

Twitter Thread by Route 2 FI

Route 2 FI

@Route2FI



What happened to \$UST and \$LUNA?

A long thread that looks at what happened in the last 4 days

/1

It all started with a massive sell-off on Curve. There was an \$85 million UST-to-USDC swap that had the 3-pool slightly out of imbalance.

To put the Curve pool back into balance 50,000 \$ETH was sold, and another 20,000 \$ETH was sent to Binance.

/2

Next, rumors about what happening is spreading quickly on Twitter.

This leads to a \$2B withdrawal of \$UST on Anchor.

Now the peg is moving between 0.987-0.995.

However, the first defense is successful. But the peg never fully recovered.

/3

Before we deep dive into the rest of the story, let's take a look at 4 factors that were in place to make sure that the attackers would succeed:

1) The attackers borrowed 100,000 \$BTC from Gemini (which they short)

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2) The attackers make a \$1B \$UST deal OTC

3) LFG (Luna Foundation Guard) is buying \$BTC in March and April as a defense mechanism to protect the peg

4) The announcement of the switch from the 3-pool to the 4-pool

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Okay, back to the story.

So LFG is removing \$150M \$UST from the 3-pool on Curve in preparations for the new 4-pool, then the attacker uses \$350M of the \$UST they've bought OTC to drain the Curve pool.

Next, there's now no liquidity on Curve.

/6

The peg is creeping down to 0.97-0.98.

Anchor deposits now really start to tank.

The rumors are spreading quickly.

I remember the Anchor deposits were \$14B at the top, but you could literally watch the deposits go down by \$10M per minute. It was full panic.

/7

The peg is now sitting at \$0.97, people are scared, and on top of that Nasdaq and the stock market are massively down, which leads to a lower \$BTC price, lower altcoin price and the \$LUNA price is tanking.

But the attack is not done.

/8

The attackers now have \$650M \$UST left that they're starting to sell on Binance.

What do you think happened?

A massive de-peg.

LFG is stepping in and selling \$BTC to buy \$UST to try to restore the peg.

Now the death spiral is starting to get momentum.

/9

How?

-Attackers dumping \$UST

-LFG trying to restore the peg by buying \$UST (selling \$BTC)

-\$BTC price goes down because of high sell pressure

-Increased panic because \$UST de-pegs even more

/10

-Anchor deposits go down because people want out --> people desperately try to sell \$UST on exchanges for an increasingly lower price

-This creates a new sell pressure on \$UST which makes it de-peg more

- \$LUNA price collapsing because of fear of how \$LUNA / \$UST works

/11

(\$UST sell-off = more \$LUNA in circulation = lower \$LUNA price)

-Traders start to short \$LUNA which further tanks the \$LUNA-price, and also shorting \$UST (possible on FTX)

-Then centralized exchanges started to ban \$UST withdrawals, and now the panic is in full mode

/12

-Eventually, LFG understands that this is a race they can't win and lets the peg bleed. Yesterday \$UST / \$USDT was as low as \$0.23, now it's hovering around \$0.5.

But the story doesn't end here.

Through all of this, Do Kwon has been hinting at a rescue plan.

/13

Personally, I was thinking this would come much earlier.

<https://t.co/ltxlCO8RJ>

/14

Close to announcing a recovery plan for \$UST. Hang tight.

— Do Kwon \U0001f315 (@stablekwon) May 10, 2022

From the tweet above it took almost 19 hours before he launched the rescue plan (linked in this tweet):

<https://t.co/VBs71Rqu8s>

/15

1/ Dear Terra Community:

— Do Kwon \U0001f315 (@stablekwon) May 11, 2022

That's interesting because the peg hadn't suffered too much at the time of the first Do Kwon tweet.

This chart I made on Tradingview shows the peg activity between the two tweets on May 10th and May 11th.

/16



Okay, so what happened in the meantime?

Everybody was waiting for the rescue plan, and people were talking about who really wanted to do this bailout.

At this time, the \$LUNA price has been hovering around \$30-35 for almost 24 hours (May 10th).

/17

There was still hope, there was a rescue plan incoming.

The @lawmaster posted this tweet

<https://t.co/yBNHTUUu4r>

/18

The details I have heard but might not be final:

- Jump, Celsius and Jane St. committed already, Alameda not yet
- targeting \$1B - \$1.5B raise
- 50% discount to LUNA spot with 1yr lock + monthly linear vest over 1yr
- total of ~\$700M in commitments as of morning <https://t.co/BtqJrF0eqM>

— Larry Cermak (@lawmaster) [May 10, 2022](#)

The market reacts immediately, and within the next 4 hours the price of \$LUNA is now dropping to \$15.

Why did it drop?

IMO the reason for this was that the plan didn't look solid.

Who would like to buy...

/19

\$LUNA for \$15 dollar (a 50% discount at that time when the price was \$30) with a 1-year lock amidst a death spiral?

