This Week's News: A snapshot on the economic and shipping environment
Week Ending: 29th March 2013 (Week 13/2013)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

Cyprus and Eurogroup reached finally an agreement creating panic in the world economy with a new scheme under which Cyprus will be restructuring and downsizing its financial sector, while it will not apply a levy to deposits below 100,000euros. The agreement imposes large losses on big deposits in the island's two largest banks, Cyprus Popular (Laiki) Bank and Bank of Cyprus. The alternative deal for Cyprus bailout package does not need approval from the Cypriot parliament as losses on large depositors will be achieved trough a restructuring of Cyprus two largest financial institutions avoiding a controversial levy on bank accounts.

Under the agreement, Cyprus Popular (Laiki) Bank would be resolved in two parts. "Bad" assets will be transferred to a bad bank and "good assets" transferred to Bank of Cyprus, while deposits above 100,000euros in Bank of Cyprus are subject to a deposit-for-equity swap, sufficient to bring the capital ratio to 9%. Deposits above 100,000euros will remain frozen until the time of Laiki's resolution is known and the precise haircut can be established. In addition, capital controls are to be imposed when Cypriot banks reopen and prevent a flood of withdrawals, these should be "temporary, proportionate and non-discriminatory, and subject to strict monitoring in terms of scope and duration in line with the EU Treaty".

According to the Cypriot Finance Minister, Mr. Sarris, the uninsured depositors, above 100,000euros, at Cyprus Popular Bank (CPB) could face losses of as much as 80%, while the Governor of Cyprus Central Bank stated that Bank of Cyprus uninsured depositors could face a haircut of up to 40%. Cypriot President Mr. Anastasiades said in a televised address to the nation that 'the agreement we reached is difficult but, under the circumstances, the best that we could achieve.'

The deal should be enough to release a €10bn bailout package and save the island from bankruptcy with German Chancellor Angela Merkel encouraging the outcome of negotiations on Cyprus bailout, while European Central Bank announced that it will continue to provide liquidity through the Emergency Liquidity Assistance. In addition, Russia signaled it would provide support as President Vladimir Putin ordered officials to restructure a loan Moscow granted to Cyprus in 2011. The Eurogroup said that it looks forward to an agreement between Cyprus and the Russian Federation on a financial contribution. Also it urged the immediate implementation of the agreement between Cyprus and Greece on the Greek branches of the Cypriot banks, which protects the stability of both the Greek and Cypriot banking systems.

Piraeus Bank announced that it signed an agreement to acquire the operations of the Cypriot banks in Greece for a total cash consideration of EUR524m. Specifically, Piraeus will acquire all of the Greek deposits, loans and branches of Bank of Cyprus, Cyprus Popular Bank (CPB) and Hellenic Bank, including loans and deposits of their Greek subsidiaries. Following the completion of the transaction, Piraeus Bank Group will have consolidated total assets of EUR95bn, 1,660 branches and 24,000 employees.

The new agreement for Cyprus bailout shocked the stock markets after the statement of the head of the group of eurozone finance ministers, Mr. Dijsselbloem, in an interview given with Financial Times and

Reuters, saying that the bailout deal given to Cyprus could serve a template to resolve any future problems with the region's banks and that losses suffered by uninsured depositors as part of Cyprus's bailout deal may have to be repeated elsewhere. Mr. Dijsselbloem later issued a statement saying that bailouts are tailor-made and Cyprus is a specific case. "The situation in Cyprus is very particular and there aren't the same banking problems in other euro-zone countries," he said, noting the Cyprus is the only offshore financial center in the euro zone. In an interview Mr. Coeure, European Central Bank Executive Board member, said the head of the Eurogroup had made an error in his initial comments. "I think Mr. Dijsselbloem was wrong to say what he said. The experience of Cyprus is not a model for the rest of the euro zone," Mr. Coeure said. "It was a solution to a situation that had become desperate," Mr. Coeure said. "I see no reason to use the same methods elsewhere."

In UK economy, credit rating agency Fitch reviews the country's "AAA" status with a heightened probability of a downgrade by the end of April after the Chancellor, George Osborne, announced that the recovery would be slower and borrowing higher than had been thought. Fitch said it is likely to downgrade UK credit rating status if the government debt rises above 100%. The Office for Budget Responsibility forecasts that the UK general government gross debt will peak at 100.8% in 2016-2017 fiscal year. The prospect of a downgrade by Fitch follows Moody's decision a month ago that became the first rating agency to cut the triple A status of UK economy. Moody's warned that the economy's sluggish economic performance was hampering efforts to reduce debt that is now expected to peak at 85.6% of the economy. The Treasury said Fitch's decision underlined there were "no easy answers to problems built up over many years". "We are, slowly but surely, fixing our country's economic problems. The deficit is down by a third and one and a quarter million new private sector jobs have been created," it said.

