

## FACTBOX

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# Energy, Metals Impact of President Trump's Decision to Impose Iran Sanctions

BY S&P GLOBAL PLATTS

Oil futures rallied Wednesday as traders digested the likely consequences of the US withdrawal from the Iran nuclear agreement. ICE Brent crude settled \$2.36/b higher at \$77.21/b, while NYMEX June crude settled \$2.08/b higher at \$71.14/b. The July Dubai cash flat price was assessed at \$73.90/b on Wednesday, its highest level since it reached \$74.205/b on November 26, 2014, S&P Global Platts data shows. US President Donald Trump announced Tuesday the US will withdraw from the Iran nuclear deal and put "powerful" economic sanctions back "into full effect." Energy-related sanctions take immediate effect for new business. But the Department of the Treasury will give businesses with existing contracts until November 4 to wind those trades down. The so-called secondary sanctions cut off any international companies that want to continue doing business with Iran from the US banking system. When the US enforced the measures in 2012-15, Treasury allowed certain countries to continue importing Iranian oil, for example, as long as they demonstrated they were "significantly reducing" their dependence every 180 days. But the EU joined the US with its own import restrictions, something analysts do not expect this time. Trump's plan to leave the Iran nuclear deal and reimpose sanctions could have major impacts for global oil, natural gas, metals and petrochemical markets.

### OIL IMPACT

Reimposing US oil sanctions on Iran will likely have an immediate impact of less than 200,000 b/d and will block less than 500,000 b/d after six months, according to most analysts surveyed by S&P Global Platts. But some analysts see the move eventually disrupting as much as 1 million b/d of oil supply. About 200,000 b/d of Iranian crude exports are at risk by the first half of 2019, because US allies including South Korea and Japan would likely reduce their purchases in response to sanctions, according to S&P Global Platts Analytics. Compliance with unilateral US sanctions would be much more difficult to enforce than the multilateral measures implemented in 2012," said Paul Sheldon, Platts Analytics associate director. "This could test the Trump administration's appetite for sanctioning foreign companies, and the term 'significant' in the sanctions legislation potentially leaves some wiggle room which could be used to avoid a trade dispute."

The International Energy Agency said Wednesday it stands "ready to act" to alleviate any oil market supply shortfall. A key function of the IEA is the coordination and release of emergency oil stocks. The IEA last released emergency oil stocks in response to the prolonged disruption of oil supply caused by the Libyan Civil War in 2011. Saudi Arabia and some of its Gulf allies in OPEC may very well have to step in to fill the output gap, spelling a potential end to the OPEC/non-OPEC production cut agreement. The IEA estimates that OPEC has some 3.41 million b/d in spare capacity, defined as production that can be tapped within 90 days "and sustained for an extended period." Saudi Arabia, OPEC's largest producer by far, holds some 2.18 million b/d of spare capacity. Other OPEC members holding spare capacity, according to the IEA, include the UAE (310,000 b/d), Iraq (310,000 b/d) and Kuwait (240,000 b/d). As for Russia, the major non-OPEC participant in the production cut agreement, Moscow-based ATON analyst Alexander Kornilov said he expects the country could boost its production by about 100,000-150,000 b/d in about a month. European refiners are preparing for the possible return of sanctions. European interest in alternative medium sour grades from Saudi Arabia and Iraq is picking up, as these countries start to offer more price incentives to entice buyers. Europe takes around 700,000 b/d or one-third of Iran's crude exports. Turkey has no plans to change its trading relationship with Iran, Turkish economy minister Nihat Zeybekci said in a television interview. Iran has been Turkey's leading supplier of crude for most of the past two decades. Iran produced 3.83 million b/d in April, according to the latest S&P Global Platts OPEC survey, up from 2.91 million b/d in January 2016, when the nuclear deal took effect.

Iranian crude exports surged to 2.45 million b/d in April ahead of Trump's announcement, despite steady output, some 400,000 b/d higher than March's exports, as most analysts expected the US to exit the deal and reimpose sanctions. Iranian crude exports to Asia rose to 1.81 million b/d in April, making up 67% of its total exports, with China the largest single destination.

South Korea is already well on its way to limit its trading activity with Iran and the country's crude imports from there could fall by more than 60% in the second half of 2018, industry sources in Seoul said. Chinese state-owned refiners could find themselves in a favorable position to buy abundant supply of Iranian crude at attractive prices as South Korea and Japan are expected to reduce their imports from the Persian Gulf producer after the US took its first step to restore sanctions on Tehran Tuesday. Asian refiners have increased US light crude imports since early 2017.

