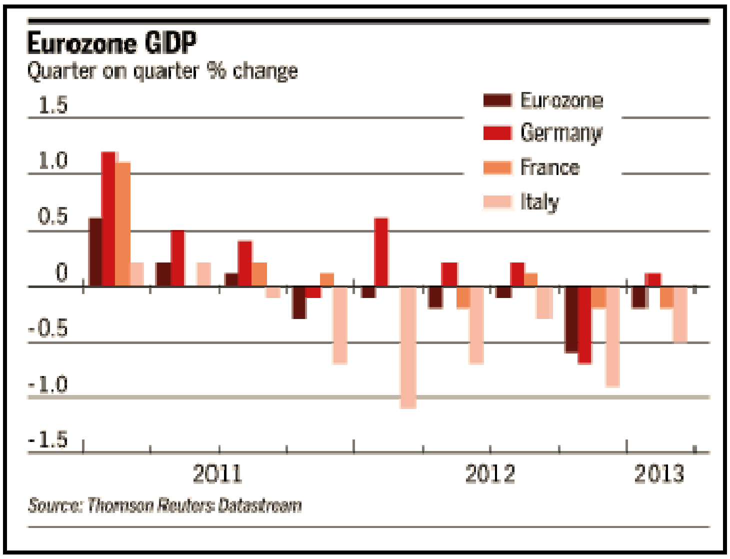
GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 17th May 2013 (Week 20/2013)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

Eurozone recession records the longest term from the beginning of the single currency with unemployment rate surging at the highest level of 12.1%. According to Eurostat, EU's statistical office, gross domestic product in the eurozone shrank 0.2% in the first quarter, which is the sixth consecutive quarterly decline, from 0.6% in the last quarter of 2012. Italian economy shrank 0.5% and France 0.2%, while Germany has returned to a 0.1% growth from 0.7% contraction in the fourth quarter last year.

The rate of decline in France during the first quarter of the year is the same rate as the final three months of 2012 and puts France back into recession with investments and exports capturing weakness. The European Central Bank has already cut interest rates from 0.75% to 0.5% at its last meeting in the beginning of the month and it is ready to act further if the situation worsens.



Against eurozone recession, Japanese economy grew at the fastest pace among the group of seven countries during the first quarter of the year and it seems that efforts of the country's new Prime Minister Mr. Abe have accelerated the recovery contributing to a weaker yen. Preliminary government data showed that real gross domestic product increased 0.9%, or 3.5% in annualized terms, which is the second consecutive quarterly growth following a rise in the October to December period. Exports grew 3.8 per cent in the quarter, outpacing a 1 per cent rise in imports, the Cabinet Office said in the preliminary GDP report, while consumer spending rose 0.9 per cent. “The Japanese economy has clearly moved into a recovery phase,” said Tomo Kinoshita, chief Japan economist at Nomura Economic Research. He and others expect growth to retain its momentum in the coming months as the cheap yen lifts exports further and more cash from a Y10tn ($98bn) economic stimulus package ordered by Mr Abe in January is disbursed.

In Greece, credit rating agency Fitch has upgraded Greece's sovereign rating by one notch to 'B-' from 'CCC' reflecting that Greek economy is rebalancing as a clear progress has been made towards eliminating twin fiscal and current account deficits. In the meantime, Eurogoup approved the release of the next EFSF installment of EUR7,5bn that will be disbursed in two sub-tranches in May and June, given that Greece meets the agreed milestones. According to the International Monetary Fund, Greece has made "exceptional progress" on reducing budget deficits since 2010, but the country must do more to fight tax evasion.

One more positive development for Greek economy is a "new era of cooperation" with China. Greek Prime Minister stressed that China should use Greece as a gateway to invest in Greece. "Greece is determined to turn the crisis into an opportunity for a new start," Samaras said at a business forum. "Combining Greece's advantages and China's penetration in global trade as well as its competitive production costs, we can build a strong partnership." Chinese officials expressed interest in investing at Greek infrastructure, ports airports and railways while the two sides signed agreement with the China Development Bank to cooperate in areas such as tourism, real estate, telecommunications, logistics, energy and the funding of investment projects.

