FINANCIAL HISTORY OF SHIPPING CYCLES

By

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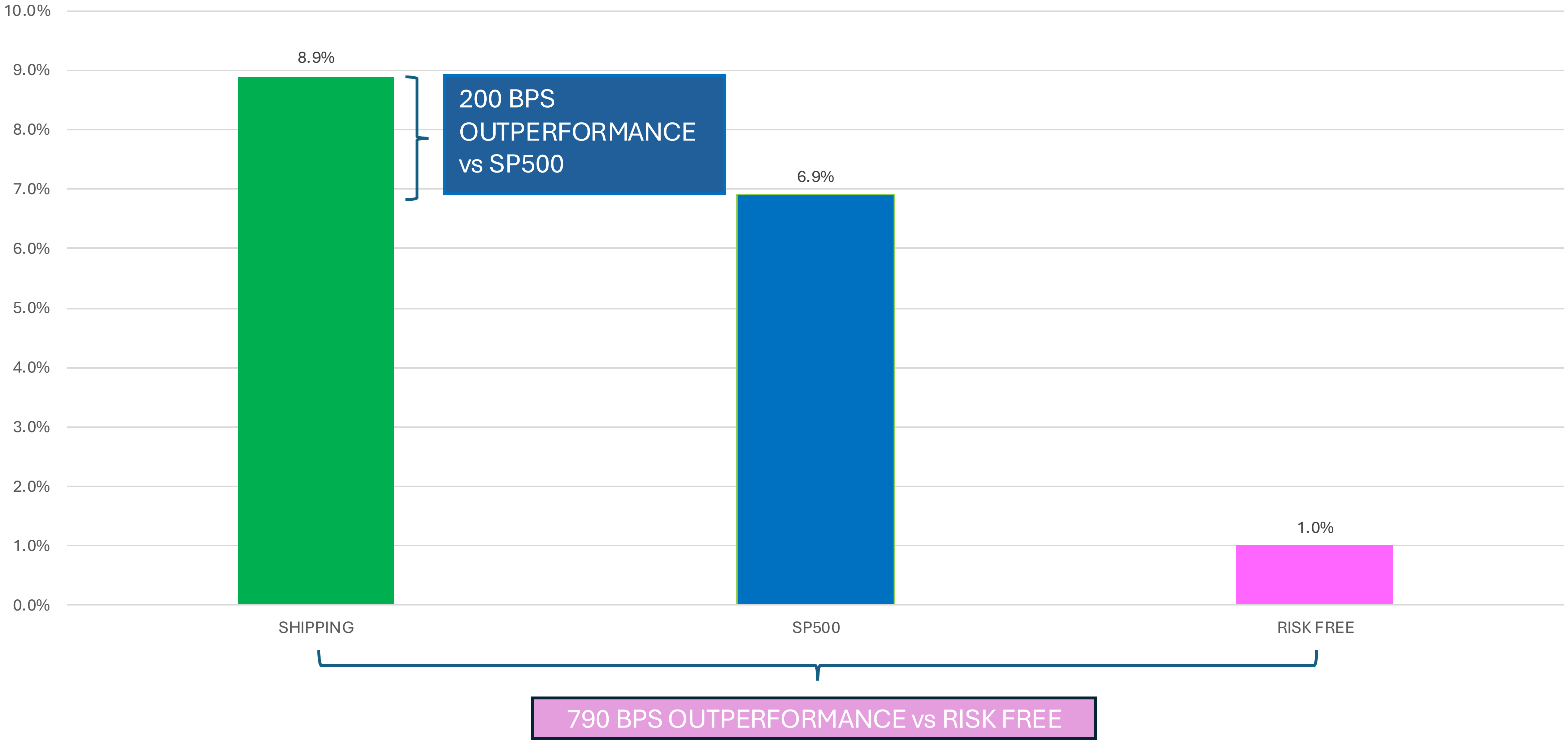
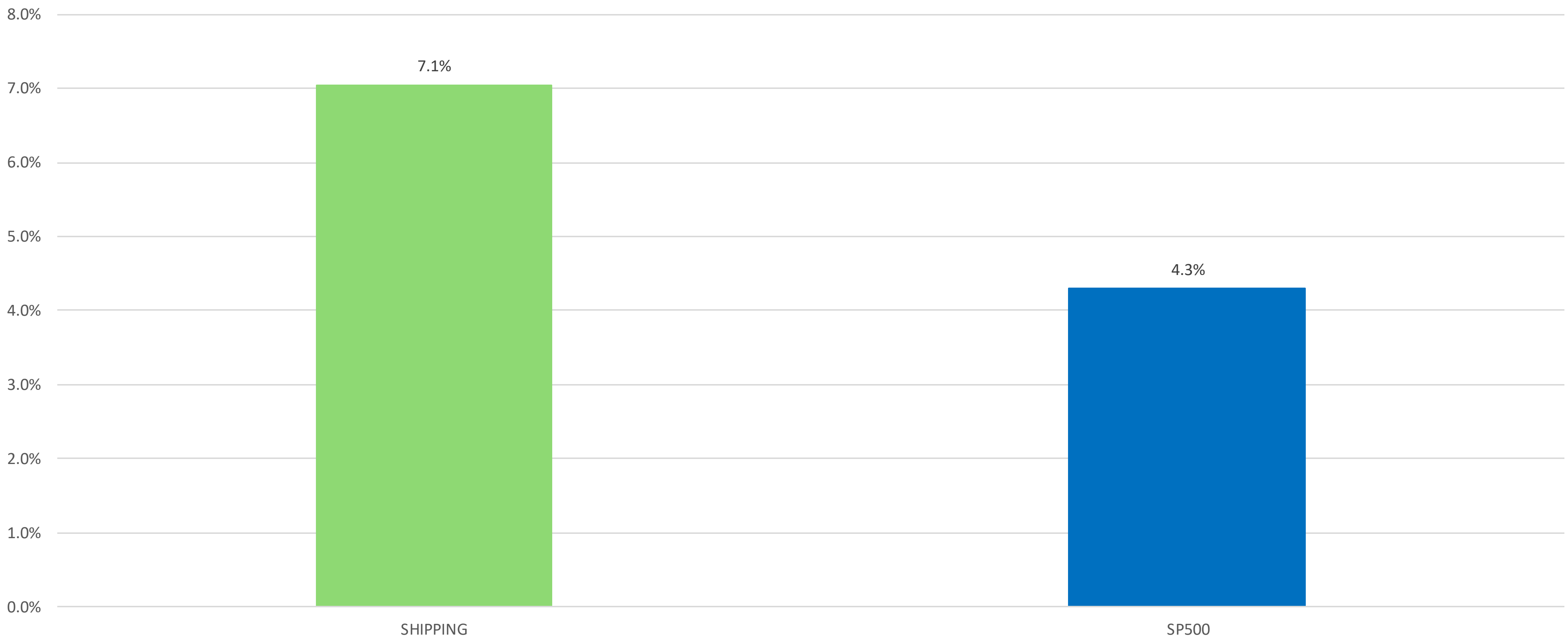
Total real returns per annum – Jan 1896-Dec 2022



