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INTELLIGENCE ON THE AI FRONTIER

PRICE: ONE IDEA

THE LEAD · FRONTIER ECONOMICS

Frontier Intelligence Just Got 40% Cheaper Overnight

A single model release reset the price-performance curve — and its default setting now beats a rival's maximum effort at a fifth of the cost.
When capability deflates this fast, the moat moves elsewhere.

40%	\$4	58	16/18	\$998
CHEAPER TO RUN THAN PRIOR FLAGSHIP	PER MILLION INPUT TOKENS	TOP OF THE INTELLIGENCE INDEX	PASSED A HALLUCINATION TEST	TO BEAT 2019'S FRONTIER MODEL

The headline number is the price. The newest frontier model runs about 40 percent cheaper than the generation it replaces and 30 percent faster, at four dollars per million input tokens and twenty per million output — with cache reads, where agentic bills actually accumulate, cut sixty percent to twenty cents.

Its default effort setting is now "medium," and medium reportedly beats the competing flagship at *maximum* effort on knowledge work at roughly one-fifth the cost per task. On a benchmark spanning forty-four occupations, the pattern holds. An independent index puts it top at fifty-eight, five points clear of the field.

The most quietly radical result is reliability: on a test that asked the model to research a company's quarterly numbers with the earnings release hidden, sixteen of eighteen reports passed — where the prior generation passed none. The lesson is not that hallucination is solved, but that it is now a spec line vendors compete on.

The caveats are real. The vendor itself calls narrow benchmark margins "a less reliable guide," some sensitive prompts silently reroute to older models, and the model is an unreliable *finisher*: handed no budget, it will burn millions of tokens wandering. Give it a stopping condition and it shines.

ALSO ON THE WIRE

A \$998 model beats 2019's frontier

An engineer trained a 3.8-billion-parameter model from scratch to a score that beats 2019's landmark 1.5B model — for a rented-GPU bill under a thousand dollars, less than a single high-end graphics card. Capability-per-dollar has fallen off a cliff.

THE COUNTER-SIGNAL

Adoption is outrunning advantage

Regular AI use has more than doubled in a year — but most organisations merely *buy* the same assistants their rivals buy, which creates no durable edge. The advantage accrues to those who *build*: find the problem, test, measure, iterate.

"When a competent individual can match a 2019 research lab for the price of a phone, the model stops being the moat."

THE SIGNAL · ANALYSIS

FIELD REPORT

The daily driver switches back

Builders who had defected to a rival coding assistant are returning. The anecdotes are concrete: model-generated Ruby handled 427 requests a second and met 17 of 20 latency budgets; a 251-line web-framework patch passed four of five automated checks; a single-prompt game ran nearly two hours.

But it buried the key point that a rival put first, and one app burned 5.9 million tokens before its core screens errored. Reach for it on visual and creative work; hand it a budget and a stopping point every time.

MULTIMODAL

Speed versus text-fidelity — and both invent numbers

An eight-prompt duel between two leading image models split cleanly. One produced the best-looking output and won on covers, collage and multi-person compositing — but refused twice and took one to two minutes per image. The other rendered in about ten seconds and won exactly the tasks the first refused, including editing a receipt total and turning a sketch into a photoreal product.

The shared flaw: both fabricate any figure left unspecified. Name every number in the prompt.

VOICE

Full-duplex separates talking from thinking

The new voice family listens and speaks at once, emitting an audio frame roughly every 80 milliseconds and treating silence as just another token — no more clunky "turn detector." A small fast model keeps the conversation chatty while delegating hard questions to a frontier model behind it.

A transport optimisation collapses six connection round-trips into one, and evaluation must target the p999 tail, because with continuous inference a "rare" p95 glitch strikes several times a minute.

The operating system is being rebuilt around agents as first-class citizens

The most consequential platform move of the season is not a model but a substrate. A major desktop OS is adding agent *identity* — so an agent appears as a distinct user in the task manager and the built-in defender becomes "agent-aware" — alongside agent *discovery* through a local registry of tool servers, and *isolation* through execution containers with escalating levels from a single process up to a full virtual machine.

The framing is a bid to win back developers who

drifted to rival platforms: the OS holds a commanding overall share yet placed third behind Linux in a ten-thousand-response developer survey. Embedded local models now run on-device at around forty tokens a second. The strategic point is quieter than any benchmark — whoever owns the primitive that makes an agent a named, sandboxed, auditable principal owns the enterprise control plane, and that lock-in does not reset every quarter the way model quality does.

THE CRAFT

AI moved the bottleneck downstream

One platform's merged code changes more than doubled year-on-year with no new major incidents; another saw pull-request output jump 111% and coordination overhead rise with it. One firm spent six months building automated review because AI volume overwhelmed the humans.

