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Iran deal 'will lead to surge of oil to Asia'

By Guy Jackson
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Iran's deal with Western powers to curb parts of its nuclear programme is likely to lead to a sizable increase of shipments of oil from the Islamic Republic to Asia, analysts said.

If the interim deal struck this weekend in Geneva leads to a full lifting of sanctions, it could spark an injection of oil into an already over-supplied global market, many said Monday.

But while the agreement in its current form is unlikely to have a significant short-term impact on the market, the loosening of sanctions is likely to see Iranian oil shipments increase to China, India, Japan and South Korea.

News of the deal struck in Geneva led to oil prices falling, but the effect was limited.

In London, Brent North Sea crude for delivery in January fell 0.57 percent from Friday's close to $109.23 a barrel at 1700 GMT, while New York's main contract fell back three quarters of a percent to $94.07, after earlier dropping to $93.08.

The accord is "only a first step and does not impact the current sanctions on Iranian oil exports", noted BNP Paribas analyst Harry Tchilinguirian.

Iranians line up at a petrol station to fill up their motorcycles in central Tehran on February 19, …

But he said a wider lifting of sanctions on Iran's oil production "would certainly allow oil supply conditions to ease, notably for crudes of medium and heavy quality".

However, the analyst noted that "we are still very far from that outcome".

The six-month deal reached by the United States and Western powers and Iran is aimed at buying time to thrash out a fuller agreement.

One effect of the current agreement is that Iranian oil will be more readily available to buyers in Asia, as European insurers will be allowed to insure oil shipments from Iran again.

"With sanctions loosened, oil shipments from Iran could increase again to China, India, South Korea and Japan," noted Commerzbank's analyst team.

Iran's return to market could cut $10 off price of Brent.

The likelihood of an upsurge in Iranian oil heading east is also supported by the likelihood that a further tightening of oil sanctions against Iran by the US Congress has receded as a result of the Geneva deal, they noted.

Although Sunday's deal is "an important first step that could eventually lead to the normalization of relations between Iran and the west," a final deal removing the most important sanctions "remains challenging given that some key stakeholders could act as spoilers," Barclays said in a note.

Barclays predicted the downward shift in oil prices after the deal "could be short lived," given that a December 4 meeting of the Organization of Petroleum Exporting Countries could lead to lower output.

The US granted sanctions waivers to several countries that could not easily source the right type of oil from other suppliers, but the insurance ban had crimped shipments.

Iran has 25-30 million barrels of crude that it could rapidly release on to the market, Credit Suisse estimated.

Several experts reckon that if a full agreement can be reached, another one billion barrels could flow into a market that is already well-supplied.

The sanctions against the Iranian regime over its nuclear programme effectively caused exports of oil from the Islamic republic to fall by more than one million barrels a day.

Exports fell from 2.5 million barrels a day in 2011 to 1.1 million in the first nine months of this year, according to the International Energy Agency.

Iran's ability to rapidly increase exports is likely to be hampered by the effect that years of sanctions have had on its infrastructure, said Andrey Kryuchenkov at VTB Capital.

"It would be difficult to ramp shipments up quickly... given ageing and idling infrastructure," he noted.

Credit Suisse are more optimistic -- they believe that six months after a full lifting of the sanctions, Iran will have regained 75 percent of its lost production.

The potential impact of an influx of Iranian oil on to the market remains unclear.

Julian Jessops, chief economist at Capital Economics, believes Brent could fall by $10.

But as Kryuchenkov points out, OPEC -- of which Iran is a member -- will fight to defend the $100 barrier, most likely by cutting output in the world's biggest producer, Saudi Arabia.