GOLDEN DESTINY

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

Week ending 31st August 2012

ECONOMIC ENVIRONMENT

Eurozone crisis is on fire with German Chancellor Angela Merkel assuring, in a press conference with Italian Prime Minister Mario Monti in Berlin, that Europe has sufficient means to strengthen the eurozone with bailout finds being of vital importance for the euro-currency. She said that European Stability Mechanism and the European Financial Stability Facility are of "utmost importance" and she agreed with Mr. Monti that the path taken for the stabilization of the eurozone is the right one. She said that the two countries are in far reaching agreement over the measures that need to be taken for the stabilization of the eurozone, adding that Mr. Monti's fiscal reforms will push down Italy's bond yields rose in summer.

In Greece, the government has settled the package of EUR11.5billion in net savings with troika resuming its audit on Greek economy to be submitted in late September/early October. Key deadlines for Greece are Eurogroup meeting on October 8th and EU summit on 18th/19th. Greek Prime Minister has completed with success his meetings with German Chancellor and French president winning their supports to Greece's efforts and clearly indicating their intention to help Greece to stay in the eurozone. German Chancellor Angela Merkel warned officials in her coalition calling for a Greek exit from the single currency to be careful in what they say. "Everybody should weigh their words very carefully," Merkel told broadcaster ARD today in an interview in Berlin. She said that the Greek government is undertaking "serious efforts" to tackle the country's debt and repeated that Germany will stand by the country from which the crisis originated.

In U.S., second quarter growth revised upwards to 1.7% annual rate, the Commerce Department said, based on stronger exports. The rate of growth is up from last month's 1.5% estimate and in line with economist expectations. US economy grew by 2% during the first quarter, January-March period. However, US pace growth still remains below of the 2%-2.5% growth target rate required every quarter to hold the unemployment steady and allow US central bank to offer additional stimulus at September 12-13 meeting. "There is scope for further action by the Federal Reserve to ease financial conditions and strengthen the recovery," Bernanke said in a letter dated Aug. 22 to California Republican Darrell Issa, chairman of the House Oversight and Government Reform Committee.

UK ecomomy shrank less than initially thought with revised data from the Office for National Statistics showing that the economy contracted by 0.5% between April and June, compared with the original estimate of a 0.7% contraction published in July. Some economists believe that the third-quarter GDP would win a modest boost from the London 2012 Olympic Games, which ran from July 27 to August 12.

Asian economies are still suffering from the eurozone recession with Japan experiencing a record fall in its exports and the government revising downward its assessment for the world's third biggest economy for the first time since October. Japanese exports are said to have fallen, for a second straight month in July, by 8.1% annually against economists' forecast of a 2.9% drop as shipments to Europe and China tumbled.

In China, manufacturing activity fell again in August indicating the lowest level for the last nine months and the 10th consecutive decline. HSBC Purchasing Managers' Index (PMI) remains below 50, which implies contraction and not expansion, by declining 1.5% month-on-month to 47.8 points.

In emerging economies, Brazil's central bank cut interest rates to historical lows in an attempt to revive the country's slowing economic growth. The central bank reduced its benchmark Selic interest rate by 50 basis points to 7.5%, while it is high likely that there will be a next cut. Luciano Rostagno, chief strategist at São Paulo's WestLB bank, said the central bank was leaving the door open for a next interest rare cut in the meeting of October. Latin America's largest economy has slowed dramatically from 7.5 per cent growth in 2010 to an expected rate of below 2 per cent this year.

