Navigating the 2024 Bitcoin Halving: Implications and Insights

CRYPTO FINANCE—Membre du GSCGI

With April 2024 almost behind us, the digital asset community is reflecting on the upcoming bitcoin halving event with a mix of excitement and contemplation. The event, marked by the reduction of mining rewards from 6.25 to 3.125 BTC, will unfold, signalling once again the deflationary nature of bitcoin. Its occurrence carries profound implications, reshaping market dynamics and prompting investors to adjust their strategies in response to the altered reward structure.

What Is the Bitcoin Halving?

The bitcoin halving is a scheduled event that occurs approximately every four years (every 210,000 blocks, to be exact). This event is built into the bitcoin protocol to reduce the rate at which new bitcoins are created. It effectively halves the reward that miners receive for adding new blocks to the bitcoin blockchain. Initially, the reward was 50 bitcoins per block; it was first halved to 25 in November 2012, then to 12.5 in July 2016, and in the most recent halving to 6.25 in May 2020. The fourth halving event will take place tomorrow, 20 April 2024, and will reduce the mining reward to 3.125 bitcoins per block.

This reduction not only emphasises bitcoin's scarcity but also reinforces its value proposition as a decentralised digital asset. Consequently, the impending bitcoin halving attracts significant attention from participants across the digital asset ecosystem, as they anticipate its impact on price volatility, miner profitability, and overall market sentiment. This reduction in rewards aligns with bitcoin's deflationary monetary policy, gradually decreasing the rate of new bitcoin creation until it reaches the maximum cap of 21 million coins. It is estimated that the last bitcoins (or satoshis at that point) will be mined around the year 2140. Currently, approximately 19.7 million bitcoins have been mined, leaving about 1.3 million left to be mined and gradually put into circulation over the next 115 years. It is also important to note that common estimates suggest that between 3 and 4 million bitcoins are likely to be lost and out of circulation. Some of the factors contributing to lost bitcoins can be forgotten wallets, lost keys, hardware failures, undisclosed deaths, and transfers to wrong addresses. The inclusion of the halving events in the bitcoin protocol from the very beginning indicates that it was always intended to be a deflationary currency (with a fixed cap), making it attractive as a long-term store of value.

History

Throughout bitcoin's history, halving events have consistently preceded bullish trends, triggering significant price surges and revitalising the crypto market. However, the 2024 halving occurs amidst unprecedented institutional adoption, regulatory shifts, and a global economy increasingly intertwined with digital assets.

What Sets this Halving Apart?

The 2024 bitcoin halving distinguishes itself in several key aspects:

- All-time High Before the Halving: Bitcoin reached a new all-time high in March 2024, over a month before the expected fourth halving event. However, in all previous cycles, the halving event always occurred a few months before bitcoin reached a new all-time high. Does this mean that the investors have a better understanding of how bitcoin works? Is the halving already "priced in"? Only time will tell. What we do know is that past performance is not indicative of future results, and perhaps this cycle is different from others.

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- **Bitcoin ETFs in the US**: A major milestone for bitcoin and the digital asset industry as a whole this year has been the approval of spot bitcoin ETFs. So far, the launch of the spot bitcoin ETFs has been a success. Nearly USD 60 billion in assets are managed across the 11 funds, with all ETF funds experiencing net inflows, with the exception of Grayscale's GBTC. The latter has in fact experienced gradual outflows, likely linked to the very high fees it charges, leading to users opting to move to another fund. Cumulative volume has reached over USD 200 billion in the first three months since the launch. Despite the heavy outflows, Grayscale's GBTC remains the largest ETF by assets under management (around USD 22.1 billion), ahead of Blackrock's IBIT (around USD 18.7 billion) and Fidelity's FBTC (around USD 10.7 billion).

  Data taken from Blockworks' Bitcoin ETF tracker and The Block's Bitcoin ETFs dashboard.

- **Institutional Engagement**: The level of institutional interest and involvement in bitcoin has escalated significantly leading up to the most recent halving. Unlike previous halvings, where retail investors dominated the market sentiment, the influx of institutional players through bitcoin ETFs, corporate investments, and the adoption of bitcoin as a treasury reserve asset by public companies has amplified the halving's impact. These institutional inflows could inject substantial liquidity into the market and potentially mitigate some of the volatility historically associated with halving events.

- **Technological Progression**: Innovations within mining technology and the broader blockchain ecosystem have accelerated, presenting both new opportunities and challenges for miners in the post-halving landscape. Unlike previous halvings, where mining primarily relied on traditional hardware, advancements such as more energy-efficient ASICs (Application-Specific Integrated Circuits) or novel consensus mechanisms like Proof of Stake could redefine the cost-benefit analysis for miners. This could lead to shifts in mining concentration, network security dynamics, and overall efficiency, influencing bitcoin's resilience post-halving.

- **Global Economic Dynamics**: Economic uncertainty and concerns over inflation have intensified in the wake of the most recent halving, making bitcoin's digital scarcity increasingly attractive to investors seeking alternative stores of value. The macroeconomic backdrop, characterised by unprecedented monetary stimulus measures and geopolitical tensions, could further solidify bitcoin's role as a contemporary "digital gold". Unlike previous halvings, where bitcoin's status as a hedge against economic instability was still nascent, the current halving occurs amidst growing recognition of bitcoin's potential as a safe-haven asset, potentially driving stronger demand and price appreciation.

- **Regulatory Environment**: Regulatory clarity and acceptance of digital assets have evolved significantly since the last halving. Governments and regulatory bodies are increasingly engaged in crafting frameworks to govern the crypto industry, with some jurisdictions offering more favourable conditions for bitcoin adoption and innovation. Conversely, regulatory crackdowns or stringent measures could pose challenges for bitcoin's growth post-halving. Unlike previous halvings, where regulatory uncertainty loomed large, this halving takes place amidst a more defined regulatory landscape, shaping market participants' expectations and behaviour.

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- Environmental Concerns: Growing awareness of environmental sustainability has heightened scrutiny over bitcoin's energy consumption and carbon footprint. Unlike previous halvings, where environmental considerations were less prominent, the 2024 halving occurs amidst escalating concerns over climate change and corporate responsibility. Innovations in sustainable mining practices or shifts towards greener consensus mechanisms could emerge as critical factors post-halving, shaping bitcoin's long-term viability and adoption.

Conclusion: Bitcoin, an Attractive Asset

In navigating this transformative phase, investors must exercise vigilance, balancing potential gains with market volatility. Diversification, thorough research, and monitoring global economic indicators are crucial for seizing opportunities while managing risks. As explained in our Outlook 2024 report, bitcoin appears poised for growth throughout the year. Indeed, the combination of the much-anticipated halving event and the popularity of spot bitcoin ETFs in the US makes bitcoin an attractive asset for investment, portfolio diversification, and for gaining exposure to potential bitcoin-related upside movements, sparking discussions around long-term financial planning and digital asset integration.

The 2024 bitcoin halving transcends mere technical adjustments, symbolising a pivotal juncture in digital finance's evolution. By engaging in insightful discourse and embracing the possibilities it presents, we can collectively pave the way towards a more inclusive and resilient financial future.

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