COINMETRICS

ANALYST REPORT — TETHER (USDT)

Cooper Duschang | June 2025

SUMMARY

Not all stablecoins are equally valuable: Tether (USDT)'s network effects and relative stability make it the stablecoin of choice for investors of all sizes. USDT's deep liquidity on centralized and decentralized exchanges, network integrations, and issuer operations all contribute to minimizing volatility and maintaining a 1:1 peg with reserves. USDT's distribution and utility across networks has allowed it to gain and sustain market share, providing value beyond holding a stable peg. Benefitting from being a first-mover and its experience in the cryptocurrency industry, USDT stands as a highly performant, widely distributed, and interoperable stablecoin for saving and exchanging value on-chain.

KEY TAKEAWAYS

Highly Accessible Liquidity

USDT is widely accessible across both centralized and decentralized platforms. Large amounts can be acquired via AMMs optimized for stablecoin swaps or through deep CEX spot markets. This accessibility has driven rapid adoption and integration across blockchain applications.

Enhancing Cross-Border Payments

Fast, low-cost transactions make USDT a compelling solution for remittances, especially on networks like Tron. These efficiencies reduce reliance on traditional payment rails, while consistent 1:1 redemption maintains access to U.S. dollar value, particularly in emerging markets where access to dollars is limited.

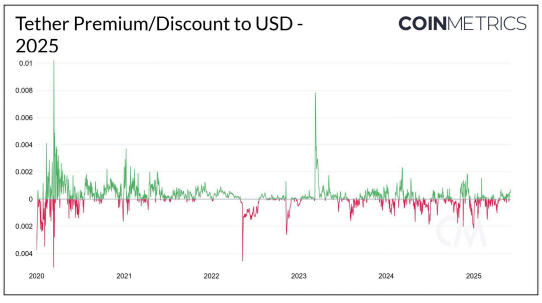
Institutional Transactions Adoption

Its peg stability has increased its appeal as a preferred tokenized dollar for institutions seeking yield opportunities or simplifying payment processes, highlighting that USDT is used well beyond just retail participants.

USDT

Ticker:	`$USDT`
Class:	`On-Chain Derivatives`
Sector:	`Stablecoins`
Current Price (2025-06-05):	`$1.00`
Estimated Market Cap:	`$153,407,524,966`

PRICE PREMIUM/DISCOUNT



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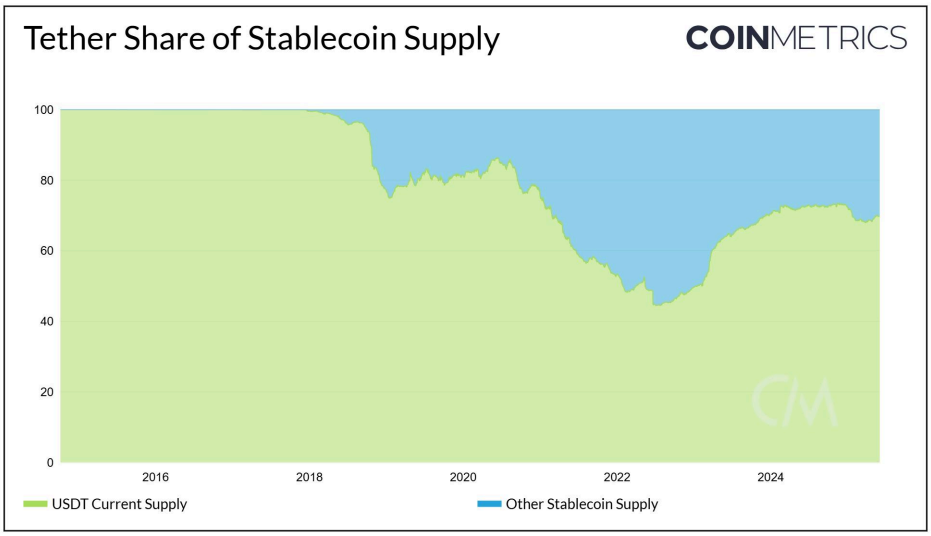
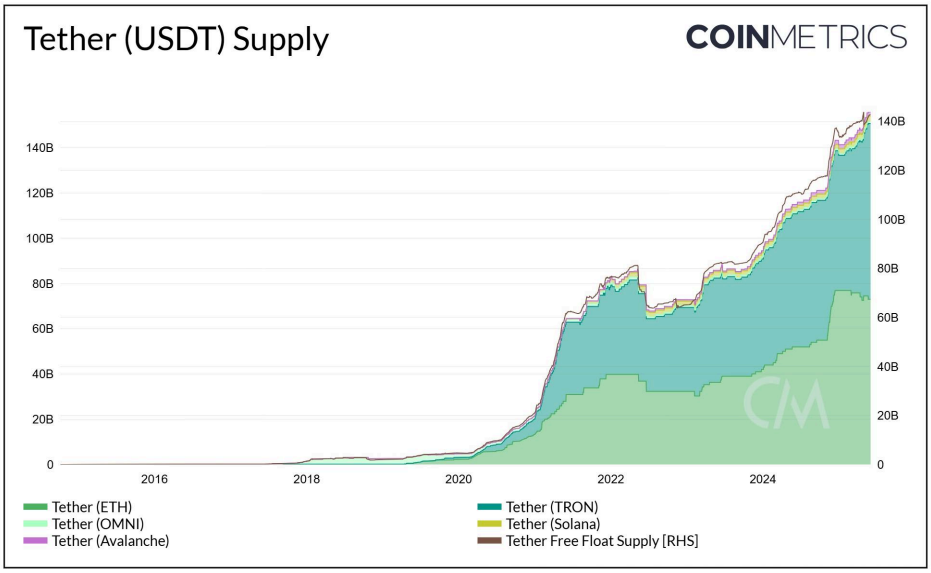
Coin Metrics

