GOLDEN DESTINY

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

Week Ending: 30th November 2012 (Week 48/2012)

(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

The world economy is still away from a recovery with OECD (Organization for Economic Co-operation and Development) slashing its growth forecast for 2013 and warning that the risk of a serious global recession cannot be ruled out. OECD expects growth of 1.4% in next year for the group of 34 economies – members of the Paris based organization- down from its May forecast for a 2.2% growth, before gathering momentum to 2.3% for 2014.

"The world economy is far from being out of the woods. The US fiscal cliff, if it materialises, could tip an already weak economy into recession, while failure to solve the euro area crisis could lead to a major financial shock and global downturn. Governments must act decisively, using all the tools at their disposal to turn confidence around and boost growth and jobs, in the United States, in Europe, and elsewhere," OECD Secretary-General Angel Gurría said during the Economic Outlook launch in Paris.

OECD has lowered its growth estimates for major economies in and out of the eurozone with a sense of optimism on Chinese economy. Overall, euro area is predicted to remain in recession till early 2013, leading to a mild contraction in GDP of 0.1% next year with a pick up in growth of 1.3% in 2014. OECD warned that the currency bloc could be in danger if there is a lack of sufficient progress by the region's policy makers. In the meantime, OECD urged the European Central Bank to follow US Federal Reserve's lead to lower interest rates by 25 basis points and make a verbal commitment to keep monetary policy loose for an extended period of time.

Summary of projections

	2012	2013	2014	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2012 Q4 / Q4	2013 Q4 / Q4	2014 Q4 / Q4
									Per cent							
Real GDP growth																
United States	2.2	2.0	2.8	3.0	1.2	2.1	2.0	2.3	2.6	2.9	3.0	3.3	3.5	1.8	2.2	3.2
Euro area	-0.4	-0.1	1.3	-0.1	-1.3	-0.2	0.4	0.8	1.2	1.3	1.6	1.7	1.9	-0.5	0.6	1.6
Japan	1.6	0.7	0.8	-3.5	-0.4	1.5	1.9	1.9	2.7	2.8	-5.0	1.0	1.0	0.3	2.0	-0.1
Total OECD	1.4	1.4	2.3	1.1	0.5	1.5	1.8	2.1	2.3	2.5	1.9	2.7	2.8	1.0	1.9	2.5
Inflation[1]								year-on-year								
United States	1.8	1.8	2.0	1.5	1.8	1.5	1.8	1.9	1.8	2.0	2.0	2.0	2.0			
Euro area	2.4	1.6	1.2	2.5	2.1	1.8	1.7	1.6	1.4	1.4	1.3	1.2	1.2			
Japan	0.0	-0.5	1.3	-0.3	-0.2	-0.9	-0.7	-0.3	-0.3	-0.3	1.8	1.8	1.8			
Total OECD	2.1	1.7	1.9	2.0	2.0	1.7	1.8	1.8	1.7	1.8	2.0	2.0	2.0			
Unemployment rate[2]																
United States	8.1	7.8	7.5	8.1	7.9	7.9	7.8	7.8	7.7	7.7	7.6	7.5	7.4			
Euro area	11.1	11.9	12.0	11.3	11.5	11.7	11.9	12.0	12.1	12.1	12.0	12.0	11.9			
Japan	4.4	4.4	4.3	4.2	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.3			
Total OECD	8.0	8.2	8.0	8.0	8.1	8.1	8.2	8.2	8.1	8.1	8.0	8.0	7.9			
World trade growth	2.8	4.7	6.8	1.5	3.6	5.0	5.7	6.3	6.6	6.9	7.2	7.3	7.3	3.2	5.9	7.2

Source: OECD Economic Outlook November 2012

For US economy, OECD estimates a 2% growth for 2013 provided that the "fiscal cliff" is avoided, down from its 2.6% May's estimate, before rising to 2.8% in 2014. In Japan, GDP is expected to expand by 0.7% in 2013 and 0.8% in 2014.

