GOLDEN DESTINY

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

Week ending 30th March 2012

ECONOMIC ENVIRONMENT

The rising fuel price, one of the major threats of the worldwide economy, pushed US, UK and France, some of the world's biggest oil buyers, to consider a release of strategic oil stocks in a bid to calm oil market. France's energy minister, Eric Besson, confirmed that his country is in talks with US, UK and Japan to release billion of barrels of oil in the market. He also said that the countries are waiting conclusions from the International Energy Agency, which coordinates emergency stock releases in case of severe oil supply.

Saudi Oil Minister Ali al-Naimi blasted "irrationally" high oil prices by stating in the Financial Times that Saudi Arabia would like to see a lower price and Riyadh would do all it could do to bring prices down. He also said that supply is not the problem and there is no rational reason why oil prices remain at these high levels. Oil is trading near $124/barrel in part due to concerns about Iran's exports amid tightening sanctions. The influential Saudi oil minister identified $100 per barrel as an ideal price for producers and consumers earlier this year. The bottom line is that Saudi Arabia would like to see a lower fair and reasonable price that does not hurt the global economic recovery.

The International Energy Agency said that if crude prices do not fall, oil consumer nations will pay a record $2 trillion this year. The IEA's chief economist Fatih Birol, said in Reuters, that US crude oil imports would cost 3.4% of GDP, up from 3.1% in 2011 at a record of $426 billion this year, up from $380 in 2011. Furthermore, European Union, at the current price levels, would have to pay $500 billion in 2012, up from $470 billion last year; while China's imported oil bill would reach $250 billion this year, up by $50 billion from 2011. "If China's economy slows down as a result of high oil prices then it will have an impact not only on China but also the rest of the world" said Birol, noting that the world's second biggest oil consumer had helped to pull the world out of the 2008 recession.

In the eurozone, market confidence is still fragile, even policy making decisions to avoid the contagion of the sovereign debt crisis. The organization for Economic Cooperation and Development said that the eurozone's public debt crisis is not over despite calmer financial markets with a warning that the bloc's banks remain weak, debt levels are still rising and fiscal targets are far from assured. The ECB has provided eurozone banks with more than €1tn loans, in a period of three years, as a means to strengthen the euro zone's financial system. However, ECB figures showed that the flow of bank credit to the real economy contracted in February, although at a slower rate than at the end of last year. Loans to the private sector fell by €11bn compared with the previous month, while the annual growth rate fell from 1.1 per cent in January to 0.7 per cent, the lowest since June 2010, when the eurozone was recovering from the recession that followed the collapse of Lehman Brothers investment bank.

The Paris-based Organization for Economic Cooperation and Development points a robust growth in the United States and Canada for the first half of 2012, but much weaker activity in Europe, where the outlook remains fragile. In an interim forecast, the OECD projected U.S. gross domestic product to grow at an annualized rate of 2.9% in the current quarter and 2.8% in the second. The euro-zone's three largest economies, Germany, France and Italy, are set to shrink by 0.4% on average in the first quarter, followed by growth of 0.9% in the second. Japan is predicted to expand by an annualized 3.4% in the first quarter and 1.4% in the second.

In the U.S. economy, the rapid rise in gross domestic income at an annualized rate of 4.4% in the fourth quarter of 2011, with lower estimates for the growth in gross domestic product at 3%, suggests that the world's largest economy may be healthier than previously thought. The strength of the gross domestic income may be explained by a gap between the recent strength of the labor market and a rise in consumer spending of 2.1%. As per data from U.S. Labor Department, U.S. jobless claims fell by 5,000 last week to a total of 359,000, as per data from. However, Chairman Ben Bernanke said that the U.S. job market remains weak despite three months of strong hiring. The number of people working and the total hours worked are still significantly below pre-crisis peaks. Recent job gains have lifted hopes for the economy and consumer spending. Employers added an average of 245,000 jobs per month from December through February with unemployment rate falling to 8.3%, roughly a percentage point down since summer.

