GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 13th September 2013 (Week 37/13)
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ECONOMIC ENVIRONMENT

Japan was awarded the 2020 Olympic Games defying concerns about the Fukushima nuclear crisis. Japanese Prime Minister Shinzo Abe assured that the Fukushima leak was not a threat to Tokyo and took personal responsibility for keeping the games safe. The winning of Olympic Games boosted Japanese stocks with Japanese economy recovering during the second quarter of the year. Japan's Cabinet Office revised the April-June GDP data saying that the economy grew 3.8% on an annualized basis, stemmed from strong capital investment, which is up from a preliminary reading to 2.6% growth released a month ago. Japanese economic growth is much higher than the 2.5% expansion in the U.S. and 1.1% growth in the eurozone during April-June period. The government also revised up its reading growth for January-March period to 4.1% from 3.8%.

In US economy, 169,000 jobs were added in August with unemployment rate falling to 7.3% according to data from Bureau of Labor Statistics.

In China, lower pace of inflation and stronger export data during August confirm hopes for a firmer outlook in the second half of the year. According to the Statistics Bureau, consumer prices rose 2.6% from a year ago, below July 2.7% pace and it seems unlikely that inflation will surpass the barrier of 3% in 2013. In addition, trading figures released for August recorded a 7.2% increase in exports to $190.6 billion, from 5.1% rise in July and 3.1% decrease in June. Chinese imports also recorded upward movement, 7% increase to $162,1billion in August, from 10.9% decrease in July. Chinese economy seems to be benefiting from strengthening demand in US and other key export markets and its trade surplus widened to $28,5billion in August, up from $17,8 billion in July.

Additional fresh Chinese economic data supporting government's target for 7.5% GDP growth this year are the following:

- Increase of 10.4% year-on-year in industrial output during August, fetching a 17-month high, from 9.7% pace in July.
- Accelerating growth in retail sales with an increase of 13.4% year-on-year in August from 13.2% growth in July.
- Fixed asset investment rose 20.3% year-on-year in August, from 20.1% in July.

In contrast with China's optimistic figures, Indonesia surprised last week with disappointing growth forecasts and raising interest rates. Indonesia's Central Bank warned that Gross Domestic Product could slow to 5.5-5.9% this year as consumers cut spending and companies restrain investments, from 5.8-6.2%, the lowest pace since the global financial crisis in 2009. Bank Indonesia cut its main lending rate by 25 basis points to 7.25%, which is the highest in more than four year, against economist expectations for stability in rates after the increase of 150 basis points since June. Bank Indonesia said in a statement that the latest rate hike was part of measures focused on "controlling inflation, stabilizing the rupiah exchange rate and ensuring the current account deficit is managed to a sustainable level".

SHIPPING MARKET

The first two weeks of September ended with an unexpected significant increase in the dry bulk segment with the Baltic Dry Index surpassing the 1,600 points mark and moving even to higher levels from the surge in capesize rates. The Baltic Dry Index has recorded an increase of more than 100% since the beginning of June, when it was standing at the low levels of 801 points with capesize rates of region $5,200/day, down by more than 80% from today's levels. Capesize rates are now approaching the spectacular levels of about $30,000/day, for the first time since October 2011. The current levels of capesize rates provide a promising outlook for the stability of the Baltic Dry Index at the levels of more than 1,500 points as iron ore appetite from China remains excessive. Compared with the other main segments, tankers and container, dry bulk outlook seems today the most promising, with the Chinese economy providing a safe vehicle for the S&P investments.

August 2013 ended with a 49% year-on-year increase in the number of new orders for bulk carriers and 38% year-on-year increase in the number of secondhand vessel purchases.

Bulk Carriers:

- **Newbuilding**: 49% year-on-year increase, in the number of new orders
- **Secondhand**: 38% year-on-year increase, in the number of secondhand vessel purchases

Tankers:

- **Newbuilding**: 449% year-on-year increase, in the number of new orders
- **Secondhand**: 115% year-on-year increase, in the number of secondhand vessel purchases

