

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

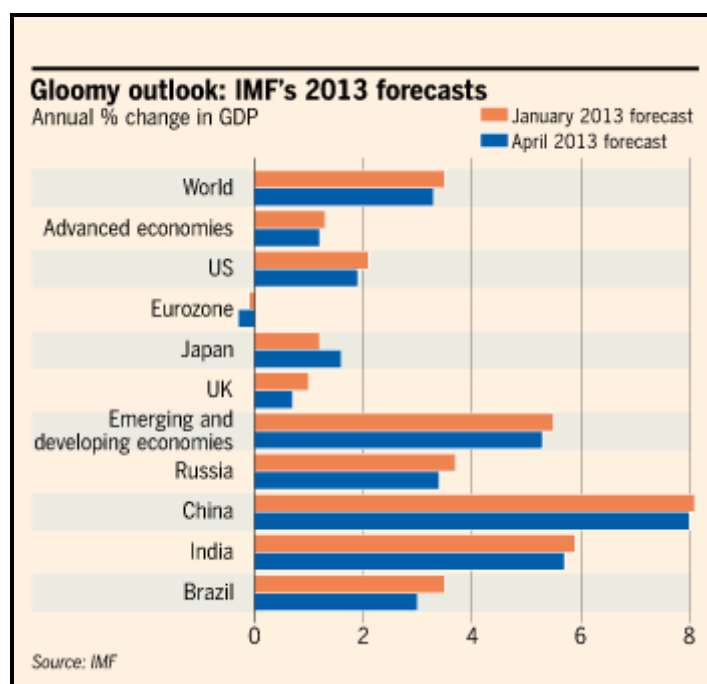
Week Ending: 19th April 2013 (Week 16/2013)

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ECONOMIC ENVIRONMENT

Following last week's negative projections about the world trade and economy during 2013 from the World Trade Organization, the International Monetary fund now underlines once more the challenges of this year. IMF believes that the world economy is running at three speeds with emerging and developing economies appearing still strong and US performing much better than eurozone among advanced economies. The International Monetary Fund warned that an "uneven recovery is also a dangerous one" for the global economy and it downgraded its 2013 global growth forecast by 0.2% points to 3.3% by holding its 2014 growth forecast at 4%. IMF expects US to grow 1.9% this year and 3% in 2014, while eurozone will contract 0.3% in 2013 and grow only 1.1% in 2014.



The world's second largest economy, China disappoints with its growth figures for the first quarter of the year. Chinese economy grew 7.7% in the first quarter of 2013 from a year earlier, according to National Bureau of Statistics, against analyst expectations for a stronger start in 2013. China's GDP growth had rebounded 7.9% in the final quarter of last year, ending to a near two-year slowdown and providing confidence for a better performance. However, the country's new leaders are still facing serious challenges in their attempt to keep growth on track while they are also pursuing deeper economic reforms. Despite the slow Chinese economic growth in the first months of the year, IMF expects the country to achieve 8% growth in 2013 and 8.2% in 2014, showing enhanced performance from 2012.

Chinese government warned that the country has entered an era of lower growth and must adjust the end of three decades of double digit annual economic expansion. Significantly slower Chinese growth will affect economies across the world and hurt exporters of raw materials that have become reliant on surging Chinese demand over the past decade. "For commodity exporters in places like Australia, Latin America and Africa, much slower Chinese growth is very bad news," said Frederic Neumann, co-head of Asian economic research at HSBC. "A lot of supply is coming on stream that was predicated on the idea that China would grow faster than 9 per cent forever." Following Beijing's warning, the World Bank said that Chinese growth would slow to "between 6 and 7 per cent by the end of the decade", according to Bert Hofman, its chief Asia economist.

Under the current pessimistic growth figures, Moody's Investors Service lowered its China credit rating outlook following last week's Fitch downgrade. Moody's Investors Service affirmed China's government bond rating of Aa3 but cut its outlook to stable from positive. The credit rating agency said that more reform would be necessary to prevent a build-up of pressure that could increase the risks of hard landing for the Chinese economy.

The slowdown in China's economic growth and mixed worries for the US recovery have led gold price to hit a two year low by trading below \$1,400 an ounce for the first time since February 2011, while Brent crude oil price fell below \$100/barrel for the first time since end June. Last spring a similar seasonal slump in demand, when European refineries were closed for annual maintenance, led Brent to fall from almost \$120/barrel in March to about \$90 in June.

In eurozone, the Cyprus-Troika loan Agreement was formally approved at the Eurogroup Meeting in Dublin without any changes bringing to an end a series of long discussions and negotiations and ensuring the re-financing of the Cyprus Banking system. In addition, Greece has reached agreement with international leaders on reducing civil service payroll and curbing tax evasion for the release of a €2.8bn aid tranche delayed since March. European Commission, European Central Bank and International Monetary Fund said that Athens was on track to meet fiscal targets this year and had made "important progress on measures to improve tax and debt collection". In Portugal, international lenders arrived on the beginning of the week to assess a new round of austerity measures as the government struggles to keep the country's €78bn rescue program on track and avoid a second bailout.

