GOLDEN DESTINY

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

***Week ending 27th January 2012***

## ECONOMIC ENVIRONMENT

The progress of negotiations for the PSI deal is still on the stream, while the fear of Greek default hunts the future of eurozone. The International Monetary Fund follows the warnings form the World Bank warnings for a worldwide economic recession, and revised sharply its predictions by emphasizing the defects from a euro failure. The IMF now expects a global economic growth by 3.3% in 2012, 0.7% points lower than September's forecast, while it estimates the euro's economy to shrink by 0.5% in 2012 with large declines in Italy and Spain by 2.2% and 1.7% respectively. The U.K. economy is estimated to expand by 0.6% percent before advancing by 2% in 2013, U.S by 1.8%, while Chinese growth has been reduced to 8.2 percent.

The International Monetary Fund warned that the global economy could slide into a "1930s moment" and called for stronger growth, large firewalls and deeper integration in the eurozone to halt the crisis following the many false starts and half measures seen in 2011. She forwarded this harsh message in Berlin, the capital of Germany, the Europe's biggest economy and the most important player in resolving the long-running crisis. She said: "What we must all understand is that this is a defining moment. It is not about saving any one country or region. It is about saving the world from a downward economic spiral. "

In Greece, the coupon rate of new bonds remains the key point of disagreement with private creditors. Germany says that a coupon rate in the range of 4%-4.2% would make Greece's debt sustainable by insisting on a rate ceiling of 3%. Greece aims to make a formal offer to private creditors on a bond swap deal by February 2013. According to Dow Jones, irrelevant of the PSI negotiations, Europe will avert a potential Greek bankruptcy by securing an additional loan for the country to repay its bonds expiration on March. However, EU/IMF notified Greece not to wait an increase in the bailout loan of EU130bn, which drafted on October 26th, although its economy is deteriorating. Additional shortfalls have to be covered with either extra austerity or bigger losses by creditors. EU-IMF-ECB officials have already demanded from Greece to adopt EUR6bn extra measures in order to fill the deficit of 2011.

IMF head Mrs. Lagard said that a default by Greece is not an option even if PSI negotiations reach a deadlock. On this side, it pushes European Central Bank to be involved in Greece's debt restructuring. There are rumors that European leaders are discussing with European Central Bank several options for its involvement in the PSI. According to press, if the European Central Bank decides to exchange the Greek debt holding, at the price it had been bought, with fresh debt that will not be eligible for a loss; the Greek debt will be cut by10-12 billion. This proposal combined with a private sector bond swap deal at a coupon rate close to 3.7% would make Greece's debt sustainable. The International Monetary Fund also requested from European Central Bank to loosen monetary policy and continue buying sovereign debt of peripheral countries in its security markets program, which has now purchased EUR 219bn.

In Italy, the government announced a 5,5bn euro ($1,7bn) investment package of construction projects to stimulate country's economy. The decision followed the estimation from the Bank of Italy for a 1.5% contraction in the Italian economy this year and the Standard and Poor's downgrade to BBB+ status.

In China, further monetary easing is vital to stimulate economic growth. Chinese government has announced that China's five largest banks can increase lending this quarter by 5% from last year, which is a strong indication how weak are the signs of this economy.

In Japan, growth forecasts have been downgraded. The Bank of Japan revised sharply its forecasts for the current financial year, highlighting the effects of weak overseas economies and the appreciation of the yen. The Bank of Japan expects the real gross domestic product to shrink by 0.4% in the year ending in March, compared with 0.3% earlier prediction of last October. The revisions were expected, given lackluster export and consumption data since October, said Junko Nishioka, chief Japan economist in Tokyo at RBS Securities and a former BoJ official. Furthermore, Japan posted trade deficit for the first time since 1980 after a year of struggling to adjust to a strong yen, a eurozone crisis and the impact of natural disasters. The Y2.49tn ($32bn) trade deficit represents a dramatic shift from the big surpluses that Japan has sustained during the past 50 years.

## SHIPPING MARKET

The beginning of the New Year brings memories from the end of 2008 financial crisis, with shipping operators facing threats from tight ship financing conditions, low freight earnings, high fleet growth, high operating expenses due to increased cost of bunkers and an uncertainty in the worldwide economy that impedes demand cargo growth. The International Monetary Fund has revised downward its trade growth forecasts for 2012 and 2013 in its latest World Economic Outlook Report. The economic organization predicts 3.8% trade growth this year, less than a third of 2010 growth of 12.7%, which is significantly lower than 6.9% growth seen last year. Chinese economy lacks of growth, but the 5year stimulus plan along with easing of monetary policy targets to a steady development of the country, which will ease the pain of worldwide recession. Increased demolition activity, lower volume of newbuildings contracts and higher secondhand purchasing activity seem to be the key points of this year amid weaker global economic growth.

