

Political Drivers for Energy Markets Sep. 8-14

By Lawrence Toye (08/09/2025)

Executive Summary:

- After Russia's largest overnight aerial barrage on Ukraine since the war began, it remains unclear if talks on **further sanctions against Russia** will materialise.
- The **US operations against narco-terrorists in Venezuela** are unlikely to impact oil exports.
- Progress in **nuclear watchdog talks with Iran**.

Further US Sanctions on Russia Remain Elusive

Following Russia launching a record number of drones and missiles over Ukraine on Saturday night - its largest aerial overnight attack since the start of the war - European leaders are due to visit the US today or tomorrow to discuss a resolution to the conflict.

- Trump, who said he was "not happy" with the strikes, replied yes when asked by reporters whether he is ready to move to the "second stage" of sanctions against Russia without offering specifics.
- Meanwhile, US treasury secretary, Scott Bessent, said on Sunday that the US and the EU could put "secondary tariffs on the countries that buy Russian oil".
- Bloomberg reported today that the EU is weighing new sanctions against Russia which could include further restrictions on the country's energy trade, adding additional tankers to its sanctioned vessels list, removing existing carve outs for major Russian oil companies.
- There has also been calls from the US for European leaders to increase economic pressure on China for funding Russia's war efforts despite Trump having deferred secondary sanctions on Beijing.
- US Energy Secretary Chris Wright told the FT that EU countries should stop buying Russian oil and LNG and shift to US-origin products. This is likely a further sign of a switch in rhetoric from a wider secondary sanctions policy initially envisaged against China and India.

OUTLOOK: While further discussions on ending the war are due to take place between the US and EU, further US sanctions on Russian oil continue to remain in the long grass, as Trump repeatedly delays such measures.

- Secondary sanctions would mainly hit China and India, with the latter already facing a steeper US tariff due to its continued oil buying from Moscow.
- Given that China is unlikely to acquiesce to any US measures and can hit Washington with its own counter tariffs, Trump may see little benefit in following through with such a plan.
- Bloomberg reported that state-owned refiners in India are also pushing to revive purchases of Russian oil, a sign of India's resistance to US pressure.
- With deepening energy ties with China, demonstrated by a recent deal on the Power of Siberia 2 gas pipelines, Russia may feel emboldened to double down on a more aggressive stance towards Ukraine, believing that Chinese support will help offset any further measures by western nations.
- The recent climbdown from strict tariffs against China – with US access to China's critical minerals markets dominated by China a key issue - also shows the limits to measures that Washington can take if China continues to shore up the Kremlin.

US Ratchets Up Tensions with Venezuela

The Trump administration appears to be escalating tensions with Venezuela, demonstrated by the Sep. 2 lethal military strike on a boat alleged by the Trump administration to be transporting narcotics to the United States.

- On Sep. 5, The Trump administration ordered the deployment of 10 F-35 stealth fighter planes to Puerto Rico to conduct operations against drug cartels, Reuters reported, signs of further escalation of tensions with Venezuela.
- The US is claiming that the operations are designed to counter “narco-terror operations”. In similar form, Wahington previously raised a bounty against Venezuela’s President Nicolas Maduro for alleged association with the Tren de Aragua gang.
- The Venezuelan president called the action by the US “the greatest threat our continent has seen in the last 100 years,” and has framed US operations as a bid for regime change.

OUTLOOK: While the US operations against targets in Venezuela that the US deems as drug-cartel related may increase further, it is unlikely that Washington will carry out any targeting of Venezuela’s already struggling oil infrastructure. The prospect of a larger full-scale military operation against Venezuela is also low.

- Having recently granted Chevron with a licence to return to producing oil from the South American nation, it remains in US interests for a limited amount of Caracas’ oil to continue flowing to the USGC after previous tightness in the heavy sour crude market.
- Likewise, with the country dependent on its faltering oil industry, there is little incentive from the Maduro government to impede Chevron’s operations. The return of the US company has seen the country’s oil exports to exceed 900k b/d in August, the highest monthly level since November.
- However, worsening US-Venezuela relations likely means that no general oil export license, nor additional limited licenses for non-US companies will be granted unless a political deal is struck first.

Atomic Watchdog Hopeful for Iran Co-operation Resumption

IAEA Director Rafael Grossi said he hopes for a successful conclusion to nuclear discussions with Iran in the next 'few days'. The talks are aimed at a last-minute deal between Iran and the UN's nuclear watchdog to avert the imminent re-imposition of 'snapback' UN sanctions.

- Grossi said that "progress has been made in talks with Iran on full resumption of inspections, I hope that within the next few days it will be possible to come to a successful conclusion of discussions."
- Foreign Minister Abbas Araghchi said yesterday the impact of 'snapback' will be "mainly political," suggesting its economic impact is being exaggerated.

OUTLOOK: While the resumption of nuclear cooperation between Iran and the IAEA would be a positive step in monitoring any return of Iran’s nuclear projects, there is likely little change to the sanction regime against its oil output where a deal materialises or not.

- US sanctions will keep Iranian barrels off the international markets and restrict their flows largely to China.