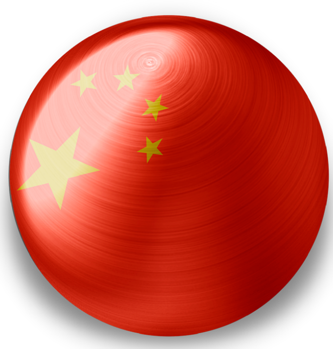
BITCOIN & CHINA

In another attempt to 'protect' its citizens from the threats of decentralization, the People's Republic of China has pushed forward an initiative to rid their country of cryptocurrency miners. This initiative was executed through the province's organizing bans and cooperating with local authorities and power companies to effectively turn off miner's operations.

BITCOIN MINING • CHINESE CONTROL

The Sichuan Province, located in Southwest China, is one of the largest mining bases in the world and is renowned for its supply of hydropower during the rainy season. On Friday, June 18th, the Sichuan Provincial Development and Reform Commission and the Sichuan Energy Bureau jointly ordered all mining operations to be terminated within their province. By the following Sunday, the largest mining operations had ground to a halt. This same strategy was utilized throughout all of the other mining-centric provinces contained within the People's Republic of China.



When analyzing an initiative such as this, you have to understand the motives behind the policy. "The Chinese government has appeared uneasy not only about the industry's carbon footprint but also the intrinsically uncontrollable, decentralized nature of the cryptocurrency." While our team at ECI would completely dismiss and point out the comedic irony of the first point, the second part of this quote is clearly the real motive. The communist regime that rules China views Bitcoin and other cryptocurrencies as a major threat to their control of money, which makes complete sense.

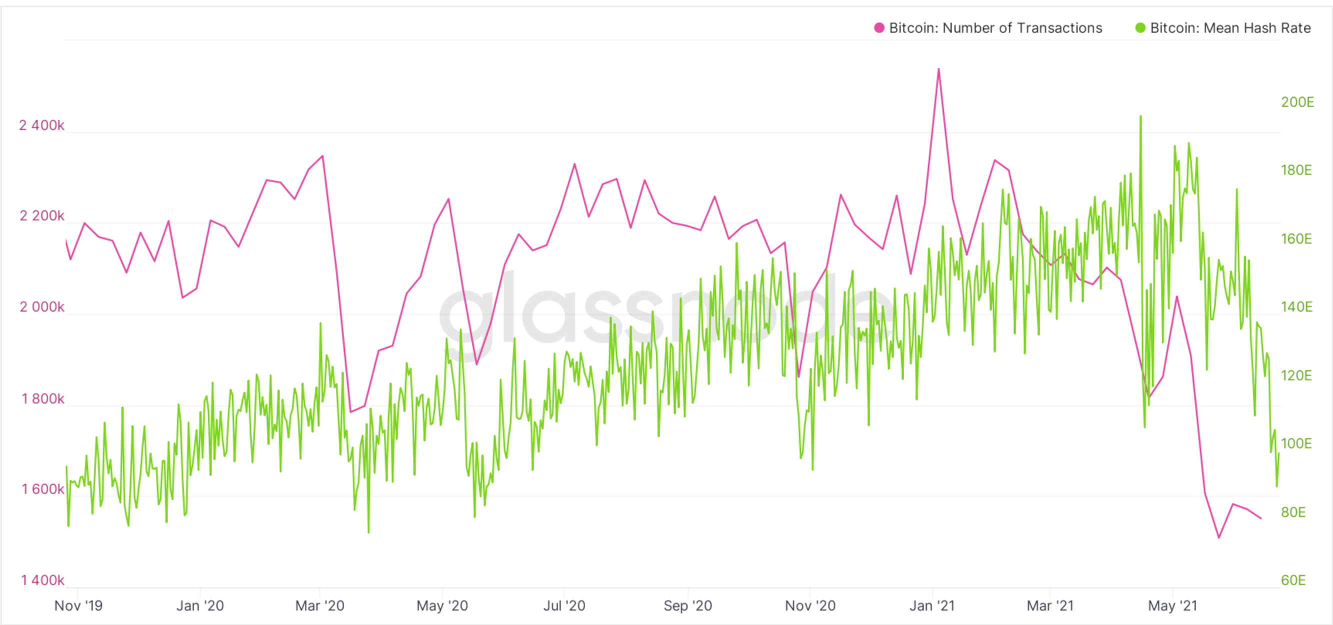
This entire policy initiative yields a surprising connection to a recent detailed interview on CNBC with Paul Tudor Jones. Within this interview, he dropped a quote that must have resonated with Xi Jinping, "if I was king of the world, I'd ban bitcoin mining." While we assume that Paul Tudor Jones did not ignite the fire for President Xi, he certainly emphasized that cryptocurrencies should be considered a major threat to government-backed currencies.

Given the execution of this anti-mining policy, Chinese miners are essentially left with two options: 1) wait and hope that the Chinese regulators reverse this decision, or 2) pick up their equipment/operation and move to a mining-friendly jurisdiction. Given the aforementioned information and the understanding that managers make decisions so their business can continue to grow, the second option is the clear path of action. Miners are currently in the middle of transitioning or finalizing their next headquarters. The most important considerations regarding their location include cheap electricity, stable politics, and clear regulation. Ultimately, the United States and Canada seem to be two of the most attractive locations for miners to move to. However, countries all over the world have openly embraced accepting these miners as well, including South and Latin America where the Bitcoin movement is starting to accelerate.

One of the largest arguments expressed by bitcoin critics is the Chinese market share in Bitcoin mining, citing concerns that centralized mining may enable the Chinese government, or other bad actors, the ability to manipulate the network. The execution of this policy effectively eliminates this argument and any fear regarding Chinese manipulation of the Bitcoin network and further decentralizes the share of Bitcoin mining among other countries.

While the ECI team views the long-term implications of a further diversified landscape of Bitcoin miners and zero threat of manipulation from the Chinese as a net positive, there are still negative short-term implications from this ban. As miners have been forced to unplug and relocate their operations, the network's horsepower, hash, has been highly volatile and trending downwards. This has a negative impact on the network's efficiency as hash is linked to TX confirmation time, TX fees and mempool depth, which can make transacting on the network slow and more expensive. The two-week difficulty adjustment feature aids in lowering the impact of these volatile movements in hash, and will push Bitcoin through this transitory period. While this downward trend in hash may continue for the next couple of weeks, we will begin to see a recovery and ultimately a reversed trend pushing for ATH's as these Chinese miners begin to plug back in across the world.

Bitcoin: Number of Transactions vs. Bitcoin: Mean Hash Rate



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The graph above visualizes the current trend in hash rate as well as how this event is affecting the number of transactions on the network. ECI predicts that the mean hash rate will recover to at least the 160E level by the end of the summer.

The People's Republic of China put forth this policy to protect the control of their centralized money. The ECI team believes this was a considerable geopolitical mistake that benefits the long run outlook of BTC.