In US, Citigroup, the third biggest bank by assets, reported \$3.8bn in net income for the first three months of the year compared with \$2.9bn a year ago after the end of the first quarter. Analysts had expected about \$3.5bn and the outperformance was driven by strong earnings in the investment bank and an improving credit outlook in North America. In addition, Bank of America's net income quadrupled to \$2.62 billion, or 20 cents per share, from \$653 million, or 3 cents per share a year earlier as expenses dropped and the bank set aside less money to cover bad loans.

In Japan, US overcame China as the top destination for Japanese exports for the first time since 2009. The finance ministry said that Japan posted its narrowest trade deficit for nine months in March, due to a big rise in shipments to US. According to data released for the fiscal year through March, exports to US rose 10% from a year earlier to ¥11.4tn, while shipments to China dropped 9% to ¥11.3tn. Overall, Japanese exports rose 1.1% in March from a year earlier, reaching ¥6.3tn (\$64bn), while imports grew 5.5% to ¥6.6tn, boosted by fuel imports to replace idled nuclear capacity. The resulting ¥362 deficit was the smallest since a small surplus recorded last June, on an unadjusted basis.

In South Korea, the government unveiled a Won17.3tn (\$15.4bn) supplementary budget for its stalled economy that has been influenced by its sluggish domestic consumption and weaker yen that leads to slower export trading figures. The government is facing an intense pressure for stimulus programs as Korean economy grew in the first quarter at its slowest pace since the global financial crisis. The government slashed its 2013 growth target to 2.3 per cent late last month from 3 per cent, citing slowing exports and sluggish domestic spending. Economists said the government has room to expand its fiscal spending as the country's fiscal deficit remains low at just 1.8 per cent of its gross domestic product, with the government debt at just 36.2 per cent of GDP. The government expects the extra budget to help create about 40,000 jobs and boost the country's 2013 growth rate by 0.3 percentage points. In the meantime, the central bank of Korea has left its policy rate unchanged at 3.25 per cent for a sixth consecutive month despite low inflation.

SHIPPING MARKET

The slower economic growth in China during the first quarter of the year spurs worries for the health of dry bulk earnings as the government warns that the era for a double digit growth has now ended. Shipping players that support their plans on capesize newbuilding investments on China's solid growth and lower oncoming vessel deliveries from 2015 may be in jeopardy. Eurozone crisis continues its negative impact on container rates with Asia- European rates sliding to less than \$1,000/TEU and players seeking ways to revolve the downward spiral. In the tanker segment, MR product vessel sizes are still outperforming against crude carrier vessel categories with investors keeping their conservative approach in the ordering or buying very large crude carriers.

In the **dry** market, the BDI is floating below 900 points since the beginning of the April with daily returns for capesizes averaging less than \$5,000/day from March. Chinese demand for imported iron ore cargoes remains relative low from ongoing weakness in Chinese steel market and the current vessels' supply picture is hampering a return to stronger daily earnings. Chinese iron ore port stockpiles are still floating at the lowest levels since April 2010 at about 67million tons.

In the panamax segment, charter rates will be benefited from China's coal-dedicated Daqin Railway maintenance that is going to deplete current coal stockpiles at Chinese ports and stimulate more coal cargo loadings for panamax vessels. According to Commodore Research, this maintenance will result in 5 to 7 million tons of domestic coal not being railed to Qinhuangdao and instead will need to be imported leading to a surge in Chinese thermal coal fixture volume in the upcoming two weeks. Qinhuangdao coal port stockpiles currently stand at 6.7 million tons, which is below the critical 7 million ton level that officials strive to maintain, and is the lowest level seen since January.

South American grain activity stills offers some resistance in the fall of panamax daily earnings that fetched again this week levels of more than \$9,000/day for the first time since April 4th. In the supramax segment, daily earnings are nearing to \$9,500/day, by holding enhanced performance among other vessel categories.

BDI closed on **Friday April 19th**, at 888 points, up by 1.4% from last week's closing and down by 17% from a similar week closing in 2012, when it was 1,067 points. **BCI** is on a downward spiral, **BPI** posted a firm rebound, while supramax keeps its upward trend and handysize a mild increase. **BCI** is down by 2.4% w-o-w, **BPI** is up by 7.5% week-on-week, **BSI** unchanged week-on-week, **BHSI** is up 2.4% week-on-week.

