GOLDEN DESTINY

This Weekõs News: A snapshot on the economic and shipping environment

Week Ending: 8th November 2013 (Week 45/13)

(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

European Commission disappoints this week optimistic expectations for a strong growth recovery in the euro area next year. In its latest autumn forecast, the Commission projected that euro economy will shrink by 0.4% as expected for this year, following last yearõs contraction of 0.7%. For the next year, it predicts a weak growth of 1.1%, which is lower than its spring forecast of 1.2% and 1.4% estimation at the start of the year. *ñThere are increasing signs that the European economy has reached a turning point,ò Olli Rehn, the commissionõs economic chief, said in a press release. ñBut it is too early to declare victory: unemployment remains at unacceptably high levels. Thatõs why we must continue working to modernise the European economy.ò*

For France and Spain, the Commission records the biggest reductions in growth projections. For France, it estimated 0.9% growth from 1.1% in the spring and for Spain, 0.5% growth from 0.9%. However, the encouraging is that some of the hardest hit countries in the euro area are expected to begin their growth path. For Greece, the Commission estimates a 0.6% growth next year and 2.9% growth in 2015 by putting an end to six years of constant recession. In addition, Portugal is expected to grow by 0.8% in 2014 following five years contraction.

Several euro countries are still struggling to meet their deficit targets, which supports the sustainability of additional austerity measures in the coming years. Franceõs budget deficit is predicted to hit 3.7% of gross domestic, below its 3% target and Spain is projected to see its deficit increasing from 5.9% in 2014 to 6.6% in 2015. Overall, eurozone sovereign debt is predicted that will reach another all time high of 95.9% next year and fall to 95.4% in 2015.

One negative sign for euroõs recovery is that inflation remains much lower than European Central Bankõs target of 2% as October flash reading registered 0.7% and unemployment remains at the highest levels since the official start up of eurozone in 1999. Under the current economic figures, the European Central Bank President Mario Draghi warned that the euro area risks a prolonged period of low inflation and the bank cut its main refinancing rate by 25 basis points at a record low to 0.25%. In addition, it held its bank deposit rate at zero levels and cut its emergency borrowing rate to 0.75% from 1%. The change of monetary policy from European Central Bank surprised economists and underlined how fragile is still the euro recovery.

In U.S. economy, the median projection of 71 economists from Bloomberg estimated a 2% annualized GDP growth for the fourth quarter of the year, lower than the projection of 2.4% growth on October4th-9th survey before the beginning of government shutdown. The budget negotiations have a negative effect on business and consumer spending and economists see that the growth will pick up to 2.6% growth in the first three months of 2014. JP Morgan economists also estimate a 2% growth for the fourth quarter of the year and 2.5% growth at the start of 2014. However, US growth finally recorded an annualized pace of 2.8% for the third quarter .beating economist expectations

In China, Premier Li Keqiang speaking to a group of Chinese and foreign business leaders assured that Chinese economy will keep growing at mid -to -high speed in the coming years by promising to lead the world's second largest economy on a road of "comprehensive reform". In 2013, Chinese economy will grow at the slowest pace in the last 23 years, but the government said that the slowdown has been partially engineered to make room for retooling the economy to ensure that future growth would be cleaner, more sustainable, less dependent on heavy investment and more reliant on consumption. In the meantime, Chinese exports are expected to rebound in October reinforcing the government's view that that the world's second largest economy is gaining momentum. Forecasts from a Reuters poll suggest that Chinese exports would record a 3.2% year-on-year increase during October and the trade surplus would rise to $23.9billion from last month's $15.2 billion.

