

The Ripple From Hormuz

Executive Summary

The US-Israel and Iran conflict and the temporary closure of the Strait of Hormuz triggered the largest oil supply disruption in modern history. The global crude flows through the strait collapsed from around 20 mb/d to only a few million barrels per day, driving Brent crude price spiked from approximately USD60/bbl in early 2026 to a peak of USD118/bbl in Apr '26, before easing following the US-Iran Memorandum of Understanding (MoU), which opened the path to de-escalation.

For Indonesia, the shock was transmitted primarily through fiscal, inflationary, and financial market channels. Oil prices far exceeded the APBN assumption of USD70/bbl, significantly increasing energy subsidy requirements, while imported inflation pushed headline CPI close to the upper bound of Bank Indonesia's target range. Financial markets also repriced sharply, with government bond yields rising, the rupiah coming under pressure, and Bank Indonesia delivering a cumulative 100bps of policy tightening to preserve macroeconomic stability.

Although the ceasefire and ongoing negotiations have materially improved the near-term outlook, the normalization of global energy supply chains remains incomplete. Our baseline scenario assumes that oil prices will continue to ease gradually through the remainder of 2H26F as Gulf production and shipping recover. At the same time, Bank Indonesia is likely to maintain its pro-stability policy stance to safeguard exchange rate stability and anchor inflation expectations amid lingering geopolitical uncertainty. Overall, we expect Indonesia's macroeconomic outlook to gradually improve during 2H26F, although the pace of normalization will ultimately depend on the durability of geopolitical de-escalation and the uninterrupted flow of energy exports through the Strait of Hormuz.

Geopolitical Shock

In Mar '26, the conflict between US-Israel and Iran has developed from an initial geopolitical shock to a prolonged source of economic uncertainty with concrete spillovers now visible. Although international trade did not come to a complete halt, escalating military tensions and security risks substantially increased uncertainty across global supply chains. As a result, businesses, shipping operators, and commodity traders adopted more cautious logistics strategies, reducing distribution efficiency and increasing supply-chain vulnerabilities.

Fig 1. The Strait of Hormuz



Source: BBC (2026)

The Strait of Hormuz is one of the world's most critical maritime trade corridors, connecting major Middle Eastern energy producers with global markets. Approximately one-fifth of global crude oil and liquefied petroleum gas (LPG) trade passes through the strait, making it a vital artery for international energy security. Consequently, disruptions in Hormuz have implications far beyond the Middle East, affecting commodity availability, transportation costs, and global trade flows.

Table 1. Major Commodities Transiting the Strait of Hormuz by Origin and Destination

Commodity	Exporting Countries	Key Import Destinations
Crude Oil	Saudi Arabia, Iraq, Kuwait, UAE, Iran, Qatar	China, India, Japan, Korea
Petroleum Products (diesel, gasoline, jet fuel, fuel oil)	Saudi Arabia, UAE, Kuwait	Asia (Particularly China, India, Southeast Asia)
LNG (Liquefied Natural Gas)	Qatar (dominant), UAE (minor)	China, India, Japan, Korea
Fertilizers (urea, ammonia)	Qatar, Saudi Arabia, UAE	India, Southeast Asia, Brazil
Petrochemical feedstocks (methanol, naphtha, LPG)	Saudi Arabia, Kuwait, UAE, Qatar	Asia, Europe

Source: EIA & IEA (2026)

The temporary closure of the Strait of Hormuz immediately disrupted global energy logistics. Around 20% of global oil flows were affected, while war-risk insurance premiums increased sharply from below 0.25% to 1–3% or more of vessel value. At the same time, shipping companies faced higher operating costs due to rerouting, additional security measures, and longer delivery times. Although alternative routes remained available for some crude exports, they were unable to fully replace Hormuz's transport capacity, resulting in tighter global commodity distribution and higher logistics costs.

The deterioration in shipping conditions further intensified supply-chain disruptions. Higher insurance premiums, elevated freight charges, port congestion, and longer shipping routes increased transportation costs for importers and exporters worldwide. These additional costs gradually tightened inventories and amplified price volatility across energy and other traded commodities. As a

result, the Strait of Hormuz disruption evolved beyond a regional security issue into a global supply-chain shock, laying the foundation for the severe oil market disruption.

Oil Market Shock

The outbreak of the US–Israel–Iran war and Iran’s closure of the Strait of Hormuz triggered what the International Energy Agency (IEA) has described as the largest oil supply disruption in the history of the global market. Before the conflict, around 20 mn barrels per day (mb/d) of crude oil and refined products transited the strait. By early Apr ‘26, ship-tracking data indicated that flows had collapsed to only a few million barrels per day as exports from the Middle East Gulf were severely disrupted. As a result, global oil supply declined by about 10 mb/d in March to roughly 97 mb/d, while OPEC+ production fell by roughly 9.4 mb/d MoM to about 42 mb/d, as Middle East Gulf producers cut output in response to the blockade. In April , supply contracted by a further 1.8 mb/d to 95.1 mb/d, taking total losses since Feb ‘26 to 12.8 mb/d. Output from Gulf countries affected by the closure of Hormuz was 14.4 mb/d below pre-war levels, with cumulative regional shortfalls exceeding 1 bn barrels, this highlighting the unprecedented scale of the supply shock.

