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Important disclosures and certifications are contained from page 17 of this report.

Geopolitical Radar: Islamic NATO in the making?

Danske Bank

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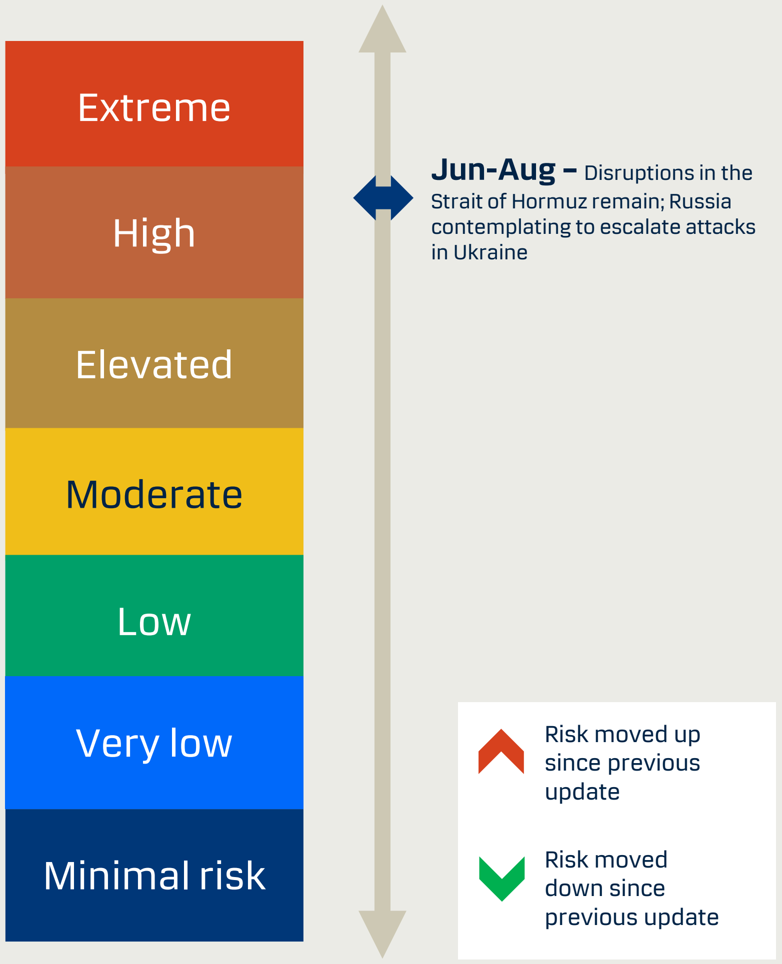
Global Risk Barometer*: Risk Level Remains at High



Overall risk assessment: HIGH

We maintain our risk assessment at HIGH. Ceasefire in the Middle East collapsed in July, and after a monthlong calm, the US and Iran have again exchanged strikes. In Europe, escalation risks are on the rise as Russia is reportedly considering to step up its military aggression in Ukraine. We have not made any changes to the contents of our scenarios (p. 14) but we have adjusted the probabilities to reflect that the year is approaching its end.

What has changed since the previous update?