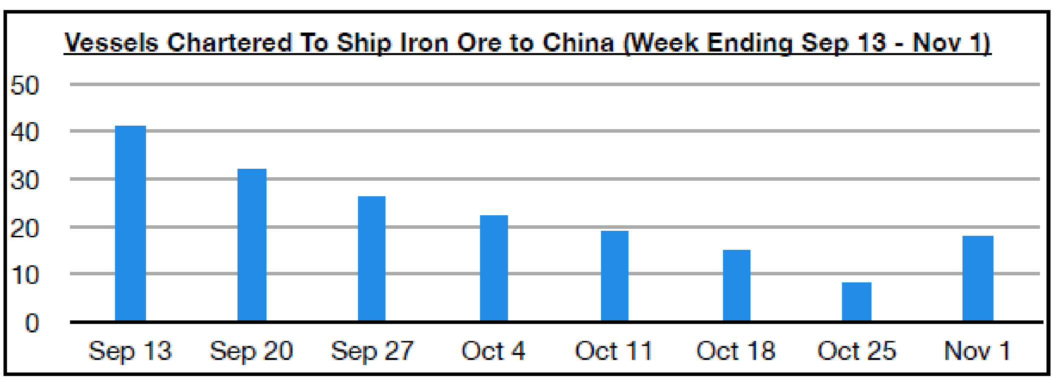
Apart from China's positive economic figures, one of Asia's biggest economies, Indonesia recorded the slowest pace of expansion since 2009 with its GDP slipping to 5.6% during the third quarter, according to data from the government statistics agency. The new GDP growth figure underlines that Indonesia is entering a "new equilibrium" of slower economic expansion after five years of annual GDP growth averaging 6%.

SHIPPING MARKET

The week brought an interesting $500million signed agreement with China's state owned Shandong Shipping Corporation and Brazilian miner Vale SA to operate four of Vale's massive 400,000dwt valemax ore carriers, according to the official Xinhua news agency. The partnership comes against the banning rule from Chinese ports for accepting such giant ships since December 2011 and opens the way for Vale to start delivering iron ore to China with its valemax vessels. The length of the contract remains unknown and is being described as one of the world's biggest shipping contracts of recent years and the biggest ever for the relative newcomer Shangdong Shipping.

In the **dry** market, the first week of November opened with a positive turn in the performance of the capesize segment and the Baltic Dry Index heading to near 1,600 points after falling for 16 consecutive days in October (from 16th October till 30th October). Chinese iron ore fixture activity returned to stronger levels, after six consecutive weeks of decrease, with 18 vessels recorded as chartered to haul iron ore to Chinese buyers last week, 10 more than chartered during the previous week and 2 more than the trailing four week average, as per data from Commodore Research. In addition, there was an increase in Brazilian iron ore fixture activity with 6 vessels being chartered to haul Brazilian iron ore cargoes, from only 3 in the last two consecutive weeks, which provided a small amount of support in the Atlantic basin capesize rates.

Chinese thermal coal fixture activity is also on increase with 16 vessels being chartered to haul thermal coal to Chinese buyers last week, 3 more than the previous week with firm expectations for firmer activity as Qihuangdao coal port stockpiles remain very low (about 5.5 mil tons) and peak winter demand season is near approaching. However, vessels' oversupply in the panama segment downsizes vessel earnings despite the upward trend in vessels' demand with vessel earnings heading to levels of less than $13,000/day. Supramax vessels keep their firmness with supported Indonesian coal's fixture activity and vessel earnings remain steady above $13,000/day since October 24th.

