Mizuho Daily

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Three Take-Aways

1) Despite assurances from Trump, there is little sign that the conflict in the Middle East will end soon, especially with Trump postponing his summit with Xi.

2) The likelihood of an interest rate cut in China this month has significantly diminished in view of the nation's upbeat economic performance YTD.

3) For the upcoming FOMC rate decision, the presumed case for a pause remains intact, but the increasing risk of stagflation is likely to further polarize intra-FOMC views.

MACRO THEME: War Ending Soon?

- There are few indications that the conflict in the Middle East will end anytime soon, despite assurances from US President Trump.

- On one hand, Israel announced that it had targeted Iran's security chief, Ali Larijani, in an overnight operation. President Trump warned that the US could widen its strikes to include Kharg Island, Iran's key oil export hub.

- On the other hand, Gulf nations continue to endure attacks from drones launched by Iran.

- Meanwhile, several NATO members — including Germany, France, Canada, Greece, and Norway — have made it clear that they will not take part in US-Israeli military actions.

- President Trump confirmed that his planned summit with President Xi, originally set for 31 March to 2 April, will be postponed by "a month or so," so he can remain in Washington during the ongoing conflict.

Reassurances on Private Credit

- A recent US fund manager survey showed investor confidence falling to a six-month low in March. Cash holdings have risen sharply as investors grow increasingly concerned about the war in Iran and mounting stress within private credit markets.

- Meanwhile, senior executives from major banks — including UBS's CFO as well as the CEOs of Deutsche Bank and Société Générale — have emphasized that they are not seeing systemic risks emerge in private credit and remain comfortable with their current exposures.

***Yields** (2Y: +0.4bp; 10Y: -1.8bp; 30Y: -2.6bp)*

***Equities** (Nasdaq: +0.5%; S&P 500: +0.3%; Dow: +0.1%)*

***FX** (DXY: -0.1%)*

China: Kicking Can Down the Road

- The likelihood of a benchmark interest rate cut this month has diminished meaningfully as China's year-to-date data consistently surprised to the upside:

- Industrial production accelerated to 6.3% YoY, the fastest pace since September, powered by a broad-based rebound, most notably high-tech manufacturing (+13.1%).
- Retail sales rose 2.8% YoY, supported by fresh government subsidies and holiday spending.
- Fixed asset investment unexpectedly returned to positive territory at 1.8% YoY, driven by robust public-sector investment. A slower price decline in raw materials, such as ferrous and non-ferrous metal, also provided support.
- Most high-frequency indicators point to steady or slightly improved activity in Q1 versus last year.

- However, construction-related metrics remain a major drag post the Lunar New Year holiday, clouding China's investment outlook. Road construction activity is still about 20% below last year's levels, and cement prices, an important indicator to gauge construction demand, are hovering near a decade-low.

- Against this backdrop, we believe the case for rate cuts remains intact, with policymakers likely waiting for a more appropriate moment, particularly given this year's restrained fiscal stance.

- That said, with local governments increasingly leaning on ultra-long-tenor bonds to finance—already 57.5% of issuance YTD versus 46.7% in 2024—we expect further liquidity-easing measures from the PBoC, including RRR cuts, to support market liquidity and help anchor yields at the back end.

FOMC: Pause, Postpone, Polarize

- In a Nutshell: At the March FOMC, the pre-exiting, presumed case for a pause remains intact. Shaken, but not moved, by the Iran war. Further out though, rate cut bets blindsided by oil shocks are suspended, postponed beyond mid-2026. Crucially though, the stagflation-type risks impose a dilemma, and likely further polarizing intra-FOMC views between inflation hawks and doves trying to cushion pipeline demand destruction.

- Pause Intact: The prolonged "Powell pause", so to speak, was the base case that predated Iran. Nothing has changed on that front for March. A pause is still widely expected in March, and likely into May as well.

- Postponement of Presume Cut Resumption: But with soaring oil prices likely to initially unsettle the view of subdued (perhaps even mildly softening) inflation, the case for a mid-year cut - early in the Fed Chair transition - is rendered highly inconvenient. Inevitably, earlier bets on mid-2026/Q3 resumption of rate cuts are now postponed. Suspended in the tyrannical, "fat-tail" uncertainties of the Iran war.

- Further Polarizing the Fed: Crucially, this is likely to accentuate the pre-existing polarisation within the FOMC. Beyond the intervening Fed dilemma on stagflation-type threats arising from the Iran war shocks, that is. The split within the Fed between worries of waves of inflation rippling via the long reach of oil (and shipping) and demand destruction from the "oil tax" will be starker.

