GOLDEN DESTINY

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

Week ending 16th March 2012

ECONOMIC ENVIRONMENT

The week opened with a fight against China's control supply of "rare earth" minerals essential for the production of advanced technology manufacturing and clean energy products. The U.S., European Union and Japan have joined forces to launch a World Trade Organization case to break China's restrictions on exports of rare earth minerals. China produces more than 90% of the world's rare earth minerals and its dominance caused worries in 2010, when it temporarily halted exports to Japan after a diplomatic dispute. "China's restrictions on rare earths and products violate international trade rules and must be removed," European Union Trade Commissioner Karel De Gucht said in a statement. He added that these measures hurt consumers and producers in the EU and across the world, including manufacturers of pioneering hi-tech and green business applications. Beijing, from its side, said that it would continue to implement effective management of rare earth exports in accordance with the WTO regulations to preserve supplies of an exhaustible natural resource. The EU said that these restrictions benefit only Chinese industry as foreign companies pay up to twice for rare earth minerals.

In the eurozone, German Finance Minister Wolfgang Schaeuble and his French counterpart Francois Baroin said that the worst of the crisis appears to have been over, but this is not excuse for member states to escape from necessary reforms. "We can say that the worst is behind us, but we cannot relax our efforts. I think we can say with a 50% probability that the worst is behind us", said Wolfgang Schaeuble in a conference in Paris. However, euro area inflation increased 2.7% in February for a third month with the European Central Bank saying that it has done enough to fight the regions fiscal crisis and keep inflation below 2%. The European Central Bank estimated that euro inflation may average 2.4% this year and 1.6% in 2013, while the economy may expand 1.1% in 2013 following dwindling about 0.1% this year.

In Greece, Eurogroup finally approved country's second bailout of EUR 130bn and the country will receive by May EUR 39,4 billion for the recapitalization of banks and payments of bonds. IMF approved the extension of the maximum duration of loan to Greece to four years and approved its share of EUR 28billion in the second bailout loan. The chairman of the Eurogroup, Jean Claude Juncker said that all required national and parliamentary procedures have been finalized and he is confident that the program the country is set to follow would allow for the Greek economy to return to a sustainable growth. Fitch Ratings upgraded Greece's sovereign debt rating to B- from restricted default with a stable outlook, but the significant default risk remains in light, due to high level of indebtedness and profound economic challenges. The rating agency said that the distressed debt exchange and the losses imposed on bondholders have significantly improved Greece's debt service profile and reduced the risk of a recurrence of near-term repayment difficulties on the new Greek government securities.

In Spain, eurozone finance ministers have requested from Spain to proceed in new cuts for its 2012 budget to reduce its deficit by another 0.5% with the new target deficit be 5.3%, which is significantly below the 5.8% that the new government of premier Mariano Rajoy announced about two weeks ago after a summit of European Union leaders this month. Despite the new cuts, Madrid will still be allowed to breach a previously agreed deficit limit of 4.4% of gross domestic product this year. The decision of loosening this year's deficit target is driven by deep recession, high unemployment and increased poverty factors in Spain, which pose serious need for the country to rebalance the losses and restore confidence in Spanish public finance market.

In U.S., trade deficit widened to $52,6 billion at the end of January, the biggest gap since October 2008, according to Commerce Department. Imports rose by 2.1% to a record of $223,4 billion with exports being up by 1.4% to $180,8 billion. Exports to Europe fell by 7.5% raising concerns about the negative impact on Europe's sovereign debt crisis to U.S. economy. Economists are expecting the deficit to widen from last year's $560 billion imbalance, reflecting economic woes in Europe, which represents 20% of US exports. A positive signal for the economy appears to be the healthiest status for most of the largest banks that passed their annual stress tests and they are ready to announce highly anticipated plans to boost dividends and buy back stock. According to Federal Reserve, 15 of 19 banks tested would have enough capital, even if they suffered a financial shock that would see unemployment hit 13% and housing prices drop 21%. The Fed uses the annual stress tests to provide insight information about the health of U.S. bank industry and determine if individual banks are strong enough to reduce capital barriers. In terms of unemployment, the US economy added 227,000 jobs last month with the unemployment rate being steady at 8.3%.

