

MiC	MATICHON INFORMATION CENTER	Subject Heading :
Source :	The Nation	61360176
Date : - 7 NOV 2018	Page : 40	No :

Oil market on the alert as US reimposes sanctions on Iran

SWIFT NETWORK SUSPENDS IRANIAN BANKS FROM SERVICE

AGENCE FRANCE-PRESSE
LONDON *lv*

US SANCTIONS against importers of Iranian oil threaten the crude oil market's precarious balance and risk surging prices, all under Saudi Arabia's watchful gaze, according to experts.

"In the next weeks all eyes will be on Iranian exports, whether there will be some cheating around US sanctions, and on how quickly production will fall," said Riccardo Fabiani, an analyst for Energy Aspects.

The US is now targeting buyers of Iranian oil in order to deprive Tehran of its main source of income.

Going after Iran's oil money will hit Tehran where it hurts, but it also means hitting a major pillar of the global oil market - Iran is the Opec cartel's third-largest producer - with major consequences for world supply.

Iran exported the equivalent of 2.5 million barrels a day in April, before the announcement of sanctions turned buyers away.

"Even if the United States grants exemptions, Washington will demand that the volume imported from Iran be significantly reduced," said UBS analyst Giovanni Staunovo, who expects prices to rise.

However, oil prices have fallen by nearly \$15 (Bt493) in less than a month, after peaking in early October at their highest level in two-and-a-half years, with a barrel of Brent at over \$85.

Part of the explanation lies in the ambiguous position of the US, which



Iranian drivers fill their tanks at a petrol station in the capital Tehran as US oil sanctions took effect on Monday.

initially insisted that the sanctions were designed to reduce Iranian exports to zero barrels, but has since softened its position.

Secretary of State Mike Pompeo on Friday announced exemptions for eight countries – China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey, Pompeo said.

“India said to the US that they can’t stop before March, they are facing a major currency crisis,” explained Joel Hancock, analyst at Natixis.

Consumer confidence in the US

itself could also suffer if rising oil prices translate into higher prices at the pump. “If prices start to rise again or another major producer has difficulties, it could put pressure on the US and lead to new exemptions,” said Fabiani.

The other major oil producing countries are expected to ramp up production to try and compensate for Iran’s anticipated decline in output.

But in doing so, they run the risk of hampering their ability to react to any future crises.

Saudi Arabia, the world’s largest exporter, has claimed that it can respond to the Iranian shortfall, but some market players are wondering whether the kingdom is exhausting its capacities.

“Saudi Arabia can produce 12 million barrels a day, but only if it invests,” said Hancock, noting that the country currently produces just under 11 million barrels a day.

He believes that Riyadh can currently only rely on 300,000 barrels per day of spare capacity, the extraction of

which can be launched in fewer than 30 days.

"The mantra right now is to go to Saudi Arabia but its production has remained flat at around 10 or 10.2 million barrels a day," said Samir Madani, an analyst at Tanker Trackers, which specialises in satellite tanker tracking. "The big increase right now [in exports] is Iraq at 4.2 million, which I've never seen before," he added.

Meanwhile, the Swift banking network, the backbone for international monetary transfers, said it had suspended several Iranian banks from its service, after the United States reimposed sanctions on Tehran.

"In keeping with our mission of supporting the resilience and integrity of the global financial system as a global and neutral service provider, Swift is suspending certain Iranian banks' access to the messaging system," it said.

"This step, while regrettable, has been taken in the interest of the stability and integrity of the wider global financial system."

Swift, the Belgian-based Society for Worldwide Interbank Financial Telecommunication, provides banks with a secure messenger network to allow international transfers.

Without its services, Iranian banks will find it more difficult to do business with any client prepared to brave US sanctions to maintain ties with Tehran.

Pompeo said the sanctions would be "relentless". This could mean European and other banks and businesses face secondary sanctions if Washington deems them in breach of sanctions, and US officials have been pressing Swift to act.

The network connects 11,000 banks and financial institutions in 200 countries and territories.
