

Twitter Thread by [0xavarek | 0536](#)



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[@0xavarek](#)



Why \$ust's peg has everything to do with [@CurveFinance's #3pool](#)

A thread on \$ust's collapse with [@dicksonlai](#) [@GabrielGFoo](#) [@themlpx](#) ■

[@TheSpartanGroup](#) [@nansen_ai](#)

[#luna](#)

1/ The story begins - believe it or not - with \$DAI, and how it maintains its peg.

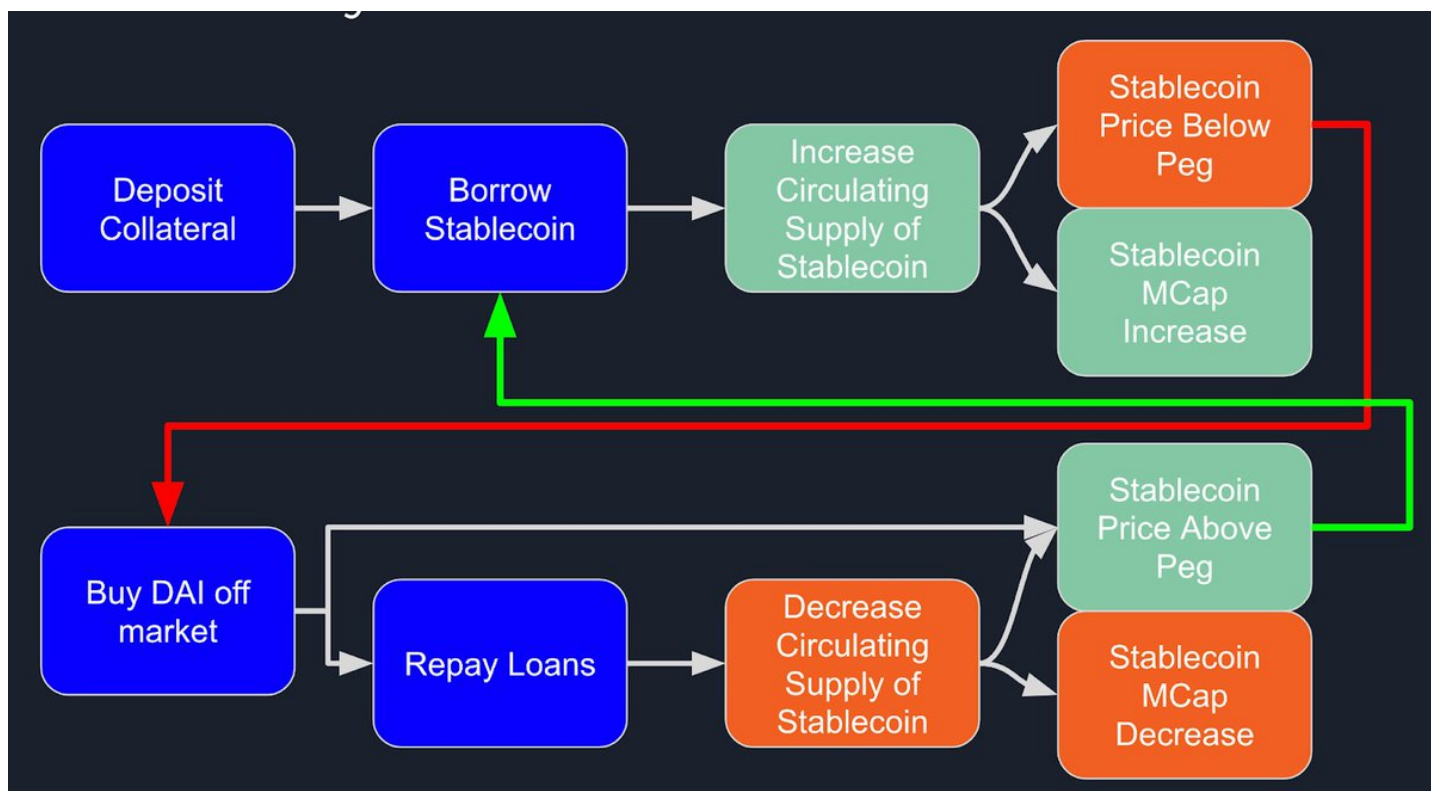
As a stablecoin backed by collateralized debt positions, the outstanding loans within DAI's economy play an important role with regard to DAI's ability to maintain its peg.

