

Oiling the peace talk

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Summary

- Oil prices erased their YTD gains following news of US-sponsored Ukraine peace talks. The potential reintegration of Russian oil into global markets could provide a quick boost to supply conditions, helping to stabilise prices.
- Rising US fuel prices and stagnating shale production may push the US government to seek a swift resolution to the Ukraine-Russia conflict, possibly strengthening its geopolitical position at the expense of others.
- The ongoing geopolitical shifts appear to be neutral for Indonesia, given the US' strategic focus on the Asia-Pacific region and Russia's continued role in Indonesia's energy supply chain.

- Politics and security have dominated the news flow over the past week, as two globally important events unfold in Germany. The centre-right CDU/CSU party has regained control of the German government, with the Chancellor-in-waiting Friedrich Merz already stating his goal of seeking greater policy independence (for Germany and Europe) from the US.
- Merz's goal is congruent with statements made by US Vice President JD Vance and Defence Secretary Pete Hegseth a few days earlier during the 2025 München Security Conference, where they emphasised that the current US administration does not place significant weight on Europe's external security and that formally welcoming

Ukraine under NATO's security umbrella remains a distant dream.

- Meanwhile, the US financial market does not seem to react much to the increasingly visible cracks in the trans-Atlantic security order. The USD (DXY) index slid by 0.41% over the past week, as traders grew more accustomed to President Trump's escalate-to-negotiate tactic. At the same time, the weak consumer sentiment reading (64.0 vs. 67.3 expected, the lowest since November 2023) raised questions about the economic growth momentum in the US, which has remained robust since the pandemic-hit year due to continuous fiscal expansions under the previous US administration.

Lower oil expenses, but at European expenses

- It is important to note that the weakening consumer sentiment (especially in a consumption-driven economy such as the US) is better understood as a cause, rather than a consequence, of the decline in potential growth. Many noneconomic factors, such as election results and political partisanship, explain the ebb-and-flow of consumer sentiment. In the US, however, one particular data point seems to hold significant sway over consumer sentiment and, consequently, the sitting government's popularity—bringing our discussion to oil and fuel prices (*see Chart 1*).
- Similar to Indonesia, domestic energy security is a central pillar in President Trump's policy platform. The nomination of fracking executive Chris Wright to head the US Energy Department highlights the US government's push for domestic fuel production, while the President has also vowed to 'unleash' US oil and gas production by slashing environmental red tape imposed by the previous administration.
- Alas, while US oil producers deployed more rigs in the third week of February 2025—the highest increase since September 2024—boosting US oil production beyond its already record-high level is not as simple as chanting “drill, baby, drill” at the President's numerous rallies. **The US shale industry is famously short cycle, meaning that wells dry up quickly, and oil producers will require a constant stream of financing to quickly find and drill another well to maintain their output level.** Unfortunately,

“Rising domestic fuel prices and stagnating shale production may hurt President Trump's popularity, possibly encouraging the current administration to score a quick win abroad”

financing options available for US shale producers are not exactly abundant at the moment, as the still-high corporate bond yield makes it more difficult for oil producers to invest and expand their production capacity (*see Chart 2*).

- The ongoing exploration boom elsewhere, such as in the Guyana-Suriname basin, further limits the capital available for oil producers to invest in the US shale sector. However, while Guyana's oil reserves have been known for some time, its current output of 656K bl/d remains well below the estimated 1.7 Mn bl/d capacity, as conventional oil extraction requires a lengthy process to scale up from exploration to full commercial output. **It is not surprising then, that global oil supply continues to lag the demand growth in recent months (*see Chart 3*),** keeping oil prices within the relatively high range of 74.3-82.1 USD/bl so far in 2025.
- **Stagnating domestic oil production, which may have contributed to the recent rise in fuel prices, could undermine President Trump's popularity** – given that a key part of his support rests on his administration delivering higher domestic fuel production and lower fuel prices. This lack of promising domestic developments may have encouraged the Trump administration to seek a quick win abroad, which could explain the packed agenda the US Department of State is having at the moment, most notably the Ukraine peace talks held in Saudi Arabia last week.

