This Week's News: A snapshot on the economic and shipping environment
Week Ending: 14th June 2013 (Week 24/2013)
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ECONOMIC ENVIRONMENT

The World Bank has lowered its global growth estimate for 2013 by predicting 2.2% expansion in 2013, down from a 2.4% projection issued on January and below last year's estimated 2.3% growth. The Bank in its two-yearly Global Economic Prospects Report 2013, released in Washington on Wednesday, said that the world's economy "is slowly getting back on its feet. However, the recovery remains hesitant and uneven," and predicted that the global economy will expand 3% in 2014 and 3.3% in 2015.

The World Bank downgraded its growth estimates for major emerging economies, China, Brazil and India, while it upgraded its expectations for US and Japan that have benefited from aggressive stimulus measures. It cut China's growth forecast to 7.7% from 8.4%, Brazil's economic growth to 2.9% from 3.4% and India's growth outlook to 5.7% from 6.1%, estimated in January.

For the eurozone, the bank projected to post a 0.6% decline, worse than its earlier estimate contraction of 0.1%, citing austerity measures and high unemployment rates in the area. It said that although the likelihood of another major economic crisis does not exist in high-income countries, the challenges of getting fiscal and monetary policies onto a sustainable path remain. "Overall, growth in high-income countries is projected to accelerate slowly, with GDP expanding a modest 1.2% this year, but firming to 2.0 and 2.3% in 2014 and 2015, respectively," the report added.

The Bank lifted its growth forecast for Japan to 1.4% from an earlier estimate of 0.8% released in January, highlighting the nation's very accommodative monetary policy. It also forecasts Japan to post growth rate of 1.4% in 2014 urging the country to implement various reforms to sustain growth. Japanese economy already recorded upward revision in its growth during the first quarter of the year. According to government data released, Japanese economy expanded at an annualized rate of 4.1% between January and March, which is much higher than the preliminary estimate of 3.5%, lifted by strong household spending and pick-up in private residential investment. On a quarterly basis, Japan's GDP increased by 1.0%.

For US economy, the World Bank raised slightly its growth projection to 2% from 1.9%. In the meantime, credit rating agency Standard & Poor's lifted the long term rating outlook on the US to stable from negative and affirmed the country's AA+ status, based on receding fiscal risks and policy makers' willingness to support sustainable economic growth. The outlook indicates that the world's largest economy has a less than one-in-three likelihood of a downgrade in the near term. "Some of the downside risks to our 'AA+' rating on the US have receded," S&P said in a statement. "We believe the US economic performance will match or exceed its peers' in the coming years. We forecast that the external position of the US on a flow basis will not deteriorate," it added. US government debt as a percentage of GDP is likely to remain stable at about 84 per cent for the next few years as the economy expands between 2 and 2.5 per cent in 2013 and 3 per cent in 2014, S&P said. One more relieving indicator it's that US added 175,000 jobs in May, almost exactly the average monthly job growth over the last year and the unemployment figures did not deteriorated, according to data from the Labor Department.

In China, fresh economic data highlight sluggish economic growth that drive the world's second largest economy to one more downward revision in its growth during the second quarter of the year. Declining figures in trading growth, inflation, investments and bank lending add pressure in the government for additional measures to stimulate growth. Beijing is aiming at 7.5% growth for this year and there are fears for Chinese economic growth slipping below that target during the second quarter of the year. There was a dramatic decline in China's trading figures during May as exports rose 1% in May from a year ago to $182,8bn, down from a 14.7% increase in April. Imports posted 0.3% decline in May to $162,3bn, following a 16.8% increase in April.

In last, Standard & Poor's surprised by cutting its outlook on Brazil sovereign rating, an emerging coutnry with over performance in credit rating agencies. "The negative outlook reflects the at least one-in-three probability that a rising government debt burden and erosion of macroeconomic stability could lead to a downgrade of Brazil over the next two years," the agency said. It said Brazil was likely to have its third year of "modest" economic growth at 2.5 per cent in 2013, compared with 0.9 per cent last year and 2.7 per cent in 2011.

