Mizuho Chart Speak: FX

Economics & Strategy | Asia ex-Japan

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Frustrated AxJ Relief from Oil

Figure 1: Sharp Drop in Oil Has Not Aided in AXJ Recover from Earlier Drop in Oil's Spike

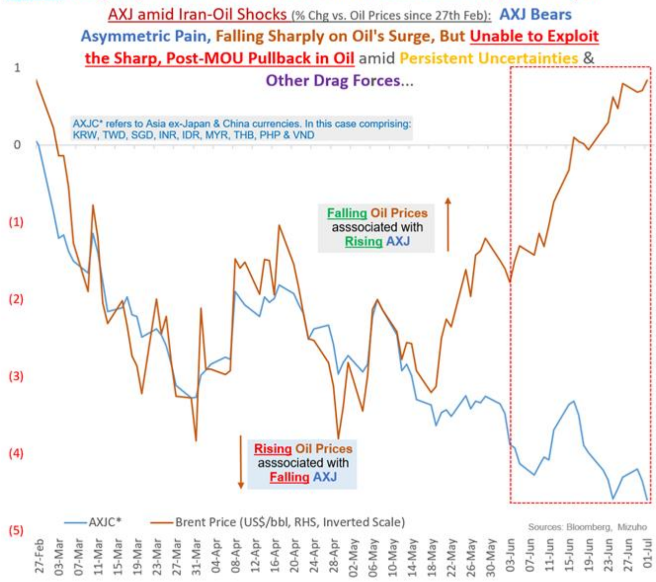
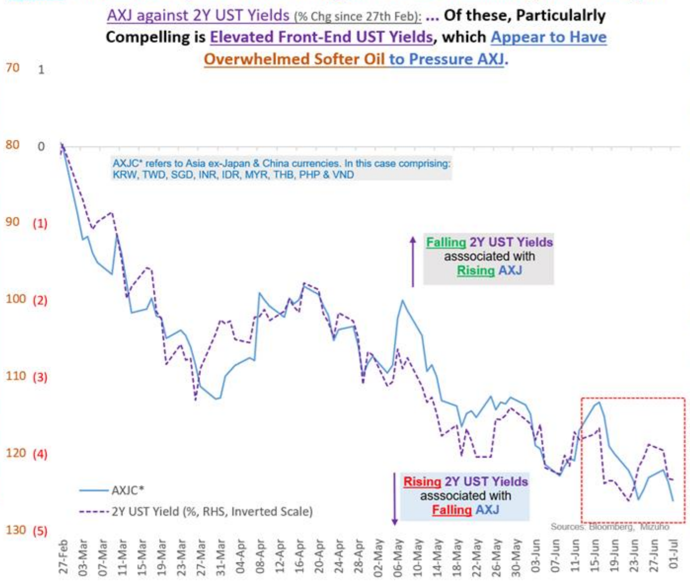


Figure 2: A Coincident Surge in 2Y UST Yields Appears to be the Dominant Drag, Overwhelming Oil



- **US/Israel-Iran war related relief** coming through distinctly in crude oil prices **has failed to provide any meaningful measure of AXJ relief**.
- Point being, **sharp decline in Brent** (back towards pre-Iran levels), on *hopes of Hormuz re-opening on the US-Iran MOU,* **has <u>not</u> proportionately translated to AXJ rebound** to corresponding pre-Iran levels (Figure 1).
- *On the contrary,* **AXJ** have either **remained pressured** (close the lows), ***if not compromised further*** (in some cases).
- This **unfortunate asymmetry** of only *pain transmission* (on oil shocks) *without commensurate relief* (from oil's sharp pullback) **disadvantaging AXJ** may be attributed to two broad factors.
- <u>First</u>, the **collapse in spot oil price**, *exaggerated by deluge of "oil on water" stranded by the "Hormuz crisis"*,* is likely **overstating the effective, realizable AXJ relief**.
    - Especially considering <u>doubts about the durability of US/Israel-Iran truce</u> *hobbling AXJ* ***given Asia's acute exposure to attendant energy security vulnerabilities***.
    - More so, in the context of far more *elevated shipping* (and related *insurance*) *cost*s conspiring with highly uneven "delivery premium".
    - In any case, <u>sticky and lagged impact from the wider "Hormuz supply shock"</u> *may be bearing down on AXJ* – denting ***via fiscal, inflation,*** and ***supply-chain/external account channels***.
- <u>Second</u>, and crucially, the **sharp rise in 2Y UST yields** *that has not abated in tandem with, and in defiance of*, softer oil is **amid hawkish Fed bets overwhelming AXJ dynamics** (Figure 2).
    - <u>Mounting bets on Fed rate hike, unfettered by the US-Iran truce,</u> **square with sustained rise in front-end UST yields** (Figure 3), which in turn *corresponds to AXJ pressures.*

