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Three Take-Aways

1) The widening Iran conflict risks sharp escalation, and significant extension, on. Trump's "whatever it takes".

2) Alongside an effective blockade of the Straits of Hormuz, the shipping risk premium is sharply higher and risk of latent energy shocks are amplified.

3) The RBA has flagged hawkish trigger from Middle East energy shocks, which could support AUD (backed further by gas price).

MACRO THEME: "Whatever It Takes"

- **Trump**'s "***whatever it takes***" **on** the **Iran conflict**, blows off ***Hesgeth's attempts to assuage concerns of a drawn-out war***.

- Given **Israel's declaration of a new wave of strikes**, *chances are,* the **US will be drawn into greater and far more perilous engagement**.

- *Especially as* "leadership decapitation" as a gambit appear to have backfired, resulting in *more radicalized/resistant Iranian Revolutionary Guards.*

Unstoppable vs. Immovable – More Dangerous & Drawn Out

- The acute geopolitical danger here is that a US that will not backdown may be confronting an Iran with nothing to lose.

= That is, the **geopolitical equivalent of** an "*unstoppable force meeting an immovable object*".

- Inevitably, this mean that the ***Iran conflict is tipping towards dangerously acute escalation***.

- Worse, this could be **far more drawn out with Trump's timeline threat of** "*four to five weeks … (with the) capability to go far longer*".

Widening War

- Most dangerously, this **US/Israel-Iran conflict rapidly widening out**, may be ***uncomfortably close to the precipice of a Middle East war***.

- For one, the *killing of the Supreme Leader Ayatollah Khamenei* amid **"regime change" narrative unleashing unrestrained IRGC* attacks across the region**.

- Second, more *radicalization of autonomous Iranian proxies*, *opportunistic terrorists* and *brewing sectarian warlords on the brink of conflict* seizing the situation **add to the anarchy**.

- Finally, self-preservation instincts of **regional players joining the conflict** inadvertently, *on US' failure to underwrite security,* **inadvertently exacerbate the threats of a wider, longer-drawn and high-cost war**.

*IRGC Revolutionary Guard Corps

The "Hormuz Move"

- Notably, the **Iranian Revolutionary Guards' attack on a US oil tanker in the Straits of Hormuz flags acute shipping risks**.

- This key **chokepoint through which ~20% of global oil (and gas) pass through** ***entail enlarged, latent risks of sharp energy shocks***.

- **Oil freight prices have surged** to records, with reports of *~$20/bbl transport cost now being demanded* (some eight-fold of ~$2.50 average last year).

- To be clear, this is **real-time risk re-pricing *not*** (as yet) the reflection of **an effective blockade**, which is *a fat tail-risk as the Iran conflict intensifies.*

(Under-priced) Energy Shock Threats

- Arguably, the **shipping premium**, which is *priced separate to crude pricing,* partly **captures the escalating geo-political risk premium**.

- ***But*** the reality is that **latent risk of acute energy price shocks** may still be **under-priced**.

- Higher shipping price is one thing. ***Seriously impaired passage*** is quite another, which is ***harder to fully reflect.***

- Crucially, alongside threats to production and pipeline destruction from the widening regional war, **upside risks to crude may of a far higher order****.

- And OPEC reassurances of supply. Amid a war in the Middle East, is simply not convincing.

**Assuming 10-15% "real time" supply impairment, the potential for crude to spike by another $30-45/bbl is conservative.

Yields *(2Y: +9.8bp; 10Y:+9.5bp; 30Y: +6.8bp)*

Equities *(Nasdaq: +0.4%; S&P 500: +0.04%; Dow: -0.2%)*

FX *(DXY: +0.8%)*

RBA Warns of "Live" March & Iran Conflict Triggers

" If you are not too long, I will wait for you all my life." – **Oscar Wilde**

- ***Regardless of the hike in February*** the **RBA** has warned that it **need not wait too long for the next hike**.

- Certainly, that it is **not committed to quarterly reassessments.**

- ***In fact,*** , declared that "***March … will be a "live meeting***", *with the* broader message being, "*every meeting is live*".

- Understandably, the **RBA is** "***actively looking whether or not … to move more quickly***", as compelled by **elevated inflation**.

- But crucially, the **RBA is vigilant** and notably "***well positioned***" for a **policy response to potential inflationary shocks from the Middle East conflict**.

- **Market-implied probability of a March hike** has **jumped to over 27% now** from a far more restrained ~11% last Friday.

