ANNUAL REVIEW 2019

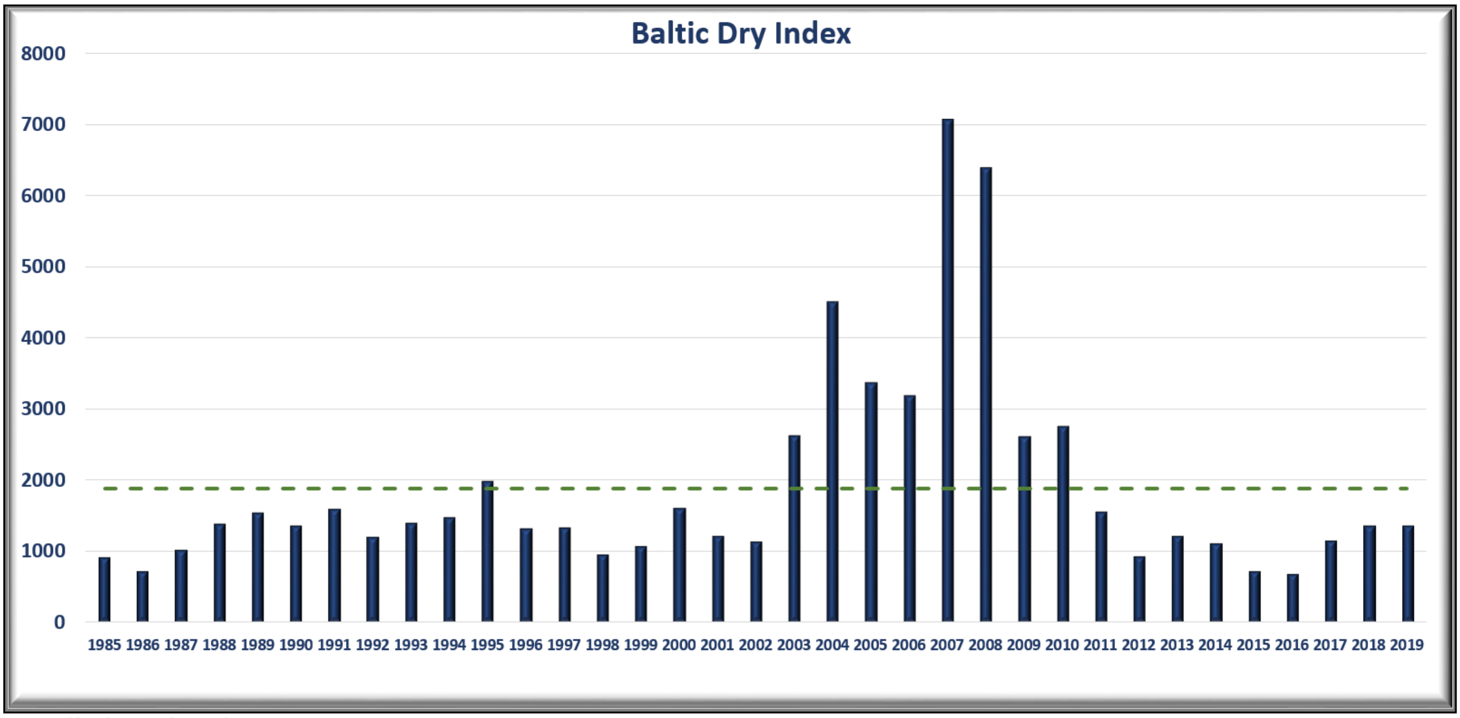





DORIC
SHIPBROKERS S.A.

Prelude

Gathering momentum from a quite prosperous previous trading year, 2019 started its long journey full of confidence. In fact, the Baltic Dry Index balanced at 1282 points on the first trading day of the year, circa 4.2% higher than this day a year back, injecting optimism in the market. The revival of global growth and principally the trading activity expansion during 2018 levitated the freight rates and the sector sentiment altogether. In this context, “cautiously optimistic” was the phrase that we heard the most from our clients and friends during our annual sentiment survey for the second year in a row, with the exact meaning, however, being quite different on each separate case. Interestingly, the average of your guestimations were 1380, very close to the actual value of the index for 2019. However, the course of the indices was everything but smooth. After bottoming-out at 595 points during the second week of February, the gauge of activity in the dry bulk spectrum topped at 2518 points on September 4th. Since then, the concertmaster didn’t do everything that was necessary for the dry bulk orchestra to be adequately tuned and thus the performance during the fourth quarter was not in sync with that of the third.



Source: Baltic Exchange , Doric Research

Putting into context, ranging from 673 points to 7070 points, Baltic Dry Index annual averages ebbed and flowed during the last thirty-five years, averaging at 123 points below the 2,000-point mark. However, indicative of the skewness of the distribution is the fact that just eight out of the thirty-four years managed to stand higher than these levels. From the remaining, twenty-one years had averages within the 1,000-2,000 boundaries whilst the remaining six averaged below the psychological trap of 1,000 points. Given this, 2019 was a rather moderate trading year in terms of performance, as the 1355 points it averaged are placing it right next to the median. In spite of being the most fruitful year in the last eight, 2019 remained below the average of the thirty-five-year horizon. In any case, steaming at different speeds and rapid direction shifts are what makes 2019 so special!

As it transpired, although 2019 and 2018 didn’t differ in terms of annual average, the path of 2019 was quite different. The seasonal sluggish start made its appearance during the first quarter of 2019 as well, however this was intensified by exogenous factors. Furthermore, the fourth quarter diverged from the typical flight plan, heading southern than it was initially thought to. Thus, the shipping themed exhibition presented four very unique paintings, each one inspiring different thoughts and feelings.

***Return on Capital Employed (ROCE)** is the ratio of net operating profit of an investment to its capital employed. It measures the profitability of an investment by expressing its operating profit as a percentage of its capital employed. In other words, ROCE assesses how much profit an investment earns on every dollar employed.

First Exhibit - Snowstorm: Steamboat off a Harbour's Mouth

The year embarked to the first quarter of its 2019 trip in a positive spirit, as Baltic TCAs were lingering well above OPEX in all segments. In particular, the BCI-5TCA lay at $15,341, BPI-TCA 10,677, BSI-TCA at $10,874 and the BHSI-TCA at $8,276 on the closing of the first week of 2019. With earnings being enough to cover not only OPEX but also depreciation, the after-depreciation Returns-On-Capital-Employed (ROCEs) (see appendix H) of both geared and gearless segments balanced at around 2%-4%. On the S&P front, five-year-old Capesizes changed hands for circa USD 33.5m whilst same-aged Panamaxes at USD 19m, or marginally higher Year-on-Year. In sync, a typical five-year-old Supramax was sold for circa USD 18m and a modern 38,000dwt Handy at USD 17m, or just 2.9% and 21.4% above early 2018 figures. In the paper market, all forward curves were quite flat, albeit with backwardation parts on the front end due to seasonal factors.

However, it is not unusual for our temperamental market to switch from high to low quite rapidly during this period of the year and 2019 didn't manage to stop these mood swings. In particular, "BDI migration" is the regular seasonal movement, typically north to south along a flyway, between December northlands and February southlands. Although there were years with pretty warm market conditions where freight rates stayed on latitudes above the tropic of Capricorn, the cold winter conditions during the two thirds of the last thirty-three years steered the Batlic Dry Index towards Antarctica. Similarly, the first trading days of 2019 seemed to confirm this pattern, as the BDI was moving lower day by day.

Additionally, late data arriving from the 2018 macroeconomic front were not so positive. Chinese manufacturing had an even worse December than expected. The official Purchasing Managers' index (PMI) fell to 49.4 in December from 50 in November. A reading above 50 indicates expansion, while a reading below that level signals contraction. In December, new orders and new export orders showed contraction, alarming investors around the globe. Furthermore, Chinese customs data showed that although 2018 made a promising start, the last months of the year did not manage to fulfill the expectations. In particular, Beijing's November and December coal and soybean imports lingered substantially below those of 2017, pressuring the freight market lower. As it tends to be the case, Beijing decided to be well stocked ahead of the last quarter of the year, in order to better place itself in the geopolitical arena.

On the same wavelength, China's economic growth dropped to its slowest annual rate in almost three decades last year as the US trade war and Beijing's crackdown on a debt-fueled corporate spending had a negative bearing on the world's second largest economy. The data released on mid-January showed the Chinese economy growing at 6.6 per cent in 2018, the lowest rate since 1990. Most importantly though, by growing just 6.4 per cent in the fourth quarter, the Chinese economy reported a decelerating growth for three consecutive quarters, spreading concerns in most markets around the globe that the front runner is losing its pace. With this in view, the International Monetary Fund pointed out that the global expansion has weakened. As in the October 2018 World Economic Outlook (WEO) forecast and despite a weaker performance in some economies, notably Europe and Asia, global growth for 2018 was estimated at 3.7 percent. However, the global economy was projected to grow at 3.5 percent in 2019 and 3.6 per cent in 2020, 0.2 and 0.1 percentage points below previous October's projections.

In this macro environment and with Chinese trading absence echoing in the iron ore and coal runs, the Baltic Dry Index dropped below the 1000-point mark for the first time in the last nine months. Although it is nothing unusual in a downward trending BDI during the first two months of a trading year, it is the prevailing atmosphere coupled with the fact that the index has already slid below its 2018 minima not letting the market sentiment to turn positive.