2/ When DAI is above peg, borrowers will be incentivized to take more loans with their collateral and sell DAI off on the market.

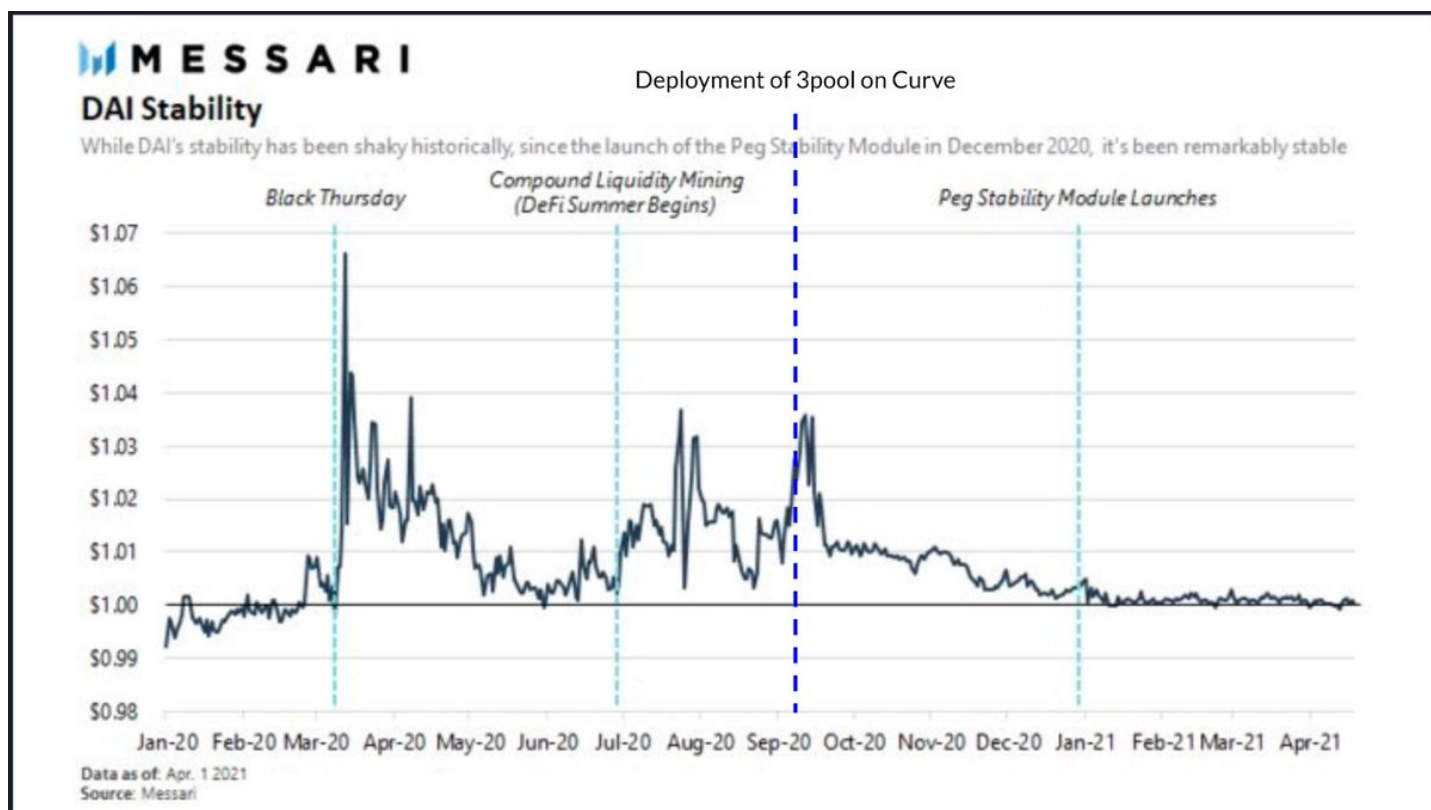
As a result, this increases DAI's circulating supply, bringing DAI back to peg.

Vice versa.