USDT Background

Tether, originally known as Realcoin, was founded in July 2014 with the goal of developing on-chain financial systems. Rebranding to Tether in November 2014, the company released its vision for a stablecoin that worked to remain redeemable for U.S. dollars at the exchange rate of 1 token per dollar. Tokenizing U.S. dollars by an institution not directly under U.S. oversight is similar to the proliferation of eurodollars in the 1950s. This stablecoin, USDT, was first issued on the Omni Layer in October 2014, enabling users to transfer value as digital assets. Bitfinex was the first centralized exchange to settle customer funds using USDT, reducing wire transfer fees and latencies and circumventing regulations with existing payment platforms.



Since then, Tether has expanded its support for USDT, issuing the stablecoin across a variety of networks including Ethereum (starting in November 2017), Tron (April 2019), and Solana (February 2021). USDT continues to dominate the total supply of tokenized dollars on-chain, with a total supply of 152 billion and a market share of 69%. Fast settlement, low fees, and stable value help users access U.S. dollars where it could be traditionally geographically difficult.



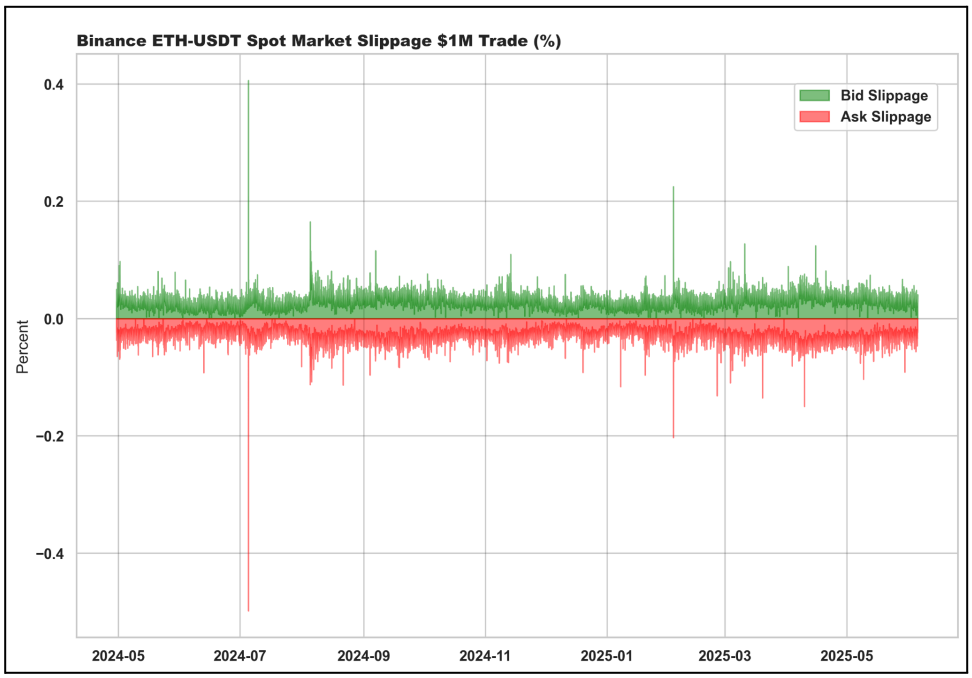
Tether's Value Beyond the Peg

Tether's interoperability allows it to move through different mediums depending on the use-case. It can be used to access different sources of liquidity (centralized or decentralized exchanges) and move on different blockchain networks (Tron or Ethereum). Tron's speed, low fees, and network effects attract users looking to make small payments or remittances. In contrast, Ethereum's security and decentralization have attracted larger investors and institutions to use USDT. Applications on Ethereum, such as lending pools, allow users to earn yield by depositing USDT. This allows U.S. treasury bills to be utilized in exotic ways and thus creates demand for the U.S. dollar overseas. USDT has gained significant adoption across the globe over tokenized versions of local currencies. In the sections below, we'll explore how Tether is used beyond just being a token pegged to the U.S. dollar.

