RV Pro

The Drill

with Mikkel Rosenvold

Steno Research

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Pivot on Ukraine, Detente with China, all-out war in the Gulf

Three stories this week. The Iran war has roughly two months left on the clock, and it is cash and inventories that will decide it, not diplomacy. Trump's China accusations are theater, which means the September summit looks safe. And MAGA is pivoting on Ukraine.

Iran: two clocks are running, and both hit zero around October/November

Where we stand: the ceasefire is dead and has been for two weeks. CENTCOM has now struck Iranian targets for ten consecutive nights, hitting command centers, maritime capabilities, and missile storage from Qeshm Island to Bushehr. Two U.S. servicemen were killed at Muwaffaq Salti Air Base on July 17-18, the first American fatalities from Iranian fire since hostilities resumed, and the IRGC has widened its retaliation to U.S. assets in Bahrain and Kuwait. The Houthis have declared a maritime blockade against Saudi Arabia, which matters because 7.4 million barrels a day transited Bab el-Mandeb in June. Brent sits above $90, and U.S. gasoline has crossed the $4 line.

I laid out my reading last week in How cash flow will decide the Iran War. The U.S. is not fighting Iran; it is fighting the IRGC, and the IRGC wants this war. They banked at least $2 billion over the four weeks the MoU lasted, and they sit on a buffer of between $6 and $8 billion. To be precise about what that buffer actually is: roughly $2 billion in cash, plus the IRGC's share of a floating reserve of perhaps 130 to 190 million barrels sitting on tankers in Southeast Asia and the Indian Ocean. Most of the war chest is not money in a vault; it is oil on water that only turns into salaries if Chinese buyers keep lifting it. A drawn-out fight makes the IRGC more relevant with both the public and the Ayatollah, but their runway is, quite literally, parked off Beijing's coast. As I wrote on X last week, the IRGC is playing a 100-year game, and Trump is playing a 4-week game. Nothing in the past ten nights changes that reading. The game theory deep dive is in the July 10th What We Told Hedge Funds This Week if you want the full setup.

My base case is that the war continues for roughly two more months, because two clocks run out at about the same time. The first is American: U.S. petroleum reserves reach critical levels on that horizon, and with the midterms in November and gasoline at $4.00 a gallon, up from $3.87 a week earlier and $3.14 a year ago, Washington cannot let the inventory picture deteriorate into campaign season. The second clock is Iranian: by my estimates, that is also roughly when the IRGC's war chest stops covering salaries. An organization built on paying its security forces and proxies does not fight through a payroll crisis. And because that war chest is mostly floating crude rather than cash, the clock speed is set in Beijing: if Chinese buyers slow their lifting, whether from summit-season caution or U.S. pressure, the IRGC's two months can shrink to weeks. Nobody in Tehran or Washington controls the timeline. Beijing does. We have charts on both clocks, and they point to the same window. That convergence is what makes the endgame tradeable: both sides run out of the resource they actually run on at nearly the same time.

Note what the IRGC is doing in the Strait in the meantime: tanker fires and blanket warnings to shipping companies. That is an insurance and rerouting tax, not a blockade. A genuine closure would choke off the oil China buys and invite a regime-survival response Tehran cannot absorb while eating strikes every night. Trump, for his part, is publicly weighing strikes on Iranian power stations and bridges, and escalation into a full infrastructure war remains live, but every widening of the target list burns through the same inventory runway faster and steepens his own clock. The wildcard that accelerates everything is a mass-casualty event, on a tanker or a U.S. base. Short of that, watch the two charts, not the nightly strike headlines. And as always - remember that we are only a Truth post away from all this being rendered irrelevant.

