

## Insights

# The new currency wars

## What yesterday's currency crisis reveals about tomorrow's digital collapse

In the trillion-dollars-a-day world of currencies, few events rival the drama of a speculative attack. These moments — when traders bet against a currency with such force that central banks are forced to surrender — reveal the fragility of monetary regimes and the power of perception. George Soros's legendary bet against the British pound remains one of the most iconic examples.

Today, governments are better equipped — if only through hard-earned experience — to defend fiat currencies, legal tender not backed by commodities like gold. But a new frontier has emerged: stablecoins, digital assets designed to mimic fiat stability, now face their own breed of attacks. And the consequences could ripple across global capital flows.

Whether targeting old money or new, speculative attacks are more than financial maneuvers. They're strategic offensives — waged by hedge funds, hackers, or anonymous coders — that can reshape economies, topple regimes, and redefine monetary policy.

### Anatomy of a speculative currency attack

A speculative attack occurs when investors believe a currency peg or fixed exchange rate is unsustainable. They short the currency — borrowing it to sell at current rates, hoping to buy it back cheaper after a devaluation. If enough capital flows in the same direction, the central bank may be forced to abandon its defense, triggering a sharp depreciation.

Key ingredients include:

- A fixed or semi-fixed exchange rate
- Weak macroeconomic fundamentals (e.g., high inflation, low central bank reserves)
- Limited credibility of monetary authorities
- A catalyst — often political or economic uncertainty

Once the attack begins, it becomes a race between speculators and central banks. Defending the currency often requires painful trade-offs: raising interest rates to attract capital can choke domestic growth, eroding confidence further.

### How to spot a peg in trouble

- **Pegged at an overvalued rate**
- **Rising interest rates to defend the currency**

- **Shrinking foreign reserves**
- **Diverging economic fundamentals from anchor currency**
- **Political uncertainty or lack of central bank credibility**

## **Soros vs. the British pound**

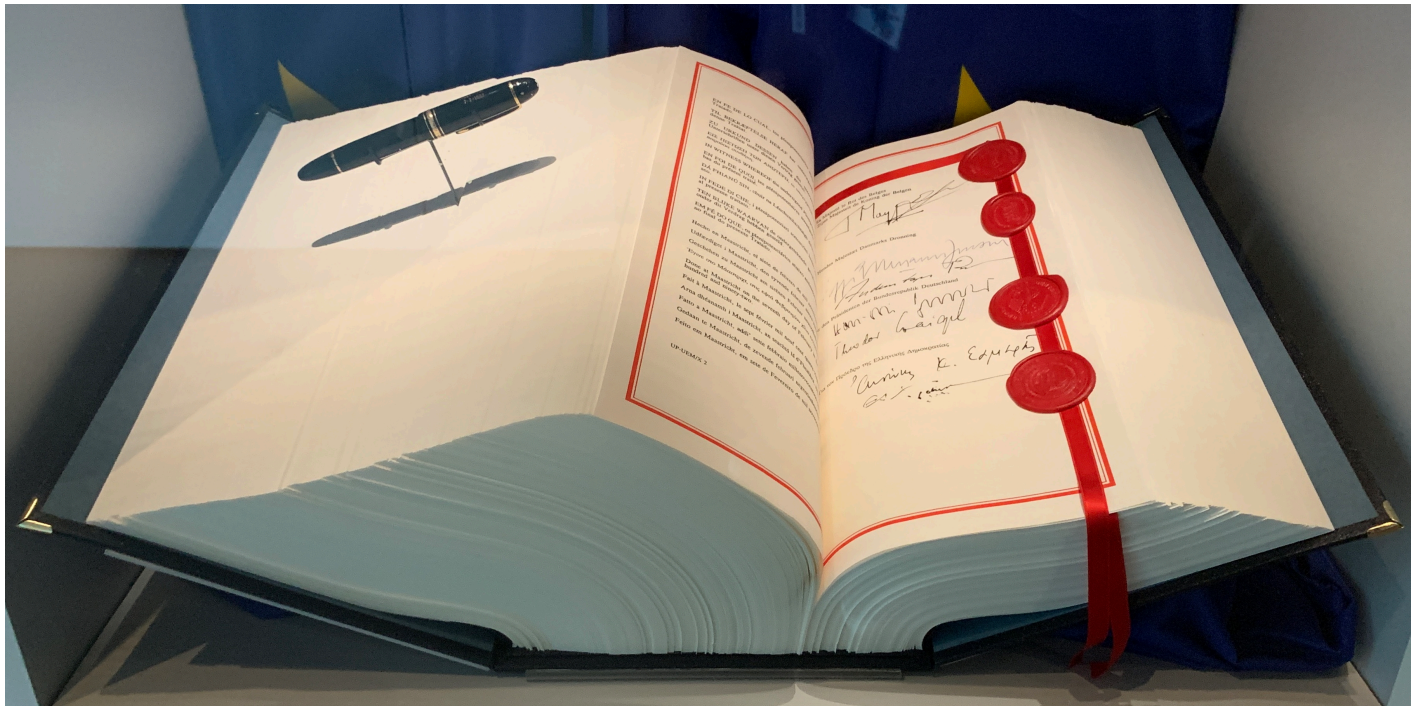
In September 1992, George Soros and his Quantum Fund famously shorted the British pound, earning an estimated \$1 billion in a single day. The backdrop was the enormous political, economic, and social upheaval that followed the devastation of World War II. Out of that turbulence came efforts to unite European nations into a single entity to foster prosperity and ensure peace.

