Mizuho Daily

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Three Take-Aways

1) Tit-for-tat retaliatory attacks between US and Iran have **escalated into a full-flown conflict**. Oil has lifted sharply (~$90 Brent) amid this geo-political flare-up, *but arguably not enough*, **warning of more pipeline pain**.

2) Coincident AI/tech sell-off on (US) valuation worries triggered by *China's Moonshot*, which released spectacularly the out-performing Kimi K3, *has inevitably revived DeepSeek-esque worries* returns on staggering compute investments **threatens to further spook markets.**

3) Along with ***hawkish Fed bets*** (lifting 2Y UST yields), a *hot war in the Middle East* potentially colliding with *over-heated AI valuations* the **threat of summer meltdown looms ominously**, *even if not imminently so.*

MACRO THEME: Triple Whammy!

- The threat of a sweltering **summer meltdown cannot be dismissed** give the **triple-whammy** of; i) *US-Iran conflict escalation teetering on a **hot Middle East War**;* ii) ***AI** shivers amid **overheated valuation worries*** – triggered by China's Moonshot – and; iii) ***hawkish Fed bets** amid worries of **hot** and **sticky inflation***.

- **Especially if these pressures intensify** and **interact** to triggers a cascade of sell-off amid cost shocks and demand/value destruction.

- Meanwhile, *Brent surging ~25%* (from early-July $70-75 levels) *to ~$90* while *front-end UST yields* are *elevated near-4.2%* amid, and ***despite***, *heightened uncertainties* pose **headwinds to AXJ assets**.

(US-Iran) Conflict: Serious Escalation

- For the record, **two-way US-Iran retaliatory strikes** not only **torpedoes the interim truce deal but is a serious escalation –** *from a skirmish into a full-blown conflict.*

- In fact, (US/Israel-Iran) **War** appears to be **back on with a vengeance**. And the worrying **fall-out in regional GCC** states from Qatar to Jordan **warns of hot Middle East War already underway**.

- What's more, **civilian infrastructure** such as *desalination plants, bridges, and power infrastructure* **now nakedly the crosshairs diminish the hopes of "contained military strikes"** *checking the scale of this conflict.*

Crude Shocks Revived

- Unsurprisingly, amidst renewed US/Israel-Iran risks, **Crude has surged again** as the confluence of; a) effective *blockade of the Straits of Hormuz;* b) *re-imposed sanctions on Iranian crude* and; c) *threat of* more *significant production capacity outage amid more unrestrained attacks* in the wider Middle East. ***But arguably not quite enough*** as sub-$90 Brent seems to be rather complacent about the potential scale of the conflict.

- Specifically, with regards to the *order of supply risks* as well as the *shift in sensitivities to oil* (earlier dampened) ***given inventory buffer being pushed to exhaustion***. Whereas the **physical reality of oil is one of far more acute supply squeeze** that is **poised to come home to roost**, ***if a de-escalation does not materialize soon***.

… Possibly Amplified!

- Admittedly, **oil prices have been remarkably subdued *even before the interim truce*** from the MOU (since mid-May). But there is **negligent complacency** in *assuming this to be evidence of unfettered structural resilience in oil supply*. When in fact **earlier price dampening** was **from a confluence of exceptional, *but now considerably exhausted,* supply cushion**. From *coordinated SPR release*, *US offset* and crucially, *China's import cutback* (at the cost of inventory drawdown) are **now face far more constrained efficacy/capacity**.

- What's more, **significantly higher shipping** and **insurance costs** means that the **effective delivered cost per barrel** may be **significantly** (US$10-15) **higher**. Above all, even if crude prices may be contained, **record cracks** mean that **effective energy/fuel shocks** are ***disproportionately more deleterious***.

- The upshot is that the latest **US-Iran escalation *may not be a linear projection*** of risks ***but*** may evolve to manifest as **a far higher-order.**

AI-Moonshot's Kimi K3

- Elsewhere, the **AI rally has faltered**, stumbling **on** *previously floated, but typically dismissed,* **(US) valuation worries revived**. **But** while this coincided with, it was **not caused by**, the **escalating US-Iran conflict**.

- Instead, it was **triggered by** Chinese AI star **Moonshot**, whose open-weigh model *Kimi K3 reportedly out-performed all but the most cutting edge of Anthropic's* (Claude Fable 5) and *OpenAI's* (GPT 5.6) *models.* This **inevitably revived intense, DeepSeek-esque worries** about *a race to the bottom on model compute undercutting staggering investments by Hyperscalers.* And by extension, **threatening to undermine the (overly-)generous valuations** extended to the US AI space.

Hawkish Fed Bets

- **Potentially compounding** the **pain** in markets is the unwavering **hawkish bets on the "Warsh Fed"**.

- **Forward markets see about 2 hikes by Q1 12027**, and the vocal *representation of hawkish members* underpins this.

- Many FOMC members – including Hammack on Friday – have expressed that *inflation remains too high and sticky.* The **resultant ascendancy in front-end** (2Y) **yields reflects this hawkish posture**.