- The US-sponsored Ukraine peace talks, held without the participation of the Ukrainian government and following President Trump’s public vilification of President Zelenskyy, have divided opinions among geopolitics and security analysts. **On the one hand, the Trump administration is earning praise for swiftly bringing Russia to the negotiating table—something the previous US administration refused to do. On the other hand, many have criticised the US government for introducing the option for territorial concessions too early in the discussion (and without Ukraine’s approval),** fuelling speculation that the Trump administration is rushing to secure an agreement.
- Offering a piece of Ukraine and destabilising the trans-Atlantic security alliance may seem like a logical move when viewed through the lens of the Trump administration’s “America First” and short-termist policy outlook, where immediate domestic political wins take precedence over long-term strategic commitments. **Striking a deal with Russia will allow other countries to re-integrate Russian oil into their energy supply chain, quickly alleviating the supply concern in the global oil market (see Chart 4).** As happened before, the returning Russian oil may also encourage Saudi Arabia to normalise its production (which now stood at 1.9 Mn bl/d below its 11.2 Mn bl/d peak output), thus undermining the OPEC+ as Saudi oil producers may need to protect their market share against the returning Russian oil.
- Apart from wrestling up influence from OPEC+, re-inviting Russia to the US-led supply chain

“A US-Russia peace deal is likely to isolate Europe’s geopolitical position and security concerns, which may force European governments to spend more on defence”

may also yield long-term strategic benefits for the US. **Allowing Russia to sell in the global market will lessen its reliance on China, making the “DragonBear” partnership less relevant for Russia and, possibly, limiting China’s grip over its most important commodity supplier.** While the eventual outcome of this geopolitical game is still up for debate, opening to a ‘smaller’ adversary and turning it against its partner (who happens to be America’s nemesis) is not new in America’s diplomatic handbook, especially in a Republican-led White House.

- This outcome from the US-Russia exercise in *realpolitik*, however, could prove catastrophic for Ukraine and Europe as a whole. Apart from Ukraine’s territorial integrity, **the weakened NATO may force European governments to gradually increase their defence spending,** with President Trump already demanding his European counterpart to boost their defence spending beyond the 2% NATO commitment to 5% of GDP. The increased defence spending may further constrain European governments’ fiscal space, creating additional obstacles in the effort to boost public investment to restore Europe’s growth to its pre-pandemic trajectory.
- The urgency to allocate a larger portion of their budgets to defence may push European governments into a fiscal dilemma. One option is to raise revenue, which could weaken domestic demand and drive investments away from Europe – especially with the US positioning itself as a lower-tax alternative. It is more likely for European governments to

instead try to increase debt issuance, which could potentially divert even more liquidity that would have otherwise flowed into emerging markets.

- **Fortunately, the current geopolitical and global security shake-ups and upheavals appear to be neutral for the Indonesian economy.** The US military is expected to maintain its presence in Asia-Pacific, given the Secretary of State Marco Rubio's (and the US government in general) strong stance against China (which seems to be the priority for the

US security apparatus). A potential Russia deal may also have minimal impact on Indonesia's energy supply chain, as Russian oil continue to be present in Indonesia despite the still-active sanctions. At the very least, the stable and lower oil prices under the current scenario (averaging around USD 75-77/bl in 2025, according to EIA's most recent estimates) will help the Indonesian government maintain its fiscal posture (despite the weakening Rupiah), allowing the Indonesian government to cool down the speculation on a possible adjustment in fuel subsidy

Chart 1

Popularity check

Fuel prices in the US are climbing up again despite President Trump's pro-oil stance, possibly hurting his popularity as consumer sentiment worsens.

