

The War Premium Unwinds

A scenario for large container lines and the wider shipping sector in 2027

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> **The what-if.** *What if the war premium leaves freight rates within a few quarters, but leaves costs, ships and debt much more slowly, so that 2027 repeats the 2023 rate reversal on a 2026 cost base?*

Executive summary. Much of shipping's 2026 strength rests on the status of the Gulf and the Red Sea: spot rates on one main lane rose 305% after February, and Gulf tanker earnings are at records. The same state also drives costs, so the war is a windfall for some lines and a cost shock for others. Suez container transits are above half of pre-war levels, with a full return expected by early 2027, while the fleet is set to grow 10% in 2027 on an orderbook equal to 40% of the fleet. We consider three scenarios: *A, contested normalisation* (central baseline): earnings fall but stay positive. *B, an energy supply shock* (tail): costs and rates rise first, volumes fall later. *C, the unwinding* (the what-if; tail): rates revert as in 2023 while fuel, financing and ordered ships stay. For a stylised line the damage is not proportional: once the market tips into surplus, each further step of returning capacity costs several times more profit than the first. Thin-margin container carriers, tanker owners, lessors and older tonnage are most exposed, and no branch is benign for a large line.

Various actions can be considered. One possibility is to hedge part of the rate side with freight futures. Another option is to lock in contracts with floors before the resets. Capacity discipline also helps under the what-if scenario. Further, the windfall given by current freight rates should be considered as one-off in the budget and can be kept as extra liquidity. For any plan, it is useful to agree on execution triggers in advance.

1. Introduction: Earnings that depend on a hidden state

We define the **war premium** as the part of a shipping line's freight rates, costs and commitments that exists only because of war. In this paper, it is measured against one benchmark: the level each of these would have today, with the same demand and the same fleet, if the Bab el Mandeb strait and the Strait of Hormuz were open at normal risk and cost. The premium has three parts. On the revenue side, it is the extra freight rate a line can charge. On the cost side, it is the war risk cover, the danger pay for crews, and the extra fuel, storage, rerouting and inland transport. In commitments, it is the ships ordered and the debt raised on the strength of the higher rates. The unwinding in the title of this paper refers to the premium declining in each of these three parts, each at its own speed.

The premium is driven by what a conflict does to shipping. Ships sailing round the Cape of Good Hope need more days per voyage, so the same cargo needs more ships: BIMCO estimates that this rerouting raised container-ship demand by about 10% [4]. Ships and crews trapped in the Gulf are out of the market. Insurers price war risk cover for both routes, or withdraw it. The disruption of energy flows through Hormuz raises the price of fuel and lengthens the wait for it [10]. These drivers lift rates and raise costs at the same time, and which side dominates differs by line, depending on how its network, contract book and cost base meet the conflict. The same war can therefore be a windfall for one line and a cost shock for another.

All of these drivers follow one hidden state: whether ships can pass the Bab el Mandeb strait into the Red Sea and on to Suez, and the Strait of Hormuz into the Gulf, at normal risk and cost, and for how long that will hold. It is hidden in two senses. First, nobody observes it directly. It is set by the decisions of armed groups, governments, navies and insurers, and a line sees only its traces: transit counts, attack reports, insurance quotes, the routing of other carriers and freight rates. These signals arrive late and are noisy, and a single incident can overturn what weeks of quiet passages suggested. Each line therefore acts on its belief about the state, and its own routing becomes one of the signals the other lines read. Second, the state does not show in the accounts. No line of a 2026 income statement separates the war premium from the rest of revenue and costs, so all of it reads as ordinary earnings. Because one state drives a line's rates, costs and demand, each with a different lag, sensitivities to one factor at a time cannot capture the exposure. In the language of our earlier paper, a firm in a network is exposed to a state it cannot see, and the response turns nonlinear when substitutes run out [20].

Today the premium is large in all three parts, and the state behind it is already moving.