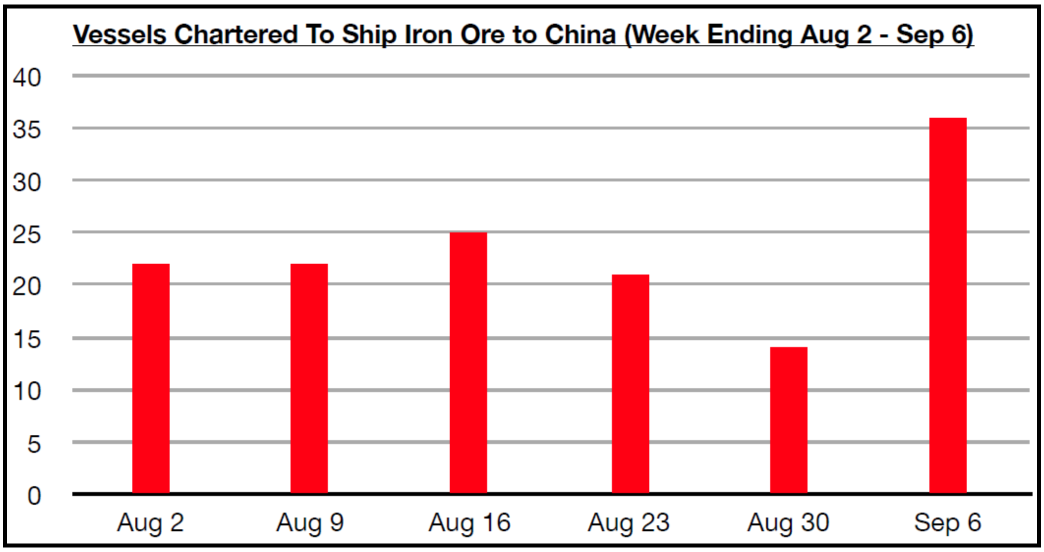
Containers:

- **Newbuilding**: 160% year-on-year increase, in the number of new orders
- **Secondhand**: 6% year-on-year decrease, in the number of secondhand vessel purchases

In the **dry** market, a furry of chartering activity in the capesize segment is leading to excessive gains that remains to be seen if would be maintained in the coming days of September. According to Commodore Research, 33 vessels chartered to haul iron ore during the first week of September, from only 13 vessels in the previous week. Overall, chartering activity for dry bulk commodities in the spot market was high last week at 119 vessels, from 43 vessels in the previous week.

A moderate amount of emerging grain and mineral cargoes supports the panamax, supramax and handysize vessel sizes, while the continued decrease in Chinese coal port stockpiles, now below 6.5 million tons, will stimulate further activity in the panamax segment. In addition, China's coal dedicated Daqin Railway is going to enter a period of scheduled maintenance in October that will put further pressure on Qinhuangdao coal port stockpiles and stimulate more demand for coal imports. During the upcoming maintenance period (which is expected to last for 15 days), Daqin Railway coal haulage is estimated that will fall by a total of 3 to 4.5 million tons. Thus, it is estimated that 3 to 4.5 million tons more coal will likely be imported to compensate for the decline. An increase in coal imports is a common result of Daqin Railway maintenance.

In the capesize segment, vessel earnings will keep benefiting as Chinese iron ore demand shows signs of continued firmness from high Chinese steel production and low levels of iron ore port stockpiles. In August, Chinese expanded iron ore imports by 8.1% to 526.7 million metric tons from a year ago, as per data from General Customs. During the first week of September, 36 vessels were chartered to haul iron ore to Chinese buyers, 22 more than the previous week and 15 more than the trailing four week average, according to data from Commodore Research. The lower pace of capesize fleet growth during the current year is also a key factor explaining the recent euphoria and there are expectations that capesize vessel availability will remain tight.



Source: Commodore Research

During the second week of September, the euphoria in the capesize segment pushes the Baltic Dry Index to new record highs of approaching near the 1,500points mark level, which is the highest level since the end of January 2012.

On **Friday September 13th, BDI** closed at 1636 points, up by 21% from last week's closing and up by 147% from a similar week closing in 2012, when it was 662 points. The largest increase is recorded in the panamax segment. **BCI** is up by 23.1% w-o-w, **BPI** is up 28% week-on-week, **BSI** is down 1.9% week-on-week, **BHSI** is down 1.3% week-on-week.

Capesizes are currently earning $29,609/day, up by $7,636/day from last week's closing and **panamaxes** are earning $10,474/day, up by $2,316/day week-on-week. At similar week in 2012, **capesizes** were earning $3,660/day, while **panamaxes** were earning $3,987/day. **Supramaxes** are trading at $9,831/day, a decrease of $196/day from last week, about 67% lower than capesize and 6.1% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,725/day, hovering at 138% higher levels than capesizes versus 67% today's lower levels. **Handysizes** are trading at about $7,771/day, up by $83/day from last week's closing; when at similar week in 2012 were earning $6,952/day.

