GOLDEN DESTINY

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

Week ending 22nd June 2012

ECONOMIC ENVIRONMENT

The week opened with world leaders and International Monetary Fund targeting growth to restore confidence from EU debt crisis at a Group of 20 (G20) summit in Los Cabos, Mexico. The International Monetary Fund increased its firewall by $456 billion as a response to the contagion of the Eurozone debt crisis with 12 more nations, including Brazil, Russia, India, China and South Africa, adding new money to protect the global economy from further side effects. China led the nations in boosting the firewall with a contribution of $43 billion, India, Russia and Brazil agreed to provide $10 billion each, while South Africa offered $2 billion and Mexico $10 billion. In April, G20 nations agreed to boost the IMF firewall by $430 billion. IMF managing director Christine Lagarde welcomed the new contributions and said that there will be only used as a second line of defense.

As a further movement to European turmoil, the European Central Bank will continue its crucial role of providing liquidity to sound banks against appropriate collateral, according to ECB President Mario Draghi. The ECB is standing ready to answer international calls by easing monetary conditions in the 17-nation euro zone as risks to the financial system intensify. Mario Draghi said that inflation expectations in the eurozone are well anchored and there are no inflationary threats in other euro zone states. The ECB has left its main interest rate on hold at a record low of 1.0%, while Mario Draghi unveiled that some members of the governing council wanted to cut rates suggesting that lower rates may be on horizon.

In the meantime, fears for EU's debt crisis expansion pushed Spanish and Italian borrowing costs to record highs, while the Bank of England reacted to the escalating turmoil in Europe by unveiling a £100bn stimulus package to boost the short-term liquidity of UK banks. In a further effort to counter worsening market conditions, the Bank of England will also activate an emergency scheme that offers six month liquidity to banks in tranches of no less than £5bn a month. In addition, Russia has set aside up to $40 billion for this year and next to protect the economy from contagion in the event of eurozone crisis deepens, according to an interview of the Russian Finance Minister Anton Siluanov in Financial Times. The Russian government is planning to create a reserve mechanism worth 500 billion rouble ($15,41 billion) for the next year to provide for the direct financing of anti crisis measures.

In Greece, negotiations for the conclusion of a New Greek coalition government concluded after the general elections of June 17th , while the world economy has still fears on a potential exit of Greece from euro with EU officials weighing how much to revise Greece's loan terms. The New Democracy party has joined with the Socialialist Pasok and the smaller Democratic Left in order to commit to euro and push ahead with Greece's EUR174billion bailout. The winner of elections, New Democracy promised that there will be no new adventures or political games and they will work out with European partners by adding to their obligations the needed policies for growth and combating unemployment. According to Eurogroup Chief, Jean Claude Juncker, there can be no discussions about changing the substance of agreements, but he noted that the recession in Greece is much deeper than originally foreseen and they could talk about extending the timeframe on the basis of Greece not wishing to revisit the entire program. German Chancellor Angela Merkel, during the G20 summit, stated clearly that she will not speak about a new aid package and it is important the New Greek government to stick to its commitments towards the international community and its partners in the European Union.

In U.S., the Federal Reserve decided to extend a program known as "Operation Twist" to push down long term interest rates and boost the economy. The Fed said in a statement that while the economy has been expanding modestly throughout the year, growth in employment has slowed recently and unemployment remains elevated. It expects economic growth to continue to grow moderately over coming quarters and then to pick up gradually and projects a growth for the GDP at a maximum rate of 2.4% rather than 2.9% pace it predicted in April. Regarding the unemployment, it expects the jobless rate to be in the range of 8.0-8.2% from its April projection of around 7.8- 8.0%. The Fed also voted to keep interest rates unchanged at historic lows at least until the end of 2014.