SHIPPING MARKET

China's role on vessels demand transportation in the current freight market recession remains dynamic despite its overall weakness recorded in imports' growth figures during May. Against 0.3%overall decline in Chinese imports over the last month, China's demand for imports in major bulk commodities showed strong upward growth figures. According to China's General Administration of Customs:

- **Copper imports rose 21% from a nearly two year low in April as delayed shipments from Chile arrived and buyers took advantage of higher domestic prices compared with the world market.**
- **Soybean imports rose 28.1% following the easing of congestion at Brazilian ports.**
- **Crude oil imports rose by 0.4% on a daily basis to 5.64 million barrels per day in May, but down 6% from a record high of 6 million barrels per day in May last year.**
- **Iron ore imports rose 2.1% to 68,56million tons in May, up from 2.1% from April and the third largest in record.**

The stronger import figures from China do not rebalance the threat of oversupply on the fortune of freight market. According to Moody's Investors Service the outlook for the global shipping industry will remain negative over the next 12-18 months as the supply of vessels will likely continue to outstrip demand in most shipping services. The global shipping industry's outlook has been negative since July 2011. "Substantial oversupply will constrain freight rates for at least the next 18 months, particularly weighing on earnings in the dry-bulk and crude oil tanker segments, while declining US crude oil imports and declining European demand are likely to depress seaborne deliveries," says Marco Vetulli, a Vice President - Senior Credit Officer in Moody's Corporate Finance Group. "We expect aggregate EBITDA in the global shipping industry to decline by around 5%-10% in 2013." Shipping companies concentrated on the crude oil tanker segment or focused on the dry-bulk sector, such as Navios Maritime Holdings, Inc. (B2 negative), are more likely to be adversely affected by these trends. Moody's outlook for the product tanker segment is more favourable. Companies, such as Sovcomflot JSC (Ba2 stable) and Navios Maritime Acquisition Corp. (B3 stable), could continue to benefit from demand growth linked to the shift in refining capacity to Asia and the Middle East, leading to a slight improvement in freight rates.

Moody's does not expect to see a major improvement in the container segment's financial performance in 2013 as it is the most sensitive to bunker fuel costs, which are likely to remain high. However, the container segment has the potential to outperform other shipping sectors this year if players maintain market discipline through proactive fleet management, such as laying up ships to reduce supply, and control costs.

In the **dry** market, capesize vessel earnings seem to benefit from slower fleet growth as Chinese iron ore demand remains weak and this week surpassed the levels of $7,000/day for the first time since February 2013. Chinese iron ore stockpiles are still on increase by standing at approximately 73million tons and recording the sixth straight weekly increase. Overall, Chinese iron ore and thermal coal fixture volume show weak signs with Chinese coal port stockpiles nearing to approach now the critical 7 million tons. The rising levels of Chinese coal port stockpiles implies that Chinese demand for imported spot thermal cargoes will remain lower than the robust levels seen in May. Panamax vessel earnings remain steadily under $7,000/day since May 23rd and last Wednesday recorded for the first time daily gains of $258/day by rising to $6,437/day.

Against the three day Chinese Dragon Boat Festival Holiday and expectations for lower Chinese chartering activity, vessel earnings in large vessel size categories, panamax and capesize posted gains lifting **the BDI to about 90 points above last week's closing.** In the supramax segment, vessel earnings are still outperforming by reaching now levels of more than $9,300/day, from about $9,100/day at the end of May, but still down from the average value of $11,543/day in June 2012.

In contrast with the surpamax segment, capesize vessel earnings are currently standing far above for the average bottom low of $3,884/day in June 2012, whereas panamax vessel earnings are standing below the average value of $7,397/day in June 2012. The yearly decline is also notable in the handysize segment with vessel earnings now standing at levels of more than $7,700/day compared with the average value of $9,686/day in June 2012.

On **Friday June 14th, BDI** closed at 900 points, up by 11% from last week's closing and down by 2.5% from a similar week closing in 2012, when it was 924 points. All dry indices closed in green with the largest increase being recorded in the capesize and panamax segment. **BCI** is up by 14% w-o-w, **BPI** is up by 12.4% week-on-week, **BSI** is up 1.2% week-on-week, **BHSI** is up 1.7% week-on-week.

