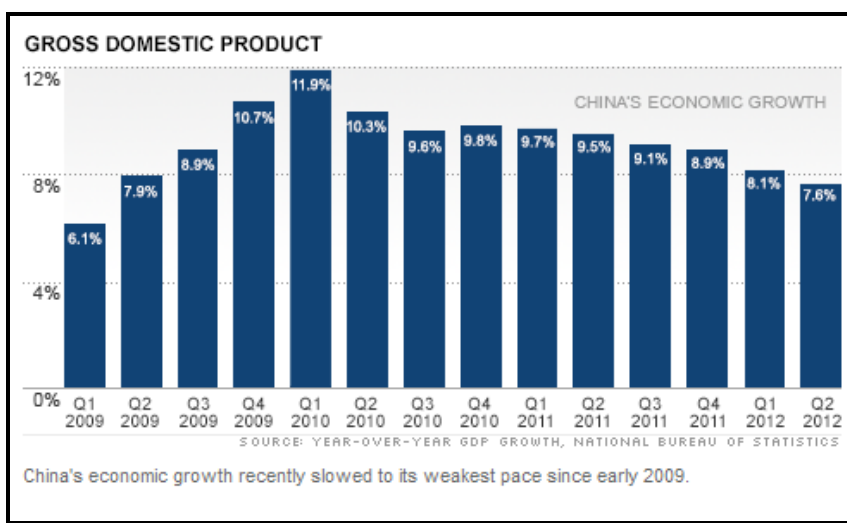


ECONOMIC ENVIRONMENT

The worldwide economic recession continues to be reflected in the world's second largest economy, China, by showing a slower economic growth for the third quarter of the year with some signs of stabilization in inflation and a sense of recovery in imports/exports growth.



China's GDP growth slowed to 7.4% in the third quarter, from 7.6% in the previous quarter, while its consumer price index eased in September by posting a rise of 1.9%, down from 2% in August, according to data released by National Bureau of Statistics. Overall, China is still the strongest economy among other emerging countries, India, Russia, South Africa and Brazil, fuelling the world economy via its stimulus plans. "In the last quarter of [2012], it is very likely that the Chinese economy will follow the trend seen in September – that is a modest recovery," said Sheng Laiyun, spokesman for China's national bureau of statistics. "We have full confidence that we will achieve the full-year growth target [of 7.5 per cent]." The GDP growth of 7.4% in the third quarter comes against government's full year target growth of 7.5%, but Chinese Premier Wen Jiabao confirms that he is sure that the country will meet the target for this year.

One more positive indicator for Chinese economy is a stronger rebound in its exports than analyst expectations, while industrial production accelerated in September by growing 9.2% from a year earlier compared with 8.9% growth in August. According to data from General Administration of Customs, Chinese exports rose 9.9% year-on-year in September to a record monthly high, the vital key for the health of the world's second largest economy, while the country's trade surplus widened to \$27,7 billion from \$26,7 billion in August. However, there are still worries if such rebound is sustainable at Chinese trade with its trading partners, US and Europe, face uncertainties from the worldwide recession. Overall Chinese trade with Europe is down 2.7 percent to \$411 billion for the first nine months of the year, but trade with the United States grew 9.1 percent to \$355 billion, as per data from National Bureau of Statistics.

In the eurozone, an agreement has been finally sealed with troika and Greek government as troika issued a statement confirming its conclusion on most of the core measures, while differences between the government and the troika on labor issues and civil service staffing cuts would be resolved in the

forthcoming week. In the meantime, Greek banking sector keeps its restructuring process with Alpha Bank being under course to buy the Greek banking subsidiary, Emporiki, of Credit Agricole, France's second largest bank by assets, for €1. Alpha Bank's purchase of Emporiki is expected to be finalized by the end of the year with Credit Agricole said to book a €2bn (\$2.6bn) net loss after the sale that will end its investment in the Greek banking lending sector. Emporiki's portfolio is estimated that deteriorated sharply in the first half of the year with non performing loans rising to 37% and net losses reaching €1.3bn.

In Spain, one more troubled economy of the eurozone, a positive sentiment came from Moody's Investors Service that it affirmed Spain's government bond rating one notch above junk territory and expressed its confidence that euro area support and Madrid's reform efforts should allow the country to stabilize its economy and control its mounting debt levels.

Overall, the world economic outlook remains negative with Deutsche Bank cutting its global growth forecast to 2.9% for this year and 3.2% in 2013, down almost half a percent from previous estimates, while it forecasts a 3.8% growth for 2014. Its position for a slower economic growth is mainly due to a much slower than expected recovery in US with predictions for a US growth of just over 2% for this year and next with a poor economic outlook for emerging economies and a struggling Japanese economy.

SHIPPING MARKET

The slower Chinese economic growth with a rebound in its exports pours a positive angle in the struggling dry bulk segment with hopes for a firmer freight market environment during the fourth and final quarter of the year. The dynamism of Chinese economy on the dry bulk environment pushes the freight market for dry bulk carriers at more profitable levels than tankers, while the slower consumer demand growth from eurozone recession still threatens the container market and its Asia-Europe trade.

