GOLDEN DESTINY

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

Week ending 26th August 2011

ECONOMIC ENVIRONMENT

The week opened with welcomed news that Libyan rebels entered the capital Tripoli and urged Colonel Muammer Gaddafi to stand down immediately to avoid further bloodshed. Nato's general secretary stated that the Libyan people had suffered tremendously under Col Gaddafi's rule for more than four decades and now they have the chance for a new beginning. The European Union said that it is actively planning for a post Gaddafi Libya and urged the Libyan leader to leave without further delay. President Barack Obama said in a statement that Gaddafi needs to acknowledge the reality that he no longer controls Libya and he needs to relinquish power once and for all.

In terms of economy, the pessimistic outlook of the eurozone growth has spread worries even for the strongest Western economies. Economic activity has barely increased in August with the manufacturing sector going into reverse for the first time in two years. Furthermore, the European consumer confidence fell by 5.4 points to minus 16.6 in August, the largest monthly fall seen since October 2008 from the collapse of Lehman Brothers. The worrying issue in the eurozone is the near stagnation in Germany since the growth of the zone is heavily dependent on the prosperity of Germany's economy. During the first three months of the year, the eurozone growth has been led by Germany's strength. But, the worldwide slowdown seems to have affected also the largest economies with exports being downsized and domestic austerity measures putting a further break on economic activity. The U.S. investment Bank "Morgan Stanley" cut its global growth forecast to 3.9% from 4.2% this year and to 3.8% from 4.5% next year stating that the U.S. and the eurozone are hovering dangerously close to a recession over the next 6-12 months.

In Greece, the recession deepens with the Greek Finance Minister Mr. Venizelos admitting that the economy may shrink between 4.5% and 5.3% in 2011, compared to initial IMF forecasts for a 3.9% decline this year. He stated that the country has been obliged to implement an enormous fiscal adjustment over the past two years and for the coming three years that has a negative impact on the real economy. However, he added that the country will stick to its fiscal targets as now it seems even more important to implement the decisions that have been taken and the country should meet its target of cutting budget overspending from 10.5% of GDP to 7.5% this year.

SHIPPING MARKET

The shipping environment is still under the threat of an U.S. double dip recession with worldwide fears for a potential real negative impact on the world trade and freight markets. The question under this harsh economic scene is if this is the right time to invest either in the purchasing of secondhand vessels or proceeding to newbuilding plans and which vessel segment seems the most favorable in terms of prospective outstanding earnings. The answer is not clear since the future of the shipping industry is unpredictable and the worldwide trade is very vulnerable under the current economic status. The LNG market seems to be very challenging in terms of demand growth due to the fact that Japan, from the earlier tsunami and the massive disaster at the Fukushima Daichi plant, is switching to the liquefied natural gas as the greenest alternative power source. Shipowners are starting to feel more secure towards this alternative type of investment with signs of more eager ordering activity by Greek and foreign big names as we move towards the third quarter of the year.

In the meantime, the issue with unpaid charter rates from the world's largest operator of dry bulk ships Cosco remains pending with the Greek owner George Economou stating in Financial Times that the Cosco's stance over contracts struck during the 2008 shipping boom might reflect a failure to understand the importance of honoring past deals. Cosco did not respond with further comments as it has previously said that it is holding some payments under a "cost-reduction" program to maximize value for shareholders.

In the **dry market**, the BDI broke finally the 1,500 points mark for the first time since the beginning of the year as capesize rates surged on the back of increase iron ore spot demand and limited prompt spot Atlantic tonnage. The BCI has increased by 34% from the end of July with capesize earnings averaging this week at levels more than $17,000/day, when they were struggling to fetch $10,000/day at the end of July. The spot chartering activity has shown signs of firmness the last days as Chinese continue to secure a firm amount of cargoes due to ongoing concern over Indian iron ore production. According to Commodore Research, the mining bans in Karnataka and Goa remain in effect and continue to put approximately 35 million tons of annual iron ore production at risk. Moreover, the recent iron ore truckers striking in Orissa have urged iron ore buyers to secure more cargo. The turmoil in Indian iron ore exports is beneficial factor for the capesize segment as more iron ore is need to be exported from Australia and Brazil with capesize congestion being on rise. According to Dahlman Rose Analyst the cost of hiring capesize ships may more than double in the next few weeks as iron ore from Australia and Brazil costs less than the steelmaking ingredient produced in China for the first time this year, boosting shipments and driving up rents.

