



Why Terra (CRYPTO:LUNA) Cryptocurrency Just Cratered This Week

Description

The last few days have been extremely painful for investors of **Terra** ([CRYPTO:LUNA](#)). After gaining a stunning 13,000% in 2021, the LUNA token has slumped close to 90% in the last 24 hours. So, what has driven this massive decline?

TerraUSD (CRYPTO:UST) gained significant traction in 2021 and is one of the largest stablecoins in the world. At its peak, the market cap of UST stood at US\$18 billion, which has since fallen to US\$8 billion.

Basically, the UST token (backed by Terra), which is pegged to the U.S. dollar got hit with an attack that broke its “peg.” The price of the UST token generally hovers around \$1 and has currently fallen to \$0.64 at the time of writing, making market participants extremely nervous.

People park their funds in a stablecoin to benefit from functionalities such as low volatility and ease of transfer. While minor price fluctuations offer arbitrage opportunities to traders, the ongoing downward spiral in the price of UST has taken the [cryptocurrency](#) world by storm.

Why has the LUNA token lost market value?

Terra is [a blockchain network](#), where stablecoins are used to power a global payments system. The network aims to integrate the price stability of fiat currencies with the robust payment capabilities of a blockchain. Here, the LUNA token is used to stabilize the price of the UST and the two digital currencies are mutually dependent.

For example, the LUNA token is burned when demand for the UST increases, ensuring the stablecoin price is maintained at \$1. But if the UST is viewed as unstable, the price of LUNA will decline at an accelerated pace. Right now, the price of the LUNA token stands at US\$2.68 compared to US\$116, at the start of April.

Crypto experts believe the attack on UST was a coordinated one where the attacker pulled out US\$300 million worth of the stablecoin from Curve Finance. The UST was then dumped, resulting in

widespread panic and the depeg of the token.

In order to increase the price of UST, the Luna Foundation Guard sold off assets, including **Bitcoin** and **Ethereum**, and bought UST, driving BTC and ETH prices lower.

What's next for LUNA and UST?

Stablecoins thrive on utility, which is critical to maintaining demand and defending their peg. The utility of the UST stablecoin increased manifold due to the popularity of the [Anchor protocol](#), which offers liquidity providers an annual yield of 19.5%.

Between 40% and 70% of total UST supply is part of Anchor, which was one of the most admired DeFi protocols with US\$17 billion of total value locked. Expectedly, the extraordinary turn of events has led to a sustained selloff across Anchor driving total value locked to US\$2.45 billion.

The backers of LUNA announced a loan totaling \$1.5 billion from their reserve, which includes US\$750 million in BTC tokens to protect the peg. Further, US\$1.4 billion was moved from a reserve wallet to stabilize the UST.

At the start of May, the wallet had more than US\$4 billion in reserve assets, most of which has all been lost. I believe it will be difficult for Terra to regain investor confidence, even if the peg recovers to \$1, as there is always a chance for another coordinated attack.

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Author

araghunath

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