Diagram by [@dicksonlai](#):



3/ However, if we were to observe from DAI's price chart, it becomes pretty apparent that even after the release of Multi-Collateral DAI (DAI), DAI was still experiencing volatility that went beyond the levels of what a stablecoin should see.



4/

It was only after the deployment of the 3pool that we could start to see the volatility of DAI being managed more effectively.

The improvement was significant; DAI was able to consistently maintain its peg within a much tighter margin of deviation.

5/ From here, let's draw a hypothesis 1: DAI's ability to maintain its peg as a stablecoin is very much heavily premised on the 3pool (and the PSM).

This is logical, for the deep liquidity that DAI enjoys with USDT and USDC via the 3pool definitely helps

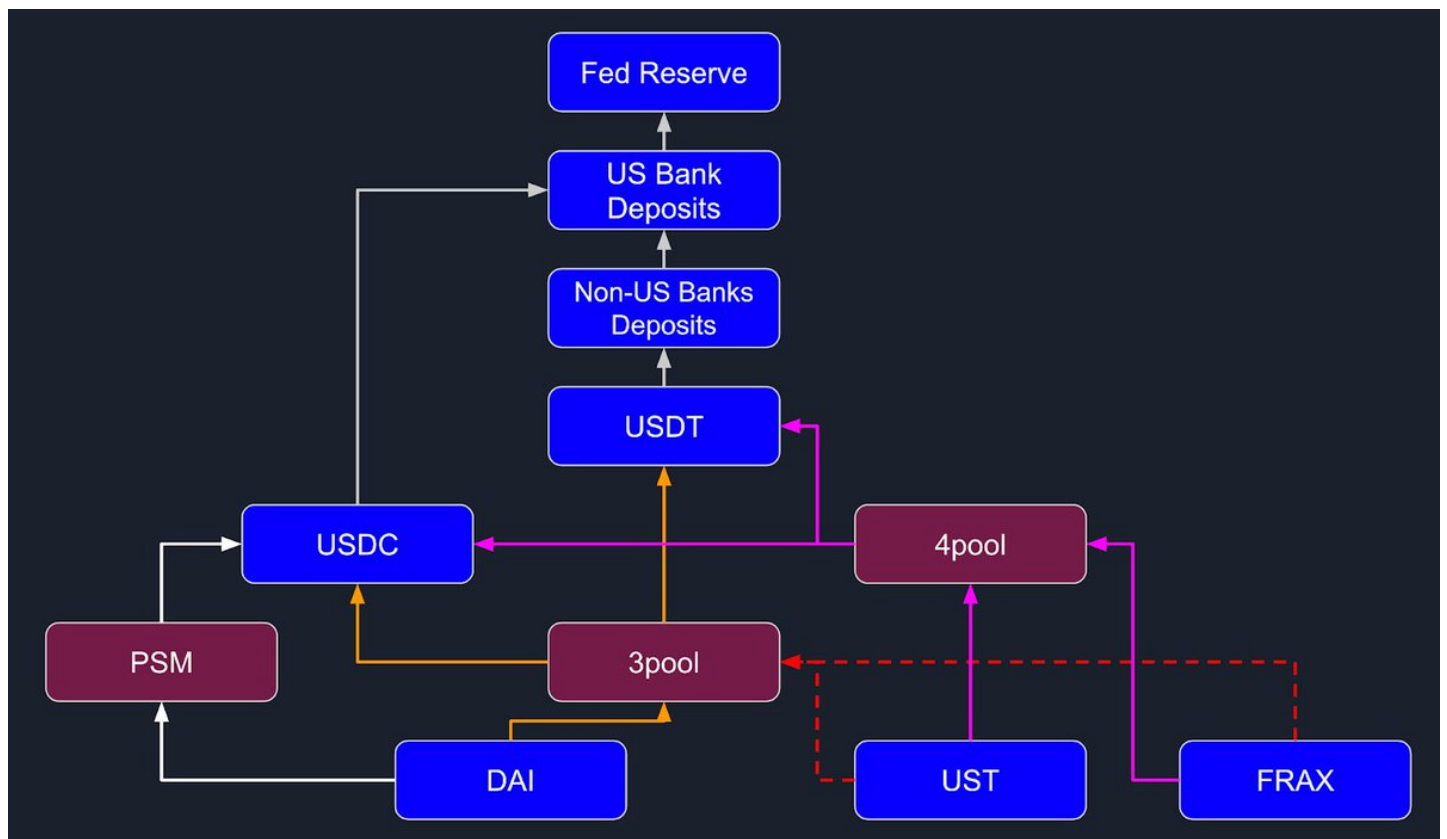
6/ + the fact that Curve offers a highly efficient way to swap tokens at low slippage and fees is another factor that we cannot underestimate wrt to the maintenance of DAI's peg.