Capesizes are currently earning $7,627/day, up by $1683/day from last week's closing and **panamaxes** are earning $6,845/day, up by $767/day week-on-week. At similar week in 2012, **capesizes** were earning $3,471/day, while **panamaxes** were earning $8,469/day. **Supramaxes** are trading at $9,408/day, an increase of $117/day from last week, about 23% higher than capesize and 38% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $11,097/day, hovering at 220% higher levels than capesizes versus 23% today's higher levels. **Handysizes** are trading at about $7,853/day, down by $92/day from last week's closing; when at similar week in 2012 were earning $9,549/day.

In the **wet** market, VLCC rates are again under negative pressure in main trading routes, following last week's improvement, with oversupply of vessels weighting heavily on the freight market. In AG-USG route, rates fell to WS23, down by 4.5 points from previous week with time charter equivalent earnings again below zero levels. In AG-SPORE and AG-JPN routes, rates fell by 5 points to WS42.5 with time charter equivalent earnings of about $23,000/day. In WAFR-USG and WAFR-CHINA routes, the downward revision is softer with rates falling by 2.5 points in WAFR-USG route to WS42 and 4 points in WAFR-CHINA to WS38.5.

In the suezmax segment, the lull activity in West Africa market kept steady the rates at WS52.5 in WAFR-USAC route for three consecutive weeks. In the B.SEA-MED route, the slower activity and sufficient tonnage shed rates by 6.25 points to conclude at WS53.75. The aframax segment also shows weakness with the rates in CBS-USG route loosing 5 points to conclude at WS110-$19,900/day. However, the Caribbean market records firmness for the panamax vessels with rates in CBS-USG route showing 12.5 points gain to conclude at WS125. In the product segment, AG-JPN route recorded gains of 6.25 points for 55,000dwt vessels with rates lifting to WS100-$10,200/day, whereas for 75,000dwt vessels rates moved up by only 1 point to WS74-$10,000/day.

Under the current negative freight market environment, International Energy Agency's prediction for a steeper than normal summer spike in crude demand gives a glimmer of hope. IEA said that the opening of new refineries in Saudi Arabia, Chinese refining activity after a heavy maintenance season over the spring and other factors would drive oil demand at higher levels. It forecasts a year-on-year rise of 200,000 barrels per day in the second quarter and oil demand to increase by 1,1mil barrels per day by the end of the year.

In the **gas** market, daily rates to ship liquefied natural gas rose for the first time in almost five months to $89,000/day, up by 3.5% on a weekly basis, as African producers expanded exports. Some positive news emerged this week as outage in Nigeria ended and a new facility in Angola plans to start shipments. However, there is a negative outlook on the long term for LNG spot rates in the next two years as short voyages curb demand and new vessels enter the fleet. There are predictions that average rates for modern LNG vessels could hardly surpass the levels of $100,000/day this year and fall below $100,000/day in 2014-2015.

Under the current preservation on LNG outlook, the hungry appetite for China's LNG demand remains high with estimations that China will need up to 100 LNG carriers to meet higher import volumes by 2020, from just 6 units serving the market now, according to the country's ministerial level research center. Zhao Xianliang, director of the strategic research center under the ministry of land, oil and gas, pointed out that the number of LNG carriers that China needs will have to increase from the current six to 20-25 within the next five years and expand even more to 60-100 units by 2020. In 2012, China imported 14.68m tonnes of LNG. In the next five years, the East Asian economic powerhouse is expected to double its LNG imports, and by 2020 the import volume will reach 60-100m tonnes.

In the **container** market, the Shanghai Container Freight Index closed again in red last week with Asia-Mediterranean route holding its rise in contrast with recorded losses in Asia-European and transpacific routes. The Shanghai Container Freight Index fell again below 1000 points to 982, down by 3.2% week-on-week and down by 30.6% year-on-year. In Asia-Europe, rates are kept below $600/TEU for two consecutive weeks by falling now to $558/TEU, down 6.7% week-on-week and down by 66% year-on-year. In Asia-Mediterranean route, rates on rise for two straight weeks by lifting to $1222/TEU, from $760/TEU on May 24th. However, Asia-Mediterranean rates are still lower than last year's levels by recording a 32% year-on-year decline.

Transpacific rates remain stronger than Asia-Europe with softer year-on-year declines. The downward revision in Asia-USWC route is sharper than in Asia-USEC. Rates in Asia-USWC route fell to $1,949/FEU, down by 3% week-on-week and down by 27% year-on-year. In Asia-USEC route, rates decreased to $3102/FEU, down by 2.3% week-on-week and 17.8% year-on-year.