Price-Efficient Trades on Exchanges

Centralized Exchanges

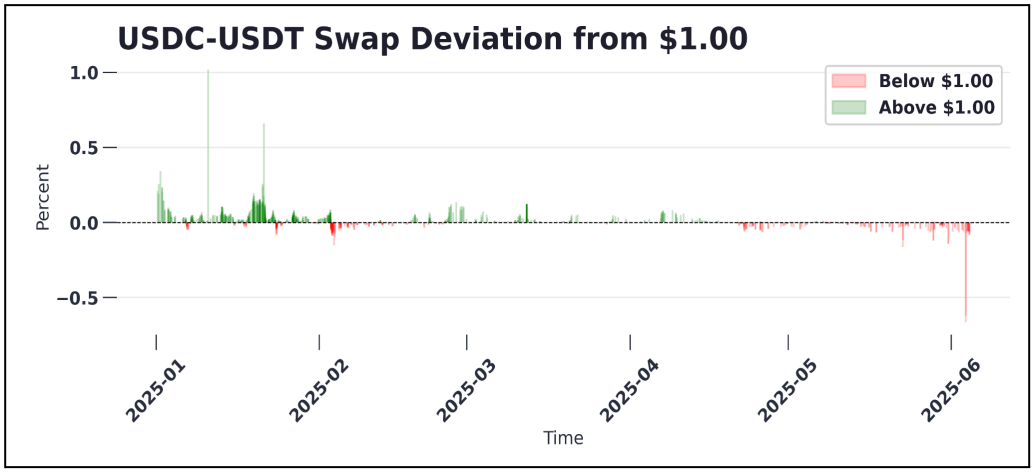
USDT's widespread adoption lends itself to deep and capital efficient markets across centralized exchanges. Significant capital leakage, known as slippage, can occur when large quantities ($>1M) are being traded in illiquid markets. Below, we can observe the amount of slippage on Binance, one of the most liquid venues for trading Tether. Binance's ETH-USDT spot market lets users trade over $1 million without incurring more than 10 basis points (bps) of price impact on average.



DEX Pools

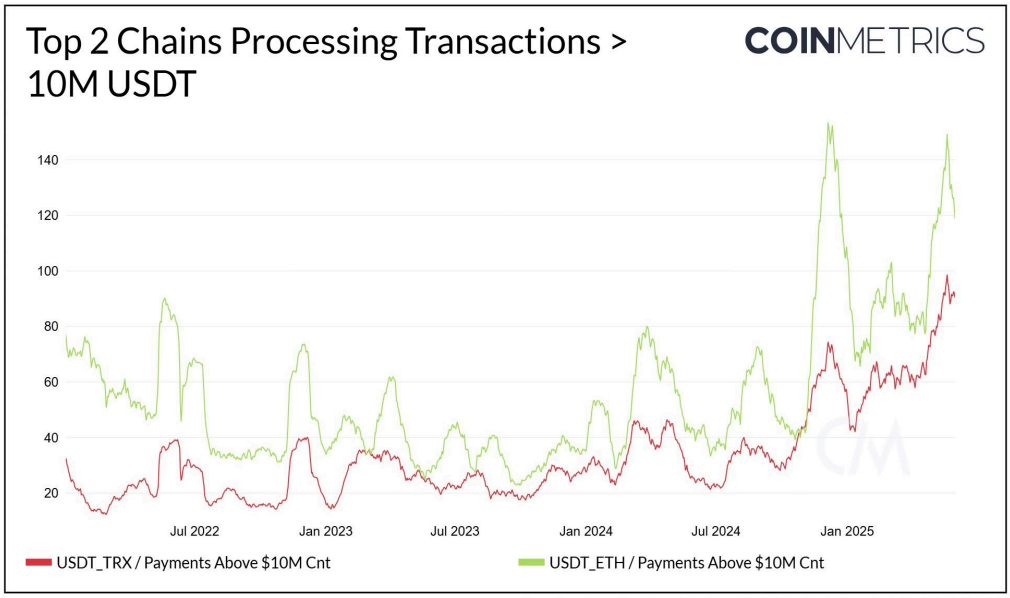
On-chain liquidity pools are an alternative to centralized exchanges to swap tokens. Permissionless liquidity pools provide competitive swap rates and remove risks of holding USDT on centralized exchanges. Liquidity pools rely on Automated Market Makers (AMMs) which use preset formulas to calculate exchange rates based on the supply of available tokens [1]. But, formulas for trading volatile assets are not always optimal for trading stablecoins. This is why we see DeFi protocols that specialize in stablecoin swaps, such as Curve.

Curve provides a capital-efficient way to swap stablecoins such as Tether for other stablecoins. Since January 1, 2025, Curve 3pool has facilitated over 1000 swaps between USDC and USDT worth at least $1 million. USDT swaps incur on average 19 bps of price impact. Starting in February, slippage drops to 7 bps between swaps, reinforcing that DEXs are comparable to centralized exchanges to access USDT. Large fluctuations in USDT supply could adjust the pricing formula for USDT in the liquidity pool, increasing slippage and decreasing the appeal for acquiring USDT on decentralized exchanges.

