GOLDEN DESTINY

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

Week ending 17th February 2012

ECONOMIC ENVIRONMENT

The eurozone crisis has stalled the world economy with Greece having agreed one more austerity package of additional severe cuts that initiated violent protests and spurred social unrest. Even the enormous efforts from EU officials to alleviate the contagion of the debt, the eurozone economy slowed significantly at the end of 2011, highlighting the impact of the region's growing debt crisis. According to European Union's statistics office Eurostat, the eurozone's gross domestic product fell 0.3% in the fourth quarter of last year from the previous three months. The slump comes mainly from debt ridden countries, i.e. Italy, Portugal, Greece with France and Germany showing a stronger resistance.

Overall, the EU's GPD grew just 0.7% in the fourth quarter of 2011 compared with a 2.4% growth at the start of 2011, when Europe was recovery from 2008/2009 global financial crisis. A Reuters poll predict that the euro-zone's economy will shrink 0.4% in 2012, returning to growth in 2013, which comes in line with the International Monetary Fund's forecast for a 0.5% contraction in 2012. In the meantime, European Central Bank left its benchmark interest rate unchanged at a record low 1.0% and extended emergency loans to banks to strengthen the financial sector against the debt crisis.

Under the current uncertainty from a prompt euro area revival, rating agency Moody's put the economies of UK, France and Austria on a negative outlook due to exposure to the eurozone debt crisis. It is the first time that UK economy has been placed on negative credit outlook by a big rating agency since the eurozone debt crisis erupted. Moody's said in a statement that the primary driver underlying rating agency's decision to change the outlook of UK's triple A rating to negative is the weaker macroeconomic environment, which will challenge the government's efforts to place its debt burden on a downward trace over the coming years.

In Japan, country's economy has shrank during the fourth quarter of last year, for the third time in four quarters, mainly due to strong yen currency hurting exports' overseas demand. Government figures showed an annualized drop of 2.3% in Japan's GDP for the fourth quarter of last year, which was dragged down by a 3.1% fall in exports following a 3.1% rise in the third quarter. Japan's trade balance for 2011 showed a deficit of Y2,5trillion ($32billion), the first annual deficit in 31years, as exports to the eurozone and Asia, including China, tumbled sharply.

In USA, the trade deficit widened in December to a six month high by 3.7% with the country's economy attracting more imported goods. According to the Commerce Department, U.S. trade deficit fetched $48,8 billing in the final month of 2011, the largest since June, from a revised $47,1 billion in November. During 2011, the U.S. deficit is estimated to be for the whole year at $558 billion, up 11.6% from 2010 with a 14.5% rise in exports to a record of $2,1 trillion and 13.8% in imports to $2,7 trillion.

In China, a hefty amount of loan is overdue and governments have agreed to extend maturities to avoid mass default. China's stimulus response to the global financial crisis brought provinces and cities in front with with Rmb 10,7trillion ($1,7trillion) in debts, about a quarter of the country's output, with more than half of those loans being scheduled to come due over the next three years. While some analysts have warned that many loans will still go bad and that a roll-over only postpones the problem, government advisers believe that it will give Beijing the opportunity to find a more permanent solution for its overloaded debt. Furthermore, the sharp fall of Chinese imports during January triggers concerns for the dynamic role of China's economy in the worldwide economic prosperity. The country's imports plunged 15.3% leaving China with a trade surplus of $27,3 billion at the end of the month. Sources suggest that China's trade surplus peaked at nearly $300 billion in 2008 and it has been narrowing since then fetching $155billion last year. Lu Ting, an economist of America Merrill Lynch Bank, forecasts that the surplus will plunge to $41billion this year, which would be the smallest in nearly a decade.

SHIPPING MARKET

Vale, the world's second largest miner by volume, reported a 20% fall in its net profit for the fourth quarter of last year by recording $4,67billion compared with a $5,92 billion a year earlier, citing as primary reason the decline in the iron ore price. Vale reported sales of $14,8billion during the quarter on lower demand from Europe and reduced iron ore prices during the second half of the year. Vale dispute with Chinese over a pricing mechanism for iron ore seems that brought negative results with CFR Tinajin spot iron ore price in China falling to $116 per ton in October last year from a peak of $181 in July. Credit Suisse predicted in a report that tighter market conditions would continue in 2012 with iron ore prices expected to be weaker. The report stated that Brazilian iron ore miners will face lower year-on-year results due to lack of volume growth and 10% lower year-on-year average price.

