Stablecoins

**A stablecoin is a digital token or cryptocurrency tied to the market value of another asset.**  The value of the stablecoin can be pegged to assets such as gold, oil, gas, or to such state currencies as US dollars, euros, yen, etc.

## Like any other cryptocurrency, stablecoins are based on blockchain technology. They perform the same functions as ordinary money and digital assets used for monetary transactions. Stablecoins refer to payment tokens and are used as a unit of account, a means of exchange and preservation of value.

However, unlike fiat currencies, which can be very susceptible to inflation, and other cryptocurrencies such as [Bitcoin (BTC)](https://paxful.com/university/ru/chto-takoye-bitcoin/) and [Ethereum (ETH),](https://paxful.com/university/ru/chto-takoye-ethereum/) known for their high volatility, stablecoins are designed to maintain value and ensure price stability. Four types of stablecoins are used to achieve this goal.

### **Stablecoins backed by *fiat* currency**

This type of stablecoin is backed by the state currency (e.g., the U.S. dollar), often in a 1:1 ratio. This means that every digital coin you receive is backed by a fiat currency equivalent. An example is Tether (USDT), which is always worth $1. Stablecoins with fiat collateral are the most popular and widely used in the cryptocurrency sphere. However, they are considered vulnerable to fraud, as they are issued by centralized institutions and organizations that have their own rules and protocols. Therefore, it is very important to find a reliable issuer if you want to convert your funds into stablecoins.

### **Commodity-backed *stablecoins***

These stablecoins are similar to the previous type, but they are not backed by fiat currency, but by other fungible assets and commodities. This includes precious metals and minerals (gold, silver, diamonds), valuable goods (oil and gas), expensive real estate, etc.

An example is a Venezuelan cryptocurrency called Petromoneda or Petro (PTR), which is backed by oil.

### **Stablecoins secured *by cryptocurrency***

In this case, the security of the stablecoin is not fiat currency, but cryptocurrency. At the same time, the whole process is based on blockchain technology and is decentralized. Often, such stablecoins are tied to cryptocurrency in a ratio of 1: 2.

Due to the high volatility of cryptocurrencies, each stablecoin accounts for more coins as collateral.

Thus, sharp price fluctuations do not affect the supply of stablecoins. An example is the Dai (DAI) stablecoin on the Maker platform. However, due to the complexity of cryptocurrencies, this type of stablecoin is not as popular as the previous ones. In addition, such stablecoins are often considered

"oversecured", as a large amount of cryptocurrency is required to secure them.

### ***Algorithmic* stablecoins**

These stablecoins are also called unsecured, as they are not backed by fiat currency or cryptocurrency. Instead, they maintain their value with an algorithm or working mechanism. Smart contracts are responsible for managing supply and demand, which also guarantee the stability of the stablecoin price.

The algorithmic system generates new coins when the price of the stablecoin is too high. Otherwise, it buys coins on the market to reduce the number of stablecoins in circulation. Examples of such stablecoins are Primecoin (XPM) and the now defunct Basis. This type of stablecoin is the most complex of the four, but algorithmic systems are similar to those that central banks use to manage currency holdings.

## ****The most popular stablecoins on the market****

Now that you have some idea about stablecoins, let's see which ones are the most popular today:

### Tether (USDT)

As you can guess from the name, Tether is a stablecoin tied to the value of the US dollar (1 USD = 1 USDT). At the moment, it occupies the third most popular place in the cryptocurrency market.   
**Price:** $1.00

### Dai (DAI)

Dai is an Ethereum-based stablecoin that is maintained and regulated by MakerDAO. Its value is pegged to the U.S. dollar through collateralized debt. This means that its reserves are not held in US dollars, but in ether (ETH) using collateralized debt.   
**Price:** 0.9993 USD

### USD Coin (USDC)

USD Coin (USDC) is a stablecoin that is fully backed by U.S. dollars, meaning it is a fiat currency-backed stablecoin pegged to the value of the U.S. dollar.   
**Price:** 0.9993 USD

### True USD (TUSD)

Like the other examples on this list, True USD is a fully collateralized stablecoin backed by the Ethereum network. Its value is also pegged to the US dollar in a 1:1 ratio, like other stablecoins.   
**Price:** 0.9994 USD

### Pax Dollar (USDP)

Initially, this stablecoin was traded under the ticker symbol PAX, but was later renamed Pax Dollar (USDP). It is also based on the Ethereum blockchain and is pegged to the US dollar in a 1:1 ratio.   
**Price:** $1.00

## ****What are the advantages and disadvantages of centralized stablecoins?****

On the one hand, centralized stablecoins are very stable, since their price is 100% backed by assets with low volatility. In addition, they are liquid, that is, they are available on almost any cryptocurrency trading platform. Also, popular stablecoins are convenient for mutual settlements and capital storage. They are convenient to place as a base currency in trading pairs on crypto-exchanges.

