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

Week Ending: 11th January 2013 (Week 2/2013)

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ECONOMIC ENVIRONMENT

"2012" ended with a positive note for Chinese economy with strong trading figures in imports and exports. Chinese exports rose 14.1% in December from a year earlier, which is the largest in seven months, and imports increased 6% year-on-year. Chinese trade surplus of December is estimated at about $31,6bn, more than 50% from a year earlier, breaking a record of three straight annual declines. Manufacturing activity in China hit a fresh record high in December with the final reading of HSBC Purchasing Managers' Index rising to 51.5 in December, well above the preliminary reading of 50.9 published in the middle of the month and November's final reading of 50.5.

In U.S., fiscal cliff deal has been delayed with the economy creating 155,000 jobs in December and unemployment rate holding at 7.8%.

In eurozone, unemployment rate hit a fresh record of 11.8% in November, as per data from official statistics, underlying limited hopes for a gradual recovery in 2013, with Greece, Spain, Cyprus and Portugal seeing the biggest increases in unemployment from a year earlier. One more negative sign for euro area's prosperity is the weakness of Europe's manufacturing sector. Eurozone manufacturing purchasing managers' index compiled by Markit fell in December to 46.1 from 46.2 in the previous month, which is still indicating contraction.

In Germany, Europe's largest economy, manufacturing activity slowed for the tenth consecutive month with the PMI declining in December to 46 from 46.8 in November. In the meantime, European Commission President Jose Manuel Barroso said that he believes the threat to the survival of the euro has been overcome. He said that the turning point for the eurozone was last September's promise from the European Central Bank to buy unlimited amounts of euzone states' debts and investors have now understood that EU leaders have committed themselves to the currency's survival. In addition, the European Central Bank kept its main refinancing rate on hold at 0.75% judging that conditions are right for a gradual economic recovery later this year even though the currency union is still in recession.

In UK, manufacturing activity in December recorded the fastest pace since September 2011 as the Markit index rose to a 15-month high of 51.4 from 49.2 in September against previous weak forecasts.

In Japan, Japanese prime minister, Shinzo Abe, unveiled a Y10,3tn ($116bn) economic stimulus package that the government expects will lift the country's gross domestic product by 2% and creat e 600,000 jobs. Mr Abe said that his plan to enhance Japan's economy would be based on "the three arrows of a bold monetary policy, flexible fiscal policy and a growth strategy to stimulate private investment".

SHIPPING MARKET

"2013" tends to be one more challenging year for shipping players with overcapacity issues in fleet growth for main conventional vessel segments, bulk carriers, tankers and containers, and threats in the demand side from worldwide economic recession. Against the grim outlook of shipping market, investment opportunities seem that will not loose their firm pace with asset prices keep falling and stimulating investors' decision for buying or selling their assets. Record scrapping levels of previous year will continue in the New Year due to the prevailing freight market conditions and oversupply of vessels to smooth the heavy schedule of newbuilding vessel deliveries.

In the **dry** market, 2012 was a very tough year for dry bulk operators with troubling earnings in all main vessel segments and Baltic Dry Index averaging at 920 points, 41% down from 2011's average at 1,549 points. The last days of December ended with a downward recession in the value of BDI and vessel earnings at bottom low levels with the index slipping to less than 700 points and capesize earnings at less than $5,000/day, from more than $15,000/day at the end of November. However, Chinese iron ore appetite stayed high against the weak levels of vessel earnings with iron ore price fetching about $154/ton at the first days of January, up 33% since the start of December, which is considered to be the highest in 15 months, according to the Steel Index Ltd.

