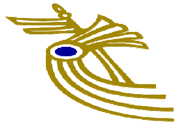

GOLDEN DESTINY

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

Week ending 29th July 2012

ECONOMIC ENVIRONMENT

Eurozone crisis is on burst with Spain's borrowing costs soaring to unsustainable levels and euro sliding to its lowest level in more than two years against dollar and the lowest in more than eleven years against yen. Finance ministers of France and Spain called for common eurozone bank supervisions to be implemented as worries grow over soaring borrowing costs in Spain. French President Francois Hollande said that measures decided at a European Union summit late last month are needed to be implemented quickly as Spain battles with the rise in borrowing cost.

Further warning signs on euro area are stemming from the status of Greece and its potential exit from the zone. Greece is under scrutiny as "troika" arrived in Athens with the payment of the next tranche from the second bailout being on air. The European Commission, the European Central Bank and the IMF will conduct another inspection of the new government's economic program to determine whether Greece complies with the terms of its second international bailout for receiving the next tranche of funds.

A report by German news magazine Spiegel sparks renewed concerns for Greece being forced into solvency as IMF has reassured European Union that it will not provide additional funds for Greece. There are estimations that Greece could fall into bankruptcy by the autumn, while Spain seems that will need a full scale sovereign bailout and not only for the recapitalization of its banks, which seems that the eurozone can barely afford. Furthermore, Citigroup updated its forecast for a Greek exit from the 17-nation currency union from a previous estimate of 50 percent to 75 percent, and it would most likely happen in the next two to three quarters.

Spain's financial situation worries seriously investors as the yield on Spanish 10-year bonds stood at euro-area record high of 7.58% following the auction, with rating agency Moody's warning that Spain is more likely to need a full bailout, adding pressure on the euro's strongest economies, such as Germany. The agency changed its outlook for Germany's AAA credit rating to negative along with Netherlands and Luxemburg, joining with France and Austria that have been rated similarly earlier this year. In addition, Moody's cut the outlook for 17 German banks from stable to negative, citing exposure to European financial woes and the possible cost of more bailouts. Moody's warned that Germany and other highly-rated countries may have to increase levels of support for countries such as Spain and Italy, who have not asked for a Greek-style bailout but they are struggling with high debt levels. Moody's also said that there is an increased chance for Greece leaving the eurozone, which "would set off a chain of financial sector shocks".

In Greece, the coalition government would be forced to agree spending cuts by another EUR 11,5bn in 2013-2014 to be complied with the bailout program, given the mounting pressure on other debt laden governments in Spain, Portugal and Ireland. In a sign of the EU's growing unease over the Greek situation, José Manuel Barroso, the European Commission president, has scheduled a visit in Athens to discuss with the prime minister on the government's efforts to meet with the demands of its EUR 174billion bailout. This visit in Athens by a Commission president will be the first visit since mid 2009, when Greece's financial crisis erupted.

UK economy sinks into deeper recession with the country loosing its triple A credit rating as output fell by 0.7% in the three months through June, more than 0.2% of economists' expectations. The IMF called for more monetary easing by the Bank of England to give a boost in the economy and warned that plans for fiscal consolidation may need to be scaled back if conditions remain poor in 2013. Britain's economic outlook has deteriorated faster than in any other major advanced economy, according to the

International Monetary Fund. The IMF has cut its global growth forecast for 2012 to 3.5% and 3.9% in 2013, 0.1% and 0.2% respectively lower than it's earlier forecasts published in April. The downward revision has been attributed to further weakness in the global economy in recent months as economic stress in the eurozone has been intensified having a serious negative effect on advanced economies.

Asian economies are also feeling the side effects of the worldwide economic recession with South Korea's economic growth falling to its lowest level in nearly three years as exports markets are struggling and consumer sentiment is impaired. The Bank of Korea announced that annualized growth slowed to 2.4% in June, the weakest rate since the third quarter of 2009, while the country's main index of consumer confidence has fallen to its weakest levels in five months. The fragile economic data strengthen expectations for a second interest rate cut next month following the recent cutting of its benchmark base rate by 25 basis points to 3%, as the first reduction since 2009.

