

## Trump's "Beautiful Armada" Brings Freight Rates into Focus

News wires have been active in recent days, after President Trump escalated rhetoric around the potential use of military force against Iran should negotiations over its nuclear programme fail. This comes swiftly after America's action in Venezuela to remove President Maduro.

As the US military armada moves closer to Iran, Brent crude futures have pushed to their highest levels since 29 September, reflecting growing concern over potential oil supply disruptions.

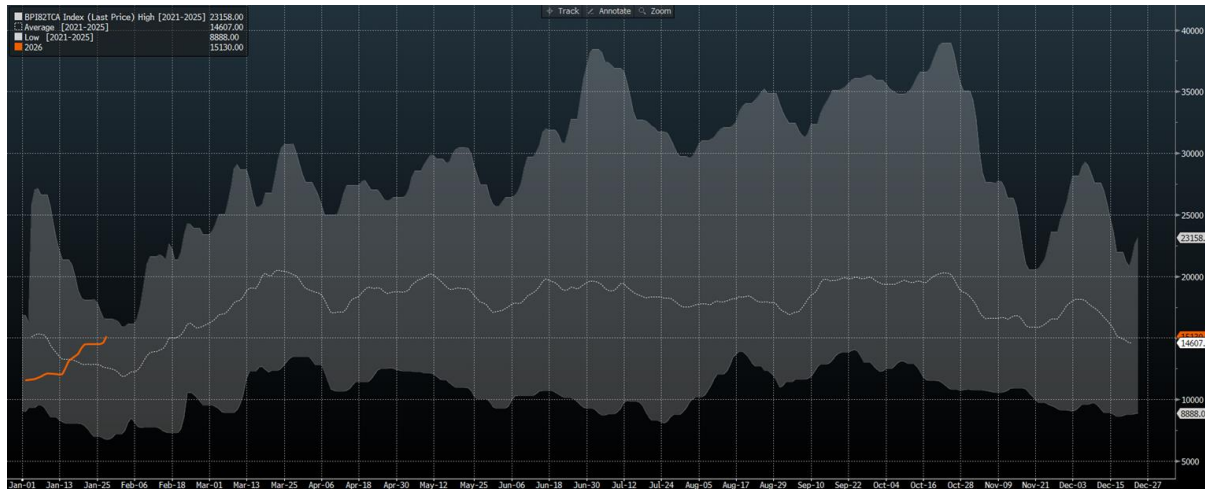
While oil-market risks are gaining attention and are well covered in news relating to Iran, the risk to global shipping appears to be underappreciated.

Any escalation involving Iran carries the potential to spill across the broader Middle East. At present, most nations have expressed concern or outright disapproval, with one notable exception. Initially via social media, and later reported by the *Times of Israel*, the Houthi rebels have stated clearly that they would retaliate against any attack on Iran. History shows that Houthi retaliation typically takes the form of attacks on commercial shipping in the Red Sea, with the explicit aim of disrupting traffic through the Suez Canal.

It is worth noting that, excluding dry bulk Capesize vessels and VLCCs, most commercial shipping relies on the Suez Canal. This is significant given that, according to the World Economic Forum, approximately 12% of global trade transits the canal. The alternative route is around the tip of Africa via the Cape of Good Hope, adding over 3,000 nautical miles to voyages.

These additional tonne-miles materially reduce effective shipping capacity, which in turn pushes freight rates higher. This reminds us of the infamous event of the blocking of the Suez Canal by the Evergreen container ship.

Seasonally, January is typically a subdued period for dry bulk shipping, with indices often bottoming in early February before beginning their annual climb. This year, however, rates have turned higher earlier than normal. Capesize rates have been supported by strong bauxite exports from Guinea, with strength filtering down into the smaller vessel classes—potentially via increased coal movements driven by colder-than-normal northern hemisphere weather.



*Panamax 5TC 5 Year Seasonality Chart – Bloomberg*

An already supported market must now contend with the prospect of renewed disruption to the Suez Canal, and the resultant tonne-mile inflation. While we are not yet seeing outright anxiety, recent strength in Panamax and Supramax rates has been partly driven by short covering, following the early seasonal turn.

With February now underway and geopolitical tensions rising, the dry bulk market is entering a period that already carries structural upside risk. Any sustained threat to Suez transit would likely amplify that risk further, bringing freight rates firmly back into focus.

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#### **Sources:**

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The Times of Israel - *Yemen's Houthi rebels threaten new Red Sea attack as US aircraft carrier heads toward Iran*

Bloomberg

The Baltic Exchange



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