GOLDEN DESTINY

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

Week ending 26th October 2012

ECONOMIC ENVIRONMENT

Eurozone recession is on the risk of further deep recession with Germany's economy, the main engine of euro growth, posting a slow manufacturing growth and dragging the eurozone into further decline as private sector activity in euro region fell at a fastest pace since June 2009.

According to data from Markit Economics, Purchasing Managers' Index for Germany fell to 48.1 in October, from 49.2 in September, significantly below from the 50 base level, which indicates a contraction driven by a sharp drop in automobile sector and exports to Southern Europe, while Germany's manufacturing activity dropped to 45.7 in October from 47.4 in the previous month. Overall, eurozone's PMI for manufacturing and services fell to 45.8 in October from 46.1 in September indicating the serious downturn of the euro area with a negative momentum in its domestic demand by tighter fiscal policy in many countries, limited consumer purchasing power and high unemployment.

In Greece, there are still negotiations among Greek authorities and troika on labor reforms for the completion of the first review of the economic program, while a Eurogroup meeting is planned at the end of the week for the release of the delayed bailout tranche to the country. the Greek Ministry of Finance seeks the release of both the June and the September delayed bailout trances, that combined amount to EUR36.5bn - The Greek government aims to have finalized all the requested changes by the troika by Monday October 29, in order for the parliament to vote these changes before the scheduled November 12 Eurogroup Meeting. According to Spiegel, Germany's Finance Ministry is considering a debt buy-back of Greek debt as a way to help reduce the country's debt levels. The German magazine noted that the Greek government could borrow money from the euro zone's permanent bailout fund and use this to buy back its own debt.

In the meantime, International Monetary Fund has completed its fifth review of Portugal's progress and approved the next tranche of EUR1,5bn as a part of the total EUR78bn bailout. The International Monetary Fund considers that Portugal has made significant progress on structural reforms, but it expressed concerns that austerity measures are hampering country's growth. Portugal's rising debt level is limiting the country's ability to strike a balance between reducing the budget deficit and supporting growth, the International Monetary Fund said. While the extra time given to Portugal to reduce its deficits is welcome, the fund said that "room for maneuver has diminished" because debt is set to peak at about 124 percent of gross domestic product in 2014.

In France, Standard & Poor's rating agency downgraded country's biggest bank BNP Paribas, citing economic risks as the main reason, while changed its outlook to negative for 10 other French banks, including Societe Generale Credit Agricole. BNP Paribas's rating was downgraded by one notch to A plus from double A minus with a negative outlook, while the A rating of SocGen and Crédit Agricole was confirmed with a cut in outlook to negative from stable.

Positive news emerges for Britain that exited a double-dip recession by posting its strongest quarterly GDP growth in five years during the third quarter of 2012. According to Office for National Statistics, Britain's gross domestic product rose by 1% between July and September, against projections for a 6% gain, after shrinking by 0.4% between April and June. The return to growth after three consecutive quarters of contraction comes after the end of Olympic Games with estimations for Olympic ticket sales adding 0.2% points to GDP. The positive growth of Britain's GDP growth confirms country's exit from double-dip recession since 1975, however, GDP is still 3.1% below its peak in the first quarter of 2008.

In US, Federal policymakers announced that it will leave interest rates unchanged and keep them at the current levels 0.25% unit at least late-2014, which is an extension from August 2011 announcement that rates would remain unchanged unit at least mid-2013. The Federal Open Market Committee on its decision highlighted the following key points:

- The economy has been expanding moderately, notwithstanding some slowing in global growth.
- Indicators point to some further improvement in overall labor market conditions, but the unemployment rate remains elevated.
- Household spending has continued to grow, but growth in business fixed investments has slowed and the housing sector remains depressed.
- Inflation has been subdued in recent months and longer term inflation expectations have remained stable.
- The Federal Open Market Committee expects economic growth to be modest over coming quarters and consequently anticipates that the unemployment rate will decline only gradually.
- Strains in global financial markets continue to pose significant downside risks to the economic outlook.

