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The Dynamics of the Cryptocurrency Market: A Comparative Analysis of Stablecoins and Non-Stable Currencies

La dynamique du marché des cryptomonnaies : analyse comparative des stable coins et des monnaies non stables

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Résumé

The primary purpose of the current article is to fill the existing research gap on the role of stablecoins in the global financial system and how the backed cryptocurrencies have been and can integrated with traditional foreign exchange markets. The study adopted a mixed research methodology that involves both qualitative and quantitative techniques of data collection and analysis. The qualitative methodological framework was based on the Joanna Briggs Institute (2015) and was informed by Arksey and O'Malley's (2005) approach of summary and dissemination of research findings and, in accordance with PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines. Graphical visualizations were used to present the quantitative results. According to the research findings, stablecoins combine a digital environment and a payment instrument based on a smart contract built on dedicated digital token and are considered as digital solutions for creating financial inclusion and addressing cross-border payment issues. Stablecoins can be used in digital markets, payments, internal transfers and liquidity management, and in decentralized finance (DeFi). Quantitatively, the results show that Tether is the largest stablecoin with a total market capitalization of $102.016 billion, followed by USD Coin (USDC) with a market capitalization of $32.62 billion, and Binance USD with a market capitalization of $70.54 million. A comparative analysis of the four cryptocurrencies indicates the significant differences between stablecoins and the non-stable currencies. The rapid adoption of cryptocurrencies, especially stablecoins, highlights the significance of digital tokens in the global financial system, and the urgent need for integration with the traditional foreign exchange markets.

Keywords: Digital Token, Decentralized Finance (DeFi), Volatility, Crypto-Asset Trading.

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Introduction

The rapid growth and demand for stablecoins in the global financial system has attracted the attention of policymakers largely due to their significance in the financial market and the potential financial risk contagion channels. While they were developed to address the high volatility of the unbacked cryptocurrencies, stablecoins have shown signs of instability following the events of early May 2022 when the reserve assets of collateralised stablecoins gave a direct link to the traditional financial sector. However, the possible risks associated with stablecoins have not limited its growth and its uses within the crypto-asset system having multiplied in recent years (Hatem et al., 2020). Since the onset of the COVID-19 pandemic, the market capitalization of stablecoins has grown from under €23 billion to approximately €150 billion even though they account for less than 10 percent of the total crypto-asset market (Adachi et al., 2022). Due to their rapid growth and increased application within the financial system, there has been an increased interest in digital currencies from policy makers and scholars which has led to a wide range of academic publications on the topic. However, not all publications on the topic have focused on the integration of cryptocurrencies with the traditional foreign exchange markets and very few of them have focused on stablecoins.

1. Literature Review

The widespread adoption of innovative technologies in finance is not a recent phenomenon with the transformation of the financial system dating back to the late 19th century with the introduction of cheques, credit cards and web banking. However, the speed of technological change in finance has rapidly increased in the last few years and digital advances have revolutionized and transformed financial products, business models and services which has sparked an academic interest especially on digital currencies. Currently, most of the existing research studies on the topic have overlooked the essential research question of how digital currencies can be integrated with the traditional foreign exchange markets and most of the studies only provide a general viewpoint of the application of digital currencies. On the same note, very few of the studies have focused on stablecoins as a digital currency even though they are currently growing to be the most-sought digital tool in the financial market. However, there are research studies that have accurately highlighted the significance of stablecoins and provided an academic viewpoint on its role within the modern financial system. The current literature review aims to fill the existing research gap and evaluates the existing academic

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research that have focused on the integration of cryptocurrencies with the traditional foreign exchange markets with a focus on the growing role of stablecoins.

Lipton et al. (2020) compiled a research article on stablecoins, digital currency and the future of the traditional foreign exchange markets. In the article, Lipton et al. (2020) highlights the significance of stablecoins and notes that cryptocurrency has now been fully integrated into the financial system within the realms of multinational conglomerates, policy makers, and central banks. According to Lipton et al. (2020), the most significant stablecoin, Tether, has played a significant albeit controversial role within the crypto-ecosystem and that the growth of the stablecoin was driven by its listing on and distribution through cryptocurrency exchanges. Lipton et al. (2020) suggests that the cryptocurrency exchanges might have had an invested interest in promoting the growth of stablecoins to increase trading volumes and that the crypto-assets provided the perfect opportunity for the exchanges to become less dependent on the unstable conventional foreign exchange market relationships. Further, Lipton et al. (2020) notes that several limitations associated with Tether with several parties raising allegations of a shortfall of its reserves fuelled by severe deficiencies in the auditing process. The manifestation of these limitations has often been observed in the lower secondary market prices with significant drops of Tether's market price to as low as $0.91 reported at the beginning of 2017. Nonetheless, Lipton et al (2022) report that Tether is still an actively traded stablecoin and fairly competes with some of the prominent crypto assets such as Bitcoin and Ether.

