GOLDEN DESTINY

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

Week ending 16th December 2011

ECONOMIC ENVIRONMENT

The world economy faces the dark eurozone outlook with crisis now spreading in Italy and Spain, while leaders of the European Union are trying to build a closer fiscal union to preserve the euro. Twenty three of the 27 leaders agreed to pursue tighter integration with stricter budget rules for the single currency area, leaving Britain isolated. German Chancellor Angela Merkel stated that she is very satisfied with the decisions that member states have set themselves on an "irreversible course towards a fiscal union", to underpin their common currency, even if it takes years to reach the goal, while she has not given up hopes that Britain would eventually agree to change the EU treaty to follow stricter budget discipline.

Under the doubts over the eurozone deal, the euro fell below the $1,30 level against the dollar, the lowest since January. Financial sources are suggesting that European banks have been told to increase their capital by a total of 114,7 billion euros, more than it was predicted two months ago so as to be strong enough to withstand the eurozone debt crisis. On the European turmoil, growing fears for a faltering growth in emerging market economies are hitting the key drivers of the worldwide economic prosperity. IMF head Christine Lagarde has said that the world economic outlook is gloomy and no country is immune from rising risks.

India's industrial output has fallen for the first time in more than two years, dropping by 5.1% in October from a year earlier, according to an official data release. The Indian rupee fetched a record low against the dollar on the news of the fall, with an economist at securities in Mumbai claiming that industrial output is normally lower during the months of October and November as there are fewer working days due to the festive season, but a 5.1% drop is significantly more than it was predicted. China also faces a slowdown in growth, driven primarily by slowing housing sales and construction and sliding exports due to European sovereign debt crisis. A bright factor is that Chinese inflation eased 4.2% in November, a steep decline from 5.5% in October, but growth in industrial production fell to 12.4% in November from a year earlier, substantially lower than the 13.2% recorded in October.

SHIPPING MARKET

Shipping players have started to reconsider their newbuilding investment plans that have earlier placed as the overflow of vessels persists and the freight markets are showing signs of one more downturn in 2012. Vale's president Murilo Ferreira has publicly confirmed that the Brazilian iron ore miner intends to sell its 19 VLOC newbuildings, but only if it regains the control of their employment. The company decided that the fleet ownership was too costly and Vale must instead focus its investments on production of iron ore, nickel, copper and coal. Furthermore, as a reflection to the current vessels' supply crisis, some players are also in the process of delaying, cancelling or converting newbuilding vessel types under construction. Sources are implying that South Korea's major shipbuilders have been told to delay deliveries of 24 ships worth $3billion, as shipowners are struggling to strengthen their balance sheets. Some delays are not only due to tight financing issues, as investors are changing the type of vessels that had ordered to other types or sizes for fleet diversification under the worldwide trade slowdown.

In the dry market, capesizes are floating above $30,000/day lifting the BDI to new highs, boosting the market sentiment as we move towards the end of the year. The strong Chinese iron ore appetite during November explains the recent buoyancy even the high levels of Chinese iron ore port stockpiles and the low level of steel production. According to data from the General Customs, China imported 64,2 million metric tons of iron ore in November, rebounded by 29% from an eight month low. Bloomberg data are showing that this is the highest level of Chinese iron ore imports compared with 49,94 million tons in October. Overall, Chinese iron ore imports gained 11% to 622 million tons during January – November period compared with similar corresponding period last year. There is an optimistic market view that the firm spot rates will persist also in December with the cargo volume growth being on the positive side and time charter rates hovering at premium levels in capesizes.

What is noteworthy is that India's partial iron ore export ban remains as a beneficiary factor for the positive growth of capesize earnings against supramaxes. According to Commodore Research, a handful of iron ore mines in the Indian state of Orissa had been banned from exporting iron ore, roughly 25 mines, as India continues to intensify restrictions on iron ore production and exports. Capesize earnings are currently standing up 122% and 152% from panamax and supramax respectively, while expectations for a strong Asian thermal coal demand as the winter peak electricity demand is on the way will boost panamax rates.

The index closed today at 1,888 points, down by 1.7% from last week's closing and down by 5.5 % from a similar week closing in 2010 when it was 1,999 points. The highest rate increase has been in the panamax segment, BCI down 3.3% w-o-w, BPI up 3.6% w-o-w, BSI down 3% w-o-w, BHSI down 2.3% w-o-w.

Capesizes are currently earning $31,480/day, a decline of $1,137day from a week ago, while panamaxes are earning $14,183/day, an increase of $501/day. At similar week in 2010, capesizes were earning $25,003/day, 21% lower than the current earnings, while panamaxes were earning $16,281day, 15% higher than the current levels. Supramaxes earnings remain below $13,000/day, trading at lower levels than capesizes and panamaxes, by earning $12,476/day, down by $381/day from last week's closing. At similar week in 2010, supramaxes were getting $16,863/day, hovering at discounted levels from capesize earnings. Handysizes are trading at $ 8,425/day; down by $172/day from last week, when at similar week in 2010 were earning $12,305/day.

