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TerraUSD(UST) and Terra (LUNA) Crash: Everything you Need to Know

Original:

<https://www.btcc.com/en-US/academy/research-analysis/terrausdt-and-terra-luna-crash-everything-you-need-to-know>

May 2022 saw one of the largest shakeups in crypto history as [Luna](#)/native Terra's token plummeted and its popular stablecoin [TerraUSD](#) (UST) was de-pegged, triggering a death spiral that rippled through the [web3](#) ecosystem.

So why did the value of [Terra \(LUNA\)](#) and [TerraUSD \(UST\)](#) fall? And what role did TerraUSD (UST) have in the drop in Luna's price? TerraUSD (UST) and Terra (LUNA) are two different currencies, therefore let's find out the difference between the two below first.

The Difference Between TerraUSD (UST) and Terra (LUNA)

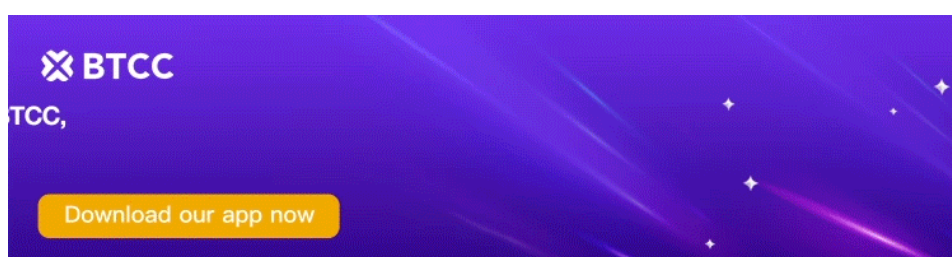
It is a [blockchain](#) project established in South Korea by Terra Labs, and TerraUSD (UST) and Terra (LUNA) are two of the original coins. More than a hundred projects, including Non-Fungible Tokens (NFT) and Web 3.0 applications, have been built within the Terra ecosystem to far.


A Stanford University computer science graduate, Do Kwon, founded the Terra blockchain, which generated its assets as stablecoins and facilitators.

Fiat currency values are meant to be matched by stablecoins. To support a global payment system with a consistent price, a 1-to-1 price match is believed to provide a fast and inexpensive completion process.

Stablecoins like Zipmex's Tether ([USDT](#)) and [USD Coin](#) are available for trading (USDC).

[Bitcoin](#) (BTC), [Cardano](#) (ADA), Decentraland (MANA), [Litecoin](#) (LTC), NEAR Protocol (NEAR), and a slew of other cryptocurrencies are all available at the best rates and lowest spreads.



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What Does LUNA Stand For?

A crypto asset called Terra (LUNA) has been created to keep the price of TerraUSD stable.

The total number of Terra stablecoins in circulation is the only limit on the supply of this crypto asset. Even still, LUNA's supply will continue to fall as it gets "converted" into Terra stablecoins on a regular basis.

LUNA's worth is considered to rise as a result of its burning mechanism.

What Dos UST Mean?

Based on the Terra blockchain, TerraUSD (UST) is an algorithmic [stablecoin](#).

Stablecoins such as USDT and USDC have procedures that are a little different from this one. There is no backing for TerraUSD (UST) in the form of US dollars or any other fiat currency.

Instead, by burning LUNA to create new UST tokens, this crypto asset keeps its price fixed at \$1.

One-to-one trade promise

With a 1-to-1 price guarantee in Terra's ecosystem, users can exchange their LUNA tokens for UST and vice versa. This is true regardless of the actual exchange rate between the two cryptocurrencies at the time.

A gain in the price of TerraUSD will result in LUNA holders profiting from the exchange of one TerraUSD token for one US\$1 of LUNA. We remove the switched LUNA and put it back on hand as a backup. Investments made in Terra's treasury are subsequently used to fund new applications and services.

As the LUNA tokens are burned, their supply will be reduced, which will raise the token's value. According to this, if more tokens are created, then the overall price will rise back to US\$1 per token. Similarly, UST token holders can exchange their UST tokens for LUNA at a 1:1 ratio if demand for UST is minimal and the price falls below US\$1.



As a Result, Why Did LUNA and UST (Terra) Go Down?

If Terra (LUNA) has all these safeguards in place, why did it crash? It might also be argued that TerraUSD (UST) was responsible for the price of LUNA falling. Here's the rationale behind it.

There has been a large-scale sale of Terra (LUNA) tokens because of UST's refusal to de-peg, according to Financial Express. TerraUSD (UST) is backed by a cryptocurrency named LUNA, as previously mentioned. Burning LUNA first is required to make UST, which in turn requires burning LUNA to begin with.

In this system, supply and demand are used to their fullest extent. Due to the fact that the value of UST lowers, people who profit from market inefficiencies would sell LUNA so that the value of the currency can be recovered.

UST's price support system is semi-automatic and generally reliable, even during periods of high volatility. Even yet, extreme examples like this one don't fit well with this circumstance. The price of TerraUSD (UST) began to decline in the second week of May. According to Business Today, a reaction to the dollar's depreciation may have caused the UST price curve to contract.