The speed and magnitude of this move is historically unprecedented. For context, the 1973 OPEC embargo caused a roughly +300% price increase over several months; the 1990 Gulf War spike was USD15–20/bbl over weeks; and the 2022 Russia–Ukraine shock added USD20–30/bbl. In contrast, the 2026 episode compressed a USD55–60/bbl spike into less than six weeks, reflecting both the severity of the supply loss and the near-total elimination of OPEC’s traditional shock-absorption buffer. This is because most of the world’s spare crude capacity sits in Saudi Arabia and other Gulf producers, whose export routes pass through or are closely tied to the Strait of Hormuz. The very mechanism designed to buffer supply shocks was therefore itself constrained once Hormuz flows were choked.

Consistent with previous supply disruptions, Brent and WTI crude prices rose sharply following the collapse in Gulf exports. Brent increased from around USD60/bbl in early 2026 to a peak of approximately USD118/bbl in April, while WTI crude price climbed to around USD113/bbl before both benchmarks retreated after the US–Iran ceasefire in mid-June. Brent and WTI eventually eased to around USD76/bbl and USD73/bbl, respectively. The fact that both Brent and WTI moved higher simultaneously suggests that the shock affected the global oil market, rather than being limited to the Middle East.

Fig 2. Brent Oil Price (USD/bbl)

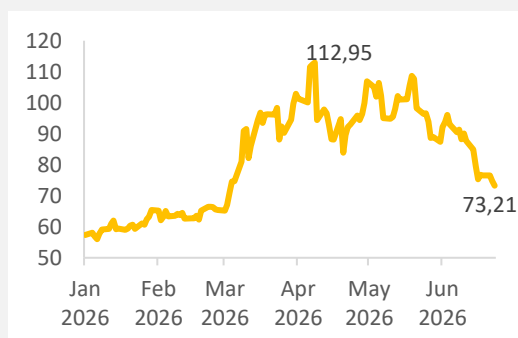
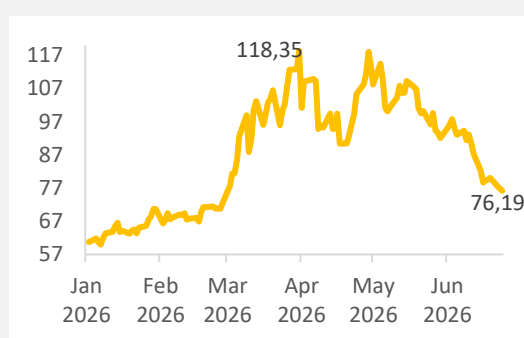


Fig 3. WTI Oil Price (USD/bbl)



Source: Investing.com, KBVS Research (2026)

While some partial rerouting occurred, it provided only limited relief. Exports through alternative routes increased, most notably via Saudi Arabia's East-West (Petroline) pipeline to the Red Sea, the UAE's Abu Dhabi Crude Oil Pipeline (ADCO) to Fujairah, and the Kirkuk-Ceyhan pipeline from Iraq to Türkiye. However, their combined capacity remained far short of replacing the roughly 20 mb/d that previously transited Hormuz, and offered no bypass option for LNG. To counter the supply shortage, IEA member countries released 400 mn barrels from strategic petroleum reserves, providing temporary market support while underscoring the limited ability of emergency inventories to fully offset a disruption of this magnitude.

The disruption extended beyond crude supply into downstream refining activity. The IEA projected global refinery crude throughputs to decline by 4.5 mb/d in 2Q26 to 78.7 mb/d, as operators contend with infrastructure damage, export restrictions, and reduced feedstock availability following the Gulf disruptions. Refining margins remain at historically high levels, supported by record middle-distillate cracks, with diesel, jet fuel, and LPG transmitting higher energy costs across transportation, manufacturing, and agriculture. The result was a broader energy price shock that extended well beyond crude oil markets.

Beyond the energy sector, the oil price shock generated broader global economy consequences. As identified by the IMF in its Apr' 26 World Economic Outlook, higher commodity prices functioned as a negative supply shock by increasing production costs, lifting headline inflation, and weakening household purchasing power. Simultaneously, this condition tightened global financial conditions through higher risk premiums, lower asset valuations, capital flight, and dollar appreciation, which collectively dampening aggregate demand. The cumulative macro damage was meaningful. The IMF revised its 2026 global growth forecast to 3.1%, while simultaneously raising its global headline inflation estimate to 4.4%, which reflecting surging energy and food prices. Similarly, the World Bank's assessment was more sobering. Global growth is projected to slow to 2.5% in 2026, with emerging market and developing economies facing the weakest per capita income growth since the pandemic, including Indonesia.

