Mizuho Daily

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Three Take-Aways

1) Trump is expected to soon declare the Iran military campaign a success, with a potential wind-down within 2-3 weeks.

2) An end to strikes without committing to re-opening the Straits of Hormuz, may inevitably leave shocks intact

3) We do not view recent PBoC liquidity withdrawals as a tightening signal; conditions remain accommodative, and we maintain our call for two rate cuts this year.

MACRO THEME: TACO Bell

- US President Trump is expected to address the nation shortly, declaring the Iran military campaign a success and signaling a potential wind-down of operations within two to three weeks. He is likely to emphasize that US strikes have eliminated Iran's ability to develop nuclear weapons as the conflict enters its fifth week.

- The war has weighed on global markets, while also creating domestic political pressure. US gasoline prices are above $4 per gallon, public support for the conflict is weak, and Trump's approval rating has fallen to 41.1%, the lowest level since his return to office.

- That said, Iran continues to push back against US claims, with senior officials rejecting assertions that Tehran sought a ceasefire and reiterating that its stance and conditions for ending the conflict remain unchanged.

- Moreover, the UAE has urged the UN to authorize measures, including the use of force, to secure the reopening of the Strait of Hormuz, underscoring elevated risks to global energy supply routes.

The Trouble with TACO

- The upshot is that this iteration of TACO, with Trump looking to "end the war" in 2-3 weeks without committing to re-opening the Straits of Hormuz, may inevitably leave shocks intact.

- For a start, a more pugilistic Israel that may be inclined to persist with attacks may – despite Trump's desire to exit – arguably trap the US in a more prolonged war, potentially rendering TACO short-lived.

- What's more, US withdrawal does not guarantee enduring peace. Notably, the conflict could extend as Israel-Iran/Lebanon war, perversely even intensifying and broadening if the GCC join in.

- In turn, inadvertently exacerbating supply shocks, thereby underpinning (not alleviating) hard-to-price binary risks to inflation (spirals) and demand destruction.

- Crucially, with US' relative energy security/buffer means that the fallout from the Iran war is socialized globally, with Asia hit disproportionately, both inflation shocks and demand destruction.

- Accordingly, AXJ are be set to under-perform – even if USD eases on "TACO" relief (reversing have gains) amid adverse feedback loops with acute policy dilemma and prohibitive economic costs.

PBoC: Liquidity tightening?

- The PBoC withdrew RMB300bn through outright reverse repos and injected only RMB50bn via the one-year MLF in March, prompting **concerns that the central bank may be turning more cautious amid oil supply disruptions** in the Middle East.

- **However, we believe this interpretation overlooks two key points**.

- **First, the PBoC does not focus solely on inflation.** Supporting economic growth, containing systemic financial risks, and advancing renminbi internationalization are also core policy objectives.

- **Second, this year's Chinese New Year fell much later than usual.** Normally, the PBoC withdraws a significant amount of liquidity after the holiday. And this time, a majority of those withdrawals took place in March.

- Rather than interpreting recent withdrawals as a tightening signal, **we see current liquidity conditions as still accommodative,** as reflected in the decline of one-year CGB yields to a new low since January 2025.

- We also do not expect the PBoC to tighten liquidity in response to supply disruptions, particularly external ones. Instead, China has already acted to limit increases in retail fuel prices amid the recent surge in oil prices.

- Historically, the PBoC even cut interest rates during periods of rising PPI, as Chinese manufacturers faced margin pressure and struggled to pass on higher input costs in an environment of oversupply and weak demand.

- **Our call for two rate cuts in 2026 remains intact**, in addition to further liquidity support, especially given China's relatively restrained fiscal stance. We expect a 10bp cut in 2Q26, followed by another in 3Q26.

Hong Kong: Discretionary Takes the Lead

- Hong Kong's retail sector delivered a strong February print. Total retail sales value rose **19.3% YoY to HK$35.05bn** in February, following a revised **5.5% YoY** increase in January. Taken together to neutralise Chinese New Year timing effects, **Jan–Feb retail sales increased 11.8% YoY to HK$72.38bn**, marking the strongest growth pace since 2024.

- The composition of growth suggests the recovery is being led by **higher-ticket discretionary spending**. On a Jan–Feb basis, **consumer durable goods jumped 29.7% YoY**, driven by **electrical goods and other consumer durables (+32.4%)** and **motor vehicles and parts (+28.5%)**.

- Jewellery, watches and valuable gifts, which is highly dependent on tourism-related demand, also rose **27.8%**, consistent with the continued rebound in visitor arrivals.

- Everyday consumption, by contrast, showed weaker momentum. **Supermarket sales rose 3.3% YoY** on a Jan–Feb basis, indicating steady but subdued growth in staples relative to discretionary categories.