Standard deviation of monthly returns Jan 1896-Dec 2022

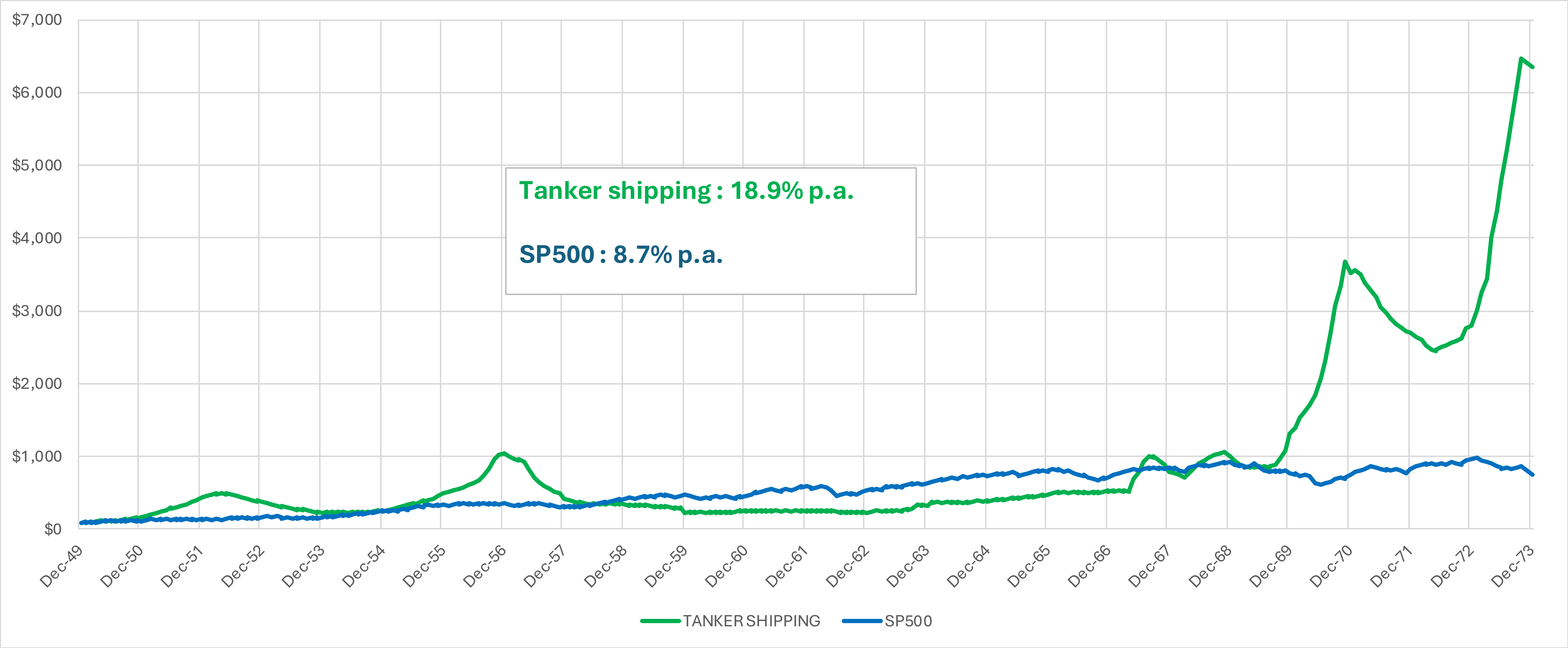


Shipping is volatile. But correlation between monthly returns of Shipping and SP500 is 4.8% - practically zero

Background to shipping demand – 1950 to 1973

- After end of WWII US “inherits” the British Empire
- The new enemy is communism, which may appeal to the poor members of population
- US aims to raise the welfare of the poor and move them to middle class status to eliminate their left leaning radicalism. Solution : Oil
- US and Saudi Arabia forge a deal in 1945
    - US security guarantees for Saudi Arabia
    - In return for unlimited access to Saudi oil
    - Tanker demand bonanza ; average annual demand growth rate of 12.1%

