GOLDEN DESTINY

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

Week ending 23rd March 2012

ECONOMIC ENVIRONMENT

"2012 "still poses serious risks on the worldwide economic prosperity with serious threats lying behind in the recovery of Asian, European and US economies. Standard& Poor's recently stated that even the outlook of US economy has improved significantly over the last six months, external factors, including high oil prices or further eurozone problems, could put brakes on the recent recovery. It also mentioned that the fears of a possible double dip recession have eased from an improving job market and US Federal Reserve's commitment to keep interest rates low till 2014. Federal Reserve Chairman Ben S. Bernanke said that Europe must further strengthen its banks, as economic situation remains difficult with US banks having limited exposure to peripheral European countries, such as Greece and Portugal. He also added that the calming of Europe's crisis has led to an improved tone of financial markets around the world.

In the eurozone, Greece has received its first 7,5 billion euros aid from its EU/IMF bailout, with a large percentage of the amount of money to be set for the repayment of bonds held by the euro zone's central banks. A government official said that Greece will use this money to pay $4,66 billion EUROs to the European Central Bank and other eurozone national central banks for the capital amount of a 3-year bond expired this week. In the largest debt restructuring in history, private creditors have taken losses on their Greek bond holdings, but not official creditors such as the ECB, meaning Athens must still pay out coupons and maturing debt. In an interview with the Financial Times, country's Prime Minister Mr Papademos expressed confidence that Greece's downward economic spiral would prove temporary. "I am convinced that we are more than halfway along the path to economic recovery – although the fiscal consolidation process will last longer," he said. "Positive growth rates should be achieved within less than two years," he said.

In Japan, trade balance unexpectedly returned to surplus in February as strong US demand offset weakness in China and a big increase in fuel imports from the Middle East. Official data showed a small trade surplus of Y33bn ($400m), the first positive since July, while economists had predicted a Y120bn deficit for February. However, February's modest surplus is unlikely to alter the fundamental outlook for the country's trade balance. The cumulative trade deficit so far this year is estimated to be Y1.44tn – equivalent to more than half of last year's record Y2.6tn deficit.

In China**,** Vice Premier Li Keqiang said that the country cannot delay tough economic reforms as it has reached a crucial period of a slow model growth. International Monetary Fund (IMF) head Christine Lagarde has said that China must stop its economy being too dependent on exports and investment. She also said the yuan could become a global reserve currency if China implemented market-oriented changes. Ms Lagarde stressed that at the highest levels, China leadership appears to be willing to make the changes needed to ensure that the world's second-largest economy remains a main driver of global growth. She said that what is needed is a roadmap with a stronger and more flexible exchange rate, more effective liquidity and monetary management, with higher quality supervision and regulation, with a more well-developed financial market, with flexible deposit and lending rates, and finally with the opening up of the capital account."If all that happens, there is no reason why the renminbi will not reach the status of a reserve currency occupying a position on same level with China's economic status."

SHIPPING MARKET

The week has been highlighted by intense activity in the capital markets by shipping players, in a bid to raise funds and use the net proceeds either to replenish their capital and repay their remaining debt responsibilities or expand their fleet via acquisitions in the secondhand or newbuilding market. In the **container** market, Greek player **Costamare** launched a 7.5MM share follow on offering, potentially bringing in gross proceeds of $105MM to be used for vessel acquisitions, which is paramount for the company to maintain is solid growth trajectory. Members of the Konstantakopoulos family (who own 56% of the company in aggregate) have indicated their intention to purchase up to 750,000 shares through the offering. Following the offering, **Costamare** will have total liquidity of around $380MM, which is believed that will provide to the company the ability to move relatively quickly either in the newbuilding or secondhand S&P market, where asset values have fallen substantially (5year old 3,400 TEU containership prices are down 43% since August).

In the **gas** market, Monaco based player **Gas Log**, which operates 14 carriers for natural gas shipping, announced terms for its IPO to raise $400 million by offering 23.5 million shares at a price range of $16.00 to $18.00. **GasLog** said it plans to use the proceeds of the IPO to fund its remaining payments under its eight new LNG carrier construction contracts. It will use the remaining proceeds for other general corporate purposes.

