CAPITAL ECONOMICS

What are the potential implications of Houthi Attacks?

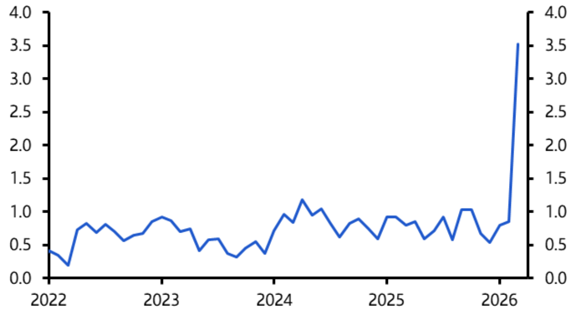
- **While the direct effect of renewed strikes on shipping in the Red Sea on *aggregate* world trade is likely to be limited, the impact on Asian economies that rely more heavily on oil imports from Saudi Arabia would be more significant. Pakistan, the Philippines and Japan are particularly vulnerable. The bigger threat to the global economy would be via higher oil prices. An effective closure of the Bab el-Mandeb Strait would push us closer to our "adverse" macro scenario for the war, in which the slowdown in global GDP growth is sufficient to meet most definitions of a global recession.**

- The recent Houthi attack on Israel has triggered concerns about disruptions to trade flows through the Bab el-Mandeb Strait, which connects the south of the Red Sea with the Arabian Sea and Indian Ocen. When the Houthis attacked commercial vessels in the Red Sea in 2023 and 2024, shipping traffic in the region collapsed, causing major diversions and longer journeys.

- **Renewed strikes in the Red Sea would have the largest impact on oil trade.** The Bab el-Mandeb Strait has become an important offset for the oil market, as the effective closure of the Strait of Hormuz has caused Saudi Arabia to divert oil flows via its East-West pipeline to export from the Yanbu port, which sits on the Red Sea. Monthly crude exports from Yanbu port have surged (see Chart 1) and more timely estimates suggest that crude oil exports from there have reached 5mn bpd – equivalent to ~70% of Saudi Arabia's total pre-war crude exports and ~7% of global oil exports.

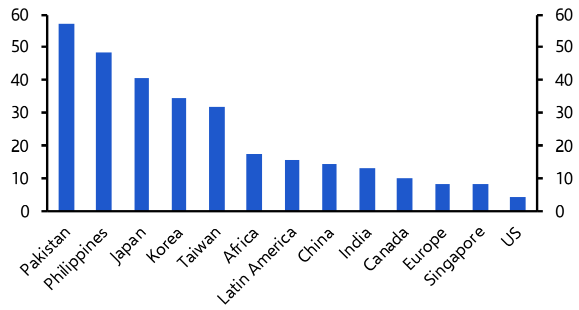
- **The effective closure of the Bab el-Mandeb Strait would complicate the ability of some oil shipments to bypass the Strait of Hormuz and further tighten the global oil market.** The only option remaining for Saudi oil to reach global markets would be via the Suez Canal. While not a problem for European importers, such a diversion would mean that in order to reach Asia, tankers would need to take ~6,500km longer journeys through the Mediterranean and around Africa, adding about 10-12 days to reach their destinations. There are also logistical constraints that would complicate oil trade such as the fact that Very Large Crude Carriers (VLCCs) cannot pass through the Suez Canal with a full load. **The reliance of several Asian economies, especially Pakistan, the Philippines and Japan, on oil exports from Saudi Arabia means those economies would be at greatest risk of experiencing fuel shortages.** (See Chart 2.)

Chart 1: Saudi Arabia Monthly Crude and Fuel Oil Exports from Yanbu Port (Mn. Bpd)



Sources: LSEG, Capital Economics

Chart 2: Crude Oil Imports from Saudi Arabia (% of Total Crude Oil Imports)



Sources: IEA, ITC, Capital Economics

- **The impact on other trade flows would probably be limited.** LNG flows through the Bab el-Mandeb have already fallen to virtually nothing, following Houthi attacks on ships in the Red Sea in late-2023. (See Chart 3.) Similarly, most container ships have been avoiding the Red Sea since then too. The number of container vessels making trips through the Bab el-Mandeb Strait also fell sharply at the end of 2023 and haven't recovered since. (See Chart 4.)

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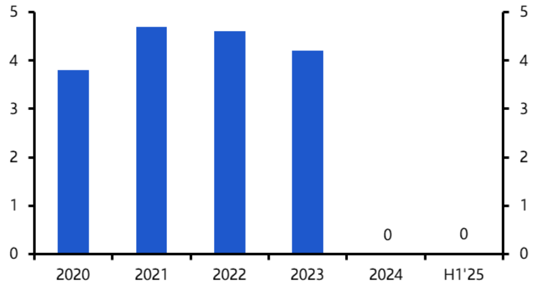
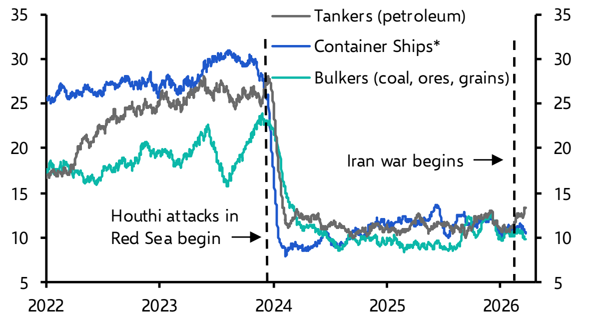
- **The bigger impact of Red Sea strikes on the global economy would be via the indirect effect on global oil prices.** In a scenario where both the Strait of Hormuz and the Bab el-Mandeb Strait are effectively closed, we think the subsequent tightening in global oil supply could feasibly add about $15-20 to the price of Brent crude. This would bring us closer to our “adverse” macro scenario for the war, where oil prices remained above $100pb for the remainder of this year. In this scenario, the slowdown in global growth is sufficient to meet most definitions of a global recession. (See our *Global Economic Outlook*.)

Chart 3: LNG Flows Through Bab el-Mandeb (Bn. Cubic Feet per Day)



Sources: LSEG, Capital Economics

Chart 4: Daily Vessel Arrivals into Bab el-Mandeb Strait (30 day moving average)



Sources: IMF Portwatch, CE *includes general cargo & Ro-Ros