This Week's News: A snapshot on the economic and shipping environment
Week Ending: 1st March 2013 (Week 9/2013)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

Italy's election results intensified eurozone's uncertainty and created a panic in financial markets. Eurozone's third largest economy, Italy, after Germany and France, through its vote rejected government austerity measures that region's leaders have long embraced and hampered growth. The aftermath of Italian elections supported the return of former Prime Minister, Silvio Berlusconi, who has vowed against austerity, and rejected the technocratic government led for the last 13 months by Mario Monti. According to experts the Italian vote could trigger a new round of political instability in neighboring large economies of Spain and France, whose leaders have also adopted a series of austerity policies to prevent their countries from eurozone crisis contagion.

The exit from recession for eurozone is still far away with the European Commission reversing its prediction for an end to depression this year by blaming a lack of bank lending and record unemployment. Joblessness in the euro zone is set to peak at 12.2%, or more than 19 million people, in 2013, and both private / public consumption will not make any contribution to improving output, the Commission said. It estimates that the 17-nation bloc's economy, which generates nearly a fifth of global output, will shrink 0.3% in 2013, meaning that the eurozone will remain in its second recession since 2009, while it sees a growth of 1.4% in 2014. However, new figures released by the European Commission and the European Central Bank showed an upturn in confidence across the eurozone, while the financial sector is still struggling to provide credit to the real economy. The European Commission said its Economic Sentiment Indicator for the euro zone, a combined measure of business and consumer confidence, rose to 91.1 from 89.5 in January, reaching its highest level since May 2012.

Under the current negative environment in euro area, one more shock came to the world economy as Moody's Investors Services downgraded Britain's credit rating by one notch from top grade AAA to AA1. The credit rating agency cited subdued growth prospects and a high rising debt burden as the main reasons for Britain's lower rating. The main driver for the sovereign downgrade, Moody's said, "is the increasing clarity that, despite considerable structural economic strengths, the UK's economic growth will remain sluggish over the next few years." The agency also demoted the Bank of England from AAA to AA1.However; the agency noted that UK's creditworthiness remains extremely high and its outlook stable.

In US, economic growth inched up in the final three months of 2012 against expectations for a contraction. According to the Commerce Department, US Gross Domestic Product grew at an annual rate of 0.1%, which is revised up from an initial estimate of 0.1% downturn. The upward revision is attributable to higher volume of exports and business investments, but it is still a very weak rate of growth compared with an annualized 3.1% growth in the previous quarter.

In Japan, manufacturing sector continued to experience worsening operating conditions during February as output, new orders and employment continued to decline at modest rates, according to Markit Press Release. The Markit Purchasing Managers' Index remained below 50 for a ninth successive month during February, but rose to its highest reading at 48.5, since last June, from January's 47.7.

In China, the HSBC Flash China Purchasing Managers' Index, which is published on a monthly basis approximately one week before final PMI data are released, fell in a four month low at 50.4 in February, from 52.3 in January. Commenting on the Flash China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said: *"The Chinese economy is still on track for a gradual recovery. Despite the moderation of February's flash PMI, the index recorded the fourth consecutive reading above the 50 critical line. The underlying strength of Chinese growth recovery remains intact, as indicated by the still expanding employment and the recent pick-up of credit growth."* In addition, China's official Purchasing Managers Index confirms the slower growth in February as it dipped to 50.1 from 50.4 in January, but it stands above 50 for a fifth consecutive month underlining the expansion.

SHIPPING MARKET

Commodities' trading house, Cargill, is said to have signed a letter of intent for the construction of up to six fuel efficient capesize neewbuildings with China's Shanghai Waigaoqiao Shipbuilding. Sources suggest that the letter of intent includes three firm newbuildings and additional three options at an estimated newbuilding price of $46mil per vessel. The order is said to be placed through a joint venture with at least one shipowning and managing partner, while Cargill will take charge of commercial management.

In the **dry** market, Chinese iron ore fixture activity has increased after the end of Golden Week, but capesize vessel earnings are loosing gains on a daily basis by falling this week to levels of less than $5,000/day, for the first time since the end of December 2012. A powerful tropical cyclone Rustry forced Australia's three biggest iron ore ports to shut down due to rough weather conditions that suspended ship loading operations, hampering the recovery of capesize vessel earnings.