Ante et al. (2020) wrote a *Blockchain Research Lab* working paper on the influence of stablecoins on cryptocurrency markets. Ante et al. (2020) report that stablecoins were created as a flexible alternative to fiat currencies for cryptocurrency exchanges and have increasingly become an important component of cryptocurrency and alternative finance market. In the paper, Ante et al. (2020) analyzed the influence of the issuance of seven different stablecoins on the returns of four different blockchains for a period of one year, between April 2019 and May 2020. According to the results of the analysis, the issuance of stablecoins led to positive abnormal returns for the major cryptocurrencies within 24 hours before and after the issuance but revealed major cryptocurrency market downturns in the week leading to the issuance. Further, Ante et al. (2020) reported difference effect sizes across stablecoins and found that the issuance size does not have a significant effect on abnormal returns. The authors note that stablecoins have become the most preferred alternative to the highly volatile cryptocurrencies and that they combine the strengths of cryptocurrency with the broad acceptance and price

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stability for fiat currency, and are pegged to less volatile assets and currencies. Also, Ante et al. (2020) highlights the possible challenges associated with stablecoins including hacking risks and issuer moral hazard. In conclusion, Ante et al. (2020) reported that the issuance of stablecoins contribute to discovery of prices and the market efficiency of cryptocurrencies.

Pelagidis & Kostika (2022) investigated the role of central banks in the integration of cryptocurrencies with traditional foreign exchange markets. In their research study, Pelagidis & Kostika (2022) note that the unprecedented popularity of cryptocurrencies, especially stablecoins, has led central banks to re-evaluate the position of cryptocurrencies in modern financial system and that the COVID-19 pandemic fuelled financial digitalization as reflected by all-time peak levels of cryptocurrency capitalization. According to Pelagidis & Kostika (2022), alternative crypto-asset classes such as stablecoins could serve as an inflation hedge considering the similarities with commodities such as gold and oil. The authors note that stable crypto-assets such as stablecoins are gaining traction with a lot of users due to benefits such as speed of execution and reduced transaction costs, and the fact that they are based on innovative technologies such as the distributed ledger technology (DLT) and the replacement of third-party intermediation using smart contracts software codes. Further, Pelagidis & Kostika (2022) report that the increased integration of cryptocurrencies with the conventional financial system could be beneficial to the financial markets in terms of increased competition and reduced transaction costs. From a business viewpoint, Pelagidis & Kostika (2022) argue that the integration of cryptocurrencies with the global financial infrastructure can lead to the development of a digitalized decentralized model that relies on open-source protocols which enhances financial ecosystem innovation.

Caramichael & Liao (2022) wrote a discursive research paper on the growth potential and impact of stablecoins on banking. In the paper, Caramichael & Liao (2022) outlines the basics and structure of stablecoins, and discusses the possible use cases and peg stability. Of significance to the current article, Caramichael & Liao (2022) describes and provides examples of the different types of stablecoins and traces their development and their use in the financial ecosystem. The authors discuss the three primary types of stablecoins including the public reserve-backed, public algorithmic and private stablecoins. A public reserve-backed stablecoin is issued by centralized firms and backed by cash-equivalent reserves while the public algorithmic stablecoins are backed by overcollateralized cryptocurrency and/or smart contracts that follow the forces of market demand and supply (Caramichael & Liao, 2022). In terms of

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uses, the authors discuss the major applications of stablecoins in digital markets, payments, internal transfers and liquidity management, and in decentralized finance (DeFi). In digital markets, Caramichael & Liao (2022) report that stablecoins are used to trade digital assets and can be used for exchange of currencies between users. Also, in terms of payments, the authors suggest that stablecoins can be used to facilitate fast peer-to-peer and cross-border payments, and still has the potential for better innovative payment methods. Lastly, stablecoins can be used to facilitate internal transfers and allow for market making and collateralized lending in decentralized finance (DeFi).

