GOLDEN DESTINY

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

Week ending 7th September 2012

ECONOMIC ENVIRONMENT

The European Central Bank left its interest rate unchanged at 0.75% focusing on pushing down borrowing costs in troubled economies, Spain and Italy. Small companies in Spain and Italy are paying more than 2% for loans compared with German counterparties, according to data from European Central Bank.

In the meantime, Moody's has lowered its triple A rating for European Union to negative citing the weakening creditworthiness of the zone's biggest members, Germany, France, UK and Netherlands, after lowering the outlook of financial institutions in Germany, Netherlands and Luxemburg, from stable to negative in July.

One more headwind for eurozone's revival is the slow of manufacturing activity by staying below 50 for August with Markit's final Purchasing Managers Index being at 45.1, above July's three year low of 44.0, but marks the 13th month in row with EU's PMI being less than 50. Germany's PMI reading stood at 44.7 in August, recording a constant fall for six months, while Italy's and Spain's PMI are below 50 for more than a year.

In Greece, Prime Minister is in an acceleration process of privatizations within September as troika reviews government's efforts with German Finance Minister Wolfgang Schaeuble ruling out the possibility of a third aid package on Greece as the costs for Greece are already very high by stressing also that Greece will remain in the eurozone.

SHIPPING MARKET

The worrying downside risks of the dry bulk segment are implied by the constant fall of the BDI, the vigorous slump of iron ore price and the slackening Chinese economic growth. Australian iron ore mining company Fortescue Metals Group downsized its expansion plans for next year by more than 25% for 2013 against its original plan to extend its production capacity to 155m tones per year by June 2013. In a press release, the company announced that it would cut its capital expenditure by $1.6 billion and reduce its production capacity target to 115m tones per year. In the meantime, vessels ongoing deliveries hunt the healthiness of the market with approximately 243 panamax vessels being delivered so far this year, from 274 panamax vessels delivered for the whole 2011, while for the end of this year panamax deliveries are on pace to a total of 417 vessels, 52% more than they were delivered last year, according to data from Commodore Research. Capesize deliveries are on pace to total 281 vessels, 9% more than they were delivered last year, handymax deliveries are on pace to total 363 vessels, 11% more they were delivered in 2011 and handysize deliveries are on pace to 365 vessels, 26% more than they were delivered in 2011, while panamax orderbook is going to be the most hefty among other vessel categories for 2013.

In the **dry market**, BDI falls on weaker panamax rates with some signs of short revival in the capesize segment, while the weakening Chinese iron ore demand pushes the price of iron ore to levels even below $90 per tonne. Benchmark iron ore with 62% iron content fell to $86.7 per tonne on Wednesday, the lowest since October 2009 and less than half of the 2011 peak of $191.90, according to data provider Steel Index. Iron ore fixture volume remains moderate while thermal coal demand from China rebounds with supramax vessels finding a floor from a further slide in freight rates and capesizes showing a steady pace of revival with earnings approaching levels of $3,500/day from the lowest of

$2,644/day on August 21st, while panamax vessel earnings are still on decline falling even below $5,000/day from about $9,000/day at the end of July.

BDI plunged to levels below 700 for a second time this year, since the historical bottom low of 647 points on February 3rd, by loosing more than 400 points from the high levels of 1162 points reached on July 9th, before beginning its freefall. The US drought is still an adverse factor for a firm rebound on supramax and panamax vessel earnings with US Department of Agriculture showing that global grain exports will fall the most in the last 27 years for the period 2012-2013. USDA estimates that global grain trade will decline 9.1% to 289,4 million metric tons in 2012-2013, the biggest retreat since 1985-1986, when it shrank by 18%.

BDI closed this week at 669 points, down by 4.9% from last week's closing and down by 64% from a similar week closing in 2011, when it was 1,838 points. Capesize vessels keep a soft improvement in the last two weeks with panamax vessel earnings falling to the lowest levels from 2008, while supramax and handysize units are showing softer declines . The highest decline has been in the panamax segment, BCI up by 1.1% w-o-w, BPI down 18.5% w-o-w, BSI down 2.9% w-o-w, BHSI down by 0.2% w-o-w.