In the **tanker** market, **DHT Holdings** announced an $80M equity offering (consisting of common and preferred shares), including a $7.5M private placement with Anchorage Capital Group. **DHT** will use the proceeds to repay debt outstanding under its credit facilities, as well as pursue vessel acquisition opportunities going forward.

In the **shipbuilding** industry, China Rongsheng Heavy Industries plans to raise Yuan3.6bn via commercial papers to raise funds, having posted a slight fall in operating profits last year. The Hong Kong-listed firm is seeking to replenish its working capital and repay loans with higher interest rates, according to a regulatory filing, after its cash reserves fell over the past year. The first tranche of three-year Yuan2bn notes will be issued in China's inter-bank market on March 28, with a fixed interest rate to be determined by the results of book building.

Furthermore, Brazilian shipbuilding and leasing company **OSX** said it sold $500 million of bonds on international markets to finance the construction of an offshore oil production ship, which is now under construction in Singapore with capacity for production of 100,000 barrels of oil per day and storage of 1.3 million barrels, to be leased to the oil company OGX for 20 years. At the beginning of the week, OSX announced that it won a $732 million contract to build 11 oil and clear fuels tankers for the Brazil unit of London-based Kingfish Trading that will be leased to Brazil's state-led oil company Petrobras.

In the **dry market**, smaller vessels, panamax and supramax, continue to push up the Baltic Dry Index upwards, surpassing the 900 points, with the demand for coal, grain and minor bulk cargoes remained relative firm. Indonesian coal and South American grain fixtures has brought stronger earnings from the beginning of March with supramax average time charter earnings recording a 56% rise from the end of January and panamax being up by 43%. Capesize average time charter earnings still follow their downward incline with the volatility of iron ore market pushing the levels below $5,000/day this week.

Chinese steel inventories have shown a small weekly drop of 1% , but are still at record levels with mining company BHP Billiton predicting that the growth of seaborne iron trade will amount to little more than 4.4% over the course of this decade, nearly half the 8.4% growth figure achieved between 2000 and 2010. The fears for the last week's tropical cyclone's negative impact on the capesize segment have now gone as shipping operations at the major Australia's Port Hedland have now resumed.

In terms of coal demand, the prospects are overwhelming for Chinese demand as China imported approximately 20,55 million tons of coal in February, 850,000 tons (4%) more than imported in January and an amazing 204% increase from February 2011 levels.

Amid the volatile Chinese iron ore import market sentiment, following previous days announcement for a slowing Chinese economic growth, below 8%, Australia iron ore exports is estimated to increase by more than 50 percent by 2016/17 compared with last year. Government data release anticipates still strong demand from Chinese steel mills, the biggest buyers. Exports will rise by an annual rate of around 11 percent to reach 767 m million tonnes in 2016/17, the Bureau of Resources and Energy Economics (BREE) predicted.

Rio Tinto, the world's second largest iron ore producer, said that it plans to boost the output from its mines in Australia western Pilbara to 283 million tonnes per year by the second half of 2013, up from the current 225 million tonnes. David Joyce, managing director of expansion projects, said that although the rate of GDP growth in China is slowing, they remain confident on the basis of the figures that they have seen for a solid growth this year. A positive development for the fate of capesize operators is that Chinese steel demand has started to pick up amid a gradual recovery in construction activity. A steel trader in Beijing said that steel demand is warming up as more construction projects resume, but it still weaker than the corresponding period of last year.

The index closed today at 908 points, up by 3.8% from last week's closing and down by 43% from a similar week closing in 2011 when it was 1,585 points. The highest rate increase has been in the supramax and handysize segment, BCI down 6.6% w-o-w, BPI up 6.6% w-o-w, BSI up 8.8% w-o-w, BHSI up 8.6% w-o-w.

