

1. Geopolitical Shock

The US-Israel coordinated strikes against Iran on February 28 have triggered the most significant geopolitical oil shock since Russia invaded Ukraine in 2022. The escalation of the conflict and Iran’s subsequent threat to close the Strait of Hormuz, have significantly altered the near-term risk calculus for global energy markets and, by extension, Indonesian equities and the rupiah.

Timeline of Key Events

Date	Event
Feb 28	US-Israel launches coordinated airstrikes on Iran’s nuclear and military infrastructure; Supreme Leader Khamenei killed.
Mar 1	Iran’s IRGC commander declares Strait of Hormuz closed; Brent surges 9% to ~\$79. OPEC+ announces 206k bpd April output hike.
Mar 2	Gold hits \$5,408/oz before reversing 5% on USD strength; Brent intraday touches \$85; Saudi Ras Tanura refinery halted by drone strike.
Mar 3 – 4	Trump offers US tanker insurance for Hormuz transit; Brent settles ~\$82. Tanker traffic remains at near-standstill. Trump says Iran “wants to talk”.

The Strait of Hormuz handles roughly 20% of global seaborne oil trade and about one-third of global LNG flows, making it the single most important chokepoint in the global energy system. Even partial disruption to tanker traffic, insurance coverage, or freight availability can quickly tighten prompt oil supply and drive sharp price reactions.

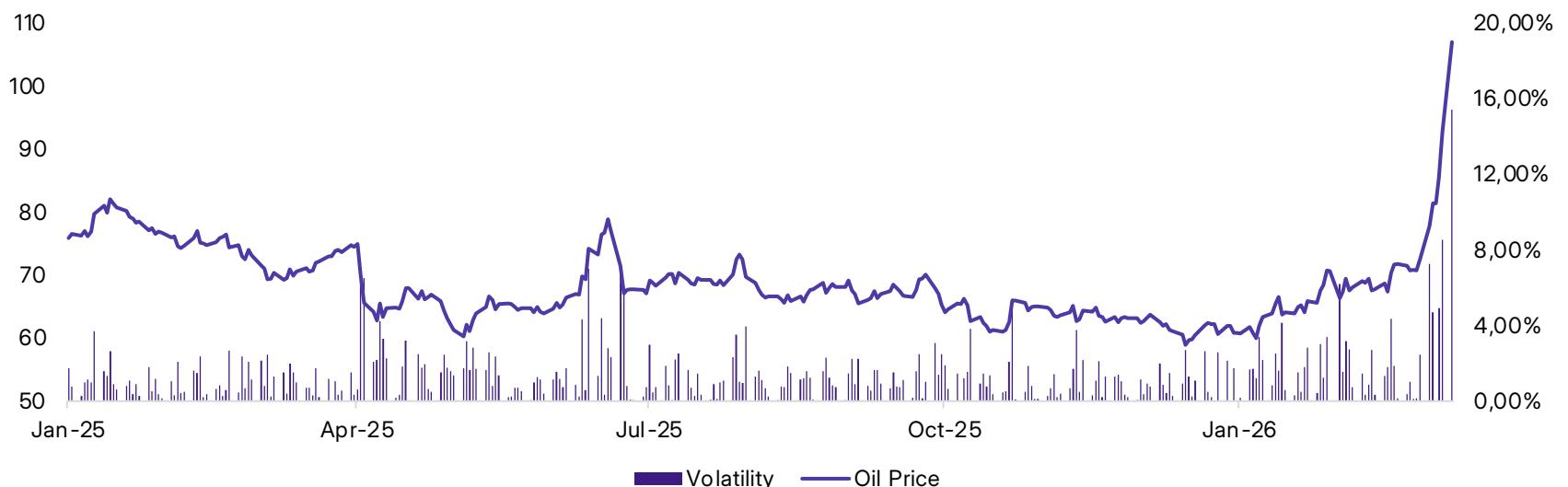
Current status: Markets have now moved beyond pricing a simple geopolitical risk premium. Brent crude has surged above \$100 per barrel, reaching levels above \$110 at times, as the Iran conflict begins to disrupt physical oil supply and shipping flows in the Middle East. The key question for us is no longer whether geopolitical risk exists, but how long these disruptions persist. If tanker traffic and regional production remain constrained, the market could transition from a temporary geopolitical spike into a genuine supply shock regime, with oil prices remaining structurally elevated.

