



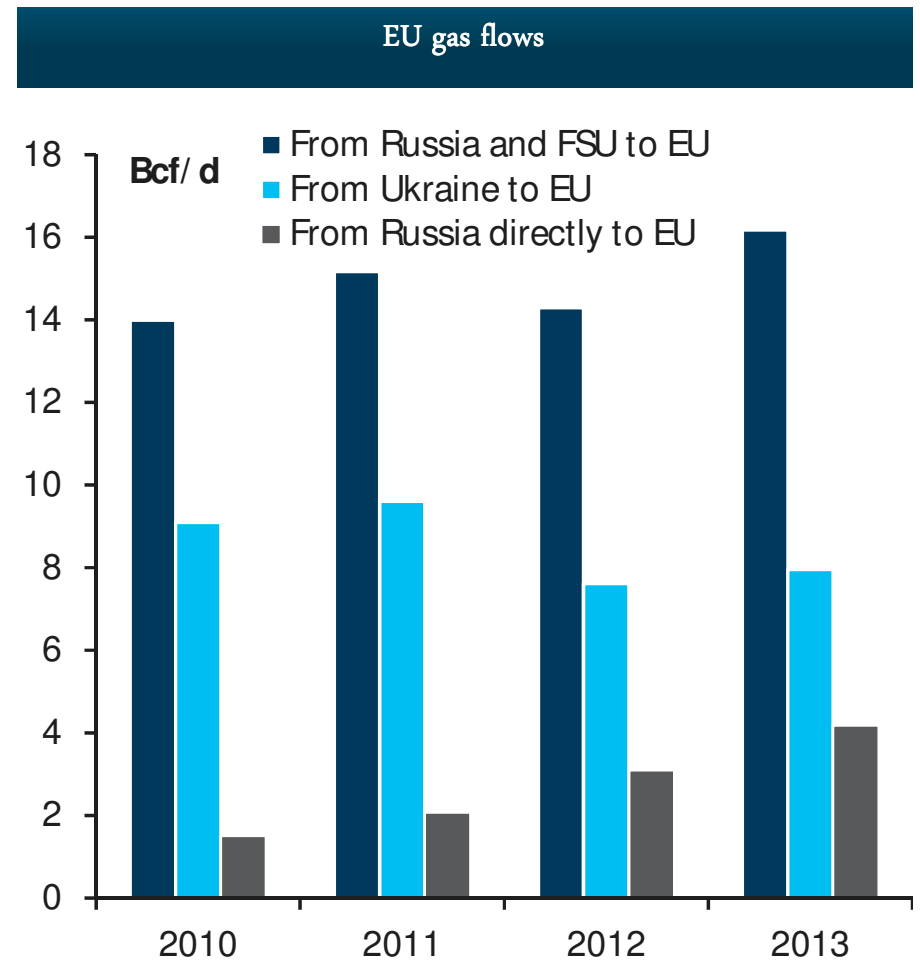
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A Cold Front

June 2014

Russia-Ukraine tensions...

- President Putin's actions in Crimea have dealt a body blow to the fledgling reset in US-Russian relations and has led to the imposition of new economic sanctions on Russia.
- While there has been no cut-off of Russian energy supplies through the Ukraine pipeline network to date, such a course of action cannot be ruled out if the crisis escalates.
- The crisis could jeopardize much-needed long-term Western investment in the Russian energy sector (ExxonMobil's tight oil pilot project with Rosneft for example).



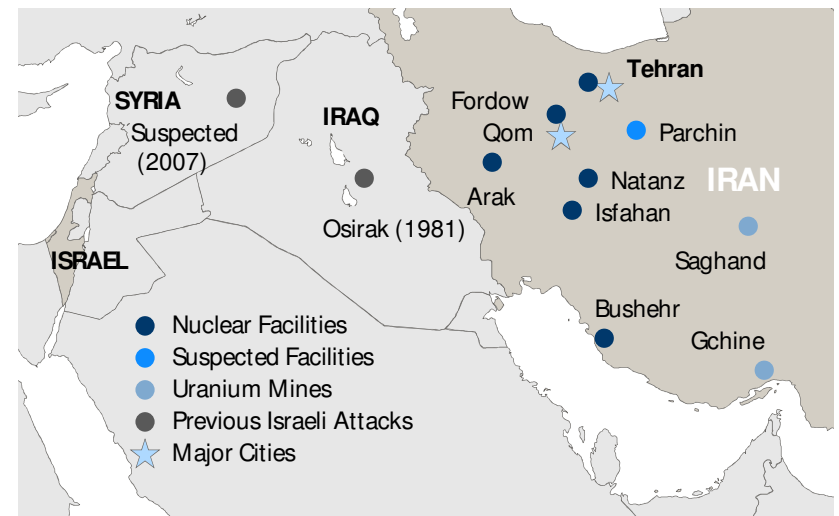
Source: IEA, Barclays Research

... do they leave the reset in Ruins?

