GOLDEN DESTINY

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

Week ending 20th April 2012

ECONOMIC ENVIRONMENT

The prospects of global economy remain fragile with some signs of a slow improvement, while the International Monetary Fund urges eurozone to step up efforts to recapitalize its banks via the European Financial Stability Facility or the European Stability Mechanism for strengthening the region's firewall. According to the IMF's latest forecast, global growth is expected to remain weak with high unemployment ratio in many advanced economies and signs of gradual recovery in United States. The IMF expects the global economy to grow 3.5% this year from close to 4% in 2011, with the eurozone economy shrinking to 0.3%, from 0.5% predicted in January, while it raised its projection for the United States to 2.1% this year and 2.4% next year from 1.7% in 2011. In Japan, the country will see a recovery of 2% from its destructive earthquake and tsunami.

The fund also stressed the necessity of more capital in the euro zone; otherwise a drastic contraction of European bank balance sheets during the next 18 months could jeopardize financial stability and economic growth in Europe and beyond. In its Global Financial Stability Report, the fund warned that European banks set to shrink their balance sheets by $2,6 trillion during the next 18 months, which will lead to a 7% contraction of their asset by the end of next year, unless officials improved their policy response The fund said that policies such as a consideration of more easing by the European Central Bank and further structural reforms, as well as progress on bank restructuring and resolution, would prompt a smaller, 6% contraction in banks' balance sheets and a boost in the euro area growth by 0.6%.

Japan, the world's third largest economy, became the largest donor outside of Europe, by providing $60 billion to the International Monetary Fund for bolstering the fund's resources against any deepening of Europe's debt crisis. Finance Minister Jun Azumi unveiled the commitment in speaking to reporters in Tokyo before semi annual meetings of the IMF and World Bank in Washington on April 20-22. He also mentioned that the stance of Japan is in the same direction with China and hopes that Japan's pledge will accelerate the commitments of others.

In the eurozone, inflation ended higher than predicted in March by climbing to 2.7%, up from the initial forecast of 2.6%, according to Eurostat, the EU's statistics office. Worries surround the euro prosperity with experts suggesting that Spain bailout is only a matter of time, but there is not certain yet how much money will be needed and when. Prime Minister Mariano Rajoy has repeatedly said Spain doesn't need or want an international bailout, and the European Union, which along with the IMF has already rescued Greece, Ireland and Portugal, also dismisses such talk. Jean-Claude Juncker, who chairs the Eurogroup of euro zone finance ministers, said Spain was taking the necessary steps to get its economy back on track, despite a recession and unemployment at 24%. "I don't think Spain will need any kind of external support," Mr. Juncker said. "I would like to invite financial markets to behave in a rational way. Spain is on track." However, economists believe that Spanish banks will have to turn to the eurozone's rescue fund, the European Financial Stability Facility for covering losses caused by a property market crash.

In emerging counties, BRIC, the sentiment is not so comforting for the global economy as the powered economies, with a key role on the worldwide growth, face serious challenges from a slow economic activity and high inflation ratios.

In China, consumer inflation increased to 3.6% in March from 3.2% in the previous month, but it is well below January's 4.5% rise and weaker than the 3.9% average rise in January and February, according to government figures. The rise in Chinese inflation creates a serious concern to officials for the central bank loosening its monetary policy. Furthermore, China's economy grew 8.1% in the first quarter from a year earlier, which is the slowest pace in nearly three years, with the World Bank suggesting in its latest forecast that China's economic growth may slide to a 13-year low in 2012 as a sluggish world recovery damps export demand and decelerates domestic demand and investment. Beijing has been quietly injecting cash into the economy by encouraging banks to lend more and easing restraints on credit flows. A recent surge in new loans of Rmb1trillion in March ($160 billion), 42% more than issued in February and 49% more than issued in March 2011, is a clear evidence of China trying to achieve a moderate growth stance. A positive sign for the Chinese economy is its trade balance moving to a trade surplus of $5,4billion for the March with an 8.9% increase in exports and 5.3% rise in imports, while in February China recorded a $31,5 billion trade deficit.