Transmission to Indonesia

This global shock spillover transmitted directly to Indonesia because of its structural dependence as a net oil importer. In recent years, domestic crude lifting has hovered around 600,000 barrels per day, while national oil demand has been estimated at roughly 1.6–1.7 mn barrels per day, implying a structural shortfall on the order of nearly 1 mn barrels per day that must be covered by imports. A significant share of those imports historically comes from Middle East suppliers, including Saudi Arabia as Indonesia's single largest crude supplier, which ties the country's energy security directly to conditions in the Gulf. Consequently, external energy shocks are rapidly transmitted into the domestic economy through higher import costs and greater fiscal pressure.

The most immediate and quantifiable channel through which the oil price shock affects Indonesia is fiscal. Indonesia's fuel subsidy framework serves as the primary channel through which higher global oil prices affect the domestic economy. The 2026 State Budget (APBN) assumed an Indonesian Crude Price (ICP) of USD70/bbl and an exchange rate of around IDR16,500/USD, both of which were significantly exceeded during the conflict. The ICP jumped into triple-digit territory, reaching USD102.26/bbl in Mar '26 and USD117.31/bbl in Apr '26. On the spending side, the government allocated roughly IDR318.8 tn for subsidies and compensation, including a fuel and energy subsidy budget of about IDR210.1 tn. Fiscal sensitivity analysis indicates that each USD1/bbl increase in ICP requires about IDR6.8 tn in additional subsidy spending. At the April ICP peak, more than USD47/bbl above the APBN assumption, this sensitivity implies potential incremental subsidy and compensation needs in the hundreds of trillions of rupiah if retail fuel prices

are held constant. Prolonged oil prices above USD90/bbl would therefore increase the risk of widening the fiscal deficit unless offset by spending adjustments, additional revenues, or domestic fuel price reforms.

In response to the surge in oil prices, the government ran two-tier pricing framework for fuel, holding subsidized fuel grades flat while allowing non-subsidized grades to absorb market costs across both gasoline and diesel. Subsidized Peralite (RON 90) and Solar/Biosolar have been maintained at IDR10,000/L and IDR6,800/L, respectively, since before the conflict, with authorities repeatedly confirming that these prices will remain unchanged through 2026.

In contrast, Pertamina implemented two major rounds of gasoline price adjustments for non-subsidized gasoline. On 18 Apr '26, Pertamina Turbo (RON 98) was raised from IDR13,100/L to IDR19,400/L (around +48%), while Dexlite and Pertamina Dex saw similar jumps. Then, on 10 Jun '26, Pertamina raised Pertamina (RON 92) from IDR12,300/L to IDR16,250/L and Pertamina Green 95 from IDR12,900/L to about IDR17,000/L (around +32%), marking the first major Pertamina adjustment since the conflict began.

On the diesel fuel side, the surge was even more severe. Effective 18 Apr '26, Pertamina raised Dexlite from IDR14,200/L to IDR23,600/L and Pertamina Dex from IDR14,500/L to IDR23,900/L (roughly +65–70%). Subsequent daily pricing shows Dexlite and Pertamina Dex hovering in the mid-20,000s per liter, keeping non-subsidized diesel roughly 70% above its early-April baseline even after modest pullbacks as Brent eased. In contrast, Biosolar remains anchored at IDR6,800/L, so the price gap between subsidized diesel and non-subsidized grades now exceeds IDR16,000–18,000 per liter in many provinces, creating strong incentives for industrial users to seek subsidized fuel via unofficial channels.

Table 2. Indonesia's Non-Subsidized Fuel Prices (Jan-Jun '26)

Date	Pertamax 92	Pertamax Green 95	Pertamax Turbo 98	Dexlite CN51	Pertamina Dex CN53
1 Jan '26	IDR12,350/L	IDR13,150/L	IDR13,400/L	IDR13,500/L	IDR13,600/L
1 Feb '26	IDR11,800/L	IDR12,450/L	IDR12,700/L	IDR13,250/L	IDR13,500/L
1 Mar '26	IDR12,300/L	IDR12,900/L	IDR13,100/L	IDR14,200/L	IDR14,500/L
18 Apr '26	IDR12,300/L	IDR12,900/L	IDR19,400/L	IDR23,600/L	IDR23,900/L
4 May '26	IDR12,300/L	IDR12,900/L	IDR19,900/L	IDR26,000/L	IDR27,900/L
1 Jun '26	IDR12,300/L	IDR12,900/L	IDR20,750/L	IDR23,000/L	IDR24,800/L
10 Jun '26	IDR16,250/L	IDR17,000/L	IDR20,750/L	IDR23,000/L	IDR24,800/L