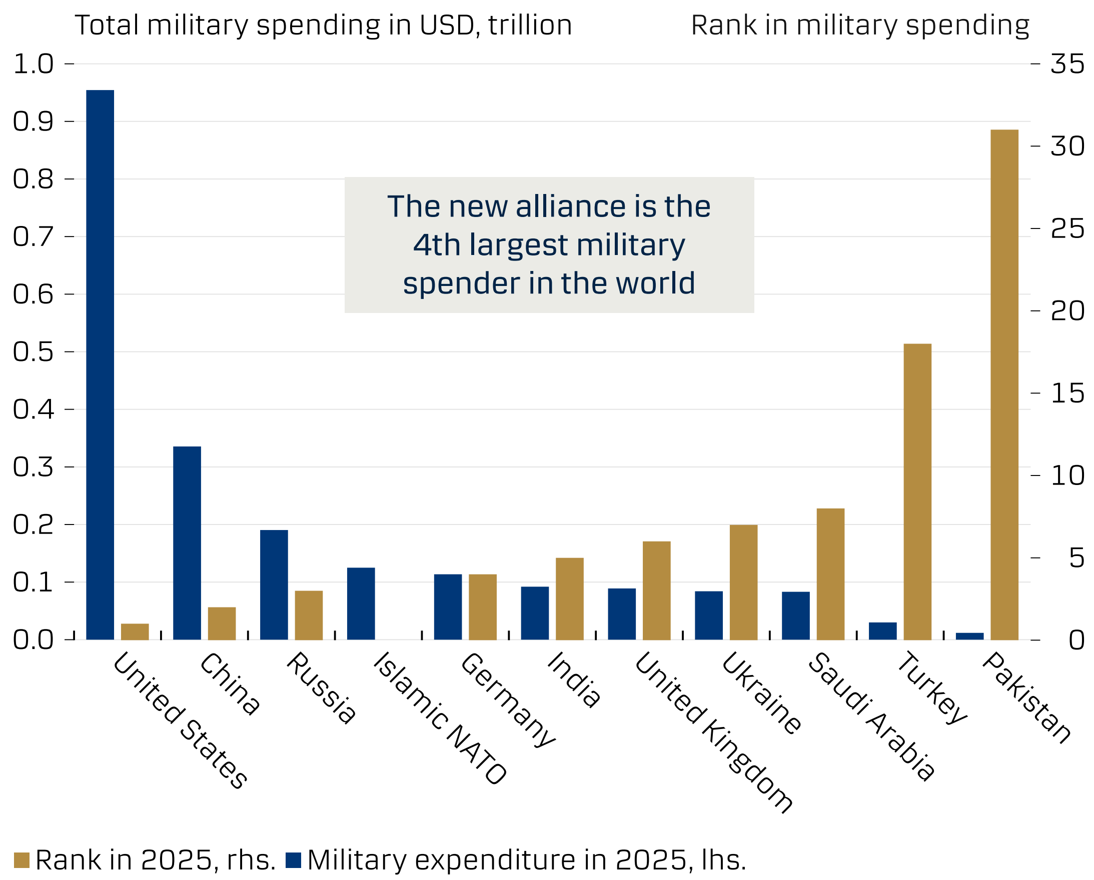
Traffic in the Strait of Hormuz has reportedly been busier in late summer weeks than open source data shows. The US Energy Secretary Chris Wright claimed in August that even 9Mb/d had been transiting the strait. The figure might be stretched, but it is likely that some tankers go under the radar. China's lower crude oil imports have also been a key factor in keeping oil prices below USD 100. Apart from the re-escalation in the Iran war, an interesting regional military alliance has emerged after Turkey, Pakistan and Saudi Arabia signed a joint defence agreement. Read more in the Editorial, p. 4.

What to watch September?

- BRICS summit in India 12-13 September
- Russian Duma election 18-20 September
- Trump-Xi summit on 24 September

*The geopolitical risk barometer builds on our analysts' discretion and their judgment regarding the overall geopolitical tensions. As economists, we primarily assess geopolitical risks from the perspective of the global economy and financial markets. Hence, in our assessment minimal to low risk would refer to an environment where geopolitics is unlikely to trigger any economic or market turbulence. When the overall risk is extreme or very high, geopolitical risks would likely dominate the markets' agenda.

Islamic NATO in the making?



In early August, Saudi Arabia, Turkey and Pakistan signed a trilateral defence agreement in Mecca that "*stipulates that an armed attack against any of the three would be regarded as an attack on all*". Sounds like NATO's article 5, but is it really?

For context, Turkey has the second largest military in NATO, Pakistan is the only Muslim country with a nuclear weapon and Saudi Arabia has oil money. So, the idea seems to be that the Saudi bring in the cash, the Turks bring in their manufacturing know-how and the Pakistani their combat experience and military design expertise (*plus possibly the nuclear umbrella, albeit it is uncertain if it is to be extended*).

For now, the new alliance lacks all the structures and command chains that would actually make a proper military union. But if we ignore that, how credible is the NATO-like clause? Saudi Arabia is defending itself against Iran and the Houthis, Pakistan's arch enemy is India, and Turkey is increasingly at odds with Israel (both on the Gaza issue, and in Syria). Would they actually be ready to defend each other against an enemy they do not necessarily recognize as one? Remember, diverging interests and the lack of common enemy have in history often led to collapses of military alliances (e.g. CENTO and SEATO during the Cold War era).

