Economics & Strategy

Crypto Digest

Here comes Bitcoin "halving"

A publication on trends and outlook in the world of private digital currencies

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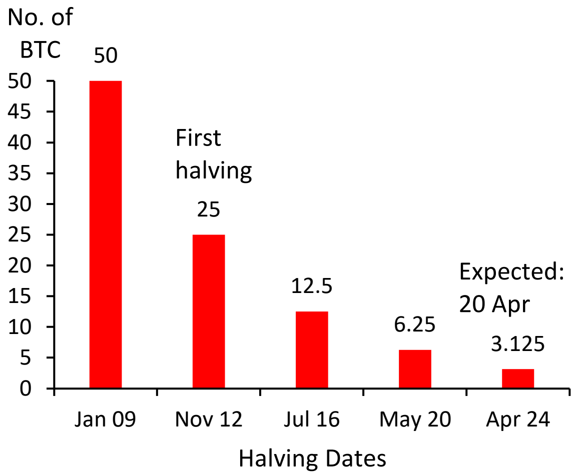
- *Bitcoin halving, a predetermined reduction of mining reward every four years, will occur this week.*
- *Bitcoin had historically posted strong 1Y returns following previous halving episodes.*
- *The current Bitcoin rally is likely supporting sentiment towards other cryptocurrencies, including Ether.*

Watching Bitcoin's halving and ETF inflows

Mining reward per successful block addition since Bitcoin inception



Source: Bloomberg, DBS

The reward for Bitcoin mining is predetermined to halve after the addition of every 210,000 blocks. This week, Bitcoin will hit its fourth halving milestone around 20 April and its mining reward will fall from 6.25BTC to 3.125 BTC. Historically, Bitcoin has delivered strong returns a full year after its three halving events so far. Even if there were losses in the short-term, they tend to be relatively small. Higher Bitcoin prices could be a necessary outcome to attract miners given the smaller mining reward, without a change in the mining difficulty. Galaxy Digital estimates that between 15% to 20% of Bitcoin's current hash rate could go offline after halving, due to lower economic efficiency.

Bitcoin returns post-halving

Months from halving	Nov 2012	Jul 2016	May 2020
1M	8.7	-10.2	14.3
3M	151.8	-6.5	35.2
6M	934.9	47.0	71.8
9M	772.6	70.7	338.4
12M	8447.2	282.6	559.0

Source: Bloomberg, DBS

Even with Bitcoin's ytd rally due to heavy ETF inflows, prices have not significantly outpaced transactions growth. Bitcoin's Network Value to Transactions (NVT) ratio had remained stable at around 149 across Jan-Mar, with transactions of around 11m-15m per month. Meanwhile, HK SFC is reportedly preparing to approve Bitcoin ETF applications by the HK units of some of the largest Chinese asset managers this month. This will see Hong Kong becoming the first Asian city to offer spot Bitcoin ETFs, following the success of futures ETFs traded in HK since late 2022. Bitcoin's 2024 rally has likely supported sentiment towards other cryptocurrencies such as Ether, given their high return correlations.

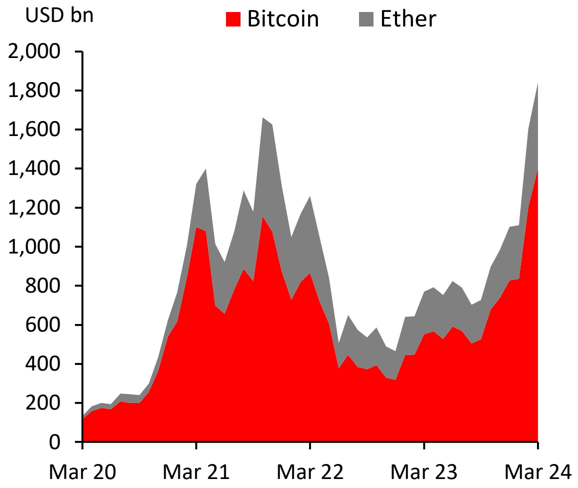
Asset market returns and correlations

Market prices, capitalization, and returns

USD	Bitcoin	Ether	S&P500	Gold
Price*	71,334	3,648	5,254	2,230
Market capitalization (trn)	1.4	0.4	45.9	15.0
Monthly return (%)	16.6%	9.2%	3.1%	9.1%
Year-to-date return (%)	68.8%	59.9%	10.2%	8.1%
1Y return (%)	150.5%	100.2%	27.9%	13.2%
5Y return (%)	1637.6%	2477.7%	85.4%	72.5%