India's economy is expected to grow at its slowest pace in a decade this fiscal year as the rupee has been hit all-time lows against the dollar and the government is struggling with an insistent high level of inflation. According to Reuters poll survey, gross domestic product in India is expected to grow 6.3% during 2012-2013 and by 7% in the next fiscal year, down from 7.1% and 8.0% respectively expected in the last survey of April. The IMF has also sharply downgraded growth estimates for India to 6.1% this fiscal year and 6.5% in the next.

In China, there is a glimmer of hope in its economy as GDP growth figure for the second quarter was 7.6%, above the 7.5% estimate, with inflation dipping to 2.2%in June and manufacturing activity slowing less quickly In July than in the previous month. The preliminary or "flash" edition of HSBC's China's Manufacturing Purchasing Managers' Index (PMI) for July rose to 49.5 on a 100-point scale, showing improvement from HSBC'S final PMI reading of 48.2% in June. HSBC chief China economist Hongbin Qu said in a statement that policy easing measures were beginning to take effect on the economy paving the way for a stronger GDP growth during the second half of the year.

SHIPPING MARKET

Summer season holds the same uncertainty of previous months with dry and wet freight markets still suffering from oversupply of tonnage and lower demand prospects, while European economies are affecting seriously the strength of China's economy and its vital role on the shipping environment. Chinese GDP grew at 7.6% during the second quarter, above the government's 7.5% growth target, but it is the lowest growth figure since 2009 that marks the sixth consecutive quarterly decline. However, Chinese inflation declined to 2.2% in the second quarter, the lowest level since 2010, which provides an additional opportunity for further monetary policy to stimulate further positive GDP growth for the world's second largest economy. Newbuilding ordering activity has moderated significantly during 2012 with scrapping volume being at record levels, especially in the bulk carrier segment, but the outlook of earnings is not yet promising for the second half of the year as the freight market is trying to reach breakeven levels.

In the **dry market**, capesize vessels are again pushing the Baltic Dry Index below 1,000 points mark despite the increase in iron ore fixture volume, as oversupply of tonnage keeps dry bulk rates under pressure, while South American grain and Indonesian coal fixtures providing support for panamax and supramax vessels that are outperforming with earnings of more than $8,000/day and $10,000/day respectively.

Capesize rates during the second quarter of the year showed the worst performance from the end of 2008, being affecting by a 4% decline in Chinese iron ore imports on quarter per quarter basis, even a 7% increase in steel production. June's iron ore imports fell by almost 10% compared to May's levels, to 58,3m tones from 63,8 last month, according to figures from China's customs department, with expectations this trend to continue in July and August as iron ore inventories are at high levels and Chinese iron ore appetite seems weak despite the increase in iron ore production. China produced approximately 125,7 million tons of iron ore in June, 13,3mt (12%) more than was produced in May and

1,7mt (1%) more than was produced in June 2011. In the first six months of this year, China has produced 598,5mt of iron ore, which is 33,6mt (6%) more than was produced during the first six months of 2011. It is worth mentioning that despite the fall of June's Chinese iron ore imports, the volume is 12.3% higher than imports of June's last year, but the oversupply of tonnage seems that could not be absorbed by the current demand needs.

Spot iron ore prices are sliding to an eight month low from a record peak in mid-February on a gloomy demand outlook kept by Chinese buyers by falling nearly 10% in the last two weeks and depressing the profits of major iron ore producers, Vale and Rio Tinto. Benchmark iron ore with 62% iron ore content fell for the 10th straight session to $122.90 on last Tuesday, the lowest since November 3, 2011. Vale reported a nearly 60% year-on-year decline in second-quarter net profits because of foreign-exchange volatility and lower prices for iron ore and base metals. The company's average sales price for iron ore in the second quarter was $103.29 per metric ton, down 5.5% from the first quarter and nearly 30% from a year earlier, the company said. Vale is working with a floor of about $120 a ton for the year because of technical factors that tend to support iron-ore prices at that level, said Jose Carlos Martins, Vale's director of ferrous metals.

With around 100 million tons of iron ore already piled up in Chinese inventories, traders believe that prices could fall further amid a supply glut. According to the statistics released by China's National Bureau of Statistics, as of July 20th, overall iron ore inventory at 30 major Chinese ports totaled 98,52 million mt, up 600,000 mt compared with the previous week and indicating an increase of 3,87 million mt year on year. In the week ending July 20, iron ore inventory at the 30 major ports supplied by the three main source countries, Australia, India and Brazil, increased by 570,000mt overall week-on-week, rising by 260,000mt, 40,000mt and 270,000mt respectively.

