Sudden strikes, prolonged supply cuts

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Summary

- Strait of Hormuz closure has reduced global oil & gas supply, increasing prices of energy commodities as countries scramble for alternatives.
- Prolonged price shocks could transfer to higher US CPI and weaker Rupiah, reducing The Fed and BI's room to cut respectively.
- Indonesia's fiscal deficit could rise from increased oil price and weaker currency, which may cause a decline in other spending commitments.

A return to realpolitik

- The past week has seen another momentous shift in geopolitics; United States and Israel have launched another barrage of strikes on Iran. Rather than the previous strikes back in June last year, where US & Israel aims for specific military targets, the wider swath of strikes in Iran points towards a desire for regime change, potentially resulting in a prolonged conflict in contrast to Venezuela's attack.
- In retaliation, Iran has struck against US and Israeli assets by launching drones and ballistic missiles, while declaring a **closure over the Strait of Hormuz**, which is responsible for around 20% of global oil & gas flows. While the closure remains in place at the time of writing, it is unclear if the IRGC would be able to sustain this manoeuvre for prolonged periods of time.
- On one hand, the marine shipping industry remains incredibly risk-averse and is deeply dependent on loss insurance. As such, Iran does not need a standing Navy to institute an effective closure, as the mere threat of attacks have made some insurance providers unwilling to provide coverage for ships sailing through the Strait. On the other hand, the complete naval & air supremacy of Western forces could eventually grind down Iranian offensive capabilities.
- While this piece would mainly focus on the impact of oil, it's worthwhile to mention the chokehold the region holds for gas as well. Many major developed nations, especially those in the Northern Hemisphere, rely on gas for heating during the winter months ***(see Chart 1).*** Persistent price pressures in these energy commodities could lead to a greater usage of alternative energy sources (such as coal and green energy), possibly leading to a demand uptick as countries substitutes their energy needs.
- For now, analysts seemed to cluster around **2 possible scenarios.** One describes a swift normalization in the Strait, either due to severe degradations around IRGC capabilities to credibly maintain its threat and/or a ceasefire that could see shipments resume. In this scenario, oil price is expected to rise to USD 80 – 85 / bbl in the short term, as infrastructure repair and potentially still-elevated insurance cost would

push the cost of oil production (we would describe this as our **"base case"**).

- Another describes a more painful **"worst case"**, where both sides continued their escalation, leading to the blockade stretching for months. In this scenario, oil refineries are forced to eventually shutter production, as storage facilities proved insufficient to store many months' worth of oil production. This dearth of oil, then, could lead prices to spike above USD 100 / bbl for the next few months.
- Whichever way the conflict eventually ends, this manoeuvre is likely to erase any inflation easing that would come from the cancellation of Trump's IEEPA tariffs. Our model estimates that for any 10% increase in oil price, US CPI are likely to rise by 20 – 30 bps. All things equal, this conflict could push up US CPI to 3.0 - 3.7% ***(see Chart 2)***, further complicating The Fed's decision to obey its dual mandate.
- However, **it may be premature to fully eliminate the possibility of rate cuts.** First, the Iranian conflict and its impact on energy prices could be seen by FOMC members as 'transitory' or 'a one-off increase in price level', a similar argument that has been used to justify dovish action under both Biden (2022 war shock) and Trump 2.0 (reciprocal tariffs). Second, the government could release its Strategic Petroleum Reserve or compel its oil producers to favour domestic consumers, considering the looming midterm elections.
- Indeed, when looking at market-based indicators of inflation and rate cuts expectations, we have seen a much more modest reaction so far, with 2x rate cuts still priced in 2026, while the mid-term yield curve merely rise around 10 bps ***(See Chart 3).*** This implies that market participants are likely still waiting for further developments on the conflict before making further moves, and that OPEC+ recent pledge to increase oil production by 206k bbl/day may have dampened concerns around oil supply reduction.

Hearkening back home

- Whichever way the Fed eventually chose its monetary policy, there are reasons for BI to be even more cautious of rate cuts. Indonesia's economy continued to be highly dependent on imports of oil, with our model showing that a 10% increase in brent oil prices could widen CA deficit by 0.11% of GDP, **ultimately causing Rupiah to weaken by 0.6%.** Combined with the production cuts for nickel and coal, these pressures are likely to lead BI to use its stabilization tools (BI-rate, FX intervention, SRBI net issuance) more frequently, leaving less room for pro-growth policies.

