This Week's News: A snapshot on the economic and shipping environment
Week Ending: 7th December 2012 (Week 49/2012)
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ECONOMIC ENVIRONMENT

Weakness in eurozone, slower economic growth in US and expectations for a stronger Chinese economic activity that will fuel the worldwide economy seem the key issues for the end of this fiscal year. Under the economic chaos, the Reserve Bank of Australia decided to lower its key interest rate to 3%, which is the fourth rate cut for this year and the lowest level since the global financial crisis.

In eurozone, finance Ministers announced a new Eurogroup meeting on December 13 for a final decision on aid disbursement to Greece, while they approved EUR39,5bn in aid to Spanish banks after Madrid formally announced the request of funds. However, the amount of Spanish bank aid is far less than many private sector analysts believed as necessary. Some economists believe that the eventual needs could be two or three times that amount as Spanish banks continue to suffer in a deepening recession.

In US, economic growth strengthened for the third quarter of the year. Data from the Commerce Department showed that the economy grew 2.7% annually from July to September, compared with the 2% initially estimated last month. Gross domestic income, an alternative measure of growth, showed an annualized rate of just 1.7%. However, the economy is still sluggish and it is not growing enough to create more jobs and stimulate intense prosperity. One negative sign for US economy is the slip of its manufacturing activity to its weakest level since July 2009 due to worries about the "fiscal cliff" with sharp tax increases and spending cuts from 2013. The Institute for Supply Management's Manufacturing ndex declined to 49.5 in November from 51.7 in October, suggesting the fall of U.S. manufacturing sector into contraction territory. Economists expected a reading of 51.2, which would have indicated a slower rate of expansion.

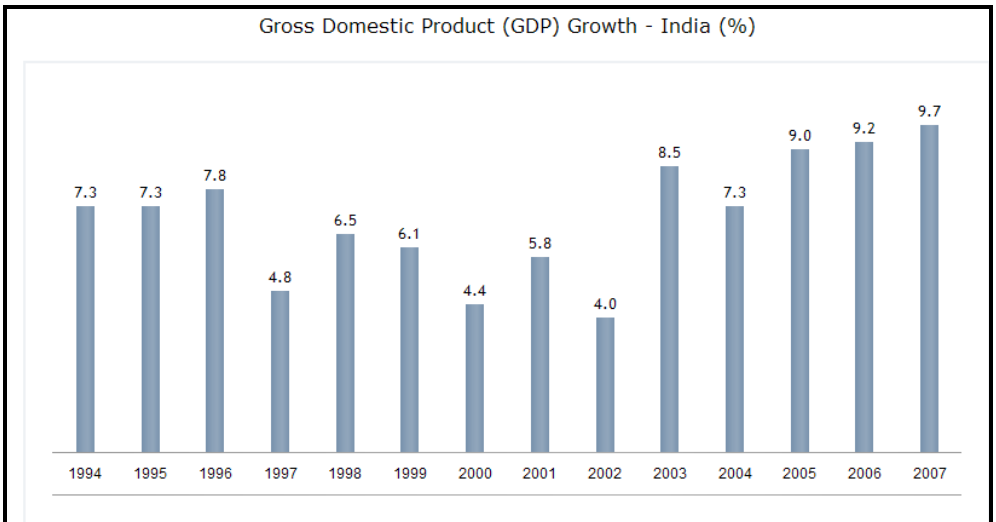
Eurozone's manufacturing activity posted also contraction for sixteenth consecutive month, but at a slower pace than October. According to the final reading of the Markit Purchasing Managers' Index, PMI, manufacturing activity rose to 46.5 from 45.4 in October, implying the slowest pace of contraction in eight months with economists arguing that the worst is over and that the economy could be turning in the second half of next year. Mario Draghi, president of the European Central Bank, recently said that "the recovery for most of the eurozone will certainly begin in the second half of 2013".The growing optimism stems from strong data in Germany, Europe's largest economy, and clear signs of resurgence in Ireland, one of the first victim of euro crisis. The ECB central bank revised down its forecast for the eurozone economic growth in 2013 to between minus 0.9% and plus 0.4% and for 2014, its forecast of growth is between 0.2% and 2.2%. It also held ECB benchmark eurozone interest rates unchanged at the record low of 0.75% as had been expected due to higher energy prices, rising taxes and fall in the inflation rate from 2.5% to 2.2% last month, as ECB President Mario Draghi said.

Germany's PMI increased to 49.2 in November from 47.7 in October, while Ireland's PMI remained stable at 56.1. France, Spain and Italy appear as the worst performers due to sharp declines in demand for their goods and services amid the implementation of severe austerity measures.