Source: KBVS Research

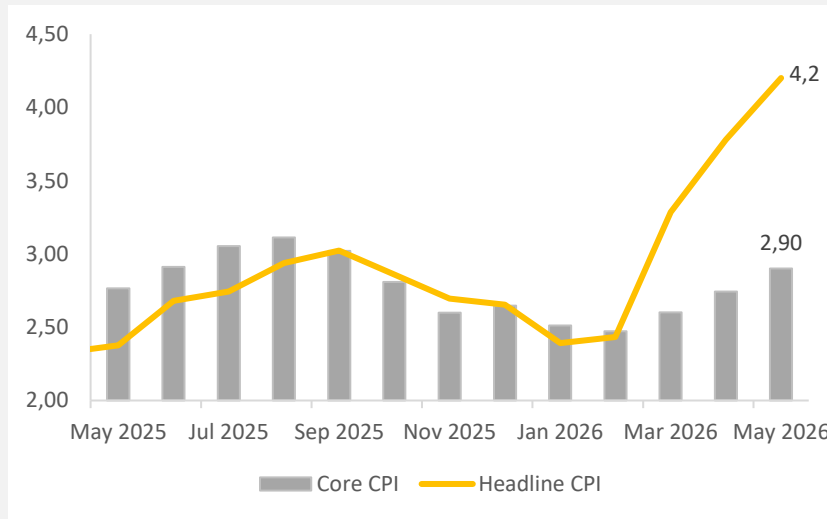
Taken together, Indonesia's structural reliance on imported oil, combined with its fuel subsidy framework, transformed a global energy shock into both a fiscal challenge and a domestic pricing issue. While subsidies temporarily cushioned households from the full impact of rising oil prices, they simultaneously shifted the burden to public finances, highlighting the trade-off between short-term price stability and long-term fiscal sustainability.

Inflationary Pressures

The global oil shock quickly translated into broader inflationary pressures as higher energy costs increased transportation, production, and distribution expenses across economies. Rather than remaining confined to energy markets, the shock spread through supply chains and gradually lifted consumer prices in both advanced and emerging economies. In the United States, the headline Consumer

Price Index (CPI) inflation accelerated from 3.3% YoY in Mar '26 to 4.2% YoY in May '26, marking the highest inflation in the past 3 years and reinforcing concerns that inflation would remain above higher for longer target.

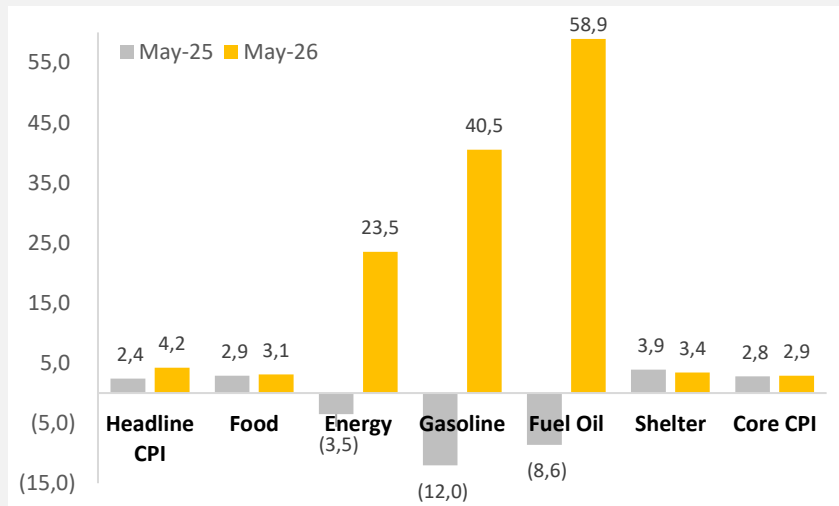
Fig 4. The US Headline CPI & Core CPI (% YoY)



Source: U.S. Bureau of Labor Statistics, KBVS Research (2026)

Energy remained the primary driver of the recent acceleration in US inflation. The energy-related components increase by 23.5% YoY, reflecting higher gasoline and fuel oil prices following the Middle East conflict. However, inflationary pressures are expanding to other components such as food and shelter as inflation rates have been elevated at 3.1% YoY and 3.4% YoY, respectively. This suggests that the initial energy shock demonstrating the indirect effect of commodity distribution inefficiencies.

Fig 5. The US CPI by Selected Categories (% YoY)

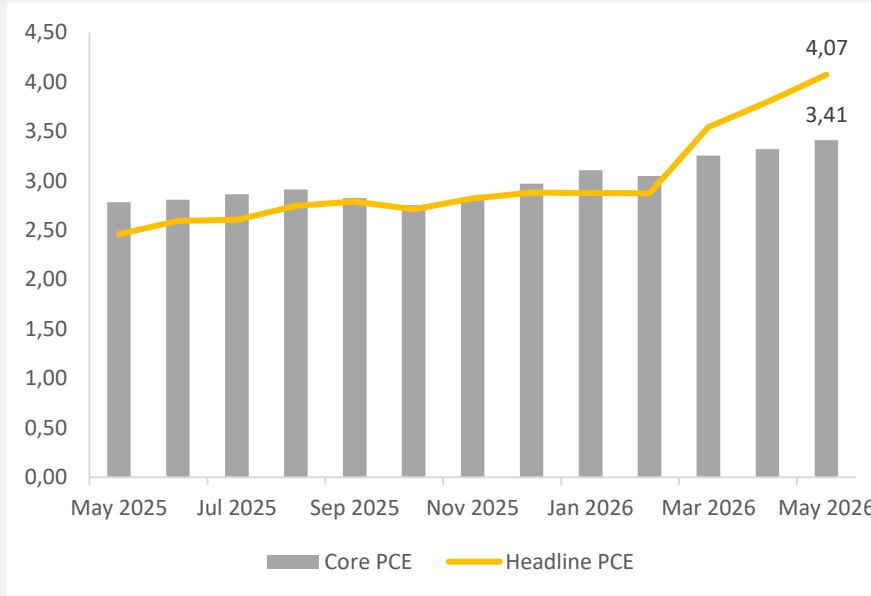


Source: U.S. Bureau of Labor Statistics, KBVS Research (2026)

