrastructure rather than a cash-equivalent convenience.



# 1. The Stress Test: Stablecoin Supply & Demand During the Conflict

The crypto market lost roughly $620 billion in market capitalization during Q1 2026, a contraction of approximately 20% driven by the Iran war's cascading effects on oil, inflation expectations, and risk appetite (CoinGecko Q1 2026 Report). In every prior contraction of comparable magnitude, stablecoin supply contracted alongside the broader market. For instance, after the Terra/Luna collapse in 2022, stablecoin market cap fell by roughly $30 billion. The Q1 2026 divergence breaks that pattern: total stablecoin supply grew $8 billion to a record $315 billion while everything around it was falling.

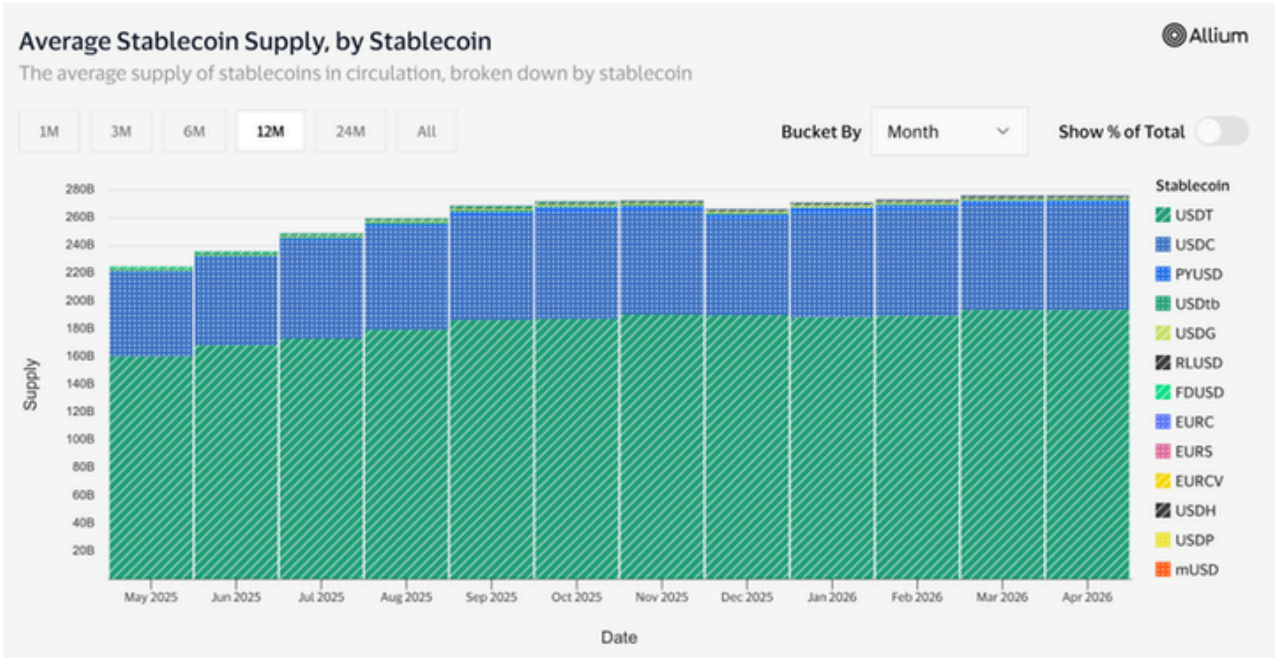



*Fig. 1: Supply of Stablecoins in the last 12 months (Visa).*

The war's economic transmission was direct and measurable. Brent crude jumped from $73 per barrel in January to $119.50 by mid-March, a 59% spike, before peaking at $141.37 in early April as fears of a prolonged Strait of Hormuz closure intensified (Phemex). Bitcoin fell from its $126,000 all-time high to a $65,600-$72,500 range. Oil above $110 pushed markets to price in a possible Fed rate hike, reversing months of rate-cut expectations. In that environment, investors did not exit the crypto ecosystem entirely. They rotated into stablecoins and waited.

## The USDC-USDT Divergence

The $8 billion in net supply growth conceals what this analysis identifies as the first measurable instance of a compliance premium in stablecoin market structure: a sanctions-driven rotation between issuers that is predictable, quantifiable, and likely to recur under similar conditions.