In China, GDP growth for the full year is likely to reach 8.5 percent, above the government's target of 7.5 percent, despite a "combination of shrinking short-term demand and falling long-term potential productivity", said Yu Bin, director-general of the Department of Macroeconomic Research Center of the State Council. Major threat on the Chinese economy is the slack of export growth with China exports showing a decline of 0.5% over the year in January, the first fall in more than two years. The export figures in the past two months were far less than the previous year and they set a pessimistic tone for the whole year, Mr Zhong Shan, China's Deputy Commerce Minister, said. China posted its largest trade deficit in almost ten years in February. Furthermore, Chinese manufacturing activity declined in March, falling to 48.1 points from 49.6 points in February, according to the HSBC Purchasing Manager's Index (PMI). This suggests that China's manufacturing sector is in recession, mainly due to weaker demand for Chinese goods in the eurozone.

SHIPPING MARKET

Overall confidence levels in the shipping industry increased slightly in the three months ended February 2012, to reach their highest level since May 2011, according to the latest Shipping Confidence Survey from international accountant and shipping adviser Moore Stephens. This is the third successive quarter in which there has been a small uptick in confidence. Rates are expected to increase over the coming year in the three main tonnage sectors covered by the survey. But the number of respondents expecting to make a major new investment over the next twelve months fell to its lowest figure for three years. In February 2012, the average confidence level expressed by respondents in the markets in which they operate was 5.5 on a scale of 1 (low) to 10 (high). This is marginally up on the figure of 5.4 recorded in the previous survey in November 2011. In February 2011, the average confidence level was at 5.8 and 5.9 in February 2010. The survey was launched in May 2008 with a confidence rating of 6.8.

In the **dry market**, the capesize pressure remains with panamax and supramax vessels experiencing better returns and the BDI standing one step behind of breaking the 1,000 points mark. Strong South American grain demand and an increase in coal exports from U.S. and Europe provide a firm support in the panamax market with earnings almost 40% more than capesize vessels.

In the iron ore market, comforting sign is the fall of Chinese iron ore inventories for a second consecutive week to 98,4 million tons, 1mt (1%) less than a weak ago. Brazil's Vale is optimistic about the outlook of iron ore in China, like its Australian rivals BHP and Rio Tinto, believing in a moderate growth that is still significant for iron ore demand given the large steel production capacity of China. Vale forecasts that steel output in China will grow 5% this year after expanding more than 10% a year ago. One more positive sign is that Chinese February iron ore imports improved, after a weak January, totalled 65.0mt, up 10% m-o-m and 33% y-o-y. In addition, China's daily crude steel output rose 1.1% in the second ten days of March from previous period. According to the China Iron & Steel Association, daily crude steel output stood at 1,919 million tons during March 11-20, up from 1,898 million tons in the previous ten years. Hu Zhengwu, an analyst with industry consultancy Custeel.com expects China's daily crude steel output to reach 1.95 million tons in March, compared with a daily steel production of 1.917 million tons a year earlier.

In the coal market, heavy rains in Eastern Australia led to a temporary operating suspension at several coal mines resulting in slower Australian coal fixture volumes that may have an impact on the vessel earnings of smaller vessel sizes, panamax and supramax.

The index closed today at 934 points, down by 2.4% from last week's closing and down by 39% from a similar week closing in 2011 when it was 1,520 points. The highest rate decline has been in the handysize segment, BCI up 3.1% w-o-w, BPI up 1.4% w-o-w, BSI down 0.4% w-o-w, BHSI down 2.5% w-o-w.

Capesize average time charter earnings are up by 14% w-o-w, panamax up 1.3% w-o-w, supramax down by 0.4% w-o-w and handysize down by 2.7%. Capesizes are currently earning $5,188/day, $3,384/day less than handysizes, showing an increase of $642/day from a week ago, while panamaxes are earning $8,398/day, an increase of $110/day. At similar week in 2011, capesizes were earning $10,554/day, while panamaxes were earning $15,463/day. Supramaxes are trading at $10,767/day, down by $52/day from last week's closing, 108% higher than capesize and 28% than panamax earnings. At similar week in 2011, supramaxes were getting $15,795/day, up by 46% from the current levels and 50% higher levels than capesizes. Handysize vessels are trading at $ 8,572day; a decline by $226/day from last week, when at similar week in 2011 handysize units were earning $11,774/day.