A Hot Conspiracy of Risks

- **The conspiracy of these risks –** from a *hot war in the Middle East* to a *shakedown in overheated AI* to *hawkish bets on hot/sticky inflation* **– warn of pain potentially compounded.** *Pushed to more extreme iterations,* with one of all these **risks intensifying** and **interacting**, the **threat of Summer meltdown looms ominously**, *even if not imminently.* Regardless, the **confluence of** *general tech-led "risk off"* colliding with *sharply higher oil* and *harder front-end yields* suggest **pressures on AXJ assets**.

***Yields** (2Y: +3.8bp; 10Y: -0.5bp; 30Y: -1.4bp)*

***Equities** (Nasdaq: -1.4%; S&P500: -1.0%; Dow: -0.8%)*

***FX** (DXY: +0.0%)*

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Housing Starts/Building Permits (Jun	1427k/1367k	1312k/1402k	1177k/1410k
(US) U. of Mich. Sentiment/Expectations (.	54.4/54.0	51.0/51.9	49.5/50.7
(US) U. of Mich. 1/5-10 Yr Inflation (Jul P)	4.2%/3.3%	4.5%/3.3%	4.6%/3.3%
(US) Industrial Production MoM (Jun)	0.1%	0.2%	0.1%
(EZ) ECB Current Account SA (May)	25.1b	--	17.5b
(EZ) CPI/Core YoY (Jun F)	**2.8%/2.4%**	**2.8%/2.4%**	2.8%/2.4%
(SG) Non-oil Domestic/Electronic Exports `	20.7%/105.1%	28.7%/--	38.4%/94.8%
(MY) GDP YoY (2Q A)	**5.8%**	**5.2%**	**5.4%**
(MY) CPI YoY (Jun)	**1.9%**	**2.0%**	**2.0%**

Today	Actual	Exp.	Prior
(US) Leading Index (Jun)		-0.1%	0.1%
(CH) 1/5-Year Loan Prime Rate		3.00%/3.50%	3.00%/3.50%
(MY) Exports/Imports YoY (Jun)		46.8%/22.5%	45.3%/14.1%
(PH) BoP Overall (Jun)		--	$131m

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	162.40	162.54	+0.01%	161.30	-	163.30
EURUSD	1.1439	1.1427	▼0.03%	1.1370	-	1.1500
GBPUSD	1.3452	1.3444	▼0.19%	1.3360	-	1.3510
AUDUSD	0.6984	0.6977	▼0.17%	0.6930	-	0.7020
DXY	100.8	--	+0.00%	100.2	-	101.3
USDCNY	6.7762	--	+0.05%	6.7500	-	6.8200
USDCNH	6.7774	6.7778	+0.06%	6.7500	-	6.8200
USDHKD	7.8401	7.8400	+0.00%	7.8200	-	7.8500
USDSGD	1.2917	1.2923	+0.11%	1.2820	-	1.2990
USDKRW	1489	1488	+0.00%	1475	-	1500
USDTWD	32.33	--	+0.21%	32.15	-	32.50
USDINR	96.28	--	▼0.07%	95.70	-	96.70
USDIDR	17895	--	▼0.50%	17790	-	18050
USDMYR	4.097	4.097	+0.58%	4.070		4.120
USDPHP	61.59	--	▼0.07%	61.20	-	62.00
USDTHB	33.61	33.67	+0.18%	33.4	-	33.9
USDVND	26290	26285	+0.14%	26100	-	26450

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.180	4.549	3.8	-0.5
JGB (JP)	1.425	2.691	-1.2	-1.9
Bunds (GE)	2.782	3.124	1.9	-0.8
Gilts (UK)	4.343	4.950	0.6	-1.5
AGB (AU)	4.509	4.899	1.4	0.3
SGS (SG)	1.634	2.209	0.4	0.3
CGB (CN)	1.260	1.732	-0.6	-0.4
KGB (KR)	3.690	4.297	0.0	0.0
SDL (IN)	6.208	6.780	10.5	3.2

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7457.69	-76.08	▼1.01%
Nasdaq (US)	25520.24	-361.71	▼1.40%
DJIA (US)	52146.42	-406.55	▼0.77%
N225 (JP)	64141.12	-2694.42	▼4.03%
STOXX50 (EU)	6230.87	-52.74	▼0.84%