Adding fuel to the flames, a deadly dam failure in Brazil on January 25 injected further uncertainty in the freight market. The Brazilian miner Vale said it would take up to 10 percent of its output offline as it decommissions a total of 19 dams over three years, a move that would reduce its production by 40 million tonnes of iron ore per year. Following the latest news, iron ore prices around the globe moved strongly up during the 5th week of the year. Indicatively, domestic Chinese prices surged, with the most actively traded iron ore futures contract on the Dalian Commodity Exchange hovering at a 17-month high. Increased iron ore prices had a negative bearing on steel mills in China, shifting the demand away from the Brazilian high-grade ore supplier. In contrast to the rising iron ore prices, Caterpillar slumped 10% on the day of its earnings release. After exceeding analysts' estimates for 10 consecutive quarters, both the revenue and the earnings of the company remarkably decelerated in the fourth quarter of 2018. Caterpillar reported a decline in construction equipment sales in the Asia-Pacific region in the latest quarter mainly due to the cooling China demand.

Under these circumstances, Capesize fundamentals and segment sentiment took another serious hit, with all Baltic Capesize indices pointing substantially lower. Given the aforementioned, the seasonally anemic trading activity forced the Baltic Dry Index to stand at 645 points on February 1, or -49.7% year to that date.

Amidst a seeming economic downturn, renewed concerns about the outlook for global growth and the US-China trade war had a negative bearing in both the oil industry and shipping sector. In reference to the former, following a period of a significant drop from early October to late December 2018, Brent prices tried to react as the new trading year dawned. With a 20% increase, prices of the sweet light crude oil resisted to the downward trend, surpassing the $60 a barrel mark. However, the upward correction seemed to stall, surrounded by uncertainty for the progress of trade talks between the world's two largest economies. On the contrary, the Baltic Dry Index was not in the mood to show any sign of resistance on the downward pressure during the first six week of the trading year. In fact, the dive of the "concertmaster" of the dry bulk sector was the worst in the last five years. Although it is quite common to face a downward trending freight market during the first eight weeks of the year, the 53 percentage points that the index lost since early January couldn't be attributed to seasonal factors only.

In these conditions, new round of trade talks begin in Beijing, with the two sides trying to reach an agreement ahead of a March deadline when U.S. tariffs on $200 billion worth of Chinese imports are scheduled to increase to 25 percent from 10 percent.

One swallow does not make a summer and one positive week does not materially change the balancing levels of the market. However, following a period of two months during which the Baltic Dry Index kept losing one supporting level after the other, the gains of the BDI during the seventh week of this trading year look much more appealing than what they might actually have been.

In addition, preliminary data of the Chinese customs released, showed January's soybean imports being the highest in the previous three months, rising to 7.38 million tonnes or 29 percent higher than the weak 5.72 million tonnes reported for

December 2018. Soyabeans were the single largest US commodity hit since the initial rounds of higher tariffs coming into force. Although the January figures were higher than expected, they still remained 1.1 million tonnes lower than the same month of the previous year. In sync, coal imports by the world's top consumer of the material used for power generation, heating and steelmaking rose in the first month of 2019 to 33.5 million tonnes, or up 227.5% M-o-M. Following a dramatic fall in the last two months of 2018, Beijing's customs cleared the highest quantity of coal in five years this January. However, these figures were not representative of the current demand dynamics for two reasons. Firstly, Chinese New Year fell on the early side of February this year, increasing the imported quantities in the second half of January. Secondly, the substantial delays in the clearance of coal shipments during December 2018 brought forward to 2019 some of this activity.

Lacking sparkle, the leading indicator of the global economy, the BDI, trended sideways the last week of February. However, putting the dry bulk sector under the microscope lens, a different picture was becoming apparent. On the one side for the moon, the sub-Cape segments moved strongly up, whilst on the far side, the largest bulkers remained in the dark. Unfortunately, the World Trade Organization came to an agreement with the "prima donnas" of the sector in reference to the prospects of global trade. In particular, the latest World Trade Outlook Indicator (WTOI) reading of 96.3 was the weakest since March 2010 and below the baseline value of 100 for the index, signaling below-trend trade expansion into the first quarter. Although, the WTOI doesn't refer to dry bulk shipping in particular, this sustained loss of momentum highlighted the urgency of reducing trade tensions.

Echoing across the pond, WTO's concerns found the FED leaving interest rates unchanged at 2.25-2.5 per cent on January meeting. Most interestingly though, Jay Powell, Fed chairman, unveiled a different tone which opened up the possibility that the next move could equally be down, instead of up. The released minutes showed the US central bank noting that the downside risks to global growth had increased. Following the minutes, The S&P 500 finished marginally higher in a muted but bumpy session.

With March dawning, the US commerce department revealed that the gross domestic product (GDP) of the world's largest economy grew at an annual rate of 2.6 per cent in the fourth quarter of 2018. Being markedly slower than the 3.4 per cent rise seen in the third quarter, the US economic rebound lost some of its vitality in the final three months of 2018. In spite of that, growth reading was somewhat firmer than Wall Street's expectations. In sync, Chinese PMI manufacturing for February had also surprised to the upside. Although China's manufacturing sector contracted for a third consecutive month in February, a sharp increase in the forward-looking new orders index component was noted. Against Beijing's macro data, the Chinese capitalization weighted stock market index (CSI 300), designed to replicate the performance of top 300 stocks, had reported twenty-five percentage point gains year-to-date.

Trending emphatically towards the opposite direction, the Baltic Capesize Index kept losing one supporting level after the other. Hovering just 56 greenbacks above the $5,000 mark, the first market closing of March was the worst during the last 24 months, not leaving much room for cheerfulness. Undoubtedly, the Vale accident had a negative bearing on the segment, but some cracks had made their appearance in the fundamentals as well. Whilst global stock markets kept wondering if "pandas can fly", the "big whales" of the dry bulk ocean did not seem capable of high flies.

Not being exactly full of beans, global growth was slowing after reaching a peak in 2017, according to the latest OECD interim economic outlook report. The Organisation for Economic Co-operation and Development stressed that global expansion continued to lose momentum. In particular, global growth was projected to ease further to 3.3% in 2019 and 3.4% in 2020, with downside risks continuing to build. Growth has been revised downwards in almost all G20 economies, with particularly large revisions in the euro area in both 2019 and 2020. High policy uncertainty, ongoing trade tensions, and a further erosion of business and consumer confidence are all contributing to the slowdown. In reference to the locomotive of the dry bulk sector, i.e. China, the OECD assumed that stimulus measures would offset weakness in trade and private demand and its forecast for China was broadly in line with Beijing's new target for economic growth between 6 and 6.5 per cent in 2019. GDP growth in the United States was projected to moderate to around 2½ per cent in 2019 and a little over 2% in 2020 as the support from fiscal easing slowly fades. Finally, growth in India had eased, but was projected to be around 7¼ per cent in FY 2019 and FY 2020. In this economic juncture, the BDI didn't manage to move materially up for yet another week. In the main stage of dry bulk sector, Capesizes continued underperforming, negatively directly and indirectly influencing all other segments.

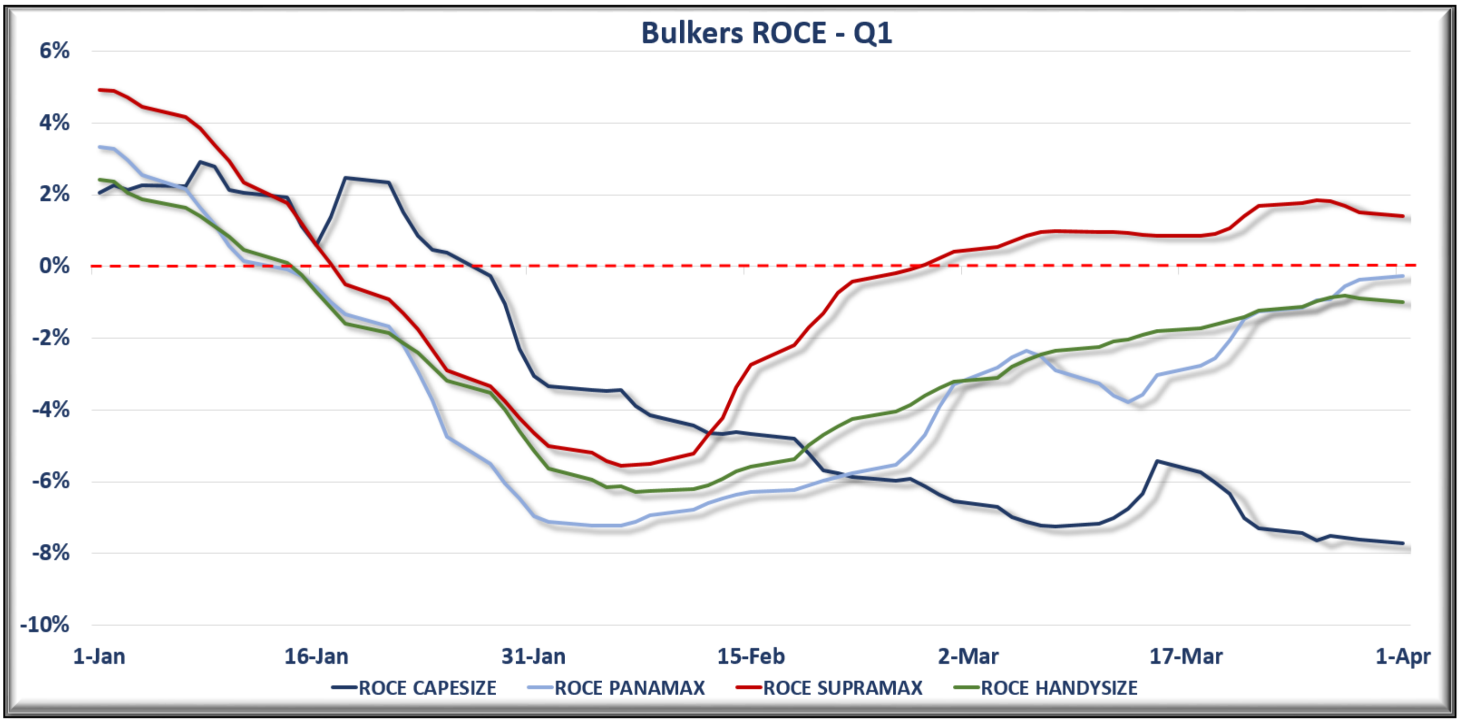
Industrial production growth of the locomotive of the global economy, i.e. China, slowed to 5.3 per cent in January and February compared to the same period last year, according to the National Bureau of Statistics. Industrial output, officially called industrial value added, is used to measure the activity of designated large enterprises with annual turnover of at least 20 million yuan. Being the lowest rate during the last seventeen years, the industrial production statistics painted the outlook of the world's second largest economy a shade grayer. However, property investment was picking up, while overall retail sales were sluggish but steady, injecting moderate optimism that the economy might not have been in the midst of a wider downward spiral. In line with the increased property investments, the domestic demand appeared to be vivid and thus the cost of new housing in China's major cities edged up by 0.53 per cent in February.