SHIPPING MARKET

Summer season is near to end with freight markets being on a downward trend, dry and tanker segments are not showing signs of relief and containers continue to perform better than last year, while Euro zone recession threatens the volume of China exports to Europe and impedes a full market turnaround of boxship freight rates. Asset prices of secondhand and newbuilding assets are still presenting downward revisions stemmed from the disappointing freight market environment, while the question is which investment type is a profitable option for a shipowner given the current uncertainty in the freight market environment, as vessels' oversupply and weaker Chinese economic outlook brings serious worries for the rest of the year and the forthcoming 2013. Demolition remains a key solution for the disposal of overaged vessels not only for the shipowner but also for the benefit of the shipping freight market, as a remedy to vessels' over tonnage. Scrap prices are posting a significant improvement in August with levels excess $400/ldt for dry and wet units, while we haven't yet seen levels of more than $500/ldt, as seen at the beginning of the year and in September 2011.

In the **dry market**, there has been a soft improvement in capesize earnings that gave some positive movements in BDI this week; however average time charter earnings are still below operating expenses at levels more than $3,000/day. Panamax and supramax markets are showing a stronger performance based on increased fixture volume from Indonesia with rates at more than $6,000/day and $8,000/day respectively. Chinese coal demand still threatens the euphoria of vessel earnings with hydropower production being on rise and coal/power plant stockpiles recording high level of volume. These main factors discourage the BDI edging higher and breaking the barrier of 1,000 points with iron ore demand from Chinese mills floating at low levels by depressing consistently capesize vessel earnings. Iron ore price has reached its lowest levels from 2009 by closing below $100 per tonne last week and experts forecasting that the price could fall even below $80 before it would recover. Baoshan Iron and Steel, China's biggest listed steelmaker, expects the third quarter of 2012 to be the most "difficult", but it is unlikely to face losses over the period. The company known as Baosteel earned profits of 2.38 billion yuan ($374.63 million) in the first half of the year, down 53% from a year earlier, as its performance was hit by sluggish demand and persistent overproduction in the Chinese steel sector.

Iron ore inventories remain high, an adverse factor of the rebound of Chinese iron ore demand. According to the statistics released by China's National Bureau of Statistics, as of August 24 total iron ore inventory at 30 major Chinese ports amounted to 98.95 million mt, up 830,000 mt compared with the previous week and up 3.74 million mt year on year, the highest level of the last 23 weeks.

The US drought has led supramax earnings to levels seen during January-February with industry sources suggesting that shipowners are currently idling supramax vessels in both Atlantic and Pacific markets from the slump of rates and the possibility of loss making voyages. There are negative projections for a firm US grain season that seems that would push supramax earnings at levels less than $10,000/day. The USDA estimated that this season's corn production would decrease by 17%, or 56 million fewer tons of corn, due to the drought affecting US farms. US exports more than 25% of its corn and the loss of production would be one more adverse factor on the already distressed dry bulk environment.

There are expectations for a modest improvement in vessel earnings, for supramax / panamax vessels, from September due to calm down in Chinese hydropower production from a pause in tropical storms and Danquin railway maintenance that will boost again Chinese coal imports. Demand for imported thermal coal has already shown an improvement as major coal stockpiles have fallen below desired minimum levels. According to Commodore Research, coal stockpiles at Qinhuangdao (which is China's largest coal port and the loading port for about 40% of China's coastal coal shipments), now stand at approximately 6.3 million tons. This is 300,000 tons (-5%) less than was stockpiled at the end of last week and 2.1mt (-25%) less than was stockpiled a month ago.

In the meantime, China's iron ore output shows decline of about 10% this month from the slump in prices by increasing purchases from Brazil's Vale and Rio Tinto, a positive factor for the prosperity of capesize earnings. According to Umetal.com, China's iron ore output in the three months to the end of August is about 5% lower than the previous three months. Umetal said that Australia and Brazil accounted for 66.2% of China's total iron ore imports in the first half, up from 64% last year.

BDI fell again this week below 710 points after some days of upward movements by closing on August 31st at 703 points, down by 1.8% from last week's closing and down by 56% from a similar week closing in 2011, when it was 1,740 points. Capesize and supramax average time charter earnings showed a mild improvement this week with panamax and handysize still falling. The highest decline has been in the panamax segment, BCI up by 4.2% w-o-w, BPI down 11.2% w-o-w, BSI up 0.4% w-o-w, BHSI down by 3.1% w-o-w.

