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U.S. Pulls Out of Iran Nuclear Deal

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- **200 MB/D of crude exports at risk by 4Q18**
- **Countries advised to begin reducing crude imports during 180-day adjustment period**
- **News likely already priced in, but limited downside from here due to tight fundamentals**

U.S. President Trump just announced that the U.S. will withdraw from the Iran nuclear deal (JCPOA) and reinstate all sanctions currently waived under the JCPOA. We believe this places around 200 MB/D of Iranian crude exports at risk by the fourth quarter of 2018. For oil markets, the most significant development from the U.S. pullout is the snapback of sanctions restricting Iranian crude imports. Specifically, the FY2012 NDAA requires third countries to "significantly" reduce imports of Iranian crude oil every 180 days, or its companies would be essentially banned from holding U.S. bank accounts if they buy Iranian oil or transact with Iran's central bank.

Guidelines issued by the Treasury Department state that a 180-day wind-down period will be given through November 4, but countries are advised to begin reducing imports of Iranian crude during this period to receive an exception for the subsequent 180-day period. The term "significant" was interpreted as 18-20% under President Obama. However, unilateral enforcement of the current sanctions will be much more difficult than the multilateral measures implemented in 2012 (in cooperation with the U.S., the EU agreed to a complete oil embargo on Iranian crude by July 2012).

Given disagreement with Trump's decision in much of the international community, firms with little or no U.S. exposure could choose to ignore the sanctions, while some governments could test the appetite of the Trump administration to sanction its companies and banks. Moreover, the term "significant" leaves some wiggle room for the U.S. to avoid a trade dispute.

However, regulatory uncertainty could cause some importers to cut shipments immediately. Moreover, U.S. allies including Japan and South Korea are likely to comply and reduce imports, while certain companies in the EU and elsewhere will likely avoid any risk of running afoul of U.S. law. Therefore, trade flows are likely to be redirected, and a reduction of 200 MB/D by end-2018 is a reasonable assumption. This will cause a downward revision to our forecast for crude production growth of 120 MB/D between 1H18 and 4Q19.

Based on market reaction, the news was already priced in, but we see limited downside from here because of tight fundamentals. ■