Whilst the mixed signals from the largest Tiger Economy hadn't yet been digested from investors around the globe, the seaborne iron ore market continued denoting that Beijing's insatiable appetite for the rich in iron oxide rocks was not that robust during the past six months. In fact, Chinese customs cleared 529 million tonnes of iron ore since September 2018, or down 3% Y-o-Y. Against this background, Capesize couldn't have been in a better mood, tumbling from $20,293 daily on September 3 to $5,290 daily on February 28. Whilst the Capesize Atlantic market continued trying to overcome the Vale exogenous shock, the most "capricious ladies" of the dry bulk sector decided to put their foot down in the Pacific, acting classy and reporting double-digit weekly gains during the second week of March. Furthermore, whilst fears of deepening economic slowdown rattling global financial markets and the backwash of the Vale accident creating "swell" for the Capesizes, grain orders propelled Panamax and Supramax indices northern.

In this context, balancing at three-year minima, the Q1 averages of the Baltic indices lay significantly lower than the respective period of 2018. Slowing dry bulk trade growth, as a result of a faltering Chinese economy, trade war tensions and the Vale dam collapse, caused freight rates to move lower. In particular, the Capesizes returned a BCI 5TC average of $8,740 daily, or -32.6% Y-o-Y. This stands 23.2% below the ten-year average for the first three months of each year of $11,375. The 'workhorse' of the sector, Panamax, experienced an anemic first quarter with the BPI TCA averaging $7,007 daily, marginally above its five-year average but 32.9% below the respective ten-year figure. In this time, even the usually more stable geared segments fluctuated considerably. With three-month averages for Supramaxes at $7,931 and for Handies at $6,029, the levels here slid below the Q1 2018 levels, yet managing to stay 7.5% and 0.8% above the previous five-year Q1 averages respectively. As a negative surprise to most market participants, the reversion of the upward short-term trend led to an inhospitable freight environment for bulkers in all segments.

Coming to the underlying assets, in spite of the softer tone thus far, the indicative first quarter prices for secondhand tonnage hovered above their five-year averages. However, looking further back five-year-old bulker prices remained below those of the last ten years. In particular, averaging at around USD 32m five-year old Capes were valued at about USD 2m less than the same period one year ago. Surpassing their average levels of the last five years by 11.4%, values for modern Panamaxes lay at USD 19m, at around the same height as last year. The market for five-year-old Supras and Handies were on average at USD 17.5m and USD 17m respectively, with the latter trending strongly upwards. These levels were 16.8% and 3.3% below the average Q1 values since 2010.

Given the aforementioned, steamboats sailed off the harbour's mouth to start their adventurous journey for 2019. However, as in the painting of J.M.W. Turner, the first days outside the protected waters of the harbor found steamboats at the heart of a vortex. During the first quarter of 2019, the effort of modern dry bulk carriers to overcome unpredictable events proved to be futile.



Second Exhibit - Sunrise with Sea Monster

Balancing for thirty-five consecutive days below operating expenses, Capesizes had been steaming in rough seas during the last period. Since the dawn of this decade, the largest bulkers had seen their balancing levels lay below OPEX in just fourteen intervals. The longer of these expanded from early January until mid-June 2015 where the difference of BCI TCA and OPEX was negative for 96 trading days in a row. One year later, the loss-making period for the Capes lasted for 84 trading days, as the freight rates managed to stand at meaningful levels from mid-April 2016 onwards. In the current juncture, the looming uncertainty surrounding the US/China trade talks, the Brumadinho dam disaster and weather-related disruptions in Australia had a combined negative bearing in the freight market.

In harmony with the Capesize market, Australia's central bank saw a softer external demand environment and thus left its cash rate at 1.5 percent, on early April. At its meeting, the Board stressed that the outlook for the global economy remained reasonable, although growth had slowed and downside risks had increased. Growth in international trade had declined and investment intentions had softened in a number of countries. Global financial conditions remained accommodative and had eased recently. Whilst the US and China had pushed back the timing of a possible trade deal until May, at the earliest and the major central banks had turned overwhelmingly dovish, the Capesize propellers converted rotational motion into some useful thrust during the first week of April.

Following a period when the economic activity was accelerating across the board, much in the, economic juncture had changed. The escalation of US–China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the manufacturing sector in Germany, tighter credit policies in China, and financial tightening in the larger advanced economies had all contributed to a significantly softer global expansion. Under those circumstances, global growth was projected to slow from 3.6 percent in 2018 to 3.3 percent in 2019 – the lowest level since the financial crisis – before returning to 3.6 percent in 2020, according to the International Monetary Fund. Notably, this was the third time in six months that the Fund had revised its outlook downward. During the same period, the freight market tended to follow the ebb and flow of the global economy.

In spite of the slow, clumsy start of 2019, a pickup was expected in the second half of the year. For yet another time during the last decade, Central Bank policies were under the microscope. The US Federal Reserve paused interest rate increases and signaled no increases for the rest of the year. Across the pond, the European Central Bank had shifted to a more accommodative stance. The Bank of Japan and the Bank of England were following closely the more dovish tone of FED and ECB. Additionally, China had ramped up its fiscal and monetary stimulus to counter the negative effect of trade tariffs. In reference to the latter, earlier in the year, People's Bank of China cut the amount of cash that banks have to hold as reserves for the fifth time in a year, freeing up some $116 billion.

Whilst the IMF saw it as "a delicate moment for the global economy", the callous Q1 of the spot arena chopped some of the market's hopes. Nevertheless, it would seem that both the IMF and the period takers of ships were of one mind for the second half of the year – Dum Spirant, Sperant.

Setting aside IMF's concerns, Capesizes were making a genuine attempt to bounce back, while China's iron ore imports rose in March after touching a ten-month-low in February, according to data from the General Administration of Customs. In particular, China imported 86.42 million tonnes of the rich in iron oxide rocks in March, or 3.4 million tonnes more than one month earlier. Despite this upswing, the cumulative volumes of the first quarter remained subdued, as the 261 million tonnes that the Chinese customs had cleared during the first three months of the year were by 3.6% and 3.8% less than the respective periods of 2018 and 2017. Under the unwarranted assumption that the previous year import pattern would remain the same for 2019, the total imports of iron ore from the world's key consumer would be in the range of 1020 to 1040 million tonnes, down two to three percent year-on-year. On this, there were many well respected sources seeing a downward trend in this time series, whilst others arguing in favor of a pending demand for the quarters to come. Given the latest serious disruptions in the iron ore trades, the latter scenario is the one where the Capesize owners have placed their hopes on.

Setting aside the sluggish tone in the arrivals of the steelmaking raw ingredient, the Chinese economy grew at a faster-than-expected rate during the first quarter of this year, after the government stimulus measures began to take hold. Particularly, the National Bureau of Statistics estimated that China expanded 6.4 percent in the first quarter, compared to the same period last year and ahead of the 6.3 per cent widely expected. In this context, housing prices in the major Chinese cities moved up by 10.6 percent year-on-year in March, reporting the largest increase since early 2017. After a rough start of the year, Beijing's attempt to stimulate the economy appears to have a tangible impact at last.

Lingering below the psychological barrier of 1,000 points for sixty-seven consecutive trading days, the Baltic Dry Index reconfirmed its winter habit of visiting the lands of three-digits for yet another year. In all but one years of this decade, the trendsetter of the dry bulk sector dove below the 1,000-point mark and remained subdued for at least a few days. However, the period of time that the Index managed to hold its breath varied widely. Ranging from 308 days in a row during 2016 to just 7 in the previous year, the Baltic Index spent on average 77 trading days per year in the three-digits during the last twenty years. Against this statistic, the current low-laying time span doesn't seem as an outlier causing concerns. But, it is the sense of reversal of the early 2016-mid 2018 strong upward trend that shook market's sentiment during the first four months of this trading year.

Setting aside the short-term fluctuations of the BDI, the Second Belt and Road Forum was under the microscope in order to assess how this initiative could affect the trading volumes on the dry bulk runs. In particular, more than $64 billion in deals were signed during the Forum for International Cooperation, President Xi Jinping told members of the media from home and abroad in Beijing after the three-day event concluded. Among the trades that were expected to benefit for this policy was the steel trade. However, Chinese steel exports had been trending lower, slipping to 69.5 million tonnes in 2018, the lowest in five years. Additionally, the 17 million tonnes that Beijing exported during the first quarter of 2019 were substantially lower than the average of the respective period of the last five years, albeit higher than 2018.