In US economy, S&P 500 passed its record closing high as it ended on Thursday morning at 1,565.40 from 1,565.15 set in early October 2007, completing a strong recovery from the depths of the financial crisis.

In Japan, there are warning signs for a growing not sustainable debt with a negative impact on entire economy. Japan's central bank governor, Haruhiko Kuroda, told at the parliament that while the government bond market has been stable, Japan's gross debt to GDP ratio expected to top 245% this year. The International Monetary Fund noted that government's debt is extremely high and abnormal, while nation's budget deficit is equivalent to 8.6% of its economic output, the biggest among major economies after India.

SHIPPING MARKET

March ended with a positive turnaround in the dry bulk segment but with uncertainty for its long term stability, while freight market environment for crude tankers is negative apart from MR product tankers. In the container market, shipping players are battling with overcapacity issues in Asia-Europe route through the scheduling of new rounds of general rate increases. In the meantime, one strategic alliance in the boxship market between German's largest container shipping companies, Hapag-Lloyd and its rival Hamburg-Sud has now called off because main terms could not be agreed.

Amid the freight market recession, shipping confidence levels reached their highest levels for two years in the three months to February, according to the latest Shipping Confidence Survey from Moore Stephens. In February, the average confidence level stood at 5.8, on a scale running from a low of one to a high of 10, from the confidence rating of 5.6 recorded in November 2012. The survey launched in May 2008 with a confidence rating of 6.8. The accountancy firm recorded expectations of freight rate increases over the next 12 months, particularly in the dry bulk segment, and greater likelihood for new investments in the industry.

Secondhand asset prices are still signaling downward momentum inviting investors for more S&P activity. According to the latest assessments from the Baltic Exchange for 5yrs old vessels, vessels' values are hovering at lower levels than March 2012 with large sized categories indicating a sharper downward revision than smaller vessel categories.

Dry Bulk Carriers – 5yrs old vessels' value from Baltic Exchange:

- **Capesize** 172,000dwt- region $29,9mil with vessel earnings less than $5,000/day– end **March 2012**- region $34mil – down 12% year-on-year – end **March 2010** region $60mil with vessel earnings region $30,000/day.
- **Panamax** 74,000dwt- region $18,7mil with vessel earnings above $9,500/day– end **March 2012**- region $23,5mil – down 26% year-on-year – end **March 2010** region $38,8mil with vessel earnings near $30,000/day.
- **Supramax** 52,000dwt- region $18,3mil with vessel earnings above $10,000/day– end **March 2012**- region $22,3mil – down 22% year-on-year – end **March 2010** region $30,1mil with vessel earnings more than $25,000/day.

Tankers – 5yrs old vessels' value from Baltic Exchange:

- **VLCC** 305,000dwt- region $53,9mil with one year time charter earnings for modern tonnage in region $19,000/day– end **March 2012**- region $59mil – down 9.4% year-on-year – end **March 2010** region $79,5mil with one year time charter earnings for modern tonnage in region $39,000/day.
- **Aframax** 105,000dwt- region $26,2mil with one year time charter earnings for modern tonnage in region $13,500/day– end **March 2012**- region $31,7mil – down 21% year-on-year – end **March 2010** region $41,3mil with one year time charter earnings for modern tonnage in region $18,500/day.
- **MR Product** 45,000dwt- region $22mil with one year time charter earnings for modern tonnage in region $13,750/day– end **March 2012**- region $24,3mil – down 10.4% year-on-year – end **March 2010** region $25,5mil with one year time charter earnings for modern tonnage in region $13,000/day.

In the **dry** market, BDI reached at the end of last week its highest level for this year from the significant growth in panamax and supramax vessel earnings. However, the fourth and finally week of March is marked by a downward recession in the value of the index as the rally in supramax and panamax vessel earnings has now ended and capesize vessel earnings are still not able to surpass the levels of $5,000/day. The strong figures of South American grain fixture activity supporting panamax/supramax segments has now slowed down, while Chinese iron ore and thermal coal fixture activity are on decrease dragging all dry indices in a downward momentum.

