

***This Week's News: A snapshot on the economic and shipping environment***  
***Week ending 6<sup>th</sup> April 2012***

**ECONOMIC ENVIRONMENT**

The eurozone funding from the International Monetary Fund seems that faces a serious threat from emerging countries. In a joint statement, leaders of the world's most powerful emerging economies, Brazil, Russia, India, China and South Africa, have threatened to withhold additional financing requested by the International Monetary Fund to fight the European sovereign debt crisis, unless they gain greater voting power at the Fund. "The Fund's shareholders agreed in 2010 to shift more of its voting weight towards emerging markets nations, historically dominated by Europe and US, but the US has not yet passed the legislation. Emerging economies also criticized western countries for their poor handling of the global economy in the aftermath of the financial crisis. Dilma Rousseff, Brazil's president, accused western countries of causing a "monetary tsunami" by adopting aggressive expansionist policies such as low interest rates, which are making emerging economies less competitive globally.

In the eurozone, the unemployment reached its highest level in almost 15 years at the end of February by rising to 10.8%. February's unemployment level marked the tenth straight monthly rise and comes in contrast with the improved jobless claims ratio in the US economy from the end of last year. Furthermore, euro's manufacturing activity shrank for an eighth successive month with the European Central Bank expecting to hold interest rates unchanged at 1% as rising oil prices push inflation ratio above 2%. Eurozone finance ministers have still fears that the contagion may re-emerge at very short notice with Spain struggling to rein in its fiscal deficit. Eurozone finance ministers have agreed to lift the lending capacity of the temporary European Financial Stability Facility (EFSF) and the permanent European Stability Mechanism to 700 billion euros from 500 billion to prevent a new burst of Europe's sovereign debt crisis till mid-2013.

In Japan, the new head of the Japanese Bankers Association, Yasuhiro Sato, stated in Financial Times that Europe still faces fundamental problems and the European economy has little chance of recovery in the current environment, in which region's banks are shrinking their balance sheets amid a weak economy. He also represented some of Japan's largest banks, which have been able to acquire European bank assets at attractive prices as a result of the European crisis. Mitsubishi UFJ Financial Group, Japan's largest banking group, bought £4bn in project finance loans from Royal Bank of Scotland in 2010, while Sumitomo Mitsui Financial Group acquired RBS's aviation leasing business earlier this year for \$7.3bn.

In Greece, the debt swap deal has significantly improved the country's debt service profile and reduced the risk of near term repayment difficulties, according to Fitch. However, the default risk remains, since the debt levels remain high with Fitch estimating that the debt to GDP ratio should increase towards 170% in 2013, before falling from 2014. Greece's ability to achieve a GDP/debt ratio of 120% by 2012 will be determined by the political willingness to implement further fiscal and restructuring reforms. Greece has gone a long way on the path of reforms and now stands a chance to overcome its debt crisis but still faces many tough measures, German Chancellor Angela Merkel said in a newspaper interview.

In China, country's government sticks with its policy goal for stabilizing economic growth and restraining inflationary pressures as the worldwide economy shows no signs of recovery and Europe's sovereign debt crisis dangers Asian countries' performance. China's annual inflation slipped to a 20 month low of 3.2% in February, but policy makers remain particularly sensitive to high commodity prices given China's huge appetite for imports of raw materials. One more positive sign for Chinese economy is that China's purchasing managers' index, an important index of factory activity, defied most analysts' forecasts for a

slowdown and rose to 53.1% in March from 51% in February, as per data from China Federation of Logistics and Purchasing. One more interesting development was that Chinese largest banks reported net profit increases of 25-30% in 2011 registering decline in their non performing loan ratios. Agricultural Bank of China, seen as the riskiest of the big banks because of its rural focus, said that bad loans declined from 2.03 per cent of its total assets in 2010 to 1.55 per cent. Industrial and Commercial Bank of China, the country's biggest lender, said that its non-performing loan ratio fell from 1.08 per cent to a negligible 0.94 per cent.