However, it is uncertain whether this recent pick up will be sustained till the end of the third quarter as Chinese iron ore port stockpiles remain elevated creating doubts for the recent market upturn. In terms of thermal coal, the prospects persist positive as electricity demand remains robust and thermal coal import prices are still very attractive. Asset values have shown signs of decline and freight rates remain weak with investors waiting to see the new direction in asset prices with more S&P transactions surge in the market and owners being more willing sellers to accept the revised asset prices.

The BDI closed today at 1,541 points, up by 5.4% from last week's closing and down by 43 % from a similar week closing in 2010 when it was 2,712 points. Capesizes are currently earning $16,716/day, an increase of $1,580/day from a week ago, while panamaxes are earning $13,214/day, an increase of $343/day. At similar week in 2010, capesizes were earning more than $33,000/day, while panamaxes were earning more than $23,000/day. Supramaxes are still trading at lower levels than capesizes by earning $14,508/day, up by $519/day from last week's closing, but are still 9% higher than panamax earnings. At similar week in 2010, supramaxes were getting region $22,000/day, hovering at discounted levels from capesize and panamax earnings. Handysizes are trading at $ 9,870/day, up by $318/day from last week, when at similar week in 2010 were earning $15,855/day.

In the **wet market**, crude freight rates are still suffering with the high cost of bunker prices adding more pressure and asset prices being in a downfall momentum. Owners seem unwilling to accept the new dreadful levels and the industry waits to see the new direction in oil prices and freight rates from the recent Libya's uprising. There is a market belief that shipowners would benefit from an end to Libya's war as Libyan could turn to global oil market pushing oil prices downwards from the recent highs. According to industry estimates Libya produced about 1.6m barrels a day of oil before the start of the civil war, but the six month conflict has reduced the flow to just 50,000 barrels/day. Consultants and industry executives believe that the fall of the Muammar Gaddafi regime could see Libya producing 300,000 barrels/day in the next three months from fields in the east that have been under control rebel since the start of the civil war. On the other hand, there are also analysts that remain skeptical for the full bounce back of Libya's oil output. The Wood Mackenzie consultancy has estimated that Libya would need about three years to resume its full production capacity.

In the **container market,** rates continue to show signs of positive movements not only in the Far East – Europe route, but also in the other routes with the Shanghai Container Freight Index closing last week 3% higher. However, rates have not yet reached to near last year's highs as the containership oversupply issue shadows the future of the industry. There are fears for a prolonged slump that could last longer than the 2009 downturn. According to Alphaliner, the sustained vessel ordering activity has driven the containership orderbook up to 4,5mil TEU or 30% of the current fleet and trade growth is expected to remain behind the fleet growth for quite some time due to the absence of a strong rebound of the Western economies. The U.S. investment bank Morgan Stanley has now revised its forecasts for the container shipping trades to lower levels than projected earlier in the year due to lower gross domestic product forecasts. It now anticipates the global demand to rise by 5%-7% this year from previous forecast of 6%-%8 increase in 2011 and 7%-9% for 2012.

In the **shipbuilding industry**, Japan Ship Exporter's Association reported that newbuilding orders for export in July were recorded at 484,020gt, a decline of 58.2% as compared to the same period last year, mainly due to very strong yen. Japan's newbuilding orderbook, has dropped to 891 vessels at the end of July, decreased by 132 ships compared to the same period last year.

In the **shipping finance**, the current weak freight market environment seems to distress owners with some signs of aggressive actions from banks as during the last week there were reports for some vessel arrests due to prolonged loan defaults. In the meantime, Rongsheng Heavy Industries, China's largest private shipyard, has announced that it sealed a loan agreement of $4,4bn from Agricultural Bank of China, of which $3,2bn will be provided for the shipyard and the remaining $1,2bn for the two subsidiaries, Hefei Rongan Power Machinery and Rongsheng Machinery. The agreement follows a $220mil loan from France's Credit Agricole Corporate and Investment Bank announced in August and a $1,7bn loan package from China CITIC Bank in June.

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