



BITCOIN HALVING

2020

Bitcoin halving

Bitcoin supply is finite; there will only ever be 21 million bitcoins in existence. This month, we'll see bitcoin miner's rewards halve from 12.5 to 6.25 for every block mined. This is the third such occurrence, and will mean just 900 bitcoins will be mined daily from the May halving until the next such event in 2024.



Dr Omri Ross
Chief Blockchain Scientist



"The Bitcoin halving is a fundamental event presented in the original whitepaper, through which the currency becomes 'deflationary'. Halving every approximately four years allows the Bitcoin protocol to have a limited supply of roughly 21m as it reduces the production of new bitcoins by half. That leads to three interesting phenomena: it makes bitcoin a scarce resource, it halves miners' compensation from one moment to the next, and reduces the sell pressure on bitcoin as less new bitcoins are minted by miners and then sold to others."



Simon Peters
Market Analyst



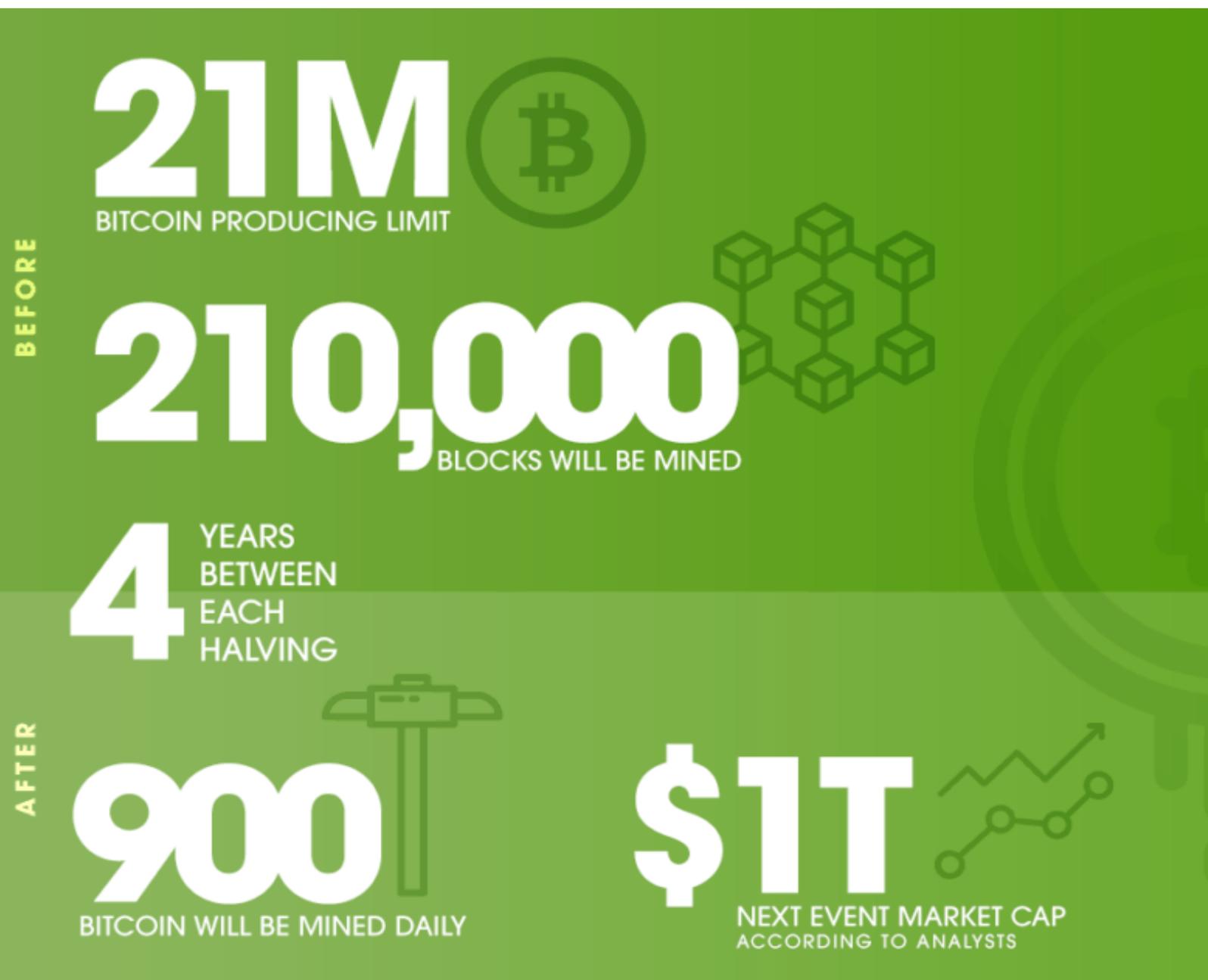
"The crypto industry has matured since the 2017 price rally, with talks of regulation, institutional investors entering the market and even central banks expressing an interest in the asset class. Combine this with another price rally expected after the 2020 halving, and we could be on the precipice of crypto becoming a mainstay of investors' portfolios in the same way as stocks, bonds and commodities."

Price action ahead of the halving:

"It's really difficult to say exactly what will happen to bitcoin's price ahead of the halving given that a single market order can change the whole technical picture. I'm 75% confident we'll stay in this range-bound zone between \$8,500 - \$9,500, with a 20% chance bitcoin will break the \$10,000 threshold and about a 5% chance we'll see bitcoin fall back to \$7,000.

