Mizuho Brief: AxJ

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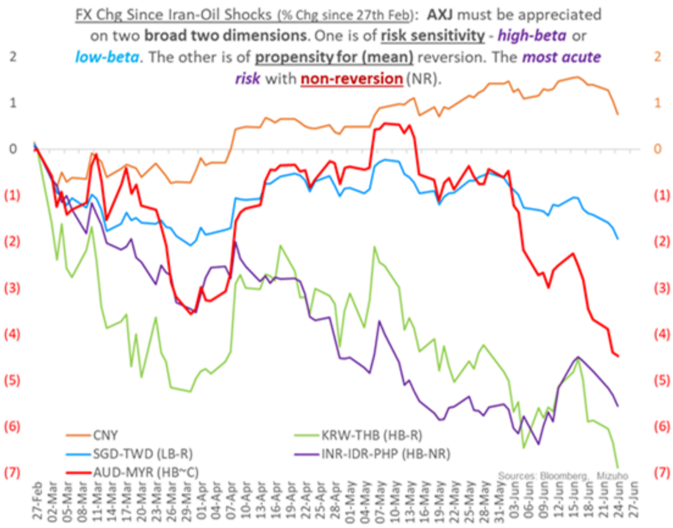
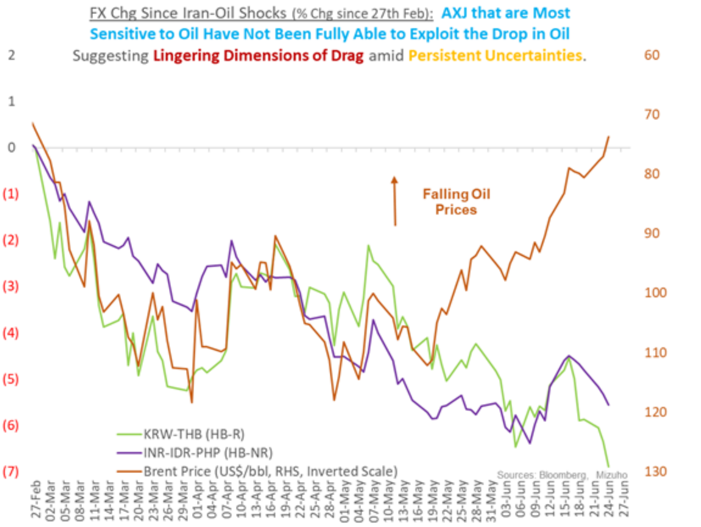
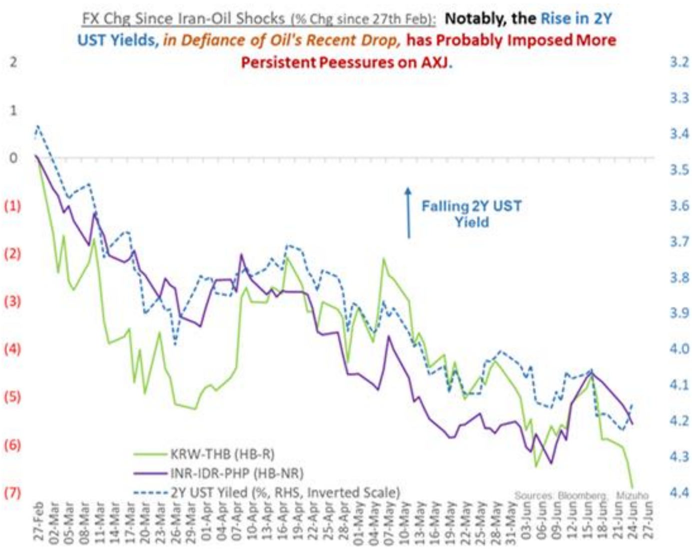
AxJ: Why the Iran MoU is a Silver Lining, Not a Silver Bullet

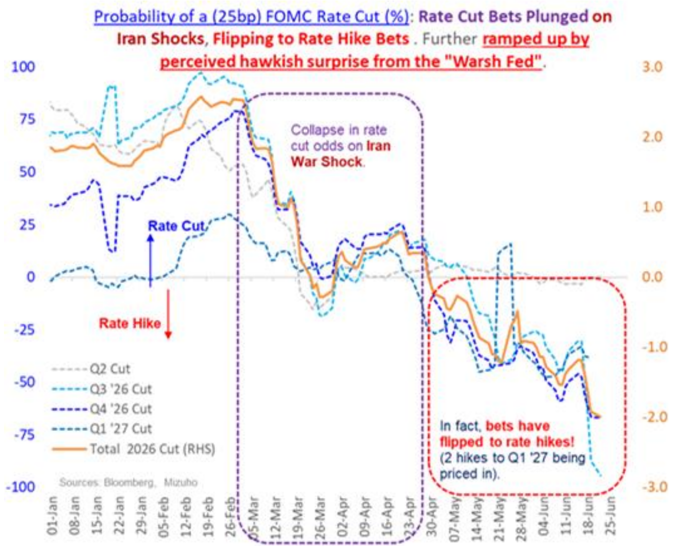
"No longer certain, that one ever does win a war, I am." – Master Yoda