In China, there are worries that the country's slowdown could persist for the second half of the year with Chinese bankers expecting Beijing to loosen its monetary policy further in the third quarter and stimulate growth for the world's second largest economy. The fresh signs on a weaker Chinese economy are being reflected in a slower industrial activity as HSBC Flash Purchasing Managers Index, the earliest monthly indicator of China's industrial activity, fell to a seventh month low of 48.1 in June from 48.4 in May. China's central bank could rely on cutting the amount of cash that banks must hold as reserves to bolster growth, but it could be cautious on further interest rate cuts unless the economy continues to slow at a pace faster than expected, economists' familiar with Beijing's policy making process said. China's annual economic growth is expected to dip below 8% in the second quarter, the sixth straight quarter of slowing expansion, although analysts are divided on whether it will bottom out during the first half of the year. China's gross domestic product growth is expected to be at around 7.5% in the second quarter, while it will rise to 8% in the third quarter and 8.4% in the fourth quarter, according to Zhu Baoliang, chief economist of the economic prediction department of the State Information Center, a think tank under the country's economic planning agency. For the full year, GDP growth is estimated at around 8.1% and consumer price index growth at around 3%.

SHIPPING MARKET

Under the current Greece's turmoil for the formation of a coalition government, Chinese shipping giant COSCO group is eyeing in further port investments after succeeding in the operation of various parts of the struggling Piraeus Port. According to Fu Chengqiu, managing director of Piraeus Container Terminal SA, COSCO officials have already instructed him to carry out a feasibility study into financing various projects believed to be worth around 300 million euros, and 200 million euros of debt. Apart from further investment, Fu said his company has also been working on various financial plans in the event of the worst-case scenario of Greece exiting the eurozone. "We have completed several packages of solutions, which are prepared for the worst situation," said Fu, who couldn't provide any further details. "We are waiting for the formation of a new government to make further decisions," he told China Daily.

After running various parts of Greece's largest port for the past two years, Fu said that the Greek authorities have already expressed their interest in further investment by COSCO, and by other Chinese companies, in their plans to privatize a variety of state-owned assets, believed to be worth around 50 billion euros ($63 billion). Many of the country's top business figures have also suggested that COSCO's success could be just the beginning of future Chinese-Greek economic and business cooperation, he added. Fu said COSCO has already shown interest in building a logistics center, for instance, at an estimated cost of 280 million euros, being planned 30 kilometers from Piraeus. Another project attracting interest from officials is the privatization of Piraeus Port Authority, which would give it further opportunities to become involved in cruise liner operations, ship maintenance, coastal real estate, port management, and Piraeus's No 1 pier. COSCO has operated Piraeus's No 2 pier since June 2010 and built its No 3 pier. It signed a 35-year lease and pays 100 million euros to the Greek government every year for its presence at the port. Business figures from COSCO's running of Piraeus make impressive reading. "We have not only survived but also broken historic records in handling containers," said Fu.

Despite Greece still being in deep crisis, Fu added that he still considers Piraeus as a vital gateway for shipping heading to Europe. "The port's geographic advantages, and the quality services offered by us, have helped deliver rapid progress, in a crisis era," he said. He added that his goal is to boost Piraeus's annual capacity to 3.7 million TEUs and transform the port into the leading Mediterranean and even European transshipment hub. COSCO is busy transforming No 3 pier into a deep-sea port, which will be able to host the world's largest cargo vessels with a maximum capacity of 18,000 TEUs.

In the **dry market**, the outlook remains negative with capesize vessels struggling and panamax with supramax units showing a stronger performance and pushing the Baltic Dry Index upwards since June 8th. The BDI is now averaged below 1,000 points mark, at 941 points, compared with more than 1,300 points last year. Most market players believe that the BDI needs to be at least 3000 points for operators to cover running expenditures and maintain their operations.

The capesize segment, the main key factor, lying behind the overall positive performance of the BDI, faces tremendous supply issues with average time charter earning floating at levels in region of $3,500/day. During the Lehman crisis of 2008, capesize average time charter earnings have dipped to $2,318/day on the beginning of December of 2008, from the peak of $233,988/day on June 5th 2008. The levels of 2008 belong in a forgettable past with dry bulk operators finding ways to adjust their operational results in the current weak freight market. The recent slide of bunkering costs, the record scrapping activity of this year and the low ordering activity have eased at some level the pain of the market, but the dry cargo demand is not yet at levels that could remedy the imbalance of the freight markets between vessels' supply and demand.

