# Energy Markets Absorb Red Sea Shocks

***Energy Markets Update***

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## Summary

- The spate of new attacks on Red Sea shipping from Yemen has diverted supply away, with massive implications and concerns for the larger energy market
- Around 19,000 ships pass through the Suez Canal every year, with 8% of global LNG shipments and 12% of global crude oil shipments passing through the waterway
- Weak demand across the gas and oil complex is mitigating price spike risks of transit disruptions. If attacks move to another significant chokepoint in the region, like the Strait of Hormuz, then asymmetric upward risks are inevitable

## Red Sea Escalation Steps Closer to Energy Supply Disruptions

The Israel-Hamas war has finally started to impact flows of energy products through the Red Sea – a major route for oil and gas shipments between Europe and Asia – but is still falling short of impacting global oil and gas supply. For now.

Brent crude prices hit the $80/bbl mark for the first time this year after the US and the UK attacked Houthi sites in Yemen on 11 January but prices quickly eased, while TTF gas prices rose marginally on the same day. One week later and crude and gas prices have fallen by 3% and 11% respectively. Overall, Brent has traded within a tight $5.5 range year-to-date, balancing weaker than expected demand with the risks of Middle Eastern supply disruptions.

Many firms have opted to transport energy products along the longer, but more secure route around the Cape of Good Hope. Most importantly, the second largest global exporter of LNG, Qatar, has joined and diverted flows of LNG. This is not yet impacting the supply balance for gas as buyers in Europe and Asia have plenty of product in storage to draw on – making deliveries less time-sensitive. In addition, the quantity of LNG on tankers waiting to be unloaded remains historically high, meaning there is still enough LNG to get by.

Similarly, there is still plenty of crude and refined products being supplied to the European market, especially owing to strong flows from the US while lower demand is keeping the market balanced.

But equally, as global diesel inventories remain historically low and Europe has already been maximizing output of diesel thanks to stronger crack spreads for the fuel, prices for the end product can quickly rise if disruptions in the Red Sea persist for longer than the market can handle.

Ever since the EU's ban on seaborne crude and refined products shipments from Russia between the end of 2022 and the beginning of 2023, the region has increased its import dependence on the Middle East. Most of the diesel from the region comes from Saudi Arabia's 250,000 b/d Yanbu and 305,000 b/d Jubail refineries, while India and to a lesser extent the UAE also provide a significant amount. Equally, a lot of Russian supplies have transited the Red Sea passage to find new buyers in Asia ever since the ban and are now also forced to take the longer route around Africa.

For LNG, Europe relies heavily on flows from Qatar's LNG export terminal, which supplied roughly 14mn metric tons to the European market in 2023, around 12% of total European LNG imports.

So in short any major price growth would be inflamed by any production stops from this key supplier rather than transit disruptions – as long as the Cape of Good Hope remains a viable route. This ultimately turns the attention again to the Strait of Hormuz – a vital waterway to export energy from Qatar, the UAE and Saudi Arabia. Given that the Qatari's have also stopped using the Red Sea route on security concerns, their protection from attacks on ships might not be as clear cut as initially thought. In addition, Iran's recent seizure of an Iraqi oil tanker in the Gulf of Oman, which was headed to Turkey, shows how thin the line is between the conflict impacting actual supply.

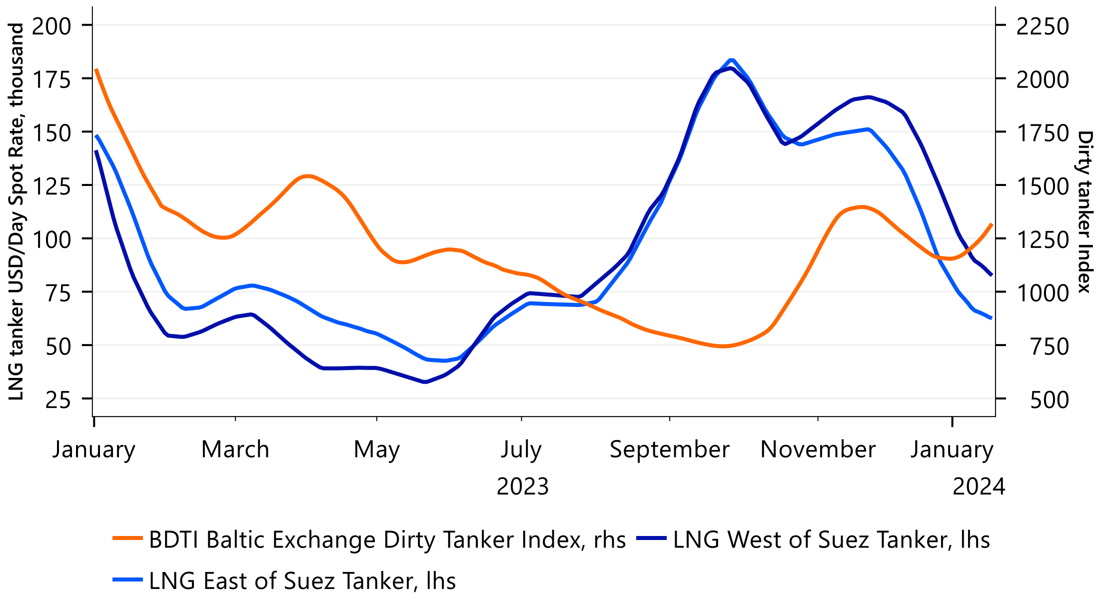
For gas this means that any stops to Qatari LNG supply because of disruptions through the Strait of Hormuz could move TTF gas prices back above €60/MWh if not higher, depending on the state of demand in both Europe and Asia. Qatar accounts for roughly 20% of global LNG exports, making a halt to supplies from the country a global problem.

