

Middle East Tensions, Oil Shock, and Rising Fiscal Pressures in Indonesia

5 March 2026

Economist / Fikri C Permana

EXECUTIVE SUMMARY

- Operation Epic Fury has intensified geopolitical tensions in the Middle East, disrupting energy markets and driving Brent crude above USD80 per barrel. This has heightened global inflation risks and reinforced risk-off sentiment across financial markets.
- Looking ahead, a de-escalation would likely limit the macroeconomic impact. However, a further deterioration could exacerbate risk aversion, amplify commodity price volatility, elevate inflationary pressures, and increase instability in global financial markets.
- At the same time, markets have sharply repriced interest rate expectations, reinforcing a “higher for longer” stance. Current Fed probabilities indicate a 97.4% likelihood of a pause in Mar '26, with the first rate cut—potentially to 3.25%–3.50%—most likely in Jul '26 (43.7%).
- Amid rising geopolitical uncertainty, our sensitivity analysis (ceteris paribus) suggests significant fiscal risks. If:
 - The SUN10Y yield rises toward 7.8%, the fiscal deficit could widen by approximately IDR17.1 tn (0.07% of GDP)
 - A rupiah depreciation to IDR17,200 per USD may add IDR4.0 tn (0.02% of GDP)
 - While an increase in the Indonesian Crude Price (ICP) to USD95 per barrel could expand the deficit by around IDR170.0 tn (0.71% of GDP)In this context, concerns from rating agencies such as Moody's, Fitch, and the recent cautionary signals from S&P appear well justified.
- Against this backdrop, we expect further global portfolio reallocation.
- The prevailing risk-off environment is likely to support selective flows into global bond markets, particularly in countries less directly affected by the conflict and in shorter-duration instruments.
- On the equity side, pressures on the IHSG are expected to persist. Nevertheless, selected energy-related commodities may benefit from elevated prices, as well as export-oriented sectors with exposure to non-affected economies.



Source : The White House (2026), link: <https://www.whitehouse.gov/articles/2026/03/operation-epic-fury-unmatched-power-unrelenting-force-of-americas-warriors/>



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US ECONOMIC DATA

US ECONOMIC INDICATORS	Unit	Latest Period	Data	
			Latest	Previous
Fed Rate	%	Jan '26	3.75	3.75
Economic Growth	%, yoy	4Q25	2.2	2.3
Inflation Rate	%, yoy	Jan '26	2.4	2.7
Unemployment Rate	%	Jan '26	4.3	4.4

Sources : various sources, KBVS Research (2026)

The data releases that influenced yield movements in the week of 26 Feb – 4 Mar '26 are as follows:

- US Initial Jobless Claims increased to 212K (Cons: 217K, Prev: 208K).
- US PPI in Jan '26 increased to 0.50% YoY (Cons: 0.30% YoY, Prev: 0.40% YoY).
- US Chicago PMI in Feb '26 increased to 57.70 (Cons: 52.00, Prev: 54.00).
- US S&P Global Manufacturing PMI in Feb '26 increased to 51.60 (Cons: 51.20, Prev: 51.20).
- US ISM Manufacturing PMI in Feb '26 decreased to 52.40 (Cons: 51.70, Prev: 52.60)
- US ISM Manufacturing Prices in Feb '26 increased to 70.50 (Cons: 60.60, Prev: 59.00)

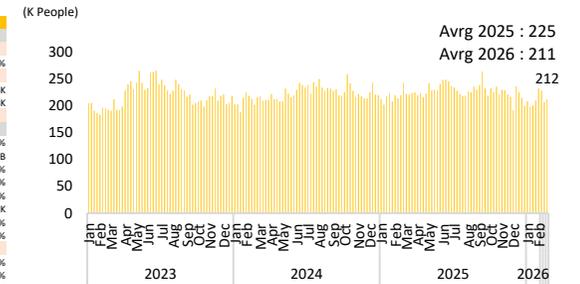
ECONOMIC CALENDAR

(26 FEB – 4 MAR '26)

Event	Actual			Forecast			Previous		
	Actual	Forecast	Previous	Actual	Forecast	Previous	Actual	Forecast	Previous
Thursday, 26 Feb '26									
GE Buba Balz Speaks									
US 5-Year Note Auction		3.62%				3.82%			
EU ECB President Lagarde Speaks									
US Initial Jobless Claims	212K	217K	208K						
US Continuing Jobless Claims	1,833K	1,860K	1,864K						
US FOMC Member Bowman Speaks									
Friday, 27 Feb '26									
US 7-Year Note Auction		3.71%	4.02%						
US Fed's Balance Sheet	6,514B		6,513B						
JP Tokyo Core CPI (YoY) (Feb)	1.80%	1.70%	2.00%						
JP Industrial Production (MoM) (Jan)	2.20%	5.50%	-0.10%						
GE Unemployment Rate (Feb)	6.30%	6.30%	6.30%						
GE Unemployment Change (Feb)	1K	2K	1K						
GE CPI (MoM) (Feb)	0.20%	0.50%	0.10%						
GE CPI (YoY) (Feb)	1.90%	2.00%	2.10%						
GB BoE MPC Member Pili Speaks									
US PPI (MoM) (Jan)	0.50%	0.30%	0.40%						
US Core PPI (MoM) (Jan)	0.80%	0.30%	0.60%						
US Chicago PMI (Feb)	57.70	52.00	54.00						
US Construction Spending (MoM) (Nov)	0.30%	0.20%	-0.10%						
Monday, 2 Mar '26									
ID S&P Global Manufacturing PMI (Feb)	53.80		52.60						
CN S&P Manufacturing PMI (Feb)	53.00	52.80	51.50						
ID Inflation (YoY) (Feb)	4.76%		3.55%						
ID Inflation (MoM) (Feb)	0.68%		-0.15%						
ID Core Inflation (YoY) (Feb)	2.63%		2.45%						
ID Export Growth (YoY) (Jan)	3.39%	11.07%	11.64%						
ID Import Growth (YoY) (Jan)	18.21%	13.23%	10.81%						
ID Trade Balance (Jan)	0.96B	2.76B	2.52B						
GE Retail Sales (MoM) (Jan)	-0.90%	0.00%	1.20%						
GB Nationwide HPI (MoM) (Feb)	0.30%	0.20%	0.30%						
GB Nationwide HPI (YoY) (Feb)	1.00%	0.70%	1.00%						
GE HCOB Manufacturing PMI (Feb)	50.50	50.70	49.10						
EU HCOB Manufacturing PMI (Feb)	50.80	50.80	49.50						
EU ECB's Elderson Speaks									
GB S&P Global Manufacturing PMI (Feb)	51.70	52.00	52.00						
EU ECB President Lagarde Speaks									
GE Buba President Nagel Speaks									
US S&P Global Manufacturing PMI (Feb)	51.60	51.20	51.20						
US ISM Manufacturing PMI (Feb)	52.40	51.70	52.60						
US ISM Manufacturing Prices (Feb)	70.50	60.60	59.00						
US ISM Manufacturing Employment (Feb)	55.80	48.30	48.10						
GB MPC Member Ramsden Speaks									
US President Trump Speaks									
Tuesday, 3 Mar '26									
JP Capital Spending (YoY) (Q4)	6.50%	3.00%	2.90%						
JP 10-Year JGB Auction	2.12%		2.25%						
EU CPI (YoY) (Feb)	1.90%	1.70%	1.70%						
GB Spring Forecast Statement									
EU CPI (MoM) (Feb)	0.70%		-0.60%						
EU Core CPI (YoY) (Feb)	2.40%	2.20%	2.20%						
GB Spring Statement									
US FOMC Member Bowman Speaks									
US FOMC Member Williams Speaks									
US FOMC Member Kashkari Speaks									
Wednesday, 4 Mar '26									
US API Weekly Crude Oil Stock	5,600M	2,200M	11,400M						
JP S&P Global Services PMI (Feb)	53.80	53.80	53.80						
CN Manufacturing PMI (Feb)	49.00	49.20	49.30						
CN Composite PMI (Feb)	49.50		49.80						
CN Non-Manufacturing PMI (Feb)	49.50	49.70	49.40						
CN Services PMI (Feb)	56.70	52.30	52.30						
GE HCOB Services PMI (Feb)		53.40	53.40						
EU HCOB Services PMI (Feb)		51.80	51.60						
EU HCOB Composite PMI (Feb)		51.90	51.30						
GB S&P Global Composite (Feb)		53.90	53.70						
GB S&P Global Services (Feb)		53.90	53.70						
EU Unemployment Rate (Jan)		6.20%	6.20%						
US ADP Nonfarm Employment Change (Feb)			22K						
EU ECB's De Guindos Speaks									
US S&P Global Services PMI (Feb)		52.30	52.70						
US S&P Global Composite PMI (Feb)		52.30	52.30						
US ISM Non-Manufacturing Prices (Feb)			66.60						
US ISM Non-Manufacturing Employment (Feb)		53.50	53.80						
US ISM Non-Manufacturing Employment (Feb)			50.30						
US Crude Oil Inventories			15,989M						
US Cushing Crude Oil Inventories			0.881M						