Despite capesize congestion and firm Chinese iron ore demand, capesize average time charter earnings have fallen again below $5,000/day, from edging near to $8,000/day on July 10th. The prompt surge of rates during the first days of July is said to be the result of owners idling their vessels with many capesize units reentering the fleet, when rates experienced a recent euphoria causing again the new slide below the psychological barrier of $5,000/day. Chinese demand for thermal coal remains low due to the anticipated increase in hydropower production, 13% more than May's production. Global grain demand and Indian, Japanese and South Korean coal demand is poised to remain firm providing an additional support in panamax and supramax vessel categories.

The BDI keeps a constant fall for the last 13 days and closed on Friday, July 27th at 933 points, down by 10% from last week's closing and down by 28% from a similar week closing in 2011, when it was 1,296 points. A downward trend has been recorded in all dry indices, BCI, BPI, BSI and BHSI, with handysize earnings reaching similar levels with panamax units, while capesizes are suffering the most with supramax units resisting at higher earnings levels among other vessel categories.

The highest decline has been in the panamax segment, BCI down by 5.2% w-o-w, BPI down 11% w-o-w, BSI down 10% w-o-w, BHSI down by 8.3% w-o-w. Capesize and panamax average time charter earnings showed a decline of 11% from last week, supramax are down by 10% and handysize down by 8%.

Capesizes are currently earning $4,740/day, a decline of $602/day from a week ago, while panamaxes are earning $8,225/day, a decline of $994/day. At similar week in 2011, capesizes were earning $10,115/day, while panamaxes were earning $12,232/day. Supramaxes are trading at $11,177/day, down by $1,282/day from last week's closing, 136% and 36% higher than capesize and panamax earnings respectively. At similar week in 2011, supramaxes were getting $13,223/day, hovering at 31% higher levels than capesizes versus 136% today's higher levels. Handysizes are trading at $ 8,735/day; down $784/day from last week, when at similar week in 2011 were earning $10,031/day.

In the **wet market,** weakness in the Arabian Gulf depresses VLCC earnings below zero levels from the beginning of July, while the reduction in Iranian exports and US refinery problems have led to many vessels being left unfixed for the upcoming August. In the suezmax segment, rates are still down in

West Africa region with the Mediterranean market providing better fortune for tanker operators and aframax vessels showing firmer resistance, but also falling from slower activity in several regions.

According to a Bloomberg survey, a glut of the biggest oil tankers expanded in the Persian Gulf adding to the pressure on owners that are facing with returns at the lowest levels in the last four years. The survey shows that there are 20% more very large crude carriers available for hire over the next 30days than there are likely cargoes, while overall crude demands remains weak adding additional damage on the overall weakness of freight rates. Warning issue of crude demand is lower estimations for China's oil demand with fear that the largest oil tankers booked to haul 2 million barrel cargoes of crude from ports in the Persian Gulf are poised to slump to a 17-month low as a slowdown in the world's second largest economy curbs oil demand. According to customs data released, China's crude oil imports in June fell to the lowest monthly level so far in 2012 at 21,72 million mt, or an average of 5,31 million barrels/day, despite posting a 10.3% year on year increase, which is an 11.8% drop from the record 6,02 million barrels/day posted in May and also lower than 5,44 million barrels/day recorded in April.

In terms of oil supply, members of the Organization of Petroleum Exporting Countries saw their crude oil production drop slightly in June on lower Saudi output and the possible impact of stronger international sanctions against Iran, according to the U.S. Energy Information Administration. OPEC produced an average of about 30.54 million barrels a day of crude oil in June, a 1.2% drop from the level seen in May, the EIA said in its monthly Short Term Energy Outlook. Part of the drop comes from production declines in Saudi Arabia, OPEC's largest producer, which saw its June average output drop to 9.7 million barrels a day from 9.8 million barrels a day in May.

Bunker prices remain relatively flat with IFO 380 fuel cost at more than $600/ton in Fujairah, Houston and Singapore, while it hover below $600/barrel in Rotterdam with and brent crude spot price being on rise during July at more than $100/barrel, from an average price of $95/barrel in June.

