This Week's News: A snapshot on the economic and shipping environment
Week Ending: 26th April 2013 (Week 17/2013)
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ECONOMIC ENVIRONMENT

The world economy is gathering further clouds from eurozone's ongoing contraction with the initial Markit Purchasing Managers' Index indicating further slowdown in eurozone during April, as Germany sees renewed downturn amid slowdown of industrial expansion in leading economies, US and China. According to Markit Economics' Press Release, the Markit Eurozone PMI Composite Output Index was unchanged on March's reading of 46.5 in April, according to initial estimate. The sub-50 reading indicated a drop in activity for the nineteenth time in the past 20 months, the exception being a marginal increase in January 2012. Activity fell sharply again in both manufacturing and services. While the former saw the steepest rate of decline for four months, the latter saw the downturn ease slightly compared with March.

Commenting on the flash PMI data, **Chris Williamson, Chief Economist at Markit** said: *"Although the PMI was unchanged in April, the survey is signalling a worrying weakness in the economy at the start of the second quarter, with signs that the downturn is more likely to intensify further in coming months rather than ease. The renewed decline in Germany will also raise fears that the region's largest growth engine has moved into reverse, thereby acting as a drag on the region at the same time as particularly steep downturns persist in France, Italy and Spain. Policymakers will at least be relieved to see inflationary pressures cooling, which could further open the door to renewed policy stimulus."*

Eurozone economies are also facing high unemployment figures hampering consumer demand growth with unemployment in Spain and France climbing to record levels. In Spain, the number of unemployed has risen beyond 6mil for the first time since records began, underlining the austerity of EU policy response to the severe financial crisis. In France, unemployment figures rose for the 23rd month to 3,2mil in March, surpassing a previous peak in 1997.

In U.S., gross domestic product increased at 3.1% annual rate after expanding at a 0.4% in the final three months of 2012, according to the median forecast of 67 economists surveyed by Bloomberg ahead of Commerce Department data due April 26. According to economists, the biggest gain in US consumer spending in two years probably helped the world's largest economy to accelerate in the first quarter and housing made further progress. Bloomberg survey median showed that US consumer spending, which accounts about 70% of the economy, may grow at a 2.8% annual rate, which is the strongest since the first quarter of 2011. However, the Markit Flash US Manufacturing Purchasing Managers' Index fell to its lowest reading in six months to 52 during April, from 54.6 in March, remaining above the 50 level that marks the line between growth and contraction.

Commenting on US flash PMI data, **Chris Williamson, Chief Economist at Markit** said: *"The biggest monthly fall in the PMI since June 2010 raises concerns that the U.S. manufacturing expansion is losing momentum rapidly as businesses and households worry about the impact of tax hikes and government spending cuts. While this week's first quarter GDP numbers may therefore bring some brighter news on the economy, the picture looks to have already begun to darken again, with GDP growth set to weaken in the second quarter."*

In UK, economy has avoided falling back into triple-dip recession after recording faster than expected growth in the first three months of the year. The Office for National Statistics said its first estimate for Gross Domestic Product showed the economy grew 0.3% during the first quarter of 2013. The ONS figures also showed that GDP had risen by 0.6% when compared with the first quarter of 2012, the strongest year-on-year increase since the end of 2011. The improvement in GDP growth is mainly due to strong growth in the services sector and a recovery in North Sea oil and gas output. Chancellor George Osborne said: "Today's figures are an encouraging sign the economy is healing. Despite a tough economic backdrop, we are making progress. The deficit is down by a third, businesses have created over a million and a quarter new jobs, and interest rates are at record lows. We all know there are no easy answers to problems built up over many years, and I can't promise the road ahead will always be smooth, but by continuing to confront our problems head on, Britain is recovering and we are building an economy fit for the future," he added.

In Japan, OECD has warned that country's control on its vast debts remains the most important policy challenge as Prime Minister, Shinzo Abe, tries to stimulate the sluggish economy via aggressive fiscal and monetary stimulus. OECD expects Japan's gross debt to approach 240% of gross domestic product, the highest ration in the developed world. Japan's Finance Minister Taro Aso said that a self sustaining economic recovery is at least a "few years" away and it may take longer than two years to reverse the country's deflation. This statement is in contrast with worries expressed by many countries, including United States that Japan could be deliberately trying to force the yen lower to boost exports and cut imports via "competitive devaluation".

In South Korea, economy grew at the fastest quarterly pace for two years during the first quarter by showing 0.9% GDP growth from the previous three months, which is the eighth consecutive quarter with GDP growth falling below 1%, but the strongest pace since the first three months of 2011. Data published by the Bank of Korea were stronger than economists had forecast as GDP growth was helped by stronger exports and could contribute in the easing pressure on the central bank to cut interest rates.