However, before the dust from the catastrophic dam disaster in Brazil settled, the iron ore industry got another exogenous hit in the second week of May, as the US took fresh action against Iran. Extending from iron ore to steel, aluminum and copper, the new sanctions were expected to add significant pressure to country's export revenues. Iran had a market share of around 1% of the total seaborne iron ore trade, generating demand for shipping services. As for commodity prices, 2019 had seen a strong rally as early as January. Reporting circa thirty-percentage-point gains on a bi-monthly basis, prices of iron ore fines 62% CFR China surpassed the $90/mt mark in early April and stayed at these levels since then. Oddly, following supply side disruptions, price of the rich in iron oxides rock hadn't managed to break into the three-digit zone. In particular, the uncertainty surrounding the outcome of trade negotiations between the US and China and a slower than expect Chinese year start didn't let the demand curve to push prices even higher. Indicative of the aforementioned is that during the same period, the Baltic Capezise Index plummeted, balancing below $5,000 in early April. The second week of May closed with President Trump escalating his trade war with Beijing by more than doubling tariffs on $200bn worth of Chinese imports.

In this context, the IMF stressed that although the ratcheting up of bilateral tariffs between the US and China had limited effect on their bilateral trade balance, consumers as well as many producers in both countries have been negatively affected. While dry bulk shipping may see behind the latest developments an opportunistic increase in the tonne-mile demand due to substitution of US grains with ECSA grains, the latest escalation could significantly dent business and financial market sentiment, disrupt global supply chains, and jeopardize the projected recovery in global growth in 2019 to use the IMF words.

During this period, the trade tensions between the two largest economies of the globe had been raised to a whole new level. Washington's move to blacklist Huawei, by adding the Chinese group and 68 affiliates to its prohibitive "entity list", opened Pandora's Box of retaliatory measures. In particular, Chinese authorities would investigate FedEx for allegedly "undermining the legitimate rights and interests" of Chinese clients, according to the official Xinhua news agency. Further escalating tension, Beijing warned that it could weaponize its supply-dominance of the rare earth minerals in its trade war with Washington, sending their prices materially higher.

In spite of the tit-for-tat disputes and the increased tension, one industry that it was supposed to be set in the center of the US-China trade war remained largely unaffected. In particular, China increased its total steel production to 925 million MT in 2018, or some 8.6% Y-o-Y. In sync, the first quarter of 2019 saw the Chinese steel production to move higher to 229.9 million MT, surpassing the production of the respective period of 2018 by 19.9 million. Additionally, the second quarter started with a similar tone, as the April production of 85 million MT was more than 9 million higher Y-o-Y.

Chinese steel exports, on the other hand, did not follow the production levels on their upward trend. As far as the first quarter of 2019 went, although the 23.36 million MT of exports were 8% higher than those of 2018, they lagged considerably from the first quarter average of the recent past. In sync, Chinese international sales during April 2019 remained on the very low side, traumatizing the freight market of the geared segments. Furthermore, the activity of the spot market in these particular trades during the previous month was not supporting the most optimistic scenario for the May export data as well. By combining these dynamics, the Chinese steel sector was being propped up by a surging domestic demand and not by the latest developments in international arena.

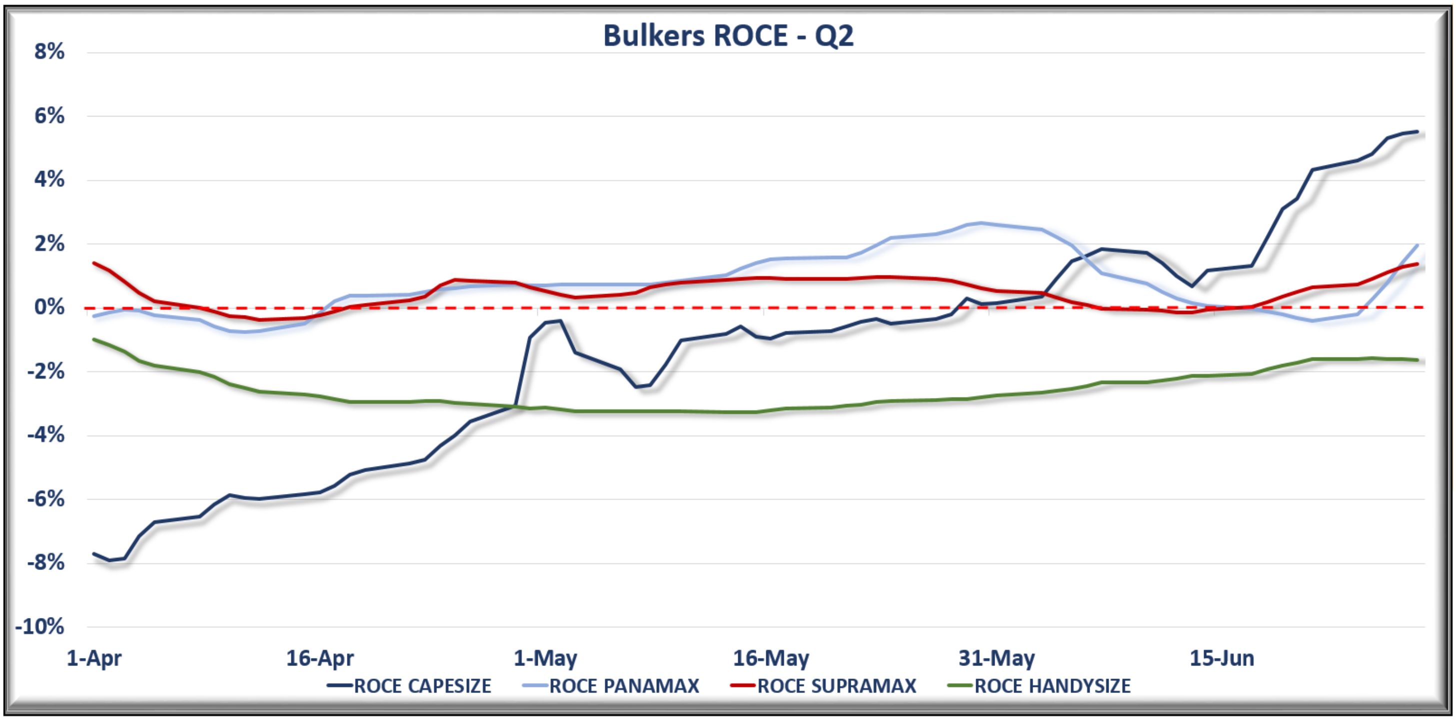
The course of the Dry Baltic Index in the period leading to shipping gatherings in Piraeus every summer typically sets the tone of “Posidoneia” and “Pireas” events. The previous summer, during ‘Posidoneia 2018’, market sentiment was robust, with improved trading activity pushing freight rates and after depreciation returns of capital employed higher into positive territory. Following the latest –at that time- updates of the IMF and OECD economic reports, the World Bank had confirmed consensus forecasts for 2018 and 2019 to reflect optimism. In advanced economies, activity continued to grow above expectations, while some additional fiscal stimulus measures looked to provide a further lift to near-term growth. Among emerging markets and developing economies, activity of commodity exporters remained strong. By riding this wave, the Baltic Dry index had been trending strongly upwards for twenty-six consecutive months, lifting its heights from all-time lows of 290 points in February 2016 to more than 1600 points in early June 2018. In this context, “Posidonia 2018” emanated a whole different mood compared to the previous exhibition.

Twelve months later and with the freight market nosed down, the “Pireas 2019” lacked a lot of the spark of last year’s gathering. In sync, World Bank saw in its latest report a world economy lacking verve. Additionally, the deadly dam collapse in Brazil, the escalating trade tension in the geopolitical chessboard and most importantly the 75 consecutive days with the BDI below the 1,000-point mark had a negative bearing in market psychology which was evident among attendees.

The first half of the year, lacking jauntiness, trimmed some of the optimism of the previous quarters. Following a couple of years with an upward trending freight rate environment, the lukewarm start of the year didn’t let the Baltic indices surpassing their 2018 levels. In particular, balancing more than 25% lower Y-o-Y during the first six months, all sub-markets of the dry bulk felt the softer tone of the macro environment. US-China trade tensions, Vale Dam accident in Brazil and weather disruptions in Pacific Ocean had a negative bearing in the market. Additionally, global GDP and trade growths lost some of their steam during the same period, overemphasizing the short-term pressure in the freight rates. In this context, Capesizes earned on average $10,034 daily during the first half of the year, or -28% Y-o-Y. In line, Baltic Panamax index moved down, reporting a H1 average of $8,255 daily, or 25% lower on a yearly basis. The geared segments didn’t manage to resist as well, with BSI TCA averaging at $8,204 and BHSI TCA at $6,053, or lower 26.2% and 29.9% Y-o-Y respectively. Compared with previous first half returns, the freight market kept lingering above its average of the respective period of the last five years, yet lagging circa $2,000 from its ten-year H1 average across the board.

As for asset prices, following a period of dramatic rise on the secondhand front, the first two quarters appeared to be more cautious. With an average price of USD 31.5m for the H1 of 2019, five-year-old Capesizes balanced marginally higher than their five-year average. Panamaxes H1 average prices came in at USD 19m, or 10.5% more than the five-year average of the same period. The market for five-year-old Supramaxes and same-aged Handies were on average at USD 17.25m and USD 17m respectively. These levels were 7.2% and 22.8% above their average prices on the H1s of the last five years. As with the freight market, on a broader ten-year basis asset prices hovered circa 17% lower than the year H1 averages, with the Handysize exception of just 3%.

