

Playing With Fire

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On September 9th, Scott Bessent told markets to bet against him if they dared. Two days later the ten-year Treasury yield hit its highest level since 2023. The man who once made a fortune correctly identifying the moment a currency defence becomes unsustainable is now the one running one — and the arithmetic behind what he actually has to defend it with says more about where this goes than anything he said in Texas.

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Speaking at Southern Methodist University on September 9th, the Treasury Secretary delivered a line built for the moment rather than the transcript: "I am the house now. You can bet against me if you want." He went further, claiming a specific edge over currency markets — "When we intervene with the Japanese yen, I have pretty good insight into what the Bank of Japan... is going to do. I have asymmetric information" — days after Washington had quietly stepped into the market itself, selling euros to buy yen. That is what a currency intervention is: a government trading its own reserves to push an exchange rate in the direction it wants, rather than leaving it to buyers and sellers. This particular one let Tokyo defend the yen without having to sell its own holdings of US Treasury bonds to raise the cash — a favour with a purpose, as the next section explains. The market's reply arrived within forty-eight hours: the ten-year Treasury yield touched 4.93% on September 10th, its highest level since 2023, a level breached only once in the past two decades. Whether he was defending the dollar or the bond market, Bessent's warning did nothing to stop the selling.

What's actually being defended?

Start with the one rule that explains everything else in this section: when a government, or anyone, sells a large volume of a bond, it pushes that bond's price down — and because a bond's yield moves opposite to its price, more selling means higher yields. Keeping borrowing costs down therefore means either buying your own bonds back, or stopping other large holders from dumping them. Bessent is doing both, through three tools, none of which required new legislation.

The first is Treasury's own bond buyback programme — Treasury using its own cash to buy older bonds back out of the market, the same logic a company uses when it repurchases its own shares to support the price. The floor per operation moved from \$2 billion to "at least \$4 billion" effective September 9th. The single operation run the next day was capped at \$6 billion — \$10.5 billion was offered by sellers, and \$5.2 billion was actually bought — a scaling-up, not a leap to some new permanent ceiling. It's one instalment in a programme that has already retired \$203 billion of face value across 55 operations this year, including \$104 billion of longer-dated debt swapped into short-term bills since May 2024. Officially this is routine liquidity management; in practice, it supports prices and caps yields at the long end of the market, exactly where the Federal Reserve has declined to help.

The second and third tools both run through the Exchange Stabilization Fund — a Depression-era pool of dollars, foreign currency and gold. It gives the Treasury Secretary wide discretion to trade with minimal congressional oversight, and it's the same fund behind the yen intervention. One use of it is the direct trade already described: Washington selling an estimated \$5-10 billion of euros to buy yen, notable because the dollar itself never appeared on either side of that trade. The other, quieter but arguably more consequential, is the Federal Reserve's FIMA Repo Facility. A repo, short for repurchase agreement, is a short-term loan in which the borrower hands over an asset as collateral and buys it back later; the FIMA facility lets foreign central banks post US Treasury bonds as that collateral and borrow dollars against them, rather than selling the bonds outright — the difference between forcing supply onto the market, pushing yields up, and simply parking it at the Fed's window for cash instead. It is likely doing more than either of the other two tools to keep large foreign holders of US debt from becoming forced sellers. Economist Robin Brooks, formerly chief economist at the Institute of International Finance, has drawn a pointed comparison. Bessent's approach, he argues, mirrors Japan's own decades-long habit of suppressing its own bond yields to manage a debt load above 200% of GDP. In his words: "as Japan shows, it can be next to impossible to stabilize a currency once it enters a devaluation spiral." Running underneath all three tools is a further pressure none of them controls: Iran-linked oil above \$100 a barrel, keeping inflation expectations elevated at precisely the moment Treasury needs investors to accept lower compensation for holding its debt.

The man who broke a currency, defending one

Bessent's authority to make this bet rests on a biography that cuts in two directions at once. A Yale graduate, he began his career interning for Jim Rogers before becoming chief investment officer at Soros Fund Management. There, he ran the trade that made the firm's name: shorting the Japanese yen — borrowing and selling it on a bet it would fall, then buying it back cheaper once it did, for a profit of close to a billion dollars in three months. He founded Key Square Capital, became the public face of the Trump campaign's "3-3-3" economic plan in 2024, and was confirmed as Treasury Secretary in early 2025. That history is precisely why "I am the house now" is worth taking seriously rather than dismissing as bravado: this is a man who has stood on the other side of this exact trade and won. But that same history cuts the other way too: traders who correctly call one currency's collapse aren't immune to overestimating their ability to defend a different one. And "asymmetric information" — knowing more than the other side — is only useful if you can back it up, which raises the question of how much firepower he actually has. The Exchange Stabilization Fund held roughly \$27.8 billion in liquid Treasury securities and foreign currency as of its most recent published figures. It also holds \$175–176 billion in Special Drawing Rights, an IMF reserve asset — but that money can't be spent directly in currency markets; it has to be converted into cash first. Global foreign exchange markets, by contrast, now turn over roughly \$9.6 trillion a day, according to the Bank for International Settlements' latest Triennial Survey — the highest figure it has recorded since it began measuring in 1986. Even generously counted, Treasury's readily usable firepower is a small fraction of a single day's global turnover. Asymmetric information is a real edge in a contained skirmish; it is not the same thing as having the balance sheet to win a sustained standoff if enough of the market decides to test the claim at once.