Capesize average time charter earnings showed an increase of 13% from last week, panamax are down by 11% week-on-week, supramax are up by 0.4% week-on-week and handysize down by 2.7%.

Capesizes are currently earning $3,308/day, an increase of $381/day from a week ago, while panamaxes are earning $5,840/day, a decline of $746/day. At similar week in 2011, capesizes were earning $23,899/day, while panamaxes were earning $10,372/day. Supramaxes are trading at $8,960/day, up by $42/day from last week's closing, 171% and 53% higher than capesize and panamax earnings respectively. At similar week in 2011, supramaxes were getting $14,415/day, hovering at 40% lower levels than capesizes versus 171% today's higher levels. Handysizes are trading at $ 6,672/day; down $186day from last week, when at similar week in 2011 were earning $9,945/day.

In the **wet market**, VLCC rates are still squeezed in the AG with WS being unchanged at WS23 in the AG-USG route for the last two weeks with average time charter earnings floating below zero levels from the end of June. In the AG-SPORE and AG-JAPAN routes WS is floating at WS36 with average time charter earnings $3,000-$4,000/day. In the suezmax segment, the market is also flat with the WS in the WAFR-USAC route being unchanged at WS57.5 for the last three consecutive weeks with average time charter earnings in the region of $7,000/day. In the aframax segment, the CBS-USG route is holding at WS90 with average time charter earnings in the region of $5,000/day.

In the panamax segment, Caribbean market saw a firmer activity with WS in CBS-USAC route being driven up to WS 110, gaining 5 points from last week's level with average time charter earnings at $5,700/day. In the MR segment, the Caribbean market was boosted by stronger rates in the USG range with WS in the CBS-USAC route gaining 10 points from last week by ending at WS 115. The USG market gained strength from demand for voyages towards Europe and Latin America with the WS in USG-UKC route moving 5 points higher to conclude at WS72.5. In the AG-JAPAN route, WS remains unchanged for a tanker size of 55,000dwt at WS118 with average time charter earnings in the region of $12,500/day, while WS for a tanker size of 75,000dwt has lost 1 point from last week by moving to WS99 with average time charter earnings in the region of $12,500/day.

US oil demand remains a warning factor for the prosperity of the crude tanker segment as the boom in oil production from the shale formations of North Dakotan and Texas has cut US oil reliance on imported crude oil to about 42% this year, the lowest level in two decades. Dependence on crude purchased from foreign countries is on a pace to decline from last year, Adam Sieminski, the head of the U.S. Energy Information Administration, said during a Bloomberg Government lunch in Washington.

Brent crude spot price remains firm at more than $110/barrel from less than $100/barrel at the end of June with the cost of IFO 380 nearing near to $700/barrel in Fujairah from less than $600/barrel at the end of June. G7 finance ministers called on oil exporters to expand production as the rising oil prices pose a serious risk to the fragile global economy by saying that: *"The current rise in oil prices reflects* *geopolitical concerns and certain supply disruptions. We encourage oil producing countries to increase their output to meet demand, while drawing prudently on excess capacity"*.

A Reuters poll showed that analysts have raised oil price forecasts for this year and 2013 due to supply concerns and expectations fur further monetary policy stimulus, which could improve prospects for economic growth. The Reuters monthly oil poll based on forecasts from 28 analysts, estimates an average brent price for 2012 at $109.5/barrel, up $1.20 from July's poll. Brent has averaged so far about $112/barrel, up from $111 in 2011. The poll forecasts that the average price of the brent would fall to $106.10 in the third quarter of 2012 and $106.50 in the fourth quarter. For 2013, brent is estimated to average $107.2/barrel, a 70% rise from July's estimate, while only three out of 26 analysts expect an average brent price below $100/barrel in 2013.