Furthermore, the Personal Consumption Expenditures (PCE) Price Index of the US reinforces a similar picture. The headline PCE accelerated to 4.07% YoY in May '26, while Core PCE also rose to 3.41% YoY, both the highest level since 2023. The widening gap between headline and core inflation suggests that energy-driven price pressures from the conflict have been a key driver of this acceleration, rather than a broad-based pickup in underlying demand. Consequently, the inflation outlook continued to support

expectations that the Federal Reserve would maintain a higher-for-longer stance and reduces the likelihood of a near-term rate cut, as policymakers will be reluctant to ease while headline inflation remains well above target.

Fig 6. The US Personal Consumption Expenditures (PCE) Price Index (% YoY)



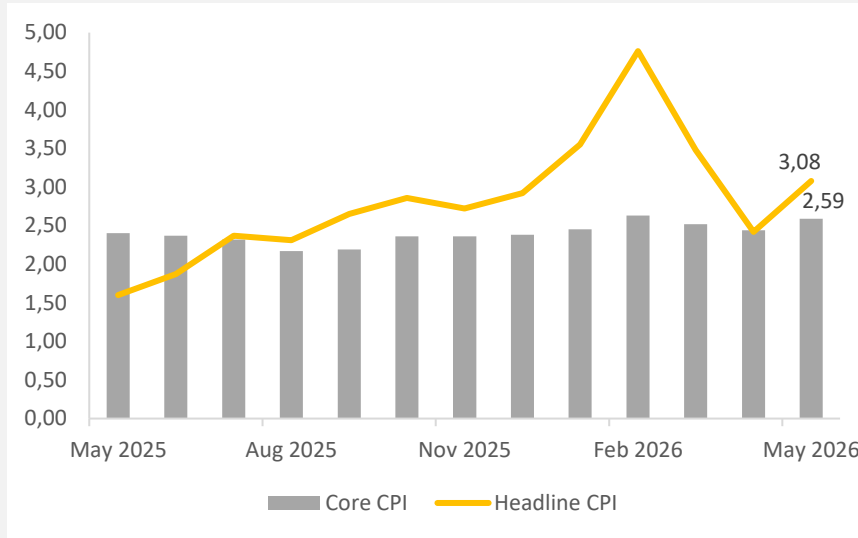
Source: Bureau of Economic Analysis, KBVS Research (2026)

Inflationary transmission was also evident across Asian economies, although its magnitude differed by country. In India, the CPI has risen from 3.4% YoY in Mar '26 to 3.93% YoY in May '26. This upward trend demonstrates the effects of rising energy prices which raised the domestic transportation and production costs as the economy is heavy reliant on imported oil. Consequently, the Reserve Bank of India has adopted a more cautious stance toward monetary easing.

In contrast, China as the largest energy imported country, China's headline CPI has remained relatively low at 1.3% YoY in Mar '26 to 1.2% YoY in May '26. Inflation transmission is being offset by strong internal deflationary pressures. Domestically, refined fuel prices are adjusted with a lag and capped adjustment bands, while electricity, utilities, and some transport costs are still influenced by government controls. At the same time, weak domestic demand and persistent deflationary pressures in housing and services sectors have counterbalanced cost-push inflation. Another key factor is yuan stability, as China has managed RMB depreciation to avoid increased import inflation. As a result, these contrasting evidences illustrate that while external energy shocks were global in nature, domestic policy setting and economic conditions largely determined the extend of inflation pass-through.

Furthermore, Indonesia experienced a more moderate but persistent inflation response. Headline CPI eased to 2.42% YoY in Apr '26 as post-Eid demand normalization, before rebounding to 3.08% YoY in May '26 as imported cost pressures re-emerged. The transportation category rising 0.99% MoM following adjustments in non-subsidized fuel prices, while headline inflation remained close to the upper bound of Bank Indonesia's target range of 1.5-3.5%. The pattern suggests that although temporary seasonal effects reduced inflation in Apr '26, the underlying imported inflation impulse from higher global oil prices remained intact.

Fig 7. Indonesia's Headline CPI & Core CPI (% YoY)



Source: BPS, KBVS Research (2026)

Based on the May '26 CPI breakdown, the transmission channels of imported inflation are primarily administered prices, volatile food, and core inflation. Among these, administered prices category recorded 2.07% YoY, driven by higher prices for household fuel, gasoline, air fares, and diesel. Meanwhile, volatile food inflation reached 6.24% YoY, driven by the rise in prices of commodities such as red chili, shallots, tomatoes, rice, and mustard greens. In this context, higher fuel prices indirectly amplified food inflation through rising logistics and transportation costs across Indonesia's supply chain. Core inflation, meanwhile, stood at 2.59% YoY. Collectively, these pressures impact the whole economy as it causes higher costs of living, reduced household purchasing power, higher operating costs for firms, and it may also impact business investment and consumption.