- The bottom-line for markets is that **patience in hiking rates is not absolute**, *liable to be compromised by oil price shocks from Iran risks.*

- Against this *overtly hawkish RBA bias,* AUD could be relatively more buoyant (less beaten down against the USD).

- Especially if gas prices surge alongside oil, given AUD's *positive terms of trade effects from higher gas prices.*

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) ISM Manufacturing/Prices Paid (Feb)	52.4/70.5	51.4/60.0	52.6/59.0
(ID, IN, MY, PH, TH, TW, VN) PMI Mfg (Feb)			
(ID) Exports/Imports YoY (Jan)	3.4%/18.2%	11.0%/15.0%	11.6%/10.8%
(ID) CPI/Core YoY (Feb)	4.8% /2.6%	4.3%/2.5%	3.6%/2.5%
(IN) Industrial Production YoY (Jan)	4.8%	6.0%	8.0%

Today	Actual	Exp.	Prior
(EZ) CPI/Core YoY (Feb P)		1.7%/2.2%	1.7%/2.2%
(JP) Job-To-Applicant Ratio/Jobless Rate (	1.2/2.7%	1.2/2.6%	1.2/2.6%
(AU) BoP Current Account Balance (4Q)	-A$21.1b	-A$16.5b	-A$16.6b

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	157.39	157.26	+0.86%	155.50	-	159.30
EURUSD	1.1688	1.1696	▼1.05%	1.1600	-	1.1800
GBPUSD	1.3407	1.3410	▼0.56%	1.3300	-	1.3550
AUDUSD	0.7093	0.7105	▼0.35%	0.7050	-	0.7180
DXY	98.4	--	+0.79%	97.5	-	99.2
USDCNY	6.9051	--	+0.62%	6.8500	-	6.9500
USDCNH	6.9010	6.8942	+0.56%	6.8500	-	6.9500
USDHKD	7.8213	7.8215	▼0.03%	7.7800	-	7.8500
USDSGD	1.2740	1.2726	+0.70%	1.2600	-	1.2800
USDKRW	1461	1440	+0.00%	1430	-	1455
USDTWD	31.44	--	+0.69%	31.20		31.90
USDINR	91.48	--	+0.55%	90.90	-	93.00
USDIDR	16861	--	+0.54%	16750	-	16970
USDMYR	3.927	3.928	+0.89%	3.900		3.960
USDPHP	58.18	--	+0.89%	57.70	-	59.00
USDTHB	31.45	31.35	+1.17%	31.1	-	31.6
USDVND	26171	26188	+0.43%	26000	-	26400

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.476	4.036	9.8	9.5
JGB (JP)	1.221	2.077	-0.3	-3.4
Bunds (GE)	2.085	2.711	9.0	6.8
Gilts (UK)	3.635	4.373	11.9	14.1
AGB (AU)	4.161	4.633	-2.5	-1.8
SGS (SG)	1.340	1.899	-1.9	-3.2
CGB (CN)	1.351	1.799	-0.9	-0.9
KGB (KR)	2.826	3.450	0.0	0.0
SDL (IN)	5.613	6.675	-1.0	1.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	183.97	183.93	▼0.21%
GBP/JPY	211.057	210.871	+0.31%
JPY/SGD (100yen)	0.8095	0.8093	▼0.12%
JPY/HKD (100yen)	4.9704	4.9738	▼0.85%
CNH/JPY	22.792	22.774	+0.25%
CNH/HKD	1.1327	1.1327	▼0.63%
EUR/GBP	0.87187	0.87222	▼0.52%
AUD/NZD	1.1938	1.1945	+0.59%
EUR/CNH	8.066	8.0635	▼0.52%
GBP/CNH	9.2519	9.2448	▼0.02%
CNY/HKD	1.1327	1.1327	▼0.63%
EUR/HKD	9.1426	9.148	▼1.07%
SGD/HKD	6.1392	6.1461	▼0.75%

