GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 16th August 2013 (Week 33/13)
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ECONOMIC ENVIRONMENT

Optimistic signs emerged this week for the depressed eurozone with second quarter gross domestic product figures showing expansion 0.3%, beating economists' forecasts for 0.2% expansion and paving the way to growth for the first time since 2011. Germany recorded the strongest gross domestic product growth, in more than a year, of 0.7% during the second quarter, and France confirmed that it was no longer in recession with 0.5% GDP growth. "*We're not expecting a boom in Europe, but there is a momentum shift, and you're going to feel it in markets and the world economy*," said Joseph Lupton, a senior global economist at JPMorgan Chase in New York. Manufacturing unexpectedly rose in July after two years of contraction, while confidence among executives and consumers improved to a 15-month high. Morgan Stanley estimates that the euro area economy will grow 1.3% in 2014, after shrinking 0.5% this year, with imports expanding 3.7% after two years of declines.

The recent improved sentiment for the euro area led German investor confidence on rise. The ZEW Center for European Economic Research in Mannheim said its index of investor and analyst expectations, which aims to predict economic developments six months in advance, rose to 42 from 36.3 in July.

One more positive development for the euro area is the recent upturn in Portugal's economy that appears to be near to exit from the longest recession seen for more than 40years. Portugal's GDP grew by 1.1% in the second quarter surpassing expectations with the strongest quarterly growth in the eurozone after ten consecutive quarters of contraction. According to the National Statistics Institute, a 6.3% upturn in exports from April to June compared with the previous three months and an easing in the rate at which investment had been contracting were the main drivers behind the increase in gross domestic product following a contraction of 0.4% in the first quarter.

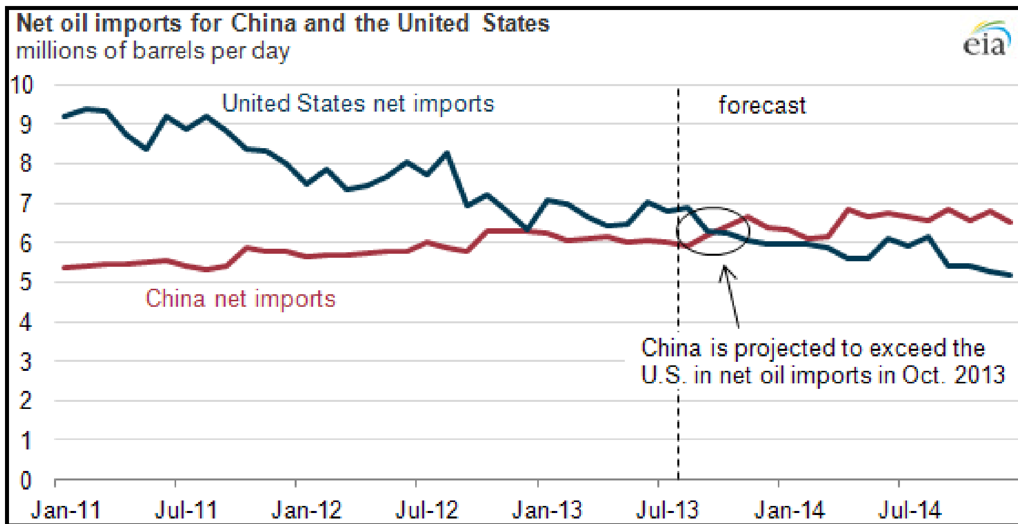
In Japan, its economy expanded for a third straight quarter in the three months to June, but at a slower pace than analysts had expected. According to a preliminary government estimate, Japanese gross domestic product expanded at an annualized rate of 2.6%, which is a full percentage point slower than the average forecast of economists surveyed by news agencies.

In Russia, GDP growth figures disappoint and raise fears for a deeper slowdown. According to state statistics service, Russia's economy grew just 1.2% between April and June period, which is significantly lower than analysts' forecast of 2% and an earlier estimate of 1.9% by Russia's economy ministry, which tends to be pessimistic in its forecasts. During the first quarter, Russian economy grew by 1.6%. Russia's economic growth is on decline for six consecutive quarters and the 1.2% GDP growth figure is the lowest quarterly growth recorded since the last three months of 2009.