Rates. Far East to US East Coast spot rates were up 305% between the end of February and 3 September [1]. Tanker earnings in the Gulf are "exceptionally high" [2] and Hormuz freight reached record levels [3]. Container transits through Suez, however, are above half of pre-war levels, a full return is expected by the first quarter of 2027, and most major carriers have returned [4]. Suez container traffic rose 40% on the month in September, and Lloyd's List links this to lower Asia–Europe spot rates [5]; Far East–North Europe rates have fallen since early July [1]. This is happening despite the war: a container ship was fired on in the southern Red Sea on 7 October [5].

Costs. Costs are still high. Singapore low-sulphur fuel lead times have lengthened [10], diesel prices peaked in September and the IEA expects the crunch to last into 2027 [14], Gulf war-risk cover was cancelled within days in March [13], and captains transiting Hormuz are paid very high danger pay [3].

Commitments. Supply keeps growing. BIMCO expects fleet capacity to grow 4.6% in 2026 and 9% in 2027, with an orderbook equal to 42% of the fleet and recycling of well under 1% of it, against demand growth of 0.5–4.5% [6, 7]. Financing has become dearer, with the ECB raising its rate to 2.5% in September [15].

Rates falling is not new. The Drewry World Container Index fell 83% from September 2021 to May 2023, ending only 21% above 2019 [8]. The scenario here is rarer because it adds a cost base that, unlike in 2023, has not normalised, and a fleet still growing at 9%. These conditions are documented individually; their coincidence is the tail.

We consider three scenarios, their impact on a stylized line, and analyze potential actions.

2. Three scenarios: Contested normalisation, escalation and the unwinding

Scenario A, Contested normalisation (central case)

The Suez return continues under fire and Hormuz works under pressure: Middle East crude exports are flowing again, but about 40% bypasses the strait, and attacks continue daily [9]. Any insurance provided could reverse after one incident, as the 7 October attack shows. Rates on Asia–Europe drift lower, transpacific rates stay high and costs stay high: Singapore low-sulphur fuel lead times have lengthened [10] and Gulf war-risk cover was cancelled within days in March [13]. For the stylized line, 2027 earnings fall from 2026 but stay positive; within the sector, we expect the earnings spread between lines to widen.

Scenario B, Escalation: an energy supply shock (tail)

Analysts warn that Iran could destroy regional oil infrastructure if diplomacy fails [3]. That is a supply shock, and it reaches a container line first through its inputs and its ships, not through its customers. On the fuel side, diesel prices already spiked to a peak in September, the IEA expects the crunch to last into 2027 [14], and Singapore lead times have lengthened [10]. Insurance cover is uncertain. Gulf war-risk cover was cancelled within days in March [13] and could be withdrawn again. Transits are uncertain as well. About 1% of the container fleet was in the Gulf in April, and roughly a third of those ships belonged to the top five lines [16]; any further rerouting absorbs more capacity. In the first phase, therefore, effective capacity tightens and rates rise, as they did after February, while each line's costs rise and become less predictable. Whether rates cover costs differs by line.

The demand effect comes second and more slowly, as a consequence of the supply shock rather than an alternative to it. Euro-area inflation is already 3.8% with energy up 18.9%, and the ECB has raised rates to 2.5% [15]: an energy supply shock met with tighter policy is the stagflation case, with prices up and activity down. OPEC+ ministers have said shipping and insurance costs now exceed a third of commodity value [2], which squeezes trade at the margin. The 2022 energy shock shows the second round: German energy-intensive production was 19.6% lower by December 2022 [20], which is what a shock does where substitutes are absent. BIMCO's low case, with Hormuz closed, has container demand growth of only 0.5–2.5% against fleet growth of 5–6% [6]. Scenario B is therefore a sequence: higher costs and tighter capacity first, which can lift rates; weaker volumes later, which remove that rate support while the cost base of the first phase is still in place. The danger for a line is the transition between the two.

Scenario C, The unwinding (the what-if; tail)

Four documented conditions coincide in the same two to three quarters. (i) A ceasefire or settlement holds, (ii) Suez returns fully, which BIMCO says would leave ship demand about 10% lower than under Cape routing [7]. (iii) The fleet grows 5-15% with limited scrapping. (iv) The cost base and commitments from 2026 stay: oil stocks are not rebuilt before the second half of 2027 [14], rebuilding could take up to two years [9], the ECB is still raising rates, and ships already ordered must be delivered.

