swyftx

How Ethena is *Redefining Stablecoins*

Key Takeaways

1. Ethena is a crypto-backed stablecoin platform behind USDe, a USD-pegged digital dollar not reliant on bank reserves.
2. Ethena's USDe stablecoin is the third-largest stablecoin after USDT and USDC.
3. USDe offers holders annual yields between 5% and 11%, unlike traditional non-yielding stablecoins.
4. Key risks include USDe maintaining its peg in extreme markets, complex structure and reliance on counterparties.

What Is Ethena

Ethena is a decentralised finance (DeFi) protocol built on Ethereum that issues USDe, a synthetic dollar stablecoin designed to maintain a 1:1 peg with the US dollar. Launched in early 2024, it represents a distinct approach to stablecoins, being entirely crypto-native and not reliant on traditional banking infrastructure.

Unlike fiat-backed stablecoins such as USDC and USDT, which hold reserves in actual US dollars or Treasury securities, USDe is backed by crypto assets, including staked Ethereum, Bitcoin, and major stablecoins. This makes it fully transparent and verifiable on-chain.

The token, ENA is a governance token that gives holders voting rights on key decisions, including risk parameters, collateral types, and fee structures. ENA holders can stake their tokens to receive a portion of the protocol's revenue.

Ethena's Digital Dollar slogan. Source

How Does It Work?

How Ethena Keeps USDe Stable

Ethena keeps the value of its stablecoin, USDe, close to one US dollar by using a clever balancing act.

When users deposit crypto like ETH or USDT, Ethena opens trades that bet on the price going down. This helps cancel out any big price swings.

If the value of ETH goes up, the system loses money on those trades but gains from the ETH it holds. If ETH goes down, it makes money on the trades but loses value in the crypto it's holding. These two sides even each other out, helping USDe stay stable no matter which way the market moves.