In a Nutshell: Admittedly, the **US-Iran MOU** *underlined by "Hormuz re-opening"*, and the **attendant drop in crude prices** provides welcome (albeit *uneven*) **AXJ pain relief** accentuated by short-covering and policy interventions. **But** it is **not sweeping panacea** for AXJ. For one, *highly-fluid Middle East risks* that **warn against linear extrapolation** of relief. Crucially, **lagged pipeline cost shocks** are poised to **disadvantage AXJ** (via eroding real rates). What's more, **hawkish "Warsh Fed" perception layer on further AXJ pressures – *especially where AXJ policy tightening has lagged* –** *as higher UST yields overwhelm softer oil impact.* Crucially, **mounting risks of A.I. shakedown** – *potentially amplified via exports-commodity-financial feedback* – **accentuate AXJ vulnerabilities**. With **idiosyncratic political risks another dimension of AXJ stress**. All said, the diminishing Iran risks do not absolve all AXJ pain. Whereas **full** ("pre-Iran") **AXJ reversion remains challenged**.









- The **US-Iran MOU**, which has **re-started** (but far from fully restored) **energy and critical goods flow** through the Straits of Hormuz, is **welcome silver lining** for stressed AXJ.
- *Especially for the most beleaguered AXJ* (INR, IDR and PHP) **given** the **high positive sensitivities** (from extrapolated relief) **from attendant drop in crude oil prices**.
- *But* crucially, it is **not a ubiquitous silver bullet** – **failing to inspire distinct, durable, and broad-based AXJ turnaround**.
- On the contrary, *many AXJ* (KRW, MYR, THB, AUD) *have fallen further despite softer oil prices* accompanying the MOU.
- The wider point being, **AXJ travails were never only confined to**, and ***hence not solely defined by***, the **Iran-Hormuz crisis**.
- Admittedly, the **rebound in AXJ worst-hit by the "Iran-Hormuz crisis"** (IDR, INR, PHP) **has been remarkable**.
- That said, the **relief bounce is exaggerated by** record low starting points **of IDR, INR and PHP conspiring with** short-covering.
- And arguably even more so given the fortuitous coincidence of overt policy activism entailing some combination of;
    - a) *Direct FX market intervention (in spot, forward and swap markets);*
    - b) *Forceful currency support measures* (RBI, BI) and;
    - c) *Hawkish policy action/talk* (BSP and BI).
- ***Nonetheless,*** **lagged and sticky** *(from diplomatic flip-flops)* **"Hormuz shocks"** *that threaten to disadvantage Asia-US inflation spreads* could easily **cast a pall** once again.
- And **inconveniently**, this could **conspire with payback for FX interventions** amid lingering risks, inherently **limiting a full reversion** (to pre-Iran War levels).
- What's more, **hawkish "Warsh Fed" perceptions** *despite lingering uncertainty* **warns of a further layer of AXJ headwinds**.
- With **risks tilted**, but not exclusively confined, **to cases where pre-emptive policy tightening has lagged** (INR, THB).
- The corresponding front-end led, spike in UST yields, *which overwhelm the impact of softer oil,* has already hobbled a broad swathe of AXJ elsewhere.
- **Hard-to-predict, but even harder-to-ignore A.I. shakedown risks may inadvertently intensify pain** (for AUD, MYR, KRW, THB, SGD, TWD).
- Especially ***given the propensity for adverse A.I. pullback shocks to compound*** via *adverse feedback between real, financial and commodity channels.*
- Finally, *apart from lingering geo-political uncertainty regardless of the US-Iran MOU,* **idiosyncratic political risks** (e.g. MYR, PHP) *may extract corresponding risk premium.*
- All said, *AXJ remain subject to non-linear risks* amid *lingering uncertainties* with **disproportionate vulnerabilities impairing** scope for **full** (pre-Iran) **reversion**.

