

3 October 2025



Geopolitical Radar: Europe in Hybrid War

Danske Bank

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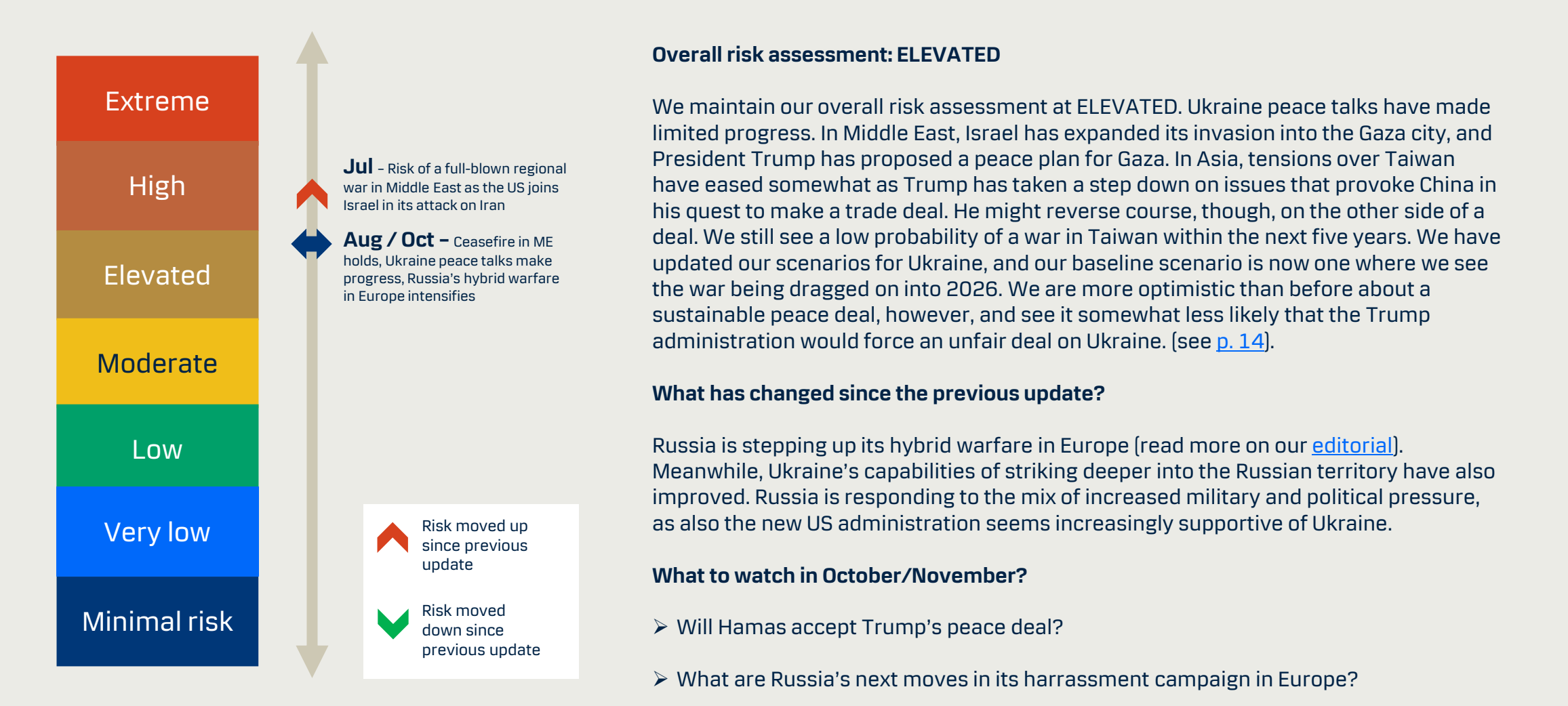
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Global Risk Barometer*: Risk Level Unhanged at Elevated

