GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 15th February 2013 (Week 7/2013)
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ECONOMIC ENVIRONMENT

The second week of February ends with grim news for the prospects of worldwide economic growth. Disappointing figures for Europe and Japan in the fourth quarter of last year reinforce the view of policymakers worldwide that we are still ahead of economic recovery. According to EU statistics, eurozone's economy shrank by 0.6% in the fourth quarter of last year, which was the steepest fall since the fourth quarter of 2009 after the collapse of Lehman Brothers. Germany, France and Italy recorded sharper decline than it was expected highlighting the fragility of forecasts for a eurozone recovery this year.

Germany, Europe's largest economy, shrank 0.6% in the fourth quarter of 2012, from a forecast of 0.5% fall, reflecting the sharp drop in net exports and investment in plants and machinery. However, the contraction in Germany is expected to be shortlived. In France, GDP fell 0.3% in the last three months of the previous year and Italy shrank by 0.9%. The recession in French economy seems more threatening as the rising unemployment and the need for more austerity measures in compliance with the country's fiscal targets create a negative environment for a prompt recovery to come. The same negative outlook is also being reflected in Spain's economy that remains in a deep recession after a 0.7% contraction in the fourth quarter of 2012.

Japan also joined with eurozone's deep recession as government data recorded a lackluster performance of its economy at the end of 2012 dashing hopes for a mild rebound. Government data indicated that Japanese gross domestic product fell 0.1% between October and December, or 0.4% on an annualized basis, mirroring the third straight contraction. However, economists believe that government's measures, including public spending and pressure on the Bank of Japan to loosen its monetary policy will eventually foster economic growth. Japanese economy has been hit hard by the constant appreciation of its yen resulting in persistent trade deficits from large drops in exports

In China, the government seems that doesn't forego its attempt to stimulate further economic growth. The government of Beijing announced that it plans to inject an extra 120 billion yuan (14,4 billion euros, $19,25) this year aiming to improve China's infrastructure and transport system, the official China People's Daily newspaper reported.

SHIPPING MARKET

The struggling freight market picture that the dry bulk market is showing from the issue of oversupply could be alleviated from the comforting signs that the Chinese economy shows, as a main engine for the growth of dry bulk commodities' trading. Chinese economy used to show a strong 10% GDP growth for the last two decades, while now the double digit growth belongs in the past. The new target GDP growth for Chinese economy has now fallen to 7%-8%, but with retained positive prospects for the future. From the last quarter of 2012, Chinese economy posted some firm encouraging signs that provide hopes for the future dry bulk's demand growth. Some of the positive indicators are the following:

- China’s Gross Domestic Product expanded by 7.9% in the 4q 2012 after seven straight quarters of weaker expansion. (China GDP Annual Growth Rate averaged 9.23% from 1989 until 2012, reaching an all time high of 14.20% in December of 1992 and a record low of 3.80% in December of 1990.)
- Fixed asset investment, which accounts for about half of China’s GDP, has seen rising momentum since last September, led by faster infrastructure investment and a heating up of the housing market. According to the National Development and Reform Commission, railway investment in the next three years will amount to Rmb 1,8 trillion, of which 600-650 billion will be implemented in 2013
- The official purchasing manager Index, a leading indicator of the Chinese economy remains above the reading 50, since October last year, showing expansionary levels.
- Chinese exports for January increased by 25% year-on-year, posting the largest increase since April, while imports showed an enhancement of 28.8% year-on-year, far above from December’s 6% rise.

In the **dry** market, China’s celebrations for the year of snake led to a reversed momentum in the upward incline of the Baltic Dry Index with capesize time charter average earnings loosing strength and falling to levels of less than $7,000/day for the first time since the beginning of the year, while panamax vessel earnings have started to gain some ground. There has been a mild improvement in the levels of panamax earnings that surpassed eventually this week the barrier of $6,000/day, for the first time since mid-January. Smaller vessel categories, supramax and handysize are still in a continuous downward incline from the end of January with levels of less than $7,000/day and $6,500/day respectively.

Last week, as it was expected we had a surge in Chinese iron ore fixture volume of activity before the beginning of Golden Week, while the record low levels of Chinese iron ore port stockpiles at levels of about $67mil ton, lower than April 2010, give optimism for a strong return next week. Thermal coal fixture activity seems to have picked up giving a boost in panamax vessel earnings from a renewed decline in Qinhuangdao stockpiles. Peak winter season electricity demand and thermal coal derived electricity production is expected to stay robust that could add further support in the panamax segment.

