



The Drill

with Mikkel Rosenvold

Steno Research

October 14, 2026



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Diesel before November: A Saudi-Houthi Window as Iran Shifts Gear

Trump is now laser-focused on one number before the midterms: the price of diesel. That explains the Russian diesel deal, the push for an energy truce in Ukraine, and his refusal to bomb anyone before November 3, and it has opened a window the Houthis are exploiting and may soon cash in. Iran, meanwhile, is shifting its war effort into a different gear. Below: diesel diplomacy, Iran moving toward total war, a contrarian Saudi-Houthi bet, both shores of the Bab el-Mandeb, shipping and a review of my 2026 calls.

Diesel First

On October 9th, Trump announced that Russia will supply 300,000 tons of diesel immediately, 500,000 tons in November and 1 million tons thereafter, with a further 3 million tons tied to "the condition of their Diesel Refineries". Treasury has waived sanctions on Russian diesel through April 2027, and Trump followed up with a surprise "energy ceasefire" between Russia and Ukraine.

Run the numbers and the barrels are a rounding error. At roughly 7.45 barrels per ton, the full 4.8 million tons is about 36 million barrels, barely more than a day of global distillate demand. Goldman estimates the October-November release cuts US wholesale diesel by only \$1-2 per barrel.

The real content is the pressure on Kyiv. US officials have repeatedly asked Ukraine to stop hitting Russian diesel refineries, and Zelensky has now said Ukraine will hold fire if Russia stops destroying Ukraine's energy infrastructure. A limit to Ukrainian refinery strikes looks realistic after all.

My take: Trump is laser-focused on diesel, and everything else is secondary until November 3rd. He has pressured Europe to release diesel reserves, floated and dropped a US diesel export ban, and he will not open new fronts before the midterms, neither against Iran nor against the Houthis.

This is hard to trade in isolation, but a lasting energy truce should calm markets overall. The distillate risk premium it removes matters more than the Russian barrels themselves.

Iran Shifts Into a Different Gear

In the September 23rd edition of The Drill, I flagged early October as a potential pain threshold for the IRGC's war chest. That point has now passed. The IRGC essentially ran out of money in early October, and the strain is spreading: Iran's state power company says around 4,700 MW of industrial power capacity is out of service, and Iran is preparing to import electricity from Turkey for its petrochemical plants.

If Iran can't get a deal soon, which seems very unlikely before the midterms, it has to deepen and broaden the war effort. Iran is moving into total war territory.

In practice, that means a more nationalized war: more use of the regular army's assets (the Artesh) alongside the IRGC's, and potentially a wider mobilization of the country.

The signs are already there. More than 31.5 million Iranians have registered for the Janfadamobilization campaign. According to state media, around 313,000 have taken part directly in exercises, and the Basij commander describes it as a "national resistance" system for a new large-scale conflict. On October 8, Eslami said Iran will not abandon enrichment or surrender its stockpile. The Soufan Center describes a doctrinal shift away from strategic patience toward counter-escalation, with the Houthis and Iraqi militias striking Gulf energy infrastructure on Tehran's behalf.