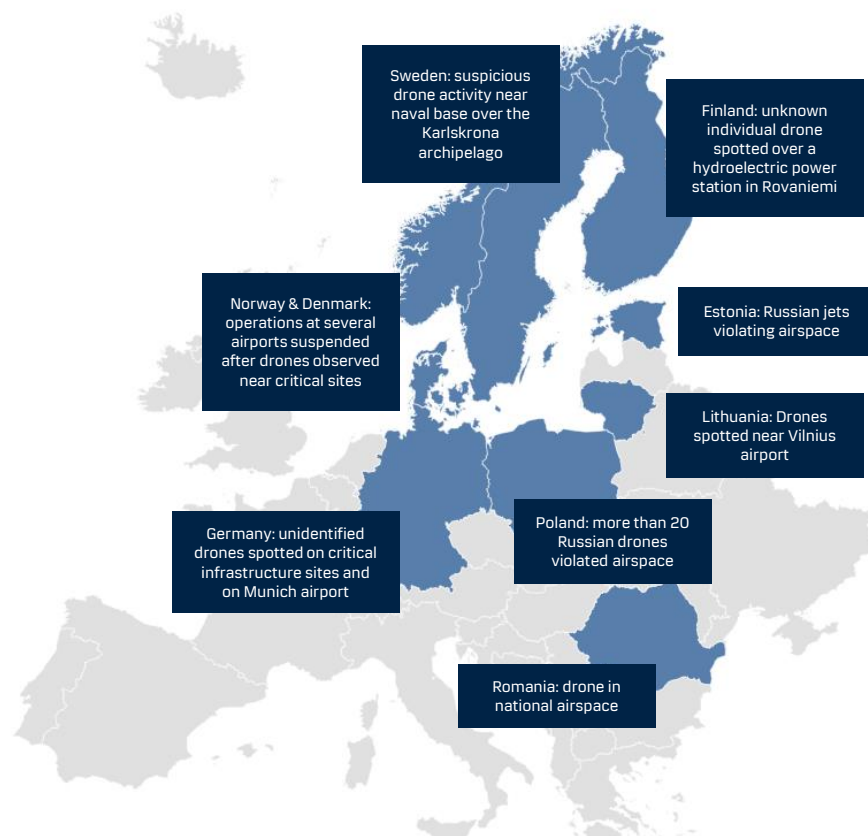


*The geopolitical risk barometer builds on our analysts' discretion and their judgment regarding the overall geopolitical tensions. As economists, we primarily assess geopolitical risks from the perspective of the global economy and financial markets. Hence, in our assessment minimal to low risk would 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.

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If this is not hybrid war in Europe, what is?

Recent drone incidents and airspace violations



Recently, we have witnessed a shift in Russia's warfare tactics. In late August, Russia launched nearly 600 drones and tens of ballistic and cruise missiles against Kyiv. A week later, Russia conducted its so far largest air strike in Ukraine since the start of the 3.5-year-long war. But, increasingly, attacking Ukraine is not enough for Russia.

In September, Russian drones and jets have violated the EU airspace several times*. The most brazen incursion was on September 10, when approximately 20 Russian drones violated the Polish airspace. The incident resulted in Poland shooting down four drones and invoking NATO article 4 (consultation article). [NATO responded](#) by launching the "Eastern Sentry" – operation aimed to bolster NATO's posture along the eastern flank. Since September 10, mysterious drones have been spotted at least in Romania, in all Nordic countries, as well as in Lithuania and Germany. In addition, Russian MiG-31 fighter jets violated the Estonian airspace on September 19.

It is clear that Russia is testing Europe's and NATO's intervention threshold. For a long time now, the Kremlin has considered to be in war – not against Ukraine – but against NATO. Gradually, it is also forcing NATO to conclude whether they are in it or not. Russia's hybrid warfare has in the past involved a range of tactics: from funnelling illegal immigrants to EU borders, on to supporting European political parties at both extreme ends, on to cyber attacks, and further on to raging information warfare globally (including in the Global South). In hybrid war, imagination is the limit.

As Russia's hybrid warfare in Europe intensifies, we should be prepared for possible disruptions in everyday life: transport, payments and communications are all vulnerable. And often, our heavy reliance on modern technology only underlines how fragile we are.



Russia-Ukraine

Ukraine's Ability to Strike
Deeper into Russia Improves

Ukraine's Ability to Strike Deeper Into Russia Improves

What has changed since our previous update?