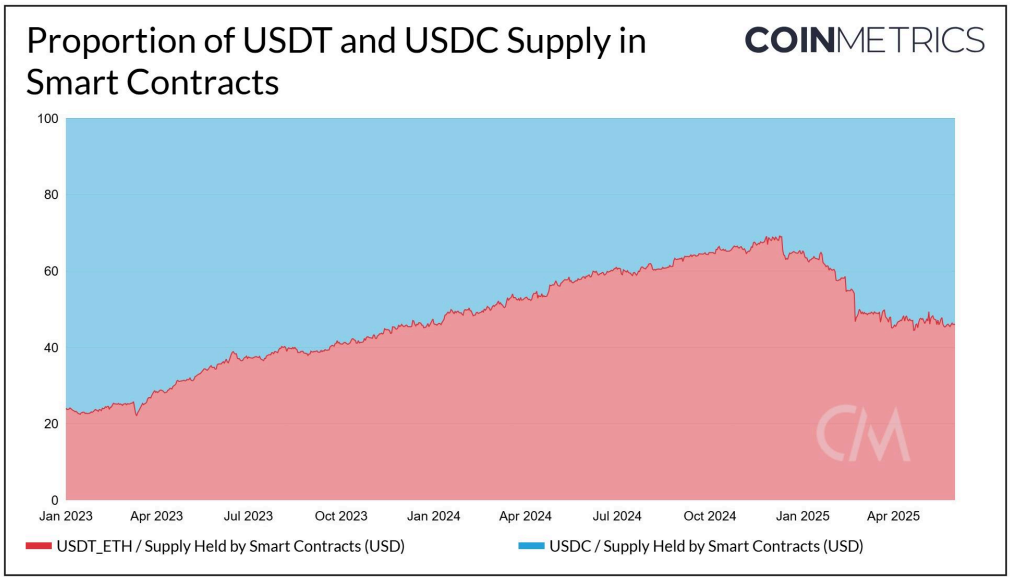


High Value Transactions and Applications

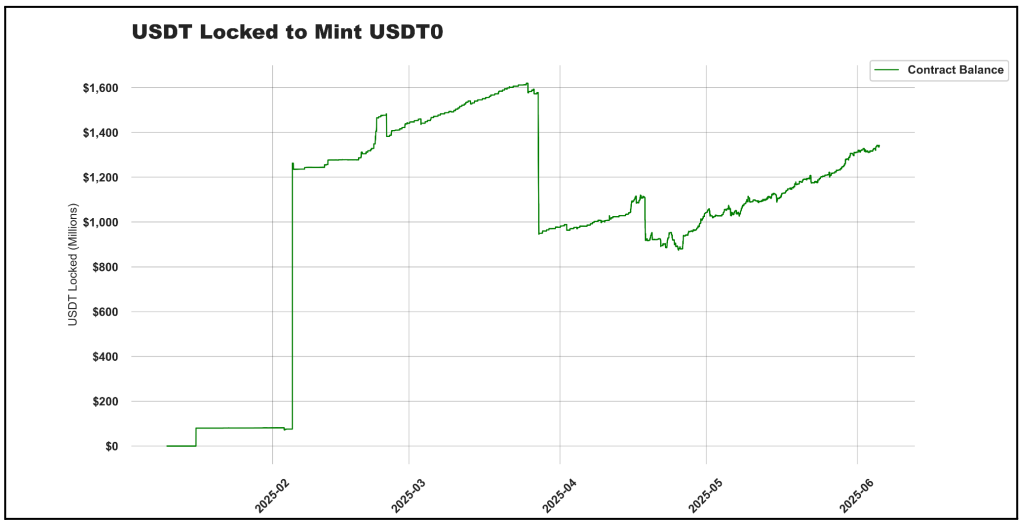
Ethereum supports 74.5 billion USDT or around 48% of total supply. Applications on Ethereum allow Tether holders to use their USDT in various contexts, such as trading, borrowing, or as a savings instrument. Holders can lend out or supply USDT to liquidity pools to earn passive yield.



Over a 30-day average, Ethereum consistently facilitates the most transactions over $10 million. This may be due to Ethereum holders' lack of sensitivity to fees or the type of investors' confidence in the security of Ethereum.



Ethereum's application ecosystem enables USDT to become a more productive asset. Across all stablecoins, USDT accounts for 37% of the tokens locked in smart contracts. Beyond providing a safe haven from volatility, users are deploying USDT in protocols on Ethereum to earn yield. More than 15% of USDT on Ethereum is deposited in liquidity pools and lending protocols which earn yield for stakers.

