Saudi attacks - shock to recession?

This weekend's attacks on Saudi Arabian oil infrastructure removed around 5 mbpd of crude oil production and could potentially derail economic growth depending on longevity of production loss and its impact on oil prices.

Macro risk running high

The global GDP growth outlook is already shaken by the US – China trade war, Brexit and softer economic indicators for industrial sectors across the globe.

While the current Brent oil price increase of around 8% to USD 65 per barrel is unlikely to have a great impact on economic growth, the economy is increasingly weary of an escalation of a Middle East conflict and subsequently an oil price hike.

The magnitude and seriousness of the attacks will most certainly result in retaliatory action, suggesting that tensions may increase and bring with them oil prices to levels adversely impacting economic growth.

Central banks and governments have recently launched stimuli packages in preparation for the fall out of the trade war and in response to being at the tail end of a long economic growth cycle. These stimuli actions were conducted to stem off threats of a recession, however depending on the duration of lost Saudi Arabian oil supply and retaliatory actions, this latest shock could be the last straw in the recession battle.

Our shipping segments

Tanker markets will usually benefit from a Middle East conflict but could impact crude oil tankers and product tankers in different ways. Near term Saudi Arabian exports should be replaced by oil inventory draws and as such crude tankers will still sail. A longer supply outage will require that traditional recipients of Middle East crude will seek alternative sourcing, with the US being the most likely supplier. This should lead to a ton mile boost. However, despite US export capacity growth, it is not possible for US oil to fill the gap in its entirety.

If escalation continues to a heightened armed conflict in the Middle East, local crude supply will face a shortage and depress crude exports out of the region, adversely affecting crude shipping demand. This scenario would however sharply increase refined fuels demand in the region including jet fuels, gasoline and distillates, boosting product tanker markets

LPG Shipping: A higher oil price in the wake of the bombing of Saudi oil installations in the weekend is in itself positive for the larger LPG vessels, as it will stimulate the use of LPG in ethylene crackers over naphtha. Saudi Arabian LPG export, which accounted for 22% of Middle East LPG export in the first 6 months of 2019, with a monthly average of 713Kt, is however expected to be negatively affected by the incident too. USA is the most likely replacer of lost Saudi volumes, and could probably step up export if the price is right. Such a shift would entail longer trades and increase the cubic meter demand.

Drybulk and Container shipping demand is from the outset not directly affected by the attacks. However, should the attacks be a precursor to a world economic recession these markets would face a substantial loss of trade.

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