2. Oil Market Outlook

Oil markets have moved rapidly to price in geopolitical risk following the Iran strikes, but current prices still reflect a risk premium rather than a confirmed supply disruption. Brent crude is currently trading around \$80–84 per barrel and briefly moved above \$100 during the recent geopolitical escalation. Roughly \$40 above Bloomberg Analyst’s estimated fundamental fair value near \$62. In other words, the market is assigning probabilities to potential supply interruptions without yet pricing in a sustained loss of global production.

Under normal supply-demand conditions, most analysts expect Brent to trade within a \$60–75 range over the medium term, supported by steady global demand and continued non-OPEC supply growth. The current strength, therefore, largely reflects uncertainty surrounding potential disruption to Middle Eastern exports.

Oil Prices & Volatility



Source: Bloomberg, Simpan Asset Management.

Scenario	Barrels at Risk	Duration	Brent Impact	Curve Impact	Notes
Limited escalation	None	Days	+\$3 to \$5	Brief steepening	Headline-driven, risk premium
Iranian export disruption (Kharg Island)	~1.3 – 1.5 mbpd	Weeks	+\$5 to \$7	Strong backwardation	Iran’s exports are impaired, structural if prolonged
Regional escalation	2-5+ mbpd	Weeks-months	+\$10 to \$20	Sharp prompt spike	Escalatory
Strait of Hormuz disruption	10-20 mbpd	Day-weeks	+\$20 to \$50	Extreme dislocation	Break-glass measure

Key Watchpoints: Confirmed damage to Kharg Island (handles 90% of Iran’s crude exports); duration of Hormuz tanker standstill; insurance/freight cost escalation (war-risk premiums up 50%); and pace of OPEC+ supply response. Gulf spare capacity (~6.6 mbpd, led by Saudi Arabia at 47% and UAE at 23%) is only meaningful if production and transit routes remain intact.

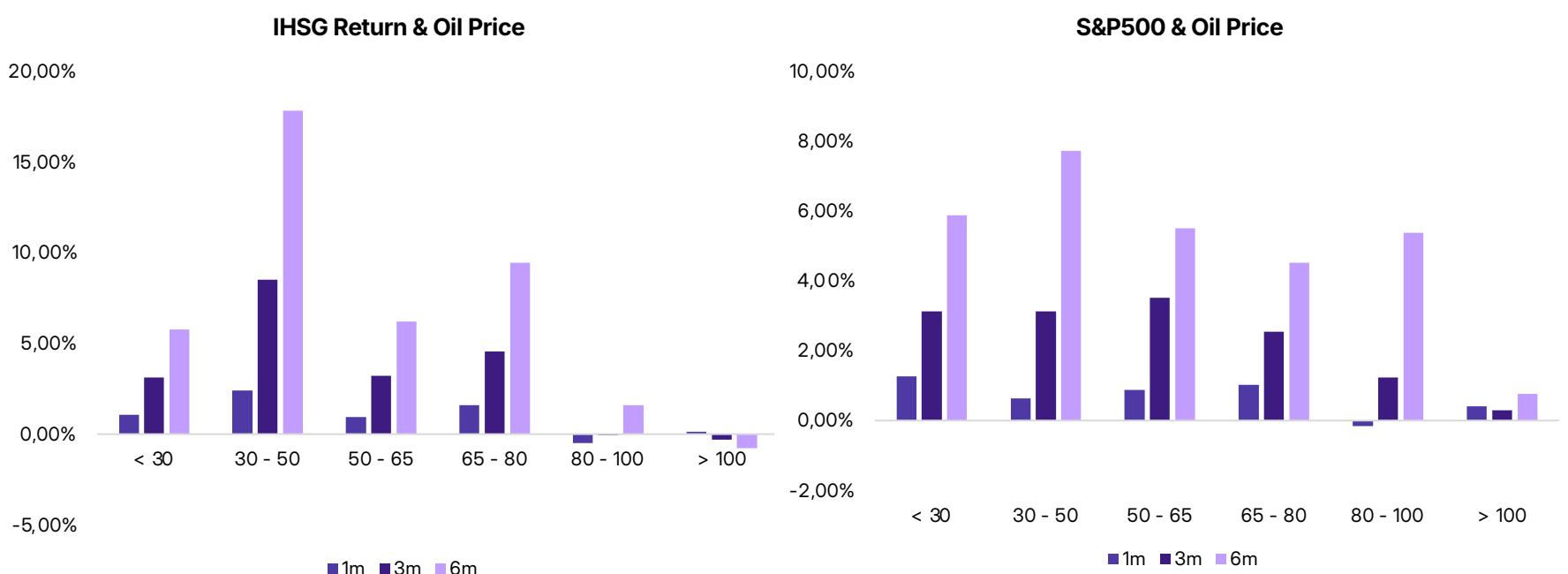
3. Oil and Equity Market Regimes

Our analysis groups historical observations into several oil price ranges and examines the average equity returns observed during those periods. This forward-looking approach allows us to evaluate how both the Indonesian equity market and global equities have historically performed after entering different energy price environments.