In the **wet market**, Turkish strait delays boosted again suezmax and aframax spot rates with VLCC remaining below breakeven level as the supply available tonnage remains more than adequate to cover the increase demand in AG. The International Energy Agency has cut its global oil demand forecast for this year and next. It estimates that global oil demand will average 89 million barrels per day, up 0,70 million barrels per day year-over-year for 2011 and 90,3 million barrels per day, up 1,3 million barrels per day year-over-year for 2012. China's crude oil demand seems to be the remedy on the growing US oil consumption. According to data from the General Administration of Customs, China, the world's second largest oil consuming country, imported 22,69 million metric tons of crude oil in November, equivalent to 5,54 million barrels a day, the second highest record on a daily basis in the history. Overall, Chinese crude oil imports rose 6.1% to 231,86 millions tons for the first 11 months of the year compared with corresponding period of 2010.

In terms of oil supply, OPEC crude supply in November increased by 620,000 barrels per day to 30,68 million barrels per day, the highest level in more than three years with Saudi Arabia and Libya accounting for 80% of the increase. Libyan production neared 500,000 barrels/day in November, but it remains well below the 1,6 million barrels per day producing before the civil unrest, and the full resumption will take an additional 12-18 months. According to tanker-tracker oil movements, the Organization of Petroleum Exporting Countries will boost shipments by 1.1% to a nine month high, as Libya restores supplies. OPEC will export 23,68 million barrels a day in the four week to December 24th, up from the 23,42 million barrels shipped daily in the month to November 26th, creating more vessels' employment opportunities in the crude market.

In the **gas market,** charter rates for LNG carriers have surged to a record with two charter deals came to light at outstanding levels. According to Morgan Stanley, Moller-Maersk A/S hired out LNG Maersk Methane to London based BP Plc for three years at $140,000/day, while Nigeria LNG hired another gas tanker owned by Sweden based Stena Bulk, for four years at $130,000/day.

In the **container market**, the Shanghai Container Freight continues its slide for one week more by falling 1.5%, standing at $856/TEU, with the Shanghai –Northern Europea routes loosing 2% and 5.6% the Shanghai – Mediterranean. USWC and USEC rates again outperformed by closing at $1,419/TEU and $2,524/TEU respectively, when rates on the Shanghai - Northern Europe route have fallen below

$500/teu. A firmer outlook of the market is expected during the first quarter of 2012 prior to Chinese New Year. At a similar period in 2010, the Shanghai Container Freight Index was at $1,101/TEU with European route earning more than $1,300/TEU. The massive newbuilding deliveries of post panamax container ships combined with slow European and US consumer demand growth pushes liner operators in one more recession. Some of the players have already started to suspend their Asia-Europe services due to slack winter season and the laid up is estimated to be 3.4% of the total fleet capacity, according to BIMCO's December Market Review.

Data from the Journal of Commerce/PIERS are showing that U.S. will import 2.8% more containerized goods next year, from a previous forecast of 4.7%, blaming a stubbornly slow economic recovery and high unemployment rate. However, the projected growth for next year would still be higher than this year's estimated 2.2% gain with U.S. container imports fetching 17,4 million twenty-foot-equivalent units next year, compared with 16,9 million in 2011.

In the **shipbuilding industry,** Chinese shipyards are struggling to attract new orders as South Korean shipbuilders pioneered in 2011 through the LNG and post panamax newbuilding contracts. According to a recent investment bank report, Woori Investment & Securities, South Korea's big three shipbuilders, Hyundai Heavy Industries, Samsung Heavy Industries, Daewoo Shipbuilding and Marine Engineering could win between US$12-13billion in offshore orders next year. As a movement against the decline of commercial ship new orders, Yangfan Group, which owns Zhoushan Shipyard, Zhejiang East Coast shipbuilding and Dashenzhou Shipbuilding, recently placed orders for dry bulk vessels at its own shipyards in order to alleviate the pain. Additionally, Chinese shipbuilder Yangzijiang is planning to invest $205 mil in two ventures with Qatar Investment Corp to build offshore oil / gas vessels and platforms.

In the **shipping finance**, Hyundai Merchant Marine has settled a loan for five post panamax containerships of 13,100 TEU on order in South Korea. DNB Bank is heading the $500mil syndicated facility with ABN AMRO, Credit Agricole, Korea Finance Corporation and the Korean Development Bank being also involved. In addition, Fairstar Heavy Transport has signed a $30M bridge loan facility with Bank of China. The facility provides financing of the third instalment for the construction of the first of two 48,000dwt semi-submersible heavy-lift newbuildings that the company has on order.

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