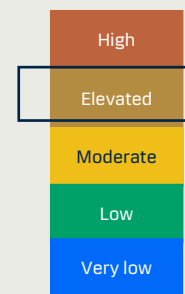


- Last month, we wrote about Ukraine's successful attacks against Russian energy infrastructure. Ukraine's capabilities of reaching targets deep into the Russian territory have significantly improved with the **new FP-5 Flamingo cruise missile** that has a 3,000 kilometres range. It is among the world's largest and longest-range ground-launched cruise-missile systems despite being low cost.
- According to the [International Institute for Strategic Studies](#), the **Flamingo's impact** on Ukraine's deep-strike campaign will depend not only upon the missile's maturity, quality and survivability but also the scale of its production. Daily production capacity is expected to have climbed from one in September to seven by October. Russia, in turn, is likely to target Ukrainian missile production sites in an effort to counter the rising threat.
- In addition, in early October, media reported that Russia would share with Ukraine intelligence on Russian energy and infrastructure that is within the reach of long-range weapons. Despite Trump's reluctance to launch new sanctions against Russia, he seems to be at least more supportive of Ukraine's military efforts.

Key things to watch in Russia-Ukraine



- What are Russia's next moves in its harassment campaign across Europe?
- How severe harm is Ukraine able to inflict on Russia with its long-range-attack capabilities?
- Will we see concrete progress in peace talks?



Risk assessment: ELEVATED

We maintain our risk assessment at ELEVATED. Despite the recent progress in peace talks, we believe there is still a long way to a fair and lasting peace.



Middle East

Snapping Back Sanctions On Iran



EU reinstates sanctions against Iran, Palestinians bypassed in peace talks

What has changed since our previous update?

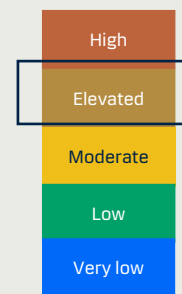


- **Sanctions against Iran reinstated:** Iran failed to convince western leaders that it would rightly address their concerns over its nuclear programme. Iran refused to resume talks with the US and the E3 (UK, Germany, France) were not satisfied that Iran would allow the IAEA to resume inspections of its main nuclear sites. As a result, the UN sanctions were reimposed in late September. The EU [followed suit](#) and imposed sanctions e.g. on Iranian individuals and on imports, purchase and transport of hydrocarbons.
- **Palestinians bypassed in peace talks:** On September 29, Trump administration released a lengthy [peace plan](#) for Gaza. The plan includes a hostage-prisoner exchange and disarmament of Hamas. Full aid to Gaza would start flowing immediately after the acceptance of the agreement. Gaza would be governed by a transitional technocratic, apolitical Palestinian committee consisting of "qualified Palestinians" and international experts, with oversight belonging to a group whose chair would be President Trump. Although the plan stops short of mentioning the forced displacement of the Palestinians, it still includes a number of elements resembling colonialism, and effectively, the deal would make Gaza an Israeli protectorate. We are doubtful Hamas would accept the terms in their current form.

Key things to watch in Middle East





- Will Hamas accept Trump's peace plan?
- Will Israel use Iran's reluctance to negotiate on the nuclear program as a pretext to strike again, with an aim to topple the Islamic regime?



Risk assessment: Elevated

The risk of a regional war remains elevated despite the fragile truce. It is unlikely that Israeli leadership has given up on their hopes to topple the Islamic regime of Iran. For markets, the threshold to react remains high as energy trade and production has not been disrupted thus far.



China and the West

Taiwan to Become Bargaining Chip in Trade Deal?

Trump dials down Taiwan support in hunt for trade deal with China

What has changed since our previous update?

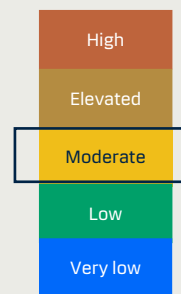


- **Taiwan:** Tensions have eased after Trump has taken a step back on actions that normally provoke China. Over the summer he [denied](#) Taiwanese president Lai to transit in the US at a planned trip to South America and [declined](#) to approve a USD400 million arms sales in September. On the other side of a potential deal, Trump could very well revert to arms sales to Taiwan and allow a transit by Lai. [WSJ](#) reported Xi Jinping may aim for Trump changing US wording on Taiwan from “does not support” independence to “oppose independence” as part of a bigger trade deal. Xi and Trump will meet at the APEC Summit on 31 October and Trump is set to go to Beijing in early 2026.
- **US-China trade war:** US-China trade talks continues with the next deadline being on 10 November. The deadline will likely be moved by another 30 days again. Trump needs a deal to secure China buying soybeans again, as US soy farmers exports to China has dropped to zero. China will aim for concessions on tech sanctions or tariffs. A deal on TikTok was finally struck in September.
- **US-China tech war:** Trump has allowed China to buy Nvidia H20 AI chips. Yet, China asked its' tech companies to buy local AI chips instead as Huawei has narrowed the gap to Nvidia. It could be a tactic to make Trump allow China to buy Nvidia's most advanced chips. Nvidia CEO Jensen Huang [called](#) for easing tech export controls saying China is only nano-seconds behind the US in AI. He also said being 'China hawk' should be badge of shame, and not a badge of honour.