There is a positive outlook on the rebound of Chinese iron ore demand in the coming month due to government's stimulus measures in the industrial sector, which will contribute in a firmer capesize performance. The China Iron and Steel Association (CISA) reported that daily crude steel production in China averaged 1.999mt during the first 10 days of June. This is up slightly from the average of 1.960mt produced during the last 10 days in May.

Chinese demand for thermal coal remains also low as China imported a record 26.17 million tons of coal in May compared with 15.3mt of 2011's monthly average, as per government data showed, which caused coal stockpiles to climb and bring the recent lull in coal chartering activity. However, the Chinese coal demand is expected to be again robust as peak electricity demand is approaching and the government is waiting daily electricity consumption at a record of 15.5 to 16 billion kilowatt hours this summer.

Panamax vessels have recently found some support with average time charter earning reaching levels at more than $8,000/day, but they are still below $10,000/day, with fears about their long term stability on the basis of their outstanding orderbook and the upcoming deliveries in 2013. According to Commodore Research, for the second half of this year, the orderbook for panamax vessels stands at roughly 355 vessels, while the orderbook for capesize vessels stands at roughly 145 vessels. For 2013, the orderbook for panamax vessels stands at roughly 240 vessels, while the orderbook for capesizes at around 90 vessels. Supramax and handysize rates are also showing firmer signs from an increased spot chartering activity with levels at more than $12,000/day for supramax units and near to more than $10,000/day for handysizes

The BDI stayed the last three days unchanged at 978 points, up by 4.2% from last week's closing and down by 30.4% from a similar week closing in 2011 when it was 1,406 points. BCI follows a downward decline with a small upward movement, BPI lost ground this week from previous firm performance, while BSI records the highest gains and BHSI continues its stable performance.

The highest rate increase has been in the supramax segment, BCI up 0.6% w-o-w, BPI down 1.5% w-o-w, BSI up 11.1% w-o-w, BHSI up by 7.9% w-o-w. Capesize average time charter earnings showed an increase of 5.7% from last week, panamax earnings are down by 1.4%, supramax are up by 11% and handysize up by 7.3%.

Capesizes are currently earning $3,570/day, an increase of $99/day from a week ago, while panamaxes are earning $8,345/day, a decrease of $124/day. At similar week in 2011, capesizes were earning $10,453/day, while panamaxes were earning $14,580/day. Supramaxes are trading at $12,323/day, up by $1,226/day from last week's closing, 245% and 48% higher than capesize and panamax earnings respectively. At similar week in 2011, supramaxes were getting $13,789/day, hovering at 32% higher levels than capesizes versus 245% today's levels. Handysizes are trading at $ 10,247/day; up by $698/day from last week, when at similar week in 2011 were earning $10,738/day.

In the **wet market,** the prospects for the crude tankers are deteriorating as we enter 2h2012 with OPEC viewing that ongoing challenges to world economic recovery have led to even larger uncertainties for oil demand in 2h2012. Slower activity in the AG pushed VLCC rates downwards, while increased activity in West Africa and Mediterranean supported suezmax and aframax spot rates respectively. Brent crude spot price has fallen below $95/barrel, while crude oil for July delivery fell $2.23 to $81.80 a barrel on the New York Mercantile Exchange on Wednesday, the lowest settlement since October, implying that the downward oil price sentiment will persist in the coming days and benefitting tanker operators through lower bunkering costs. In addition, brent oil for August declined by 3.2% to $92.69/barrel on the London based ICE Futures Europe Exchange, the lowest sentiment since December 17th, 2010.

The downward direction of oil prices is being supported by the recent announcement from the Energy Department reporting that US crude inventories climbed to the highest level in 22 years. The department said that US supplies rose by 2.86 million barrels to 387.3 million last week, the highest level since 1990. Furthermore, US crude production climbed 117,000 barrels a day to 6.35 million for the week ending June 15th, which is the highest levels since February 1999, while crude imports increased 328,000 barrels a day to 9,45 million last week, the highest level since March. The increased US production with a record high import activity may have a direct impact on US oil demand that will drive the brent crude price sentiment at even lower levels.