USDC supply grew by approximately $2 billion to approach $78 billion, while USDT supply contracted by approximately $3 billion to $183 billion, a 1.6% decline that represented its largest contraction since the FTX crash. In February alone, USDC processed $1.26 trillion in transfer volume against $514 billion for USDT, capturing 70% of all stablecoin transfer activity despite holding less than half of USDT's market cap (Allium Labs via Cointelegraph). In the first week of March, Circle minted over $3 billion in new USDC while USDT supply remained flat (Arkham via BitKE).

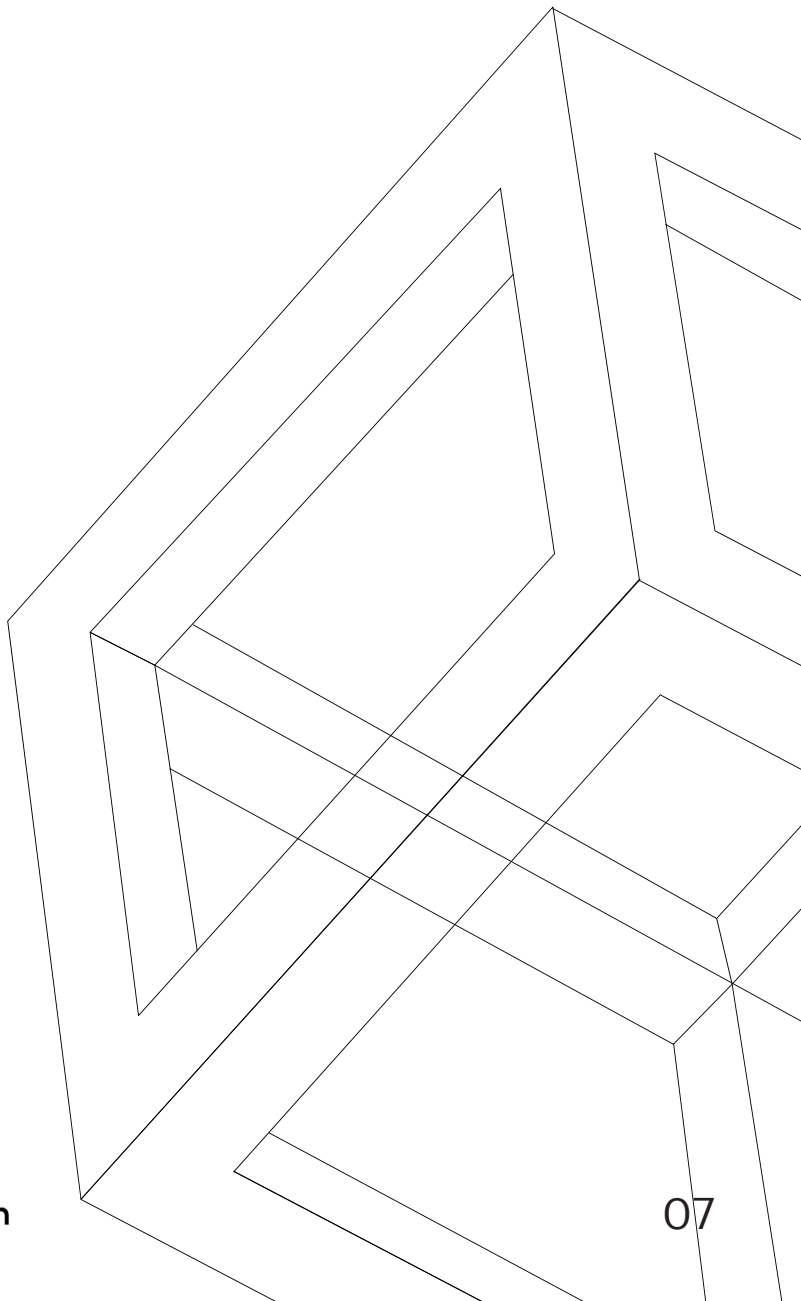
The divergence is not random. In a quarter defined by active sanctions enforcement, with OFAC targeting Iranian crypto wallets and Tether itself freezing $344 million at the request of US law enforcement, institutional capital migrated toward the issuer with monthly Deloitte attestations, a NYSE listing (ticker: CRCL), and a compliance infrastructure built for regulatory scrutiny. The data from exchange reserves confirms this: USDC reserves on exchanges rose 12% during Q1, while USDT reserves fell 12% (Stablecoin Insider). When sanctions enforcement becomes a daily headline, compliance officers choose the auditable issuer. That choice, aggregated across hundreds of institutions, shows up in the supply data.