The results suggest that equity performance tends to vary depending on the oil price environment. In particular, periods of moderate oil prices are often associated with stronger equity returns, while extremely high oil prices tend to coincide with weaker market performance.

This pattern likely reflects broader macroeconomic dynamics. Moderate oil prices typically signal healthy global demand and economic expansion, which supports corporate earnings and equity markets. Conversely, excessively high oil prices can act as a tax on economic activity by raising production costs, increasing inflationary pressure, and weakening consumer purchasing power.

Equity Market Performance Across Oil Price Regimes (1995–2026)



Source: Bloomberg, Simpan Asset Management.

The JCI has historically delivered its strongest forward returns when Brent trades in the \$30–50 range, with a 6-month forward return of 17.82%, reflecting periods of global crisis troughs such as the 2008–09 GFC, the 2015–16 commodity downturn, and the 2020 Covid shock. During these environments, depressed oil prices tend to coincide with turning points in global growth, allowing Indonesian equities to rebound strongly as commodity prices, the rupiah, and risk appetite recover. The S&P 500 also performs well in this regime, but the JCI’s gains are more than double, highlighting Indonesia’s higher beta to the global commodity recovery cycle.

The \$65–80 range represents Indonesia’s macro “sweet spot.” In this regime the JCI generates a 6-month forward return of 9.43%, outperforming the S&P 500 by nearly five percentage points. Moderate oil prices support commodity export revenues, keep the current account manageable, and allow Bank Indonesia to maintain policy flexibility. In contrast, once Brent rises above \$80, forward returns deteriorate as Indonesia’s net oil importer status begins to dominate, pressuring the rupiah and tightening financial conditions.

Above \$100, the outlook turns outright negative. Historically, the JCI has delivered -0.30% over the next three months and -0.77% over the next six months, the only oil regime with negative forward returns. Extremely high oil prices tend to trigger a negative macro feedback loop in Indonesia, increasing the import bill, weakening the rupiah, and forcing Bank Indonesia into a more defensive policy stance.

Current positioning: With oil now trading near or above \$100, history suggests a less supportive environment for Indonesian equities in the near term. In this regime, we prefer a more defensive portfolio stance, maintaining exposure to energy and commodity exporters that benefit from elevated prices, while reducing exposure to oil-sensitive domestic sectors such as consumer and transport. A sustained move back toward the \$65–80 range would represent a much more constructive regime for broader Indonesian equities.

4. Cross-Commodity Divergence: Gold vs Oil & Coal

The current geopolitical crisis has pushed cross-commodity relationships to historically extreme levels to above \$5.300, revealing a sharp divergence between financial safe-haven assets and industrial energy commodities, supported by central-bank accumulation, safe-haven flows, and rising geopolitical risk. In contrast, oil and coal, the commodities most relevant to Indonesia’s economy, have lagged significantly on a relative basis, producing unusually stretched commodity ratios. These divergences are important because they provide insight into whether markets are pricing financial risk, supply shocks, or underlying economic demand.

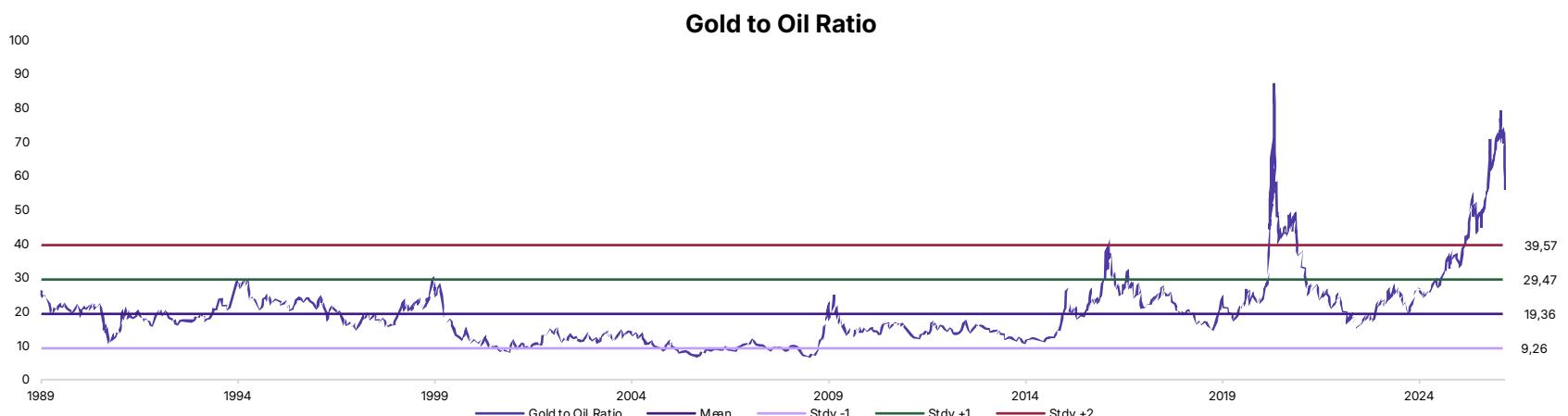
For Indonesia, this relationship is particularly relevant given the country’s exposure to energy and coal exports. Monitoring how these ratios evolve can help determine whether the current environment is transitioning toward a commodity-driven cycle or a normalisation of financial risk pricing.

