GOLDEN DESTINY

*This Week's News: A snapshot on the economic and shipping environment*
*Week ending 9th March 2012*

## ECONOMIC ENVIRONMENT

The week ended with a positive note for the eurozone as Greece has secured a EUR 206bn debt swap deal, which is said to be the largest debt restructuring in history with participation from private bondholders close to 95%. In the meantime, European Central Bank has left rates unchanged at a record low, targeting at stronger euro prosperity, lower consumer inflation and unemployment rate.

One more astonishing for the week was news that Lehman Brothers has ended the largest ever corporate bankruptcy, emerging from chapter 11 and announcing that it will begin making its first payouts to clients next month.

With the worldwide economy facing serious side effects from the contagion of sovereign debt crisis, China's model growth seems to running out of stream with Premier Wen Jiabao unveiling that the country's economic growth is expected to be 7.5% this year, dropping below 8% for first time since 2004. Double digit growth figures seem to belong in the past as China's gross domestic product grew by 9.2% in 2011 and 10.4% in 2010. "China's economy is encountering new problems. There is downward pressure on economic growth. Prices remain high. Regulation of the real estate market is at a crucial stage," Mr Wen said. The premier also said boosting domestic consumption was "crucial". "Expanding domestic demand particularly consumer demand which is essential to ensuring China's long-term, steady, and robust economic development is the focus of our economic work this year," Mr Wen said. Boosting domestic demand is aimed at countering the effects of the eurozone debt crisis and slowing of the US economy which have led to a drop in demand globally for Chinese exports.

The positive sign for Chinese economy is that consumer inflation dropped to 3.2% from a year ago in February, down from 4.5% in January and is the lowest since June 2010. Beijing is expected to shift its attention of supporting the growth of the world's second largest economy now that the stubbornly high inflation is finally under control. The high trade deficit may push Japan to restart its nuclear reactors, which are currently shut down either maintenance or safety checks, while the Bank of Japan is seeing at a firmer goal of consumer price inflation at 1%.

## SHIPPING MARKET

China's announcement to lower its 2012 growth target to 7.5% after 7 consecutive years darkens the outlook of dry bulk shipping industry with insiders expecting a prolong of the shipping crisis. Moody's Investor Service said that the global shipping slump is expected to stay till 2013 a glut of vessels and a growing credit squeeze will challenge even the toughest shipping companies. Vale has completed its first VLOC transshipment of iron ore, which could drive more capesize tonnage requirements but the impact will be minor given the glut of ships. Rio Tinto PLC's (RIO) iron ore chief executive, Sam Walsh, said that he expects China to remain a key driver of iron ore demand growth, despite recent signs for a slow growth in Chinese economy. China is "resilient," Walsh said, as it is equipped to underline its growth with fiscal and monetary changes and has increasing rates of household and corporate savings. The country's crude steel consumption is forecasted to be around 1 billion metric tons by 2020, representing just under half of forecast world consumption, he noted.

Rio Tinto is planning to invest $2 billion in Indian iron ore mining in Keonjhar district in the Indian federal state of Orissa. Mr Walsh said that his company intends to raise production in Orissa to 15m tonnes per year "quickly" and at least some of the ore would be sold overseas, enabling shipowners to benefit from increased export demand. After Indian iron ore export ban, the government has announced suddenly a ban on cotton exports with exporters facing international contract disputes if the order will not be reversed immediately. China, the biggest consumer of cotton, is protesting again the ban amid signs that India is rethinking the implementation of the ban. Manmohan Singh, India's prime minister requested urgently a group of cabinet members to review the ban after the country's agriculture minister said that the curbs on the fibre would hurt farmers. In the meantime, Delhi decided to allow cotton exporters to ship sales that were registered before March 4, the day before the introduction of an immediate ban on the export of the fibre. An official in the prime minister's office said cabinet members were likely to lift the ban. "There is a realistic, high chance that the ban will be lifted," the official told the Financial Times.

In the **dry market**, the BDI is moving upwards for two consecutive weeks with Chinese iron ore fixtures showing signs of a firmer return, but capesize earnings are still below $6,000/day with the Atlantic market being stressed. Grain volumes in the Atlantic give an upward trend in the panamax that is downsized by mounting vessel deliveries, while Pacific activity with Indonesian cargoes supports supramax and handysize vessel earnings.

Chinese iron ore inventories are still floating at elevated levels, near to 98mt, despite falling for four consecutive weeks with coal port stockpiles being also on decline, near to 8,1 million tons. Chinese steel prices increased more last week than during any single week since late October 2011 and the fall in port stockpiles will provide a firmer ground for Chinese iron ore fixture activity that has been increasing for the last three weeks. Chinese buyers are seeking for lower-grade, cheaper cargoes given the gloomy outlook for steel demand. There were offers for lower-grade Indian iron ore, but traders said that buying interest was scarce with Indian miners seeking higher prices mostly because of increased export taxes. India hiked iron ore export duties to 30% in January to conserve supplies for its own steel industry, but the country has cut the railway freight on iron ore meant for exports by 16 percent.

