



GOI TRADING - Market Dynamics

.....

# Iran: sanctions and the styrene market



by Tariq Malik October 2018

.....

Iran, sanctions, nuclear capability. Now there's a story that will run and run. Small wonder lately, after the US pulled out of a nuclear deal earlier this year and imposed sanctions that bite next month.

With the sanctions aimed at zero oil exports from Tehran, the impact on regional relations and energy trade flows, Iran and sanctions are among the many issues that we monitor closely at GOI Trading.

The prospect of higher prices per barrel, some say, and a ratcheting of already tense relations between Middle Eastern neighbours are bound to get our attention, given our focus on international trade and our range of multinational trading partners.

Iran may seem a long way away from Europe – where we face more Brexit rumblings, the fallout from turmoil in the Turkish economy and an uncertain economic outlook – but its impact on the Middle East and further afield is hard to overstate.

Europe is also pushing back by proposing legitimate trade with Iran – in euros, not dollars.

“Iran achieves a staggering level of influence through a relatively small irregular force and its proxy agent in Arabia, Hizbollah,” UK Air Marshal Edward Stringer, Director General Joint Force Development and Defence Academy, is quoted as saying on The Royal United Services Institute’s website.

It was back in May that the US pulled out of a 2015 multinational accord known as the Iran nuclear deal, which lifted sanctions in exchange for curbs to Tehran’s nuclear programme.

Sanctions are now centre stage. The US says that countries have to stop importing Iranian oil from 4 Nov or be denied access to the US market and financial sector.

## **Ripple effect**

“As the US steps up its sanctions against Iran, the negative effects ripple throughout the global energy markets,” think-tank The European Council on Foreign Relations (ECFR) said in an article on 20 Sept.

That’s partly because getting imported oil from elsewhere means accessing most of the spare capacity in the market, Sara Vakhshouri, president of consulting firm SVB Energy International, said in the commentary piece.

Relations between Washington and Tehran have hardly been cordial in the past few months.

US President Donald Trump in late July took to Twitter and “issued a furious, all-caps challenge to the Iranian regime,” as CNN put it at the time.

Those comments were in response to Iran’s President Hassan Rouhani, who warned Trump not to “play with the lion’s tail, because you will regret it eternally,” CNN said.

When the US pulled out of the Iran deal in May, US Secretary of State Mike Pompeo said the sanctions “will remind the Iranian regime of the diplomatic and economic isolation that results from its reckless and malign activity,” according to a statement on the US Department of State website.

Not everyone is convinced about the positive impact of Washington’s policy.

“The sanctions have so far failed to deliver any change in Iranian policy – their main purpose. The Middle East is no safer. The proxy wars in which Iran is backing one side, while U.S.-sponsored Arab countries support the other, show no sign of ending,” a Bloomberg columnist wrote on 30 Sept.

The loss of almost a million barrels a day as sanctions on Iran sanctions bite is helping to revive the prospect of oil at \$100 a barrel, oil strategist Julian Lee added in the Bloomberg column.

After all Iran ranks second in the world for natural gas reserves and comes in fourth for proven crude oil reserves, according to The World Bank.

## Styrene industry

When it comes to the styrene monomer, the building block of the plastics industry, the market will be keenly watching any increase in input costs caused by higher crude prices stemming from Iran's removal from global supply chains.

Whether more expensive oil will lead to higher benzene prices and, because of higher input costs, in turn push up the cost of styrene too, remains to be seen.

Pricing is a key concern among styrene consumers as we start the closing quarter of the year. High styrene prices were a recurring theme over the summer and into September, as well as volatility in the dollar-denominated spot price.

While demand from China has arguably held up the price in Europe, prices for December shipments to China are starting to soften.

Factors that currently affect supply and pricing in the styrene market range from China's efforts to boost domestic production to the global market for building materials and consumers' appetite for big-ticket items such as new cars and consumer electronics.

"Emerging Markets, Trade Put a Cloud on Global Economy, OECD Says," reads the headline to a 20 Sept article by Bloomberg.

The Paris-based organisation cut its global growth forecasts for this year and next, including sharp revisions for Turkey, Argentina, South Africa and Brazil, the article said.

## Iran's economy

Iran's economy has suffered since the US withdrew from the nuclear deal, with its currency now trading at 170,000 rials to one U.S. dollar, The Associated Press (AP) reported on 1 Oct. In May, the rate stood at around 62,000. A year ago, it was 39,000, the news agency said.

The impact of the sanctions doesn't stop there, some argue.

Putting Iran under more pressure may not yield the results Washington is aiming for, according to an 18 Sept blog published by the RAND Corporation, a research organisation.

"More pressure could worsen nuclear risks and further drive a wedge between the United States and its European allies," the blog said.

France, Britain and Germany are signatories to the 2015 nuclear deal, along with China, Russia and – until May – the US.

## "Frenemies" at the gate

It's the "frenemies" of the US, "those troublesome allies in Europe and Asia" who have the hassle of finding alternative supplies than from Iran, that 30 Sept Bloomberg column has it.

As for Asia, China's reaction to Washington's stance on Iran may add to tensions between the world's two biggest economies, who have been locking horns on trade in everything from steel to aluminium, beef to soya beans, according to the Financial Times.

"Although China has consistently stated that it will continue to import oil from Iran, it is also attempting to use this position as leverage against President Trump in its ongoing trade war with the US," Vakhshouri wrote in the 20 Sept commentary on ECFR's website.

While the bulk of Iranian crude exports go to China and India, about 20 percent go to Europe, Reuters said in a 6 Aug article.

India plans to stop imports of oil from Iran in November, Bloomberg reported on 2 Oct. "Iran's top customer China is the biggest question mark," the report said.

### **Geography, geopolitics**

It's worth remembering the physical lay of the land in Iran, with the Persian Gulf to the south and the Caspian Sea to the north.

The nation, including the port of Chabahar, gives India access both Afghanistan and Central Asia, helping to "mitigate China's growing influence among India's neighbours," according to a Sept 2018 Brookings Institution paper.

Iran has got plenty of attention at this autumn's United National General Assembly in New York.

Israeli Prime Minister Benjamin Netanyahu claimed in New York that Iran has a secret warehouse containing banned nuclear technology, a claim that Iran then ridiculed.

"The warehouse announcement showcased Netanyahu's unyielding views on Iran and anger at Europeans he accuses of appeasing Israel's enemies," AP reported on 27 Sept.

### **Dollar challenge?**

It was also in New York that the EU's high representative for foreign affairs Federica Mogherini announced plans for a special purpose vehicle to allow trade with Tehran in euros, Global Trade Review (GTR) said on 28 Sept.

Britain, France and Germany say they will put the SPV into practice, with support from China and Russia, the GTR report added.

As ever, the trading environment for styrene is complex and fast moving. Iran sanctions are just part of the picture.

The team at GOI Trading are available to help meet your market needs, combining our deep market knowledge with flexibility and a focus on delivery.



For further information on GOI Trading services please contact:  
Tariq Malik +44 7740 156 648 / tmalik@goitrading.com