Arner et al. (2020) conducted a research study on the risks, potential and regulation of stablecoins. According to Arner et al. (2020), technological advances such as the the emergence of distributed ledger technology (DLT) and rapid developments in traditional centralised systems is slowly revolutionizing the global financial system. The research study traces the history of stablecoins to the 17th century Bank of Amsterdam that shared an economic structure with modern stablecoin proposals and provide parallel systems in the global financial structure such as stored value cards and money market funds (MMF). Initially, the stablecoin structure was developed to provide an instrument for hedging between crypto-assets and fiat currencies based on the need to bridge between distributed ledge technology (DLT) and fiat currencies in the context of high volatility of other crypto-assets (Arner et al., 2020). Currently, Tether which has become the most dominant stablecoin in the crypto-market provides a robust and decentralized method of exchanging value based on a universal accounting unit (Arner et al., 2020). Further, the issuers of stablecoins have portrayed stablecoins as a digital solution for creating financial inclusion and addressing cross-border payment issues, especially in emerging markets. Arner et al., (2020) report that stablecoins combine a digital environment and a payment instrument based on a smart contract built on dedicated digital token. The research study by Arner et al. (2020) highlights the significance and role of stablecoins in the financial ecosystem as a platform for exchanging value.

Within the crypto-asset ecosystem, the largest stablecoins have assumed a crucial role as liquidity providers in decentralized finance (DeFi) applications and has become critical in crypto-asset trading. The existing literature suggests that the cryptocurrency exchanges might have had an invested interest in promoting the growth of stablecoins to increase trading volumes and that the crypto-assets provided the perfect opportunity for the exchanges to become less dependent on the unstable conventional foreign exchange market relationships. Also, it has

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been reported that stablecoins have become the most preferred alternative to the highly volatile cryptocurrencies and that they combine the strengths of cryptocurrency with the broad acceptance and price stability for fiat currency, and are pegged to less volatile assets and currencies. On the same note, stable crypto-assets such as stablecoins are gaining traction with a lot of users due to benefits such as speed of execution and reduced transaction costs coupled with the fact that they are based on innovative technologies such as the distributed ledger technology (DLT) and the replacement of third-party intermediation using smart contracts software codes. In terms of payments, the existing literature suggest that stablecoins can be used to facilitate fast peer-to-peer and cross-border payments, and still has the potential for better innovative payment methods while having the ability to facilitate internal transfers and allow for market making and collateralized lending in decentralized finance (DeFi). Further, alternative crypto-asset classes such as stablecoins could serve as an inflation hedge considering the similarities with commodities such as gold and oil. The primary purpose of the current article is to fill the existing research gap on the role of stablecoins in the global financial system and how the backed cryptocurrencies have been integrated with traditional foreign exchange markets. The literature findings clearly highlight the growing role of stablecoins in the cryptocurrency and financial markets

2. Methodology

The primary objective of the current article is to provide a detailed analysis of the growing role of stablecoins in the crypto-market and how the related assets can be integrated with the traditional foreign exchange markets. To achieve the intended objectives, the study adopted a case study research design that involved both qualitative and quantitative techniques of data collection and analysis on Tether, the most prominent stablecoins. The choice of the case study research design was based on the need to effectively collect information associated with the variables of the topic of interest and to provide accurate and reliable information to fill the existing research gap. The current section of the article outlines the case study research design techniques that were employed to achieve the study objectives.

2.1.Quantitative Case Study Research Design

Quantitative case study research methodology was employed to collect and analyze available statistical information on Tether, USD Coin, Binance USD and Bitcoin to determine the extent of their growth and composition within the crypto currency ecosystem. First, the author undertook an extensive online research of the potential databases and websites that could

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have statistical information on stablecoins. Several databases and websites including Statista, CCData and DefiLlama were identified and the applicable statistical information were downloaded. The available data was then normalized and compiled in an Excel file for statistical analysis. For purposes of the current article, the author chose to focus on data on market capitalization, price, total circulating issuances and unreleased coins. Further, the author chose perform a detailed statistical analysis of the existing stablecoins and provide proportionate values of their composition in Tether. Graphical visualizations were used to present the results of the analysis.

2.2.Qualitative Case Study Research Design

The qualitative case study research design adopted the single-case study design that closely focuses on a single specific type of stablecoins, Tether. Considering the chosen research design involved an in-depth analysis, the case study research gave the researcher the freedom to use any method of data collection which suited the objectives of the research. For a sound, unadulterated and unbiased study of the topic of the research, several techniques of data collection were used including questionnaire, survey, in-depth interview and the study of documents including books, archival manuscript and audio-visual records that were associated with Tether. The single case research design is justifiable under the condition that the case under investigation is the quintessential example of a particular phenomenon under investigation (Priya, 2021). Also, considering the research aimed to describe the natural phenomena which occur within the data in question, the author adopted a descriptive case study to describe the data and associated information on Tether.

