UBS

Energy

Crude oil: US ends sanction waivers on Iranian oil

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- The US administration has announced that all buyers of Iranian oil must completely end those oil imports from May 2 onwards.
- Saudi Arabia has indicated that it will coordinate with other producers to ensure adequate supplies are available. We will closely watch the upcoming OPEC+ JMMC meeting on May 19 for further guidance.
- Amid seasonally improving oil demand, we expect the market to further tighten and continue to expect Brent to trade in the USD 70–80/bbl range this quarter.

The US administration has decided not to reissue waivers to the buyers of Iranian oil. The current set of exemptions, issued to China, India, Japan, South Korea, Italy, Greece, Turkey and Taiwan in November 2018, will expire on May 1. The US administration has indicated that Saudi Arabia and the United Arab Emirates have committed to provide sufficient supply to the oil markets. Saudi Arabia's oil minister Khalid al-Falih said in a statement that the Kingdom will coordinate with fellow oil producers to ensure adequate supplies are available to consumers, while ensuring the global market remains balanced.

China has already indicated its opposition to the US implementation of unilateral sanctions, so it is probably unlikely to see Iranian exports to fall to zero. However, with South Korea, Japan and eventually India likely to cut their imports to zero, Iran's oil exports will soon fall below 1mbpd. Considering the experience of last year, we expect Saudi Arabia and its allies to cautiously react to customers need rather than preemptively ramp up production. Thanks to overcompliance to the production cut deal, the Saudis and its allies still have buffers to offset a decline in Iranian exports. As such, we expect the OPEC+ compliance rate to decline again from May onwards. However, amid seasonally higher oil demand into the summer, the oil market is likely to be very sensitive to any further disruptions in Libya, Venezuela or Nigeria.

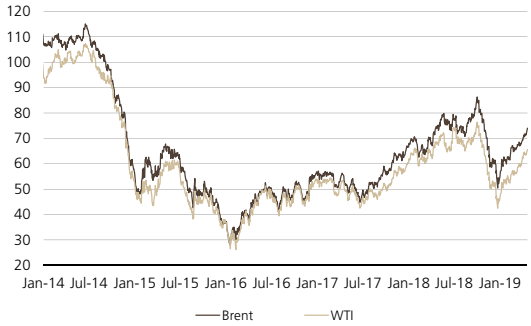
Market data and forecasts (Brent crude oil)

Active futures		73.8
3M futures		72.7
Volatility		26%
3M forecast	Bullish	75.0
12M forecast	Sideways	70.0

Source: Bloomberg Finance LP, UBS

Crude oil prices

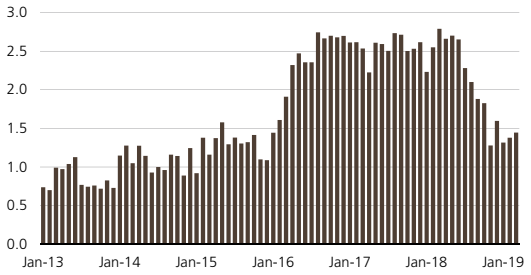
Values are in USD/bbl



Source: Bloomberg Finance LP, UBS

Iranian oil exports likely to fall further

Values are in million barrels per days,



Source: Kpler, IEA, UBS

Historical performance

Underlying	Δ 1m	Δ 3m	Δ 12m	Δ ytd
Brent Crude Oil	10.2	20.0	-0.6	37.7
WTI Crude Oil	10.9	24.4	-4.4	44.0
Energy Index*	3.2	9.7	-0.6	23.8

*Spot indices, Values in %, Source: Bloomberg Finance, UBS

Appendix

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
Backwardation	When the spot price trades above the prices of futures	BCF	Billion cubic feet
BCM	Billion cubic meters	BCOM	Bloomberg Commodity Index
Bu	Bushel (1 ton = 36.7bu wheat/soybean; 39.37 bu corn	CBOT	Chicago Board of Trade
CFTC	Commodity Futures Trading Commission	CIF	Cost, insurance and freight
CME	Chicago Mercantile Exchange	CMCI	UBS Bloomberg Constant Maturity Commodity Index
CNIA	China Non-Ferrous Metals Industry Association	COMEX	New York Commodities Exchange
CONAB	Companhia Nacional de Abastecimento (Brazilian government agency)	Contango	When the spot price trades below the prices of futures
COT	Commitment of Traders	CRB Index	Index Commodities Research Bureau Index
Crush margin	Difference between the value of the oil and meal produced from the soybeans	CTA	Commodity Trading adviser
DOE	U.S. Department of Energy	EIA	Energy Information Administration
ETC	Exchange Traded Commodity	ETF	Exchange Traded Fund
Excess Return (ER)	Excess return = spot return + roll yield return (rolling of futures contracts)	FAO	Food and Agriculture Organisation
FOB	Free on Board	HH Natural Gas	Henry Hub Natural Gas
IEA	International Energy Agency	IAI	International Aluminium Institute
ICCO	International Cocoa Organisation	ICE	Intercontinental Exchange
ICO	International Coffee Organisation	ICSG	International Copper Study Group
IIZSG	International Lead and Zinc Study Group	IMF	International Monetary Fund
INSG	International Nickel Study Group	JM	Johnson Matthey
JODI	Joint Oil Data Initiative	KCBT	Kansas City Board of Trade
LME	London Metal Exchange	LNG	Liquefied Natural Gas
mbpd	Million barrels per day	Mtoe	Million tons oil equivalent
NOAA	National Oceanic and Atmospheric Administration	NYBOT	New York Board of Trade
NYMEX	New York Mercantile Exchange	OECD	Organisation for Economic Co-operation & Development
OPEC	Organization of Petroleum Exporting Countries	PGM	Platinum Group Metals
RICI	Rogers International Commodity Index	S&P GSCI	Standard and Poor's-Goldman Sachs Commodity Index
SHFE	Shanghai Futures Exchange	SI	Silver Institute
TC/RC	Treatment/Refining Charges	TCF	Trillion cubic feet
Thomson Reuters GFMS	Research consultancy specializing in precious metals, base metals and steel market research	TOCOM	Tokyo Commodity Exchange
Total Return (TR)	Total return = excess return + return from the cash collateral	USDA	US Department of Agriculture
UNICA	Sugar and Alcohol Millers Association of São Paulo state	USD/bbl	USD per barrel
USD/bu	US Dollar /bushel	USD/gl	USD per gallon
USD/lb	USD per pound	USD/mmbtu	USD per 1 million British thermal unit
USD/mt	USD per metric ton	USD/oz	USD per oz, (1 oz = 31.10 grams)
USGS	U.S. Geological Survey	WBMS	World Bureau of Metal Statistics
WGC	World Gold Council	WPIC	World Platinum Investment Council
WTI Crude Oil	West Texas Intermediate Crude Oil	WTO	World Trade Organisation

Appendix

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