In the U.S., manufacturing activity is picking up, in contrast with euro zone's low figures, as the domestic economy show signs of recovery. The US ISM index rose to 53.4 in March from 52.4 in February, surprising economists' expectations, while figures above 50 imply expansion. Christine Lagarde, Managing Director of the International Monetary Fund emphasized the vital role of the US in global economy and its tight relationship with eurozone. The healthy recent growth of US economy gives a sense of optimism for the global economy, but the recovery is still very fragile and policymakers have to stick on the necessary reforms to avoid any further contagion of the crisis.

## **SHIPPING MARKET**

March ended with some interesting news that reshapes the dry bulk shipping environment. Brazil's Vale senior executive stated in Reuters that it expects to win permission within months to unload its very large ore carriers at Chinese ports, a move that will ensure efficient delivery of raw materials to China's growing economy. However, the slowdown of Asian demand has pushed Vale to the idling of two of its very large ore carriers and delaying of delivery for two valemaxes from China Rongsheng Heavy Industries. According to data compiled from Bloomberg, Brazil's first quarter ore exports plunged 27% from the previous three months to the lowest level since June 2009 as rains and flooding in January delayed production.

One more outstanding was the news for Rio Tinto's joining in the new trading mechanism launched by the China Beijing International Mining Exchange (CBMX), as a second foreign miner after Australia's Fortescue Metals Group. "We welcome the development of CBMX as it gives us a new option for selling any available tonnes to China, over and above those already contracted," Rio's iron ore president for Asia, Alan Smith, said in a statement on Friday. Brazilian miner Vale SA also signed a memorandum of understanding with CBMX as it pledged to support the electronic trading platform, the exchange said in a statement. The trading platform, which provides a domestic rival to the Global Ore trading exchange backed by mining giant BHP Billiton, will start official trading on May 8. China, the world's top iron ore buyer, which consumes around 60 percent of global seaborne ore, hopes the exchange will help the country to gain more pricing control and also reduce speculation and manipulation in the spot market. Chinese mills, including Baosteel, Hebei Steel, Wuhan Steel, Shougang and Angang as well as large iron ore traders China Minmetals and Sinosteel have joined the new iron ore trading network.

Chinese iron ore fixtures increased by 53% w-o-w during the first days of April, according to Wells Fargo Securities, the highest level since February 2011 with an upward direction in the average time charter earnings of capesize units. Chinese iron ore inventories are falling giving signs for a stronger support in capesize earnings, while supramax average time charter earnings are still hovering more than 37% above capesizes. Capesize average time charter earnings surpassed this week \$6,000/day, while there has been a retreat in the supramax segment with vessels earning less than \$10,000/day.

A positive sentiment is being fuelled in the iron market with Australian miner Fortescue, following the strong position of its rivals, said that despite talks of slowdown, China's economy is expanding at a relatively healthy pace, supporting demand for raw materials such as iron ore and steel for infrastructure development and consumer products

In the coal market, BHP Billiton declared that it can not meet its coal delivery obligations because of a strike by 3,000 workers at seven coal operations in Queensland and wet weather, which may cause a further downward sentiment in the supramax market.

The index closed on Thursday April 5<sup>th</sup>, before Catholic Easter, at 928 points, down by 0.6% from last week's closing and down by 34% from a similar week closing in 2011 when it was 1,401 points. The highest rate increase has been, for a second consecutive week, in the capesize segment, BCI up 6.7% w-o-w, BPI down 1.4% w-o-w, BSI down 7.8% w-o-w, BHSI down 3.1% w-o-w.

Capesize average time charter earnings are up by 20% w-o-w, panamax down 1.3% w-o-w, supramax down by 7.7% w-o-w and handysize down by 3.1%. Capesizes are currently earning \$6,205/day, \$2,100/day less than handysizes, showing an increase of \$1,017/day from a week ago, while panamaxes are earning \$8,277/day, a decline of \$121/day. At similar week in 2011, capesizes were earning \$8,381/day, while panamaxes were earning \$13,937/day. Supramaxes are trading at \$9,928/day, down by \$839/day from last week's closing, 60% higher than capesize and 20% than panamax earnings. At similar week in 2011, supramaxes were getting \$15,345/day, up by 55% from the current levels and 83% higher levels than capesizes. Handysize vessels are trading at \$ 8,305/day; a decline by \$267/day from last week, when at similar week in 2011 handysize units were earning \$11,720/day.