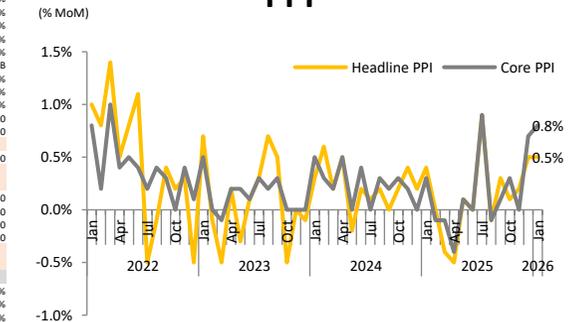
Sources : investing, KBVS Research (2026)

WEEKLY INITIAL JOBLESS CLAIMS



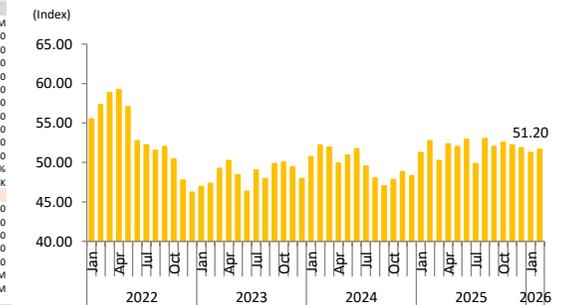
Sources : US DoL, KBVS Research (2026)

PPI



Sources : US Bureau Labor of Statistic, KBVS Research (2026)

S&P GLOBAL MANUFACTURING PMI



Sources : S&P Global, KBVS Research (2026)

GEOPOLITICAL RISK AND HIGHER RISK PREMIUM

THE 72-HOUR CATALYST | Timeline of Operation Epic Fury

Feb 28 | Operation Epic Fury

- U.S./Israel launch coordinated strikes across Tehran, Isfahan, Qom & Karaj
- Supreme Leader Khamenei confirmed killed; 40+ officials eliminated
- The USS Lincoln and its supporting warships are currently located in the Arabian Sea

Mar 1 | Iran Retaliates

- Ballistic missiles strike Jebel Ali port (Dubai) & Camp Arifjan (Kuwait)
- The Islamic Revolutionary Guard Corps Navy is using small boats to stop ships in the Strait of Hormuz.
- The U.S. 5th Fleet headquarters in Bahrain was attacked by a Shahed-136 drone.

Mar 2 | Escalation

- Shahed-136 drones attacked the Saudi Aramco Ras Tanura oil refinery, and the 550,000 barrels-per-day facility was shut down.
- RAF Akrotiri in Cyprus was attacked, marking the first strike on European territory.
- U.S. forces sank an Iranian warship called the IRIS Jamaran, weakening Iran's navy in the Gulf of Oman during recent military actions.

MACRO TRANSMISSION | Hormuz Disruption → Oil Shock → Inflation → Policy Response

Hormuz Disruption

- Strait handles ~20% of global seaborne crude & major LNG flows
- Rerouting via Cape of Good Hope adds 10-14 days to shipments
- War-risk insurance premiums spike; shipping rerouting raises freight costs

Oil Price Shock

- Losing about 550,000 barrels per day of fuel production from Aramco mainly puts pressure on diesel and similar fuel markets in Asia and Europe.
- Brent crude hits 52-week high of \$82.00/bbl; surging 13% since Feb 28 strikes
- Energy-intensive sectors face immediate margin compression

Cost-Push Inflation

- Secondary inflation effects spill into food, transportation, and manufactured goods
- Higher oil feeds into CPI via transport, petrochemicals & manufacturing
- If the shock lasts a long time, people may start to expect higher inflation in the future, making prices harder to control

Central Bank Response

- Prolonged energy shock revives "higher for longer" rate environment
- Global central banks may find limited flexibility to accelerate rate cuts
- Risk of capital outflows from emerging markets if US real yields remain elevated

KEY TAKEAWAY | Impact on U.S. Treasury Yields

Why Safe-Haven Bid Failed

- U.S. Treasury yields increased instead of falling because worries about inflation were stronger than the usual move toward safer assets.
- Rising U.S. fiscal vulnerabilities make safe-haven flows more selective
- Gold may outperform sovereign bonds as hedge

▶ MARKET IMPACT: Bonds Sell Off

- Expectations that the government will borrow more money and possibly print more money are pushing long-term interest rates higher than short-term rates
- Investors are demanding higher extra returns for holding long-term bonds, which is pushing long-term yields up instead of down as usually happens during risk-off periods.
- Global equity indices correct, particularly in sectors exposed to energy-intensive input costs

FED PROBABILITIES

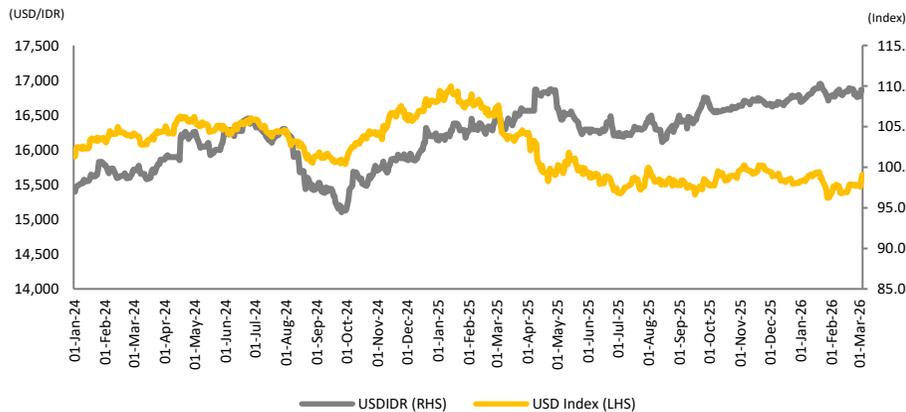
FED PROBABILITIES, as of 4 Mar '26

MEETING DATE	220-225	225-250	250-275	275-300	300-325	325-350	350-375
18-Mar-26	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	97.4%
29-Apr-26	0.0%	0.0%	0.0%	0.0%	0.3%	15.3%	84.3%
17-Jun-26	0.0%	0.0%	0.0%	0.1%	5.5%	38.9%	55.6%
29-Jul-26	0.0%	0.0%	0.0%	1.7%	15.1%	43.7%	39.5%
16-Sep-26	0.0%	0.0%	0.7%	7.3%	27.1%	41.9%	22.9%
28-Oct-26	0.0%	0.2%	2.8%	13.4%	31.7%	36.0%	15.8%
9-Dec-26	0.1%	1.2%	6.7%	20.2%	33.3%	28.5%	9.9%
27-Jan-27	0.2%	1.5%	7.5%	21.0%	33.0%	27.4%	9.4%

Sources : CME Group, and KBVS Research (2026)

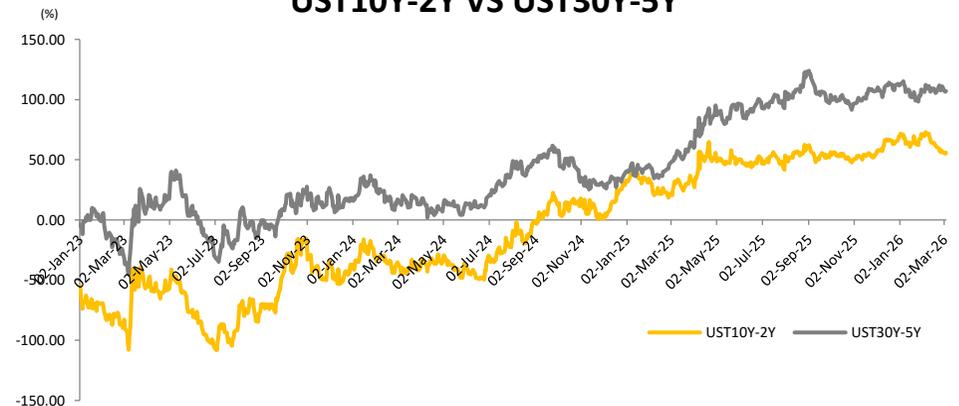
- Markets have sharply repriced rate expectations, reinforcing a “higher for longer” stance. Fed probabilities show a 97.4% probability of a pause in Mar '26, with the first rate cut (to 3.25%–3.50%) most likely in July 2026 (43.7%).
- Elevated U.S. rates have sustained Dollar strength, tightening global financial conditions and pressuring the Rupiah toward IDR17,000 per USD as capital shifts to safer U.S. yields.
- Meanwhile, the 10Y–2Y and 30Y–5Y spreads have moved back into positive territory. This steepening reflects anchored short-term rates alongside rising long-end term premiums driven by inflation and fiscal risks.