On the other hand, centralization is the weak point of such coins. Any difficulties for the organization controlling reserves, including claims from regulators and manipulation of reporting, can lead to problems for all stablecoin holders. In addition, it is not known exactly how the operator of a stablecoin can use reserves.

A prime example is USDT. In early 2019, the New York State Prosecutor's Office [charged](https://forklog.com/bitfinex-predyavleny-obvineniya-v-pokrytii-poter-na-850-mln-za-schet-tether-birzha-vse-otritsaet/) Bitfinex with using the capital of its affiliate Tether to compensate for its own losses of user funds. This was about $ 850 million, access to which the platform lost after their transfer to the Panamanian processing service Crypto Capital.

Bitfinex repaid the main debt to Tether [only in early 2021](https://forklog.com/bitfinex-pogasila-vzyatyj-u-tether-kredit-v-razmere-750-mln/) and soon [settled](https://forklog.com/cftc-obyazala-bitfinex-i-tether-vyplatit-shtrafy-na-42-5-mln/) the conflict with the authorities. However, Tether [was sued](https://forklog.com/tether-obvinili-v-nezakonnyh-i-obmannyh-praktikah/) by investors, accusing the company of "illegal and deceptive" practices. In April 2022, the defendant from Crypto Capital [pleaded guilty](https://forklog.com/otvetchik-po-delu-crypto-capital-priznal-vinu-v-moshennichestve/) on all counts, including the charge of "shadow banking".

## ****How will stablecoins evolve?****

Stablecoins are regularly criticized by regulators and government agencies.

At the end of 2021, the US Treasury [released](https://forklog.com/minfin-ssha-opublikoval-otchet-o-riskah-stejblkoinov/) a report on the risks of stablecoins, in which it noted the opacity of their reserves and assessed them as a threat to investors. The Fed is confident that stablecoins [pose](https://forklog.com/v-frs-predupredili-o-svyazannyh-so-stejblkoinami-riskah/) a risk due to possible problems with their conversion into fiat. Most likely, incidents like the depreciation of the UST will only accelerate the introduction of tighter regulation on stablecoins.

Tether CTO Paolo Ardoino [believes](https://forklog.io/paolo-ardoino-algoritmicheskie-stejblkoiny-s-vysokoj-kapitalizatsiej-opasny-dlya-rynka/" \t "_blank) that algorithmic stablecoins are dangerous for the cryptocurrency market, as they can cause a "cascading effect".

**The collapse of UST and LUNA.**

The collapse of [the algorithmic stablecoin](https://forklog.com/algoritmicheskie-stejblkoiny-kak-razvivayutsya-alternativy-usdt-i-usdc/) UST and the highly capitalized token LUNA was a real shock for the crypto industry - in a matter of days, the savings of many users and multimillion-dollar assets of large companies depreciated.

Shortly before the collapse, [the Terra](https://forklog.com/chto-takoe-terra/) ecosystem was second only to Ethereum on TVL, which includes [MakerDAO](https://forklog.com/chto-takoe-makerdao/), [Uniswap](https://forklog.com/chto-takoe-uniswap/), [Compound](https://forklog.com/chto-takoe-compound/) and other veterans of decentralized finance. The Anchor platform [was in third place in the](https://forklog.com/kak-problemy-s-anchor-mogut-obrushit-ekonomiku-terra-i-rynok-kriptovalyut/) overall DeFi Llama ranking.

The dizzying growth of Terra USD (UST) and the popularity of algorithmic stablecoins inspired many developers to create [similar projects](https://forklog.com/v-seti-tron-zapustyat-algoritmicheskij-stejblkoin-usdd/) and [reserve crypto funds](https://forklog.com/frax-finance-sozdast-rezervnyj-kriptofond-po-analogii-s-terra/).

However, everything changed in a matter of days: the UST suddenly [lost its peg](https://www.coingecko.com/en/coins/terra-usd) to the dollar, and the luna token associated with it [almost depreciated](https://www.coingecko.com/en/coins/terra-luna).