In the meantime, Chinese ban on the entrance of Valemaxes in Chinese ports is still an issue with Dalian Port posting in its website a statement suggesting that the north China port may try to find ways to accept Vale's very large ore carriers, despite the ban. "Dalian Port has remodelled its 300,000 dwt berth and storage facility for iron ore, so we can satisfy the requirements of receiving large vessels and we can meet all the transshipment needs as well," the port said. "We hope [Dalian Port and Vale] can enhance co-operation on our sound foundation and benefit each other."

In the **dry market**, the BDI is still below the 1,000 points psychological barrier with capesize earnings hovering at almost the same levels of previous week, below operating expenses, and panamax vessels being for a second consecutive week the workhorses behind the recent short firmness. The strong South American grain demand has buoyed the earnings for panamax ship operators, however the surge in the spot panamax market has not yet lifted the BDI at comforting levels by standing only 54 points above its post Lehman historical bottom low of December 2008.

Chinese Iron ore inventories have reached the alarming level of nearly 100million mt by the beginning of February, while they fell by 1 Mt over last week. A high growth of Chinese iron ore inventories is a negative factor for the prosperity of panamax and capesize earnings. In terms of Chinese import market sentiment, there was a retreat of business during January from December with February showing a continued weakness of import volumes. According to data published by China's Customs Administration, China imported 59,3 million tons of iron ore in January, down around by 7% from December last year. Even January gives a distorted picture for Chinese buying sentiment due to National Festivities; China's steel market remains sluggish. The China Iron and Steel Association (CISA) reported that daily crude steel production averaged 1.67 million tons from January 21 to January 31. This is similar with the average daily production that occurred during January 11 to January 20, but is down significantly from last year's record 2.02mt daily production average that occurred during June 21 to June 30.

Overall spot chartering activity shows strong signs for supramax and panamax carriers with a sufficient amount of coal coming in the market from the Northern Hemisphere peak season demand and the surge in South American grain cargoes. Capesizes are struggling to find support as iron fixture activity remains sporadic, since Chinese steel production remains low and iron ore port stockpiles are at hefty levels. In terms of Chinese thermal coal fixture volumes is believed that will be under a small pressure even the large power plant and coal port stockpiles, due to cold winter temperatures. According to Commodore Research, Coal stockpiles at Qinhuangdao, China's largest coal port, currently stand at about 7.9 million tons, 100,000 tons (1%) more than a week ago. Panamax spot rates are expected to continue their improvement from a large amount of thermal coal fixtures and a surge in grain demand with capesize being under pressure unless the Chinese regain their iron ore buying appetite.

The index closed today at 717 points, up by 0.2% from last week's closing and down by 45% from a similar week closing in 2011 when it was 1,301 points. The highest rate increase has been in the handysize segment, BCI up 0.2% w-o-w, BPI down 1.8% w-o-w, BSI down 0.6% w-o-w, BHSI up 3.5% w-o-w.

Overall average time charter earnings are still floating at low levels, despite some signs for revival due to the current oversupply tonnage. Capesize average time charter earnings are up by 1.1% in contrast with a 1.8% fall in panamax, supramax are up 0.6% w-o-w and handysize are up 3.5% w-o-w. Capesizes are currently earning $5,286/day, an increase of $59/day from a week ago, while panamaxes are earning $7,587/day, a decline of $145/day. At similar week in 2011, capesizes were earning $6,623/day, while panamaxes were earning $16,073/day. Supramaxes are trading at $6,701/day, up by $45day from last week's closing, 27% higher than capesize earnings. At similar week in 2011, supramaxes were getting $13,247/day, $6,624/day more than capesizes. Handysizes are trading at $ 5,684/day; up by $195/day from last week, when at similar week in 2011 were earning $9,906/day.

In the **wet market**, the oversupply of tonnage continues to keep rates in the crude tanker market under pressure. A surplus of the largest oil tankers competing to load crude at Persian Gulf ports stayed unchanged after reaching a four-week high last week, according to a survey of seven shipbrokers and owners from Bloomberg. There are 10% more very large crude carriers available for hire over the next 30 days than there are cargoes, according to the survey. The glut was the biggest since Jan. 10 as of last week. The VLCC surplus reached a 14-month low of 5 percent on Jan. 17, helped by stronger crude demand before China's New Year.

