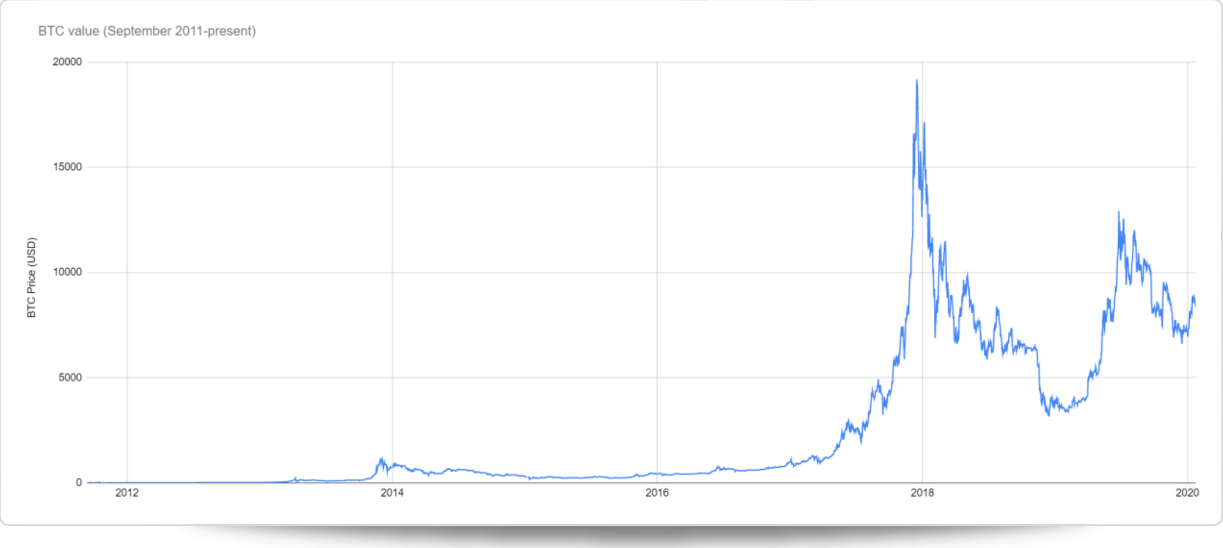
BITCOIN BLOCK REWARD HALVING

Launched in 2009, bitcoin has become the largest cryptoasset by market capitalisation. Since an all-time high of $20,000 in 2017, bitcoin has fluctuated constantly, ending 2019 with a value of c.$7,500.



There is no denying that bitcoin, along with the majority of cryptoassets, experience large swings in price daily, and further to this there is an event happening in 2020 that could have a significant impact on the value of bitcoin in the long term - the Bitcoin block reward halving.

The next Bitcoin block reward halving (or halvening) is forecast to occur sometime in May. What will this mean for bitcoin investors?

In order to understand how the halving could affect the value of bitcoin in the long term, you first need to know how Bitcoin works and what the term 'halving' actually means.

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What is the Bitcoin block reward halving?

Working in the background on the Bitcoin blockchain are what are known as 'miners'. Roughly every ten minutes these miners solve a mathematical problem (find a specific hash) to add a block of transactions to the Bitcoin blockchain. This work is complicated, consumes a lot of electricity, and the hardware required to carry it out is expensive. However, in return, the algorithm rewards the miner with bitcoin(s) – otherwise known as a block reward.

When Bitcoin was created by Satoshi Nakamoto (the anonymous creator of Bitcoin) the block reward was 50 bitcoins, whereas today the reward is currently 12.5 bitcoins. This is because the block reward has already halved twice.

Halving is an event where the block reward decreases by 50 percent, meaning miners receive 50 percent less bitcoin for successfully adding a new block to the Bitcoin blockchain. It is programmed into Bitcoin to occur every 210,000 blocks (roughly every four years currently, although this can change depending on how quickly blocks are added to the blockchain in the future) and will take place until the last bitcoin is mined in or around the year 2140.

It is not known exactly why Satoshi Nakamoto decided to implement this halving feature into the design of Bitcoin. Some have theorised that Nakamoto intended for the unit price of Bitcoin to eventually align with traditional fiat currencies, and rather than pre-mine all bitcoin from the get go, slowly introduce new bitcoin into circulation as the size of the network and levels of adoption increased.

The table below illustrates the controlled supply of bitcoin.