- Washington and the EU have imposed asset freezes and visa bans on a select number of officials.
- Washington has expanded the sanctions list to include prominent CEOs, including Rosneft's Igor Sechin, and select corporates with close ties to Putin.
- Europe, which has much closer commercial ties to Moscow, has only targeted high ranking government officials.
- Iran-style trade sanctions have been avoided thus far. Trigger for such action would seem to be deployment of Russian troops into Eastern Ukraine.

Iran: Great Expectations

- With the signing of the historic nuclear pact between Iran and the P5+1, there now exists considerable speculation that the geopolitical risk premium in oil markets could shrink substantially in 2014.
- The interim deal and election of the moderate, Rouhani, significantly reduces the near-term risks of a military confrontation involving Iran and the West.
- In return for halting some of its enrichment activities, Iran will be able to access around \$4.2bn from crude sales from frozen accounts and the P5+1 will suspend efforts to further reduce the country's oil exports.
- As is, the agreement lengthens the amount of time Iran needs to reach nuclear break-out capability by several months.



Source: Barclays Research

The Interim Deal

What Iran Gives

- Halts uranium enrichment above 5%
- Disconnects tandem cascades used to produce 20% enriched uranium
- Stops feeding centrifuges with UF6
- Ceases installing new centrifuges
- Limits new construction at Arak heavy water research reactor
- Ceases building new R&D centrifuge capacity
- Dilutes half of stockpile of 20% enriched UF6 to less than 5% enrichment
- Converts remaining half of 20% enriched UF6 to oxide form

What Iran Gets

- Suspension of sanctions on petrochemical exports
- Ability to buy gold and other precious metals
- Access to imports of automotive goods and services and humanitarian goods
- Processing of license applications for civil aviation parts and services
- Pause in efforts to reduce crude oil exports to major trading partners
- Approval to continue running advanced centrifuges for R&D purposes
- Access to \$4.2bln in previously restricted foreign assets

Source: Harvard Kennedy School – Belfer Center for Science and International Affairs, Gary Samore , January 16, 2014

...Spoiler Alert!

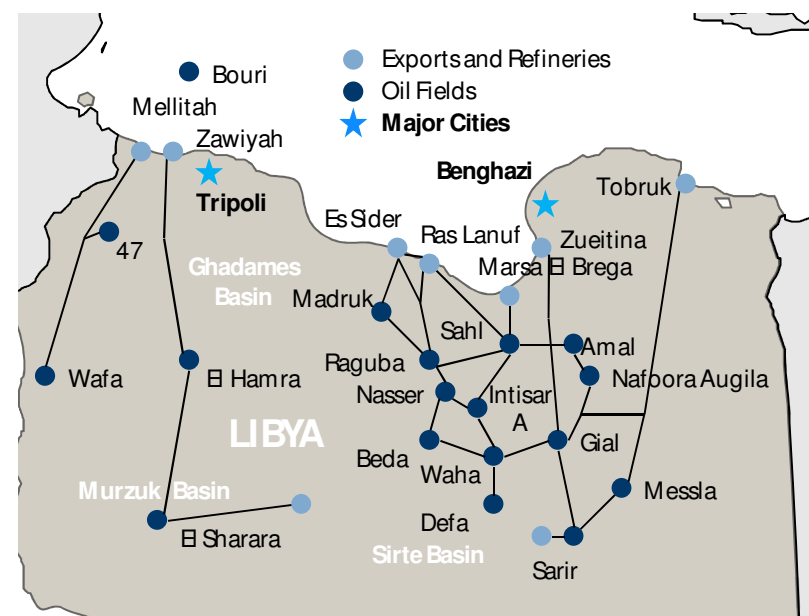
- Key stakeholders remain suspicious of the burgeoning reset in relations and contend that the Iranians got the much better end of the nuclear deal.
- Israeli Prime Minister has called the deal a “historic mistake” and warned that Israel is not bound by agreement.
- Saudis have also expressed displeasure with US-Iran rapprochement and have even threatened their own nuclear option.
- But a bigger near term threat to the deal may lay closer to home for Obama.....

