GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 22nd March 2013 (Week 12/2013)
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ECONOMIC ENVIRONMENT

The world economy is stunned from the recent developments in Cyprus economy after its parliament rejected a bank deposit tax for European Union bailout for 10 billion euros. Cyprus became the first nation in the 17-nation currency euro area that voted against the austerity measures to secure European aid. Greece, Portugal, Ireland, Spain and Italy all accepted severe austerity measures over the last three years to secure European aid

Eurozone officials, EU-IMF-ECB, offered 10 billion euros ($13 billion) to aid the troubled economy of Cyprus on the harsh condition for the bank accounts' tax measure as they insisted that the economy needs nearly 17 billion euros ($21,8 billion) to stay afloat, which could not be repaid if taken only in loans. In the meantime, the European Central Bank threatened to suspend the provision of emergency liquidity to Cypriot banks on Monday if Nicosia did not have a bailout plan with the European Union and International Monetary Fund by then. However, Eurogroup said that it stands ready to discuss with the Cypriot authorities a draft new proposal and calls Cyprus authorities "to present it as rapidly as possible".

Cyprus investigates other options for securing financial aid bringing uncertainly in the stock markets and hitting euro currency. The country is straggling to come up with EUR 5,8bn that will allow its economy to unlock the EUR10billion international support, while it has ordered banks to stay shut till next Tuesday as it is seeking "Plan B" to secure bailout. Political leaders have reportedly agreed on a new plan that was submitted to the parliament last night. The new plan includes the restructuring of the island's second largest bank, Laiki Bank, the creation of a "national solidarity fund" and temporary capital controls to limit the impact on the bank sector once banks reopen next week. Cyprus proposes to divide Laiki Bank, the island's second largest bank, into two entities: One will contain all insured deposits of under EUR100k and the other will be a 'bad bank' subject to an asset recovery programme. Reportedly the 'good bank' could merge with Bank of Cyprus, the largest bank in the island. Governor of the Central Bank of Cyprus, Panicos Demetriades said: *"The banking system needs restructuring otherwise it will go bankrupt and it needs to be done immediately. Deposits up to EUR100,000 would be guaranteed and bank jobs would be safeguarded. "*

In the meantime, Cypriot Finance Minister is said to be negotiating with Russia to secure a five year extension of an existing loan of 2,5billion euros that mature in 2016, and a reduction in the 4.5% interest rate. As Cyprus struggles to combat with its banking crisis, Standard & Poor's cut the country's sovereign long-term foreign currency credit rating deeper into junk status, lowering the rating to CCC from CCC-plus. Cyprus is currently rated Caa3 with a negative outlook by Moody's Investors Service and B by Fitch Ratings, also with a negative outlook. S&P also has a negative outlook on its new rating.

The deterioration in Cyprus economy would have a direct negative impact on eurozone. Eurozone's downturn intensified in March with the Markit Eurozone PMI Composite Output Index falling from 47.9 in February to 46.5 in the March according to flash estimate. The decline signalled an acceleration in the rate of contraction of business activity for the second consecutive month to the steepest experienced for four months. Companies reported that new business levels fell at the strongest rate for three months,

dropping at the fastest rates since December and September in manufacturing and services respectively. Commenting on the flash PMI data, **Chris Williamson, Chief Economist at Markit** said: *"The flash PMI data suggest that the Eurozone business environment deteriorated at a quickening rate in March. "Instead of the eurozone economy stabilising in the second quarter, as many – including the ECB – have been hoping to see, the downturn could therefore intensify in coming months. "The deteriorating situation in Cyprus also raises the prospect of business and consumer confidence falling further across the single currency area, and possibly dragging the PMI numbers down further in April. "France saw the steepest downturn in business activity since March 2009, rounding off the worst quarter for four years, while Germany looks set to have enjoyed reasonable if unspectacular growth. However, even Germany showed worrying signs of growth fading in March, driven by a return to contraction of its manufacturing sector."*

