

## Stablecoins

A sector of cryptocurrencies typically backed by a reserve asset, such as USD, which attempts to peg market value to the reserve asset. A stablecoin's exchange market rate, or price, can differ from a centralized stablecoin issuer's redemption rate.

## Origins & Purpose

Tether (USDT) was initially created in 2014 to act as a potential hedge against market volatility, as well as increasing the transferability and convertibility of fiat currencies to cryptocurrencies. Tether's usage and supply grew substantially throughout the 2017 Bitcoin bull run, which significantly increased adoption of USDT trading pairs on crypto exchanges. Tether has also seen increasing use as an international remittance vehicle and general peer-to-peer method of exchange. As scrutiny increased over Tether's reserves, competing projects like Circle's USD Coin (USDC) arose with a focus on increased transparency.

Today, most fiat-backed stablecoins, including Tether, release monthly or quarterly detailed attestations regarding reserves. In 2021, stablecoin's saw a second wave of growth, increasing in total supply by over 35x, thanks to significant uses in Decentralized Finance (DeFi) for loan and yield generation.

## Fiat-Backed

The two largest stablecoins by circulating supply, USDT and USDC, are both backed by USD reserves and/or USD equivalents held in third-party financial institutions. Issuing these types of stablecoins directly from the servicer also requires KYC/AML compliance and minimum capital requirements. Although these types of stablecoins saw price volatility in earlier years, briefly losing the targeted market rate of \$1, USDT and USDC remained extremely stable throughout 2021. Gemini USD (GUSD) however, remains much more volatile relative to its fiat-backed peers.

## Crypto-Backed








Crypto-collateralized stablecoins require on-chain management with the use of smart contracts, which also allows for 100% transparency of reserves and collateralization levels. Most crypto-backed stablecoins do not have KYC/AML or minimum capital requirements for initialization but do require overcollateralization of loans to buffer against market volatility. If these loans fall below the required collateralization level, they are liquidated. Initially, only single-collateral ETH loans were available on MakerDAO (DAI). Multi-collateral loans were introduced on the platform in November 2019 to further protect users from extreme downside volatility of the underlying assets.

## Algorithmic






Of all stablecoin types, algorithmic or seigniorage-style stablecoins have had the most difficulty maintaining a \$1 peg, historically. This stablecoin type does not require collateral and is managed on-chain via smart contracts. These stablecoin types will increase or decrease the circulating supply to maintain stablecoin value. Basis, an algorithmic stablecoin startup, shut down in December 2018, citing an unfavorable U.S. regulatory landscape around such algorithm-based mechanisms.

## Commodity-Backed





The least popular type of stablecoins based on circulating supply and usage. These stablecoins, such as Tether Gold (XAUT) and Pax Gold (PAXG), are typically backed by precious metals or physical goods and rely on a centralized issuer. Unlike other stablecoins, the underlying reserve can and does fluctuate in price, but allows for tokenization and improved utility of the underlying assets.

Fiat-Backed	Ticker	Supply (\$, bn)	Launch	Chain
 Tether	USDT	78.09	Sept '14	Multi
 Circle	USDC	50.68	Sept '18	Multi
 Binance	BUSD	16.14	Sept '19	Multi
 TrueUSD	TUSD	1.51	Jan '18	Multi
 Paxos	USDP	1.06	Sept '18	ETH, BSC
 Huobi	HUSD	0.23	Nov '18	ETH, SOL
 Gemini	GUSD	0.22	Sept '18	ETH

## Crypto-Backed

 MakerDAO	DAI	9.18	Dec '17	Multi
 Abracadabra	MIM	1.93	May '21	Multi
 Liquity	LUSD	0.71	Apr '21	ETH
 Synthetix	sUSD	0.10	Dec '18	ETH, FTM
 mStable	mUSD	0.04	May '20	ETH

## Algorithmic

 TerraUSD	UST	11.27	Sept '20	Multi
 Frax	FRAX	2.64	Dec '20	Multi
 Neutrino	USDN	0.47	Oct '19	Multi
 Celo	CUSD	0.09	June '20	Celo