In Cyprus economy, Russia has agreed to extend the maturity and reduce the interest on its loan to Cyprus following the troika bailout plan and the approval of the plan by the Cypriot parliament. Reportedly the Russian loan will be due in 2018 instead of 2016 (2 years extension), and the interest rate will fall to 2.5% from the current 4.5%. Cyprus in 2011 borrowed a EUR 2.5bn from Russia with an annual interest rate of 4.5% and a 5 year pay-back period.

In South Korea, central bank, the Bank of Korea, lowered its benchmark rate from 2.75% to 2.5% as the first cut in seven months. "This rate cut means that the Bank of Korea admits that the economy is not as good as they think," said Jun Min-kyoo, of Korean Investment and Securities. "Slow economic growth and sluggish exports are critical for the rate decision." The South Korean government has already cut its growth forecast for 2013 to 2.3%, down from a previous estimate of 3%, due to weak exports and slow domestic consumption. In addition, parliament has already approved a plan to boost stimulus spending by $15.3bn (£9.2bn).

In China, inflation rate was recorded at 2.40% in April of 2013, as per data from the National Bureau of Statistics of China. Historically, from 1986 until 2013, China Inflation Rate averaged 5.86% reaching an all time high of 28.40% in February of 1989 and a record low of -2.20% in April of 1999. In the meantime, Chinese trade growth raises hopes for a firmer economic growth in the world's second largest economy after recording a weaker GDP growth in the first quarter of 2013 from the last quarter of previous year's GDP growth. According to Chinese Customs data, imports rose 16.8% in April from a year earlier, up from a 14.1% rise in March due to robust appetite for commodities from iron ore to crude oil reflecting the strength of Chinese domestic demand.

Imports of iron ore recorded a 16.4% rise by volume in April compared with the same time last year, bringing import growth for the first four months of 2013 to 3.9% compared with the previous year. In addition, imports of crude oil also showed modest growth, rising to 23.1m tonnes in April, an increase of 3.2 per cent from the previous year. On the other hand, overall Chinese exports increased 14.7% in April, up from 10% in March leaving China with $18,2bn trade surplus.

Indonesia, one more important Asian emerging country, faces severe slowdown as its GDP growth has eased to the slowest pace in two years. According to government data released, Indonesia's GDP growth recorded a 6% growth in the first quarter compared with a year earlier, which is lower than 6.1% growth in the last quarter of 2012 and the 6.1% average GDP growth forecasted by economists.

SHIPPING MARKET

The outlook of freight markets seems the same struggling as in the first quarter of the year with Chinese economy pouring hopes in the demand of dry bulk commodities after recording a 16.4% rise in imports of iron ore during April from previous year. However, Baltic Dry Index fights to break the psychological barrier of 1,000 points mark from the beginning of the year with no success and vessel earnings are not surpassing the level of $10,000/day in all sizes.

Senior executive officers of the world's two largest miners, Rio Tinto and BHP Billiton, are forecasting continued robust growth in steel demand from China lifting iron ore imports to higher levels in the coming decade. Speaking at the Singapore Iron Forum, senior executives from Rio Tinto and BHP Billiton said continued growing Chinese demand for iron ore would be met by seaborne imports with Australian mines playing a key role. "To the end of this decade we expect Chinese steel demand to grow at 3% per annum," Alan Smith, president of Rio Tinto iron ore Asia, told the conference. China's annual steel demand is expected to peak at 1bn tonnes in 2030. "China has been and will remain the largest market," said Alan Chirgwin, general manager of iron ore marketing for BHP Billiton.

Vessels' oversupply is the serious threat in the freight markets' recovery as shipowners' investment decision for more newbuilding orders intensifies worries for a prolonged crisis in line with the worldwide economic recession. Zhang Shouguo, executive vice president of China Shipowners' Association, warned that shipowners must put a hold on newbuilding orders even if newbuilt vessels can offer better energy efficiency or even newbuilding prices have touched bottom. He believes that the only answer to resolve the current global shipping crisis is to stop placing new orders. "Fuel efficient vessel is the future, but banks, financial institutions, shipowners and cargo owners should take an extremely cautious attitude towards shipping investment under this catastrophically oversupplied market," Zhang said.

