

Halving

The Bitcoin “halving” is quickly approaching, [countdown clock](#).

Bitcoin’s supply is fixed, only 21 million coins will be mined, once that is done the network will stop producing more. That is one of the main reasons Bitcoin is often referred to as “digital gold” given its scarcity factor. Today there are around 18.5 million BTC in circulation, which is roughly 86% of the total cap. Since the creation of the protocol, which has been coded into the blockchain from the very start, after every 210,000 blocks it performs the so-called Bitcoin “halving” and producing new coins becomes more difficult over time. More specifically, the protocol cuts the block reward in half. So, every time a Bitcoin halving occurs, miners begin receiving 50% fewer BTC for verifying transactions.

A block reward is the amount of cryptocurrency that miners receive when they successfully validate/mine a new block by solving highly complex mathematical problems with their mining hardware. It is a reward for their hard work and to keep the ledger updated at all times. The block rewards started at 50 BTC every approximately 10 minutes, this was reduced in 2012 to 25 BTC, then again in 2016 to 12.5 BTC and in May it will go down to 6.25 BTC per block. The very last halving is expected to occur sometime in the year 2140 as the 21-millionth BTC is mined. Once that happens, miners will stop receiving block rewards, but will keep receiving transaction fee.

At this point, the majority of Bitcoin mining is performed by giants like Bitmain which validates blocks with thousands of loud, extremely powerful and high-energy-consuming machines called ASIC (application specific integrated circuit) chips, which are much more efficient. Question now is if the smaller miners will remain profitable mining with half of the rewards. As the block reward becomes less significant, mining rigs that are barely covering production costs will be forced to quit the market. There will still be firms willing to mine Bitcoin at the reduced rate, but the market might become less decentralized as a result.

Essentially, Bitcoin halving cuts down the supply of BTC, making the asset scarcer. If the demand is constant, the price is likely to increase. There are also some historical precedents. On Nov. 28, 2012, the day of Bitcoin’s first halving, the cryptocurrency’s price rose from \$11 to \$12, and continued to climb up throughout the next year, reaching \$1038 on Nov. 28, 2013. Roughly four years later, a month before the second halving, Bitcoin’s price started to follow a similar, bullish pattern. It surged from \$576 on June 9 to \$650 on July 9, 2016 — the day the block’s reward was reduced by half for the second time in the asset’s history. Again, BTC continued to accelerate through the next year, albeit with occasional turbulence, and traded at \$2526 on 9 July 2017.

One would think that with Efficient Market Hypothesis, this should be fully priced, but only time will tell. Moreover, the industry has drastically changed over the last four years, as cryptocurrencies became an essential part of mainstream media coverage. Still, some people might be tempted to take the chance, especially given the previous patterns exhibited around Bitcoin halvings. Consequently, if history repeats itself and the Bitcoin price starts going up in April 2020, even more traders might start buying the asset out of FOMO (fear of missing out) thus stimulating the demand, and, ultimately, the price. This is not trading advice, trade at your own risk.