Overall, the inflation dynamics across major economies demonstrate that the 2026 oil shock evolved beyond an energy market event into a broad-based inflationary episode. For Indonesia, the persistence of administered price, food, and core inflation suggests that imported cost pressures remained embedded in the domestic economy despite temporary improvements in headline CPI, providing the basis for tighter monetary policy discussed in the following chapter.

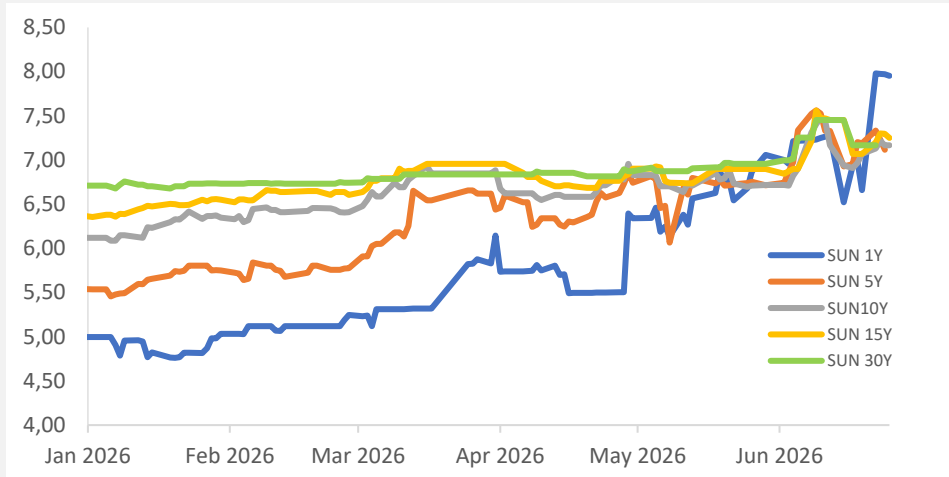
Financial Market Implications

The escalation of geopolitical tensions triggered a broad repricing of financial assets as investors reassessed global risk. Demand for safe-haven assets increased, while capital shifted away from emerging markets, causing risk premiums to widen across bonds, equities, and currencies. As financing conditions tightened globally, emerging market assets, including Indonesia, faced stronger selling pressure and higher required returns.

Indonesia's government bond market experienced broad-based selling pressure as investors demanded higher compensation for rising uncertainty. The SUN10Y yields rose from 6.48% at the onset of the conflict to a peak of 7.48% on 10 Jun '26 (+100.1 bps), while the SUN1Y climbed more sharply from 5.23% to 7.25% (+201.80 bps) over the same period. This disproportionate rise at the short end briefly produced an inverted yield curve, reflecting Bank Indonesia's deliberate strategy of raising short-term instrument yields to retain capital amid record rupiah depreciation, rather than a market-driven recession signal. Together with rising US

Treasury yields and global risk-off sentiment, higher domestic yields contributed to tighter financial conditions by increasing borrowing costs for corporations, households, and the government.

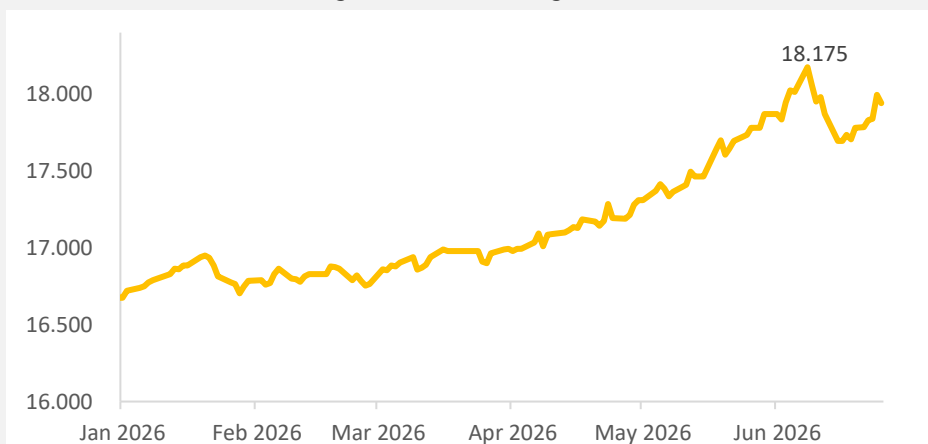
Fig 8. Indonesia Government Bond Yield Curve



Source: Investing.com, KBVS Research (2026)