Overall, Greece is expected to be the worst performer among all member economies with estimations to shrink by 4.5% next year. The finalization of a Greek aid deal agreement this week pours optimism for the existence of the country in the euro area. The eurozone and IMF have finally reached an agreement over the viability of Greek debt with the introduction of a number of measures that will lead the debt-to-GDP to 124% in 2020 and 110% in 2022. Greece received the approval for the release of EUR34,4bn of delayed tranches by December 2013 and it will receive another EUR 9,3bn in three tranches within first quarter of 2013, conditional on the implementation of tax reforms agreed with troika.

OECD holds a positive position for the growth of emerging economies. China is expected to grow at 8.5% in 2013 and 8.9% in 2014, while GDP is also expected to gather steam in the coming years in Brazil, India, Indonesia, Russia and South Africa. Exports growth will be the vital key for the Chinese economy. HSBC analysts estimate that China's exports will soar and there will be a sift to a new export destinations from the sluggish European Union, US and intra Asia to Middle East and Africa. HSBC estimates that India and Vietnam will become China's fastest growing markets in the next three years, expanding annually by 20% and 18% respectively.

In Brazil, country's finance minister predicts a 4% annualized rate growth or above for the third quarter and said that this pace of growth will be maintained through next year and into 2014. The expected recovery follows four quarters of marginal growth and stems from government's new stimulus measures to revive a flagging industrial sector. Brazil needs to return to its long term trend growth rates of 4% or more to replace two years of weak performance, as the economy expanded 2.7% in 2011 and less than 2% for the full year of 2012.

SHIPPING MARKET

The week opened with an interesting emerged tender for the construction and operation of nine capesize newbuilding bulkers from Korean Electric Power (KEPCO) by inviting offers from compatriot shipbuilders. The vessels will be used to transport coal and the tender is open only to South Korean companies till December 21st. KEPCO and subsidiaries Korea South-East Power, Korea Midland Power, Korea Western Power and Korea East-West Power will take the ships on consecutive voyage contracts for 18 years. KEPCO requires the vessels to be 130,000-150,000dwt due to draughts and discharge terminals and requests delivery during 2014-2016. According to Korean Shipbuilding site Asiasis, the newbuilding price being offered is estimated to be around Won50bn ($46mil), which is in line with price levels offered by Chinese shipyards.

In the **dry** market, the positive sentiment of November with an average value of BDI above 1,000 points provide an euphoria that is too early to say if it will last as oversupply could not be ignored as a major obstacle. Capesize earnings keep stability above $16,000/day from mid-November with panamax earnings showing a stronger rebound since last week. Panamax earnings are still close to $8,000/day, when the last time they saw levels above $10,000/day was during May. Supramax and handysize vessel earnings keep their distance from $10,000/day, with supramax vessel earnings being in close proximity with levels of panamax vessels and handysizes trading at less than $7,000/day.

November ends with an average value of the BDI at 1025 points, 21% above from the end of September stemmed from a remarkable 80% increase in the capesize segment. The BPI has finally broken the barrier of 1,000points for the first time since end-July at the current week, before falling again and closing today below 1,000 points.

Baltic Dry Indices										
Average Value	1q 2012	2q 2012	3q 2012	Nov 2012	% change from end Sept	% change from end 2011	4q 2011	3q 2011	2q 2011	1q 2011
BDI	867	1.024	846	1.025	21%	-47%	1.928	1.534	1.379	1.365
BCI	1.586	1.421	1.268	2.280	80%	-31%	3.307	2.381	1.703	1.575
BPI	999	1.207	834	864	4%	-53%	1.839	1.609	1.727	1.828
BSI	830	1.072	987	690	-30%	-51%	1.404	1.339	1.395	1.375
BHSI	464	617	553	419	-24%	-40%	698	680	771	725
Baltic TC Average Earnings ($/day)										
Average Value	1q 2012	2q 2012	3q 2012	Nov 2012	% change from end Sept	% change from end 2011	4q 2011	3q 2011	2q 2011	1q 2011
Capesize	6.970	6.068	4.827	15.809	228%	-45%	28.557	17.138	8.690	8.391
Panamax	7.983	9.630	6.640	6.909	4%	-53%	14.706	12.870	13.848	14.639
Supramax	8.679	11.215	10.322	7.211	-30%	-51%	14.683	13.998	14.583	14.373
Handysize	6.925	9.188	8.018	6.194	-23%	-38%	10.013	10.050	11.471	10.706