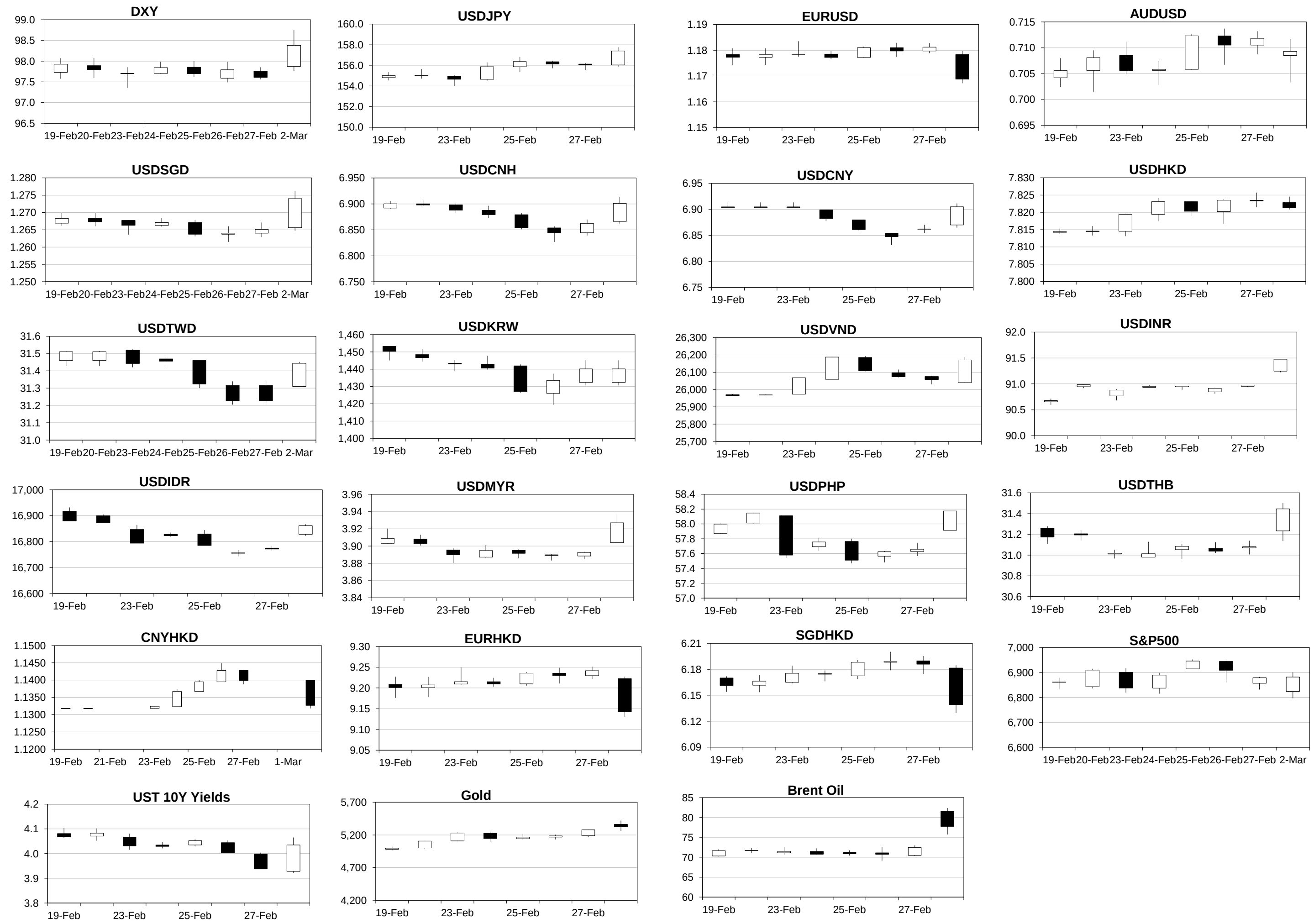
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6881.62	2.74	+0.04%
Nasdaq (US)	22748.86	80.65	+0.36%
DJIA (US)	48904.78	-73.14	▼0.15%
N225 (JP)	58057.24	-793.03	▼1.35%
STOXX50 (EU)	5986.93	-151.48	▼2.47%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5780.25	-71.23	▼1.22%
STI (SG)	4890.86	-104.21	▼2.09%
SHCOMP (CN)	4182.591	19.71	+0.47%
SZCOMP (CN)	2744.861	-18.72	▼0.68%
HSI (HK)	26059.85	-570.69	▼2.14%
SENSEX (IN)	80238.85	-1048.34	▼1.29%
JSE (ID)	8016.833	-218.65	▼2.65%
KLSE (MY)	1700.21	-16.40	▼0.96%
PSE (PH)	6426.83	-184.41	▼2.79%
SET (TH)	1466.51	-61.75	▼4.04%
VNINDEX (VN)	1846.1	-0.02	▼1.82%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,033.99	-260.04	▼1.96%
IRON ORE (CN)	100.07	1.61	+1.02%
GOLD	5,322.12	43.19	+0.82%
SILVER	89.38	0.10	+3.53%
OIL (BRENT)	77.74	5.26	+7.26%
OIL (WTI)	71.23	4.21	+6.28%
NATURAL GAS	2.96	-4.41	▼4.70%

CHARTS



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