CMA CGM announced that it will raise rates on its trade from Asia to North Europe by $775/TEU for dry and refrigerated cargo from July 1st to defy the slump and vessels' oversupply. The company will raise fees charged on containers shipped from Asia to Northern Europe to $1375/TEU, up from a current $600 on July 1st and to $1200/TEU in Asia-Mediterranean from $900. In addition, United Arab Shipping Company will increase rates $910/TEU for dry and refrigerated cargo from Asia to North Europe on July 1st.

In the **shipbuilding industry**, the largest private yard in China, Rongsheng Heavy Industries, has taken an insurance package from Sinosure, China Export and Credit Insurance, to strengthen its financial standing with international shipowners, creditors and banks. The insurance package will cover against breach of contract, which will assist the yard getting pre-delivery financing, principally from Chinese banks, and upon delivery the insurance will then convert to export credit insurance thus helping ship-owners get financing during the negotiation of new orders. Rongsheng is confident that the new agreement will help to strengthen its competitiveness and assist in getting construction loans and generate new business from domestic and international shipowners.

In South Korea, the government is making another attempt to sell its stake in shipbuilder Daewoo Shipbuilding and Marine Engineering. Seoul's government is holding stakes in DSME through the Financial Services Commission, which holds 17.1% and government owned Korea Development Bank, which holds 31,3%. Daishin Securities analyst Feynman Jeon, who covers shipbuilding, told Fairplay that KDB and FSC want to divest their stake in DSME, explaining that they never intended to be long-term owners of the yard group. “Now that DSME is clearly doing well on its own, it no longer needs KDB's support,” Jeon added. The last time that government tried to sell its stake in 2009 failed as the potential buyer, Hanwha Group, was unable to raise the 6.3 trillion won ($5.6Bn) it offered.

In the **shipping finance**, sources suggest that Frontline 2012 is planning to sell up to $40 million of new ordinary shares in the next 6-8 months and use the proceeds from the offering for general corporate purposes and to support its working capital requirements.

Excel Maritime announced a preliminary Chapter 11 agreement with its lenders through which Excel's Chairman, Gabriel Panayotides will acquire 60% equity stake in Excel for $30mil, potentially increasing to 75% at $50mil, with its lenders owning 40% of the remaining equity. In addition, STX Pan Ocean, the bulk transportation unit of STX Group, filed for bankruptcy protection last Friday. According to the company, mounting debt, the decline in freight rates due to oversupply and higher fuel costs that squeezed margins led to filing.

Navios Maritime Holdings has issued a $250mil senior secured Term Loan B due in 2018 and will use the proceeds to refinance debt and finance future fleet acquisitions. In addition, State Class Tankers II, an affiliate of American Petroleum Tankers, recently launched a $365mil seven year Term Loan B offering to partially fund the construction of four new Jones act product tankers and general corporate purposes. In last, Totem Ocean Trailer Express has reportedly turned to the US government to seek $320mil in Title XI loan guarantees to finance the acquisition of two 3,100 TEU containerships that are currently under construction at a yard in NASSCO (San Diego). The Title XI program enables the US Maritime Administration to assist owners and operators of Jones Act vessels by guaranteeing debt financing used to fund construction of vessels in US yards.

In terms of **ship-financing deals**, the Korean government is set to have set up two new ship finance funds for the ordering of MR tankers to be bareboat chartered to Korea's Sinokor and Shell. The ministry of oceans and fisheries said it had approved the establishment of Asia-Pacific 25 and Northeast Asia 44, which will secure KRW 347.7bn ($308m) from Korea Development Bank, Korea Finance Corporation, Kookmin Bank and private investors. The funds will then award Hyundai Mipo Dockyard for the construction of ten 50,000dwt vessels, six of which will be owned by Asia-Pacific 25.

China State Shipbuilding Corporation and China Development Bank signed a financial cooperation agreement, under which CDB will provide a total amount of RMB80bn financing to CSSC to support the transformation of the shipbuilding conglomerate. "With the support of CDB, CSSC will accelerate the strategic transformation and strengthen its advantages in shipbuilding, offshore, marine propulsion and marine services," said Hu Wenming, president of CSSC. Up until the end of 2012, CDB had been offering over RMB20bn in loan to CSSC.

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