The recent upward momentum of November is not reflected in the asset market prices that have been in a constant downward direction from the beginning of the year. According to Baltic Sale & Purchase Assessments, the value of a 5yrs old vessel in the capesize, panamax and supramax segment has touched the levels of 2003-2004 at even lower, when the assessment begun their official publication from the Baltic Exchange.

BULK CARRIERS: Lower levels than 2003-2004

- **Capesize 172,000dwt region $29,9 mil in Nov 2012 – from $40 mil Nov 2011 $ 55 mil Nov 2010**

16/09/2003 – region $33,3mil – TC average $38,046/day vs excess $15,859/day 30/11/2012

- **Panamax 74,000dwt region $18,5mil in Nov 2012– from $26,4 mil Nov 2011 $ 38,5 mil Nov 2010**

16/09/2003 – region $19,2mil – TC average $16,804/day vs region $7,815/day 30/11/2012

- **Supramax 52,000dwt region $18,2mil in Nov 2012– from $25,1 mil Nov 2011 $ 32,4 mil Nov 2010**

02/08/2004 – region $25,4mil - – TC average $23,108/day vs region $8,005/day 30/11/2012

BDI closed on **Friday November 30rd**, at 1090 points, down by 0.3% from last week's closing and down by 42% from a similar week closing in 2011, when it was 1,866 points. Dry indices closed in red for large sized vessel categories, capesize and panamax, an in green for supramax and handysizes. **BCI** is down by 3.8% w-o-w, **BPI** down 3.2% w-o-w, **BSI** up 5.8% w-o-w, **BHSI** up by 3.9% w-o-w.

Capesizes are currently earning $15,869/day, down by of $543/day from a week ago, while **panamaxes** are earning $7,815/day, a decrease of $276/day. At similar week in 2011, **capesizes** were earning $29,359/day, while **panamaxes** were earning $13,586/day. **Supramaxes** are trading at $8,005/day, up by $439/day from last week's closing, 50% lower than capesize and 2.4% higher than panamax earnings. At similar week in 2011, **supramaxes** were getting $13,956/day, hovering at 52.4% lower levels than capesizes versus 50% today's lower levels. **Handysizes** are trading at $6,605/day; up by $248/day from last week, when at similar week in 2011 were earning $8,860/day.

In the **wet** market, November will end with a positive note for the troubled VLCC carriers from a rising Middle East fixture activity and increased China demand because of colder weather and a boost in refining process. Against lower US crude oil demand, China plays a key role via its higher crude oil appetite. In the struggling AG-USG route WS rose to 30 with time charter equivalent earnings above zero levels for the first time since end-June, showing a 20% increase from the levels of end-Sept.

In the suezmax market, WAFR-USAC route, remains stable from end –Sepr at WS 60, with a 29% decline from the end of 2011.

In the aframax segment, CBS-USG route shows the strongest performance among other crude carriers size categories with a 29% increase from end-Sept and 11% upward movement from end 2011.

In the MR segment, CBS-USG route outperforms with an average value of November at WS135, 15% up from the end of 2011.