Having left the first half of the year behind and whilst the sun rose in the dry bulk spectrum, market psychology remained fragile as sea monsters of the past sitting in a dark corner did not let the Baltic index to move materially higher. However, spot market was heading towards what is usually the seasonally stronger second half, hoping for a positive outcome of the playful Greco-Roman wrestling on the trade war front.



Third Exhibit - Rain, Steam and Speed-The Great Western Railway

One would need to search every corner of the investable universe in order to find an asset with the kind of performance the Capesize market had during the previous three months. Surging by $23,000 in just sixty-five trading days, the Baltic Capesize TCA hovered at $26,444 daily in early July, or up 664% from its recent minima. Following a first half of the year with a little bit of everything but trading activity, the most "capricious" segment of the dry bulk sector had finally found its way up. Pent up demand pushed the "concertmasters" of both the Atlantic and the Pacific far above the ground; the former concluding at $9.159pmt and the latter at $22.195pmt, or circa 100% higher than their 2019 lows.

While the freight market kept wondering if this was going to be a long-lasting trend or just a spike, and with the S&P 500 flirting with the idea of achieving the 3000-point milestone, the US economy added more jobs in June than it had in any month this year. Easing concerns of an impending slowdown and reducing the chance of aggressive cuts to interest rates later this year, the Fed's monetary policy report stressed that economic activity in the US increased at a solid pace in the early part of 2019 and that the labor market had continued to strengthen. On the contrary, Nominal Treasury yields moved significantly lower over the first half of 2019, largely reflecting investors' concerns about trade tensions and the global economic outlook, as well as expectations of a more accommodative path for the federal funds rate than had been anticipated earlier. One of the financial markets' most reliable indicators of an upcoming recession, the gap between three-month and 10-year yields, insisted on being negative.

On the commodity front, China's June coal imports fell 1.4% from May to 27.1 million tones as local miners boosted output to ensure adequate supply ahead of the summer. For the first-half of the year, Chinese customs cleared a total of 154.49 million tonnes of the fuel, or up 5.8% Y-o-Y, according to data from the General Administration of Customs. In addition, utilities in India, who holds the world's fifth-largest reserves of fuel, imported over 40% more coal from January to April compared to a year ago, data from the Central Electricity Authority showed. India's coal imports further increased by 14.5% M-o-M in May, to 24.5 million tones. Rumors surfaced of the BHP group exploring options for its thermal coal business including a disposal amid a growing investor focus on environmental, social and governance (ESG) issues, with hard data telling us that "king coal" would not be easily dethroned, at least as far as the two locomotives of global growth are concerned.

With the coal seaborne trade on the rise, bulkcarriers found fresh support in their attempt to steam north. In particular, increased coal and grain activity propelled the BPI82-TCA to $16,715 daily on the first Friday closing of July. Reporting an impressive hike of more than 180% during the past four and a half months, the balancing levels of the Kamsarmaxes touched multi-year highs. In parallel, the Baltic Panamax Index ended the 28th week of the year at 1945 points, last seen a few days before Christmas in 2013. In reference to the asset prices, despite the fact that five-year-old Panamax prices had followed BPI on its way higher, they remained roughly 25% lower than the respective late-2013 levels.

Whilst Norway announced plans to tighten restrictions on coal investments for its $1tn sovereign wealth fund, targeting the bigger miners, trading activity on the usual coal runs of the dry bulk sector indicated that canaries in the coal mines were nowhere near as dead.

In reference to the global macro spectrum, the world's second largest economy, China, grew at is slowest pace of 6.2 per cent in almost three decades during the second quarter of 2019, according to the National Bureau of Statistics. The data also showed that over the first half of the year, China's economy expanded by 6.3 per cent., with this figure falling within the range of Beijing's target growth rate. Trade uncertainty along with a softer tone in manufacturing activity can be seen as the main causes of the cooling down in China's economic engine. On the other hand, facing a hostile environment on the global trade front, Beijing boosted the Chinese economy, using both fiscal and monetary stimuli. The component of these forces is a vector pointing down, yet less intensely than initially thought to be. Remaining consistent on the "soft landing" scenario, the Chinese economy found support on its internal consumption, with the retail sales growing by 9.8 per cent.

Against this background, and with global growth losing some of its momentum, the IEA revised its 2019 global oil demand growth forecast down to 1.1 million barrels per day (bpd) and may cut it again if the global economy (and especially China) shows further weakness, according to the association's executive director, Fatih Birol. Furthermore, under "normal circumstances", the association stressed that it doesn't expect a substantial increase in crude oil prices. However, defining "normal circumstances" in the oil industry might be quite elusive. In the world's most important oil passageway, the Strait of Hormuz, Iran seized two tankers in a sharp escalation of the crisis between the Islamic republic and the West.

Setting aside the negative news on the macro front and the escalating tensions at the various chokepoints in the world, the Baltic Dry Index kept enjoying its “normal circumstance” of the last month, reporting a generous 104% increase in just 27 trading days leading to the end of the third week of July.

Reflecting the weaker-than-anticipated global activity and demand, mainly threatened by reducing trade and tariff tensions, the World Economic Outlook for July 2019 had been revised downward by the IMF. Global growth was forecasted at 3.2% for 2019 and 3.5% for 2020, or 10 basis points lower than April’s projections. Investment and demand for consumer durables had been subdued across advanced and emerging market economies as firms and households continued to hold back on long-range spending. Accordingly, global trade, which is intensive in machinery and consumer durables, remained sluggish. Among the risks stressed by the Fund, further trade and technology tensions, financial vulnerabilities and mounting disinflationary pressures stood out.

Whilst the macro environment kept sending negative signals, the Baltic Dry index hit the brakes during the last week of July. Following a solid increase of more than 100% during the last 30 trading days, the “capricious” index took a breather the last few days, sending its levels balancing 11.6% lower than its recent maxima. Despite a decent attempt at reaction, the lethargic Atlantic basin for the Capesizes, with limited fronthaul and transatlantic activity, didn’t let the gains in the market of the geared segments push the general index higher.

At this juncture, citing a global economic slowdown and persistently weak inflation, the US Federal Reserve decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. Specifically, weak inflation and a softer tone on manufacturing activity can be seen as the main reasons behind the Fed’s decision to cut interest rates by 0.25% for the first time in a decade. US consumer prices rose 1.4% in June, yet remained below the two percent target. Additionally, the US manufacturing sector had contracted for two consecutive quarters, increasing the risk of a possible derailment of the world’s largest economy. Following the announcement, US stocks and short-term treasuries turned negative.

As the first week of August progressed, news from the other side of the Atlantic kept coming. President Trump, the “usual suspect”, made headlines once again by stressing that the US would place a 10 per cent tariff on $300bn of additional Chinese goods. US stocks took another hit and oil prices plummeted as tariffs were expected to trim the global economic output in 2020. As it was widely anticipated, China pledged to retaliate if the US decided to go down that bumpy road. Expressing its strong dissatisfaction, China stressed that the US announcement seriously violated the agreement reached by Mr. Trump and China’s president Xi Jinping. Along with Beijing, the US Department of Agriculture felt alarmed from the developments in the latest episode of the “Trade Wars”.

Lacking the usual summer lull of August, markets saw a plethora of tactical movements on the geopolitical chess board, with several of them being quite bizarre actually, paired with increased traffic along the maritime “highways”. In just three weeks, we managed to witness an escalation in the US and China trade dispute, a softer tone in many stock exchanges around the globe, President Trump floating the idea of buying Greenland, Brexiteer Boris Johnson accelerating exit talks, Yuan setting to post the biggest monthly drop since 1994, and Argentina being in default. The amalgamation of these dynamics created a quite unstable environment, injecting nothing but uncertainty into the markets.

Being largely unaffected from the pitches on the macro and geopolitical front, the Baltic Dry Index remained steady on its conviction that there was only one direction for its balancing levels during the last three weeks of August. Breaking one record after another, the gauge of the trading activity in the busiest maritime routes managed to climb to an eight and a half year maxima of 2378 points on summer closing. Indicative of its explosive tendency was the fact that the general index of the sector doubled its value in just 52 trading days. Pent up demand can be identified as the key factor pushing the Baltic indices higher at levels not seen for many years. In particular, after a slow start amidst uncertainties due to escalation in trade talks and worrisome macro developments, Beijing had considerably increased its demanding quantities almost across the board of raw materials. Adding to this, deferred 1stH iron ore shipments inflated an already upward trend, leading Capes to multi-year highs. In reference to “king coal”, Chinese and Indian appetite continued offering employment to the Panamaxes and Supras, with the respective Baltic indices trending considerably higher. Regarding the staple grains, Beijing’s preference to the South American beans increased tonne-mile demand, albeit with marginally lower volume Y-o-Y so far. The fine blend of the aforementioned created the necessary conditions for a fruitful shipping summer.

Navigating a headline-driven market is always a challenging task, as volatility is alive and one positive headline is followed up with a negative one. In this environment, even the most accurate “barometers” can be confused, sending mixed signals. By the end of the first week of September, the ongoing US-China trade tension forced “Dr. Copper”, an important economic barometer, to fall to its two-year lows. Concerns about the course of global manufacturing activity and the possibility of a further escalation in the trade dispute between the world’s two largest economies pushed the price of the pinkish-orange metal lower, to levels not seen since mid-2017. At this point, China and the United States agreed to hold high-level talks in early October in Washington, injecting optimism into the markets. Following the headlines, copper prices rallied, bringing their two-day climb to 4.5% on hopes that coming trade talks could relieve some pressure on the global economy. In sync, financial markets breathed a sigh of relief, with Asian, European and US stock indices heading north.

