

What is a wrapped token

Wrapped tokens are tokens which are meant to represent another token by having their value pegged to the other. This is done by storing large amounts of the original currency in a digital vault and then newly minting a new representative currency to represent its value. The wrapped tokens are then sold on the market. The first wrapped tokens were stablecoins. Specifically fiat-backed stablecoins such as USDT. The advantage of using a wrapped token such as wBTC is that it can be used for DeFi transactions. BTC owners could lend their BTC in the form of wBTC so that they could earn a fixed interest rate per year.