In the **dry** market, vessels' oversupply doesn't leave vessel earnings to follow an upward trend even Chinese demand trading figures are supportive through its hungry appetite of iron ore and coal. The average value of the Baltic Dry Index remains below 900 points from the end of March with capesize vessel earnings falling again this week to less than $5,500/day from last week's highs of more than $6,000/day.

In the panamax segment, vessel earnings are now hovering at levels of less than $7,800/day, from April's average value of $8,982/day. Capesize net fleet growth remains relative low from the beginning of the year creating hopes for firmness in vessel earnings later in the year as Chinese iron ore stockpiles remain at extremely low levels of April 2010. According to Commodore Research, Chinese iron ore port stockpiles have now stayed between 65 and 70 million tons for fifteen consecutive weeks. During the last week, there was an increase in iron ore fixture activity that supported the rise of capesize vessel earnings with hopes that Chinese iron ore appetite will lead again to a further rise.

Statistics figures for upcoming panamax vessel deliveries indicate a robust growth in the panamax fleet that seems that could not be absorbed by the strong Chinese thermal coal fixture activity. Chinese demand for thermal coal is poised to remain strong as thermal coal-derived electricity production in China traditionally reaches a summer peak in July or August. In addition, Qinhuangdao coal port stockpiles have fallen to extremely low levels of about 5mil tons due to the recent maintenance in China's coal-dedicated Daqin Railway, indicating further growth in Chinese thermal coal fixture activity in replenishing their stockpiles.

In the supramax segment, vessel earnings have now fallen to less than $9,000/day, from April's average value of $8,931/day, while handysize vessel earnings have shown a soft rise towards to near $8,200/day, from April's average value of $7,921/day. US Department of Agriculture expects a large increase in global grain exports during 2013-2013 that would provide additional support in the smaller dry bulker vessel segments. The USDA expects that wheat exports from the Former Soviet Union will total approximately 35.7 million tons in 2013/14, which is 10.8 million tons (43%) more than is estimated to have been exported during 2012/13. Coarse grain exports from the Former Soviet Union are also expected to increase. The USDA expects that coarse grain exports from the Former Soviet Union will total approximately 25.9 million tons in 2013/14, which is 4.6 million tons (22%) more than is estimated to have been exported during 2012/13.

BDI closed on **Friday May 17th,** at 841 points, down by 3.4% from last week's closing and down by 26% from a similar week closing in 2012, when it was 1,141 points. All dry indices closed in red apart from a soft upward trend in the handysize. The largest decrease has been recorded in the panamax segment. **BCI** is up by 4% w-o-w, **BPI** is down by 6.4% week-on-week, **BSI** down 1.7% week-on-week, **BHSI** is up 0.3% week-on-week.

Capesizes are currently earning $5,168/ day, down by $874/day from a week ago while **panamaxes** are earning $7,418/day, a decrease of $512/day. At similar week in 2012, **capesizes** were earning $8,905/day, while **panamaxes** were earning $10,159/day. **Supramaxes** are trading at $8,902/day, down by $152/day from last week's closing, 72% higher than capesize and 21% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $11,588/day, hovering at 30% higher levels than capesizes versus 72% today's higher levels. **Handysizes** are trading at $8,165/day; up by $41/day from last week, when at similar week in 2012 were earning $9,571/day.

In the **wet** market, spot rates in the troubling AG-USG route for very large crude carriers showed finally a mild improvement last week with WS gaining 5.5 points to conclude at WS23.5 after staying stable at WS18 for five consecutive weeks. The forward supply of VLCCs in the AG fell to 60 vessels from 78 last week and there are expectations for a firm sentiment in the near term before a weak summer period. In AG-SPORE and AG-JPN routes, there was also an upturn with rates moving to WS40 from WS34 with time charter equivalent earnings in the region of $19,000/day. In addition, WAFR-USG and WAFR-China routes have recorded gains with spot rates moving to WS40 from WS37.5 and WS36 respectively.

In the suezmax segment, weaker West African and Mediterranean fixture activity have led to declining spot rates with WS in WAFR-USAC route falling to WS55-$11,800, down by 2.5 points on a weekly basis. In B.SEA-Med route, spot rates have stayed for two straight weeks at WS66.5-$14,400/day, from WS72.5 at the end of April.

