Twitter Thread by Stable Labs

Stable Labs
@0xStableLabs

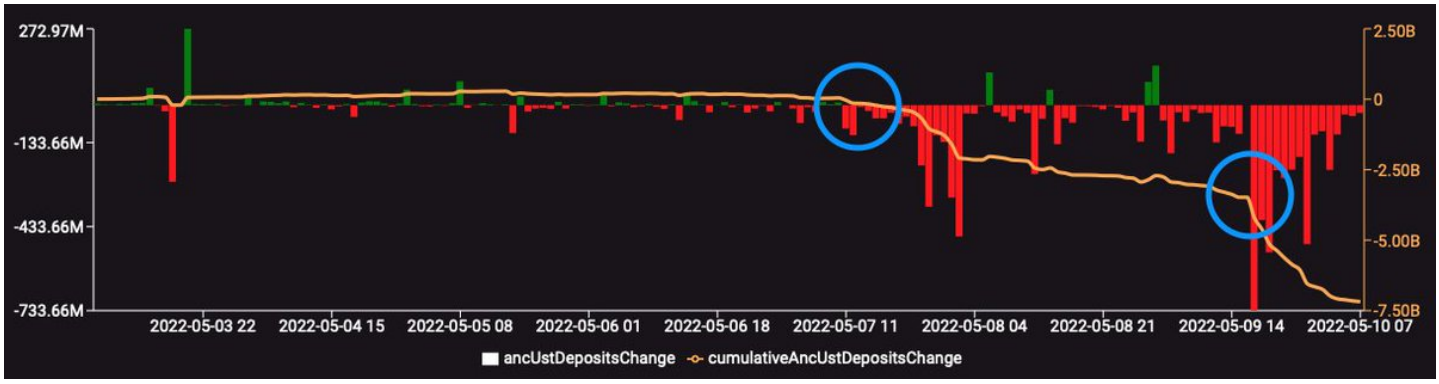
UST depeg summary: WHY AND WHAT CAUSED UST DEPEG?

Hint is in Anchor protocol and the status of Curve UST pool. @anchor_protocol @terra_money

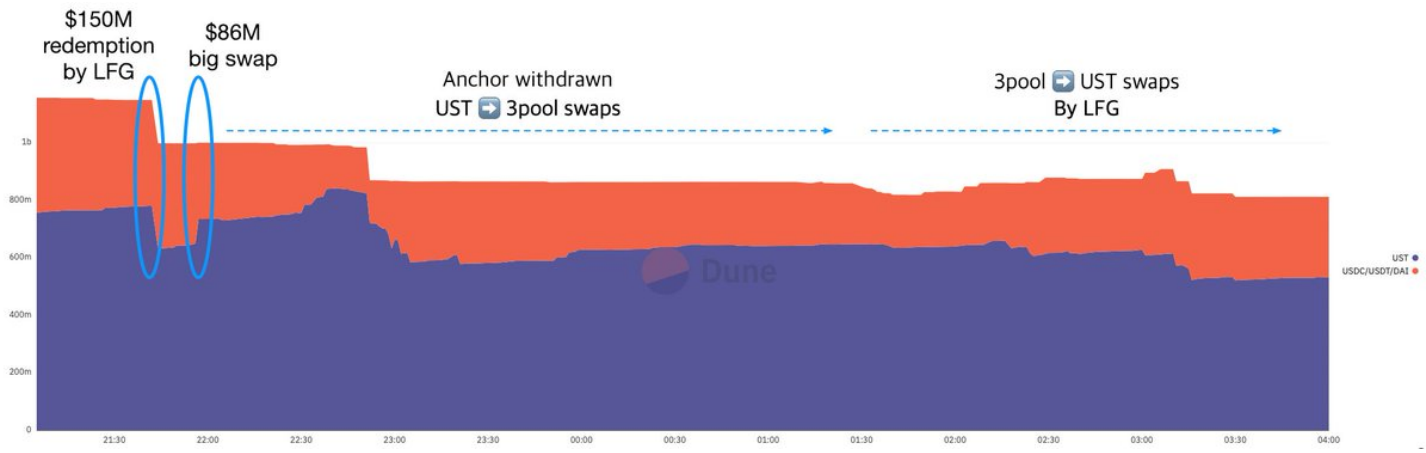
@anchor_protocol @terra_money 1/ There were series of notable events that happened during the recent UST depeg event.
In this thread, I will share my thoughts on what caused the depeg.

