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Halving handbook: A primer for institutional investors

Overview

The next Bitcoin halving will happen in mid-April 2024. This event will cut in half the amount of bitcoin awarded to miners for validating transactions. Halvings are an important feature of the Bitcoin network's design that are meant to limit inflation by reducing the supply of new bitcoins entering circulation.

Halvings take place each time 210,000 blocks have been mined, which happens roughly every four years. The upcoming halving will be the fourth in Bitcoin's history. Because the halving takes place automatically when a specific block is mined, in this case the 840,000th block, the exact timing is variable (dependent upon the network's hash rate). When the next halving takes effect, miners' block rewards will drop from 6.25 BTC to 3.125 BTC.

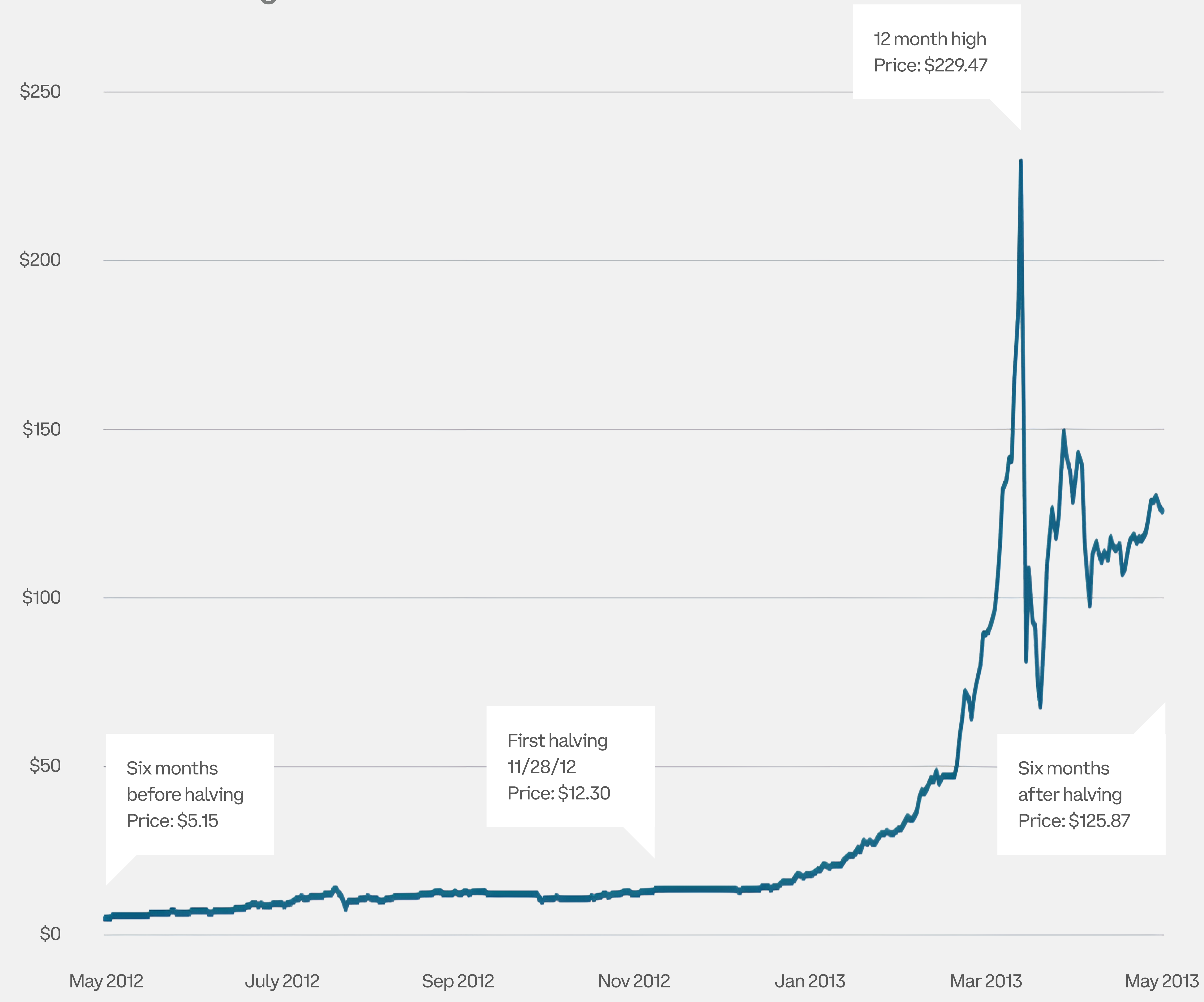
Halvings will continue to take place on the same schedule until all 21 million bitcoin have been mined, which is estimated to happen sometime around the year 2140. The fixed halving schedule affords bitcoin its unique status as a programmatically disinflationary asset.

