GOLDEN DESTINY

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

Week Ending: 22nd February 2013 (Week 8/2013)

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ECONOMIC ENVIRONMENT

Following last week's depressing news for eurozone's steepest contraction during the fourth quarter of last year; one more negative indicator emerged confirming the lingering depression in euro area. According to Markit, eurozone's preliminary composite purchasing managers' index, PMI, slumped to a two month low to 47.3 in February, from January reading of 48.6, indicating a contraction in activity. The index reading below 50 shows that the first quarter of the year would be marked by a fourth consecutive quarter of contraction. However, Mario Draghi, president of the European Central Bank expressed optimism for eurozone's gradual recovery later in 2013.

In Germany and France, the strongest countries of the eurozone, manufacturing purchasing managers' index recorded increase from January levels, while service sector activity fell in both countries to depressing levels. In Germany, manufacturing purchasing managers' index rose to a seasonally adjusted 50.1 in February from a final reading of 49.8 in January, moving into expansion territory for the first time in 12 months but slightly below expectations for an increase to 50.5. In the service segment, Germany's activity expanded at the slowest rate in two months during February with the services PMI declining to 54.1 from 55.7 in January, while analysts expecting to ease down to 55.5.

In France, manufacturing PMI rose to 43.6 in February from 42.9 in January, while its service sector activity fell to a 48-month low of 42.7 in February from a final reading of 43.6 in January, against analyst expectations for a slowdown to 44.5.

In Greece, EuroWorking Group is expected to give the green-light for the disbursement of the February bailout tranche of EUR2.8bn, while a team from troika officials is scheduled to arrive in Athens next Monday to start the review of the actions of the Greek government, ahead of the release of the March tranche of EUR2.8bn.

In China, a recorded surge in consumer spending during Golden Week affirms the country's ongoing revival after a rough 2012. Data released shows that retail sales during Golden Week totalled a record 539 billion yuan ($86 billion), which is 15% more than it was spent during Golden Week in 2011. In 2012, Chinese retail sales totalled a record 20.71 trillion yuan ($3.3 trillion), which was 2.6 trillion yuan (14%) more than retail sales in 2011.

SHIPPING MARKET

An interesting deal emerged this week in the dry chartering market under the negative market momentum. MOL Cape (Singapore) Pte Ltd, a subsidiary of Mitsui OSK Line (MOL), has secured a 20 year contract from Rio Tinto to transport iron ore from Australia to China. To service this agreement, MOL Cape will allocate several vessels of 200,000 to 250,000 deadweight tonnes (dwt) to carry iron ore from two ports in Western Australia (Dampier, and Port Walcott) to the main ports in China. No details on the freight rates were disclosed but MOL said that this deal will contribute to the company's stable earnings, and further consolidate the foundation for business expansion in the nation. In addition, South Korean utility Korea Electric Power signed 18years charter agreements for nine capesize vessels worth

$2billion with two South Korean groups, Hyundai Merchant Marine and STX Pan Ocean, Hanjin Shipping and SK Shipping.

In the **dry** market, BDI has not still showed signs of firmness with capesize vessel earnings not being able to find support after the end of Chinese festivities. According to Commodore Research, only 7 vessels were chartered to haul iron ore to Chinese buyers last week, 21 less than the previous week and 12 less than the trailing four week average. Capesize vessel earnings are now less than $5,500/day, from more than $7,000/day at the end of January. Chinese thermal coal fixture activity is also depressed with only 5 vessels being chartered to haul thermal coal to Chinese buyers last week, 4 less than the previous week and 7 less than the trailing four week average. However, there is still confidence for the rebound of Chinese spot chartering activity after the end of second week of Chinese festivities with iron ore port stockpiles staying at extremely low levels. Last week, there was a small increase of 1,9mt (3%) in the level of iron ore stockpiles at Chinese ports, but they are still at lower levels than November 2010.