Sizing the hit: why the damage is not proportional. The arithmetic below uses a stylised line, not any actual carrier, and is crude. The figures are therefore merely to support the qualitative reasoning and do not constitute any forecast. For a line earning an operating margin of 5% of revenue, each 1% fall in average rates removes about 20% of operating profit, as long as volumes and costs hold. On its own that relation is linear. What makes the unwinding non-linear is how rates respond to capacity.

While ships are scarce, capacity coming back lowers rates gradually. BIMCO estimates that Cape routing absorbs about 10% of container-ship demand [4], so the Suez return releases capacity step by step. Once effective supply exceeds demand, however, rates stop falling in proportion and drop towards the cost of keeping ships running. With the fleet growing in 2027 against demand growth of 0.5–4.5% [6, 7], that slack is already building before Suez is fully back. In 2021–23, when port congestion unwound and released the capacity it had absorbed, the spot index fell 83% [8]. A market that crosses this threshold changes regime; it does not simply repeat the same move at a larger size.

Figure 1 shows the effect. With a proportional response, each step of returning capacity costs the same. With a threshold response, the first half of the Suez return only erases the profit, while the second half, the same amount of capacity, does three times the damage. Small early moves therefore give little warning of how large the later ones will be.

Rates do not fall forever: lines cancel sailings and idle ships until rates cover running costs. That floor, however, is set by the cost base. In 2023 it rested on normalised costs; in Scenario C it rests on 2026 fuel, financing and ships already ordered, so the loss at the floor is deeper. Losses can also feed back into costs: loan covenants come under pressure, refinancing becomes dearer, and assets bought on 2026 rates must be sold into a weak market. In the language of our earlier paper, the loop gain rises [20].