ForkLog understood the causes of what happened, assessing the current and possible future consequences for the industry, as well as the chances of the project to recover.

* The collapse of LUNA and UST has shaken the crypto community's confidence in the prospects of algorithmic stablecoins.
* What happened in the Terra ecosystem attracted the attention of regulators and the mainstream media.
* The collapse of LUNA and UST had a negative impact on the rest of the market, creating serious problems for a number of DeFi projects.

**Aftermath of luna's collapse**

What should be noted is the unpreparedness of the project team for the cataclysm. The collapse of LUNA was no less a shock for it than COVID-19 for politicians around the world. Terra's management, in a panic, began to take measures that only pulled the coin to the bottom. For example, luna emission was expanded to 6.5 trillion. This, for a second, is more than originally estimated by 6,500 times. Also, the work of the project was repeatedly suspended. All this caused only negativity and rejection among potential investors. More to come. More to come. The head of the Terra project, Do Kwon, expressed the idea of restarting the network with a billion-dollar emission. The community proposed to issue a hard fork with a new token in order to somehow hush up the situation. However, many experts have taken this option with hostility. Among them, for example, can be identified the founder of Binance Zhangpeng Zhao.

Many crypto enthusiasts believe that the project has nothing to catch. Okay, but what about those who have invested in UST? Despite the discontent of many professionals in the crypto industry, on May 28, 2022, a new project from the same creators of Terra 2.0 saw the light.

In fact, today Terra is a fixed name for a new, already launched blockchain ecosystem based on the market-based, volatile LUNA coin. The past ecosystem, which collapsed as a result of miscalculations in the liquidity model, as well as attacked by professional market makers and the ensuing panic, is now called Terra Classic. It primarily includes the LUNA Classic token (LUNC), that is, the former LUNA, and the UST stable, already untied from the dollar, today USTC, or TerraClassicUSDT. These digital assets, and the emerging blockchain as a whole, have been abandoned by the Community and Terra activists and sent into "free float" at low price levels, with the blockchain stopped, luna's gigantic aggregate coin supply, and recurrent speculation. That does not contribute to the investment attractiveness of these assets.

So, Terra 2.0 is a new blockchain, which is allegedly designed to compensate for the losses of investors from the previous project. It received the pathetic name Phoenix-1. Like a reference to a mythical bird rising from the ashes. True, the questions immediately sounded on the Internet: "Why one? Will there be a second?.." The inner coin of the new project, like the old one, will be called LUNA. Its emission will be, as initially at Terra, 1 billion. And such that you can exchange old coins for new ones. But the course will be far from one to one. It depends on when you purchase the initial LUNA and UST tokens. If the coins are purchased before May 7, 2022, then the rate will be more profitable than from May 7 to May 26. So, for example, LUNA, bought in the first period, can be exchanged at a rate of 1.03, that is, you will be given new tokens more than 1 to 1. But if the coin is bought after May 7, then you have 0.000015 new token.

The company says it doesn't really matter where you kept your LUNA and UST. If you had them on a crypto wallet, crypto exchange or just in the protocol, then new tokens will be available to everyone. It is worth noting that it is not necessary to change old tokens for new ones. The coins of the Terra project also remain. Only now they will be called, as the fintolk expert said above, not LUNA and Terra, but Terra Classic (LUNC) and TerraClassicUSD (USTC). So far, it looks like the Terra team is trying to enter the same river twice. Slightly changed the name of the coins, came up with a sonorous name for the blockchain, left the size of the issue unchanged. What will happen to Terra and LUNA in the future?

Will Do Kwon's brainchild rise from the ashes? More likely no than yes. It is very likely that the businessman himself will now have more than one trial in court. In any case, there is already information that the Korean firm LKB & Partners went to the prosecutor's office. It is unlikely that it will remain the only one.

By itself, Terra suffered extremely great reputational damage. When it comes to money, people have a very good memory. Therefore, no one will forgive Do Kwon's miscalculations and punctures.

In addition, terra's story calls into question the relevance of all stablecoins as a phenomenon. In fact, all such coins are tied to fiat money, which, in turn, is tied to the printing press. This means that the one who issues paper money (for example, the US Federal Reserve) can at any time let some stablecoin go by itself.

The story of LUNA is instructive enough in the sense that a beautiful advertising offer is not always something worthwhile. At the same time, it should be noted that there were those who made money on the fall of LUNA. For example, traders who shorted coin futures. But that's another story.