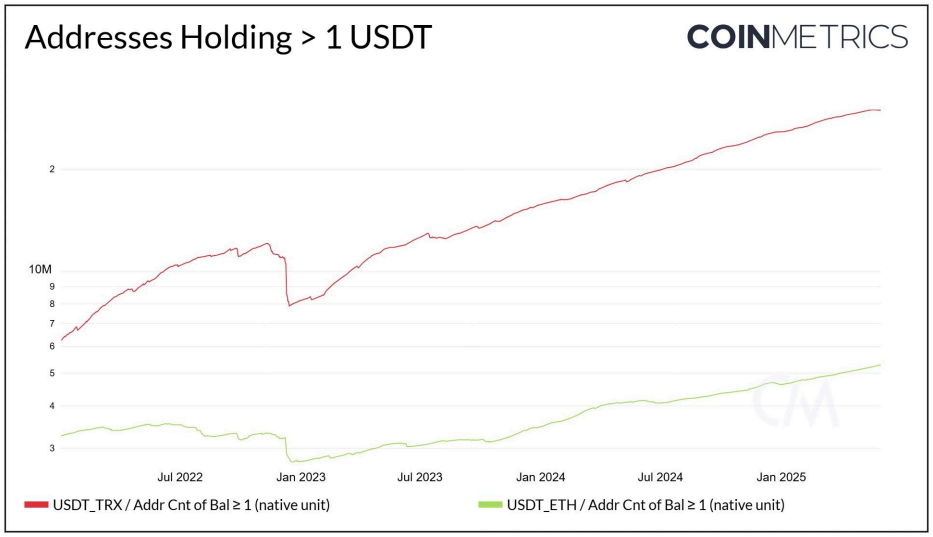


Ethereum Layer-2s (L2s) provide faster transaction speeds and cheaper fees. Applications on L2s can provide more yield opportunities for USDT investors. Tether can be used in L2s via USDT0, a tokenized receipt of USDT that's minted on an L2. More USDT could be locked on Ethereum and minted as USDT0 if users prefer using Tether's product to transact value on Ethereum network scaling solutions. Less than 1 billion USDT is currently locked in the contract or less than 2% of total supply on Ethereum.

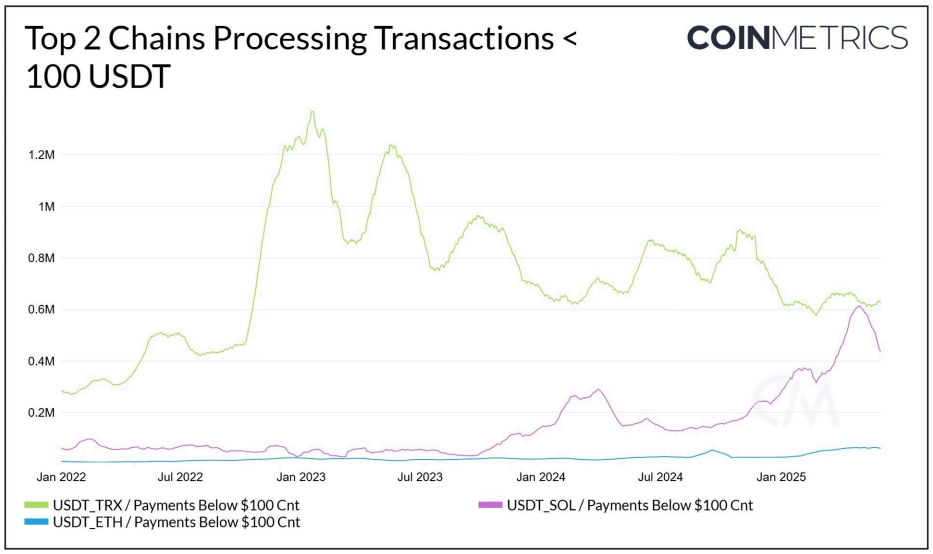
Payments and Remittances

Tron's fast transaction speeds and cheap fees have attracted users to adopt Tron as a primary remittance payment network. Instead of traditional financial rails charging users large fees to send money to family and friends in other countries and taking multiple days to complete, Tron offers around $0.75 fees and fast settlement, 16x cheaper than traditional rails [2].

Over 48% of USDT's circulating supply, or 73.7 billion USDT, is on Tron. We can measure the number of users by looking at the number of addresses with a balance greater than 1 USDT[1] Based on this metric, USDT is significantly more distributed on Tron than on Ethereum: over 28 million addresses on Tron hold USDT compared to only 5 million addresses on Ethereum holding USDT.

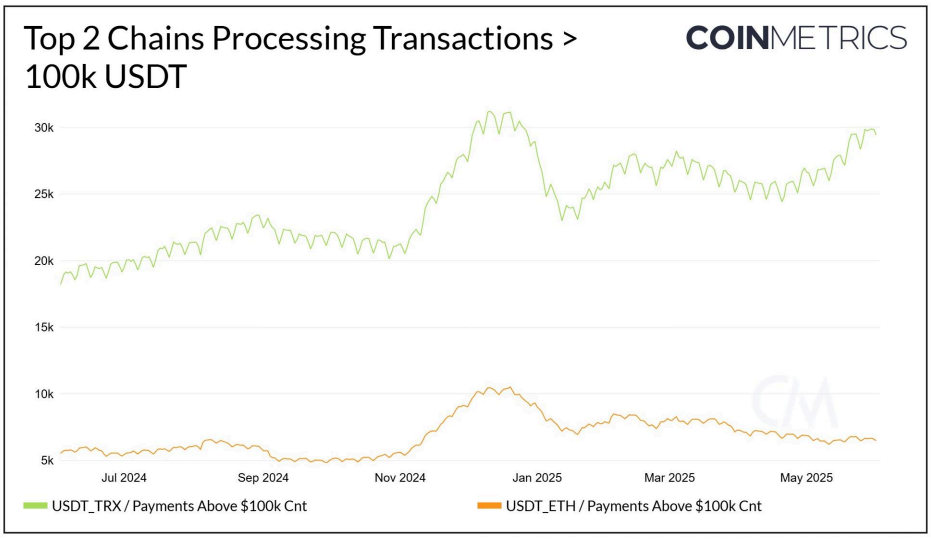


USDT's popularity as a facilitator of remittance payments is visible on Tron [3]. Looking at transaction activity, USDT outpaces the next network facilitating small transactions. Since January 2025, on a 30-day average, Tron has facilitated 662,000 transactions of $100 worth of USDT or less.