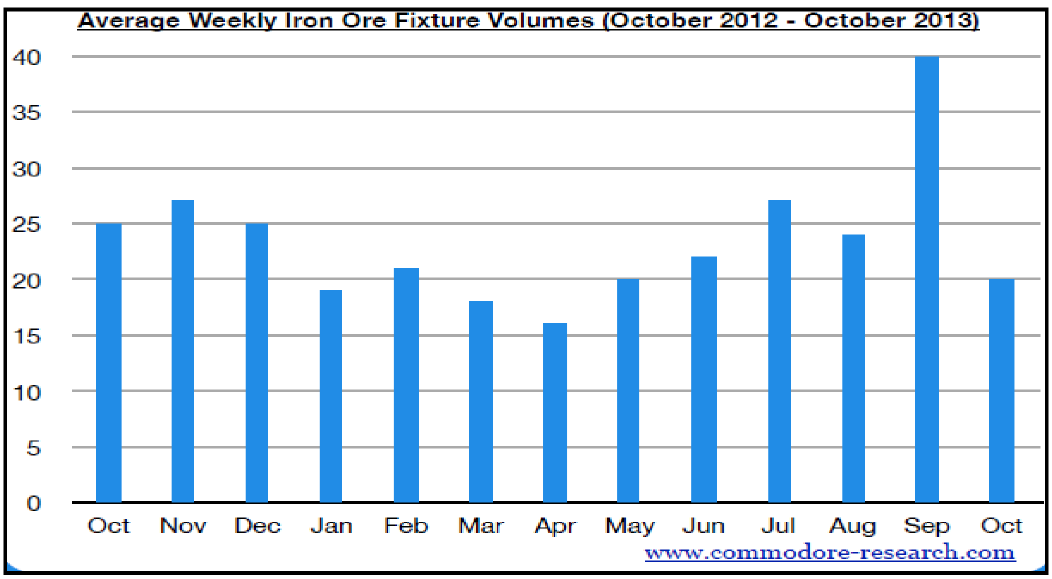


Source: Commodore Research

Chinese iron ore inventories are still on rise from previous record iron ore vesselsô fixture activity as increased voyages from the Atlantic arrive at Chinese shores. It is high likely that Chinese would keep their replenishing policy of iron ore at lower levels than the levels recorded during September, when 41 iron ore fixtures surfaced during the week ending September 13th. During September, Chinese iron ore imports increased 8.1% month-on-month and 14.8% year-on-year that implies that Chinese iron ore stockpiles could not fall earlier than the year-end. Currently, approximately 79,1million tons of iron ore is now stockpiled at Chinese ports, 1,3 million tons (2%) more than a week ago and the highest levels recorded since November 2012.

It is worth mentioning that Chinese iron ore imports from Australia set a monthly record in September as Chinese imported approximately 39.2 million tons of iron ore from Australia in September, 13% more than was imported in August and 14% more than was imported in September 2012. (The previous monthly record was in July ï with 37.7 million tons imported from Australia).

The current expectations still hold positive for the capsize segment as Chinese iron ore fixture activity records high levels despite its downward revision during October. According to Commodore Research, a weekly average of 20 iron ore fixtures came to the market during October, 20 less than September. However, capsize vessel earnings remain under serious threat in the long term due to ordering bonanza in the current year and slow economic expansion in Asian emerging economies. Supramax and handysize vessel rates seem that will continue its firm stability on the basis also of strong US grain trade and manageable fleet growth. According to the latest estimation from United States Department of Agriculture, 326.8million tons of grain would be exported worldwide during 2013/2014, from 299.2 million tons of grain estimated to have been exported during 2012/2013.



On Friday **November 8th**, **BDI** closed at 1581 points, up by 3.6% from last weekφs closing and up by 68% from a similar week closing in 2012, when it was 940 points. All dry indices closed in green apart from the panama. The largest weekly increase is being recorded in the capsize segment. **BCI** is up by 8.5% w-o-w, **BPI** is down 4% week-on-week, **BSI** is up 3.2% week-on-week, **BHSI** is up 3.1% week-on-week.

Capesizes are currently earning $19,762/day, up by $1,784/day from last weekφs closing and **panamaxes** are earning $12,503/day, down by $528/day week-on-week. At similar week in 2012, **capesizes** were earning $14,554/day, while **panamaxes** were earning $5,788/day. **Supramaxes** are trading at $13,754/day, an increase of $447/day from last week, about 30.4% lower than capesize and 10% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $6,787/day, hovering at 53% lower levels than capesizes versus 30.4% todayφs lower levels. **Handysizes** are trading at about $9,708/day, up by $269/day from last weekφs closing; when at similar week in 2012 were earning $6,021/day.

In the **wet** market, the upward trend of the previous week in the VLCC spot environment is being held with rates in AG-USG route increasing to WS32.5, up by 5 points from previous week. In AG-SPORE and AG-JPN route, rates gained 10 points by moving to WS52.5 and in WAFR-USG route 5 points by rising to WS50. In last, WAFR-CHINA route also showed significant increase by moving to WS52.5, up by 8.5 points from previous week.

Against the upward trend in the VLCC segment, suezmax spot rates are still in negative trend with rates in WAFR-USAC route losing 2.5 points to conclude to WS57.5 and rates in B.SEA-Med route lowered by 5 points to WS55. In the aframax segment, CBS-USG route holds a positive sentiment with rates increasing to WS95, up by 5 points on a weekly basis, while in the panama segment; CBS-USG route gained 2.5 points and ended WS97.5. In the MR segment, AG-JPN rates for 75,000dwt vessels decreased by 5 points to WS85 and for 55,000dwt vessels, increased by 2 points to WS95.

