



Luna Collapse: Beginning of the End for Crypto?

Description

Last week, the **Luna** ([CRYPTO:LUNA](#)) cryptocurrency collapsed. The crypto, which underpins the **Terra USD** stablecoin, fell nearly 100% in the span of a single day. The collapse sent ripples across the cryptocurrency industry. The same day that Terra's peg to the U.S. dollar failed, **Bitcoin** ([CRYPTO:BTC](#)) also stumbled, and investors began to express concerns about other stablecoins. In this article, I will explore whether Luna's collapse was a one-off event, or the start of a wider crypto correction.

What happened with Luna?

Before asking whether the [Luna contagion](#) could spread to other cryptos, we need to look at what happened with Luna itself.

Luna is the "support coin" for Terra USD. Terra is a coin that's supposed to trade for exactly US\$1, or close to it. On Wednesday of last week, Terra's "peg" to the U.S. dollar failed. The "peg" is a series of mechanisms designed to ensure that you can always trade one Terra for US\$1. The token's developers achieve this peg by trading LUNA for Terra and keeping a fund of U.S. dollars to back Terra's peg as well.

Theoretically, this should result in one Terra equaling US\$1. However, the ability to exchange Terra for dollars began to fail last week. The developers printed [trillions of LUNA](#) in a last-ditch attempt to support the peg, but it failed. As a result of all this new supply hitting the market, LUNA declined precipitously in value.

Could the contagion spread to other cryptocurrencies?

It is quite possible for the contagion from Terra and LUNA to spread to other cryptocurrencies. Among other things it could

- Cause investors to lose faith in stable coins;

- Make investors worry about the supply of cryptocurrencies increasing; and/or
- Lead people to panic and withdraw money from their crypto trading accounts.

Any one of these factors could cause the LUNA contagion to spread to larger cryptocurrencies like Bitcoin. The good news is that it doesn't seem to be happening just yet. BTC and other "blue-chip" coins have actually rallied over the last 24 hours, as traders have hit social media trying to improve morale in the crypto community.

Foolish takeaway

The LUNA fiasco has been one of the most bizarre developments to come out of the crypto scene in many years. Here we have a stable coin that at one point lived up to its name, suddenly losing its peg to the dollar. It's been strange to watch. In many ways the LUNA price crash is emblematic of the 2022 crypto market, as **Dogecoin** was of the 2021 market. In 2021, Dogecoin's sudden rally out of nowhere typified the bullishness of the time. LUNA's abrupt crash likewise typifies today's bearishness.

Are there any lessons to take from this?

Perhaps the biggest lesson is the importance of playing it safe. You never know when a cryptocurrency is going to become volatile. With interest rates rising, investors appear to be losing their appetite for risk. That's taking some of the energy out of the cryptocurrency space. Maybe diversifying into other asset classes would be a good idea.

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