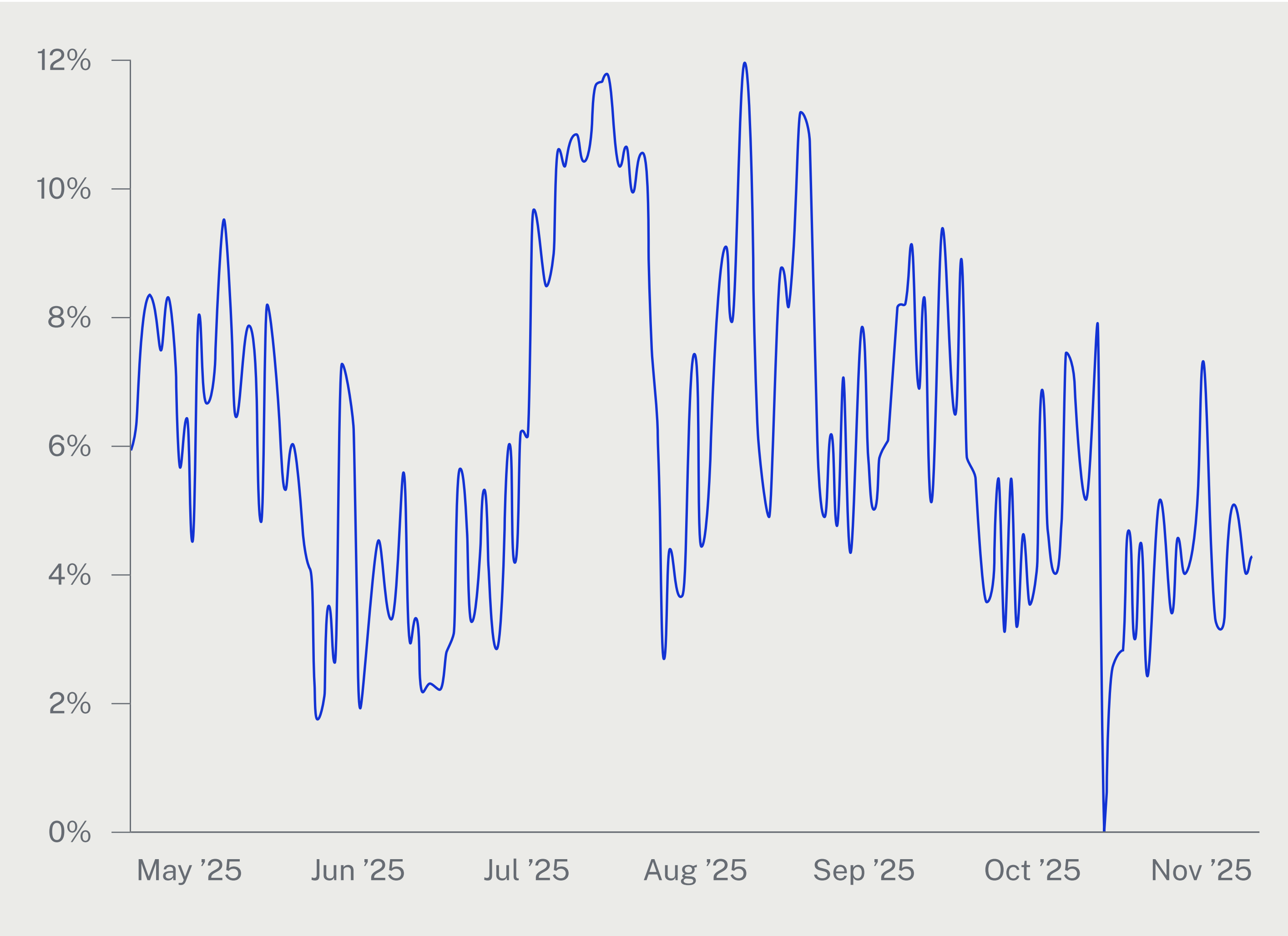
Where Yield Comes From

The yield offered by Ethena comes from a few different sources.

First, some of the ETH deposited is staked, which earns staking rewards of around 3–4%.

Second, it is through traders. In booming markets, traders are often willing to pay extra fees to keep their trades open. Ethena collects some of these fees, which helps generate returns for the system.