In terms of oil demand, some positive projections emerged this week that fuel hopes for better vessel earnings in the crude segment. After several years of revising down its estimates for oil due to weak global economic growth, OPEC raised its forecast for oil demand to 108.5m barrels/day by 2035, up from 107.3m barrels/day in last yearøs report. *ñOil demand is seen rising as the large populations, China and India move out of poverty and turn to fuel based means of transportö*, said Abdalla Salem El-Badri, OPEC secretary general. In addition, Chinaøs oil demand is expected to rise to 12.5mil barrels/day in 2020 versus 9.8mil barrels/day in 2012, due to mainly sharp higher oil demand for road transportation.

In the **gas** market, the general manager Suryan Wirya-Simunovic of Mitsui OSK Bulk of Singapore warned at the Gas Asia Summit held in Singapore that the strong demand for LNG carriers would bring a severe lack of seafarers to operate such vessels. He said: ñThe problem with the lack of skilled and experienced people to service the expanding global market of LNG carriers could be further aggravated by the size of new LNG ships getting bigger, leading to a need for even more seafarers. The real bottleneck is getting enough experienced seafarers and ship management shore staff to operate LNG carriers out at sea. If 200 to 250 new LNG vessels are cumulatively needed in future as projected, the industry will need a lot of people that have gone through the ranks and spent enough time at their ranks to efficiently execute their jobs Recruiting and training the right people would be hard for companies to achieve if they lack a long term strategy and commitment. Demand for LNG carriers is projected to increase and the market is forecast to see a lack of 14 new carriers by 2017. The demand-supply imbalance will worsen by 2019 and 2020 when the market is predicted to lack 106 and 160 new LNG carriers, respectively. At present, the world has 362 LNG carriers in commercial operation plus 105 units on order. Among the 105 newbuildings, 59 units are 160,000-200,000 cu m in capacity and 45 are 147,000-160,000 cu m, while one falls under the 125,000-147,000 cu m size. Financing for new LNG carriers would also not be an issue as banks are seeking opportunities to place new loans under the Quantitative Easing (QE) monetary policy by Central Banks.ö

In the **container** market, General Rate Increases have already applied since the end of last week and Shanghai Container Freight Index posted a remarkable weekly increase of 26.5% by moving up to more than 1,100 points, for the first time since week ending September 13th. Asia-Europe and Asia-Mediterranean rates soared, but the imbalance between vessel supply and demand remains and we would wait to see the sustainability of the recent firm rebound.

In Asia-Europe, rates more than doubled by ending to $1,423/TEU, up by 112% week-on-week, and rates surpassed the barrier of $1,000/TEU for the first time since week ending September 6th. The same significant increase was also recorded in Asia-Mediterranean route with rates concluding at $1,499/TEU, up by 117% week-on-week and moved up to more than $1,000/TEU since week ending September 13th. Compared with last yearøs levels, Asia-Europe rates are now up by 2.9% and Asia-Mediterranean are up by 57%.

In transpacific routes, rates recorded weekly soft declines of 0.4% in Asia-USWC route and 1% in Asia-USEC route. In Asia-USWC route, rates are now $1,724/FEU, trading below $1,800/FEU since week ending October 11th. In Asia-USEC route, rates fell to $3,099/FEU, trading below $3,500/FEU since week ending August 9th. Compared with last yearøs levels, Asia-USWC rates are down by 25.4% and Asia-USEC rates are down by 6.6%.

Despite the recent market upturn, the inactive containership fleet recorded an increase during October. According to data from Lloyds List Intelligence, 284 vessels (460,460TEU) are laid up out of 5,064 vessels of current fleet ï 2.7% of the total fleet, from 2.1% (351,717 TEU) in the previous month. The percentage of inactive ships is at its highest point since May, when 2.8% of the total fleet was out of auction.

In the **shipbuilding industry**, following disappointing third quarter weak performance from Samsung HI, Hyundai Mipo Dockyard also recorded a net deficit of KRW 58.8bn ($55.4m) for the three months to 30 September compared with a KRW 33.2bn profit in the same period of 2012, according to a regulatory filing. On a positive note, Hyundai Mipo Dockyard, year to date, has won $4billion in orders, exceeding its target for the year of $3,2bn by 26%. In addition, Hyundai HI said that its profits for the third quarter fell by 96% to 25.4bn won ($23.9MIL) and its shipbuilding arm posted a 7.4% fall in third quarter sales by totaling 3.8trillion won from 4trillion won a year ago.