Total real returns on tanker shipping vs SP500 1950 - 1973



Korean War

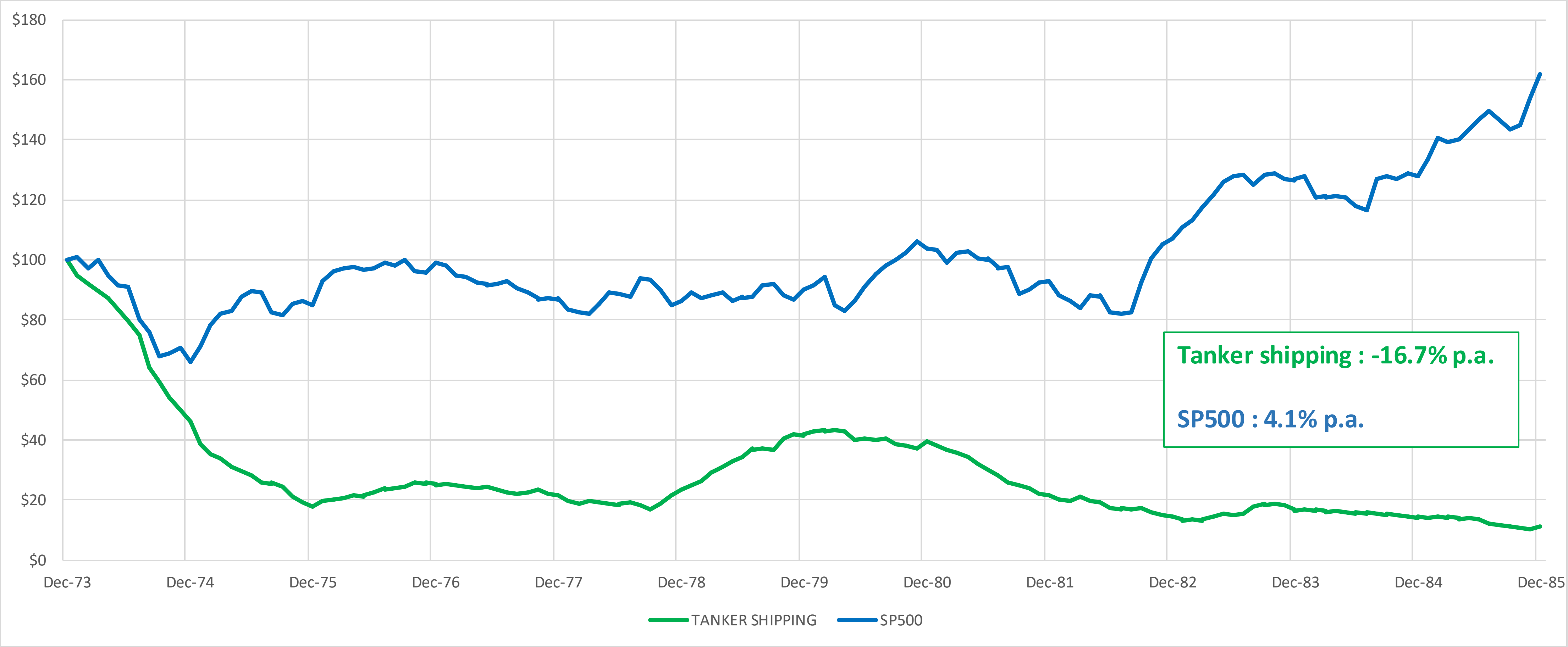
1st temporary closure of Suez Canal

2nd prolonged closure of Suez Canal

Background to shipping demand – 1974 to 1985

- October 6th 1973 : 3 week Yom Kippur War. Humiliating defeat for Arab allies
- Reaction : rare moment of Arab solidarity, coalescing around OPEC. Use of oil embargo as revenge weapon. Torpedoes oil and tanker demand.
- Twin oil price shocks. October 1973 and January 1979. Devastating for oil demand.
- Regime change : annual tanker demand -5.7% p.a.

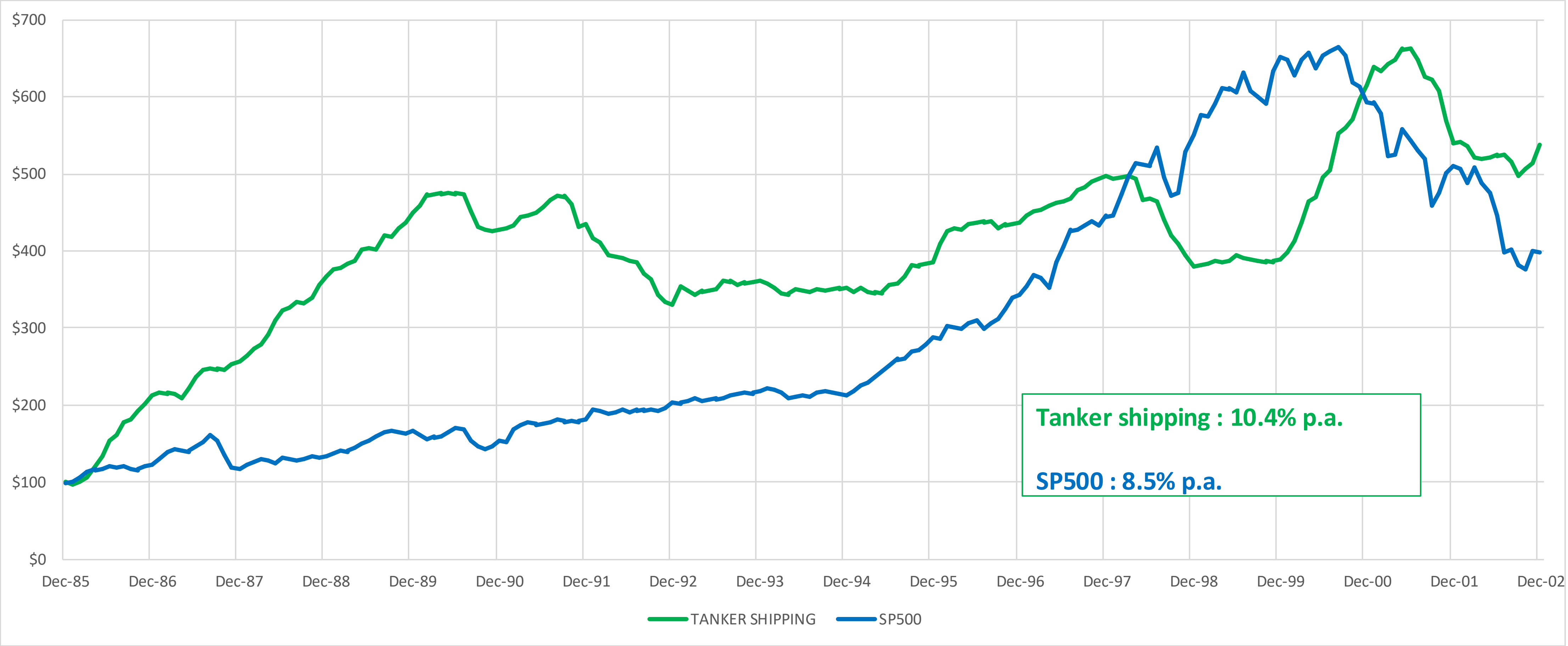
Total real returns on tanker shipping vs SP500 1974 - 1985



Background to shipping demand – 1986 to 2002

- Saudi Arabia sees demand for OPEC oil shrink due to :
  - Customers moving away from oil
  - Increased competing non-OPEC oil supplies
  - To sustain the oil price Saudi Arabia has to cut its production to zero
- It wisely chooses to abandon the regime of oil price support through production declines
- It unleashes oil production increases and lets oil price collapse which revitalises and nurtures oil demand. The oil price collapse pushes competing non-OPEC oil out of the market.
- Economic growth is revitalised. Tanker demand grows 3.4% p.a.