4.1 Gold to Oil Ratio

The gold-to-oil ratio illustrates the extent to which financial hedging has diverged from energy market fundamentals. The ratio reached an extreme ~79x in late January, more than four standard deviations above its long-term mean of roughly 19x. Such levels are historically rare and typically occur when financial risk is priced far more aggressively than physical commodity demand.

More recently, the ratio has begun to compress as oil prices rebounded from around \$60 to above \$90 per barrel, bringing the ratio down toward ~56x. Importantly, the adjustment has occurred primarily through stronger oil prices rather than a decline in gold, suggesting that energy markets are beginning to incorporate a supply-risk premium.

Although the ratio remains historically elevated, the recent compression indicates that the earlier divergence between financial hedges and energy commodities is starting to normalize.



Source: Bloomberg, Simpan Asset Management.

Watchpoints: What we should watch next is how the ratio continues to compress. If it falls because oil keeps rising, that would confirm a stronger geopolitical commodity shock and likely support energy and selected commodity-linked equities, while increasing pressure on oil-importing sectors and Indonesia’s macro balance. If it falls because gold corrects lower, that would point more to easing fear and improving global risk appetite. In other words, the direction of adjustment matters as much as the adjustment itself.

4.2 Gold to Coal Ratio

The gold-to-coal ratio highlights a similarly extreme divergence between financial safe-haven assets and industrial commodities. Year-to-date, the ratio has traded between roughly 40x and 49x, far above its long-term average of ~17x and well beyond the +2 standard deviation threshold near 32x. This places the current environment among the most stretched levels in the historical dataset, indicating that gold has significantly outperformed coal over the past year.

Underlying price movements highlight the imbalance. While gold prices climbed from roughly \$4,300/oz to above \$5,300/oz, Newcastle thermal coal prices remained largely stable near \$105–110/ton during January, reflecting subdued industrial demand and elevated inventories. This combination pushed the gold-to-coal ratio to nearly 50x, the most extreme level in the available dataset.

More recently, however, the ratio has begun to partially compress, declining toward the high-30s. This adjustment has occurred primarily because coal prices have rebounded sharply to around \$130–135/ton, while gold prices have remained elevated near the \$5,000–\$5,200/oz range. In other words, the normalization is occurring through stronger coal prices rather than a meaningful correction in gold, suggesting that industrial commodities may be beginning to respond to tighter supply conditions or rising energy demand.

For Indonesia, this signal is particularly relevant given the country’s position as one of the world’s largest coal exporters. Elevated gold-to-coal ratios typically reflect periods when financial risk dominates commodity markets, while industrial demand remains subdued. If the ratio continues to normalize through rising coal prices, it would likely support Indonesia’s coal producers and broader commodity-linked sectors. Conversely, if the ratio compresses through a correction in gold prices, it would likely reflect easing financial stress and improving global risk appetite, another environment historically supportive for emerging markets.