Whether history writers will eventually treat this more as an empty declaration or an actual Islamic NATO, is perhaps less interesting than the signal effect. The US is re-evaluating its military presence in the Persian Gulf. They may not even rebuild the bases that have been damaged in the Iran war. The now-signed trilateral pact is a natural consequence of the US distancing itself. At the same time, it will form a counter force to an Israeli-led alliance in the region that includes the UAE and Somaliland. Indeed, the most interesting part may be that on the ruins of Gaza and Iran wars two blocs are emerging, and only one of them aligns itself unconditionally with the US.

Source SIPRI


Middle East
Fighting Escalates Again

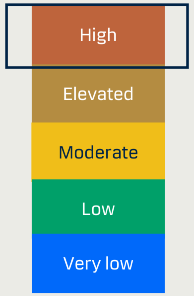
Six months into war, fighting re-escalates and the US targets Iranian oil tankers

What has changed since our previous update?

- In late August and early September, fighting has re-escalated between the US and Iran, especially around the Strait of Hormuz. Reportedly, the US has made its first attacks against Iranian oil tankers, responding to Iran's repeated targeting of vessels attempting to pass through the strait.
- Iran and Oman have reached a technical framework agreement on how to administer the SOH, but the relevance of such a deal is limited, since the two countries have apparently agreed on geographical coordinates of proposed shipping routes only while many details remain open. Iran has previously insisted that it should control the inbound traffic but would also maintain significant control of the southern "Omani route". Furthermore, the Iranian officials have been explicit that they would not allow vessels to pass until the US made substantial concessions. Hence, the stalemate continues.
- Reportedly, the US is weighing major troop pullback from the Persian Gulf, as it is considering not to repair some of the war damages on its bases, and instead moving its troops further west. The Trump administration is also planning to cut off funding to its longstanding ally, the semi-autonomous Kurdistan region in Iraq. Kurdish officials fear the move might embolden Iran.

