BATAVIA PROSPERINDO ASET MANAJEMEN

BPAM FLASH NOTE

23 June 2025

Rising geopolitical tension

Over the weekend, US attack 3 nuclear sites in Iran, including Fordow, Natanz and Esfahan, joining Israel in the biggest military attack against Iran since its 1979 revolution. Meanwhile, Iran's parliament approve to close the Strait of Hormuz, flowing ~30% of world's seaborne oil trade and ~20% of world's LNG's supply, although final decision will be made by Iran's national security council. Hence, the closing the Strait of Hormuz will impact the oil supply significantly, translate to jump in crude oil price. For now, the world is waiting for Iran's response after attack.

Oil prices and production impact during previous conflicts

Start	End	Conflict/War	Production Impact (kbd)	Price Impact (%)
Jan-78	Feb-79	Iranian Revolution	-2,928	123%
Feb-90	Dec-91	Dissolution of Soviet Union	-1,685	141%
Nov-98	Feb-99	The Venezuelan Bolivarian Revolution	-200	145%
Apr-99	Ongoing	Niger Delta Conflict (Nigeria)	-83	100%
Mar-03	Dec-11	Iraq War	-1,279	34%
Jun-83	Jan-11	South Sudanese Second Civl War	-403	27%
Feb-11	Oct-20	Libyan civil war	-1,475	25%
Feb-19	Apr-21	Algerian Protests	-291	9%

Source: BPSR, EIA, Bloomberg, JPM Commodities Research

Our take:

This rising geopolitical tension in Middle East may impact to world's energy supply, depend on the magnitude and duration of the tension. Before the attack, oil supply and demand balance is expected to be surplus of 1.7 mbd in FY25 (JPM estimate) VS 0.4 mbd in FY24, due to higher production. Meanwhile, US can use their oil reserves temporarily to reduce the impact of supply shortage if any. Other oil producers can also increase their productions to mitigate supply issue.

This high energy prices may impact inflation and purchasing power. Slowing global economy (due to 2 wars) and persistent high inflation will put global central banks in difficult situation in determining their monetary policy. Meanwhile, the probability of recession may increase in line with the magnitude of energy's supply disruption.

High oil prices may impact to our economy through inflation, fiscal budget, current account and currency. Every 10% increase in oil price, Indonesia's inflation may raise by 0.5-0.6% directly and 1.5% including the second-round impact. Every US$10/barrel (2025's government assumption of US$82/barrel) increase in crude oil price, this may impact to higher net fiscal deficit of Rp69 tr or 0.3% of GDP. For current account, 10% increase in crude oil may impact to higher current account deficit by 0.1%.

BATAVIA PROSPERINDO ASET MANAJEMEN

BPAM FLASH NOTE

23 June 2025

Equity Strategy:

Any prolonged closure could result in a significant spike in oil prices and broader market instability. In anticipation of heightened geopolitical risk, we have tactically increased our portfolio exposure to oil and gold. At the same time, we continue to favor domestically oriented sectors such as consumer staples, healthcare and telecommunications. These segments generally more resilient and are expected to outperform in the event of external shocks or prolonged market volatility. We will closely monitor geopolitical development and will adjust our strategy accordingly.

Fixed Income Strategy:

We expect increased volatility in the bond market in the near term due to ongoing geopolitical risks, which may also weigh on the currency and CDS. In response, we are increasing our cash portion but keeping our target duration at 100–120%, as we remain confident in Indonesia's prudent fiscal policy and see potential for rate cuts amid growth concerns.