In UK, George Osborne is trying to revive the stagnant economy through tax cuts for companies, support for the housing market and more aggressive monetary policy against bleak economic forecasts. The chancellor announced "Help to Buy", a large scheme to underpin the housing market, with the government offering to take an interest-free 20% share in newly built homes. For companies, he extended his cuts to corporation tax, reducing the main rate to 20% by April 2015, down from 28% when the coalition government came to power. The measures came as the Office for Budget Responsibility revised downwards its growth forecasts for 2013. It estimates a growth of just 0.6% for 2013, down from 1.2% growth estimated in December and it also revised downwards its growth forecast for 2014 to 2% from 1.8%. In the meantime, chancellor admitted that he needs more time to limit the burden of public debt. Having originally committed to bring the burden of public debt down by 2015-16 at the latest, the chancellor extended that target by a year in December and is now preparing to concede another delay to 2017-18.

SHIPPING MARKET

As the world economy is facing serious financial issues with Cyprus posing new threat in the euro area, shipping freight markets are fighting with their oversupply issues hoping for stronger cargo demand growth for the current year and the forthcoming 2014. In the dry segment, March signals every week stronger signs for firmer vessel earnings in small vessel sized segments. In the tanker segment, freight market sentiment remains the same negative for very large crude carriers with a surge in US oil productions narrowing opportunities for firm volume of US oil imports. In the container segment, the general rate increases imposed by shipping players showed their positive influence as freight rates in the troubling main Asia-Europe trading route rebounded with 43% increase last week.

In the **dry** market, dry bulk rates for panamax and supramax vessels continue to drive BDI one step behind of finally breaking the psychological barrier of 1,000points, while the improvement in the capesize segment remains steady. Vessels earnings for supramax vessels surpassed this week the levels of $10,000/day for the first time since the beginning of the year, while panamax vessels earnings are nearing to $10,000/day and capesize vessel earnings are trading above $5,000/day.

A large amount of vessels chartered to haul thermal cargoes from Indonesia and grain cargoes from South America have led the recent euphoria in smaller sized vessel segments, while in the capesize segment, vessel earnings are still in negative territory despite the record lows of iron ore stockpiles. Approximately, 65,2 million tons of iron ore is now stockpiled at Chinese ports, which is the lowest levels since March 2009. However, the improvement in capesize segment would not be high significant as Chinese iron ore demand is becoming less promising due to continued weakness in the Chinese steel market. According to Commodore Research, Chinese steel output is exceeding demand, and with steel prices suffering their largest week-on-week decline since September 2012, it appears likely that steel producers will temporarily reduce output to stimulate prices. This would result in a short-term decline in demand for iron ore.

BDI closed on **Friday March 22nd,** at 933 points, up by 4.5% from last week's closing and up by 2.7% from a similar week closing in 2012, when it was 908 points. The largest increase has been recorded in the handysize segment, while all dry indices closed in green apart from capesize. **BCI** is down by 1.1% w-o-w, **BPI** is up 3.9% week-on-week, **BSI** is up 5.7% week-on-week, **BHSI** is up 7.1% week-on-week.

Capesizes are currently earning $4,981/ day, up by $58/day from a week ago while **panamaxes** are earning $9,661 /day, an increase of $365/day. At similar week in 2012, **capesizes** were earning $4,546/day, while **panamaxes** were earning $8,288/day. **Supramaxes** are trading at $10,226/day, up by $549/day from last week's closing, 105% higher than capesize and 5.8% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $10,949day, hovering at 141% higher levels levels than capesizes versus 105% today's higher levels. **Handysizes** are trading at $8,036/day; up by $500/day from last week, when at similar week in 2012 were earning $8,346/day.

In the **wet** market, WS in AG-USG route for VLCC is still at 18 with time charter equivalent earnings below zero levels, while in AG-SPORE and AG-JPN routes, WS gained one point and rose to WS34 with time charter equivalent earnings $8,800/day and $8,100/day respectively. In WAFR-USG and WAFT-CHINA routes, WS remain steady at WS35 with time charter equivalent earnings about $10,000/day.

