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## Special edition on new US sanctions

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### New US measures to curb banks handling payments for Iranian oil

On August 1st the US Congress overwhelmingly agreed a new set of sanctions imposing further restrictive measures on Iran's finance and energy sectors.

The US moved to close a loop-hole left open when it began awarding waivers as part of its Significant Reduction Determinations for importers who had demonstrated their intent to reduce imports of Iranian oil. Prior to August 1st, a waiver conferred a blanket immunity for all financial institutions operating in that country to process financial transactions for Iranian oil; the new US measures however permit the handling of financial transactions for bilateral trade only. This is significant as it will mean that Turkish Halk Bankasi (Halk), which as of May 2012 handled payments for Turkish, Indian, and European buyers, will now only be able to handle payment for Turkey's imports.

Whereas previously, only transactions with the Central Bank of Iran (CBI) were prohibited, the new measures stipulate for the first time that oil purchases from any private or public Iranian individual or entity will also be prohibited. Iran has in recent months increasingly used its Swiss-based oil trading platform, Naftiran Intertrade Company along with its subsidiaries Petro Suisse Intertrade Company, Petro Energy Intertrade Company, Hong Kong Intertrade Company, and Noor Energy (Malaysia) Ltd as payment channels for oil revenues. The new measures effectively mean that any bank facilitating transactions on behalf of these entities will be subject to sanctions.



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## Is the Rial heading for another fall?

Anyone following the Iranian economy over the past year will recall the sudden drop in value of the Rial after the decision of UAE-based Noor Islamic Bank (Noor) to cease handling financial transaction on behalf of the CBI in December 2011. VERITY understands that, prior to this, Noor was handling the bulk of payments to CBI accounts from the sale of oil, in addition to providing other services such as currency conversion. In the days following Noor's decision, the Rial fell in value by around 40 percent to around IRR1:USD20,000, necessitating frantic action by the CBI to restore some of its lost value.

Despite the CBI maintaining an official exchange rate of IRR1:USD12,260, recent events have once again caused the Rial to fall to IRR1:USD20,000 on the free market. VERITY assesses that by preventing banks from conducting financial transactions with Iran on behalf of third countries, the new US measures will have a similar, though less drastic impact on the value of the Rial to that seen following the move taken by Noor. In particular, it looks likely that Halk through which we estimate around 50 percent of Iranian oil payments were processed in May 2012, will have to cease all but bilateral trade. If Iran is unable to find a comparable conduit quickly – and this is expected to take time – then there may be a period of acute shock during which forex flows into Iran are disrupted.

VERITY sources in Tehran report that financial restrictions have seriously hampered Iran from accessing its foreign currency reserves held off-shore. Over recent months, the CBI has been injecting tens of millions of USD into the market each day in order to artificially prop-up the value of the Rial. However, with the likely further loss in oil revenue and falling forex reserve levels, VERITY understands that the CBI will be forced to reduce its support to the market by as much as 75 percent in order to conserve its reserves.

**Our prediction is for the Rial to fall to IRR 1:USD 25,000 by September 2012 with up-side risks.**

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## Investor recommendations

- Given the bleak prospects for the Rial, our advice to investors remains that they should, wherever possible, convert their holdings for stable, reliable currencies such as USD, Norwegian Krone, or Swedish Krona, or for alternative hard assets such as property or precious metals.
- With further devaluation of the Rial inevitable, we recommend customers get out of positions with Iranian companies heavily reliant on imports.
- Investors should look to exploit opportunities to invest in shares in domestic manufacturers who are likely to receive a boost as competition from foreign imports plummets.

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## US cracks down on foreign banks doing business with Iran

At the same time as announcing the new restrictive measures against Iran, the US Treasury also announced that it would be penalising China's Bank of Kunlun, and Iraq's Elaf Islamic Bank under the Comprehensive Iran Sanctions, Accountability and Divestments Act (CISADA) 2010. Announcing these measures, US Treasury Under Secretary David Cohen, said: "As financial institutions around the world have cut ties with designated Iranian banks to avoid the risk of involvement in Iran's illicit activities, Bank of Kunlun and Elaf Islamic Bank have done just the opposite.



They have continued to process significant financial transactions for designated Iranian banks, facilitating the movement of millions of dollars' worth of international transactions for these banks".

The move marks the first time that any bank outside of Iran has been penalised under CISADA and means that, with immediate effect, both banks will have their correspondent banking relationships with US financial institutions severed.

In addition, over the past months the US has launched a series of crackdowns on global financial institutions including HSBC, ING, and most recently Standard Chartered who, wittingly or not, have processed billions of dollars worth of Iranian transactions in violation of US sanctions. This and the use of CISADA against a major Chinese bank, shows that the US is prepared to go after any financial institution providing a service to Iran. The US has made clear that it is willing to engage with Iran to reach a diplomatic settlement over its controversial nuclear programme; however, if Iran fails to meet its obligations, the US will continue to steadily ratchet up the pressure.

## Statistics

### GDP growth

-2 % (2012 best case estimate)

vs. CBI : 5.8% (1389)

### Inflation

Between 60-90%

vs. IMF estimate: 21.6%

vs. Official figure: 21.5%

### Liquidity growth

21% (Official estimate)

### Unemployment

Over 35% in much of the country

vs. Official figure: 14.1%

### Exchange Rates

Rial:USD

estimate for September 2012: >IRR25,000:USD1

CBI figure: IRR12,260:USD1

vs. Unofficial/Black-market figure: IRR22,250:USD1

Rial:Euro

CBI figure: IRR15,146:€1

Vs. Unofficial/Black-market figure: 25,500:€1

