

Gold Stablecoins Boom with Price Surge, 24/7 Edge Over ETFs

Tether Gold, PAX Gold Market Caps Double as Investors Favor 24/7 Trading, Lower Fees

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Gold bars and gold coins displayed at a gold exchange in the UK. /Reuters-Yonhap

Employee Yoon purchased a virtual currency called 'PAX Gold (PAXG)' late last year. Issued by the U.S. virtual currency company 'Paxos', this virtual currency is designed to have its price linked to the price of gold. Yoon said, "As gold prices have been steadily rising, buying physical gold is cumbersome, and I wasn't sure where to buy it or how to store it," adding, "Gold coins can be easily bought and sold on virtual currency exchanges, and since they can be purchased in increments starting from 5,000 Korean won in 1,000 Korean won units, they seemed good for accumulating little by little through a savings plan."

PAX Gold is one of the gold stablecoins that have seen increasing global investment recently. A stablecoin originally refers to a virtual currency (coin) designed to have its value fixed to a fiat currency, such as '1 coin = 1 dollar.' Gold stablecoins, on the other

hand, are designed to have their prices move in line with ‘1 coin = 1 ounce of gold.’ While major gold coins have been around for about six years, the trading volume has suddenly and rapidly increased as gold prices surged to record highs last year.

◇ Surge in Market Cap as Gold Coin Investments Increase

The market cap of ‘Tether Gold (XAUT)’, the world’s largest gold stablecoin launched in 2020, reached 1.82 billion dollars on the 7th. It had been 820 million dollars as of late June last year, but it swelled to 2.2 times that level in about six months. PAX Gold’s market cap also increased from 910 million dollars to 1.68 billion dollars during the same period. As interest in gold investment grew last year due to rising gold prices, the popularity of gold stablecoins also appears to have risen accordingly. According to the World Gold Council, the average gold price, which was 2,710 dollars per troy ounce in January of last year, rose by 58% to 4,290 dollars in December, closing the year.

Graphics by Kim Young-jae

Tether Gold, PAX Gold, and others link their prices to gold by purchasing physical gold in proportion to investments and holding it as collateral. This is similar to how dollar stablecoins like Tether and USDC accumulate cash-equivalent assets such as dollars and U.S. short-term treasury bonds as reserves. Gold coin issuers allow users to check where their coins are deposited via the company's website by entering the coin 'wallet' (virtual account) number. They also provide a service where users can exchange coins for gold bars after completing a simple procedure. This is a measure to gain investors' trust by emphasizing that the coin price is precisely linked to the gold price. Indeed, on the 7th, Tether Gold and PAX Gold were trading around 4,450 dollars per coin, similar to global gold market prices.

However, it should be noted that since these gold prices are based on the dollar, the return rate in Korean won can change depending on the exchange rate when buying or selling gold coins on Korean exchanges. If the won-dollar exchange rate rises compared to the purchase time, the return rate increases, but conversely, even if gold prices rise, losses can occur if the exchange rate falls.

◇ “Trading Cheaper and Faster Than ETFs”

Promotional text on the Tether Gold website reads, 'XAUT (Tether Gold) is a digital token collateralized by physical gold.' Entering a cryptocurrency wallet address in

the search bar below allows users to check where the corresponding gold for that coin is deposited. /Courtesy of Tether

Gold stablecoins are similar to gold ETFs (exchange-traded funds) in some aspects but also have differences. While ETFs are traded on a single exchange, gold stablecoins can be bought and sold on multiple exchanges. These gold coins can also be traded on Korean virtual currency exchanges such as Upbit, Bithumb, and Korbit. Additionally, while ETFs cannot be directly sent to others like ‘transfers,’ gold coins can be directly sent to others domestically and internationally. Another feature of gold coins is that, like other virtual currencies, they can be traded 24 hours a day without holidays and with low fees.

Some analysts suggest that the spread of gold stablecoins could be a variable driving up gold prices. This is because, although the gold accumulated as collateral for gold stablecoins, which have a relatively short history, is still less than that of ETFs, the scale is growing rapidly. The gold reserves held by Tether Gold increased from 7.7 tons in January of last year to 17.2 tons on the 6th, while PAX Gold’s reserves grew from 6.7 tons at the beginning of last year to 11 tons in November of last year, the last disclosed data. This means they purchased approximately 13.8 tons of gold over the year.

Professor Campbell Harvey of Duke University’s Fuqua School of Business, former president of the American Finance Association, stated in his recently published paper ‘Tokenized Gold’ that, “While gold ETFs transformed gold, which is difficult to store and trade, into a financial product, gold stablecoins have turned gold into an asset that can be traded 24 hours a day more cheaply,” adding, “Unlike ETFs, which are classified as securities and cannot function as currency, gold coins are expected to find more applications in actual economic activities.”

- This article has been translated by Upstage Solar AI.

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