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## Monthly Insight

**16 March 2026**

### A Class of Its Own

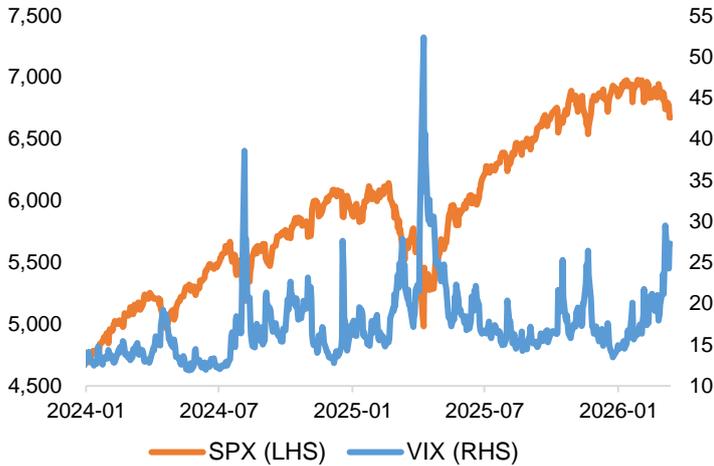
- **What strikes us most is the overly muted reaction of the greenback. Over the past two weeks, the dollar index inched up just by 2%.**
- **The dollar-owning gatekeepers are reluctant to walk back the devastating period when Trump's lieutenants took out Iranian and Venezuelan leadership.**
- **The greenback is no longer symbolised. It gets priced instead.**
- **As the 2-year Treasury yield is now sitting above IORB, a re-pricing from cuts to hikes which we don't approve, time is the enemy. Don't be surprised if the reversal momentum feeds on itself.**

Geography, as historian David Landes long recognised, played a central role in explaining why some countries are able to make the leap to industrialization. Dusting off history books, this reality cuts both ways: geography could also break the spell.

The blockade of Hormuz invited Trump's wrath and his vowed retaliation. Maybe. But few would hesitate to hold their horses.

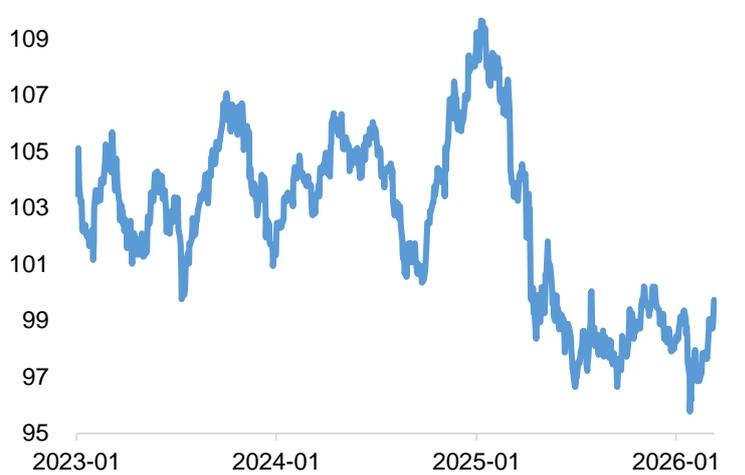
Consider the choice that came before Trump. Like Churchill, a politician needs no focus group to know that a relentless surge in gasoline prices is a vote-loser from the start. Betraying his true intentions, Trump called an end of the Iranian blitz when VIX printed a mere 32 and S&P 500 was just 2-3% shy of its recent peak. It stands as a stark contrast to his half-forgotten climb-down post the Liberation Day: That spring, only an eye-watering retreat of 15% in S&P 500, coupled with a skyrocketing VIX towards 53, could convince Trump to back down. TACO, not a typical Persian cuisine, can strike again in a not-so-distant future.

Exhibit 1: S&P 500 and VIX



Source: Bloomberg, Shanghai Commercial Bank

Exhibit 2: The Dollar Index



Source: CEIC, Shanghai Commercial Bank

Perhaps what strikes us most is the overly muted reaction of the greenback. The Fed economist once estimated that if oil price hits US\$120, the flight to safety bid will drive the dollar index up by 7%. Over the past two weeks, the dollar index inched up just by 2%.

Trader's expression is pale and blank. They were feeling all the excitement, anxiety, exhaustion, and more, the way that white light beam is what you get when you mix every color at once. What feels missing here – other than real life is murky – is the positioning.