## Velocity, Composition, and the Dry Powder Thesis

The supply-volume gap tells a story about how stablecoins were being used during the conflict, not just how much existed. Transaction volume jumped 51% quarter-over-quarter to $28 trillion while supply grew only 2.6% (CEX.io). Each dollar in circulation was moving more frequently under conflict conditions, consistent with heightened settlement activity across trading, treasury management, and cross-border flows.

The composition of that activity shifted decisively. Retail-sized transfers below $250 fell 16%, the steepest single-quarter decline on record, while automated and institutional flows rose to 76% of total volume, up from 70% the previous quarter (CEX.io). The dry powder thesis was visible in real time:

on March 1, $1.14 billion in stablecoins flowed into exchanges. Four days later, as Trump signaled the war could end "soon," that figure jumped to $5.14 billion (CryptoQuant via BitKE). Stablecoins were functioning as a staging area for institutional reentry, a behavior pattern validated by recent academic work showing that stablecoins exhibit negative correlation with crypto assets during stress periods, effectively serving as an intra-market safe haven that keeps capital within the ecosystem rather than forcing exits to fiat (Elliot Jones et al.).



# 2. Revenue and Value Capture: Who Profits from the War Premium

## Tether: $1 Billion in Quarterly Profit on a Contracyclical Model

Tether published its Q1 2026 attestation on May 1, reporting $1.04 billion in net profit and a record $8.23 billion excess reserve buffer, despite the 1.6% contraction in USDT supply (Tether). The report, prepared by BDO, confirmed total assets of $191.77 billion against $183.54 billion in liabilities. Direct and indirect exposure to US Treasury bills reached approximately $141 billion, positioning Tether as the 17th largest holder of US government debt globally (US Treasury). Additional reserves include approximately $20 billion in physical gold and $7 billion in Bitcoin.

The contracyclical logic is straightforward: the conditions that erode USDT demand (geopolitical instability, inflation, risk-off rotation) simultaneously preserve the yield on the assets backing USDT supply. The issuer is structurally long volatility and inflation.

The revenue mechanism is worth understanding precisely, because it explains why Tether's profitability is structurally contracyclical. With $141 billion in short-duration Treasuries yielding approximately 4.5%, the interest income alone generates roughly $6.3 billion annually. The Iran war's oil shock pushed inflation higher and delayed Fed rate cuts, preserving those yields through a quarter in which they might otherwise have begun to compress. At the same time, the geopolitical instability sustained demand for dollar-denominated safe havens, keeping USDT supply at $183 billion even during a crypto contraction. The issuer profits from both sides of the equation: instability maintains demand for the product, and the inflation it generates maintains the yield on the reserves backing that product.

There is a tension embedded in these numbers. In the same quarter that Tether earned $1.04 billion from its Treasury portfolio, it coordinated with OFAC to freeze $344 million in USDT held by Iran's central bank. The company is simultaneously the beneficiary of the system (earning yield on US government debt) and the enforcer of the system (freezing sanctioned wallets at the request of the US government). As CEO Paolo Ardoino stated in the attestation: "USD₮ is not a safe haven for illicit activity."

## Circle: The Compliance Premium in Earnings

Circle's 2025 financials tell the complementary story. The company posted $2.7 billion in total revenue and reserve income, a 64% increase over 2024, with USDC on-chain transaction volume growing 384% to $33.3 trillion (SEC). USDC finished 2025 with $75.3 billion in circulation, up 72% year-over-year, and the company completed its NYSE IPO in June 2025 at $31 per share followed by a $1.5 billion follow-on offering in August.

The Q1 2026 competitive dynamics reinforced Circle's positioning. While USDT supply contracted, USDC exchange reserves grew 12% (Stablecoin Insider). The rotation toward USDC during a quarter of intense sanctions enforcement represents the compliance premium in action: when regulatory risk becomes salient, institutions choose the issuer with Deloitte attestations and SEC reporting obligations over the offshore alternative. If the GENIUS Act passes with provisions that favor audited, US-regulated issuers, this advantage may become permanent rather than cyclical.

