GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 8th March 2013 (Week 10/2013)
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ECONOMIC ENVIRONMENT

China's Premier announced a growth warning this week for a 7.5% annual growth target for this year, while it also said that this pace might not be reached easily and it would be the slowest growth since 1990. "We believe China's growth potential this year is around 8 per cent but in the next five to 10 years China's potential growth will move down to below 7 [per cent]," said Zhu Haibin, an economist with JPMorgan. Meanwhile, the government is targeting at consumer inflation of 3.5% for the year and also intends to create 9m jobs, Mr Wen said.

In Japan, Bank of Japan governor Masaaki Shirakawa has kept policy settings on hold at the final board meeting of his five-year term, rejecting proposals for more aggressive easing from two of his board members. The Bank of Japan left its asset purchasing programme unchanged, at a total of Yen101trillion by the end of this year, and held its key interest rate at almost zero by hinting at further monetary easing to stimulate economic growth.

In the eurozone, the European Central Bank cut its forecasts for the eurozone economy for this year and next by leaving its forecasts for inflation broadly unchanged. The ECB estimated euro's GDP to decline between 0.1% and 0.9% in 2013 and it also cut its growth forecast for next year to 0.0 and 2.0% from between 0.2% and 2.2% in its previous forecast. Inflation would be between 1.2 and 2.0 percent in 2013 from a previous forecast of 1.1 and 2.1 percent and between 0.6 and 2.0 percent in 2014. "A gradual recovery should commence in the second part (of 2013)," ECB President Mario Draghi said during a news conference after the bank decided to leave the main refinancing rate at 0.75 percent. "Inflation expectations for the euro area remain firmly anchored, in line with our aim of maintaining inflation rates below but close to 2 percent over the medium term. Overall, this will allow our monetary policy stance to remain accommodative."

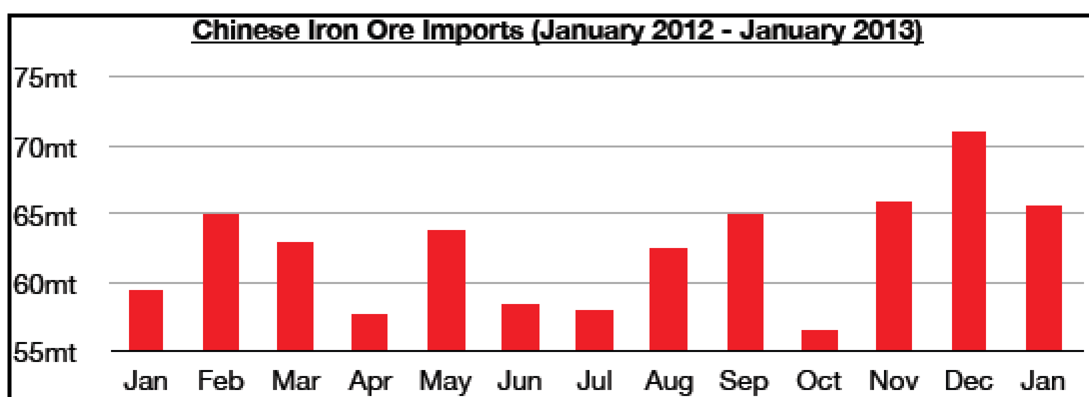
SHIPPING MARKET

The first week of March ended with some optimism for the dry bulk segment as capesize earnings have started to rebound and panamax with supramax are outperforming. Dry bulk main commodities demand seems very positive to support higher vessel earnings as we move towards the end of the first quarter of the year. In the tanker segment, the dismal very large crude carrier picture has posted no change from the record lows seen from the end of January. In the container segment, the busiest Asia-Europe is facing serious headwinds after the end of Chinese festivities with eurozone recession being unable to alleviate the pain of overcapacity through stronger vessels' capacity demand.