Steady freight market environment was also seen in the suezmax segment, as WS in WAFR-USAC route posted no change at WS57.5-$12,900/day and the same also in B.SEA-Med route with WS70-$17,000/day. In the aframax segment, Caribbean market experienced some losses with WS in CBS-USG route loosing 7 points to conclude at WS110-$19,500/day, while in the panamax segment, it gained 12.5 points to conclude at WS127.5-$16,300/day. In the product segment, WS in AG-JPN route for 75,000dwt vessels, rose by 6 points to WS96-$19,600/day, while for 55,000dwt vessels, the increase was even higher as WS rose by 16 points to WS135-$23,800/day.

In the meantime, the surge of US oil production is threatening even more seriously than in the past the potentials for a strong US oil imports and buoyancy in very large crude carrier earnings. According to US Energy Information Administrations's March 2013 Short Term Outlook, Monthly crude oil production in the United States is expected to exceed the amount of U.S. crude oil imports later this year for the first time since February 1995. The gap between monthly U.S. crude oil production and imports is projected to be almost 2 million barrels per day (bbl/d) by the end of next year because of rising domestic crude oil production, particularly from shale and other tight rock formations in North Dakota and Texas. According to EIA's projections:

• Monthly crude oil production could surpass net crude oil imports later this year. / Monthly crude oil production is forecast to top 8 million bbl/d in the fourth quarter of 2014, which would be the highest level since 1988. / Net crude oil imports are expected to fall below 7 million bbl/d in the fourth quarter of 2014 for the first time since 1995.

In the **gas** market, LNG spot rates have dipped to $100,000-$110,000/day, 30% below from August highs due to a shortage of cargoes. Current rates are averaging $108,000/day, 35% down from July 2012, leaving investors concerned about the outlook of LNG newbuildings.

Despite the recent plunge of LNG spot rates, Chinese LNG demand is on rise as the world's largest energy consumer is planning to more than double natural gas consumption to cut its dependence on coal and oil. China Shipping Development Co.'s venture is planning to order six liquefied natural gas tankers at a total value of $1,2bn by June to cater nation's LNG rising demand, Chairman Li Shaode told reporters in Hong Kong. The vessel purchase will be made by a venture owned by China Petrochemical Corp., also known as Sinopec Group, China Shipping and Mitsui O.S.K Lines Ltd. (9104) and each ship will have a capacity to carry 174,000 cubic meters of natural gas, Li said. The vessels will cost about $205 million each and the shipping company has arranged syndicated loans to finance the deal, Chief Financial Officer Wang Kangtian said. Hudong Zhonghua Shipbuilding Group Co., the only Chinese shipyard that has built LNG tankers, will make the six vessels, Wang said. China Shipping is also in talks with two Chinese shipyards to order an additional four, which may be announced as early as this year, he said.

In the **container** market, the Shanghai Container Freight Index posted eventually a rebound after seven straight weeks of decline from a significant upturn in rates from Asia-Europe and Asia-Mediterranean offsetting losses in transpacific routes. The Shanghai Container Freight Index closed for week ending March 15th at 1213 points, up by 13% week-on-week with Asia-Europe rates rising to $1423/TEU, up by 43% week-on-week, which represents the highest level so far this year. In Asia-Mediterranean route, the

rate increase is also significant high with rates moving up to $1366/TEU, up by 42% week-on-week. It seems that the implementation of General Rate Increase in May has already started to pave the way for a boost of the freight market in the major Asia-Europe trading route.

In transpacific routes, the decline persists with Asia-USWC rates falling to $2122/FEU, down by 3% week-on-week and Asia-USEC rates to $3279/FEU, down by 1.5% week-on-week. Compared with last yearly levels, transpacific rates are up by 6.5% year-on-year in Asia-USWC route and up by 4.6% year-on-year in Asia-USEC route. In Asia-Europe route, rates are up by 3.2% year-on-year, while in Asia-Mediterranean are down by 1.4% year-on-year.