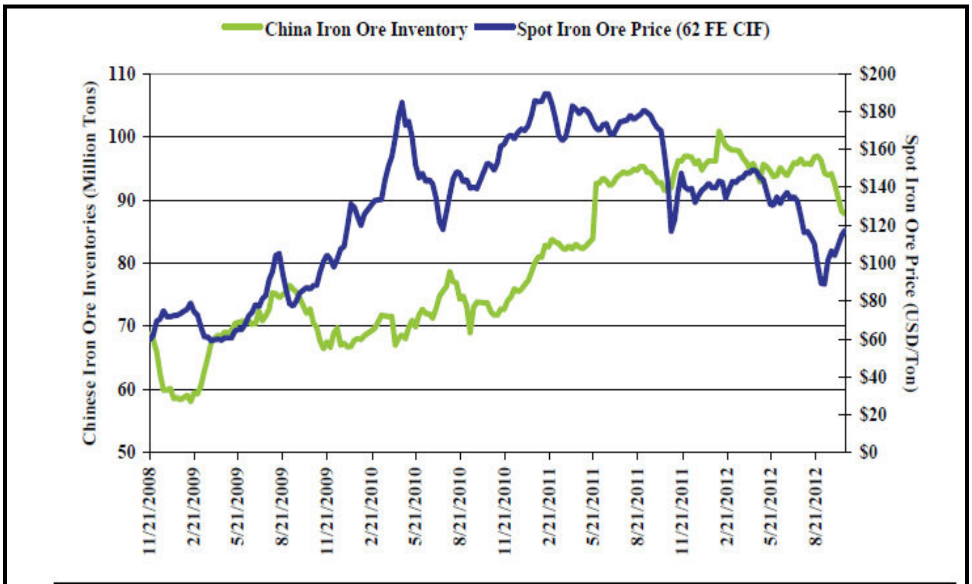
In South Korea, economy grew at its slowest pace in three years during July-September 2012 as the global economic slowdown hit country's exports with sluggish domestic consumption. According to the Bank of Korea, Asia's fourth largest economy grew 1.6% in the third quarter compared with a year ago, followed by 2.3% growth in the previous quarter. Exports slowed to 2.6% from 3.2% growth in the previous three months, while economists believe that Korea would probably not achieve its growth target of 2.4%.

In China, Purchasing Managers Index shows signs of recovery with hopes for a pick up in economic activity. HSBC's China Manufacturing Purchasing Managers' Index rose moved to 49.1 in October, from 47.9 in September, which still indicates a contraction with a firmer outlook on Chinese exports from Christmas orders and better US growth prospects. However, HSBC analysts warn that the outlook of Chinese exports remains challenging in view of looming fiscal problems in US and recession in Europe.

SHIPPING MARKET

The worldwide economic scene comes against the dynamism of shipping investments. Shipping players keep their confidence in the shipping market with investments for secondhand vessel purchases, or newbuilding orders and willingness for the disposal of their vintage tonnage. Secondhand purchasing activity has shown a higher volume of activity for each quarter of 2012 with a 15% increase in the number of vessel reported to have changed hands from the end of June, while newbuilding volume decreased by 19% from lower vessel demand for new constructions. Freight markets do not yet give firm signs of a healthy upturn and secondhand asset price levels seem to attract more investors' interest than newbuilding. Vessel disposals through scrapping keep a record high pace from 2011 with an average number of vessels sent of disposal at 266 per quarter in 2012 compared with an average of 218 vessels per quarter in 2011.

In the **dry** market, the positive growth of capesize earnings, 440% increase from the end of September with levels of more than $16,500/day from less than $4,000/day, has pushed the BDI to float above the psychological barrier of 1,000 points mark from the end of last week. Seasonal iron ore demand and low levels of iron ore inventories at about 88mt, below July 2011 levels provide an upside of the market that there is not still guarantee that will last. Spot iron ore price is floating above $110 per tonne, according to data from Steel Index with limited expectations to fetch $120 per tonne. China's economic slowdown caused prices to hit three-year lows below $87 in early September, before recovering to above $100 since then. China's iron ore production hit its highest in 11 months in September, official data showed on Monday, as a rebound in prices of the steelmaking raw material encouraged small privately owned miners to resume output.



Source: Bloomberg, Wells Fargo Securities, LLC

Capesize port congestion, firm Chinese iron ore demand, low levels of port stockpiles and slower fleet growth from August seem to be the main factors that provide optimism in the dry bulk carrier segment and a 64% rise in the BDI from mid-September, when it touched the bottom low of 663 points. According to data released from General Administration of Customs of China, China imported about 34.5 million mt of iron ore from Australia in September, up 19% from a year ago and up 8.5% from August. Brazil remained the second largest supplier to China in September, delivering 13,77million mt of iron ore, up 7% from the same period last year and up 11.5% from August. Brazilian miner Vale confirmed that China's investment in infrastructure accelerated in the third quarter of the year leading to a fall in inventories and fuelling a rebound in iron ore prices, which is a key ingredient for steel production.

Panamax and supramax vessel earnings do not still firms signs of improvement at levels of far below than $10,000/day with Atlantic weakness and limited Pacific activity. Chinese thermal coal fixture activity has shown signs of firmness from the end of September with the Baltic Panamax Index showing a rise of 94% from the end of September and vessels earnings hovering at levels of less than $7,000/day from less than $3,500/day. Vessels oversupply in the panamax segment is a serious headwind for a firmer improvement in panamax vessel earnings. According to Commodore Research, approximately 299 panamax vessels have been delivered during the first nine months of the year compared with 274 vessels during 2011. Indian thermal coal fixture activity gives also firm signs and along with Chinese fixture activity will be supportive for the panamax segment in the coming days.