3. Findings

The results produced statistical information on Tether, USD Coin and Binance USD, the three largest stablecoins by market capitalization. According to the results, Tether is the largest stablecoin with a total market capitalization of $102.016 billion. The total circulating issuances of Tether as of 10th March, 2024 was 101.813 billion while the optional circulating issuances was 5.313 billion. In terms of historical price performance, Tether has reported a 0.02% increase within the past 30 days, 0.04% increase in 60 days and 0.07% in 90 days. According to the results, the all-time high price of tether is $1.32 which was reported in July, 2018 while the all-time low price was $0.57 that was reported in March 2015. With the exception of the low and high prices, the results show that the price of Tether is generally pegged to $1 and has remained close to $1 since its inception but with short-lived minor

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deviations of $0.01 or 0.02. With the mirror feature of the US Dollar, the comparison of price performance of Tether with other cryptocurrencies and stablecoins is similar to that of the USD. According to the findings, Bitcoin has reported a better performance than Tether while the latter has exceedingly outperformed its stablecoin peers such as USD Coin and Binance USD. In terms of composition, the largest proportion of Tether is composed of Tron and Ethereum which accounts for more than 90 percent of the stablecoin. The weekly price performance of Tether since April, 2019 is shown in Figure 1 below;

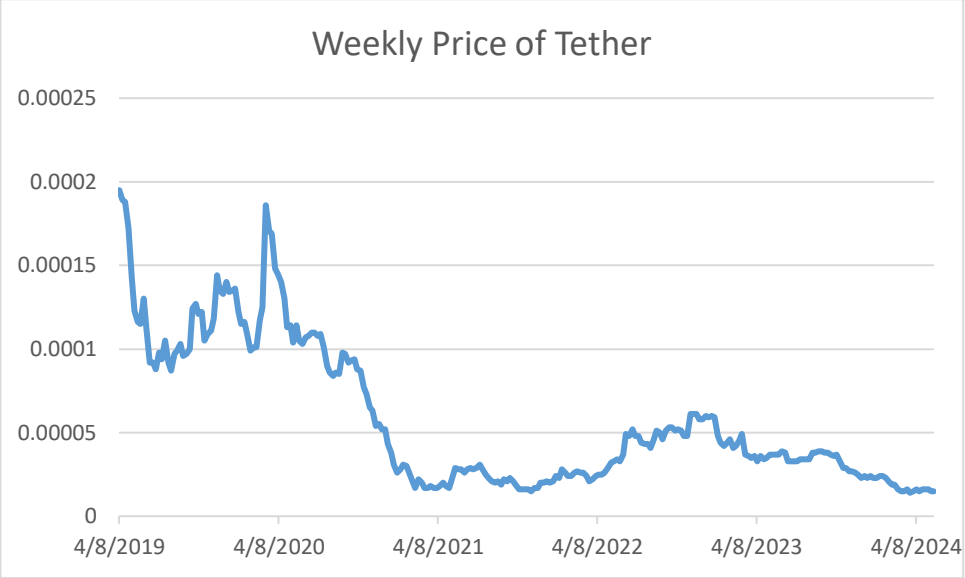

Fig 1: Weekly Historical Performance of Tether.

Second, in relation to USD Coin (USDC), the results show that the USDC market capitalization was $32.62 billion with a volume of 8.13 billion and a circulation supply of 32.61 billion. The fully diluted valuation of USDC is $33.40 billion and a total supply of $33.43 billion. Further, the results show that the USDC is the seventh most popular cryptocurrency and second largest stablecoin, behind only tether and slightly above Binance USD. In terms of historical performance, the stablecoin reported a 0.04% increase in price within the past 30 days, 0.03% increase in 60 days and 0.05% increase in 90 days. The all-time high price of USDC is reported as $1.17 reported on May 8th, 2019 while the all-time low price was $0.8776 reported on March 11th, 2023. In comparison to its peers, the results show that the USDC is underperforming within the wider global cryptocurrency market and stablecoin cryptocurrencies, which have both reported higher positive returns of 7.90% and 0.80%

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respectively. The weekly price performance of USDC since April, 2019 is shown in Figure 2 below;

