

Supply reduced by half, how 'chaotic' will the bitcoin market be?

From joy to confusion, those who follow the cryptocurrency market know that the halving event - the halving of the amount of Bitcoin (BTC) in circulation - can push the price of bitcoin to skyrocket but can also drag it down. The value of this property has gone downhill...



Every four years, a halving event occurs, cutting the cryptocurrency supply in half to create a scarcity effect, making BTC literally 'digital gold'.

Antoni Trenchev, Co-Founder of crypto exchange Nexo, said: 'halving is the most important event for bitcoin enthusiasts, but the 2024 iteration will take it to the next level because of its source. Reduced supply combined with new ETF demand creates an explosive cocktail'.

'This halving is special because bitcoin has surpassed its previous cycle high. Something that has never happened at each event every four years. So trying to predict the length and severity of this cycle becomes much more difficult,' Antoni Trenchev emphasized in an interview with CNBC.

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Following the BTC halvings in 2012, 2016, and 2020, bitcoin prices increased approximately 93x, 30x, and 8x, respectively, from the price on the day of the halving to the peak of the cycle. Past performance is not indicative of future returns and some even warn that when dealing with a smaller supply every four years, there is no evidence that previous halvings have caused bitcoin prices increase.

However, Steven Lubka, head of private client and family office at Swan Bitcoin, said 'if there was ever a time to be a bit more optimistic' about post-halving returns it is this year.

Antoni Trenchev added: 'This bitcoin bull cycle happened earlier due to the approval of spot ETFs in January. And the event is likely to be shorter and more explosive, peaking at the end of the year 2024 or early 2025'.

Whether you want to gain a deeper understanding of bitcoin as a new, deflationary asset or simply want to speculate on bitcoin's price in the coming weeks, here's what you need to know about the halving and its potential impact of this event in the market.

HALVING 2020 EVENT CAUSES MINING REWARDS TO DECREASE FROM 50 BTC TO 6.25 BTC

Halving is a change in bitcoin's underlying Blockchain technology, designed to reduce the rate at which bitcoins are issued and circulated, which typically occurs approximately every four years. So how is BTC created?

Using computing power, miners solve complex mathematical puzzles to build a blockchain and earn rewards in the form of new bitcoins. When halving, the number of bitcoins available as a reward to miners is reduced by half. This makes mining less profitable and slows down the production of new bitcoins.

Miners have two incentives to mine: a transaction fee voluntarily paid by the sender (for faster settlement) and a mining reward – 6.25 newly created bitcoins, equivalent to about 437,500 USD (calculated value). to the middle of last week).

In the near future, from April 18 to April 21, the mining reward will be reduced to 3,125 bitcoins. Previously, the 2020 halving event caused the mining reward of 50 bitcoins to decrease to 6.25.

Reducing block rewards leads to a reduction in bitcoin supply by slowing the rate at which new coins are created. A finite supply helps maintain bitcoin's value just like digital gold. Ultimately, the number of bitcoins in circulation will still only reach 21 million.

ANTICIPATE IMPACT ON THE MARKET

The halving is like a switch being flipped at a specific time. Experts say that the upcoming event is bound to have volatility caused by speculators trading during the event, so investors should not confuse that with the ongoing technical change .

'I don't think we'll see a big move, but even if there was a big move, it wouldn't have anything to do with the halving. However, in the following months, about \$30 million less bitcoin was sold each day. That can add up quickly and create an impact over that period of time,' said Antoni Trenchev, Co-Founder of cryptocurrency exchange Nexo.

Meanwhile, Steven Lubka, head of private client and family office at Swan Bitcoin, said 'one important thing investors need to understand about the halving and its potential impact' to the market are miners selling so many bitcoins that they get paid to pay their daily bills.

He emphasized: 'These are businesses that have to spend a lot of energy and other things to do their work and they are spending a lot of budget. Mining companies are constantly selling the bitcoins they mine just to cover costs. When that amount is cut in half, there is no other way: The number of bitcoins sold from miners is only half.'

BTC VALUE MAY INCREASE AFTER THIS YEAR'S HALVING

Bitcoin always skyrockets in the months following the halving. That is why this day has become an event celebrated by many people. However, according to CNBC, each time mining rewards and bitcoin supply shrink, profits from halving day to the peak of the cycle also decrease.

The co-founder of cryptocurrency exchange Nexo said: 'Bitcoin's ending after each halving is the ultimate sport. What we know is that every post-halving price increase has seen diminishing returns'.

In contrast, Steven Lubka, head of private client and family office at Swan Bitcoin, said that trend could reverse this year, although it is not the result of a source shock. supply but due to a new demand shock. According to CryptoQuant, thanks to the advent of bitcoin exchange-traded funds, demand for cryptocurrencies is greater than ever.

Data shows that historically, demand for bitcoin by 'whales' (including OG bitcoin users, new investors, and Bitcoin ETF holders) spikes after each halving, causing prices to surge. This year, however, whale demand is already at an all-time high and the block reward hasn't even been cut yet.

Julio Moreno, head of research at CryptoQuant, said: 'The previously significant impact of the halving on prices has diminished, as new bitcoin issuance has become smaller compared to the total number of bitcoins available. available for sale. On the contrary... bitcoin demand growth appears to be the main driver of higher prices post-halving'.

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