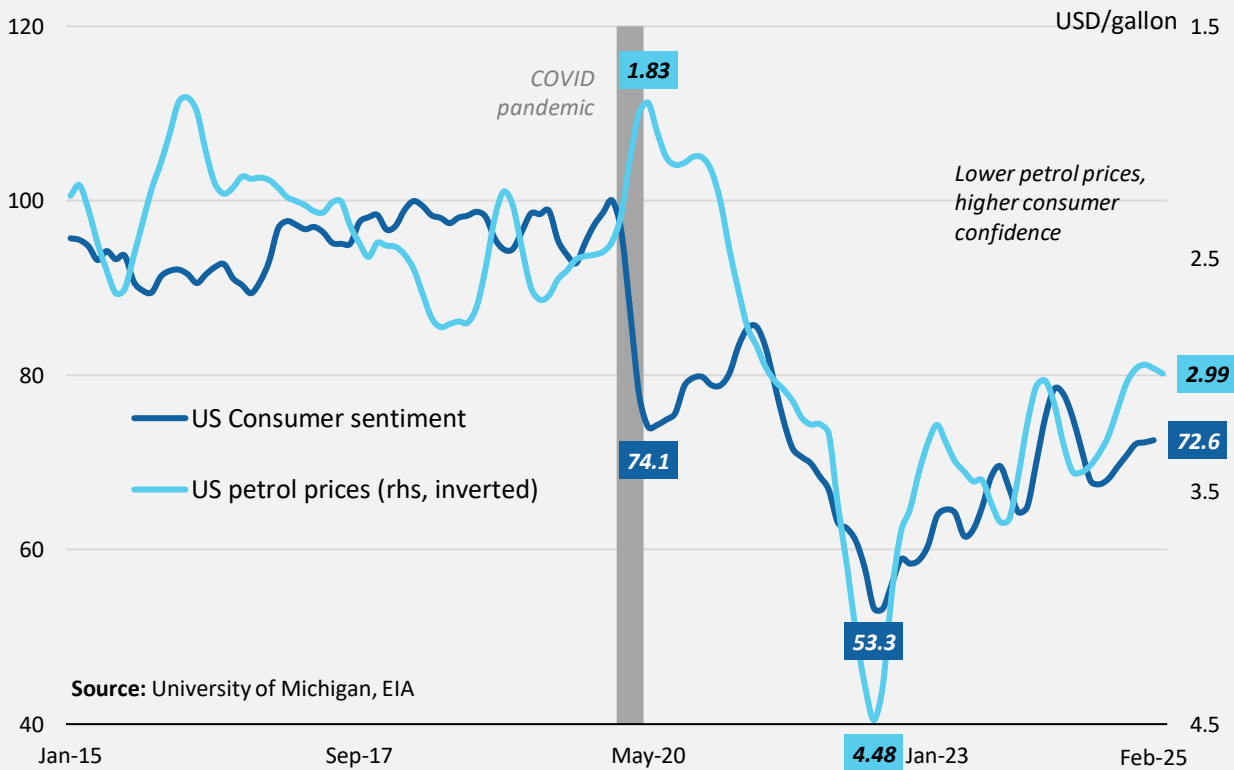


Chart 2

High interest

Global oil producers seem to be cooling down their expansion efforts as the high interest rate stymied further growth in CAPEX spending