China is expected to see waning steel demand with capesize vessel earnings being under severe strains. China's crude steel consumption may hit 690 million tonnes this year, while its output is expected to rise by 7 percent to reach 730 million tonnes, according to a statement posted on the website of the Ministry of Industry and Information Technology. The nation's steel exports will likely stand at 50 million tonnes, while its imports may reach 15 million tonnes. The growth of China's steel consumption has fallen since June, as the country's efforts to curb inflation have slowed fixed-asset investment. The ministry said it expected a fall in steel prices this year due to waning demand. "The highest point for steel prices in 2012 will be lower than that of 2011. Prices may rebound in the second half after experiencing downward movement in the first half," the statement said.

Panamax and supramax units continue to show stronger performance against capesize on the back of a firmer amount of global grain and coal fixtures activity. However, there are always exogenous threats on the prosperity with Indonesian National Shipowners Association, following China's example, urging the government to pass the Domestic Transporter Obligation, which could mandate that 30% of all Indonesian coal shipments to be shipped on vessels owned by Indonesian shipping companies. According to Indonesian National Shipowners Association, foreign shipowners earned $14.4 billion in 2011 from exporting Indonesian coal with Indonesian shipowners wishing to receive a large share of this earned capital.

The index closed today at 771 points, up by 7.3% from last week's closing and down by 51% from a similar week closing in 2011 when it was 1,562 points. The highest rate decrease has been in the supramax segment, BCI down 1.4% w-o-w, BPI up 5.3% w-o-w, BSI up 16% w-o-w, BHSI up 7.3% w-o-w.

Capesize average time charter earnings are down by 3.2% w-o-w, panamax up 5% w-o-w, supramax up by 16% w-o-w and handysize up by 7.1%. Capesizes are currently earning $5,786/day, $1,320/day less than handysizes, showing a decline of $193/day from a week ago, while panamaxes are earning $7,129/day, an increase of $343/day. At similar week in 2011, capesizes were earning $11,038/day, while panamaxes were earning $17,115/day. Supramaxes are trading at $9,035/day, up by $1,249/day from last week's closing, 56% higher than capesize and 27% than panamax earnings. At similar week in

2011, supramaxes were getting $15,985/day up by 77% from the current levels and 45% higher levels than capesizes. Handysize vessels are trading at $ 7,106/day; an increase by $476/day from last week, when at similar week in 2011 handysize units were earning $10,909/day.

In the **wet market**, the decline in VLCC spot rates persist with limited cargo activity both in Middle East Gulf and West Africa regions and an ample list of tonnage, while suezmax rates are also dropping from quiet Black Sea/Med trading volumes. Aframax units seem to hold a better resistance with a sense of softness on Carribean – USG route with rates dropping to WS 107.5 from 125 last week. Aframax earnings have posted a significant uptick, at an average $16,100/day year to date with the return of Libyan oil production surging aframax fixtures. Libyan oil production has risen strongly since the civil war and it is estimated to have reached 1,4m barrels / day in February, about 88% of pre war levels with predictions to reach 100% by mid 2012.

Overall, crude tanker spot market remains below or near breakeven levels and it is expected to stay under downward pressure till the end of 2012 under the current orderbook profile. Sources imply that OPEC fixtures have fallen for two consecutive weeks with oversupply of tonnage pressing spot rates in all major vessel categories.

Brent crude price remains above $120/barrel with fears that the crisis in the Persian Gulf could push oil prices to even $200/barrel. The current distress in oil reserves also increases the vulnerability of oil prices and indicates with the International Energy Agency stating that Saudi Arabian can push up oil production in a matter of days to compensate for losses of any supplies.

The crude tanker market outlook remains dark under the current Iran oil crisis, the increased bunkering costs and the glut of new ship deliveries with US crude oil imports, the main demand driver, to have fallen to a 12year low in 2011, as per data from the US Energy Information Administration (EIA). The US, the world's largest oil consumer, is estimated to have imported 8,91 million barrels of oil per day, the lowest since 1999, while the share of imports in total US consumption declined to 44.8%, the lowest since 1995. The US oil production is seeing speedy growth and this helps the country to be less dependent on external sources for its energy requirements. This massive US oil production poses a serious threat on world oil demand expansion as a means of absorbing the oversupply of vessels. Under the current market fundamentals, shipping investors are betting on gasoline tankers by waiting for fuel demand to expand faster than the fleet growth. The U.S. exported 60,385 barrels/day more refined products than it imported in 2011, as per data from Energy Department. Even the demand for seaborne gasoline, diesel and other products is expanding faster; it would still not be enough to eliminate fleet growth for product tankers.