Wrench in the works ?

- The US Congress shows no signs of removing any sanctions and is in fact currently considering additional punitive measures.
- The new legislation expands existing Congressional sanctions and puts a time clock on the nuclear negotiations. Senior Iranian officials have said any new sanctions would violate the terms of the joint plan of action.
- The White House has been working overtime to prevent its passage, but the bill currently has 59 backers.
- As long as Iran insists on the right to domestic enrichment while Congress demands the elimination of such capabilities, it is hard to see when a final deal will be reached. The full return of Iranian barrels seems to necessitate once side blinking, in our view.

Libya: Oil market's new problem child?

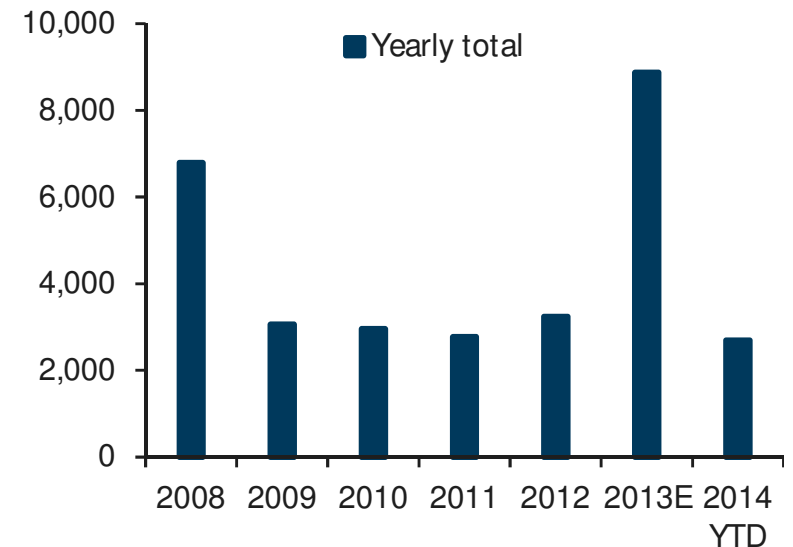
- Labour disputes and violence at key export facilities and oil fields have caused exports to drop dramatically.
- In addition to conflicts over compensation and management staffing, the oil standoff involves unresolved regional grievances over the distribution of political and economic spoils.
- Eastern activists have consistently demanded greater control over the oil produced in the region, as well as a more loose federal system of government.
- Compounding Libya's woes is the lack of strong government and security sector institutions.
- Libya has also emerged as a Middle Eastern and African arms bazaar.



Source: Bloomberg, IEA, Barclays Research

Iraq: Things Fall Apart

- Iraq witnessed a dramatic surge in violence in 2013 amidst a revitalized Sunni insurgency.
- More than 8,500 people killed in Iraq in 2013, in the worst wave of violence since the 2006-2008 civil war.
- Al Qaeda linked groups seize key cities in Anbar province.
- Syrian conflict is deepening Iraq's sectarian divide. Extremist groups operating on both sides of the border.
- Insurgents have repeatedly bombed the Kirkuk-Ceyhan pipeline, reducing exports.
- Protracted process of forming a new government could further inflame sectarian tensions.