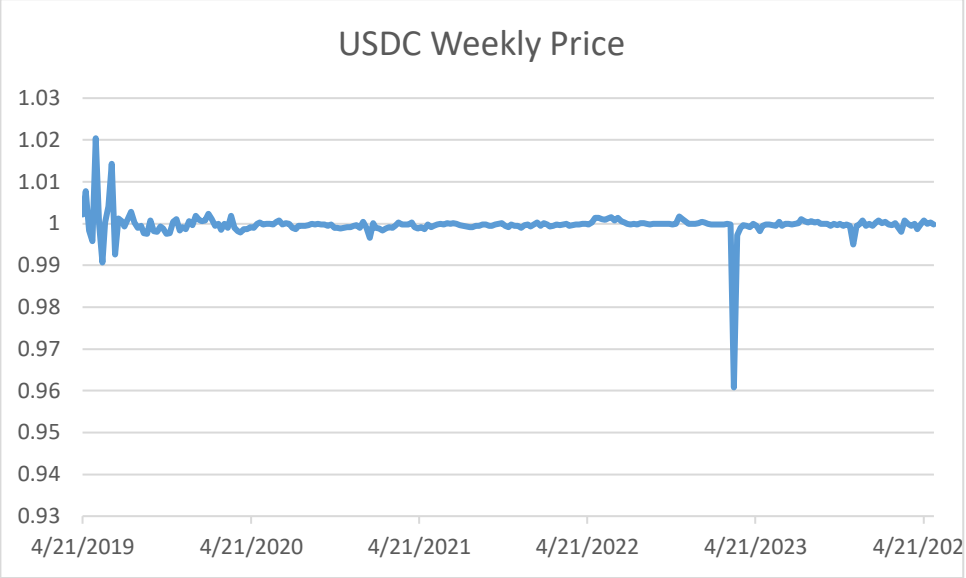

Fig 2: Weekly Historical Performance of USDC

Third, in relation Binance USD (BUSD), the results show that the stablecoin has a market capitalization of $70.54 million with a trade volume of 5.04 million. BUSD has a circulation supply of 70.51 million and a fully diluted market capitalization of 70.54 million. In terms of popularity, BUSD is ranked at number 529 in the wider crypto-market but is ranked third among stablecoins, behind Tether and USD Coin. In terms of price historical performance, BUSD reported a decrease of 0.02% on its price within the past 30 days but a gain of 0.05% within the past 60 days. However, within the past three months, the stablecoin has shed off 0.09% of its price, which indicates an overall bearish movement of price. It is important to note that BUSD is valued at $1 and has not reported significant deviations on its price since its launch except for the March, 2020 COVID-induced flash crash. The all-time high price of BUSD is $1.11 which was reported on March 12th, 2020 while the all-time low price of $0.8861 was reported 24 hours later, March 13th, 2020. In comparison to its peers, BUSD is reported to have a slower performance as compared to Tether and USD Coin. The weekly price performance of BUSD is shown in Fig 3 below;

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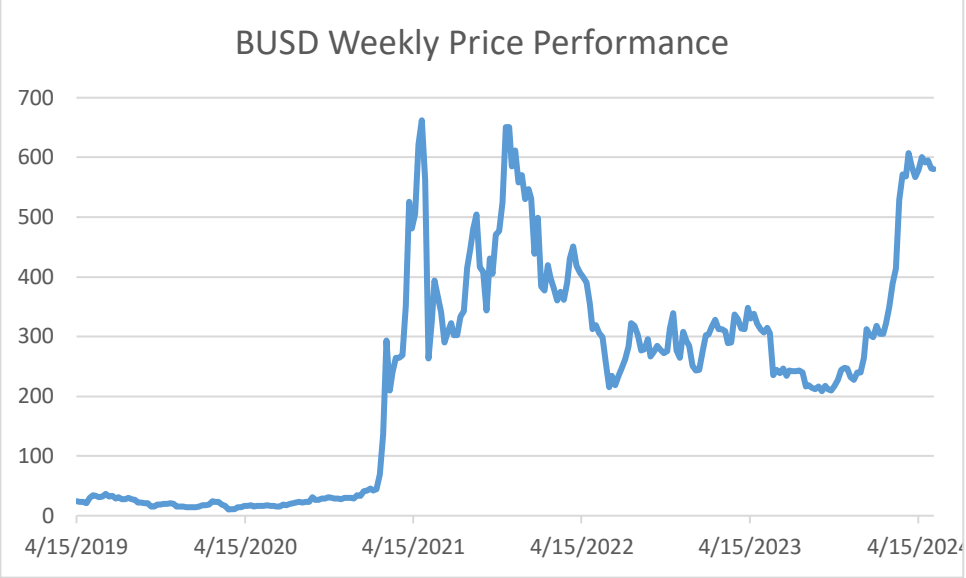