In China, yards are also facing rough times although there has been a recorded 147% year-on-year increase in the number of new orders received during the first three quarters of 2013. According to Ministry of Industry and Information Technology, new orders totaled 38.06 million dead weight tons and the orderbook stood at 114mil dwt, down by 5.7% year-on-year, but it was up by 6.6% from the end of 2012. CSSC Jiangnan Heavy Industry Co Ltd, a Shanghai-based subsidiary of China State Shipbuilding Corp, reported that its January-September operating revenue dropped 18.25 percent to 583 million yuan ($95.7 million). Jiangnan said that its performance was hurt by low ship prices and rising operating costs such as power, steel and labor, as well as delayed debt payments from 17 other CSSC-affiliated shipyards. Geng Weixiang, vice chief engineer of Shanghai Waigaoqiao Shipbuilding Co Ltd, another subsidiary of CSSC, said that even though it received many orders in the first three quarters, the prices of container and bulk ships hadn't gone up much. *"The industrial chain of China's shipbuilding sector is still weak. There's plenty of evidence that this industry is adrift amid hefty losses*," Geng said. *Chinese shipyards are only good at producing low-end ships such as container and bulk vessels,* he added.

In the **shipping finance**, the Bundesbank sees risks for German lenders ahead of a European Central Bank audit, citing banks' shipping exposures and commercial properties, according to magazine Wirtschaftswoche. A prolonged shipping downturn continues to weigh on those German banks lending to the industry, the weekly magazine reported on Saturday, citing Bundesbank board member Andreas Dombret.*"The large banks have reduced their portfolio of shipping credits by 10 percent since the middle of last year, but I expect there will be further value adjustments," Dombret was quoted as saying."A recovery of the shipping industry before 2015 is not realistic,"* he added.

Under the current economic & freight market outlook, US hedge Fund, Oaktree Capital Management said that it will continue to focus heavily on opportunities in Europe, with main interest on acquiring new shipping loan portfolios from traditional banks. The hedge fund announced in its third quarter earnings call that one of its funds used to invest in shipping, the Oaktree Principal Fund, will extend its investment period for one more year. Oaktreeõs managing partner principal John Frank said: ñ*The fund was originally slated to close in February 2014. Pointing to the fact that it still has more than $650mil to deploy, the new closing date would not be until February 2015.ò*

In the **capital** market, **Scorpio Bulkers** said it has raised about $300mil in a private placement on over the counter market of 32,590,411 new ordinary shares of $0.01 par value at a subscription price of 54.75 kroner on 31 October, "The proceeds from the private placement will be used to part-finance construction of a series of fuel-efficient drybulk vessels and for general corporate purposes," the company said in a statement. In addition, **Dorian LPG**, listed on over the counter market in Norway, announced a $250mil offering following the acquisition of 11 very large gas carriers LPG newbuildings. The recent offering follows another OTC raise in July, with DORIAN earning $168MM in net proceeds. The proceeds from the recently announced are expected to offer to support in its newbuild VLGC orderbook scheduled for delivery from 2014 through 2016. In last, **Dynagas LNG** Partners is moving ahead with its Initial Public Offering and announced plans to sell 12.5 million common units in the range of $19 to $21 per share in an attempt to raise about $300mil. According to a prospectus filed with the US Securities and Exchange Commission, proceeds will be used to repay debt and working capital.

Navigator Holdings announced details of its NYSE IPO. The company intends to offer 8,330,000 shares, with the selling shareholders offering an additional 2,970,000 shares. An underwriters' option of an additional 1,695,000 shares will be from the selling shareholders. Navigator expects the offering to price between $17 and $19 per share, raising as much as $158 million for the company and $88 million for the selling shareholders. Proceeds will be used to partially fund newbuildings and for general corporate purposes, which may include exercising its option for an additional newbuilding. Jefferies and Morgan Stanley are acting as joint book-running managers with Evercore, Fearnley Securities, Global Hunter Securities, and Stifel acting as co-managers.

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