Capesize average time charter earnings are down by 15.6% w-o-w, panamax up 6.6% w-o-w, supramax up by 8.7% w-o-w and handysize up by 8.5%. Capesizes are currently earning $4,546/day, $3,800/day less than handysizes, showing a decline of $846/day from a week ago, while panamaxes are earning $8,288/day, an increase of $516/day. At similar week in 2011, capesizes were earning $10,718/day, while panamaxes were earning $16,693/day. Supramaxes are trading at $10,819/day, up by $873day from last week's closing, 138% higher than capesize and 31% than panamax earnings. At similar week in 2011, supramaxes were getting $16,762/day up by 55% from the current levels and 56% higher levels than capesizes. Handysize vessels are trading at $ 8,346day; an increase by $655/day from last week, when at similar week in 2011 handysize units were earning $11,704/day.

In the **wet market,** an increase of activity in the Middle East and Atlantic Basin provided support in the VLCC and suezmax segment with Mediterranean pushing upwards aframax earnings. The strong Chinese oil import market sentiment topped the freight rates on the benchmark VLCC trade from the Arabian Gulf to the Far East near to $39,000/d, for the first time since the first quarter of last year, while rates on the West Africa to Far East have jumped to excess of $50,000/day. However, the outlook of the segment remains fragile with US crude oil imports recording bottom lows and rising oil prices posing serious threats on the worldwide economy and the prosperity of tanker operators.

International Monetary Fund's Christine Lagarde stated that rising oil prices are now a more serious threat to the global economy than Europe's sovereign debt crisis. Saudi Arabia is taking steps to calm the oil market, boosting exports, filling up strategic oil stocks overseas and tapping oilfields to expand production capacity.

The high oil price discourages worldwide demand in US and European economies and US crude oil imports dropped to the lowest level since 1999, down by 12% from their peak in 2005, as domestic oil production increases. According to data from the US Energy Information Administration, US crude oil imports averaged 8,9 million barrels/day in 2011, down 3.2% (0.3 million barrels/day) from the year before. Purchases of imported crude oil have declined because US refineries use supplies from the increased production in Texas, where there has been recorded the highest level of oil output since 1997.

The persisting high oil price shocks the tanker industry with shipowners seeking to apply slow steaming policy to reduce the cost of their operating expenses, but the current oil price market fundamentals encourages and finances exploration and production of oil in difficult environments. The Seadrill's vice president and director, Tor Olav Troim said in Capital Link Forum in New York that deepwater drilling faces less risk than tanker market with charter rates to be lifted to $700,000/day. He also mentioned that investing in newbuildings for the drilling sector is risk free as there are too few deepwater drilling rigs to meet market demand till 2014.

In the **gas market**, LNG spot market is on rise with Stena Bulk of Sweden fixing its 174,000 cbm "Crystal Sky" built 2011 to Italy's Eni for a three year period at $145,000/day, while one month ago it has been reported that Stena was eyeing for a four month deal at a rate of $170,000/day. Market players believe that the spot market will remain strong even till the first half of the next year as the vessel's availability looks very tight. Brokering sources reveal that the buoyant market has led to an increase in the number of relets as charterers try to maximize their returns. A strong key factor on the positive LNG demand that brings the current euphoria is also the collapse in the price of natural gas during the last years in contrast with the constant rise of the brent crude oil price. The cost of natural gas is said to have fallen to just $2.30 per mmbtu from $15.40 per mmbtu in December 2005.

Strong LNG demand in Asia also drives growth in new investments for exploration and infrastructure that supports the expansion of region's offshore sector. Several terminals are now under construction to serve the strong LNG appetite. Singapore is looking to position itself as a regional LNG trading hub, and recently announced plans for a LNG terminal on Jurong Island worth $1.7 billion, while State-run Indian Oil Corporation (IOC) has signed an agreement with the Dhamra Port Corporation (DPCL) to develop a LNG terminal on the east coast of India. There are other LNG terminals proposed for Indonesia, Malaysia and Thailand. Vietnam's first LNG import terminal is also expected to be completed by 2015.

