

Mar 26, 2026

Three Take-Aways

- 1) Iran rejects Washington's 15-point plan but submits its own. Risks shift from tail-risk escalation to headline-driven volatility.
- 2) ECB signals readiness to tighten on energy-led overshoots, Fed officials demand clearer disinflation.
- 3) War-driven haven demand and oil shocks are reviving a "Great War USD".

MACRO THEME: The Art of the Deal

- Negotiations have moved from feelers to formal positions. Washington tabled a 15-point framework but **Tehran rejected it as "excessive" and countered with its own demands centered on sovereignty and security guarantees.** Both sides have therefore **laid out requests, but no ceasefire** has been reached and hostilities continue, keeping a floor under the geopolitical risk premium.

- At the same time, **immediate supply anxiety has eased.** Iran says the Strait of Hormuz remains open to "non-hostile" vessels and **more tankers are transiting**, reducing near-term fears of a complete crude supply interruption and helping calm freight and insurance pricing at the margin.

- For markets, the balance of **risks has shifted from tail-risk escalation to headline-driven volatility.** The US is signaling openness to diplomacy while maintaining heightened readiness, and third-party calls (e.g., Pakistan and China) for talks reduce the probability of an uncontrolled spiral.

- That said, with strikes and counter-strikes ongoing, the probability distribution for energy prices remains fat-tailed: however, in the near term, expect choppy, mean-reverting price action rather than a one-way squeeze.

Hawks everywhere

- Officials of the two major central banks are **leaning vigilant.**

- ECB Christine Lagarde said that even a **"not too persistent"** energy-driven overshoot of the inflation target could still **justify a measured tightening**, adding the ECB **"will not be paralyzed by hesitation"**. She warned that ignoring such an overshoot would blur the Bank's reaction function—an explicit signal of vigilance as oil-related pressures persist.

- In the US, **Chicago Fed President Austan Goolsbee** said it is **only "realistic" to cut rates this year if inflation progress is evident**, warning the **energy shock could lift prices** before prior pressures have fully faded. If inflation rises further, the **Fed will need to "think through the options,"** and he has previously cautioned that **rate hikes later this year cannot be ruled out.**

- Meanwhile, Federal Reserve Governor **Stephen Miran**, who is known for his dovish stance among Fed officials, said he **raised his year-end policy rate projection by 50 bps to a percentage point cuts**, citing **disappointing inflation data** since December rather than oil-price or Iran-war effects, which now puts his estimate **around neutral.**

- Given the hawkish rhetoric, markets now price **2.5 increments of 25bp ECB hikes for 2026**, while implying **no change** in Fed policy rates over the same period.

BoJ: Telegraphed Hikes as a Stabilizer

- **Rengo's preliminary 2026 shuntō results point to solid wage momentum**, with average pay hikes of 5.26% and base-pay gains near 3.85%. Small and medium-sized unions—highlighted by Governor Ueda as a key segment to watch—are tracking around 5.05%, underscoring that wage pressures are broad-based rather than confined to large firms. This pattern suggests that the **underlying wage-price dynamics to sustain 2% inflation target remain intact.**

- External conditions reinforce this picture. **The Iran conflict** has tightened the energy corridor through Hormuz and embedded persistent risk premia into oil and shipping, raising the likelihood of **renewed imported-inflation pressure** for Japan.

- Meanwhile, **USD/JPY is trading just below 160**, a level widely viewed as the threshold for potential Ministry of Finance action. Verbal warnings have intensified, but credibility ultimately anchors markets. In this context, **well-telegraphed policy tightening often serves as the more durable stabilizer, helping resist a clean breach of 160** and moderating import-price pass-through.

- **The BoJ has also adopted a more hawkish tone in 2026.** January minutes emphasized deeply negative real rates and greater FX pass-through, while the March press conference kept a **near-term hike in play**—particularly as Middle-East energy shocks were framed as a risk rather than a baseline drag on growth.

- Overall, **the obstacles to BoJ hikes are largely cleared.** Well-telegraphed increases would reinforce the BoJ's credibility and limit the need for FX theatrics. In the current configuration, **delaying a hike is the riskier choice** for both price stability and financial stability within the policy framework.

"Great War USD" Returns

- **War dynamics** involving precautionary demand for USD (as a relative, even if flawed, haven) coinciding with oil spike from geo-political supply shocks flips "usual" negative USD-Oil correlations on its head. This Iran War is no exception.

- Arguably, **US's pronounced, relative energy security advantage accentuates** this "Great War USD". And the **Fed now distinctly less hawkish than during the Russia-Ukraine episode may temper but does not materially undermine USD tone.**

- AXJ and JPY look especially compromised by sweeping USD strength given **direct Hormuz-Oil import vulnerabilities.** The risk is that AXJ weakness may persist even after oil peaks and mellows. And subsequent recovery will almost certainly be uneven.