"Indonesia possesses a more shock-resistant energy market at the cost of reduced fiscal headspace"

- However, the transmission of oil price spikes unto domestic consumption is a bit more uncertain. Indonesia has taken great steps to isolate their domestic fuel prices from global oil shocks through pervasive fuel subsidies, creating a more shock-resistant domestic market at the cost of reduced fiscal headspace. As such, regular fluctuation in oil price only confers marginal impacts on domestic inflation.
- **Unfortunately, this crisis could rarely have come at a worse time.** Perception around Indonesia's fiscal prudence has deteriorated, signified by Moody's outlook downgrade and SnP global warning. Furthermore, when looking at sensitivity analysis provided within the budget,

oil price could only comfortably rise to around USD 80/bbl before the deficit breached its legal limit (3% of GDP) ***(see Chart 4).***

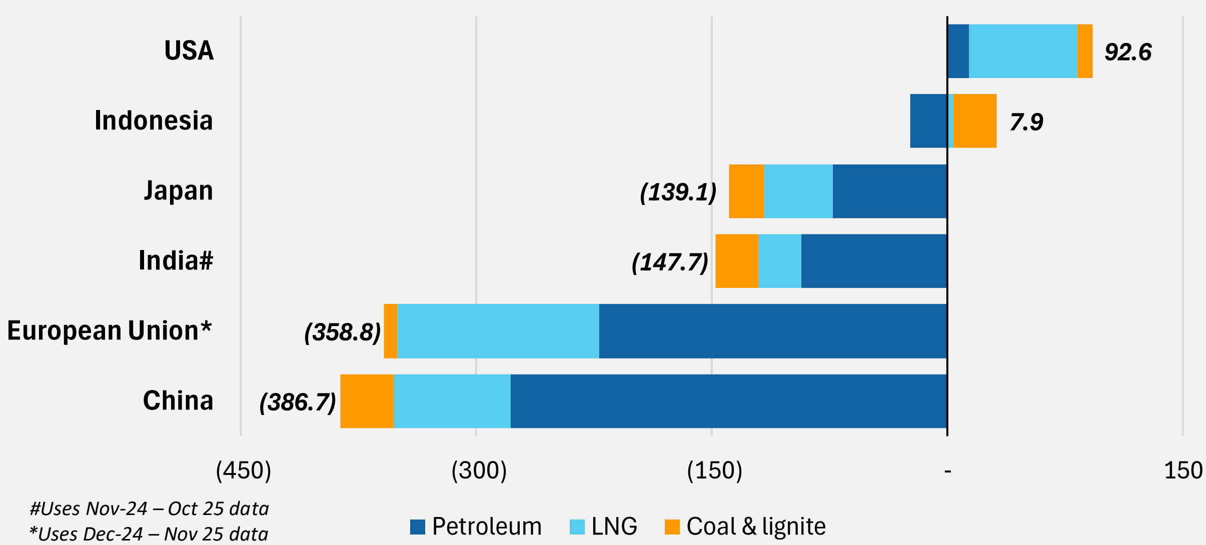
- Unfortunately, this potential spike in expenditures could present a dilemma for government to contend with, considering the higher-than-usual deficit in the budget forecast. To be clear, we still expect the 2026 deficit to still be under the legal limit, with the government likely to offset this increase by relying on a second-round efficiency drive, greater source of tax revenue, or an upward adjustment to subsidized fuel price.
- However, not all is gloomy for Indonesia. Previous times of war (especially the 2022 Russia-Ukraine war) usually have **resulted in an increase for commodity prices.** The transmission comes from both the real market side and the financial market side. Oil and other energy sources are fundamental components of all commodity production supply chains. While the high volume in the futures market for these commodities has the potential to divert funds from the US Dollar, it automatically leads to an increase in other commodities whose prices move 'against' the US Dollar.
- It's also worthwhile to mention that the disruption to the Strait of Hormuz would be most heavily felt on Asian nations, which may find Indonesia to be a **particularly attractive energy supplier on account of its relatively weaker currency and shorter distance.** As such, while Indonesia's public accounts may be somewhat pressured, the private mining sector may find themselves be relieved of compressed margins which plagued them in 2025

Chart 1

Asymmetrical dependence

Indonesia's degree of dependence on petroleum imports is relatively smaller compared to other major nations & blocs and is an energy exporter overall.