DXY INDEX - USDIDR



Sources : Bloomberg, and KBVS Research (2026)

YIELD SPREAD UST10Y-2Y VS UST30Y-5Y



Sources : Bloomberg, and KBVS Research (2026)

THE MOVEMENT OF UST YIELDS

US FISCAL INDICATORS	Unit	Latest Period	Data	
			Latest	Previous
Govt Debt	USD Tn	Nov' 24	36.08	35.95
Govt Debt to GDP	%	4Q24	124.35	122.3
Govt Budget	USD Bn	Nov '24	-367.30	-257.00
S&P Credit Rating	Rating	27-Mar-24	AA+	AA+

Sources : US Treasury, KBVS Research (2026)

Over the past week, UST yields moved tends to increase:

- Yield UST6M
 - -0.44 bps (WoW)
 - +2.75 bps (YtD, as of Mar 4,'26)
- Yield UST1Y
 - +2.16 bps (WoW)
 - +6.99 bps (YtD, as of Mar 4,'26)
- Yield UST2Y
 - +5.99 bps (WoW)
 - +5.79 bps (YtD, as of Mar 4,'26)
- Yield UST5Y
 - +4.03 bps (WoW)
 - -6.28 bps (YtD, as of Mar 4,'26)
- Yield UST10Y
 - +3.24 bps (WoW)
 - -8.27 bps (YtD, as of Mar 4,'26)
- Yield UST30Y
 - +3.31 bps (WoW)
 - -11.34 bps (YtD, as of Mar 4,'26)

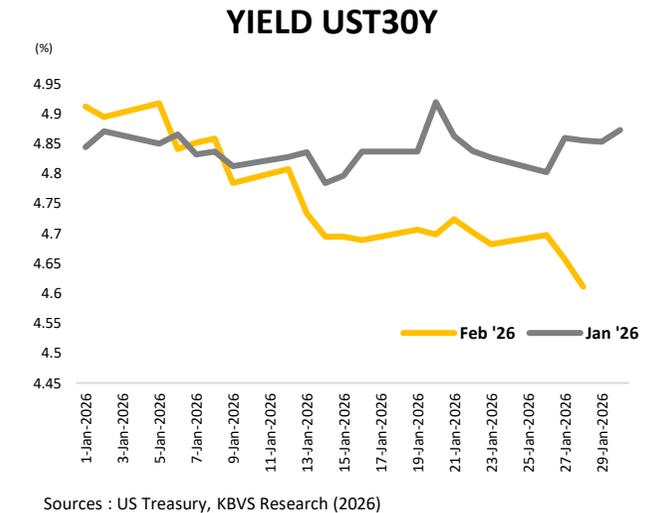
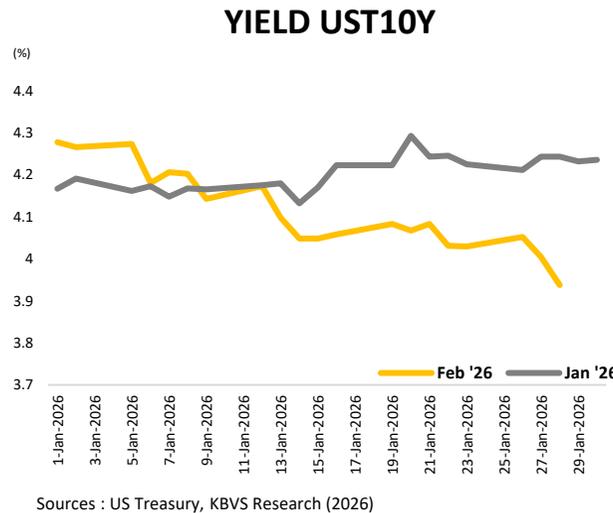
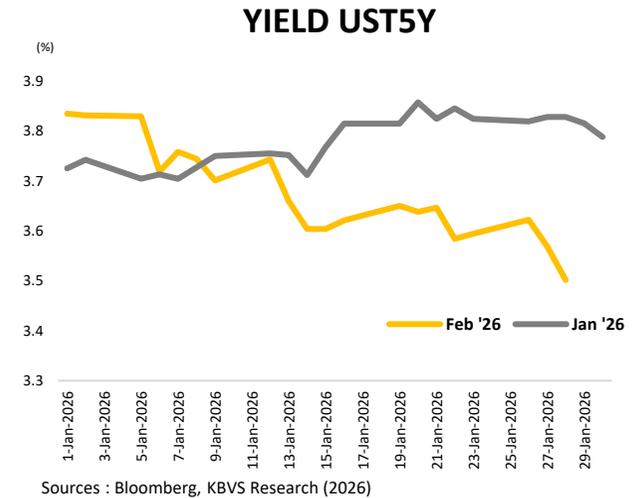
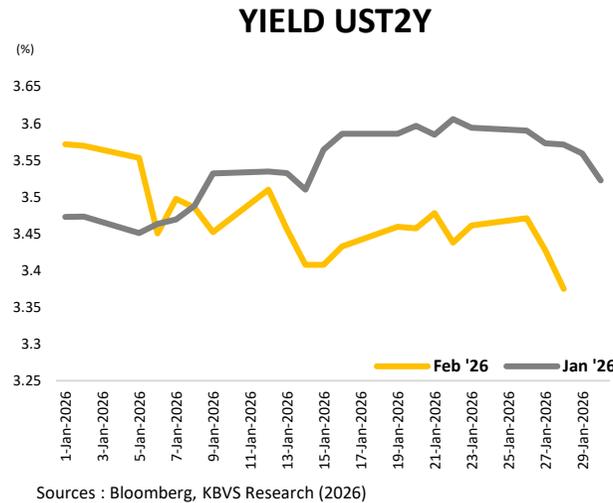




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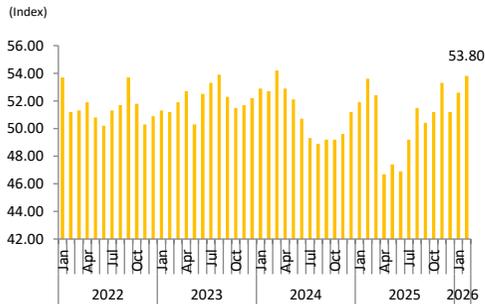
INDONESIA ECONOMIC DATA

INDICATORS OVERVIEW

Economic Indicators	Unit	Latest Period	Data	
			Latest	Previous
Policy Interest Rate	%	19 Feb '26	4.75	4.75
Economic Growth	%, yoy	4Q25	5.39	5.04
Inflation Rate	%, yoy	Feb '26	4.76	3.55
Unemployment Rate	%	Sep '25	4.85	4.76
S&P Credit Rating	Rating	17 July '24	BBB	BBB

Sources : various sources, KBVS Research (2026)

S&P GLOBAL MANUFACTURING PMI



Sources : BPS, KBVS Research (2026)

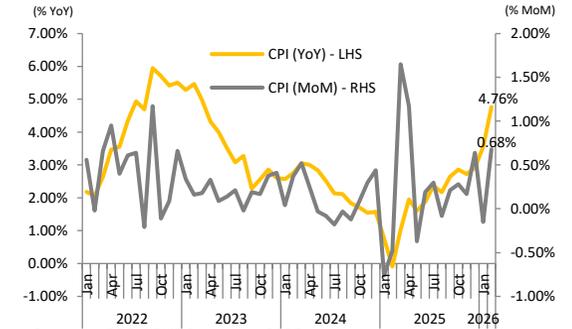
ECONOMIC CALENDAR

(26 FEB – 4 MAR '26)

Event	Actual	Forecast	Previous
Thursday, 26 Feb '26			
ID S&P Global Manufacturing PMI (Feb)	53.80		52.60
ID Inflation (YoY) (Feb)	4.76%		3.55%
ID Inflation (MoM) (Feb)	0.68%		-0.15%
ID Core Inflation (YoY) (Feb)	2.63%		2.45%
ID Export Growth (YoY) (Jan)	3.39%	11.07%	11.64%
ID Import Growth (YoY) (Jan)	18.21%	13.23%	10.81%
ID Trade Balance (Jan)	0.96B	2.76B	2.52B
Tuesday, 3 Mar '26			
Wednesday, 4 Mar '26			

