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

Week Ending: 6th September 2013 (Week 36/13)

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ECONOMIC ENVIRONMENT

Eurozone manufacturing recovery kept its pace in August reaching 26 month high of 51.4 from 50.3 in July as growth improves in Germany, Netherlands, Italy, Austria and Ireland. Chris Williamson, Chief Economist at Markit said: *"What's especially encouraging is that the upturn is broad-based, with PMIs rising in all countries with the exception of France, where business conditions have at least stabilised after the steep downturn reported earlier in the year. Germany, the Netherlands, Austria, Spain and Italy are now all seeing manufacturing grow at the fastest rates for at least two years, and even Greece saw a marked easing in the rate of manufacturing decline."*

Countries ranked by Manufacturing PMI®: Aug.

Netherlands	53.5	27-month high
Austria	52.0	18-month high
Ireland	52.0	9-month high
Germany	51.8 (flash 52.0)	25-month high
Italy	51.3	27-month high
Spain	51.1	29-month high
France	49.7 (flash 49.7)	Unchanged
Greece	48.7	44-month high

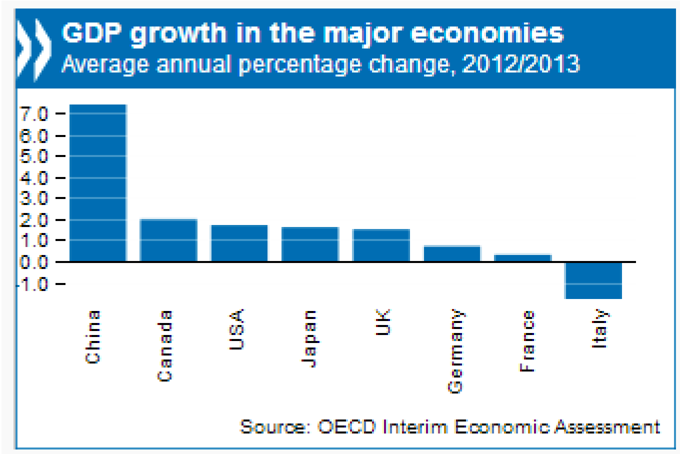
Manufacturing activity in France and Greece stayed below 50 indicating contraction with the Greek economy being under pressure for additional support after 2014. The head of the Eurogroup, Jeroen Dijsselbloem, stated that Greece will likely need 'additional support' after 2014, while discussions on how to fill the financing gap of the country for 2014-15 will start in October. The ECB Precedent, Matio Draghi ruled out the possibility the ECB participated in any debt restructuring scheme for Greece. According to Mr. Dijsselbloem 'it is realistic to say Greece will require further support,' since it will not have solved all of its problems by next year and will consequently not be able to return to the money markets. German Chancellor Angela Merkel said that although might be a third bailout program for Greece, the size of such a rescue package is unclear.

In U.S., economic growth revised upwards at an annualized rate of 2.5% in the second quarter, from the initially reported figure of 1.7%. The upward revision stems mainly from strong trading data and confirms the steady and moderate path of US economy to recovery as it seems that has not suffered as much as it expected from the slowdown in emerging economies.

In Japan, the Bank of Japan keeps optimistic on the economy as it said that the world's third largest economy is recovering moderately due to a boost in exports and investment in fixed assets by companies on the back of higher profits. It noted that public investment is also rising and the housing sector seems stronger. Thus, the Bank of Japan continues to maintain its policy on hold since April by setting inflation target at 2%. Last month Japanese inflation rose 0.7%, which is considered to be the largest increase in five years.

Encouraging note for the progress of economic growth in major advanced economies is being recorded by the Organization for Economic Cooperation and Development in its latest Report. Economic growth in the major advanced economies is expected to continue at a similar pace in the second half of 2013 as in the second quarter. For 2013, OECD now forecasts 1.7% growth for US, 1.6% in Japan, 0.7% in Germany, 0.3% in France, -1.8 in Italy and 1.5% in the UK. GDP growth in China is predicted to pick up to about 8% by the final quarter, after a slowdown in the first half of 2013.