Gold to Coal Ratio

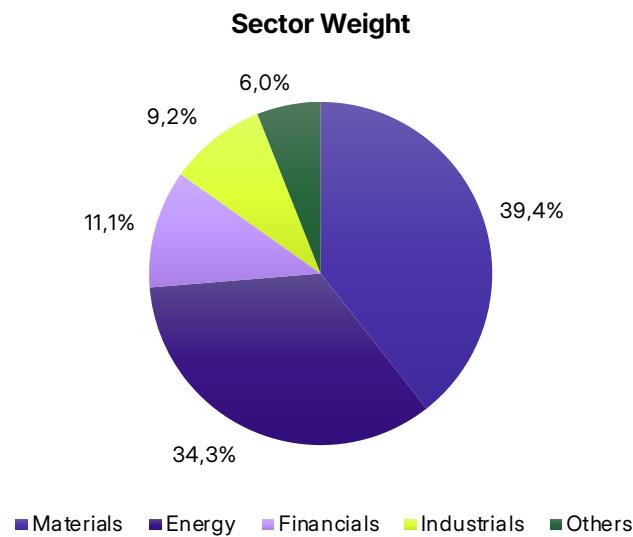


Source: Bloomberg, Simpan Asset Management.

Watchpoints: Going forward, the key variable to monitor is how the gold-to-coal ratio continues to normalize. If the ratio compresses further through rising coal prices, it would signal improving industrial demand or tighter supply conditions in the seaborne coal market, developments that would likely be supportive for Indonesia, one of the world’s largest thermal coal exporters and a market where coal producers represent a meaningful share of commodity-linked equities and export revenues. Conversely, if the ratio compresses through a correction in gold prices, it would likely reflect easing geopolitical risk and declining safe-haven demand, potentially indicating improving global risk sentiment rather than a strengthening commodity cycle. In either case, the direction of adjustment will be an important signal for Indonesia: normalization through stronger coal prices would support energy and mining equities, while normalization through lower gold would point to improving global liquidity and risk appetite, which has historically also benefited emerging markets including Indonesia.

5. Portfolio Positioning

Our current portfolio positioning reflects a deliberate tilt toward commodity-linked sectors, which together account for nearly three quarters of total exposure. Materials represent 39.4% of the portfolio, primarily through companies exposed to copper and gold, while Energy accounts for 34.3%, largely driven by oil and coal producers. Financials represent 11.1%, mainly through large-cap Indonesian banks used for index exposure and liquidity management, while Industrials and other sectors make up the remaining allocations.



This positioning reflects a defensive tilt toward real assets, which historically tend to perform relatively well during periods of geopolitical uncertainty and commodity price volatility. The recent developments in global energy markets, including the sharp rise in oil prices and the early normalisation in cross-commodity ratios such as gold-to-oil and gold-to-coal, reinforce the relevance of maintaining exposure to sectors directly linked to energy and resource markets.

Importantly, the portfolio does not require significant repositioning in response to the current geopolitical tensions. The existing allocations to energy and commodity producers already provide natural exposure to the areas of the market most directly affected by supply shocks and rising resource prices. This positioning allows the portfolio to participate in potential upside from commodity markets while also serving as a buffer against inflationary pressures that may arise from higher energy costs.

At the same time, the allocation to large-cap Indonesian banks provides a stable core exposure to the domestic economy, ensuring that the portfolio remains balanced between commodity-linked earnings and structural domestic growth.

Overall, the portfolio remains defensively positioned, with meaningful exposure to sectors that historically benefit from periods of geopolitical stress and commodity volatility. While market conditions remain fluid, the current allocation continues to be consistent with our broader investment framework and risk management approach.

Summary

In summary, while geopolitical risks remain elevated and energy markets are volatile, the portfolio is already positioned defensively with meaningful exposure to commodity-linked sectors that benefit from supply disruptions and higher resource prices. As a result, the current environment does not require significant repositioning, and the portfolio remains aligned with the macro dynamics shaping global commodity markets.

Sector Implications Across Oil Price Regimes

To better understand how the Indonesian equity market responds to different oil environments, we examined sector performance across several oil price regimes using JCI sector indices since 2021. The analysis evaluates forward sector returns over 1-month, 3-month, and 6-month horizons when Brent crude trades within four price ranges: below \$65, \$65–\$80, \$80–\$100, and above \$100 per barrel.

The results reveal a clear differentiation in sector performance as oil prices rise. When oil exceeds \$100 per barrel, Energy emerges as the dominant outperformer, delivering the strongest forward returns across all time horizons. Over the most recent cycle, the sector has generated 6-month forward returns of roughly 29% in this regime, reflecting the direct earnings sensitivity of Indonesian energy producers to higher commodity prices. Higher oil prices tend to support coal prices and improve cash flow visibility for resource companies, which often leads to stronger equity performance.

In contrast, domestic sectors tend to face macro headwinds when oil prices rise sharply. Financials and Consumer Cyclical show weaker forward returns in the high-oil regime, consistent with the broader macroeconomic impact of rising energy prices. Higher oil prices can increase inflation pressures, weaken household purchasing power, and reduce policy flexibility for Bank Indonesia, which together weigh on domestically oriented sectors.