Fig 3: BUSD Weekly Price Performance

Apart from the three largest stablecoins, Bitcoin was incorporated as a comparative control data to represent the non-stablecoin cryptocurrencies. According to the findings, the live price of Bitcoin is $ 64,336.89 per (BTC / USD) with a current market cap of $1,267.35 billion. Bitcoin has a trading volume of 24.278 billion with a circulating supply of 19.699 million and a total supply of 21 million, and Bitcoin is ranked as the first cryptocurrency among investors in terms of popularity. In terms of historical performance, Bitcoin has lost 2.91% of its price within 30 days and 5.62% within the last 60 days. However, within the last 90 days, the cryptocurrency has gained 23.32% of its price, which indicates a general bullish price trend. The all-time high price of Bitcoin is $73,750 reported on March 14th, 2024 while the all-time low price is $0.04865 which was reported on July 14th, 2010. The weekly price performance for Bitcoin is shown in Figure 4 below;

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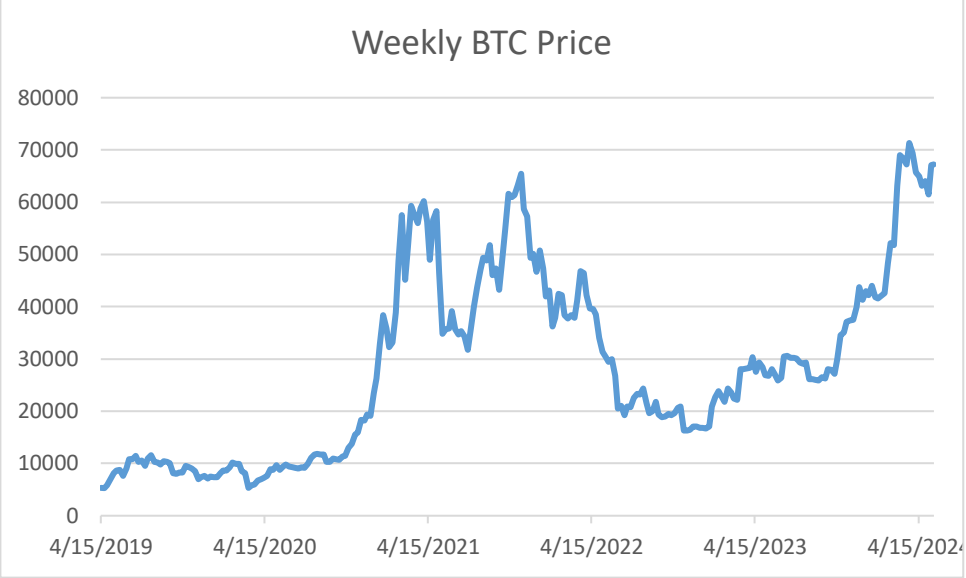

Fig 4: Weekly BTC Price.

A comparative analysis of the four cryptocurrencies indicate the significant differences between stablecoins and the non-stable currencies. The findings highlight the market superiority of Bitcoin over the three stablecoins even though Tether is seemingly not too far away. Table 1 below provides a detailed comparative analysis of the four cryptocurrencies based popularity, market capitalization and price changes within the last 90 days.

Cryptocurrency	Popularity	Market capitalization	Price Change (3 months)
Tether (USDT)	3	$102.016 billion	+0.07%
USD Coin (USDC)	7	$32.62 billion	+0.05%
Binance USD (BUSD)	529	70.54 million	-0.09%
Bitcoin (BTC)	1	$1,267.35 billion.	+23.32%

