

Mar 06, 2026

Three Take-Aways

- 1) Fed officials struck a hawkish tone, keeping expectations for near-term rate cuts firmly in check.
- 2) China signaled greater realism by lowering its 2026 growth target while keeping fiscal support steady.
- 3) Strategic ambiguity around the war aims is keeping markets in a fat-tail regime.

MACRO THEME: Hawkish Messaging

- Fed officials delivered a decidedly hawkish tone overnight, reinforcing the view that policymakers still need clearer evidence before considering further easing, pushing market pricing down to roughly **1.6x 25bp cuts** this year.

- Richmond Fed President **Barkin** warned that the Fed's response to the U.S.–Iran conflict hinges on how long its economic impact lasts, adding that **“a couple months of relatively high inflation”** should **“pause any conclusion that we’re done fighting this.”**

- Fed Governor **Bowman** similarly pointed to **“some signs of stabilizing”** in the labor market and said January's hold was intended to assess whether last year's cuts had supported hiring, while cautioning that it remains too early to judge the war's economic effects.

- **Against this backdrop of cautious rhetoric**, labor market data offered little contradiction: **initial jobless claims stayed unchanged at 213,000**, slightly below expectations and reinforcing a picture of **labor-market stability despite slowing hiring trends**.

- **Challenger report shows a sharp pullback in layoffs**. Employers announced **48,307 job cuts in February**, a **55% drop from January** and **72% lower than a year earlier**.

Yields (2Y: +3.1bp; 10Y:+3.9bp; 30Y: +1.8bp)

Equities (Nasdaq: -0.3%; S&P 500: -0.6%; Dow: -1.6%)

FX (DXY: +0.6%)

China: Being More Realistic

- There's little surprise in Beijing's signal of tolerance for slower growth at yesterday's NPC meeting. In fact, it is **Beijing being more realistic to lower the nation's growth target to 4.5-5%**, when it has no intention to significantly ramp up its fiscal spending.

- For this year, **China has maintained the fiscal deficit unchanged at 4%**, with **no additional increase in the issuance plan for ultra-long special sovereign bonds (RMB1.3trn) and special local government bonds (RMB4.4trn)**. We therefore maintain our 2026 GDP growth forecast unchanged at 4.6%.

- Details in this year's fiscal budget show that Beijing is trying to balance between supporting growth and enforcing fiscal discipline.

- For the first time, it is **explicitly stated that special local government bonds may be used for hidden debt swaps**, which should ease the financial burden on local governments to fully unwind their financing vehicles by mid-2027.

- **The quota for government trade-in subsidies is lowered to RMB250b** (funded via ultra-long special sovereign bonds), down from RMB300b in 2025. Meanwhile, Beijing is **prompting interest subsidies to personal consumer loans to support domestic consumption**.

- Beijing will also **rely more heavily on policy banks to bolster investment**, including the issuance of RMB 800 billion in new policy financial instruments to crowd in additional private capital.

- On the monetary front, Premier Li urged **the use of cuts on interest rates and RRR in a flexible and effective way**. Li also called for a **return to positive inflation, a more assertive stance compared with last year's objective** of guiding overall prices back to “a reasonable range.”

- In our view, the planned issuance of additional RMB1.3trn ultra-long sovereign bonds is likely to place notable upward pressure at the back end of the curve amid relatively limited market demand. **We expect a 25bp RRR cut to be deployed around the time the Ministry of Finance begins issuing these bonds in phrases**.

- Additionally, current disruptions to energy supply from the Middle East, if persist for weeks, are expected to increase operating costs for manufacturers and squeeze their profit margin amid weak domestic demand. Such a situation, in our view, would significantly **increase the likelihood of an interest rate cut by the PBoC**.

Fat-Tail Markets and the Hidden Cost Beyond Volatility

- The US has articulated **four war objectives** but **they offer little clarity on when these goals are achieved**. **Trump's shifting demands further blur the policy signal**. This strategic ambiguity risks being read as tacit alignment with Israel's maximalist posture, potentially reinforcing Iran's perception of an existential threat.