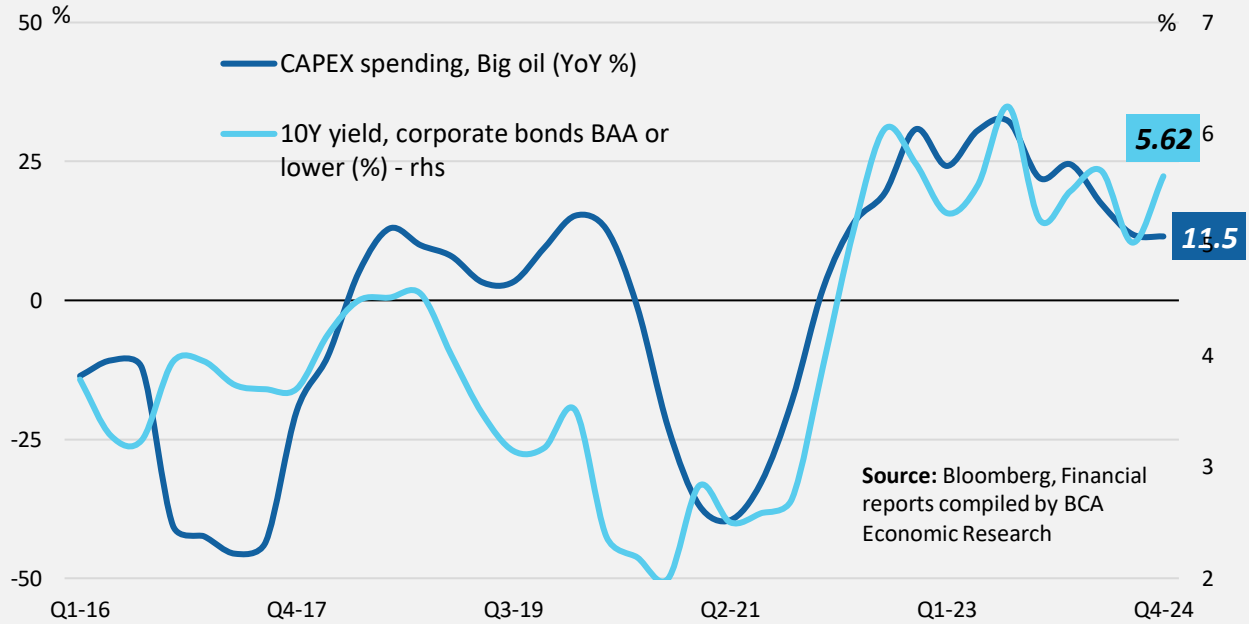


Chart 3

Baby don't drill

Global oil prices are trending upward as the stagnating US shale production and OPEC production cut decelerate supply growth more than demand.