Table 1: Comparative Analysis of Stablecoins and Bitcoin

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4. Discussion

Stablecoins are price-stable blockchain tokens that are pegged to non-volatile financial instruments such as fiat money and exchange-traded commodities. As digital currencies, the value of Stablecoins rely on stabilization tools including redeemable reserve assets and algorithms that can match the markets dynamics of supply and demand, commonly referred as algorithmic stablecoins (Adachi et al., 2022). Currently, the most dominant stablecoins in the crypto-market include Tether, USD Coin and Binance USD, which account for close to 90 percent of the total stablecoin market. Tether, the most dominant stablecoin, has become a vital element of crypto-trading and acts as a bridge between digital and official currencies. In 2021, the trading volumes of Tether within the crypto-market drove the total trading volumes of stablecoins to €2.96 trillion to surpass those of unbacked crypto-assets and get almost on par with those of U.S Equities on the New York Stock Exchange (NYSE) which reached €3.12 trillion (Adachi et al., 2022). Also, by March 2022, Tether accounted for approximately 65 percent of all crypto-asset trades and is currently involved in a higher proportion of trades as compared to official currencies (Adachi et al., 2022). According to the results, stablecoins are increasingly becoming popular among investors even though Bitcoin is still the most popular cryptocurrency with the largest market capitalization and volatility movements. A comparison of Bitcoin with the three largest stablecoins, Tether, USD Coin and Binance USD show that the non-stable cryptocurrency has a higher market capitalization that surpasses the cumulative market capitalization of the three stablecoins. In terms of popularity, the findings show that Bitcoin is the most popular cryptocurrency while Tether is third, USD Coin is seventh and Binance USD is ranked at 529. Also, within the past 90 days, the volatility movement of Bitcoin is reportedly higher than those of the three stablecoins.

The research findings report an increased interest in crypto currencies from policymakers and scholars owing to their rapid growth and increased application within the financial system. According to the findings, in terms of composition of the crypto-market, stablecoins only account for less than 10 percent of the total market even though they have been recording rapid rise in market capitalization in the recent past. The most dominant stablecoins in the crypto-market include Tether, USD Coin and Binance USD, which account for close to 90 percent of the total stablecoin market. Tether, the most dominant of the three, accounts for approximately 65 percent of all crypto-asset trades and is currently involved in a higher

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proportion of trades as compared to official currencies (Adachi et al., 2022). Since the onset of the COVID-19 pandemic, the market capitalization of stablecoins has grown from under €23 billion to approximately €150 billion, and the trading volumes of Tether within the crypto-market has driven the total trading volumes of stablecoins to surpass those of unbacked crypto-assets (Adachi et al., 2022). As of 10th March, 2024, the price of Tether was $1 and a total market capitalization of $102.016 billion. The total circulating issuances of Tether was 101.813 billion while the optional circulating issuances was 5.313 billion. Based on the analysis, Tether, has played a significant albeit controversial role within the crypto-ecosystem and its growth is driven by its listing on and distribution through cryptocurrency exchanges. Currently, Tether has become a crucial component of the financial system and the most dominant stablecoin in the crypto-market that provides a robust and decentralized method of exchanging value based on a universal accounting unit.

The research findings conclusively identify Tether (USDT) as the first dollar-pegged stablecoin that currently underpins the majority of the global cryptocurrency trading. According to the findings, and from the perspective of a cryptocurrency investor, the primary purpose of the USDT is for conversion and a medium for trade with other digital currencies that might align with or accept traditional fiat currencies. It is reported that investors primarily hold on to the USDT for future cryptocurrencies transactions apart from its strong value in the modern financial system (Bianchi et al., 2020). The research findings highlights a tight operational link between USDT and cryptocurrency transactions which could be an indication of a strong correlation between the imbalance between the aggregate demand and supply of the stablecoin and cryptocurrency return dynamics (Bianchi et al., 2020). Further, it is found that the aggregate demand of USDT is driven by two major factors including its conversional ability and acceptance and cross-border use. First, in relation its conversional ability, USDT can allow investors to hold on to their losses during market downturns without necessarily having to convert them to fiat currencies, which allows for frictionless cashing out during high volatility periods (Bianchi et al., 2020). Secondly, in relation to acceptance and cross-border use, USDT increases aggregate market liquidity since it allows for trading within and across exchanges that also reduces costs. However, while the aggregate demand for USDT might be driven by the market dynamics, it is also officially controlled and restricted by a wide range of market factors including USD cash reserves, short-term deposits, commercial papers, and secured loans.

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An important aspect of the market performance of the USDT is likely pegged on its performance against other major cryptocurrencies such as Bitcoin. According to the findings of the research on the relationship between the performance of USDT and BTC, there is a direct and an indirect correlation between price movements of the two cryptocurrencies. The results show a joint effect of positive jumps in USDT in relation to a 1% increase in USDT returns on day $t-1$ provided a significant negative price prediction for BTC of between −3.65% to −8.49% in daily terms. Further, the findings indicate that the association between positive jumps in USDT with positive USDT returns are Granger-causal for BTC returns which implies an inefficiency in the BTC market (Grobys & Huynh, 2022). However, the results show that during periods of extremely high volatility of USDT, the predictability of changes in BTC prices using the performance of the USDT might be slightly inaccurate. The evidence of the impact of high volatility of USDT on predictability of performance of BTC is evidenced by the hourly prices of USDT appearing to exhibit much more pronounced volatility before 29th July 2019, during which it was impossible to predict the performance of BTC using USDT (Grobys & Huynh, 2022). According to findings by Griffin & Shams (2020), the highly extreme volatility of USDT is caused by reserve policies news on changes that might be directly or indirectly related to cryptocurrencies. Generally, while there might be period of highly extreme volatility of USDT, the stablecoin has low volatility for most of the time and, therefore, can be used as a predictive tool for the performance of BTC.

