

Rising tension hit Middle East

This morning oil price shot up >US\$100/barrel amid rising tension in Middle East, which may disrupt global energy supply. Iran was reported attacking ships passing through the Strait of Hormuz. Meanwhile, air strikes also hit oil facilities and water desalination plants in Middle East. News also reported Mojtaba Khamenei, son of Ali Khamenei, named as new Supreme Leader.

Major oil producers, such as United Arab Emirates and Kuwait, have begun reducing oil production, as storage runs out due to disruption in distribution.

JCI's mover as of 09.15 am today (points):

Leaders	Index Points	Laggards	Index Points
MEDC	+0.4	BREN	-26.9
BTPN	+0.2	TLKM	-17.9
AKRA	+0.1	AMMN	-15.2
ITMG	+0.1	BRMS	-15.0
ELSA	+0.1	TPIA	-12.4

Source: Bloomberg

Our take:

The geopolitical tension obviously escalated recently as strikes hit oil and water desalination plants. 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 US\$10/barrel increase (from US\$70/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 to 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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