

News Flash – Iran Tensions Build

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3 JANUARY 2012: As expected, Iran today has escalated tensions in the region by issuing a warning to the United States “not to move its carrier back to the previous area in the Gulf.” This new threat had the intended effect, sending WTI and Brent prices up \$4.26 and \$4.90 respectively. It seems Iran is focused on waging war against the international oil markets in an attempt to dissuade the US and EU from implementing new sanctions. Its strategy is based on the belief that the West’s dependence on foreign oil is its Achilles heel, should Iran drive prices high enough by waging a “war of words,” the West will ultimately capitulate rather than risk an economic recession.

In response to Tehran’s threat, the Pentagon issued a statement firmly reiterating that US military presence in the region, “[w]ill continue as it has for decades. These are regularly scheduled movements in accordance with our longstanding commitments to the security and stability of the region and in support of ongoing operations.”

EU foreign ministers are set to meet on the 30th of January and France is insisting that the EU agree to sanctions against Iran similar to those put in place by the United States. French President Nicolas Sarkozy, is pushing for an embargo on Iranian oil exports as well as measures to freeze Iranian assets. An embargo would be easy for France which imports very little from Iran, but very difficult for Italy and Spain which both import approximately 150,000 barrels per day.

Tensions appear to be escalating quicker than anyone expected – we anticipate pricing action to be highly volatile (similar to today) over the coming weeks. We continue to fear that a rapid escalation in tensions could ultimately paint Iran’s leadership into a corner which may prompt them to make an ill-advised decision like attempting to close the Strait of Hormuz, inviting direct military conflict with the US.

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