Looking back at the previous halvings

Bitcoin's prior halvings took place in November 2012, July 2016, and May 2020. Because halvings reduce the supply of new bitcoins, they are often viewed as bullish for the price of BTC. Price action around prior halvings supports this view: bitcoin gained an average of 61% in the six months leading up to prior halvings, and rose an average of 348% in the six months after halving. But, by digging deeper into these numbers, it's clear that not all halvings are created equal.

Bitcoin traded up 139% in the six months leading up to the first halving and then rocketed 923% higher in the six months post-halving. Of course, these were early days for bitcoin, which was trading at just over $5 six months prior to that halving, and the performance around subsequent halvings hasn't been nearly as strong.

First Bitcoin Halving: One Year Window

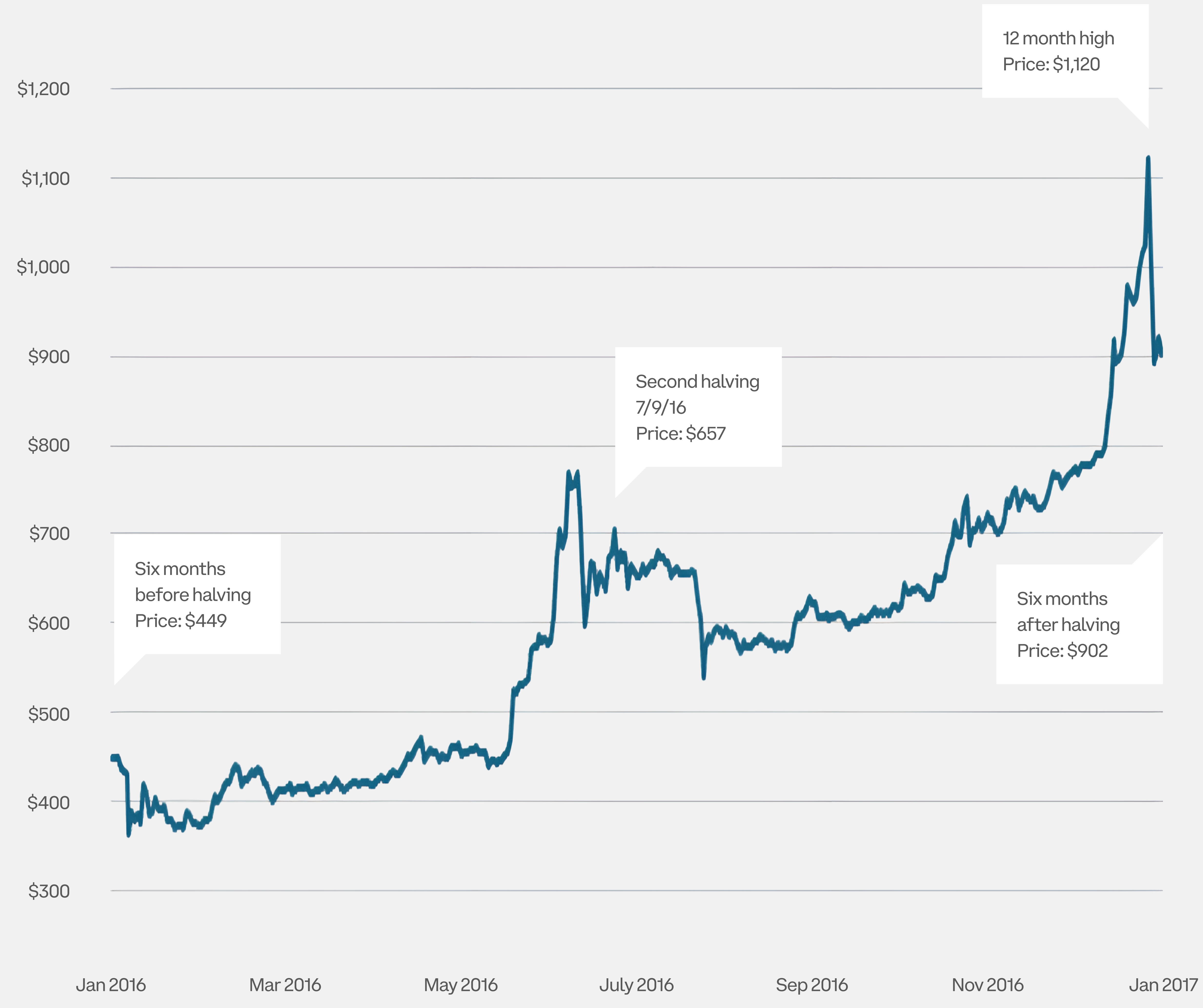


Source: Glassnode

Looking back: Second halving

In the second halving, performance moderated quite a bit. Bitcoin traded up 46% in the six months leading up to halving and another 37% in the six months that followed.

