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Algorithmic Stablecoins List: Best 5 Algorithmic Stablecoins in 2022

Original:

<https://www.btcc.com/en-US/academy/research-analysis/algorithmic-stablecoins-list-best-5-algorithmic-stablecoins-in-2022>

This shocked the [crypto market](#) in May of 2022, when [TerraUSD](#) (UST) and [Terra Luna](#) (LUNA) fell by 90%. Due to the depegging of UST and the unexpected increase in the supply of both tokens, the price of UST dropped significantly. Why were both assets affected by this? Because UST is a cryptocurrency that is backed by an algorithm.

Discover algorithmic stablecoins, which crypto assets fall under this category, and which tokens are worth keeping an eye on in the following sections.

Algorithmic Stablecoins. Explained

A crypto asset that relies on another crypto asset to preserve its value. For example, an algorithmic stablecoin relies on two token types: the stablecoin itself and another crypto asset that supports it. As a result, the relationship between them is governed by the algorithm (or smart contract).



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How does Algorithmic Stablecoins Work?

In order to sustain its value, algorithmic stablecoins employ a variety of approaches. Because the methods are documented in the protocol, the data is available to everyone on the blockchain.

Automated stablecoin pricing follow market conditions in real time to avoid price depegging.

Depegging: When the value of a particular stablecoin falls below a predetermined exchange rate,

this is referred to as “depegging.”

Pegging: An attempt to fix the exchange rate between two currencies is known as pegging.

To maintain the desired price peg, the coin’s efficacy will be questioned if it is depegged. Stablecoins are usually doomed to fail if they are depegged. The goal of algorithmic stablecoins is to maintain a constant value over the long term.

Algorithmic Stablecoins Types

Algorithmic stablecoins come in three varieties. The value of each kind is maintained using a distinct algorithm.

Rebase

Usually, rebase algorithmic stablecoins adjust the base supply in order to keep the coin pegged to one value. Based on the stablecoin’s price divergence from US\$ 1, the protocol will either mint or burn coins.

Burning occurs when the price is less than \$1, while minting occurs when the price is greater than \$1.

Seigniorage

The multi-coins system is used by seigniorage algorithmic stablecoins. At least one other currency has been made to make a certain stablecoin more stable. Using a combination of protocol-based mint-and-burn procedures and free market mechanisms, the Seigniorage model seeks to influence market behavior in favor of trading inherently unstable coins (NSC). As a result, a price peg is being pushed for to maintain a stablecoin price.

A system in which economic exchanges take place with the government’s involvement being limited to non-existent.

Fractional-algorithmic

Stablecoins with a fractional algorithm are a hybrid of the first two. In order to keep its value consistent, this sort of stablecoin uses collateral (such as fiat currency) and an algorithm to adjust the stablecoin supply as necessary.

The algorithmic stablecoin blockchain network pioneered by Frax Finance is the first of its kind.



The image is a promotional banner for BTCC, a crypto futures exchange. It features a green background with a subtle grid pattern. At the top center is the BTCC logo, which consists of a stylized 'X' symbol followed by the letters 'BTCC'. Below the logo, the text 'Level up your VIP status for more benefits' is written in a bold, yellow font. Underneath that, 'BTCC - Your preferred crypto futures exchange' is written in a smaller, white font. At the bottom of the banner, there are three main elements: on the left, a button that says 'Download our app now' with a white arrow; in the center, two logos for 'Available on the App Store' and 'GET IT ON Google Play'; and on the right, the text 'Support fiat and crypto deposits'. The banner is decorated with several floating Bitcoin icons in various colors (blue, yellow, and white).

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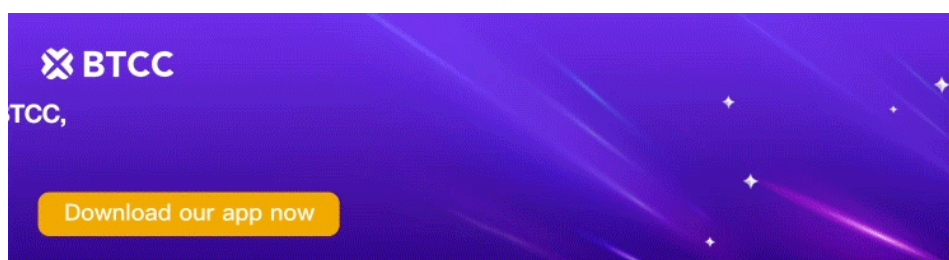
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Algorithmic Stablecoins List

A few algorithmic stablecoins to keep an eye on are as follows;

1.Dai (DAI)

Dai is an Ethereum-based stablecoin issued and maintained by MakerDAO. When a new Dai is issued, a mix of other crypto assets are held in a smart contract safe to ensure that the price of Dai remains stable against the US dollar.