In terms of oil supply, an interesting development is that declining trends in Iranian oil exports from US and European sanctions seem to have ended with OPEC crude oil output rising in August from a slight revamp of Iranian exports and higher exports from Angola and Nigeria. According to a Reuters survey from OPEC officials and analysts, supply from OPEC averaged 31.53million barrels/day, up from 31.30 million barrels/day in July. Supply from Iran rose by 50,000barrels/day in August to 2.85 million. However, according to figures from US Energy Information Administration, Iran's supply remains at historical lows as July's output of 2.24million barrels/day was the lowest since 1988.

In the **gas market**, demand for LNG newbuilt vessels seems that will keep alive South Korean shipyards with Barclays capital estimating that US shale gas demand could require over 250 LNG vessels costing over $50 billion. Barclays Report forecasts that if all 136mtpa come on stream that would require 272 LNG vessels, which could be very big investment for the newbuilding market. *"Modern LNG vessels cost around $200mil per vessel, so the total LNG investment could be as high as $54bn for the US LNG exports along."*

One interesting development in the LNG segment comes from Hawaii, which receives 90% of its energy from imported petroleum products, the most dependent state, submitting an application to the Federal Energy Regulatory Commission (FERC) to transport LNG in containers on standard boxships to facilitate its transition to cleaner energy. Government backed Hawaii Gas said it plans to buy up to 30 containers that each have a 12,000 gallon capacity which would be filled with LNG from the US once the anticipated US liquefaction facilities come online in 2015 or from existing re-export facilities. The containerized shipments of LNG are the first phase of a plan which could eventually lead to the use of an FSRU for imports.

In the meantime, Japan's LNG demand remains a supportive factor for the LNG industry in terms of freight rates by showing a rebound in July from a dip recorded in June, as June is used to be a lull demand period influenced by mild weather in Japan. According to the Ministry of Finance, Japan imported 7.15 million mt of LNG in July, up 7.6% from June and up 11.6% year-on-year. However, imports of July are below from the monthly imported levels recorded in the first quarter of the year, 8.15 million mt in January, 7.67 million mt in February and 8.13 million mt in March.

In the **container market**, the Shanghai Container Freight Index is on decline with rates from Asia to Europe and Mediterranean falling to its lowest level since the end of the first quarter of the year. Freight rates to Europe and Mediterranean fell by 11% and 7.9% respectively from week ending August 10th, while USWC and USEC rates declined by 7.7% and 5.9% respectively by standing above July's rates. The Shanghai Container Freight Index declined by 3% on a weekly basis by ending at 1334, while it's is up by 25% from last year's level of 1064. In Asia-Europe, rates fell to $1,434/TEU, down by 4.7% week-on-week, but 71% up from 2011 level of $839/TEU, while in Asia-Mediterranean are $1426/TEU, down by 5% on a weekly basis and up by 31% from last year's level of $1092/TEU. In transpacific routes, freight environment keeps its high momentum despite the recent falls with Asia-USWC rates standing at $2568/FEU, 4.2% down week-on-week and 47% up year-on-year, when at similar week in 2011 rates were at $1752/FEU. In Asia-USEC route, rates fell to $3855/FEU, 5.9% down week-on-week and up 15% year-on-year, from the levels of $3359/FEU.

Container time charter rates continue to remain week with tc rates for boxship units of 4,400 TEU at $11,650/day, from $16,000/day in August 2011, while tc rates for boxships units of 2,750-3,500 TEU are $7,000-$7,500/day from $12,500/day-$13,500/day and for boxship units of 2,000TEU are in the region of $6,500/day from $11,000/day.

As the market still shows some uncertainty, Israeli Line Zim feels more comfort to freeze its newbuilding program for the next months to see the direction of the freight market and demand growth before entering in the investment arena again. However, the line managed to narrow its losses by posting a smaller deficit in the second quarter of $47mil against $163mil in the first three months of the year with a positive EBITDA of $46mil compared with a negative $69mil previously, as freight rates increased significantly during the second quarter of the year and operating results returned to breakeven.