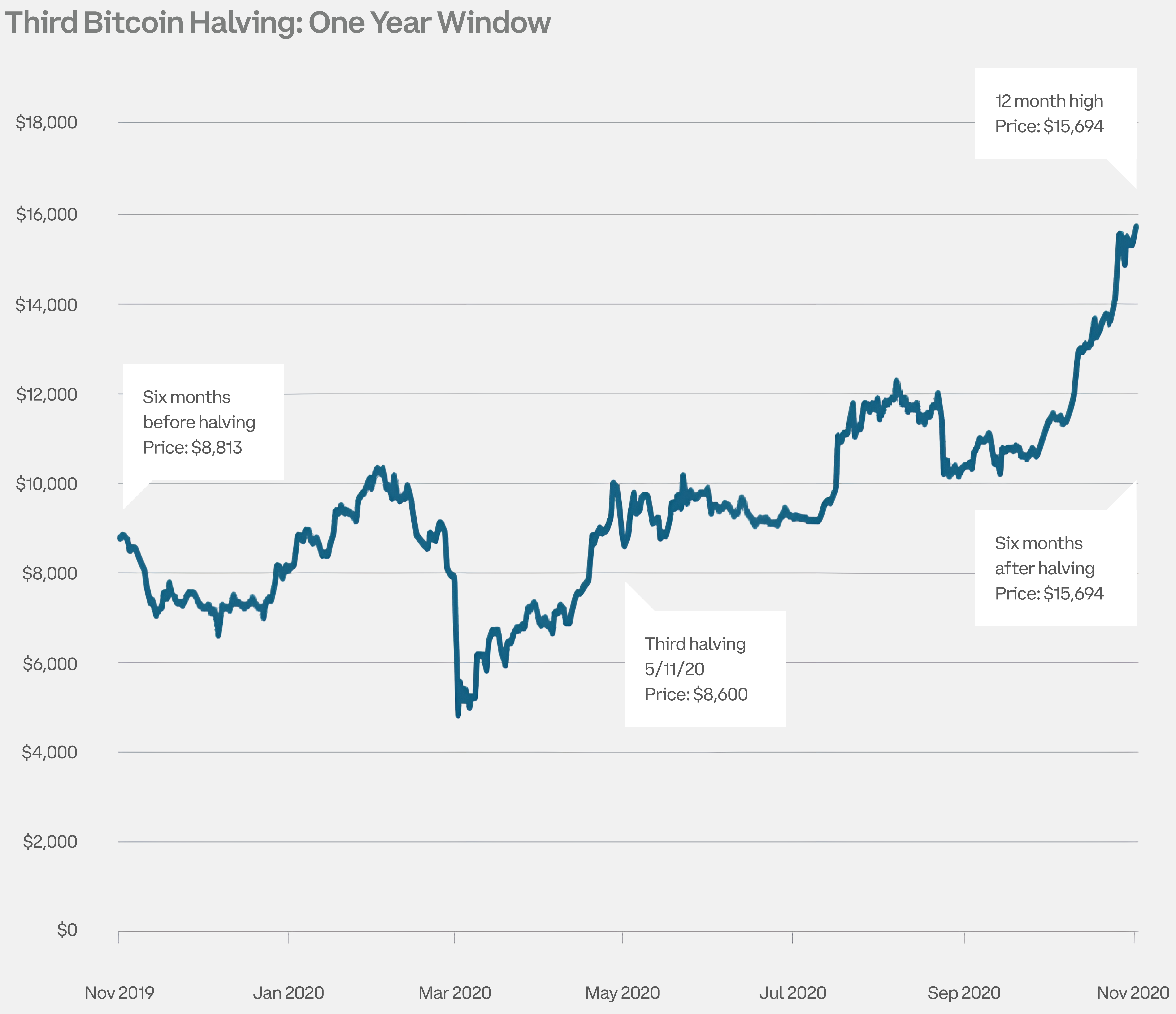
Second Bitcoin Halving: One Year Window



Source: Glassnode

Looking back: Third halving

The third Bitcoin halving continued the trend of more modest, but still strong, performance. BTC actually fell 2% in the six months prior to halving, but it then gained 82% in the next six months.



Source: Glassnode

Assessing the upcoming halving

Given prior history, it would be easy to extrapolate that bitcoin's strong recent performance (up 157% since mid-October) will continue up to and after the upcoming halving, but investors should be cautious about accepting this view at face value.

While it's possible that the halving could have a positive impact on bitcoin's performance, there's still only limited historical evidence about this relationship, making it somewhat speculative. What's more, bitcoin doesn't operate in a vacuum: its price is affected by factors far removed from crypto-specific influences such as halvings.

Measuring macro impacts

Much of bitcoin's strong performance after the last halving in May 2020 came in an environment with extraordinarily loose monetary policy and historically strong fiscal stimulus in response to the Covid-19 pandemic.

Similarly, it's likely that much of BTC's recent rally was driven more by enthusiasm about the prospects for spot bitcoin ETFs than by excitement over the halving. Looking ahead, there are a number of macro factors that are likely to have a meaningful impact on bitcoin prices as well.