Capesize average time charter earnings showed an increase of 4.3% from last week, panamax are down by 18.5% week-on-week, supramax are down by 2.8% week-on-week and handysize up by 0.1%.

Capesizes are currently earning $3,452/day, an increase of $144/day from a week ago, while panamaxes are earning $4,758/day, a decline of $1082/day. At similar week in 2011, capesizes were earning $26,463/day, while panamaxes were earning $13,534/day. Supramaxes are trading at $8,703/day, down by $257/day from last week's closing, 152% and 83% higher than capesize and panamax earnings respectively. At similar week in 2011, supramaxes were getting $14,649/day, hovering at 45% lower levels than capesizes versus 171% today's higher levels. Handysizes are trading at $ 6,685/day; up $113/day from last week, when at similar week in 2011 were earning $10,139/day.

In the **wet market**, oversupply and weak activity in AG keep VLCC spot rates below zero levels for nine weeks. In the AG-USG route, WS fell to 22 from WS23 last week with negative time charter equivalent earnings $(12,900/day), when at the end of May was WS40 with time charter equivalent earnings $15,000-$16,000/day. In AG-SPORE and AG-JPN routes, WS fell to 35 from WS36 last week with time charter equivalent earnings $2,300/day and $1,900/day respectively. Rates on WAFR-FEAST are down nearly 1 point with WS36 from WS 37 at $3,500/day time charter equivalent earnings, while in the WAFR-USG WS remains unchanged at WS41.5 with time charter equivalent earnings of $3,500/day.

The Atlantic suezmax market remains quiet with WS unchanged in WAFR-USAC route at 57.5 with time charter equivalent earnings at $7,400/day. In BALTIC SEA-MED route WS softened by 2.5 points to WS55 and negative time charter equivalent earnings of $(1,200/d), for the first time, when on May 18th 2012, WS was 90 with time charter equivalent earnings of $31,300/day. In the CBS-USG route WS remained at previous weekly levels with WS62.5 at $7,700.day time charter equivalent earnings.

The Caribbean aframax market is stable with rates on CBS-USG route trading at WS92.5, 2.5 points above from last week, despite the passing of Hurricane Irene through USG as charterers were largely absent from the market.

In the panamax segment, CBS-USAC route gained 10 points above last week's WS with vessels of 50,000dwt trading at WS120 at time charter equivalent earnings of $12,100/day. In the AG-JPN route, rates for vessels of 55,000dwt gained two points from last week with WS120 at $13,200/day time charter equivalent earnings, while rates for vessels of 75,000dwt in AG-JPN route lost one point with WS 98 at $14,700/day time charter equivalent earnings.

The brent crude spot price remains high at more than $110/barrel with Fujairah fuel IFO 380 cost reaching $700.50/barrel on September 4th and falling again to about $680/barrel.

One serious short term negative factor for the crude freight environment is the fall of Chinese crude amount due to accumulation of huge amount of stockpiles during the first half of the year. Chinese crude imports are estimated to have fallen by 14% to 21.8m tons in July, from a record high of 25.5m tons in May. China, the world's second largest oil consumer, reduced its strategic services in recent months after stockpiling 90m barrels in the first five months of the year. However, China will still be a positive factor for a future increase in crude ton mile demand as International Energy Agency estimates that China could drive 40-50% of the total global demand growth, approximately 500,000-750,000 of the 1.0-1.5 million barrels per day of annual demand growth forecasted till 2015.

In terms of oil supply, a Bloomberg survey of oil companies, producers and analysts showed that OPEC oil production declined in August as Iranian output dropped to a 22-year low after new sanctions took effect. According to the survey, production slipped 75,000 barrels, or 0.2 percent, to an average 31.99 million barrels/day in August from a revised 32.06 million in July. Figures from Bloomberg's Survey comes in contrast with Reuters results last week showing an increase in OPEC crude oil output of August to 31.53 million barrels/day, up from 31.3 million barrels/day in July due to a slight revamp in Iranian exports and higher exports from Angola and Nigeria. Bloomberg's Survey showed that output in Iran, OPEC's third largest producer, fell 350,000 barrels to 2.75 million barrels a day, the lowest level since February 1990.