Capesizes are currently earning \$4,329/ day, down by \$372/day from a week ago while **panamax**es are earning \$9,557/day, an increase of \$665/day. At similar week in 2012, **capessizes** were earning \$6,598/day, while **panamax**es were earning \$11,882/day. **Supramaxes** are trading at \$9,432/day, down by \$6/day from last week's closing, 118% higher than capesize and 1.3% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting \$10,667/day, hovering at 62% higher levels than capesizes versus 118% today's higher levels. **Handysizes** are trading at \$7,999/day; up by \$176/day from last week, when at similar week in 2012 were earning \$8,482/day.

In the **wet** market, VLCC rates remain under negative pressure with WS in AG-USG staying flat at WS18 for a second week. The forward supply of very large crude carrier vessels in AG was relatively flat at 85 vessels pushing hard the freight market sentiment. In AG-SPORE and AG-JPN routes, rates also posted no changes by staying at WS32 with time charter equivalent earnings of \$6,400/day and \$6,500/day respectively. In WAFR-USG routes, rates moved up by 2.5 points to WS37.5-\$14,700/day, while in WAFR-China, rates lost 1.25 points and fell to WS33.75-\$8,800/day.

In the suezmax segment, limited tonnage inquiries pushed rates lower. Rates on WAFR-USAC route eased 2.5 points to conclude at WS57.5-\$13,500/day and in B.SEA-Med route stayed flat at WS67.5-\$15,200/day. In the aframax segment, lack of activity spurred sharp declines in a number of key markets, including Mediterranean region, United Kingdom Continent and Black Sea. However, the Caribbean aframax market saw no change this week with rates stable at WS87.5-\$9,600/day.

In the panamax segment, the Caribbean market posted a weekly loss of 5 points with rates in CBS-USG route falling to WS115-\$10,100/day. In the MR segment, AG-JPN routes experienced a minor decline of 2 points for 75,000dwt vessels and fell to WS97-\$20,600/day and a sharp decline of 7.5 points for 55,000dwt vessel with rates falling to WS121.5-\$19,500/day.

In the **gas** market, government of Singapore, through its sovereign fund Temasek Holdings, is establishing a new fund for LNG investment. Based on industry experts and \$800 million of initial capital, Pavilion Energy will focus on trading and exploration, storage, processing and shipping. This launch is an element of Temasek's plans to become more involved in the growing energy demand in Asia.

In addition, Japanese trading house Marubeni Corp will form a joint venture with South Korean SK Shipping Co to buy two LNG carriers for construction at Samsung Heavy Industries for a total of 46 billion yen (\$462.08 million), with a capacity of 180,000 cubic meters, to transport shale gas and lease them to Total SA for up to 30year, Nikkei said.

Although LNG investments are on course by major shipping players on the back of a buoyant LNG spot market, LNG rates are following a downward trend in recent days as new vessels are delivered and European LNG demand wanes. LNG daily rates from their peak of \$150,000/day in early January are now heading to fall under \$100,000/day. According to Fearnleys, spot rates for ships carrying cargoes east of the Suez Canal are now \$102,000 per day, down from \$106,000 per day a week ago.

In the **container** market, the Shanghai Container Freight Index keeps its slide with carriers failing to improve Asia-Europe spot freight rates through general rates increases. The SCFI fell last week to 1,117 points, 2% down week-on-week from a 12% weekly decrease in Asia-Europe and 11% decrease in Asia-Mediterranean rates. The SCFI is now down by 21% from a year ago with Asia-Europe spot rates at \$940/TEU, down 46% year-on-year and Asia-Mediterranean routes at \$955/TEU, down 46% year-on-year. Asia-Europe spot rates fell to their lowest level since February 2012, while there is a downward spiral in rates since July last year.

Transpacific routes also moved to lower levels following previous two weeks' straight rise. In Asia-USWC route, rates fell to \$2,226/FEU, down by 3.3% from previous week and \$3,380/FEU in Asia-USEC route, down by 2.1% from previous week. Transpacific routes recorded also soft yearly declines for the first time in the year, 2.6% in Asia-USWC and 3.9% in Asia-USEC.

Alphaliner said: "Carriers' failure to rein back capacity increases on the trade to match the weak demand conditions has been the main reason for the rate deterioration. "Average vessel-utilisation levels on the trade fell to an estimated 77% in March, which is too low to support any sustainable rate increases." Alphaliner said that weekly capacity on the trade in April is 2.3% higher than at the same period of last year and carriers are expected to further increase over the coming months as the size of vessels is upgraded. It points out that seven vessels larger than 13,000 teu were delivered in March and 12 more are due to arrive over the next two months.