In the panamax segment, market momentum has reversed to positive with vessel earnings higher than capesizes, as they surpassed this week the level of more than $7,000/day, from less than $5,500/day at the end of January. Large port congestion at coal ports was the key lying behind the recent euphoria. In addition, peak winter season electricity demand and robust thermal coal derived electricity production would be the main factors for a further support in panamax vessel earnings. Qinhuangdao coal port stockpiles are now seem to fall back under the critical 7mt level, which could provide a larger amount of Chinese thermal coal fixtures to return in the market.

Smaller vessel categories, supramax and handyize, are now trading at further improved levels due to a large amount of grain and coal cargoes coming in the market during the last days. Supramax vessel earnings are now trading at levels of more than $7,000/day, which is higher than capesize and panamax earnings, and handysizes at more than $6,000/day. In the meantime, the United States Department of Agriculture (USDA) has raised its forecast for Brazilian coarse grain output that would add further support in vessels' demand growth. The USDA now forecasts that 2012/13 Brazilian coarse grain production will total approximately 76 million tons, from its previous prediction of 74.5 million tons, while Brazilian coarse grain exports will total approximately 19 million tons from its previous estimation of 17.5 million tons.

As we move towards the end of February, expectations for a firmer demand growth in main dry commodities, iron ore, coal, grains, is likely to bring firmness in vessel earnings for all vessel categories. However, it is still too early for a full rebound as vessel oversupply will challenge shipping players also for 2013.

BDI closed on **Friday February 22nd,** at 740 points, down by 1.7% from last week's closing and up by 3% from a similar week closing in 2012, when it was 718 points. The third week of February ends with a persistent downward pressure in the capesize segment and stronger earnings in the panamax and supramax segment. The largest increase has been recorded in the panamax segment for a third consecutive week. **BCI** is down by 6.9% w-o-w, **BPI** is up 9.2% week-on-week, **BSI** is up 6.6% week-on-week, **BHSI** is stable from previous week.

Capesizes are currently earning $5,216/ day, down by $1534/day from a week ago while **panamaxes** are earning $7,253/day, an increase of $627/day. At similar week in 2012, **capesizes** were earning $5,699/day, while **panamaxes** were earning $6,705/day. **Supramaxes** are trading at $7,494/day, up by $466/day from last week's closing, 44% higher than capesize and 3.3% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $6,920/day, hovering at 21% higher levels than capesizes versus 44% today's higher levels. **Handysizes** are trading at $6,127/day, ; down by $11day from last week, when at similar week in 2012 were earning $5,980/day.

In the **wet** market, WS in AG-USG route for VLCCs stayed stable at WS28 for a second consecutive week with time charter equivalent earnings still below zero levels. In AG-SPORE and AG-JPN routes, WS gained 1 point to end at WS32 with time charter equivalent earnings at $3,000/d and $4,000/d respectively. In WAFR-USG route, WS posted no change from last week at WS40-$15,200/day, while in WAFR-China route moved up by 2 points to WS36-$9,000/day.

In the suezmax segment, WAFR-USAC route recorded also no change at WS52.5-$7,500/day, while in the aframax segment, Caribbean aframax market showed fresh activity with CBS-USG route representing a large weekly increase of 17.5 points to conclude at WS100-$13,500/day. In the panamax segment, Caribbean market gained further ground in the last two weeks with WS gaining another 2.5points to conclude at WS120-$12,500/day, from WS110 at the beginning of February. In the product segment, AG-JPN route for 75,000dwt and 55,000dwt tankers are still showing weakness. WS for 75,000dwt units fell to WS79-$10,300/day from WS94 at the beginning of the year and WS91-$7,200/day for 55,000dwt units from WS 124.

Near term prospects for product tankers hauling refined products appear more positive than crude carrier vessel earnings. According to DNB Markets, returns for product tankers are estimated to be as much as 46% higher than previously estimated for the next three years as demand would outpace fleet growth. DNB estimates that demand for product vessels will increase 4% this year and 5% in 2014 compared with 3% fleet growth in 2014 and 2% in 2015.

In the crude carrier segment, China' s appetite for crude oil demand adds supports in demand trading growth for crude carrier vessel categories. According to a recent outlook from Deutsche Bank, China's crude oil demand in 2013 would rise by around 5% year-on-year on an annual average basis, up from 4% growth in 2012. The estimate is based on expectations for a pick up in China's GDP growth for 2013. Deutsche Bank estimates that China's GDP would recover from 7.7% in 2H 2012 to 8% YoY in 1H 2013 and 8.5% in 2H 2013.

