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Analysis of today
Assessment of tomorrow

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Does the risky journey through the Red Sea suggest a new disruption in global trade?

A new wave of disruption in international trade has already occurred after frequent attacks by the pro-Iranian Houthi militia from Yemen on ships in the Red Sea area.

At least 5 merchant ships and one US military ship have been attacked in the Red Sea in the past few days. This represents an escalation of the attacks from Yemen, which have been happening sporadically for a month, even though there have been no injured crew members and no significant damage to the ships.

The fleets of the world's largest shipping companies have stopped using one of the most frequently used maritime routes, waiting for the safety conditions for passage to improve.

Seven of the 10 largest container carriers (by market share) have announced in the past few days that they would suspend navigation through the Red Sea, that is, the Bab-el-Mandeb Strait at the entrance to the Red Sea on the way to the Suez Canal.

"Following the near-miss incident involving Maersk Gibraltar yesterday and yet another attack on a container vessel today, we have instructed all Maersk vessels in the area bound to pass through the Bab al-Mandeb Strait to pause their journey until further notice", stated the Danish MAERSK, the global leader in container transport, which accounts for close to 20% of this market, last Friday.

A race against time

The other large shipping companies decided to pause before entering the risk zone, expecting the conditions to normalise in the short term. Some were diverted and sent to a bypass route, from east to west, via the Cape of Good Hope.

Since the start of the Houthi attack on November 19, slightly more than 2,000 ships have taken the risk and passed through the Red Sea, and only 55 have given up the passage and diverted to a longer route around Africa, the Egyptian Suez Canal Authority stated last Sunday.

However, with the passage of time and the decisions of the largest carriers to stop transport through the risk zone, there will be a sharp increase in the number of ships that decide to take a longer detour, perhaps as early as this week.

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The principal reason is that there is no sign that the risk of Hothi assaults will be eliminated, at least for the time being.

Operation Prosperity Guardian, a multinational military initiative to protect trade corridors in the Red Sea and Gulf of Aden, was established last Monday under the leadership of the US.

The combined naval forces of 10 countries will respond to the attacks coming from Yemen. This is the temporary solution to the escalation that has already jeopardised the safety of maritime traffic in one of the most significant global corridors.

Cautious carriers will wait for the effects of this mission to eventually allow their ships to pass through the risk zone again. However, they will not wait indefinitely.

Increase in transport prices

The present disturbances have evoked negative recollections of the previous blockade in Suez 2 years ago, even though this was because an Evergreen ship failed to pass through the canal.

One of the main arteries, through which 10-12% of international trade and 30% of the world's container traffic pass, is blocked again. This time, unlike in 2021, for an indefinite duration.

The oil and natural gas prices increased sharply last Monday following BP's announcement that it would restrict transport through the Red Sea zone owing to elevated risk. This represents one of the final visible consequences for the global economy.

One of the biggest disruptions will be if numerous shipping companies decide to end the pause and reroute their transports via the Cape of Good Hope and further towards Europe.

This option prolongs the transport by 2 to 3 weeks, increases the carrier's operating costs, and ultimately affects the price of the goods. This also affects the schedules of transport companies and ports, so disruptions in the transhipment of goods are also probable.

The London Marine Insurance expanded the risky shipping zone to the Red Sea last Monday, which would further increase shipping costs. War risk premiums increased from 0.5% to 0.7% of the ship's value from 0.07% at the beginning of December.

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Egypt will be one of the biggest victims of the current disruption after the decision of the largest shipping companies to pause the passage through the Red Sea and then through the Suez Canal, given that the state earns \$25-\$30 million per day from fees. On an annual level, this is about \$9.5 billion in revenue for Egypt, which is currently questionable if the companies bypass the canals and transport goods via the surrounding route.

Because of the actions of the pro-Iranian militants in Yemen allegedly carried out against the interests of Israel, the economies of Arab countries in the Mediterranean - Tunisia and Algeria for example - will suffer.

> The influence of the disturbances on the increase of global inflation cannot be avoided either, given that 80% of trade is by sea

The Chinese economy is also under significant pressure, as its large export shipments, which it has been rushing to finish before the Chinese New Year celebrations next January, are already at risk of being stuck or delayed.

The influence of these disturbances on the increase of global inflation cannot be avoided either, given that 80% of trade is by sea and that any increase in its costs will directly affect the price of goods.

Even though experts claim that it is not yet time for alarm, and that it is not realistic to expect a repeat of the disruptions of the period of the COVID-19 pandemic, because of the current much larger number of ships in the global fleet, their warning remains - the crisis should not last too long.

“The impact for now in shipping is small because it is too early. If that persists for weeks or months, we should start feeling the impact on higher freight costs, potential delays in deliveries of goods and commodities and overall higher delivered prices”, said John Kartsonas of Breakwave Advisors.