  - Moreover, Asia's relatively greater vulnerabilities to energy and food (fertilizer) shocks, - and consequent inflationary pressures – suggest that by the trajectory of *US-Asia inflation spread that may turn even more disadvantageous for AXJ.*

- All said, a **conspiracy of "Iran crisis" aftershocks** and **hawkish Fed perceptions** in the interim will **hobble the ability of AXJ to regain pre-Iran traction**.
- With a key nuance being that a **sharp rise in 2Y UST yields juxtaposed against sharp drop in Oil** has ***hurt lower-yielding AXJ more than higher-yielding AXJ*** (Figure 4) **in the post-MOU moves**.
- But this is ***merely a post-MOU quirk*** that reveals *relatively higher sensitivities to 2Y UST drag* interacting with *lower-order oil relief* for (most) low-yielding AXJ.
- Whereas **non-reversion risks are still greater for the higher-yielding**, **twin deficit currencies with higher energy dependencies**.

* Fact is, ships already laden with oil that were earlier stranded in the Hormuz, rushing out on the truce, may overstate the rate at which oil's passage may settle at for the rest of the year.

Figure 3: Sustained 2Y UST Yield Rise Corresponds to Hawkish Fed Bets

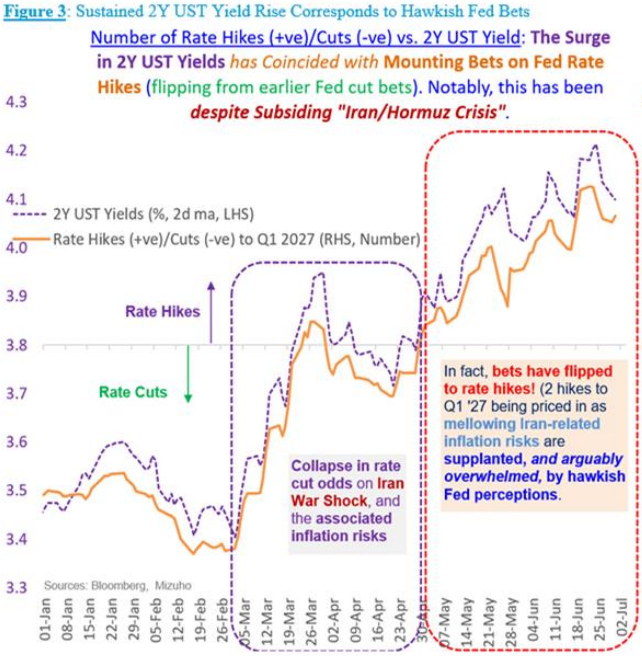
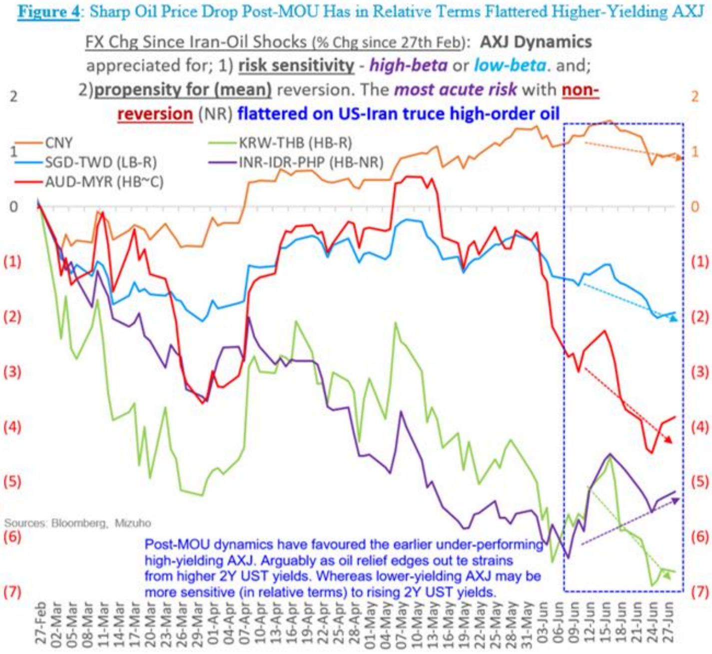


Figure 4: Sharp Oil Price Drop Post-MOU Has in Relative Terms Flattered Higher-Yielding AXJ



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