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How Stable Are Your Stablecoins?

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Stablecoins were supposed to protect us from the volatility that is common in crypto markets. When TerraUSD fell, we worried about the [next stablecoin collapse](#). It became clear as crypto winter progressed that algorithmic stablecoins are not necessarily stable. How stable are your stablecoins? As time has passed it has become clear that the top stablecoins are, indeed, stable. Backed by the US dollar or, in the case of Tether, backed by Bitcoin as well, these tokens have maintained a one-to-one parity with the US dollar over time.

What Are the Most Stable Stablecoins?

Tether leads the list of safe and stable stablecoins. Others include USD Coin, Binance USD, DAI, and TrueUSD. Looking back over the last year all of these have maintained a one-to-one parity with the US dollar with very slight variation.

As an example, Tether spiked down in November 2022 by two-tenths of a percent and up in March 2023 by eight-tenths of a percent, only to return promptly to dollar parity. USD Coin, Binance USD, DAI, and TrueUSD have all experienced similarly small spikes up and down in the last year. All have tracked along with the dollar as the greenback climbed against a basket of foreign currencies and non-stable crypto tokens throughout crypto winter.

Why Are Tether and Others Stable?

One of the concerns investors have about cryptocurrencies and businesses like DeFi that work in the crypto realm. That is whether or not the numbers are accurate and whether or not the company is managed professionally. In the case of Tether, a report released in February 2023 showed that an independent audit by Moore Cayman revealed hard assets of \$35,276,327,156 at the end of February while the company had issued 35,111,966,857 tokens as of that date. The point is that Tether and other top stablecoins have maintained dollar reserves sufficient to cover their issued tokens.

Why Is Tether Adding Bitcoin Reserves?

Tether has revealed that its [stablecoin reserves](#) include \$3.4 billion in gold reserves and \$1.5 billion in BTC. Eighty-five percent of their reserves are held as cash and US treasuries. They are using profits to purchase Bitcoin to add to their reserves. While the company says they are diversifying their reserves they also admit to taking advantage of the appreciation in Bitcoin price since the depths of the crypto winter. This approach would appear to make sense in the current market as Bitcoin has risen from its lowest valuation at the end of 2022. Over the longer term we have to be concerned if Tether puts too great a percentage into a token that has fluctuated in price by factors of two, three, and even six during periods of less than a year.

Why Are Stablecoins Important?

The [point of stablecoins](#) is that their stability facilitates normal business transactions in the worlds of DeFi, blockchain gaming, NFTs, and even the Metaverse. Many crypto exchange and decentralized finance businesses prospered as crypto prices rose. They took dollars in investment, turned them into cryptocurrencies, and cashed out at higher dollar values. Then they paid back the original loans or investments in dollars for a tidy profit. This worked great until it didn't. Those crypto businesses that survived crypto winter either changed their tactics in time or never engaged in this risky mode of business. The top stablecoins came through crypto winter unscathed because they maintained their reserves and did not rely on algorithms of the fantasy of an ever higher market. Stablecoins going forward will be the backbone of a stable DeFi system.

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