Key things to watch in China relations with West




- Election of new LDP leader in Japan on 4 October (will it impact Japan's policy on China/US?).
- Xi-Trump meeting on sidelines at APEC meeting on 31 October
- US-China trade talks ahead of deadline 10 November



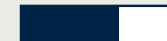
Risk assessment: Moderate

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 avoids 'poking the dragon' on this issue while pressuring Taiwan to spend more on defence.



Under the Radar

US Bails Out Argentina



US Bails Out Argentina, Fine-tunes Strategy in Middle East

Under the Radar: US bails out Argentina



- On September 24, US Treasury Secretary Scott Bessent declared that the US is ready to extend a USD 20 billion lifeline to **Argentina** in the run up to critical elections next month. This move is particularly interesting since US Republicans typically loathe bailout politics. The issue is also politically complex as Argentina has been taking US soybean producers' biggest market: Chinese importers have replaced US sellers with Argentines as a retaliatory response to high US tariffs.
- Indian Prime Minister **Narendra Modi** skipped the UN Assembly in New York for the first time since 2014. **Trump's speech at the UN** focused on lecturing other countries' leaders of their immigration policies, attacking climate policies. He also questioned the reason for being of the UN saying: *"For the most part, at least for now, all they seem to do is write a really strongly worded letter and then never follow that letter up. It's empty words, and empty words don't solve war."* It is difficult to completely disagree with President Trump on this one. His own approach is, indeed, a more hawkish one. After his speech, he said that NATO countries should shoot down Russian aircraft if they enter their airspace.

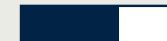
Off the Radar: US scales back from Iraq, beyes Bagram air base



- The US is scaling back its military mission in **Iraq** as they increasingly shift their focus to combating Islamic State remnants in **Syria**. Once the transitions are completed, the total number of US forces in Iraq will have fallen from 2,500 to 2,000 and the majority of them will be in Erbil (Kurdistan).
- President Trump told reporters in September that he wants the US to retake the Bagram air base in **Afghanistan**. He also said "bad things" would happen to Afghanistan if they do not give control back to the US. The Bagram air base is important for the US for historical reasons but the current US government probably also sees a critical role for Bagram in countering China's influence in the region. Bagram is about 800km from the Chinese border.
- For the first time ever, **China**, the world's biggest source of carbon emissions, has committed to an absolute target on its emissions. President Xi Jinping told the UN that China would reduce its GHG emissions by 7-10 % by 2035. Critics still say that China's plan falls short of keeping climate goals in reach.



Conflict Scenarios & Annexes



Conflict Scenarios for the Next 12 Months

Russia vs. Ukraine

Deal dictated by Russia (30%): 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 (30%): Ukraine gets sufficient security guarantees and any sanctions relief for Russia is gradual.

War continues (35%): The war continues into next year, and Russia gains more ground as US support for Ukraine falters.

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 (50%): Israel's war operations in the region continue. There is no resolution in sight for the protracted war in Gaza. In addition, Israel is likely to continue its attacks on Iran in one form or the other. We think Netanyahu sees the situation as a once-in-a-generation opportunity to significantly weaken, and potentially topple, the Islamic regime. Even if active warfare stops, we think Israel's targeted crackdown on the IRGC officials will continue.

Downside risk (40%): The ceasefire between Israel, Iran and the US collapses and the US again intervenes in the conflict. Risk of another forever-war in Middle East increases.

Upside risk (10%): A lasting ceasefire in the region is achieved.

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

- [Research Global: What if Iran closes the Strait of Hormuz?](#) 22 June
- [Research Global: Arming Ukraine is the cheap option for Europe](#), 3 March
- [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
- [Research Global: Make the Gulf great again – how the UAE-KSA rivalry is reshaping our neighbourhood](#), 12 August 2024
- [Research Global: Buckle up for EU-China trade tensions](#), 8 February 2024


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Equities About


Geopolitics, emerging markets

Previous




27.11.2024
Geopolitical Radar: The world prepares for Trump 2.0

Trump's re-election and red sweep in congress election implies that significant changes are expected in US foreign policy next year.



