

This Week's News: A snapshot on the economic and shipping environment**Week Ending: 18th January 2013 (Week 3/2013)***(Given in good faith but without guarantee)*

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ECONOMIC ENVIRONMENT

The world economy should not wait that 2013 would be a year with a stronger gross domestic product growth for major economies as the economic recovery remains fragile and uncertain. According to the World Bank, the global economy is expected to grow 2.4% in 2013, which is weaker than its June forecast for a 3% expansion, while the growth estimate for 2014 has also been lowered to 3.1% from the initial forecast of 3.3%.

The Chinese economy seems the only economy with a room for expansion in 2013 from the stronger imports-exports data seen in the fourth and final quarter of last year and manufacturing activity. In the fourth quarter of 2012, China's GDP growth was 7.9% year-on-year, from previous seven consecutive weaker quarters. World Bank raised its 2013 growth forecast for China to 8.4% from its June projection of 8.1% in 2013. Chinese economy slowed to a 7.9% growth in 2012, from 9.3% in 2011, its weakest rate since 1999.

Stephen King, chief economist at HSBC, is optimistic about China's contribution and influence on the world economy. "At 8.6 per cent in 2013, we expect China to enjoy a pace of expansion faster than in 2012 – but considerably lower than in previous years. Nevertheless, China's contribution to global growth will be substantial: by 2014, China's GDP should be three and a half times bigger than it was in 2000. Consistent with this, we forecast that China will add more to global growth in 2014 than ever before, even though the projected growth rate will be lower than in earlier years. Even if the Chinese economy is slowing, its impact on the global economy – paradoxically – is rising."

World Bank lowers its GDP growth projection for India to 5.4% in fiscal year ending March 2013 from 6.5% in 2011, which is weaker than the previous projection for a growth of 6.9% in the fiscal year 2012-2013. It estimates also a weaker expansion for Japanese economy to 0.8% in 2013 from 1.9% in 2012 with prospects for a rebound to 1.2% in 2014.

In eurozone, 2013 remains a challenging year for the member countries with the World Bank estimating the euro area to return to a positive territory in 2014. GDP in the eurozone is estimated to contract by 0.1% in 2013, compared with June's forecast of 0.7% growth, and then to edge up to 0.9% in 2014 and 1.4% in 2015. In the meantime, Germany, the main engine for euro economy, slowed down sharply in 2012 intensifying the threats of euro area crisis on the global economy. According to initial estimates from the Federal Statistics office, German economy grew 0.7% last year; down from 3% in 2011 with economists remain optimistic that Germany will quickly recover this year.

Spanish Prime Minister, Mariano Rajoy has called on Germany and other creditor countries in the eurozone to do more to stimulate growth, arguing that a switch to a more expansionary policy would boost economic recovery across the single currency area. "I think that in this moment, when there is a need for growth, those who are able to implement growth policies should do it," the Spanish prime minister told the Financial Times in an interview. "What is clear is that you cannot ask Spain to adopt expansionary policies at this time. But those countries that can, should."

Greek economy has secured its next installment of EUR3,24bn after the approval of release from the IMF. IMF Managing Director Christine Lagarde said in a statement that '[Greece's] program is moving in the right direction, with strong fiscal adjustment and notable labor-cost competitiveness gains' but Greece needs to 'radically overhaul' its tax administration to fight tax evasion and reduce the public sector through targeted layoffs.

In U.S., there is an improvement in the labor market in January fuelling a business economic growth. According to figures from US Labor Department, applications for jobless benefits decreased by 37,000 to 335,000 in the week ended Jan. 12, the lowest level since the period ended Jan. 19, 2008. "The labor market is certainly getting better," said Brian Jones, senior U.S. economist at Societe Generale in New York, who projected 345,000 claims. The World Bank estimates that the US economy will expand at a weaker than expected pace of 1.9% in 2013 and it holds unchanged its forecast for 2014 at 2.8%.

