GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 26th April 2013 (Week 17/2013)
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ECONOMIC ENVIRONMENT

Positive news reported this week for the growth of the world's largest economy that rebalances at some level the pessimistic growth outlook on eurozone and the disappointing China's GDP growth in the first three months of the year. According to the Commerce Department Data, US economy grew at an annual rate of 2.5% in the first three months of the year from an increase in consumer spending at an annualized rate of 3.2%. The rise in consumer spending during the first quarter of the year is the largest since the fourth quarter of 2010, while it grew at a pace of only 1.8% since the fourth quarter of last year.

In the meantime, the U.S. Treasury expects the repayment of net debt in the second quarter of 2013 for the first time since 2007 as the budget deficit is started to shrink from a cyclical recovery in tax revenues and a squeeze on spending. "The paydown this quarter—the first since 2007—is emblematic of the turn in budget finances from horrible, to grim on their way to steadily better," said Eric Green, chief economist at TD Securities in New York. The Treasury said it expects to repay a net $35 billion in the second quarter, compared with a February estimate that it would have to borrow $103 billion. "The decrease in borrowing relates primarily to higher receipts, lower outlays, and changes in cash balance assumptions," said the Treasury. The International Monetary Fund forecasts that the U.S. will borrow 6.5% of gross domestic product in 2013, down from 8.5% in 2012 and 10% in 2011.

In eurozone, the EuroWorking Group approved for Greece the release of the EUR2,8bn bailout sub-tranche after the Greek Parliament passed the omnibus bill from the parliament that included the recent agreements between the Greek government and eurozone officials. In addition, the Eurogroup will release the next tranche of EUR4,2bn to Greece on May 13th, while IMF'S BoD is expected to release its part of a EUR1,8bn installment in the second half of May. In addition, Parliament in Cyprus approved the country's international bailout for securing a loan package of 10bn euros from its EU partners and the International Monetary Fund with the obligation to raise 13bn euros, mainly from banking reform.

Overall, eurozone still suffers from high unemployment ratios with inflation falling to three-year low of $1,2% in April, the lowest since February 2010, from 1.7% in March, according to data from European Union's statistics office. Unemployment rate in euro area hit a new high of 12.1% in March, up from 12% in February. Among the Member States, the lowest unemployment rates were recorded in Austria(4.7%), Germany(5.4%) and Luxembourg (5.7%), and the highest in Greece(27.2% in January), Spain(26.7%) and Portugal(17.5%). This adds pressure to the European Central Bank to cut interest rates to stimulate lending and growth in the euro area. According to the median forecast of 70 economists in a Bloomberg News Survey, the European Central Bank's Governing Council will cut its benchmark rate to a record low of 0.50% on May 2 from 0.75%.

In Japan, household spending surged in March at the highest pace in nine years as a sign that Prime Minister Shinzo Abe's aggressive fiscal and monetary policies are started to have the proper effects in a positive economic growth. In addition, March's jobless rate fell to the lowest levels in more than four years providing further evidence for a gradual economic growth in the forthcoming months. The seasonally adjusted unemployment rate fell to 4.1 percent in March, the lowest since 4.0 percent in November 2008, figures from the Internal Affairs ministry showed.

In China, one more warning sign emerged this week for weakness of the world's second largest economy. According to the National Bureau of Statistics, profits of China's large industrial companies showed much slower growth in March than in the first two months of the year. Profit at China's major industrial enterprises rose by 5.3% in March from a year ago, down sharply from a 17.2% rise in the first two months of the year. However, March's growth is slightly better than the year-on-year increase of 4.5% that Chinese industrial firms recorded in the same month last year. One more negative sign is the slowdown of China's manufacturing growth in April from a fall in new exports' orders. The official purchasing managers' index (PMI) fell to 50.6 in April from an 11-month high in March of 50.9, against analyst expectations for April's PMI to be 51.

The slower China's 7.7% GDP growth in the fist quarter of the year pushed also Taiwan's GDP growth to a sharp deterioration. Taiwan's gross domestic product rose just 1.5% year-on-year in the first quarter, down from 3.7% growth in the previous quarter against economists' forecasts of 3.1% growth mainly due to slowing demand from key trading partners, China and US.

SHIPPING MARKET

The Korean government has decided to set up a KRW2 trillion ($1.78 billion) ship guarantee fund in a bid to solve the financial pressure faced by Korean shipowners. The newly establish ship guarantee fund will provide guarantees for shipping companies and shipbuilders to secure bank financing and issue bonds. The shipping industry has continuously asked the government to establish a ship guarantee fund to support the country's weakening shipbuilding sector. The Korea Chamber of Commerce & Industry (KCCI) states that as the shipbuilding market continue to face economic contraction, the Korean financial institutions' support has weakened, while stating that China is reinforcing its policy support for the industry. As a result, Korea is losing ground to China. The KCCI gives strong support saying that the guarantee fund is a good opportunity to raise the credit-worthiness of the Korean shipbuilding industry. The funding required for the establishment of the ship guarantee fund will come from the government and larger shipping companies. It is expected that the Korean government will contribute 90% of the capital required by the fund.