Trade balance of select energy commodities (USD Bn, 2025)



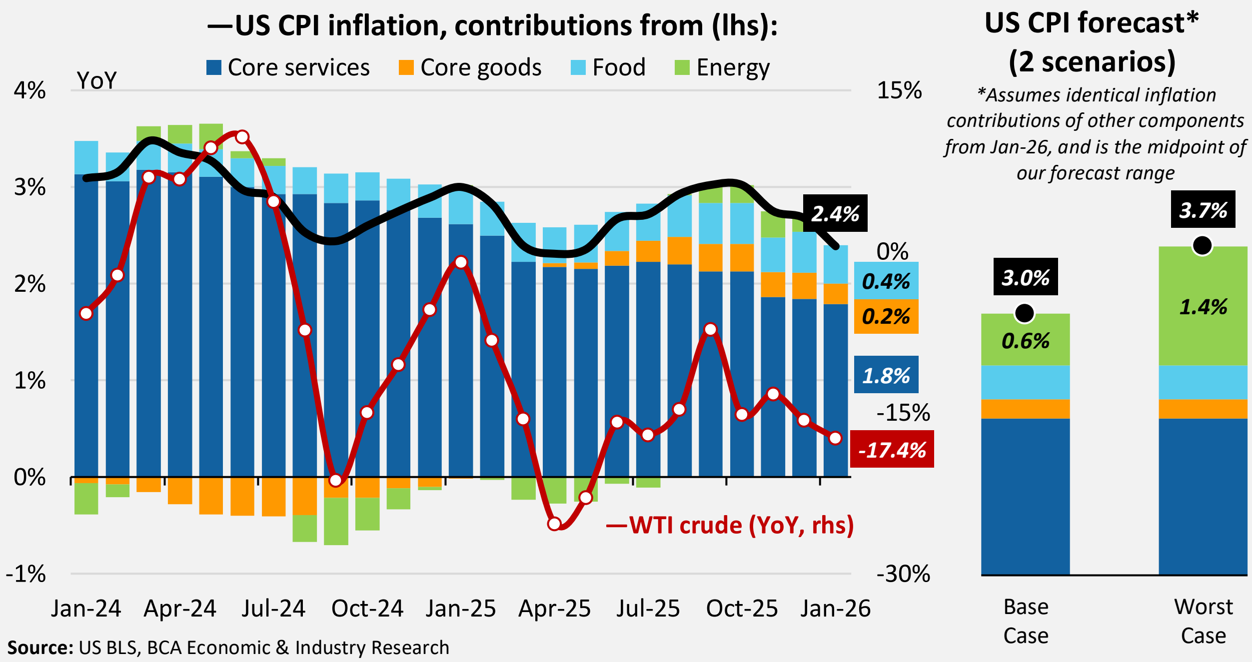
#Uses Nov-24 – Oct 25 data
**Uses Dec-24 – Nov 25 data*

Source: ITC

Chart 2

Restarting the inflation engine

The latest Middle East conflict would likely result in elevated US CPI print, muddying inflation outlook and potential Fed rate cuts

