

Global Equities

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Block 840,000 - the imminent Bitcoin halving

It was 31 October 2008 when an individual or group using the pseudonym 'Satoshi Nakamoto' published a white paper, proposing a new peer-to-peer network electronic cash system with no trusted party. This has grown in popularity and become a mainstream name – Bitcoin. Although never fully taking off as an alternative electronic cash system to fiat currencies, it has been likened to digital gold due to its store of value and scarcity.

What is Bitcoin?

Bitcoin is a decentralised cryptocurrency where transactions are verified on a peer-to-peer network. These transactions are recorded on a block, which are linked together to form a ledger known as a blockchain. Bitcoin specifically uses the Proof of Work (PoW) consensus mechanism for nodes to agree on the state and validate transactions. PoW is a computationally and power intensive process, with an algorithm rewarding participants' Bitcoin for solving cryptographic puzzles to validate transactions and create new blocks, a process conducted by miners and known as mining.

Halving

One of the unique aspects of Bitcoin is the halving mechanism, which is designed to regulate the supply. Originally, each block reward for miners were 50 bitcoins. However, every 210,000 blocks (approximately every four years), a halving event occurs whereby miners' issuance rewards are halved. Block 840,000, expected to be on 19 or 20 April 2024 will see the fourth halving event in the history of Bitcoin. Miners who successfully verify and add a block will see their rewards decrease from 6.25 bitcoins to 3.125, reducing new BTC issuance from roughly 900 to 450 per day. This potentially could lead to an increase in the price of Bitcoin, if the demand remains constant or increases, while the rate of supply slows.

Bitcoin Halving	Block	Block Reward (BTC)	Date
Genesis Block	1	50	09-Jan-09
First Halving	210,000	25	28-Nov-12
Second Halving	420,000	12.5	09-Jul-16
Third Halving	630,000	6.25	11-May-20
Fourth Halving	840,000	3.125	19/20 April 2024 (estimated)
Fifth Halving	1,050,000	1.5625	April 2028 (estimated)
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Source: Liontrust

With approximately 32 halving events, block rewards are expected to end in the year 2140, when all 21 million bitcoins would have been mined. From that point forward, miners will earn solely through transaction fees. It's important to note that although Bitcoin has a cap of 21 million, the actual

number is less, with current estimates indicating that over 10% of the supply is already inaccessible due to lost or forgotten keys.

What direct impact will the halving have on miners? Miners could potentially see their revenue halve while their operational costs remain the same. To counter this, mining companies have been pushing efficiencies to stay ahead and reducing their debt, aided by historically high revenues. Furthermore, increased activity on the blockchain has added a revenue stream that accounts for around 10% of total miner revenues. Some miners are also expanding to diversify into other areas, such as allocating a portion of their computing power for AI.

What's next?

From being a niche digital currency to a defined asset class, with approximately one in five Americans owning crypto, the future appears bright. Bitcoin has experienced a surge in retail and institutional activity following the announcement by the US Securities and Exchange Commission (SEC) in January approving the long-awaited Bitcoin ETFs (exchange traded funds). To date, the total fund assets in these ETFs has reached \$56.2B, representing about 4.4% of Bitcoin supply.

Although the crypto scene can sometimes resemble the wild west, particularly with high-profile scandals, progress is being made in establishing a regulatory framework for crypto. A prime example is the recent Markets in Crypto-Assets Regulation (MiCA) in the EU, which came into force in June 2023 and is expected to be fully applied by the end of 2024.

Overall, while still in its early stages, it is clear crypto is becoming an increasingly significant part of our world. Bitcoin, as the pioneer, has inspired the creation of new blockchains that are more scalable and have added utility, such as decentralised apps and smart contracts. Despite this, Bitcoin's dominance continues to hold as the original truly decentralised blockchain.

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