US vs Iran

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The decision by President Trump to pull the US out of the Iran nuclear agreement (JCPOA) and reinstate sanctions has led us to revise our Light Vehicle outlook for Iran. Although there remains great uncertainty over the implications of the US move, the initial assessment by our partners, Oxford Economics, suggests GDP will only grow by 2.3% this year, from a previous forecast of 4.1%.

The US aside, others — including the EU — remain focused on maintaining the accord. The Iranian auto industry is dominated by non-US companies, so one may think that it's business-as-usual for those operating in the country. However, this is less than clear cut, with many companies having direct or indirect exposure to the US and so potentially facing the threat of secondary sanctions if they continue to operate in Iran. A further complication is the ability to raise financing in light of the recent US move.

At this stage, we have made a downward adjustment to the Iranian market forecast based on the weaker economic outlook, for 2018 and beyond. For this year, we have lowered the Light Vehicle market forecast by 60k units to 1.60 mn units; by 2020, we have cut the forecast by 250k to 1.73 mn units. The situation is fluid though and any change in position on the nuclear agreement by the EU and/or others, could have a significant impact on the outlook for the Iranian auto industry.

It is noteworthy that the last time Iran faced sanctions by a broader group of countries, back in 2011, the Iranian economy contracted sharply and the Light Vehicle market dived to under 800k units by 2013, from 1.7 mn units two years prior.

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