Shipping's winners and losers from an end to the Red Sea shipping crisis

Sam Chambers

July 8, 2024

Despite belligerent rhetoric and videos and images of enhanced military assets, it has now been eight days since the last confirmed incident in the Red Sea reported by merchant vessels to the United Kingdom Maritime Trade Operations (UKMTO). This comes after a severe escalation by the Houthis in June both in terms of the number of attacks and their sophistication, and while navies in the region continue to take down drones, speculation is growing that the drop in confirmed attacks could be linked to high-level diplomatic activity going on around the Middle East to ensure some form of ceasefire between Israel and Hamas whose bitter war entered its tenth month over the weekend.

While many shipping analysts in recent weeks – including from Jefferies, Cleaves and Bank of America – have predicted the ongoing Red Sea shipping crisis will continue into the first half of next year, others have been turning their attention to what would happen to the markets in the event some form of ceasefire was achieved.

The Houthis have repeatedly stated that their campaign against merchant shipping – brought about with the aid of military intelligence and hardware from Iran – will carry on for as long as Israel remains at war with Hamas.

Discussions have been ongoing to get Hamas and Israel to agree to some form of a ceasefire with high level officials from the US, Israel and various Middle Eastern countries meeting last week and in the coming days to try and come up with an agreement.

A three-phase plan, presented by US president Joe Biden in May and mediated by Qatar and Egypt, seeks to end the war and secure the release of approximately 120 Israeli hostages held in Gaza. The proposal is being discussed by multiple parties at present and comes at a time when politicians from around the world are coming under greater pressure from their electorates to guarantee peace.

The Red Sea shipping crisis has seen an immense swathe of the global merchant fleet ditch the region and the Suez Canal for much longer, tonnage soaking voyages around South Africa. This has led to profitable times for almost all shipping segments. For instance, the ClarkSea Index, a weighted barometer covering all of commercial shipping, was up 43% above the 10-year trend in the first half of the year.

A new report from Kepler Cheuvreux, a European financial services company, has looked at what would happens to rates when – and if – the Red Sea shipping crisis lifts.

Unsurprisingly, the research finds that the biggest winner of the Middle Eastern turmoil, container shipping, will also be the most significant loser in the event of peace between Israel and Hamas (see chart below).

Kepler Cheuvreux estimates that around 22% of global container shipping volumes are affected by the rerouting due to the increased 32% distance from Asia to Europe. This increased demand by 5.6%, according to the report, versus mid-December last year, together with pent- up demand and congestion, absorbed year-to-date fleet growth of 5.5% and pushed up capacity utilisation from 84% to95%. However, given the huge order book still flowing out of Asian shipyards, Kepler Cheuvreux is warning spot rates could slide by up to 75% in the event of a truce in the Middle East.

Car carriers, product and chemical tankers also stand to lose according to Kepler Cheuvreux while crude carriers are likely to be less affected.

If, however, the Red Sea shipping crisis persists throughout the year Clarksons Research has estimated shipping will need to handle a record 3,600bn extra tonne-miles, a tonne-mile growth of 5.8%. That total would compare to a 10-year average of 1,315bn additional tonne-miles.

If the Red Sea crisis comes to a close this quarter, Clarksons still sees 2024 being the the second largest year of additional tonne-miles on record, following 2010's post-financial crisis rebound.

Next year could be a very different case, Clarksons warned in a recent weekly report. If disruption in the Red Sea were to end, the trend could reverse with lost miles limiting tonne-mile expansion.

The biggest winner from an end to the Red Sea shipping crisis, however, would be for the seafarers – and their families – who have had to transit the dangerous waters over the past nine months in the knowledge that many of their peers have been attacked and even hijacked.

There has been dramatic changes to the world seaborne map in recent years as shipping faces disruption in the Red and Black Seas as well as the Panama Canal and multiple drying up rivers.

“The complex interconnection of geopolitical events, maritime security concerns, and global trade dynamics underscores the multifaceted challenges facing the shipping industry in the current scenario,” a recent report by Veson observed.

Near-term effects, reversal of Suez Canal rerouting via Cape of Good Hope, different vessel segments

	Volumes affected	% of total	Demand increase	Utilisation, pre	Utilisation, post	Rate, impact	Rates, downside	Comment
VLCC (mbbls/d)	0.0	0.0%	0.0%	90.5%	90.5%	0%	0%	No direct impact
Suezmax (mbbls/d)	0.4	3.4%	1.1%	88.5%	89.6%	20%	10%	c. 26% of Suez crude trade
Aframax (mbbls/d)	0.4	4.1%	1.3%	88.6%	89.9%	20%	10%	c. 26% of Suez crude trade
Product Tankers (mbbls/d)	3.3	15.0%	4.8%	90.8%	95.6%	30%	15%	c. 38% of Suez Product trade
Chemical Carriers (mtonnes, p.a.)	41.5	11.0%	1.2%	91.0%	92.2%	15%	15%	Positive impact from Products
LPG Carriers (mtonnes, p.a.)	15.8	11.5%	0.6%	89.1%	89.6%	0-5%	0%	Rerouting from Suez to CoGH
LNG Carriers (mtonnes, p.a.)	36.7	9.0%	4.8%	na	na	0%	0%	c. 94% of Suez trade, lim. spot exp.
Container Vessels (TEUm, p.a.)	43.9	21.9%	5.6%	84.0%	89.6%	200%	65%	c. 86% of Suez trade
Car/Ro-Ro Vessels (CEUm, p.a.)	4.4	15.0%	4.8%	94.9%	99.7%	0%	0%	100% of Suez trade, lim. spot exp.
Dry bulk Carriers (mtonnes, p.a.)	330,840	6.0%	1.2%	87.5%	88.7%	10%	10%	c. 59% of Suez dry trade

Source: Clarksons, Kepler Cheuvreux