SHIPPING MARKET

The gloomy picture of freight markets in the dry, wet and container segments gives a stable picture on the downward trend of asset prices in the newbuilding and secondhand market with investors being eager to commit in new S&P transactions in 2013. Dry bulk segment seems to be more favored in terms of demand side under the current worldwide economic crisis. China's firm rebound in iron ore demand opens a window for an upward trend of freight rates for capesize bulkers on the opening of New Year. Iron ore prices have hit new highs from a recovering of Chinese demand with top iron ore miner Vale saying that the company will benefit from a recovering Chinese demand for construction and manufacturing materials.

Iron ore price is trading at near 15-month high and the rally may be extended in the first half as steelmakers in China are seeking imports to make up losses in domestic production because of the coldest winter in 28 years. Iron ore price with 62 percent content delivered to Tianjin rose to \$158.50 a dry ton on Jan. 8, the highest since October 2011, according to data from the Steel Index Ltd. Murilo Ferreira, CEO of Brazil's mining giant VALE said he expect less volatility in terms of iron prices for 2013, local newspaper Folha de S. Paulo reports. "I don't see a scenario that is as pessimistic as in September 2012, or as exuberant as in 2008 and 2010, when prices reached \$200," Ferreira said.

In the **dry** market, the BDI is on a straight rise for 11 straight days with capesize earnings gaining further ground during the third week of January and edging to more than \$8,000/day, from less than \$5,000/day at the end of December 2012. In the panamax segment, there has been a downward incline this week in the earnings with a fall to less than \$6,000/day, while at the end of last week there was optimism for a rise as earnings have surpassed finally the levels of \$6,000/day, for the first time since mid-December. "2013" looms that would be definitely more challenging year for panamax than capesize vessels as the heavy oversupply could not be smoothed from the positive potentials from a firm Chinese thermal coal demand.

Capesize vessels are benefited from intense scrapping activity that took place in 2012 with the latest developments on Chinese iron ore stockpiling and demand giving a boost and hopes for a firmer growth in the upcoming days before the Chinese New Year. According to Commodore Research, Chinese iron ore port stockpiles have been on a steady decline since the end of September and remain at their lowest levels since January 2011. The upward trend in capesize earnings lifts also the BDI that gains steadily ground and standing near to the breaking the psychological barrier of 1,000 points.

The third week of January ends with the BDI closing **Friday January 18th**, at 837 points, up by 10% from last week's closing and down by 2.9% from a similar week closing in 2012, when it was 862 points. There has been an outstanding increase in the capesize segment with a downward trend in panamax and supramax and a modest improvement in the handysize segment. **BCI** is up by 17.4% w-o-w, **BPI** down 4.1% w-o-w, **BSI** down 2% w-o-w, **BHSI** up by 4.9% w-o-w.

Capesizes are currently earning \$8,990/day, up by of \$2,759/day from a week ago, while **panamax**es are earning \$5,860/day, a decrease of \$263/day. At similar week in 2012, **capessizes** were earning \$6,688/day, while **panamax**es were earning \$8,131/day. **Supramaxes** are trading at \$7,635/day, down by \$156/day from last week's closing, 15% lower than capesize and 30% higher than panamax

earnings. At similar week in 2012, **supramaxes** were getting \$8,441/day, hovering at 26% higher levels than capesizes versus 15% today's lower levels. **Handysizes** are trading at \$7,012/day; up by \$345/day from last week, when at similar week in 2012 were earning \$7,115/day.

In the **wet** market, January does not pose firm signs in the very large crude carrier tanker segment with WS in AG-US route being in a downward trend from December 2012. WS in AG-US route is now by standing at WS24.5, from WS28 at the end of 2012 with time charter equivalent earnings again below zero levels. In AG-SPORE and AG-JPN routes, WS is now at 42 with time charter equivalent earnings in region of \$21,000 from WS46 at the end of 2012. In WAFR-USG and WAFR-CHINA routes, WS has shed about four points from the end of December 2012 and they are now at 43.5 and 42.5 respectively.