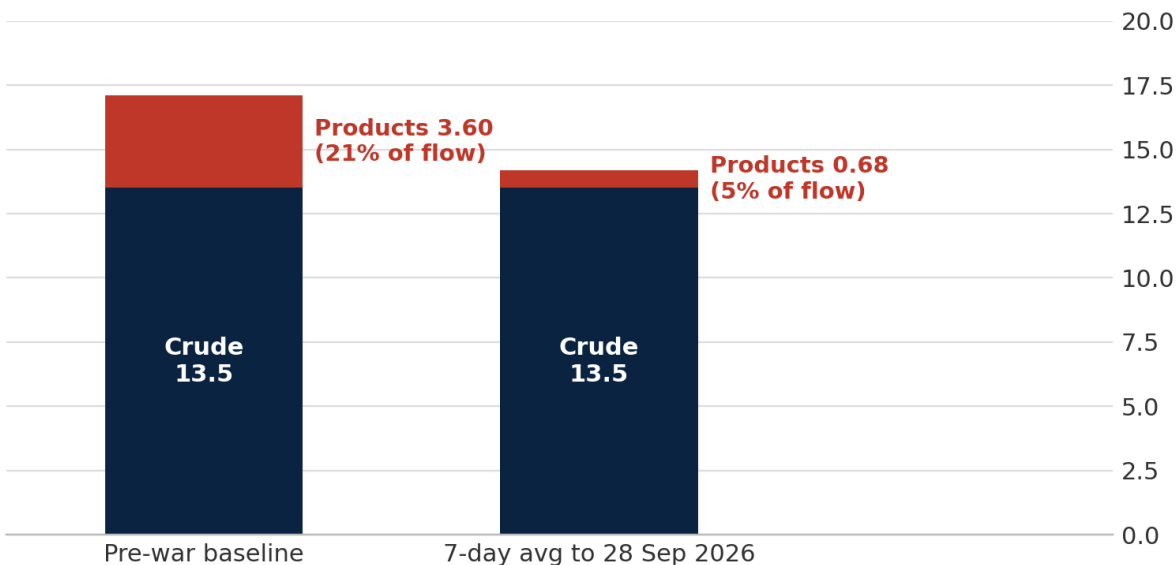
Washington is preparing, too. US naval strength is set to reach three carrier groups by the end of October, and the Pentagon has drawn up options for renewed strikes. Trump has promised none of them before November 3rd, which puts the weeks after the midterms in focus for the next round.

Note also what the strait is already telling us. Crude has found ways around the blockade: Kpler's 7-day average of crude through Hormuz was back at its pre-war 13.5 mb/d in late September, helped by the Gulf "shuttle service". Refined products are still stuck. Product flows through the strait were 0.68 mb/d against 3.6 mb/d before the war, so products have fallen from 21% of the flow to 5%.

Chart 1: Oil flows through Hormuz: crude vs refined products

Oil flows through Hormuz: crude vs refined products

Kpler ship-tracking data, million barrels per day. Crude and refined products transiting the Strait



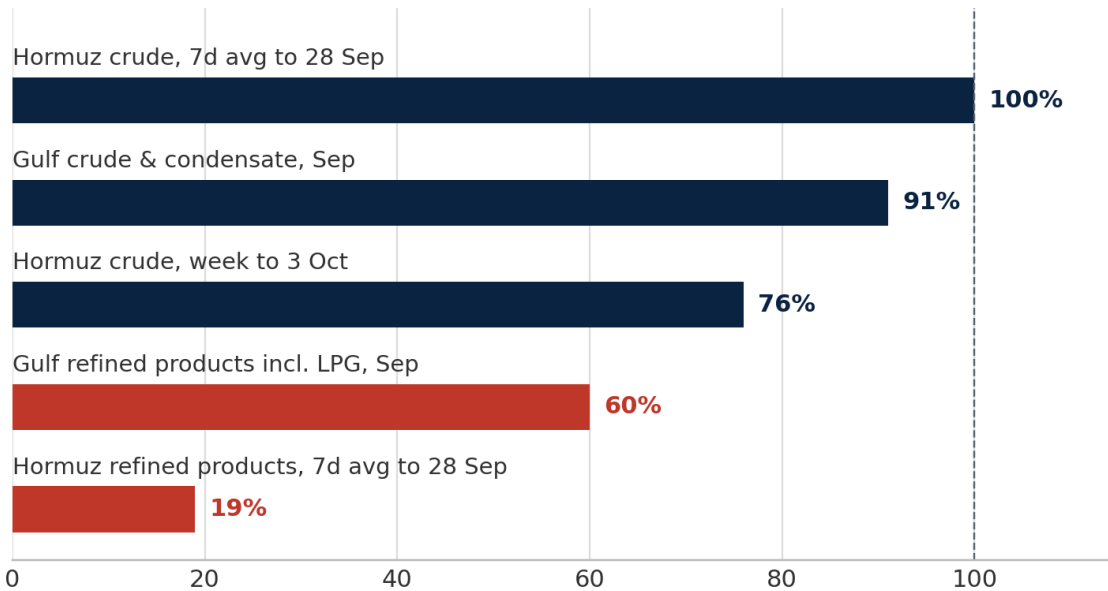
Source: Steno Research & Kpler (via CNBC, 30 Sep 2026)