Wet Market											
	Average Value	1q 2012	2q 2012	3q 2012	Nov 2012	% change from end Sept	% change from end 2011	4q 2011	3q 2011	2q 2011	1q 2011
Size Semgent	Baltic Dirty Tanker Index	818	682	631	696	10%	-5%	730	697	747	932
280,000MT VLCC	WS AG-USG	35	35	25	30	20%	-21%	38	35	39	43
260,000MT VLCC	WS AG-JPN	57	53	37	45	22%	-17%	54	47	53	60
260,000MT VLCC	WS WAFR-USG	64	55	42	51	21%	-16%	61	50	55	73
130,000MT Suezmax	WS WAFR-USAC	82	72	60	60	0%	-29%	85	71	77	103
70,000MT Aframax	WS CARIB-USG	118	102	93	120	29%	11%	108	103	107	115
Size Semgent	Baltic Clean Tanker Index	642	656	583	698	20%	-13%	805	725	694	841
75,000MT Product	WS AG-JPN	86	90	100	123	23%	16%	106	126	119	107
55,000MT Product	WS AG-JPN	100	112	120	135	13%	15%	117	138	134	127

Asset prices are floating at bottom levels of 2003-2004, the same as bulk carriers, when Baltic Exchange begun the official publication of market ships vessels of five years old.

- **VLCC 305,000dwt region $54,5mil in Nov 2012– from $57,1 mil Nov 2011 $ 86,4 mil Nov 2010**

16/09/2003 – region $59,8mil

- **Aframax 105,000dwt region $26,9mil in Nov 2012– from $33,2 mil Nov 2011 $44,1 mil Nov 2010**

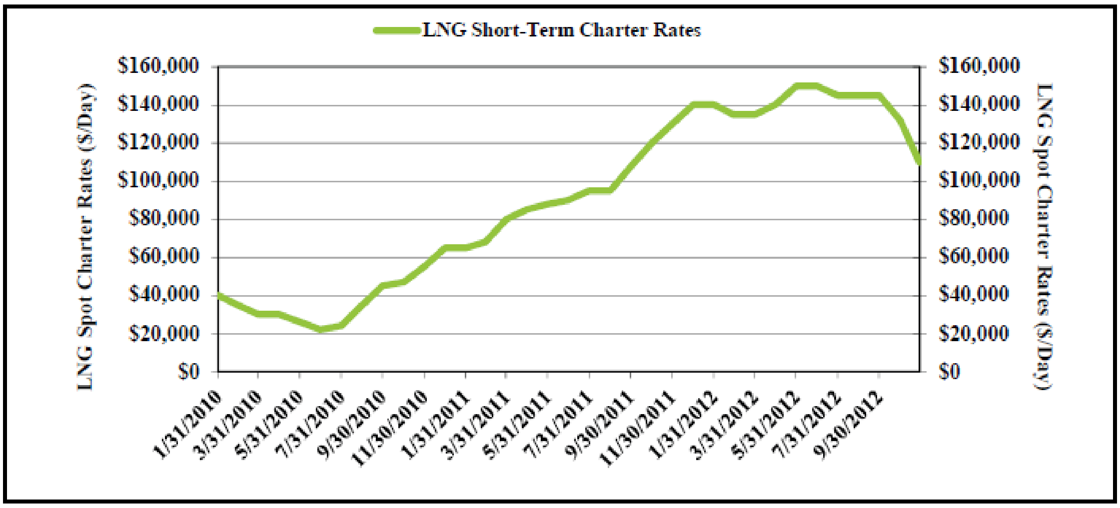
16/09/2003 – region $32,6mil

- **MR 45,000dwt region $20,8mil in Nov 2012– from $25,9 mil Nov 2011 $ 26,3 mil Nov 2010**

16/09/2003 – region $32mil

In the **gas** market, Egyptian private equity firm Citadel Capital announced the formation of a joint venture with a group of Qatari investors, led by investment bank QInvest, to build facilities to import LNG and deliver it to local Egyptian buyers, potentially beginning in mid 2013. The Egyptian firm plans to use a floating storage regacification unit for regacification, although the planned location and cost have not yet been announced.