In the **dry** market, capesize vessel returns are on rise from the end of last week with vessel earnings now nearing to $4,900/day from less than $4,500/day last week. However, BDI still float below 900 points since the beginning of the April with panamax and supramax vessel earnings now loosing stream and capesize crawling to surpass the levels of $5,000/day. The weak signs on South American grain fixture activity have started its pressure on the panamax segment with vessel earnings now falling to less than $8,500/day and supramax to less than $9,500/day.

Chinese thermal coal fixture activity is on rise but it seems that could not rebalance the losses from the glut in panamax vessels' supply. According to Commodore Research, there was a moderate decrease in iron ore fixture volume last week with Chinese iron ore stockpiles declining and staying at the lowest levels since April 2010, approximately 67,6mil tons of iron ore port stockpiles. Chinese coal port stockpiles are also under significant pressure from the maintenance in coal-dedicated Daqin Railway standing at levels of approximately 5,5 million tons.

The threat in the panamax segment comes from vessels' supply side as panamax vessel deliveries is estimated that will surpass the capesize newbuilding deliveries this year, while thermal coal fixture activity gives positive signs for support in vessel returns. In the capesize segment, the slowdown in Chinese iron ore fixture activity comes against with the low levels of port stockpiles as Chinese steel market remains weak.

April ended with the average value of the **BDI** at 874 points, 2 points down from March's average value and 147 points less than April 2012, when it was standing above the psychological barrier of 1,000 points. Vessel earnings in all size categories from capesizes to handysizes are floating at lower yearly levels with the smallest losses recorded in the handysize segment and the biggest in the capesize.

In the **capesize** segment, the average value of vessel earnings is $4,448/day, down by $278/day from March's average value and down $2,009/day from the average value in April 2012. In the **panamax** segment, the average value of vessel earnings is $8,982/day, down by $194/day from March's average value and down $1,607/day from the average value in April 2012. In the **supramax** segment, the average value of vessel earnings is $9,457/day, down by $16/day from March's average value and down $1,047/day from the average value in April 2012. In the **handysize** segment, the average value of vessel earnings is $7,921/day, up by $414/day from March's average value and down $530/day from the average value in April 2012.

In the **wet** market, spot rates for very large crude carriers stay at bottom with weak AG chartering volumes and long tonnage list. The forward supply of VLCCs in the AG grew last week to 84 vessels from 79 and rates stayed unchanged at WS18 for a fourth consecutive week. In AG-SPORE and AG-JPN routes, rates stayed at WS32 for a third straight week with time charter equivalent earnings of $7,400/day and $6,700/day respectively. In WAFR-USG route, rates also are stable at WS40-$19,700/day for a second week, from WS35 at the beginning of April. In WAFR-China route, rates stood at WS34 also for a second week with time charter equivalent earnings of $10,400/day.

In the suezmax segment, WAFR-USAC rates eased 5 points from previous highs to conclude at WS57.5-$14,300/day from moderate fixture activity with charterers moving further into May. However, rates in B.SEA-MED route extended gains by moving further 5 points to WS72.5-$20,700/day, from WS67.5 at the beginning of April.

Caribbean market posts gains in the aframax and panamax segments. Rates in CBS-USG route rose by 12.5 points to WS97.5-$15,000/day for aframax vessels from WS87.5 at the beginning of the April. In the panamax segment, CBS-USG rates saw highs of WS120-$15,000/day, up 5 points from previous two week's levels of WS115. In the product segment, rates in AG-JPN route posted no change from previous week. Rates for 75,000dwt vessels stood at WS95-$20,100/day, from WS99 at the beginning of April, and for 55,000dwt vessels rates are at WS114-$15,200/day, from WS129 at the beginning of April.

The pressure on the very large crude carrier segment from US shale oil revolution keeps with US crude oil exports moving at the fastest rate in more than a decade. According to data released from the US Department of Energy, foreign-bound shipments of US crude totaled 124,000 barrels per day in February, matching levels last reached in 2000 with all exports going to Canada.

In the **gas** market, LNG spot rates are said to have fallen to $99,000/day from $102,000/day last week as it seems that more vessels are available for chartering amid waning spot cargo demand. There are some prospects implying a possible slower LNG demand growth, but vessel returns for LNG carriers seem healthy and profitable for investors with newbuilding vessels.

According to the Ministry of Trade, Industry and Energy, South Korea's LNG demand is expected to decrease by 0.1% every year, falling to 37.7 million mt by 2027, down 1.5% from 38.29 million mt in 2012. In its long-term LNG supply plan, the ministry sees nuclear power and coal replacing LNG in electricity generation. The country's LNG demand for electricity generation will slump by 5.5% annually to 7.76 million mt in 2027, down 57.3% from 18.18 million mt in 2012, the ministry added. But LNG demand from household and industry will grow at an average of 2.7% every year to hit 29.94 million mt in 2027, up from 20.11 million mt in 2012 "largely due to stronger industry demand," the ministry said. LNG is used for heating and power generation in South Korea, the world's second-biggest LNG importer after Japan. The country's LNG demand, forecast at 39.767 million mt in 2015, is expected to fall to 33.97 million mt in 2020, before bouncing back to 37.7 million mt in 2027, the ministry said, adding that the falling demand can be attributed to the slowdown in economic growth. South Korea's LNG consumption increased by 13.7% every year from 1987, when it began using LNG, till 2011.