In China, the slower economic growth posted during the first three months of the year does not impose fears with expectations for a firmer figure in the upcoming quarter. The second quarter's GDP growth may rebound to 8 percent from a lower-than-expected 7.7 percent in the first three months, said Zhu Baoliang, an economist at the State Information Center under the National Development and Reform Commission. In addition, People's Bank of China Governor Zhou Xiaochuan said that China's slower expansion in the first quarter is "normal" as the world's second-largest economy sacrifices growth to make structural reforms. However, China's manufacturing data disappoint for April as the preliminary or "flash" version of HSBC's manufacturing Purchasing Managers' Index fell to a two month low of 50.5 from March's final reading of 51.6, still above the 50 level indicating expansion.

Commenting on the Flash China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said: *"The HSBC Flash China Manufacturing PMI came in at a two-month low, but still managed to expand modestly in April, albeit at a much slower pace. However, new export orders contracted after a temporary rebound in March, suggesting external demand for China's exporters remains weak. Weaker overall demand has also started to weigh on employment in the manufacturing sector. Beijing is expected to respond strongly to sustain the economic recovery by increasing efforts to boost domestic investment and consumption in the coming months."*

In the meantime, the Australian Central Bank plans to invest about 5% of its foreign reserves in Chinese government bonds, in a move to build closer economic ties between the two countries. Philip Lowe, deputy governor of the Reserve Bank of Australia, said in a speech at Shanghai: "This decision to invest in China is an important one. It reflects the broader economic relationship between China and Australia and our increasing financial ties. It provides greater diversification of our investments and will help with our understanding of the Chinese financial markets." China is Australia's top export destination, and its biggest source of imports. Last year, more than a quarter of Australia's exports, mainly commodities, went to China, up from less than 5% during the 1990s, according to the Reserve Bank of Australia.

SHIPPING MARKET

Brazilian giant iron ore conglomerate Vale is working on improving its relationship with China for winning access for its very large ore capesizes to Chinese ports. Last week, one of its very large ore capesizes, M/V "VALE MALAYSIA", made its first call at China's port Lianyungang, for the first time since Beijing imposed the ban in January 2012. However, it is not clear yet if Chinese have officially lifted the ban with Vale expecting to have a fleet of 35 valemax vessels by the end of this year.

In the **dry** market, panamax vessel earnings are still showing a solid performance against capesize vessels earnings from strong South American grain fixture activity and increasing Chinese thermal coal fixture activity with vessel earnings near to $9,000/day. However, panamax vessels are facing serious downward pressure from the glut in vessels' supply and their earnings could not break the barrier of $10,000/day. The highest level of panamax vessel earnings was fetched on March 25th, $9,680/day, from $5,163/day on February 5th.

BDI is holding some strength from the sustained strength in the Baltic Panamax Index, but the downward revision in the capesize segment is so sharp to allow the upward movement of the index. Capesize vessel earnings reached their bottom low of $4,205/day on April 24th, since the beginning of the year, from the highest level of $9,010/day on January 21st. Chinese coal port stockpiles continue to fall under the upcoming maintenance in China's coal dedicated Daqin Railway with expectations for firmer coal chartering volumes and panamax vessel earnings. Supramax and handysize vessel earnings are also floating at firm levels in the region of more than $9,000/day and near $8,000/day respectively, while short term expectations for a prompt revival in the capesize segment are still narrowed.

BDI closed on **Friday April 26th,** at 871 points, down by 1.9% from last week's closing and down by 25% from a similar week closing in 2012, when it was 1,156 points. BCI and BHSI shows a soft improvement, while BPI recorded weekly decrease after showing steady firm performance from end-February. **BCI** is up by 0.9% w-o-w, **BPI** is down by 9.5% week-on-week, **BSI** down 0.2% week-on-week, **BHSI** is up 1.1% week-on-week.

Capesizes are currently earning $4,602/ day, up by $273/day from a week ago while **panamaxes** are earning $8,644/day, a decrease of $913/day. At similar week in 2012, **capesizes** were earning $6,478/day, while **panamaxes** were earning $13,877/day. **Supramaxes** are trading at $9,409/day, down by $23/day from last week's closing, 104.4% higher than capesize and 8.8% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $11,526/day, hovering at 78% higher levels than capesizes versus 104.4% today's higher levels. **Handysizes** are trading at $8,051/day; up by $52/day from last week, when at similar week in 2012 were earning $8,873/day.

In the **wet** market, very large crude carrier spot rates still floating at bottom levels with forward supply of VLCCs in the AG declining to 79 vessels from 85 last week. In AG-US, WS is unchanged for a third straight week at WS18 with time charter equivalent earnings below zero levels since the beginning of the year. In AG-SPORE and AG-JPN routes, spot rates are also flat with WS32 for three consecutive weeks at time charter equivalent earnings of $7,800/day and $7,100/day respectively. In WAFR-USG route, rates lifted to WS40-$19,900, up by 2.5 points from last week, and in WAFR-China route, rates moved up to WS34-$10,600/day, up by 0.75 points.

In the suezmax segment, a strong increase in West African chartering volumes reduced the available supply of vessels with rates firming across the region. Rates on WAFR-USAC route gained 5 points to conclude at WS62.5-$18,200/day, while in B.SEA-MED and CBS-USG routes, stayed unchanged at WS67.5 and WS61.5 respectively.