[1] *Note that some users can own multiple addresses.*

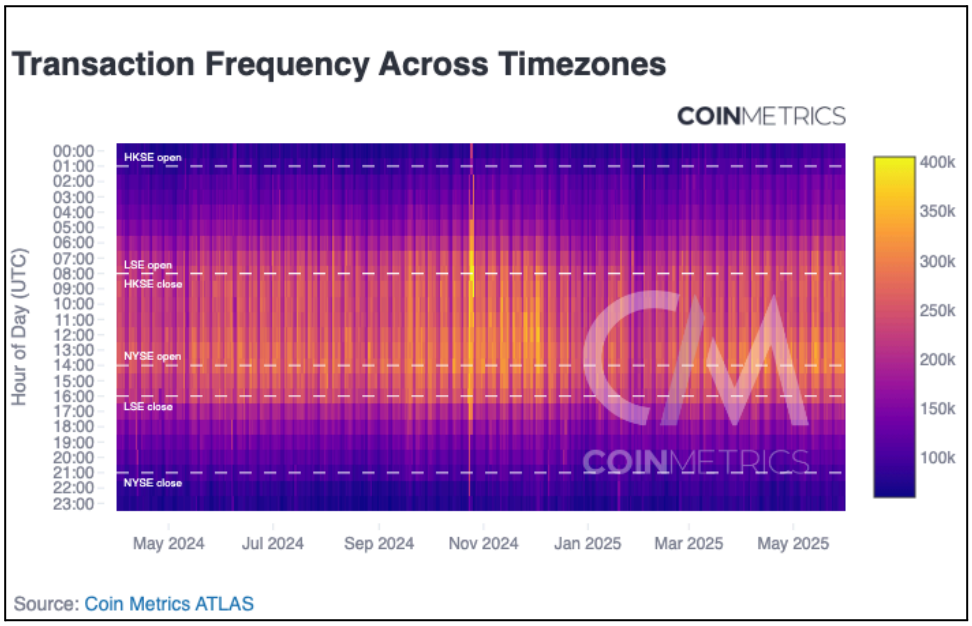
Institutional and high-net worth individual adoption can also be measured from the number of large transactions. Tron processes the most transactions of more than $100,000 worth of USDT at over 25,000 per day on average. The range of transaction value of USDT on Tron shows the versatility of how it is used on-chain.



Globalization of the U.S. Dollar

USDT usage has led to the increased globalization of the U.S. dollar. Even in de-dollarized countries, on-chain activity is primarily conducted with U.S. dollar-denominated stablecoins.

The heatmap above shows the activity of USDT on Tron across timezones. Over the past year, transaction activity of USDT on Tron spikes slightly before the London Stock Exchange opens and falls a few hours after the London Stock Exchange closes. Due to USDT not meeting compliance requirements with the European Union's MiCA regulations, USDT is no longer traded in Europe. This suggests that users in the same timezone, specifically users in African nations, are primary adopters of USDT [4]. Instead of using their local currency, users are adopting digital dollars, protecting against rapidly devaluing currencies and spreading the influence of the U.S. dollar [5].

