GOLDEN DESTINY

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

Week Ending: 12th July 2013 (Week 28/2013)

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ECONOMIC ENVIRONMENT

The International Monetary Fund lowered its global growth forecast from 3.3% to 3.1% for 2013, at the same rate of 2012 and less than its 3.3% forecast in April, driven to a large extent by appreciably weaker domestic demand and slower growth in several key emerging market economies, as well as by a more extended recession in the euro area. IMF reduced its 2013 projection for the US growth to 1.7% from 1.9% in April and 2.7% grown in 2014 from 3% initially reported in April. For the eurozone, it foresees recession for 2013 by contracting 0.6% and growth will rise to just less than 1% in 2014. For Japan, IMF is optimistic by predicting 2% growth in 2013, stronger than previously estimations due to effects of recent accommodative policies on confidence and private demand.

For developing emerging economies, IMF predicts growth 5% for this year, which is less than 5.3% expected in April, but higher than 4.9% expansion last year.

Overview of the World Economic Outlook Projections *(Percent change unless noted otherwise)*

	Year over Year						Q4 over Q4		
			Projections		Difference from April 2013 WEO Published		Estimates	Projections	
	2011	2012	2013	2014	2013	2014	2012	2013	2014
World Output 1/	**3.9**	**3.1**	**3.1**	**3.8**	**–0.2**	**–0.2**	**2.6**	**3.5**	**3.7**
Advanced Economies	**1.7**	**1.2**	**1.2**	**2.1**	**–0.1**	**–0.2**	**0.7**	**1.8**	**2.2**
United States	1.8	2.2	1.7	2.7	–0.2	–0.2	1.7	2.0	3.1
Euro Area	1.5	–0.6	–0.6	0.9	–0.2	–0.1	–1.0	0.3	1.1
Germany	3.1	0.9	0.3	1.3	–0.3	–0.1	0.3	1.1	1.2
France	2.0	0.0	–0.2	0.8	–0.1	0.0	–0.3	0.5	0.6
Italy	0.4	–2.4	–1.8	0.7	–0.3	0.2	–2.8	–0.9	1.4
Spain	0.4	–1.4	–1.6	0.0	0.0	–0.7	–1.9	–0.7	0.0
Japan	–0.6	1.9	2.0	1.2	0.5	–0.3	0.4	3.5	0.2
United Kingdom	1.0	0.3	0.9	1.5	0.3	0.0	0.2	1.1	1.7
Canada	2.5	1.7	1.7	2.2	0.2	–0.2	1.0	2.0	2.4
Other Advanced Economies 2/	3.3	1.8	2.3	3.3	–0.1	–0.1	2.0	3.0	3.2
Emerging Market and Developing Economies 3/	**6.2**	**4.9**	**5.0**	**5.4**	**–0.3**	**–0.3**	**5.0**	**5.6**	**5.6**
Central and Eastern Europe	5.4	1.4	2.2	2.8	0.0	0.0	0.8	3.6	2.5
Commonwealth of Independent States	4.8	3.4	2.8	3.6	–0.6	–0.4	1.3	3.3	2.9
Russia	4.3	3.4	2.5	3.3	–0.9	–0.5	2.0	3.6	2.5
Excluding Russia	6.1	3.3	3.5	4.3	0.0	–0.3	. . .	. . .	. . .
Developing Asia	7.8	6.5	6.9	7.0	–0.3	–0.3	6.9	7.0	7.0
China	9.3	7.8	7.8	7.7	–0.3	–0.6	7.9	7.9	7.6
India 4/	6.3	3.2	5.6	6.3	–0.2	–0.1	3.0	6.0	6.6
ASEAN-5 5/	4.5	6.1	5.6	5.7	–0.3	0.2	9.1	5.5	5.1
Latin America and the Caribbean	4.6	3.0	3.0	3.4	–0.4	–0.5	2.8	2.9	3.5
Brazil	2.7	0.9	2.5	3.2	–0.5	–0.8	1.4	2.6	3.5
Mexico	3.9	3.9	2.9	3.2	–0.5	–0.2	3.3	3.6	2.4
Middle East, North Africa, Afghanistan, and Pakistan	3.9	4.4	3.1	3.7	–0.1	0.0	. . .	. . .	. . .
Sub-Saharan Africa	5.4	4.9	5.1	5.9	–0.4	–0.2	. . .	. . .	. . .
South Africa	3.5	2.5	2.0	2.9	–0.8	–0.4	2.3	2.3	3.0
Memorandum									
European Union	1.7	–0.2	–0.1	1.2	–0.1	–0.1	–0.6	0.7	1.3
Middle East and North Africa	4.0	4.5	3.0	3.7	–0.1	0.1	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.9	2.4	2.4	3.2	–0.1	–0.2	1.8	2.8	3.1