Presenting the Assessment in Paris, OECD Deputy Chief Economist Jorgen Elmeskov said: "The gradual pick-up in momentum in the advanced economies is encouraging but a sustainable recovery is not yet firmly established. Major risks remain. The euro area is still vulnerable to renewed financial markets, banking and sovereign debt tensions. High levels of debt in some emerging markets have increased their vulnerability to financial shocks. He added: "Continued support for demand is still needed to make sure recovery takes hold, and it remains vital that this be complemented by structural reforms to boost growth, rebalance the global economy and avoid a speed up of structural unemployment."



In emerging economies, August ended with positive news for China after its economic slowdown during the second quarter of the year to 7.5% from 7.7%. Chinese manufacturing activity speed up in August by hitting a 16 month high and dismissing fears for a sharp slowdown in its economy with the official Purchasing Managers' Index moving upwards to 51 from 50.3 in July. In the meantime, China has revised down its economic growth figure for 2012 to 7.7% from a previously reported of 7.8%. According to the National Bureau of Statistics, China's Gross Domestic Product totalled 51.89 trillion yuan ($8.51 trillion) in 2012, down CNY38 billion yuan from the original estimate.

In India, poor manufacturing and mining performance dropped economic growth in the April-June quarter to 4.4%, from 4.8% during the first quarter, which it's the lowest since the 2008 global financial crisis. In April-June 2012, economic growth was at 5.4.

In Indonesia, trade deficit widened sharply to $2.31 billion in July from $847 million in June due to rising imports, as per data from the General Statistics Agency, and it's the highest on record began including imports into free-trade zones in overall imports in 2008. The previous record deficit was $1.90 billion in October 2012. The agency said Indonesia's exports reached $15.11 billion in July, falling 6.07% from a year earlier and rising 2.37% on month, while imports rose 6.5% from previous year to $17.42 billion and expanded by 11.4% from previous month. However, Bank International Indonesia economist Juniman expects the current account deficit to narrow to 3.3% of GDP in the third quarter, as a result from applied government policies. He also added that an anticipated recovery in China's economic growth is also expected to boost Indonesia's exports.

SHIPPING MARKET

The government of South Korea has announced plans for restructuring ship financing and consolidate various shipping finance players into a single entity to create a new shipping fund that will ultimately comprise of over half of all the private funds. Under the new scheme, Korea EXIM Bank, Korea Development Bank and Korea Trade Insurance Corp will jointly forces creating a Maritime Finance Centre based in Busan. In addition, Korea Finance Corp (KoFC) will be re-merged with Korea Development Bank and KoFC's overseas business will be transferred to Korea EXIM Bank.

In the **dry** market, the strength of the capesize segment is being reflected in the performance of the BDI that still hovers above the psychological barrier of 1,000 points mark, since June 19th, fuelling hope for a return in full recovery. During the first days of September, BDI reached new highs for this year by surpassing the level of 1,200 points, for the first time since January 2012. Chinese appetite for iron ore has not faded away with capesize rates fetching this week levels of more than $19,000/day, from less than $6,000/day at the end of May. In the panamax segment, rates also records upward movements by increasing to more than $7,600/day, due to a healthy amount of grain and coal cargoes entering the market. Supramax and handysize rates hold their steady performance by a firm amount of mineral cargoes coming with levels increasing to more than $9,900/day for supramax and more than $7,600/day for handysize.

Prospects for a further firmness in the capesize and panamax segment are positive as the levels of Chinese iron ore stockpiles are still 25.2 million tons (-26%) lower than last year and coal stockpiles at Qinhuangdao, China's largest coal port, have dropped below to the critical 7 million tons, according to data from Commodore Research. During August, iron ore shipments from Australia's Port Hedland, the world's largest bulk terminal, increased to 27.4 million metric tons from 26.6 million tons in July and 22.8 million tons a year ago due to more shipments to China. According to Port Hedland Port's Authority website, exports of iron ore to China reached 22.3 million tons in August, from 20.4 million tons in the previous month and 16.7 million tons in August 2012.