Total real returns tanker shipping vs SP500 1986 - 2022



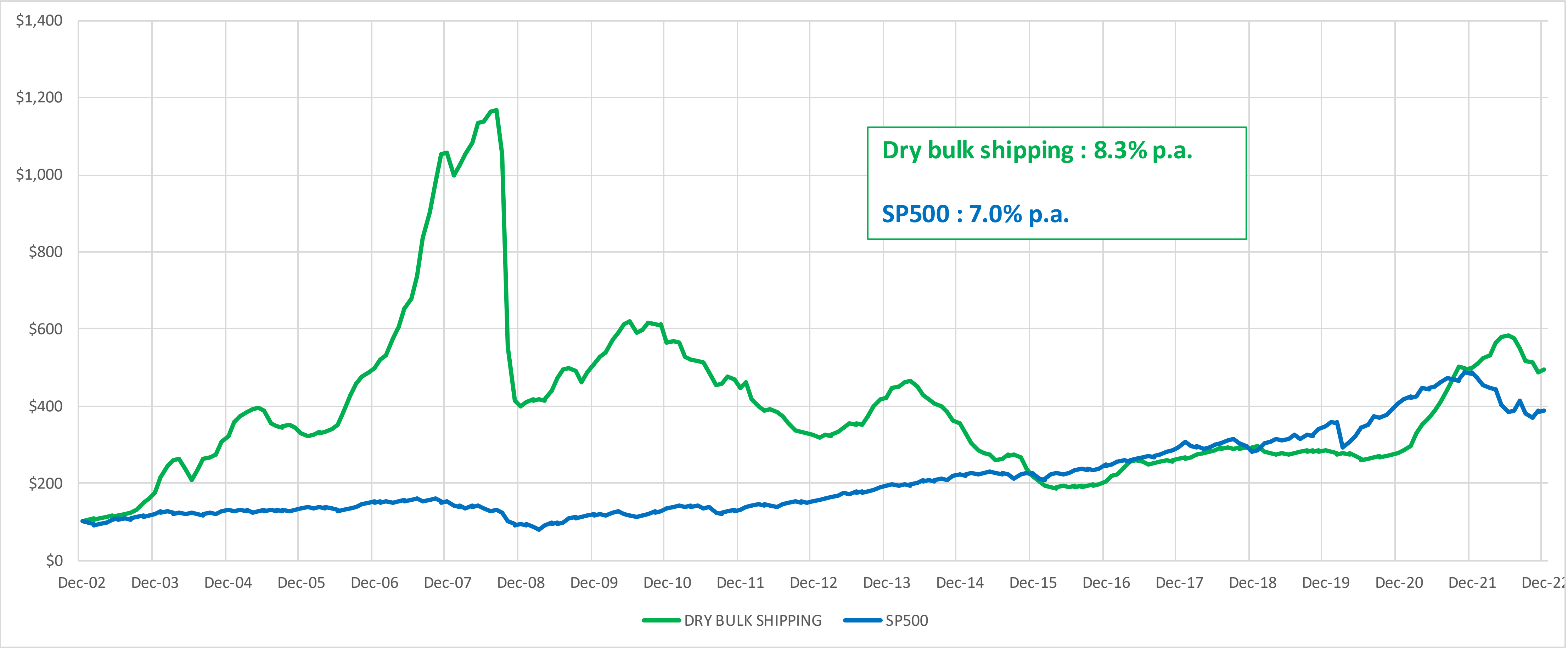
Iraq invades Kuwait

IT bubble crash

Background to shipping demand – 2003 to 2022

- China enters the scene. Joins WTO.
- Industrialises its coastal belt at breakneck speed. Builds new factories along the coast. Moves human labour resources from inland towards the seafront.
- Steel production skyrockets. Iron ore trade booms.
- Dry bulk seaborne demand grows at 7.1% p.a. all the way to Lehman event

