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## What is Terra (LUNA)? Why it Crashed 99.9%?

Original:

<https://www.btcc.com/en-US/academy/research-analysis/what-is-terra-luna-why-it-crashed-99-9>

The Terra (LUNA) crypto first crashed from \$120 to \$0.02, a correction of 99.9%, 99% of which was within 48 hours after the black swan event on May 11th - 12th.

Update - the LUNA crash continued a further 99% drop, then again, and finally another 90% drop to reach \$0.00000112 against BUSD (Binance USD), the last trading pair to not be delisted by crypto exchanges.

The stock market corrected, with the SPX moving down under the 4,000 level for the first time since May 2021, and Bitcoin retraced to \$25,200 a level not seen since Dec 2020 - altcoins are often correlated to Bitcoin strength or weakness, and the crypto markets' correlation to the S&P 500 as a whole hit a 17 month high in March 2022.

The reasons for the LUNA crash are deeper though, and are a warning on crypto price volatility. Some investors are also looking to buy the dip on Bitcoin and buy Terra (LUNA) at these low price points.

### Terra (LUNA): What Exactly Is It?

You're not alone in wondering, at least 500 people search 'what is Terra Luna' in search engines like Google per month according to keyword tool Ahrefs.

Technically Terra is the name of the crypto asset, and LUNA is its ticker symbol.

More people still refer to the LUNA crash rather than the [Terra crash](#) however, so as not to confuse it with stablecoin TerraUSD, ticker UST. Although UST crashed too, despite being a stablecoin.

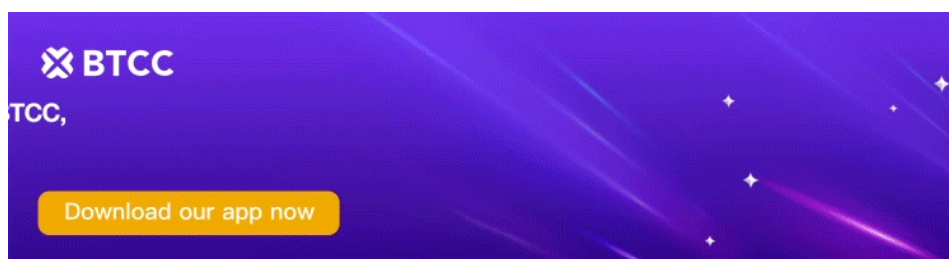
Both Terra (LUNA) and TerraUSD ([UST](#)) were created by Terraform Labs, founded in 2018 and located in Seoul, South Korea. At the centre of the story is Terra Labs CEO [Do Kwon](#).

The idea to create an '[algorithmic stablecoin](#)' where LUNA could be burnt in order to 'mint' UST to stabilize it whenever it loses its 1:1 peg to the dollar, and vice versa, is different to how other stable coins like Tether (USDT) and USD Coin (USDC) function. For example if UST hit 0.99, a small amount of LUNA would be burnt, and if it hit 1.01, a small amount of UST would be burnt.

It worked, until it didn't.

It has now even emerged that Do Kwon has been behind a failed stablecoin crypto project in the past, called Basis Cash, in breaking news today on Coindesk and Yahoo Finance.

Why UST lost its peg, no one knows, and Do Kwon hasn't given an explanation to investors and the public. One rumor is that this was a co-ordinated attack in order to exploit Terra and cause a Bitcoin crash, so that 'whales' would be able to buy in at a cheap level.



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## Why Luna Crashed?

The 30 year old Do Kwon had something of a reputation on Twitter for arrogance, in some circles, so some think it may have been a personal attack as well. One theory was put forward by the founder of Cardano Charles Hoskinson, although he later deleted the tweet.

He tweeted that a large institution borrowed 100,000 Bitcoin from Gemini exchange. They then exchanged a large amount of that BTC for UST over the counter (OTC) with Do Kwon at a discount. He agreed, lowering the UST liquidity.

That institution then allegedly dumped large amounts of both BTC and UST on the market causing a liquidation cascade of leveraged longs, slippage and panic selling by investors, many of which sold their LUNA holdings and unstaked their UST to sell it.

The tweet alleges that Terra was a ponzi scheme that didn't have enough BTC reserves on hand to prevent that crash. None of these claims are verified and Gemini denied issuing any such loan. However market manipulation is common in all financial markets.

Hoskinson (@IOHK\_Charles) later tweeted that even if Gemini's tweet is accurate, someone did launch an attack on [Terra](#). Who that was is unknown for now, and social media is rife with speculation and different explanations.

## **Will Terra LUNA Ever Recover?**

LUNA did pump over 100x from the lows of \$0.00000112, but still hasn't come close to making a recovery. The current LUNA price a week after the crash is \$0.00018.

It may be impossible unless a large part of the hyper inflated circulating supply of LUNA (now 6.5 trillion LUNA coins) is burnt - the LUNA market cap would flip [Bitcoin](#) (with its \$578 billion market capitalization) before the LUNA price even reached nine cents (\$0.09).

LUNA's market cap will reach \$40 billion before LUNA's price is slightly more than half of 1 cent (\$0.006). This is calculated by multiplying the price of the LUNA crypto token by the circulating supply.

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