In the **wet market,** the freight market remains volatile with crude spot rates being under pressure from decline of fixture activity of Middle East, West Africa and Mediterranean. However, Dahlman Rose is predicting a firmer performance of the market during spring from political Iran turmoil, the world's third largest crude exporter. The risk of losing more Iranian crude output is "threatening logistical patterns and disrupting supply" this spring, Dahlman's Rose Analyst Omar Nokta said. That will keep spot shipping rates higher than they would otherwise be in a time when industry fundamentals are generally weak, he said. Nokta raised his forecast of shipping rates for very large crude oil tankers to $25,000 per day during 2012 and to $30,000 per day during 2013. That's up from his previous estimate of $17,000 per day in 2012 and $24,000 per day in 2013.

The supply of super tankers competing to load cargoes of Persian Gulf crude fell to a nine- month low, according to Marex Spectron Group with daily returns on the industry's benchmark Saudi Arabia-Japan route jumping to a 13 month high, according to Baltic Exchange. The risk of Iranian oil output coming off line supports higher freight rates disrupting supply with demand. However, the crude tanker freight market remains in downward momentum with investors seem to have more faith in the U.S. product demand.

Scorpio Tankers president Robert Bugbee said in the Capital Link Shipping Forum said that the product tanker market offers a much better investment opportunity than crude tankers. Although the product tanker market has experienced tremendous supply growth, Mr. Bugbee believes that the market is about to rise as more western refineries are shutting down and more cargoes will be shipped over longer distances, leading in an increase of ton mile demand. Scorpio Tankers has confirmed an order for one MR 52,000 dwt product tanker with delivery in 2013, increasing the tally of its orderbook to eight product tankers for delivery between July 2012 and May 2013. The order is estimated to bring the global orderbook in the range of 10,000-60,000 dwt to 171 vessels, 13% of the global fleet.

In the **gas market**, the LNG vessel segment has emerged as the most profitable investment business from soaring LNG spot rates, since last year, with LNG being shipped all over the world as a cheaper source of energy. Before three years, the LNG was out of the spotlight with around 30% of the LNG capacity being idle. The surprising and unexpected rise in US LNG production, from the discovery of significant shale of gas reserves had a negative impact on the prosperity of the segment with Asian demand not being able to offer a remedy. The nuclear catastrophe of Japan spurred high LNG imports that reversed the sentiment, with shipowners experiencing significant gains and targeting in their expansion of their fleet through the placement for the construction of LNG units in South Korean yards.

In the **container market**, the Shanghai Container Freight Index is on rise for a fifth consecutive week by closing on Friday March 23rd at 1230 points, 7 points more than previous week and up by 30% from February 17th, when it was at 949 points. Asia-USWC and Asia-USEC showed for a second week higher rates, but with a softer rise of 1% and 2% respectively compared with last week's outstanding increase of 14% on the Asia-USWC route and 8% on the Asia-USEC.

Asia-Europe and Asia-Mediterranean are sliding for a third week by posting soft declines with their rates being still above $1,000/TEU. On a weekly basis, Asia-Europe and Asia-Mediterranean routes have fallen by 1% and standing at $1371/TEU and $1376/TEU respectively. The general rate increases applied by liner operators keep a stronger sentiment on the two major routes, where post panamax units of more than 10,000 TEU are deployed. Rates on the Asia-Europe route are 90% higher than February 10th, when they were at $721/TEU, while rates on Asia-Mediterranean are up by 81% from $758/TEU. CMA CGM, one of the major players on Asia-Europe trade, is optimistic about the rate increases and expects to see further rate increases for this year peak's season. CMA CGM is focusing on rate restoration rather than capacity increases and has actually cut back some capacity to Northern Europe and Mediterranean. Transpacific rates, Asia-USWC and Asia-USEC, along with Asia-East West Africa outperformed among other routes.Rates on the Asia-USWC route rose to $2021/FEU and $3204/FEU in Asia-USEC, up by $268/FEU and $290/FEU respectively from March 9th, when rates were $1753/FEU and $2914/FEU respectively.

