A Japanese Perspective on the International Energy Landscape (818) November 5, 2026

International Oil Market after the U.S. Midterm Elections

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The U.S. midterm elections held on November 3 resulted in a historic defeat for the ruling Republican Party. Prior to the election, Republicans controlled the presidency, the Senate, and the House of Representatives, creating a so-called "triple-red" unified government. Following the election, however, the Democratic Party secured majorities in both the Senate and the House.

Even before the election, Democrats were widely expected to gain control of the House. As of the time of writing (12:30 PM JST, November 5), of the 435 House seats, 48 remained undecided. Among the confirmed results, Democrats had secured 240 seats while Republicans held only 147, giving Democrats a clear majority above the 218-seat threshold. In the Senate, where several races had been expected to be highly competitive, Democrats also emerged victorious. Of the 100 Senate seats, with only two races still undecided, Democrats held 54 seats (including 34 non-contested seats), compared with 44 seats for Republicans (including 31 non-contested seats).

Among the 35 Senate seats contested in this election cycle, Democrats won 20 while Republicans secured only 13. Democratic candidates achieved victories across a number of key battleground states, including Texas, Ohio, Iowa, Kansas, and Michigan, all of which had been regarded as critical to determining Senate control. Particularly noteworthy was the Democratic victory in Texas and others, a state long considered a Republican stronghold. For Republicans, therefore, the election outcome can reasonably be described as a shocking defeat. Numerous analyses have already been offered regarding the causes of the Republican setback. Midterm elections, which occur halfway through a presidential term, are generally viewed as a referendum on the incumbent administration's performance. Historically, governing parties often lose congressional seats under such circumstances. Nevertheless, even when viewed in this broader historical context, the scale of the Republican defeat was extraordinary.

Several factors have been identified as contributing to the outcome. First, the outbreak of war with Iran and the subsequent surge in energy prices, particularly gasoline and diesel fuel prices, generated widespread public dissatisfaction. Second, rising inflation and the increasing cost of living negatively affected household finances. Third, many voters perceived a divergence between President Trump's policies and the "Make America Great Again" (MAGA) agenda as well as the broader "America First" philosophy that had characterized his political message. Support even among Trump's traditionally loyal

voter base appeared to weaken. By the eve of the election, the President's approval rating had reportedly fallen to 31 percent.

Following the electoral defeat, President Trump promptly signaled his intention to accept the results and seek accommodation with a Democratic-controlled Congress. Prior to the election, there had been concerns that he might challenge the legitimacy of the results in the event of a close outcome. His decision to acknowledge the outcome prevented the political and social instability that many observers had feared. As a result, attention has now shifted from the election itself to the future direction of the Trump administration.

Domestically, the administration faces a considerably more challenging political environment under divided government. The House and Senate possess substantial authority through legislative initiatives, budgetary approval, and, in the case of the Senate, confirmation of key executive appointments. Compared with the previous unified Republican government, the administration will undoubtedly confront increased constraints and political obstacles.

President Trump has already suggested that he may exercise veto powers more aggressively while simultaneously seeking compromises with selected Democratic legislators. Such a strategy would combine confrontation and accommodation in an effort to maintain policy influence despite a more difficult political landscape. Furthermore, the administration may increasingly rely on executive orders to advance policy objectives. Although governing through executive action is subject to significant legal and practical limitations, it is important to note that reliance on executive authority during periods of divided government has been a common feature of many U.S. administrations, not solely the Trump administration.

Against this backdrop, perhaps the most important question concerns the future trajectory of U.S. foreign policy. Foreign affairs constitute an area in which presidential authority is relatively strong. With domestic policymaking likely to become more constrained, many observers believe President Trump may seek to establish a lasting legacy through diplomatic and strategic achievements during the remaining two years of his presidency. Historically, U.S. presidents facing domestic political challenges have sometimes turned toward foreign policy in pursuit of such legacies.

Several major international issues could become priorities, including the Russia-Ukraine conflict, relations with China, North Korea, and broader questions concerning an international order shaped by major powers such as the United States, China, and Russia. Yet among these issues, Iran remains of particular importance.

The Iran issue has already become one of the defining challenges of the current administration. In late February, military operations against Iran were initiated in cooperation with Israel, triggering the Hormuz Strait crisis and sending shockwaves throughout global markets and the international community. In June, the United States and Iran reached a memorandum concerning a cessation of hostilities and the reopening of the Strait of Hormuz, generating optimism regarding a return to stability. Ultimately, however, the agreement effectively collapsed, and the situation has since remained in a state that is neither full-scale war nor genuine peace. Looking ahead, three broad scenarios appear conceivable. The first involves renewed negotiations and progress toward normalization. The second entails continuation of the current unstable status quo. The third envisions the resumption of major hostilities and a broader regional conflict. Which of these scenarios ultimately materializes will depend to a significant extent on decisions made by President Trump.

For President Trump, successfully concluding the confrontation with Iran in a manner that can be presented as a strategic victory would represent a major political achievement. Since the Iranian Revolution of 1978, successive U.S. administrations have sought to address the Iran challenge, yet none has been widely regarded as having resolved it. Should the Trump administration achieve a meaningful breakthrough in preventing Iran's nuclear development, such an accomplishment would likely constitute a central element of his presidential legacy. For this reason, some analysts argue that the administration may consider renewed large-scale military action as a means of increasing pressure on Tehran. Developments within Israel, particularly amid domestic political uncertainty following its own elections, also warrant close attention. In such circumstances, Iran and its regional allies could respond by targeting critical energy infrastructure in the Gulf region. If that were to occur, a substantial increase in oil and broader energy prices would be almost inevitable, with serious implications for the global economy.

At the same time, experience over the past eight months has demonstrated that there is no guarantee that intensified military pressure would induce Iran to alter its strategic posture. On the contrary, Tehran could further strengthen its strategy of leveraging energy market disruptions as a source of geopolitical influence. Given the widespread recognition within the United States that elevated energy prices contributed significantly to the Republican electoral defeat, questions also arise concerning the sustainability of such a strategy. Under these circumstances, the first scenario, emphasizing diplomacy and negotiation, may gain greater prominence. Should meaningful progress toward normalization be achieved, expectations of reduced geopolitical risk could drive crude oil prices downward, potentially toward the vicinity of US$70 per barrel. The international community will therefore continue to monitor President Trump's decisions with intense interest. For Japan as well, it will become indispensable to strengthen its strategic preparedness in anticipation of rapid developments and sudden changes in the situation.

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