Sources : Investing, KBVS Research (2025)

INFLATION



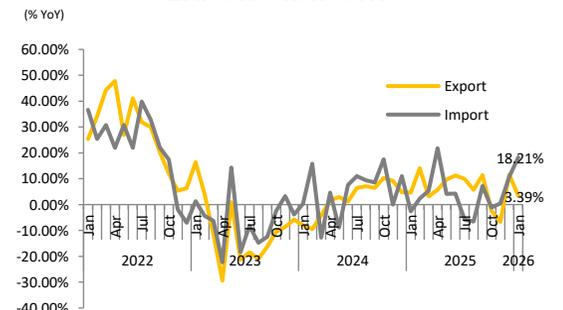
Sources : BPS, KBVS Research (2026)

TRADE BALANCE



Sources : BPS, KBVS Research (2026)

EXPORT-IMPORT



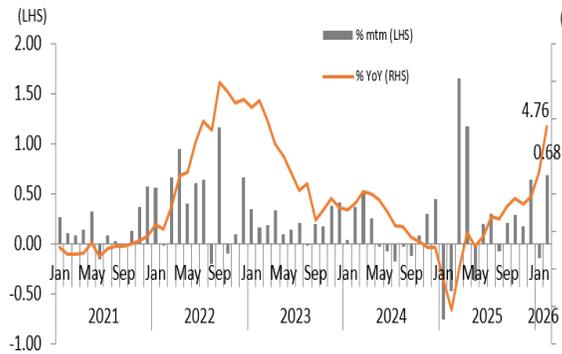
Sources : BPS, KBVS Research (2026)

The data releases that influenced yield movements in the week of 26 Feb – 4 Mar '26 are as follows:

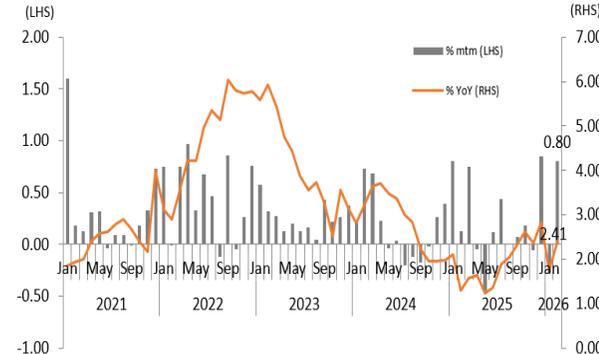
- The pronounced low base effect in February 2025 significantly amplified the rise in YoY inflation to 4.76% in Feb '26, while core inflation at 2.63% YoY continued to signal moderate underlying pressures. On a monthly basis, inflation of 0.68% MoM was primarily driven by rupiah depreciation and higher gold jewelry prices.
- Indonesia recorded a trade surplus of USD0.95 bn in Jan '26, narrowing compared to previous months as export performance weakened. Although total exports still grew 3.39% YoY to USD22.16 bn. On the import side, imports surged 18.21% YoY to USD21.20 bn.
- S&P Global Manufacturing PMI in Feb '26 increased to 53.80 (Prev: 52.60)

INFLATION

CPI



WPI



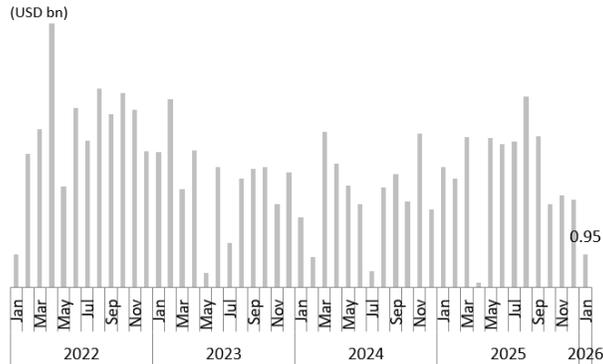
Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
Consumer Price Index (CPI)	110.50	109.92	0.53%	4.76%
Food, Beverages, and Tobacco	116.04	115.47	0.49%	3.51%
Clothing and Footwear	104.25	104.06	0.18%	0.73%
Housing, Water, Electricity, and Household Fuels	204.40	204.26	96.05%	127.49%
Equipment, Tools, and Routine Household Maintenance	104.23	104.08	0.14%	0.12%
Health	106.93	106.55	0.36%	1.61%
Transport	110.20	110.83	-0.57%	0.12%
Info, Comm. and Financial Services	99.32	99.20	0.12%	-0.09%
Recreation, Sport and Culture	105.59	105.48	0.10%	0.96%
Education Services	106.24	106.20	0.04%	1.11%
Food and Beverages Services/Restaurants	108.61	108.20	0.38%	1.37%
Personal Care and Other Services	134.59	128.31	4.89%	16.66%
Core inflation	108.72	107.86	0.80%	2.63%
Administered Price	110.52	110.90	-0.34%	12.66%
Volatile Food	117.81	117.24	0.49%	4.64%
Wholesale Price Index (WPI)	106.85	106.00	0.80%	2.41%
Agriculture	111.91	109.05	2.62%	5.51%
Mining and Quarrying	102.40	102.15	0.24%	2.19%
Manufacturing	108.93	108.40	0.49%	2.50%
Farmer Exchange Rate	125.45	123.60	1.50%	1.62%
Farmers Price Received Index	158.38	155.02	2.17%	5.60%
Farmers Price Paid Index	126.24	125.42	0.65%	3.91%

Source: various sources, KBVS (2026)

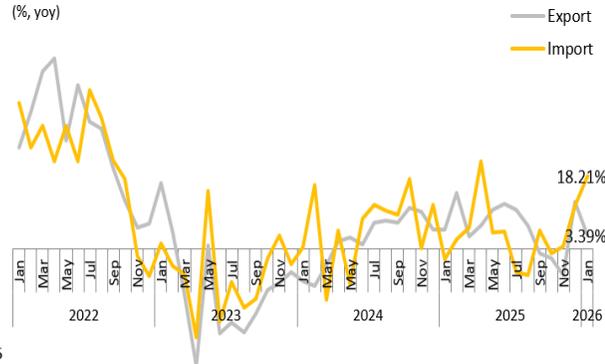
- **Indonesia's headline inflation accelerated further to 4.76% YoY in Feb '26 exceeding market expectations.**
- The interplay between base effects, seasonal factors, and underlying core inflation trends will be critical in assessing the persistence of price pressures going forward.
- **From a component perspective, core inflation increased to 2.63% YoY or 0.42% MoM, up from 2.45% YoY or 0.37% MoM in Jan '26.**
- **Looking ahead, seasonal demand related to Ramadan and Eid al-Fitr is expected to further lift food and transportation prices in Mar '26.**
- The interaction between demand-pull forces from THR-driven spending and cost-push pressures from external shocks increases the risk of temporary inflation overshooting during the festive period.
- **Although year-to-date inflation remains manageable at 0.53% and core inflation is still relatively anchored, the upward trajectory of headline CPI signals growing near-term risks.**
- To safeguard purchasing power and prevent second-round effects, such as wage adjustments and broader price mark-ups, **Bank Indonesia is likely to maintain a cautious and pre-emptive stance.**

TRADE BALANCE

TRADE BALANCE



EXPORT - IMPORT



Indicators	Value			Growth	
	(USD bn)			(%)	
	Latest	M-1	MoM	YoY	
Total Export (FOB)	22.16	26.35	-15.91	3.39	
Oil and Gas	0.89	1.26	-29.23	-15.62	
- Crude Oil	-	0.14	-100.00	-100.00	
- Processed Oil	0.42	0.38	9.85	5.76	
- Gas	0.47	0.74	-36.49	-19.95	
Non-Oil and Gas	21.26	25.09	-15.24	4.38	
- Agriculture, Forestry, and Fisheries	0.44	0.52	-15.57	-20.36	
- Manufacturing	18.51	21.17	-12.58	8.19	
- Mining & Others	2.32	3.40	-31.73	-14.59	
Total Import (CIF)	21.20	23.83	-11.05	18.21	
Oil and Gas	3.17	3.35	-5.59	27.52	
- Crude Oil	1.20	0.86	39.93	118.45	
- Processing Oil	1.96	2.49	-21.30	1.58	
- Gas	0.00	0.00	0.00	0.00	
Non-Oil and Gas	18.04	20.48	-11.94	16.71	
Import Based on the Goods Usage Classification					
Consumption Goods	1.84	2.41	-23.79	11.81	
Raw/Auxiliary Materials	14.88	16.10	-7.63	15.67	
Capital Goods	4.49	5.32	-15.63	35.23	
Trade Balance	0.95	2.51	-62.02%	-72.34%	
Oil and Gas Trade Balance	-2.27	-2.09	8.64%	59.03%	
Non-Oil and Gas Trade Balance	3.23	4.61	-29.91%	-33.84%	