The Chinese demand will continue to be a supportive factor on the worldwide crude demand with a positive influence on the earnings of very large crude carriers. According to Poten & Partners, the rapid growth of Chinese oil product demand, refining capacity and crude imports has been a supportive factor of crude tanker demand for years and is poised to continue this trend. Although the 3.8% average annual growth in the VLCC fleet during 2006-2011 has presented challenges to the sector, the 11.8% average annual surge in Chinese crude imports over the period and the growing contribution of Chinese crude import tonne-mile demand have supported VLCC demand. In 2011, more than one fifth of total VLCC employment was dedicated to Chinese crude imports and this proportion has doubled since 2005. The figure is impressive, but over the same period the VLCC fleet also grew by more than 25%. This trend in the Chinese share of VLCC demand should continue, as Chinese refiners lift an additional 1.1 mbpd of AG crudes, 0.4 mbpd of Latin American grades and 0.8 mbpd of WAF cargoes during 2011-16. In fact, this forecast pattern of Chinese imports would imply that VLCCs capture 83% of incremental Chinese tonne-mile demand during the period. This figure is impressive, but implies approximately 70 VLCCs worth of incremental demand from 2011 to 2016. With the current VLCC orderbook near 100 vessels, other importing regions need to add to VLCC demand to ease the imbalance between supply and demand.

The Paris based International Energy Agency keeps a positive position on the future oil demand. The Eurozone crisis may be worsening and the European refining operations may be constrained by weak margins, but the June Oil Market Report (OMR) of International Energy Agency (IEA) predicts there will be a sharp rise in crude oil demand in the coming months. According to June OMR, summer power generation demand and potential continued non-OECD stockpiling could boost crude demand further.

In the **gas market**, strong Asian LNG demand continues to divert cargo from Europe shifting vessel demand. LNG cargoes to Asia grew 18% year-on-year by mid-June, while European imports are weakening with Northern Europe imports dropping by 45% year-on-year and Southern Europe by 9% year-on-year. Japan, the world's largest LNG importer, remains the key driver of the euphoria seen in LNG shipping rates as the country is using more gas instead of nuclear sources to generate electric energy since the Fukushima accident. LNG period rates are currently estimated at $164,000/day, the highest level since early December. According to the Federation of Electric Power Companies, LNG consumption in Japan's 10 largest power utilities grew 22.2% year-on-year to 4.41m mt in May.

However, there were first signs that Japan is near to end its nuclear shutdown that will have a direct negative impact on the current high LNG demand and spot rates. Japan is said to have given final approval for the restart of two nuclear reactors that will end a total shutdown of the atomic power sector due to safety fears raised from last year's crisis at the Fukushima Daiichi plant. Currently, all of the 54 reactors that supply nearly one third of Japan's electricity before last year's tsunami are offline, but utilities insist that they have learnt the lessons of the disaster and can ensure future safety.

In the **container market**, the Shanghai Container Freight Index rose for a second consecutive week by standing 35 points above (3% up) from previous week's closing, with spot rate plus surcharges from Shanghai to base ports of Europe and Mediterranean posing small declines of 3% and 4% respectively. The highest rate increase has been seen in secondary trading routes from Shanghai to Persian Gulf (Dubai) of 18%, Shanghai to South Americas (Santos) of 19% and intra Asian Shanghai to Taiwan (Kaohsiung) of 21%.

The Shanghai Container Freight Index closed on Friday 15th at 1450 from 1414 points and is standing up by 50% from February 10th, when it was at 965 points, with the Asia-Europe paying $1587/TEU from $1634/TEU and Asia-Mediterranean route $1720/TEU from $1783/TEU. Despite the slip of rates the volume of trade in Europe is at relative good levels with the average spot utilization rate staying around 85%. Spot rate plus surcharges from Shanghai to Europe are now 123% above the bottom low of $711/TEU on February 17th of this year and 134% above of $735/teu on Shanghai to Mediterranean.