- Markets therefore remain trapped in a **“fat-tail” regime, reacting sharply to every headline, with volatility most visible in energy markets and in FX pressure across energy-importing Asian currencies**.

- Meanwhile, **concerns over forced production shut-ins in the Middle East are intensifying** as tanker paralysis in the Strait of Hormuz raises the risk that **storage will reach capacity if the conflict drags into weeks**.

- Wells and refineries left idle for extended periods tend to suffer mechanical deterioration, and **bringing them back online** requires technical work that **may be difficult** to mobilize during wartime.

- **Downstream production chains would face even longer delays** as plants wait for feedstock to resume, amplifying the disruption.

- To make matters worse, **several Asian economies have been reported to restrict petroleum product exports to safeguard domestic supply**, tightening regional availability and amplifying the supply shock even before upstream production is fully disrupted.

- **If the war persists**, temporary logistical bottlenecks **risk hardening into medium-term structural supply disruptions**, creating a production recovery challenge that the **has not been fully priced in**.

FX OUTLOOK

DATA/EVENTS

| Overnight | Actual | Exp. | Prior |
|--|--------------|------------------|------------------|
| (US) Initial Jobless Claims | 213k | 215k | 212k |
| (EZ) Retail Sales YoY (Jan) | 2.0% | 1.7% | 1.3% |
| (SG) Retail Sales/Ex Auto YoY (Jan) | -0.4%/-2.8% | 2.8%/-- | 2.7%/1.7% |
| (AU) Trade Balance (Jan) | A\$2631m | A\$3800m | A\$3373m |
| (MY) BNM Overnight Policy Rate | 2.75% | 2.75% | 2.75% |
| (TH) CPI/Core YoY (Feb) | -0.9%/0.6% | -0.6%/0.5% | -0.7%/0.6% |
| (PH) CPI YoY (Feb) | 2.4% | 2.4% | 2.0% |
| (TW) Industrial Production YoY (Jan) | 28.5% | 29.0% | 21.6% |
| Today | Actual | Exp. | Prior |
| (US) Retail Sales Adv./Ex Auto and Gas MoM (Jan) | | -0.3%/-- | 0.0%/0.0% |
| (US) Change in Nonfarm Payrolls (Feb) | | 60k | 130k |
| (US) Unemployment Rate (Feb) | | 4.3% | 4.3% |
| (EZ) GDP SA QoQ/YoY (4Q T) | | 0.3%/1.3% | 0.3%/1.3% |
| (KR) CPI/Ex Food and Energy YoY (Feb) | | 2.2%/2.1% | 2.0%/2.0% |
| (TW) CPI/Core YoY (Feb) | | 1.5%/-- | 0.7%/1.2% |
| (VN) Exports/Imports YoY (Feb) | | 12.5% 13.3% | 29.7%/49.2% |
| (VN) CPI YoY (Feb) | | 2.8% | 2.5% |