In the **gas market**, the sentiment turns to be positive not only for liquefied natural gas carriers but also for LPG carriers with signs for an increasing trade in 2012. According to Drewry's latest LPG Forecaster, stagnant demand in Western economies has been balanced by strong domestic demand in Asian economies, which are increasingly being supplied by the Middle East. Asian buyers have been demanding butane-rich LPG from the Middle East, and this trend is likely to persist in the short to medium term as India becomes the largest importer of butane-rich LPG. Drewry expects the spot market in Asia to gain, albeit gradually, while the European spot markets might have to wait a little longer before achieving sustainable growth. More than half of global LPG consumption is in the residential and commercial sector, primarily for heating and cooking in homes and businesses, and demand from India and China is likely to be the driver of trade in the forthcoming years.

In the **container market**, the Shanghai Container Freight Index has moved upwards for two consecutive weeks, driven mainly by strongest performance of Asia-Europe route as container lines have implemented annual general rate increases (GRIs) for March and April. Week on week, Asia to Europe rates improved by $586 to $1412/TEU from $826/TEU, up by 71%, with the SCFI standing at 1163, up by 19%. The Asia to Mediterranean route gained $549 rising to $1416/TEU from $867/TEU, up by 63%. Transpacific routes are still recording soft declines. The Asia-USWC route lost $15 fetching $1759/FEU from $1774/FEU last week and the Asia-USEC route is now at $2916/TEU from $2922/TEU. Rates in Intra Asian routes are showing modest declines with the Asia-West Japan, Asia-East Japan and Asia-Southeast Asia showing a better performance with rates at $315/TEU

The remarkable upturn seen this week on the Asia-Europe route is too early to say that will stay with overcapacity threatening the stability and idle fleet accumulating. According to Alphaliner, the laid up boxship fleet is expected to hit 1.1m teu by the end of 2012, while at the end of February was standing at 5.4% of the total capacity with a total of 182 ships of over 8,000 TEU reported to be idle. The pace of idling is said to be eased over the next few months as several services that were suspended for the winter slack season will be reactivated for the summer.

Consolidation seems to be the key for a firmer revival of the players during the difficult 2012. Evergreen is linking with three Asian shippers for route between North America and South America from late next month, while Zim with MSC Mediterranean Shipping have announced new cooperation agreement on the South America East Coast – USA trade, enhancing their established routes.

In the **shipbuilding industry,** Chinese shipbuilding industry is heading for a recession with its newbuilding price showing a downtrend. Recently, China Newbuilding Price Index stood at 923p, down by 0.5%, dry bulk vessel price index CNDPI decreased by 0.7% to 899p, container index CNCPI and tanker index CNTPI declined by 0.6% and 0.2% to 969p and 965p, respectively. Chinese shipbuilders are working hard to secure contracts by offering lower prices, asking Chinese banks to actively provide ship financing and ordering their own vessels on their account. China also tries to expand in the offshore newbuilding industry, requesting from the government to offer financial support for Chinese offshore owners to place contracts in domestic yards. In addition, Chinese shipbuilding industry is looking for technology transfer from their Japanese rivals.

New fuel efficient designs will be the key to winning newbuilding orders in a tough shipping market, according to Yangzijiang Shipbuilding boss Ren Yuan Lin. New designs will increase deadweight tonnage by 20%, decrease fuel consumption by 20%, lower $CO_2$ emissions by 10% and also reduce the manufacturing cost by 20%.

State owned China Shipping Group is looking at opportunities to buy shipbuilders, operators and shipping companies to expand its vertical operations and take advantage of the downturn. The group, which owns logistic firms in major Chinese ports and a yard in Yangzhou, has assembled a team to seek for acquisition opportunites across the shipping industry, according to the chairman Li Shaode in his interview at the Chinese People's Political Consultative Conference.

In the **shipping finance**, the fragile freight market status with the downward pressure on asset values and the dreadful worldwide economic recession shakes the healthy performance of European banks. According to Nomura Equity Research, banks will lose US $13 billion over the next two years on 3% of all shipping loans as the collapse of vessels earnings drains the owners' cash flows amid depressed asset prices. The report said that 31% of loans held by 83 shipping companies with US$201 billion in debt may 'be vulnerable,' and 10 per cent might become non-performing European banks provide US$430 billion in loans to the global fleet, which is worth US$841 billion, according to the report. Dry-bulk carriers are 'in most trouble,' followed by tankers and container ships and loans extended in 2007 and 2008 will fare worst, since vessels that has been used as collateral have lost most of value, according to Nomura. 'European banks are major lenders to the global shipping industry, which is facing headwinds in terms of supply-demand imbalances, low freight rates eroding earnings and sensitivity to the economic outlook', the report added.

In terms of **ship financing deals**, Diana Containerships Inc. announced that it has completed the drawdown of an additional US$8.8 million under the previously announced revolving credit facility of up to US$100 million with The Royal Bank of Scotland plc, which may be increased to US$150 million subject to further syndication. With the drawdown announced today, Diana Containerships Inc. has completed the drawdown of a total of US$92.7 million under the above mentioned revolving credit facility.

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