Total real returns bulker shipping vs SP500 2023 - 2022

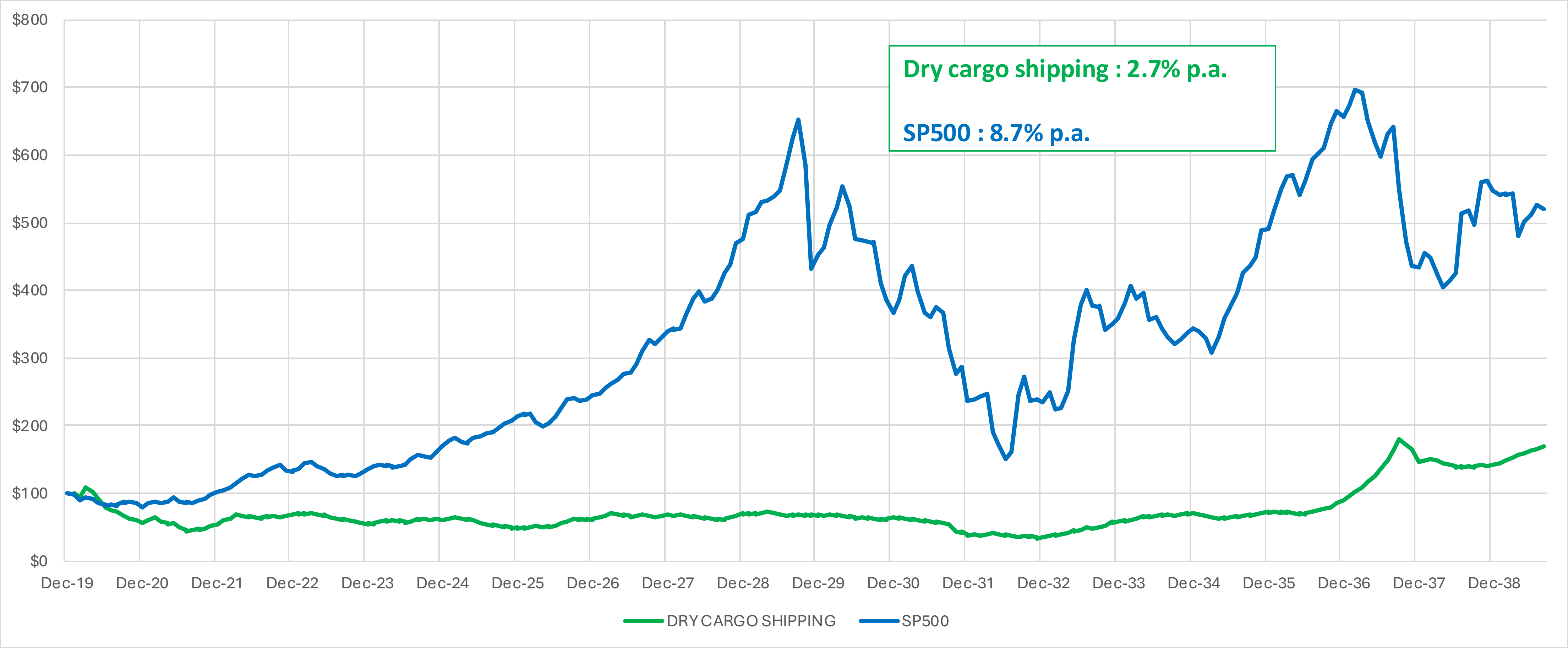


Lehman

Background to shipping demand – 1920 to 1939

- Treaty of Versailles at end of WWI
- Germany in chains
- Leading trading nations at friction with each other. “War” through other means.
- One off reset of shipping demand lower at start of period compared with 1913, due to devastation of infrastructure in Europe
- Shipping demand growth rate an anaemic 2.4% p.a.
- Big supply influx following the shipping super boom of WWI