Furthermore, in an attempt to further stimulate its economy ahead of the October negotiations, China cuts its Banks' Reserve Ratios. Aiming to further support the development of the real economy and lower financing costs, the People’s Bank of China (PBOC) decided to lower the required reserve ratio for financial institutions by 0.5 percentage, according to a press release from PBOC on Friday 6 September. Having slashed the ratio seven times in the last eighteen months, with its latest decision, the PBOC lowered the reserve requirement ratio to 13%, releasing some 900 billion yuan ($126 billion) of liquidity into the world’s second largest economy. The PBOC’s press release found the Baltic Dry Index hovering for sixteen consecutive trading days above the 2000-point mark, with hope it would remain there as long as possible.

Rising trade uncertainty was cited as a driving factor for “sluggish global growth” in the latest issue of the IMF’s World Economic Outlook, which describes the state of the world economy. However, in contrast with the well-defined Baltic indices, what “uncertainty” might actually mean can be much vaguer. Trying to be more specific, the IMF constructs quarterly indices of economic uncertainty – the World Uncertainty Index (WUI) – for 143 countries from 1996 onwards, using frequency counts of "uncertainty" (and its variants) in the quarterly Economist Intelligence Unit (EIU) country reports. Globally, the Index spikes near the 9/11 attack, SARS outbreak, Gulf War II, Euro debt crisis, El Niño, European border crisis, UK Brexit vote and the 2016 US election. The index revealed increased uncertainty starting around the third quarter of 2018, coinciding with a heavily publicized series of tariff increases by the United States and China. It then declined in the fourth quarter of 2018 as US and Chinese officials announced a deal to halt the escalation of tariffs at the G-20 meeting in December in Buenos Aires. It significantly spiked again in the first quarter of 2019 following a substantial expansion of American tariffs on imports from China on March 1, according to the IMF.

However, in the second week of September, President Trump stressed that he would consider doing an “interim deal” with China, in an attempt to reduce tensions with Beijing. Making a rare good will gesture towards Beijing this week, Trump postponed the increase in existing tariffs on $250bn worth of Chinese goods for a couple of weeks. Beijing, following the latest developments closely, said it would cancel additional tariffs on imports of soyabeans and pork, encouraging companies to buy “a certain quantity” of pork and soyabeans from the US. For the shipping community, any increase in the trading activity and the subsequent decrease in the World Trade Uncertainty (WTU) Index were more than welcome. Uncertainty itself can affect the economy on both the micro and macro level. In reference to the former, among other reasons, the ongoing economic conflict between the world’s two largest economies might have had a negative bearing on investors’ sentiment, not letting the dry bulk asset prices move higher. In particular, setting aside the five-year-old Panamaxes, Capesizes and Supramaxes remained relatively stable during the last 12 months, according to the Baltic Exchange.

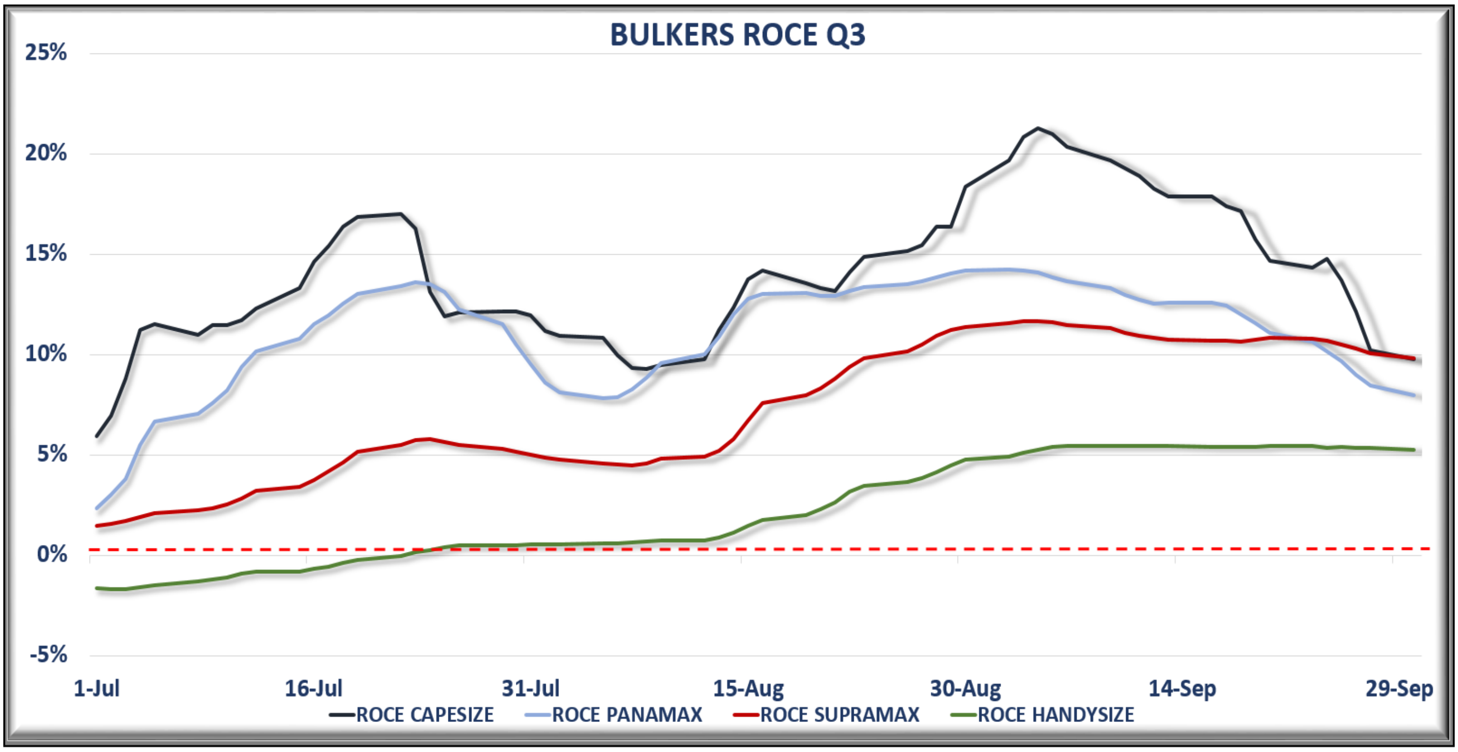
In accord with the IMF and the World Trade Organization, the OECD warned in the third week of September that the world’s leading economies needed to ease trade tensions to prevent a descent into a low-growth trap from which it would be hard to escape. Additionally, the OECD projected that the global economy would grow by 2.9% in 2019 and 3% in 2020 - the weakest annual growth rates since the financial crisis, with downside risks continuing to mount. Against these projections, the outlook called on central banks to remain accommodative in the advanced economies, but stressed that the effectiveness of monetary policy could be enhanced in many advanced economies if accompanied by stronger fiscal and structural policy support. In this context, the Federal Reserve chopped US interest rates by 25 basis points – for the second time this year – to a range of 1.75 to 2 per cent and signalled that it could stop there despite uncertainty over the trade. The Fed's interest rate cut followed the People's Bank of China's decision to lower the required reserve ratio for financial institutions by 0.5 percentage a couple of weeks ago. Furthermore, India slashed corporate tax rates for domestic companies to the lowest levels in the country's history this week, fuelling an explosive increase in Mumbai's stock market.

Whilst the aforementioned were at large in line with the consensus, the bumpy path of the oil prices was unforeseeable. Following drone attacks on state oil company Saudi Aramco's Abqaiq crude processing plant and a plant in the Khurais field causing the suspension of 5.7m barrels of crude oil production day, the prices of the "black gold" rocketed on Monday, 16th September. The following day, though, Saudi Arabia reassured the oil market that it can keep customers well-supplied, pushing oil prices abruptly lower. Overall, Brent closed the week higher, with President Trump imposing a new round of sanctions on Iran's central bank after Washington blamed Tehran for the strikes. In an eventful week with many markets around the globe fluctuating considerably, the Baltic Dry Index continued heading south, balancing some 15.4% below its recent multi-year maxima.

The third quarter of the year overshadowed the listless performance of the Baltic Dry Index during the first half of the year with its tremendous momentum. In particular, balancing more than 30% higher Y-o-Y during the last three months, the gearless segments enjoyed one of their most fruitful quarters of the last ten years. Proportionately, the geared segments followed their lead, with the Supramaxes and Handies balancing 5.3% and 1.7% higher Y-o-Y, respectively. Being largely unaffected by the US-China trade tensions, the Baltic Indices trended strongly upwards, brilliantly capitalizing on the pent-up demand for shipping services. Having a negative bearing on the market during the first two quarters, the Vale Dam accident in Brazil and weather disruptions in the Pacific Ocean carried forward many iron ore shipments to the third quarter. At this juncture, Capesizes earned, on average, $29,442 daily during the past three months, or 32.6% Y-o-Y. In sync, Baltic Panamax index reported a solid Q3 average of $16,043 daily, or 32.4% higher on a yearly basis. The geared segments didn't manage to resist the temptation of heading north as well, with BSI TCA averaging at $12,486 and BHSI TCA at $8,390. Compared to previous third quarter returns, the freight market kept lingering well above its average of the respective period of the last ten years. Emphatically, Capesize rates surpassed their Q3 ten-year average by around 75% at the same time that the Panamax rates were standing an appealing 49% over and above the same statistic. Supramaxes outperformed their long-term average by 11.2%, whilst Handies balanced, on average, a marginal 0.5% higher from their ten-year average earnings.