In UK, the Office for Budget Responsibility now expects the economy to shrink 0.1 per cent this year and grow by 1.2 per cent next year, down from its 0.8 per cent and 2 per cent growth forecasted in March. It also downgraded forecasts for the following three years. The UK chancellor George Osborne announced that Britain would miss by a year its target to have debt falling by 2015-16 as a percentage of national income. He also said he would need to extend austerity by another year to 2018 to close the budget deficit.

In Asia region, Japan's government approved its second round of Y880bn stimulus package in a little more than a month as country's Prime Minister tries to fuel economy on the run up of December's elections. The cabinet announced new stimulus program to spend around $10,7bn on a variety of measures, including rebuilding areas hit by the March 2011 earthquake, employment support and aid to cash strapped small businesses.

In India, GDP growth slides to an annual rate of 5.3% in July-September period, which is slower than the 5.5% growth recorded in the previous three months and well below the 8-9% growth seen before the collapse of Lehman Brothers. India's GDP growth stood at 6.7% in the same period last financial year and it has now expanded at less than 6 per cent for three successive quarters The drop in GDP growth is mainly due to manufacturing and agricultural sectors that grew by just 0.8% and 1.2% respectively in the second quarter compared to 2.9% and 3.1% growth in the same quarter last year. The drop in GDP growth confirms slowdown in the economic activity and calls for interest rate cut by the Reserve Bank of India.



Gross Domestic Product (GDP) Growth - India (%), Source: Ministry of Finance of India

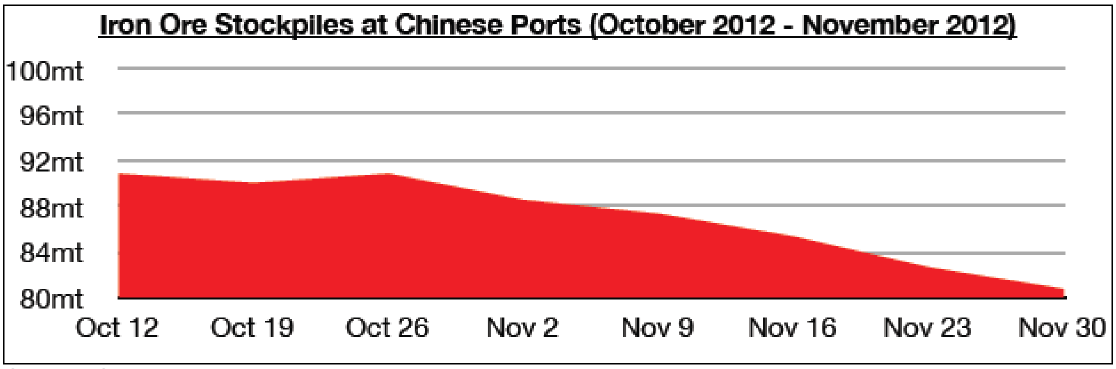
In China, more positive news for the country's economy emerged this week with the manufacturing activity indicating further expansion in November. China's official manufacturing Purchasing Managers Index moved up to 50.6 in November, a seven-month high, from 50.2 in October. On November 22, the HSBC manufacturing PMI, a competing index that is more heavily weighted to smaller, private-sector firms, rose to a preliminary reading of 50.4 in November, from 49.5 in October.

SHIPPING MARKET

Major shipping groups are progressing with new equity raisings to fund their expansion plans and private equity funds are also joining with them to firm their position in the shipping market and exploit the low asset prices. Scorpio Tankers of Italy is said to have completed its second follow-on share issue this year for further expansion in fuel efficient product tanker newbuildings. Scorpio's official statement revealed the gross proceeds of some $131,8mil from the sale of 21.6m shares at $6.10 each for the repayment of its revolving credit facility and its use for working capital and vessel acquisitions. Seaspan is also planning another offering of preferred shares to fund four vessel acquisitions. The proceeds of the offering will likely be used to partially fund the acquisition of four panamax containerships, two of which will be newly placed orders featuring SSW's SAVER design with anticipated delivery in 2014. The ships will all have long term contracts at an undisclosed charterer.

