Red Sea crisis: Markets spike, consumers will pay the price

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Consumers around the world are expected to pay the price for the unfolding crisis in the Red Sea after missile attacks on merchant ships plunged supply chains into chaos.

Latest data from shipping analysis firm Xeneta shows spot rates in the ocean freight shipping market spiked by 20% since Friday (15 December) after major shipping liner companies decided to halt sailings through the Red Sea amid the attacks by Houthi militia.

Peter Sand, Xeneta chief analyst, commented, "The region is essentially in a war situation because it is too dangerous for many vessels to sail through the Red Sea and therefore also the Suez Canal, which is the major artery for world trade.

"Ships are now being re-routed via the Cape of Good Hope, but not only will this add up to 10 days sailing time, it will cost up to US$1 million extra in fuel for every round trip between the Far East and North Europe.

"If we look at container shipping alone, Xeneta estimates the diversion via Africa will also require additional shipping capacity in the region of one million TEUs.

"There is capacity in the market, but it will come at a cost, and we could see ocean freight shipping rates increase by 100%. This is a cost that will ultimately be passed on to consumers who are buying the goods."

On 18 December, the US Secretary of Defense Lloyd Austin announced 'Operation Prosperity Guardian', a coalition task force to combat the Houthi attacks and protect merchant ships sailing through the Red Sea and Gulf of Aden. This builds upon the existing Task Force 153 in the region to tackle piracy.

"We are now seeing action from politicians, but we do not know how or when this coalition will be successful in opening safe passage for vessels through the Red Sea and Gulf of Aden. Everything is at stake here because free-flowing global trade effects almost every single human being on earth. The Suez Canal is absolutely critical with many billions of dollars in goods passing through every day from the Far East towards North Europe, the Mediterranean and the US East Coast," said Sand.

The longer this disruption lasts the more expensive and painful it will be, according to Sand, who believes that supply chains have still not fully recovered from the pandemic, "with schedule reliability between Far East and North Europe standing at just 64%" and warns that this latest crisis could set that recovery back even further.

He adds, "We may also see this impact current negotiations between shippers and ocean freight carriers for long-term contracts for 2024. Shippers may feel a level of concern that long-term rates could follow the spot market and increase dramatically as a result of this crisis."