## Worldwide "Stablecoin" Google Trends



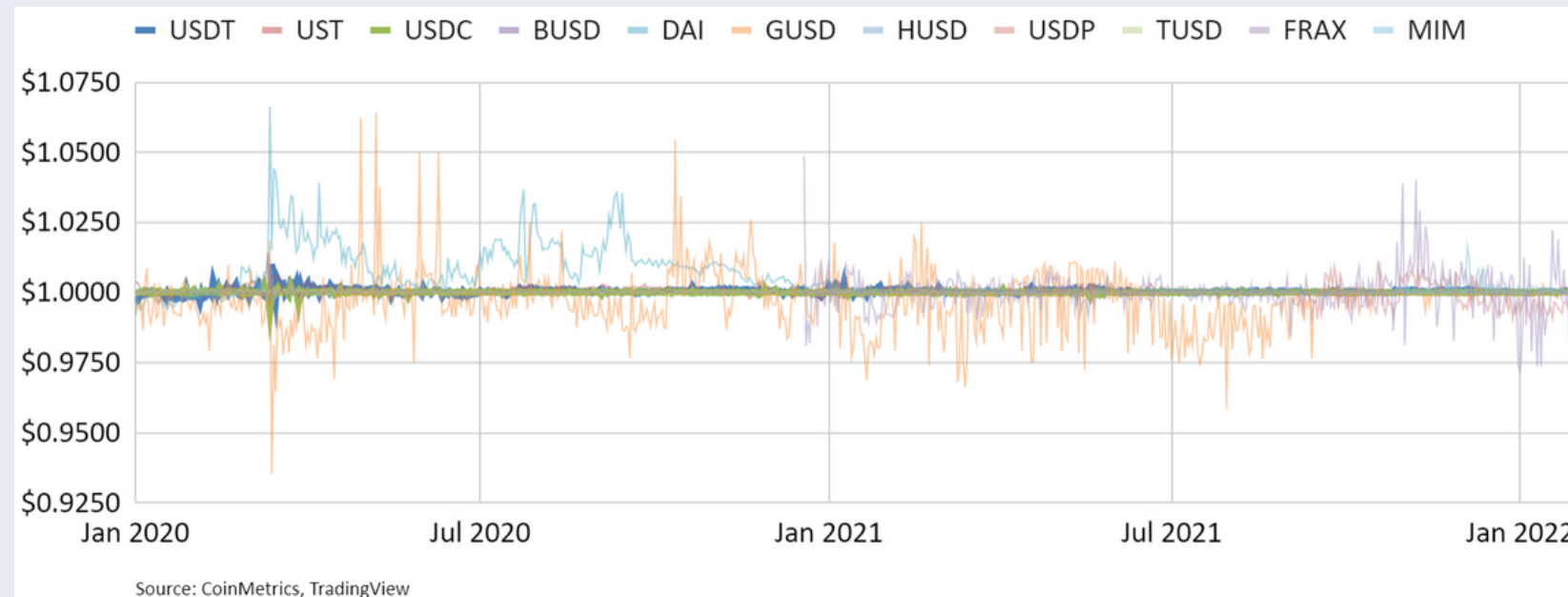
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## Stablecoin Prices Relative to USD



Source: CoinMetrics, TradingView



# Stablecoin Landscape

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Stablecoins, Origins & Purpose, Fiat-Backed, Crypto-Backed, Algorithmic, Commodity-Backed: Source: Valkyrie Investments, Inc., Tether Operations, CoinMetrics, Circle, Basis.io, and Paxos

Worldwide "Stablecoin" Google Trends: Source: Google

List and examples shown in the Stablecoin table are non-exhaustive, intended for illustrative purposes only. Circulating supply values sourced from Coinmetrics. Chain data sourced from CoinMarketCap. "Multi" description can include Ethereum, Solana, Binance Smart Chain, Algorand, Tron, Fantom, Polygon, Avalanche, Arbitrum, Secret, Terra, Moonriver, Velas, and Harmony.

Stablecoin Prices relative to USD: Source: Valkyrie Investments, Inc., CoinMetrics, TradingView

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