## Yield-Bearing Stablecoins: The War's Unexpected Beneficiary

The yield-bearing stablecoin category grew 22% in Q1 and added approximately $4.3 billion in market cap, contributing more than half of the stablecoin market's net supply growth (CEX.io). Sky's sUSDS alone brought in more than $2.5 billion, more capital than the next four yield-bearing tokens combined. The war created ideal conditions for these instruments: yields on short-duration Treasuries remained elevated because the oil shock prevented rate cuts, while sideways crypto prices left capital idle and seeking returns. USDi, an inflation-linked stablecoin tracking CPI, launched during the conflict explicitly as a response to energy-driven price increases. For allocators, this trend is worth observing closely because yield-bearing stablecoins compete directly with money market funds on yield levels while offering superior settlement speed.

| Metric | Q4 2025 | Q1 2026 | Change |
|---|---|---|---|
| **Total supply** | ~$307B | $315B (record) | +$8B |
| **USDT supply** | ~$186.5B | ~$183B | -$3B (-1.6%) |
| **USDC supply** | ~$76B | ~$78B | +$2B (+2.6%) |
| **Quarterly transaction volume** | ~$18.5T | $28T (record) | 51% |
| **Stablecoin share of crypto trading** | ~65% | 75% (record) | +10pp |
| **Retail transfers (<$250)** | Baseline | -16% QoQ (record decline) | -16% |
| **Bot share of volume** | ~70% | 76% (record) | +6pp |
| **USDC organic volume share** | ~60% | 80% | +20pp |
| **Yield-bearing stablecoin growth** | Baseline | +22% QoQ (+$4.3B in market cap) | 22% |
| **Tether quarterly profit** | ~$3.25B (2024 avg) | $1.04B | Below 2024 pace |
| **Tether US Treasury holdings** | ~$113B (Q4 2024) | $141B | 25% |
| **USDC exchange reserves** | Baseline | +12% QoQ | 12% |
| **USDT exchange reserves** | Baseline | -12% QoQ | -12% |

*Fig. 2: Q1 2026 Stablecoin Market Snapshot: Key Metrics vs. Q4 2025*

# 3. The Sanctions Paradox: Same Rails, Opposite Sides

## Iran's Stablecoin Infrastructure

Iran has built the most developed state-level stablecoin infrastructure of any sanctioned country. Its crypto ecosystem reached $7.78 billion in total value in 2025, growing faster than in 2024 despite decades of Western sanctions (Chainalysis). The Islamic Revolutionary Guard Corps accounted for roughly 50% of all on-chain activity in Q4 2025, and the Central Bank of Iran purchased over $500 million in USDT during 2025, a strategy that Elliptic described as "sophisticated" in its January 2026 report (Elliptic). Nobitex, the largest Iranian exchange with over 10 million users and more than $11 billion in historical inflows, has been linked by blockchain analytics firms to wallets associated with the IRGC, Hamas, Palestinian Islamic Jihad, and Yemen's Houthis (Chainalysis).

The war compressed this ecosystem violently. Within minutes of the first US-Israeli strikes, outgoing transaction volumes from Nobitex surged 700% as users moved funds to personal wallets (Elliptic). Monthly inflows to Iranian exchanges fell from a peak of $1.8 billion in Q4 2024 to $510 million in Q1 2026, a 72% compression driven by wartime conditions, internet shutdowns, and enforcement pressure (TRM Labs). In June 2025, the Israel-linked hacking group Predatory Sparrow stole $90 million from Nobitex and burned the funds by sending them to inaccessible wallets, an act of financial destruction rather than theft (Elliptic; TRM Labs; CNN).

## The Hormuz Toll: Sovereign Demand for Stablecoins

In what appears to be the first case of a nation-state demanding cryptocurrency for access to global infrastructure, Iran's IRGC has been charging oil tankers approximately $1 per barrel for transit through the Strait of Hormuz, payable in yuan, Bitcoin, or stablecoins through an IRGC-linked intermediary (Chainalysis; Fortune). Iran's parliament formalized the plan in April, and the Financial Times reported that a spokesperson for Iran's Oil, Gas and Petrochemical Products Exporters' Union confirmed the system publicly (Chainalysis). Chainalysis assessed that stablecoins are likely preferred over Bitcoin for these payments, consistent with the regime's historical reliance on USDT for high-volume, low-volatility transactions.

The Strait of Hormuz handles roughly 20% of global oil and LNG supply. If the toll system is applied at scale, it would generate hundreds of millions of dollars per month in forced stablecoin demand, creating a geopolitically driven floor under transaction volume that has no precedent.

## Enforcement Response

On April 24, 2026, OFAC sanctioned two cryptocurrency wallets belonging to Iran's Central Bank for the first time, freezing approximately $344 million in USDT (TRM Labs). The wallets had accumulated roughly $370 million across approximately 1,000 transactions since March 2021, with less than 7% of inflows ever transferred outward, a profile consistent with sovereign reserve storage rather than operational use. Tether coordinated directly with OFAC and US law enforcement to execute the freeze. In January, OFAC had designated two UK-registered exchanges, Zedcex and Zedxion, that TRM Labs identified as having processed approximately $1 billion in IRGC-linked stablecoin flows.