In the **gas market**, China's imports of liquefied natural gas rose 29 percent in the first half of 2012 from a year earlier while, according to the Beijing-based General Administration of Customs. LNG supplies increased to 6.7 million metric tons through June this year with the delivered unit cost of the fuel at $549 a ton, or $11.30 per million British thermal units, while purchases of LNG in June rose 16 percent to 1.21 million tons at $602 a ton compared with a year earlier, according to the data. Strong LNG demand is also viewed in South Korea, the world's second biggest LNG buyer. Liquefied natural gas imports by South Korea rose 16 percent in June from a year earlier as the average price paid for the fuel climbed 24 percent. South Korea is estimated to have purchased around 2.45 million metric tons of the cleaner-burning fuel last month, compared with 2.12 million tons a year earlier, data on the Korea Customs Service's website showed. Imports were 2.21 million tons in May. South Korea paid $2.12 billion, or about $865 a ton, for purchases in June, compared with $1.48 billion, or about $698 a ton, a year earlier, the data showed. State-run Korea Gas Corp. (036460), the world's biggest LNG buyer, said on July 10 that June sales rose 3.2 percent from a year earlier to 2.14 million tons.

In the **container market**, the Shanghai Container Freight Index has been on a downward trend from the end of June by falling consecutively the first three weeks of July and closing on Friday July 20th at 1327, down by 3% from previous week's closing and down by 9% from the end of June. The main linehaul routes are loosing their positive momentum by showing weekly declines with Shanghai-Northern Europe standing at $1,667/TEU, down by 12% from $1,888/TEU on June 29th and Shanghai-Mediterranean at $1,651/TEU, down by 13% from $1,892/TEU. Transpacific routes are also posing lower spot rates plus surcharges by standing at $2,389/FEU in Shanghai-USWC and $3,559/FEU on Shanghai-USEC route, 7% and 5% downward incline respectively from the end of June.

However, spot freight market is still at higher levels with the Shanghai-Northern Europe paying $956/TEU more than this year's lowest level on February 17th, when rates were at $711/TEU and 14% down from this year's peak of $1934/TEU on May 4th. Asia-Mediterranean is recording an 125% upward movement from this year's bottom low of $735/TEU on February 17th, while rates are 19% down from this year's peak of $2033/TEU on May 4th. In transpacific routes, rates on December 9th 2011, in Asia-USWC route were 41% lower than today's levels by standing at $1419/FEU and on Asia-USEC were at $2524/FEU, down by 29%.

Container time charter rates remain flat at $12,500/day for 4,400 TEU boxship units, down by 37.5% from 2011 levels, $8,150/day for 3,500 TEU boxship units, down by 47.4%, $7,250/day for 2,750 TEU boxship units, down by 46.3% and $6,700/day for 2,000 TEU boxship units, down by 43% from previous year's levels.

Some Asian container lines, Cosco Container Lines, Yang Ming and Hanjin, are planning to drop some sailings in the Asia to Europe trades over the coming weeks to spur an upward trend by reducing the available capacity and also are scheduling general rate increases or peak season levies. Mediterranean Shipping Co is planning to impose a $350 per TEU charge for cargo moving from Asia to Northern Europe and Mediterranean from August 1st, while Hapag-Lloyd has announced a peak season surcharge of $350 per TEU from August 1st to September 30, plus another general rate increase of $250/TEU from August 15th. Furthermore, Transpacific container shipping lines have announced August freight rate increases on dry cargo and are considering rate rises also on refrigerated cargo as the market recovers, a group representing the industry said. Carriers serving the Asia-U.S. trade have announced during the past week dry cargo rate increases averaging $500 per 40-foot container (FEU) to the U.S. West Coast and $700 per FEU for all other shipments, the Transpacific Stabilization Agreement (TSA) said. "The effective dates vary by carrier, but for the most part will be during the first week of August," Oakland, California-based TSA said. Carriers are determined to maximize yield from ships they expect to approach full utilisation throughout the summer months, Brian Conrad, TSA executive administrator, said in the statement.

In terms of demand side, Container trade statistics show an increase of global volume by one per cent in May compared with a 4.3% increase in April with Eurozone debt crisis resulting in a container volume slide of 7.4% in May year on year basis. In Asia, imports fell 4.5% in May and exports grew 2.4% in May year on year. North American – Canada, the US and Mexico – increased 7.4% in May container volume, but exports fell 7.6 per cent.