In the **wet** market, VLCC rates remain at apparent bottom despite stronger chartering volumes witnessed during the first days in September. Intense Syrian conflicts with US and oil production outages in Libya, Nigeria and Iraq have led Asian refiners that have turned into winter production to seek crude purchases from alternative Middle East buyers. According to estimates, total global outages amount to 3.15 million barrels/day, about 3.5% of daily world oil demand of 90 million barrel/day.

VLCC rates in AG-USG route gained 2 points and ended at WS22.5, but still above below from the highest level of WS28.5 reached at the second week of July. In AG-SPORE and AG-JPN routes, there was also a soft spike with rates moving up by 3 points to WS34, but down by 13.5 points from the highs of WS47.5 at the second week of July. In WAFR-USG route, rates decreased to WS37.5, down by 2.5 points on a weekly basis, while stronger Asian buying appetite helped rates in WAFR-China route to gain 2 points and increased to WS36.

In the suezmax segment, crude supply outages in Libya and Iraq have also contributed to stronger fixture activity in the West Africa suezmax market with industry sources suggesting 21% weekly gain from Europe and Asian buyers' crude buying appetite. However, vessels' oversupply didn't lead to better rates in WAFR-USAC as WS stayed unchanged at WS52.5 for about three weeks. Downward incline is also recorded in the B.SEA-Med route, with rates falling to WS52.5, from WS 62.5 in mid-August.

In the aframax segment, fixture activity was quieter with rates in CBS-USG route loosing 5 points to conclude at WS105, but they are still above from the lows of WS80 recorded at the end of June and the first days of July. The same also picture is being viewed in the Caribbean panamax market as slower fresh activity led to weekly loss of 5 points with rates in CBS-USC route concluding at WS110. In the MR segment, rates in AG-JPN route for 75,000dwt product tankers softened by 2.5 points on a weekly basis to WS 105, but still up by 35 points from the lows of WS70 in mid-August. AG-JPN rates for 55,000dwt product vessels also weakened by 2 points and fell to WS118, remaining above by 32.5 points from WS87.5 in mid-August.

Under the current dismissed crude freight picture, figures from the US Energy Information Administration supporting that China, the world's second largest crude oil importer, is expected to overtake US and become the world's largest net oil importer before the end of the year, pours hopes for the future outlook of freight rates. In addition, energy consultant Wood Mackenzie said that China is on track to spend $500bn a year on crude oil imports by 2010 and net oil imports would increase to 9.2 million barrels/day by 2020, exceeding the peak US import oil spending of $335 billion. In July, Chinese crude oil imports rose to a record of 6.29 million barrels of crude oil, which is almost 1 million barrels above from June levels. However, unless Chinese crude imports fetch an average of more than 6,7 million barrels/day through the end of the year, its is unlikely that China will surpass US oil crude oil imports and meet the target estimation from Energy Information Administration.

In the **gas** market, Novatek has secured preliminary backing from leading Chinese banks for its Yamal LNG project, bringing Russia's largest independent gas producer a step closer to breaking Gazprom's export monopoly. With the global trade in liquefied natural gas (LNG) expected to grow by a third in the next five years as the United States and Australia boost production, Russia is under pressure to complete new projects. The $20 billion Arctic Yamal LNG project would be the first Russian plant built since Gazprom, the world's top producer of conventional gas, launched its Sakhalin-2 facility in 2009. China Development Bank Corporation, Bank of China, China Construction Bank and Industrial andCommercial Bank of China- the world's largest bank by market capitalisation - will consider actively participating in the external project financing transaction. Novatek, in a statement, did not specify the size of the financing but said that other financial institutions, including Russian ones, are likely to support the project too. Yamal LNG, which is being developed by Novatek, France's Total and China's CNPC, is scheduled to start producing LNG in 2016 with a view to supplying 16.5 million tonnes of the tanker-shipped fuel by 2018.

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In the **container** market, the Shanghai Container Freight Index is steadily loosing ground again by falling at the end of the first week of September to 1071 points, down by 1.2% week-on-week and 15.5% year-on-year, with major weekly declines in Asia-Europe and Asia-Mediterranean routes. General Rate Increases applied in August failed and now there are positive expectations for the new round of GRIs to take effect in mid-September.