In the **dry** market, cyclones in Western Australia limited iron ore cargo loadings and coal worker strikes cut coal chartering volumes pressurizing seriously capesize vessel earnings at distressful levels for shipping players. In the panamax market, firm seasonal South American grain fixture activity lifted panamax vessel earnings to levels of more than $8,000/day, while increased coal exports to China and India helped also significantly the supramax segment. In the meantime, the United States Department of Agriculture (USDA) raised its 2012/13 global grain trade forecast slightly to 285.8 million tons, 100,00 tons more than its previous forecast, which would be a beneficial factor for the supramax segment.

In the iron ore market, Australian iron ore cargoes are likely to surface this week as major Australian ports are fully reopened after the Tropical Cyclone Rusty, which would provide support in the capesize segment. In addition, Colombian coal miners' strike is reported to coming to an end after an agreement reached with management regarding a wage increase that would bring additional support in coal cargo loadings for capesize vessels. During the last week, there was a decrease in iron ore fixture volume that dragged capesize earnings to levels of less than $5,000/day. According to Commodore Research, 15 iron ore fixtures came to the market last week, 12 less than the previous week and 6 less than the trailing four week average. On the other hand, Chinese thermal coal fixture activity is on rise from relatively low Qinhuangdao coal port stockpiles attributing to the rise of panamax vessel earnings.

Chinese iron ore port stockpiles have recorded a minor weekly increase for three straight weeks by standing now approximately 70million tons, which are still at the lowest levels since November 2010. Statistics data from Commodore Research reveal that the recent decline in iron ore port stockpiles has been responsible for China importing a record amount of iron ore during that last few months. During November through January, a total of 202,3mt of iron ore was imported, which is 14.7mt (85) more than was imported during November 2011 till January 2012.



The first week of March ends with an upward trend in the Baltic Dry Index from positive movements in all vessel categories. BDI is now finally standing above 800 points for the first time since January 24th, with the panamax and supramax segment outperforming among other vessel sizes. Supramax and panamax vessel earnings have posted the strongest performance, since mid-February, with vessel earnings nearing to $9,000/day, while capesize earnings are crawling to surpass the levels of $4,500/day. In the handysize segment, vessel earnings finally broke the barrier of $7,000/day, for the first time since end-January.

BDI closed on **Friday March 8th,** at 843 points, up by 8.6% from last week's closing and up by 2.3% from a similar week closing in 2012, when it was 824 points. The largest increase has been recorded in the supramax segment. **BCI** is up by 1.5% w-o-w, **BPI** is up 8.4% week-on-week, **BSI** is up 11% week-on-week, **BHSI** is up 8.0% week-on-week.

Capesizes are currently earning $4,483/ day, up by $247/day from a week ago while **panamaxes** are earning $8,994/day, an increase of $713/day. At similar week in 2012, **capesizes** were earning $5,786/day, while **panamaxes** were earning $7,129/day. **Supramaxes** are trading at $9,038/day, up by $868/day from last week's closing, 102% higher than capesize and 0.4% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $9,035/day, hovering at 56% higher levels than capesizes versus 102% today's higher levels. **Handysizes** are trading at $7,193/day; up by $1066/day from last week, when at similar week in 2012 were earning $7,106/day.

In the **wet** market, very large crude carrier segment remains depressed with ample tonnage in AG and persistent time charter equivalent earnings below zero levels since the beginning of the year. In AG-USG route, WS is stable at WS18 for fourth consecutive weeks, from WS28 at the end of December 2012. In AG-SPORE and AG-JPN routes, WS fell by 0.5 points to WS34 at time charter equivalent earnings of $7,900/day and $9,500/day respectively, from WS46 at the end of December 2012. In WAFR-USG route, WS lost 5 points and fell to WS35-$9,500/day from WS48 at the end of December

2012. In WAFR-China route, WS lost 1.5 points and dropped to WS33.5-$6,900/day, from WS46 at the end of December 2012.

The Altantic suezmax market saw a firm activity last week from solid prompt vessel demand. In WAFR-USAC route, WS eased 2 points and decreased to WS58-$12,900/day, from WS52.5 mid-February, while in BSEA-Med route, WS moved up by 2.5 points to WS72.5-$19,100/day, from WS57.5 on mid-February. In CBS-USG route, WS remained stable at WS75-$22,600/day for second straight week, while in the aframax segment; it gained 5 points to conclude at WS117.5-$22,700/day, from WS82.5 at the end of January.