In the **container market**, the Shanghai Container Freight Index ended in green for a fourth consecutive by closing on Friday 16th at 1223, up by 5% on a weekly basis with transpacific routes, Asia-USWC and Asia-USEC, paving the way for the rising of the index. The other main haul trading routes, Asia-Europe and Asia-Mediterranean are sliding from the beginning of March, but they are above $1,000/TEU. The Shanghai Container Freight Index is standing up by 27% from February 10th, when it was at 965 points with the Asia-Europe paying $1379/TEU from $721/TEU and Asia-Mediterranean route $1385/TEU from $758/TEU. On a weekly basis, Asia-Europe and Asia-Mediterranean routes have shown moderate declines of 1%, but the outlook remains negative even the general rate increases applied by liner operators as the additional capacity tonnage poses serious pain along with increased bunker expenses.

The delivery of another eight vessels of 13,000 TEU this month, bringing the tally of post panamax ship deliveries to 15 up to now for this year, with suggestions for another 50 units of such size till the end of the year, to be deployed on the Asia-Europe trades, distress further the pessimist outlook of the segment.

In terms of demand side, a positive factor for the consumer demand growth, a key factor for the prompt boxships' revival is a small incline featured in US box import volumes. According to Pier's database of U.S. seaborne volumes, the demand for auto parts and home furnitures drove US container import volumes up 4.1% in January 2012 to just under 1,5m TEU, which marks the third consecutive year-on-year monthly imports rise. January imports of auto parts rose 19% to around 56,600 TEU, while a rise in US home sales spurred a third month of increases in furniture, up 6% to 167,300 TEU. Imports from Asia are on rise, up 2.9% in January, with shipments from China up 2% to 709,400 TEU. According to Piers economist Mario Moreno, the overall employment market, the key driver for consumer demand growth, is modestly improving, but real consumer spending has remained flat for the last three months through January. Furthermore, data from the monthly Global Port Tracker report reveal that the leading US ports handled 1,2m TEU in January, up 4.4% from December and 1.3% from January 2011.

In the **shipbuilding industry**, Japanese export ship orders fell for the third straight month in February on a year-over-year basis, sinking 23.1 percent to 399,376 gross tons, according to figures released by the Japan Ship Exporters' Association. It is worth mentioning that the fall is even sharper (40%), compared with January levels. The decline of February follows a 56.7% fall in January and 2.8% in December. Japanese shipbuilders received orders for 11 export ships nine bulk carriers, one general cargo vessel and one tanker in February. The 11 ships total 201,210 compensated gross tons. Japanese shipbuilders being in strong competition with South Korean are struggling to survive amid strong yen appreciation, recession of freight market and tight ship financing conditions. There are fears that if export ship orders remain in the doldrums, order backlogs at many shipyards could disappear till the beginning of 2014.

In the **shipping finance**, ABN Amro encouraged US banks to expand into ship finance as European ship finance institutions reduce their lending due to commitments ahead of Basel II regulations. Harris Antoniou, the bank's global head of energy, commodities and transportation, at the Capital Link International Shipping Forum in New York stated that US banks can help to fill the funding gap that European banks create as new Basel III regulations makes European banks to reconsider their exposure to shipping and, ironically, most European banks are unable to fully fund their shipping loan portfolios in USD. Capital markets are providing part of this shortfall and US banks have an "exceptional opportunity" to support international and US shipping finance, he said.

In China, the Export-Import Bank of China has provided a significant support to domestic ownership by signing co-operation agreements" with China Ocean Shipping and China Shipping Group, two state-owned shipping conglomerates, that extend five-year Yuan60bn ($9.5bn) credit lines to each company. Cexim posted news of the agreements on its website. It said: "In the next five years, China Eximbank will provide Cosco Group Yuan60bn in credit lines in areas of shipping, shipbuilding, logistics and financing. This will prove to be useful for Cosco Group to improve its capital flows and face the shipping industry downturn." A source close to the bank confirmed that the Cosco and China Shipping credit lines are part of the policy bank's drive to expand its shipping portfolio and are the first such agreements between Cexim and the two state-owned giants.

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