In the aframax segment, North Sea rates declined sharply to WS85, down by 12.5 points on a weekly basis from a moderate reduced chartering in North Sea and reduced ice conditions. Rates in the Caribbean aframax market after staying at WS87.5 for four straight weeks fell to WS85-$12,400/day last week.

In the panamax segment, CBS-USG route showed no change from previous week at WS115-$11,000/day. In the product segment, rates in AG-JPN route dropped by 2 points to WS95-$20,400/day for 75,000dwt vessel and 7.5 points to WS114-$15,400/day for 55,000dwt vessels.

In the **gas** market, South Korea imported its first natural gas liquids from Iran during March, for the first time in eight months after having halted shipments last July from EU sanctions restricting insurance on tanker carrying Iranian oil. According to customs data, South Korea imported a total of 101,029 tonnes of natural gas liquids last month with 72,750 tonnes transporting from Iran. South Korea, the world's fifth-largest crude oil and second-largest liquefied natural gas importer, bought 464,963 tonnes of NGL last year, according to the customs data.

In China, the hungry appetite for LNG seems that will slowdown in the coming months. Industry sources revealed that China's largest buyer of LNG, China National Offshore Oil Corp., is unlike to seek additional spot cargoes before August as it has sufficient inventory from its short term contracts.

In the **container** market, the Shanghai Container Freight Index keeps its downward trend for a third straight week by declining to 1,086 points, down by 2.8% week-on-week and 24% year-on-year, with 6.9% and 5.1% declines in European and Mediterranean routes respectively. In Asia-Europe route, rates now fell to less than $900/TEU at $875/TEU, down 48.8% year-on-year, and $906/TEU in Asia-Mediterranean, down 48.1% year-on-year.

Transpacific routes also posted weekly losses of 2.5% in Asia-USWC and Asia-USEC routes. In Asia-USWC route, rates fell to $2,171/FEU, down 10.1% year-on-year and $3,295/FEU in Asia-USEC route, down 7.3% year-on-year.

In the **shipbuilding industry**, Chinese shipbuilders showed a stronger business during the first three months of the year as the global demand for new orders seems to have strengthened on the beginning of New Year. According to statistics from China Association of the National Shipbuilding Industry (CANSI), CHINA has received 9.57M dwt in newbuilding orders in 1Q13, up by 71.1% year on year, with global new orders totalling 20,58mil deadweight. However, China's accomplished shipbuilding output in 1Q13 decreased y/y by 15.6% to 9.45M. CANSI also predicted that the global shipping market might improve slightly this year, with accomplished new orders possibly reaching 60-75M dwt worldwide.

It is worth noting that Chinese shipyards are still facing downward pressure in their financial position. According to data from the China National Association of Shipbuilding Industry, major Chinese shipbuilders have recorded sharp falls in operation results during the first three months of the year. The gross profits of 80 major companies in the shipbuilding industry surveyed by CANSI plunged 69% year on year to 970M yuan ($155.5M) in the first quarter. Revenues also fell 19% year on year to 49Bn yuan, the data showed.

In the **shipping finance**, Navios Maritime Holdings Inc. and Navios Maritime Acquisition Corporation have executed a binding letter of intent to acquire ten vessels, composed of five product tankers and five container vessels with an average age of 5.5 years, from debtors of HSH Nordbank AG ("HSH") through a new joint venture ("Navios JV"). Angeliki Frangou, Chairman and Chief Executive Officer of Navios Holdings and Navios Acquisition stated: "Working closely with HSH over the past year, we devised a program whereby vessels can be removed from insolvency and placed into a stable situation. In so doing, we are leveraging Navios' economies of scale and superior technical and commercial management to everyone's betterment. HSH and Navios are committed to their excellent working relationship and look forward to doing similar deals in near future."

It is estimated that the purchase price to be paid to HSH will consist of $130 million in cash and the assumption of the Subordinated HSH Participating Loan in an amount of approximately $170.0 million. The cash payment will be equal to 60% of the current fair market value of the vessels, plus $10.0 million. Navios has pledged to contribute fresh capital and operate the ships for at least six years. Under the deal, ship owners are released from their debt obligations. "The insolvent vessels, or those on the brink of insolvency, are transferred to a highly professional operator that is able to secure an economically feasible operation of the vessels throughout the shipping crisis," Wolfgang Topp, the head of HSH's restructuring unit, said in the statement. "There is a significant reduction of risk for the financing bank."HSH also plans similar deals this year to restructure shipping loans with a total asset volume worth more than a billion euros.

In terms of **ship financing deals**, Marine fuels supplier Brightoil Petroleum inked a loan facility of up to $30m for a term of three years from China Development Bank Corporation Hong Kong Branch. Win Business Petroleum Group, wholly-owned by Brightoil, is the borrower while two other Brightoil subsidiaries – Win Business Petroleum Group (Grand Desert) and Win Business Petroleum Group (Dina) – are acting as the guarantors.

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