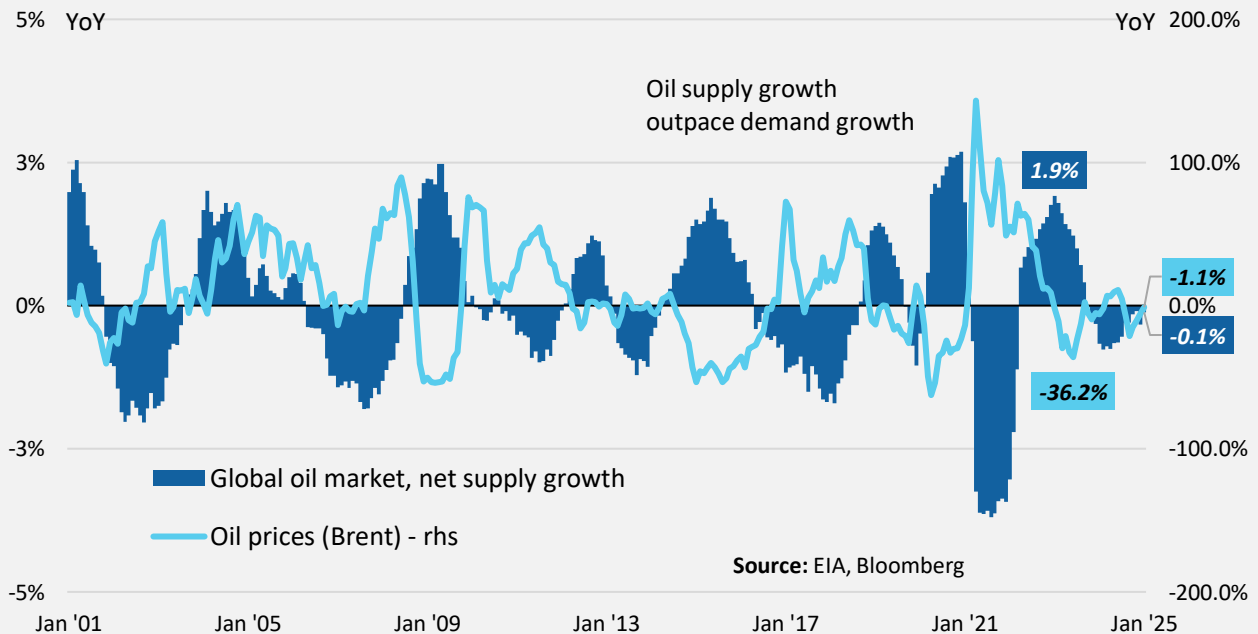


Chart 4

From Russia with love oil

Oil prices spike in 2022 as Russian oil stops flowing into the global market, a condition which President Trump seemingly tried to revert in 2025

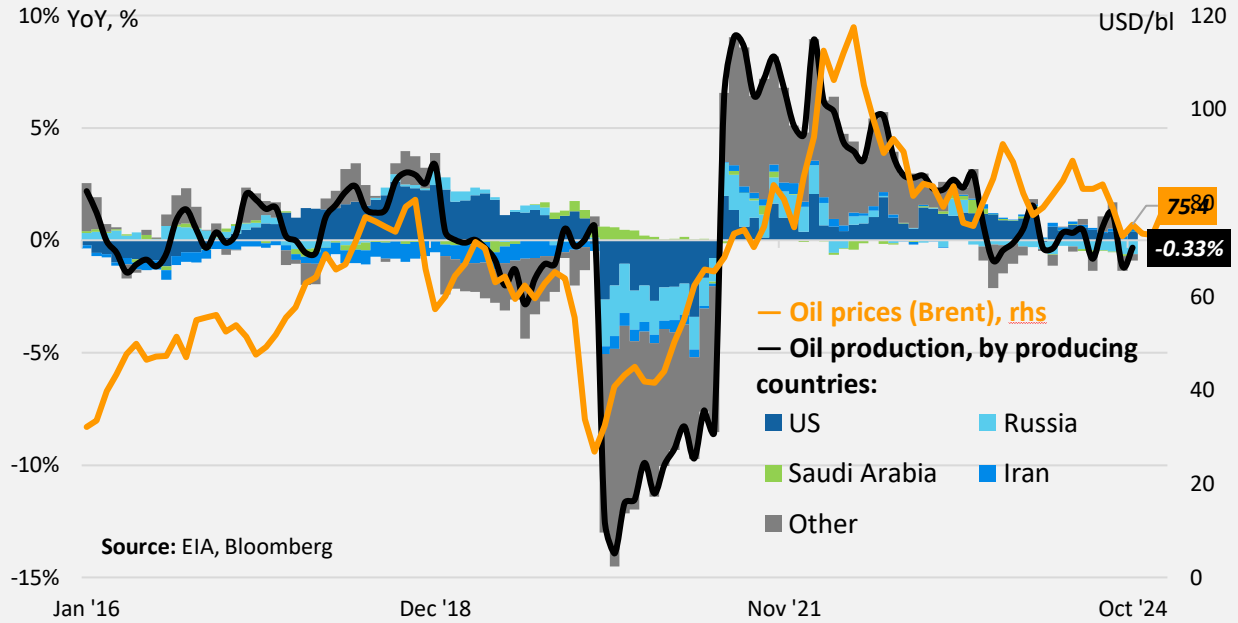
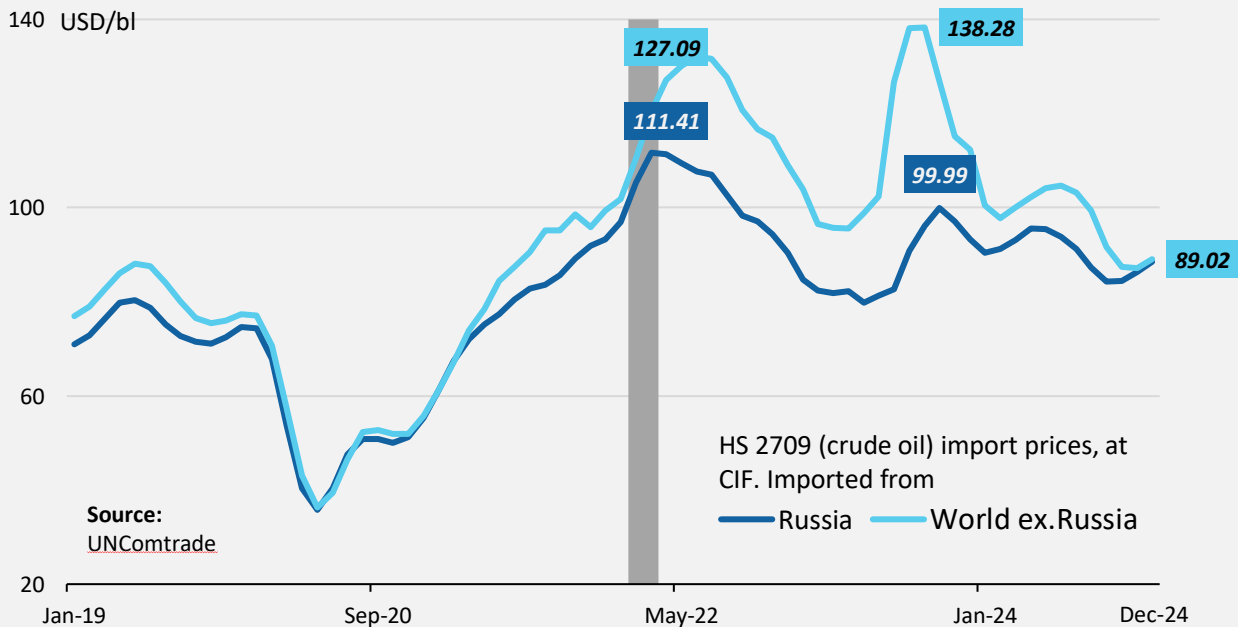


