

MNI Commodity Research: Political Drivers for Energy Markets June 23-29

By Lawrence Toye (23/06/2025)

Executive Summary:

- The Iran-Israel-US Conflict is the main concern for energy markets, with **US direct involvement** raising fears of an Iranian retaliation.
- While some form of Iranian response against US military targets is likely, attempts to directly disrupt energy flows or **shut the Straits of Hormuz remain very unlikely**.
- While the Iran conflict continues, **additional sanctions against Russian energy appear very unlikely**.

Iran-Israel-US Conflict Key Concern for Energy Market

The US conducted an operation over the weekend directly targeting Iranian nuclear infrastructure at Natanz, Isfahan, and the underground facility at Fordow.

- President Donald Trump says the US has carried out a "successful" bombing attack on three nuclear sites in Iran and they have been "obliterated". However, it is not confirmed the extent of the damage, nor how far back this sets Iran's nuclear capabilities.
- US Defence secretary Pete Hegseth said the strikes were not aimed at toppling the Iranian government, but Donald Trump suggested regime change would be a positive outcome.
- Following the strikes, Iran's parliament endorsed a measure to close the Strait of Hormuz in response to US airstrikes on Iranian nuclear sites. However, this is largely ceremonial, with the final decision resting with Iran's Supreme National Security Council and Supreme Leader Ayatollah Ali Khamenei.
- US Secretary of State Marco Rubio has called on China to prevent Iran from closing the Strait according to a Fox news interview on Sunday.
- Meanwhile, Israeli strikes against Iran are continuing as Israeli Defence Forces (IDF) spokesperson Effie Defrin says that the Iranian attacks "are not behind us" and that the "Iranian threat has not been eliminated".

Outlook: Iran is likely to retaliate against US military infrastructure in the Middle East. Moreover, its proxies such as the Houthis in Yemen and numerous militia groups in Iraq are also likely to carry out attacks.

- The regime will be focused on its own survival and thus will have to take some action that presents some degree of strength.
- Strikes against US ships (civilian or military) in the Persian Gulf would boost freight rates and would also maintain concerns that oil and LNG supplies via Hormuz could be curtailed. However, Iran remains unlikely to directly target energy infrastructure in and around the Persian Gulf.
- Iran may also take its time to retaliate, so threats of an attack could continue for some time to come.

Straits of Hormuz Very Unlikely to Close

An attempted closure of the Straits of Hormuz remains highly unlikely, although fear of such a move will linger, maintaining a geopolitical risk premium for oil and gas.

- Factors that would increase the risk of closure are a halt to Iran's own oil exports, or if the regime becomes at risk of full collapse. Both scenarios are currently unlikely, with no unusual shipping activity appearing.
- Goldman Sachs forecast that a closure could push crude above \$110/b.

Further Sanctions on Russia Even Less Likely than Before

While the key driving focus for energy markets is currently the Iran-Israel-US conflict, the war in Ukraine still offers risks for energy markets to watch.

- With the US distracted by the Middle East, there is talk that Ukraine may not even be formally discussed at this week's NATO summit.
- Ukraine also lacks a guarantee of receiving further US weapons once the current spending allocation expires this summer.
- Aside from the political wrangling in Washington over funding Kyiv, the situation is worsened by the fact that the active conflict in the Middle East will draw potential US resources away from Ukraine.
- This may offer Putin a greater opportunity to exploit this distraction to further bolster his position, with a summer offensive already ramping up.
- On June 20, Reuters quoted Putin's comments at a conference stating that "Russians and Ukraine are one people, and in that sense the whole of Ukraine is ours" according to Reuters.
- Putin also failed to rule out taking the Ukrainian city of Sumy as part of a buffer zone. Sumy is not located within the Ukrainian oblasts that Russian claims as its own and demanded to be handed over fully in its last 'peace memorandum.'
- "We have a saying, or a parable," Putin said, cited by Reuters. "Where the foot of a Russian soldier steps, that is ours."

Outlook: While the Iran war is taking focus, further sanctions against Russia's oil and gas industry are very unlikely.

- Trump has threatened but never followed through on further sanctions on Russian oil and possible secondary sanctions on its customers. His potential room to manoeuvre is now smaller given that prices are higher, and there are concerns that supply could be affected by the conflict in the Persian Gulf.
- Moreover, Russia could also be a useful intermediary if any further negotiations did arise with Iran. This is very unlikely while Israeli attacks continue, but Trump may want to keep his options open.
- While the US senate had drafted legislation to sanction Russia, action against Moscow is very unlikely to be taken without the support of the President.
- Concerns over the supply chokepoint at the Straits of Hormuz could make Russian energy an attractive alternative for those already buying it.
- Reuters reported earlier last week that talks to build the Power of Siberia 2 pipeline supplying Russian gas to China are likely to accelerate as Beijing seeks to keep its supplies diverse.