Overall, vessel earnings in all size categories are still very weak with oversupply hindering the positive growth to levels of more than $10,000/day. The strong number of vessel deliveries during January could not be absorbed from the positive Chinese import market sentiment.

BDI closed on **Friday February 15th,** at 753 points, up by 0.6% from last week’s closing and up by 5% from a similar week closing in 2012, when it was 717 points. The first week of February ends with a downward pressure in the capesize segment and a stronger rebound in the panamax segment. The largest increase has been recorded in the panamax segment. **BCI** is down by 1.8% w-o-w, **BPI** up 15% w-o-w, **BSI** down 0.4% w-o-w, **BHSI** down by 2.1% w-o-w.

Capesizes are currently earning $6,750/day, down by of $594/day from a week ago, while **panamaxes** are earning $6,626/day, an increase of $878/day. At similar week in 2012, **capesizes** were earning $5,286/day, while **panamaxes** were earning $7,587/day. **Supramaxes** are trading at $7,028/day, up by $33/day from last week’s closing, 6% higher than capesize and 7.8% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $6,701/day, hovering at 27% higher levels than capesizes versus 6% today’s higher levels. **Handysizes** are trading at $6,138/day; down by $143/day from last week, when at similar week in 2012 were earning $5,684/day.

In the **wet** market, the quiet AG market pushes further rates into a negative territory for very large crude carrier vessels. WS in AG-USG route fell to WS18 at time charter equivalent earnings below zero levels from the beginning of the year. In AG-SPORE and AG-JPN routes, WS stayed stable at WS31-$2,000/day, with WAFR-USG and WAFR-CHINA routes showing also stability from last week with WS40-$15,500/day and WS34-$6,100/day respectively.

In the suezmax segment, rates on WAFR-USAC route eased 2.5 points to conclude at WS52.5-$7,700/day, while CBS-USG route stayed stable with WS62.5-$11,900/day. The same stable picture was seen in the aframax segment with WS in CBS-USG route unchanged at WS82.5-$5,600/day. In the panamax segment, WS in CBS-USG route gained 7.5 points to conclude at WS117.5-$11,900/day. In

AG-JPN routes, WS eased 0.25 points for 75,000dwt product vessels with time charter equivalent earnings in the region of $11,000/day, while the decline was sharper for 55,000dwt product vessels with WS falling to 91.75-$7,600/day, down by 2.25 points from last week.

The freight market picture outlook seems that still could not recover form the sharp recession, however, crude oil demand gives signs of a better growth in 2013. OPEC raised forecasts for the amount of crude it will need to supply this year due to stronger fuel demand in emerging economies. The Organization of Petroleum Exporting Countries will have to provide an average of 29.8 million barrels a day in 2013, or 100,000 a day more than it estimated a month ago. The producer group's output in January was 500,000 barrels a day larger than this, at 30.3 million, according to OPEC's monthly market report. "Given some signs of recovery in the global economy and colder weather at the start of this year, the forecast for world oil demand growth in 2013 has also been revised up," OPEC's Vienna-based secretariat said. "The bulk of the growth is seen coming from China." According to preliminary data from China's General Administration of Customs, on a daily-volume basis, crude-oil imports rose to the third-highest level on record last month, around 5.95 million barrels a day, or 25.2 million metric tons.

In the **gas** market, delays in LNG projects have created an upward pressure on LNG prices with intense worries for the availability of LNG cargoes expected to come on stream. Delays in African LNG projects, Angola, Algeria, may lead to less LNG cargoes and negative reversed momentum in LNG spot rates combined with the scheduled vessel deliveries. Chevron recently postponed a scheduled start up of its LNG project (5.2mpta of capacity) to the second quarter form the first quarter of the year, while the Snohvit plant in Norway (4.2mpta of capacity) has also announced a temporary shutdown constricting further near term cargoes. In Indonesia, increased domestic demand is eroding the amount of LNG resources available for export, with the Bontang plant announcing a plan to reduce cargoes by about 30% from roughly 200 in 2012, down to 170 cargoes in 2013. Major importers of Indonesian LNG cargoes, mainly Japan and South Korea, will likely import more cargoes via Atlantic basin that could increase global LNG ton miles demand and provide positive support on LNG spot freight market.

