

Incentives and difficult concessions: The US path to a deal with Iran

Commonwealth Bank · 2026-09-10 · English original

Key points

- The global economy has weathered the energy shock better than expected, with growth forecast.
- The US economy remains resilient, supported by strong investment and AI-related spending, although higher energy prices are adding to inflation pressures.
- China's economy has lost momentum, with weaker domestic demand and war-driven inflation pressures weighing on the outlook.
- The outlook remains highly dependent on geopolitical developments and global energy prices, particularly how quickly the conflict and disruption to energy markets are resolved.

The geo-economic view: deals, deterrence and decoupling

The collapse of the US-Iran Memorandum of Understanding (MoU) in early July has led to periods of unpredictable fighting in the Persian Gulf. Currently, the US and Iran are trading attacks, with periods of escalation and de-escalation. US President Trump reportedly abandoned earlier plans for a major military escalation because of concerns over Iranian retaliation and low US stockpiles of munitions.

After the collapse of the MoU, Iran declared the Strait of Hormuz closed. However, the US insisted the Strait was fully open to traffic, except ships carrying goods to and from Iranian ports.

The Houthis in Yemen also entered the fray and imposed a blockade on Saudi exports through the Red Sea, with a modest impact on global oil markets.

Disrupted shipping adds pressure to global energy markets

Shipping data suggests Middle East energy exports slumped in the wake of the MoU collapse. Saudi tanker exports and combined traffic through the Strait of Hormuz and the Red Sea's northern and southern routes hit the lowest level since the war began.

However, with ships increasingly turning off their transponders to avoid detection and a lack of satellite imaging over the Persian Gulf due to wartime restrictions, the accuracy of shipping data is unclear.

Nevertheless, there was an observable decline in tanker traffic through other chokepoints outside of the Persian Gulf, including in the Malacca Strait.

The majority of Persian Gulf energy exports transit the Malacca Strait on their way to Asia (see our note on chokepoints here). The US responded by announcing an initiative to intensify the economic isolation of Iran using secondary sanctions against Iran's trading partners.

However, few details have been released, and we do not expect the economic plan to gain support from US allies or be successful in coercing Iran.

Discover the latest from the CommBank View, our in-depth look at the forces shaping global and domestic economies, markets, currencies, and commodities.

Political pressure is increasing the incentive for a US-Iran deal

The US remains incentivised to make a deal with Iran to end the war and open the Strait of Hormuz because of high energy prices. The war remains unpopular in the US. The war is weighing heavily on President Trump's approval and the prospects for the Republicans in the November mid-term elections.

The Democrats are favoured to win a majority in the House of Representatives in November. We had expected the Republicans to retain the Senate. However, with the Fed now expected to hike interest rates before voting, we now expect the Democrats to win both houses of US Congress.

To secure a deal to end the war, the US would need to make difficult concessions to Iran. A likely deal would involve concessions on Iran's economic demands, some level of Iranian control of the Strait of Hormuz, a reduction in the US' military presence in the region, and further pressure on Israel to withdraw from southern Lebanon. We do not expect the US to demand commitments on Iran's nuclear enrichment and ballistic missiles.

In our view, the US will make a deal if it can. However, making these concessions to Iran is politically costly for the US and President Trump personally. Israel has elections in October, complicating their willingness to support the US in making a deal.

The timeline for a resolution to the conflict has become even more complicated in recent days. There is some evidence that the amount of oil and refined product leaving the Strait of Hormuz has increased, allowing oil inventories to stabilise.

If this is confirmed and continues, the timeline for the war will likely extend. A key question is whether any increased traffic through the Strait reflects a genuine loss of control by Iran, or if it has been tolerated for political and/or economic reasons.

- CommBank View 2

- CommBank View 1

The recent escalation, involving missile attacks on US and Iranian ships, may suggest Iran is looking to wrest back control. Our base case is that the war will be resolved through diplomacy before the end of 2026 (60%). This outcome is contingent on a continued crunch on energy markets, which will incentivise the US to negotiate.

