

The war has both exacerbated the "smoke on the water, fire under the surface" nature of the financial markets and central focus of the war has been shifting from intensity to duration and the crisis is becoming less about the ultimate peak in oil prices and more about how long they remain elevated.

Its obvious that many economies are at high recession risk as they run not one but three large deficits (fiscal, current account, energy) - however the markets - as they have been attuned to believe that any crisis as transitory -tend to treat this shock as more of an unfortunate bump - hence perceptible risk of a bubble of inflation complacency embedded in market prices.

Its highly likely that Policy responses could mitigate the inflation shock, as seen during the 2022 energy crisis in Europe. At that time, European governments deployed energy-support measures equivalent to roughly 4% of GDP over a year, including price caps, tax cuts and transfers.

The energy shock adds a new factor to the complicated calculus of Central banks. The 2-year US Treasury yield spikes above fed-funds rate & produces a deeper, worrisome pattern. ECB does a Hawkish tilt. Even if rate hike is not imminent, change in tone & language acknowledges more uncertainty.

Insofar as Equities are concerned, Today is the first day of spring. It is also first "triple-witching" options expiration- It will also see quarterly rebalancing of S&P 500 index. So watch out, the move in either direction is set to be intense for sure.

US Henry Hub natural gas prices have hardly moved while European natural gas and global LNG benchmarks are up almost 50% m/m. On the other hand, there is possibility of U.S. getting more involved in Iran war. EZ Jan total trade balance due today - prior 11.6 bln surplus. Risk of break below major 1.1390-1.1410 recedes for now - Resistance at 1.1577 to hold

Net outstanding forward settlement contracts in Feb hit a record \$107 bio underscoring a sharp rise in corporate hedging activity: record level of hedging points to expectations that yuan strength may persist in the near term.

One shouldn't get too carried away by what yesterday's BoE decision tells us about future policy - note recession fears had returned to UK after GDP stalled in Jan before the conflict. UK 2-yr yield up 38 bps; biggest daily rise since Liz Truss's 2022 debacle. 1.3250 held and provoked this bounce - Res 1.3406/09- 21DMA/Thurs high to hold.

Feb Japan's trade balance returned to surplus- Core machinery orders in Jan fell 5.5% m/m- both data confirm that global economy had been slowing even before the war. Intervention fears near 160.00 had kept USD rally in check especially ahead of today's Japan holiday ( they tend to normally intervene on such days) .

Triple deficit in focus - silver lining is that higher the USDINR goes, larger the fiscal buffer - Next layer of resistances if one call them so are at 93.30 and 93.80.