SHIPPING MARKET

Amid the current Chinese economic slowdown, the seaborne iron ore market is expected to be under record supply through 2017 as giant iron ore producers, from Rio Tinto to Vale Group, are continuing to increase their supply. According to Goldman Sachs Group Inc., seaborne iron ore surplus will reach 82 million metric tons in 2014, the most since at least 2008, and it will keep growing through 2017 with Australia accounting for about 66% of the supply gains next year. Iron ore price is expected to average $115/ton in 2014, 17% less than the current levels and the least since 2009, according to the median of 10 analyst estimates compiled by Bloomberg. Goldman estimates that seaborne supply of iron ore will rise 9.7% to 1.27 billion tons next year, exceeding the 3.7% gain in demand to 1.19 billion tons. Chinese imports, accounting for 67% of the global, may expand by 4% to 800million tons, while Goldman estimates that worldwide growth in imports that will slow by 2.5% this year, the lowest since at least 2008.

In the wet market, the threat of diminishing US crude oil demand seems to be rebalanced from stronger China's oil demand growth figures. US Energy Information Administration's August 2013 Short-Term Energy Outlook forecasts that China's net oil imports will exceed those of the United States by October 2013 on a monthly basis and by 2014 on an annual basis, resulting in China being the largest importer of oil in the world. The imminent emergence of China as the world's largest net oil importer has been driven by steady growth in Chinese demand, increased oil production in the United States, and a flat level of demand for oil in the U.S. market. U.S. total annual oil production is expected to increase by 28% between 2011 and 2014 to nearly 13 million barrels per day, primarily from shale oil, tight oil, and Gulf of Mexico deepwater plays. In the meantime, Chinese production increases at a much lower rate (6% over this period) and is forecast to be just a third of U.S. production in 2014.



Source: U.S. Energy Information Administration Short-Term Energy Outlook, August

In the **dry** market, the downward direction in the capesize and panamax segments led the BDI to fall below the psychological barrier of 1,000 points on Monday August 12th, for the first time since June 19th. The global spot chartering activity was on decrease last week due to summer lull with about 94 vessels being chartered in the market, 19 less than the previous week and 11 less than the trailing four week average, according to Commodore Research.

In the capesize segment, vessel earnings after flirting to drop less than $10,000/day have finally rebounded at the end of the week at levels of around $14,000/day as iron ore demand keeps showing signs of firmness. In the panamax segment, vessel earnings have fallen from the last week at levels of less than $7,500/day with South American grain fixture volume being on a serious downfall. In the meantime, the encouraging sign for the capesize segment is that Chinese iron ore port stockpiles are standing at 26% lower levels than last year of about 72.4 million tons, implying that Chinese demand for

imported iron ore cargoes will continue to be firm. Coal stockpiles at China's largest coal port, Qinhuangdao remain about the critical 7 million tons with limited potentials for a firm Chinese thermal coal fixture activity. Supramax vessels keep outperforming with vessel earnings averaging around $9,500/day and handysizes are showing steadiness at average levels of around $7,700/day.

On **Friday August 17th, BDI** closed at 1102 points, up by 10% from last week's closing and up by 54% from a similar week closing in 2012, when it was 714 points. Upward trend is recorded in the capesize segment, constant slide in the panamax and almost steadiness in the supramax/handy segments. **BCI** is up by 16.4% w-o-w, **BPI** is down 2.6% week-on-week, **BSI** is up 0.5% week-on-week, **BHSI** is down 0.7% week-on-week.

Capesizes are currently earning $14,377/day, up by $3,757/day from last week's closing and **panamaxes** are earning $7,355day, down by $186/day week-on-week. At similar week in 2012, **capesizes** were earning $2,779/day, while **panamaxes** were earning $6,420/day. **Supramaxes** are trading at $9,579/day, an increase of $55/day from last week, about 33% lower than capesize and 30% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,798/day, hovering at 217% higher levels than capesizes versus 33% today's lower levels. **Handysizes** are trading at about $7,528/day, down by $89/day from last week's closing; when at similar week in 2012 were earning $7,179/day.