In China, trade balance plunged $31,5 billion for February as imports grew by 36.6% for February, well ahead of the 27% expected and more than twice of the rate of export growth of 18.4%. "Imports were strong in February partly due to restocking among manufacturers in anticipation of rising commodity prices. That led to a big trade deficit in February but we should not worry too much about it," said Hua Zhongwei, economist at Huachuang Securities in Beijing. "Europe and the U.S. are slowly recovering. We should not be too pessimistic about China's exports. Export growth could be around 10-15 percent (in 2012). We will have a trade surplus for the whole year," Hua said.

SHIPPING MARKET

Japanese Sanko Steamship, operator of a fleet of 195 vessels, has begun out of court restructuring discussions by asking from its creditors to delay repayments. Company's spokeman, Yasunao Goto, said by phone in Bloomberg that the market has been tough and it is tougher than they had initially thought. According to Tokyo Shoko Research, company's liabilities totaled 55,4 billion yen ($673 million) at end of March 2011.

The dreadful status of the shipping environment distresses shipping firms, in the dry, wet and container segments, with Stanadard & Poor's stating that the dry bulk shipping sector will face the heaviest oversupply pressures over the next 12 to 18 months compared with the oil tanker and container segments.

In the **dry market**, the Baltic Dry Index keeps its upward trend with supramax segment adding strength in the industry as capesize units are still suffering from earnings below breakeven levels and volatility in the iron ore market. Average time charter earnings for capesize vessels have fallen by 80%, to less than $5,500/day, when at the end of December 2011 they were earning more than $27,000/day. The supramax segment has show a strong revival over the least three weeks with earnings more than $9,000/day, when at the end of January they were earning less than $7,000/day. An uptick has been seen also in the handysize, with earnings more than $7,500/day at similar levels for panamax units.

Upcoming threat for the capesize healthiness is the tropical cyclone Lua that is expected to cross the North West coast of Western Australia as a category four cyclone, disrupting mining operations and transport in the region. Port Hedland, which exports 250mt/year of iron ore, will close, while resource companies, such as Chevron, Apache and Woodside, have already taken steps to prepare their operations with Rio Tinto and BHP monitoring the storms.

Chinese iron ore inventories persist at hefty levels, near to 100 million tons, with iron ore import market sentiment showing signs of a slower growth at least till 2015 with the government aiming to boost the volume of imports source from Chinese invested mines abroad by another 100m tonnes / year to reduce the heavy reliance of the country on imports from Australia and Brazil. Moody's Investors Service has warned that China's growth in steel demand will slow sharply to 5.7% this year, almost half of the average 11.1% growth during the previous three years. Furthermore, the China Iron and Steel Association has halved its growth estimate for the steel industry from 8% last year to just 4% in 2012.

Recently, there has been a surge for low to medium grade iron ore with Indian iron ore fixtures being on rise with lower Indian iron ore railway freight charges to stimulate activity.

Upcoming prospects for thermal coal import Chinese demand are positive adding more ground on the already stronger returns in the panamax and supramax segment. According to Commodore Research, major power plant and coal port stockpiles are on decline, 700,000 tons less than a week ago by standing at 7,4 million tons, and maintenance in China's coal dedicated Daqin railway will soon begin pushing import market sentiment for coal upwards.

The index closed today at 874 points, up by 7.6% from last week's closing and down by 43% from a similar week closing in 2011 when it was 1,531 points. The highest rate decrease has been in the supramax segment, BCI down 2.4% w-o-w, BPI up 9.2% w-o-w, BSI up 10% w-o-w, BHSI up 8.1% w-o-w.

Capesize average time charter earnings are down by 6.8% w-o-w, panamax up 9% w-o-w, supramax up by 10% w-o-w and handysize up by 8.2%. Capesizes are currently earning $5,392/day, $2,299/day less than handysizes, showing a decline of $394day from a week ago, while panamaxes are earning $7,772/day, an increase of $643/day. At similar week in 2011, capesizes were earning $9,369/day, while panamaxes were earning $16,821/day. Supramaxes are trading at $9,946/day, up by $911/day from last week's closing, 84% higher than capesize and 28% than panamax earnings. At similar week in 2011, supramaxes were getting $16,458/day up by 65% from the current levels and 76% higher levels than capesizes. Handysize vessels are trading at $ 7,691/day; an increase by $433/day from last week, when at similar week in 2011 handysize units were earning $11,311/day.

