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Bids Without Buyers

Japan, the Gold Crossover, and the Early Stress Test of the Stealth Architecture

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Abstract

Working Paper 2026–01 argued that U.S. monetary expansion has been re-architected to run through deputized private balance sheets — statutory stablecoin demand and deregulated bank absorption — leaving the Federal Reserve's chart flat by design, with an uncapped repo backstop pre-positioned for the day the private architecture fails. It closed with falsifiable markers. Within four days, the first fired. This paper examines the week that followed: Japan, the largest foreign holder of Treasuries, is withdrawing through two channels at once (structural repatriation and intervention sales) as its own yields reach 29-year highs; global central banks completed a stock-level rotation, with gold reaching 27% of official reserves and surpassing Treasuries at 22% for the first time; and Britain's two largest banks began withdrawing fund-finance leverage from private credit — the precise marker the first paper told readers to watch. We formalize the absorption identity these events strain, show that the designated replacement channels are stalling exactly when they are needed, and update the jump-intensity of the flat-then-vertical balance-sheet path. The stress test scheduled for "eventually" has begun early. The argument uses only public data; its novelty, again, is the assembly.

Keywords: Treasury absorption; Japan repatriation; yen carry trade; central bank gold; reserve composition; fund finance; private credit; term premium.

JEL codes: E58, F31, F32, G15, G23, H63.

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The trick still works.

Cover illustration: AI-generated for CryptoSoWhat.

1. Introduction: The Marker That Fired

On 5 July 2026 this series published *Printing Without the Printer*, which made three claims. First, that the mechanism of U.S. monetary expansion had been re-architected to run off the Federal Reserve's balance sheet — through GENIUS Act stablecoins that buy Treasury bills by statute and through regulatory relief that expands private bank absorption of government debt. Second, that this architecture has two flaws no statute can cure: it creates no bank reserves, and it runs backward in a panic — so the Fed's chart follows a jump process, flat then vertical. Third, that the thesis was falsifiable, and it listed the markers: quarter-end funding spreads, stablecoin growth, bank Treasury holdings, and — specifically — *the first bank to provision against and withdraw from fund-finance lines*.

On 7 July, the Financial Times reported that HSBC, Europe's largest bank, is withdrawing back leverage from riskier private credit funds and declining to renew their facilities, following a $400 million charge on the collapse of Market Financial Solutions; Barclays, which booked a £228 million provision on the same failure, has constrained structured-finance counterparties since April.[1] The marker fired four days after publication. This paper is about the week that surrounded it — because the same seven days produced two larger withdrawals that belong to the same story: Japan's, and the world's central banks'. Together they constitute an early, unscheduled stress test of the architecture the first paper described. The question this paper asks is the one the first paper deferred: *when the deputized buyers stall and the traditional buyers leave, who is left holding the bid?*

[1]Financial Times, 7 July 2026; Reuters; Bloomberg. HSBC also paused a planned $4B investment in its own private credit funds.

At the Dinner Table

Last week's paper described a magic trick: money creation moved offstage so the famous chart could stay flat, with the audience watching the dove. This week something changed in the theater itself: the audience started leaving. Japan — the biggest ticket-holder for forty years — is going home, because for the first time in a generation the show in its own neighborhood pays better. The world's central banks quietly swapped their season passes for gold bars, which for the first time in history are worth more of their reserves than American IOUs. And the ushers — the banks who lend everyone money to buy tickets — just cut off credit at the door. A magic trick without an audience is a man alone on stage with a dove. Someone ends up buying every unsold seat. The first paper told you who.

2. A Plain-Language Toolkit

Plain-Language Toolkit

TIC data / custody holdings. The U.S. Treasury's tally of who owns its debt abroad, and the securities the New York Fed safekeeps for foreign officials. Weekly custody dips during yen-buying episodes are the fingerprints of intervention funded by Treasury sales.

JGB. A Japanese government bond. When JGB yields were zero, Japanese savings went abroad; as yields normalize, the world's largest creditor comes home.

Yen carry trade. Borrow cheaply in yen, invest in higher-yielding foreign assets. Estimated at $260B–$1T. Works until the yen strengthens or Japanese yields rise — then it unwinds by *selling the foreign assets*.