- Uncertainty & Volatility: In the context of heightened geopolitical uncertainties imposing as conflicting economic effects, clarity and conviction on the direction (as well as speed/timing) of travel of Fed rates is likely to be compromised. A volatile path to UST bear flattening is likely as rate cuts are initially priced out. But a steepening is likely to resume as oil compounds into longer inflation expectations.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Pending Home Sales MoM (Feb)	1.8%	-0.6%	-0.8%
(JP) Tertiary Industry Index MoM (Jan)	1.7%	0.9%	-0.5%
(GE) ZEW Survey Expectations (Mar)	-0.5	39.2	58.3
(SG) Non-oil Domestic/Electronic Exports `	4.0%/43.2%	5.3%/--	9.3%/56.1%
(AU) RBA Cash Rate Target	4.10%	4.10%	3.85%
(ID) BI-Rate	4.75%	4.75%	4.75%

Today	Actual	Exp.	Prior
(US) PPI Final Demand/Ex Food and Energy YoY (Feb)		3.0%/3.7%	2.9%/3.6%
(US) Durable Goods Orders/Nondef Ex Air (Jan F)		0.0%/0.0%	0.0%/0.0%
(US) FOMC Rate Decision (Lower/Upper Bound)		3.50%/3.75%	3.50%/3.75%
(EZ) CPI/Core YoY (Feb F)		1.9%/2.4%	1.9%/2.4%
(JP) Trade Balance (Feb)		-¥460.0b	-¥1152.6b
(KR) Unemployment SA (Feb)	2.9%	3.0%	3.0%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	159.00	158.91	▼0.04%	158.00	-	160.20
EURUSD	1.1540	1.1540	+0.30%	1.1400	-	1.1600
GBPUSD	1.3356	1.3359	+0.27%	1.3150	-	1.3450
AUDUSD	0.7105	0.7109	+0.47%	0.7000	-	0.7150
DXY	99.6	--	▼0.14%	99.0	-	100.6
USDCNY	6.8848	--	▼0.08%	6.8500	-	6.9500
USDCNH	6.8830	6.8841	▼0.09%	6.8500	-	6.9500
USDHKD	7.8362	7.8365	+0.08%	7.8000	-	7.8500
USDSGD	1.2763	1.2763	▼0.12%	1.2720	-	1.2850
USDKRW	1487	1488	+0.00%	1475	-	1510
USDTWD	31.90	--	▼0.20%	31.70		32.50
USDINR	92.38	--	▼0.05%	91.80	-	93.00
USDIDR	16985	--	▼0.03%	16900	-	17150
USDMYR	3.918	3.918	▼0.26%	3.890		3.950
USDPHP	59.81	--	▼0.13%	59.40	-	60.50
USDTHB	32.36	32.34	▼0.47%	32.2	-	32.8
USDVND	26288	26287	+0.01%	26100	-	26500

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.676	4.200	0.4	-1.8
JGB (JP)	1.272	2.266	0.0	0.0
Bunds (GE)	2.379	2.904	-1.9	-4.6
Gilts (UK)	4.039	4.691	-5.5	-7.9
AGB (AU)	4.535	4.939	-2.7	-6.2
SGS (SG)	1.416	2.112	-2.0	0.4
CGB (CN)	1.330	1.839	-1.4	-0.3
KGB (KR)	3.166	3.681	0.0	0.0
SDL (IN)	5.980	6.714	0.9	0.8

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	183.49	183.39	+0.25%
GBP/JPY	212.374	212.273	+0.23%
JPY/SGD (100yen)	0.8028	0.803	▼0.07%
JPY/HKD (100yen)	4.9285	4.9307	+0.11%
CNH/JPY	23.1	23.079	+0.14%
CNH/HKD	1.1382	1.1381	+0.18%
EUR/GBP	0.86405	0.86383	+0.04%
AUD/NZD	1.2127	1.2133	+0.51%
EUR/CNH	7.9425	7.9439	+0.22%
GBP/CNH	9.1927	9.1961	+0.19%
CNY/HKD	1.1382	1.1381	+0.18%
EUR/HKD	9.0434	9.0429	+0.39%
SGD/HKD	6.1391	6.14	+0.18%