In the panamax segment, CBS-USG route gained 2.5 points and rose to WS137.5-$23,000/DAY, and the product segment experienced also a firm improvement in AG-JPN route. WS in AG-JPN route for 75,000dwt product vessels gained 5 points and lifted to WS87-$15,100/day, from WS79 on mid-February, while for 55,000dwt vessels, WS gained 13.5 points and climbed to WS118.5-$17,800/day, from WS91 on mid-February.

The distressful picture in the very large crude carrier earnings, by floating at levels below breakeven, has prompted major tanker player Maersk to plan the cold laid up for two modern VLCC vessels of 307,300dwt, M/T “Maersk Nucleus” built 2007 and M/T “Maersk Nautilis” built 2006. The biggest glut since 1996 in the supply of the largest oil tankers means owners will have to wait three more years for rates to recover, according to A.P. Moeller-Maersk A/S.

The global fleet of very large crude carriers expanded 28 percent over the last four years, Hanne Sorensen, chief executive officer of Maersk Tankers, said in Blomberg. The fleet is currently oversupplied by about 70 ships and as many as 50 more VLCCs will be delivered this year, Sorensen said.

The negative picture on US oil demand due to shale revolution, narrowing the need for imports, puts very large crude operators in a serious troubled financial position. However, we still see ordering activity in the very large crude carrier segment, mainly from Chinese players that wish to become stronger at the new lows of newbuilding prices. There are estimations suggesting that China may overtake US as the world’s largest net oil importer.

On an annual basis, the US remains the world’s largest net oil importer, but the margin has narrowed significantly. The country’s net foreign purchases of crude and refined oil products dropped in 2012 to a 20-year low of 7.14m b/d. In the same period, Chinese net oil imports averaged 5.72m b/d. US oil production surged last year more than 800,000 b/d, the largest annual increase since the start of the petroleum era in the country more than 150 years ago. The rise in domestic production has allowed the country to lessen its dependence on the Opec oil cartel significantly.

In the **gas** market, Japan’s Trade Ministry is said to be planning discussions with South Korea to joint purchases of liquefied natural gas in attempt to cut fuel import costs, according to government officials. Japanese Prime Minister Shinzo Abe is under pressure to narrow last year’s record trade deficit of 6.9 trillion yen ($74 billion) that was spurred by imports of LNG after nuclear power plants were shut nationwide following the March 2011 earthquake. The country paid 6 trillion yen for a record 87.3 million metric tons of the fuel in 2012, customs data show.

In the **container** market, the Shanghai Container Freight Index keeps its freefall for one more week by declining to 1,117.04 points, down by 4.1% week-on-week, which marks drop for five successive weeks. Asia-Europe and Asia-Mediterranean routes experienced for a second week, after the end of Chinese festivities, the strongest declines, while the fall in transpacific routes was modest.

In Asia-Europe, rates fell to US$1,104/TEU, down by 7.9% week-on-week, recoding decline for five weeks, from $1,316/TEU at the beginning of February, and are down 22% from the levels at the start up of March last year. In Asia-Mediterranean route, the decline is even sharper than Asia-Europe; rates plunged to $1,033/TEU, down by 10% week-on-week, from $1,285/TEU at the beginning of February, and are down 27% year-on-year. The paradox in the decline of freight rates is that latest data from Container Statistics show that westbound volumes on Asia-Europe trade increased by 2.5 year-on-year

in January to reach 1,3m TEU. The last month in which volumes increased on the westbound trade was February 2012, when they jumped by 7.8%. The decreases experienced last year culminated in an annual fall in westbound Asia-Europe volumes of 4.8% year on year.