**In the dry market**, the weak sentiment persists following the tremendous fall of the BDI below the psychological barrier of 1,000 points mark since last week. Earnings in vessels of all sizes have reached bottom levels, less than $10,000/day, as the weak Chinese demand for raw materials, stemmed from China's New Year celebrations, compounded with fleet growth and severe weather, from heavy rainfalls in Australia, pose heavy losses in shipping players. The inventories of iron ore in China remain at extremely high levels. According to Commodore Research, there are currently stockpiled approximately 98.4 million tons of iron ore at Chinese ports, setting a new record from the previous record of 98.1mt in mid-November 2011. The appetite for iron ore buying is expected to remain fragile until the end of China's festivities, while Chinese demand for imported thermal coal will be firmer due to persisting cold temperatures. Stockpiles of thermal coal are hovering at high levels in major power plants and ports, but electricity production is on rise.

The index closed today at 726 points, up by 15.7% from last week's closing and down by 36% from a similar week closing in 2011 when it was 1,137 points. The index is currently standing 63 points higher than the bottom low of 663 points on December 5$^{th}$ of 2008. The highest rate decline is in the panamax segment, BCI down 5.7% w-o-w, BPI down 20% w-o-w, BSI down 14% w-o-w, BHSI down 12% w-o-w.

Capesize, panamax, supramax and handysize average time charter earnings fell by 17%, 20%, 14% and 12% w-o-w respectively. Capesizes are currently earning $5,566/day, a decrease of $1,122/day from a week ago, while panamaxes are earning $6,488/day, a decrease of $1,643/day. At similar week in 2011, capesizes were earning $6,177/day, while panamaxes were earning $10,689/day. Supramaxes are trading at $7,268/day, down by $1,173/day from last week's closing, but higher than capesize and panamax earnings. At similar week in 2011, supramaxes were getting $12,642/day, hovering at 105% higher levels than capesizes, whereas now are 31% higher. Handysizes are trading at $ 6,264/day; down by $852/day from last week, when at similar week in 2011 were earning $10,560/day.

In the **wet market**, the increased chartering activity before the Chinese New Year created a positive sentiment in the VLCC market with earnings above breakeven levels. The main issue is whether the recent euphoria will lead wet operators to healthier trading days in the freight market. Overall, the market sentiment for the next two years is negative as owners are facing slowing global oil demand, a record fleet growth with tankers being ordered four years ago, when daily earnings were outstanding, and high bunkering costs with brent crude prices fluctuating above $110/barrel.

In the meantime, European governments have agreed in principle to impose a ban on imports of oil from Iran. The formal agreement is due to be finalized by the next EU foreign ministers meeting on 30

January, but the sanctions will probably not take effect immediately. Oil prices remain above $110/barrel following European Union's approval on the embargo of Iranian oil. The embargo would force European refiners, which imported about 500,000 barrels a day of Iranian oil last year, to look for other suppliers. It remains to be seen what will be the effect on the crude freight earnings in the following days and how these exogenous factors would influence the future of tanker players.

In the **container market**, the Shanghai Container Freight Index closed last week at $983/TEU, up 0.2% week-on-week, with the Europe and USWC rates experiencing gains of 0.5% and 0.2% respectively. Overall, freight earnings have shown a significant improvement in all major routes since the beginning of December with gains up by 48% in Shanghai –Northern Europe, 28% in Shanghai-USWC, 13% in Shanghai –Mediterranean and 17% in Shanghai – USEC. Even the upward movements of rates, sources are suggesting that the post Chinese New Year demand for booking will be weak and the first quarter of the year will be tough before a seasonal uptick in the second quarter. At a similar week in 2011, the Shanghai Container Freight Index was standing at $1,108/TEU, 13% up than the current levels with Asia-Europe rates being up by 79%.

According to Alphaliner estimates, the size of the idle fleet surged to 268 vessels of a total of 676,000 TEU by mid-January. Decisions by major lines to add larger size ships to new routes will add pressure for additional lay-ups for smaller ships, which are more costly to operate. Of the current lay-ups, 59 are vessels under 1,000 teu, 85 vessels of 1,000 teu-1,999 teu, 47 vessels of 2,000teu-2,999 teu, 47 vessels of 3,000teu-4,999teu, 21 vessels of 5,000-7,499teu and more than nine vessels of 7,500 teu

In the **shipbuilding industry,** Japanese ship export ordering activity represented a 19.6% year-on-year decrease in 2011, according to Japanese Ship Exporters' Association, raising serious concerns for a dwindling Japanese orderbook. Japanese export ship orders in 2011 were only about a third of what they were in 2003, when they reached a record high of 26,7 million gross tons. The Japanese shipbuilding industry showed some signs of revival in late last year, as export orders rose 47.7 percent in November and 26.5 percent in October. But, orders declined by 2.8% y-o-y in December with Japanese shipbuilders receiving 29 export ships, of which 28 were bulk carriers. Japanese shipbuilding industry faces the threat from strong appreciation yen along with low newbuilding demand for bulk carriers and tankers from the slump in the freight market.

In the **shipping finance**, the troubled Chilean ocean carrier CSAV announced its shareholders that it raised $659 million in the first stage of a planned $1.2 billion capital increase. The capital increase is part of CSAV's restructuring program launched in May 2011 for improving carrier's financial position.

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