In the **wet** market, VLCC rates drop further as chartering activity in AG declines and forward supply of vessels increases. Rates in AG-USG have stayed flat at WS22 for two straight weeks, down by 6.5 points from the highs of WS28.5 at the week ending July 12th. In AG-SPORE and AG-JPN routes, rates fell by 1 point to WS33, down by 14.5 points from the highs of WS47.5 at the end of the second week of July. Upward direction is recorded in the WAFR-USG route with rates moving up by 2.5 points to WS40 and steadiness in WAFR-China route with rates standing at WS36.5 for the last two weeks.

Suezmax rates continue to outperform with an upward pressure in rates on the WAFR-USAC route and in the Mediterranean market. Rates in the WAFR-USAC route increased to WS67.5, up by 17.5 points from end-June levels.

In the aframax segment, the Caribbean market experienced strong gains with CBS-USG route gaining 20 points to conclude at WS105 with 60% weekly gains in fresh activity. In the panamax segment, the Caribbean market is softer with rates easing to WS112.5 points, down by 12.5 points on a weekly basis. In the MR segment, rates in AG-JPN route for 75,000dwt vessels remain almost flat at WS69.75, from WS70 during July. For 55,000dwt vessels, AG-JPN rates follow an upward direction from the beginning of August by moving up to WS87.5, up by 10 points from the second week of July.

In the **gas** market, LNG spot rates remain flat at $115,000/day, slightly above 2013 lows of $100,000/day for modern tri fuel diesel engines. Chartering interest has been strong for the west coast of Africa LNG cargoes bound for South America and Far East.

Although the recent fall in LNG spot rates, there are still growing investment opportunities with China National Offshore Oil Corp. receiving final government approval for its floating LNG project in China's eastern port city of Tianjin. This will be China's first floating and regasification unit, with a total investment of Yuan 3.3 billion ($539 million) for the first phase, CNOOC said. The LNG import project received approval from the National Development and Reform Commission on July 26. The first phase of the project comprises a floating, storage and regasification unit, an accompanying berth and two 30,000 cubic meter storage tanks. It will have an LNG receiving capacity of 2.2 million mt/year, roughly equivalent to 3 billion cubic meters/year of natural gas, the company said. A second phase could see capacity expanded to at least 6 million mt/year, CNOOC said.

In the **container** market, the Shanghai Container Freight Index closed lower last week at 1,141 points, down 1.8% week-on-week and 16.3% year-on-year with losses in all major routes. In Asia-Europe, rates fell to $1,436/TEU, down by 4.3% week-on-week and 11% year-on-year, with hopes that rates will show again improvement, when the new round of general rate increases would take effect from September 1st. In Asia-Mediterranean route, rates fell to $1,410/TEU, down by 5.6% week-on-week and 9% year-

on-year. However, Asia-European and Asia-Mediterranean rates are up by 5.5% and 14.2% respectively from the end-July levels.

In transpacific routes, rates in Asia-USWC fell again below $2,000/FEU to $1,994/FEU, down by 3.6% week-on-week and down by 28.3% year-on-year. In Asia-USEC route, rates also slipped to levels of less than $3,500/FEU, $3,446/FEU, down by 1.9% week-on-week and 15.9% year-on-year.

In addition to Hanjin and NYK Line's last week announcements for a new round of general rate increases from the beginning of August, Hong Kong's OCCL has advised a westbound rate increase of $500/TEU for covering cargo moving from Asia (excluding Japan) to northern Europe, the Mediterranean and Black Sea to be effective from September 1st. Furthermore, Hapag-Lloyd and Mediterranean Shipping Co are aiming to lift Asia-Europe rates by $500/TEU on September 2. Maersk Line and CMA CGM also joined in the already planed general rate increases. Maersk said it would increase prices on services from Asia, excluding Japan, to North Europe by $400/TEU from September 1st and CMA CGM it would implement general rate increase of $450/TEU from Asia ports to all northern European ports from the beginning of Septmeber.

The current fragile freight market conditions bring also weak financial picture for major operators. According to Alphaliner, of the four lines that reported recently their financial results, Hapag-Lloyd was the only one to report positive operating results, while APL, Hanjin and OOCL all posted operating losses for the first half of 2013.

