GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment

Week ending 18th November 2011

ECONOMIC ENVIRONMENT

Greece and Italy finally implemented new governments under the pressure of Eurozone for compliance with long demanded economic reforms and the social unrest. Eurozone still pushes Athens and Rome as a European official stated that it doesn't really matter who is in leadership, but the full delivery of all the commitments to avoid a possible contagion of crisis in the other EU member countries. The head of the International Monetary Fund, Christine Lagarde, has warned that the global economy is at risk of being plunged into a lost decade and European governments need to show political clarity about handling of their debt crisis to reassure lenders and investors. Lagarde also called Chinese leaders to discuss a possible contribution by Beijing to a European bailout. Speaking in China, Lagarde stated that if the countries do not act together, the worldwide economy runs the risk of downward spiral of uncertainly, financial instability and potential collapse of global demand.

Furthermore, the Asia Development Bank requested from India and China to be ready to help in eurozone's rescue to avert a long term downturn that would stall the growth of Asian economies. Rajat Nag, the managing director of the Manila-based Asian Development Bank, said that the world's two fastest growing large economies had to do all they can to speed the recovery of the currency bloc either through the International Monetary Fund or direct bilateral arrangements. He also added that the eurozone crisis threatens significant knock-on effects across Asia. The Asian Development Bank's forecast of a 7.5% economic growth in Asia for 2011-2012 faces risks on the downside from the threats in the euro area. On the other hand, Anand Sharma, India's minister of Trade said that India will do whatever it can to help the eurozone economy as its own economy is now suffering from drain in exports and foreign capital inflows. He said that nobody wants the eurozone to remain unstable and turbulent. *"It is an imperative and not an option to sustain the high level of growth to secure employment for tens of millions of our young men and women*."

The European Union has already warned that the eurozone could slip back into recession next year by predicting only a 0.5% growth in 2012, well below from its earlier prediction of 1.8% in spring. The sharp cut in the forecast comes from the alarming debt crisis in Italy as the interest rate on Italy's 10 year bonds has reached the same levels that forced Greece, Portugal and Ireland to request multibillion EURO bail outs.

In Japan, the economy showed signs of expansion between July and September following three consecutive quarters of decline. According to government's preliminary estimates, the country experienced 1.5% quarter-on-quarter growth in its gross domestic product, equivalent to an annualized rate of 6%, but the world's third largest economy remains vulnerable to the effects of European economic turmoil and U.S. slowdown. Kiichi Murashima, economist at Citigroup Global Markets Japan, said that most of the quarter's growth came in early summer and monthly data are already showing that the economy is losing stream with the industrial production falling 4% in September, its first monthly decline since March. Despite the intervention of Japan's Finance Minister in the currency markets last month, the yen's rise adds pressure on the competitiveness of Japanese exports, the main driver of Japanese growth, with the sovereign debt crisis hurting the prospects of exports demand growth.

In China, the EU slowdown has already impaired the growth of Chinese exports in October by rising 15.9% year-on-year, down from 17.1% a month earlier, while imports increased 28.7% from 20.7% accelerating pace. Overall, China's trade surplus still widened in October to $17 billion from $14.5bn a month earlier, but well below market expectations for a figure close to $25 billion. Chinese exports to the

European Union were up 7.5% year-on-year in October, down from 9.8% in September, while exports to the US rose 13.9% in October, up from 11.6% in September.

SHIPPING MARKET

The shipping outlook of dry and wet vessel segments remains in gloom under the European economic uncertainty and the glut of new vessels. The current market fundamentals imply new investment decisions by the owners to be prepared for 2012 and limit their risk exposure against further slide of freight rates and asset prices. Earnings for large sized vessels in the bulk carrier and crude tanker segment are under severe pressure from imbalances between vessels' supply and demand with containers experiencing significant falls in the freight rates of the major Asia – Europe route.

In the dry market, even the downward revision of the earnings from the end of October, the BDI still hovers at higher levels from the end of second quarter of the year, when dry bulk operators experienced record year lows of capesize earnings. The increase of Chinese iron ore production during October and the elevated levels of iron ore port stockpiles distressed Chinese iron ore imports. General Administration of Customs statistics data revealed that Chinese iron ore production increased in October by 4% from September, producing approximately 132 million tons, up 39% year-on-year with Chinese iron ore imports falling 18% month on month to 50 million tons, the lowest level since February.

The period chartering activity is under pressure with Chinese iron ore port stockpiles floating approximately 96 million tons and capesize earnings being 11.4% lower from the highest level of $31,998/day reached on October 25th. Signs for a firm thermal coal demand till the end of the year, due to low Qinhuangdao stockpiles from winter electricity pick up demand, will keep resistance against new lows of dry earnings. The lower levels of scrapping activity raises uncertainties for firmer levels of earnings in the capesize and panamax segment along with the glut of new vessel deliveries.

The index closed today at 1,895 points, up by 3.2% from last week's closing and down by 12 % from a similar week closing in 2010 when it was 2,155 points. The highest rate increase has been in the supramax segment, BCI up 2.6% w-o-w, BPI up 3.9% w-o-w, BSI up 4.3% w-o-w, BHSI down 2% w-o-w. Capesizes are currently earning $28,340/day, an increase of $1,152/day from a week ago, while panamaxes are earning $14,635/day, an increase of $556/day. At similar week in 2010, capesizes were earning $33,537/day, while panamaxes were earning $16,420/day. Supramaxes are still trading at lower levels than capesizes and panamaxes by earning $14,438/day, up by $594/day from last week's closing. At similar week in 2010, supramaxes were getting $14,519/day, hovering at discounted levels from capesize and panamax. Handysizes are trading at $ 9,388/day; down by $186/day from last week, when at similar week in 2010 were earning $11,484/day.