Total real returns dry cargo shipping vs SP500 1920 - 1939

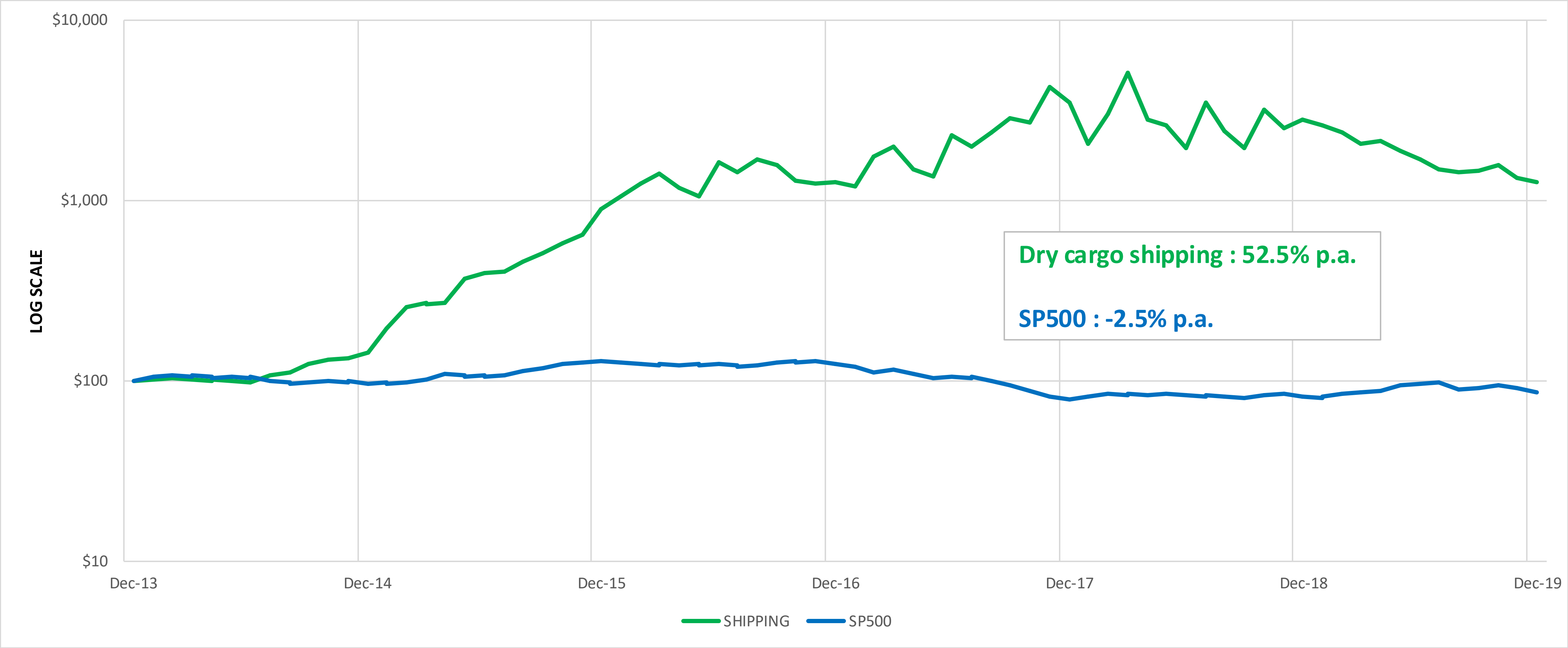


Trade war
Stock market collapse

Background to shipping demand – 1914 to 1919

- 10% of fleet sinks due to enemy action every year
- Convoy system increases security but reduces productivity of the fleet
- Port turnaround in Europe increases from 7 days to 90 days further reducing productivity of the fleet
- More ships needed to execute a given amount of tonne-miles
- Strategic value of shipping

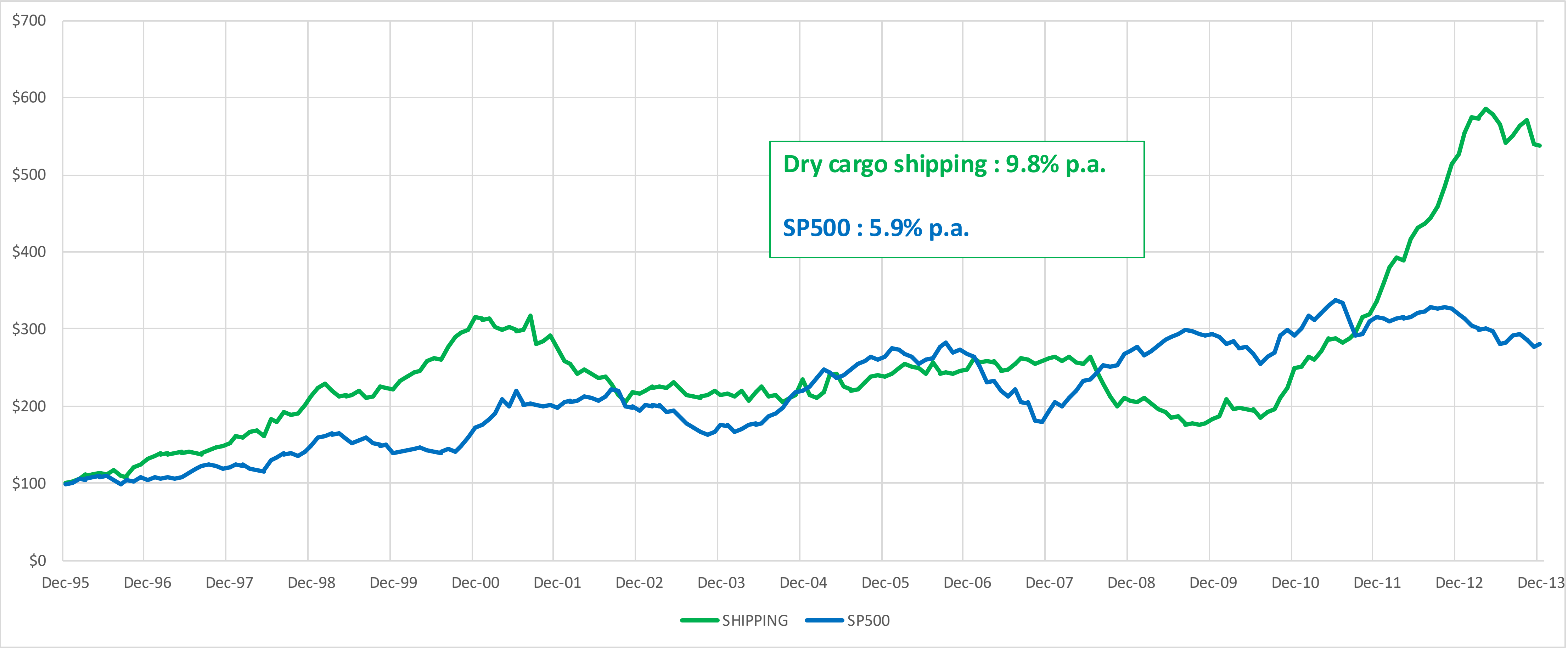
Total real returns dry cargo shipping vs SP500 1914 – 1919 WWI