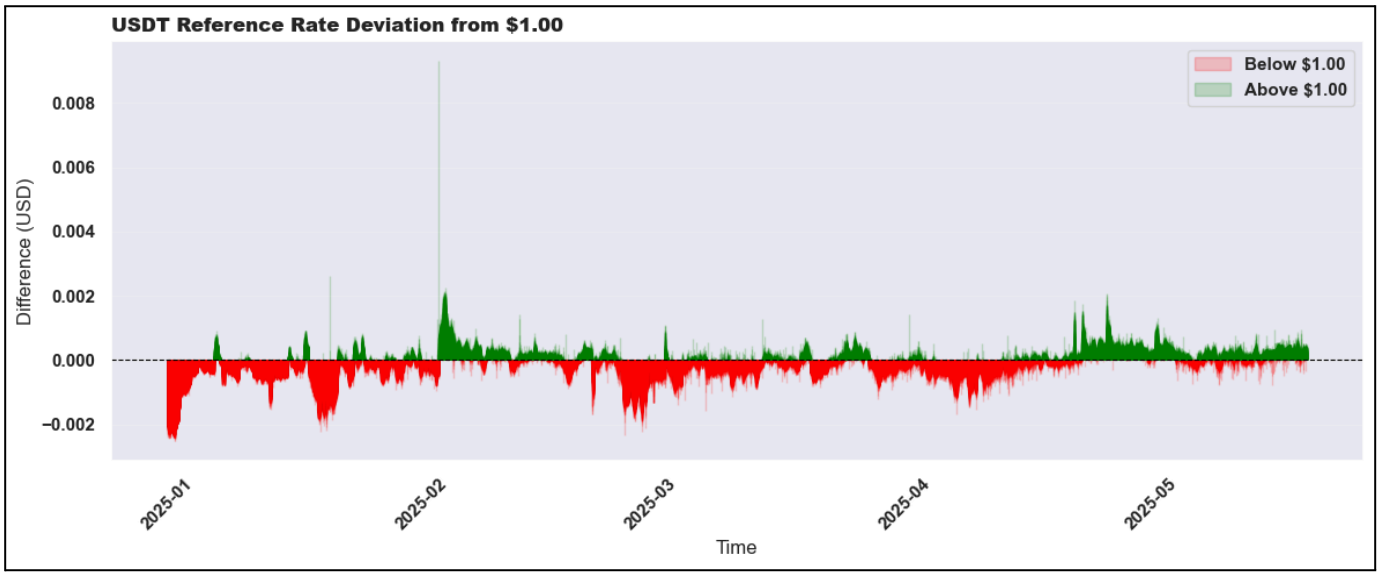


USDT Risk Vectors

Stablecoins have inherent risks. The two risks to focus on are 1) a stablecoin's "stability" or how well a stablecoin maintains its peg to the denominated asset, and 2) ensuring a stablecoin is consistently redeemable 1:1 for reserve assets under any circumstance. Tether must actively manage collateral to ensure timely dollar redemption for its users.

Peg Stability

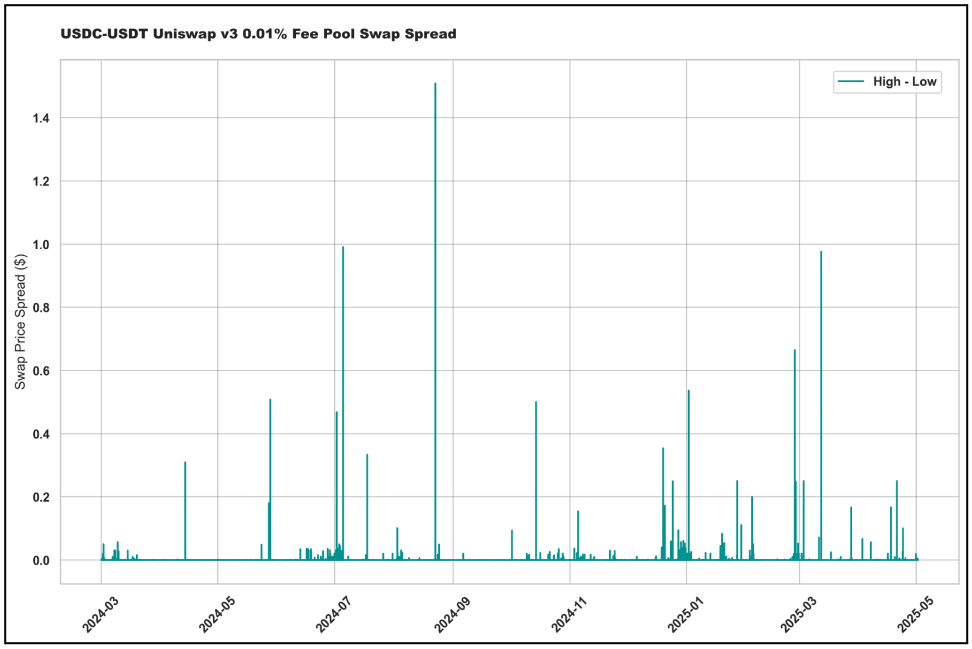
USDT's ability to maintain its peg is primarily derived from the public's perception of Tether's reserves backing outstanding supply. Holders assume if they request to redeem USDT for fiat currency, Tether holds enough cash and short-term equivalents to quickly distribute and redeem tokens at a 1:1 ratio. On-chain, bots and market makers help stabilize the price around its peg by profiting from arbitrage opportunities. If USDT's price is below $1.00, users will buy USDT to drive the price up and sell when it reaches $1.00. Temporary depegging also occurs due to market events. When Silicon Valley Bank declared bankruptcy, USDT depegged to the upside and became worth more than $1.00 as user demand for stable assets increased. Large market crashes have historically led to users moving funds to USDT as a stable value during highly volatile periods [6].



USDT has historically experienced limited depegs compared to competitors. But, past success is not indicative of future performance and Tether must continue to limit volatility to maintain its dominant position.

Peg Stability in Decentralized Exchanges

Temporary depegs in DEX liquidity pools can adversely affect USDT's exchange rate. The USDC-USDT Uniswap v3 pool does not always swap 1 USDC for 1 USDT: the high and low trade price can vary drastically. The swap rate eventually reverts to the ideal state when there is an optimal token supply, but these fluctuations or depegs specific to financial products could force users to slowly offload or acquire USDT through alternative means.

