

Turmoil In Egypt

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As Egypt stands on the brink of transition from President Hosni's 30 year old unquestioned rule to democracy, the entire world economy is going through a crisis.

Anarchy in Egypt would mean trouble in the Arab world and its impact will be felt in more than one way across the globe. Even though Egypt isn't a big oil exporter, but oil flows through Egypt which is home to Suez Canal, the shortest link between the east and the west due to its extremely unique geographical location which is one the world's most critical navigation channels and the Suez Mediterranean pipeline. Both of these are the 'world oil transit checkpoints'- places that are a 'critical part of global energy security'. About 7.5% of the global sea trade is conducted through the Suez Canal.

The canal is still open but there is no loading and unloading of cargo at the ports since workers are staying away because of the crisis. If the Suez Canal shuts down, more than 2.5 million barrels of oil which is more than 2 percent of the global production, that passes through the canal each day will have to pass through the Cape of good hope adding another 6000 miles to the journey causing tons of time and money.

Due to the Egypt crisis, prices of oil have shot up by about \$2 per barrel and by the end of the trading session, oil prices are about 4% higher, at a bit over \$89 a barrel.

Price of oil is not the only concern. The biggest fear is that there could be instability, political problems or unrest within Saudi Arabia. That in turn could slow down the economic growth in US and contribute to the already high inflation in the developing world.

More broadly, the situation in Egypt is a reminder of just how uncertain the world is. It's the kind of unpredictable fat tail event that makes investors worry and that worry itself could have a very bad effect on the stock markets across the globe.