In the aframax segment, rates in CBS-USG route have shown stability from previous highs reached at WS105-$17,900/day, from WS87.5 in mid-April. Caribbean market sustains also better rates from end April at WS120 with time charter equivalent earnings in the region of $12,000/day. In the MR segment, spot rates in AG-JPN routes follow a declining trend from the beginning of May and fell last week to WS86.5-$15,600/day for 75,000dwt vessels, from WS95, and WS100-$9,800/day for 55,000dwt vessels, from WS114 at the end of April.

In the **gas** market, LNG spot rates fell to their lowest level since June 2011 by sliding to $89,000/day, down by 6.3% week-on-week and by 46% from June highs of $150,000/day. There are expectations that LNG spot rates will remain at or below current levels with LNG orderbook being on rise surpassing 100 vessels in May. The hungry appetite for LNG imports persists with South Korea LNG imports recording a 29% rise in April from an increase in domestic demand. According to data from the Korea Customs Services, LNG shipments climbed to 3,51 million metric tons from 2,72 mil in previous year.

In the **container** market, the Shanghai Container Freight Index is on a continuous decline from March 15th by falling this week to 1,009 points, down by 1.7 week-on-week and 31.1% year-on-year. All major routes have experienced weekly declines with Asia-Europe rates recording once more the sharpest fall. Spot rates in Asia-Europe have decreased to $731/TEU, down by 8.2% week-on-week and 59.8% year-on-year, from $1423/TEU on March 15th. In Asia-Mediterranean, rates fell to $805/TEU, down by 4.3% week-on-week and 58.4% year-on-year, from $1,366/TEU on March 15th.

Downward revisions are also been recorded in transpacific routes but at smallest pace. In Asia-USWC, rates fell to levels of less than $2000/FEU, $1,997/FEU for the first time since March 15th 2012, while in Asia-USEC rates are hovering at levels of more than $3,000/FEU, $3213/FEU, which is the lowest level since end November 2012.

Under the current challenging environment in Asia-Europe route, France's CMA CGM received the world's largest containership of 16,000 TEU to be deployed on its French Asia Line, which is the third 16,000TEU boxship to be delivered by the French carrier. In addition, China Shipping Container Lines has confirmed its investment plans to construct the largest world's boxship vessel of 18,400 TEU in

Hyundai Heavy Industries, surpassing Maersk's orders of 18,000TEU boxships. According to Alphaliner, advances in container shipping since 1970s have focused mainly building larger containerships. The average size of new ships delivered currently stands at 6,000 TEU and will reach 7,700 TEU by 2014.

The current oversupply of vessels and pessimistic trade outlook stimulates record scrapping activity. Alphaliner estimates that scrapping activity is expected to reach 450,000TEU this year and it could surpass the record 381,000 TEU capacity deleted in 2009.

In the **shipbuilding industry**, creditors agreed on an emergency cash injection of $271 million for the holding company of South Korea's troubled STX shipbuilding group to avert bankruptcy, a leading creditor bank said. The state-run Korea Development Bank (KDB) said STX Corp would receive a total of 300 billion won ($271 million) from its five main creditors.

In the **shipping finance**, an amount of KRW 5 trillion ($4.5 billion will be given to Korean shipowners and shipyards by Korea Export-Import Bank to help them with the current crisis. Particulars of the terms were not revealed and the funds are targeting to struggling shipyards with diminishing orders, Korean shipping companies operating vessels overseas, and the bank will also guarantee bonds issued by shipowners ordering at Korean yards.

In addition, the new area of cooperation between China and Greece opens doors for more financing from China Development Bank to Greek shipowners for their newbuildings at Chinese yards under the current distressed picture of European lending. According to George Xiradaki, the representative of China Development Bank in Greece, Greek shipowners have purchased $17bn worth of newbuildings from Chinese yards in the last seven years and currently have 184 vessels on order at Chinese yards.

In terms of ship financing deals, Sumitomo Mitsui Banking Corporation (SMBC) has successfully closed a $1.2 billion limited recourse debt financing with a joint venture owned by China Shipping Development Company Ltd (CSD), Sinopec Kantons Holding Ltd (Kantons Holdings) and Mitsui O.S.K Lines Ltd (MOL). This loan facility will be used to finance six 174,000 cbm liquefied natural gas carriers the joint venture will build at Hudong-Zhonghua.

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