

FINANCIAL MARKETS

THE IRAN
NUCLEAR DEAL



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TRUMP DOES IT AGAIN

FOREWORD

President Trump has made many bold decisions since he became the President of the United States.

His most recent is the decision to withdraw from the Joint Comprehensive Plan of Action - or the Iran nuclear deal.

The purpose of this eBook is to explore why President Trump has chosen to make such a decision and the impact it could have on the financial markets.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

WHAT IS THE IRAN DEAL?

PREVENTING NUCLEAR WEAPONS

In 2015, the Joint Comprehensive Plan of Action was agreed by Iran, China, France, Russia, the UK, the US and Germany. This came after planning and negotiations between the nations came to a mutually acceptable framework.

The deal was put in place to reduce Iran's ability to produce plutonium and uranium - the two components used for making nuclear weapons. It was done in an effort to create peace and security.

Iran chose to accept this deal as in return, the crippling economic sanctions held upon it would be lifted. This allowed a struggling country to begin to regain financial security.

For the deal to work, Iran has had to accept extensive monitoring to prove compliance with the terms.

Every 90 days, certification has to be sent over to US Congress for a thorough analysis. So far, compliance has been verified 10 times since the agreement began (the latest verification being in February 2018).

To date, Iran has followed all measures. Because of this, all nuclear-related economic and financial EU sanctions were lifted. This gave Iran the opportunity to reconnect to global markets.

WHY HAS THE US WITHDRAWN?

Since running as a candidate for President, Donald Trump has expressed his distaste for the Iran nuclear deal.

On the campaign, he suggested that he would make changes to the role that the US played in this deal. Trump felt that the agreement's terms were 'an embarrassment' to the US.

In January 2018, he omitted some sanctions in the hope that the European countries in the alliance would help fix 'significant flaws in the deal'. But other major countries collectively agreed that they would stick to the original terms.

Fast-forward five months and the US has completely withdrawn and reimposed economic sanctions on Iran. Ultimately, Trump believes that this decision is important for ensuring US national security.

President Trump fears that the current deal does not address Iran's missile programme or its regional military action. He also claims the deal does nothing to stop Iran's support for violence in

Syria and Yemen.

The US administration is keen on reimposing several sanctions on the country. This includes the oil sector, aircraft exports, precious metals trade and the attempts of the Iranian government to buy US dollar banknotes.

In reinstating these sanctions, President Trump suspects he can regain and maintain control of security in the Middle East.

REACTION TO THE NEWS

OTHER ALLIES

Currently, all of the other countries involved in the Iran nuclear deal want to keep the agreement.

British Foreign Secretary, Boris Johnson, claims that this arrangement is the option with the 'fewest disadvantages' for everyone.

THE ROLE OF ISRAEL

Prior to this decision, Israeli Prime Minister, Benjamin Netanyahu, unveiled a series of documents claiming that Iran was not meeting the terms of the agreement.

Originally, this caused some concern. However, it transpired that the evidence had already been brought to the attention of the International Atomic Energy Agency. After close monitoring, they can confirm that since 2009, there has been no evidence of

weapons research by Iran.

In the eyes of most western allies, if Iran has shown progress and determination to follow the terms, the agreement should be honoured.

Iran is looking to stay optimistic in the meantime. Its president, Hassan Rouhani, believes the current deal can still stay in place, despite US withdrawal.

HOW HAVE THE FINANCIAL MARKETS REACTED?

Overall, there hasn't been a significant market reaction since the US pulled out of the Iran nuclear deal.

However, oil prices have increased (by approximately 3%). The threat of new US imposed sanctions on Iranian oil exports has seen the markets express worry about future global supply.

After President Trump's announcement, West Texas Intermediate crude futures increased to \$71.14 a barrel - up by 3%. Brent crude futures saw a three-and-a-half year high after reaching \$77.21 a barrel with a 3.2% increase.

Currencies positively correlated to the price of oil also saw an uplift, such as the Canadian dollar.

The US dollar has also held strong across the markets. However, some emerging market currencies have come under pressure, especially for countries that are big importers of oil.

So far, the Indian rupee has notably suffered. As China and India account for 1.4 million barrels of oil per day, it's no surprise that a decrease in global supply has had an impact.

The South African rand is negatively correlated to oil and tracks overall sentiment on the global markets. Post-announcement, this was down across the board.

Our advice to traders is to closely monitor the price of oil in the coming months. Higher prices will put upward pressure on commodity currencies like the Canadian dollar.

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Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

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