Source: UN Assistance Mission to Iraq, BBC, Bloomberg, Barclays Research



Nigeria: Delta blues

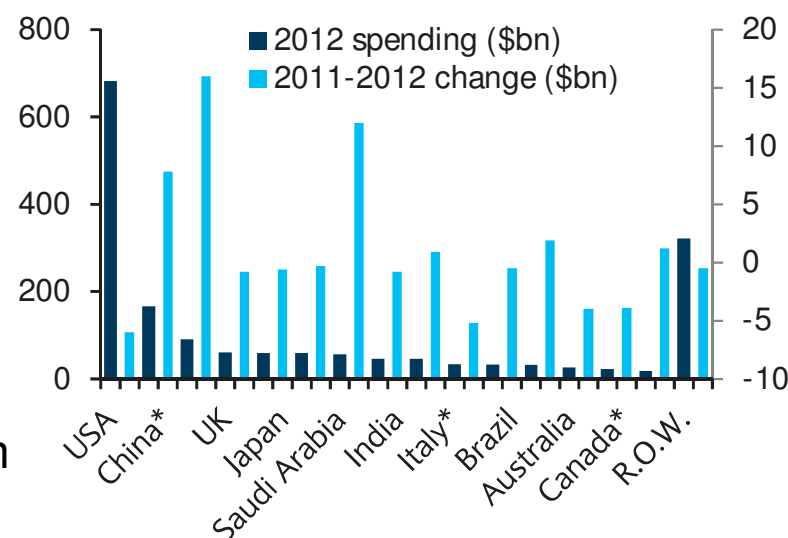
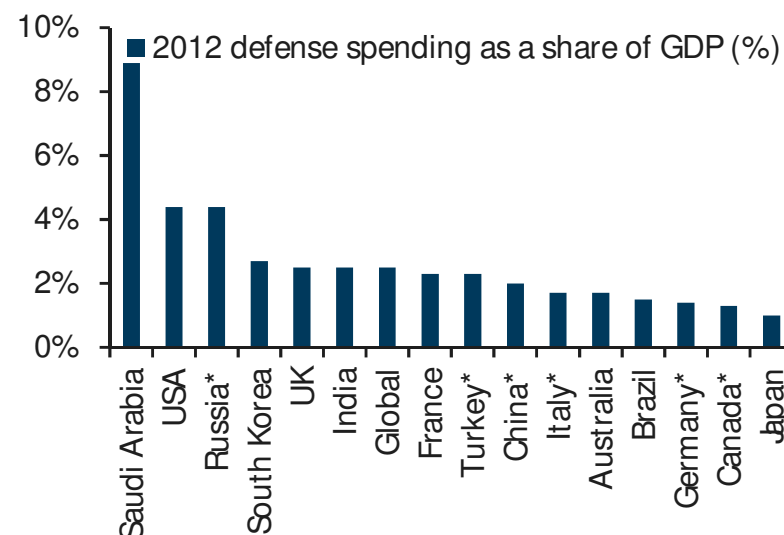
- Nigeria continues to experience export losses due to ongoing criminal activity in the Niger Delta.
- In April, the finance minister indicated that around 300,000 bpd is being lost due to crude theft, at a cost to the Nigerian Treasury of \$1bn per month.
- Nigerian security services are being stretched perilously thin by having to battle multiple threats across the country, particularly Boko Haram in the North.
- Nonetheless, a large part of the problem appears to be the culture of impunity in the oil region.
- Industry officials have also indicated that oil theft could not be continuing on such a significant scale without some degree of official complicity.



Source: Bloomberg, Barclays Research

Saudi Arabia: Spending spree

- Saudi breakeven is higher post-Arab Spring. Naimi repeatedly indicates comfort with \$100 oil price.
- Government announced over \$130bn in new employment, scholarship and housing programs to keep citizens content.
- Spending designed to help address Saudis' demographic problems. 65% of the population under the age of 30. Youth unemployment is a key challenge.
- Saudi Arabia is also ratcheting up its military spending. Defense spending climbed by 12% in 2012, a year in which total global defense expenditures declined for the first time since 1998. It now ranks as the largest defense spender as a percentage of GDP.
- Foreign policy expenditures climbing. Pledged \$5bn to Egypt and is a principal financial backer of the Syrian rebellion.



Source: SIPRI, Barclays Research

Waving goodbye?

- Great deal of recent discussion about whether the North American energy revolution will lead to a major re-alignment in US foreign policy.
- It has been suggested that the surge in domestic supplies will lead the US to slash its security commitments to the Middle East and focus attention and resources elsewhere, mainly in Asia.
- Two of the largest and most expensive American military outposts are Al-Udeid airbase in Qatar and the US Naval headquarters in Bahrain.
- Senior Obama administration officials have gone to lengths to emphasize that the US will remain engaged in the Middle East.
- With the US war in Iraq over, the war in Afghanistan winding down, and the Pentagon budget cuts, some reduction in US defense assets in the Middle East is probably in the offing.

Price Forecasts

Barclays price forecast (\$/ b)				
Forecast	WTI	Brent	WTI-Brent	
2014		101	109	-8
Q1 actuals		99	108	-9
Q2		103	108	-5
Q3		101	111	-10
Q4		101	109	-8
2015		100	108	-8

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