Source: various sources, KBVS (2026)

- Indonesia recorded a surplus of USD0.95 bn in Jan '26, as export momentum softened while imports accelerated.
- Total exports grew 3.39% YoY to USD22.16 bn, but the pace was relatively modest compared to the stronger expansion recorded in 2025.
- The combination of regulatory delays and weaker pricing created a dual drag on coal exports, which in turn weighed on overall mining performance given coal's significant share in Indonesia's export structure.
- On the import side, total imports surged 18.21% YoY to USD21.20 bn, driven by stronger domestic demand across all major categories.
- Overall, the surge in imports was broad-based, led by industrial demand while supported by household consumption, highlighting that Indonesia's economic activity in early 2026 was underpinned by both manufacturing expansion and improving domestic spending.
- Looking ahead, once RKAB approvals are fully operational and coal shipments normalize, Indonesia's external performance should gradually regain strength, underpinned by resilient manufacturing and value-added exports.

DOMESTIC MARKET OUTLOOK: THREE ESCALATION SCENARIOS

INDONESIA'S MARKET SCENARIOS | Projections for IHSG, SUN10Y, and Rupiah

Scenario 1 | Short-Term Volatility (Risk-Off)

In the near term, Indonesia's financial markets may experience heightened volatility.

This could manifest in:

- The 10-year Government Bond yield (SUN10Y) rising toward 6.7% in the coming days,
- The Jakarta Composite Index (IHSG) retreating below the 8,000 level, and
- The Rupiah depreciating toward IDR17,000 per USD.

The resulting capital outflows typically exert upward pressure on domestic bond yields, downward pressure on equity prices, and depreciation pressure on the local currency.

During the 1st and 2nd weeks

Scenario 2 | Temporary Shock & Market

On the other hand, we expect that the pressures described in the first scenario may prove temporary. Should the Middle East conflict become clearer and avoid further escalation, uncertainty premiums may gradually decline.

In this case, short-term volatility could ease within the next two weeks, leading to:

- IHSG stabilizing around 8,500,
- SUN10Y yields moderating toward 6.5%, and
- The Rupiah strengthening within the range of IDR 16,700–17,000 per USD.

As information becomes more transparent and uncertainty diminishes, investors typically recalibrate their expectations, compressing risk spreads and restoring capital flows to fundamentally sound emerging markets like Indonesia.

Roughly from the 2nd week up to the 2nd month

Scenario 3 | Escalation & Prolonged Risk

The more adverse scenario would materialize if tensions intensify and the conflict broadens across the Middle East, increasing security threats across the region. In such a case, we are concerned that oil prices could rise toward USD 80 per barrel within the next two weeks—or even sooner. A sustained increase in oil prices would elevate global inflation expectations and widen risk premiums.

Under this scenario:

- SUN10Y yields could approach 7.0%,
- IHSG could decline toward the 7,000 level or lower, and
- The Rupiah would face renewed and potentially stronger depreciation pressures.

This outcome is consistent with the risk premium channel and terms-of-trade shock theory, where higher global commodity prices—particularly oil—raise inflationary pressures, weaken fiscal and current account expectations for net oil-importing countries, and increase sovereign risk perceptions.

If the war shows no sign of ending and escalation continues

► KEY TAKEAWAYS

- Surging global prices for coal, CPO, LNG, and nickel provide a partial hedge, bolstering export revenues to offset rising energy import bills.
- Sectors tied to commodity production and processing may outperform the broader market, enhancing corporate balance sheets.
- Indonesia's "free and active" foreign policy and prudent central bank management provide strategic flexibility to contain geopolitical spillovers.

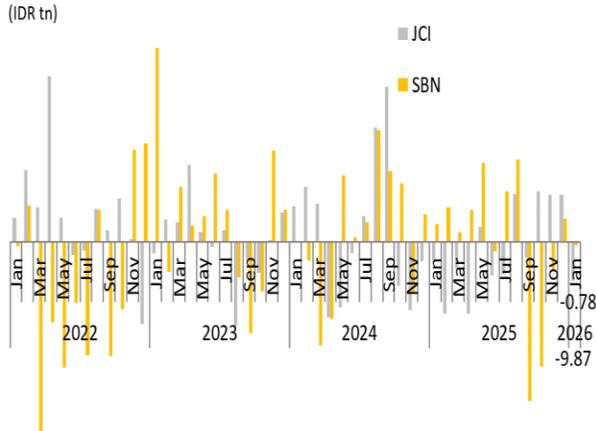
APBN SENSITIVITY TO WEAKER ASSUMPTIONS

Target 2026		5.2-5.8%	1.5-3.5%	6.6-7.2%		IDR16,500-16,900		USD60-80		605-620k barrel	953-1,017k barrel			
Description	Target APBN 2026	Economic Growth (Up 0.1%)	INF (Up 0.1%)	SUN10Y (Up 0.1%)	Scenario (7.5%-8.1% - up 0.9%)	Scenario (8.5%-9.1% - up 1.9%)	USDIDR (Up IDR100/USD)	Scenario (IDR17,000-17,400 - up IDR500)	Scenario (IDR17,300-17,700 - up IDR800)	ICP (Up USD1/barrel)	Scenario (USD85-105 - up USD25)	Scenario (USD100-120 - up USD40)	Oil Lifting (Up 10k boepd)	Natural Gas Lifting (Up 10k boepd)
A. Government Revenue		2,10	1,90	0,00	0,00	0,00	5,30	26,50	42,40	3,50	87,50	140,00	1,80	1,30
I. Domestic Revenue		2,10	1,90	0,00	0,00	0,00	5,30	26,50	42,40	3,50	87,50	140,00	1,80	1,30
1. Tax Revenue		2,10	1,90	0,00	0,00	0,00	3,50	17,50	28,00	1,90	47,50	76,00	0,30	0,40
2. Non-Tax Revenue (PNBP)		0,00	1,90	0,00	0,00	0,00	1,80	9,00	14,40	1,60	40,00	64,00	1,50	0,90
II. Grant Revenue		0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
REVENUE ASSUMPTION (IDR tn)	3.147,70				3.147,70	3.147,70		3.174,20	3.190,10		3.235,20	3.287,70		
B. Government Expenditure		0,00	0,00	1,90	17,10	36,10	6,10	30,50	48,80	10,30	257,50	412,00	0,00	0,00
I. Central Government Expenditure		0,00	0,00	1,90	17,10	36,10	6,10	30,50	48,80	10,30	257,50	412,00	0,00	0,00
II. Regional Transfers		0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
EXPENDITURE ASSUMPTION (IDR tn)	3.786,50				3.803,60	3.822,60		3.817,00	3.835,30		4.044,00	4.198,50		
C. Budget Surplus/(Deficit)		2,10	1,90	-1,90	-17,10	-36,10	-0,80	-4,00	-6,40	-6,80	-170,00	-272,00	1,80	1,30
BUDGET SURPLUS/(DEFICIT) ASSUMPTION (IDR tn)	-638,80				-655,90	-674,90		-642,80	-645,20		-808,80	-910,80		
D. Budget Financing		0,00	0,00	0,00	0,00	0,00	0,10	0,10	0,10	0,00	0,00	0,00	0,00	0,00

- **On 4 March 2026, Fitch revised Indonesia's sovereign outlook from Stable to Negative**, while affirming its BBB rating, citing:
 - rising policy uncertainty,
 - centralized decision-making, and
 - risks to fiscal credibility and external buffers.
- Despite solid macro stability, moderate debt levels, and favorable growth prospects, Indonesia faces structural constraints, including weak revenue collection and high debt servicing costs. The 2026 deficit is projected at 2.9% of GDP, with revenue stagnant at 13.3% of GDP. Large social programs and Danantara's USD26 bn downstream plan may further strain fiscal transparency and stability.
- Using the 2026 State Budget (APBN) sensitivity assumptions, we are concerned that escalating global tensions could further widen the fiscal deficit, particularly through higher SUN10Y yields, rupiah depreciation, and rising global oil prices.
- Ceteris paribus, if:
 - The SUN10Y yield approaches 7.8%, the deficit could increase by IDR17.1 tn (0.07% of GDP)
 - A depreciation of the rupiah to IDR17,200 per USD may add IDR4.0 tn (0.02% of GDP)
 - While an increase in the ICP oil price to USD95 per barrel could widen the deficit by IDR170.0 tn (0.71% of GDP)

DEVELOPMENT OF TRADABLE SBN

CAPITAL FLOW IN SBN&JCI



Sources : Bloomberg, KBVS Research (2026)

Between 26 February – 4 March '26, non-residents conducted:

- A net sell of tradeable SBN, amounting IDR1.96 tn.
- A net buy of JCI, amounting IDR5.91 tn.

