

## Flash Note 11/07/2018

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### Global leadership. The horizon remains clear

Below I detail the latest developments in the global energy market following Washington's decision to abandon the nuclear agreement with Iran and return to the sanctions regime. There were doubts about the international reaction to Trump's ban on buying crude from Iran, with some observers pointing that international response could even question the leadership of the United States. I think what follows can clarify how is the situation.

#### US allies already facing challenges with Iranian cargoes

- Iranian oil shipments to US allies are being threatened even before the 4-Nov deadline to curb imports and comply with new sanctions.
- September-loading cargoes are set to be the last to head for Japan unless it receives an exemption.
- South Korea is facing problems with July shipments because of tanker insurance and chartering issues.

#### India's oil imports from Iran slide in June amid sanctions threat

- India's oil imports from Iran fell by 15.9% in June.
- India has been Iran's second biggest oil trading partner after China, but officials have asked refiners to look for alternative oil supplies in order to comply with renewed US sanctions.
- The country's oil ministry has asked refiners to prepare for a "drastic reduction or zero" imports of Iranian oil in November, choosing to prepare rather than risk its exposure to the US financial system.
- It was said that China and India were grabbing with whether to cooperate with US efforts to block Iranian crude or continue to receive oil from Iran and risk exclusion from the American banking system. Well, It seems that India has already decided to cooperate with the US.

#### Asian buyers already purchasing more non-Iranian barrels

- The CEO of Kuwait's national oil company said at a conference this weekend that Asian buyers have increased purchases from Saudi Arabia, Kuwait, the UAE, and Iraq after the United States pledged to renew sanctions on Iran.
- Japan is preparing for a cut in oil imports from Iran. Japanese refiners are stepping up purchases of US crude and are assessing heavier grades from US shale producers as a replacement for supplies from Iran.

#### European refiners have already begun sourcing alternatives to Iranian crude

- Platts reported that European refiners have already started to find other sources of crude well before new US sanctions on Iran are implemented in November.
- Demand for medium-sour crude grades like Iraq's Basrah Light and Russia's Urals is already increasing in Europe.
- Europe made up a third of Iran's oil exports of 2.4M bpd.

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**Analysts see risks in the US tightening too much on Iran but...**

- CNBC reported that a number of analysts see a temporary global shortage before the end of the year, which could propel oil prices even higher.
- In response, a State Department official said the US would allow some flows of oil to countries like China, India, and Turkey, in certain cases, to reassure that sanctions are not likely to hit allies this fall, as these countries are unlikely able to find new suppliers entirely by the time sanction take effect in November. However, the official said the policy is still to get to zero Iranian purchases as soon as possible.

**US looks to attack OPEC with NOPEC bill to sue cartel**

- US lawmakers resurrected the "No Oil Producing and Exporting Cartels Act" bill, which proposes making OPEC subject to the Sherman antitrust law.
- The move would allow the US government **to sue OPEC for energy market manipulation (in order to rise crude prices)**, and could seek billions of dollars in reparations.
- June 21: Saudi oil minister al-Falih: "output increase is inevitable"
- June 22: OPEC spokesman: " members are getting closer to a an agreement to increase production"

This sort of X-ray report about how things are in the global energy market may be helpful in your decision making process. Broadly speaking, my reading is positive in the sense that Washington is signaling that its efforts are aimed at avoiding disruptions in the global price of crude oil that could endanger financial markets, especially the emerging ones.

Best