In essence, DAI is directly pegging themselves to USDC and USDT via the 3pool

7/ Here's the link to \$ust:

\$frax and \$ust are amongst 2 of the largest contributors of TVL to the 3pool, and both have pushed out significant bribes to incentivize deep liquidity in it.

The 3pool must count for something wrt their abilities to keep peg



8/ From this, let's draw a hypothesis 2: that most stablecoins (and certainly all algo ones) are only able to keep their pegs bc of their pegs to the 3pool.

me and [@dicksonlai](#) were never able to prove it, until today.

9/ before that, a caveat - many factors that have come tgt to cause this saga.

here's a non-exhaustive list by [@Defi_Maestro](#):

- 3pool liquidity dip
- Anchor rates drop
- Usdd 30% yield
- Ust futures from ftx
- Lack of automation for LFG peg protection

10/ i am well aware of that, but i truly believe that #1 is the most crucial factor.

By some horrible luck, just as [@stablekwon](#) and #TFL were withdrawing 150m worth of \$ust from the 3pool to prep for the 4pool, 84m of ust was bridged to eth by the attacker



Mudit Gupta @Mudit_Gupta · May 8

UST fiasco is very fishy.

- Terraform Labs removed \$150m of UST liquidity from Curve yesterday
- 1 minute later, a freshly funded address bridged \$84m of UST to Ethereum (Initiated bridging before TFL removed liquidity)
- 4 min later, it dumped the UST, triggering the sell-off

119

503

2,439



Do Kwon

@stablekwon

Replying to @Mudit_Gupta

- We removed 150M UST from Curve to get ready to deploy into 4pool next week
- 84M dump not us - lmk if you find out who
- After the imbalances started to happen, we removed 100M UST to lessen the imbalance

Obv TFL has no incentive to depeg UST

10:55 PM · May 8, 2022 · Twitter Web App

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11/ tfl then withdrew another 100m to lessen the imbalance (quoted from @Mudit_Gupta), but this ended up draining more liquidity from 3pool.

150 + 100 = 500m worth of LP from the 3pool, which is a staggering ~40% of their 3pool holdings, a v significant sum.

Largest Token Transactions					
Tokens		Counterparty	Time	Tx	
-150,771,347		Terra: Community Pool	May 08, 2022, 05:44		
-100,113,552		Terra: Community Pool	May 08, 2022, 06:52		

12/ tfl and do may/may not have known it at that point yet, but this severely weakened their ability to defend any attacks on their peg, and I guess the attacker knew that too.

here's a thread by [@4484](#) on what happened next: <https://t.co/WU8aDDsSu4>

ok here is how the \$luna \$ust attack was coordinated & executed. \U0001f9f5 (quoted from a friend)

- attacker OTC accumulated \$1bn of UST
- borrowed \$3bn in \$btc
- spread around some fud about peg and bank runs
- dumped the fuck out of their \$3bn \$btc on market to trigger wider panic

— 4484 (@4484) [May 10, 2022](#)

13/ with this significant amount of \$ust withdrawn from the 3pool by #tfl and #dokwon, \$ust's liquidity on Curve became very thin, creating an opportune moment for the attacker to strike.

And strike he did; the rest is history.

What can we learn from this?

14/ while many have been pushing for the emergence of truly decentralized stablecoins, that is very much still a holy grail of sorts that is extremely difficult to achieve.

the fact that this saga has proved me and [@dicksonlai](#)'s hypothesis 2 reinforces that

15/ if most (if not all) extant stablecoins' pegs are only kept bc of their pegs to the 3pool, and by extension, USDC and USDT
- then how decentralized can they really be?

this is something for all of us within this space to think about.