In terms of oil supply, China's crude output is surging to record high levels to compete OPEC members, such as Kuwait and United Arab Emirates. According to International Energy Agency, China's national oil companies will produce 3m barrels a day abroad in 2015, almost double their 2011 overseas output of just over 1.5m b/d and equivalent to Kuwait's annual output.

In the **gas** market, LNG imports for the world's second largest LNG consumer, South Korea, increased in January 2013 and will offer additional support in the current buoyant spot market. South Korean LNG imports rose to 3,98mt in January 2013, up by roughly 40% from 2,89mt in January 2012. The incremental LNG required was primarily sourced from Qatar, Indonesia and Peru on long term charterers, in addition to spot purchases in Trinidad and Nigeria.

In the **container** market, the Shanghai Container Freight Index was not published last week due to Chinese New Year. There are expectations for a firmer spot freight market environment in March, mainly in the key busiest route, Asia-Europe through general rate increases already scheduled to be applied by major liner operators. China Shipping Container Lines has followed OOCL's lead by announcing a $700 per teu peak season surcharge on the Asia to Europe and Mediterranean westbound cargo trade lane from March 15.

The slower demand growth that could not pull boxship segment out of prolonged recession combined with overcapacity issues is also being justified by the weak volumes of container handling in major ports. According to Alphaliner, container handling volumes are growing at their slowest rates since 2009 based on throughput data at the 25 largest ports. Statistics data showed that 11 ports in China, 7 ports in the rest of the Far East, 4 in Europe, two in the US and one in the Middle East, saw their aggregate volumes to grow by only 4% in 2012, compared to 8.7% in 2011 and 15.5% in 2010. Demand at these ports was particularly weak in the second half of the year, when growth slowed to only 2.8%. Weak trade volumes on the key Far East-Europe and Far East-North America headhaul routes contributed to the lacklustre performance, recoding declines of 4.4% and 0.4% respectively for 2012. The Far East-Europe route is expected to be one of the worst performing trades again in 2013, with significant uncertainty over the health of European consumer demand.

In the meantime, Alphaliner estimates that the global idle fleet of containerships has increased within a week to 280 vessels of 804,000TEU, from 739,000 TEU, due to an increasing number of laid up vessels of over 5,000TEU, which is expected to continue until the summer peak season begins. The growth of idle fleet is mainly attributed to Chinese celebrations for the New Year but it is expected to persist from the volume of scheduled new building deliveries.

In the **shipbuilding** industry, Croatia's third-largest shipyard, 3 Maj in Rijeka, has reported a drop in net profits for 2012 of about 40% year on year to 1.15Bn kuna ($212M), from 1.92Bn kuna in 2012.

In South Korea, Hyundai Heavy Industries saw its orders to grow to to $2.711bn in January 2013, posting a remarkable increase of 212% year-on-year, according to its regulatory filing on February 15. Its Shipbuilding division contracted a total of $937m, up by 1133% against the same month of last year, and Offshore & Engineering division also sharply rose by 4281% y-o-y to $1.183bn.

In Japan, shipbuilding industry keeps its downfall of business upon the opening of New Year. According to a data released on February 15 by the Japan Ship Exporter's Association (JSEA), new contracts for export ship during January, 2013, totalled 530,000GT of 10 vessels, showing 19% decrease compared to a year earlier on a GT basis. The newbuildings contracted last month included one cargo ship, nine bulkers (two Handymaxes, three Panamaxes, two Post-Panamaxes, two iron ore carriers), and 10 of these were ordered from foreign shipowners.

In the **shipping finance**, Exmar announced that it had secured a $355mil credit facility to fund the initial fleet and a recently placed newbuilding order for the construction of four medium size LPG carriers with 38,000cbm capacity for delivery in April 2015 and June 2016. The ship financing deal is co arranged by Nordea and DNB and is expected to close in the first quarter of 2013.

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