The accelerating economic growth of Chinese economy during the fourth quarter of previous year with strong manufacturing activity and trading figures spurred domestic demand of steel and gave confidence for stronger dry bulk earnings in the opening of New Year. Iron ore imports to China from Australia's port Hedland increased by 25% in December 2012 month-on-month from the return of Chinese steel mills to seaborne iron ore market following a prolonged period of destocking in mid-2012. China imported 20,23 million tons of iron ore via the port in December compared with 16,17 million tons in previous month, according to statistics from the Port Hedland Port Authority. Data from Chinese customs showed that Chinese iron ore imports for 2012 were up by 8.4%, increasing at slightly slower pace than in 2011 but still faster than the overall economy.

The first days of New Year bring firmness with positive movements in capesize, panamax and supramax vessel earnings. The BDI is on rise from **January 3rd**, with capesize earnings floating at more than $6,000/day, which is more than $1,300/day from December 24th, panamax earnings in the region of more than $5,600/day and supramax at more than $7,700/day. There are prospects for further increase of vessel earnings in the panamax segment from a surge in Chinese thermal coal fixture activity. According to Commodore Research, Chinese demand for imported thermal coal is very robust due to low coal port stockpiles and intensifying winter electricity demand, while coal stockpiles at Qinhuangdao have fallen to 6.1 million tons, which is well below the 7mt level that officials strive to maintain at all times due to the large role that Qinhuangdao plays in coastal coal trade. On the short term, panamax vessel earnings are expected to remain in a downward pressure from the robust upcoming newbuilding vessel deliveries postponed from December last year in January.

The second week of January ends with the BDI closing **Friday January 11th**, at 760 points, up by 7.6% from last week's closing and down by 28% from a similar week closing in 2012, when it was 1,053 points. All dry indices closed in green this week with the highest decline being recorded in the panamax segment. **BCI** is up by 6.3% w-o-w, **BPI** up 15.2% w-o-w, **BSI** up 0.8% w-o-w, **BHSI** up by 0.4% w-o-w.

Capesizes are currently earning $6,213/day, up by of $964/day from a week ago, while **panamaxes** are earning $6,123/day, an increase of $823/day. At similar week in 2012, **capesizes** were earning $9,116/day, while **panamaxes** were earning $10,075/day. **Supramaxes** are trading at $7,791/day, up by $63/day from last week's closing, 25% higher than capesize and 27% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $10,154/day, hovering at 11% higher levels than capesizes versus 25% today's lower levels. **Handysizes** are trading at $6,667/day; up by $48/day from last week, when at similar week in 2012 were earning $10,154/day.

In the **wet** market, the crude freight market environment remains depressed with very large crude carriers suffering and clean petroleum product tankers benefiting the most due to the current negative trends on US oil demand. According to a government forecast, US oil imports will fall to their lowest level for more than 25 years next year, as production booms while demand grows only slowly. The US Energy Information Administration predicted that net imports of liquid fuels, including crude oil and petroleum products, would fall to about 6m barrels per day in 2014, their lowest level since 1987 and only about half their peak levels of more than 12m during 2004-07. The declining of US dependence on oil imports reflects the increase of US crude oil production due to the unlocking of tight oil reserves in the states of North Dakota and Texas. US crude production reached a low point of 5m barrels/day in

2008, but rebounded to 6,43m last year and is expected to rise to almost 8m in 2014, as per data from Energy Information Administration.

On the other hand, the accelerating economic growth of China provides a support on crude oil demand with analysts forecasting an increase in oil demand by 4% to 6% year-on-year in 2013, versus 3% to 4% in 2012. Chinese investment bank China International Capital Corp. estimates overall demand this year will rise 4.7% year on year to 10.86 million b/d, up from 3.4% growth in 2012, said Janet Kong, managing director of its research division. "China's oil demand performance is still very notable and will continue to boost growth in the non-OECD as well as globally," she said. "We expect Chinese oil demand to grow by close to 500,000 b/d in 2013 compared with 340,000 b/d in 2012, mainly because of growth in the economy."