Event	Date	Block number	Block reward	Total new bitcoin created between halvings
First block mined	3 January 2009	0 (genesis block)	50 BTC	10,500,000 BTC
First halving	28 November 2012	210,000	25 BTC	5,250,000 BTC
Second halving	9 July 2016	420,000	12.5 BTC	2,625,000 BTC
Third halving	12 May 2020 (estimated)	630,000	6.25 BTC	1,312,500 BTC
Fourth halving	2024	840,000	3.125 BTC	656,250 BTC
Fifth halving	2028	1,050,000	1.5625 BTC	328,125 BTC
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Final halving	2041	6,930,000	0 BTC	0 BTC

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How halving affects the bitcoin price?

Looking at the price movement of bitcoin over the last decade (on the chart below), we can clearly see that following each halving the price has rallied exponentially making all-time highs in the process.

The theory to this positive impact on price revolves around the principle of supply and demand. The halving means that fewer bitcoins are being created, and this scarcity makes existing coins more valuable.

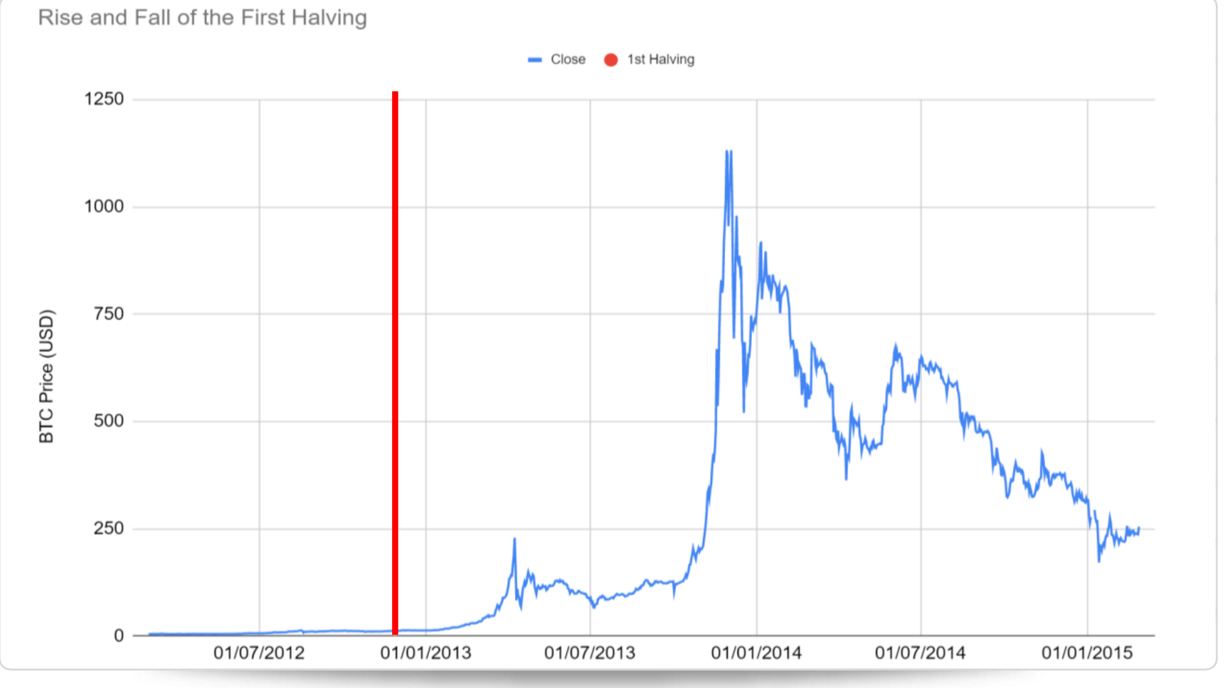
The halving also has a financial impact on miners. With half as many new bitcoins being generated each day by the same computing effort, this reduces the revenue that the miners are earning. Mining bitcoin is a business, which of course has overheads generally covered by selling newly generated bitcoin on the market, so it's also in the miners best interest to see an increasing bitcoin price.

If bitcoin prices did not increase inline with the decrease in the block reward it could mean miners switching their computing power to 'mine' other cryptoassets rather than bitcoin, or going out of business altogether due to mining bitcoin no longer being profitable.

Looking back at previous halvings

Taking a look back at the first halving event which occured on 28th November 2012. At the time of the first halving one bitcoin was being sold for around $11. It was not until the start of 2013 that the price started to climb parabolically, reaching a then all-time high of $1,150 before crashing and settling at around $220.

The price increase from $11 to $1,150 represented a 10,300% gain in price.