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2.TerraUSD (UST)

When you burn [Terra \(LUNA\)](#) for 1 [UST](#), you'll get the same number of USTs. Burning 1 UST equals 1 LUNA in US currency.

There was a bank run on UST in May 2022, which led its value to drop. Terra had tried to fix it by minting more LUNA, but it was unsuccessful. UST has not yet recovered as of the time of this writing.

What's the connection between UST and LUNA? In Terra's case, what went horribly wrong?

As a Terra blockchain Algorithmic Stablecoin, Terra (UST) generates UST and [LUNA](#) coins using a mint-and-burn mechanism that is similar to Bitcoin's. The procedure is entirely dependent on the supply and demand for coinage. LUNA will be burned if there is a large demand for UST coins.

However, if the demand for UST drops, it will be used to mint LUNA instead.

In order to keep the value of the US dollar and the UST price in equilibrium, this technique is being used.

This system, on the other hand, has an unavoidable drawback. A large number of coins can't be made and burned in the process. After discovering this flaw, some investors took advantage of it by selling off tokens on Binance and Curve Finance for a total worth of \$2.3 billion. On 9 May 2022, UST was depegged as a result of the incident.

Even those who weren't involved in cryptocurrency trading were concerned enough about the UST crash disaster to sell their coins. Hyperinflation arose as a result of the butterfly effect, which drained the system of its coin balance.

3. USDD

The USDD is an algorithmic stablecoin created by the TRON DAO Reserve. It has a consistent value and a wide range of applications. The USDD's ability to withstand price volatility could be facilitated by its use of incentives and responsive monetary policy.



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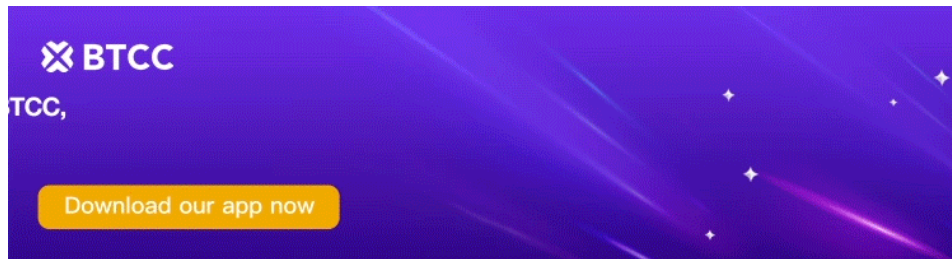
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4. FRAX

The first algorithmic stablecoin system is Frax Protocol. The protocol is open-source, permissionless, and entirely on-chain as it is now implemented in Ethereum. With Frax protocol, a decentralized algorithmic stablecoin will be created that can replace Bitcoin's volatile supply and provide scalability (BTC).

5. Neutrino USD (USDN)

Crypto-algorithmic Neutrino USD collateral tied to the US dollar. Smart contracts regulate all aspects of its operations, including minting, collateral, staking, and payouts.



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Pros & Cons

One of the reasons some investors are interested in USD-stabilized coins is that they:

Pros:

- Instant, secure, and private transactions are theoretically possible.
- Contrasts with other cryptocurrencies, which tend to be volatile, in terms of value.
- As some crypto exchanges do not take fiat money, it may be possible to exit a crypto position when the market is particularly turbulent.
- Transferring value between crypto exchanges may be possible.

Cons:

- Stablecoins tend to be avoided by investors for the following reasons:
- Other cryptocurrencies' massive rises in value are quite unlikely.
- Because stablecoins are more centralized than other digital currencies, there are questions regarding their trustworthiness.

Conclusion

In theory, Stablecoins offer the advantages of bitcoin with what looks to be greater price security. Investors who want to move in and out of the cryptocurrency market, as well as consumers looking for a quick and safe way to make a payment, may find them handy. Stablecoins, on the other hand, are a novel technology that hasn't been thoroughly tested yet. In the future, this technology's actual applications and advantages will be clarified.