

MNI: Political Drivers for Energy Markets Sep 29-Oct. 5

By Lawrence Toye (29/09/2025)

Executive Summary:

- **New sanctions alone are unlikely** to impact **Iran's oil trade**, but they raise the **risk of renewed conflict** in the Persian Gulf.
- Ukrainian **drone strikes on Russian energy** infrastructure are key to watch for energy markets.

Death Knell for Iran Nuclear Deal Sees Return of Full Sanctions

On Sep. 27, the UN reimposed economic/military sanctions on Iran, after European powers failed to reach a deal that would re-engage Iran in diplomacy with the US and allow IAEA inspectors access to the country's nuclear facilities.

- The sanctions enact travel bans/asset freezes on Iranian entities/officials, authorise cargo inspections on Iranian ships/planes, reinstate an arms embargo. It also prohibits Iran from enriching uranium and testing nuclear-capable ballistic missiles.
- Iran's foreign ministry It warned of "an appropriate and decisive response" to any move aimed at harming the country's interests, without divulging what a response would entail, Bloomberg reported.
- The snapback is likely to increase insecurity in the region, with Tehran pledging to rebuild nuclear facilities damaged by Israeli-US airstrikes. Hardliners in the Iranian government are calling for changes to the country's nuclear doctrine and there are threats to withdraw from the Non-proliferation treaty.
- IAEA Director Rafael Grossi warned it would take weeks rather than months or years to enrich Iran's uranium stockpiles to 90% weapons-grade purity.
- The AP reported that the IAEA had confirmed that inspectors were in Iran where they were inspecting a second undamaged site but have not had access to the facilities hit during the 12-day war.
- Israeli Prime Minister Benjamin Netanyahu told UNGA on Sep. 26, "We must not allow Iran to rebuild its military nuclear capacities. Iran's stockpile of enriched uranium, these stockpiles must be eliminated."

OUTLOOK: While sanctions will likely exacerbate Iran's already dire economic situation, its oil exports are likely to remain stable.

- With its main patrons China and Russia opposed to the slap-back sanctions, this means it should have sufficient support to keep exporting crude. China will remain the main market, capitalising on steeper discounts for black-market barrels.
- China has reported an unexpected spike in crude imports labelled as Indonesian, indicating that it may be using this avenue to relabel Iranian crudes.
- While sanctions are unlikely to directly hit oil flows, the worsening diplomatic relations bring with them other risks for energy markets.
- If Iran feels isolated with an increasingly untenable economic crisis, it may feel pushed to rebuild its nuclear programme as a means of creating new leverage, offering Israel a casus belli for further strikes.
- Having neutralised the threat of Lebanon's Hezbollah and Assad's Syria, Israel's may take an opportunity to finally bring down the Iranian regime, the last domino in the "axis of resistance."
- Another military confrontation raises the risks of a wider conflict, with analysts expecting Iran to strike "hard and fast" if second conflict materialises, possibly targeting US bases across the Gulf.

- This could put oil and gas fields in the firing line and also risks active conflict in the Straits of Hormuz, the key chokepoint for one fifth of global oil and gas. The more existential Iran's leadership views the conflict, the more likely for disruption to Middle East energy infrastructure.
- Polymarket currently has the odds of Israel striking Iran before 2026 at 40%.

Trump Says Ukraine Can Win Back All Lost Territory

Last week saw a change in rhetoric from the Trump administration vis a vis Ukraine, with Trump saying that Kyiv can "win all of Ukraine back in its original form".

- However, he also added that this was possible with the support of the EU, also mentioning the EU and Nato. Notably, there was no mention of the US, signifying that the changing discourse is more a route for US disengagement than a significant policy shift in support of Ukraine.
- Markets also briefly spiked last week after headlines reported warning from European diplomats to their Russian counterparts that they will shoot down fighter jets that illegally incur into NATO territory. This policy also seemed to be tacitly approved by Trump when asked by reporters.
- In terms of Ukraine's fighting capacity, President Trump has also authorised Ukraine to conduct long-range strikes into Russia, according to US envoy Keith Kellogg. Trump is said to be considering Ukraine's request to obtain long-range Tomahawk missiles.
- These would be purchased by Nato and transferred to Ukraine, highlighting how the more positive words regarding Ukraine's fighting ability have not been backed up to date with a changing stance on how the US provides military aid to Kyiv.
- The most impactful events for energy markets have been Ukrainian drone strikes which have taken out around 17% of Russian refining capacity, according to Reuters. This has prompted a limited diesel export ban and an extension of the gasoline export ban.
- Russian crude runs are expected to fall below 5m b/d, marking a new annual low and pushing more unprocessed crude into the export market, Kpler said.

OUTLOOK: Trump remains very unlikely to impose any further sanctions on Russia's energy flows, allowing barrels to continue flowing to India and China.

- While Trump is considering supplying additional missiles to Ukraine, this will be through NATO purchases which are then transferred to Kyiv. There is little expectation for any significant boost in weapons shipments that could move the needle on the battlefield decisively in Ukraine's favour.
- For energy markets, the key factor to watch is the intensity of Ukrainian drone strikes on refineries and terminals.
- This could lead to a more widespread diesel export ban which would tighten the gasoil market further.
- There could also be logistical bottlenecks for Russian crudes, with Kpler noting there are some signs of logistical challenges in re-routing barrels. Kpler warned that sustained drone attacks this winter could threaten long-term crude production, forcing shut ins.
- "We suspect that if crude exports, floating storage levels, or observed stock levels do not start increasing materially in the next weeks, it would be an indication that Russian crude supply is facing severe headwinds that may limit its capacity to rebound," Kpler said.
- Consequently, the strategy of drone attacks on Russian refineries is likely to continue in an attempt to create more long-term issues for Russia's oil income.
- The betting odds on a ceasefire by the end of 2026 have been steadily falling, down to a 43% chance on Polymarket.