Currency hedging cost. Roughly the short-rate gap between two currencies. A U.S. bond "yielding more" can yield *less* than a domestic bond once the hedge is paid — the arithmetic behind repatriation.

GPIF. Japan's Government Pension Investment Fund, the largest pension pool on earth. Tokyo is now steering it toward domestic assets.

Reserve composition. What a central bank holds against its currency: mostly dollars-in-Treasuries for fifty years. The mix is the deepest expression of official trust.

Back leverage / fund finance. Bank lending *to* private credit funds, which the funds re-lend at a spread. Withdrawing it forces funds to shrink.

Term premium. The extra yield investors demand for holding long-dated bonds — the market price of absorption risk. When buyers thin out, it rises.

3. The First Withdrawal: Japan Comes Home

Japan holds roughly $1.2 trillion of Treasuries — about 13% of all foreign-held U.S. debt, the largest single foreign position. Two distinct flows are now running against it.

Structural repatriation. Japanese investors sold $29.6 billion of U.S. government-linked debt in Q1

2026 — the largest quarterly reduction since 2022 — and the selling *accelerated* through the quarter (¥3.42T in February, ¥4.12T in March; at that pace, past $100B annually).[2] The cause is arithmetic, not sentiment. Let y^{US} be the Treasury yield, y^{JGB} the domestic yield, and $h \approx i^{US} - i^{JP}$ the annualized cost of hedging the currency (approximately the short-rate differential). A Japanese insurer's choice is

$$\underbrace{y^{US} - h}_{\text{hedged U.S. yield}} \quad \text{vs.} \quad y^{JGB}, \qquad \text{repatriate when } y^{JGB} > y^{US} - h. \tag{1}$$

For thirty years the right side was near zero and the inequality never bound. This week the JGB 10-year touched **2.88%, a 29-year high** (Figure 1), with the 20-year near 3.75% and the Bank of Japan's bond purchases cut nearly in half since 2024. With U.S. hedging costs consuming most of the Treasury yield, the inequality now binds decisively — the world's largest creditor no longer needs to reach abroad. Friday's policy tell: the finance minister said the government will seek ways to encourage **GPIF, the world's largest pension fund, and other retirement vehicles to invest more at home** — within existing allocation ranges, officials later clarified, with no immediate revision to GPIF's medium-term plan. Even the exploratory version carries weight: NAB estimates that a move from GPIF's current 50/50 domestic/offshore split back toward the pre-pandemic 60/40 norm would generate a large, persistent yen-repatriation flow. The direction of intent is set; only the speed is being negotiated.

Intervention sales. The yen traded at **162 per dollar this week — a 40-year low**. Defending it requires dollars, and the fingerprints point to Treasury sales: the New York Fed's custody holdings for foreign officials fell $8.7B in a single week during a ∼$54.7B yen-buying episode this spring. Every future defense of the 160–165 zone is funded, at the margin, from the same shelf. The two flows compound: structural selling raises U.S. yields, which strengthens the dollar, which weakens the yen, which forces intervention, which sells more Treasuries. And beneath both sits the $260B–$1T carry trade, whose unwind — if the Bank of Japan is forced to hike into its own 203%-of-GDP debt load — liquidates U.S. assets wholesale. This week's tape showed the linkage live: on Friday, crypto and Asian equities rallied *on yen strength* while U.S. futures fell.

4. The Second Withdrawal: The Crossover

The deeper withdrawal is measured in stock, not flow. The ECB estimates that at end-2025, **gold reached 27% of global official reserves, surpassing U.S. Treasuries at 22% — the first time in the post-Bretton Woods era** (Figure 2).[3] Central banks have bought roughly 1,000 tonnes annually for four years — double the prior decade's pace — and the buying is conviction, not momentum: in June, with gold *26% below* its January high of $5,589 and beneath its 200-day moving average, the People's Bank of China made its largest purchase of the year (15t, its twentieth consecutive monthly addition).[4]

[2] Japan MOF flow data via Reuters and market reports, May 2026. TD Economics estimates Japan's tapering of U.S. bond investment adds 20–50bp to U.S. 10-year yields over the medium term.

[3] ECB estimate via State Street Monthly Gold Monitor, July 2026. Total central bank gold ≈$4.0T vs. ≈$3.9T of Treasuries held by the same institutions.