Background to shipping demand – 1896 to 1913

- Brittania rules the waves
- Peace between the Great Powers
- Period of intense globalisation
- British free trade policies spread around the world
- Seaborne trades grows at robust 4% p.a.

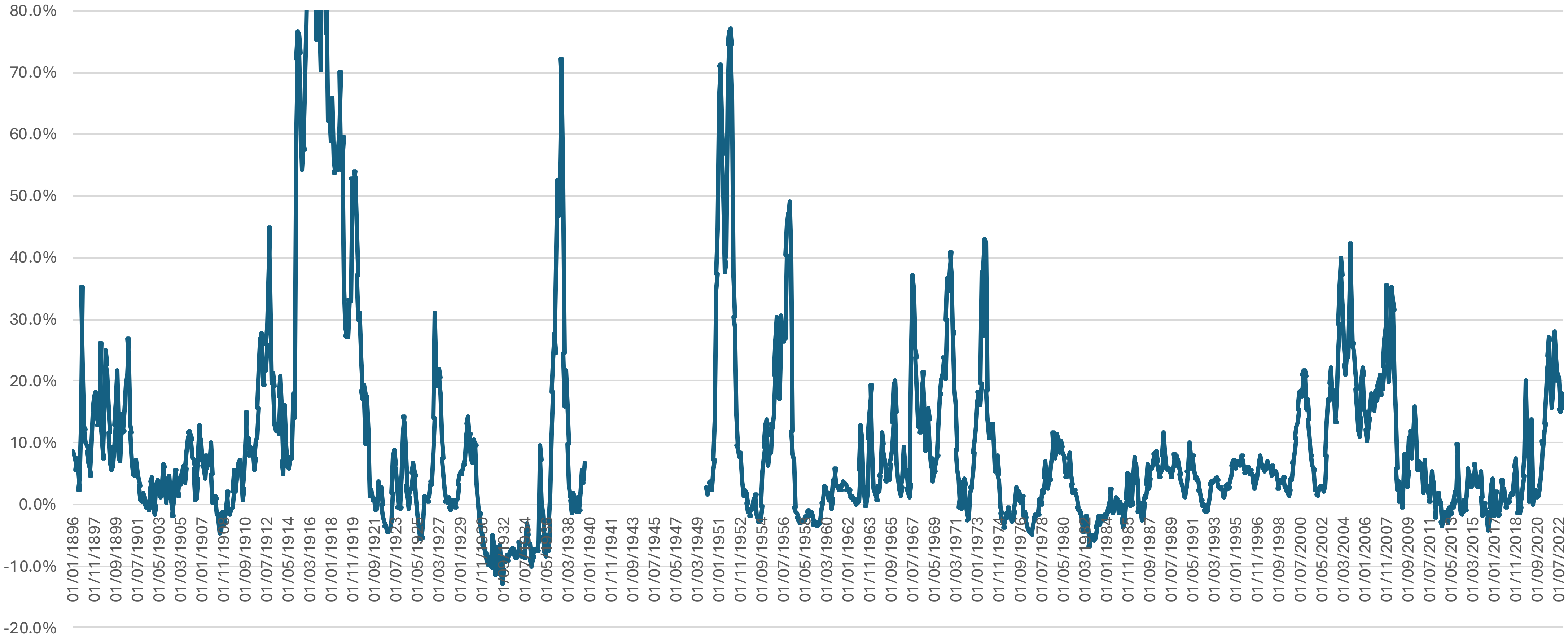
Total real returns dry cargo shipping vs SP500 1986 - 1913



Boer War

Lehman like
Knickerbocker crisis

Shipping ROCE – monthly annualised



Brief conclusions

- In the long run shipping outperforms SP500 by 200bps
- But
  - There are long periods of up to 2 decades where shipping may underperform the broader market
  - Shipping is more volatile than the broader market
- Shipping has a near zero correlation with the broader market
  - Shipping is volatile but it is a good diversifier
- There are tradeable 3 year cycles within longer term cycles
- Investors get sucked into shipping when ROCE is high but the cycle is peaking heading for the precipice