Chinese iron ore port stockpiles remain low at about 66,8million tons, which is up by 2% from a week ago, while they are still at record low levels not seen since January 2010. However, they are still not clear signs for a firming Chinese iron ore buying appetite as Chinese steel market signalled weakness after production capacity exceeding demand. According to data released from the China Iron and Steel Association, the daily crude steel output in China averaged approximately 2.06mil tonnes during 11-20 March. One encouraging sign for the struggling capesize segment is that the net fleet growth during the first two months of the year appears to be almost zero as 11 newbuliding deliveries were recorded that were rebalanced with 10 vessel removals trough scrapping. However, the ordering spree reported for capesize bulkers since the beginning of the year creates worries for the future healthy rebound of the segment.

BDI ends for one more month at levels below the psychological barrier of 1,000points, but at 17.5% higher levels than February with a pessimistic outlook on capesize and panamax segments. Supramax vessel earnings are still floating above $10,000/day, while panamax are heading down to reach $9,000/day.

BDI closed on **Thursday March 28th,** at 910 points, down by 2.4% from last week's closing and down by 2.5% from a similar week closing in 2012, when it was 934 points. All dry indices closed in red apart from a soft improvement in the handysize. **BCI** is down by 2.7% w-o-w, **BPI** is down 2.6% week-on-week, **BSI** is down 3.4% week-on-week, **BHSI** is up 9.9% week-on-week.

Capesizes are currently earning $4,678/ day, down by $303/day from a week ago while **panamaxes** are earning $9,412/day, a decrease of $249/day. At similar week in 2012, **capesizes** were earning

$5,188/day, while **panamaxes** were earning $8,398/day. **Supramaxes** are trading at $9,866/day, down by $360/day from last week's closing, 111% higher than capesize and 4.8% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $10,767/day, hovering at 108% higher levels levels than capesizes versus 111% today's higher levels. **Handysizes** are trading at $8,111/day; up by $75/day from last week, when at similar week in 2012 were earning $8,572/day.

In the **wet** market, there was a minor improvement in the very large crude carrier segment with WS in the troubling AG-USG route rising by 0.75 points to WS18.75 after staying unchanged at WS28 for six straight weeks, but time charter equivalent earnings are still floating below zero levels. The forward supply of VLCCs in the AG increased to 90 from 77 vessels last week, resulting in a flat rate outlook in the near-term. In AG-SPORE and AG-JPN routes, WS gained 2.5 points and concluded at WS36.5 with time charter equivalent earnings $13,200/day and $12,700/day respectively. WAFR-USG is showing the firmest performance with WS moving up by 2.5 points to WS37.5-$14,100/day, while WS in WAFR-China route increased by 1.5points to WS36.5-$12,500/day.

In the suezmax segment, the Atlantic market was stronger with rates in WAFR-USAC route gaining 2.5 points to conclude at WS60-$15,000/day, while further gains could be realized in the coming days as charters will progress more active in April programs. China's General Administration of Customs confirmed that February crude-oil imports totalled 20.78 million metric tons, equivalent to 5.44 million barrels a day, down 12.1% from a year earlier.

In the aframax segment, North Sea-UKC route experienced a firm rebound with WS gaining 10 points and lifting to WS100-$26,200/day, while slower activity in the Caribbean market dragged rates in CBS-USG route to WS87.5-$9,300/day, down by 22.5 points from last week. Caribbean market posted also weaker performance in the panamax segment with rates in CBS-USG route falling to WS117.5-$13,100/day, down by 10 points week-on-week.

In the product segment, AG-JPN route keeps a promising performance with rates rising to WS105-$24,300/day, up by 9 points from last week, for 75,000dwt vessels, and to WS137.5-$25,000/day, up by 2.5 points for 55,000dwt vessels. At the end of February, WS in AG-JPN route for 75,000dwt vessels was standing at WS87 and WS118.5 for 55,000dwt vessels.

The very large crude carrier segment is very vulnerable as US progresses with its aim to cut its dependence on oil imports, while China posted a lower oil buying activity in February. China's General Administration of Customs confirmed that February crude-oil imports totaled 20.78 million metric tons, equivalent to 5.44 million barrels a day, down 2.4% from a year earlier. The country imported about 2 million tons of crude oil from Iran, up 2.7% on year and it didn't import any crude oil from Sudan in February.

In terms of oil supply/production, OPEC crude oil output is about to reach its lowest levels since October 2011 this month due to unrest in Libya, pipeline leaks in Nigeria and Iraqi export disruptions. According to a Reuters Survey at oil firms, OPEC and consultants, Supply from the Organization of the Petroleum Exporting Countries is set to average 30.18 million barrels per day (bpd), down from 30.42 million bpd in February. Brent crude spot price fetched this week $110/barrel, while OPEC is scheduled to meet on May 31 in Vienna to review its output policy for the second half of the year.