Portfolio reallocation toward safe-haven assets, such as the US dollar, placed significant pressure on the Indonesian Rupiah throughout the conflict. The exchange rate has depreciated massively, hitting a record low of IDR18,175/USD on 8 Jun '26 (-8.99% YTD). In response, Bank Indonesia intensified foreign exchange market intervention through spot market operations, Domestic Non-Deliverable Forward (DNDF), offshore NDF, and secondary market SBN purchases, to curb volatility. As a result, the Rupiah recovered to IDR17,705/USD by 18 Jun '26, an appreciation of 2.59% from its record low, though it remained -6.18% YTD weaker than its level. This recovery may also be attributed to SRBI attractiveness given its higher yields. This is evidenced by its outstanding value rising to IDR1,021 tn on 18 Jun '26 from IDR921,88 bn on 18 May '26, with foreign investment taking up 23.3% of the outstanding value. Overall, this escalation and prolonged risk premium expansion reflects the tightening market conditions as the higher SUN yields lead to higher corporate bond yields and depreciation of the Rupiah. This suggests a broad repricing of Indonesian financial assets as investors demanded higher compensation for emerging-market risk.

Fig 9. USD/IDR Exchange Rate



Source: Investing.com, KBVS Research (2026)

Interest Rate Expectations

The resurgence of global inflation prompted central banks to adopt a more cautious approach toward monetary easing. While several economies maintained relatively stable policy rates, Indonesia implemented the most aggressive tightening among regional peers, reflecting the greater inflationary and exchange-rate pressures generated by the oil shock. This divergence highlights the different degree of vulnerability across economies despite facing the same external shock.

Table 3. Global Policy Interest Rate

Policy Rate (%)	18-Jun-26		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
United States	3.75	3.75	0.0	0.0
European Union	2.40	2.15	25.0	25.0
United Kingdom	3.75	3.75	0.0	0.0
Japan	1.00	0.75	25.0	25.0
China	3.00	3.00	0.0	0.0
India	5.25	5.25	0.0	0.0
Thailand	1.00	1.00	0.0	(25.0)
Philippines	4.75	4.50	25.0	25.0
Indonesia	5.75	5.50	25.0	100.0

Source: *Investing.com, KBVS Research (2026)*

Expectations of a prolonged restrictive policy stance strengthened further following the rise in US inflation. The latest Federal Reserve Summary of Economic Projections (SEP) reaffirmed a higher-for-longer policy stance amid persistent inflation and resilient labor market conditions. Rising energy prices had further reinforced investors' expectations that pace of monetary easing could be slower than previously anticipated. Consistent with this outlook, Fed probabilities indicate that interest rates will remain elevated over the coming quarters, and rate cut plans will be delayed. As a result, US Treasury yields remained elevated, reducing the relative attractiveness of emerging market assets and reinforcing capital outflow pressures across developing economies, including Indonesia.

Table 4. Fed Probabilities (as of 26 Jun '26)

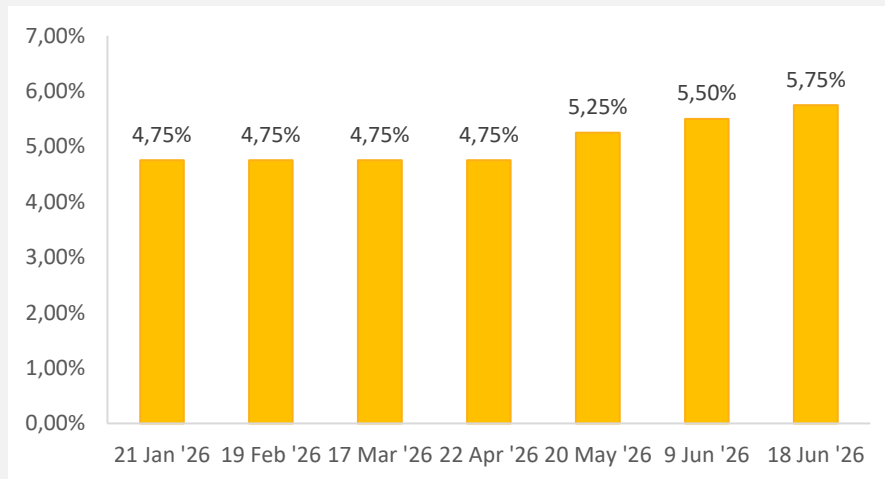
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500
29-Jul-26	0.0%	72.2%	27.8%	0.0%	0.0%	0.0%	0.0%
16-Sep-26	0.0%	40.5%	47.3%	12.2%	0.0%	0.0%	0.0%
28-Oct-26	0.0%	32.0%	45.9%	19.6%	2.6%	0.0%	0.0%
9-Dec-26	0.0%	22.4%	41.7%	27.5%	7.7%	0.8%	0.0%
27-Jan-27	0.0%	20.6%	40.2%	28.6%	9.3%	1.3%	0.1%
17-Mar-27	0.0%	18.7%	38.4%	29.7%	11.0%	2.0%	0.2%
28-Apr-27	0.2%	18.9%	38.3%	29.5%	10.9%	2.0%	0.2%
9-Jun-27	2.2%	21.0%	37.3%	27.4%	10.0%	1.8%	0.2%

Source: *CME Group, KBVS Research (2026)*

This increased in global interest rates has reinforced tighter external financial conditions for emerging markets, including Indonesia. Bank Indonesia has responded to the situation through a pro-stability monetary stance aimed at preserving exchange-rate stability and anchoring inflation expectations. Therefore, higher-for-longer interest rate methods have been implemented to tighten consumer

spending and maintain monetary stability. This interest rate expectation is further evidenced by the fact that Bank Indonesia has raised interest rates 3 times since May '26 by a cumulative of 100bps, with the most recent interest rate hike being at 5.75% (+25 bps). Bank Indonesia stated that their objective was to stabilize the Rupiah amid depreciation and maintaining their 2.5% ±1% inflation target for the year, both which have been further pressured by the conflict in the Middle East. Looking ahead, we expect BI to maintain its pro-stability stance, with room for an additional 50 bps of tightening (2x25 bps) through year-end.