@anchor_protocol @terra_money 2/ May 7th, 2022. 9 pm was the time that starts the depeg event.

First, UST deposits in Anchor protocol started to exit, which means more circulating UST in the market → sell pressure.



@anchor_protocol @terra_money 3/ Simultaneously, 150M UST was withdrawn from Curve wormhole UST3CRV pool followed by large UST → USDC swap that caused significant imbalance between UST(85%) and 3CRV(15%) in the pool.

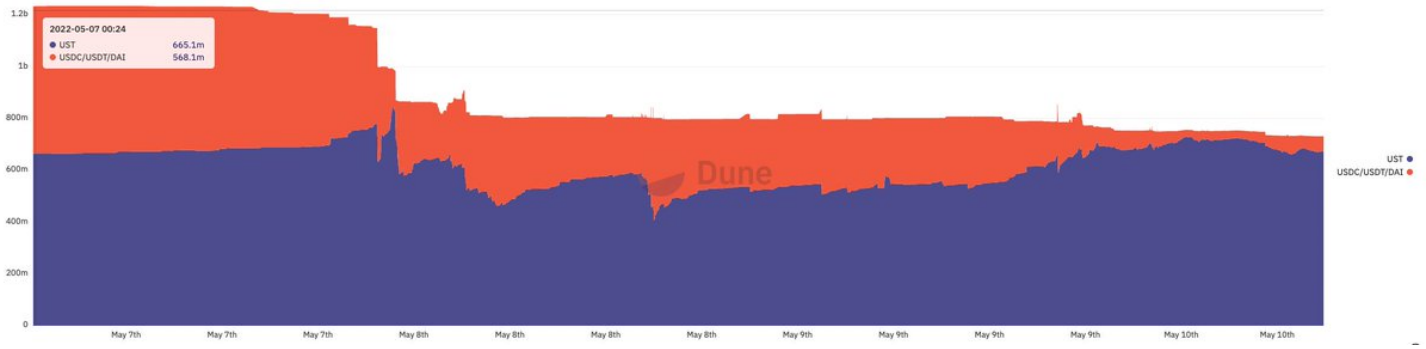


@anchor_protocol @terra_money 4/ However, some address made series of transactions to restore the balance in the Curve pool. Here are lists of relevant transactions.
https://t.co/gx9nr7kNcN (05-08-22, 02:30 AM)
https://t.co/bPKhvgfT72 (05-08-22, 02:40 AM)
https://t.co/8Yd056olrL (05-08-22, 03:00 AM)

@anchor_protocol @terra_money 5/ It seems that Terra protocol successfully restored from depegs.

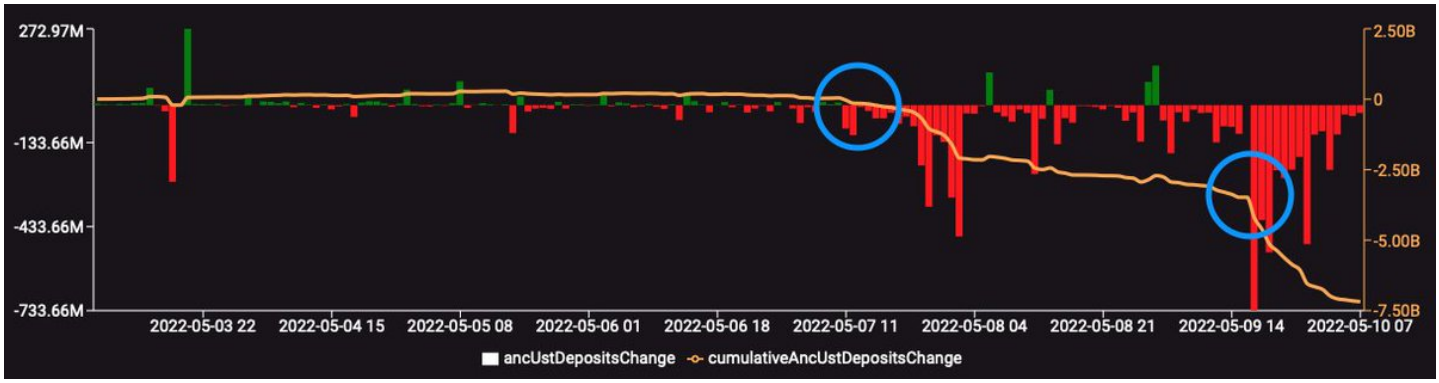
However, one big problem remains. Liquidity decreased a lot in Curve UST3CRV pool. 3CRV tokens were almost drained in the pool compared to week before.