Across the Gulf, crude and condensate exports were at 91% of pre-war levels in September, while refined products, including LPG, were at 60%. And the latest wave of attacks is already biting. With at least 13 attacks on tankers and gas carriers since September 28, crude through the strait fell to about 10.3 mb/d in the week to October 3.

Chart 2: Gulf oil exports as a share of pre-war levels

Gulf oil exports as a share of pre-war levels

Kpler data, % of pre-war baseline. Gulf figures include pipeline exports bypassing Hormuz



Source: Steno Research & Kpler (via CNBC, Reuters, Daily Caller)

My take: a total war effort hits products, gas and gas byproducts first, since those flows never recovered.

A Saudi-Houthi Deal Without Washington

The Houthis have taken their war with Riyadh deep into Saudi Arabia. Strikes on airports in Abha, Riyadh and Dammam have killed around 20 people over the past week, and on Tuesday evening a Houthi missile hit Aramco's headquarters in Dhahran, hours after the Saudi-led coalition struck an oil facility in Sanaa. Earlier the same day, the Houthis had publicly declared Aramco sites as "legitimate targets". The attacks continued into Wednesday, and the Houthis have so far rejected Saudi offers of two-week and one-month truces.

One clear thing: Trump doesn't want to bomb anyone before the midterms. He has declined Saudi requests for US strikes on the Houthis and promised not to resume strikes on Iran before November 3rd. That is probably exactly what the Houthis are gambling on: a window of escalation against Riyadh without US intervention.

The flip side is that this leverage expires on November 3rd. The rational move for the Houthis is to cash it in before then, and the diplomacy is moving. Iran's foreign minister called his Saudi counterpart on Sunday and offered to facilitate talks, and Riyadh has reportedly accepted mediation. That said, every strike on Aramco makes oil and diesel risk a top priority for Trump, which raises the pressure on Riyadh to settle.

My take: there will be no Iran deal before the midterms, but the Saudi-Houthi conflict is a different story. I put the odds of some form of Saudi-Houthi agreement within the next two weeks at 65%.

The counter-case is clear. Both sides are now hitting each other's oil infrastructure, Riyadh is still in fight-to-negotiate mode with its offensive in Yemen, and an Iran heading toward total war after the midterms needs the Houthis as its most useful lever against the Gulf. If Tehran wants that lever intact, a deal could slip or collapse quickly.

