How Is the Red Sea Conflict Affecting the Oil Industry?

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Turjya Saha January 23, 2024

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The Red Sea is one of the most important shipping routes in the world, connecting Asia, Europe and Africa. It is also a key corridor for the oil industry, carrying about 12% of the global seaborne oil trade and 8% of the liquefied natural gas (LNG) trade. However, the Red Sea has become a hotspot of conflict and insecurity in recent months, as Yemen's Houthi rebels have escalated their attacks on commercial vessels in the area.

Understanding the Houthis and Their Motivations

The Houthis are a Shia rebel group that controls most of western Yemen, including the Red Sea coast. The group has been fighting a civil war against the internationally recognized government of Yemen since 2015, with the support of Iran. The Houthis also declared war on Israel, in solidarity with the Palestinians in Gaza, and have vowed to target any ship with Israeli interests in the Red Sea.

Since mid-November 2023, the Houthis have been attacking dozens of commercial ships in the Red Sea, using Qasef-1 and Qasef-2 drones, missiles and even hijacking attempts. The attacks have been indiscriminate, affecting vessels of various nationalities, flags and cargoes. Some of the ships that have been targeted include oil tankers, container ships and LNG carriers.

Impact on Shipping and Oil Industries

The Houthi attacks have caused significant disruption and damage to the global shipping industry, as well as the oil industry. Many major shipping companies have announced that they will avoid or reroute their vessels away from the Red Sea, opting for the longer and more expensive route around the Horn of Africa. This decision has increased the costs and delays of shipping, as well as the risks of piracy and environmental hazards.

The Houthi attacks have affected the oil industry, as some of the largest oil companies like **Shell Plc** (SHEL - Free Report) and **BP Plc** (BP - Free Report) have suspended or reduced their shipments through the Red Sea.

Shell: In response to the escalating situation, Shell has taken a cautious approach by indefinitely suspending all Red Sea shipments, emphasizing the safety of its crew and vessels. This currently Zacks Rank #3 (Hold) company is valued at $203.07 billion. In the past year, its shares have risen 4.3%.

You can also see **the complete list of today's Zacks #1 Rank (Strong Buy) stocks here.**

BP: Similar concerns have prompted BP to halt its oil and gas shipments through the Red Sea. To navigate the challenges, this currently Zacks Rank #5 (Strong Sell) company has redirected some of its cargoes to alternative routes. BP is valued at $96.96 billion and in the past year, its shares have lost 3.8%.

Chevron Corporation (CVX - Free Report) : While Chevron continues to utilize the Red Sea route, the company has implemented heightened security measures and increased insurance premiums to mitigate potential risks. Chevron CEO Michael Wirth has expressed his deep concern, characterizing the situation as "very serious" and showing signs of deterioration. CVX, holding a Zacks Rank #3 at present, is valued at $268.51 billion. In the past year, its shares have lost 21.1%.

This disruption raises significant apprehensions about the broader implications for industry leaders such as Shell, BP and Chevron, reflecting the gravity of the situation in the Red Sea and its potential consequences for the oil sector.

The Volatility and Unpredictability of the Red Sea Conflict

The Red Sea is a key route for transporting crude oil from the Middle East to Europe and Asia. The U.S. Energy Information Administration's (EIA) latest data shows that in 2022, about 6.7 million bpd of crude oil and refined petroleum products flowed through the Bab el-Mandeb Strait, up 8% from the 2019 level. This likely reflects the ongoing rebound in global oil demand following the pandemic.

The suspension of Shell and BP's shipments through the Red Sea could impact the global oil market, as it reduces the supply of oil and gas from the Middle East to Europe and Asia. This could lead to higher prices and lower demand, especially in the winter season when energy consumption is high. However, analysts said the actual impact on output had been limited so far, as the oil companies have been able to find alternative sources and routes for their cargo ships.

For example, while Shell has increased its shipments from the U.S. Gulf Coast to Europe and Asia, BP has used the Suez Canal and the Cape of Good Hope to transport oil and gas. Moreover, the global oil market has been oversupplied in recent years, due to the COVID-19 pandemic and the rise of shale production in the United States. Therefore, the loss of some Red Sea shipments may not have a significant effect on the overall balance of supply and demand.

In conclusion, the situation in the Red Sea remains volatile and unpredictable, as the Houthi rebels have shown no signs of stopping their attacks. The U.S.-led coalition, which supports the Yemeni government, has also increased its military presence and operations in the area, raising the risk of further escalation and confrontation. The Red Sea conflict poses a serious challenge and threat to the security and stability of the global shipping and oil industries, as well as the regional and international peace and order.