The carriers pointed to a weak market environment in the first half, with a severe deterioration in freight rates while volume growth was sketchy. Their common goal is to reduce their operating costs through fleet upgrades that will add more capacity to the already oversupplied market. According to Alphaliner estimates, the cellular ship fleet has already reached the 17mil TEU last week – 4,978 vessels. New deliveries in the first seven months of this year have reached 147 ships for 938,500 teu, with full year deliveries expected to exceed 1.5 Mteu. In the large post panamax segment, 24 ships of over 13,000 teu have already been delivered so far this year and 10 more units are due units due by the end of the year.

In the **shipbuilding industry**, the Viet Nam Shipbuilding Industry Group (Vinashin) has found a way of resolving its debts after the Government asked the Ministry of Finance to issue zero-coupon bonds with 12-year terms. The total amount of debt worth US$600 million plus $23 million in unpaid interest will be converted into bonds. The interest rate of these bonds will be one per cent per year and will be given back to buyers when they mature, with their initial capital. After the state-owned group defaulted on loans for three years, US hedge fund Elliott Advisors LP and the UK's Bluecrest Mercatile sued the Vietnamese shipbuilder in the UK High Court in November 2011. Vinashin borrowed money from the firms in May 2007. According to Nguyen Ngoc Su, chairman of the members' council at Vinashin, the UK High Court accepted the restructuring plan of the group with 77 per cent approval from creditors. A news source from Vinashin revealed that the group had signed a debt rollover contract with 20 local banks that helped cut 70 per cent of its debt. Vinashin is also trying to pay back private loans worth $200 million.

In South Korea, struggling shipyard STX Offshore & Shipbuilding said its 2Q13 net losses deepened to 2.28 trillion won ($2.03Bn), from 73.7Bn won lost in 2Q12. The yard is under voluntary debt restructuring. Its main creditor Korea Development Bank and other banks provided emergency funding of 250Bn won and $140M in refund guarantees in June. In addition, Hyundai's Mipo Dockyard incrurred losses of 129bn won ($88m) in the second quarter ended June 2013, compared with profits of 32.6bn won in the second quarter of 2012, said the shipbuilder. Its revenues fell 13% year-on-year in the second quarter of 2013 to 950bn won. The group, whose major shareholder is Hyundai Samho HI, performed poorly on some vessel types such as platform support vessels, ro-ros and combination carriers, according to analysts.

In Japan, compatriot shipbuilders seem to regain their competitiveness against South Korea and China with the weakening yen stimulating 141% increase in July orders, year-on-year. According to Japanese Shipbuliders Association, shipyards received 35 orders totalling 1,155,913gt last month, up from just 13 orders aggregating 479,037gt in July 2012. Last month's orders were just below the 38 orders totalling

1,404,820gt in June. Bulkers dominated the orders with yards receiving orders for 32 bulkers, up from 31 in June and just 12 in July 2012.

In the **shipping finance**, Commerzbank's Deutsche Schiffsbank unit reduced its exposure at default to 17 billion euros ($22.7 billion) from 18.3 billion euros in the first three months of the year, including 4.6 billion euros in bad debt, according to a company presentation from Frankfurt-based lender reporting its quarterly results. In addition, loan-loss provisions at Deutsche Schiffsbank fell 13 percent to 248 million euros in the first half compared to the year earlier period, the lender said in its report.

In terms of **ship financing** deals, Pacific Basin Shipping announced it has finalised terms of 12-year post-delivery export credit agency (ECA) financing for two handymax vessels. The $50.9m facility has been arranged with Japan Bank for International Cooperation with Citibank Japan Ltd as a partner. Citi's portion will be secured by insurance from Nippon Export and Investment Insurance. The two ships are already part of the Pacific Basin newbuilding fleet and scheduled to deliver by the end of 2013. This facility is in addition to the $85m facility also on a Japanese ECA deal announced in April. "This loan represents an attractive opportunity for us to access additional Japanese ECA financing with a 12 year repayment profile at a time when we are committed to growing our fleet of owned ships. We are continuing to work actively to secure additional ECA and commercial bank financing with long tenors and associated favourable repayment profiles that we consider beneficial to our shareholders," said cfo Andrew Broomhead.

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