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A single European state called for a common currency. To prepare for the adoption of the euro, the Exchange Rate Mechanism ("ERM") was created in 1979 to stabilize European exchange rates. Britain joined the ERM in 1990, pegging the pound to the strongest European currency, the Deutsche mark, at 2.95 DM. But Britain's higher inflation and weaker economy strained the peg, forcing the Bank of England to maintain high interest rates to defend it.

In February 1992, twelve European nations signed the Maastricht Treaty, the agreement governing the creation of the European Union. In Britain, heated disagreements between pro-European and Eurosceptic factions erupted, stoking public fears about the loss of national sovereignty and transfer of power from Parliament to Brussels.

## **The Treaty of Maastricht**



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Soros, a global macro investor known for bold trades and his theory of reflexivity, viewed the British economy as underperforming Germany's. He believed the British currency was overvalued and the Bank of England's reserves insufficient for defending it.

The Quantum Fund began building a short position that reportedly reached \$10 billion. Other hedge funds followed. As pressure mounted, the Bank of England raised interest rates and spent billions in reserves to defend the pound—but the selling continued.

On September 16, 1992 — “Black Wednesday” — the UK withdrew from the ERM and devalued the pound. The Treasury lost an estimated £3.4 billion, and Soros earned the nickname “The Man Who Broke the Bank of England.”

### **Reflexivity in action**

**Soros's investment philosophy holds that markets are shaped by participants' perceptions, which in turn influence reality. In foreign exchange, this means belief in a peg can sustain it — until doubt spreads, and the peg collapses from the lack of confidence.**

The episode reshaped UK monetary policy. The pound floated freely, inflation fell, and the economy rebounded. Ironically, the forced exit from the ERM may have helped Britain more than staying in.

### **New money, new targets: The fragility of stablecoins**

If Soros's attack on the pound exposed the political fault lines of a Europe in transition, today's speculative threats target a different kind of vulnerability: digital currencies that promise stability but often deliver it precariously.

#### **The Illusion of stability**

[Stablecoins](#) — typically pegged to fiat currencies like the U.S. dollar — are designed to be the calm eye in crypto's storm. They enable trading, remittances, and decentralized finance (DeFi: financial services built on public, decentralized blockchain networks) operations with the promise of price stability.

But that promise rests on a fragile foundation:

- **Fiat-backed stablecoins** (e.g., USDC, USDT) rely on centralized issuers maintaining 1:1 reserves. If those reserves are mismanaged, misrepresented, or inaccessible during a crisis, confidence evaporates.
- **Algorithmic stablecoins** (e.g., the now-defunct TerraUSD) use smart contracts — self-executing code — to balance supply and demand. But when sentiment turns, these mechanisms can spiral into collapse, as seen in Terra's \$40 billion implosion in 2022.

#### **Anatomy of a modern speculative attack**

Unlike Soros's high-profile currency short, today's attacks are decentralized, fast-moving, and often anonymous:

- **Smart contract exploits:** Hackers have drained millions by exploiting vulnerabilities in DeFi protocols that issue or support stablecoins. One 2025 attack on @0xinfiniti — a DeFi stablecoin neobank — led to a \$49.5M USDC theft, triggering a brief depeg.

- **Liquidity stress tests:** Speculators can target thinly collateralized stablecoins by triggering mass redemptions, forcing issuers to liquidate reserves or halt withdrawals — akin to a digital bank run.
- **Cross-chain arbitrage and flash loans** (short-term, uncollateralized loans used to assist with arbitrage, liquidation and collateral swaps): Sophisticated actors use automated strategies to exploit price discrepancies across platforms, draining liquidity and destabilizing pegs in minutes.

### Regulatory armor or Achilles' heel?

Governments are racing to impose guardrails. Legislation like the U.S. GENIUS Act, EU's MiCA framework, and Hong Kong's Stablecoin Ordinance all mandate full reserves, daily reconciliations, and redemption guarantees.

But regulation introduces its own risks:

- **Centralization:** Regulatory compliance often requires stablecoin issuers to operate like banks, concentrating risk and undermining cryptocurrency's decentralized ethos.
- **Jurisdictional arbitrage:** Issuers may shift operations to less regulated regions, creating blind spots for enforcement and systemic risk.

### The New Soros?

Today's speculator isn't a lone financier — it's a constellation of actors: hedge funds probing DeFi vulnerabilities, anonymous coders launching flash loan attacks, and malicious cyber criminals exploiting a nation's digital infrastructure. The battlefield has shifted from currency desks to smart contracts, but the goal remains the same—find the weak link, exploit it, and profit from the collapse.

### Lessons for today

Speculative attacks on fiat currencies are less common today, thanks to floating exchange rates and deeper foreign exchange reserves. But vulnerabilities remain:

- Emerging markets with dollar-denominated debt
- Countries with weak institutions or political instability
- Digital currencies and stablecoins with opaque backing

Modern attacks are faster, fueled by algorithmic trading and social media. Central banks must balance credibility, transparency, and flexibility to maintain monetary stability in the face of digital-era threats.



Source: [Getty images](#)

The rise of stablecoins adds a new wrinkle. If a digital dollar becomes the default for cross-border payments, central banks may find themselves defending their currencies — not against hedge funds, but against tech platforms and decentralized finance.

### **Could Stablecoins Trigger the Next Attack?**

- **Pegged to fiat, but backed by reserves that may be opaque**
- **Vulnerable to redemption runs if confidence falters**
- **Could pressure emerging market currencies if widely adopted**

### **Confidence Is currency**

Speculative attacks are tests of belief. When investors lose confidence in a currency regime, even the strongest central bank can falter. As Soros proved, markets move not just on fundamentals, but on perception.

In currencies, trust is everything. And once it's broken, recovery is never easy.

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