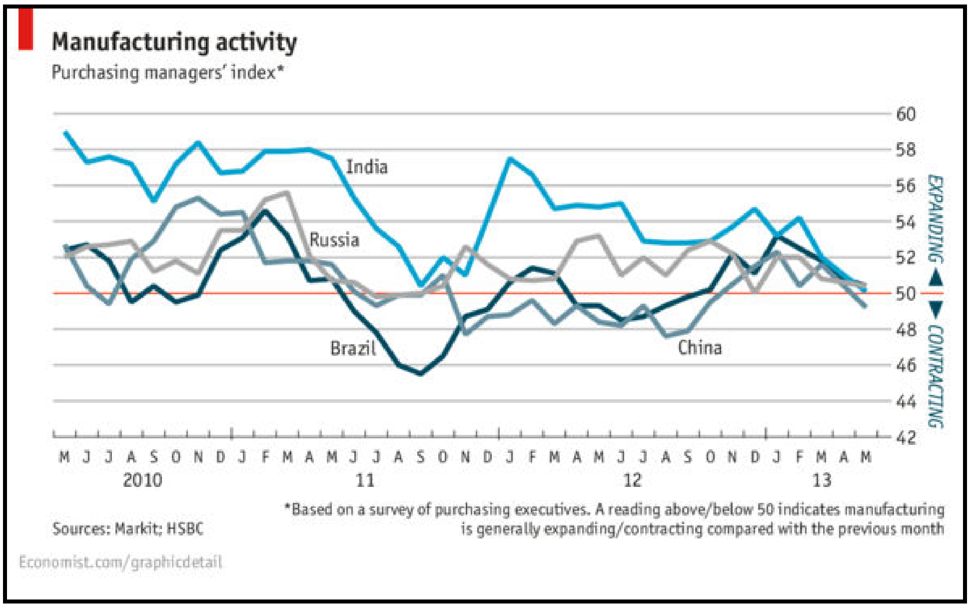
This Week's News: A snapshot on the economic and shipping environment
Week Ending: 7th June 2013 (Week 23/2013)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

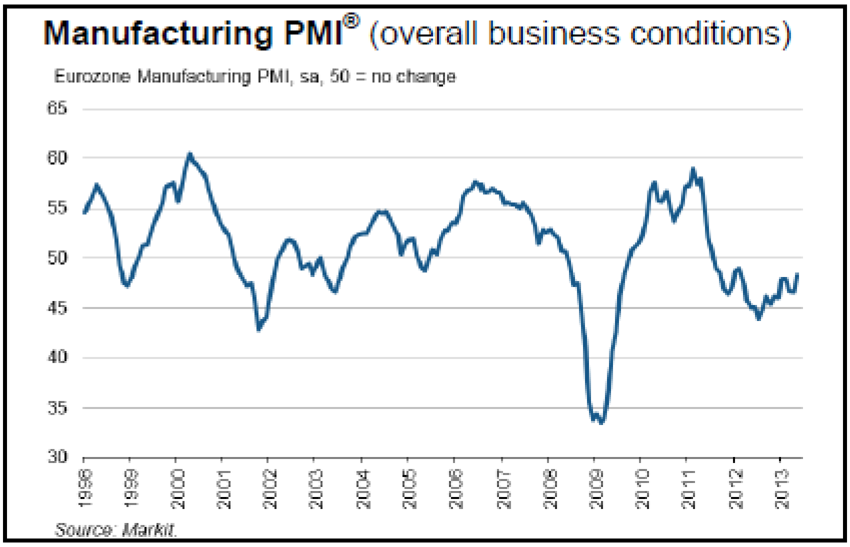
The first days of June bring negative news for China with its manufacturing activity contracted in May for the first time in seven months according to data from Markit and HSBC. The HSBC Purchasing Managers' Index fell at 49.2 in May from 50.4 in April suggesting a marginal weakening of manufacturing activities towards the end of May from deteriorating domestic demand conditions. However, the Chinese government's official purchasing managers' index posted a slight rebound in May as it ended at 50.8 in May, up from 50.6 in April and above most forecasts from economists, indicating still expansion in the manufacturing sector. "The slight rise in the manufacturing PMI shows the economy is stabilising," said Zhang Liqun, an economist at the Development Research Centre, a top Chinese government think-tank, in a statement accompanying the latest reading.



Moody's Investors Service reassures the stability of China's yearly economic growth of 7% to 8% through 2017 without any collapse, but it cut the country's credit outlook to stable from positive in April, citing concerns about its excessive local government debt, the pace of lending growth and stalled economic reforms.

Apart from the current worries for China's strong position in the world economy, the most warning is that overall the BRICs (Brazil-Russia-India-China countries) that accounted for around 60% of worldwide economic growth last year; represent a downward trend in their manufacturing activity nearing to contraction levels. In Russia, the HSBC Purchasing Managers' Index remained above 50 in May, but fell from 50.6 in April, which is the third successive month-on-month decline in the index signaling a loss of growth momentum in the Russian manufacturing sector. In India, operating conditions in manufacturing economy stagnated during May and HSBC Purchasing Managers' Index fell to 50.1 from 51 in April. In Brazil, the HSBC Purchasing Managers' Index fell to a seven month low of 50.4 in May from 50.8 in April, showing decrease for four successive months.