Materials performance appears somewhat more cyclical. The sector shows stronger forward returns when oil prices are moderate rather than extremely elevated, suggesting that commodity producers benefit most when global demand conditions are improving but macro pressures from energy prices remain contained.

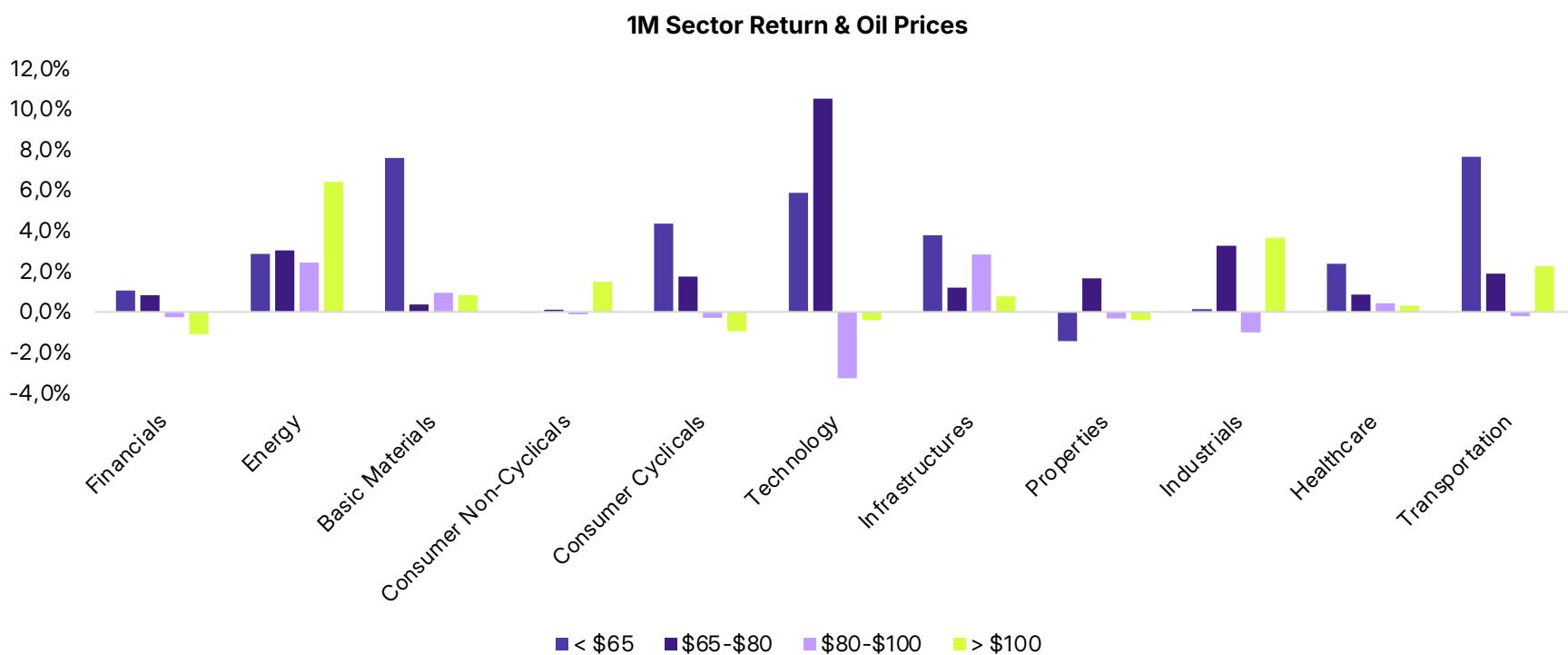
Overall, the results suggest that oil prices above \$100 tend to shift market leadership toward energy-linked sectors, while creating a more challenging environment for domestic demand-driven industries. This pattern is broadly consistent with Indonesia's economic structure, where the energy sector benefits from rising commodity prices, while higher fuel costs can act as a drag on domestic consumption and financial conditions.

Data Limitations

This analysis is based on JCI sector index data available from 2021 onward, resulting in a relatively limited sample size of approximately 60 observations. As such, the results primarily reflect the most recent commodity cycle, including the post-pandemic recovery and the 2022 global energy shock, rather than long-term historical behavior.

Some sectors, particularly Technology, may also exhibit distorted results due to IPO-driven volatility and structural changes in the Indonesian market during this period. Consequently, these findings should be interpreted as directional evidence of recent market behavior rather than definitive long-term relationships between oil prices and sector performance.