The Strait of Hormuz accounts for 17% of global oil flows and convoys of tankers from Kuwait, Iraq, Bahrain and Saudi Arabia. For crude oil this means that supply restraints could raise Brent prices above $150/bbl in a worst-case scenario.

At the same time, the recent cold snap in the US has already reduced feedgas flows to US liquefaction facilities and will result in slower LNG exports over the coming weeks. While not connected to the geopolitical tensions unfolding in the Middle East, it will have a compounding effect on LNG markets globally.

Concerns over actual supply disruptions from key crude, refined products and LNG suppliers in the Middle East are thus back on the table although the likelihood of extended escalations remains low. More likely are gradually rising shipping rates as longer transits are tying up more gas and oil inventory at sea, while price spikes for end products will be contained as the end of the weak demand environment is nowhere in sight. Shipping rates for LNG tankers east of Suez have dropped to $55,000/d this week, from the highs of $200,000/d in September 2023, while rates of crude oil tankers have started to see the first upside following the disruptions.

**Figure 1: LNG tanker rates are yet to rise amid the longer transit journeys while costs for crude tankers already show the first signs of an upward momentum**




Source: Bloomberg, RaboResearch

| Crude Oil | | | Q1 24 | Q2 24 | Q3 24 | Q4 24 | Q1 25 | Q2 25 |
|---|---|---|---|---|---|---|---|---|
| Brent | | Forecast | $79.0 | $75.0 | $77.0 | $81.0 | $84.0 | $86.0 |
| | *$/BBL* | Forward | $78.6 | $77.9 | $76.9 | $75.9 | $75.1 | $74.2 |
| WTI | | Forecast | $74.2 | $70.6 | $72.6 | $76.6 | $79.3 | $81.3 |
| | *$/BBL* | Forward | $73.9 | $73.5 | $72.5 | $71.5 | $70.4 | $69.5 |
| NY ULSD | | Forecast | $2.72 | $2.63 | $2.68 | $2.78 | $2.82 | $2.86 |
| | *$/GAL* | Forward | $2.59 | $2.47 | $2.45 | $2.44 | $2.41 | $2.37 |
| Gulf Coast Diesel | | Forecast | $2.58 | $2.52 | $2.58 | $2.64 | $2.69 | $2.78 |
| | *$/GAL* | Forward | $2.45 | $2.36 | $2.34 | $2.30 | $2.28 | $2.29 |
| DOE On-Highway Diesel | | Forecast | $4.26 | $4.21 | $4.27 | $4.33 | $4.38 | $4.47 |
| | *$/GAL* | Forward | $4.13 | $4.05 | $4.03 | $3.99 | $3.97 | $3.98 |
| ICE Gasoil | | Forecast | $779 | $760 | $775 | $799 | $812 | $831 |
| | *$/MT* | Forward | $762 | $738 | $725 | $718 | $707 | $699 |
| RBOB | | Forecast | $2.17 | $2.30 | $2.28 | $2.24 | $2.29 | $2.55 |
| | *$/GAL* | Forward | $2.19 | $2.32 | $2.19 | $2.01 | $2.06 | $2.19 |
| **Natural Gas** | | | | | | | | |
| HH Natural Gas | | Forecast | $2.81 | $2.45 | $2.60 | $3.10 | $3.25 | $3.17 |
| | *$/MMBtu* | Forward | $2.65 | $2.71 | $2.90 | $3.64 | $3.51 | $3.40 |
| TTF Natural Gas | | Forecast | € 37.0 | € 35.0 | € 36.5 | € 43.0 | € 40.0 | € 34.0 |
| | *€/MWH* | Forward | € 34.4 | € 34.2 | € 34.8 | € 39.1 | € 37.5 | € 34.0 |
| NBP Natural Gas | | Forecast | 102.74 | 96.85 | 100.89 | 123.70 | 114.52 | 94.54 |
| | *GBp/Therm* | Forward | 86.34 | 84.90 | 86.61 | 103.28 | 98.06 | 84.56 |
| JKM Natural Gas | | Forecast | $11.77 | $11.54 | $12.21 | $14.00 | $11.95 | $11.62 |
| | *$/MMBtu* | Forward | $11.61 | $11.79 | $12.50 | $14.54 | $12.20 | $11.84 |
| **Metals** | | | | | | | | |
| Aluminium | | Forecast | $2,250 | $2,260 | $2,315 | $2,400 | $2,460 | $2,490 |
| | *$/MT* | Forward | $2,257 | $2,302 | $2,347 | $2,387 | $2,423 | $2,458 |
| Copper | | Forecast | $8,500 | $8,526 | $8,568 | $8,611 | $8,654 | $8,697 |
| | *$/MT* | Forward | $8,430 | $8,501 | $8,544 | $8,565 | $8,582 | $8,595 |
| **Carbon** | | | | | | | | |
| EUAs | | Forecast | € 81.0 | € 82.2 | € 85.0 | € 88.7 | € 90.3 | € 92.0 |
| | *€/MT* | Forward | € 74.1 | € 75.1 | € 75.7 | € 76.5 | € 77.1 | € 77.7 |

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