MNI: Political Drivers for Energy Oct. 27 – Nov. 2

By Lawrence Toye (27/10/2025)

Executive Summary:

- The **U.S. announced sanctions** on Russia's **Lukoil and Rosneft** last week, likely disrupting exports to India and China.
- **Key to watch** will be the U.S' **determination to enforce the sanctions**, and the **circumvention measures** employed to overcome them.
- **U.S. and Chinese** officials have sketched out a **trade deal framework.**

U.S. Sanctions on Russia's Lukoil & Rosneft

On Oct. 22, Trump announced sanctions on leading Russian oil companies Rosneft and Lukoil. This came as a surprise, with a Trump-Putin phone call the week prior laying the ground for a future summit between the two leaders in Budapest.

- Trump said he did not want a "wasted meeting" and is apparently angered by Moscow's refusal of a ceasefire which freezes the current front lines.
- Together, Rosneft and Lukoil account for around half of Russia's crude exports. So far, data shows that Russia's exports held up last week, with the four-week average at 3.82m b/d, the highest since May 2023. Most of Rosneft and Lukoil's flows go to China and India.
- The Chinese government condemned the sanctions publicly and said they had no basis in international law, although state-owned Chinese majors temporarily paused imports from the providers last week. Indian buyers said they were also halting imports until further clarity on the situation emerged.
- Bloomberg said that up to 0.5m b/d of sanctioned exports may be at disrupted for a few weeks as Indian and Russian refiners need time to find workarounds.
- On the potential response, Rosneft and Lukoil will be forced to create alternative supply chains that can allow buyers to avoid dealings with sanctioned entities. This may involve setting up layers of shell firms and setting up trading arms.
- While the Russian government has repeatedly said that the sanctions will not impact their economy, although conceded there may be temporary disruption. Argus said that Russia will struggle to redirect crude to domestic refineries, given that significant capacity has already been taken offline by Ukrainian drone strikes.
- Russian producers will also face additional logistical costs in evading the sanctions. Moreover, Sergei Kaufman, an analyst at the Moscow-based brokerage Finam, told the FT that the discount on Russian oil versus Dated Brent (currently around $10/b) could widen by a further $4/b due to the sanctions.
- Regarding the Budapest summit, Putin said that the event will likely be "postponed," adding it would be a mistake to hold it without necessary preparations but repeating that Russia remains ready for dialogue.
- Trump did not rule out a meeting with meeting Putin "in the future."

OUTLOOK: While the sanctions are likely to spark some immediate disruption to flows, Russia has become adept at sanctions evasion.

- Consequently, oil flows are likely to recover over the longer-term, although it may further widen discounts for the Kremlin's crude. The current conventional wisdom is that the impact of sanctions abates with time and analysts have noted that Russia's Surgutneftegaz and Gazprom Neft were hit with U.S. sanctions in January, but exports continue regardless.

- Should disruption arise, it is likely to be from Indian buyers more so than Chinese importers. This is because they are more reliant on access to dollarized financial markets than independent Chinese refiners who often trade in other currencies.
- If Indian buyers look for alternative crudes, Middle Eastern grades are likely to benefit and see a more bullish outlook.
- The other key factor to watch is the effort in which these sanctions are enforced. A lax enforcement of the sanctions could see imports into India proving more resilient.
- Evidence from other U.S. oil sanctions, such as those against Iran, has shown the challenges in effectively enforcing the legislation. This has been compounded by the more widespread circumvention measures developed since 2022.
- As for the Budapest summit, it remains unclear whether it will go ahead. Neither leader has said that the proposed event has been scrapped, leaving it open for a future date.
- The previous Trump-Putin summit in Alaska failed to realise any tangible progress towards ending the war in Ukraine. Consequently, Trump may be reticent proceed with a meeting without signs that the Russian stance on freezing the front lines is softening.

U.S.-China Trade Talks

U.S. and Chinese officials sketched out a trade-deal framework, easing fears that tariffs and export curbs between the world's top two oil consumers could dent global economic growth.

- U.S. Treasury Secretary Scott Bessent on Sunday said U.S. and Chinese officials hashed out a "very substantial framework" for a trade deal which would allow Trump and Xi Jinping to discuss trade cooperation this week. The leaders will meet Oct. 30.
- Bessent added the framework would avoid 100% U.S. tariffs on Chinese goods and achieve a deferral of China's rare-earth export controls for one year.
- The FT reported that threats of additional U.S. tariffs as well as pressure from other countries relying on the minerals helped lead to the decision to delay the export controls.
- Bloomberg called the deal more of a "temporary ceasefire" rather than a full armistice. Neither Bessent nor Chinese trade envoy Li Chenggang indicated that more fundamental points of tension, such as the US blocking the trade of high-end semiconductor chips crucial to the developing AI industry, had been resolved.
- However, the recent framework has raised hopes that Trump and Chinese Premier Xi Jinping would agree to extend a trade truce at their summit.
- The current truce expires Nov. 10 and without an extension would see U.S. set tariffs of 145% on Chinese goods, while U.S. goods imported into China would pay a 125% levy.

OUTLOOK: Both sides have an incentive to avoid another cycle of escalations or recriminations. Consequently, an extension to the truce period (where the 145% tariff rates are delayed) is likely.

- It is possible that if the talks went badly, the default tariff rates could return after Nov. 10. However, the economic consequences for the U.S. mean that it would likely be short-term before a return to negotiations.
- Headlines from the talks could spark some volatility for oil markets, particularly if they go against the expectations of a productive summit. Trump truths indicating any negativity after the talks may add some temporary downward pressure.
- A longer-term comprehensive agreement between the two parties would be bullish for oil as it would support economic activity by reducing uncertainty and trade frictions.