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 157.59 | 157.54 | +0.34% | 155.50 - 158.50 |
| EURUSD | 1.1609 | 1.1608 | ▼0.21% | 1.1550 - 1.1750 |
| GBPUSD | 1.3357 | 1.3358 | ▼0.13% | 1.3200 - 1.3550 |
| AUDUSD | 0.7008 | 0.7011 | ▼0.95% | 0.7030 - 0.7180 |
| DXY | 99.3 | -- | +0.55% | 98.0 - 99.5 |
| USDCNY | 6.9113 | -- | +0.21% | 6.8500 - 6.9500 |
| USDCNH | 6.9180 | 6.9153 | +0.33% | 6.8500 - 6.9500 |
| USDHKD | 7.8193 | 7.8192 | +0.02% | 7.7800 - 7.8500 |
| USDSGD | 1.2805 | 1.2802 | +0.42% | 1.2600 - 1.2850 |
| USDKRW | 1475 | 1483 | +0.00% | 1455 - 1485 |
| USDTWD | 31.71 | -- | ▼0.01% | 31.20 - 31.90 |
| USDINR | 91.60 | -- | ▼0.60% | 90.90 - 93.00 |
| USDIDR | 16883 | -- | ▼0.01% | 16750 - 17000 |
| USDMYR | 3.945 | 3.948 | +0.03% | 3.900 - 3.990 |
| USDPHP | 58.61 | -- | +0.03% | 57.90 - 59.00 |
| USDTHB | 31.60 | 31.77 | +0.48% | 31.3 - 31.9 |
| USDVND | 26189 | 26209 | ▼0.05% | 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) | 3.581 | 4.137 | 3.1 | 3.9 |
| JGB (JP) | 1.249 | 2.154 | 2.4 | 4.4 |
| Bunds (GE) | 2.237 | 2.839 | 10.9 | 9.0 |
| Gilts (UK) | 3.803 | 4.540 | 10.1 | 10.0 |
| AGB (AU) | 4.321 | 4.798 | 5.0 | 5.1 |
| SGS (SG) | 1.354 | 1.970 | -0.5 | 1.2 |
| CGB (CN) | 1.337 | 1.793 | 0.3 | -0.2 |
| KGB (KR) | 3.002 | 3.635 | 0.0 | 0.0 |
| SDL (IN) | 5.663 | 6.641 | 1.7 | -3.2 |

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 6830.71 | -38.79 | ▼0.56% |
| Nasdaq (US) | 22748.99 | -58.49 | ▼0.26% |
| DJIA (US) | 47954.74 | -784.67 | ▼1.61% |
| N225 (JP) | 55278.06 | 1032.52 | +1.90% |
| STOXX50 (EU) | 5782.89 | -88.03 | ▼1.50% |

