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The Impact of Tether Grants on Bitcoin

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Abstract

In recent years, Tether issuances (or ‘grants’) have increased significantly, which correlated broadly with a significant rise in Bitcoin valuation. This paper examines the impact of cryptocurrency issuances on subsequent cryptocurrency returns. It is argued that as Tether is the undisputed ‘stable coin’, the minting of new Tether acts similarly to monetary expansion in cryptocurrency markets, inflating the prices of Bitcoin. We construct a VAR model and show contrary to investor expectations, Tether issuances do not impact subsequent Bitcoin returns, however, they do impact traded volumes. We also document an increase in Tether trading following a subsequent decrease in Bitcoin returns.

JEL classification: C01, G12, G14.

Keywords: Bitcoin, Tether, Cryptocurrency

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