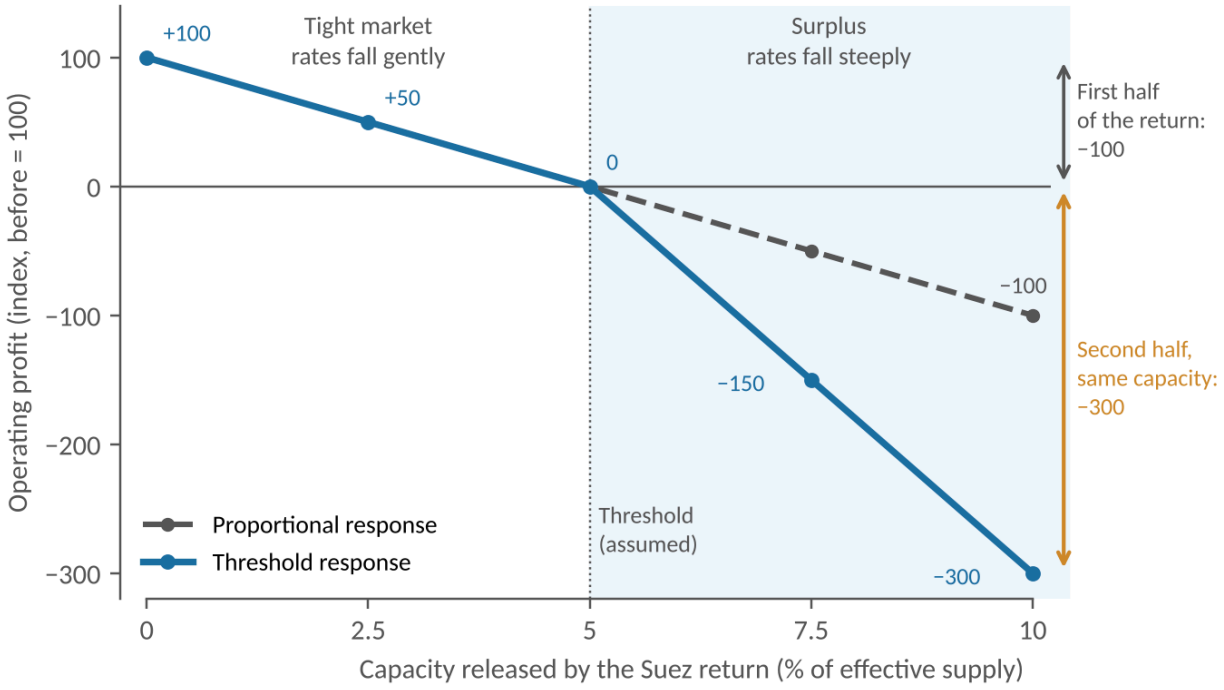


Figure 1. Stylised line with a 5% operating margin: operating profit (indexed to 100) as the Suez return releases capacity. The rate responses are illustrative assumptions, not estimates.

The lag in the cost reduction results in a partial asymmetry. In this scenario, the costs most tied to the conflict unwind with the rates, while fuel, financing and committed ships do not.

Cost or commitment	Unwinds with rates?	Evidence
Cape rerouting	Yes, with the Suez return	The same return that lowers demand by about 10% removes the extra sailing days [4, 7]
War-risk cover	Largely yes, but can reverse	Competition for tonnage is “at an all-time high” [17] and private capacity is “beginning to return” [12], yet cover was cancelled within days in March [13]
Hormuz danger pay and rates	Yes, with Hormuz	Very high captain pay for transits [3]
Bunker fuel	Slowly	Stocks are not rebuilt before the second half of 2027 [14]; lead times have lengthened [10].
Financing	No	ECB rate at 2.5% after a September rise, inflation 3.8% [15]
Ships on order and charters	No	Orderbook equal to 42% of the fleet, fleet growth of 9% in 2027 [6]

Table 1. Which costs unwind with the war premium. Assessment is ours, based on the sources cited.

Two caveats limit the scenario. First, fuel alone does not decide the result: lines can offset part of a higher fuel price by burning less, through slower steaming and network changes, so the hit comes mainly from rates falling while financing and committed capacity stay. Second, buffers differ by company. A real shipping line with a diversified logistics and terminal base, or a higher margin, may absorb the same rate fall better than a thin-margin pure container carrier. The unwinding therefore matters most for companies with already thin buffers. Contract rates add a further delay: much container volume moves on contract rather than spot, so the full effect would appear at the contract resets.

3. Impact on the shipping sector: Who carries it

Segment	Exposure	Where it hurts most
Large integrated lines	Rate swing, cushioned by logistics and terminal businesses	C on rates; B on costs, then volumes
Pure container carriers	Thinner buffers: conflict costs fall on a single business line	C, and B if rates do not compensate
Tanker owners	Record Hormuz rates, above-average orderbook [2]	C: peace removes the premium and the orders arrive
Lessors, lenders and yards	Asset values and orders priced on 2026 rates	C, with orders already placed
Older and small tonnage	About 5% of the fleet on ships over 25 years; weak recycling [7]	C: first to idle
Shippers and ports	Lower rates and fewer surcharges as capacity returns; higher costs and disruption if conflict escalates	Benefit in C; hurt in B

Table 2. Our sector impact analysis, based on the sources cited.

Three system-level effects stand out. Firstly, budgets, covenants, dividends and order decisions that treat 2026 as a baseline treat a war premium as normal earnings. Therefore, 2026 should not be treated as a normal year. Secondly, dispersion rises. The same state lifts some lines' earnings and squeezes others', depending on network, contract mix and cost base, so sector averages mislead. Thirdly, a graceful exit is difficult. Contested normalisation is the least harmful branch, escalation hurts first through costs and later through volumes, and settlement hurts through rates; a large line cannot treat either a settlement or a deterioration as the benign outcome.

4. Hedging Global Uncertainty

Every scenario comes with its own levers and its own set of possible actions. We make a distinction between financial hedges on the one hand and operational hedges on the other hand.

Financial hedges

Container freight futures are a possibility but shipping lines need to pay attention to market liquidity. Bunker swaps and futures cover fuel price but basis risk of the hedged fuel against the underlying needs to be considered carefully. Interest-rate swaps cover the financing leg. Financial hedges can protect part of the rate side for part of the horizon; they cannot cover committed ships, fuel availability or volume. They also have a cost of regret: a carrier that sells future rates loses on the hedge if Scenario B pushes rates up before demand falls, so the hedged share should be partial.

