WETH vs ETH: What Are the Differences?

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What's the meaning of WETH in crypto? How are ETH and WETH different? Why is WETH need? We'll dive in these questions in this article.

In a nutshell, there is no difference between WETH and ETH because the former is simply a "wrapped" version of the former. For cryptocurrencies, a "wrapped" token is nothing but an empty vessel that contains the original asset. The process of wrapping helps use a non-native asset on any blockchain. Think of using Bitcoin (BTC) on Ethereum's blockchain.

Since most blockchains are silos in themselves, they do not offer fluid interoperability or the ability to transfer native tokens from one blockchain to another. As you can imagine, this would be frustrating for the holders of one specific type of cryptocurrency.

But why would we ever need a wrapped version of Ethereum to use on Ethereum's blockchain? In this article, we'll explore what necessitated the creation of WETH, and what the differences are between WETH and ETH.

WETH vs ETH: What Are the Differences?

ETH and WETH are different. WETH follows what is known as the ERC-20 standard, while ETH does not. WETH was created because ETH was not feasible to be used for various DeFi applications. Thus, wrapping the ETH token in an ERC-20 compatible standard meant that it could easily be used across the wide spectrum of dApps. Also, this means that users can create their own versions of tokens for their custom DeFi applications.

Now, in the case of WETH, it is equivalent to ETH. This means that there is no price difference between ETH and WETH. Thus, if you wish to use your ETH to participate on a custom dApp, you can easily convert it into WETH on a dApp, like 1inch, and then continue using it.

Remember that ERC-20 is a technical standard for issuing tokens on the Ethereum blockchain. It only dictates the properties of the token. One of the most crucial aspects of an ERC-20 token is that it is fungible, which means that one token will always be exchangeable for another one of the same value.

How Wrapped Tokens Work?

Now that we understand the difference between ETH and WETH, let's understand how wrapped tokens work. When you want to create a wrapped version of any token, you usually send the native asset to a centralized custodian (ideally a smart contract). This centralized entity is anyone from a multisig wallet to a DAO to even a smart contract (in the case of Ethereum). Here's how the process works.

- Let us assume that you need to use WETH on Ethereum. In that case, you simply connect your wallet where you have your ETH to a decentralized exchange(DEX), like 1inch.
- Once you have connected your wallet, you simply decide the amount of ETH you want to convert into WETH, and then swap the tokens.
- Thus, you get WETH in return for the ETH that you have sold. You can use this on any of the decentralized applications that you want.

For a centralized entity, this would be simple in the sense that once they receive a native asset, they burn it and mint its wrapped version on the non-native blockchain. Once the user wants to return the non-native asset and convert it to their original one, they simply burn the wrapped asset and mint the native asset on the original network.

Are Wrapped Tokens Even Needed?

The answer to that is a resounding yes. For a decentralized space that the world of cryptocurrencies aims to build, we need to be able to use various products on different networks seamlessly – just like you are able to transfer money (potentially) from a domestic bank to an international bank if the two entities support it. While this interoperability is certainly easy with centralized entities involved, it

becomes too difficult for blockchain-based entities because of the much deeper network in question.

Having the ability to port over native assets from one network to the other is certainly helpful when users don't want to sell their assets to buy separate ones. Just think about someone who has extensive reserves of Bitcoin. To use that on Ethereum, they would first need to sell their BTC for USDT to be able to use it. Once they have USDT, they can easily use it to participate in any dApp of their choosing.

Wrapped tokens can be thought of as derivatives in traditional finance primarily because they track the price of the underlying asset. Thus, they are pegged 1:1 to the asset. While they don't share all the similarities with traditional derivatives, they do offer an added layer of interoperability for users within the ecosystem.

Ethereum isn't the only network that offers the creation and application of wrapped tokens. You can create wrapped tokens of non-native assets on Binance Smart Chain (BSC) too.

How to Send WETH Between Different Wallets?

Sending WETH is the same as sending any other cryptocurrency between different wallets. Let's have a look at how you can carry this out.

- Collect WETH from 1inch: Head over to 1inch and swap your ETH for the required amount of WETH.
- Once you see WETH in your wallet (such as Metamask), you can transfer them to another wallet, such as Coinbase. If you don't see the tokens, then simply select "Import Tokens" and you will be asked to confirm the addition of WETH as an asset.
- Once that is done, you can simply copy the address of your Coinbase wallet and paste it into your Metamask wallet to initiate the transfer. Again, if your wallet does not recognize the asset, then you simply need to add the details about the token on the wallet.

Please note that the Coinbase wallet supports the Ethereum network and “all ERC-20” tokens, which means that you will be able to easily add your WETH to the wallet.

Conclusion

The goal of all wrapper tokens is simply to add an extra layer of interoperability between various networks. For most users, it doesn’t make sense to convert a non-native asset like BTC to an ERC-20 compatible token (e.g. USDT) and then convert it to WBTC. In most cases, they will just use their USDT to execute most of their transactions. But the goal of WETH is to create a more seamless experience for native ETH users.

FAQs

Why Can’t We Just Use ETH for DApps on Ethereum Blockchain?

The answer lies in the fact that ETH was launched before the token standards were created. This means that it is not ERC-20 compliant, making it more difficult to be used frequently. Therefore, to remove the need for a third party, you can simply send your ETH to a smart contract and get WETH in return. Remember that ETH is fungible because it is a cryptocurrency.

Are Wrapped Tokens the Same as Stablecoins?

Given that the centralized entity is minting and burning native and non-native assets respectively, the mechanism works very similarly to stablecoins. However, a key difference that must be noted here is that in the case of a stablecoin, the issuer can easily have alternate reserves of assets (other than physical fiat itself) to issue stablecoins. On the other hand, this is not possible in the case of wrapped tokens.

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