

## The Red Sea crisis – an opportunity for shipping stock investors?



**The attacks on shipping in the Red Sea have sharply driven up rates as vessels divert by the Cape of Good Hope attracting the interest of stock investors in listed container lines, although the situation remains extremely fluid.**

Barry Parker | Jan 09, 2024

“Container market balance tightened seemingly overnight,” wrote Omar Nokta and his team of analysts at investment bank Jefferies, in a just-released report to investors.

The dangerous situation in the Red Sea, where commercial ships have come under attack from insurgents in Yemen continues to attract attention from both within and outside the maritime business. In the latter category, we can add

investors in the shares of shipping companies- notably in the container trades, who are keenly aware of the recent surge in rates for vessels that would have transited through Suez (via the Red Sea), particularly between Asia and Europe.

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One measure, the Shanghai Containerized Freight Index (SCFI), a weekly barometer for prices for shipments out of Shanghai (with a healthy) Suez transit component, has seen a rise from levels around 1,000 points, a composite, where the prices hovered for much of 2023 well into November, up to early January 2024 levels approaching 1,900 points.

Similarly, the Freightos Baltic Exchange Global Freight Rate Index (FBX) saw a doubling from late December 2023 when it stood around \$1,300, a small uptick from its levels throughout 2023, to up above \$2,500 in early January.

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While cargo interests can simply grin and bear it, or hedge through futures contracts, investors in shipping equities are now presented with an opportunity to invest in companies that will benefit from the sudden tautness on the vessel supply side.

Jefferies analyst Omar Nokta, in a newly released report, has written: “Freight rates have surged over the past three weeks, setting up a strong start to what had been viewed previously as a difficult year ahead. Despite heavy newbuilding deliveries, Red Sea disruptions are leading to a much tighter market balance.”

The Jefferies team, who look at inputs from Shanghai Shipping Exchange and FBX, but also, Drewry and Xeneta, put the early January 2024 notional price on forty-foot box moves from Asia to Europe at around \$3,000, roughly double the levels in effect during 2023, and moves from Asia to the States (USEC) up to \$3,500, compared to \$2,500 during 2023. These types of increases bring

enhanced cash flows to participants in the box trades, clearly on the affected routes, but also in less impacted trades as the supply crunch will filter down.

Jefferies opined that “We favour [Maersk](#) given its upside relative to our target, its exposure to the Asia-Europe market and its discounted valuation at just 0.6x net book value. We upgrade Maersk from Hold to Buy and maintain our Hold ratings for HLAG and [ZIM](#).” Maersk and [Hapag-Lloyd](#) trade in the European over-the-counter markets while ZIM trades on the NYSE.

As far as market conditions, the Jefferies analysts were looking for “Disruptions to persist for some time,” and for “Current squeeze likely to abate, but rates should see higher floor”.

Of course, when extreme geopolitics are involved, there are great uncertainties. On Monday (8 January), shipping shares across markets sagged sharply amidst unconfirmed reports that the big liner companies were in discussions with the Houthi’s to enable “safe passage” for vessels. Part of these rumoured deals involve liner pledges not to call at Israeli ports, a commitment that Cosco, notably, has made.

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