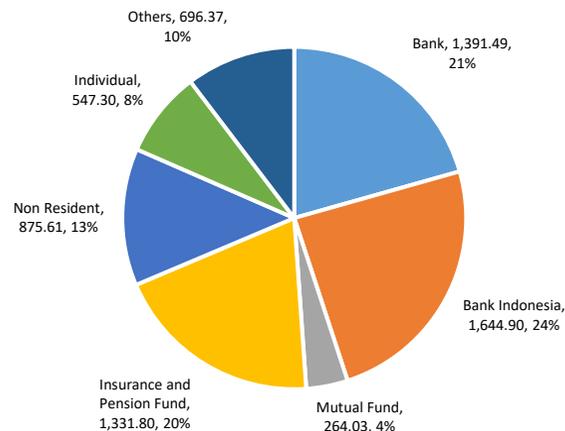
SUN LATEST AUCTION

3 Mar '26										
Instruments	SPN01260404	SPN12260604	SPN12270304	FR0109	FR0108	FR0106	FR0107	FR0102	FR0105	Total
Incoming Bids (IDR tn)	0.47	1.50	6.80	10.78	14.68	3.30	5.75	3.94	3.71	50.94
Bid to Cover Ratio	1.16	-	1.00	7.99	1.30	1.18	1.20	1.16	1.14	1.49
Weighted Average Yields Awarded	4.680%	-	4.973%	5.888%	6.530%	6.639%	6.668%	6.768%	6.784%	
18 Feb '26										
Instruments	SPN01260322	SPN03260521	SPN12270204	FR0109	FR0108	FR0106	FR0107	FR0102	FR0105	Total
Incoming Bids (IDR tn)	0.70	0.30	4.78	24.16	21.07	4.34	3.30	2.23	2.18	63.06
Bid to Cover Ratio	1.00	-	1.91	1.47	1.71	1.34	2.06	1.39	1.32	1.58
Weighted Average Yields Awarded	4.500%	-	4.768%	5.677%	6.380%	6.600%	6.670%	6.750%	6.780%	

Sources : DJPPR, KBVS Research (2026)

OWNERSHIP of IDR TRADABLE SBN

(IDR tn, % of total tradable SBN)



As of 2 March '26, the largest ownership of tradable SBN is as follows:

- Bank Indonesia : IDR1,644.90 tn (+IDR88.12 tn, WoW),
- Banks : IDR1,391.49 tn (-IDR72.59 tn, WoW), and
- Insurance & Pension Funds: IDR1,331.80 tn (+IDR2.82 tn, WoW)

Sources : DJPPR, and KBVS Research (2026)

SBSN LATEST AUCTION

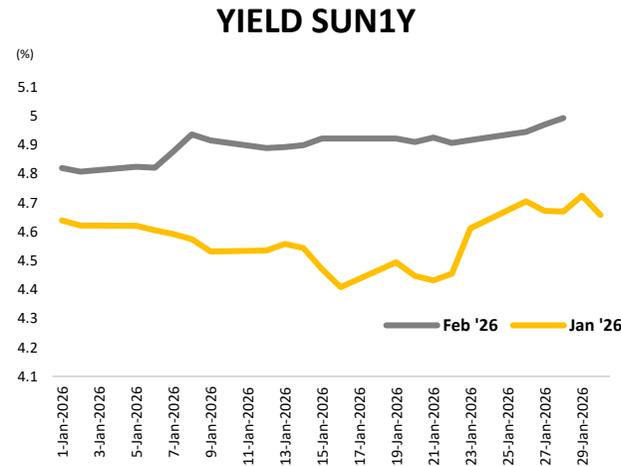
24 Feb '26									
Instruments	SPNS06042026	SPNS10082026	SPNS23112026	PBS030	PBS040	PBS034	PBS005	PBS038	Total
Incoming Bids (IDR tn)	0.53	2.40	6.35	10.90	1.24	2.22	2.94	9.03	35.61
Bid to Cover Ratio	1.33	1.02	1.02	3.35	2.48	1.39	1.34	2.62	1.78
Weighted Average Yields Awarded	4.450%	4.600%	4.800%	5.210%	5.609%	6.432%	6.621%	6.700%	
10 Feb '26									
Instruments	SPNS09032026	SPNS10082026	SPNS12102026	PBS030	PBS040	PBSG002	PBS034	PBS038	Total
Incoming Bids (IDR tn)	3.40	2.48	7.25	9.68	3.19	7.85	5.23	4.75	43.83
Bid to Cover Ratio	3.09	1.55	-	1.86	6.38	17.45	4.18	2.50	3.65
Weighted Average Yields Awarded	4.400%	4.500%	-	5.250%	5.640%	6.155%	6.374%	6.783%	

Sources : DJPPR, KBVS Research (2026)

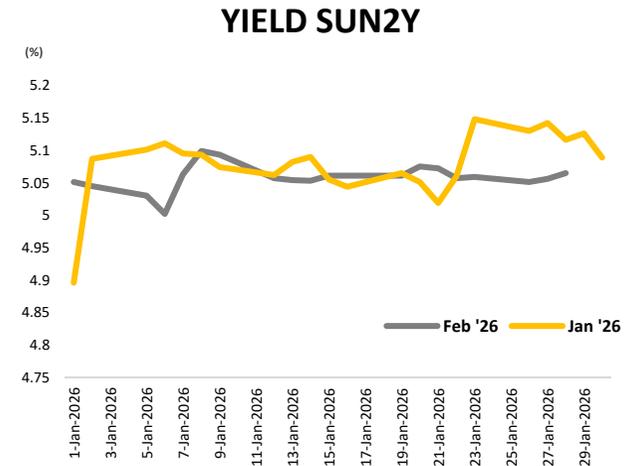
THE MOVEMENT OF SUN YIELDS

Over the past week, SUN yields moved tends to increase:

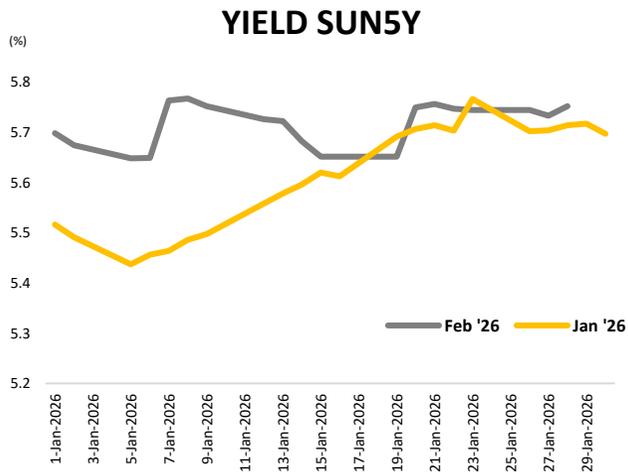
- Yield SUN1Y
 - +20.70 bps (WoW)
 - +51.20 bps (YtD, as of Mar 4,'26)
- Yield SUN2Y
 - +12.60 bps (WoW)
 - +28.10 bps (YtD, as of Mar 4,'26)
- Yield SUN5Y
 - +22.50 bps (WoW)
 - +45.30 bps (YtD, as of Mar 4,'26)
- Yield SUN10Y
 - +17.60 bps (WoW)
 - +54.40 bps (YtD, as of Mar 4,'26)
- Yield SUN30Y
 - +3.90 bps (WoW)
 - +9.40 bps (YtD, as of Mar 4,'26)