The paradox at the center of these events is structural, not temporary. The same blockchain infrastructure that makes stablecoins attractive for sanctions evasion (permissionless, fast, global) is what makes enforcement possible (every transaction recorded, every wallet attributable with sufficient analytical resources). Iran can accumulate USDT without permission from Tether. But Tether can freeze it without permission from Iran. Analytics firms like TRM Labs, Chainalysis, and Elliptic provide the attribution layer that connects wallets to entities. The result is a system in which evasion is more convenient than traditional alternatives (hawala, front companies, trade-based laundering) but enforcement is more precise. Both capabilities scale with adoption. The $344 million frozen in a single action would be difficult to replicate against cash-based networks operating at comparable scale.

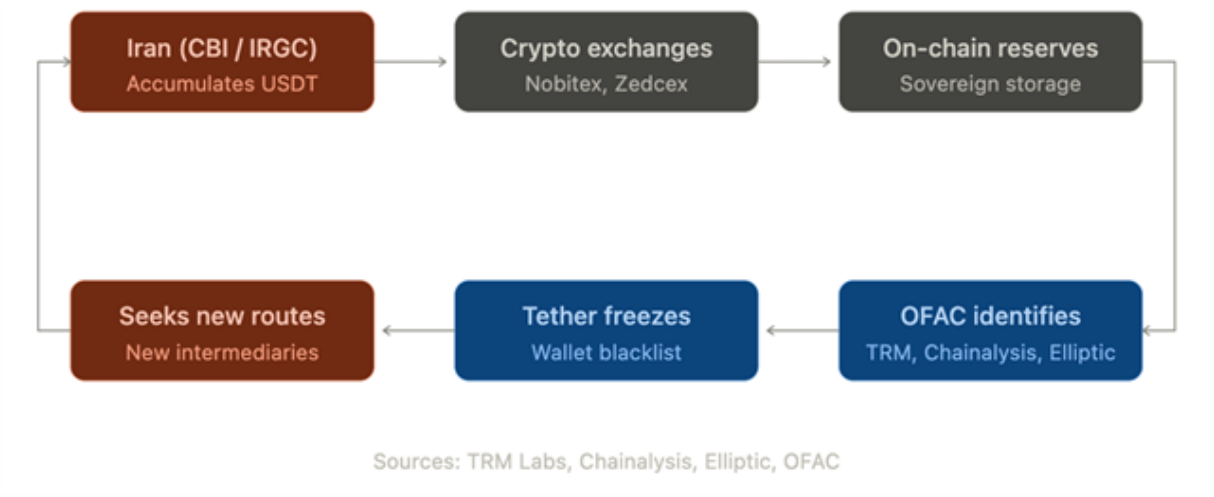



*Fig. 3: Iran's Stablecoin Ecosystem: Scale, Enforcement, and the Dual-Use Dynamic*

# 4. Behavioral Persistence: What Outlasts the War

## Trade Finance and the Debanking Accelerator

Western banks have been cutting relationships with commodity traders whose counterparties carry Iran-related exposure. Luke Sully, CEO of trade finance stablecoin issuer Haycen, described a "fresh wave of debanking across commodity markets" in which compliance concerns override established banking relationships (CoinDesk). USDT is filling the gap as a settlement rail for the $2 trillion non-bank trade finance market, offering instant settlement, lower cost, and 24/7 availability that correspondent banking cannot match.

The behavioral point is about irreversibility. A commodity trader who builds stablecoin settlement into operations during a crisis may not revert to correspondent banking when the crisis passes. The operational advantages (speed, cost, availability) are independent of the geopolitical catalyst that triggered adoption. Thus, the war may have served as an accelerant for a transition that trade finance participants had been evaluating for years but lacked a forcing function to implement.

## EUR Stablecoins and the Currency Fragmentation of Digital Dollars

Euro-denominated stablecoin volume grew from $69 million per month in January 2025 to $777 million in March 2026, a 12-fold increase in fifteen months. TRM Labs attributes this to three converging factors: regulatory clarity under the EU's MiCA framework, demand for non-USD settlement rails amid US trade policy uncertainty, and integration by European exchanges and payment providers. The war added a fourth: jurisdictions seeking to maintain neutrality in the conflict need settlement infrastructure that does not transit USD rails and is therefore not subject to OFAC jurisdiction.

