

## COMMODITIES CORNER

# Iran Sanctions Could Raise Oil Prices by \$10 a Barrel



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By Myra P. Saefong May 3, 2018 1:18 p.m. ET

In a few days, the U.S. will decide whether to extend waivers on economic sanctions against Iran. If it doesn't, the global market could lose about one million barrels of oil a day.

The Trump administration has until May 12 to make its move. The sanctions on Iran were lifted under a 2015 agreement among a group of world powers, including the U.S. and Iran, aimed at curbing Tehran's nuclear activities.

Iran's current oil production stands at 3.8 million barrels a day—up almost one million barrels since the sanctions were lifted, says Jay Hatfield, portfolio manager of the InfraCap MLP exchange-traded fund (ticker: AMZA). So if the U.S. decides to reimpose sanctions, the oil market could lose just under 1% of total global production, he says.

That doesn't sound like much, but with the overall market facing an average deficit of 700,000 barrel per day, Matt Parry, head of long-term research at Energy Aspects, says that "any loss of Iranian supplies would add a significant premium to oil prices."

James Williams, energy economist at WTRG Economics, believes that the amount of lost oil would be closer to 500,000 barrels a day, or perhaps less, depending on possible increases from other producing countries around the world, if sanctions are reinstated. "Certainly, other countries could make up the difference, but it would not be instantaneous," he says.

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Williams says.

Israeli Prime Minister Benjamin Netanyahu added a fresh twist in the run-up to the U.S. decision by offering what he claims is proof that the nuclear deal was based on lies, and accusing Iran of hiding a nuclear-weapons program.

Netanyahu's accusations reinforce expectations that the U.S. will pull out of the nuclear pact and reinstate sanctions on Iran. It's "still not 100%, but probably nearer to 80% that Trump will not extend" the sanctions waivers,

On April 30, when Netanyahu presented his case, West Texas Intermediate crude futures rose to a one-week high of \$68.57 a barrel on the New York Mercantile Exchange. Brent futures on ICE Futures Europe also saw a session high above \$75 for the first time in almost a week.

President Donald Trump has said that Netanyahu's speech validated his own view that the pact with Iran was flawed, but he was already "highly skeptical of the agreement," says Hatfield, who sees a likely rise of \$5 to \$10 a barrel in oil prices if sanctions are reintroduced.

Still, Hatfield expects that the supply shortfall would be "made up partly by conservation spurred by higher prices and higher production from the U.S. and other producers." There would also "be more incentive for OPEC members to cheat on," or consider raising, their production quotas.

Those potential outcomes have helped to recently temper oil's rise, with prices posting a loss for the last full week of April. On Thursday morning, WTI oil was at \$67.47 a barrel, down nearly 1% on the week.

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Anas Alhaji, a Dallas-based energy-market expert, believes that "even if the deal is ended and sanctions reimposed, the impact on the global oil market is limited."

Alhaji expects that actual exports will probably decline "only marginally," while "legal" exports might decline significantly. Iran might resort to its old strategy of "selling oil as if it were Iraqi oil, building massive floating storage, and using more oil in power generation and exporting oil embedded in electricity."

The most significant impact of sanctions would be on Iran's plans to increase oil-production capacity, so the long-term impact on the market could be higher than in the short term, says Alhaji.

And while Trump has shown some interest in modifying the nuclear deal, it is clear from Netanyahu's speech "that Israel wants to end it," he says. That could lead to even broader implications.

The decision on Iran "will affect the stability of the Middle East" and, as a result, oil prices, says Will Rhind, CEO of GraniteShares, an ETF firm.

A decision not to reimpose sanctions "may be more destabilizing, by sending a message to Russia and Iran that the U.S. does not support Israel's strong intent to remove Iran from Syria," he says. On the other hand, reimposing sanctions could reduce Iranian oil production and may "prevent Iran from continuing its actions in Syria, potentially preventing further hostilities" in the region.

Myra P. Saefong writes about commodities for MarketWatch.

**Email:** [editors@barrons.com](mailto:editors@barrons.com)