The head that won't bend

On the other side of the same imbalance sits Kevin Warsh, whose Fed chairmanship has so far resisted the rate cuts Bessent's tools are quietly trying to substitute for. His hawkishness — a preference for higher rates over easier growth, to keep inflation in check — has a long paper trail: he resigned from the Federal Reserve board in March 2011, in open disagreement with Ben Bernanke's second round of bond-buying stimulus, walking away from the institution rather than implement a policy he considered unsound. He has not needed a Wall Street salary since marrying into the Estée Lauder family in 2002, which affords him a degree of independence from career pressure that few Fed chairs have enjoyed. And by most accounts he had no personal relationship with Donald

Trump before his January 2026 nomination — chosen, it appears, for market credibility rather than loyalty, which leaves him with comparatively little personal debt to repay through compliant policy. Institutionally, he is also harder to remove than any Fed chair in decades: the Supreme Court's June ruling in *Trump v. Cook* blocked the president's attempt to remove Fed Governor Lisa Cook without the specific legal steps the Federal Reserve Act requires, and did so in the same term it otherwise significantly expanded presidential power to fire other officials — a deliberate carve-out for the Fed, not an oversight. Put the four facts together — the resignation precedent, the financial independence, the absence of personal loyalty, and the freshly reinforced legal protection — and Warsh looks like the least persuadable actor in this standoff, a fact the bond market is very likely already weighing when it decides how much credibility to give his hawkish rhetoric relative to Bessent's activist reassurance.

The patience that could run out

Trump's own posture has been notably restrained. Asked in late August whether he opposed Warsh's drift toward a rate hike, he demurred: "I have a lot of respect for him, and he'll do what he has to do" — a strikingly hands-off line from a president who spent 2025 in open conflict with Warsh's predecessor. Two explanations fit the restraint better than any sudden change of temperament. First, *Trump v. Cook* has already shown what a renewed attempt to pressure the Fed costs: a 5-4 loss, and a Court that went out of its way to shield the institution even as it expanded presidential power almost everywhere else, making a second attempt on different facts a legally uncertain and politically expensive bet. Second, Bessent is currently supplying something that looks like action, even without visible results — intervention, buybacks, combative rhetoric — which may be enough to hold Trump's attention on other fronts for now. That patience is also the least predictable variable in this piece, and the one most likely to run out quickly if yields keep climbing and start reading as a public loss rather than a contained standoff.

The absent fourth

None of the above changes because the one body that could resolve the deficit underlying it has shown no inclination to try. The federal deficit is on track to reach \$2.1 trillion this fiscal year; only three of twelve required FY2027 appropriations bills had passed the House by early September, the Senate had passed none, and government funding runs on a stopgap resolution to December 11th — months after 2025's shutdown became the longest in US history. The spending actually driving the deficit — Social Security, Medicare, Medicaid, and now roughly \$1 trillion a year in net interest on the debt itself — sits outside that annual fight entirely, running on autopilot regardless of what Congress does or doesn't pass. That closes off the one exit ramp that would make Bessent's bet and Warsh's resistance unnecessary: Congress isn't a live variable in the months ahead, it's the fixed condition guaranteeing the burden keeps landing on two men who didn't create the deficit and can't fix it.

What actually happens next

Ranking the plausible paths, rather than picking one, is the more honest exercise. The most likely outcome by some distance is simple continuation: Bessent keeps expanding buybacks and intervening at the margin, Warsh holds his hawkish line through and past the Federal Reserve's September decision, and yields stay elevated and volatile without a clean break either way — the highest-probability path precisely because it requires no one to change behaviour, only more of what is already happening. A genuine test event is the next most plausible: a weak Treasury auction — one where buyers demand a noticeably higher yield than expected to take the debt off Treasury's hands — a fresh Iran-linked oil spike, or a sharp risk-off episode could force Bessent to escalate past what can still credibly be called routine debt management, the point at which Brooks's devaluation-spiral warning stops being theoretical. Renewed pressure on Fed independence is possible but structurally harder than it looked a year ago, given what *Trump v. Cook* already cost the administration once.

Warsh capitulating to political pressure is the least likely outcome of all, given his own resignation precedent and financial independence — markets should treat a Warsh cave as a bigger surprise than a Warsh resignation. A congressional resolution belongs at the bottom of the list for the reasons already given. Worth watching in the weeks ahead: whether the buyback floor rises again, whether further currency intervention follows the yen episode, the reception of the next long-dated Treasury auction, and whether December 11th produces anything more durable than another stopgap.

Betting on the structure, not the dare

None of this is abstract for a rand-based, multi-asset investor. As at early September, the rand was trading at 16.19 to the dollar — well above Northstar's own modelled fair value of roughly 12.84, the level our models say the exchange rate should sit at given each economy's fundamentals. In other words, the rand looks cheap relative to that model. That matters directly if the dollar side of this standoff eventually breaks the way Brooks describes rather than the way Bessent is betting. It also shapes how the Northstar Managed Fund is positioned. The fund's local fixed-income sleeve runs mostly through floating-rate notes, which reset their interest payments periodically and so barely move in price when yields rise, and inflation-linked bonds, whose payouts adjust with inflation, rather than long-dated fixed-rate debt, whose price falls hardest when yields climb. The result is a blended modified duration — how much a bond portfolio's value moves for a given rise in yields — of close to two years, well short of the swings this standoff keeps threatening to produce, regardless of which side eventually wins it. A strategic allocation to gold-adjacent equities — Gold Fields and AngloGold Ashanti together account for just over 6% of the fund — is insurance against the debasement scenario specifically, not a bet that it happens on any particular date. None of this requires calling the outcome of Bessent's dare correctly. It requires being positioned for the possibility that the house, for once, is wrong about its own odds. Casinos are built on the mathematical certainty that the house wins over a long enough run of hands. Sovereign currency defences don't come with that same guarantee — they come with a balance sheet, and Washington's, for now, is a fraction of the table it just sat down at.

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