

## Bitcoin's Sluggish Performance Post Halving and its Recent Resurgence

Bitcoin, largely regarded as the proxy for the cryptocurrency market, saw its price levels peak in mid-March 2024 in anticipation of the April halving event only to have largely struggled post halving. To recap, the halving event reduced the number of daily Bitcoins available to miners from 900 to 450. Since then, Bitcoin prices have dipped about 15% to hit its lowest point since February in early July, which has contradicted numerous predictions that it would rally post-halving.

Cryptocurrency traders were quick to attribute the stupor to Bitcoin basis trading, a tactic employed by hedge funds globally to dampen volatility. Essentially, these hedge funds deploy borrowed capital to bet on the convergence of Bitcoin futures and the spot Bitcoin ETFs. Separately, industry analysts have associated the sluggish Bitcoin performance to potential market overhangs. Chief among them was the US\$9 billion of Bitcoin and Bitcoin cash sales from the now defunct Mt Gox (a Japanese exchange). Coupled with recent moves by American and German authorities to transfer seized Bitcoin assets to exchanges and miners cashing in to crystallise their returns, it is no surprise why Bitcoin has severely underperformed a highly anticipated post halving period. Ryze Labs, a cryptocurrency venture capital firm, has noted that the aforementioned authorities hold more than US\$15 billion worth of Bitcoin which could potentially spark an overwhelming selling pressure, spooking speculators and short-term investors in the process.

However, the post halving Bitcoin slump could soon see a strong reversal. With the looming November US presidential elections, cryptocurrency analysts and traders are optimistic that a resounding victory for Donald Trump could revive Bitcoin prices and be the catalyst for Bitcoin to break through its previous historic high of US\$73,000.

### The Trump Trade

As crypto bulls and miners search for the next price catalyst, there has been increasing speculation of a "Trump trade" — a potential Bitcoin rally in the second half of the year if Donald Trump wins the November elections. This belief first surfaced since the recent presidential debates and is set to grow stronger in the coming weeks.

Naturally, readers will ask, "Why Donald Trump and what will his election victory mean for the broader market?". The simple answer is that the Republican front runner and his running mate JD Vance are largely seen as pro-crypto, evident from Trump having previously hosted industry executives at his Mar-a-Lago estate. Additionally, in what has been a groundbreaking first, his campaign is accepting cryptocurrency payments which is a first for any major US political party. However, the longer more detailed answer is that the exuberance and optimism stems largely from two perceptions: Trump's pro-crypto stance and the impact of Trump 2.0 on financial markets.

Trump's policies (if elected) could make assets like Bitcoin more appealing globally. This has been evident through his interactions with different groups of the industry, from hosting

cryptocurrency mining executives to accepting cryptocurrency contributions, and even making supportive statements. All these point towards a general acceptance and openness to the wider cryptocurrency industry which would be a stark contrast to the anti-crypto stance the current Biden administration has. Additionally, market expectations suggests that Trump 2.0 would entail tougher immigration policies, more tariffs, and tax cuts which could increase the US deficit; this points to higher inflation and Treasury yields which could have a positive impact on Bitcoin prices while eroding investor confidence in US treasuries. Analysts from Standard Chartered have opined that Trump's policies could create "fiscal dominance" where large government deficits limit the central bank's ability to influence the economy through interest rate changes.

Consequently, "fiscal dominance" could impact Bitcoin prices positively due to its relative correlation with key US treasury market indicators like 2-year and 10-year Treasuries spread as well as breakeven rates. Theoretically, the price of Bitcoin should rise from higher breakeven rates and a steeper curve as Bitcoin is often seen as a hedge against dwindling confidence in the US Treasury market.

Regardless of the outcome of November's US elections, industry executives are hoping a Trump victory coupled with a resounding Republican showing in Congress will lead to clear and favourable cryptocurrency regulations. This could lead to further regulatory easing on the wider industry and provide more opportunities for retail investment products further pushing Bitcoin prices. Analysts at Julius Baer have noted that Trump's energy policies could benefit cryptocurrency mining firms which is in stark contrast to President Biden's policies chief among them a proposal to introduce a 30% tax on cryptocurrency miners.

Evidently, the "Trump effect" has already started to take place as prices for Bitcoin rallied in the days following an assassination attempt on the former US President during one of his rallies in Pennsylvania. The botched assassination has only increased Trump's perceived odds of winning November's election even as President Joe Biden announced his withdrawal from his re-election bid. This has led industry experts to forecast a fresh all-time high for Bitcoin prices in August 2024 and a potentially significant price point of \$100,000 by Q4 2024 contingent on Trump's election victory.

However, speculation and market theory usually do not stand the test of reality owing to numerous factors involved. As with all asset classes, a clear and convincing narrative is paramount to sustain any sort of price momentum. Bitcoin, which lacks cash flows due to its relative illiquidity, relies on narratives even more than most other asset classes. Simply put, if enough players in the market believe that everyone believes Trump will be elected, then there will bound to be a rally sometime later this year. As market overhangs clear, NIACE expects the "Trump trade" narrative to build through the summer.

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