Chart 5

No more discount

Russian oil has been trading at no discount lately, signalling further re-integration of Russian oil in the global market



Economic Calendar				
		Actual	Previous	Forecast*
03 February 2025				
ID	S&P Global Manufacturing PMI	51.9	51.2	51.6
ID	Inflation Rate YoY, %	0.76	1.57	1.7
ID	Tourist Arrivals YoY, %	8.72	17.27	18.0
US	S&P Global Manufacturing PMI	51.2	49.4	50.1
05 February 2025				
ID	GDP Growth Rate YoY, %	5.02	4.95	5.2
US	Balance of Trade, USD Bn	-98.4	-78.9	-93.0
06 February 2025				
EA	Retail Sales YoY, %	1.9	1.6	1.7
07 February 2025				
ID	Foreign Exchange Reserves, USD Bn	156.1	155.7	-
US	Non-Farm Payrolls, th	143	307	205
09 February 2025				
CN	Inflation Rate YoY, %	0.5	0.1	0.2
ID	Motorbike Sales YoY, %	-6.0	-5.5	-
11 February 2025				
ID	Consumer Confidence	127.2	127.7	128
ID	Car Sales YoY, %	-11.3	-6.4	-
12 February 2025				
ID	Retail Sales YoY, %	1.8	0.9	3.7
US	Inflation Rate YoY, %	3	2.9	2.9
14 February 2025				
US	Retail Sales YoY, %	4.2	4.4	3.7
17 February 2025				
ID	Balance of Trade, USD Bn	3.45	2.24	2.2
EU	Balance of Trade, (Bn)	15.5	16	33
19 February 2025				
ID	Interest Rate Decision, %	5.75	5.75	5.75
ID	Loan Growth YoY, %	10.27	10.39	10.5
20 February 2025				
ID	Current Account, (USD Bn)	-1.1	-2.0	-0.6
24 February 2025				
ID	M2 Money Supply YoY, %	5.9	4.4	-
28 February 2025				
US	PCE Price Index YoY, %		2.6	-