At the current week, BDI stayed above 1,000 points by closing this week, **Friday October 26th**, at 1051 points, up by 3.8% from last week's closing and down by 50% from a similar week closing in 2011, when it was 2,091 points. Capesize earnings are on a constant rise from end September, while panamax shows a soft improvement and supramax/handysize earnings follow a downward incline from end August. All dry indices closed in red at the end of the fourth week of October except for capesize, which recorded the highest increase. **BCI** is up by 11% w-o-w, **BPI** down 8.5% w-o-w, **BSI** down 4.5% w-o-w, **BHSI** down by 2.4% w-o-w.

Capesizes are currently earning $16,842/day, an increase of $2,462/day from a week ago, while **panamaxes** are earning $6,424/day, a decline of $596/day. At similar week in 2011, **capesizes** were earning $28,214/day, while **panamaxes** were earning $15,251/day. **Supramaxes** are trading at $7,304/day, down by $348/day from last week's closing, 56% lower than capesize and 14% higher than panamax earnings respectively. At similar week in 2011, **supramaxes** were getting $16,155/day, hovering at 43% lower levels than capesizes versus 56% today's higher levels. **Handysizes** are trading at $ 6,397/day; up $158/day from last week, when at similar week in 2011 were earning $11,254/day.

In the **wet** market, VLCC spot rates remain below breakeven levels as oversupply of tonnage keeps a pressure on time charter equivalent earnings below zero levels. The forward supply of very large crude carriers in the AG modestly improved to 78 ships from 84, which may provide a soft improvement in spot rates. In AG-USG route, WS lost 0.25 points by falling to WS23 from previous week with time charter equivalent earnings below zero levels, when during October 2011, WS was floating at levels 32.5. In AG-JPN and AG-SPORE routes, WS remained stable at 36 with time charter equivalent earnings, $6,500 and $5,800/day, when during October 2011; the average value of WS was 45. In WAFR-USG route, the WS is also stable at 42.5-$14,900/day and gained one point in WAFR-CHINA route by moving to WS41-$12,500/day, when the average value of WS during October 2011 was 55.

In the suezmax segment, the strength of Mediterranean market gives some firmness, while WAFR-USC route gained 5 points with WS rising to 62.5-$12,100/day from last week, when the average value of WS in October 2011 was 100. In the aframax segment, flat activity in North Sea and Mediterranean markets leave spot rates unchanged with WS in N.SEA-UKC route being at 85-$11,800/day, from WS128 in October 2011, while WS in CBS-USG route rose to 97.5, 7.5 points more than previous week, when in October 2011, the average value of WS was 103.

In the product segment, WS in AG-JPN route for 75,000dwt units rose by 7 points to WS110-$21,500/day week-on-week, and 15 points to WS125-$16,200/day for 55,000dwt units.

The average value of spot brent crude price is still about $110/barrel, while IFO fuel 380cost fell below $630/ton this week in Fujairah and Signapore, when during September was floating above $660/ton. The downward pressure on bunker prices smoothes the pain of tanker operators from the struggling freight market and vessels' oversupply. In the very large crude carrier segment, the surge of Chinese crude oil imports in September gives a glimmer of hope in the already distressed freight market environment. According to preliminary data from Chinese customs, China's crude oil imports rose 9.1% to 20.1m tons of oil in September, up from 18.4m tons in August. Oil industry experts explained that the rise was due to large return of Chinese refineries from maintenance and China's extra demand for diesel.

In terms of oil supply, Iraq's crude exports are expected to reach a 30year high in October, which could be a positive development for a further downward incline on brent crude oil price and the cost of bunkers, while it could ease the pain of oversupply of very large crude carriers in AG in the long term. Iraq's crude exports are estimated to have increased by 120,000 barrels/day so far in October to roughly 2.3 million barrels/day as Iraq's oil infrastructure continues to be repaired and upgraded, while combined with exports through pipelines, Iraq' exports are expected to reach more than 2.7 million barrels/day in October.

In the **gas** market, Korea Trade Insurance Corporation and Export-Import Bank of Korea are said to provide about $3bn to Samsung Heavy Industries and Daweoo Shipbuilding & Marine Engineering that have secured orders for a $2,7bn central processing facility and a $1,9bn FPSO for Australia's Ichthys LNG development. Korean lenders are providing $1,5bn for each contract. The Ichthys liquefied natural gas (LNG) terminal is part of the $34bn Ichthys LNG project in Darwin, the capital city of the Northern Territory in Australia. The Ichthys LNG project will be one of the largest LNG export facilities in Australia.