This means, little UST absorption liquidity for downside.



@anchor_protocol @terra_money 6/ This means, little UST absorption liquidity during market downside. This is where bigger waves come in.

On May 10th, 2022, around 17:00, another massive withdrawls of UST initiated in anchor protocol. $0.8B withdrawls during one hour.



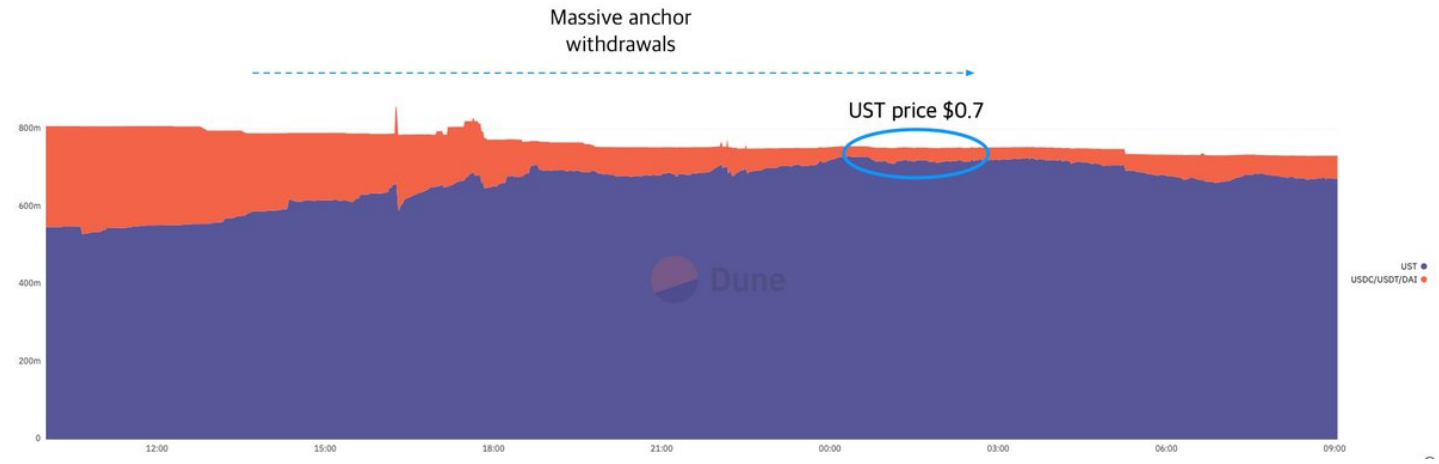
@anchor_protocol @terra_money 7/ Here, Luna price also dropped significantly which caused massive liquidation events in borrower side of anchor protocol.

This generated negative feedback loops where Luna price dropped more drastically.

@anchor_protocol @terra_money 8/ With UST price falling, massive swap from UST to 3CRV tokens took place afterwards.

However, in this time, there weren't much liquidity left in the curve pool.

Therefore, UST price in the pool also dropped significantly even with a stableswap mechanism.



@anchor_protocol @terra_money 9/ Now, market dule is the last and only mechanism to absorb UST supply in the market.

However, it didn't take long to congest the on-chain vAMM with high spread fees.

@anchor_protocol @terra_money 10/ Since no more measure left to protect the peg, UST price dropped drastically during today.

@anchor_protocol @terra_money 11/ What's the lesson?

- Don't ever grow the protocol with un-sustainable yields. This will trigger fear during downside.
- Be ware of the status of Curve pool and take care of the liquidity there.