Source: International Monetary Fund

In eurozone, Greece has finalized an agreement with troika to unlock EUR8,1bn of bailout loans in two subtranches. The next disbursement will be EUR4,8bn, EUR3bn from the eurozone and EUR1,8bn from the International Monetary Fund, after an agreement on further cuts to the public payroll in Greece removed one of the biggest challenges to the country's EUR172bn bailout. Despite the positive outcome for the Greek government, there are still warning signs that Greece faces serious challenges in order to keep track with its rescue programme. "The path for Greece will remain a difficult one. I would warn against any illusions," said Wolfgang Schäuble, Germany's finance minister. "It is far from the case that all problems are resolved."

In U.S., employers added a better than expected 195,000 jobs in June despite huge federal spending cuts, tax increases and eurozone recession, but unemployment rate stayed unchanged at 7.6%, as per data from the Labor Department. In addition, job gains for April and May were revised up by a total 70,000. April's increase was revised to 199,000 from 149,000 and May to 195,000 from 175,000. One more positive element for US economic performance is that the White House is expecting the US budget deficit to shrink to $759bn or 4.7% of gross domestic product during 2013 fiscal year.

In Japan, the Bank of Japan upgraded its assessment of the economy suggesting that the aggressive easing measures it implemented in April have already a positive effect on economic growth and is unlikely to move shortly in additional steps. It is the first time since January 2011 that the Central Bank formally announced a recovery in Japanese economic conditions, while Bank of Japan governor, Haruhiko Kuroda, has said he believes a recovery has begun. Since the assignment of Mr. Kuroda, as a governor in March, the Bank of Japan has injected an unprecedented amount of money in the economy through increased purchases of government bonds. The bank recently stated that will follow its goal of expanding Japan's monetary base at a rate of Y60tn to Y70tn a year.

In China, inflation rebounded to a four month high in June despite signs of weaker economic growth. Consumer prices rose 2.7% year-on-year in June, up from 2.1% in May and the highest since February. During the first six months of 2013, Chinese consumer price inflation averaged 2.4%, well under the government's target of 3.5% for the full year. However, Chinese trade figures from the General Administration of Cuctoms disappoints economist expectations as latest figures represented 3.1% year-on-year decline in exports and 0.7% drop in imports against estimations for a 4% rise in exports and 8% in imports.

SHIPPING MARKET

The unexpected fall in Chinese exports and imports recorded in June pour worries for the strength of China's economy during the third quarter of the year and its influence on vessels' demand growth. It is undeniable that the downward moment in Chinese exports will create additional pressure in the boxship market, while its appetite of imports of dry and crude oil cargoes will narrows the prospects of a full recovery in the dry and wet markets. According to Chinese Customs data, Chinese crude oil imports fell 1.4% during the first half of the year from a same period in 2012 to 5.57 million barrels per day due to a slowdown in economic growth. Chinese crude imports in the first half last year had shown 11% increase to 5.62 million barrels/day reaching a record of 6.0 million barrels per day in May.

Chinese economy has a significant detrimental effect with its domestic demand of global added value and GDP growth as Japan was in 1995. According to Well Fargo Securities, although the rate of Chinese economic growth will be slower over the next years than it has been over the past two decades, it likely will not suffer the stagnation the Japanese economy has experienced in mid-1990s. Specifically, the target of Chinese economy for a 7.5% real GDP growth this year would give China the same global economic impact as an American economy that is growing at 3% per annum. Thus, the growth rates that China will likely record over the next years will be strong enough to make a meaningful contribution to global GDP growth. China is undeniably the second largest economy in the world today and it no longer needs to grow 10% annually to have a marked effect on the overall rate of global GDP growth.