Chinese iron ore appetite is there to support the dry bulk segment, but the current freight status disappoints shipping players. According to data released by the General Administration of Customs showed that China imported 32.42 million mt of iron ore from Australia in January, up 21% year-on-year. Australia remained the top supplier of iron ore to China, accounting for 49% of the country's total imports in January, compared with 47% in December. Iron ore imports from Brazil, the second largest supplier to China, reached 12,91 million mt in January, down 16% year-on-year and 35% month-on-month. According to Commodore Research, 27 iron ore fixtures came to the market last week, 20 of them were for capesize vessels, 12 more than the previous week and 6 more than the trailing four week average.

The rise of Chinese iron ore fixture activity supporting also by the record low port stockpiles comes against the 53% decline seen in capesize vessel earnings at the end of February from their highest level of $9,010/day on January 21st 2013. There is still optimism for a rebound as for once more weather conditions have not allowed stability in vessel earnings at stronger levels seen during January. Chinese iron ore port stockpiles recorded for two consecutive weeks a minor increase as they still remain below 70 million tons.

Panamax and supramax vessel earnings keep the positive upturn seen during the last two previous weeks with vessel earnings in both vessel categories surpassing $8,000/day at the first day of March. In the panamax segment, the last day of February ended with vessel earnings standing at $7,917/day, which is 48% up from the end of January. The recent boost in Chinese thermal coal fixture activity and declines in coal ports stockpiles provide comfort in the oversupplied panamax segment, but prospects remain pessimistic as vessel deliveries are expected to surpass the 400 vessels for this year compared to more than 300 panamax vessel deliveries last year.

In the supramax segment, February ended with vessel earnings at $7,987/day, up 12% from the end of March, while handysize vessels showed a small retreat of 4.4% from the end of January with vessel earnings standing at $6,500/day the last day of February. The strongest vessel earnings in the handysize segment were seen at the end of the first half of last year, when at the end of June, they reached levels of more than $10,000/day.

The sharp downward revision in capesize vessel earnings holds the BDI below 800 points. **BDI** closed on **Friday March 1st,** at 776 points, up by 4.8% from last week's closing and down by 0.6% from a similar week closing in 2012, when it was 771 points. The fourth and finally week of February ends with a distressed picture in capesize vessel earnings during the whole month and an upward movement in supramax and panamax vessel earnings from mid-month. The largest increase has been recorded in the panamax and supramax segment. **BCI** is down by 8.2% w-o-w, **BPI** is up 14% week-on-week, **BSI** is up 8.9% week-on-week, **BHSI** is up 8.4% week-on-week.

Capesizes are currently earning $4,236/ day, down by $980/day from a week ago while **panamaxes** are earning $8,281/day, an increase of $1028/day. At similar week in 2012, **capesizes** were earning $5,979/day, while **panamaxes** were earning $6,786/day. **Supramaxes** are trading at $8,170/day, up by $676/day from last week's closing, 92% higher than capesize and 1.3% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $7,786/day, hovering at 30% higher levels than capesizes versus 92% today's higher levels. **Handysizes** are trading at $6,127/day; up by $543/day from last week, when at similar week in 2012 were earning $6,630/day.

In the **wet** market, a modest improvement was seen in crude carrier vessel earnings in some sizes and routes. In the very large crude carrier segment, WS in AG-USG route is stable for three successive weeks at WS28 with time charter equivalent earnings below zero levels, while WS in AG-SPORE and AG-JPN routes rose by 2 points to WS34 at time charter equivalent earnings of $8,000/day and $7,300/day respectively. In WAFR-USG route, WS stayed unchanged at WS40 -$16,500/day, while in WAFR-China route lost 1 point and fell to WS35-$8,700/day.

In the suezmax segment, rates improved across several key markets after facing a difficult trading environment for several weeks. In WAFR-USAC route, WS rose to 60-$14,000/day, up by 7.5 points from previous week and in B.SEA-MED route, posted even larger increase by moving 12.5 points up and closing to WS70-$16,400/day. CBS-USG route posted the strongest performance by rising to WS75-$22,300/day, 15 points above from previous week.

The CBS-USG route posted also firm picture in the aframax segment with WS rising to WS112.5-$20,100/day, 12.5 points more than in the previous week, while in the panamax segment rose by 15 points to WS135-$18,300/day. In the product segment, AG-JPN route recorded a modest improvement for 75,000dwt vessels with WS rising to WS82-$12,300/day, up by 3 points from previous week and a firmer rebound for 55,000dwt vessel with WS gaining 14 points more and closing to WS105-$12,700/day.