The oversupply of tonnage in conjunction with sluggish US and European oil consumption and demand has created a negative outlook for the crude tanker segment for almost more than one year now. European oil consumption contracted at a rate of 272 thousand bpd or 1.9 percent last year. Other deficit nations in Europe such as France, Italy and Spain have also experienced substantial declines in recent months as the sovereign debt crisis continued to unfold. US has also surprised to the downside. According to the US Energy Information Agency, demand for oil in America has now fallen to about 18 million bpd, a shockingly low figure that stands 820 thousand bpd below last year's levels, on a 4-week moving average basis.

China, the world's second-biggest consumer of crude oil after the U.S, has shown a moderate increase and will be the driver of oil demand growth also for 2012. China increased its crude purchases from overseas by 7.4%, 5,54 million barrels a day, from a year ago to 23,41 million metric tons last month as new refineries started and plants ramped up runs before maintenance, according to preliminary data on the website of the Beijing-based General Administration of Custom. China is expected to increase its crude imports this year as refining capacity expands and domestic production lags behind demand growth. The nation may buy 9 percent more than last year, or an average 5.6 million barrels a day in 2012, according to the median estimate of seven analysts and traders in a Bloomberg survey last month.

The IEA has cut its 2012 forecast for a sixth consecutive month to growth of less than 1%, or 0.8 million barrels per day and the EU embargo on the imported Iran oil will bring more strains in the crude tanker segment. According to Lloyd's List Intelligence data the impact could be severe as around 80% of VLCC shipments globally are out of the Middle East Gulf, with Iranian volumes representing almost 15% of 16m tonnes exported by sea from the region last year. Furthermore, Iran's exports of 2,3m barrels per day are equivalent to one VLCC shipment a day, about 30 less loadings a month for VLCCs that are already distressed by a record of newbuilding vessel deliveries during the first month of the year.

Furthermore, major oil shippers, AP Moller Maersk A/S, Frontline Ltd. OSG, Teekay Tankers Ltd., has already announced that their ships will no longer call at Iranian ports as new European Union sanctions ban insurers from providing coverage for vessels trading with Iran. This creates more difficulties for European consumers that are seeking ways to lift Iranian crude oil. However, major refiners in Italy and Spain contacted by Dow Jones Newswires said that while it was becoming more difficult, they were still able to load oil from Iran. The EU imposed new sanctions on Iran on Jan. 23, although a full ban on oil exports from the country will not come into affect until July 1. David Fyfe, head of the Paris-based

International Energy Agency's oil markets division said that the refusal of a growing number of shipping companies to do business with Iran "raises interesting questions." "Even if Asian buyers remain willing to purchase Iranian crude, they may struggle to find ships," he said.

Crude oil price hit a six-month high of nearly $120 a barrel on Wednesday amid fears that Iran, the world's third-largest oil exporter, could pre-empt a European Union oil embargo by cutting its own exports to the region. The situation is very dire with operational profitability of the wet operators being vague for the year ahead. Overseas Shipholding Group announced that suspends the payment of regularly quarterly dividends to preserve liquidity and maintain financial flexibility, while Norway's John Fredriksen, the biggest shareholder in VLCC and Suezmax operator Frontline stunned the market by noting investment plans for newbuilding VLCCs in an interview in the Financial Times amid market vessels' glut.

In the **gas market**, Japanese LNG demand shows strong signs of LNG imports supporting the optimistic outlook of the segment for the year ahead. Japan's ten regional power utilities increased their imports of liquefied natural gas by 39% in January, 5,19 million metric tones, up from 3,73 million tons a year earlier, when most of the country's nuclear reactors remained idled over safety concerns, according to data from the Federation of Electric Power Cos. On the other hand, South Korea's imports of liquefied natural gas fell 41% in January from a year earlier after building high inventory for winter demand via robust imports last December. According to Korea Customs Service data, the world's second largest LNG buyer after Japan imported 2,89 million tones of LNG last month, compared with 4,93 million tones a year earlier. "The drop in January's imports follows higher imports in December, while demand was slightly weaker than expected," a government source told in Reuters. LNG imports in December rose 46.6 percent to 4.81 million tonnes, from 3.28 million tonnes a year earlier, due to inventory building. The country's current LNG inventory is at more than 60 percent of storage capacity of 3.8 million tonnes, down from 80 percent of capacity as of mid-January but "slightly higher than usual levels seen at this time of a year," according to the government source. State-run Korea Gas Corp (KOGAS) said that it would import 36.46 million tonnes of LNG this year, equivalent to 1.6 trillion cubic feet of natural gas, and slightly lower than last year's imports of 36.72 million tonnes, according to customs data.