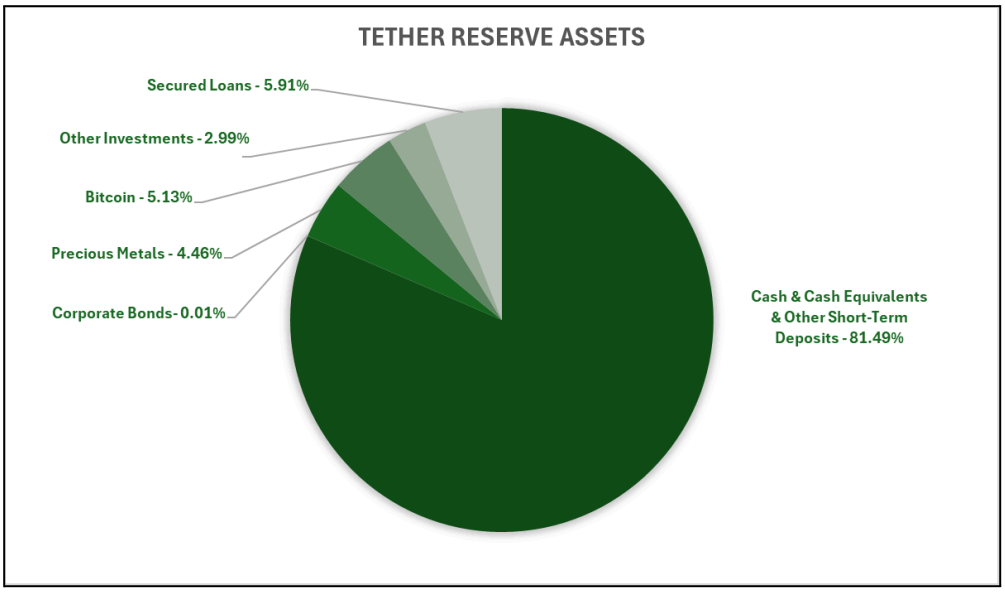


Reserve Collateral and Transparency

Tether has been criticized for its operational procedures investing a portion of reserves in alternative assets. Critics, known as "Tether Truthers" have raised concerns that Tether is not 100% collateralized by user deposits.

To help ease fears of a potential lack of redeemability, stablecoin issuers release third-party audit reports attesting to the amount of reserves and outstanding stablecoin supply. Attestations build trust that the issuer possesses enough collateral to redeem funds. Auditing is not standardized across the industry and while many publish monthly attestation reports from their auditors, Tether only provides quarterly reports.

In January 2025, Tether acquired a Digital Asset Service Provider (DASP) License in El Salvador. This DASP License requires submitting monthly affidavits to regulators. More monthly attestations can help increase confidence in a stablecoin's redeemability and provide insight into the operations of the issuer. The DASP License also requires Tether back USDT's supply 1:1 with fiat currency and invest at minimum 70% of its collateral in assets that are redeemable in less than 30 days. USDT allocates a majority of user collateral to short-term U.S. treasury bills, creating demand for U.S. treasuries. Tether is currently the 19th largest holder globally of U.S. treasuries [7].



Assessing the investment of collateral assets can help determine severity of depegging if the issuer's reserves were negatively impacted. Not all of Tether's reserves are deposited in cash and short-term equivalents. As of March 31, 2025, Tether's auditor, BDO Italia attests that Tether has a majority of reserves invested in cash & cash equivalents, as well as allocations to corporate bonds, precious metals, Bitcoin, and other investments [8]. Combined, alternative assets make up 18.51% of Tether's reserves. Alternative assets are less liquid and are not as quickly redeemable for fiat currency. These assets may require longer than 30 days to redeem for fiat currency. In that time, prices for these reserve assets could change and USDT would not be backed 1:1, depegging the stablecoin, creating a race for redemptions, a cascading liquidity crunch, and leaving investors with losses.

Where collateral is held is also a key operational risk that should be monitored when rotating into stablecoins. Custodians of Tether reserves such as Cantor Fitzgerald or other third-party banks could cause depegging events for USDT if reserves are mishandled.

Ultimately, if Tether did not have enough funds to accept all holder redemptions and was forced to declare bankruptcy, USDT holders are liable for unredeemable losses. Tether's USDT is not bankruptcy-remote and collateral could be used to repay more prioritized creditors.

Current regulators such as the New York Department of Financial Services (NYDFS) require stablecoin reserves be held in bankruptcy-remote accounts. This regulation could help reduce peg deviations. Alternatively, if the GENIUS act passes in the U.S., Tether may need to adjust its non-cash investments to meet reserve requirements by investing in only cash and U.S. treasuries. Tether must navigate the developing regulatory landscape to ensure they are compliant with regulations best aligned for their success and increased distribution.

Outlook

Its distribution across networks and widely-accessible deep liquidity allows USDT to be easily integrated in various exchanges and decentralized applications, increasing the U.S. dollar's influence on-chain.

USDT's primary risks are its peg and regulatory status. Across exchanges, prices for USDT could differ and cause suboptimal exchange rates to acquire or sell USDT. USDT achieving compliance with future regulatory frameworks such as the pending GENIUS act in the U.S. could mitigate these peg deviations by limiting reserve investments.

USDT's has rapidly expanded from its initial issuance on the Omni Layer and has built its dominance as the stablecoin of choice across blockchain networks. Despite its risk vectors, our data suggests the market has expressed a strong preference for using USDT in a wide array of use-cases

References

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