Time goes by, and people are still waiting for the plan. It's now 8 hours since Do Kwon tweeted about the rescue.

/20

Do Kwon launches the rescue plan the next morning, but it's not well received.

There was really no rescue plan.

At least not for \$LUNAtics because the plan now is to slow-bleed out the \$ LUNA token in order to save the peg.

/21

Also, Do Kwon is hinting to move away from the algo-model and over to something else (probably something like \$FRAX).

\$The \$LUNA price dumps from \$5 to \$0.80 within the next 5 hours.

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Oh, and how long time will \$LUNA hyperinflation last for?

Check this by [@0xHamz](#):

<https://t.co/2FwYcERqmd>

In other words, this could take some time.

/23

How many days will \$LUNA hyperinflation last for?

Weeks to months

Assuming an orderbook flow limit of \$40mm per hour it will take 10 days to clear \$10bn of UST at \$2.50

At \$0.50 it'll take 50 days

Path dependency / reflexivity pic.twitter.com/a3Xz5bnZ0L

— 0xHamZ (@0xHamz) [May 11, 2022](#)

Should you buy \$LUNA now?

Absolutely not. The priority is to save the peg. The \$LUNA price will be diluted. If you buy it, that's super high risk.

Seeing some people posting that the staking rewards for \$LUNA are now 22% is awful. It's true.

But what's 22% APR on a token

/24

that still can go down 99% more?

Zero.

(thread is not finished, more coming below in a couple of minutes)

/25

What's next for Terra?

That remains unanswered. But there's a lot of good infrastructures that were built in almost 100 dApps

This is what was attractive with Terra in the first place

The smooth system with a pretty UX

And there are tons of gigabrain in the Terra system

/26

Maybe there will be a rebuild of some kind?

The saddest part in all of this was how many people had their \$LUNA-tokens staked and due to a 24-day withdrawal period wouldn't unstake it.

/27

Everything happened so quickly. How do you react in a situation like this?

Do you sell your \$UST into an asset on-chain that is dropping heavily (\$LUNA) and lose money?

Or do you send it to Binance, Kraken, or Coinbase where it's heavily depegged?

/28

It was a lose-lose situation.

And because of this, I guess a lot of people rather chose to do nothing in hope that everything would be all right.

/29

What could have prevented this attack?

If the 4-pool had been live this would have been much harder.

Because clearing the 4-pool alone would require \$3B instead of \$350M.

The timing was not a coincidence.

/30

Who did this?

At this point, we don't know. Massive rumors about Citadel and Blackrock being behind this was FUD.

I think the biggest lesson we can make from the last 72 hours is that no coin is too big to fail and to never have your full net worth in one ecosystem.

/31

The ripple effects of this are massive: all the apps building on Anchor and Terra, the whole Cosmos ecosystem, confidence in ago stables, confidence in DeFi in general, and the whole market going down (temporarily).

/32

How much did the attackers get away with? Check out this thread by [@OnChainWizard](#):

<https://t.co/sSulHzTKRI>

/33

How to make a >800 million dollars in crypto attacking the once 3rd largest stablecoin, Soros style:

Everyone is talking about the [\\$UST](#) attack right now, including Janet Yellen. But no one is talking about how much money the attacker made (or how brilliant it was). Lets dig in [\U0001f9f5 pic.twitter.com/nGVfjqpVJb](https://pic.twitter.com/nGVfjqpVJb)

— Onchain Wizard (@OnChainWizard) [May 10, 2022](#)

Check also out this great thread by [@jonwu](#) about more details of the de-peg:

<https://t.co/Klg5H0b0h8>

/34

An \$18 billion stablecoin is losing its dollar peg with all the magical chaos of algorithmic stables, with a dash of Bitcoin systemic risk drama.

Here's everything you need to know.

The [\\$UST](#) Depeg Thread:

[\U0001f447](#)

— jonwu.eth (@jonwu_) [May 9, 2022](#)

This became a longer thread than planned.

If you enjoy this kind of deep dive, make sure you subscribe to the newsletter below.

It's 100% free, and I only send out one issue per week.

↓

<https://t.co/EJMf3tBEkj>

/35

That's it!

If you're interested in learning more about crypto/DeFi, then follow [@route2fi](#)

Would your followers enjoy this post? Make sure to retweet the tweet below with them

↓

<https://t.co/8G6E9Wx7Hk>

/36

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— Route 2 FI (@Route2FI) May 12, 2022

In the 4th tweet I wrote that the attackers borrowed from Gemini.

Gemini has given a statement that they didn't.

Thanks for correcting me.

Source:

<https://t.co/aCcVEkh21y>

/37

We are aware of a recent story that suggested Gemini made a 100K BTC loan to large institutional counter-parties that reportedly resulted in a selloff in \$LUNA. Gemini made no such loan.

— Gemini (@Gemini) May 11, 2022