In Japan, LNG prospects offering business to shipyards as Japanese utilities are seeking newbuilding carriers to cater their LNG projects. Market sources reveal that Chobu Electric Power Co and Osaka Gas Co are in talks with yards for eight to nine LNG carriers due to their agreements with Freeport LNG Development in US for its proposed liquefaction plant at its US Gulf coast LNG import facility. Japanese utilities will buy a total of 4,4 million tones per annum of LNG from Freeport's first phase liquefaction under 20 years deals from 2017.



Source: Wells Fargo Securities

In the **container** market, the Shanghai Container Freight Index is falling for ten consecutive weeks from major declines in Asia-Europe and Asia-Mediterranean routes. For the week ending November 23rd, the SCFI fell by 5.1% to 1077 with sharp falls of 12% in Asia- Europe rates and 8.2% in Asia-Mediterranean. In Asia-Europe, rates are now at $1079/TEU and $786/TEU in Asia-Med, from the peaks of $1818/TEU and $1934/TEU respectively on May 11th 2012. However, rates in Asia-Europe are still far above the levels seen at similar week in 2011, 111.2% up, from $511/TEU in November 2011, while in Asia-Med, rates are only 7.7% year-on-year.

Transpacific routes posted modest weekly declines of 6.1% in Asia-USWC and 3.1% in Asia-USEC route by ending to $2089/FEU and $3146/FEU respectively. Current level rates are up by 45.6% year-on-year in Asia-USWC and 23.1% up in Asia-USEC route. Their peak was on August 10th of $2782/FEU in Asia-USWC and $4098/FEU in Asia-USEC route.

The negative sentiment and volatility of freight markets pushed Maersk last week to announce its exit from liner shipping, however, the player still has committed investments in the construction of new ships with deliveries of 20 "EEE" class ships in 2013-2015. According to Alphaliner, the planned new capacity additions will provide Maersk with sufficient capacity to grow in line with the market and retain its position as the world's leading liner shipping company. The investment decision of AP Moller-Maersk's to curtail investments in its liner shipping arm to benefit of its other core business arms is estimated that will have a minimal impact on Maersk's market share in the next three years.

Furthermore, Israel's Zim is in discussions with shipyards to delay the delivery of very large containerships it had ordered at the peak of the market with Samsung Heavy Industries. The worsening of market conditions has caused Zim to push delivery dates set for this year till 2016 and renegotiate the newbuilding costs. The contract was signed in September 2007 for nine 12,600 TEU boxships at a price of about $170mil each, when today the newbuilding cost for such vessel size is about $110mil.

In the **shipbuilding** industry, offshore and LNG segment give life to the struggling sector. According to Keppel Offshore and Marine's operations chief Chow Yew Yuen as he stated in Singapore Maritime Institute Forum 2012: "Increasing ultra deepwater exploration and the need to replace ageing rigs will continue to drive short term rig orders. There is an ageing rig fleet and because of that there is a drive for a new cycle of replacement. Half of the world's existing fleet is more than 25years old. Other than being inefficient, many of these rigs cannot operate in complicated and deepwater conditions. New jack-ups and floaters with higher capability help to reduce the total cost of exploration because they are much more efficient than the older ones. In addition, the high oil price seen over the last few years has resulted in a new cycle of investment that looks set to continue. The brent crude price is set to stay above $105 per barrel and is expected to increase to $118/barrel."

In the **shipping finance**, Germany's state bank Nord LB, one of the country's biggest shipping lenders posted a 46% drop in its overall net earnings, down to EUR141mil ($192,22mil) for the first nine months of 2012. Bank's shipping portfolio shrank slightly to EUR18,5bn as the bank sought to stabilize its position. Bank's chairman Gunter Dunker said that shipping will remain bank's core business segment as they know the cycles and have the staying power to overcome the crisis.

In capital markets, Chinese state-backed shipping firm China Cosco Holdings is planning to raise $250million in a 10 year bond issue in Asia with the proceeds to be used for its offshore subsidiaries. Furthermore, Navigator Gas of UK is said to be planning a $100-$125m unsecured bond issue in the Norwegian market with net proceeds to be used to party finance the purchase of 11 handysize LPG carriers from Maersk Tankers.

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