In the **gas** market, Tradewinds reported that Epic Panteon International Gas Shipping (E-P Gas), which currently operates 22 LPG carriers, had received significant new equity capital from a group of investors, including Jefferies Capital and Shipping & Intermodal Investment Management, while the terms, including the amount are not disclosed. E-P Gas plans to grow its fleet with a focus on full pressurized LPG carriers in the range of 3,200-7,200 cbm range.

In the **container** market, 2013 will be a challenging year with the demand side being impaired by lower consumer spending from eurozone crisis with US trying to handle the fiscal cliff deal that will also affect seriously consumer spending. The New Year opened with the Shanghai Container Freight Index closing at 1148 for the week ending January 4th, which is up 0.9% week-on-week, from 4.2% increase in Asia-Europe and 4.8% in Asia-Mediterranean spot rates. In Asia-Europe, rates are now at $1270/TEU, from $1218/TEU at the end of December and it is 74% up year-on-year, while in Asia-Mediterranean, rates are now at $1158/TEU, from $1104/TEU and it is 50% up year-on-year.

Transpacific rates have seen soft declines with rates in Asia-USWC at $2221/FEU, from $2223/FEU at the end of 2012, but 22% above year-on-year, while rates in Asia-USWC are at $3358/FEU, from $3364/FEU and 13.4% above year-on-year.

Against the current freight market sentiment, container players are still trying to exploit the extremely low newbuilding costs and enhance their current fleet. Market rumours reveal that United Arab Shipping Co is in discussions for the construction of up to ten 18,000 TEU boxships, but no formal decision has been made, while K Line is looking at opportunities to build five ultra large boxships of 14,000 TEU at Imabari Shipbuilding in a newbuilding or a lease deal.

In the meantime, the global idle containership fleet was 297 ships totalling 809,000 TEU, 5% of the existing fleet, at the end of December according to data from Alphaliner, with number of vessels laid up in the range of 3,000-5,000 TEU increasing to 83 vessels. The global cellular containership fleet capacity has reached 16.34 Mteu as at 1 January 2013, for an annual growth of 6.0%. According to Alphaliner's annual fleet survey, 207 cellular ships for 1,255,900 teu were delivered in 2012, while deletions (comprising scrapped, lost and de-celled ships) reached 200 units for 351,000 teu. In addition, there were 18,000 teu added from capacity upgrades of existing ships, arising mainly from the capacity augmentations of Maersk's 8,200-8,600 teu 'S'-class ships, boosted to around 9,600 teu.

In the **shipbuilding** industry, Manila court is inviting nine Japanese shipyard groups to set up shipbuilding and repair yards in Philippines. The Japanese shipbuilders included Mitsui Engineering & Shipbuilding, Namura Shipbuilding, Sanoyas Shipbuilding, IHI Corporation, Kawasaki Heavy Industries, Mitsubishi Heavy Industries, Sumitomo Heavy Industries, Hakodate Dock Co, Imabari Shipbuilding and Oshima Shipbuilding, according to a government statement.

In Japan, Universal, a subsidiary of Japanese steel group JFE, finalised its merger with IHI Marine at the beginning of New Year forming Japan's biggest builder, overtaking Mitsubishi HI. The new entity is called JAPAN Marine United aiming to develop high-value-added ships with fuel-efficient features. Universal and IHI hope the merger will boost combined profits by ¥10Bn ($114.6M).

In the **shipping finance**, European lending seems that will be scarce also for 2013 with head of transport at Norton Rose estimating that the shortfall in funds for owners in 2013 is likely to be more than $100bn. However, China still has a long way ahead in order to be developed as a top ship financier. “Even though ship finance is shifting from Europe to Asia, Europe is still the core for shipping with its resources,” said China Universal Leasing ship-lease general manager Wang Keke. “China is learning from Europe now and building financial centres. There have been some initial developments of derivatives, but relative services are still not advanced enough,” Mr Wang told a China Shipping Gazette forum. “Basically, Chinese lenders only provide credits and loans and no other services. From this aspect, the room for developing ship finance is limited.”

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