[4] World Gold Council; Kitco, 7–8 July 2026. May net official purchases: +41t. Forced sellers — Turkey (−81t YTD) and Russia (−34t) — are monetizing reserves to defend currencies through the energy crisis, supplying the very asset strategic buyers accumulate.

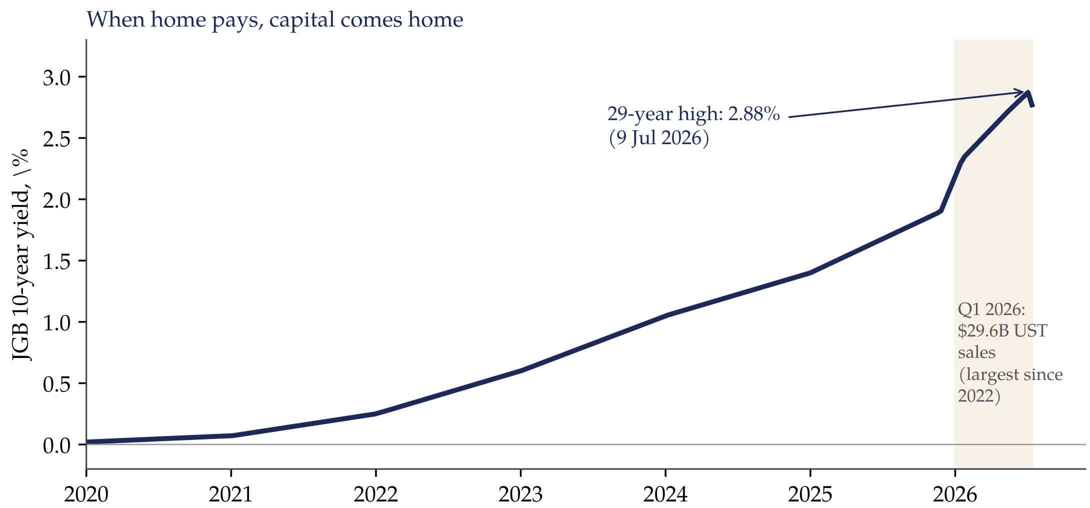

Figure 1: JGB 10-year yield, 2020–2026, with Q1 2026 Treasury sales annotated. Constructed from dated observations cited in the text (29-year high of 2.88% on 9 July 2026); intermediate path interpolated. Equation (1) turns this chart into a repatriation order.

Decompose the share change to see what is structural. With s_t^g gold's reserve share,

$$\Delta s_t^g \;=\; \underbrace{s_t^g\,(1-s_t^g)\,\left(\pi_t^g-\pi_t^r\right)}_{\text{valuation effect}} \;+\; \underbrace{\frac{q_t\cdot P_t^g}{R_t}}_{\text{flow effect}}\,, \tag{2}$$

where π denotes returns, q_t physical purchases, and R_t total reserves. Both terms have run positive for four years — price tripling since 2010 *and* 1,000t/yr of flows — but the flow term is the signal: it persisted through this year's 26% price drawdown. Add the custody dimension and the story completes: France sold 129 tonnes at the New York Fed and repurchased equivalent bars in Paris; Serbia repatriated its entire stock; the Fed's custodial gold has fallen from ~13,000 tonnes post-1971 to just over 6,000; 68% of central banks now vault domestically, up from 50% in 2020. The lesson of the 2022 Russian reserve freeze — that assets in foreign custody carry political risk no rating agency priced — was absorbed by every reserve manager simultaneously. **The composition of official trust has crossed over**, and Treasuries lost the referendum.

At the Dinner Table

Think of the world's central banks as the most conservative family in town, and their savings account — for fifty years — as American IOUs. This year, for the first time ever, the family's gold jewelry is worth more than its account balance. Not because they got flashy: because they kept buying gold every single month, even when its price fell, and quietly moved the safe from the neighbor's house to their own basement. When the most conservative family in town changes what it saves in, it is not reacting to headlines. It is telling you what it expects the next twenty years to look like.