In the **gas** market, BP foresees Africa to become the largest natural gas exporter by 2030 overtaking Middle East that is the current global leader of LNG exports with over 100mil in LNG exports. The estimation is based on an annualized growth rate of over 6% in African LNG exports during 2020-2030, from roughly 100mil to over 180m in 2030, compared with 0.2% annualized growth in Middle Eastern LNG exports from 120mil in 2010 to 124mil in 2030.

In the **container** market, the Shanghai Container Freight Index decreased by 3.5% last week with downward inclines in all main routes. In Asia-Europe route, rates fell by 7.8% to $1199/TEU, which is the lowest level since December 7th 2012, when it was below $1000/TEU. The fall is also steep in Asia-Mediterranean route of 8.7% with rates at $1148/TEU, when it was $722/TEU on December 7th 2012.

In transpacific routes, rates in Asia-USWC fell to $2364/FEU, 3.3% down from the levels on the beginning of Chinese New Year, when on December 7th 2012; rates were standing at $2016/FEU. In Asia-USEC route, the decline is 2.4% from the levels on the beginning of Chinese New Year by standing at $3517/FEU, when on December 7th 2012; rates were at $3071/FEU.

Under the current adverse market conditions, Neptune Orient Lines is negotiating with yards to defer the delivery of 74,000TEU of newbuildings in 2013-2014. APL's parent company had initially scheduled the delivery of 10 boxships of 14,000TEU and 9 boxships of 9,000 TEU for delivery this year, but just 6 of 14,000TEU boxships and 7 of 9,000TEU boxships will be delivered this year and the remaining newbuildings will be delivered in 2014. These delays are more than welcomed as conditions in Asia-Europe trade remain weak without being able to absorb the excess capacity. According to Kenneth Glenn, president of APL, container shipping arm of Neptune's Orient Lines, said that trade volumes on transpacific container shipping line are expected to rise in 2013, but growth in Asia-Europe trade will remain flat.

A recovering US economy fuels optimism for the transpacific trade while continuing uncertainties surrounding Europe's sovereign debt crisis are taming consumer demand, Glenn noted. Fundamental signs of an improving US economy can be seen from the country's lower unemployment rate, firiming equity indices and a bottomed out housing market, all of which would create demand to absorb some of the excess capacity.

In the **shipbuilding** industry, the Korea Chamber of Commerce & Industry (KCCI) submitted a "Recommendation of Policy Support for Shipbuilding Industry to Overcome Crisis", to the Ministry of Strategy and Finance, the Ministry of Knowledge Economy and Financial Services Commission of February 27th. The KCCI pointed that Korean financial support towards domestic shipbuilding got weakened during a period of worldwide slump in shipbuilding demand, while China is reinforcing its policy support for its shipbuilding and Koreans are loosing ground in a fierce competition with China. The recommendation said: *"Amid global economic recession, shipbuilders have struggled, thus China has provided various financial support policies such as supporting high value vessel, project on offshore structure export and exclusive ship finance project. However, Korean shipbuilders' financial problems are getting worse because Korea financial institutions are passive about ship finance".*

Park Jong-gap, executive director of KCCI said: "Our recent shipbuilding industry is facing situations of giving up orders won with difficulty due to lack of financial support. Policy support is urgently needed for builders to overcome the crisis through financial support, which is tantamount to China's".

In the **shipping finance**, the Export-Import Bank of China aims to increase ship finance up to $3bn for 2013, compared with $2.1bn in 2012. CEXIM plans to support shipping companies to fulfil their obligations for debt repayments and newbuilding contracts amid weak rates and high bunker costs. Moreover, it aims to boost domestic shipbuilding by financing shipowners who are placing orders at Chinese yards. An official statement from CEXIM Shanghai branch said: *"We hope to focus on projects related to merchant vessels, offshore and energy facilities and we are particularly interested in lending to high technology shipbuilding projects, such as ultra large boxships, gas carriers, offshore vessels."*

In terms of ship financing deals, Scorpio Tankers announced it had signed a commitment letter for a $267mil credit facility with Nordea, ABN AMRO and SEB. The facility will be split between a revolver and a term loan, has a 6-year maturity and will provide financing for up to 60% of the purchase price of vessels, including newbuildings upon delivery.

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