Under the current optimistic LNG outlook, Golar LNG Limited has announced its plans for a fleet expansion. The Board sees significant strength in the present development of LNG shipping market. Global LNG trade is estimated to increase by in the region of 8%-10 % per year over the next few years with further upside if US LNG exports materialise. The Company believes that it is important to get new capacity delivered as early as possible in order to position Golar for the anticipated large LNG volume increases expected to come from Australia and possibly the US in 2015 – 2016 As a first part of this expansion Golar is pleased to announce that it has entered into two newbuilding contracts for 162,000 m3 new buildings with fixed priced options for a further two with the Korean shipbuilder Hyundai Samho Heavy Industries Co., Ltd. ("Hyundai") One vessel will deliver during the third quarter of 2014 and the other will deliver during the fourth quarter of 2014 The total cost of the two vessels is slightly above $400 million. Chairman John Fredriksen says in a comment: "We are excited to see the rapid developments in the LNG market. We clearly see LNG as one of the key parts in the future energy supply chain. The increased flexibility provided by floating production and regas solutions has transformed the LNG industry and made it significantly more competitive versus other energy types. The large global spreads in gas prices, the high growth in trade, and the tight availability of shipping gives this investment a solid foundation." In addition to these reported contracts with Hyundai, Golar is in final discussions with regards to further increasing the Company's new building investment. This includes ordinary LNG carriers as well as ordering more infrastructure type LNG assets.

In the **container market**, once again the Shanghai Container Freight Index closed at lower levels last week at $965/TEU, down by 0.6% week-on-week with Europe moving lower to $721/TEU from $723/TEU last week, when at similar week in 2011 the rate was at $1,305/TEU with the Shanghai Container Freight Index standing at $1,091/TEU. The USWC route was the only one that showed a moderate improvement of 0.3% from last week at $1,824/TEU.

In the **shipbuilding industry,** China has set a mid-to-long term industrial development plan, led by the Central People's Government of China to increase major ten shipbuilders' market share to 70% from 48.9% in 2010. First of all, Chinese builders would make a latest modern ship model, which meets international standards and upgrade China's major vessel types, bulk carriers, tankers, boxships etc. Secondly, Chinese yards are set to improve design and construction skills of high value vessels and to make progress in offshore oil/gas development facility. Lastly, the Chinese government would promote development of new business, for instance, green ship, propulsion system, deep-sea exploration facility. In case of offshore sector, China targets world market share of 20% and securing design and construction capacity of deep sea energy related facilities.

In the **shipping finance**, according to the latest annual survey of the transport sector conducted by corporate law firm Norton Rose, 42% of the global shipping businesses polled believe that a lack of finance is the greatest threat to their business. According to the survey, 56% of shipping companies are planning joint ventures or mergers over the coming year with a key priority to maintain cash reserves. Compared with the same survey results from just 12 months ago, in which almost one in three shipping companies said it believed that the industry had either already recovered from the downturn of 2009 or would do so in the year ahead, this year's survey suggests a significant negative shift in the industry's expectations. Nordea, the Nordic region's biggest bank by value and a key lender in the sector, sees limited financing for the shipping industry from European banks in the next two to three years due to tough funding conditions and their intense focus on capital. Many European banks are under great pressure due to limited access to dollar funding and the strict new regulatory environment. The private equity industry had already shown a greater interest in funding the shipping industry in the last 12 to 18 months and could prove to be a bigger contributor in the months ahead.

In the capital market, SinOceanic Shipping ASA has successfully completed a USD 100 million senior secured bond issue with maturity date 17 February 2015, with Pareto Securities acting as a sole arranger of the bond issue. The net proceeds from the new bond issue will be used to finance its 13,100 TEU containership MSC Altair.

MARIA BERTZELETOU – GOLDEN DESTINY RESEARCH DEPARTMENT

For more Research Services, please contact us:

GOLDEN DESTINY
Research & Valuations Department
Sofia M.Kokkinis & Maria Bertzeletou
Email: snv@goldendestiny.com