The idle container ship fleet is again on rise as peak season hopes fade with the spot freight market moving downwards during July. According to Alphaliner figures, the idle capacity fleet has risen to 211 vessels of 446,192 TEU, 2.8% of cellular existing fleet as of July 2nd, from 207 vessels of 432,397 TEU, 2.7% of the existing fleet on June 18th.

In the **shipbuilding industry**, Japanese shipbuilders are still struggling as demand of new vessels in the main conventional vessel segments has been dried and the slump of the freight markets discourages strong placement of new contracts. According to figures released by Japan Ship Exporters' Association, Japanese export ship orders fell 8.5% in June year-on-year to 499,370 gross tons, as the third straight monthly drop on a year-over-year basis. However, the pace of decline has slowed from 43.5% in April and 44.6% in May. In the first half of 2012, Japanese export ship orders sank by 31.1% from the same six-month period last year to about 3,488 million gross tons. During January-June period, Japanese shipbuilders received orders for 67 export ships at a total of 1,554 million compensated gross tons. Japan, one of the world's top shipbuilding nations, faces strong competition from South Korea, which is still on the frontline of winning the lion share of new placement of contracts.

According to the Ministry of Knowledge Economy, new vessel orders won by the country's shipbuilders totaled 3. 31 million compensated gross tonnage (CGT) during the January-June period, which accounts 37.7% of 8.77 million CGT for global ship orders placed during the first half of the year. Despite Korea's dominance in the shipbuilding arena, its global vessel orders of 8,77 million compensated gross tons are less than half of the same period last year. Orders of merchant ships such as bulk carriers, tankers and container ships contributed mainly to the drop in global orders that stood merely at 4.9 million CGT in the first half, around 65% down from the same period of 2011. Orders of other ships, such as LNG carriers, LPG carriers, drill ships and offshore plants showed a slower decline of around 25% in the first half from a year before, due to a higher demand on the placement of new contracts for more specialized units derived from a stronger freight market outlook and expectations of earnings in these segments.

According to the Korea Shipbuilders' Association (KOSHIPA), nine member shipyards - Hyundai Heavy Industries, Daewoo Shipbuilding & Marine Engineering, Samsung HI, Hyundai Samho HI, STX Offshore & Shipbuilding, Hyundai Mipo Dockyard, Hanjin HI & Construction, ShinaSB Yard and Daesun

Shipbuilding & Engineering - have contracted a total of 3.18m cgt (92 vessels), $13.176bn during the first six months, declined by 61.4% in cgt terms and 52.4% in value terms from 8.24m cgt (195) or $27.659bn in H1 2011.

Under the current recession of dry and wet freight market, Chinese shipbuilding nation tries to spur improvement of technical skills for high valued and offshore vessels. China announced that it would raise its global offshore market share to 20% by 2015 from some 7% in the end of 2010.

In the **shipping finance,** Scorpio Tankers Inc. announced that it has signed an agreement with its lenders, Nordea Bank Finland plc, DNB Bank ASA, and ABN AMRO Bank N.V., to extend the availability period of its 2011 Credit Facility until January 31, 2014. The availability period was previously scheduled to expire in May 2013. There is currently $115 million available for borrowing under this facility, which can be used to finance up to 50% of future vessel acquisitions. Emanuele Lauro, chief executive officer and chairman of the board, commented, "This extension gives us the additional flexibility to pursue opportunities to further expand and renew our fleet. We appreciate the continued support of our strategy by our lenders." Furthermore, BRUNEI Gas Carriers has secured more than $250M to finance a newbuilding LNG carrier. The Singapore office of UK shipping law firm Watson, Farley & Williams LLP, told Fairplay that it advised Brunei Gas, a Shell-Royal Dutch subsidiary, in securing a $170M Islamic finance facility to pay for the 155,000m^3 LNG carrier. The facility was arranged with a syndicate comprising Bank Islam Brunei Darussalam, Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad, Hongkong & Shanghai Banking Corp and Sumitomo Mitsui Banking Corp Europe. The facility is centered on an Istisna-Ijara structure, which is commonly used in Islamic project financing

In the capital markets, Box Ships Inc. announced that it intends to offer and sell $30,000,000 of its common shares in an underwritten public offering, while Hong listed dry bulk and tanker operator, China Shipping Development, had received regulatory approval to issue five year $470 million in corporate bonds in August, due to profit warnings stemming from the weak shipping environment.

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