NEWSCRYPTO.IO

FUNDAMENTAL ANALYSIS REPORT

by NewsCrypto.io

TERRA (LUNA)

@nwcpublic

@nwc_public

NEWSCRYPTO.IO

FUNDAMENTAL ANALYSIS REPORT

TERRA (LUNA)

INTRODUCTION

Dear NewsCrypto community,

after a couple of FA reports that were dedicated to either a whole asset class (oracles) or one specific aspect of a particular project (Ethereum scaling), we're back with an FA report about a single token or, more accurately, a single ecosystem that is largely built around a single token but includes many other tokens as well. We're talking about Terra, which has LUNA as its native token, but also enables the issuing of other assets such as the UST stablecoin. This is done through a very interesting mechanism which we'll explain in the first part of the report.

Later we'll get into some other projects built on and integrated with Terra, so that we can explore other aspects of the ecosystem, and in the last part of the report we will look at the tokenomics and a LUNA/BTC chart.

BASICS

The Terra ecosystem was created in 2018, with the main goal of developing a platform for different stablecoins in order to facilitate adoption of crypto. Its native asset is LUNA, which is used for staking and providing price stability to the other tokens in the ecosystem. Much like with Cosmos or Secret network staking, LUNA staking has an unbonding period of 21 days when a user decides to unstake their tokens, in order to keep validators accountable immediately after they've finished staking.

The protocol supports a number of stablecoin assets, and its flagship stablecoin is TerraSDR. SDR (Special Drawing Rights) is a unit of value set up by the International Monetary Fund, which consists of a weighted basket of the world's largest currencies: the US dollar, euro, Chinese yuan, Japanese yen and British pound. While it isn't a currency in itself, it's used as a reserve asset in order to protect against the volatility of individual currencies, and this stability is also the reason why it was chosen by the Terra ecosystem.

PRICE STABILIZATION AND INTEGRATIONS

Terra is largely built around the idea of dynamic supply and dynamic price stabilization mechanisms, and this applies to both staking rewards and the stablecoins built on it. In order to make staking more attractive, the staking rewards are adjusted by modifying transaction fees and the rate at which LUNA is burned, so that users take on less risk by committing to stake LUNA long-term.

The way this works takes advantage of efficient market forces. TerraSDR needs to have the same value as 1 SDR worth of Luna, and if the demand for TerraSDR increases, pushing the price above its peg, the protocol makes up for this by minting more TerraSDR. Arbitrageurs can then buy this overvalued TerraSDR with 1 SDR worth of Luna and profit on the price difference until the token is brought back to its peg. The same mechanism works the other way around when TerraSDR deviates below its peg: in both cases, the supply is adjusted to keep the prices stable.

One interesting aspect of Terra is that all the different stablecoins share the same liquidity, which means that users can always swap between USD and KRW stablecoins, for example, at the effective USD/KRW market exchange rate. Because of this, fluctuations in demand for one particular stablecoin can be quickly compensated by drawing on the total liquidity in the Terra ecosystem.

Another feature enabled by Luna tokens is governance, namely creating and voting on proposals to improve the ecosystem. This includes both text proposals, which require human involvement, and parameter changes which can be implemented automatically, and which include such parameters as taxes (the transaction fees paid for all Terra transactions) and disbursements from the Community pool.

INTEGRATIONS

The two most important protocols built on Terra are Anchor and Mirror. Anchor is a stablecoin yield protocol which earns yields based on staking rewards. This works in the following way: borrowers can borrow stablecoins based on collateral in stakeable assets, while lenders can lend stablecoins to the protocol and earn yield based on the staking yields. This is meant to be much more stable than money market yields in traditional lending and borrowing protocols, which tend to vary greatly based on supply and demand for a particular token.

Mirror is a protocols which enables the minting of synthetic assets that mirror the prices of real-world assets such as stocks and commodities. These assets, called mAssets, are minted by locking up Terra stablecoins (or other mAssets), and they enable anyone to have exposure to traditional markets in a decentralized way, right on the blockchain. When the price of a mAsset deviates from the price of the underlying asset, the protocol incentivizes arbitrageurs to compensate by minting more mAssets or by burning them to release the collateral.

TOKENOMICS AND KEY LEVELS

Luna has a market cap of $6.4 billion at the time of writing, with an elastic supply according to the supply and demand mechanisms outlined above. Looking at the BTC pair, we can see that Luna has had an insane run recently, from a low of around 1850 sats in January to a high of almost 42k sats in March. This means that it didn't establish any significant support levels along the way, and the only levels to watch are 12.5k sats, which was resistance in 2019, 15.2k and 21.2k sats. As Luna has dipped recently, we can expect new support levels to be formed around the 30-32k level.

Sources

Terra whitepaper: terra.money/Terra_White_paper.pdf
Anchor whitepaper: anchorprotocol.com/docs/anchor-v1.1.pdf
Mirror whitepaper: mirror.finance/MirrorWP.pdf

NEWSCRYPTO.IO

FUNDAMENTAL
ANALYSIS REPORT

@nwcpublic

@nwc_public