

## Twitter Thread by Do Kwon ■



**Do Kwon** ■

[@stablekwon](#)



### 1/ Dear Terra Community:

2/ I understand the last 72 hours have been extremely tough on all of you - know that I am resolved to work with every one of you to weather this crisis, and we will build our way out of this.

Together.

3/ First, if you don't understand how Terra's peg stabilization mechanism works, here is a good overview:

<https://t.co/yxp6nA2cdc>

Update on Luna Tokenomics

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How to predict when depeg will end.

Bringing back my 'death spiraling Luna' model. Turns out it was accurate. All of those 'Didn't Age Well' jabs at it Didn't Age Well.

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— Pedro Ojeda (@pedroexplore1) [May 11, 2022](#)

4/ A review of the current situation: UST is currently trading at 50 cents, a significant deviation from its intended peg at \$1.

5/ The price stabilization mechanism is absorbing UST supply (over 10% of total supply), but the cost of absorbing so much stablecoins at the same time has stretched out the on-chain swap spread to 40%, and Luna price has diminished dramatically absorbing the arbs.

6/ Before anything else, the only path forward will be to absorb the stablecoin supply that wants to exit before \$UST can start to repeg. There is no way around it.

We propose several remedial measures to aid the peg mechanism to absorb supply:

7/ First, we endorse the community proposal 1164 to Increase basepool from 50M to 100M SDR \*) Decrease PoolRecoveryBlock from 36 to 18 This will increase minting capacity from \$293M to ~\$1200M. <https://t.co/aqNKzYK2xC>

This should allow the system to absorb the UST more quickly.

8/ More ideas will be discussed in the community forums at <https://t.co/Eul3cCQO3e>

9/ With the current on-chain spread, peg pressure, and UST burn rate, the supply overhang of UST (i.e., bad debt) should continue to decrease until parity is reached and spreads begin healing.

11/ Naturally, this is at a high cost to UST and LUNA holders, but we will continue to explore various options to bring in more exogenous capital to the ecosystem & reduce supply overhang on UST.

12/ As we begin to rebuild UST, we will adjust its mechanism to be collateralized.

13/ The Terra ecosystem is one of the most vibrant in the crypto industry, with hundreds of passionate teams building category defining applications within. As long as these builders, TFL among them, continue to build - we will come out of this together.

14/ Terra's focus has always oriented itself around a long-term time horizon, and another setback this May, similar to last year, will not deter the #LUNAtics. Short-term stumbles do not define what you can accomplish.

It's how you respond that matters.

14/ Terra's return to form will be a sight to behold.

We're here to stay. And we're gonna keep making noise.■