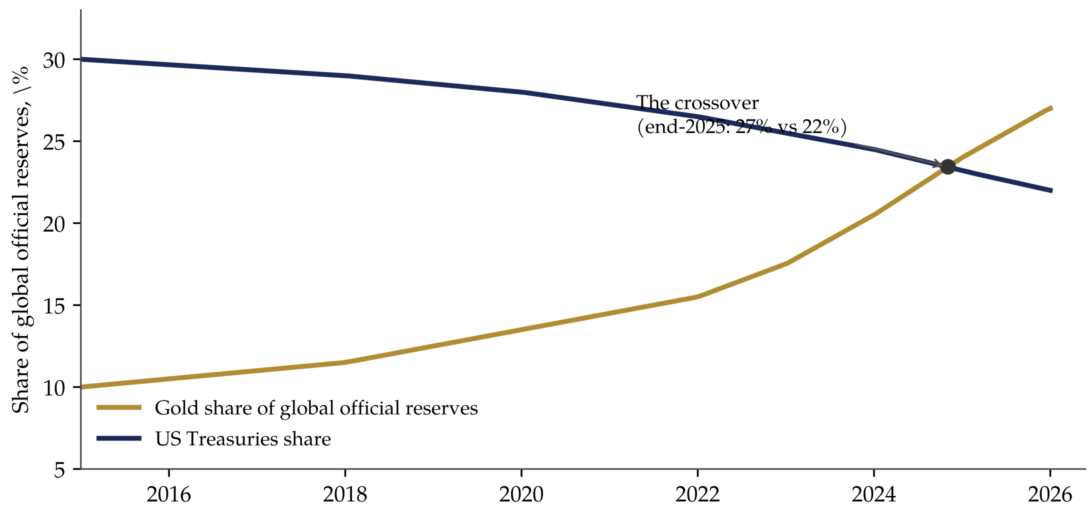

Figure 2: Gold versus U.S. Treasuries as shares of global official reserves. Constructed from the ECB end-2025 estimate (27% vs. 22%) and cited trajectory; intermediate path interpolated per Eq. (2)'s two effects. The crossover is the deepest datum in this paper.

5. The Replacement Channels Stall

The first paper's architecture assumed two deputized buyers would absorb what the Fed does not: stablecoins (statutory bill demand) and deregulated banks (expanded duration absorption). The same week the traditional buyers withdrew, both deputies faltered.

Stablecoins: stalled, and pro-cyclically. Aggregate capitalization remains parked near $300B — the level where it stalled when crypto entered its drawdown — confirming the first paper's Limit II: the channel is crypto-beta, a fair-weather financier. Q2 2026 was digital assets' third consecutive losing quarter (the longest streak since the 2022 bear), with Bitcoin ETFs posting their largest quarterly outflow since launch. The statutory bid grows when risk appetite grows, and shrinks precisely when the Treasury needs it most. (One rail advanced: Circle received U.S. trust bank approval — infrastructure for the next expansion, not demand in this one.)

Banks: risk-shedding, not absorbing. The HSBC/Barclays fund-finance withdrawal is a marker hit, but read it structurally: the regulatory program (SLR/GSIB relief) asks banks to *expand* balance sheet into Treasuries at exactly the moment their risk committees — burned by a £2B fraud collapse and staring at ECB warnings that bank–private-credit links "transmit, amplify and redistribute" shocks — are *contracting* it. A bank cutting leverage to funds is a bank raising its own liquidity preference, which raises the system's comfortable-reserves floor (Paper 1, §5) while Warsh shrinks toward it. And the private credit transmission compounds: a gated fund facing 19–38% redemption requests against a 5% cap (Blue Owl's Q2 readings) that *also* loses its bank lines has one release valve — stop lending, sell assets. Formally, a fund's lending capacity is

$$\text{Lending}_t \;=\; \underbrace{\text{repayments}_t}_{\text{shrinking book}} + \underbrace{\text{inflows}_t}_{<0,\text{ gated}} + \underbrace{\Delta\text{bank lines}_t}_{\to 0 \text{ this week}}, \tag{3}$$

every term now zero or negative. The disinflation engine gained a supercharger — in the same week that renewed war in the Gulf (the Supreme Leader's death, Hormuz attacks, two days of

U.S. strikes) pushed oil and headline-inflation expectations the other way, sending September hike odds back to 64% and the 30-year above 5%. Credit deflation below, energy inflation above: the policy scissors closing.