Operational and strategic hedges

- **Contract strategy.** The high rates could be used to lock in longer contracts, with floors in index-linked terms, before the resets. Since the adverse side analyzed is the cost side, surcharges can be written with sunset and step-down rules tied to cost indices, so they do not unwind faster than the costs behind them.
- **Capacity discipline.** Capacity decisions work differently across the two tail scenarios, so the timing matters as much as the tool. In Scenario C the danger is the market tipping from tight into surplus, and capacity discipline is the main way a line avoids carrying surplus ships through that threshold. Blank sailings remove capacity week by week, and slower steaming absorbs part of the capacity the Suez return releases, because more ships are needed to keep the same weekly schedule. Charter-in expiries aligned with the expected return, expected by the first quarter of 2027 [4], let a line hand ships back as capacity floods in, rather than paying 2026 charter rates for ships it cannot fill at 2027 freight rates. Deferring or reselling deliveries keeps newbuilds ordered at 2026 rates out of a growing surplus, and selling or scrapping older ships now removes capacity while resale values are still supported by high rates. In Scenario B the same tools need different timing. In the first phase capacity is scarce and rates are high, so handing back ships or scrapping early gives up the best-paid voyages; only slower steaming pays immediately, because it saves scarce and costly fuel.
- **Cost side.** Look into diversification, by considering second and third fuel suppliers and ports, since lead times have lengthened [10]; keep war-risk cover on terms that step down with the risk; and know which covers are cancellable at short notice [13].
- **Balance sheet strength.** Use the 2026 windfall to build liquidity and covenant headroom for a loss-making quarter, not to extend commitments.
- **Triggers, decided in advance.** This is the most important part of any plan. To manage the organization under uncertainty, proper execution triggers need to be put in place such that the organization can act fast when a scenario unfolds. Agree what to do when the scenario signposts trip. Without agreed execution triggers, companies risk to act too late. Decisions made after the fact come too late, especially because hedges and contracts are cheapest while rates are high.

Where we are the signposts now

Signpost	Reading now	What would move us
Suez container capacity	About 52% of the 2023 weekly level in early October [4]	Above about 75% (our proposed trigger): toward Scenario C
Far East–North Europe spot	Falling since July [1]	A further sustained fall without new Red Sea incidents: toward C
Remaining carriers	A minority of major carriers not yet back [4]	All returning: toward C
Red Sea security	Container ship fired on, 7 October [5]	A claimed attack on a container ship: back toward A
Hormuz	Attacks continue daily; 40% of crude bypasses the strait [9]	Weeks without attacks: toward C; strikes on Gulf energy infrastructure: toward B
Rates and prices	ECB at 2.5%, next decision 29 October; euro-area inflation 3.8% [15]	Further hikes or diesel back near its September peak: toward B

Table 3. Signposts and our reading. Thresholds are illustrative.

5. Conclusion

Going into 2027, we analyzed a central question on a stylized container shipping line:
What if the war premium leaves freight rates within a few quarters, but leaves costs, ships and debt much more slowly, so that 2027 repeats the 2023 rate reversal on a 2026 cost base?

The what-if examined here is a tail rather than a forecast, but each of its conditions is already documented: Suez capacity is returning, the fleet keeps growing, and much of the 2026 cost base will outlast the rates it was built on.

The central lesson of the paper is that the damage is not proportional. While the market is tight, returning capacity erodes earnings gradually and gives little warning. Once supply exceeds demand, the market changes regime and losses accelerate, down to a floor set by a cost base that has not normalised. Single-year baselines and single-factor sensitivities would miss this.

For a shipping line, the practical response is therefore less about predicting which branch materialises than about being prepared for each of them. That means treating the 2026 windfall as one-off, favouring actions that hold up in both tail scenarios, such as slower steaming, flexible charter terms and deferral options on deliveries, and agreeing in advance which signposts trigger which decisions. The window to act cheaply is now, while rates are still high.

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