In the **dry** market, the BDI fell again below the psychological barrier of 1,000 points mark with a downward spiral in vessel earnings. Last week, it has been viewed a lower demand for imported iron ore and thermal coal cargoes that seems to have influenced negatively the upward movement of vessel earnings. According to Commodore Research, only 21 vessels were chartered to haul iron ore to China last week and 8 vessels to haul thermal cargoes to China, which were the lowest amount of vessels chartered since the Week ending October 5, 2012. In the capesize segment, vessel earnings have now fallen to less than $13,000/day from more than $16,000/day during the last days of November, about 18% decline, while vessel earnings in other vessel size categories, panamax, supramax and handysize, remain below $10,000/day. Figures from the Port Authority of Hedland, one of the world's largest export terminals of iron ore, showed that iron shipments Australia's Port Hedland destined to China fell by 8.3% in November from prior month. However, weaker demand from China was offset by increased shipments to other key buyers, including Japan and South Korea.

The current downward revision could not be seen as catalyst for the upcoming days of December as Chinese iron ore port stockpiles remain at extremely low levels implying a rebound in Chinese iron ore buying along with construction projects ready to begin soon from additional stimulus plans. Chinese iron ore port stockpiles are estimated at about 80.7 million tons, which is considered to be the lowest level since April 2011. In addition, peak winter electricity demand season in China has begun and it will stimulate a higher demand for imported thermal coal cargoes. This will lead to an upward pressure on panamax vessel earnings that are now again less than $8,000/day, from more than $13,000/day during the first days of December 2011.



Source: Commodore Research

A positive development for supramax/handysize vessel categories is that USDA raised its 2012-2013 global trade forecast to 285.54 million tons, 2.8mt (1%) more than its previous forecast of 282.74mt in October. However, the outlook remains negative as 2012-2013 grain trade is expected to decline by 50.31mt (-15%) compared with the 333.85mt of grain estimated to have been exported during 2011/12.

The first week of December ends with a reversed sentiment from the end of November with the BDI closing **Friday December 7th**, at 966 points, down by 11.3% from last week's closing and down by 50% from a similar week closing in 2011, when it was 1,922 points. All dry indices closed in red this week with the highest decline being recorded in the capesize segment. **BCI** is down by 16.6% w-o-w, **BPI** down 4.4% w-o-w, **BSI** down 0.7% w-o-w, **BHSI** down by 0.2% w-o-w.

Capesizes are currently earning $12,066/day, down by of $3.803/day from a week ago, while **panamaxes** are earning $7,441/day, a decrease of $374/day. At similar week in 2011, **capesizes** were earning $25,547/day, while **panamaxes** were earning $13,682/day. **Supramaxes** are trading at $7,947/day, down by $58/day from last week's closing, 34% lower than capesize and 6.8% higher than panamax earnings. At similar week in 2011, **supramaxes** were getting $12,857/day, hovering at 50% lower levels than capesizes versus 34% today's lower levels. **Handysizes** are trading at $6,589/day; down by $16/day from last week, when at similar week in 2011 were earning $8,597/day.

In the **wet** market, the weaker VLCC activity in AG led to declining rates. In the AG-USG route, WS lost 1.5 points from last week and falling to WS28.5, but with time charter equivalent earnings still floating above zero levels. In other routes, the downward revision was sharper with WS loosing 5 points and ending at WS47.5 from WS52.5 in AG-SPORE and AG-JPN routes. In WAFR-USG and WAFR-CHINA routes, WS fell to 47.5 from 52 in previous week at time charter equivalent earnings in the region of $24,000/day.

In the suezmax segment, the WAFR-USAC route posted a minor negative change by losing 1.25 points and falling to WS56.25 from WS57.5 last week at time charter equivalent earnings $9,400/day, while WS in B.SEA-MED route stayed stable at WS60-$5,800/day. In the aframax segment, the CBS-USG route posted the highest negative direction with WS falling by 22.5 points to WS87.5 -$6,800/DAY from WS115 last week. In the panamax segment, the CBS-USC route shed 12.5 points to conclude at WS122.5-$15,000/day. In the MR segment, there was also a sharp downward revision in CBS-USAC route for the size of tankers 38,000dwt with WS falling by 30 points to WS130-$10,700/day from previous week. In AG-JPN routes, WS shed by 2 points to WS133-$33,500/day for tankers of 75,000dwt and won 5 points from previous week by moving to WS142-$23,300/day for tankers of 55,000dwt.

The uncertainty of the VLCC freight market sentiment for more than one year and the negative prospects for the upcoming years have pushed John Fredriksen’s Frontline to cancel two VLCC newbuildings at Zhoushan Jinhaiwan Shipyard in China.