GOVERNANCE OF CODE

A schema registry is an org chart in disguise

Registries validate a payload's shape but miss the semantic gap — a valid rename that silently breaks downstream logic. The fix is ownership built into infrastructure, not Slack pings and "be more careful."

You're still the bottleneck

At a keynote, the speaker counted hands for anyone running 40, then 30, then 20 concurrent agents. Most attendees could only honestly raise a hand at "one." Tooling has raced past the human capacity to supervise it.

The performative-slowness equilibrium

A game-theory prediction: salaried workers who get faster via AI will hide it, and firms in law, engineering and consulting will pretend work still takes as long as it did — because revealing true speed collapses billable hours and headcount.

GEOPOLITICS

The AI race is now a land-use fight

A once-commanding national lead is fraying, and the binding constraint has shifted from chips to local politics. Roughly \$130 billion in data-centre projects were blocked or delayed in a single quarter; seventy-one percent of people surveyed opposed a data centre near them; and the fastest-growing state for construction froze new grid-connected projects pending impact studies. The buildout, not the model, is becoming the sleeper election issue.

REGULATION

A safety framework as a positioning move

A major power published version 3.0 of its AI safety governance framework, newly adding an explicit agentic-AI risk appendix and a "flexible, dynamic, controllable" regulatory sandbox. The subtext is a bid for the global safety-leadership role — and a prompt for every operator to name agentic risk in its own policies.

FINTECH

Everyone wants a bank now

Vertical integration is the whole game. One payments firm is paying about \$400 million for cross-border rails; a neobank is paying \$590 million cash to own its bank charter outright — while carefully keeping assets under ten billion dollars to preserve an interchange exemption worth roughly thirty times the capped rate. The disruptors that promised to kill banks now want to be them.

CAPITAL

Sour on new model labs

A survey of twenty-five top investors, yielding 344 quotes, found them bullish on AI infrastructure but cooling on new foundation-model companies — one likening model vendors to a games studio, "only as good as their next hit."

VENTURE

The firm as the product

With value concentrating at record speed, one major firm is rebuilding itself so the capital vehicle — not the cheque — is the product: a "living lab" that buys the customer to see problems first-hand, and an asset-manager flywheel to lower founders' cost of capital.

SECURITY

A demonstration that split the field

Researchers used a flaw in a forum tool to reach a leading lab's code repository, opened a harmless pull request to prove impact, took nothing, and reported it first. The industry then argued over whether proving blast radius justifies pulling the trigger.

THESIS I

The moat moved from capability to acceptance

Put the thousand-dollar hobby model, the 40%-cheaper flagship, and the emerging metric of "accepted work per human hour" in one frame and a pattern appears: producing plausible output is deflating toward free, so the scarce resource is *accepting* it. The organisations that win the next year will not have the best model access — they will have the highest ratio of verified, shippable output to human review-hours. Hire and tool for verification bandwidth, not generation.

THESIS II

Own the identity-and-isolation layer

The agentic OS design and the schema-governance argument are the same story at different altitudes: as agents multiply, the binding problem is containment and accountability, not intelligence. The platform that turns an agent into a named, sandboxed, auditable principal becomes the standard every enterprise builds on — a far more durable lock-in than model quality, which resets quarterly.

THESIS III

The real bottleneck is trust bandwidth — and it's hidden

"You're still the bottleneck," the performative-slowness prediction, and the workslop data converge: output has outrun both the capacity to verify and the incentive to admit true speed. The market looks slow because gains are being concealed while review queues overflow. Anything that makes verification cheap and trust legible attacks the constraint everyone has and no one is pricing.

THESIS IV · MOVE 37

Treat "safety governance" as a moat, not a brake

The contrarian read on the simultaneous arrival of a "pace the frontier" essay, a national safety framework, and a twenty-leader slowdown declaration — landing precisely as inference costs collapse and a \$998 model beats 2019's frontier — is that governance is becoming competitive terrain, not conscience. When capability commoditises, durable advantage migrates to whoever writes the rules that raise the cost of entry. The unpopular, investable bet: build the compliance-and-audit infrastructure a governed frontier will mandate, and profit from the slowdown rather than fight it.

Value migrates to the scarce regulated input

Neobanks buying charters, payment firms buying rails, AI labs locking up compute, a venture firm buying a hospital and an asset manager — one move across four industries: vertically integrate into the scarce, regulated, hard-to-replicate layer while the shiny front-end commoditises. In any AI business, ask what the "bank charter" is — the licensed, capacity-constrained, trust-anchored asset rivals can't spin up — and own that, not the model.