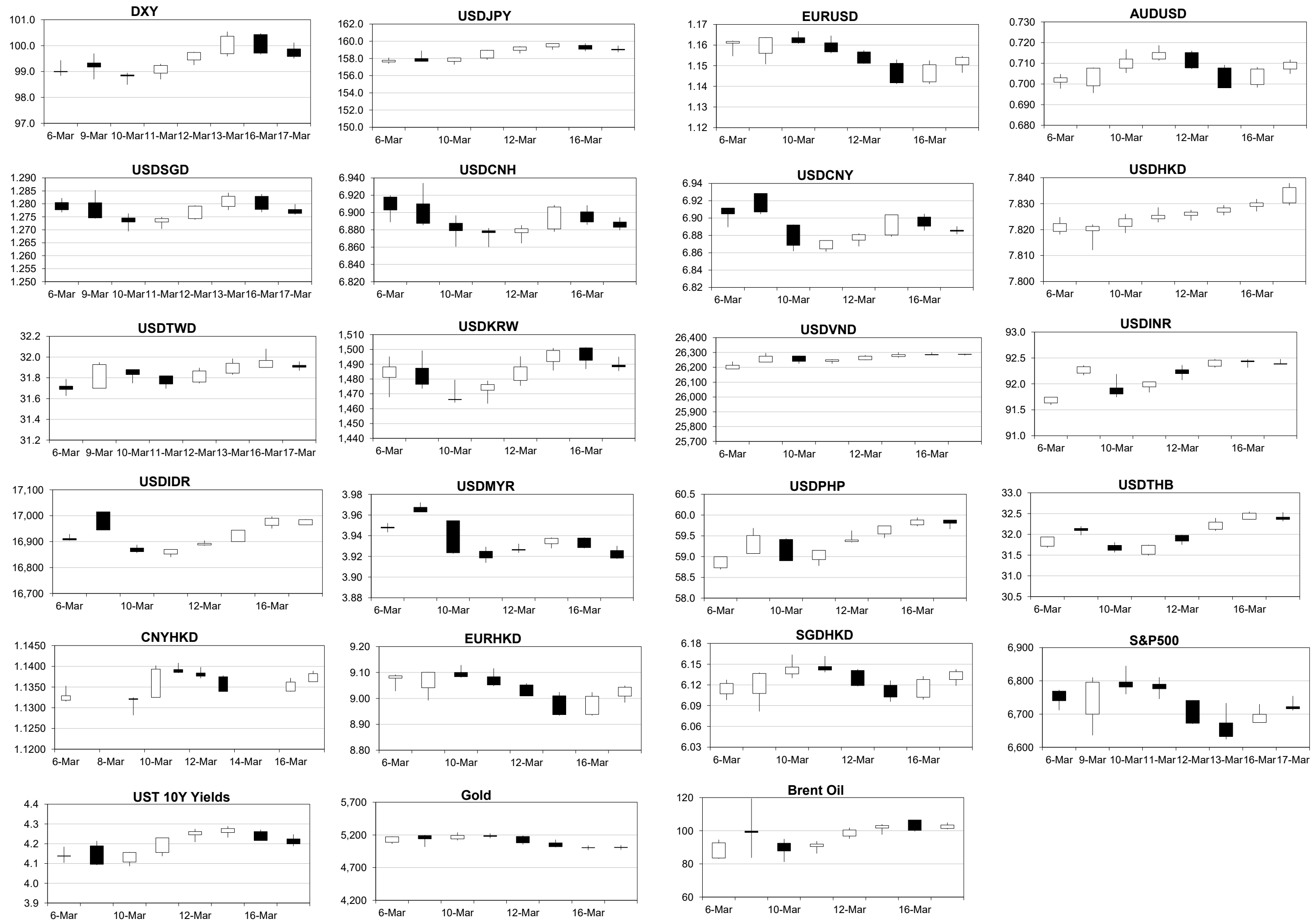
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6716.09	16.71	+0.25%
Nasdaq (US)	22479.53	105.35	+0.47%
DJIA (US)	46993.26	46.85	+0.10%
N225 (JP)	53700.39	-50.76	▼0.09%
STOXX50 (EU)	5769.25	30.24	+0.53%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5566.18	45.21	+0.82%
STI (SG)	4935.97	67.28	+1.38%
SHCOMP (CN)	4049.907	-34.88	▼0.85%
SZCOMP (CN)	2655.044	-50.61	▼1.87%
HSI (HK)	25868.54	34.52	+0.13%
SENSEX (IN)	76070.84	567.99	+0.75%
JSE (ID)	7106.839	84.55	+1.20%
KLSE (MY)	1710.99	14.43	+0.85%
PSE (PH)	6026.01	19.46	+0.32%
SET (TH)	1433.88	28.86	+2.05%
VNINDEX (VN)	1710.29	0.01	+1.01%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	12,661.53	-91.97	▼0.72%
IRON ORE (CN)	107.10	3.30	+0.64%
GOLD	5,005.61	-0.80	▼0.02%
SILVER	79.29	0.01	+0.33%
OIL (BRENT)	103.42	3.21	+3.20%
OIL (WTI)	96.21	2.71	+2.90%
NATURAL GAS	3.03	-1.49	▼1.84%

CHARTS



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