In the suezmax segment, the freight status is also depressed with WS in WAFR-USAC route losing 5 points from end 2012 and now stands at 62.5-\$16,400/day. The Caribbean aframax market holds some resistance with WS in CBS-USG route falling 2.5 points to WS85-\$7,700/day from end December 2012. In the panamax segment, AG-JPN route for 75,000dwt vessels, is now at WS88-\$15,800/day, from WS117-\$26,400/day at the end of 2012, while for 55,000dwt vessels is now at WS115-\$16,800/day from WS145-\$24,300/day.

In the **gas** market, LNG segment is still one of the most promising vessel segments with a solid growth in vessel earnings against the main conventional vessel segments. According to Wells Fargo Securities, LNG spot rates have picked up modestly to \$140,000/day from a relative tight supply and increased inquiry. It is not expected that LNG spot rates will keep the highs of mid 2012 in the region of \$150,000/day, but they will keep a solid pace in 2012, particularly in the first half before the newbuilding begin to deliver. Japanese nuclear reactor restart is a serious variable to watch as a threat to the current upside of LNG demand and spot rates. The new Japanese government announced at the end last year that it intends to restart the remaining nuclear facilities with a goal of full restart over the next three years cuts the potential for a strong boost in Japanese LNG demand. However, the Chairman of the Japanese Nuclear Regulatory Authority said earlier this year that it is unlikely such reactors will be restarted within three years, given required safety inspections and potential anti-disaster construction measures.

In the **container** market, the Shanghai Container Freight Index improved by 7.3% week-on-week from an upward movement in spot rates for Asia-Europe, Asia-Mediterranean routes and also transpacific, Asia-USWC and Asia-USEC. Rates to Europe and Mediterranean improved by 11.7% and 17.1% week-on-week respectively, while to the USWC and USEC by 5.4% and 5% week-on-week respectively.

Rates in Asia-Europe are now at \$1418/TEU, from \$999/TEU on December 7th 2012 and \$1356/TEU from \$722/TEU. In transpacific routes, the improvement is modest with rates in Asia-USWC at \$2341/FEU from \$2019/FEU on December 7th 2012 and \$3252/FEU in Asia-USEC from \$3071/FEU.

In the **shipbuilding** industry, South Korean, Chinese and Japanese shipyards are facing the downfall in worldwide demand for new ship orders from the depressed freight markets and scarcity in ship finance capacity. All major shipbuilding nations faced lower volume of business in 2012 with a shrinking orderbook from 2011 levels and limited potentials for a rebound in their business in the current year. Newbuilding prices seem that have reached their bottom with some major shipping players trying to exploit them and expand their fleet via the construction of large vessels with fuel efficiency. South Korean is ranking in the first position leaving behind Chinese and Japanese shipbuilders due to their expertise in the construction of more sophisticated vessels. According to a government report, South Korea retained its position as the world's No.1 shipbuilding country with the market share of 35 percent. It was followed by China with a 7.1-million-CGT of orders and Japan with a 2.9-million-CGT of contracts. However, new vessel orders won by the country's shipyards totalled 7.5 million compensated gross tonnage (CGT) in 2012, tumbling 45.7 percent from 13.7 million orders received a year earlier, according to the Ministry of Knowledge Economy.

On the other hand, China received ship orders aggregating 20.41M dwt in 2012, down by 43.6% from the 2011 total, Beijing said. Accomplished shipbuilding output last year amounted to 60.21M dwt, reduced by 21.4% year on year, industry & information technology ministry said. Until end-December, China's orderbook was 106.95M dwt, 28.7% less than 2011. The trend will continue to be also negative

until the shipping markets return in a healthy balance of vessel supply and demand balance from the start of 2014.

In the **shipping finance**, Frontline 2012 Ltd. announced that it has completed a private placement of 59 million new ordinary shares of \$2.00 par value at a subscription price of \$5.25, raising \$310 million in gross proceeds to the Company. The proceeds from the Private Placement will be used to part finance new building investments. These investments includes four Capesize newbuilding contracts and four VLGC newbuilding contracts already committed and leaves capacity for significant further contracts which are currently at an advanced negotiating stage or can be exercised through existing option agreements.

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