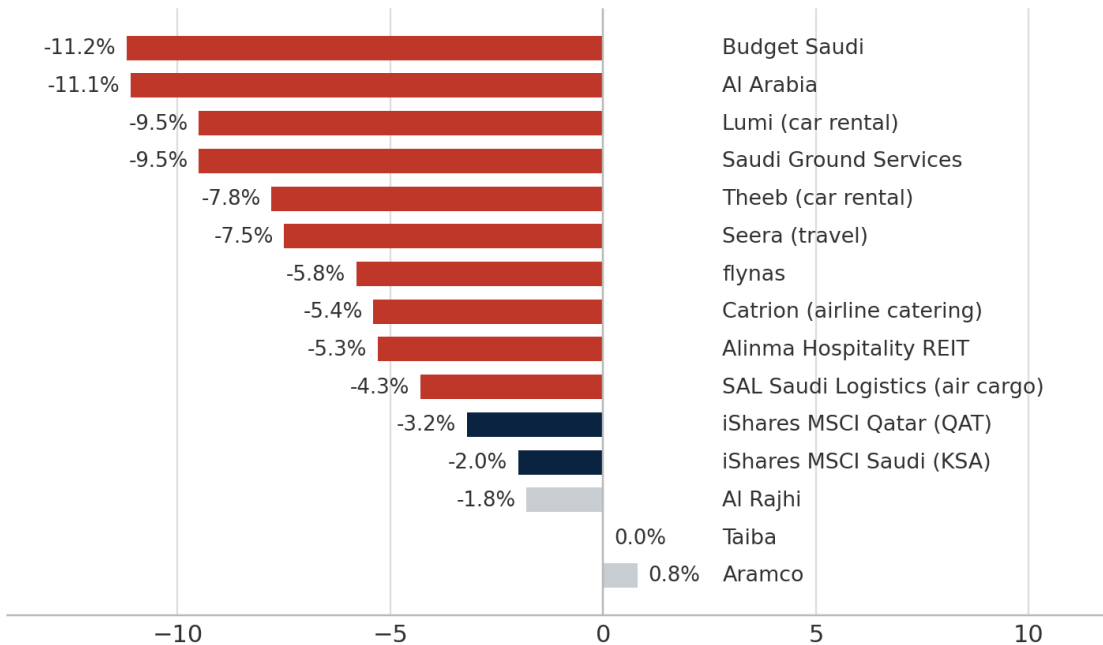
Note also who is doing the talking. Riyadh and Tehran are increasingly handling these matters one-to-one, without the US. Longer term, that is good for Washington, which should be pivoting away from the Middle East anyway.

The market has barely priced the strikes at the index level. The iShares MSCI Saudi Arabia ETF is down 2% since October 5, and Aramco barely moved until this week. The selling has been concentrated in names that live off airport traffic: car rental (Budget Saudi -11%, Lumi -9.5%), ground handling (Saudi Ground Services -9.5%), travel (Seera -7.5%), and the budget airline flynas (-5.8%, on top of a 36% fall this year).

Chart 3: Share price moves during the Houthi airport strikes

Share price moves during the Houthi airport strikes

% change, close 5 Oct to latest close (Tadawul 12 Oct, US-listed ETFs 13 Oct)



Source: Steno Research & Yahoo Finance

To be clear, this is a low-conviction call. 65% is not far from a coin flip, and a short truce could be priced in a day. But it is contrarian, since the consensus is bracing for a long escalation, and a deal could move local markets a lot, precisely in the airport-exposed names where the selling has been heaviest.

If you share my appetite for the bet, KSA is the broad and liquid expression, and it gives you Aramco, which is now a direct target. For readers with access to the Tadawul, a basket of Saudi Ground Services, Lumi or Budget Saudi, Seera and flynas is the higher-beta version. The horizon is two weeks: if there is no deal by then, I'd step aside. Signals that a deal is coming: a Houthi delegation in Muscat or Riyadh, truce offers of three months or longer, or the Houthis narrowing their targets back from oil sites.

Both Shores of the Bab El-Mandeb

Ethiopia expelled Eritrean diplomats on October 1st, Eritrea cut ties, Eritrean forces reportedly crossed the border, and Ethiopia answered with two days of drone strikes. Three days later, Egypt, Eritrea and Sudan formed the El Alamein Declaration, covering Red Sea security and the Nile. The flashpoint is Assab, the Eritrean port Addis Ababa wants as its outlet to the sea. Ethiopia moves about 95% of its trade through the Djibouti corridor, which ends barely 100 km from the strait.

On the eastern shore, the Houthis held Yemen's entire Red Sea coast, Perim and the Hanish Islands by mid-September. The government claims to have retaken Mokha, which the Houthis deny. Now the western shore is contested too, and that changes what a Saudi-Houthi truce delivers. Insurers will keep pricing risk on the African coast, so the Red Sea normalizes more slowly than a truce alone suggests.

My take: the Horn conflict is best read as a modifier on the shipping view. It keeps a floor under Red Sea risk premia, even in my Saudi-Houthi scenario. Egypt is the clear loser, with Suez revenue squeezed from both shores. On the escalation side, watch for an Ethiopian move on Assab or a cut to the Djibouti corridor. On the de-escalation side, watch for a Saudi-brokered port deal for Ethiopia.