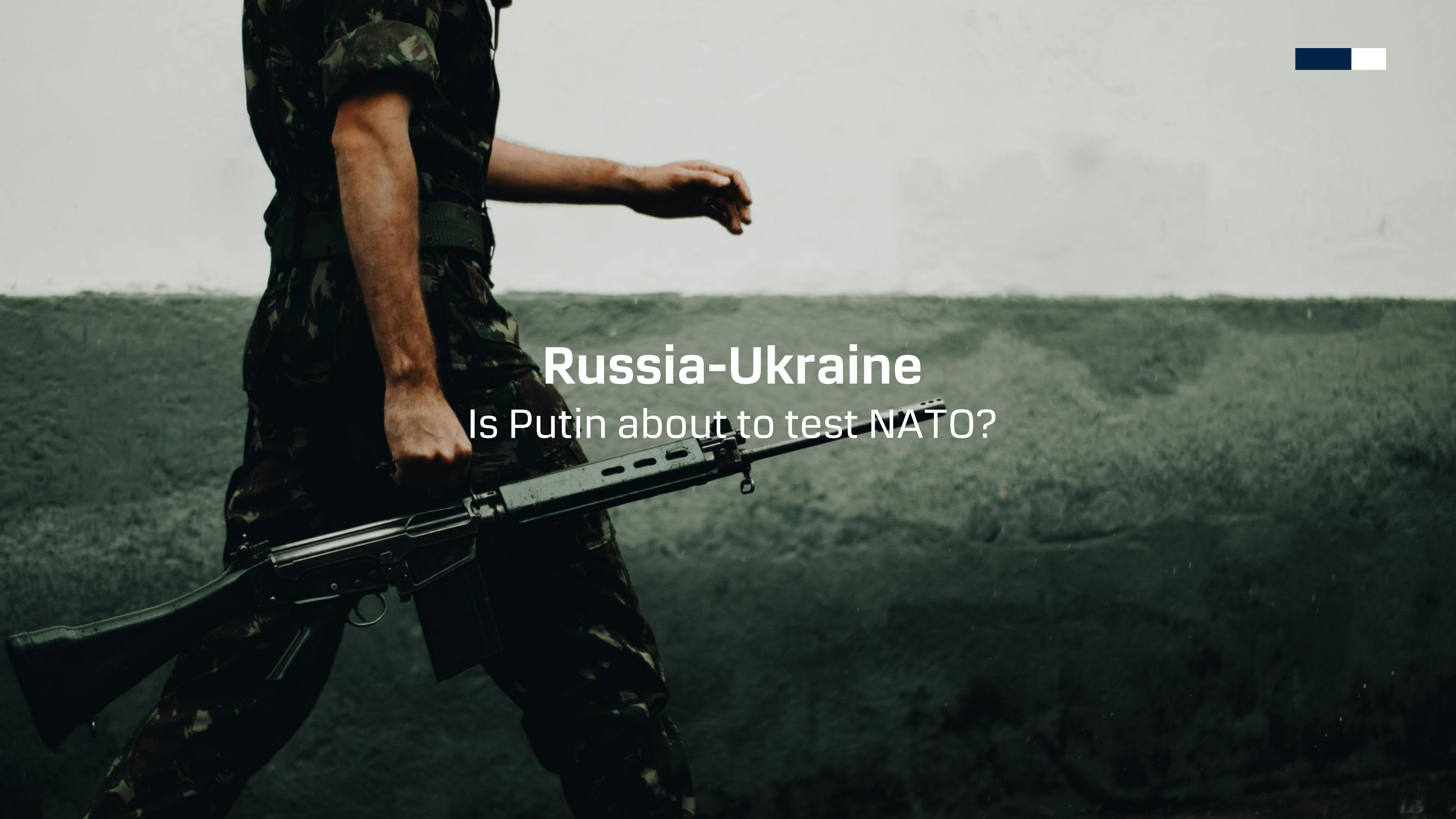
Key things to watch in Middle East

- A protracted limbo is our main scenario for US-Iran talks and the SOH. But will we see more tankers being able to pass the strait despite no actual deal?
- In July, Trump announced an "historical disarmament" deal with Hamas, but little actual progress has been seen. Meanwhile, Israel continues to extend its control over the Gaza strip. They currently control 60% of the area, and Netanyahu recently told media that he had adviced the IDF to seek 70% control. Will we see any progress towards Hamas disarmament? We would not hold our breath.



Risk assessment: HIGH

We maintain our risk assessment at high as the US and Iran have again exchanged strikes and tensions are very high. Over the summer, Saudi Arabia has also become more involved joining the US in some of its operations.



Russia-Ukraine

Is Putin about to test NATO?

Is Putin about to test NATO?

What has changed since our previous update?

- In early August, a drone carrying explosives was discovered at Leipzig airport in Germany. The German government has now come out to say that the evidence from their own and their allies' intelligence services points to Russian involvement. The German Minister of the Interior Alexander Dobrindt said that Germany is not in a war but is a target of hybrid warfare every day. This drone incident is one of the most severe ones thus far, and in our view, it corroborates how Russia is escalating its hybrid attacks against Europe.

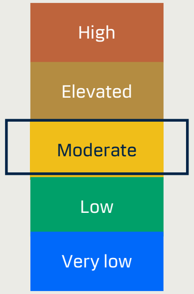
- In that regard, CIA director John Ratclife visited Moscow in late August, where he reportedly warned Russia not to stage an attack in NATO territory. A few weeks earlier media reports had emerged that US intelligence assessments indicate Russia could try to test NATO's unity within the next few years. The most likely targets for any military incursion would be Poland or the Baltics.

- Ukraine's attacks on Russia's energy infrastructure are causing severe shortages. According to Ukrainian officials Russia has been forced to implement export bans and turn to imports in order to meet the commercial military demand for jet fuel.

Key things to watch in Russia-Ukraine

- According to ISW, Russian forces' rate of advance marginally increased in August, but their gains remain slow and limited. Compared to last year, Russia's territorial gains are much lower, see great charts here. How will the battle positions form as the war enters its fifth winter?

