New kid on the blockchain: Stablecoin promises steady crypto

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Crypto, crypto on the wall, who is the steadiest of them all?

As the extreme volatility of cryptocurrencies makes them difficult to depend on for day-to-day use, another type of virtual currency is gaining popularity: stablecoins.

Seen as more steady because they are pegged to traditional currencies such as the US dollar, stablecoins have been a quiet crypto success, even though questions remain over their reliability.

The total value of stablecoins in circulation has more than doubled to $3 billion from $1.4 billion over the past year, according to a study published by Blockchain, a firm which offers wallets for digital currencies.

Cryptocurrencies are now rarely used to buy products and services because of their wild price swings, as they dramatically soar or plummet depending on the speculative interest of the moment.

The value of the world's first and best-known cryptocurrency bitcoin, for example, multiplied by 15 in 2017 before plunging 80 percent in 14 months.

But this volatility could all change thanks to stablecoins, according to Garrick Hileman, head of research at Blockchain.

"They can solve real problems," he told AFP.

According to Tom Shaughnessy, co-founder of cryptocurrency consultants Delphi Digital, a reduction in volatility would allow consumers to buy simple things like a cup of coffee.

Volatility in crypto currencies has put many potential investors off

Tethered to the dollar

In a sign that stablecoins are gaining in credibility, US investment banking giant JPMorgan Chase earlier this month unveiled a prototype for a digital coin system using blockchain, known as JPM Coin.

A total of 26 stablecoins currently exist, while a further 28 excluding JPM Coin are in development. Most of them are expected to launch this year, according to the Blockchain study.

The leader stablecoin in terms of tokens in circulation and value is tether, which is designed to always be worth $1.

Tether represents more than 95 percent of trading volume in non-volatile digital currencies and 69 percent of their combined value.

Taking into account all cryptocurrencies, tether is second only to bitcoin in daily traded volumes and seventh in terms of valuation, according to data provider Coinmarketcap.

According to Blockchain's Hileman, stablecoins should be seen as complementing cryptocurrencies rather than as direct competitors.

"Bitcoin may come to be seen as digital gold," he said, a place to store value, while stablecoins would serve as a means of exchange.

The flaws

However stablecoins also have their doubters.

Since its creation in 2014, tether has failed to totally overcome suspicions of manipulation.

Some observers suspect that its issuer, the Bitfinex exchange platform, has put more tethers into circulation than the dollars raised in exchange.

Despite repeated requests made to Bitfinex, one of the world's largest cryptocurrency platforms, it has never published its accounts.

A study by the University of Texas in June observed that when bitcoin's prices fell, there was huge buying of bitcoin with tether, which helped stabilise bitcoin's value.

The study suggested that entities linked to Bitfinex were behind the move. Bitfinex has denied allegations of price manipulation.

Despite their advantages, stablecoins have two main flaws according to analysts at Intelligent Trading: reliability of the issuing entity and their centralised nature.

"No project has been able to come up with a solution that would be universally accepted and provide privacy, security, and decentralisation," it has argued.

Indeed 2018 saw the end of the stablecoin project basis.

After raising $133 million in April, a stablecoin record, basis called it a day in December before it had even begun trading, faced with regulatory constraints that it considered insurmountable.

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