

## Flash note 21/12/2023

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### **Some good news, at least for now: What do companies around the world think about the risk from the Red Sea crisis?**

As you know, attacks on vessels by Iranian-backed Houthi militants in Yemen have disrupted international commerce on the shipping route (called Red Sea Route) between Asia and Europe. This pushed shipping companies to reroute their vessels. I detail some impressions from the large companies about the seriousness of this incident in the Red Sea:

#### **The Optimists:**

- PRIMARK: The Primark-owner says that “our supply chains are capable of some adjustment”. “So far we see no need to be concerned”. (company spokesperson)
- BASF (BASFn.DE): The German chemical company “does not see disruptions to raw material supply or product distribution”, although admits that it is closely monitoring the situation (company spokesperson).
- COVESTRO (1COV.DE): The German chemicals maker said “any increases in transit times would not impact our product supply”. Covestro expects its ocean shipping line partners to continue shipping through the passage as soon as it can be operated safely.
- ELECTROLUX (ELUXb.ST): The Swedish home appliances maker set up a task force to “identify priority deliveries to try to avoid any disruption” but it currently sees a “limited impact on deliveries”.
- ESSITY (ESSITYa.ST): The Swedish hygiene products maker is monitoring the situation and staying in contact with impacted suppliers to ensure continued flow of goods, but sees “a limited impact as only a low percentage of its supplies move through the Suez Canal”.
- EUROPRIS (EPR.OL): The Norwegian retailer, which imports 35-40% of its goods sold from Asia via sea freight, told that it supports shipping companies' decision to reroute vessels, adding that “the longer shipping times were within its safety margin and no significant challenges were expected”.

- KEMIRA (KEMIRA.HE): The Finnish chemicals company said that shipping companies' decisions to reroute vessels “would affect the company but not in any significant way at least in the short term”. “There is currently spare capacity on the market and waiting times at ports are reasonably good”.
- KONE (KNEBV.HE): The Finnish elevator maker said the situation may in some cases delay shipments by 2-3 weeks, though “a majority of its customer deliveries should stay on schedule”. Kone added it had prepared for the disruptions by seeking alternative delivery methods and routes.
- TSMC (2330.TW): The world's top contract chipmaker said it had a long-established enterprise risk management system in place, and “after an assessment it did not anticipate a significant impact on its operations”.
- VOLVO CAR (VOLCARb.ST): The Swedish automaker said it was affected by the shipping problems and was investigating the potential impact. However, it sees “no impact on its ability to reach global wholesale and production targets”.
- WHIRLPOOL (WHR.N): Whirlpool is closely monitoring logistics issues in the Red Sea, the Suez Canal and the wider region to help mitigate risks as they arise, adding that “currently there was no impact to its business”.
- YARA (YAR.OL): The Red Sea is an important supply route for Yara, the Norwegian fertilizer maker said, but added it was “only mildly impacted by the transit challenges for now”.
- MOSAIC (MOS.N): The U.S. fertilizer company said it had rerouted only “a couple of U.S.-bound shipments around the Cape of Good Hope”.

### **The Not so optimists:**

- IKEA: The Swedish ready-to-assemble furniture retailer told that the situation in the Suez Canal “would result in delays and may cause availability constraints for certain products”. “We are evaluating other supply options to secure the availability of our products”.
- DANONE (DANO.PA): The French food group said most of its shipments had been rerouted, which will increase transit times. “Should the situation last beyond 2-3 months, the group will activate mitigation plans, including using alternate routes via sea or road”.

- BP (BP.L): The oil major said it had “temporarily paused all transits through the Red Sea”.
- EQUINOR (EQNR.OL): The Norwegian oil and gas firm said “it had rerouted vessels that had been heading towards the Red Sea”.
- LIDL: A unit of the German discount supermarket chain, said “it was sailing around the Cape of Good Hope for now”.

## Oil & Energy sector

- **The US intends to flood the international market with its On-shore oil & gas prevent energy prices from skyrocketing globally:** US oil Production was estimated at a record 13.3M bpd, consolidating its position as the world's largest oil producer, with daily output increasing 200K barrels last week, adding to narrative that rising production from US, Guyana, and Brazil will offset OPEC+ supply cuts. Maybe, that's why the OPEC+ has invited Brazil to join the group (and to the group's discipline of reducing world crude oil production through individual quotas). My surprise is that Lula's government seems to be willing to join this initiative (led by Moscow and the Saudis).
- **Off-shore US production also on the rise:** RBN Energy reported that the U.S. Gulf Coast crude oil exports are on track to reach new highs in 2023 compensating for the cuts in energy production by Russia, Saudi Arabia and the rest of OPEC+ members.
- **Sanctions to Russia:** The US Treasury released a notice of Stricter enforcement of G7 countries on Russian oil price cap. Comes amid an uptick in sanctions enforcement against Russia which resulted in 5M barrels of Russian oil failing to reach Indian refiners over the past month. Most likely, all the tension we are seeing in the Red Sea, and the disruption of transit in the Suez Canal, is related to these sanctions.