A distressful status for the boxship environment that emerged this week is the halt of European container shipments to Asia by major container liners for about two months, following consecutive vessel cancellations after Chinese New Year, with European exporters facing serious issues. Maersk Line, the world's largest container line, along with French rival CMA CGM, confirmed that they had frozen cargo bookings on eastbound services. A senior executive from one international logistics company said: *"I can confirm that some carriers have put a halt to eastbound bookings due to a backlog of cargo as a result of skipped sailings and capacity withdrawal. Maersk is in the forefront. The situation is made worse by carriers preferring to get their stacks of empty containers to load them up with high revenue freight, following rate increases. Current freight rates from Asia to Europe are about US$1,500/TEU, but rates from Europe to Asia are much lower, reflecting the lower value of the cargo, mainly scrap material, exported to Asia."* Maersk in an email to customers stated that the booking stop is temporary and they are working to clear it as soon as possible so that they can resume booking acceptance as usual. David Skov, regional head of Maersk Line, said that the line would take a series of measures, including redeploying ships and making additional port calls, to clear the cargo backlog by the end of next month.

In the **shipbuilding industry**, Hyundai Heavy Industries is expected to catch up with the other three bigshipbuilders, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering, in new order from April. Analyst Jun Jae-Chun, Daishin Securities said on March 28, "Hyundai's profit in the beginning of 2012 is rather lower than Samsung and Daewoo, with fewer ordering." However, in April, Hyundai would be able to recover its lagging new order. Daishin's Jun said, "At least overall $1.5bn of orders for LNG carrier and boxship are expected, along with satisfactory price earning ratio, in comparing with Samsung and Daewoo."

In Chinese shipbuilding industry, Singapore-listed Yangzijiang Shipbuilding is moving further into ship ownership as a way of securing new orders.It said that it will contribute in the finance of newbuildings by owning the ships through specially set-up Singapore companies. It has incorporated Yangzijiang Shipping as a holding company for these single-ship vehicles. The yard said it wanted to take advantage of its "strong financial position by providing shipping companies with a total financing solution to bridge the current ship financing gap. However, it mentioned that this strategy is only applied exclusively to higher quality and long-standing customers**.**

In the **shipping finance**, there has been a rise in shipping lending during the final quarter of last year amid a decline in funds provided by traditional European lenders. According to data from Dealogic, there were 67 new shipping loan deals at a combined value of $14,4 bn, compared with 53 deals worth $12,4bn in the third quarter, with a majority of money being for offshore and port projects. Fitch ratings said that banks have been pulling back from ship financing due to downturn within the industry, exacerbated by the increased capital and funding pressures in the banking sector. Opportunities for banks remain in stronger perfoming shipping segments such as liquefied natural gas transportation and offshore. Harry Theochari, head of transport at London law firm Norton Rose, confirmed that most lending from Europe right now is for restructuring and rescheduling, with no major new money on the table.

The management of Deutsche' s bank shipping finance division announced that it increased its loan commitments to 1.6% billion in 2011 from 1.2 billion in the previous year. Ralf Bedranowsky and Simon Booth, Global Co-Heads of Deutsche Shipping, pointed out that loan commitments had expanded significantly in 2011, particularly in the growth market of Asia. This region accounted for 18.7% of all loan commitments in 2011, compared to just 7.6% in the previous year. "We are very satisfied with the way the business developed in 2011, particularly in light of the continuing uncertainty in the three major shipping markets," said Bedranowsky. "Deutsche Shipping has once again succeeded in achieving a good result in challenging markets," said Booth.

In terms of **ship financing deals**, China Shipping Development Company (CSDC) has entered into a loan agreement with its controlling shareholder China Shipping and affiliate CS Finance Company. Hong listed CSDC will borrow RMB 2bn ($317m) to mitigate the pressure on capital availability and allow the company to seize business opportunities. The loan has a term of three years commencing from 26 March 2012 and ending on 26 March 2015 at 5.02% per annum.

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