The stablecoin market remains overwhelmingly dollar-denominated, with more than $300 billion of the $315 billion total supply in USD-pegged instruments. But the growth rate of EUR alternatives signals that the geopolitical fragmentation of traditional currency markets is beginning to

replicate in digital assets. For allocators with cross-border mandates: stablecoin denomination is becoming a risk factor, not just a convenience choice.

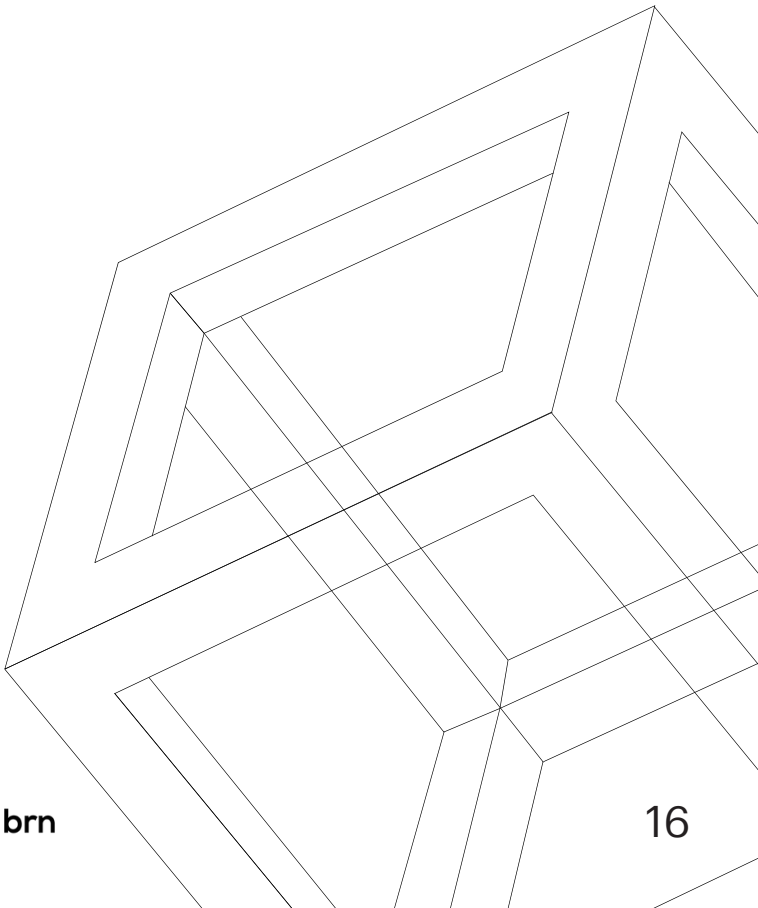
## Stablecoins as Macro Infrastructure: The Evidence from Academic Research

Two recent BIS Working Papers provide quantitative evidence that stablecoins have grown large enough to affect traditional financial markets. BIS Working Paper No. 1270 found that a $3.5 billion stablecoin inflow compresses 3-month US Treasury bill yields by 5 to 8 basis points during periods of bill scarcity (BIS). With Tether alone holding $141 billion in Treasuries, the demand from stablecoin issuers for government paper is now large enough to influence pricing at the short end of the curve. BIS Working Paper No. 1340 documented measurable spillovers from stablecoin flows into foreign exchange markets across 27 currency pairs, demonstrating that on-chain dollar flows create a parallel FX ecosystem with real-world pricing effects (BIS).

These findings have direct relevance for what happened during the Iran war. In Iran, stablecoin outflows from Nobitex surged 700% within minutes of the first strikes, a capital flight event that occurred entirely outside the banking system and was therefore invisible to traditional FX monitoring. In Venezuela and Turkey, where stablecoins function as de facto dollar access under constrained monetary systems, similar dynamics play out at slower timescales. If stablecoin supply reaches the $500 billion to $1 trillion range projected by Standard Chartered, the macro impact on Treasury markets, FX dynamics, and emerging market capital flows becomes large enough to warrant dedicated monitoring by central banks and institutional allocators alike.

| Metric | Stablecoins (Q1 2026) | Traditional Analog |
|---|---|---|
| **Total supply** | $315B | US money market funds: ~$6.8T |
| **Quarterly transaction volume** | $28T | Visa + Mastercard 2025: ~$20T |
| **Tether US Treasury holdings** | $141B | Ranks 17th among global sovereign holders |
| **USDC 2025 revenue** | $2.7B | Comparable to mid-tier asset managers |
| **Yield-bearing stablecoin returns** | ~4-5% | US money market fund yields: ~4.3% |
| **Average USDC transfer size** | $557 | Indicative of institutional, automated flows |

