ESG: The Pin That Could Prick the Bitcoin Bubble

Description

Investment in cryptocurrencies like Bitcoin has driven various stocks to nosebleed valuations. Companies like **Hive Blockchain** (TSXV:HIVE) with year-over-year returns of more than 2,000% speak to this.

However, some investors are starting to grow wary of some of the heightened risks in this sector right now.

Among these, the strong adoption of ESG investing mandates could be a longer-term headwind for Bitcoin many investors aren't considering right now.

Wait, what? Aren't most Bitcoin investors on a mission to promote positive change in the world?

Well, yes. There's an ideological element to Bitcoin investing I think is pervasive. Investors want access to not only game-changing technologies providing paradigm-breaking innovation but technology that breaks up the establishment. It's a bet that the way we use money will forever change. Indeed, it's a catchy theme to run with.

However, ESG-focused investing is a secular trend of its own that has picked up steam. We're all becoming more environmentally conscious these days, and companies are often assessed on their ESG performance.

However, the sheer energy usage for Bitcoin mining companies like Hive is absolutely incredible. It appears this reality has escaped many investors thus far.

Accordingly, I'm going to dive into what the implications are of Bitcoin mining and why ESG-related trends could provide a significant headwind for these stocks long term.

Mining Bitcoin is not an environmentally friendly activity

Bitcoins are created in a process called mining, which involves solving several complex calculations to

legitimize transactions made on the blockchain. This is an integral activity to ensuring Bitcoin runs efficiently and remains decentralized.

Due to this cryptocurrency's fixed-supply nature, the more coins there are in circulation, the more difficult it will be to mine new ones. Accordingly, massive amounts of electricity are being consumed in Bitcoin mining today. Additionally, the amounts used are expected to exponentially increase over time as miners are forced to increase their "mining horsepower" to mine new digital tokens.

Just how much electricity is being used today?

Well, as per a Cambridge report, mining Bitcoin consumes around 121.36 TWh of electricity per year. To put that in perspective, this is higher than some countries use on an annual basis. Argentina's energy usage stands at around 121 TWh, and the Netherland's energy usage is 108.8 TWh per year.

As Bitcoin's price keeps rising, so will the energy consumption. Volatile profits give miners an incentive to add more nodes to the network, which will result in the consumption of more electricity.

The environmental conundrum

Given the statistics presented above, Bitcoin is anything but environmentally friendly. Moreover, analysts have bashed **Tesla's** recent investment, stating it goes against the electric car company's eco-friendly stance. You can't be a super-liberal environmentalist focused on saving the planet if all its resources are being used on computing power for a digital currency that isn't even used for everyday transactions.

Apart from the environmental impact, crypto mining also affects several other industries. The sheer amount of energy used by Bitcoin mining could threaten entire energy grids, supply chains, and even the back-end supporting AI. With the rise of ESG investing, Bitcoin and its shares may not be as sustainable as one would imagine.

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