In transpacific routes, rates are holding some resistance with signs for better trading figures from US economic recovery. In Asia-USWC, rates are now $2,287/FEU, 3.2% down week-on-week, from $2,475/FEU at the beginning of February, but up by 30% year-on-year, against the yearly declines that Asia-Europe and Asia-Mediterranean routes have already experienced. In Asia-USEC, rates are now $3,447/FEU, down by 5% week-on-week, from $3,630/FEU at the beginning of February, and up by 18% year-on-year.

The threat of capacity issue becomes more intense for this year with statistics data estimating a record of new vessel deliveries. According to Alphaliner, the capacity of new containerships to be delivered in 2013 will reach a new record despite steps taken by owners to defer the delivery of some of their newbuildings. Weak trading conditions have prompted some owners to push some 200,000 teu of new ship deliveries originally scheduled in 2013 into 2014, with additional deferrals expected to be finalized in the coming months. In particular, the number of ships over 10,000 teu to be delivered in 2013 has fallen to 41 units. The containership capacity due to be delivered in 2013 currently stands at 1.68 Mteu, based on Alphaliner's latest newbuilding delivery schedule as at 1 March 2013, which is higher than the historical high of 1.57 Mteu recorded in 2008. The weak conditions have also led to a surge in scrappings. 37 ships for 80,000 teu have been delivered to scrap or de-celled during January and February, and a further ten ships totalling 20,000 teu are already committed for scrap during March. Full year deletions are expected to exceed 400,000 teu, which would be the highest level of containership deletions ever recorded, if the current rate of scrapping persists.

In the **shipbuilding** industry, four floating LNG processing vessels that Flex LNG ordered at Samsung HI have been officially cancelled. Samsung, South Korea's second biggest shipbuilder, said in a Korea Exchange filing that four LNG FPSO orders contracted in early 2008 have been terminated, without revealing client's identity. However, Flex LNG's CEO Philip Fjeld confirmed to Fairplay that his company was behind the four orders. In the filing, Samsung said that after the global financial crisis hit in September 2008, the customer could not secure financing for the vessels, resulting in the delivery date being pushed back several times. FLEX said Samsung HI received $458.7M from Flex in 2007 related to the shipbuilding contracts. The cancellation of contracts reveals the tight ship financing status that exists in the market and hinders the investment plans of shipping players creating financial issues in all sides.

In China, the pace of consolidation among shipbuilders will accelerate due to a hard recession in global shipbuilding demand. According to a recent statement from China's ministry of industry and information industry (MIIT), the government wants to see only 10 Chinese yards contributing to at least 70% of the country's total shipbuilding output by 2015. Beijing's aim behind the consolidation is to raise competitiveness among stronger yards, optimise the allocation of resources, expand high-end manufacturing capacity and improve technology to construct high specification offshore rigs and equipment.

In the **shipping finance**, a subsidiary of Mitsubishi Corp is looking to raise $750 million in a new fund that will target the depressed prices in the containership market, according to Bloomberg. The new fund, MC Seamax Shipping Opportunities Fund, will be led by Cao Deambrosio and Ron Petrunoff. Mitsubishi will commit $50 million and an additional $50 million debt facility. The fund is offering a 12% return to investors.

Under the current freight market recession, DVB CEO Wolfgang Driese revealed that the bank reported $70 million in shipping loan loss provisions, citing the longest shipping crisis the bank has seen. Mr. Driese also mentioned that the regulatory environment has become the second largest risk factor for the bank. Despite these challenges, DVB has remained among the most dependable sources of traditional mortgage-backed ship financing throughout the shipping crisis.

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