- The retail upswing is becoming **increasingly discretionary-led**. Near term, **mainland visitor inflows should remain supportive**, helped by (1) Hong Kong's ongoing **mega-event promotions**, and (2) **higher long-haul travel costs** (e.g., air ticket surcharges amid the Iran-related energy shock), which may tilt travel demand toward closer-to-home destinations. **Taken together, these factors should keep retail sales growth on a firm trajectory this year.**

Yields *(2Y: +0.9bp; 10Y: +0.1bp; 30Y: -1.2bp)*

Equities *(Nasdaq: +1.2%; S&P 500: +0.7%; Dow: +0.5%)*

FX *(DXY: -0.3%)*

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) ADP Employment Change (Mar)	62k	40k	63k
(US) ISM Manufacturing (Mar)	52.7	52.3	52.4
(US) Retail Sales Adv./Ex Auto and Gas M	0.6%/0.4%	0.5%/0.3%	-0.2%/0.3%
(CN) RatingDog China PMI Mfg (Mar)	50.8	51.5	52.1
(ID) CPI/Core YoY (Mar)	3.45%/2.52%	3.6%/2.6%	4.8%/2.6%
(KR) Exports/Imports YoY (Mar)	48.3%/13.2%	44.8%/15.4%	29.0%/7.5%

Today	Actual	Exp.	Prior
(US) Trade Balance (Feb)		-$60.6b	-$54.5b
(US) Initial Jobless Claims		212k	210k
(EZ) ECB Publishes Economic Bulletin		--	--
(KR) CPI/Ex Food and Energy YoY (Mar)	2.2%/2.2%	2.3%/2.1%	2.0%/2.3%
(AU) Trade Balance (Feb)	A$5686m	A$2850m	A$2631m

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	158.82	158.71	+0.06%	158.00	-	161.00
EURUSD	1.1589	1.1590	+0.31%	1.1350	-	1.1600
GBPUSD	1.3305	1.3302	+0.59%	1.3000	-	1.3300
AUDUSD	0.6928	0.6923	+0.41%	0.6800	-	0.6950
DXY	99.7	--	▼0.31%	99.5	-	101.5
USDCNY	6.8755	--	▼0.27%	6.8500	-	6.9500
USDCNH	6.8774	6.8771	▼0.17%	6.8500	-	6.9500
USDHKD	7.8380	7.8376	▼0.02%	7.8200	-	7.8500
USDSGD	1.2831	1.2832	▼0.29%	1.2800	-	1.3000
USDKRW	1513	1513	+0.00%	1500	-	1540
USDTWD	31.96	--	▼0.13%	31.70		32.20
USDINR	94.83	--	+0.00%	94.00	-	96.00
USDIDR	16980	--	▼0.09%	16900	-	17200
USDMYR	4.027	4.0275	▼0.57%	3.990		4.060
USDPHP	60.20	--	▼0.90%	60.00	-	61.00
USDTHB	32.57	32.61	▼1.20%	32.4	-	33.2
USDVND	26337	26337	▼0.01%	26200	-	26600

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.805	4.320	0.9	0.1
JGB (JP)	1.348	2.303	0.4	-4.3
Bunds (GE)	2.593	2.984	-2.0	-1.8
Gilts (UK)	4.290	4.827	-11.2	-8.8
AGB (AU)	4.599	4.909	-6.2	-6.5
SGS (SG)	1.514	2.183	-7.5	-8.8
CGB (CN)	1.293	1.817	0.5	0.5
KGB (KR)	3.485	3.885	0.0	0.0
SDL (IN)	6.365	7.035	0.0	0.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	184.01	183.91	+0.34%
GBP/JPY	211.251	211.074	+0.63%
JPY/SGD (100yen)	0.8081	0.8086	▼0.32%
JPY/HKD (100yen)	4.9372	4.9397	▼0.05%
CNH/JPY	23.104	23.081	+0.26%
CNH/HKD	1.1404	1.1403	+0.30%
EUR/GBP	0.87103	0.8713	▼0.28%
AUD/NZD	1.2043	1.2042	+0.32%
EUR/CNH	7.9703	7.9709	+0.14%
GBP/CNH	9.153	9.1479	+0.45%
CNY/HKD	1.1404	1.1403	+0.30%
EUR/HKD	9.0839	9.0842	+0.29%
SGD/HKD	6.1097	6.1087	+0.28%