In eurozone, the downturn eased for the first time in four months by rising at a 15-month high of 48.3 in May, up from April's four month low of 46.7, indicating the slowest pace of contraction since February 2012.



Purchasing Managers' Indices for all the countries surveyed by Markit evidenced weaker rates of contraction in May. The German PMI stood at the lowest rate of contraction overall by closing at a three month high of 49.4 as output and new orders rose for the first time in three months. Downturns in Netherlands and Austria were also only moderate, while Spain recorded the biggest gain with PMI rising to a 24-month high of 48.1. The downturns in France, Italy and Greece also eased to 13-, four- and 23-month lows respectively. France remains a key concern, having contracted at a steeper rate than Spain and Italy throughout the year so far.

Countries ranked by Manufacturing PMI®: May

Germany	49.4 (flash 49.0)	3-month high
Netherlands	48.7	3-month high
Austria	48.2	3-month high
Spain	48.1	24-month high
Italy	47.3	4-month high
France	46.4 (flash 45.5)	13-month high
Greece	45.3	23-month high

Chris Williamson, Chief Economist at Markit said: "Although the euro area manufacturing economy continued to contract in May, it is reassuring to see the rate of decline ease to such a marked extent. The sector still seems some way off stabilising, however, and therefore remains a drag on the economy. "Despite the final PMI coming in above the flash reading, the surveys still suggest that GDP is likely to have fallen 0.2% in the second quarter, extending the region's recession into a seventh successive quarter. "Policymakers will nevertheless be pleased to see the downturn not getting any worse, suggesting the ECB will see no immediate need for further action at its June meeting. In particular, the surveys brought good news in terms of signs of stabilisation in Germany and export-led growth in Italy and Spain, the latter suggesting structural reforms are boosting competitiveness.

The European Central Bank kept its main interest rate on hold at a record low of 0.5% at its meeting this week with its President Mario Draghi saying that he still sees "a very gradual recovery" later this year. The European Central Bank is now waiting to see whether the signs of easiness in the downturn during

May will lead into an economic recovery. "This can be seen as a reaction to the slight improvement in the purchasing managers' indices (PMIs), which seem to signal that the worst is over in the euro zone," said David Kohl, chief economist for Germany at Julius Baer.

SHIPPING MARKET

The second quarter of the year still holds the downturn of freight market and the remedy for the beginning of a firm recovery could not be other than demolition and pause in the newbuilding activity. However, the first five months of the year are marked by a decline in the number of vessels heading to the scrap yards and frenzy ordering business compared with previous year's activity.

During January-May 2013, 438 vessels are reported for scrap for a total deadweight of about 19.6 mil tons, which is 52% less than the volume of number of vessels reported on order (904 new orders for a total deadweight of about 52mil tons). The demolition activity is now standing at about 22% less than the volume of vessel disposals reported during a corresponding period last year in contrast with the 54% rise in the volume of new orders reported.

Jan-May	2013			2012			y-o-y change
Demo	No.	Dwt	Average Age	No.	Dwt	Average Age	no. of vessels
All vessels	438	19.657.345	27yrs old	567	25.973.397	29yrs old	-23%
Bulk Carriers	161	10.069.562	27yrs old	223	14.087.211	30yrs old	-28%
Tankers	46	4.353.352	23yrs old	69	6.544.394	23yrs old	-33%
Gas Tankers	7	211.307	32yrs old	14	108.942	34yrs old	-50%
Liners	75	1.227.660	30yrs old	115	2.088.429	31yrs old	-35%
Containers	95	3.002.185	21yrs old	64	1.886.997	26yrs old	48%

In the **dry** market, BDI slipped further during the first week of June by nearing to fall below 800 points from a significant decline in the average value of the Baltic Panamax Index of about 31% from the average value during April. In the capesize segment, there is also a persistent weakness, but the average value of the Baltic Capesize Index is up by 8% from the average value in April with average time charter earnings floating at levels above $5,000/day, from the average value of $4,448/day at the end of April.

Average values:
Baltic Capesize Index: 1347 points May 2013 - $5,474/day – 1237 points April 2013 -$4,448/day
1536 points May 2012 -$7,618/day

Baltic Panamax Index: 930 points May 2013 - $7,417/day – 1123 points April 2013 -$8,982/day
1287 points May 2012 -$10,263/day

Baltic Supramax Index: 863 points May 2013 - $9,021/day – 904 points April 2013 -$9,457/day
1104 points May 2012 -$11,547/day

Baltic Handysize Index: 549 points May 2013 - $8,101/day – 534 points April 2013 -$7,921/day
627 points May 2012 -$9,395/day

Compared with May 2012 levels, vessel earnings in all size categories are trading at lower levels, 28% decline in the capesize and panamax, softer decline of 22% in the supramax and the smallest of 14% in the handysize segment. Short term expectations for the recovery in bigger vessel sizes remain pessimistic with excess vessel oversupply downsizing panamax earnings and Chinese steel weakness preventing the firm rebound of capesize vessel earnings. Chinese iron ore port stockpiles are now approximately 72million tons, signalling weekly increase for five straight weeks, implying the lower Chinese demand for iron ore.