Chart 1: U.S. petroleum reserve runway, tracking toward critical levels into late September/October

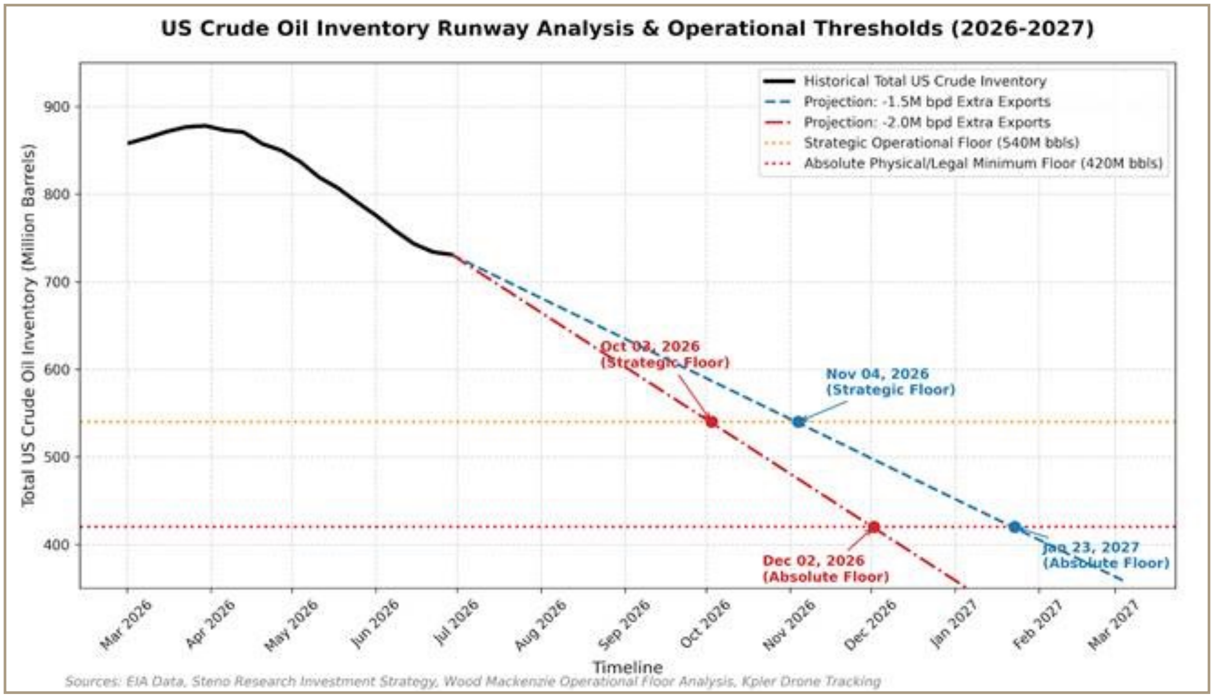
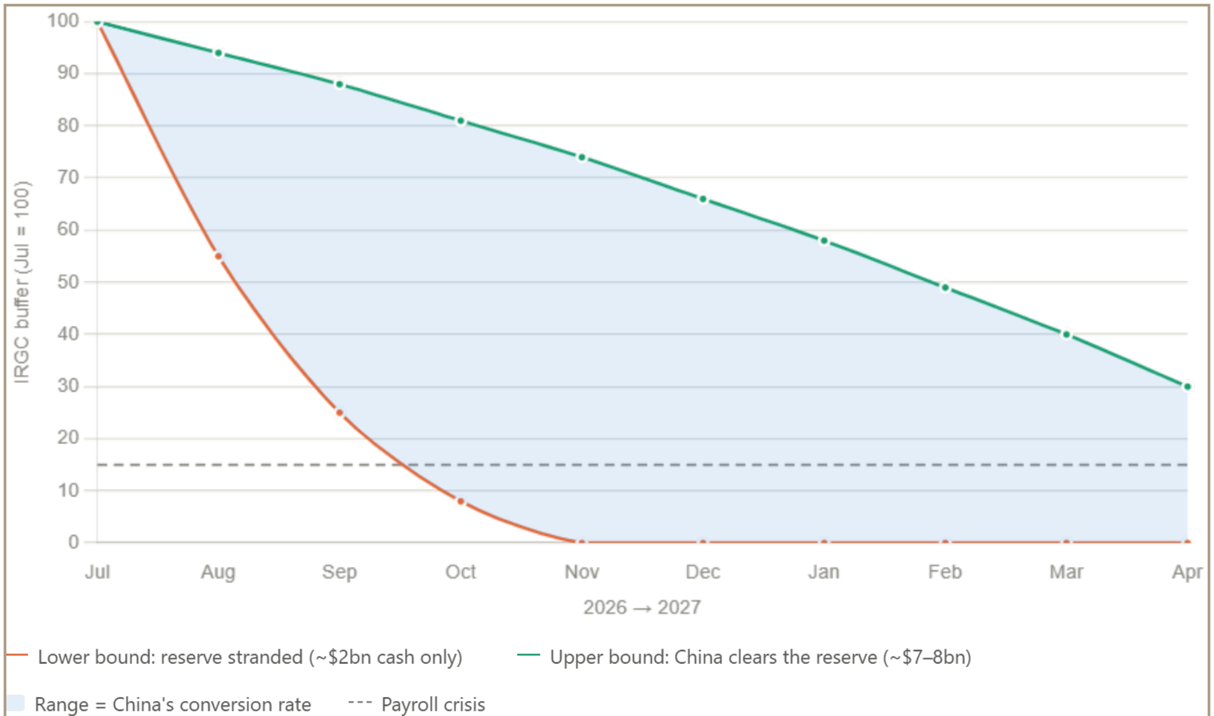


