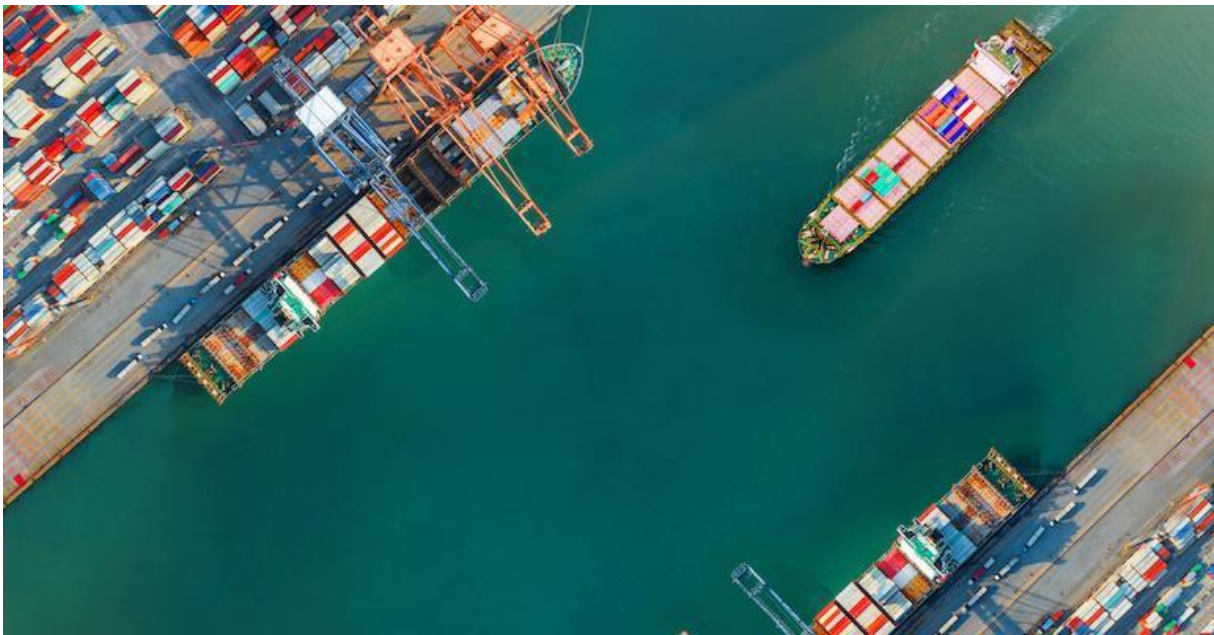


Red Sea crisis drives inflationary trading costs



Even after last week's US led air strikes, aimed at limiting the Houthi's ability to threaten commercial shipping through the Bab al-Mandeb Straits, missiles are finding their targets, disrupting trade and risking the re-ignition of the inflationary touch paper.

[Nick Savvides](#) | Jan 19, 2024

Carriers have told shippers and forwarders that rates will rise substantially as shipping heads around the Cape of Good Hope, soaking up excess capacity, and redressing the supply and demand imbalance. One forwarder has been told to expect European rates out of Asia to hit \$12,000 per teu after Chinese New Year.

The UK Maritime Trade Operations (UKMTO) has logged some 32 missile attacks and three boarding attempts since mid-November in the straits its immediate

environs. Few attacks have been successful, but the threat has been enough to see most vessels divert from Suez to the much longer route around the Cape.

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That number of attacks does not include the most recent attacks in the Gulf of Aden, and in spite of the US still pounding Houthi military installations, including taking out a cruise missile launcher and four missiles on 16 January, attacks continue.

With up to 15% of global trade transiting the strait, which leads to the Suez Canal, any deviation around the Cape will necessarily involve higher costs that will be passed down, ultimately to the consumer.

Related: [Latest Houthi attack shows Red Sea remains unsafe](#)

Dr El-Erian, president of Queens' College, Cambridge and Chief Economic adviser at financial services giant Allianz, told the BBC: "I'm really worried, we are facing significant headwinds, we are living in a new reality where the supply side of the global economy is much more fragile which means inflationary tendencies are greater than they used to be."

A World Bank report published this month warned that global growth would be slow, amid concerns over weak demand.

"Downside risks include an escalation of the recent conflict in the Middle East, financial stress, persistent inflation, trade fragmentation, and climate-related disasters," said the report.

Inflation could be driven by the extra costs incurred by diverting to the much longer route around the Cape, including the two extra vessels needed to maintain a weekly service rotation on Asia to North Europe services and up to four vessels needed for Mediterranean loops.

