

Prolonged war prompts market correction

The JCI corrected by more than 2% this morning as geopolitical tension remains high and oil & gas prices stay elevated. Over the weekend, US attacked military sites on Iran's Kharg island while still held off targeting its oil infrastructure which currently is the most important oil facility for Iran. Subsequently, Iran attacks reportedly caused damage in several Israeli cities and UAE's Fujairah oil facility. With Iran's dismissal of US President claim that Tehran wants truce talks, the market continues to price in the possibility of prolonged wars.

The market corrects on broad-based basis with exception on few commodity names. On the other hand, US printed lower fourth quarter GDP to 0.7% QoQ, revised down from previously 1.4% QoQ. Meanwhile, after the report, US treasury 10Y yield stay elevated at 4.26%.

JCI's mover as of 09.25 am today (points):

Leaders	Index Points	Laggards	Index Points
EMAS	+4.8	DSSA	-15.7
UNTR	+0.8	BBCA	-14.2
NIRO	+0.3	TLKM	-12.6
BBNI	+0.3	BREN	-12.0
DCII	+0.3	BRMS	-11.9

Source: Bloomberg

Our take:

Rising energy prices is an 'additional tax' to consumers, which will impact global growth and inflation outlook. Hence, this situation directly translate to higher risk premium to capital market.

For Indonesia, surge in oil price poses risk to the fiscal, inflation and current account. Every USD10/barrel increase (from USD70/barrel) in oil prices, the fiscal deficit could widen by around Rp68 tr or ~0.2% of GDP. Hence, government may need to cut spendings and/or adjust subsidized fuel price (Pertalite) if oil price remain high for few months. Every 10% increase in subsidized fuel price may impact inflation by ~0.5%. In addition to that, higher oil price will also translate into worsening current account balance through higher imports, where 10% rise in crude oil prices would reduce the current account balance by 0.1% of GDP (all things equal).

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