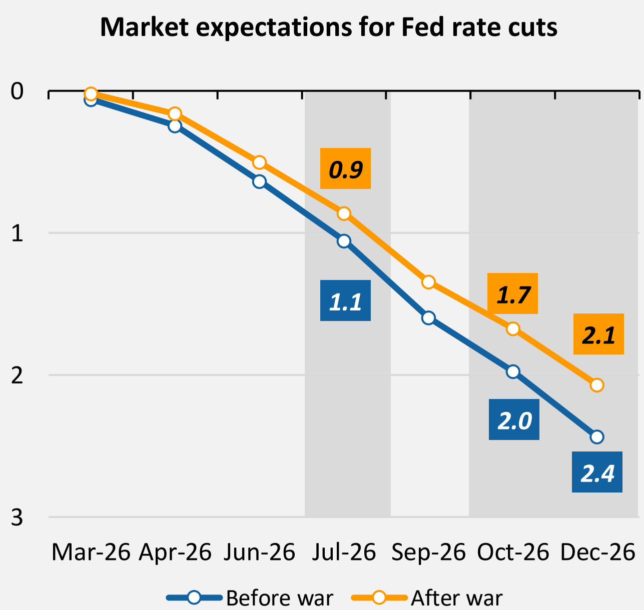


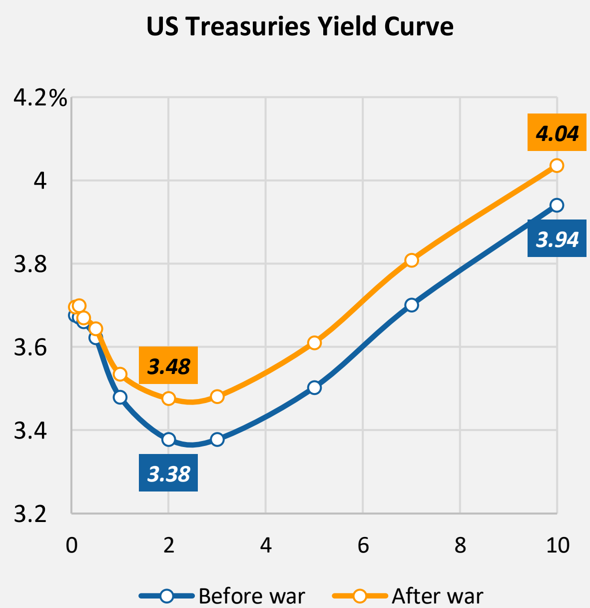
Source: US BLS, BCA Economic & Industry Research

Chart 3

Still in wait-and-see mode

Market expectation for rate cuts and inflation remained modest, underscoring the uncertain nature of the conflict and the possibility of supply stabilization through alternative producers.





Source: Bloomberg

Chart 4

Weighed down by outside factors

Increased oil price and weaker Rupiah could further pressure the national budget, potentially forcing the government to reduce allocation towards other sectors.

Indonesia's deficit-to-GDP sensitivity to oil price and USD/IDR exchange rate

		USD/IDR exchange rate						
		15,000	15,500	16,000	16,500	17,000	17,500	18,000
Brent Oil price (US$/bbl)	60	2.37%	2.38%	2.40%	2.42%	2.43%	2.45%	2.46%
	65	2.50%	2.52%	2.53%	2.55%	2.56%	2.58%	2.59%
	70	2.63%	2.65%	2.66%	2.68%	2.70%	2.71%	2.73%
	75	2.77%	2.78%	2.80%	2.81%	2.83%	2.84%	2.86%
	80	2.90%	2.91%	2.93%	2.94%	2.96%	2.98%	2.99%
	85	3.03%	3.05%	3.06%	3.08%	3.09%	3.11%	3.12%
	90	3.16%	3.18%	3.19%	3.21%	3.22%	3.24%	3.26%
	95	3.29%	3.31%	3.33%	3.34%	3.36%	3.37%	3.39%
	100	3.43%	3.44%	3.46%	3.47%	3.49%	3.50%	3.52%
	105	3.56%	3.57%	3.59%	3.61%	3.62%	3.64%	3.65%
	110	3.69%	3.71%	3.72%	3.74%	3.75%	3.77%	3.78%

Source: Indonesia MoF (APBN 2026), BCA Economic & Industry Research

Economic Calendar

		Actual	Previous	Forecast*
02 March 2026				
ID	S&P Global Manufacturing PMI	53.8	52.6	52
ID	**Trade balance (Jan-25), USD Bn**	**0.95**	**2.52**	**2.7**
ID	**Inflation Rate YoY, %**	**4.76**	**3.55**	**4.0**
US	S&P Global Manufacturing PMI	51.6	52.4	51.2
05 March 2026				
EA	Retail Sales YoY, %		1.3	1.7
06 March 2026				
ID	**Foreign Exchange Reserves, USD Bn**		**154.6**	**-**
US	Non Farm Payrolls, th		130	70.0
US	Retail Sales YoY (Jan-26), %		2.4	2.0
09 March 2026				
CN	Inflation Rate YoY, %		0.2	0.4
ID	Consumer Confidence		127.0	128
10 March 2026				
CN	Trade balance, (Jan-Feb) USD Bn		114.1	1.6
ID	Retail Sales YoY, %		3.5	4.0
ID	Motorbike Sales YoY, %		3.1	-
11 March 2026				
US	Inflation Rate YoY, %		2.4	-
12 March 2026				
US	Trade balance (Jan-26), USD Bn		-70.3	-
13 March 2026				
US	PCE Price Index YoY, %		2.9	-
ID	Car Sales YoY, %		7	-
16 March 2026				
CN	Retail Sales YoY, (Jan-Feb) %		0.9	-
17 March 2026				
ID	**BI-Rate Decision, %**		**4.75**	4.75
ID	Loan Growth YoY, %		9.96	-
19 March 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**3.75**
27 March 2026				
ID	M2 Money Supply YoY, %		10.0	-