In effort to understand how the shift of services will affect trade and in particular the balance of supply and demand analysts have calculated the effects of the shift, particularly for the volatile container trade.

Additional vessels needed

Consultancy Linerlytica argued: “The Asia-Europe trade faces a severe capacity shortage in the coming weeks, with some 70 additional ships required to maintain weekly sailings on the 30 regular services on the FE-North Europe and Med routes.”

Darron Wadey, an analyst at Dynamar, said it would be surprising if East Mediterranean destinations were served by mainline ships via the Strait of Gibraltar.

“The further to the east Mediterranean the service would need to go, the less likely that this will happen and they would more likely load/discharge in a west Mediterranean hub with the remainder delivered by feeders,” said Wadey.

Hapag-Lloyd, currently a THE Alliance member, which includes [ONE](#) and [Yang Ming](#), has taken this option feeding Mediterranean cargo from Tanger, Morocco, to Egypt and then transiting the Canal to deliver to Jeddah in Saudi Arabia, which is north of the strait, before returning to Tanger via Damietta.

According to senior consultant at MDS Transmodal Antonella Teodoro [Hapag-Lloyd](#) is offering a “twin service” with feeder ships for Mediterranean cargo. We are likely to see more of these types of services,” she said.

But another option is also emerging, according to Teodoro “Carriers can deploy smaller ships that cater for particular ports or for particular clients.”

One such service is 2M’s operated Albatross rotation from Dalian to North Europe is served by 18,000-20,000 teu vessels said Teodoro, but 2M is also now

deploying a far smaller vessel, of around 4,500 teu, the Maersk Copenhagen, that will handle particular cargoes or ports.

Available capacity is also affected by utilisation levels and how services will be adapted to cater for the cape diversion, the upcoming Chinese New Year, from 10 February, and the subsequent demand after the weeklong New Year break.

Utilisation forecasts

MDS Transmodal forecasts utilisation on the Asia-Europe trades to be maintained at around 73% in Q1 2024, but Teodoro cautions that this is an average calculation of utilisation, assessing expected demand compared to capacity deployed, however, this may not reflect the situation on the water at a particular place on a particular day.

Teodoro concludes: "Different services, and within them different vessels, could be expected to experience different levels of utilisation. The factors affecting utilisation vary from the customers' needs that shipping lines will want to prioritise, to ports that shipping lines will want to keep in the rotations. And how carriers will decide to offer their services, directly or via transshipment, will also affect utilisation levels – and freight rates."

Or as Lars Jensen, analyst at Vespucci Maritime, puts it: "Measurements on utilisation are like measuring an elastic band by the metre - you can make it be almost anything you want, if you don't get an extremely detailed definition, it becomes meaningless."

Clearly this is a problem for shippers looking to show that demand is below supply, but equally it is a problem for those claiming that capacity is tight due to the new circumstances.

Additional vessel requirements will, however, depend on what speed ships are travelling.

Larsen considers the 70-vessel assumption by Linerlytica is a decent ballpark number for the 18 North Europe and 13 Mediterranean services, with two extra ships for North European loops and up to four vessels for Med services.

Speeding up

However, Larsen adds: "Currently, very roughly, the large Asia-Europe vessels tend to go at 16 knots on headhaul and 14 knots on the backhaul. If we speed up the vessels by 2 knots we free up 36 vessels and by going even faster at a 3 knots increase we free up 51 vessels."

Moreover, as Linerlytica points out some operators are continuing to sail via Suez.

Furthermore, Wadey argues: "Carriers have not really been deploying the full complement of vessels needed to maintain consistent weekly sailings to all their loops for a couple of years now."

He said sailings are commonly blanked: "So, whilst the numbers suggested would be needed if a full complement was applied across the board, the reality is that some services have been short staffed for a long time anyway, and this practise could continue."

According to Dynamar, "Around 34 container ships larger than 13,000 teu are expected to be delivered in the first quarter of this year, a total capacity of 550,000 teu. This is equivalent to more than 9% of the peak season capacity deployed to the Asia-North Europe/Mediterranean trade, so greater than the latest estimated trade growth of 7%."

Drewry Shipping Consultant, Simon Heaney added that even though there are 213 ships totalling 850,000 teu, few of these vessels are of the size needed for the Asia to Europe trades.

“There is also excess capacity in trades such as the transatlantic which could be redeployed for Suez-affected trades,” said Heaney.

Drewry, however, concludes: “Yes, the market will be much tighter than it otherwise would have been, but there is sufficient slack in the system to cope. Obviously, it takes time to reposition ships so the pinch will be worse at this initial stage, but should ease once everything is in place.”

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