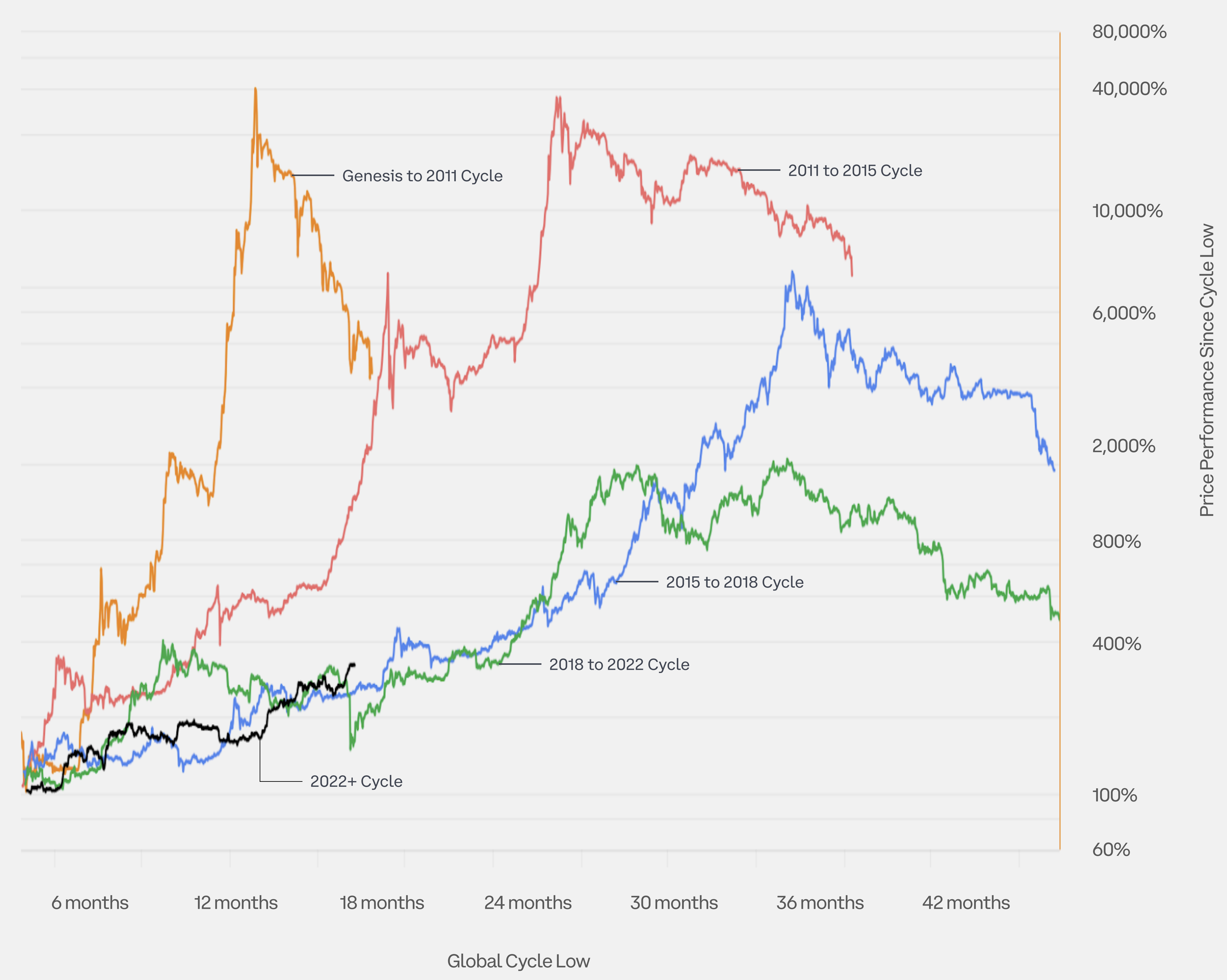
On the bullish side, we expect the U.S. Federal Reserve to start cutting rates as early as May and to begin tapering its quantitative tightening program soon after. On the other hand, we could see increased selling from miners (as a proportion of their rewards) and from companies that are emerging from bankruptcy, including former crypto lenders Celsius Network and Genesis Global.

Assessing onchain analytics

Besides these macro factors, it can also be instructive to look at onchain metrics to gain insight into some of the technical factors that may impact prices in the near term.

In addition to looking at how BTC has performed in the windows around prior halvings, it can be helpful to zoom out to assess where the market is in the broader bitcoin cycle. Since its genesis in 2009, bitcoin has completed four market cycles. The current cycle most closely resembles the period from 2018-2022, during which bitcoin gained 500% from its cycle low.