In the **gas** market, Exmar and Teekay LNG Partners are under the process of concluding a new joint venture company specializing in mid-sized LPG carriers. The new company named Exmar LPG BVBA will be split 50/50 between the Canadian and Belgian shipowners. EXMAR and Teekay LNG seek to expand the joint venture by taking advantage of the current and future demand for liquefied petroleum gas (*LPG*) and ammonia (NH_3). "New gas export projects scheduled to come on-line, combined with a relatively modest LPG carrier orderbook, are expected to result in strong demand for the current global LPG carrier fleet," commented Peter Evensen, Chief Executive Officer of Teekay GP LLC. "In addition to providing potential upside from the attractive fundamentals in the LPG shipping market, this accretive transaction further diversifies Teekay LNG''s fixed-rate contract portfolio while leveraging EXMAR''s deep expertise as a leading owner and operator of medium-sized gas carriers." The proposed transaction, which is expected to close in late-2012 or early-2013, has been approved by the Teekay LNG and EXMAR boards of directors, and remains subject to customary closing conditions, including the completion of due diligence, vessel inspections and documentation.

In the **container** market, the Shanghai Container Freight Index showed a positive weekly change of 0.5% after some many weeks of successive weekly declines from mid-September by closing at 1083, up by 24.7% year on year. The positive weekly change is not due to upturn in the freight market momentum for main line haul routes, but is being stemmed from a 40% increase in Asia-Persian Gulf and Red Sea (Dubai) rates, secondary trading route, from $626/TEU to $863/TEU. In Asia-Europe and Asia-Mediterranean routes, rates fell by 4.7% and 5.1% week-on-week, while rates on USWC and USEC saw more modest declines of 2.1% and 1.5% respectively.

In Asia-Europe, rates are now at $1028/TEU, up 105.6% year-on-year, from $500/TEU at the end of November 2011, and $746/TEU in Asia-Mediterranean, up 8.1% year-on-year from $691/TEU. In transpacific routes, Asia-USWC rates are floating at $2046/FEU, up 43.5% year-on-year from $1426/FEU, and $3099/FEU in Asia-USEC, up 22.2% year-on-year from $2535/FEU at end November 2011.

In the **shipbuilding** industry, Chinese are still facing dwindling volume of business by receiving orders for only 16,4 million deadweight tons of new vessels for the first ten months of the year, which is 45% less than the volume of orders in a similar period of 2011, according to the China Association of National Shipbuilding Industry.

In Japan, a merged deal between Japan’s IHI Marine United and Universal Shipbuilding, which will create a new entity named Japan Maritime and would be among the world’s biggest shipbuilders, has been postponed for January. IHI and Universal began discussions of joining their forces in 2008 as a strategy to battle the competition with South Korean and Chinese yards. The deal was originally to have been effected on 1 October, and now the need for approval from antitrust authorities overseas has delayed the process for a third time. Officials from Universal Shipbuilding, a subsidiary of Japan's JFE steel group, told Fairplay that approval from overseas authorities is needed, as both yards have operations outside Japan.

In the **shipping finance**, China Exim Bank has signed loan agreements of up to $825mil (RMB7bn) with five shipping and shipbuilding companies in order to support domestic shipbuilders in the current market recession. According to the agreements, China Exim Bank and Citibank will jointly offer US$667m to Norwegian company Seadrill for two jack-up platform orders at Dalian Shipbuilding Industry and four offshore drilling support barges at Cosco Nantong; China Exim Bank will provide around US$467m for these deals. China Exim Bank will also jointly offer with the World Bank a US$266m loan to Belgian company Exmar for its world's first floating LNG liquefaction, regasification and storage unit (FLRSU), which is currently under construction at Wison Offshore and Marine in Nantong. Other loan deals in the agreement include: 1) a loan of RMB1.25bn to Cosco Bulk Shipping for five bulker newbuildings , 2) RMB500m loan to DSIC for a containership order from a Hong Kong owner and 3) RMB500m loan to Shanghai Shipyard for a drillship order from a Singaporean owner.

In the capital markets, Newlead Holdings Ltd. announced that the company has signed definitive agreements completing its financial restructuring. Closing of transaction is subject to certain conditions and is expected to occur within December 2012.Michael Zolotas, President and Chief Executive Officer of NewLead, stated, "Almost two years ago, we perceived the market would be deteriorating for the foreseeable future, so we made the difficult decision to approach our commercial partners and commence a voluntary restructuring of our business and balance sheet. With the restructuring effectively complete, we will seek to grow the Company by exploring existing and new business segments. With our newly stable balance sheet and business, we believe that we will be able to profitably expand our business within a short period of time."

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