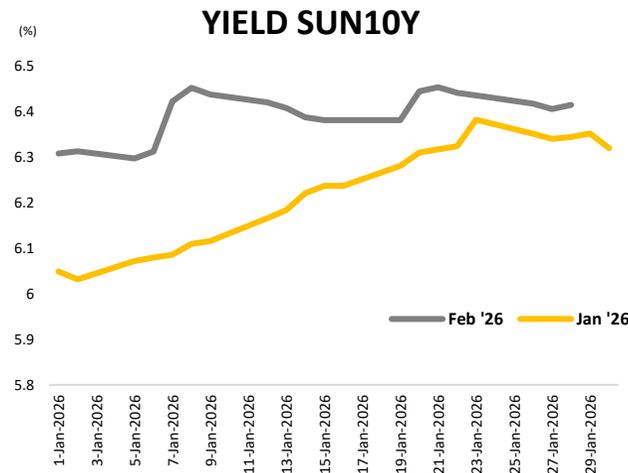
Sources : Bloomberg, KBVS Research (2026)



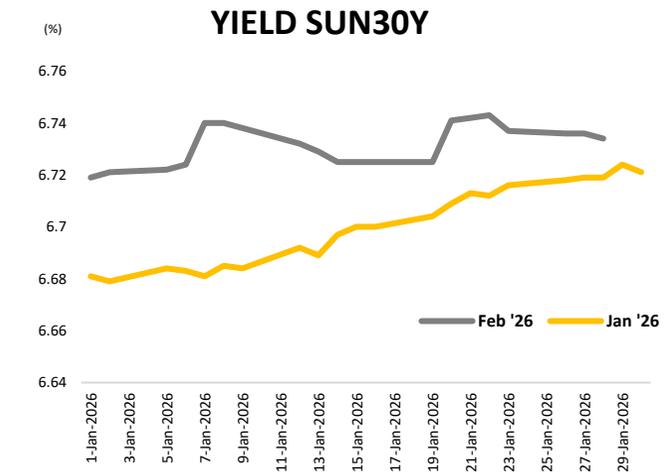
Sources : Bloomberg, KBVS Research (2026)



Sources : Bloomberg, KBVS Research (2026)



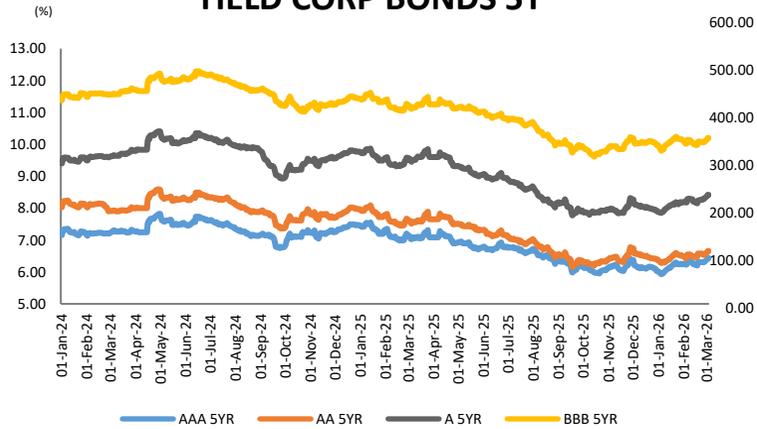
Sources : Bloomberg, KBVS Research (2026)



Sources : Bloomberg, KBVS Research (2026)

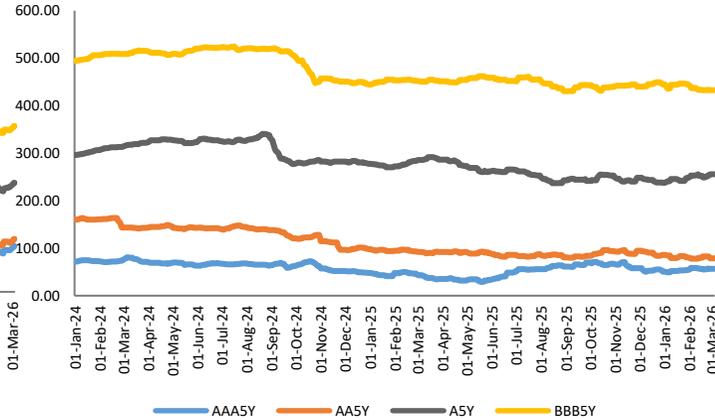
THE MOVEMENT OF CORPORATE BOND YIELD

YIELD CORP BONDS 5Y



Sources : Bloomberg, KBVS Research (2026)

YIELD SPREAD 5Y TENOR

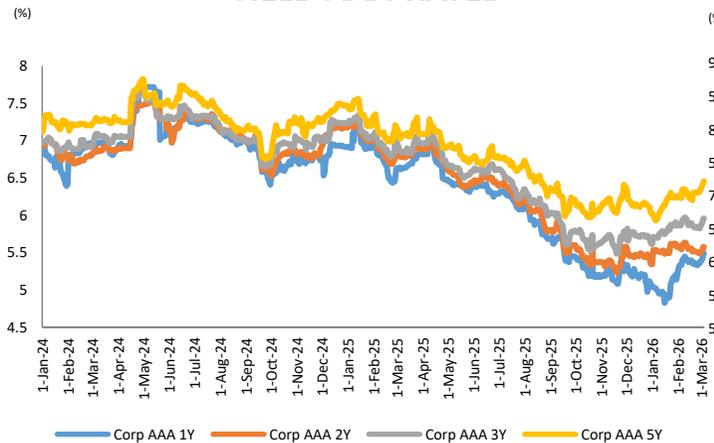


Sources : Bloomberg, KBVS Research (2026)

Corporate bond yields showed an incline movement on most of the tenors last week, as follows:

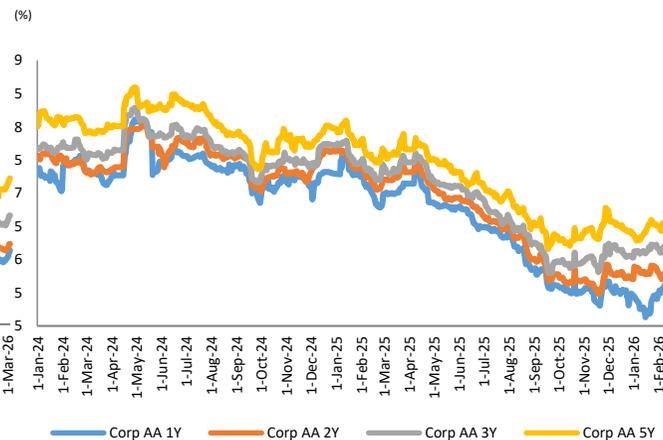
- AAA-rated
 - Tenor 1Y : +16.28 bps (WoW)
 - Tenor 2Y : +9.65 bps (WoW)
 - Tenor 5Y : +22.33 bps (WoW)
- AA-rated
 - Tenor 1Y : +14.23 bps (WoW)
 - Tenor 2Y : +7.00 bps (WoW)
 - Tenor 5Y : +18.20 bps (WoW)
- A-rated
 - Tenor 1Y : +24.11 bps (WoW)
 - Tenor 2Y : +14.89 bps (WoW), and
 - Tenor 5Y : +24.69 bps (WoW)

YIELD AAA-RATED



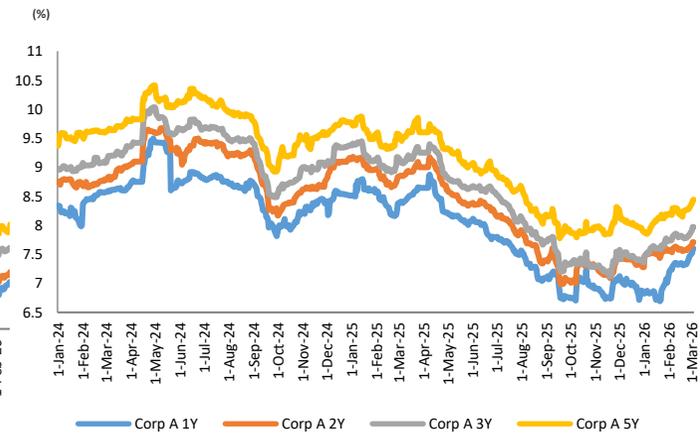
Sources : Bloomberg, KBVS Research (2026)

YIELD AA-RATED



Sources : Bloomberg, KBVS Research (2026)