BTC Price Performance SInce Cycle Low

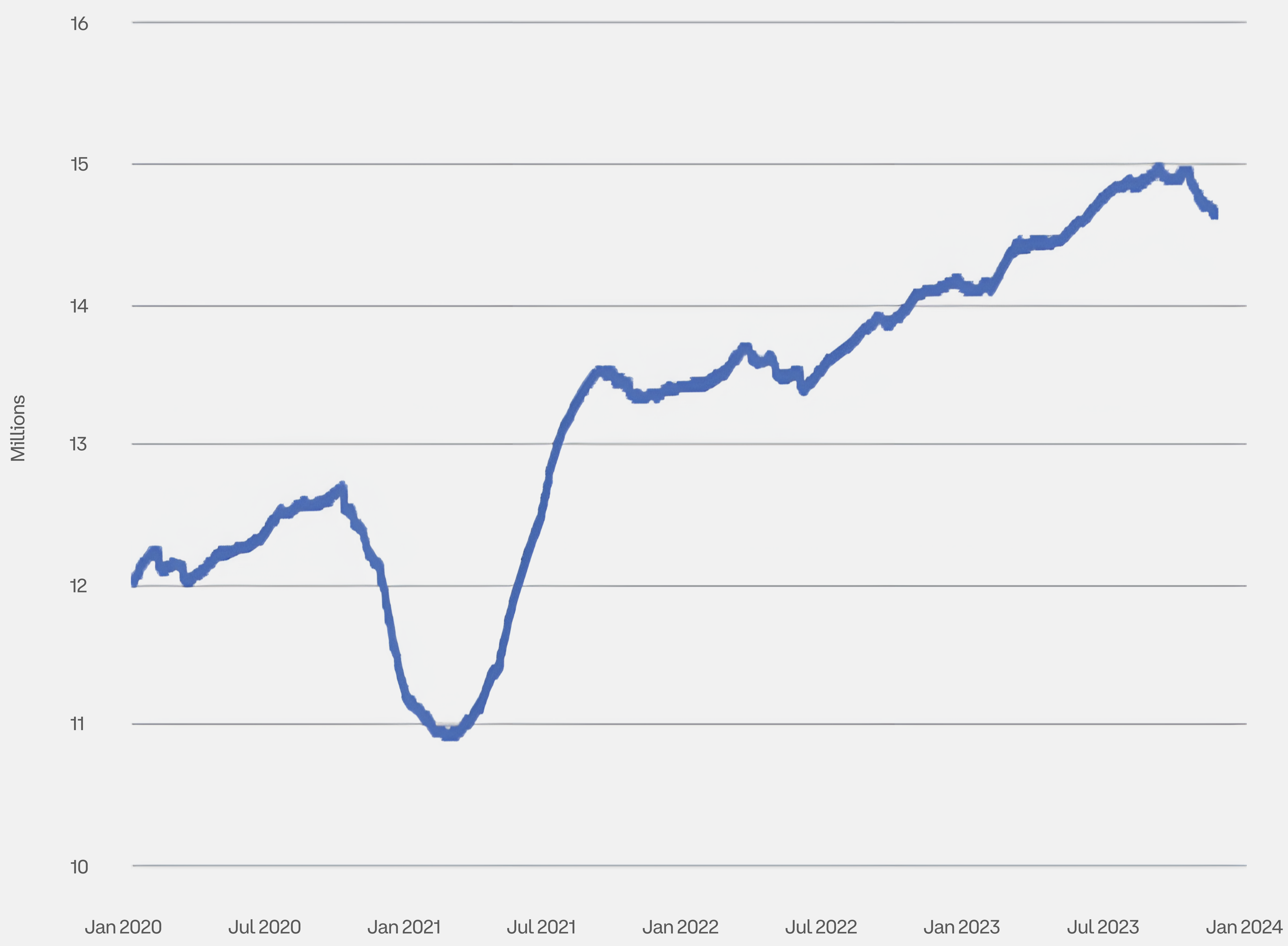


Source: Glassnode

Another interesting data point to consider is the total supply of bitcoin held by long-term holders. As defined by Glassnode, long-term holders are investors who retain their cryptocurrency holdings for a minimum of 155 days. Historically, this duration marks the point beyond which the probability of these assets being sold decreases notably. All other things equal, long-term holders should be less likely than short-term holders to view halvings as an opportunity to sell into strength.

The amount of supply in the hands of long-term holders is quite high by historical standards, although it has started to decline since the introduction of spot bitcoin ETFs in mid-January.

BTC Total Supply Held by Long-Term Holders



Source: Glassnode

The bottom line

Halvings, while historically bullish, are just one of the many factors that affect bitcoin's price trajectory. For more insights into the metrics that matter most for crypto, download the Guide to Crypto Markets. To learn more about how the halving, other market trends, or the macroeconomic landscape may impact crypto markets, visit the Coinbase Institutional Research and Insights Hub.

Related insights

Bitcoin Halving and Miner Economics

Learn more about how the halving may affect miner economics, hash rates, and industry consolidation.

Bitcoin Halvings: Supply, Demand and Statistics

Gain insight into how the halving and the launch of spot ETFs are shaking up the supply-demand picture.

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Special Acknowledgement - Thank you to Glassnode for providing data for this report. For more on Glassnode data offerings, visit https://glassnode.com/.