In the **wet market**, the week ended with some air of optimism as the strong program of AG VLCC fixtures seen in November, the busiest for 2011, lifted VLCC earnings from recent lows with WS spot rates on the AG-USG route reaching 40 from 33.5 last week. Market sources suggest that Middle East fixtures for the first 20 days of November are up 38% month-in-month, driven by 40% increase in eastbound fixtures. However, the adequate supply of vessels do not allow a firm rebound of vessels earnings in the crude market with wet operators still struggling to survive under break even levels.

The upward momentum in the crude market is high likely that will continue as the Organization of Petroleum Exporting Countries is planning to bolster crude shipments this month to meet winter demand in Asia. More vessels' employment opportunities will emerge for VLCC owners as OPEC will export 23,3 million barrels/day in the four week to November 26th, an increase of 4.6% from the 22,28 million barrels per day shipped in the month to October 29th, according to tanker-tracker oil movements. Exports from Middle Eastern producers, including non-OPEC members Oman and Yemen, will climb to 17,78 million barrels per day, 5.5% more than the 16,85 million barrels shipped in the month to October 29th, according to Oil Movements' estimates.

In the **gas market**, the persistent surge of LNG demand from Japan keeps the rise of LNG spot freight rates. Daily freight rates for spot LNG vessels rose to $112,000 in October from $42,000 a year ago and $110,000 in September, according to Drewry Maritime Services. Rates for spot charters averaged

$92,500/day during the year to date compared with $40,700 in 2010, while long term charters average $79,200/daily. Ulf Ryder, chief executive of Stena Bulk, estimated that 90%-95% of the existing LNG tanker fleet, of about 360 LNG carriers, would soon be in use; whereas about 30% of the fleet was idle two years ago. Furthermore, Sveinung Stohle, chief executive of Norway's Hoegh LNG, said that the market is likely to remain very tight till 2013 / 2014 and after that the completion of new LNG export facilities would still require more ships.

In the **container market**, the Shanghai Container Freight index posted its 10^{th} consecutive weekly decline, closing last week at $898/TEU, down by 2.3% week-on-week with the Asia Europe rates being on a freefall by dropping 6.5% to $573/TEU from $613/TEU. At a similar week in 2010, the Shanghai Container Freight Index was standing at $1,221/TEU and Asia-Europe rates were hovering at $1,479/teu, up by 158% from the current levels. Asia – Europe routes are facing an influx of new container ships that are too large to operate anywhere else with many of these ships being pushed into lower volume routes and depressing also rates in those trades. Idle vessels are on the rise with Alphaliner predicting that the laid up container capacity will increase by 50% over the next two months to reach 600,000 TEU by early January as several services are being terminated or suspended by lines due to slow winter season and declining consumer demand.

The laid up capacity could reach 5% of the existing fleet by the end of the year, up from 0.6% at the end of June and 2.5% in mid-October. It estimates that at present the idle containership fleet has risen to 398,000 TEU, 185 ships, with owners of panamax tonnage being under increasing pressure as demand for ships of this size have strongly declined following service reorganizations favoring larger ships. Statistics data indicate that of the 185 ships idle at present, only one has a capacity above 7,500 per TEU, while the 1,000-2,000 TEU vessel size segment has the largest number of ships idled at 68 units.

Under the current market fundamentals, a merger of three Japanese carriers' container operators is being considered as a potential strategic option in the face of consistently weekly earnings in the sector. According to Alphaliner's Weekly Market Report, the consolidation of MOL, NYK and K Line's liner fleets would create the world's fourth largest container carrier and give the combined Japanese mega-line a market share of 7.5% compared to the three company's individual shares of between 2.2% and 2.8%. The president of MOL said that discussions about the merger have not yet taken place, but cannot be ruled out in the future. The consolidation would be the first major since 2005, when APM-Maersk Acquired P&O Nedlloyd and Hapag-Lloyd acquired CP Ships.

In the **shipbuilding industry,** Tan Zuojan, president of Chinese state shipbuilding Corporation, speaking in a Shipbuilding Forum of Hong Kong stated that Chinese shipbuilding industry will be difficult to maintain its existing advantage of low cost ships by relying on traditional techniques against the rapid appreciation of the RMB, the continuing rise of labour costs and general inflation. Tan Zuojan said that Chinese State Shipbuilding Corporation had been deeply committed to research and development in the construction of large ships, which South Korean counterparts are dominating, and they are now able to construct liquefied natural gas carriers at 30,000 cum, 147,000 cum, 160,000 cum, 172,000 cum, 175,000 cum and 220,000 cum. Furthermore, they have already marketed 9,000 TEU, 9,400 TEU, 10,000 TEU, 12,500 TEU and 13,400 TEU container vessels, while they are currently focusing on a design of 18,000 TEU vessels.

In the **shipping finance**, Danish dry bulk owner has sealed new debt facilities at a total of $50 mil from two Japanese banks to finance a pair of newbuilding handysize dry bulk carriers under construction in Japan with delivery in 2012 and 2013. This agreement implies the support from Japanese ship-financing market in its domestic shipbuilding industry to increase Japanese shipbuilders' competitiveness against Chinese and Korean counterparts. Furthermore, Japanese shipping player Nippon Yusen Kaisha is said to have been granted a large loan by a number of Tokyo banks. The Japan Bank for International Cooperation is leading a syndicated loan of JPY 12,6 billion ($162mil), the Bank of Tokyo-Mitsubishi UJF and Sumitomo Mitsui Banking Corp are also included in the syndicate.

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