In the **wet market,** crude spot rates are still depressed with activity in the Middle East for eastbound destinations supporting a modest rise in VLCC earnings, and Mediterranean market pushing upwards suezmax and aframax earnings. The buoyant Chinese oil demand is bringing an air of optimism for the future demand growth. Frontline's chief executive officer stated in Reuters that demand has been picked up considerably in recent weeks from a high activity of ships transporting oil to China with rates standing between $25,000-$30,000/day. The International Energy Agency revised its estimated numbers for the first quarter of 2012 by 0.19million barrels/day in March, as demand lifted more than expected in China, German and Japan.

The International Energy Agency reports figures released by Chinese Customs that show record crude oil imports into the country for January and February, 23,4million tones and 23,6million tones respectively, while January demand for oil products reached the highest point in the last seven months, 9,9million barrels/day, a 6% year-on-year increase. But, oil supply forecasts are 0.2 million barrels per day lower for the 1q 2012 in the March forecast, compared with February, due to anticipated lower supplies from Europe, Middle East and Africa. The unexpected rise in oil demand for 1q 2012 with lower oil supplies would continue to support the high trends of oil prices, above $120/barrel. Iran's oil production has fallen to a 10-year low and could drop to levels seen during the Iraq-Iraq war in the 1980s. The country's crude production fell by 50,000 barrels a day to 3,38milion barrels/day in February, according to the International Energy Agency. The last time that was too low was in 2002, as per IEA statistics. On the other hand, OPEC's crude production rose last month to the highest level in more than three years, to 30,97 million barrels/day in February, as Libya, Iraq and Angola increased supplies. Libya pumped 1,19 million barrels/day last month, compared with 1,01 million in January, while Angola's production rose to 1,82 million barrels/day, from 1,74 million, OPEC said.

In the **gas market**, freight rates for liquefied natural gas carriers are on rise as the world tries to replace the lost nuclear capacity with Asian demand being extremely hot. Newbuilding yards specialized for the construction of LNG units are fully booked for 2014 and the current existing fleet seems not enough to cater the needs of new LNG projects coming on line.

"LNG is simply in high demand. and it's not just the consequence of Fukushima," said Jon Skule Storheill, chief executive officer of Norway LNG tanker operator Awilco LNG . "There's Korea, there's

Taiwan, this market is just strong. Gas is clean, it's available and it's cheap." Short-term charter rates reached a peak of $160,000 per day in recent months, due a rise around 12% in Japanese gas demand as the country replaced nuclear capacity shut after last year's earthquake and tsunami. Spot rates are floating at region $125,000-$140,000/d, compared with $37,000 in 2010. Pareto Securities forecasts a need for an additional 175 vessels by 2020, while Fearnley Fonds, which specializes in the shipping sector, said that the figure could rise to 220 if all planned capacity comes online. The big risk to shipping firms is production delays. "LNG carriers have always been delivered on time and on budget, and history shows liquefaction is always a bit late," Sveinung Stoehle, chief executive of Hoegh LNG said. Indeed, the two big projects due to come on stream in 2012 - Australia's 5.7 bcm per year Pluto export terminal and Angola's 5.2 bcm per year terminal - have both faced or are expecting potential delays.

South Korea, the world's second largest LNG importer after Japan, showed a 50% year-on-year surge in LNG imports on February. South Korea imported 4,66 million tons of LNG last month, compared with 3,11 million tones a year before, according to data from Korea Customs Service. The country's January LNG imports fell 41% from a year earlier after building high inventory via robust imports last December for winter demand. The country's current LNG inventory is at nearly 70 percent of the country's storage capacity of 3.8 million tonnes, up from over 60 percent of capacity as of mid-February, according to the government source. "We usually maintain our inventory level at over 60 percent levels at this time of the year for winter demand, the current level is slightly higher than both a month and a year earlier," the source said.

In the **container market**, the Shanghai Container Freight Index has kept its upward trend for three consecutive weeks, since February 24th, with the last week showing a modest rise following its remarkable increase of 19% for the closing Friday March 2nd. The main line haul trading routes experienced declines with the Asia-Europe and Asia-Mediterranean loosing their solid strength that marked the first week of March. The Shanghai Container Freight Index issued on March 9th stood at 1170 points, 7 points more than last week's closing, up by 1%, with the intra Asian routes, Asia-West Japan and Asia-East Japan recording the strongest gains, moving by 11% upward.

