

Prime Minister (2)

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IRAN/IRAQ - REACTIONS OF THE MARKETS

Despite the increased military activity in the Gulf War, the two most directly affected markets - oil and shipping - have not responded to any significant extent.

Oil Market

Spot oil prices are still 30-50 ¢ /bbl below official prices.

Middle East crude prices have not moved during the last week. Although North Sea prices have firmed a little, there are no signs of panic in the market.

Similarly there is no evidence of increased stockbuilding nor of emergency moves by the companies. Contingency plans were drawn up many months ago and recent events have not led to any significant revisions. Oil shares have not moved significantly.

The general view appears to be that closure of the Straits of Hormuz is either unlikely or would last for a very short period. There is plenty of oil in stock and, although closure would bring an increase in price, there is no volume risk for at least a month.

The market has been reassured by the statements from President Reagan and the Prime Minister and is comforted by the 50 million barrels of oil which Saudi Arabia has in floating storage.

Shipping Market

The shipping market is strongly influenced by the oil market and has remained calm.

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There has been a small increase in charter rates for large tankers during the last week from World Scale 20 to World Scale 22. For Kharg loadings rates have moved from World Scale 21 to World Scale 24. These changes are not particularly significant and also indicate that Iranian loadings do not carry a high premium. Although generally quiet, there have in fact been more loadings at Kharg Island in the last two weeks than previously.

Equally significant is the fact that insurance rates have not risen in recent week although Iranian rates (0.75% of total value) are higher than for Kuwait, Saudi Arabia, etc (0.37% of total value). These rates would cover war damage.

Conclusion

Although the situation in the Gulf is fragile, it is significant that neither the oil nor shipping markets are showing any signs of nervousness or of panic.

The markets consider that Iran needs to continue oil liftings to provide revenue for the war efforts and that closure of the Straits would be counter-productive.

Today's statement by the Iranian President, Ali Khamenei, that Iran would not block the Straits unless it is denied the right of traffic through the waterway, is regarded as generally helpful.

This coupled with the US and UK statements has led to a general state of calm in the markets.

DLP.

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