Yields (2Y: -0.4bp; 10Y: -3.0bp; 30Y: -2.7bp)

Equities (Nasdaq: +0.8%; S&P 500: +0.5%; Dow: +0.7%)

FX (DXY: +0.2%)

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Current Account Balance (4Q)	-\$190.7b	-\$208.5b	-\$226.4b
(JP) Coincident/Leading Index CI (Jan F)	117.9/112.1	--	116.8/112.4
(JP) Machine Tool Orders YoY (Feb F)	24.2%	--	24.2%
(GE) IFO Business Climate/Expectations	86.4/86.0	86.3/86.0	88.6/90.5
(AU) CPI/Trimmed Mean YoY (Feb)	3.7%/3.3%	3.8%/3.4%	3.8%/3.4%
(KR) Consumer Confidence (Mar)	107.0	--	112.1
(KR) Retail Sales YoY (Feb)	7.9%	--	4.4%
Today	Actual	Exp.	Prior
(US) Initial Jobless Claims		210k	205k
(US) Kansas City Fed Manf. Activity (Mar)		3	5
(JP) PPI Services YoY (Feb)		2.6%	2.6%
(SG) Industrial Production YoY (Feb)		14.1%	16.6%
(TW) Unemployment Rate (Feb)		3.4%	3.4%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	159.47	159.40	+0.49%	157.00 - 160.20
EURUSD	1.1559	1.1561	▼0.42%	1.1450 - 1.1700
GBPUSD	1.3365	1.3363	▼0.34%	1.3200 - 1.3500
AUDUSD	0.6947	0.6942	▼0.70%	0.6900 - 0.7050
DXY	99.6	--	+0.17%	98.6 - 100.0
USDCNY	6.9026	--	+0.13%	6.8500 - 6.9500
USDCNH	6.9028	6.9039	+0.13%	6.8500 - 6.9500
USDHKD	7.8185	7.8185	▼0.11%	7.8200 - 7.8500
USDSGD	1.2815	1.2813	+0.26%	1.2700 - 1.2950
USDKRW	1503	1502	+0.00%	1480 - 1505
USDTWD	31.94	--	▼0.32%	31.70 - 32.20
USDINR	93.97	--	+0.11%	92.90 - 94.50
USDIDR	16910	--	▼0.44%	16900 - 17150
USDMYR	3.964	3.9670	+0.19%	3.900 - 3.980
USDPHP	60.11	--	+0.28%	59.50 - 60.50
USDTHB	32.65	32.78	+0.29%	32.0 - 33.0
USDVND	26346	26349	▼0.01%	26200 - 26500

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.888	4.334	-0.4	-3.0
JGB (JP)	1.297	2.252	0.6	-0.6
Bunds (GE)	2.600	2.956	-6.9	-7.0
Gilts (UK)	4.404	4.837	-6.0	-12.0
AGB (AU)	4.628	4.957	-10.2	-8.7
SGS (SG)	1.521	2.182	-2.4	-3.2
CGB (CN)	1.306	1.822	-0.2	-1.2
KGB (KR)	3.431	3.838	0.0	0.0
SDL (IN)	6.249	6.875	3.8	0.7

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6591.9	35.53	+0.54%
Nasdaq (US)	21929.83	167.94	+0.77%
DJIA (US)	46429.49	305.43	+0.66%
N225 (JP)	53749.62	1497.34	+2.87%
STOXX50 (EU)	5649.33	68.04	+1.22%