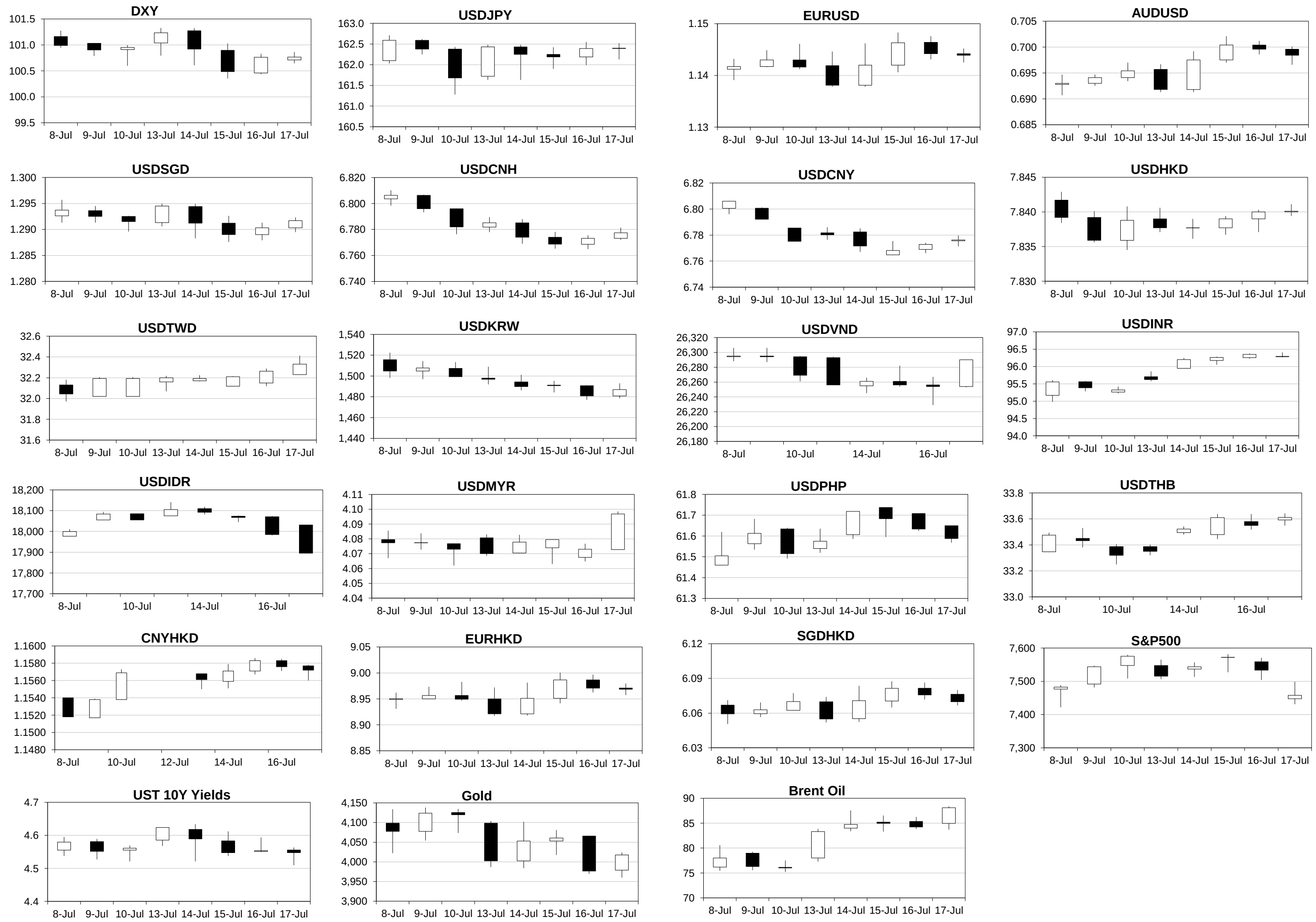
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,500.88	-53.47	▼0.39%
IRON ORE (CN)	99.38	0.58	+0.08%
GOLD	4,017.39	40.89	+1.03%
SILVER	55.91	0.05	+1.85%
OIL (BRENT)	88.10	3.87	+4.59%
OIL (WTI)	82.49	3.54	+4.48%
NATURAL GAS	2.91	0.39	+0.70%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.81	185.73	+0.01%
GBP/JPY	218.49	218.512	▼0.17%
JPY/SGD (100yen)	0.7953	0.7951	+0.09%
JPY/HKD (100yen)	4.8278	4.8236	▼0.01%
CNH/JPY	23.978	23.989	+0.00%
CNH/HKD	1.1572	1.1571	▼0.03%
EUR/GBP	0.85025	0.84997	+0.16%
AUD/NZD	1.195	1.1951	▼0.20%
EUR/CNH	7.7529	7.745	+0.04%
GBP/CNH	9.1177	9.1121	▼0.13%
CNY/HKD	1.1572	1.1571	▼0.03%
EUR/HKD	8.9684	8.9588	▼0.03%
SGD/HKD	6.0698	6.0667	▼0.10%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5699.87	10.30	+0.18%
STI (SG)	5509.43	-29.95	▼0.54%
SHCOMP (CN)	3764.155	-118.26	▼3.05%
SZCOMP (CN)	2434.083	-134.75	▼5.25%
HSI (HK)	24562.24	-446.36	▼1.78%
SENSEX (IN)	78151.45	964.58	+1.25%
JSE (ID)	6175.535	67.33	+1.10%
KLSE (MY)	1731.45	9.26	+0.54%
PSE (PH)	6404.11	78.96	+1.25%
SET (TH)	1639.04	3.75	+0.23%
VNINDEX (VN)	1787.45	-0.01	▼0.93%

CHARTS



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