Shipping: liners priced for persistence

Maersk and Hapag-Lloyd plan to resume Suez routings on their AE12 service from October 27th. Maersk is up nearly 60% this year after two guidance upgrades and was trading around 25% above the average analyst target in September.

That rally has been fueled by disruption tying up ships. As carriers return, the support fades, and a large orderbook weighs on rates, and Maersk's own CEO has warned that a fast, full return to Suez means more rate pressure because a bigger gap has to close at once. A Saudi-Houthi deal speeds that up, while the Horn conflict slows it down.

Product tankers run on a different driver. The strength sits in LR2s, and it comes from crude: at least 100 coated LR2s are now in dirty service, and LR2 rates have climbed to the high-\$120,000s per day from the high-\$50,000s in August. That driver is Hormuz, which stays shut without an Iran deal. The Russian diesel deal adds little, since 4.8 million tons is roughly 130 MR cargoes spread over several months, and supply is a headwind with around 23 LR1/LR2s and 52 MRs due for delivery over the rest of the year.

Valuation offers Torm a cushion. Inderes had it at $4.3\times$ 2026E EV/EBITDA with a 15% dividend yield in September, and Hafnia bought Torm shares at \$34 in late September, taking its stake to 19.85%, against a reported NAV of \$36.50 per share.

My take: I would not chase the liners at these levels. Torm is the natural hedge to my Saudi-Houthi bet. A Red Sea truce is mildly negative for product tankers, but with no Iran deal before the midterms, the Hormuz driver stays intact, Torm pays if the truce fails, and Hafnia's accumulation offers a floor.

Addendum: reviewing my 2026 calls

I've been meaning to do a review of my calls and suggestions here in the Drill. I don't run an actual portfolio, but my analysis obviously filters into Andreas' Macro Portfolio.

In this overview, I've excluded strictly conditional bets that weren't triggered and divided the bets into the three groups I typically frame them as.

Chart 4: The Drill: tactical calls vs long-term bets, 2026

The Drill: tactical calls vs long-term bets, 2026

	1 month	3 months	6 months	To date
Directional macro calls (1-3m)				
Hit rate	71%	76%	71%	63%
Average return	+3%	+14%	+8%	+10%
Tactical stock trades (1-3m)				
Hit rate	54%	56%	33%	46%
Average return	+2%	+4%	-11%	+2%
Long-term bets (+6m)				
Hit rate	43%	14%	9%	10%
Average return	-1%	-23%	-43%	-48%

Italics: beyond the 1-3 month horizon the tactical calls are framed for.

Calls 4 Jan to 7 Oct 2026, prices to 13 Oct. Directional: absolute return, shorts sign-flipped. Stocks: vs benchmark.

This is also important for transparency, since I have to highlight a couple of really poor long-term bets. I have covered those already in this space, but while I still believe 100% in the drone thematic, I got the entry points completely wrong. I essentially flagged the thematic one month prior to the absolute top and got slaughtered in those positions afterwards. No hiding or diluting that. It is what it is.

More encouraging are the directional and tactical bets, which is what the Drill is all about. These are typically flagged as 1-3 month bets and are performing quite well. If you hold these bets beyond 3 months, you'll end up with a lot of conflicting bets in your portfolio, but obviously the data for 6-10 months is there for transparency.

So what's the sum-up? Take my bets and advice in here as short-term directional or tactical bets positioned around current geopolitical events. More long-term thematics will be laid out from time to time, but the actual implementation of those is done via Andreas' Macro Portfolio, and entry/exit analysis belongs there, particularly in our Friday portfolio update articles.



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Mikkel is the core geopolitical analyst in Steno Research and host of 'Macro Mondays'. Mikkel hosts geopolitical talks and provides weekly geopolitical analysis in the 'The Drill' article format. Whenever things go down in the realm of warfare, conflict and international affairs, Mikkel has the eye for how developments will impact the market and what the immediate and long-term outlook is.

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