In addition, one more supportive factor for the positive incline of the LNG spot freight rates is the increase in natural gas demand from China. China National Petroleum Corporation, the largest energy producer in China, estimates that domestic natural gas demand will grow to 165Bcm in demand, up 12% year-on-year. The high Chinese LNG demand of 165Bcm is expected to be catered from domestic resources and 35%-57Bcm via seaborne pipeline imports from central Asian LNG exporting countries, such as Turkmenistan, Kazakhstan and Unzekistan.

In the **container** market, the Shanghai Container Freight Index is on a decline for three straight weeks with lower spot freight rates in all four major routes, from Asia to Europe and Mediterranean and all transpacific routes. In previous week, the Shanghai Container Freight Index fell to 1208, down by 1% week-on-week and up 25.2% year-on-year.

In Asia-Europe, spot rates fell to $1301/TEU, down by 1.1% week-on-week and up by 80.4% year-on-year, while in Asia-Mediterranean, the weekly decline is larger of 2.1% with rates at $1258/TEU and up by 66% year-on-year. In the meantime, major container shipping players continue the general rate increases to help a stronger return in freight rates from Asia-Europe route after the end of Chinese festivities. Hong Kong's OOCL carrier appears to be the latest player announcing a general rate increase of an extra $700/TEU on the Asia to Europe westbound trade lane from Mid-March. In addition, Maersk's daily service between Asia-Europe has been again reduced to five weekly sailings as line suspended its AE-9 loop service again after it was reactivated just seven weeks ago reflecting the weak cargo demand on Asia-Europe.

In transpacific routes, the freight picture keeps weakening from the third week of January, the same as in Asia-Europe and Asia-Mediterranean routes. In Asia-USWC, rates are now at $2445/FEU, down 1.2% week-on-week and up by 34% year-on-year, while in Asia-USEC rates fell to $3,606/FEU, down 0.7% week-on-week and up by 22.4% year-on-year.

In the **shipbuilding** industry, South Korean shipyards may appear to be the strongest players in the newbuilding arena under the current worldwide shipbuilding recession against Chinese and Japanese, but they are also facing significant losses and threats. STX Offshore & Shipbuilding announced the

cancelation for the construction of two bulkers from an undisclosed European ship-owner. “The two bulkers were ordered in 2008 and were supposed to be delivered in 2011,” a company representative said. “However, the shipowner only paid the first of five installments, valued at $23.8M.” The contract had been worth a total 128.5Bn won ($118M), the group added.

In addition, major South Korean shipyards recorded a weak performance in 2012. Hyundai Heavy Industries posted 348.1Bn won ($318.7M) in losses in 4Q12, reversing 71.3Bn won in profits in the same period in 2011. Full-year profits fell 43.21% year on year to 1.1 trillion won. Hyundai Mipo Dockyard reported a 51% fall in profits for 2012. Net profits were 111Bn won ($101M), from 228Bn won in profits during 2011. HMD said the softer performance was related to “intense” competition among shipbuilders, which kept prices weak for new orders.

In the **shipping finance**, the week ended with the emergence of a new loan agreement from a Chinese financial institution to Greek shipping player. Tomasos Brothers emerged to have won a shipping financing deal of about $35mil from China Development Bank for the funding of two tanker chemical newbuildings.

Wärtsilä Corporation and Nordic Investment Bank have signed a loan agreement totalling EUR 50 million for research and development financing. The contract for this 10-year loan was signed in Helsinki, Finland on 13 February 2013. This R&D loan supports Wärtsilä’s long-term strategy of strengthening its technology leadership position in the global marine and energy markets. With this loan, Wärtsilä will further develop its medium-speed engine technology in terms of efficiency, reliability and environmental performance, as well as in reducing lifecycle costs.

In addition, French major container line CMA CGM announced that it has finalized its major financial restructuring launched less than a year ago with its banks regarding its debt restructuring. This agreement provides for a new covenant package taking into account the industry’s volatility and a partial refinancing of a credit line maturing in 2013 into new secured term loans of a maturity of more than 3 years for a total amount of EUR 280 million. In last, it has secured equity injections worth $150mil from the French sovereign fund Fonds Stratégique d’Investissement and $100mil from Turkey’s Yildirim Group.

In the capital market, DryShips of Greece announced the public offering of 7,500,000common shares of Ocean Rig that it owns with gross proceeds of approximately $126.4 million. Following the completion of the offering, DryShips is expected to own approximately 59.4% of Ocean Rig’s outstanding shares. The offering is expected to close on February 14, 2013. Deutsche Bank Securities and Credit Suisse are acting as joint book-running managers for the offering.

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