If energy markets stabilise and prices fall, we expect that Iran will respond with escalation to maintain pressure on the US. In our view, Iran retains enough military capabilities in the Strait of Hormuz to continue to restrict traffic. We assign a low risk that the war will re-escalate to the level seen in March (10%). Heavy resource constraints and the risk to energy infrastructure in the Persian Gulf will restrain the US. Iran is willing to risk escalation though wants to avoid the heavy damage it suffered in the early period of the war.

The murky middle-ground is if the US successfully wrestles control of the Strait of Hormuz from Iran allowing flows through the Strait to return to at least 40% of pre-war levels, and Iran does not escalate to take control back (30%).

In this scenario, the war could extend for many more months into 2027 as inventory depletion risks become far less acute.

Risks are also rising in Ukraine

We continue to see a high-risk of military escalation in Ukraine. In our view, attacks on targets in Russia by Ukraine will likely not increase Russia's willingness to negotiate. Instead, we expect Russian President Putin will seek to escalate further

There has already been an increase of Russian ballistic missile attacks in Ukraine, including on ports which has seen traffic exiting the Black Sea fall sharply. Ukrainian defences against missiles have been diminished by a shortage of US Patriot missile interceptors.

The risk that Russia may escalate against European countries also increases if attacks on Russia continue. However, we consider this scenario remains unlikely as we expect President Putin to be reluctant to risk war with NATO.

The US and China look to stabilise relations

Presidents Trump and Xi will meet in Washington on 24 September. We expect the summit will extend the US-China trade truce. Issues that were unaddressed in May must now be discussed if the US and China are to maintain their trade truce. China only temporarily delayed onerous export bans on rare earth minerals to November 2026.

Therefore, an agreement must be reached if it is to be extended. The US has already indicated that AI will be discussed, and we expect this to include a deal on the sale of AI chips to China. In our view, China and the US are not seeking to abandon strategic competition with each other. Instead, they are both seeking to stabilise bilateral relations to make their decoupling orderly.

However, the US increased efforts to economically isolate Iran is a risk to US-China relations, as China is a major buyer of Iranian oil. We do not expect the US to risk its relationship with China in order to pressure Iran. China will continue to leverage short-term political and economic deals to pursue long-term political priorities, including its objective of reunification with Taiwan. We expect Beijing will again push for the US to publicly oppose Taiwanese independence. Read the full CommBank View report.

- Read next: The global view: Resilience through the energy shock
- Economy
- CommBank View
- News

Note: This report is not investment research and nor does it purport to make any recommendations. Rather, it is for informational purposes only and is not to be relied upon for any investment purposes.

This report has been prepared without taking into account your objectives, financial situation (including your capacity to bear loss), knowledge, experience or needs. It is not to be construed as an act of solicitation, or an offer to buy or sell any financial products, or as a recommendation and/or investment advice. You should not act on the information contained in this report. To the extent that you choose to make any investment decision after reading this report you should not rely on it but consider its appropriateness and suitability to your own objectives, financial situation and needs, and, if appropriate, seek professional or independent financial advice, including tax and legal advice.

Newsroom

For the latest news and announcements from Commonwealth Bank.

The information presented is an extract of a Global Economic and Markets Research (GEMR) Economic Insights report. GEMR is a business unit of the Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. This extract provides only a summary of the named report. Please use the link provided to access the full report, and view all relevant disclosures, analyst certifications and the independence statement. The named report is not investment research and nor does it purport to make any recommendations. Rather, the named report is for informational purposes only and is not to be relied upon for any investment purposes. This extract has been prepared without taking into account your objectives, financial situation (including your capacity to bear loss), knowledge, experience or needs. It is not to be construed as an act of solicitation, or an offer to buy or sell any financial products, or as a recommendation and/or investment advice. You should not act on the information contained in this extract or named report. To the extent that you choose to make any investment decision after reading this extract and/or named report you should not rely on it but consider its appropriateness and suitability to your own objectives, financial situation and needs, and, if appropriate, seek professional or independent financial advice, including tax and legal advice.

Source: <https://www.commbank.com.au/articles/newsroom/2026/09/commbank-view-geo-economic-view.html>