In the **dry** market, the upward momentum for large size vessels, capesize and panamax, continued also this week by pushing the BDI one step behind breaking the psychological barrier of 1,000 points before falling again yesterday to less than 900 points. Capesize average time charter earnings rose to record high levels of more than \$13,500/day for this year, 311% above end August levels, while panamax average time charter earnings showed a noteworthy recovery with levels of more than \$7,000/day, posting a 94% increase from the historical lows of less than \$4,000/day from mid-September till October 4th. However, it is not yet certain how sustainable this recovery is as yesterday, capesize and panamax average time charter earnings recorded a downward direction with a loss of \$233/day in the capesize and \$72/day in the panamax segment. For smaller vessel categories, supramax and handysize, the negative momentum from the end of September keeps with vessel earnings falling by 11% in the supramax and 5.1% in the handysize segment.

The loss of Indian iron ore exports seems from the ban on illegal mining seems that has influenced negative the fortune of supramax vessels that carry about 40% of nation's iron ore. In addition, a negative growth in the global trade of grains is one more diminishing factor with US Department of Agriculture estimating a 14% decline due to drought and heat in US and Europe. Compared with the 330.31mt of grain estimated to have been exported worldwide during 2011/12, 2012/13 grain trade is now expected to decline by 47.57mt (-14%).

The positive sentiment in the capesize segment is also attributed to the increase of Chinese iron ore imports in September by rising to the highest levels reported since January at about 65mil tonnes, as per data from National Customs Bureau. The shipments, the highest since January 2011, rose 4.1 percent from August and 7.3 percent from the 60.57 million tons a year earlier, according to data compiled by Bloomberg. The rebound is based on a higher steel demand and output with average daily crude steel output in the China, the world's top steel producer, lifting to 1.916 million tons during October 1-10, up 4% from September 21-30, as per data from the China Iron & Steel Association. One additional strengthening dynamic aspect for capesize average time charter earnings in the increase in iron ore fixture volume from the end of September and the decline in Chinese iron ore port stockpiles. Chinese iron ore stockpiles have fallen to about 90,8 million tons of iron ore, which appears the lowest level since July 2011.

In the panamax segment, vessel earnings have been supported from a stronger amount of coal fixtures, but they have not yet surpassed the levels of supramax earnings, while coal stockpiles at Qinhuangdao, China's largest coal port, floating at extremely low levels of about 5.5 million tons, paving the way for stronger vessel fixture volume and earnings.

BDI ended at 1,010 point, surpassing the psychological barrier of 1,000 points for the first time since the 24th of July when it was at 1,003 points but still on a "free fall" for almost a two month period.

Capesizes are currently earning more than \$14,380/day, up by \$950/day from a week ago, while **panamax**s are earning \$7,020/day, a decrease of \$122/day. At similar week in 2011, **cape**sizes were earning \$30,975/day, while **panamax**s were earning \$16,215/day. **Supramax**s are trading at \$7,652/day, down by \$86/day from last week's closing, about 46.7% less than capesize and 9% more than panamax earning. At similar week in 2011, **supramax**s were getting \$16,804/day, hovering at 45.7% lower levels than capesizes versus 46.7% today's lower levels. **Handysizes** are trading at \$6,555/day; up \$14/day, when at similar week in 2011 were earning \$11,901/day.

In the **wet** market, VLCC segment remains hard pressed with time charter equivalent earnings below zero levels in AG-USG route at WS23.25, showing no change from previous week. In AG-SPORE and AG-JPN route, WS gained one point by rising to WS36 at time charter equivalent earnings of \$6,100/day and \$5,400/day respectively. In West Africa region, WS gained 2.5 points in WAFR-USG route by ending at WS42.5-\$14,500/day time charter equivalent earnings, while in WAFR-CHINA stayed stable at WS40. In the suezmax segment, WS didn't show any change in WAFR-USAC and BSEA-MED route by staying at WS57.5 -\$8,300/day and WS60-\$4,100/day respectively. Stability also is being viewed in the aframax segment with WS in CBS-USG route at 90-\$6,300/day. In the panamax segment, CBS-USAC route lost 2.5 points with WS falling to 112.5-\$10,300/day, while WS product units of 75,000dwt rose by 2 points in AG-JPN route at WS103-\$18,200/day and 3 points for 55,000dwt units at WS 110-\$11,000/day.

In the **gas** market, the current upward freight market momentum for LNG spot rates keeps its pace with high levels of \$123,000/day for spot voyages heading east of the Suez Canal for 138,000 cum-145,000 cum LNG vessels and \$125,000/day for voyages going west of the Canal. There are also predictions that rates could peak at \$180,000/day and even higher at \$200,000/day during the peak winter period, while rates have fetched high levels of \$150,000/day this year. Oslo based RS Platou estimates that short term charters for LNG carriers will average \$138,000/day next year and slump to \$84,000/day in 2012, lower than its previous estimates of \$142,000/day and \$104,000/day respectively. RS Platou said in its Report that demand for LNG shipping looks bright with a phenomenal amount of investments for the construction of further liquefaction capacity worldwide and high demand from Japanese power plants that draws cargoes from Atlantic to compensate for the loss in nuclear power.