Source: Bank Indonesia

*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 (%)
US	3.75	Dec-25	1.35
UK	3.75	Dec-25	0.75
EU	2.15	Jun-25	0.45
Japan	0.75	Dec-25	-0.75
China (lending)	2.00	Sep-24	4.15
Korea	2.50	May-25	0.50
India	5.25	Dec-25	2.50
Indonesia	4.75	Sep-25	-0.01
Money Mkt Rates	**02-Mar**	**-1 mth**	**Chg (bps)**
SPN (1Y)	4.78	4.61	17.1
SUN (10Y)	6.45	6.32	12.7
INDONIA (O/N, Rp)	4.21	3.85	35.5
JIBOR 1M (Rp)	5.03	5.03	0.0
Bank Rates (Rp)	**Dec**	**Nov**	**Chg (bps)**
Lending (WC)	8.08	8.24	-16.00
Deposit 1M	4.54	4.60	-6.00
Savings	0.70	0.67	3.00
Currency/USD	**02-Mar**	**-1 mth**	**Chg (%)**
UK Pound	0.746	0.731	-2.04
Euro	0.856	0.844	-1.38
Japanese Yen	157.4	154.8	-1.66
Chinese RMB	6.905	6.957	0.75
Indonesia Rupiah	16,861	16,785	-0.45
Capital Mkt	**02-Mar**	**-1 mth**	**Chg (%)**
JCI	8,016.8	8,329.6	-3.75
DJIA	48,904.8	48,892.5	0.03
FTSE	10,780.1	10,223.5	5.44
Nikkei 225	58,057.2	53,322.9	8.88
Hang Seng	26,059.9	27,387.1	-4.85
Foreign portfolio ownership (Rp Tn)	**Feb**	**Jan**	**Chg (Rp Tn)**
Stock	3,864.0	4,021.0	-156.95
Govt. Bond	875.4	1,327.7	-452.36
Corp. Bond	5.1	5.2	-0.13

Trade & Commodities	02-Mar	-1 mth	Chg (%)
Baltic Dry Index	2,187.0	2,148.0	1.8
S&P GSCI Index	632.3	598.2	5.7
Oil (Brent, $/brl)	77.7	70.7	10.0
Coal ($/MT)	128.7	117.5	9.5
Gas ($/MMBtu)	2.99	7.24	-58.7
Gold ($/oz.)	5,322.1	4,894.2	8.7
Copper ($/MT)	13,034.0	13,067.6	-0.3
Nickel ($/MT)	16,938.4	17,732.9	-4.5
CPO ($/MT)	1,026.5	1,074.3	-4.5
Rubber ($/kg)	2.05	1.94	5.7
External Sector	**Jan**	**Dec**	**Chg (%)**
Export ($ bn)	22.16	26.35	-15.91
Import ($ bn)	21.20	23.83	-11.05
Trade bal. ($ bn)	0.95	2.51	-62.02
Central bank reserves ($ bn)*	154.6	156.5	-1.21
Prompt Indicators	**Jan**	**Dec**	**Nov**
Consumer confidence index (CCI)	127.0	123.5	124.0
Car sales (%YoY)	7.0	17.9	-1.0
Motorcycle sales (%YoY)	3.1	14.5	2.1
Manufacturing PMI	**Feb**	**Jan**	**Chg (bps)**
USA	51.6	52.4	-80
Eurozone	50.8	49.5	130
Japan	53.0	51.5	150
China	50.3	50.3	0
Korea	51.1	51.2	-10
Indonesia	53.8	52.6	120

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

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5362
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	2.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	4.50
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.50
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	16,784
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	16,842
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	33.8
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-0.4

Notes:

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

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