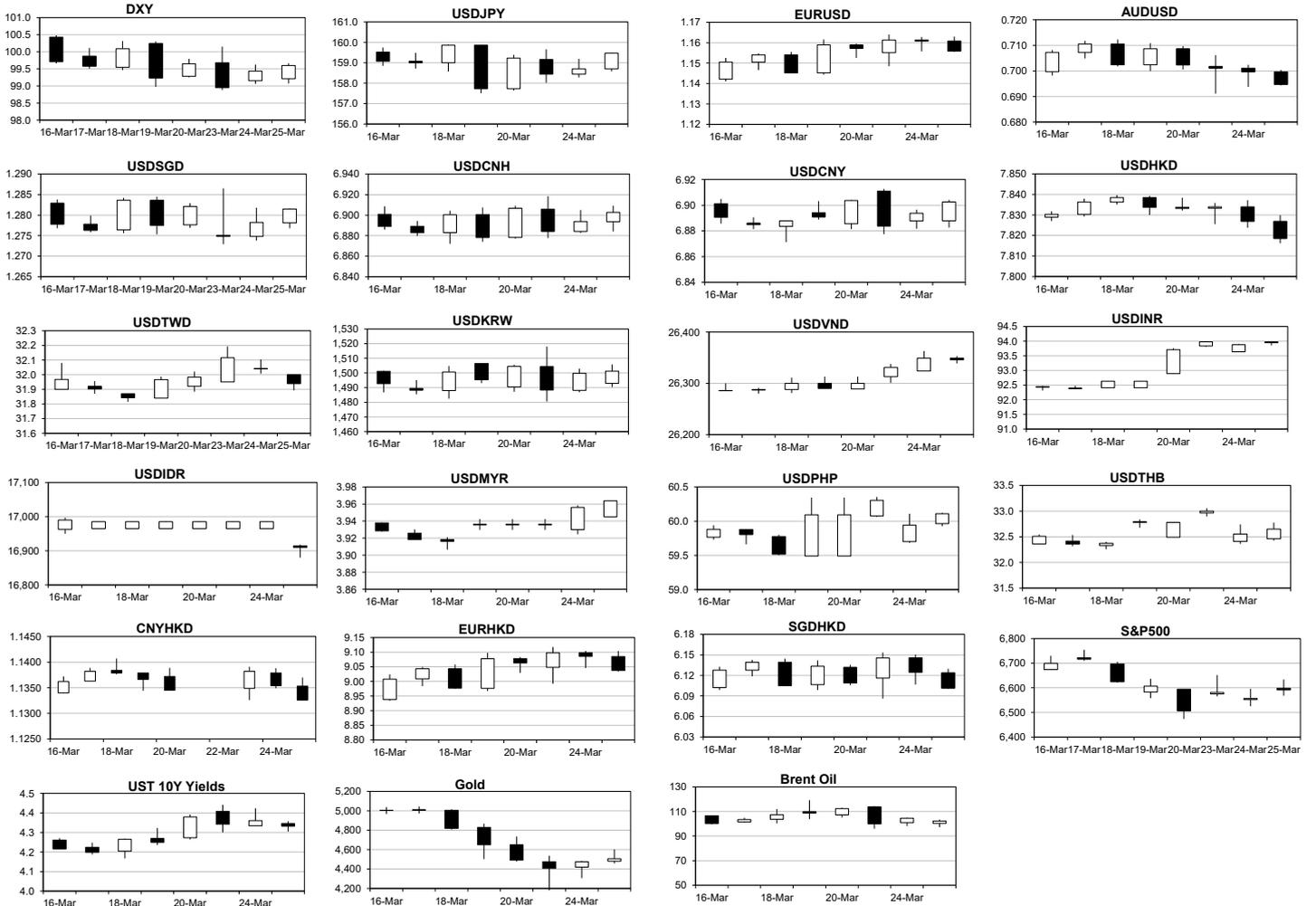
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	12,250.27	241.50	+2.01%
IRON ORE (CN)	105.98	-0.32	▼0.58%
GOLD	4,506.00	30.49	+0.68%
SILVER	71.21	0.01	+0.31%
OIL (BRENT)	102.22	-2.27	▼2.17%
OIL (WTI)	90.32	-2.03	▼2.20%
NATURAL GAS	2.95	0.00	▼0.00%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	184.33	184.28	+0.07%
GBP/JPY	213.136	212.992	+0.14%
JPY/SGD (100yen)	0.8036	0.8039	▼0.21%
JPY/HKD (100yen)	4.9029	4.9051	▼0.59%
CNH/JPY	23.097	23.092	+0.15%
CNH/HKD	1.1326	1.1327	▼0.25%
EUR/GBP	0.86489	0.86518	▼0.07%
AUD/NZD	1.1965	1.1959	▼0.18%
EUR/CNH	7.9784	7.9816	▼0.32%
GBP/CNH	9.2267	9.2253	▼0.18%
CNY/HKD	1.1326	1.1327	▼0.25%
EUR/HKD	9.0373	9.039	▼0.53%
SGD/HKD	6.1013	6.102	▼0.38%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5405.43	76.55	+1.44%
STI (SG)	4904.54	42.11	+0.87%
SHCOMP (CN)	3931.837	50.56	+1.30%
SZCOMP (CN)	2584.263	49.62	+1.96%
HSI (HK)	25335.95	272.24	+1.09%
SENSEX (IN)	75273.45	1205.00	+1.63%
JSE (ID)	7302.121	195.28	+2.75%
KLSE (MY)	1716.68	7.92	+0.46%
PSE (PH)	6044.17	107.97	+1.82%
SET (TH)	1457.91	47.52	+3.37%
VNINDEX (VN)	1658.19	0.03	+2.69%

CHARTS



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