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Dramatic time for digital assets in 1H 2023

LASANKA PERERA
Independent Reserve

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What are the major events that have affected digital assets in 1H 2023?

One of the biggest events in the first half of 2023 is the collapse of the second, third and fourth largest US banks in history, being First Republic, Silicon Valley Bank, and Signature Bank. This affected VCs, fintechs, wealthy clients and moms and dads in the US. This wasn't isolated to the developing world, the Third World. This really brought into light that if this could happen in the US, it can happen anywhere.

There was an erosion of trust, and a few hundred million more people realized the importance of holding a self-sovereign asset that is not a liability on anyone else's balance sheet, like Bitcoin and alternative currencies that are independent of central banks. That was a huge development that has had a huge impact on the digital asset industry in the US. And now the digital asset industry is finding alternative markets to base themselves, with other more welcoming regulators than in the US.

What we've also seen is that in addition to that erosion of trust, the US monetary supplies increased over 40% since COVID. It's also doubled in the last decade. In the last 12 months or so, it's declined 5 or 6%. That supply becomes very hard to trust and rely on, which is quite different to something like you might get in Bitcoin, which has a issuance set in code with a monetary policy that hasn't changed in 14 years. So what you might see, for instance, when we speak about issuance and supply, gold is an asset that we've grown to see as a store of value due to its limited supply. But as you dig deeper, you'll see that gold has, approximately, a 3 to 5% annual inflation rate, which is new supply divided by total mined above gold.

But as you look at the supply, you'll see that gold continues to be mined as technology improves, as the price increases. And that could continue onward almost in a linear fashion. Whereas something like Bitcoin has a truly limited and diminishing supply. There'll only be 21 million bitcoins, and the new supply of bitcoins mined halves approximately every four years or 210,000 blocks. And in addition to that, as price increases and as new miners join the network, there's something called the difficulty algorithm, which adjusts higher as new miners join the network and increase the hashing power.

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Every two weeks or so, the algorithm would adjust higher or lower, which means the supply stays unaffected and on average, continues to mine a block every 10 minutes or so. This will predictably continue until the year 2140. So we have fear, which is essentially a very unreliable, unlimited supply decided by a select few. Then we have gold, which is mined, but can be mined with increasing rates, with additional, with improvements in technology, with increases in price and new discovery. And then we have Bitcoin, which has got truly limited and diminishing supply.

What does this mean for the further development for the digital assets markets in 2H?

I think the period we're going through is a little bit turbulent given the stance the US regulators have chosen to take. However, there are many other bright spots geographically, for instance Singapore, Hong Kong, the Middle East. So these are all emerging with positive regulation to grow industry to create jobs, which the industry will look towards, the players will look towards, so the consumers, the investors in those jurisdictions will benefit from this innovation and freedom of money and freedom of investment and the ability to build new products at an ever-increasing rate that comes with permissionless systems, and the Web3 future that we're all building on.

How does the AI discussion play into digital assets?

AI will accelerate innovation and I think AI will decentralise innovation. Right now the developing countries have an edge in innovation because of education, because of funding, because of technology. AI will enable people in developed countries to test out new ideas, to deploy code, and try new ideas at a faster rate. And this will drive innovation to the fringes, to the developing economies. The wealth which was previously accumulating to developed economies will now move towards developing economies. And developing economies are more familiar with currency collapses, broken banking systems, and have less trust in central governments and fair currency. So as wealth accumulates to developing the individuals in developing economies, more of that is likely to end up in decentralized systems and digital assets and ultimately, limited supply assets like Bitcoin.

Anything else you'd like to add?

I think AI enables us to produce larger data sets. And as more data is produced, not all of it is reliable. What will happen is people will need to rely on the correct data, the accurate data. Over time, as AI enables us to produce more and larger data sets, governments, intermediaries and investors will need to rely on immutable data. And that will lead us towards blockchain. As more individuals and organizations move towards blockchain, the most established digital assets like Bitcoin and Ethereum will benefit. ■