As Red Sea risk spooks container shipping, tankers remain unfazed

'Impact on tankers appears minimal,' says brokerage BRS of Red Sea fallout

Greg Miller

Monday, January 08, 2024

Tankers continue to transit the Suez Canal and Red Sea. (Photo: Shutterstock/Adhura Armaan)

Shipping investors love trade disruptions, which generally boost freight rates. The mass diversions of container ships around the Cape of Good Hope are cheered by container shipping stock investors even as pundits and politicians warn of supply chain fallout for consumers and businesses.

Tanker shipping investors look on in envy at container shipping chaos. Tankers, as well as dry bulk vessels, continue to transit the Red Sea and the Bab-el-Mandeb Strait, unbowed by the threat of Yemen's Houthi rebels.

Today's tanker rates are high, and profitable, but have yet to be truly juiced by the Red Sea effect. As for tankers' cargo, the price of Brent crude has actually fallen 5% since the Red Sea attacks began on Nov. 19.

"Despite reports to the contrary, tankers are continuing to transit through both the Red Sea and the Suez Canal," said tanker brokerage BRS on Monday.

"Although container lines are continuing to reroute via the Cape of Good Hope, the latest data from AXSMarine suggests that in December, tanker traffic through the Suez Canal was relatively flat year on year.

"Broker information suggests that the vast majority of tankers that are rerouting via the Cape are those … directly linked to Israel," said BRS. "The impact on tankers appears minimal, on par with that of dry bulkers."

Vortexa Senior Freight Analyst Ioannis Papadimitriou published a similar opinion Friday.

"Tanker diversions have picked up in the span of the last two weeks, but these are not occurring en masse, as tankers and volumes continue to flow via the Red Sea. Instead, these diversions are [largely] constrained to U.S.-, EU- and Israel-linked entities and the companies that announced the decision to divert via the Cape of Good Hope.

"Although freight rates for the impacted routes [through the Red Sea] have picked up, this has not been reflected in the overall tanker market, implying that there is not en-masse rerouting taking place at the moment," said Papadimitriou.

Escalation good for rates — but not too much escalation

A dramatically positive effect on tanker rates — on par with what's being seen in container shipping — appears to require further escalation.

The market risk is that hostilities could escalate too much, creating disruptions at the Strait of Hormuz off Iran that would be detrimental to tanker rates. The sweet spot for tanker rates is mass diversions from the Red Sea, but no issues at the Strait of Hormuz that shut in Middle East crude and refined product supplies.

Red Sea tanker diversions could theoretically increase if the U.S.-led coalition begins military strikes in Yemen and subsequent Houthi attacks on passing ships become more indiscriminate.

The Western coalition gave a final warning last Wednesday, stating that the Houthis "will bear the responsibility of the consequences" should they continue to attack. That said, the Houthis have continued to attack and as of late Monday, there had been no retaliatory strikes on Houthi positions in Yemen.

The rate-negative escalation scenario

BRS believes that "the largest geopolitical risk to tankers in 2024" involves an escalation of the Israel-Hamas war into a regional conflict that involves Iran and halts traffic through the Strait of Hormuz.

"Any closure of this chokepoint would threaten the nearly 17 million barrels per day of crude and refined products exports from the Middle East Gulf," said BRS, which warned that this would be "a significant net negative to global tanker markets due to higher bunker [fuel] prices and less oil on the water."

BRS said that such a disruption would create both winners and big losers. "The impact of a closure on Middle Eastern tanker markets would be catastrophic," while at the same time, "the cost of lifting crude and products from other regions would surge."

The brokerage believes a loss of Middle Eastern supply would lead to more Atlantic Basin crude heading to Asia and more Asian refined products heading to the Atlantic Basin.

This added voyage distance would increase tanker demand measured in ton-miles (volume multiplied by distance), but that gain would be more than offset by lost ton-miles due to the shut-in of Middle East supply, said BRS.