Further, the research findings highlight the significance of the three largest stablecoins, Tether, USD Coin and Binance USD, on the growing cryptocurrency and financial market. Based on the quantitative and qualitative findings of the research, the primary goal of Tether is to combine the decentralization of crypto with the stable value of the US dollar which allows transactions without any middlemen or financial institutions while still keeping the value pegged to the US Dollar. Also, it is worth noting that the issuance of new Tether tokens has a parallel allocation of the same amount of USD to its reserves, thus ensuring that USDT is fully backed by cash and cash equivalents. As a result, just like other stablecoins, Tether has never reported significant deviations of more than 10 percent within a single trading day. Another stablecoin USD Coin, US dollar that collateralizes USD Coins is stored in regulated financial institutions. These institutions are audited and checked each month to ensure that they do, in fact, support the active USDC tokens. The primary goal of the USD Coin crypto project is to provide people with an asset that can be used as digital cash in a world that's becoming more

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and more digital each da. Also, USDC is one of the biggest competitors of USDT in the field of stablecoins. Particularly given the fact that USDC coins are more transparent and dependable among crypto fans than USDT tokens, which are somewhat controversial. Based on the results, stablecoins have become the most preferred alternative to the highly volatile cryptocurrencies and that they combine the strengths of cryptocurrency with the broad acceptance and price stability for fiat currency, and are pegged to less volatile assets and currencies.

A close analysis of the results of the blockchain transactions show a positive correlation between USDT and BTC prices. The findings by Griffin & Shams (2020) reported a short-term increase in the price of BTC as a result of additional supply of USDT into the cryptocurrency market even though the deviation cannot be considered as being genuine capital flows. According to the findings, the results by Griffin & Shams (2020) is largely consistent with the hypothetical idea that new USDT issuance creates a new buying power in the market. Further, the relationship between the different elements of the financial systems becomes more complex with the introduction of the U.S Dollar (USD) in the picture. According to the results, a change in the supply of the USDT in the cryptocurrency market is backed up by an equivalent amount of USD, which, considering the speculative nature of currencies, may have a short-term inflationary speculation effect on prices (Bianchi et al., 2021). In this regard, considering the complex relationship between USDT, BTC and USD, it does not necessarily mean that an increase in the USDT means that people are sending BTC (Bianchi et al., 2021; Griffin & Shams, 2020). However, as aforementioned, it is important to note that the issuance of USDT into the market creates a new buying power which significantly changes the dynamics of the markets (Bianchi et al., 2021). Also, the sale of BTC leads to the creation of new USDT since the USDT acquired during the sale is already into existence. Therefore, the delay between deposit and issuance in USDT can lead to short-term price increases of BTC and possibly other cryptocurrencies.

Conclusion

Stablecoins are a type of digital blockchain tokens that are pegged to non-volatile financial instruments such as fiat money and exchange-traded commodities leading to price stability. As a digital token, the value of Stablecoin is based on its stabilization tools such as redeemable reserve assets and algorithmic stablecoins. The current research performed a detailed analysis of the growing role of stablecoins in the crypto-market with a specific case study focus on Tether. Tether, the most dominant stablecoin, has become a vital element of

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crypto-trading and acts as a bridge between digital and official currencies. According to the findings, the primary purpose of the USDT is for conversion and a medium for trade with other digital currencies that might align with or accept traditional fiat currencies. The research findings highlights a tight operational link between USDT and cryptocurrency transactions which could be an indication of a strong correlation between the imbalance between the aggregate demand and supply of the stablecoin and cryptocurrency return dynamics. In conclusion, alternative crypto-asset classes such as stablecoins could serve as an inflation hedge considering the similarities with commodities such as gold and oil, and the integration of cryptocurrencies with the global financial infrastructure can lead to the development of a digitalized decentralized model that relies on open-source protocols which enhances financial ecosystem innovation.

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