In the **wet market**, the crude spot market remains very volatile with oil prices being on rise, while geopolitical risk from Iran sanctions pushes the freight market sentiment upwards. It is believed that Iran sanctions could lead to strong Chinese and Asian stockpiling of crude oil ahead of tighter sanctions in summer, which will spur an increase in VLCC fixture environment. In, April, we may see a decline in Chinese crude demand, due to high Asian refinery maintenance that causes a drop in Chinese demand. The fixture activity of VLCC has seen so far higher levels than 2011, but also 2009 and 2010. According to Marex, the recent surge in March cargoes has further thinned the forward supply list of VLCC's in the Arabian Gulf to 60 vessels. Time charter equivalent earnings on the Baltic Exchange's VLCC Middle East – Asia benchmark route have averaged \$25,176 during March, representing the highest monthly average since February 2011.

At the beginning of April, crude oil tanker earnings on the major Middle East route rose to \$41,093/day from \$39,864 at the end of March. "We are proceeding through a unique spring/summer in which Iranian output is at risk of coming off line, threatening logistical patterns and disrupting supply," said Omar Nokta, managing director with Dahlman Rose & Co. "We expect this will keep spot rates elevated during a period in which overall fundamentals remain generally weak". The current buoyant sentiment is being attributed to the fact that the number of oil tankers hauling Middle East crude to Asia has risen to the highest levels since December on increased demand for cargoes, according to Wells Fargo Securities LLC. Eastbound Middle East sailings increased by 500,000/barrels last week to 13.2 million barrels/day. The investment bank expects the positive sentiment to be held also in the second quarter and rates even reached break even levels during the third quarter.

In terms of oil supply, Saudi Arabia, the world's biggest oil exporter has started to raise its oil production in a bid to push the direction of oil prices downwards and resolve the worldwide economic crisis from the rising fuel prices. According to data compiled by Bloomberg, Saudi Arabia increased production by 18% since the end of 2010 to compensate for declines in Libyan and Iranian supply. On the other hand, the International Energy Agency is concerned about the high oil prices and is ready to respond if the situation worsens. "The oil market has been tightening in recent months," the IEA said in a statement from its executive director Maria van der Hoeven. "The International Energy Agency, like many others, is concerned by the impact of these high prices while the global economic recovery remains fragile. "The IEA is closely monitoring market developments and will remain in close contact with member countries to exchange views about the oil-market situation. As we have mentioned many times, the IEA was created to respond to serious physical supply disruptions, and we remain ready to act if market conditions so warrant".

In the **gas market**, Monaco based LNG player, Gas Log completed its initial public offering in New York Stock Exchange last week by raising \$329mil through the sale of 23.5 million shares at \$14/share, below the initial range of \$16-\$18.

Furthermore, Belgian shipowner Exmar announced an agreement to build a Floating Liquefaction Regasification & Storage Unit (FLRSU) located on the Colombian Caribbean coast under a project with

Canada and Colombia listed Pacific Rubiales Energy. The project is expected to supply and liquefy 0.5M tons of LNG per year over a 15 year period, with operations expected to begin in the fourth quarter of 2014. The company announced that it plans to target markets in Central America and Caribbean, seeking to replace fuel oil and diesel power generation.

In the **container market**, the Shanghai Container Freight Index keeps its upward momentum for a sixth consecutive week by closing on Friday March 30th at 1347 points, showing an outstanding rise of 10% on a weekly basis, and is 42% up from February 17th, when it was at 949 points. The main line haul routes Asia-Europe and Asia-Mediterranean showed a sharp rise for a second time this year, pushing the freight momentum upwards.

The optimistic sense of the market keeps going as the general rate increases applied by major lines, which are scheduled to be set for a second round, appear to have positive effects. Transpacific routes are also on a rising trend, but they posted this week again a soft upturn. On a weekly basis, rates on Asia-Europe and Asia-Mediterranean routes have shown an increase by 20%-21%, by rising to \$1660/TEU and \$1649/TEU respectively, from \$1371/TEU on Asia – Europe and \$1376/TEU on Asia-Mediterranean. Rates on the Asia-Europe route are now 130% higher than February 10th, when they were at \$721/TEU, while rates on Asia-Mediterranean are up by 118% from \$758/TEU. The last time when the major trading routes, Asia-Europe and Asia-Mediterranean, showed a remarkable rebound was on March 2nd, when they posted a 71% and 63% rise respectively with rates rising to \$1412/TEU from \$826/TEU on Asia-Europe and \$1416/TEU from \$867/TEU on Asia-Mediterranean. Transpacific rates, Asia-USWC and Asia-USEC, ended in green for a third consecutive week by gaining only \$10/FEU and \$2/FEU respectively. Rates on Asia-USWC rose to \$2031/FEU, up by 16% from March 9th, when it was \$1753/FEU, while rates on Asia-USEC are now standing at \$3206/FEU, up by 10% from \$2914/FEU.