US crude production has grown, as has US Gulf Coast crude export capacity, which is estimated to be 3.7 million b/d by Platts Analytics. That capacity compares with record high weekly US crude exports of 2.33 million b/d, according to US Energy Information Administration data. The development is significant for the global shipping industry, as it can have serious implications on trade flows with billions of dollars worth of commodities being moved regularly in and out of Iran by trading and shipping companies such as Vitol, Glencore, Torm and Maersk Tankers.

"The main issue of concern is credit financing because almost all major international banks have transaction linkages with New York," a Singapore-based ship chartering executive with a global commodities trading company said.

### NATURAL GAS IMPACT

Total and other European oil majors active in Iran were weighing their response to Trump's decision, which could dash their hopes of unlocking vast oil resources, and puts the French major's South Pars gas project in the immediate firing line. Total in July 2017 signed a deal with Iran's National Iranian Oil Co. to develop South Pars phase 11, which will have a production capacity of 2 Bcf/d (57 million cu m/d).

Total has lobbied Washington for a sanctions waiver. Total has spent a little under \$100 million on South Pars so far, according to a source close to the matter -- out of a potential \$2 billion price tag for phase one of the project, which also involves China's CNPC and Iranian company Petropars. The gas will supply the Iranian domestic market starting in 2021. Iran holds the world's second-biggest gas reserves (34 trillion cubic meters) after Russia and harbors ambitions of becoming a significant gas and LNG exporter in the coming years.

Iran already exports small volumes of gas -- around 40 million cu m/d -- to Turkey, Iraq and Turkmenistan. Those supplies were not targeted under the previous US sanctions, but Tehran wants to accelerate development of its giant South Pars gas field to enable it to begin larger-scale exports. The vast majority of its production -- currently pegged at some 0.85 Bcm/d -- is consumed domestically. It aims to increase production to 1 Bcm/d by March 2019.

### PETROCHEMICALS IMPACT

About 4.4 million mt of polyethylene capacity that was scheduled to come online by 2025 could be in doubt from reimposed US sanctions. Fresh sanctions would interfere with the projects' \$60 billion in financing and could block technology or other technical involvement needed from international companies.

Iran's petrochemical ambitions have focused on the abundance of ethane feedstock at South Pars, which it shares with Qatar. The Middle East is currently the dominant global exporter of polyethylene. If Iranian projects get canceled, the region's net export polyethylene surplus will be closer to the North American surplus, which is expected to climb to 12.2 million mt by 2028. That means the Middle East could lose its position as the main global supplier of polyethylene to the US.

### METALS IMPACT

Reimposed US sanctions are more likely to slow Iran's steel capacity expansion program than to curb its steel and iron ore export levels. Since the 2015 nuclear deal, Iran set a target to expand its steel capacity to 55 million mt/year by 2025, from 32 million mt/year currently. The nuclear deal allowed European equipment manufacturers, including SMS, Danieli, Sarralle, Outotec and Voestalpine, to invest or increase their existing presence in Iran's steel sector. Sources said new projects or projects already underway may be seriously hit by financing difficulties. Some may have already ground to a halt amid uncertainties over US policy. Germany's SMS is understood to be involved in a \$400 million project to double capacity at Iran's Hosco steel works to 3 million mt/year, designed mainly to export semi-finished steel slabs. Iran's steel and metals sector is expected to turn more to Chinese technology if new US measures restrict this European investment. Iran has become a significant steel exporter in recent years as the domestic market has been insufficient to absorb its output growth. Total exports of steel and direct reduced iron, a steelmaking raw material, exceeded a record 9 million mt in the Iranian year that ended March 20, the Iranian Steel Producers Association said this week. Exports of semi-finished steel products such as billets and slabs accounted for 6.87 million mt of that total, an 84% jump from the previous year.

Iran aims to increase its total steel and DRI exports to 12 million-13 million mt in the current year, ending March 20, 2019, ISPA said. It aims to boost crude steel output to 26 million mt this year, from 21 million mt last year.

Iran's steel exports mainly head to Asia, Europe and the Middle East. The trades are typically done without letters of credit and by traders without US links. Iranian steel exports are currently considered competitive due to the devaluation of the Iranian rial, which has lost around 50% of its value over the past year.

Iran's iron ore exports have dwindled in recent years due to domestic demand from steel producers. China takes most of these exports, so additional US sanctions are not expected to have an impact.

Infographic can be accessed [here](#). ■