Average Value of Dry Indices during August:

- **Baltic Dry Index –** *down by 3% month-on-month and up by 43% year-on-year*: 1088 points August 2013– 1123 points July 2013– 761 points August 2012
- **Baltic Capesize Index –** *up by 4% month-on-month and up by 79% year-on-year*: 1805 points August 2013-1986 points July 2013- 1154 points August 2012
- **Baltic Panamax Index–** *down by 13% month-on-month and up by 13% year-on-year:* 941 points August 2013- 1084 points July 2013– 832 points August 2012
- **Baltic Supramax Index–** *no change month-on-month and up by 3% year-on-year* : 918 points August 2013- 914 points July 2013– 892 points August 2012
- **Baltic Handysize Index–** *down by 5% month-on-month and up by 3% year-on-year*:: 524 points August 2013- 553 points July 2013-508 points August 2012

Charter rates – Average Value during August:

- **Capesize–** *up by 2% month-on-month and up by 290% year-on-year* : $13,643/day August 2013 - $13,315/day July 2013- $3,501/day August 2012
- **Panamax–** *down by 13% month-on-month and up by 13% year-on-year* :$7,495/day August 2013 $8,618/day July 2013 - $6,625/day August 2012
- **Supramax–** *no change month-on-month and up by 3% year-on-year :* $9,596/day August 2013 - $9,556/day July 2013- $9,329/day August 2012
- **Handysize -** *down by 6% month-on-month and up by 4% year-on-year:* $7,625/day August 2013 - $8,101/day July 2013 - $7,367/day August 2012

On **Friday September 6th, BDI** closed at 1352 points, up by 19.4% from last week's closing and up by 102% from a similar week closing in 2012, when it was 669 points. The largest increase is recorded in the capesize and panamax segment. **BCI** is up by 24.7% w-o-w, **BPI** is up 12.4% week-on-week, **BSI** is up 2.1% week-on-week, **BHSI** is up 1.1% week-on-week.

Capesizes are currently earning $21,973/day, up by $6,773/day from last week's closing and **panamaxes** are earning $8,158/day, up by $917/day week-on-week. At similar week in 2012, **capesizes** were earning $3,452/day, while **panamaxes** were earning $4,758/day. **Supramaxes** are trading at $10,027/day, an increase of $208/day from last week, about 54% lower than capesize and 23% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,703/day, hovering at 152% higher levels than capesizes versus 54% today's lower levels. **Handysizes** are trading at about $7,688/day, up by $42/day from last week's closing; when at similar week in 2012 were earning $6,685/day.

In the **wet** market, August ends with a pessimist note for the performance of VLCC rates with AG-USG rates falling to WS20.5 from the highs of WS28.5 reached during the second week of July. In AG-SPORE and AG-JPN route, rates dropped to WS31 from WS47.5 during the second week of July, while WAFR-USG route shows an over performance among other routes. Rates in WAFR-USG route remains steady at WS40 during the whole period of August, while rates in WAFR-CHINA route have dropped to WS34 from WS47.5 at the second week of July.

In the suezmax segment, rates in WAFR-USAC route kept steady at WS52.5 during the last two weeks of August, from the highs of WS67.5 at the end of the first week of August. In the B.SEA-MED route, rates fell by 5 points to WS55 from WS62.5 at the end of mid-August. In the aframax segment, CBS-USG rates gained 5 points and rose to WS115, which are 35 points above from the lows recorded during June. Caribbean market posted also modest gains for panamax vessels with rates in CBS-USG route gaining 2.5 points to conclude at WS115, but down by $20/ldt from the highs of WS135 fetched at the week ending July 26th.

In the MR segment, a strong improvement is being seen in AG-JPN route with rates increasing to WS120 for 75,000dwt vessels, up by 25 points from previous week and 52 points above from July's ending. For 55,000dwt vessels, AG-JPN rates showed no change from the highs of WS120 reached in the third week of August, up by 38 points from ending July.

In the **gas** market, positive prospects are emerging for LNG spot rates despite their recent downside performance. Japan's Kansai electric power is going to shut down its two Ohi nuclear reactors with no plans for restarting them unless they conform to Japan's new stricter regulations for nuclear power. Thus, Japan, which remains the world's largest importer of LNG, would have the need to import more LNG pushing LNG spot rates to new highs during the winter period.

In the **container** market, the Shanghai Container Freight Index ended on a positive note during the last week of August due to soft improvements in transpacific rates, while European rates remain disappointed with declines from week ending August 9th. Shanghai Container Freight Index ended on August 30th at 1,109 points, up by 2.3% week-on-week and down 14.3% year-on-year. Compared with July, the average value of the SCFI is up by 3% with Asia-European rates gaining 2% and Asia-Mediterranean rates 4%.