6. The Absorption Identity, Strained

Everything above compresses into one accounting constraint. Net new Treasury supply must be absorbed:

$$\underbrace{\Delta S_t}_{\approx \$2\text{T/yr}} = \underbrace{\Delta F_t}_{\text{Fed: flat by design}} + \underbrace{\Delta O_t}_{\text{foreign official: }\downarrow} + \underbrace{\Delta B_t}_{\text{banks/dealers: shedding}} + \underbrace{\Delta SC_t}_{\text{stablecoins: }\approx 0} + \underbrace{\Delta P_t}_{\text{price-sensitive private}}, \tag{4}$$

with the term premium as the shadow price of the residual: $\tau_t = g(\Delta P_t^{required})$, $g' > 0$. When the price-*insensitive* channels shrink, the price-*sensitive* buyer must be paid — and the payment is visible: the 30-year above 5%, the 10-year touching a seven-week high mid-week, long-end "bear steepening" spreading from Tokyo to New York to London exactly as TD's spillover analysis predicted. This is not a crisis; it is the pre-crisis regime the first paper formalized, with the jump intensity of the flat-then-vertical path,

$$\lambda_t = \lambda\big(\underbrace{SC_t \text{ stall}}_{\uparrow}, \underbrace{\text{NDFI stress}}_{\uparrow}, \underbrace{-R_t}_{\uparrow}, \underbrace{\text{foreign supply}}_{\uparrow}\big), \tag{5}$$

now rising in all four arguments simultaneously — the first week since the series began in which that has been true. The next scheduled load test is the 15/30 September quarter-end, against a reverse-repo buffer of $2 billion.

For readers of the weekly framework, this identity is now operationalized as the **Absorption Monitor**: five channels (Japan/TIC, reserve rotation, stablecoin cap, bank H.8 Treasuries, Fed H.4.1), scored weekly, with three-of-five deterioration escalating the regime gate. The inaugural reading this week: three to four of five deteriorating.

7. What Would Falsify This

Honesty about the other side. **Monthly TIC noise:** Japan's April holdings actually *rose* $18B (to $1,209.9B) — custody rebuilds between intervention episodes can mask the flow trend; watch the quarterly flow data, not single months. **The GPIF effect cuts two ways:** steering domestic pensions into JGBs relieved Tokyo's long end on Friday (20-year −11.5bp), and a calmer JGB market slows the repatriation urgency. **Peace:** talks reportedly continue despite the strikes; a durable Iran settlement removes the oil floor under yields and hike odds. **The quiet resumption:** the Fed's "reserve management" purchases could simply resume and absorb the residual without ceremony — which would not falsify the thesis but confirm its cynical reading. Markers to grade: May/June TIC (Japan), H.8 bank Treasury holdings, stablecoin cap re-acceleration through $320B, SOFR–IORB and Standing Repo usage into 15/30 September, the next JGB superlong auctions, GPIF's actual allocation announcement, and the identity of the *second* bank to cut fund-finance lines — these things travel in packs.

8. Conclusion

The first paper argued the printing had moved offstage and the famous chart had become a decoy. This paper documents the week the audience began leaving the theater: the largest foreign creditor going home because home finally pays; the world's reserve managers completing a fifty-year trust rotation from Treasuries into gold, buying through a 26% drawdown and moving the vaults inside their own borders; and the ushers cutting credit at the door, four days after this series named that marker in print. None of it is a crisis. All of it raises λ_t — the probability intensity of the day the flat line goes vertical — and all of it happened in one week, two months before the first scheduled stress test at the September quarter-end. The bid the market is searching for exists. It is uncapped. It was built in December. The only question the plumbing is still negotiating is the date on which it stops being contingent — and whether, when the theater owner finally buys every unsold seat, anyone still calls it an emergency no one foresaw.

So What?

Watch four numbers into September: Japan's quarterly Treasury flows (not the monthly noise), the gold share of official reserves against the 27%/22% crossover, the stablecoin aggregate against its $300B stall, and SOFR–IORB at the quarter-end turns. The first paper said stop watching the printer and watch the plumbing. This one narrows it: watch the *buyers*. When the last price-insensitive bid steps away, the buyer of last resort has already been named, its facility already uncapped, its trigger already scheduled. Bids without buyers do not stay unfilled. They get nationalized.

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