In the **container** market, the Shanghai Container Freight Index decline by 2.3% week-on-week from weakness in all major trade lanes. European and Mediterranean rates fell by 3.5% and 4.8% week-on-week, while USWC and USEC rates declined by 3.2% and 2.4% week-on-week. In Asia-Europe, rates are now $1074/TEU and $1076/TEU in Asia-Mediterranean, while the performance seems firmer for transpacific routes with ASIA-USWC rates at $2510/FEU and $3454/FEU in ASIA-USEC route.

The negative direction of the spot freight market has been viewed from the end of June with a 17% decline in the average value of the Shanghai Container Freight Index, from sharp declines of 37% and 33% in Asia-Europe and Asia-Mediterranean respectively. The period market shows firmer declines than spot rates from September 2011 levels, 20% in the size segment of 4,000/TEU box ships at about $10,250/day, 43% in the sub-panamax segment of 2,500/TEU boxships at levels of about $6,750/day, 42% in the handysize segment of 1,700/TEU boxships at levels of about $6,500/day and 45% for 1,000/TEU boxships at levels of about $5,500/day.

MAERSK Line's CEO Søren Skou underlines how risky could be a new surge in newbuilding contracts for boxships under the current weakening industry fundamentals. He emphasized the importance of orderbook to fleet ratio as few years ago an orderbook equivalent to 22% of the global slot capacity in operation, as it is today, was consider to be too low to support the sector's growth. However, the consequence of 22% orderbook today is different due to slowing ndustrial globalisation and reduced potential for further containerisation of breakbulk cargoes. "We need to learn to live with overcapacity. The 22% orderbook will take us quite some time to work out if there's only 3-4% growth as this year," he added. Average global box trade increases are expected to come down from 8-9% in past decades to just 5-7% in future, but "that's still very healthy by most accounts", Skou pointed out. Capacity discipline and a focus on yields instead of market share gains will be the key in securing adequate freight rates, said Skou, who noted that Maersk's objective for 2013 is to maintain its market share in liner shipping – not to increase it. So the group will be carefully when phasing in the first of its 18,000teu Triple E newbuildings next year, he assured: "When we start to deploy the Triple E-class ships, we will take out other capacity."

In the **shipbuilding industry**, Chinese yards are showing further shrinkage in their orderbook, while Japanese yards regain some strength. According to data from the industry ministry, Chinese yards managed to win just 15m dwt of new orders, 47% down from the levels of same period last year. China's orderbook now stands at 121m dwt, with a 28.4% decline from the 169m dwt at the end of September 2011, and down about 3mil dwt from last month.

In Japan, domestic yards won17 orders aggregating 908,639gt during September, from nine orders totalling 243,900gt in September 2011 and 790,948gt in orders for August, as per data from Japan Ship Exporters' Association. JSEA members received orders for three box ships, four Handysize bulkers, six Panamax bulkers, one LNG carrier, one LPG carrier and two Aframax tankers. The association said 64.3% of orders were placed by Japanese owners; Greek owners accounted for 10.3%, other Europeans and US owners accounted for 12.7% and Hong Kong owners accounted for just 1.2%. At the end of September, Japanese yards' orderbook was 622 ships exceeding 28.2M gt, from 631 ships of over 28.6M gt as at end-August. However, the orderbook has dropped substantially from the 846 ships of more than 38.5M gt in August 2011. Overall, during the first nine months of the year, Japanese yards have won 117 orders, totalling almost 5.67M gt, down from 151 ship orders totalling more than 6.13M gt in the same period last year.

In South Korea, newbuildiing orders drop by 40% year-on-year for the world's largest shipbuilder during the first nine months of 2012 by sealing orders valued at $13,12bn in January-September, from orders worth $22bn last year.

In the **shipping finance**, Nordic American Tankers today announced that it has agreed with banks to establish a credit facility that will extend until the autumn of 2017. The new non amortizing facility will total $430 million. The banking group consists of the leading Scandinavian banks DNB, Nordea and Skandinaviska Enskilda Banken. Currently, Nordic American Tankers has drawn $250 million of the current credit facility and have about $80 million in cash. In addition, Zhejiang Zhenghe Shipbuilding, the shipbuilding arm of Zhenghe, has received RMB2.076bn credit line from China Construction Bank.

MARIA BERTZELETOU – GOLDEN DESTINY RESEARCH DEPARTMENT

For more Research Services, please contact us:

GOLDEN DESTINY

Research & Valuations Department

Sofia M.Kokkinis & Maria Bertzeletou

Email: snv@goldendestiny.com