In transpacific routes, Asia-USWC and Asia-USEC, spot rates plus surcharges have posed a small rise of 3% and 2% respectively, with the volume of trade in America service holding up as average spot utilization of the USWC and USEC is keeping at about 90%. The week ended with rates of $2739/FEU from $2658/FEU, $81/FEU up, from Asia-USWC and $3831/FEU from $3774/FEU, $57/FEU more, from Asia-USEC. The SCFI Shanghai-USWC rate now stands up by 93% from December last year partially due to carriers' success in applying the Transpacific Stabilization Agreement's recommended peak season surcharge of $600/FEU from June 10th.

While the spot freight market sentiment has improved, S&P downgraded French container line CMA CGM to CCC+ from B, citing vulnerability to default following deterioration in liquidity.

The SCFI for the second quarter of the year shows an increase by 34.4% from the previous quarter with liners' profitability being restored as demand for containerships reduces the size of the idle fleet. According to Alphaliner figures, the laid up tonnage has fallen to 438,000 TEU or 3% of the total existing fleet, the lowest in seven months, while the containership orderbook has dropped to 23% of the global fleet from 60% in the first quarter of 2008. Only nine boxships of over 5,000 TEU are estimated to be idle, from 50 in March, while there is still a large number of a smaller vessel size that remains laid up, over 100 ships in the range of 1,000TEU-3,000TEU are without employment. The noteworthy is that larger vessels above 7,500 TEU are all employed with only two being idle in this category that are shortly will join in the active fleet.

In the **shipbuilding industry**, Hyundai Heavy Industries of South Korea, the world's largest shipbuilder, has won three orders worth a combined value of $600 million to build oil and gas rigs from various clients. In a statement, Hyundai HI said it received a $400 million order for a 35,000tons offshore oil platform with delivery by August 2015 without disclosing the identity of the oil contractor or the region where the platform will be deployed. Hyundai also won an order for the construction of a semi-submersible drilling rig worth $100mil, with an option for one more unit, by US exploration company LLOG to be delivered early 2014. The third order was from another undisclosed US based oil major to build six land plant modules capable of producing 200 million cubic feet of natural gas and 10,000 barrels of oil a day with scheduled delivery in June 2015. Hyundai HI said it has secured new orders for 14 vessels, 4 LNG carriers, three LPG carriers, three tankers, two PCTCs, one drillship and one semi submersible rig, all worth $2,75 billion in May 2012.

In Europe, German authorities have finally agreed to provide up to €152.4M ($192.3M) in loan guarantees to rescue German yard P+S Werften. The loan guarantees will be provided half each by the federal government and the regional state government of Mecklenburg-Vorpommern where the yard is based, the Mecklenburg-Vorpommern government said. The condition is that the yard's suppliers - as requested by the EU - make a firm commitment to take shareholdings in the yard. "The state government supports the yards in their current difficult situation as we wish to retain them as the core of the maritime industry in our state," state Prime Minister Erwin Sellering said. "This is about 1,750 jobs in the yards and around a further 5,000 at supply companies."

In the **shipping finance**, French bank Societe Generale is said to have offloaded part of its shipping portfolio with Citibank ready to take on about a third of the $6billion book at a surprisingly strong price as Societe Generale's portfolio is supposed to be in good shape. Sources suggest that Citibank agreed to purchase a $2billion tranche of Societe Generale's shippiph book, approximately 33% of its $6billion exposure, for a price reportedly in the low 90s as a percentage of face value. The bank has been now left with shipping loans worth $4billion, while there is no formal announcement from the two sides explaining which parts of the portfolio Citibank decided to take and on what grounds. Societe Generale was seeking for a long time to downside its exposure to shipping by concentrating instead in shipping capital markets after eurozone crisis drove bank's share price down by more than half in 2011.

In terms of ship financing deals, Chile's biggest container shipping company, Cia. Sud Americana de Vapores SA, has secured a $90 million 12-year loan from DVB Bank SE (DVB) (Frankfurt-based lender specializing in transport finance) to complete the financing of the last two container ships from the total seven ships ordered at Samsung Heavy Industries of South Korea.

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