Last week, Asia-Europe rates ended at $1,183/TEU, down by 4.4% week-on-week and 10.6% down year-on-year, with positive prospects in the coming weeks. There are expectations for a surge in Asia-Europe volumes as shippers hurry to export commodities from China ahead of the National Day Holiday from October 1 to October 7 that could lead utilization rates to reach 95%. In Asia-Mediterranean route, rates ended at $1,211/TEU, down by 2.7% week-on-week and down 11.7% year-on-year.

In transpacific routes, Asia-USWC and Asia-USEC rates gained 4.0% week-on-week and 0.5% respectively. In Asia-USWC route, rates ended at $1,965/FEU, down by 20.9% year-on-year but down 3% compared with the average value of July. In Asia-USEC route, rates closed at $3,378/FEU, down 9.7% year-on-year and up by 3% compared with the average value of July.

In the **shipbuilding industry**, Japanese shipbuilders Kawasaki Heavy Industries and Mitsui Engineering & Shipbuilding Co is said to have started preliminary discussions on potential business integration.

In China, vessel exports fell almost 30% year on year to $17Bn in January-July, customs statistics indicated, and vessel imports by 10.8% year-on-year to $1.1bn. During July, the value of ship exports decreased by 21.5% year-on-year to $2.5Bn. Bulkers, oil tankers and box ships accounted for 72% of export values of Chinese-built vessels, with bulkers containing 47.8% of total exports.

In the **shipping finance**, South Korea Financial Services Commission announced that South Korea's policy banks, Export-Import Bank of Korea and Korea Trade Insurance Corp will expand their lending support in the offshore sector by 40-50 trillion won ($35-45bn) from this year to 2017, which is more than the 20 trillion won over 2008-2012 periods. South Korea's target is to ensure that its major shipbuilders will be in the frontline and enhance their position in the newbuilding arena.

In terms of **ship financing deals**, Scorpio Tankers Inc. announced it has received a Letter of Intent from the Export-Import Bank of Korea of up to $300.6 million (the KEXIM Tranche) for a loan facility of up to $429.6 million (the "KEXIM Credit Facility") which is being arranged by a financial institution which itself has given a commitment letter of $129 million. Scorpio stated that the KEXIM Credit Facility will be used to finance up to 60% of the purchase price of various newbuildings upon delivery.

In addition, China Export-Import bank announced that it signed a strategic agreement with China State Shipbuilding Cooperation to provide a credit line of 100bn yuan ($16.22Bn) and also signed a letter of Intent with CSCC to secure $312mil financing for the construction of three 16,000TEU boxships. "As the main channel of ship financing, China Exim Bank always supports China's ship and shipping industries," Li Ruogu, president of China Exim Bank, said at the signing ceremony. "It will extend its export buyer's credit in future to support China's ship export," he added. The three vessels will be the largest box ships ever designed and built in China, according to Li, who added that the deal would mean a lot for upgrading and restructuring China's shipping industry.

Furthermore, Singapore listed JES International confirmed it has signed a deal for a loan facility valued almost 40M with a US-based private investment fund. Under the agreement, the loan facility will amount to a maximum of $20M for three years at a one-time upfront fee of 5%, including an option for additional $20M under the same conditions. JES said proceeds will be used for working capital and any potential merger and acquisition opportunities.

In the **capital market**, Frontline 2012 said it has raised $225M in gross proceeds by completing its private placement of 34.1M new ordinary shares. "The private placement was significantly oversubscribed, and the shares have been successfully placed with high-quality investors," said Frontline 2012, which added its goal is to become "the leading global commodity shipping company focused on modern, fuel-efficient tonnage". The proceeds would be used to finance the announced investment in Avance Gas Holding, its newbuilding programme and further expansion, the company added.

MARIA BERTZELETOU – GOLDEN DESTINY RESEARCH DEPARTMENT

For more Research Services, please contact us:

GOLDEN DESTINY Research & Valuations Department

Sofia M.Kokkinis & Maria Bertzeletou -Email: snv@goldendestiny.com