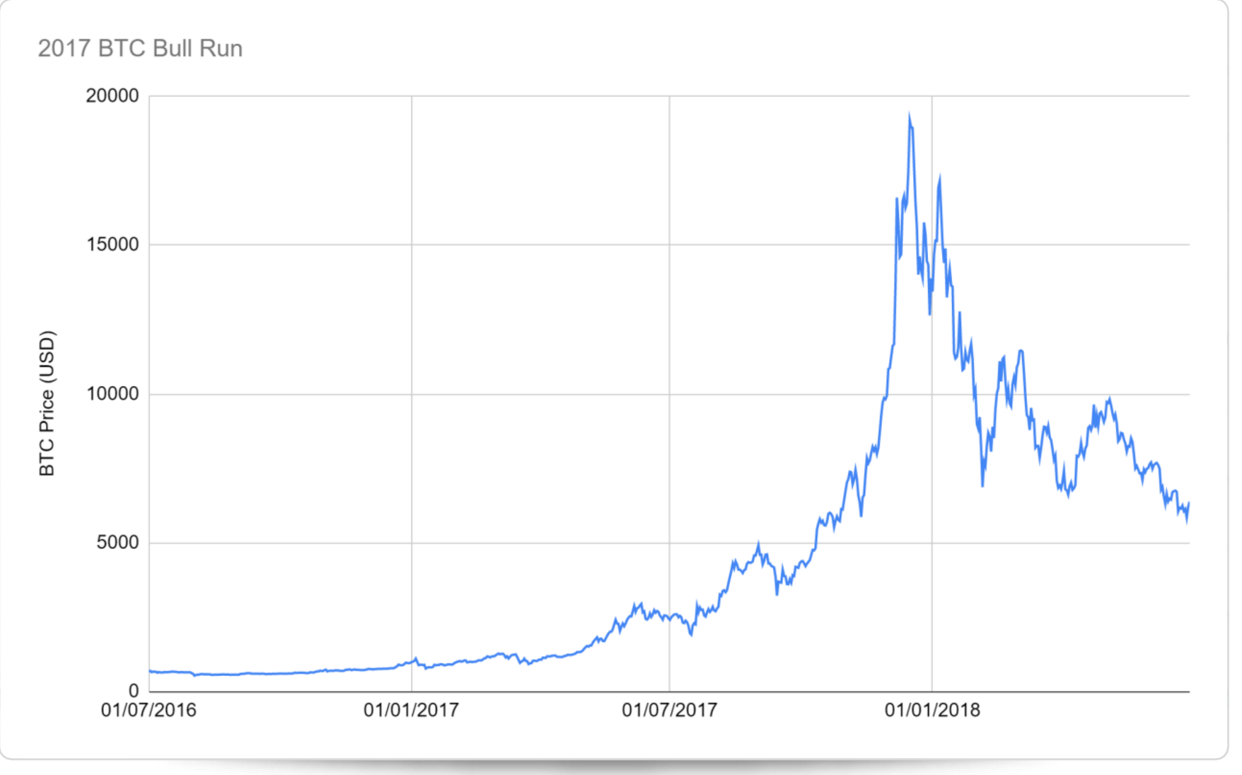
2013 bitcoin Bull Market

The second halving took place in the summer of 2016, 9th July to be precise, and saw the price of bitcoin remain stable in a range of $580-$700 for a number of months following the halving before slowly rising towards the end of the year.

While it was generally expected that the price would rise at some point following the 2016 halving, few anticipated that the price of one bitcoin would hit $20,000.

This price rise from a monetary value point of view was phenomenal, and was almost certainly the catalyst for the more widespread interest in crypto as an investable asset in late 2017.

In the years that have followed from reaching the all-time high of $20,000 in late 2017, the price has fallen back, but these two halving events have set a precedent for what could potentially take place later on this year.



2017 bitcoin Bull Market

What can we expect in May 2020?

It is not easy to predict the future performance of any asset, let alone one like bitcoin. While past performance should never be relied upon as an indication of future returns, perhaps one might remember this quote from Mark Twain "History doesn't repeat itself, but it often rhymes". After all the bitcoin bull markets of 2013 and 2017 followed the halving events of 2012 and 2016 respectively.

With the halving happening in 2020 could we see the emergence of the next bull market in bitcoin and a new all-time high being formed in 2021? It is certainly possible, however it is also important to consider, as well as the halving, there are other variables at work that could also affect the future price of bitcoin. These include heightened public awareness, interest from financial institutions, regulation and adoption to name a few.

For those awaiting the halving event – sit tight and fingers crossed.