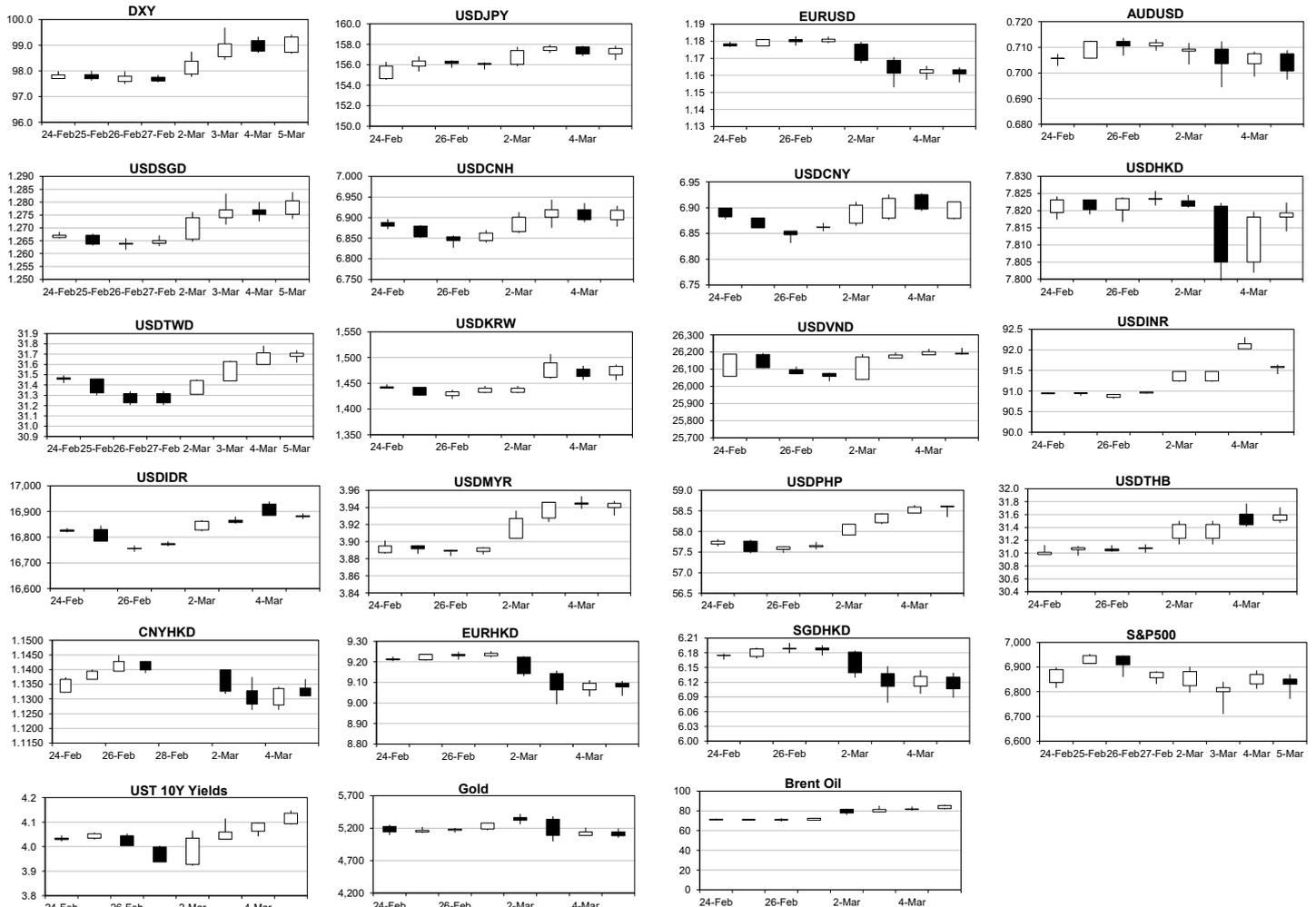
| Commodity | Close | Net Chg | Daily %Δ |
|---------------|-----------|---------|----------|
| COPPER (LME) | 12,857.44 | -181.03 | ▼1.39% |
| IRON ORE (CN) | 101.01 | 1.96 | +1.42% |
| GOLD | 5,082.30 | -58.06 | ▼1.13% |
| SILVER | 82.24 | 0.09 | +2.95% |
| OIL (BRENT) | 85.41 | 4.01 | +4.93% |
| OIL (WTI) | 81.01 | 6.35 | +8.51% |
| NATURAL GAS | 3.00 | -1.31 | ▼1.56% |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 182.93 | 182.87 | +0.11% |
| GBP/JPY | 210.509 | 210.427 | +0.21% |
| JPY/SGD (100yen) | 0.8128 | 0.8126 | +0.11% |
| JPY/HKD (100yen) | 4.9629 | 4.9635 | ▼0.30% |
| CNH/JPY | 22.824 | 22.793 | +0.16% |
| CNH/HKD | 1.1311 | 1.1313 | ▼0.22% |
| EUR/GBP | 0.86912 | 0.86902 | ▼0.10% |
| AUD/NZD | 1.1888 | 1.1889 | ▼0.18% |
| EUR/CNH | 8.031 | 8.0273 | +0.11% |
| GBP/CNH | 9.2414 | 9.2371 | +0.21% |
| CNY/HKD | 1.1311 | 1.1313 | ▼0.22% |
| EUR/HKD | 9.078 | 9.0765 | ▼0.20% |
| SGD/HKD | 6.1067 | 6.1078 | ▼0.41% |

*Open is as at 8am HKT/SGT.

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 5586.55 | -78.05 | ▼1.38% |
| STI (SG) | 4846.56 | 33.81 | +0.70% |
| SHCOMP (CN) | 4108.567 | 26.09 | +0.64% |
| SZCOMP (CN) | 2672.817 | 31.03 | +1.17% |
| HSI (HK) | 25321.34 | 71.86 | +0.28% |
| SENSEX (IN) | 80015.9 | 899.71 | +1.14% |
| JSE (ID) | 7710.537 | 133.47 | +1.76% |
| KLSE (MY) | 1713.2 | 14.98 | +0.88% |
| PSE (PH) | 6380.53 | 72.69 | +1.15% |
| SET (TH) | 1417.29 | 32.68 | +2.36% |
| VNINDEX (VN) | 1808.51 | -0.01 | ▼0.54% |

CHARTS



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