In the **gas market**, the Japanese Bank for International Cooperation is going to provide a $650mil loan to a partnership between Mitsubishi and Cutbank Dawson Gas Resources, a Canadian firm in which Mitsubishi has a 40% share, to develop Canadian shale gas for LNG exports. Mitsubishi has previously entered into a project partnership with Shell to build a liquefaction plant on the Canadian west coast near Kitimat. In addition, industry sources suggest that Iran and China have suspended a contract to build a $3,3 billion LNG export facility in Asaluyeh, Iran, due to the inability of the Chinese consortium to finance the project. The Asaluyeh project was singed in 2008 between Iran LNG and an unnamed Chinese firm for completion in 6 years with a capacity of 10.5 mtpa.

In the **container market**, the Shanghai Container Freight Index keeps week from the end of June by falling to 1249 for the week ending August 31st, down by 3% week-on-week basis and down by 14.4% from the highest level of the year of 1460 on June 29th. Lower European and US rates depress further the freight market environment as worldwide economic recession leaves less room for expansion in container trade growth. According to Container Trades Statistics, Asia to Europe box volumes slumped to 1.2m TEU in July, down from 1.3m TEU in the same month last year, while Asia to Europe containerized trade was down by 3.2% during the second quarter of the year compared with similar quarter of 2011. At a time that is normally a peak season before Christmas Holidays, liners are facing slowdown in demand with Asia to Europe rates falling to $1,324/TEU, down 7.6% on a weekly basis and down by 31.5% from the peak of $1934/TEU on May 4th, while Asia to Mediterranean rates dropped to $1371/TEU, down by 3.8% on a weekly basis and down by 32.5% from the peak of $2033/TEU on May 4th.

Transpacific routes are showing softer declines with Asia-USWC rates sliding to $2485/FEU, down 3.2% on a weekly basis and 9.2% less than the highest level of $2739/FEU on June 15th. In Asia-USEC route, rates are now $3741/FEU, down 2.9% on a weekly basis and down by 8.7% from the highest level of $4098/FEU on August 10th. Stronger growth in US box imports sustained the improvement of rates in Asia-USWC and Asia-USEC. According to Piers data, strong growth in automotive and furniture sectors contributed to the rise of US containerized imports in July by 9.7% to just under 1.6m TEU from 2011 July's levels, while imports are up 6.2% from the previous month in June. In the year to date, US containerized imports are up 3.5% with inbound box volumes expecting to accelerate during the second half of the year and predictions for a full year rise of 4.6% in imports and 2.3% in exports, according to Journal of Commerce/Piers economist Mario Moreno.

Transpacific Lines of the Westbound Transpacific Stabilization Agreement are planning to raise freight rates from October 1st to intervene in the falling freight rates and demand from Asia with a General Rate Increase (GRI) of $200 per 40-foot container (FEU) and $160 per TEU for westbound cargoes.

Overall, the spot freight market environment is still improved from 2011 levels, as the Shanghai Container Freight Index is up by 22.5%, with a 58.9% and 21% rise in the rates of Asia to Europe and Asia to Mediterranean respectively, while transpacific routes are showing a 45.8% and 12.7% increase in rates of Asia-USWC and Asia-USEC respectively.

Slow steaming, vessels' lay ups, suspension of services to reduce vessel's capacity and rate increases are the main key strategies that industry players will follow to restore the confidence in the levels of freight rates and impede further slide so as to maintain a positive market momentum and renew hopes for a full turnaround of boxship freight rates in 2013.

Under the current softening freight market environment at a time that is usually a peak season, the G6 Alliance, including APL, Hapag-Lloyd, Hyundai Merchant Marine, MOL, Nippon Yusen Kaisha and Orient Overseas Container Line, decided to suspend its Loop 3 service, which will reduce its shipping capacity by around 15% on the Asia-Europe lane in an effort to improve pricing and the supply/demand balance.