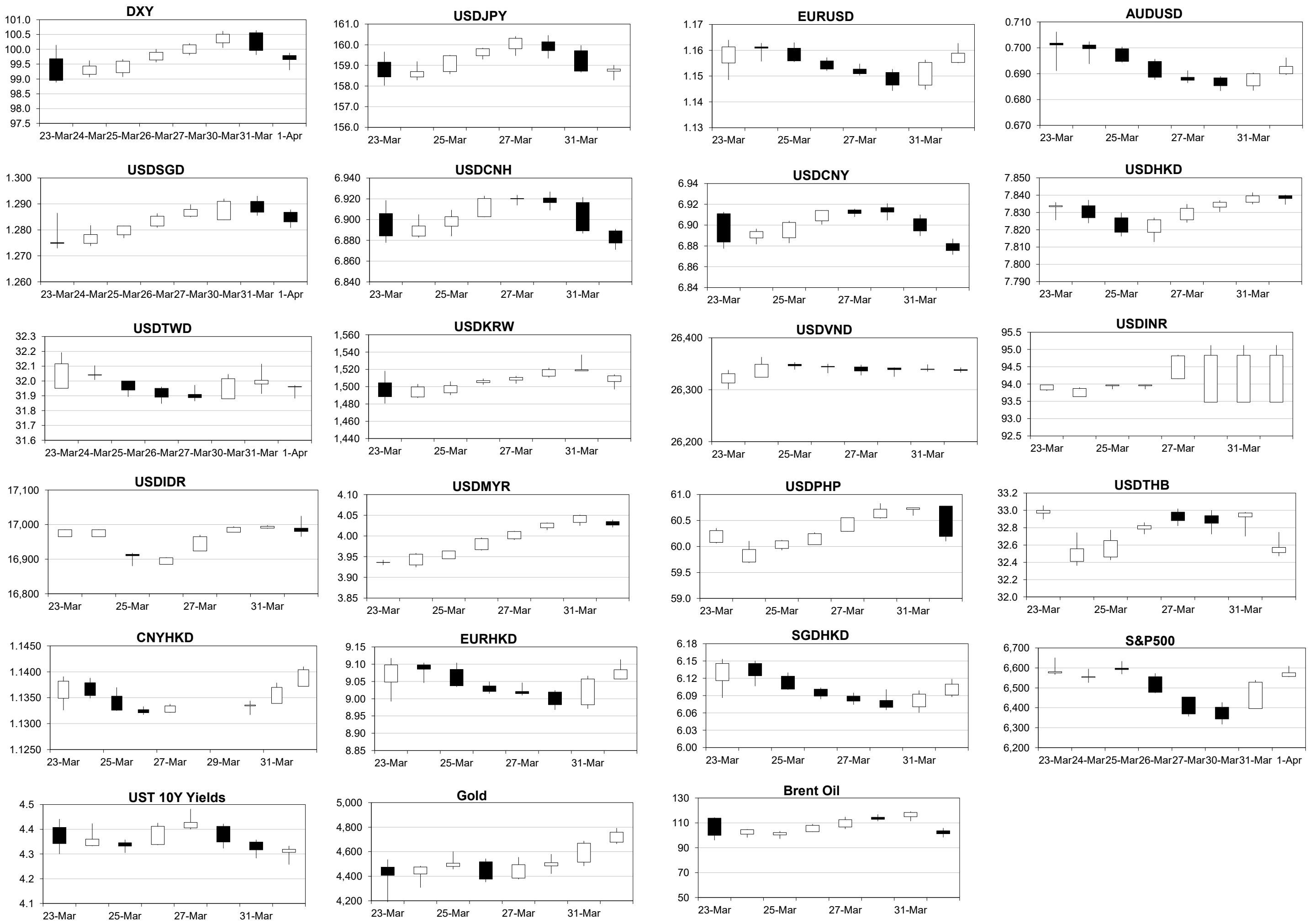
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6575.32	46.80	+0.72%
Nasdaq (US)	21840.95	250.32	+1.16%
DJIA (US)	46565.74	224.23	+0.48%
N225 (JP)	53739.68	2675.96	+5.24%
STOXX50 (EU)	5732.71	162.98	+2.93%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	12,349.09	92.33	+0.75%
IRON ORE (CN)	107.49	1.51	+1.04%
GOLD	4,758.57	90.51	+1.94%
SILVER	75.08	-0.06	▼2.25%
OIL (BRENT)	101.16	-17.19	▼14.52%
OIL (WTI)	100.12	-1.26	▼1.24%
NATURAL GAS	2.82	-0.09	▼0.12%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5533.6	102.91	+1.89%
STI (SG)	4975.83	90.38	+1.85%
SHCOMP (CN)	3948.552	56.69	+1.46%
SZCOMP (CN)	2577.229	41.87	+1.65%
HSI (HK)	25294.03	505.89	+2.04%
SENSEX (IN)	73134.32	1186.77	+1.65%
JSE (ID)	7184.438	136.22	+1.93%
KLSE (MY)	1708.9	18.54	+1.10%
PSE (PH)	5998.68	49.74	+0.84%
SET (TH)	1470.99	22.85	+1.58%
VNINDEX (VN)	1702.93	0.02	+1.70%

CHARTS



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