In the **dry** market, moderate weaker levels of global spot chartering activity last week led spot freight rates to decrease, while iron ore cargoes continue to pour in the market supporting capesize vessels. According to Commodore Research, a total of 95 vessels were chartered in the spot market last week, 17 less than the previous week.

In the panamax segment, more Indonesian coal cargoes are likely to surface in the near term as peak Northern Hemisphere summer electricity demand season remains in full effect providing strength in panamax vessel earnings. In the long term, prospects for capesize vessel remain encouraging stemmed from an ongoing expansion in iron ore projects from Australia and Brazil in relation with slower fleet growth. Australian and Brazilian iron ore exports in 2014 are expected to total about 1,03 billion tons, which would be 140 million tons (16%) more than is expected to be exported this year and 210 million tons (26%) more than was exported last year. During the last week, there was an increase in iron ore fixture volume as 23 vessels were chartered to haul iron ore to Chinese buyers last week, 9 more than the previous week, as per data from Commodore Research, with capesize spot rates staying far above than $10,000/day. Chinese demand for imported iron ore cargoes is likely to stay firm with Chinese iron ore port stockpiles increasing to about 74million tons.

On **Friday July 12th, BDI** closed at 1149 points, up by 4.5% from last week's closing and up by 3.5% from a similar week closing in 2012, when it was 1110 points. A large increase is recorded in the panamax segment with an upward momentum in the capesize, while smaller vessel categories showed downward incline. **BCI** is up by 6.6% w-o-w, **BPI** is up 9% week-on-week, **BSI** is down 2.9% week-on-week, **BHSI** is down 1.2% week-on-week.

Capesizes are currently earning $14,182/day, up by $1,445/day from last week's closing and **panamaxes** are earning $8,725/day, up by $712/day week-on-week. At similar week in 2012, **capesizes** were earning $6,070/day, while **panamaxes** were earning $9,584/day. **Supramaxes** are trading at $9,376/day, a decrease of $288/day from last week, about 34% lower than capesize and 7.4% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $13,454/day, hovering at 122% higher levels than capesizes versus 34% today's lower levels. **Handysizes** are trading at about $8,211/day, down by $113/day from last week's closing; when at similar week in 2012 were earning $10,005/day.

In the **wet** market, a significant increase is recorded in AG-USG route for VLCCs by moving up to WS28.5, 7.5 points above last weekly levels, with uncertainty for stability at these levels, the highest since the beginning of the year. In AG-SPORE and AG-JPN, the increase was also remarkable with rates lifting to WS47.5, up by 12.5 points from last week, the highest since the onset of 2013. In WAFR-USG route, rates moved to WS47.5, up by 8.5 points from last week, which are also the highest levels recording up to date.

The upward momentum in rates continues in the suezmax segment with WAFR-USAC rates recording increase to WS60, 10 points up from last week, standing at the same levels of end March. In the aframax segment, CBS-USG rates showed stability with no change from previous week at WS80, while for panamax product vessels rates moved up by 7.5 points to WS112.5. A downward incline is recorded In the MR segment for AG-JPN route with rates falling by 2.5 points to WS70 for 75,000dwt vessels and 10.5 points to WS78.5 for 55,000dwt vessels.

Recent estimations for crude oil demand do not seem to comfort the burden that crude tanker operators are facing from the imbalance between vessel supply and demand. OPEC expects demand for its crude oil production to fall at a five year low next year by 0.3m barrels/day to 29.6m barrels/day in 2014 mainly due to the boom in US share oil output that reduces demand for foreign oil from the world's largest consumer. The expected levels seem to be the lowest levels of demand since 2009, when oil consumption fell sharply during the financial crisis. Overall, OPEC estimates that world oil demand will pick up at a fastest rate in 2014 to average 90.68 million barrels per day, up from a revised 2013 estimate of 89.64 million barrels per day, OPEC said in its monthly report, which would be the biggest increase in demand since 2010. The growth seems more likely to come from developing economies as slower than expected recovery in the crisis-hit eurozone, the United States and China could dampen oil demand growth.