In Asia-Europe, rates fell to $1073/TEU, down by $428/TEU from the highs of $1,500/TEU in August 2nd and down by 16.4% year-on-year. In Asia-Mediterranean route, rates declined to $1115/TEU, down by $378/TEU from $1493/TEU on August 2nd and down by 10.4% year-on-year. In transpacific routes, there was an upward weekly movement of 5.3% in Asia-USWC and 1% in Asia-USEC route. In Asia-USWC route, rates ended at $1989/FEU, standing at 20.1% lower levels than a year ago, and in Asia-USEC, rates moved up to $3,395/FEU, but there are 8.7% down year-on-year.

The oversupply of vessels continues to be a serious headwind in the upturn of the market with Alphaliner estimating that the containership orderbook is going to reach 3.67mil TEU- 21.5% of the current fleet. Although the orderbook to fleet ratio is still relatively low compared to the 2000-2013 average of 37.7%, the supply- demand gap remains high and is expected to widen in the next two years. The estimated capacity growth has risen to 7.6% and 6.5% for 2014 and 2015 respectively, with new deliveries expected to reach 1.59mil TEU in 2014 and 1.42mil TEU in 2015. The sustained vessel supply-demand imbalance impedes the recovery in the liner segment that is not expected to come earlier from the end of 2015.

In the **shipbuilding industry**, Japan's Mitsui Engineering told in Fairplay that it is planning to collaborate with compatriot yards for the construction of LNG carriers after the failure of negotiations for merging with Kawasaki Heavy Industries. A spokesman from the yard said that Mitsui Engineering and Shipbuilding is considering collaboration with other companies to improve production capacity as nowadays the yard could build only to three LNG carriers/year and the future demand for LNG newbuildings is expected to be huge. President of Mitsui Engineering & Shipbuilding estimated that more than 700 LNG carriers would be required to satisfy the global market by 2030, almost twice the current fleet, as Japan, the world's biggest LNG importer is seeking to diversify its supply sources by purchasing cargoes from US shale gas projects.

In addition, Japan's Kawasaki Shipbuilding Corporation, a subsidiary of Kawasaki Heavy Industries is reported that will begin to construct LNG carriers in China in 2018 in an attempt to reduce production costs through cheapest labour costs and compete with Korean shipbuilders. According to market sources, Kawasaki Heavy Industries is planning to create a system in a bid to annually produce two LNG tankers by 2018 with an investment of billions of yen in the Nantong Cosco KHI Ship Engineering Co Ltd. shipyard located in Jiangsu Province, China. The NACKS shipyard was built by a joint venture between Kawasaki and China's largest shipping company China Ocean Shipping Group Company (COSCO), with equal investment in the business

In the **shipping finance**, NYK, the Japanese shipping company, has successfully raised JPY 40 billion (S400 million) by selling two bonds, one with a five year maturity and the other seven years. Pricing is at a remarkable 0.572% and 0.939% respectively after the issue was graded an A+ rating from the Japan Credit Rating Agency. The bonds are unsecured and will be repaid by a bullet payment at maturity.

In terms of **ship financing** deals, Baltic Trading fully drew down a $22 million term amortizing loan facility provided by DVB Bank to partially finance the acquisition of two handysize bulkers, built in 2009 and 2010, which were purchased for $41 million en bloc. Proceeds from the company's May 2013 equity offering were also used in the acquisition. The facility matures six years from the drawdown date and carries an interest rate of 3 month LIBOR plus 3.35 percent. In addition, DBS Bank, Oversea-Chinese Banking Corporation, Korea Development Bank, Standard Chartered Bank, and the Bank of Tokyo Mitsubishi UFJ finalized terms of a previously reported limited recourse facility to finance Höegh LNG's Indonesian FSRU project. The FSRU facility is 75 percent covered by a credit guarantee from K-Sure. The FSRU facility has a tenor of a minimum of eight years and an overall profile of 12.5 years.

In the **capital market**, Paragon Shipping filed for a $25 million follow on offering to partially fund two ultramax newbuilding contracts for deliveries in the second and third quarters of 2014 from affiliate Allseas Marine. If the net proceeds of the offering are less than $22 million, but greater than $10 million, Paragon will only be obliged to purchase one of the newbuilding contracts. In last, Top Ships announced that it sold all of its six owned vessels, including five 50,000dwt Handymax tankers (built in 2009) and one 51,000dwt dry bulk carrier (built in 2002) to investment fund AMCI Poseidon for $173MM (of which $135MM is debt and swap obligations that AMCI will assumed).

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