FX Forecast

	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27	Q4 27
USD/CNH	6.84-6.994	6.74-6.89	6.63-6.87	6.5-6.85	6.40-6.90	6.35-6.87	6.30-6.85	6.20-6.85
	6.89	6.80	6.75	6.65	6.65	6.62	6.55	6.45
USD/HKD	7.7843-7.8415	7.82-7.85	7.78-7.85	7.77-7.84	7.76-7.83	7.76-7.83	7.76-7.83	7.76-7.83
	7.84	7.83	7.82	7.80	7.80	7.80	7.80	7.80
USD/INR	89.7-95.2	92.5-97.1	92.2-96.5	92.8-97.3	92.5-98.6	90.4-98.8	89.4-98.2	89.4-97.8
	94.5	94.3	93.8	94.3	95.6	95.8	96.2	94.6
USD/KRW	1419-1520	1360-1580	1360-1570	1350-1560	1340-1520	1340-1510	1340-1510	1340-1510
	1519	1530	1510	1490	1480	1460	1450	1460
USD/SGD	1.258-1.294	1.251-1.305	1.249-1.305	1.252-1.295	1.25-1.288	1.242-1.289	1.245-1.295	1.242-1.295
	1.287	1.292	1.278	1.280	1.273	1.268	1.265	1.266
USD/TWD	31.2-32.2	31.2-32.2	30.5-32.7	28.7-32.6	29.1-32.5	29.1-32.5	29.1-32.4	29.1-32.5
	32.0	31.6	31.7	31.4	31.3	31.1	30.8	30.9
USD/IDR	16690-17015	16950-18200	17400-18600	17500-18800	17300-18750	17360-18350	17250-18280	17150-18050
	16995	17880	18150	17960	17950	17550	17600	17400
USD/MYR	3.88-4.08	3.89-4.25	4.04-4.26	3.99-4.2	3.97-4.15	3.97-4.14	3.95-4.12	3.94-4.09
	4.05	4.16	4.18	4.12	4.04	4.02	3.99	4.01
USD/PHP	57.4-60.83	60.3-62.7	60.8-63.4	60.5-63.2	60.2-62.8	60-62.5	59.8-62.2	60.1-62.1
	60.7	61.6	62.5	62.1	61.6	61.1	61.0	61.2
USD/THB	30.8-33.06	30.9-33.7	30.5-33.8	30.6-33.5	30.2-33.5	30.2-33.5	30.2-33.5	30.2-33.5
	33.0	33.3	32.5	32.1	31.9	31.8	31.5	31.6
USD/VND	25870-26363	26000-26375	25700-26900	25500-27000	25500-27000	25500-27000	25500-27000	25500-27000
	26340	26350	26650	26550	26600	26600	26550	26600
AUD/USD	0.663-0.7187	0.691-0.735	0.686-0.738	0.68-0.745	0.685-0.748	0.705-0.762	0.71-0.764	0.705-0.76
	0.690	0.701	0.713	0.722	0.735	0.738	0.743	0.741

Note: For FX forecasts, level in parentheses pertains to period end forecasts; and the period's range precedes this.

- KRW & TWD – Price & Leverage: *BoK set to lag tightening elsewhere gains in **KRW** could struggle to regain traction to the point of full (pre-Iran) restoration. Worse, there may be a further drag if sustained A.I. shakedown on Korean equities threatens to spillover more broadly - amplifying via leverage as financial shocks – and possibly hurting exports in the event of price (memory and processor chips) corrections. MSCI passing over Korean equity market for an upgrade to DM status does not help with sentiments either. Similar rate differential and A.I. risks arguably dampen **TWD**, although it tends to be a lower-beta/volatility currency compared to KRW.*

- MYR, SGD – Packaging, Politics & Policy: *Political uncertainty is expected to drag the **MYR** significantly, with lower beta spill-over on **SGD** via S$NEER weights. But if this uncertainty lifts, and A.I. boom is largely unfettered, then semiconductor packaging boost could dovetail with "Hormuz relief" for distinct MYR re-pricing. SGD upside is also on the cards, and not solely on MYR tailcoats (lifting via S$NEER) but instead from policy tightening- especially via step appreciation.*

- THB – Gold & (Policy) Hold: ***THB** may initially be hobbled by a confluence of softening Gold and BoT reluctance to hike, showing up as exceptional policy hold within Asia. But a broader consolidation and* *relatively lower-beta downside risks could be the silver linings given relief from softer oil prices and contained inflation that check erosion in real spreads.*

- AUD – Copper & RBA: ***AUD*** *upside may be encumbered, if not outright upstaged by RBA increasingly likely to get cold feet on sustained hikes – with our call for one more hike likely to turn out to be a "dovish hike". And near-term wobbles in AI/tech equities likely to reverberate via financial transmission to dampen copper to AUD;s detriment. Further out though, scope for AUD to reclaim some ground remains, albeit contingent on A.I. corrections being short-lived and (relatively) shallow dips rather than pronounced meltdowns.*
- IDR, INR & PHP – Non-Reversion & Sticky Vulnerabilities: *Despite the most pronounced lift from the US-Iran MOU (correlated to diminishing energy/cost shock risks), the depth and durability of rebound will be rather limited, crucially hobbling (pre-Iran) reversion. In fact, vulnerabilities from lagged inflation shocks payback for policy intervention/support and underlying twin deficit risks (which feed into credit ratings risks, could keep relapse into bearish phases alive. Subject to the Fed checking hawkish tendencies, and cost shocks being contained modest recovery consolidation may be par for the course.*

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