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THE BITCOIN BONANZA

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The return of Donald Trump after the 2024 US election has reignited the debate about the future of cryptocurrency. Trump's selection of Tech giant Elon Musk to head one of his departments is also a positive factor regarding this. The market has coined the 'Trump Bump' trend since the election, whereas equities and bitcoin gained momentum. Since Trump's re-election, Bitcoin has surged to an all-time high of over \$93,000.

The rally is largely attributed to expectations that Trump's upcoming administration will take a more "crypto-friendly" approach, offering regulatory support for the industry, especially in the United States. Other cryptocurrencies and crypto related investments also rallied in the wake of Trump's election win.

Interestingly, in 2019, in a twitter post, Trump mentioned: *"I am not a fan of Bitcoin and other Cryptocurrencies, which are not money, and whose value is highly volatile and based on thin air. Unregulated Crypto Assets can facilitate unlawful behavior, including drug trade and other illegal activity."*¹



¹ <https://x.com/realDonaldTrump/status/1149472282584072192?lang=en>

But in today's context, he has pledged to turn the US into "the crypto capital of the planet." Trump's administration is reassuring cryptocurrencies, placing the storm in Bitcoin's sails. While, crypto mining is especially energy-intensive, Trump wants it to be mined, minted and made in the US.² However, while Trump would like to optimise on oil & gas production, the stance on renewable energy is mixed. The expanded production of fossil fuels would be on the agenda, along with energy independence. Nonetheless, the full repeal of the previous Biden administration's "Inflation Reduction Act (IRA) of 2022" would be difficult.

Trump is also receptive towards digital assets, as he would work with crypto advocates like Elon Musk, who's backed Dogecoin, which also saw a post-election rise. There is also positive impact on Coinbase and MicroStrategy related stocks. The Financial Times has quoted "Elon Musk, Trump's most fervent backer, has been chosen alongside Vivek Ramaswamy to lead a "department of government efficiency" — *conveniently for the crypto-loving White House, this can be abbreviated to Doge, the name of a digital token Musk has promoted.* Trump has said they will "slash" regulations and "dismantle" bureaucracy. The impact for businesses and consumers will undoubtedly be huge."²

The meme coin market remains the most lucrative industry for digital asset investment, which is a substantial budge from prior administrations. Plenty of news are hovering in media that Trump plans to replace SEC Chair Gary Gensler, who advocated stricter crypto rules under Biden.³

The most remarkable idea in this regard is that of a US Bitcoin Strategic Reserve. The idea was drafted by US Senator Cynthia Lummis, which is termed as the Strategic Bitcoin Reserve Bill. The Bill proposes instituting a network of decentralized storage facilities across the US to securely hold Bitcoin reserves.

It also delegates that the US Treasury to purchase 200,000 Bitcoins annually over five years. The government would hold these reserves for at least 20 years and implement a proof-of-reserves system to verify holdings. This system lets the government show that it's securely holding the Bitcoin without revealing details that could put Bitcoin security at risk. Public audits would then confirm that the government has the Bitcoin it claims to. The launch of the Bitcoin ETF in the United States (US) enhanced the total value of Bitcoin activity across all regions, with predominantly in regions with higher income countries, such as North America and Western Europe.⁴

² "Donald Trump chooses Elon Musk and Vivek Ramaswamy to lead government efficiency effort" (13 November 2024) The Financial Times, <https://www.ft.com/content/a8e7c76d-1098-47d1-8ac6-f6f026b18631>

³ A good coverage on this can be find here- <https://www.steptoe.com/en/news-publications/blockchain-blog/the-fate-of-gary-gensler-and-implications-for-crypto-of-an-sec-in-transition.html>

⁴ <https://www.chainalysis.com/blog/2024-global-crypto-adoption-index/#top-countries>

On the other hand, year-over-year (YOY) growth of stablecoins was substantial among retail and professional-sized transfers, proliferating in low income and lower-middle income countries in regions such as Sub-Saharan Africa and Latin America. In effect, decentralised finance (DeFi) activity increased significantly in Sub-Saharan Africa, Latin America, and Eastern Europe, which is also likely steered an increase in altcoin activity in these regions.

According to the “Chainalysis”, during the Q4FY23~Q1FY24, the total value of global crypto activity increased significantly, reaching higher levels than those of 2021 during the crypto bull market. Growth in crypto adoption was driven mostly by lower-middle income countries. Though in 2024, crypto activity increased across countries of all income brackets.

Amid the US sanctions on Russia, the latter pushed for an alternative payment system. The Moscow Times (8 November 2024)⁵ reported that in mid-Oct’24, during the BRICS Business Forum in Moscow, the Russian Direct Investment Fund (RDIF) partnered with domestic data center operator BitRiver⁶ to construct Bitcoin mining and AI computing facilities for BRICS nations. Nonetheless, it may be noted that right now, Russia accounts for approximately 5% of the global Bitcoin hash rate, down from over 11% just three years ago.

Although this decline is partly clarified by transfers in the global Bitcoin mining landscape, it's also valid that Russia is no longer a country with abundant, low-cost hydropower. To what extent this would prompt other countries to adopt mining is yet to be seen. According to the media, Argentina, Ethiopia and the United Arab Emirates; are leveraging state-owned resources to mine Bitcoin.⁷ One of the most crucial objectives for such initiative by Russia is to smoothen bitcoin or decentralised finance (DeFi) among the BRICS countries avoiding the US sanctions.

On the other hand, in India, the crypto regulations are quite stringent. Cryptocurrencies and other assets are grouped under virtual digital assets (VDAs) and are defined in Section 2(47A) of the Income Tax Act.⁸ At present, there is thirty per cent tax on all crypto gains and one per cent TDS on each transaction. The future of cryptocurrencies is still challenging in India. There are many potential challenges like data privacy, financial stability, illegal transactions, frauds etc; those Indian regulators has pointed couple of times. It is yet to see how Trump’s policy on bitcoin would alter the regulatory landscape in US and global market including India.

⁵ <https://www.themoscowtimes.com/2024/11/08/russia-to-mine-bitcoin-in-brics-countries-a86952>

⁶ BitRiver is Russia's largest operator of data centers for energy-intensive computing, such as mining or AI. The operator currently manages 21 operating data centers in Russia, and 10 more facilities are under construction.

⁷ <https://www.themoscowtimes.com/2024/11/08/russia-to-mine-bitcoin-in-brics-countries-a86952>

⁸ <https://taxguru.in/income-tax/taxation-virtual-digital-asset.html>