31.10.2024
Geopolitical Radar: US election outcome is key for geopolitics

The US election outcome will be very important for the global south, also from the perspective of the ongoing military conflicts.

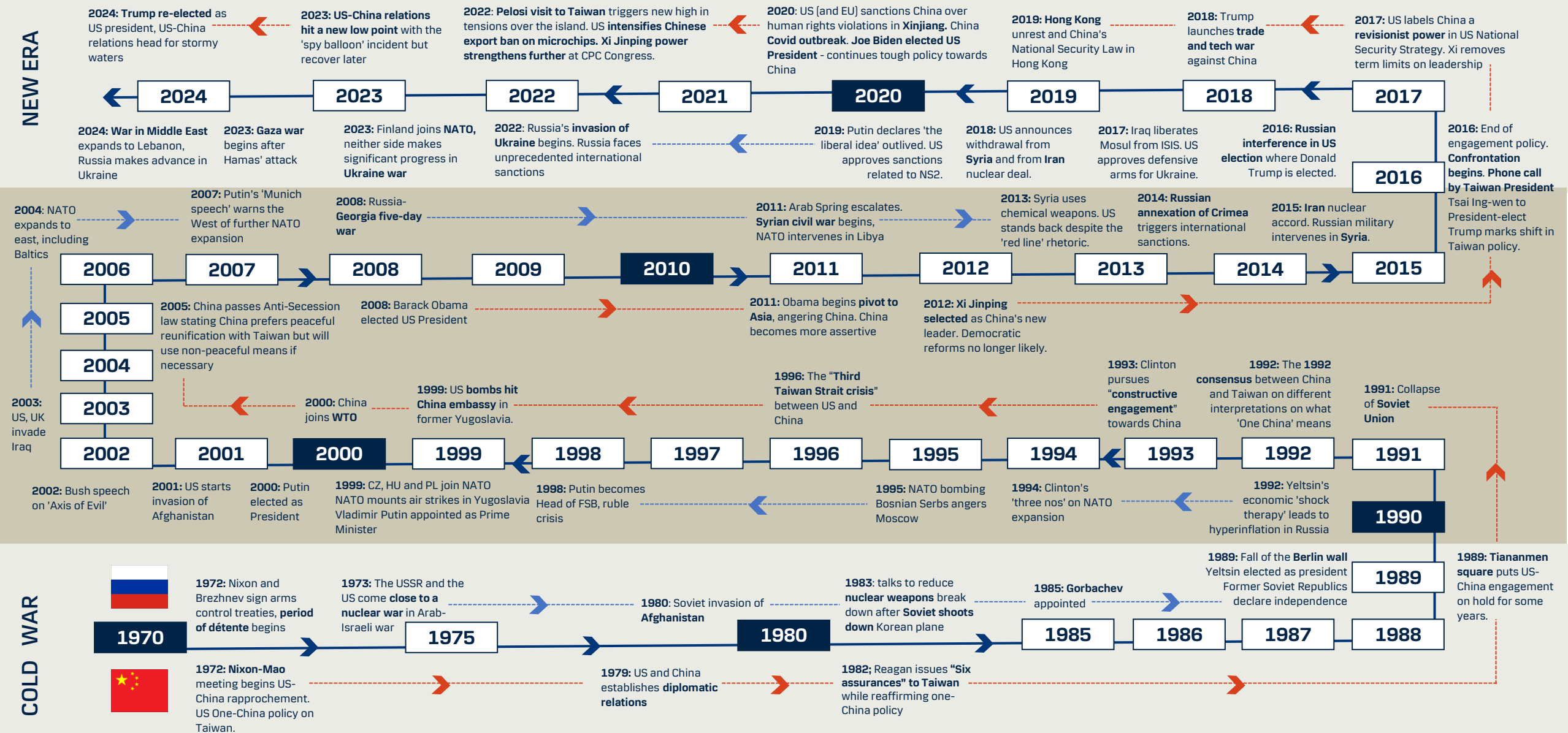


29.9.2024
Geopolitical radar: Extra edition - After Nasrallah killing, what's next in Middle East?

After Israeli killing of Hassan Nasrallah, the leader of Hezbollah, the question is what happens next. For now, we think all the signals coming from Iran point towards them still being reluctant to escalate.

[Link](#) to all Geopolitical Radar publications.

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



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Report completed: 3 October 2025 at 11:45 CET

Report disseminated: 3 October 2025 at 11:15 CET