Oddly, in reference to asset prices, following a period of dramatic rise on the second hand front during the previous couple of years, the third quarter of 2019 appeared to be more cautious. With an average price of USD 30m for the Q3 of 2019, five-year-old Capesizes balanced 5.4% lower than their five-year average. Panamax Q3 average prices came in at USD 19m, or 8% more than the five-year average of the same period. The market for five-year-old Supramaxes and same-aged Handies were on average at USD 17.25m and USD 17m, respectively. These levels were 7.8% and 23% above their average prices on the Q3s of the last five years. Unlike the freight market, on a broader ten-year basis, asset prices kept hovering circa 17% lower than the respective Q3 averages, with the Handysize exception of just 0.6%.

With the fertile third quarter of the year behind, the freight market had to avoid the Scylla of a slowing global economy and the Charybdis of a rising uncertainty in order to continue its journey. As in J.M.W. Turner's painting, all the elements of the third quarter blend and merge into one another, except for the freight market that stands out like an iron beast in yellow-blue-grey background.



Fourth Exhibit - The Fighting Temeraire

With twenty-seven years of positive economic growth, Australia demonstrated a remarkable capacity to sustain steady increases in material living standards and absorb economic shocks. This sound macroeconomic performance strengthened the country's standing in terms of GDP per capita. Economic reforms during the 1980s and 1990s are often considered as a key ingredient to Australia's success story. Most importantly, though, China's insatiable appetite for iron ore and coal had a positive bearing on the commodity-dependent Australian economy. On the same wavelength, but on a choppier trajectory, dry bulk had been fueled by the same underlying forces as the Australian economy. However, after so many years of walking down the same path, the Baltic indices and the economy of the "land down under" appear to be in disagreement. On the one hand, the average earnings of the dry bulk sector lingered at quite healthy levels during the last couple of years. On the other hand, some cracks made their appearance on the concrete growth of the world's largest iron ore exporter. In this context, the Reserve Bank of Australia decided to lower the cash rate by 25 basis points to 0.75 per cent during the first week of the fourth quarter. The Australian economy expanded by 1.4 per cent over the year up until the quarter ending in June, which was a weaker-than-expected outcome. Most importantly, though, the board of the Australia Central Bank stressed that, while the outlook for the global economy remained reasonable, the risks were tilted to the downside.

Setting aside the long-term prospects of iron ore trades and consequently the health of the Australian economy and shipping, the BDI made a steep correction at the end of the third quarter. After touching multi-year highs in early September, the gauge of activity along the most bustling maritime routes lost some 42.5% of its value by month's end.

In the second week of October, the International Energy Agency chopped its oil demand growth forecasts for the next two years due to concerns for the path of the global economy. In particular, for both 2019 and 2020, the IEA cut the headline oil demand growth number by 0.1 mb/d. For 2020 in particular, a weaker GDP growth forecast has seen oil demand outlook cut back to a still solid 1.2 mb/d. However, it was the tactical moves on the geopolitical chess board that overshadowed any analysis for the future prospects of the oil industry. In particular, an Iranian-owned oil tanker was struck by two missiles off the Saudi port of Jeddah, further escalating tension between Iran and Saudi Arabia. Adding to this, the US sanctions on a leading Chinese owner and the right conditions had been created for the AG/Japan main tanker trading route to skyrocket to some $300,000 daily, tempting many dry cargo chartering brokers to look for crash courses on tanker chartering. Following a period of softer tone, "black gold" jumped 2 per cent as well, following the latest news from the Red Sea whilst the barometer for the dry bulk sector increased 9 per cent after the return of Chinese market participants from their holidays. Most importantly, though, for their long-term prospects, both surged on high hopes for a trade war truce.

On the contrary, in its latest World Economic Outlook, the IMF downgraded global growth for 2019 by 0.3 percent to 3 percent, its slowest pace since the Lehman "Minsky moment". It took less than eighteen months for the global economy to move from the "most synchronized growth in a decade" to the "most synchronized slowdown". Amidst rising trade barriers and increasing geopolitical tensions, growth continued to be weakened. However, for the following year, the Fund's outlook injected moderate optimism as growth is projected to pick up to 3.4 percent – yet with a 0.2 percentage point downward revision compared with April. The positive projection for 2020 reflects primarily an improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and an emerging and developing Europe that is currently under macroeconomic strain.

Following the IMF projections, the National Bureau of Statistics of China verified that the locomotive of global growth kept losing steam during the third quarter of 2019 by growing at 6 per cent. In particular, PRC's growth was the lowest since records began in early 1992 and below the consensus of 6.1 per cent. However, industrial production data painted a different picture. This measure of output in sectors such as manufacturing and mining grew by 5.8 per cent in September, well above the August figure of 4.4 per cent. With the Baltic Dry Index correcting downwards during the past one and a half months and just ten weeks ahead of 2020, the dry bulk sector would need more support from the macro spectrum in order to steam for northern latitudes.

In reference to the soybean trades, following many years of rapid expansion, Chinese imports turned softer in the last couple of years. During the first three quarters of 2019, the world's largest importer bought around 65mil MT from the international markets, or some 5mil MT less than the previous year. This slowdown in Chinese imports was more obvious in U.S. export data. During the first eight months of 2019, the US exported circa 13mil MT to China, considerably higher, Y-o-Y. However, despite the upward trend, these figures remain well below the pre-trade war era, stressing the financial statements of the US farmers. Whilst Brazil and China were discussing a "protocol" for exporting more Brazilian soy and cotton meal to the world's second largest economy, China and the US seemed to be close to an interim agreement to ease trade tensions, injecting optimism into the US soybean market.

Following the latest World Economic Outlook, the Fed lowered its policy rate by a quarter of a percentage point to a target range of 1.50% to 1.75% for yet another time this year. According to the Federal Open Market Committee, the labor market remained strong and economic activity had been rising at a moderate rate. Job gains had been solid, on average, in recent months, and the unemployment rate had remained low. Although household spending had been rising at a strong pace, business fixed investment and exports remained weak. Furthermore, in light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate. Following the US Central Bank announcement, Fed Chair Jerome Powell stressed that, "We believe that monetary policy is in a good place", a statement that could possibly signal that future cuts were on hold. In reference to the latter, the latest US jobs report largely surpassed the consensus, indicating that another rate cut might be out of context. As far as the other rival goes, Chinese manufacturing activity expanded at its fastest pace in two-and-a-half years during October. The Caixin China General Manufacturing Purchasing Managers' Index (PMI), which gives an independent snapshot of the manufacturing sector's operating conditions, increased to 51.7 in October from 51.4 in the previous month.

Whilst the US and China haven't yet found a way to reach a final agreement, some of the latest data indicates that their economies are trying to overcome the worst trade-war scenarios, one way or another. On the contrary, the Baltic indices do not seem to be in a mood to resist gravitational pull, largely deflating their values.

Looking at the steep – almost vertical – fall of the Baltic indices during the forty-fifth week of the current trading year, a talented chronicler of the future might argue that gravity was reinvented that week. Whilst the latest developments on the trade war front were sending mixed signals to markets around the globe yet again, the General Administration of Customs released the trading data of the world's second largest economy. China's iron ore imports in October fell for the first time in four months. In particular, Chinese customs cleared 92.86 mil. tonnes of ores rich in iron oxides. During the first ten months of 2019, the world's largest importer of iron ore purchased 878.6 mil tonnes for the international market, or -1.5% Y-o-Y. In spite of this reduction – which was in line with analyst projections – iron ore inventory at Chinese ports was hovering at a six-month high, estimated at 131.65 mil. tonnes.

As for the second largest cargo of the dry bulk segment, in terms of volume, Chinese seaborne coal imports were 19.9 mil tonnes in October – the lowest monthly total of seaborne arrivals since February. Overall, China imported 25.7 mil. tonnes during the last month, totaling to more than 276 mil. tonnes year to end October, or circa 10% higher Y-o-Y. Whilst much was written over the last few years regarding China's attempt to decrease its dependence on coal, data from Chinese customs reconfirmed that the common path of the world's second largest economy and coal consumption still has a few miles to go.

Indicative of Beijing's insatiable appetite for coal is the fact that during 2018 the total twelve-month imports were circa 280 mil. tonnes. Imports between 200 mil. and 300 mil. tonnes are necessary to supplement domestic miners and maintain balanced trade with exporting nations, Yang Xianfeng of China's Coal Transportation & Distribution Association stressed at a conference in Shanghai on Saturday, according to Bloomberg. Given the quantities that Chinese customs have cleared so far, it will be a big surprise if the aggregate for the current year will remain within the aforementioned range. However, consensus had it that a softer tone was to be expected for the last few weeks of 2019. At the same time as the above trade data verified the euphoric feeling of the third quarter, they painted a not-so-rosy picture for the months to come.

Whilst the latest rumors of suspension of Chinese coal import kept making headlines and influencing the spot market directly and indirectly, the Baltic Kamsarmax Index lost the psychological levels of $10,000 daily for the first time since mid-March. Following a very similar, albeit steeper, course as 2018, closing for the BPI 82 TC was some 50% lower than its recent highs. In view of the above, it would require much of an effort for the latest developments to be regarded as a good omen for the last few weeks of 2019, at least without a positive headline from the US-China trade talks which were set to continue with another telephone call.