- Watch out for Russian Duma election in 18-20 September. Although the outcome will be no surprise, and election is far from free and fair, it is the first election since Russia's full-scale invasion of Ukraine. See NEST centre's analysis here.



Risk assessment: MODERATE

The acute threat of Russia expanding its military warfare in Europe remains limited but spillover effects from the war are becoming more pronounced across Europe.

China

New tensions ahead of Xi-Trump meeting

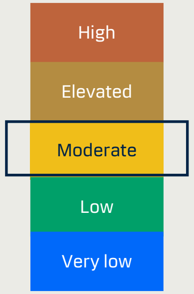
Xi-Trump meeting to focus on stability again but with few concrete results

What has changed since our previous update?

- **US-China relations** have been bumpy again. China was defiant over new US economic sanctions targeting countries that trade with Iran. A new round of tit-for-tat export controls in the tech area (drones etc.) also took place. China this week blocked a G20 statement prepared by US Treasury Secretary Scott Bessent that indicated China was distorting global trade.
- **EU-China trade tensions** also continued over the summer. China published a White Paper rejecting links between overcapacity and its' trade surplus. An EU investigation into the Chinese company JD also triggered push-back. October deadline. EU has stated China must deliver concrete results by October or face 'harsher measures'. China will likely retaliate any new measures.
- **Taiwan passed a bill worth USD7.3 bn** for procurement and development of drones to strengthen asymmetric war power. Tensions continue between Taiwan and the mainland but the next real test will not come until 2028 when the country goes to the polls again. The election will send a signal to China of which way the wind is blowing: will the independence-seeking DPP get re-election for presidency for the third time - or will people choose KMT who has proposed a less confrontational path with China. KMT's leader visited China this year, the first vist in a decade by a KMT leader.

Key things to watch in China relations with West

- **Xi visit to US 23-24 September.** The recent string of tensions have strained the US-China relationship ahead of the meeting and few results are expected. The two leaders will likely aim to hang on to the "constructive strategic stability" they agreed to at the previous Xi-Trump meeting in Beijing in April. Global AI governance is also on the agenda.
- **EU-China trade talks ahead of October deadline.**
- **Xi to attend the BRICS Summit** on 12-13 September hosted by India, Xi's first visit to the country in 7 years. Last week an 8-step plan to ease border tensions was agreed to and a Xi-Modi meeting will likely focus on a further slow thaw in the relationship.



Risk assessment: Moderate

The score relates mostly to risk of military action around Taiwan. However, the South China Sea is another hot spot to watch. We keep the risk score at moderate. Trump seems to avoid 'poking the dragon' on this issue while pressuring Taiwan to spend more on defence.

Under the Radar

Trump’s envoy criticises Israel

US ambassador to Ankara criticises Israel for its attack on Syria air base

Under the Radar: Trump's envoy criticises Israel

- **US ambassador to Ankara** and special envoy for Syria, Tom Barrack, took a very critical stance towards Israel after their military targeted a Syrian air base around mid-August. The Israeli claim that Turkey intended to establish air-defence radars and attack drones at the base, but Barrack said these claims were unfounded and even suggested that Israel might have been "baiting the Turks" ahead of the October 27th election.
- In late August, reports emerged of fresh **Chinese** construction activities for military purposes in the **South China Sea**, more specifically at Antelope Reef in the Paracel islands. Vietnam claims sovereignty over the islands that have been under Chinese control since 1974. **Vietnam** has demanded "immediate cessation" to China's activities.
- The **US-Saudi** nuclear deal that the two countries signed in July has moved to US Congress for review. The deal would allow US companies to export civilian nuclear technology to Saudi Arabia. The 30-year agreement also calls for the kingdom to build AP1000 reactors. The congress has until end of November to review the agreement. President Trump insists the terms would prevent Saudi Arabia from enriching uranium but the deal's critics are sceptical. Trump has also said the agreement would not be ratified until the Saudi signed the Abraham Accords that would normalise relations with Israel.