On **Friday June 7th**, **BDI** closed at 812 points, up by 0.3% from last week's closing and down by 7.4% from a similar week closing in 2012, when it was 877 points. Capesize and supramax indices closed in green, while the panamax segment still records a large decline and handysize posted a soft downward revision. **BCI** is up by 1.1% w-o-w, **BPI** is down by 3.8% week-on-week, **BSI** is up 2% week-on-week, **BHSI** is down 1.6% week-on-week.

Capesizes are currently earning $5,494/day, up by $323/day from last week's closing and **panamaxes** are earning $6,078/day, down by $251/day week-on-week. At similar week in 2012, **capesizes** were earning $4,255/day, while **panamaxes** were earning $7,266/day. **Supramaxes** are trading at $9,291/day, an increase of $187/day from last week, about 69% higher than capesize and 53% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $10,453/day, hovering at 146% higher levels than capesizes versus 69% today's higher levels. **Handysizes** are trading at about $7,761/day, down by $145/day from last week's closing; when at similar week in 2012 were earning $8,943/day.

In the **wet** market, stronger activity in the VLCC segment led to better rates during the last week of May in the main trading routes. In AG-USG, rates moved up to WS27.5, up by 4 points from previous week, with time charter equivalent earnings standing above zero levels for the first time since the beginning of the year. In AG-SPORE and AG-JPN routes, rates gained 7.5 points and concluded to WS47.5-$32,000//day, up by 15.5 points from end-April. In WAFR-USG route, rates lifted to WS42.5-$23,500/day, up by 5 points from previous week and up by 4 points in WAFR-China route to WS42.5-$23,900/day.

In the suezmax segment, rates on the WAFR-USAC route stayed stable at WS52.5-$10,600/day against a firm rebound of the weekly fixture activity by rising 75% from last week to levels that exceeded the year to date weekly average. The same also stability was viewed in the other two main routes, B.SEA-Med and CBS-USG with rates unchanged at WS60. The Caribbean market was also flat with rates in CBS-USG route showing no change from previous week in the aframax and panamax segment by concluding at WS115 and WS112.5 respectively. In the MR product segment, rates in AG-JPN route for 75,000dwt vessels stayed unchanged at WS73-$9,700/day from previous week and moved up by only 0.75 points to WS93.75-$8,200/day for 55,000dwt vessels.

In the **container** market, the Shanghai Container Index posted the first positive weekly gain since mid-March by ending at 1014 points, up by 2.3% week-on-week due to a significant increase of 58.8% in the rates of Asia-Mediterranean route. In Asia-Europe route, the freefall is endless with rates now ending at levels of less than $600/TEU for the first time since December 2011, down by 6.7% week-on-week and down by 64.1% year-on-year. In Asia-Mediterranean route, rates ended at $1207/TEU, but there are still down 33.4% year-on-year. Downward revisions were also viewed in transpacific routes, with rates falling to $2008/FEU in Asia-USWC route, down by 4.1% week-on-week and down by 13.6% year-on-year. In Asia-USEC route, rates are now $3176/FEU, down 2.4% week-on-week and 7.9% year-on-year.

Major container lines have announced general rate increases to be effective in July to tackle the slumping rates in Asia-Europe. Maersk announced a $950/TEU general rate increase on Asia-Northern Europe from July 1, above the delayed $750/TEU announced in May. Other players, NYK, CCL and OOCL have announced similar rate increases in addition to expected peak season surcharges of $500/TEU from the beginning of August.

In the **shipbuilding industry**, weak share prices of South Korea's major shipbuilders seem to offer good investment opportunities. Samsung Securities analyst Han Young Soo said: "We believe shipbuilding stocks are pricing in earnings from 2014, while market participants apparently foresee a sector recovery, on expectations of strong orders leading to top-line growth; shipbuilding price growth lifting earnings; and additional order backlogs improving the visibility of future earnings." Since early April, when the shipbuilders posted their 1Q13 results, stock prices of SHI and DSME, have declined, while the share price for Hyundai HI, the world's biggest shipbuilder, has rallied by 24% to about 206,500 won ($182). Over the same period, Samsung HI, the country's second-biggest shipbuilder, has had a 6.3% drop in its share price, while the third-biggest, Daewoo Shipbuilding & Marine Engineering, has fallen 8.4%.

In the **shipping finance**, Petrofin Research suggests that there are clear signs of a return to ship lending by Western banks despite the fall of shipping finance evidenced for a second year in 2012. Of the banks surveyed by Petrofin, 41.5% are prepared to lend, up from 21.8% a year ago. In the meantime, Lloyds Banking Group is said to be looking to sell an estimated $500million tranche of its shipping loans as it continues to shrink its non-core portfolio.

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