Spot market folk wisdom has it that during the fourth quarter of the trading year is where the most profitable month should lay. Digging into Baltic Dry Index data of the last thirty-four years, this old adage can be proved. With an average value of

1994 and 2000 points, respectively, November and December are the most fruitful months of the dry bulk trading year, outperforming all other months by a considerably. However, seasonality in many cases can be a quite dynamic process, ever changing through time. In particular, during the last three years, Beijing’s preference of being well-stocked ahead of the winter led the Baltic Dry Index to peak in the third quarter and to soften in the following months. Reduced coal imports during the last two trading months of the year can be seen as the most indicative example of the aforesaid. The Baltic Indices appeared to be indecisive during the 47th week as to whether they should follow the pattern of the recent past or to remember the old good axiom.

Following the ebbs and flows of the global economy during the last 150 years, world crude steel production amounted to 151.5m tonnes in October 2019, reporting a 2.8% decrease compared to October 2018. In particular, India produced 9.1m tonnes and Japan 8.2m tonnes of crude steel, or down by 3.4% and 4.9%, respectively. The US steel output stood at 7.4m tonnes, with a 2% decline on a yearly basis. China’s crude steel production for October, 2019 was 81.5m tonnes, or -0.6% Y-o-Y. This was the first decline in steel production year-on-year since December, 2017. Most importantly for the dry bulk sector, Chinese steel imports followed this trend as well, lingering at just 4.78m tonnes during October 2019.

In sync, preliminary estimates of Index Commodity Price (ICP) for November indicated that its value decreased by 3.7 per cent, in Australian dollar terms. The ICP has been created by the Reserve Bank of Australia and it is intended to provide a timely indicator of the prices received by Australian commodity exporters. In spite of the recent drop, the gauge of commodity prices kept lingering 72 per cent higher than its February, 2016 five-year lows. Supply side discipline, combined with better demand dynamics, led the index considerably higher during the last three and a half years, touching six-year highs. By riding the same wave, the Baltic Dry Index balanced some 437 per cent higher than its respective lows of the winter of 2016, upon closing of the first week of December. However, as was the case with the Australian Index, the “first violin” of the dry bulk sector was playing in the wrong key lately, lying circa 38 per cent below its recent maxima.

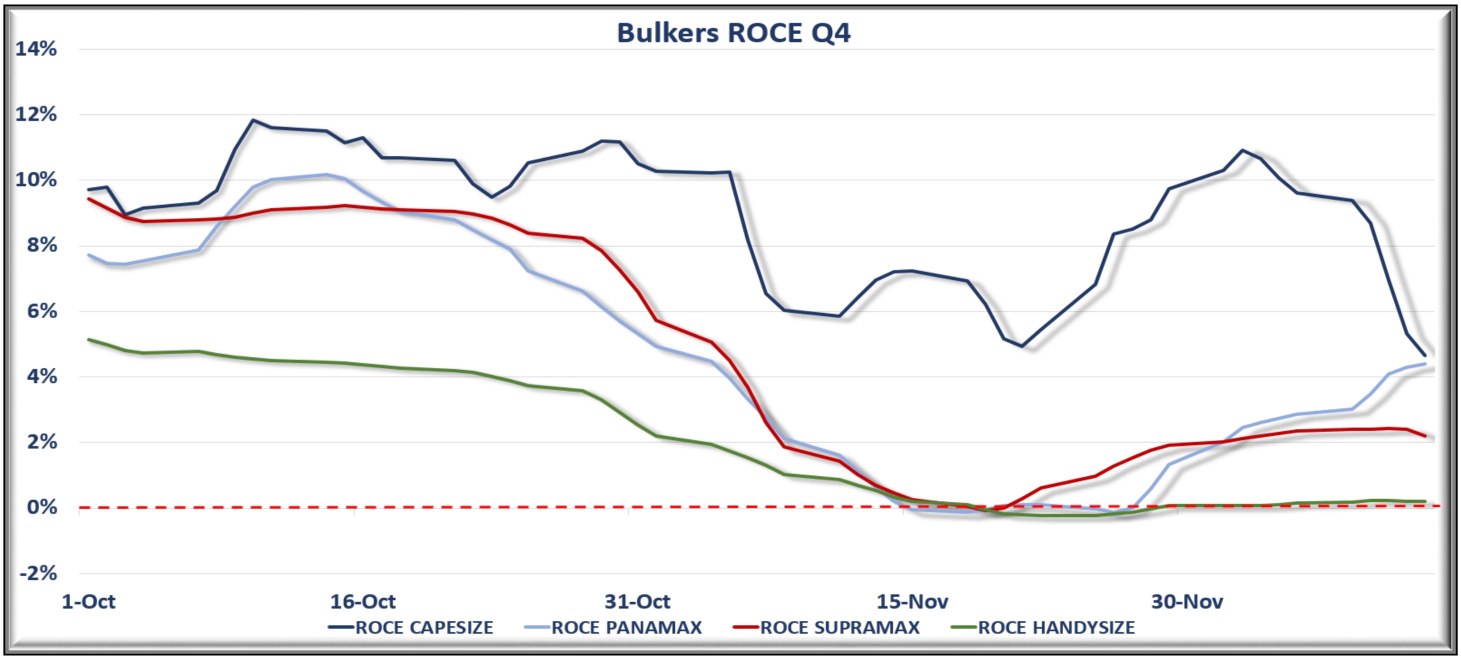
In contrast, the oil industry didn’t manage to show self-discipline during the last five years and thus, Brent prices never reverted to the pre-2015 levels. While global demand kept swelling up on the back of an improved macro environment, Saudi Arabia’s decision to abandon its role as a stringent swing producer pushed prices considerably lower to multi-year lows during February, 2016. Since then, the most synchronized growth in a decade had a clear positive bearing on prices as well, yet OPEC and Russian attempts to deepen production cuts were not enough to send “black gold” back to three-figure levels. Against this background, Aramco priced its IPO at 32 riyals ($8.53) per share, the top of its indicative range, the company said in a statement, raising $25.6bn and beating Alibaba’s record of a $25bn listing in 2014. At that level, the state-owned producer has a market valuation of $1.7tn, a far cry from initial aspirations.

As one of the most volatile trading years of the last decade was getting closer to its end, the Baltic Dry Index concluded at 1123 points on December 20th. After bottoming-out at 595 points during the second week of February, the gauge of activity in the dry bulk spectrum topped at 2518 points on September 4th. Since then, the concertmaster didn’t do everything that was necessary for the dry bulk orchestra to be adequately tuned and thus the performance during the fourth quarter was not in sync with that of the third. Setting aside the spot market’s bumpy ride, the sale and purchase market remained largely lethargic during 2019, at least as far as the indicative prices are concerned.

In particular, following a period of dramatic rise in second hand prices, 2019 appeared to be much more stable. With an average price of circa USD 35.6m for 2019, five-year-old Capes remained flat during the peaks and troughs of the spot market. In harmony, Panamax average prices came in at USD 22.6m, with the highest to the lowest point being USD 2 mil. apart. The market for five-year-old Supramaxes was on average at USD 17.75m, ending the year some USD 1.5 mil lower than where it had started. Overall, the second-hand market wasn’t convinced that both the minima of the first quarter and the maxima of the third one were going to be long-lasting, and thus preferred to remain calm a few hundred thousand greenbacks up or down from the “last dones”.

At a time when the freight market has gained traction, surpassing the 2500-point mark, the supply side of the shipping industry remains noticeably disciplined. Since hitting rock bottom levels of 8% in mid-2017, the orderbook/fleet ratio for bulkers had seen only a marginal increase of two percentage points to 10% in the last two and a half years. Whilst the US and China made the first step towards a gradual reduction in tariffs as part of a "phase one" trade deal, it is encouraging for the freight market that investors in the dry bulk sector rely mostly on the second hand market, at least up until now.

This was the last journey of the "Fighting Temeraire", a celebrated gunship which had fought valiantly in Lord Nelson's fleet at the battle of Trafalgar in 1805. Thirty-three years later, decaying and no longer in use, she was towed up the Thames to be broken up in Rotherhithe shipyard. It can be seen as a symbol of the end of an era, with the sun setting on the days of elegant, tall-masted warships. By drawing a parallel, 2019 can be seen as the end of HSFO, at least for the vast majority of the dry bulk fleet.



Event Debrief

For much of the past year, "exogenous shocks" and "pent up demand" were compelling ways to paint the economic picture. Following a rollercoaster ride, the freight market concluded the most generous year of the last eight, instilling optimism but also cautiousness for what lies ahead. In fact, the 2019 shipping gallery offered us a number of masterpieces. Undoubtedly, as taste preferences vary among individuals, not all of them were appealing across the board. In any case though, shipping participants' emotional bottom lines followed closely the interesting way the Baltic indices choose to array themselves throughout the year.

Nevertheless, as we leave 2019 behind, new challenges and opportunities are laying behind the horizon. Following a period with "the most synchronized growth in a decade", the IMF downgraded global growth for 2019 by 0.3 percent to 3 percent, its slowest pace since the Lehman "Minsky moment". Although trade tariffs and disputes didn't directly affect the spot market, they undermined investor confidence. Once again, monetary and fiscal stimuli supported growth in the key economic blocs. Finally yet importantly, 2019 can be characterized by a greater awareness of climate change.

Moving forward, global growth is projected to be 3.4% for 2020, with the usual emerging markets being in the front seat. China's plan for a soft landing is expected to be supportive in the derived demand for shipping services, yet without the same vivacity as the past. US presidential election is another swing factor, at least to the extent that this is going to influence the progress of the US-China trade truce. For the dry bulk spectrum in specific, uncertainties surrounding the International Maritime Organization's low-sulphur regulations can be seen as the "big unknown" for the year to come. On a final note, environmental issues will continue to feature highly on the international agenda.

We hope the amalgamation of the above factors to contribute to a seaborne trade year full of activity…

May your sails have good winds in 2020

The reported fixtures and S&P deals are obtained from market sources.