Batavia Prosperindo

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Flash Note

Geopolitical market risk premium rebuilds

The JCI Index declined by more than 2% in the afternoon session as geopolitical tensions in the Middle East re-escalated. The increase in conflict intensity follows renewed closure of the Strait of Hormuz and the capture of two foreign vessels in the area by Iran. Domestically, the rupiah is under pressure today, with USD/IDR reaching a record high above Rp 17,300/USD amid the dividend repatriation season and the possibility of pressure on the trade balance from higher energy prices. Market reactions were also evident in oil prices, with Brent crude rising back above $100 per barrel. Meanwhile, the JCI declined broadly across sectors.

JCI's mover as of 14.58 am today (points):

Leaders	Index Points	Laggards	Index Points
ENRG	+3.6	BREN	-16.3
MORA	+1.3	DSSA	-15.9
APIC	+1.2	TLKM	-9.4
WBSA	+1.0	ASII	-8.0
AALI	+1.0	BBRI	-7.8

Source: Bloomberg

Our take:

As the conflict in Middle East (and supply disruption) prolongs, the baseline scenarios for energy prices become higher too. Hence, the growth forecast become lower, while inflation forecast should adjust upward. Current condition may reduce the possibility of easing monetary policy, at least in the short term, until global central banks shift their focus to growth/recession rather than inflation.

For Indonesia, surge in oil price poses risk to the fiscal, inflation and current account. Although Indonesia is net oil importer (1.9% of GDP), but it can be offset partially by export of selected commodities, such as gas (0.5% of GDP), coal (1.9%) and CPO (2%).

Fixed Income: Yield shifted higher today, with selling interests across the curve as rupiah hit 17.3k this morning with sizeable DNDF matured today. 10yr benchmark series (FR108) trading at 6.68-6.70% (vs 6.59% at close yesterday), while the 5yr benchmark (FR109) trading at 6.47-6.50%, (vs 6.34% at close yesterday). Focus will be on SRBI auction tomorrow, as market will digest BI's reaction to persistent IDR weakening.

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