Off the Radar: Colombia makes a right turn

- **Colombia** took a turn right in presidential election in late June when **Abelardo de la Espriella**, nicknamed "El Tigre", won the popular vote in a divided country. De la Espriella was US President Trump's favoured candidate and he has promised to repair relations with the US, as well as to open up the country to fracking, thereby reversing predecessor Gustavo Petro's moratorium on new hydrocarbon and mining contracts.
- **Nicaragua's** authoritarian leader **Daniel Ortega**, who has held power since 2007, announced in July that his country will no longer hold election.
- In August, **China** launched its first scheduled transit through the **Northern Sea Route**. The route is only navigable in summer months, but the window is widening due to climate change. For some vessels, the route can more than halve the time it takes to get from China to Europe. China and Russia have been collaborating on the "polar Silk road" project since 2017 but progress has been slow.
- Trump ordered **US** military to reduce participation in joint drills with **South Korea** adding to doubts in the region about how much they can rely on US security. **North Korea** has been dismissive of Trump's recent overture to Kim Jong Un and slammed US over a weapons sale to South Korea vowing a strong response.

Conflict Scenarios & Annexes

Conflict Scenarios for 2026

Russia vs. Ukraine

War continues (85%): Protracted conflict with rising spillover risks across Europe.

Deal dictated by Russia (5%): The US pushes a deal between Russia and Ukraine where Ukraine is left with insufficient security guarantees. Sanctions against Russia are eased rapidly. The risk of a new attack by Russia over coming years remains high.

Sustainable peace (5%): Ukraine gets sufficient security guarantees but is forced to make territorial concessions. Any sanctions relief for Russia is gradual.

Ukraine wins (5%): The new US administration plays hardball with Russia and a ceasefire favourable for Ukraine is achieved. Ukraine gets security guarantees it prefers.

Middle East

Baseline (60%): Protracted limbo. Israeli/US war operations in the region continue, while the intensity of the warfare varies. We think the US attack on Feb-2026 marked a point of no return, and the US will remain tied up in the region for much longer than the administration had in plans. Traffic levels in the SOH do not return to pre-war normal.

Downside risk (25%): Fighting resumes and the war escalates further, as the whole of the Persian Gulf is affected. Strait of Hormuz remains too dangerous for maritime navigation.

Upside risk (15%): The US and Iran sign a permanent peace deal, and a new nuclear deal, and tensions de-escalate.

China-US-Taiwan war

Baseline (60%): Tensions remain high but no Chinese blockade or military action next couple of years. War is extremely costly for all sides. Both US and China choose deterrence as preferred policy. US aims to deter Chinese invasion by making perceived cost as high as possible. China uses military drills and grey zone warfare to deter US support for formal Taiwan independence and subdue Taiwan. In the long term, a real risk of war remains. China will not give up reunification, and it becomes stronger militarily and more self-sufficient.

Downside risk (30%): Mishaps trigger tit-for-tat escalation into war and/or US changes policy and supports Taiwan independence.

Upside risk (10%): Trump dials back support for Taiwan and China reduces military drills.

Annex 1. Related Reading

Want to Read More?

Thematic Publications on Geopolitics

- Geopolitical Radar Extra: Contagion risk from Middle East is significant, 8 March 2026
- Research Global: What if Iran closes the Strait of Hormuz? 22 June 2025
- Research Global: Arming Ukraine is the cheap option for Europe, 3 March 2025
- Research Global: What would a dirty deal in Ukraine mean for markets, 16 February 2025
- Research Global – Trump fires first salvo in multifront trade war, 3 February 2025
- Geopolitical Radar Extra: Heat is on in the Arctic – How real are the threats and opportunities? 3 February 2025
- Research Global: Harris vs. Trump – what it means for US-China relations, 22 October 2024

Updates

Previous

4.5.2026

Two months of Strait of Hormuz closure - are markets too calm? Wednesday 6 May 2026 at 10.00 - 10.30 CEST

Wednesday 6 May 2026 at 10.00 - 10.30 CEST (Teams meeting)

10.4.2026

Geopolitical Radar: Pause, Not Peace

We see the US-Iran ceasefire as a pause rather than a permanent ceasefire. Key obstacles remain as Iran insists on their right to enrich uranium, which the US says they cannot accept.

12.3.2026

Geopolitical Radar: Returning to normalcy in SOH will be hard

We lift our risk assessment to HIGH, and to highest it has ever been during the lifetime of our Radar (~3 years).