Source: Bloomberg, Coinmarketcap, DBS *As of end-Mar

Cryptocurrencies Market Capitalization



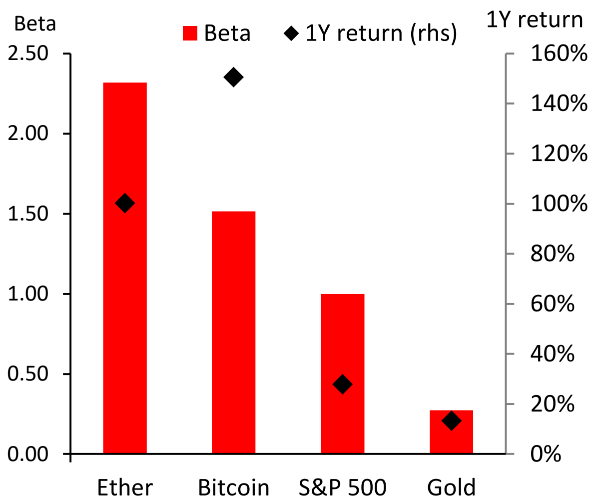
Source: Bloomberg, DBS

Crypto 5Y return correlations

	Bitcoin	Ethereum	S&P500	Gold
Bitcoin		0.78	0.45	0.20
Ethereum	0.78		0.52	0.18
S&P500	0.45	0.52		0.26
Gold	0.20	0.18	0.26	

Source: Bloomberg, DBS

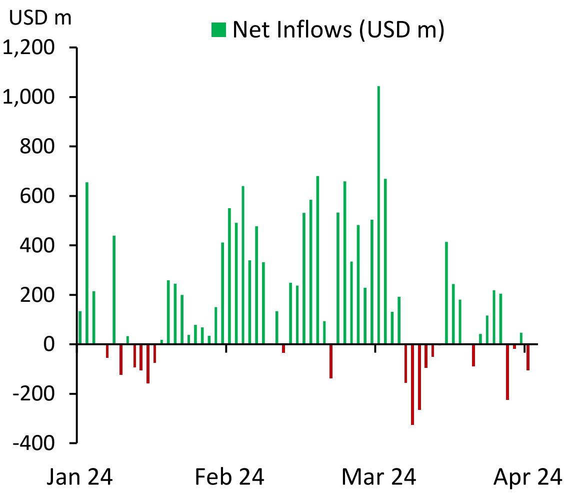
5Y CAPM betas vs 1Y spot return (%)



Source: Coinmetrics, DBS

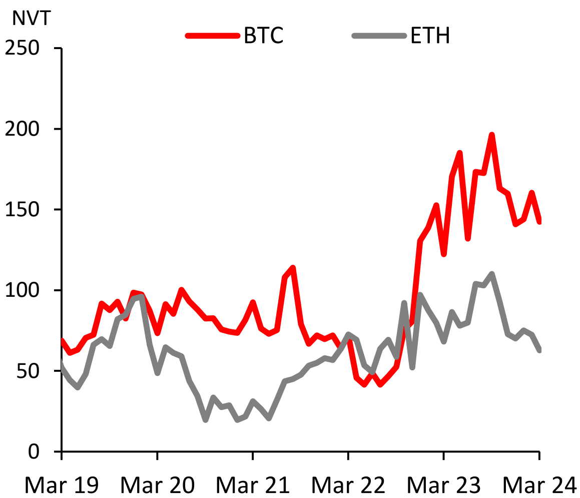
ETF inflows and crypto network metrics

US Bitcoin ETF net inflows (USD m)



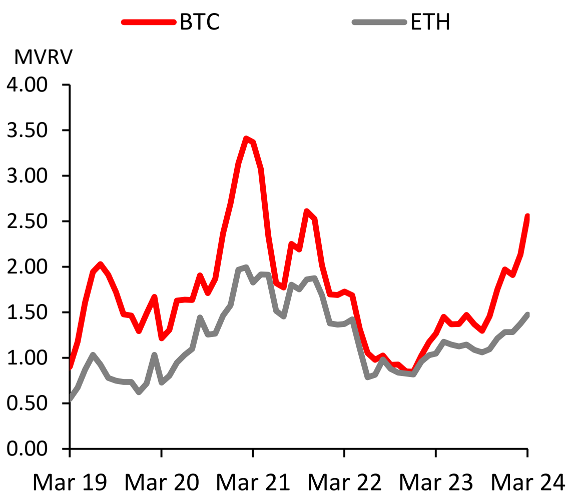
Source: Coinmetrics, DBS

Network value to transactions ratio (adj.)



Source: Coinmetrics, DBS

Market value to Realized value ratio



Source: Coinmetrics, DBS

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