*Fig. 4: Stablecoins vs. Traditional Financial Infrastructure: Scale Comparison*



# 5. Positioning Considerations

## Issuer Selection as Risk Management

The Q1 data establishes that stablecoin issuer selection is a risk management decision with measurable consequences, not a liquidity convenience choice. The 12% rotation in exchange reserves from USDT to USDC over a single quarter, driven by sanctions enforcement headlines rather than any change in underlying yield or redemption terms. Institutions are already pricing issuer risk differentially. The question for investment committees is whether that pricing is reflected in their own allocation frameworks.

A workable first-pass taxonomy has three tiers:

*Tier 1* — Regulated, audited, US-domiciled. Circle/USDC. NYSE-listed, monthly Deloitte attestations, reserves held in SEC-registered money market funds and short-duration Treasuries at regulated custodians. If the GENIUS Act passes with provisions favoring audited US issuers, the compliance premium for Tier 1 becomes durable rather than cyclical.

*Tier 2* — Offshore, high reserves, enforcement-cooperative. Tether/USDT. BDO-attested with $8.23 billion in excess reserves, but incorporated offshore with no formal US regulatory framework. Tether has demonstrated willingness to coordinate with OFAC — the $344 million freeze confirms this — which is a feature for US counterparties and a risk for any counterparty whose wallet could become subject to enforcement. The $141 billion Treasury holding also introduces a concentration risk that runs in both directions: Tether is large enough to affect short-duration bill yields, meaning its own redemption pressure in a stress scenario could move the market for its primary reserve asset.

*Tier 3* — Yield-bearing, algorithmic, or emerging issuers. Protocol-level risk is additive to the issuer risks above. Elevated yields in this category are compensating for smart contract exposure, governance risk, and in some cases undisclosed reserve composition. The 22% Q1 growth in this category reflects yield-chasing under elevated inflation, not a structural improvement in risk profile.

## Sanctions Exposure: What's Actually at Risk

Three distinct exposure vectors warrant separate treatment in any compliance review.

Direct freeze risk. Any wallet or account holding USDT is subject to freeze via Tether's administrative controls at OFAC request, with no court order required and no advance notice. The $344 million action was executed in a single coordination event. Allocators with exposure to jurisdictions or counterparties that carry sanctions proximity should treat USDT holdings as subject to freeze without recourse — a materially different risk profile from bank deposits subject to due process.

Counterparty contamination risk. A wallet that receives funds traceable to a sanctioned entity through on-chain attribution tools (Chainalysis, TRM Labs, Elliptic) can itself become subject to enforcement action. For funds that have transited DeFi protocols or aggregator routes, this exposure is difficult to audit in real time. Firms active in cross-border stablecoin settlement should establish chain-of-custody monitoring as a standard operating requirement, not an edge case.

Denomination jurisdiction risk. All USD-pegged stablecoins, regardless of issuer, route economic exposure through dollar-denominated assets subject to OFAC jurisdiction. The 12-fold growth in EUR-stablecoin volumes since January 2025 reflects allocators beginning to treat denomination as a risk factor — a distinction that was largely theoretical before MiCA created a regulated alternative and the Iran conflict made OFAC reach visible in real time. For mandates with significant cross-border or non-US counterparty exposure, denomination diversification is worth modeling.