Appendix

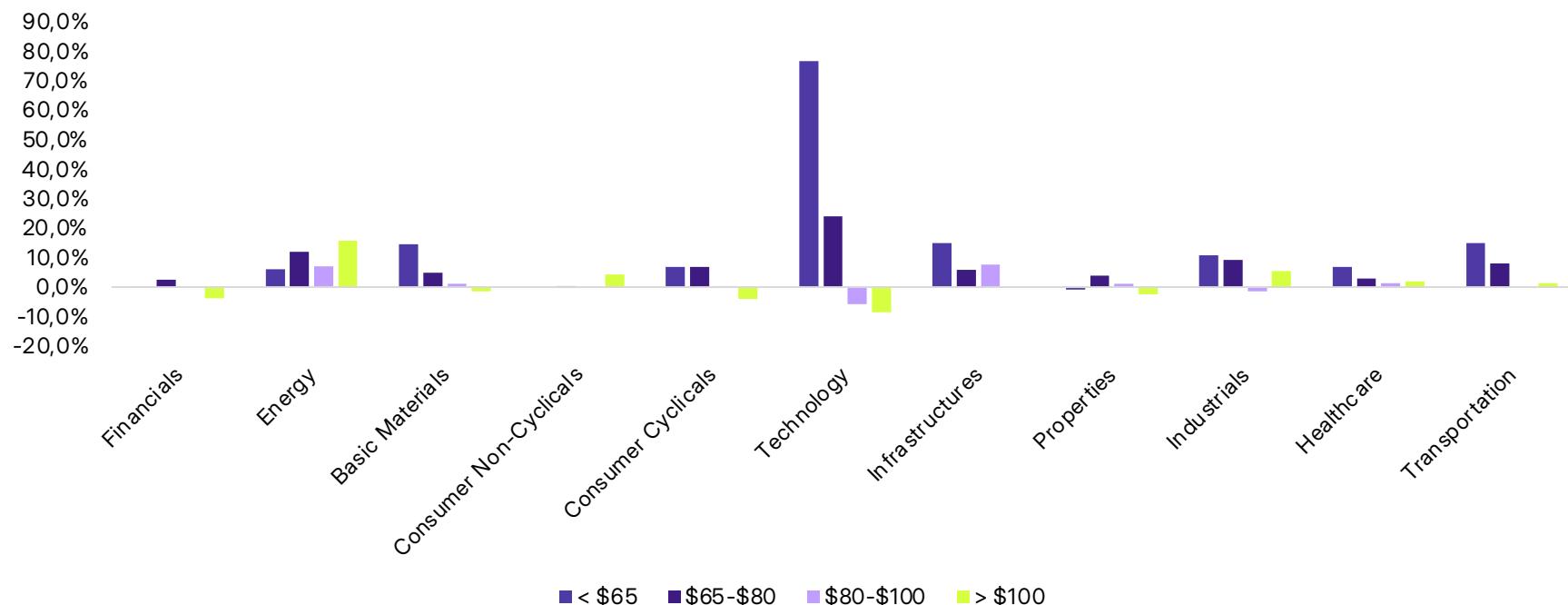


1M Sector Returns & Oil Prices

Sector	< \$65	\$65-\$80	\$80-\$100	> \$100
Financials	1.1%	0.8%	-0.3%	-1.1%
Energy	2.9%	3.0%	2.5%	6.4%
Basic Materials	7.6%	0.4%	0.9%	0.8%
Consumer Non-Cyclicals	0.0%	0.1%	-0.1%	1.5%
Consumer Cyclicals	4.4%	1.7%	-0.3%	-1.0%
Technology	5.9%	10.5%	-3.3%	-0.4%
Infrastructures	3.8%	1.2%	2.9%	0.8%
Properties	-1.4%	1.7%	-0.3%	-0.4%
Industrials	0.2%	3.3%	-1.0%	3.7%
Healthcare	2.4%	0.9%	0.4%	0.3%
Transportation	7.7%	1.9%	-0.2%	2.3%