In Brazil, the central bank has cut its benchmark interest rate by 75 basis points to 9%, which is the lowest level in two years, in an attempt to revive sluggish growth and restore the confidence in one of the fastest growing emerging economies. In India, the central bank announced its first interest cut in three years by an unexpectedly 50 basis points to 8% from 8.5%, in an aggressive effort to stimulate growth and boost investment. The IMF forecasts that the Indian economy would grow at about 7 percent in 2012 and 2013, down from the 8.4 percent levels of the last two years. Indian inflation rose to 6.89% in March and although has eased from more than 9% recorded in 2011, it remains the fastest in the group of the largest emerging economies, Brazil, Russia and China.

SHIPPING MARKET

The slow of Chinese economic activity to 8.1% for the first quarter of the year empowers the worries for a solid freight market in relation with forecasts for a slow in global trade. According to the World Trade Organization, Europe's sovereign debt crisis and the aftershocks of events such as Japan earthquake and Arab spring are expected to slow the growth in global exports to just 3.7% in 2012 after a slowdown to 5% in 2011. "More than three years have passed since the trade collapse of 2008-09, but the world economy and trade remain fragile," WTO chief Pascal Lamy said. "The further slowing of trade expected in 2012 shows that the downside risks remain high. We are not yet out of the woods." Developing economies are expected to lead the growth in goods traded this year with a forecast 5.6 percent increase in exports, compared to 2 percent for industrialized nations. In 2013, the growth rate is expected to recover slightly again to 5.6 percent, the organization forecast.

Although the signs of a slow Chinese economic growth, there are expectations for stabilization in China's growth in the second quarter and acceleration from mid-year as China's liquidity cycle continues to improve, boosted by further selective policy easing. Thus, this implies that commodity demand will remain relative firm through the remainder of 2012 with stronger steel demand and hence further imports of iron ore and coking coal that would provide a solid ground on the dry bulk shipping envrironment.

In the **dry market,** the BDI has finally broke the psychological barrier of 1,000 points mark with capesize and panamax vessels finding a firmer support, while earnings in the supramax and handysize segment remain relative stable. The panamax market continues to gain from the South American grain season and fixture activity from coal demand ahead of the peak summer season. The low levels of Qinhuangdao coal stockpiles, around 5,5 million tons, due to ongoing maintenance in China's coal Daqin Railway supports a surge in thermal coal fixture volume that boosts earnings for panamax vessels. Chinese coal imports show robust signs that provide a relief for panamax vessels. According to recently data released, China imported 21,4 million tons of coal in March, 4% more than imported in February and 137% more than imported in March 2011.

In the steel market, Chinese iron ore imports have shown a 6% increase for the first three months of the year from the first quarter of 2011. China imported approximately 187.2mt of iron ore, 10.1 more than imported during the first three months of 2011, which implies that China keeps their buying momentum despite the hefty iron ore port stockpiles, in the region of 97,6 million tons. In order to compensate for the decline in Indian iron ore exports and reduce its reliance on Australia and Brazil continues to import a growing amount of iron ore from minor exporters. One more positive sign for the recent upturn in capesize earnings is that Chinese mills have resumed their production by producing a large amount of steel. According to the National Bureau of Statistics, Chinese steel mills produced a record 61.58 million tons of crude steel in March, 5.7mt (10%) more than produced in February and 2.18mt (4%) more than produced in March 2011. The momentum continues in April with daily crude steel output hitting a record 2.03 million tonnes in the first 10 days of this month, as per data from the China Iron Ore & Steel Association.

Iron ore prices remain high by rising even above $150 a tonne for the first time in six months before few days and now trading again close to $149 a tonne, based on data from the Steel Index with steel mills digesting their high inventories at ports. The fourth largest iron ore producers globally, Vale, Rio Tinto, BHP Billiton and Fortescue, have all signed with the Chinese Beijing International Mining Exchange, iron ore trading platform, in a bid by Beijing to gain more pricing control in a sector long dominated by foreign suppliers and also reduce speculation and manipulation in the spot market. Australia's Fortescue Metals said that it expected iron ore prices to remain in the range of $140.50-$149.50/tonne over the next year or two, as demand from China, the top consumer of the steelmaking raw material, stays strong.