USDe APY History 2025



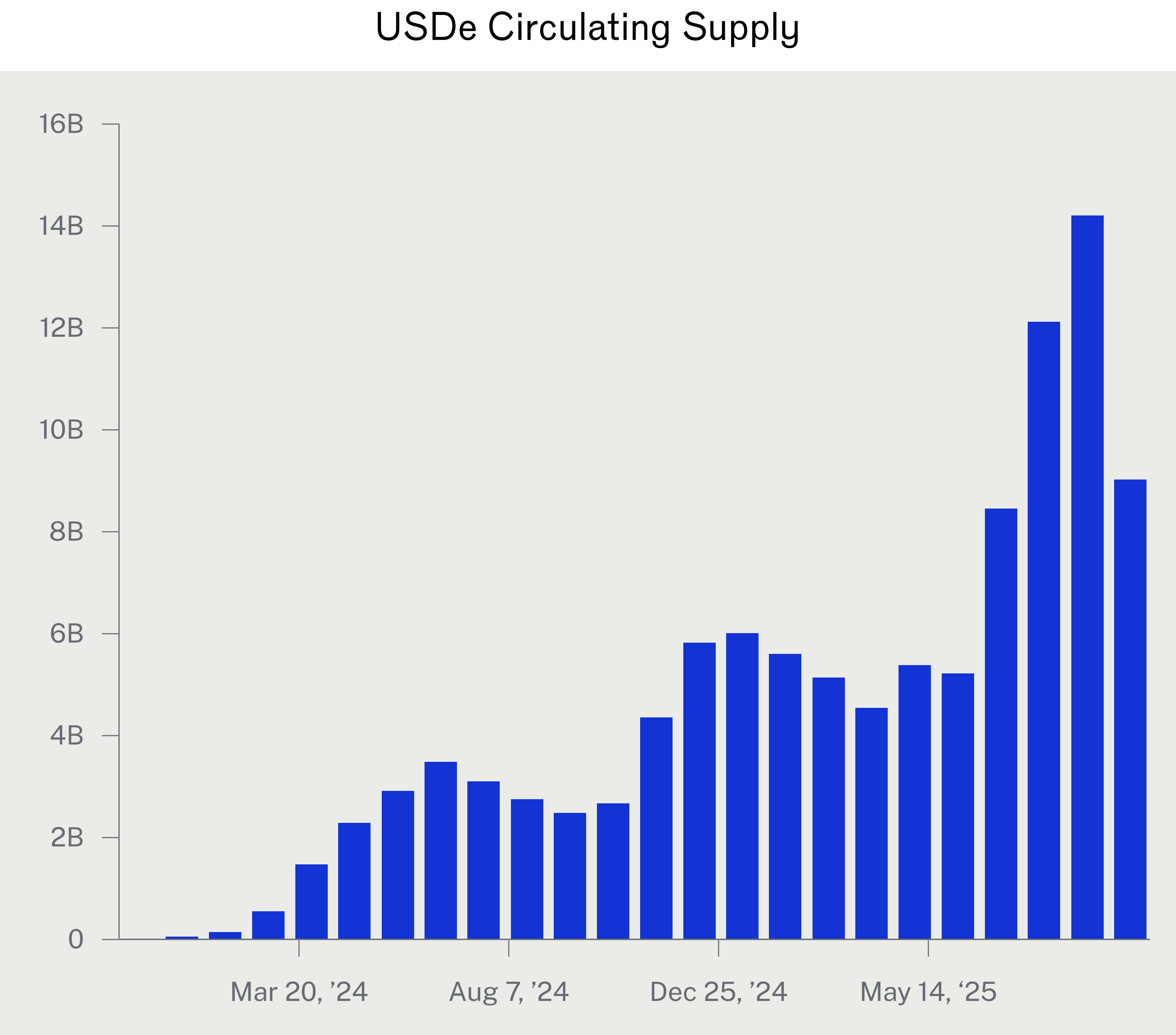
USDe APY over the last 6 months. Source

Bullish Case

Ethena's growth trajectory has been strong. The protocol reached in excess of $20 billion AUD supply faster than any other stablecoin in history.

The yield-bearing nature of USDe gives it a clear advantage over traditional stablecoins. While USDC and USDT generate zero returns for holders, USDe provides passive income simply by holding the token. This makes it particularly attractive for DeFi users who want stable value without sacrificing returns.

In low-interest environments for fiat, Ethena's ability to generate double-digit APY on stable funds is a powerful incentive. High demand to stake into sUSDe (to earn yield) directly increases demand for USDe itself, creating a cycle of adoption.



The rise of USDe stablecoin usage. Source

Bearish Case

USDe's $1 peg ultimately depends on complex hedging and market mechanics, and these can be stressed during extreme events. A synthetic stablecoin can face volatility or liquidity crunches when markets seize up. If crypto prices swing wildly or derivative markets malfunction, Ethena's hedges might not perfectly hold the $1 peg, which could erode trust in USDe

The protocol's reliance on funding rates creates yield uncertainty. During bear markets or periods of negative funding rates, returns can diminish significantly or even turn negative. Without the enticing yield, the value proposition for USDe reduces, and people may favour traditional stablecoins.

Understanding delta-neutral hedging, perpetual futures, and funding rates requires technical knowledge that a lot of users lack. This could limit mainstream adoption compared to the simplicity of "one dollar equals one token" with USDC or USDT.

Conclusion

Ethena represents a bold experiment in stablecoin design, offering yield-bearing dollar exposure that does not rely on traditional banking systems. Its rapid growth to become the third-largest stablecoin demonstrates genuine market demand for alternatives to conventional stable assets.

The protocol's strengths are clear, attractive yields, crypto-native infrastructure, transparent collateralisation, and growing institutional support. For DeFi participants seeking stable value with returns, USDe provides functionality that traditional stablecoins cannot match.