Demand from China to Europe remains inadequate with chief executive officer of Maersk Line, Soren Skou, admitting that China's exports to Europe have remained weak during the traditional peak season for shipping, while China's trade to US appears stronger. He said in Dow Jones Newswires that his confidence in global trade has deteriorated since June, mainly due to continued recession in Europe, but worldwide volumes are likely to expand 4% for the full current year compared with 2011. The volume of Chinese exports to the US handled by Maersk is likely to rise 2% this year compared with 2011, while its Europe-to-Asia volumes could slide 3%. Soren Skou added that Maersk expects its worldwide container volumes to gain 6% in 2013 on a belief that Europe will rebound from recession.

In the meantime, Hong Kong's Orient Overseas Container Line has delayed the delivery of two 8,600 TEU boxships under construction in Hudong-Zhonghua Shipbuilding of China by a year to the fourth quarter of 2014, indicating carrier's anxiety for the stability of the marker and the growth of trade from China to Europe.

In the **shipbuilding industry**, shipyards are struggling to find some salvation from the slump of newbuilding orders with China Rongsheng Heavy Industries, the country's largest private shipbuilders, posted its sharpest fall in its profit for the first half of the year, 82% down from a death of new ordering activity. Rongsheng announced that sealed about $58mil in orders during the first half of the year, against $725mil in last year's second half. The newbuilding drought has hit even the top Chinese yards with China Association of the National Shipbuilding Industry recording that newbuilding orders fell 51% in the first six months of the year to 10.7m tones from previous corresponding period, while official Chinese government figures suggest that many yards will run out of work during the second half of the year.

Korean shipbuilders are showing some resistance by securing orders for offshore and LNG units, nevertheless they are also facing fall in their profits with Hyundai Mipo Dockyard posting a 73.1% dive year-on-year in its profits for 2q 2012 to 32.567bn won ($28.7mil). The amount is also 36.1% lower than 50.9bn won in profits recorded in 1q 2012. Daewoo Shipbuilding & Marine Engineering posted a 33% decline in its second quarter net profit due to lower newbuilding prices offered by the builder to increase its ordering activity. Consolidated net profit for the three months ended June 30 fell to 96.4 billion Korean won ($85 million) from KRW142.78 billion a year earlier, the world's third-biggest shipbuilder by sales said. Operating profit plunged 63% to KRW114.1 billion from KRW308 billion while sales rose 9.3% to KRW3.951 trillion from KRW3.615 trillion.

In Japan, shipbuilders are facing the most severe downturn compared with China and Korea with some light seen in July in terms of number of orders won. Figures reveal that Japan's shipbuilders received more orders in July than in June, but the orders were of lower value and tonnage than in the previous month. According to Japan Ship Exporters Association, shipbuilders received 13 orders aggregating 479,037gt, seven handysize bulkers, four handymax bulkers, one panamax bulker and one LPG carrier, a 82,000m³ VLGC ordered by 'K' Line at Kawasaki HI. . As at end-July, Japanese yards had an orderbook totalling 632 ships of more than 28.5M gt, down from 650 ships of 29.6M gt in June. Japanese shipbuilders' orderbooks have fallen sharply year on year, from 891 ships of about 41.16M gt a year ago.

In the **shipping finance,** Japan Bank for International Cooperation (formerly The Export-Import Bank of Japan) recently agreed to offer a foreign buyer credit facility for export ships. JBIC together with Sumitomo Mitsui Banking is providing JPY 3bn ($37.8m) and JPY 2.6bn to Nordrose Navigation and Nordtulip Navigation respectively, which are 100% subsidiaries of Klaus E. Oldendorff (Cyprus). The two owners are buying two Sumitomo Heavy Industries-built aframax newbuildings, one of which was built in May this year and the other scheduled for delivery in January next year. Earlier this year, JBIC also provided financing for Greek owner Safe Bulkers, which is buying three newbuildings in Japan.

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