Fig 10. Bank Indonesia Policy Rate



Source: Bank Indonesia, KBVS Research (2026)

Outlook

The US-Iran Memorandum of Understanding (MoU) has significantly reduced immediate concerns over a prolonged geopolitical conflict, improving the outlook for global energy markets. The agreement covers the reopening of the Strait of Hormuz, a potential nuclear agreement, sanctions relief, and broader regional security arrangements, which significantly reduce the likelihood of major disruptions to Gulf oil exports. Nevertheless, the ceasefire remains fragile, a comprehensive agreement has yet to materialize, and regional tensions involving Lebanon continue to pose downside risks. As a result, shipping insurance premiums, freight costs, and energy market volatility remain above pre-conflict levels.

This partial de-escalation is already reflected in the global oil price. After peaking at around USD118/bbl in Apr '26, Brent crude has fallen sharply to about USD73.24/bbl as of 30 Jun '26, the lowest level since before the US-Iran conflict began. The decline reflects progress in the peace framework alongside a rebound in tanker traffic through the Strait of Hormuz, with Persian Gulf crude exports recovering to roughly three-quarters of pre-war levels as Saudi Arabia resumes loadings at Ras Tanura.

However, the recovery in physical supply conditions continues to lag behind the improvement in market pricing. Total oil flows through the Strait of Hormuz remain at only around 60% of pre-war throughput, suggesting that financial markets have priced in geopolitical de-escalation more rapidly than supply chains have fully normalized. This gap reflects structural bottlenecks still constraining supply, including elevated war-risk insurance deterring re-entry into Hormuz lanes, delays in infrastructure repairs, and

rerouted fleets that require months to normalize operating schedules via the Cape of Good Hope. Consistent with these challenges, the US Energy Information Administration (EIA) projects that Hormuz shipments are unlikely to fully normalize until early 2027.

Despite these remaining constraints, our baseline scenario assumes that oil market conditions will continue to improve during the 2H26F as production and shipping activities gradually normalize. This view is broadly consistent with the latest projections from major forecasters. The EIA expects lower average prices in 2026–2027 should global liquid fuel supply exceed demand and inventories continue to rebuild. Similarly, Morgan Stanley has revised its Brent projections down from USD100 to USD90/bbl for 3Q26 and from USD95 to USD80/bbl for 4Q26, while Goldman Sachs has also trimmed its end-2026 Brent target to around USD80/bbl. Taken together, these forecasts point to a common trajectory, acute undersupply and high prices in 1H26, followed by gradual easing through 2H26 as Gulf production and shipping recover, and a likely swing toward surplus and softer prices in 2027.

Against this backdrop, we expect financial markets to remain highly sensitive to negotiation developments even as downside risks have moderated. Any setback in the 60-day talks, renewed disruption in the Strait, or escalation of regional tensions could quickly reverse the recent decline in oil prices, revive imported inflation, reinforce the Fed's higher-for-longer stance, and renew pressure on emerging-market assets, including Indonesian government bonds, the Rupiah, and domestic inflation. Accordingly, investors should continue to monitor the following catalysts, which will likely determine the direction of global energy market and Indonesia's macro-financial outlook over the coming months.

Table 5. Key Catalysts and Post-Conflict Market Scenarios

Catalyst	Bullish Scenario	Bearish Scenario	Expected Market Impact
60-day negotiations	Comprehensive agreement	Negotiations fail	Oil ↓ / Oil ↑
Strait of Hormuz	Shipping fully normalizes	Renewed disruption	Freight costs ↓ / ↑
US Sanctions	Broader sanctions relief	Sanctions tightened	Iran oil supply ↑ / ↓
Fed rate	Inflation moderates	Inflation remains sticky	Earlier rate cuts / Higher-for-longer
Indonesia	Rupiah stabilizes	Rupiah depreciates	SUN yields ↓ / ↑; capital inflows / outflows

Source: KBVS Research (2026)

Overall, our baseline scenario remains one of gradual normalization rather than a rapid return to pre-conflict conditions. While the MoU has significantly reduced immediate downside risks, the adjustment process is expected to remain uneven as physical supply chains recover more slowly than financial markets. For Indonesia, this implies gradually easing imported inflationary pressures and improving financial market stability during the 2H26F, provided that geopolitical conditions continue to stabilize and the Strait of Hormuz remains fully operational.

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