The growth of vessels' capacity keeps with the idle fleet standing 4.6% of the existing fleet. New vessel deliveries in the first quarter of 2013 outpaced vessel deletions/scrapping by a ratio of 3-to-1 in terms of TEU capacity. FE-Europe rates have dropped by over 33% since January even the attempts of general rate increases. The influx of new vessels brings the negative pressure in rates; in particular 38 units of more than 10,000 TEU are due to be delivered in 2013. In the meantime, Maersk has postponed its \$500/teu increase on the key tradelane Asia-Europe by two weeks until May 1st, while several other carriers have already announced a further round of rate increases on May 15th.

In the **shipbuilding** industry, Japanese shipbuilders regained strength in March from a surge in new orders for bulk carriers. According to the Japan Ship Exporters' Association, Japanese shipbuilders won 49 export orders aggregating 2,720,150gt in March, up from five orders of 167,470gt in February. The statistics show JSEA members won orders for five Handysize bulkers, 16 Handymax bulkers, eight Panamax bulkers and 17 Capesize bulkers. Yards that have won such orders include Japan Marine United and Mitsubishi Heavy Industries.

In the **shipping finance**, Asian lenders make strong presence this week amid tight European ship financing conditions. A new financing plan for Wisdom Marine Group and its full subsidiary Wisdom Marine Lines has now been confirmed for US\$59.2m and US\$120m financing respectively with the contract expected to be signed on April 24. The 8.5-year ship financing will be divided into six parts for the funding of six bulkers to be delivered by Japanese shipbuilders from June 2013 to January 2015. Bank of Taiwan and First Bank will be the main lenders offer each 34% of the fund. Bank SinoPac, Hua Nan Commercial Bank and Taiwan Cooperative Bank will each provide 9% of the fund, while Bank of Kaohsiung will provide 5% of the fund.

Furthermore, South Korean policy banks will be involved in a lending deal of \$432mil with a joint venture between Marubeni and SK Shipping for shipping liquefied natural gas to South Korea from 2017. According a statement from Korea Development Bank, the lender will arrange a \$369m syndicated loan with Sumitomo Mitsui Banking and Credit Industriel et Commercial to support the joint venture, which is 51% owned by SK Shipping and 49% by Marubeni. "The maturity period is 10 years. The venture will only need to start repaying in 2017 when it begins operations and has stable charter incomes," a KDB official said. In a separate deal, Korea Finance Corp has agreed to lend \$63m to the same venture. The funds are expected to cover newbuilding costs and initial operating expense for the venture, which booked two 180,000 cu m LNG carriers at Samsung Heavy Industries for \$409.5m.

In China, one the main financing banks, China Exim Bank will provide 1.4Bn yuan (\$226M) in credit facilities and 1Bn yuan in loans to private shipping enterprises in China. According to agreements signed yesterday in Fuzhou, the bank would provide a 700M yuan credit facility to Fujian Huarong Marine Shipping and Fujian Guanhai Shipping. China Exim also signed an agreement to lend 50M yuan in working capital for ship repair facilities at the Fujian Huadong yard. In addition, Guanhai Shipbuilding Industry would be lent 100M yuan in working capital for six 59.85m auxiliary vessels to be exported to Hong Kong. Tuofu Ocean Shipping would be lent \$44.43M for two 82,000dwt bulkers it has ordered in China. TRANVAST (Nanjing) will be provided with \$32.9M in financing for two 39,000dwt MPVs it ordered in China. Finally, the bank would work with Nordea Bankto to provide a \$58.01M syndicated loan to Asia Maritime Pacific for its order of four bulkers in China.

In the **capital markets**, New York-based private equity fund Riverstone Holdings has invested \$200M in Connecticut's Ridgebury Tankers, which will use the money to buy vessels. In addition to Riverstone's investment, Ridgebury's management will contribute \$5.7M, the companies said in a joint statement. Ridgebury will focus acquisitions on all sizes of clean product tankers and Suezmax crude tankers. "Our strategy is to invest in modern tonnage either currently on the water or on resales of vessels that will enter service shortly," explained Ridgebury chief executive officer Bob Burke. "We believe that the next 12-24 months will present an attractive entry point for investments in the sector," said Burke. "Although distressed opportunities may present themselves, our primary focus will be the pursuit of quality modern tonnage. We are not in a rush to invest, and we want to focus our efforts on opportunities with a high certainty of closing."

In addition, NYSE-listed Teekay Offshore has secured a new private investment that will partly fund shuttle tanker newbuildings for the UK's BG Group. Teekay Offshore confirmed that an institutional investor has agreed to buy 2,056,202 common units, equating to net proceeds of about \$60M. The private placement is expected to close on 19 April. Teekay Offshore will use net proceeds for partially funding four Suezmax DP2 shuttle tanker newbuildings that were ordered from South Korea's Samsung HI in June 2011, for deliveries in mid- to-late 2013. The aggregate cost of the four shuttle tankers is \$470M. Upon delivery, the ships will be placed on 10-year timecharters to a subsidiary of the BG for shuttle tanker operations in Brazil's offshore market.

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