In the **container** market, the Shanghai Container Freight Index ended again in red after the end of Golden Week Holidays in China by closing on October 12th at 1203, down 3.5% from end September, with a 3.8% and 6% decline in Asia-Europe and Asia-Mediterranean spot rates respectively. Asia-Europe route now pays \$1113/TEU, down 42% from the peak of \$1934/TEU on May 4th, but up by 60% from previous year levels of \$697/TEU. In Asia-Mediterranean, rates are now at \$1130/TEU, 44% less than \$2033/TEU on May 4th and 16.4% up from \$971/TEU last year.

Transpacific rates also showed a downward revision of 5% in Asia-USWC and 3.7% in Asia-USEC by paying \$2592/FEU and \$3539/FEU respectively. At similar week in 2011, Asia-USWC rates stood at \$1495/FEU and \$2976/FEU in Asia-USEC.

The continuous slump of Asia-Europe rates from end of July creates an intense anxiety for the profitability of post panamax newbuildings with container players adjusting their strategies. The soft environment prompted Maersk to move in additional capacity cuts by removing its AE5 service, which operates eight 6,500 TEU vessels, and the AE9 service, which operates eleven 8,000 TEU vessels, till December. Following the 9% capacity reduction Maersk Line made earlier this year, the carrier said it has cut capacity on its Asia-Europe network by 21% so far in 2012. Hanjin and Evergreen follows the example of Maersk by planning to cut 13 voyages from the joint weekly sailings from China to Europe, about 23% carriers' capacity, and considering further capacity reduction on this service depending on

market demand and vessels supply. In addition, Evergreen decided to delay its plan of building 60 more medium-small size boxships until the expansion of Panama Canal is completed by 2012. Evergreen's vice president Bronson Hsieh predicted that there will be a 10% growth on newbuilding boxships next year and he suggested that shipowners should put more efforts on controlling capacity growth.

In the **shipbuilding industry**, ordering activity in South Korean yards dwindles for 2012, but South Korean shipbuilding industry keeps its dominance in the newbuilding arena by securing more contracts against its rivals, China and Japan, due to its strength in the construction of more specialized segments, mainly offshore and LNG. According to data released from the Ministry of Knowledge Economy, orders for new ships won by South Korean shipbuilders plunged over 50% during the first nine months of the year from a year earlier by sealing orders from 5,2 million compensated gross tons of a total value of \$18,9 billion. The figures for total weight and monetary value dropped 58.6 percent and 56.9 percent, respectively, from the same period in 2011. According to the Ministry, South Korea won all of the world's orders for floating, production, storage and offloading, floating storage offloading; central processing facility; and floating storage unit ships of a total value over \$3.3 billion in total, while it also won orders for 15 drill ships and 13 LNG vessels of a total value over \$10 billion.

In the **shipping finance**, Asian banking sector made again its presence in the tight ship lending market with Korean Development Bank appeared as the leader in a \$334mil syndicated loan to support South Korean Polaris Shipping's \$600mil sale and leaseback purchase of 10 very large ore carriers from Vale in August. Joined participants of the syndicated loan facility include Korea Exchange Bank, Kookmin Bank, Nonghyup Bank, NH Bank and Suhyup Bank.

In the European banking sector, sources indicated that UK Lloyds Banking Group has sold a \$750 million portfolio of shipping loans to US private equity firm Oaktree Capital at a discount of 40%-50% as it struggles to reduce its exposure to the shipping industry amid eurozone economic turmoil and a downturn of shipping freight markets. Overall, European banks are aiming to shrink their exposure to the shipping industry and minimize their losses. Thomson Reuters LPC data showed that new global syndicated lending to the shipping sector was \$4,1 billion in the third quarter, down 61% from \$10,7 billion in the corresponding quarter of 2008. Norwegian DNB Bank emerges as the top finance lender in the third quarter with about \$800 mil commitments from syndicated loans and BNP Paribas, Nordea Bank and Citigroup follows.

In the **capital market**, container segment made a strong presence this week with Greek container player Costamare announcing its offering of 7,000,000 shares of its common stock at a price of \$14.00 per share. The gross proceeds from the offering before the underwriting discount and other offering expenses are expected to be \$98,000,000. The Company plans to use the net proceeds of the offering for capital expenditures, including vessel acquisitions, and for other general corporate purposes, which may include repayments of indebtedness. In addition, CMA CGM, the world's third largest container shipping Group, and the Fonds Stratégique d'Investissement (FSI), announced that they entered into a Memorandum of Agreement supporting CMA CGM's future development. The FSI will subscribe to bonds redeemable in shares for an amount of US\$150 million giving right to a 6% stake in CMA CGM upon conversion. At the same time, under the terms of the existing agreement, the Yildirim Group will subscribe to bonds redeemable in shares for an amount of US\$100 million giving right to a 4% stake in CMA CGM upon conversion.

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