The laid up fleet has risen to 260 vessels with a total capacity of 546,000 TEU to the end of August 2012, from 215 vessels of 466,720 TEU at the end of July, according to Alphaliner estimates. Alphaliner expects the laid up fleet to float between 700,000 and 900,000 TEU by the end of the year with the severity dependent on the extent of the capacity cutbacks to be implemented by carriers in the coming months.

Slow steaming is still a remedy to oversupply issue by absorbing 30% of the total capacity added since the start of the year to reach an estimated 930,000 TEU or 5.7% of the cellular fleet, according to Alphaliner Report. It said that carriers have extended the rotations of 35 loops since January absorbing over 230,000 TEU of additional vessel capacity through the extra slow steaming policy.

In the **shipbuilding industry**, Japanese builders Universal Shipbuilding, a subsidiary of the steel group JFE, and IHI Marine United have completed their merger with the creation of a new combined company with the name Japan Marine United to operate as of October 1st. In a joint statement, Universal and IHI said Japan Marine would combine their engineering resources to improve vessel designs and technologies. "Among the various synergies that it will expect to realise rapidly, the product lineup will be expanded, productivity at each shipyard will be improved by consolidating ship types and product development will be accelerated by bringing together energy-saving and eco-friendly technologies," said the statement. "In addition, capabilities for responding to large-lot orders and procuring equipment and materials under more competitive terms will be realised through expanded scale, and efficiencies will be improved through the integration of administrative functions."

In South Korea, 21st Century Shipbuilding yard proceeded with liquidation as it failed to win new orders to generate cash. According to Korean Reports, liquidation became inevitable as the medium-sized, privately owned yard completed its existing orderbook. Furthermore, a small South Korean yard, Sekwang Shipbuilding is said to be concentrated on ship repairing after failing to secure new orders to run its newbuilding business.

Under the current fall of newbuilding demand distressing shipyards' revenues, South Korea has expanded financing support for its struggling shipbuilders by $3,5 billion for this year, according to Seoul's Yonhap news agency. The additional loans will be available from the two state-run lenders-Korea Finance Corp. and Korea Development Bank-and five commercial banks, including Kookmin Bank, Yonhap said. Furthermore, Korean government allowed Export-Import Bank of Korea to inject more liquidity in South Korean shipbuilding industry by raising its credit ceiling to 60% of borrower's equity value instead of 40%. Korean government has also requested from Korea Development Bank, Korea Exchange Bank, Woori, Kookmin, Hana and Shinhan to provide credits worth of about $3,5 billion to shipbuilders. According to government data, South Korea's ships exports amounted to $30,4 billion in the first eight months of this year, down more than 20% compared to 2011.

In the **shipping finance**, German shipping financier HSH Nordbank announced its results for the first half with losses of EUR 111m ($139.58m) to June 30th, compared with last year's gains from provisions of EUR 317mil. Overall net profit estimated to be EUR 70mil, down from EUR 338mil, due to shipping finance. "The further worsening of conditions in the shipping industry in the wake of the global economic downturn and the depreciation of the euro have taken a heavy toll on our figures and will continue to exert pressure on us in the foreseeable future," said chairman Paul Lerbinger.

In the capital markets, South Korean yard Samsung Heavy Industries plans to raise KRW500bn, $400mil from a bond issue in September, to generate cash to support the construction of its offshore orders, while its rivals Hyundai Heavy Industries and Daewoo Shipbuilding and Marine Engineering are following the same strategy with HHI having a KRW1trillion bond in the pipeline and DSME securing KRW500bn last month. Furthermore, Ocean Rig UDW Inc., a global provider of offshore deepwater drilling services, announced that its wholly owned subsidiary, Drill Rigs Holdings Inc. intends to offer, subject to market and other conditions, $750.0 million in aggregate principal amount of senior secured notes due 2017 in a private offering within the United States to qualified institutional buyers Ocean Rig intends to use the net proceeds of this offering, if completed, to fully repay all outstanding indebtedness under its $1.04 billion senior secured credit facility, amounting to approximately $487.5 million as of June 30, 2012, and for the purposes of financing offshore drilling rigs, and to pay all fees and expenses associated therewith.

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