Chart 2: IRGC buffer (cash plus floating reserve, contingent on Chinese lifting) vs. estimated salary and proxy burn rate



Scenario model, not a data series. The outcome is a continuum, not discrete cases: the buffer's slope is set by one dial — how fast Chinese refiners convert Iran's ~180m-barrel floating reserve to cash. Lower bound = reserve stranded, IRGC on ~$2bn banked June cash; upper bound = full ~$7–8bn buffer cleared. Burn ≈ $0.7–1.2bn/month against ~190k-personnel payroll; threshold ≈ two months unpaid. July Iranian imports fell to their lowest since Jan 2023, pushing toward the lower bound. Assumes the renewed blockade holds and no new deal or decisive strike intervenes.

U.S.-China: the accusation that will go nowhere, and the Bloom test case

Trump stood in the East Room on July 17 and accused China of the largest compromise of election data in history, 220 million voter records, plus a cover-up by U.S. intelligence. Beijing called it fabrication. The commentariat called it the end of the truce. I think both are wrong, and the tell is in what Trump did not say: in 25 minutes of accusations, there was no call to punish Beijing. No investigation, no tariff threat, no sanctions package. Beijing's own initial read, per Bloomberg's sourcing, was that the speech was calculated for domestic political purposes, not a policy reorientation.

That is exactly my take. This was midterm theater aimed at the electoral-fraud base, not China policy. Xi is still invited to Washington on September 24, Trump is still considering APEC in Shenzhen in November, and the Paris pre-talks are still on. Beijing has privately conditioned future meetings on positive relations, which is diplomatic speak for: we will absorb the rhetoric as long as the substance holds. Expect no formal investigation against China to materialize from this. The summit is safe, and the trade truce, which is the thing actually holding up global risk appetite, is safer than the headlines suggest.

We will dive deeper into Bloom Energy as a proxy of this analysis in our Friday portfolio update, so stay tuned for that!