Let's run through some basics. Markets anchored by balance sheet or structurally committed capital, such as central banks, lifers and pensions have greater stability, while markets dominated by funds subjected to daily liquidity constraints remain more responsive to flows and headlines. A class apart, but there lives a different civilization. The dollar market belongs to the former. The dollar-owning gatekeepers are reluctant to walk back the devastating period when Trump's lieutenants took out Iranian and Venezuelan leadership. This is on top of the country's debt surpassing US\$38 trillion.

The silence is deafening. Dollar holders have to decide which is worse: thinner liquidity in non-dollar market or ever-festering fiscal erosion in the U.S. Which way the scale will tip is no longer a no-brainer. The dollar is no longer symbolisd. It gets priced instead.



As the 2-year Treasury yield is now sitting above IORB, a re-pricing from cuts to hikes which we don't approve, time is the enemy. Don't be surprised if the reversal momentum feeds on itself.

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## UK

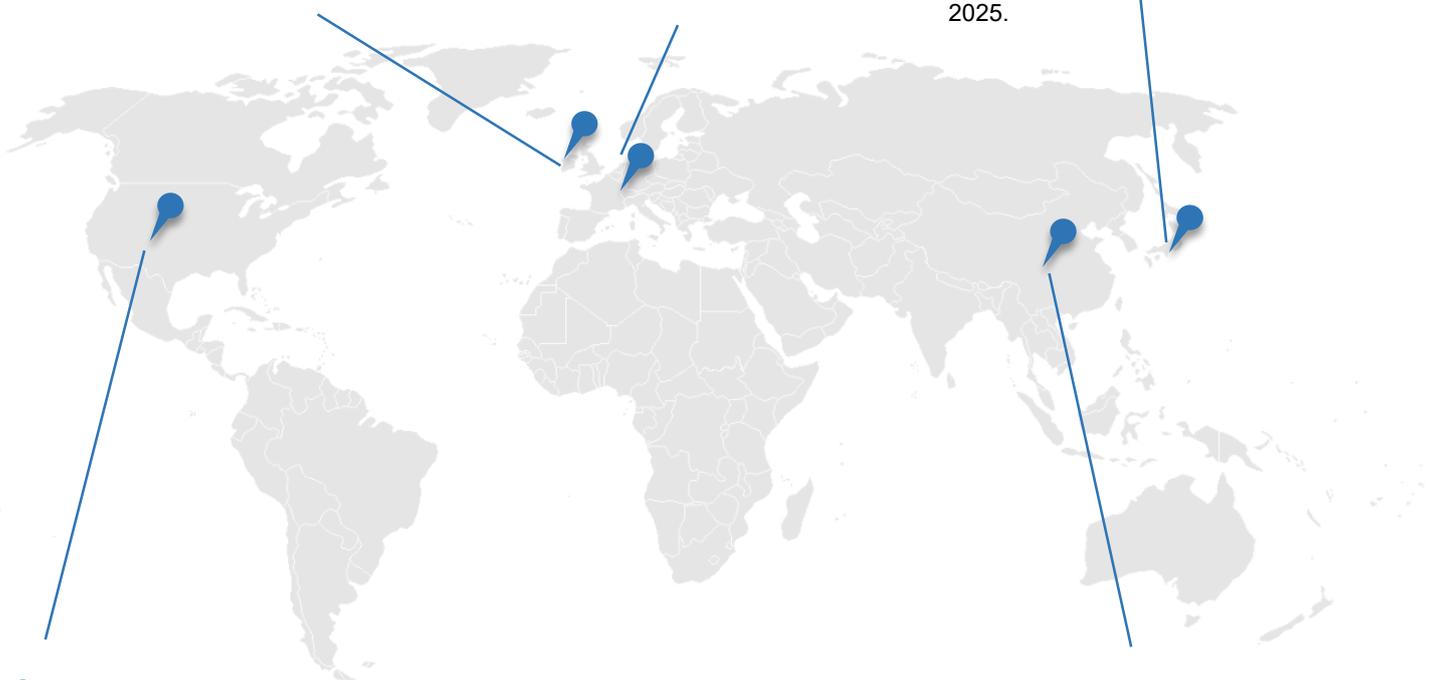
UK natural gas prices have risen 70%. Its impact on CPI will be more delayed however, as the Ofgem cap for Q2 has already been set.