BHP Billiton, Vale and Rio Tinto reported sharp drops in output for the first three months of the year from bad weather that affected negative capesize owners' prosperity for a slowdown in iron ore exports to Asia and supported high iron ore prices. Global miners remain confident that Chinese demand for iron ore will stay strong amid the country's slow economic expansion. Rio Tinto said that is looking to lift output this year to 250 million tonnes from nearly 245 million tonnes in 2011, despite first quarter fall in iron ore production. Furthermore, Vale said that it continues to be positive in its outlook for growth in China's demand for iron ore after a 6% increase in the Asian nation's consumption during the first quarter of the year.

Even the positive developments seen in China's steel market and predictions for an ongoing iron ore appetite, the dry bulk market is still pressed from heavy ship supply that outpaces commodity demand with capesize average time charter earnings hovering at levels almost 80% lower than mid-December, in the region of $6,600/day from $32,000/day, with supramax and panamax earnings being in the excess of $10,000/day, when in March 2011 where at levels of excess $16,000/day.

The index closed today at 1067 points, up by 9.7% from last week's closing and down by 16% from a similar week closing in 2011 when it was 1,271 points. The highest rate increase has been in the panamax segment, BCI down 2.4% w-o-w, BPI up 28.4% w-o-w, BSI up 8.9% w-o-w, BHSI up 4.0% w-o-w.

Capesize average time charter earnings are down by 5.6% w-o-w, panamax up 28.2% w-o-w, supramax up by 8.9% w-o-w and handysize up by 3.4%. Capesizes are currently earning $6,598/day, $1,884/day less than handysizes, showing a decline of $394/day from a week ago, while panamaxes are earning $11,882/day, an increase of $2,618/day. At similar week in 2011, capesizes were earning $6,493/day, while panamaxes were earning $11,666/day. Supramaxes are trading at $10,667/day, up by $877/day from last week's closing, 61% higher than capesize and 10% lower than panamax earnings. At similar week in 2011, supramaxes were getting $14,695/day, up by 38% from the current levels and 126% higher levels than capesizes. Handysize vessels are trading at $ 8,482/day; an increase by $281/day from last week, when at similar week in 2011 handysize units were earning $11,933/day.

In the **wet market,** a slow start of the May cargo program have impaired VLCC rates in the Arabian Gulf by falling to $35,600/day as activity in the Middle East has moderated from previous high weekly levels. The improved spot market sentiment, during March, have lifted the one year time charter rates in the crude market, with VLCC floating at levels of region $23,000/day from $20,000/day, but they still very low from last year, when they were around $30,000/day.

Brent crude oil prices have fallen bellow $120/barrel during the last week with Saudi Arabia, the biggest oil producer and exporter amongst the OPEC nations, working to bring the price levels down. The country's oil minister Ali al-Naimi quoted in Bloomberg that the oil market remains balanced and there is no lack of supply. As such, the prevailing high prices do not seem to reflect the real physical market. Saudi Arabia has been aggressively pumping crude oil into the markets. The country is currently producing 10 million barrels per day- one of the highest production rates over the past three decades.

International Energy Agency shares the same view that oil market is better supplied for the first time since 2009 as sluggish demand and OPEC output at its highest in more than three years eased inventory depletion. Global oil inventories may have increased by more than 1 million barrels in the first quarter, the Paris-based IEA said in its monthly Oil Market Report yesterday. The agency kept its world demand estimate for 2012 little changed at 89.9 million barrels a day. “The oil market is well-supplied,” OPEC’s Vienna-based secretariat said. “High prices cannot be justified by the current market fundamentals. Instead it is more the impact of geopolitical factors and a perceived shortage of oil, rather than evidence of any actual or impending shortfall, that is keeping prices high.”