*Forecasts of some indicators are simply based on market consensus
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	21-Feb	-1 mth	Chg (%)
US	4.50	Dec-24	1.50	Baltic Dry Index	981.0	928.0	5.7
UK	4.50	Feb-25	1.50	S&P GSCI Index	569.4	573.0	-0.6
EU	2.90	Jan-25	0.40	Oil (Brent, \$/bbl)	74.4	79.3	-6.1
Japan	0.50	Jan-25	-4.10	Coal (\$/MT)	106.3	129.1	-17.7
China (lending)	2.00	Sep-24	3.85	Gas (\$/MMBtu)	4.44	4.40	0.9
Korea	3.00	Nov-24	0.80	Gold (\$/oz.)	2,936.1	2,744.8	7.0
India	6.25	Feb-25	1.94	Copper (\$/MT)	9,518.8	9,168.9	3.8
Indonesia	5.75	Jan-25	4.99	Nickel (\$/MT)	15,307.0	15,853.1	-3.4
				CPO (\$/MT)	1,101.9	1,032.1	6.8
				Rubber (\$/kg)	2.08	1.99	4.5
Money Mkt Rates	21-Feb	-1 mth	Chg (bps)	External Sector	Jan	Dec	Chg (%)
SPN (1Y)	6.03	6.68	-65.0	Export (\$ bn)	21.45	23.46	-8.56
SUN (10Y)	6.77	7.11	-33.9	Import (\$ bn)	18.00	21.22	-15.18
INDONIA (O/N, Rp)	5.80	5.77	3.5	Trade bal. (\$ bn)	3.45	2.24	54.17
JIBOR 1M (Rp)	6.38	6.39	-0.4	Central bank reserves (\$ bn)*	156.1	155.7	0.23
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Prompt Indicators	Jan	Dec	Oct
Lending (WC)	8.68	8.72	-3.69	Consumer confidence index (CCI)	127.2	127.7	121.1
Deposit 1M	4.78	4.78	-0.49	Car sales (%YoY)	-11.3	-6.4	-3.7
Savings	0.67	0.66	0.37	Motorcycle sales (%YoY)	-6.0	-5.5	5.4
Currency/USD	21-Feb	-1 mth	Chg (%)	Manufacturing PMI	Jan	Dec	Chg (bps)
UK Pound	0.792	0.810	2.28	USA	51.2	49.4	180
Euro	0.956	0.959	0.29	Eurozone	46.6	45.1	150
Japanese Yen	149.3	155.5	4.19	Japan	48.7	49.6	-90
Chinese RMB	7.252	7.266	0.18	China	50.1	50.5	-40
Indonesia Rupiah	16,305	16,335	0.18	Korea	50.3	49.0	130
				Indonesia	51.9	51.2	70
Capital Mkt	21-Feb	-1 mth	Chg (%)				
JCI	6,803.0	7,181.8	-5.27				
DJIA	43,428.0	44,025.8	-1.36				
FTSE	8,659.4	8,548.3	1.30				
Nikkei 225	38,776.9	39,028.0	-0.64				
Hang Seng	23,477.9	20,106.6	16.77				
Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)				
Stock	3,531.1	3,521.3	9.76				
Govt. Bond	881.3	876.6	4.65				
Corp. Bond	6.0	5.9	0.10				

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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