As TerraUSD traded at a price below its USD value on May 9, 2022, investors either sold their UST or switched to other stablecoins, according to them. In addition, large-scale short-selling dragged down the price of LUNA.

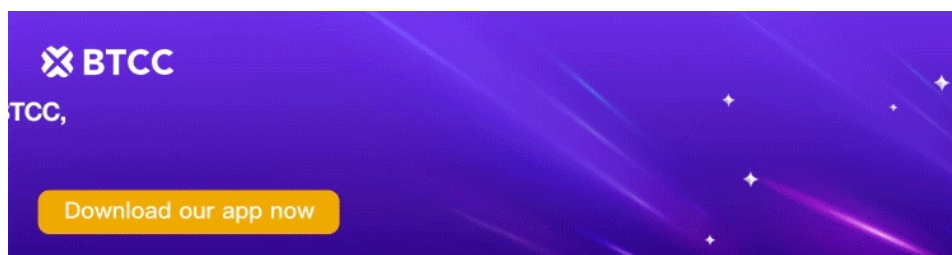
Support for this study comes from one of Coinstore's founders, Jennifer Lu, who is quoted here. When UST plummeted to US\$0.60 a few days ago, Jennifer said that it successfully provoked large-scale selling and led LUNA's price to fall.

LUNA's Downturn is Accelerated by a Weakening Market

EasyFi Network CEO and Co-Founder Anshul Dhir further said that this sell-off is exacerbated by bear market circumstances, as reported by Financial Express in India.

The Terra Blockchain has been officially paused at a block height of 7,603,700 due to the ongoing Terra (LUNA) issue.

To prevent an attack on the Terra chain, Terra validators have opted to stop the chain after the LUNA inflation continued to increase and reduced the cost of attack.



What's the Difference Between UST, USDT, and USDC?

As far as stablecoins go, it seems a little unfair to simply include the UST. Other well-known stablecoins are USDT and USDC, in case you didn't know. A quick rundown is provided here.

Tether (USDT)

As a well-known stablecoin, Tether (USDT) was created by Tether Limited.

The USDT is set up to be a 1:1 dilution of the US Dollar. This suggests that the price of USDT is likely to remain around US\$1 even while the price of other crypto assets fluctuates. With a market capitalization of US\$80.5 billion at the time of this writing, USDT is currently ranked third on CoinMarketCap.

In addition to Ethereum (ETH), Algorand (ALGO), EOS, Solana (SOL), and Tron (TRX), USDT is the most popular stablecoin.

Cash reserves, unsecured short term debt, and other USD denominated fixed income instruments are supposedly used to back Tether's asset.

At the time of this writing, the USDT/USD exchange rate is \$0.99.



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USD Coin (USDC)

The Centre Consortium, lead by Coinbase and Circle, supports USD Coin (USDC), a stablecoin released in 2018. Currently, the USDC is worth one US dollar.

Avalanche (AVAX), Algorand (SOLA), Solana (HBAR) and Tron are just some of the networks where USDC has been introduced in addition to USDT. USDC is backed by a US dollar or assets of equal worth, according to the developers, which are held in a US financial institution account.

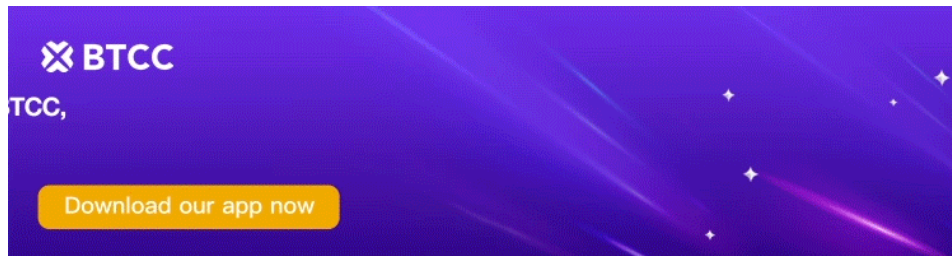
TerraUSD (UST)

TerraUSD (UST) is a decentralized algorithmic stablecoin that runs on the Terra (LUNA) blockchain, as opposed to Tether (USDT) and USD Coin (USDC).

A man by the name of Do Kwan is the brains behind TerraUSD. Decentralized finance (DeFi) enthusiasts have a new stablecoin to hold thanks to the launch of this cryptocurrency in 2020.

UST, on the other hand, is not backed by USD reserves in a bank account, as is the case with a centered stablecoin. Users will be required to pay a LUNA of 1 USD as a TerraUSD reserve asset in order to issue a UST token.

In addition, the TerraUSD Anchor mechanism provides a UST deposit yield of up to 20%. TerraUSD (UST) is currently trading at US\$0.07135 per US dollar at the time of this writing.



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Volatile Markets Call for Stablecoins

A large part of stablecoins' appeal is that they have a relatively stable value when compared to other cryptocurrencies.

It's vital to remember that despite the fact that cryptocurrencies are valued, the market is famously unstable. Hence, we want to emphasize the need of conducting thorough research before making any investment.