According to Alphaliner estimates, the global idle containership fleet has fallen from 913,000 TEU in mid-March to 838,000 TEU by March 26, 5.3% of the total containership fleet. The decline in the idle fleet size has been led from the introduction of new services for the summer peak season with the redeployment of idle vessels. The number of idle boxship units of over 7,500 TEU fell to 12 ships from 18.

In the charter market, rates for a period of one year are still far below than 2011 levels. Boxship units of 4,400 TEU are earning around \$8,200/day, when in March 2011 were earning about \$28,000/day, 71% drop, while for sub-panamax units of 2,750 TEU rates are about \$7,000/day, from \$10,250/day, down by 59%.

However, the recent euphoria seen in the sentiment of Asia-Europe must not mislead the fact that the container segment holds a large downside risk on the demand side from US and European economies. U.S. containerized imports declined 5.8 percent in February, the first year-over-year drop in four months, PIERS data show. The decline in February imports to 1,193,157 20-foot-equivalent units followed a rise of 4.1 percent in January. On a month-to-month basis, imports tumbled 18.6 percent. Declining commodities included furniture, down 14 percent; toys are down 20 percent; and footwear, down 15 percent. Also declining were women's and infant wear, down 16 percent; lamps and parts, down 24 percent; and miscellaneous hardware, down 19 percent. Imports of empty containers jumped 40 percent and auto parts rose 10 percent, continuing a pattern of increases as Americans resume spending on their vehicles.

In the **shipbuilding industry**, the Chinese shipbuilding industry sees a weak growth by losing steadily ground from the leading position that it held before two years. According to data from the China Association of National Shipbuilding Industry, Chinese shipyards received orders for vessels totalling 4.9 million deadweight tons during the first two months of this year, posting a decrease of 3.3 million deadweight tons (-40%) from 8.2 million deadweight tons of orders placed during the first two months of 2011. In 2011, Chinese shipyards received orders for only 35 million deadweight tons, 52% down from 73 million deadweight tons of orders placed in 2010. On a monthly basis, Chinese shipyards received orders for an average of 6.08 million deadweight tons in 2010, whereas now the average has fallen to only 2.45 million deadweight tons per month.

A growing trend that has emerged recently is the movement of Chinese shipyards in shipowing to combat with the plunge in ordering activity. What is noteworthy is that a large amount of cancellations recording in the Chinese shipbuilding industry, from the sharp downward revision in the freight markets, threatens the solidity of domestic shipyards. According to the China Association of National Shipbuilding Industry, orders for 22 dry bulk vessels to be built at Chinese yards, which accounts for 0.8% of Chinese orderbook, were cancelled in February. The China Association of National Shipbuilding Industry said that an increasing number of shipowners demand modifications to the type of vessel or payment terms and postponement of deliveries.

In the **shipping finance**, under the challenging lending conditions, Greek owner, Excel Maritime, NYSE listed, announced that it completed successfully the amendment of its \$1,4 billion syndicated facility and exercised its option to defer the full loan instalment of \$24.3 million, originally due on April 2, 2012, to the balloon payment of the facility in April 2016.

In Japan, the Japan Bank for International Corporation (JIBC) is said to provide ship financing for two 1,103 TEU boxships for SITC International Holdings placed in Kyokoyo yard. The finance would be taken place with Citibank. Meanwhile, given the recent finance deal, the Japan Japan Bank for International Corporation (JIBC) has financed a total of 20 vessels of a cumulative JPY 62,7 billion (\$7,66 billion) in the financial year 2011, which is considered to be the largest amount of ship financing for the bank since 1985.

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