The Asia to Europe rate showed a firm rate decrease falling to $1388/TEU, 24 points down on a weekly basis with the Asia-Mediterranean route loosing 19 points and standing now at $1397/TEU. Last week rates have soared by 70.9% and 63.3% in Asia-Europe and Asia-Mediterranean respectively, but the stability of the upward trend is hard to stay with the overcapacity of vessels looming in the market and liner operators applying general rate increases to rebalance their losses. Moderate declines for transpacific rates persist, from the beginning of February, with the Asia-USWC route loosing this week $6 and standing at $1397/FEU and Asia-USEC route $2 falling to $2914/FEU.

In comparison with last year, the Shanghai Container Freight index is up by 17.8% with a 29% year on year positive change in the rates for Asia-Europe and 34.1% for Asia – Mediterranean. According to Alphaliner, the sharp recovery in freight since December, following two successful rate hikes, has lifted operating margins for liner carriers above the breakeven levels in the spot market. However, overall margins are still under pressure as contract rates for six to twelve months periods were agreed at much lower levels than the current spot rates. Furthermore, capacity additions in the next three months could also threaten the rate recovery, spurred also from a weak outlook for European consumer demand this year.

In the demand side, Maersk Line's chief executive officer Soren Skou predicted that worldwide annual box demand growth will slow to 5-8% from 10-11% in the past 25 years, driven mainly by sluggish economies in Europe and North America. He also commented on the ordering bonanza of post panamax units by emphasizing that it is of high importance for the future to reduce the capacity growth and liner carriers have to stop trying to outgrow each other by getting bigger and bigger ships.

In the **shipbuilding industry**, China aims to increase its annual sales by domestic shipbuilders to CNY1.2 trillion (US$189.7 billion) by 2015 to satisfy its goal of becoming the world's leading shipbuilding country, according to the Ministry of Industry and Information Technology. However, Chinese shipyards are now facing the worst of the crisis with rumours circulation that several of them may switch to ship scrapping, while about half of China's shipyards might go bankrupt within three years. According to the

China Association of National Shipbuilding Industry, Chinese shipyards received vessels' orders totalling at 35 mil deadweight tons in 2011, about 52% down from 73 million deadweight tons ordered in 2010.

South Korean shipbuilders are facing threats from increased steel plate prices with Japanese expected to seek a $50/mt hike in their shipbuilding plate price for the second quarter, as compared to first quarter price levels. The price increase planned by Japanese seems unfavourable to South Korean, which are already facing lower profits after they cut their newbuilding prices offered to attract new orders.

In the **shipping finance**, thirteen of the world's 19 largest shipping banks stopped new lending to the industry amid an "extreme" vessel surplus that cut cash flows and led to vessel seizures, according financier DVB Bank. Fifteen DVB loans worth $2 billion breached loan-to-value clauses after asset prices fell during the past four years and needed additional cash or security to regain compliance, Lunde said. The bank controls 20 ships, has seized and sold others and is prepared to take over more as rates for vessels "haven't hit bottom yet," he said. "We don't mind taking the ship at all if there's a risk the loan is coming under water and the owner says he's not willing to support or stand behind or do something," Lunde said. DVB's lending volumes for shipping reached $14.6 billion in 2011, comprising 52 percent of all loans, covering seven sectors and 67 sub-sectors in shipping, according to the financier. The bank is the world's ninth-biggest lender to the industry and completed 93 deals last year, it said.

In the capital market, Safe Bulkers, an international provider of marine drybulk transportation services, announced that it plans to offer 5,000,000 shares of its common stock to the public. The Company plans to use the net proceeds of the Public Offering for vessel acquisitions, capital expenditures and for other general corporate purposes, which may include repayment of indebtedness.

Furthermore, NewLead Holdings Ltd., an international shipping company owning and operating tankers and dry bulk vessels, yesterday announced the completion of the sale of the four LR1 product tankers and one Panamax dry bulk vessel, the 1990-built "Newlead Esmeralda", as a part of the company's overall financial restructuring plan. Following the successful completion of sale of the five vessels, the net sales proceeds have been applied in full satisfaction of all liabilities under the governing loan agreements. NewLead's overall indebtedness decreased by an aggregate of approximately $159.0 million after these sales, of which a decrease of $147.9 million resulted from the sale of the four LR1 product tankers and a decrease of $11.1 million resulted from the sale of the "Newlead Esmeralda"

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