## Reclassification: Cash Equivalent or Distinct Allocation?

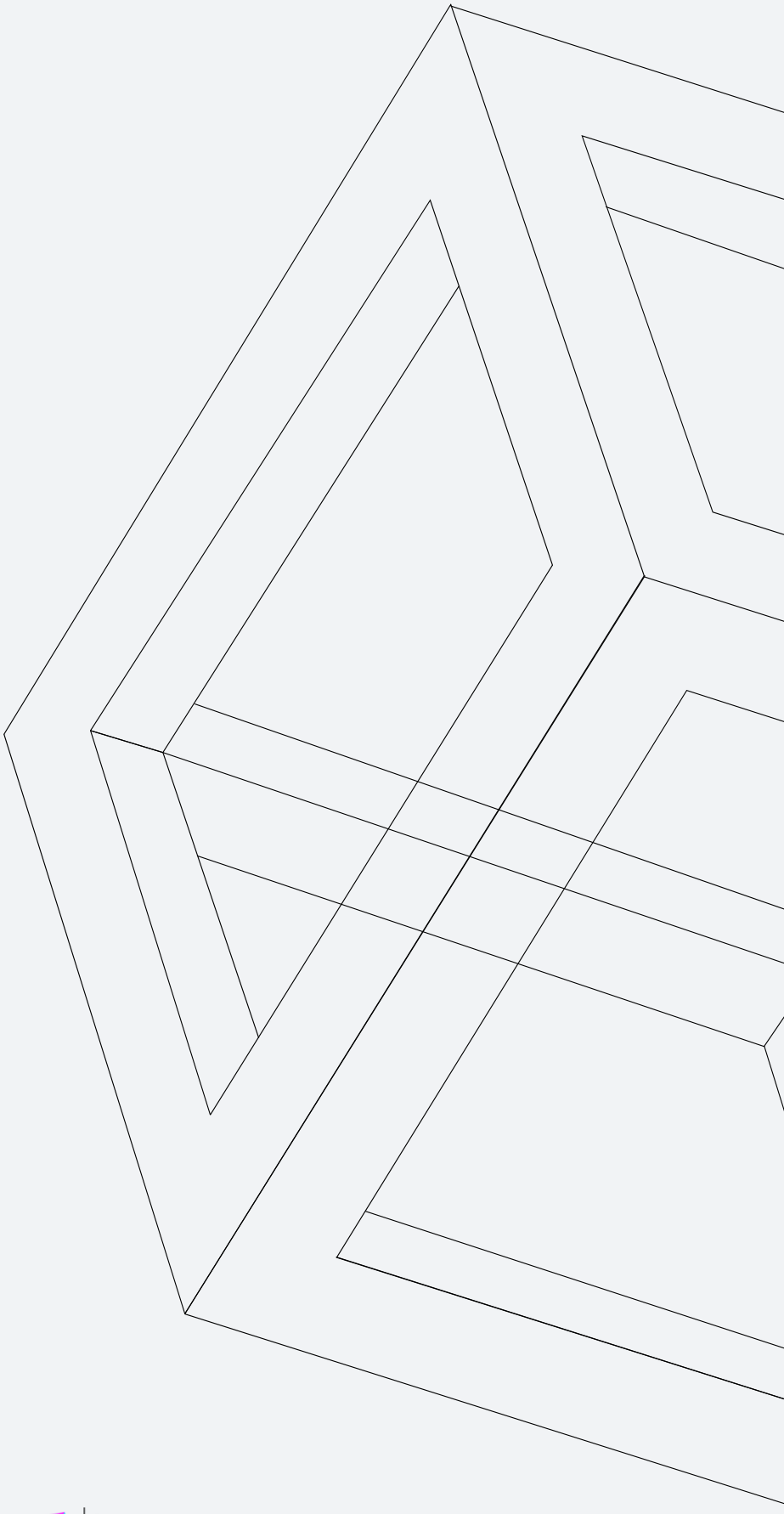
Standard cash-equivalent treatment assumes stable value, instant liquidity, and negligible counterparty risk. The Q1 evidence challenges the second and third assumptions without touching the first: value remained stable, but liquidity was impaired for frozen wallets, and counterparty risk varied materially by issuer in ways that a cash-equivalent classification would not capture.

The practical question for investment committees is where stablecoins

belong on a risk-adjusted basis. One approach: treat Tier 1 stablecoins as cash equivalents with an added layer of issuer-specific counterparty review on par with money market fund credit analysis; treat Tier 2 as short-duration fixed income with an explicit sanctions-exposure haircut; treat Tier 3 as a separate allocation with protocol-level due diligence requirements. This is not a recommendation to reduce stablecoin exposure; it is a recommendation to hold the right kind for the right purpose, with the risk properly attributed.

## What to Watch

Four indicators will determine whether the war premium persists or fades. First, the GENIUS Act's final provisions on yield and compliance requirements, which will determine whether the USDC/USDT divergence becomes structural. Second, EUR-stablecoin volume trajectory as a proxy for geopolitical fragmentation of digital dollar infrastructure. Third, the frequency and scale of OFAC on-chain enforcement actions, which measure how aggressively the US deploys stablecoin infrastructure as a sanctions tool. Fourth, whether commodity traders who adopted stablecoin settlement during the conflict retain those rails post-hostilities — the data point that will confirm or refute the behavioral persistence thesis at the center of this report.



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