The MAGA pivot on Ukraine: very early, very underpriced

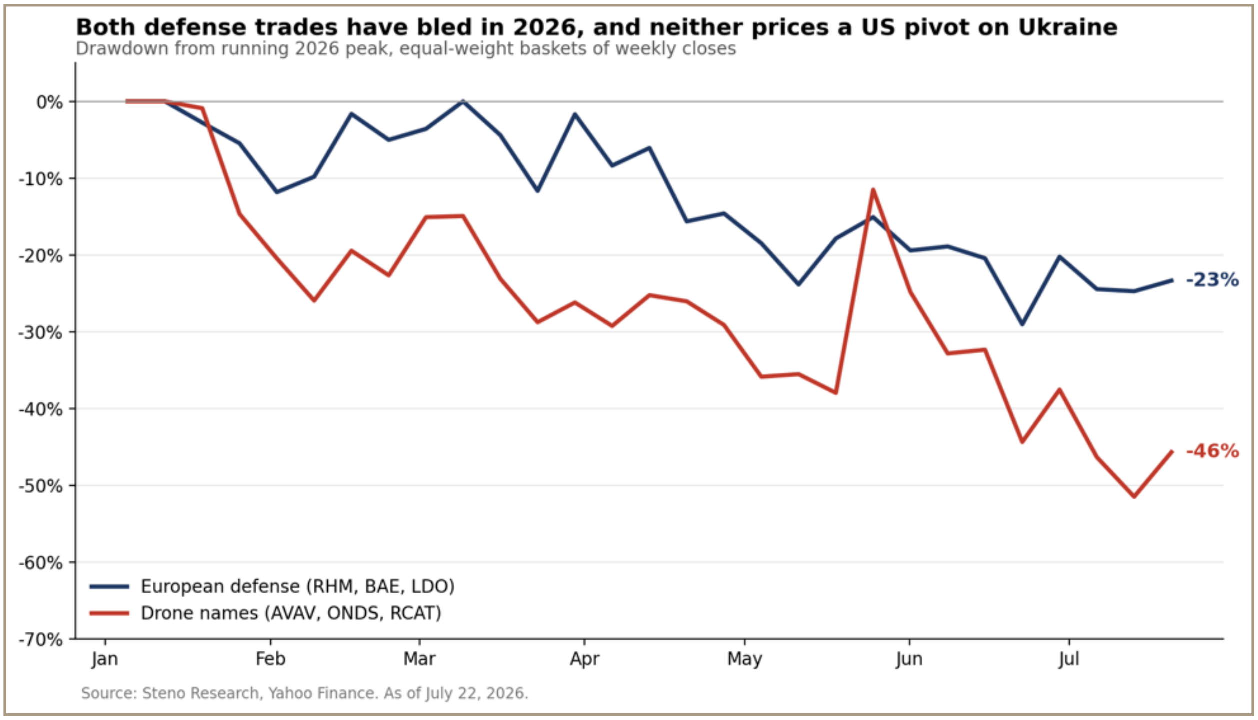
One more thing, and let me be upfront: this is a very, very early story. Nothing here is confirmed policy yet, and the signals could still reverse. But the signals are piling up fast enough that you want it on your radar now, not when it becomes consensus.

MAGA is doing a complete pivot on Ukraine. Laura Loomer, of all people, publicly recanted her Ukraine takes from Kyiv and blamed Russian propaganda for them. Trump praised Zelensky at the Ankara NATO summit, called Ukraine's deep strikes into Russia impressive, and granted a license for Ukraine to produce Patriot missiles on its own soil. Vance is out saying the drone strategy is successfully exhausting Russia.

My call, same as I posted this week: Trump wholeheartedly backs Ukraine with increased weapons shipments and intelligence support within 6-9 months. The base is being prepared for it in real time; that is what the Loomer recantation is. And the timing lines up with what Ukraine is doing on the ground, a deliberate shift from front-line attrition to strikes on Russian refining, logistics, and industrial nodes. An oil depot, Moscow Oblast logistics, six Black Sea vessels and fires at a Lipetsk steel plant, all in the past week. Ukraine is fighting a fuel and logistics war now, and it is the kind of campaign that compounds over months.

For positioning, treat this as a watchlist, not a trade to size up today. If the pivot matures, it cuts three ways. European and drone-adjacent defense names, which have had a miserable couple of months, get their catalyst back if the U.S. swings behind Ukraine with volume orders rather than rhetoric. Russian refining damage adds a second structural leg to the products tightness story that Iran started, one more reason the refiner trade has legs. And the Ukraine reconstruction theme stops being a peace trade and becomes a rearmament-plus-rebuild trade, which is a better one, because it does not require the war to end, only the money to flow. I will return to this one as the story firms up.

Chart 3: European defense index vs. drone names, drawdown from the 2026 peak



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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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