## EU

The governments are likely dusting off the playbook from the previous cost-of-living crisis. Cash handouts and state aid are possible.

## Japan

The Japanese Trade Union Confederation has announced that its member unions are seeking a wage hike averaged 5.9%. The actual salary lift may be more modest, as it was in 2025.



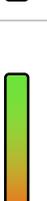
## US

Wars are hard to predict. With inflation overshooting target for going on five years in a row, the Fed will need more clarity before cutting rates further.

## Chinese Mainland

Export growth jumped to a four-year high. The severely constrained shipping traffic through the Strait of Hormuz might weigh on trade data in the coming months.

## Foreign Exchange Outlook

 USD	<p>Overweight Neutral Underweight</p> 	<p>The energy crisis should have reintroduce elements of US exceptionalism via the terms-of-trade channel. But the extremely disappointing labor market report for February has indeed cast doubt on this assumption. Further strength in the near term possibly sets up an opportunity to take profit from this rally.</p>
 EUR	<p>Overweight Neutral Underweight</p> 	<p>Refilling stocks ahead of next winter promises to be a challenge given a multi-year lows of gas storage levels. It raises the risk of demand destruction. Stagflationary threats would argue for a patient ECB and EUR underperformance.</p>
 GBP	<p>Overweight Neutral Underweight</p> 	<p>The market is growing increasingly skeptical of the BoE's willingness to deliver easing with the kicker of rising energy prices. GBP shorts become a reasonably well-populated position. Support from an unwind of short positioning would need a meaningful respite in the Gulf.</p>
 RMB	<p>Overweight Neutral Underweight</p> 	<p>Recent data suggests that the Chinese economy is running smoothly. In spite of its record-breaking trade surplus, the PBoC cut the reserve requirement ratio on FX forward sales from 20% to 0%, signaling discomfort with CNY strength. Over the medium term, a stronger currency would relieve geopolitical tensions, ease offshore debt concerns and foster RMB internationalization.</p>
 JPY	<p>Overweight Neutral Underweight</p> 	<p>An ever-growing trade deficit and the potential of a consumption tax cut were generally seen as negatives for the yen. Japan's finance minister wasn't pleased and stepped up her jawboning. And deteriorating JGB market functionality, as indicated by the latest Bond Market Survey, also fueled the speculation of a change in BoJ's bond buying behavior. USDJPY 152-160 range play apparently remains the base case for many investors.</p>
 AUD	<p>Overweight Neutral Underweight</p> 	<p>The ongoing fight in the Gulf is likely to do little to shift the RBA's hawkish bias. Markets may reassess whether the 4.35% cap on terminal pricing will hold. Any pullback would be an opportunity to own the commodity currency.</p>



Overweight

Neutral

Underweigh



The ongoing economic recovery allows the kiwi to play some catch-up with the Aussie. Its vulnerability due to high reliance on oil imports and large current-account imbalances will sooner or later unsettle NZD holders.

## Recent Publications

Trump's Doom Loop 	Mar 4, 2026
Novelty as Guilty 	Feb 26, 2026
Software as Lunch Table 	Feb 12, 2026
Too Much of a Good Thing 	Feb 3, 2026
Slipping from Grasp 	Jan 29, 2026
Greener Grass on the Other Side 	Jan 22, 2026
2026 Global Economic & FX Outlook 	Jan 13, 2026
Have Yourself a Cosy Christmas 	Dec 11, 2025
Cutting in the Vacuum 	Oct 30, 2025
No More Tears? 	Oct 6, 2025
Threading the Needle 	Sep 22, 2025
Easing to Last 	Sep 18, 2025
Beyond Succession 	Sep 9, 2025
Cooking the Book 	Sep 2, 2025
Going Mad in Its Own Way 	Aug 19, 2025
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Too Hot to Handle 	Jul 31, 2025
Mind over Matter 	Jul 21, 2025
Through the Roof 	Jul 8, 2025
The World as It Is 	Jun 19, 2025
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Ball in the Court 	Jun 2, 2025
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The Doves Are Back in Town 	Mar 20, 2025
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Firing on All Cylinders 	Mar 6, 2025
Scrap for Fee, but Not for Me 	Feb 27, 2025



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