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BROKEN ARROWS



For those of you who like bad movies or who came of age in the 1990s, Broken Arrow will ring a bell. That movie involved sabotage and the theft of nuclear weapons. While it's impossible to say that the crypto market is being sabotaged, we've certainly seen a lot of nuclear detonations.

Rumors are swirling that the next mushroom cloud will rise over the remains of Three Arrows Capital, the crypto-focused hedge fund founded in 2012 by Zhu Su and Kyle Davies. During its peak, Three Arrows had an estimated \$10 billion under management.

Three Arrows' woes appear to have started with the Terra collapse, but these woes have turned to tremors with the recent depegging of staked ETH. A derivative of ETH offered by Lido, stETH is the liquid counterpart to ETH staked on the Beacon Chain within the Lido protocol. The underlying Ether is expected to be locked within the protocol for a few months after the Merge.

In March, Aave permitted users to deposit stETH as loan collateral, which seems sensible, as staked ETH is backed 1:1 with Ether. A safe bet it seems, until markets imploded and users rushed to cash out their ETH from liquidity pools. This ETH grab threw the pools out of balance, creating the current depegging of staked Ether and the eventual liquidation of about 400 million USD worth of Three Arrows assets.

Yes, 400 million dollars. Although Three Arrows may avoid total insolvency, the loss of confidence in the crypto market is palpable, at least to some. Terra is all but finished. Celsius appears unable to do any further math. And the next protocol to fall is but a news cycle away. We know we can survive a bear market, but recent news may leave some to wonder whether we can survive a nuclear winter.

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