In the **container** market, the Shanghai Container Freight Index eased last week after the July 1st General Rate Increase with Asia-European rates holding the excessive gains. The SCFI fell to 1,118 points, down 1.3% week-on-week with 4.5% weekly decline in Asia-Europe rates and 1.7% weekly decline in Asia-Mediterranean. Rates in Asia-Europe are now $1,346/TEU, down by 26.4% year-on-year, but upby $832/TEU from the levels of June 21st. In Asia-Mediterranean route, rates fell to $1,362/TEU, down by 24.8% year-on-year and up by $602/TEU from May 24th.

In transpacific routes, modest gains were recorded with rates in Asia-USWC and Asia-USEC moving up by 0.8% and 0.4% respectively. In Asia-USWC, rates are now $2131/FEU, down by 16.8% year-on-year and up by $182/FEU from the first week of June. In Asia-USEC, rates moved up to $3,373/FEU, down by 9.5% year-on-year and up by $271/FEU from the first week of June.

Following the recent remarkable rebound on Asia-Europe rates, container shipping lines are already scheduling the next round of general rate increases. Hanjin Shipping announced that it will increase prices on westbound services from Asia to North Europe and Mediterranean by $500/TEU on August 1.

In the meantime, latest figures from Alphaliner represent an increase of 11% in the total idle fleet, in terms of cellular capacity, between June 17 and July 1 to reach 439,000 TEU – 177 vessels from 159 on June. Aphaliner said that the increase is mainly stemmed from the STX Pan Ocen filling for receivership on June 7 that led 10 of its boxships to lay up. However, it mentioned that the increase in the idle fleet is expected to be temporary as major carriers are still continuing to reactivate most of their larger idle units for the summer peak season.

In the **shipbuilding industry**, China Rongsheng Heavy Industries Group, China's largest private shipbuilder appealed for financial help from the Chinese government and big shareholders last Friday leading its share price to slump by 16% to a record low, with its market capitalization at just under $1 billion. The yard has already proceeded in huge cuts in its workforce and delayed payments to suppliers to tackle its liquidity issues. China Rongsheng said it was expecting a net loss for the six months that ended June 30 from a year earlier, according to the filing. It gave no figures. The company reported a net loss of 572.6 million yuan ($93.47 million) in 2012, its worst-ever, despite getting government subsidies of 1.27 billion yuan in that year, its latest annual report shows. China Rongsheng has said it won only two shipbuilding orders worth $55.6 million last year when its target was $1.8 billion worth of contracts. This year, it received orders to build two drilling rigs used in oil exploration, worth $360 million. Rongsheng said in an exchange filing that Zhang Zhi Rong, its founder, formal chairman and largest shareholder, has granted the company an interest-free, security-free loan of Yuan200m ($32.6m) to top up its working capital. "The group is currently in discussions with a number of banks and/or financial institutions for renewing existing credit facilities," the filing said.

In the meantime, Wang Jinlian, secretary-general of China Association of the National Shipbuilding Industry (Cansi), noted that there has been an increasing number of small to medium Chinese shipbuilders that are facing threats of bankruptcy. "China's newbuilding orderbook has improved this year compared to the last, but this is not an indication of a sustained recovery," Wang said. He pointed that Beijing is already encouraging owners to demolish vessels above 15yrs old as a key solution to the country's struggling shipbuilding industry.

In South the Korea, the world's biggest shipbuilder Hyundai Heavy Industries is planning to increase prices as demand for fuel efficient vessels has led to higher newbuilding business against vessels' overcapacity. Orders may exceed this year's target of $11.3 billion, with about 60 percent of that already met, Ka Sam Hyun, executive vice president in charge of ship sales, said in a July 3 interview. The Ulsan, South Korea-based company plans to raise prices in the second half, he said. "The big focus right now is on fuel efficiency," Ka said. "At a time when prices have fallen so much, shipping lines seem to be willing to pay a bit more to get better performing ships on time. This is why the top-tier shipyards will benefit."

In the **shipping finance**, Marine fuels supplier Brightoil Petroleum has secured a $50m term loan for 10 years from China Development Bank Corporation Hong Kong Branch. Under the facility agreement, chairman and executive director Sit Kwong Lam is required to maintain control of the company.

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