In the **gas market**, Japan’s LNG imports remain supportive for the current newbuilding investments seen in the sector by Greek and Foreign players. Japan purchased 83,18 million metric tons of LNG from overseas in the fiscal year ended March, up 18% from the previous 12 months, as per data from a preliminary report by the finance ministry.

In the **container market**, the Shanghai Container Freight Index kept its rise for an eight consecutive week by closing on April 13th at 1416, up by 3% from last week with a 13% and 10% week-on-week increase in Transpacific routes, the Shanghai-USWC and Shanghai-USEC, while the sentiment remained relative flat in the benchmark Shanghai-Europe route by falling to $1744/TEU, 1% down from $1770/TEU. The general rate increases have lifted the Shanghai Container Freight Index by 49% from mid-February with a rise of 145% in Shanghai-Europe rates and 139% in Shanghai-Mediterranean.

The current upward momentum could not dismiss the issue of additional capacity due for delivery this year and rates may probably start falling again by the fourth quarter, unless carriers lay up more of their ships, according to a panel of analysts speaking at Containerization International’s 14th Annual Global Liner Conference in London. Furthermore, container market analyst Alphaliner said that several carriers still struggle with high levels of indebtness Ocean carriers could face a short-term funding call of up to $20 billion in 2012 as they are not generating sufficient cash to cover interest payments and meet capital requirements.

Under the current gloomy outlook of the segment, Evergreen, the world’s sixth-largest container line, is close in sealing an order for 10 14,000 TEU boxship units with a South Korean shipyard, Hyundai Heavy Industries for $115mil a piece, which will give to the Taiwanese ling a competitive advantage against its rivals that have already ordered similar units. The vessels are said to be chartered in long term from Korea Infrastructure Investments Asset Management, a subsidiary of Korea Development Bank and managed by Hyundai Merchant Marine. In addition, Seaspan announced that it accepted delivery of a 13100 TEU containership, the COSCO Hope. The new containership, which was constructed by Hyundai Heavy Industries Co., Ltd., is Seaspan's third delivery in 2012 and expands the Company's operating fleet to 68 vessels.

In the **shipbuilding industry**, South Korean shipbuilding industries contracted a total of 1.93m cgt, accounted for 50.7% of global new order in the first quarter 2012 by ranking in the first place, according to the Ministry of Knowledge Economy and the Korea Shipbuilders' Association on April 19. During the same period, overall 3.8m cgt were contracted in the world - 1.05m cgt in China, 0.3m cgt in Europe and 0.15m cgt in Japan. Meanwhile, global new order were cut by 58.9% y-o-y due to fleet oversupply, and slowdown in global economic recovery. Korea's orderbook had been 54.15m cgt in the end of 2009, 44.96m cgt in 2010 and 38.78m cgt in 2011. Korean yards raked in massive orders for offshore plant, such as drillship, FPSO, LNG FSRU, etc. and gas carriers.

In China, Jiangsu Rongsheng denies rumours suggesting that Brazil’s Vale keeps postponing deliveries of three Valemax series. Brazilian giant is said to put off deliveries in order to reduce subsequent expenses under the struggling freight market, while Valemaxes’ entries into Chinese ports are being still not allowed.

In the **shipping finance**, the slump in the global shipping market saw ship finance loans diminished to a five-year low in the first quarter of this year to just under $5.9bn, a drop of around 60% year-on-year, according to data released by Dealogic. In addition, syndicated loans plunged to new lows in the first quarter with 33 deals totalling $5,888 billion. This represents a 56% year over year value decline versus $13,507 billion delivered from 52 syndicated loans in 1q of 2011 and a 68% decline from 70 loans in 4q 2011 totalling $18,503 billion. The syndicated loan activity reported during the first quarter of the year is said to be the lowest in Dealogic's records, even worse than the record lows of 2q 2009 ($6,874 billion) and 2q 2010 ($6,024 billion).

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