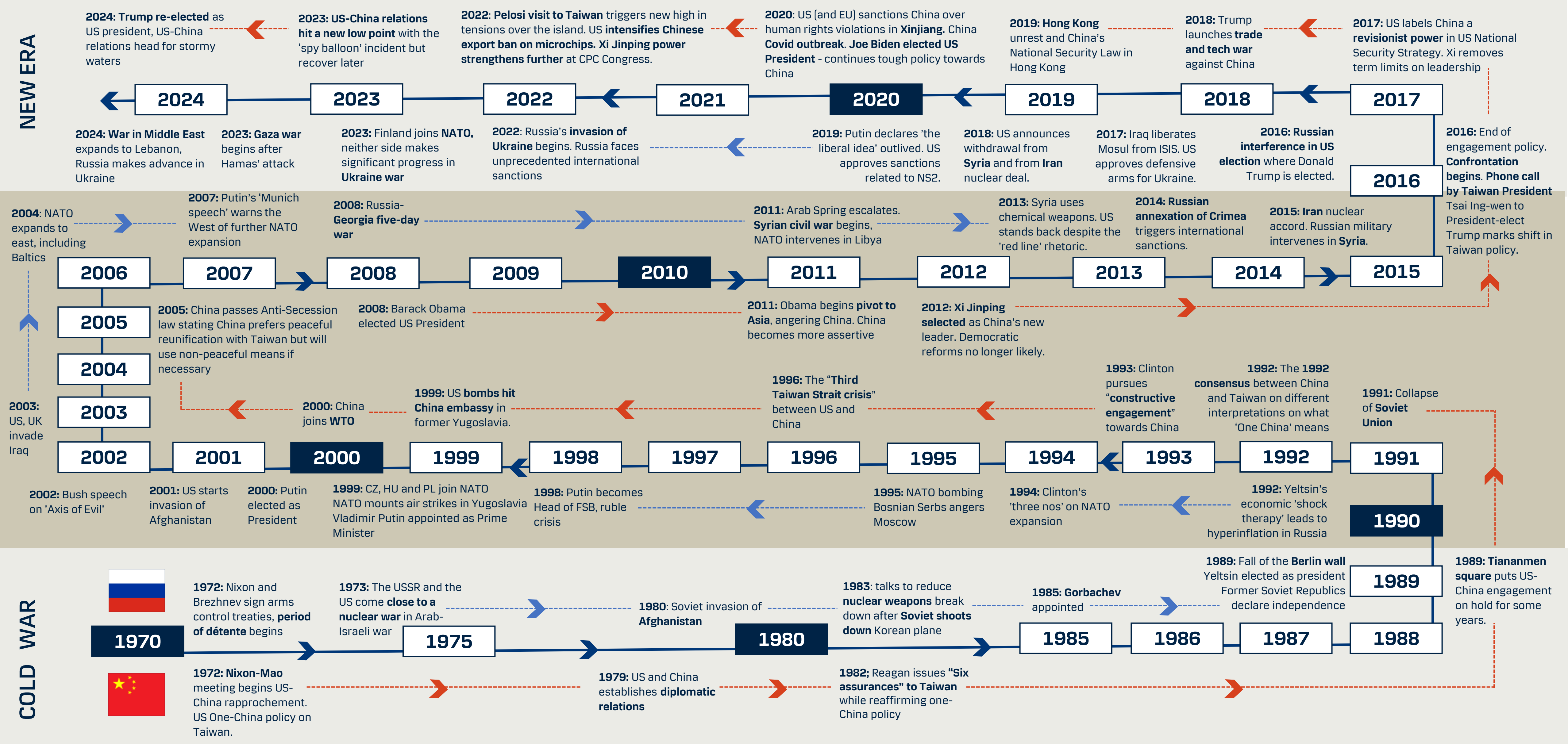
8.3.2026

Geopolitical Radar Extra: Contagion risk from Middle East is significant

The war in Middle East is rapidly spiraling out of control. Even if it is not our main scenario, readers should prepare for a long war and severe supply chain bottlenecks.

Link to all Geopolitical Radar publications.

Annex 2. Historical Timeline of Key Geopolitical Events – China & Russia



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