In the **gas** market, Gazprom of Russia, the eighth largest LNG producer of the world, has made progress in its potential co-investment with Japan Petroleum Exploration for the development of a $7B LNG export plant in Vladivostok, Russia. The plant is anticipated to feature three process trains with a combined annual capacity of 15 MT (5 MT each) and is expected to primarily transport LNG to Japan, South Korea and China upon completion in 2018. Gazprom has seen reduced LNG demand over the past two years, as European countries begin to explore domestic shale gas resources and reduce their dependency on Russian gas.

In the **container** market, the Shanghai Container Freight Index fell again last week from declines in Asia-Europe and Asia-Mediterranean rates, even the General Rate Increases due to continued oversupply. The SCFI declined by 4.7% week on week and closed at 1157 points, down by 6% year-on-year with Asia-Europe and Asia-Mediterranean container freight rates falling by 12% and 11% week-on-week respectively. Rates in Asia-Europe are now $1254/TEU, down by 8.5% year-on-year, and $1214/TEU in Asia-Mediterranean, down by 12% year-on-year.

Transpacific routes experienced softer declines than European routes with rates in Asia-USWC falling by 0.8% week-on-week and 1% week-on-week in Asia-USEC. Rates in Asia-USWC are now $2104/FEU, up by 4.1% year-on-year and $3247/FEU in Asia-USEC, up by 1% year-on-year.

Shipping players are already scheduling a second round of general rate increases from mid-April to overcome overcapacity issues that downsize freight rates. Hanjin Shipping and Zim are the latest container lines announcing mid-April general rate increases on the westbound Asia-Europe trade lane, while Coscon and Hapag-Lloyd announced last week increases of $475/TEU and $500/teu from April 15th. In addition, A.P. Moller-Maersk A/S told customers at the end of last week that its Maersk Line shipping unit will increase container rates on its key Asia-Europe route from April 15. The price hike of $500 per TEU will apply to all dry cargo moving from all Far East Asia (excluding Japan) to all Europe destinations (including North Europe & Mediterranean), the company said in its announcement to customers.

In the meantime, the delivery of ultra large boxships of more than 10,000TEU has slowed down for this year compared with 2012 figures as players are trying to renegotiate the delivery of these mega sized vessels. The laid up container fleet is now 866,000TEU, or 5.3% of the existing fleet, according to Alphaliner figures, with a significant increase in the idling of panamax boxships (3,000-5,000 TEU).

In the **shipbuilding** industry, Japanese shipbuilders, Mitsubishi HI and Imabari Shipbuilding are planning a strategic partnership and establish MI LNG Company for the handling and marketing of LNG carriers. MI LNG will have its head office in Tokyo and will be capitalised at ¥50M ($527,935). MHI will take a 51% stake and Imabari Shipbuilding will hold the remaining 49%. The increased Japanese LNG demand after post-quake nuclear crisis stimulates shipbuilders' decision. In addition, MHI and Imabari said: "As a direct outgrowth of the "shale gas revolution" in the US, the share of North American LNG in the global market is expected to increase, resulting in a trend toward longer transport distances. With volume growing and transport distances lengthening, the number of LNG carriers required is expected to increase. As a result, in order for industry players to attract orders, their shipyards must be structurally prepared to accommodate construction of multiple carriers within in a short period." "With shipyards of two companies at its disposal, the JV will be able to secure collective shipbuilding capacity of more than eight LNG carriers per year. This will enable the JV to take orders for multiple LNG carriers, putting it in a position to vie against Korean and other large shipbuilders," said the two shipbuilders.

In China, shipbuilders keep facing serious downfall in their newbuilding business. According to China National Association of Shipbuilding Industry, China's shipyard orderbook fell 27.4% year on year in February, to an aggregate 106M dwt. Newbuilding orders posted minor growth during the first two months, up 1.9% y/y, with newbuilding orders for exports rising 1.8% y/y to 3.9M dwt. There was also a 21% y/y drop in completed newbuildings during the first two months, totalling 5.7M dwt, it said.

In the **shipping finance**, Tradewinds reported that National Bank of Fujairah (NBF) is targeting an increase in its shipping activity this year. The Dubai and Fujairah emirates-backed bank plans to take part in transactions worth about $100m and arrange some shipping loans, head of marine finance Christopher Phillips said. "It's the right time to be getting into shipping," added Phillips, who joined six weeks ago from BNP Paribas. "There's no shortage of demand for lending and other products."

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