"The \$8,500 level seems to be holding as support in the short term and, with on-chain metrics suggesting miners are holding at this time, there is room for a price increase. However, the price is pretty overbought given we've seen a near 30% move in the last two weeks. So those that have benefited from this rally may look to sell in the short term and realise these gains."

Simon Peters, eToro Market Analyst



Expert Q&A

Is bitcoin highly undervalued/overvalued at its current price? Is its mid-to-long outlook more bullish?

“If you look at where the price has been previously — around the \$20,000 mark — and where it has the potential to be given inflation in traditional markets, not to mention bitcoin’s scarcity characteristics, then I would suggest that bitcoin is undervalued. What other asset class has the potential to generate this type of return on investment, especially if you have time on your side?”

Simon Peters, eToro Market Analyst

Why is bitcoin currently outperforming S&P 500 for the first time since equity sell-off?

“The three major US stock indices plunged by more than 2% on Friday, bitcoin continued to rise.

“Recent price activity has shown that, while the halving itself was always likely to drive the price up, the bitcoin bulls are positioning themselves well ahead of time. The closing of some large short positions at the end of last week drove prices over \$9,000 and the community is speculating that we could hit the \$10,000 mark before the halving has even happened.

“As for how high it can go longer term, amid the deteriorating economic outlook for the US economy and the likelihood of an ever increasing monetary supply — which weakens the US dollar and stokes inflation fears — I believe it could easily test previous highs above \$19,000 as investors look for safe havens away from traditional assets.

“This once again has ignited the debate around bitcoin as a form of digital gold. The weak earnings reports and rising geopolitical tensions seem to have had a positive impact on the current bitcoin price.”

Simon Peters, eToro Market Analyst

How different will the bitcoin halving be this time round, compared to previously?

“Whilst the mechanisms of this bitcoin halving will be the same as previous ones in 2012 and 2016, the development stage at which crypto finds itself today is very different.

“The demographics of crypto investors have changed, there is more talk of crypto regulation and even central banks are launching their own central bank digital coin projects. The amount of institutional investment in crypto has increased and we are seeing more real world use cases to spend crypto, including buying burgers at Burger King.

“Add to this the current impact that COVID-19 is having on the world and people’s investment choices, and it’s not hard to see that the context in which this bitcoin halving will occur is very different from its previous ones.”

Nemo Qin, eToro Senior Market Analyst

Will the halving of bitcoin impact the price of other cryptoassets? If yes, how so?

“Bitcoin is still the most dominant cryptoasset in terms of market cap and popularity to date and accounts for around 65% of total crypto market share. As such, other cryptoassets tend to track its price movements. We have seen price correlation between some cryptoassets and bitcoin over the years, but as more investors realise all cryptoassets have their own use case and not all are designed to be currencies, this correlation is weakening.”

Nemo Qin, eToro Senior Market Analyst

What will it take for bitcoin to become a mainstream investment instrument?

“A number of ingredients are needed to make crypto a more palatable investment for a lot of people. Firstly, the asset class needs more regulation. We have seen some regulatory measures, such as 5MLD, put in place to try and align crypto with other traditional asset classes, but there is still some way to go.

“Secondly, developments in custody and insurance solutions for crypto will lead to wider adoption. One of the main challenges of having a deflationary asset (which most cryptoassets are) is that investors have to pay for, or otherwise forgo, services like custody and insurance, meaning it costs them to hold the asset in a secure way. This creates a challenge for businesses like custodial exchanges such as eToro who are paying to hold and insure customers' assets for them.

Staking protocols offer a mechanism to crypto similar to how US treasury interest is earned from USD, in that it generates interest on top of the asset, if held as part of a staking pool. This interest can be used to offset custody and insurance costs and still offer positive returns for most investors. If more cryptoassets are switching to a proof of stake mechanism, this will incubate the growth of custodian and insurance infrastructure.

“Lastly, growth in stablecoins, tokeniation of traditional assets and providing settlement and clearing services based on blockchain technology will help build the required infrastructure from merchants and service providers to accept crypto as payment. Overall this will help transform the traditional financial ecosystem.”

Omri Ross, Chief Blockchain Scientist

What has been the impact of COVID-19 on bitcoin and crypto ?

“At the start of the coronavirus pandemic, we saw crypto markets track traditional asset classes and, in March, bitcoin’s price plummeted to 12-month lows of less than \$4,000. Since the Federal Reserve announced unlimited quantitative easing measures to try and rescue the US economy, as with gold, the price of bitcoin has rallied, suggesting investors view crypto as a hedge against a depreciating dollar.

“Since the Fed announced its unlimited quantitative easing measures back in March, the number of people whose first investment action on eToro is to buy bitcoin has increased by 77% globally.”

Simon Peters, eToro Market Analyst

Notes to editors: Cryptoassets are volatile instruments which can fluctuate widely in a very short timeframe and therefore are not appropriate for all investors. Other than via CFDs, trading cryptoassets is unregulated and therefore is not supervised by any EU regulatory framework, including the FCA. Your capital is at risk. Past performance is not a reliable indicator of future results.