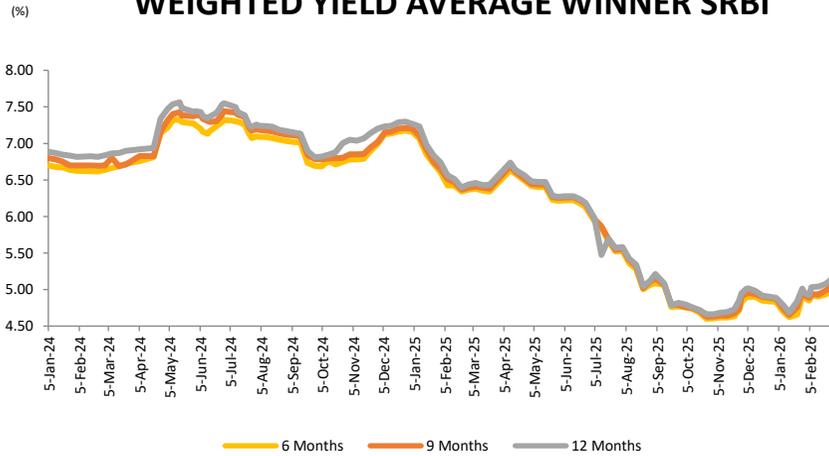
YIELD A-RATED



Sources : Bloomberg, KBVS Research (2026)

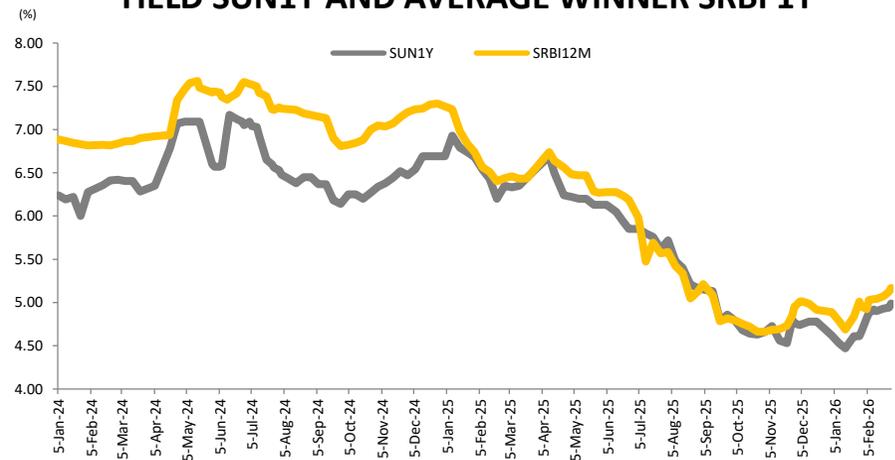
BI'S MONETARY OPERATION

WEIGHTED YIELD AVERAGE WINNER SRBI



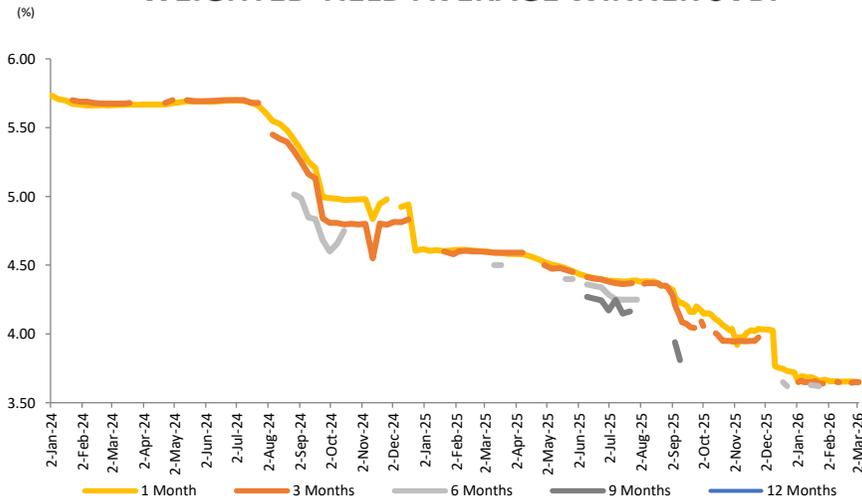
Sources : BI, KBVS Research (2026)

YIELD SUN1Y AND AVERAGE WINNER SRBI 1Y



Sources : BI, KBVS Research (2026)

WEIGHTED YIELD AVERAGE WINNER SVBI



Sources : BI, KBVS Research (2026)

- The Weighted Average Yield of Winning Bids can be seen in the table below.

Yield (%)	27 Feb 2026	4 Mar 2026
6 Month	5.03402%	5.14438%
9 Month	5.09333%	5.19333%
12 Month	5.09333%	5.21392%

- Meanwhile, the latest SUVBI auction saw the profit sharing rate was at:
 - 1 month: 3.650%
 - 3 month: 3.650%
 - 6 month: 3.598%
 - 9 month: 3.527%
 - 12 month: 3.457%

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18 Economic Calendar



NEXT WEEK ECONOMIC CALENDAR

ECONOMIC CALENDAR

(5-11 MAR 2026)

Country	Event	Forecast	Previous	Country	Event	Forecast	Previous	Country	Event	Forecast	Previous
Thursday, Mar 5, 2026				Friday, Mar 6, 2026				Monday, Mar 9, 2026			
GE	Buba Balz Speaks			EU	ECB President Lagarde Speaks			JP	Adjusted Current Account (Jan)		269.71T
US	Beige Book			US	FOMC Member Bowman Speaks			JP	Current Account n.s.a. (Jan)		0.729T
EU	ECB's De Guindos Speaks			US	Fed's Balance Sheet		6,614B	CN	CPI (MoM) (Feb)		0.20%
GB	S&P Global Construction PMI (Feb)	47.10	46.40	ID	Fx Reserves (USD) (Feb)		154.60B	CN	CPI (YoY) (Feb)		0.20%
GE	Buba President Nagel Speaks			GE	Factory Orders (MoM) (Jan)	-3.80%	7.80%	CN	PPI (YoY) (Feb)		-1.40%
EU	ECB Publishes Account of Monetary Policy Meeting			GB	Halifax House Price Index (MoM) (Feb)	0.40%	0.70%	GE	Industrial Production (MoM) (Jan)		-1.90%
US	Trade Balance (Jan)		-70.30B	GB	Halifax House Price Index (YoY) (Feb)		1.00%	Tuesday, Mar 10, 2026			
US	Initial Jobless Claims	215K	212K	EU	GDP (QoQ) (Q4)	0.30%	0.30%	JP	Household Spending (MoM) (Jan)		-2.90%
US	Continuing Jobless Claims		1,833K	EU	GDP (YoY) (Q4)	1.30%	1.40%	JP	Household Spending (YoY) (Jan)		-2.60%
US	Unit Labor Costs (QoQ) (Q4)	2.10%	-1.90%	EU	President Lagarde Speaks			JP	GDP (QoQ) (Q4)		0.10%
US	Import Price Index (MoM) (Jan)	0.20%	0.10%	GB	Mortgage Rate (GBP) (Feb)		6.62%	JP	GDP Price Index (YoY) (Q4)		3.40%
US	Export Price Index (MoM) (Jan)		0.30%	US	Retail Sales (MoM) (Jan)	-0.30%	0.00%	JP	GDP Annualized (QoQ) (Q4)		0.20%
US	Nonfarm Productivity (QoQ) (Q4)	1.70%	4.90%	US	Core Retail Sales (MoM) (Jan)	0.00%	0.00%	GB	BRC Retail Sales Monitor (YoY) (Feb)		2.30%
US	Exports (Jan)		287.30B	US	Retail Control (MoM) (Jan)		-0.10%	ID	Retail Sales (YoY) (Jan)		3.50%
US	Imports (Jan)		357.60B	US	Nonfarm Payrolls (Feb)	58K	130K	GE	Trade Balance (Jan)		17.10B
US	Factory Orders (MoM) (Jan)		-0.70%	US	Unemployment Rate (Feb)	4.30%	4.30%	US	Existing Home Sales (Feb)		3.91M
				US	Average Hourly Earnings (MoM) (Feb)	0.30%	0.40%	US	Existing Home Sales (MoM) (Feb)		-8.40%
				US	Average Hourly Earnings (YoY) (Feb)		3.70%	Wednesday, Mar 11, 2026			
				US	Private Nonfarm Payrolls (Feb)	70K	172K	CN	Imports (YoY) (Feb)		5.70%
				US	U6 Unemployment Rate (Feb)		8.00%	CN	Exports (YoY) (Feb)		6.60%
				US	Participation Rate (Feb)		62.50%	CN	Trade Balance (USD) (Feb)		114.10B
				US	Retail Inventories Ex Auto (Dec)	0.20%	0.20%	GE	CPI (MoM) (Feb)		0.20%
				US	Business Inventories (MoM) (Dec)	0.20%	0.10%	GE	CPI (YoY) (Feb)		1.90%
								US	CPI (MoM) (Feb)		0.20%
								US	CPI (YoY) (Feb)		2.40%
								US	Core CPI (YoY) (Feb)		2.50%

