Iran Gold Sanctions Easing Seen Having Little Price Impact

By Nicholas Larkin and Indira A.R. Lakshmanan | 2013-11-25T11:48:56Z | **- Comments** **Email** **Print**

The easing of sanctions on trading gold with Iran probably will have little impact on prices, according to Standard Bank Group Ltd. and Societe Generale SA.

Nov. 25 (Bloomberg) -- Bloomberg chief Washington correspondent Peter Cook explains the details of the nuclear accord reached by world leaders with Iran to limit its nuclear program in exchange for reduced sanctions. He speaks on Bloomberg Television's "Bloomberg Surveillance."

"Gold overall is dominated by much bigger forces right now," **Walter de Wet**, an analyst at Standard Bank in Johannesburg, said before Iran and world powers announced their wider nuclear agreement yesterday. Prices plunged 27 percent this year, headed for the biggest annual drop in three decades, as some investors lost faith in the metal as a store of value.

While Iran doesn't disclose gold reserves, its demand for the metal used in jewelry and other fabrication last year was 36.9 metric tons, or 1.4 percent of the global total, according to data from Thomson Reuters GFMS. The Persian Gulf nation probably expanded holdings in 2012 and early this year by taking metal as payment for energy exports, Roubini Global Economics LLC said in a report in May.

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The agreement in Geneva was the first since Iran's nuclear program came under scrutiny in 2003. The Persian Gulf nation will get about $7 billion in relief from economic sanctions over six months, including the suspension of "certain sanctions on gold and precious metals," the U.S. government said. Iran will be barred from accepting precious metals as payment for **oil** or any other sanctioned transaction, according to diplomats who asked not to be identified because of diplomatic protocol.

Nuclear Program

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Sanctions also are being suspended on Iran's automotive industry and petrochemical exports, and the country will be allowed access to civilian aircraft parts as well as repatriate $4.2 billion in frozen assets. The two sides now aim to conclude a comprehensive accord within six months.

Iran in return must improve cooperation with United Nations monitors, commit to eliminate its stockpile of uranium enriched to 20 percent levels, and halt advanced centrifuge installation, the White House said in a statement. Iran also won't commission its Arak heavy water reactor.

Gold for immediate delivery lost as much as 1.5 percent to $1,225.55 an ounce, the lowest since July 8. The price was at $1,231.17 by 11:21 a.m. in London. The precious metal is set for its first annual decline since 2000. Bullion is 36 percent below the record $1,921.15 set in September 2011.

Sanctions imposed on Iran include limits on its financial transactions and crude exports, the country's main source of revenue. Oil **production** dropped by about 1 million barrels a day to 2.6 million barrels since the start of 2012, according to data compiled by Bloomberg.

Bullion Imports

As sanctions limited Iran's ability to receive payments, the country expanded its use of gold. Imports of bullion from neighboring Turkey, a buyer of Iranian natural gas, jumped to 126 tons last year from 1 ton in 2011, according to data from the International Trade Centre, an agency of the UN and World Trade Organization.

Iran last reported its gold reserves to the International Monetary Fund in March 1996, when it held about 168.6 tons, the Washington-based lender's website shows. That would place it outside the 20 largest holders now.

"For Iran to buy gold, they need to have income, which normally comes from oil revenues, and at the moment they're in dire straits," **Andrey Kryuchenkov**, a commodity strategist in London at VTB Capital, said Nov. 19. "I don't think it will significantly affect the market."

The IMF estimates that Iran's economy will contract 1.5 percent this year after shrinking 1.9 percent in 2012, and will expand 1.3 percent in 2014.

"I don't think that because there's been effective sanctions on gold trading that Iranian individuals, as well as more official people, haven't been able to invest bits here and there," **Robin Bhar**, an analyst at Societe Generale SA in London, said Nov. 19. By lifting sanctions, "you're not going to see a significant investment or divestment," he said.

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