Appendix

3M Sector Return & Oil Prices

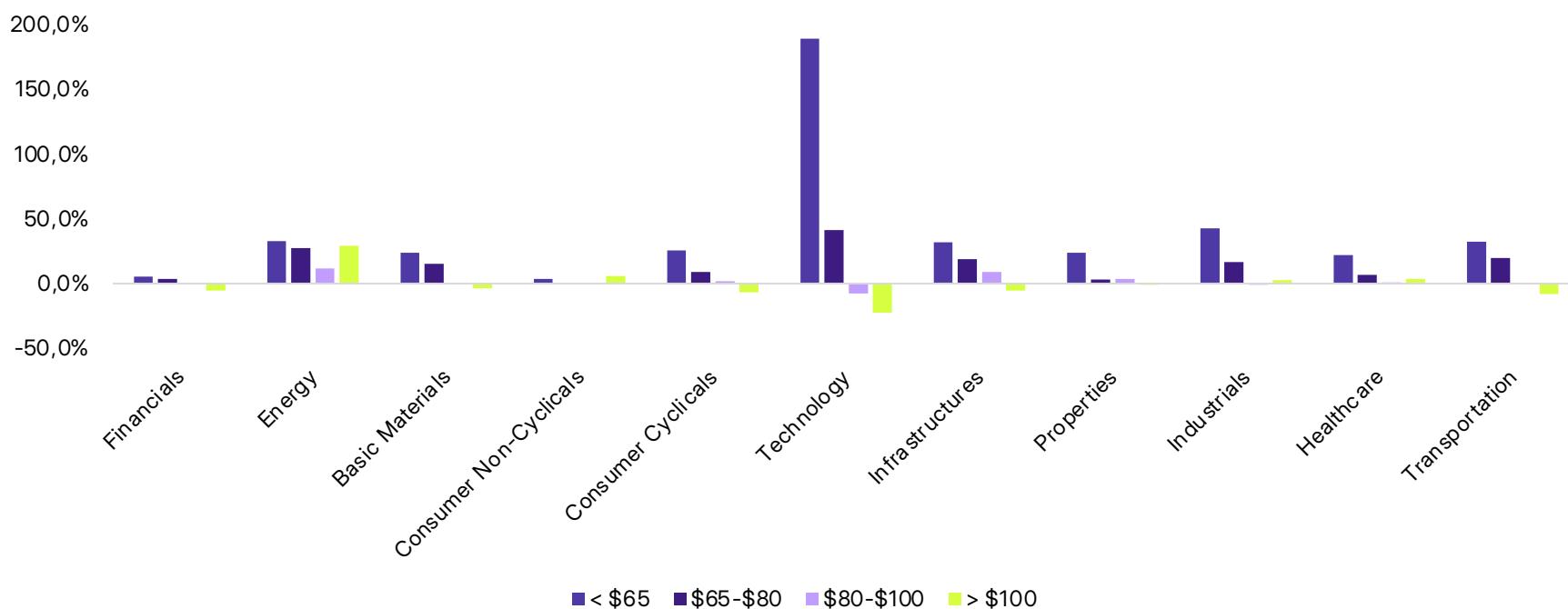


3M Sector Returns & Oil Prices

Sector	< \$65	\$65-\$80	\$80-\$100	> \$100
Financials	0.2%	2.5%	-0.1%	-3.9%
Energy	6.0%	12.0%	7.1%	15.8%
Basic Materials	14.6%	5.0%	1.2%	-1.5%
Consumer Non-Cyclicals	-0.2%	0.2%	-0.1%	4.3%
Consumer Cyclicals	6.8%	6.9%	0.3%	-4.1%
Technology	76.8%	24.0%	-5.8%	-8.6%
Infrastructures	15.0%	5.8%	7.7%	-0.3%
Properties	-0.9%	3.9%	1.1%	-2.4%
Industrials	10.7%	9.2%	-1.5%	5.6%
Healthcare	6.9%	2.9%	1.4%	1.9%
Transportation	15.0%	8.1%	0.0%	1.3%

Appendix

6M Sector Return & Oil Prices



6M Sector Returns & Oil Prices

Sector	< \$65	\$65-\$80	\$80-\$100	> \$100
Financials	5.2%	3.7%	0.1%	-5.5%
Energy	32.6%	27.2%	11.8%	29.3%
Basic Materials	23.7%	15.1%	-0.4%	-3.5%
Consumer Non-Cyclicals	3.6%	0.3%	0.6%	5.8%
Consumer Cyclicals	25.5%	8.9%	1.8%	-6.8%
Technology	189.0%	41.1%	-7.4%	-22.6%
Infrastructures	32.0%	19.0%	9.1%	-5.4%
Properties	24.0%	3.0%	3.3%	-1.1%
Industrials	42.7%	16.5%	-0.8%	2.7%
Healthcare	22.1%	6.8%	1.0%	3.7%
Transportation	32.2%	19.8%	-0.1%	-8.0%

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