The Transpacific Stabilization Agreement is recommending a general rate increase (GRI), to be effective from April 1st 2013, of $400/FEU to US. West Coast and $600/FEU to all other destinations. However, capacity additions on transpacific FE-North America routes are forecast to reach 6% in 2013 outpacing demand growth of 2% in 2013, and planned freight increases in April and May seem that would not have the expected positive result. As demand is weakening in FE-Europe routes, carriers are abandoning their plans to add new capacity. The G6 and CKYH carriers have joined Maersk to announce that they will not be launching their respective FE-Europe Loop 3, NE4 and AE9 strings this year. According to Alphaliners, this leaves about 30 ships of 7,000-10,000 teu in search of new employment, and the transpacific routes are expected to receive the bulk of this surplus tonnage, either directly or from cascading.

Under the current adverse market conditions, German player Hapag Lloyd is pressing ahead for further rate increases in Asia-Europe and has postponed the delivery of three newbuildings after reporting a net loss of €128m ($165.7m) in 2012 from €29m loss in 2011. Hapag-Lloyd announced its plans to impose another $500 per teu Asia-Europe rate increase on April 15, followed by a similar rise on May 15. In addition, Zim Line of Israel has reached an agreement to cancel orders for five boxships and postpone delivery of other vessels to 2016. The agreement relieves the company from off-balance sheet obligations amounting to $1,4 billion. The company has also an option to cancel additional four orders, pending shipyards' approval.

Against oversupply issues and movements from container players for rescheduling or negotiation cancellations of newbuilding deliveries, Japan's K Line officially announced its membership in CKYH Alliance and its plans for the newbuilding construction of five post panamax 14,000 TEU boxships at compatriot shipbuilder Imabari Shipbuilding for delivery in spring to summer 2015. The company has not still decided whether it will acquire ships directly or lease the vessels, while management plans to deploy all of its large vessels in the CKYH alliance service, possibly on Asia-Europe trades.

In the **shipbuilding** industry, Japanese yards are still suffering seriously from the worldwide fall in newbuilding demand. According to Japanese Ship Exporter's Association, orders at Japanese yards hit a four-year low in February with just only five ships contracted at a gross tonnage totaling 167,470GT, down by 58% year-on-year in terms of gross tonnage. The last time Japanese orders were so low was in February 2009, when five ships totalling 293,270GT were contracted. All newbuilding contracts achieved by Japan during February were for bulkers, one handysize, three handymaxes and one post panamax. The number of order for foreign shipowner is said to be only one.

In the meantime, Mitsubishi Heavy Industries, Ltd and Hakata Shipbuilding Co., Ltd have agreed to collaborate in the joint development of a 1,000 TEU (twenty-foot equivalent unit) container carrier. On March 18 the two companies received the first order for the carrier, for two vessels to be used for time chartering by Korea Marine Transport Co., Ltd. (KMTC) of Korea. The collaboration between MHI and Hakata Shipbuilding targets the development of a new fuel-efficient, high-performance, high-quality, low-cost vessel. Going forward the two companies intend to establish a framework advantageous for competing in the international feeder container ship* market, as a way of expanding their businesses.

In the **shipping finance**, Bloomberg reported that WL Ross & Co, the New York based private equity company, teaming up with Oslo-based Astrup Fearnley AS, is seeking to raise $500mil for a new private equity fund that would focus on buying distressed shipping and other transportation assets. Private-equity firms such as Apollo Global Management LLC and Blackstone Group LP are betting on a recovery in shipping as they take advantage of depressed prices driven by a glut of supply. A Mitsubishi

Corp. subsidiary plans to seek $750 million for a fund managed by former General Electric Co. shipping-team members that will acquire container ships for lease to liner companies, according to a presentation obtained by Bloomberg News. WL Ross, which manages about $9 billion, is taking advantage of opportunities in the global transportation industry, especially rail and marine transport. The firm was among investors that spent $900 million in 2011 on 30 tankers carrying refined oil products, and in August it became the largest shareholder of Navigator Holdings Ltd, which ships liquefied petroleum gas.

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