In the **container** market, the Shanghai Container Freight Index is on decline for the last six weeks with Asia-Europe rates floating below $900/TEU for two consecutive weeks, levels seen at the first quarter of 2011. The Shanghai Container Freight Index closed at 1049 points, down by 3.4% week-on-week with losses persisted in all major routes.

In Asia-Europe route, rates now fell to $818/TEU, down by 6.5% week-on-week and 56.6% year-on-year, from $1,888/TEU at the end of April 2012. In Asia-Mediterranean, rates are the same weak at levels of $860/TEU, down by 5% week-on-week and down 56.4% year-on-year, from $1,977/TEU at the end of April 2012.

Transpacific routes recorded also weekly declines for three straight weeks. In Asia-USWC route, rates are now at $2102/FEU, down by 3.1% week-on-week and down by 13% year-on-year, from $2,414/FEU at the end of April 2012. In Asia-USEC route, rates stood $3,251/FEU, down by 1.3% week-on-week and down 8.6% year-on-year, from $3,558/FEU at the end of April 2012.

The new figures for a new high of unemployment ratio in eurozone with slowdown in consumer spending and the flow of new tonnage in Asia-Europe route indicate that the recession of the freight market will persist. According to Alphaliner, a total of 20 new ships of between 8,500 and 16,000 TEU will be introduced into the FE-North Europe trade in the second quarter, in addition to seven new units that were added in March. The timing of the deliveries were aiming to take advantage the anticipated summer peak season, but weak cargo volumes have kept utilization levels at only 80% on average in April with a very slow pick up in demand this year. Carriers' attempts to neutralize the capacity additions by removing smaller tonnage and suspending their smaller strings have failed to stop rates from plummeting by over 40% since January. Spot freight rates from China to Europe are currently hovering at $700-800/TEU, compared with $1300-$1400/TEU at the beginning of the year.

In the **shipbuilding industry**, Asian yards such as China-based Yangzijiang Shipbuilding and South Korea's Samsung Heavy Industries (SHI) believe that the lowest point in newbuilding prices has now been passed. "Now is possibly one of the best chances for shipowners to order new ships. The bottom of newbuilding prices has been reached and prices have firmed by 3-5% since the last quarter of 2012," said Ren Yuanlin, executive chairman of Yangzijiang. However, Ren pointed out that there would not be a major upswing in prices, at least over the course of this year, but at the same time the market should not expect prices to go any lower. In the dry bulk sector, for instance, with the Baltic Dry Index (BDI) at below 1,000 points does not encourage substantial increase in newbuilding prices by shipyards as owners are already not generating any profits, he explained. "Unless the BDI can hover around 1,500 points over a two- to three-month period, then I'd say newbuilding prices can simultaneously be raised to match improved market profitability," he said.

The same market opinion is viewed by Korean shipbuilder Samsung Heavy Industries estimating increased enquiry as owners look to take advantage of the low point for newbuilding prices. Seongil Oh, general manager marketing for SHI, said the yard believes the newbuilding price has already reached the bottom, and there is no possibility to reduce the price further. Oh said the yard is seeing "good signals" of interest in MR and LR2 product tankers and large-sized containerships from European and Asian owners. The LNG newbuilding sector remains an active one for SHI and so far this year the yard bagged nine out of 11 LNG carriers ordered at Korean yards.

In the **shipping finance**, Taiwan's Wisdom Marine Group had signed a two-tranche syndicated loan agreement for $5.92 million and JPY11.88 billion ($119.43 million) with six domestic banks to finance its orders for six bulkers with three Japanese shipbuilders. The syndicated loan was co-led by First Commercial Bank and Bank of Taiwan, which will each offer 34% of the fund. The other participating banks are Bank SinoPac, Hua Nan Commercial Bank and Taiwan Cooperative Bank, which will each provide 9% of the fund and Bank of Kaohsiung which will provide 5% of the fund. The six newbuildings include one 74,700 dwt panamax, two 82,000 dwt kamsarmaxes and three 60,000 dwt supramaxes, all of which will be built at Sasebo Heavy Industries, Tsuneishi Shipbuilding and Oshima Shipbuilding respectively. "The vessels that are under construction are energy-efficient and have attracted many potential tenants," Wisdom Marine chairman James Lan told reporters after the loan signing ceremony. Of the six newbuildings, two will be chartered out to K Line for a 15-year period while another two had secured charters with commodities producer Glencore.

In addition, Bermuda based TEXTAINER, the top container lessor by fleet size, has secured access to a $170m credit facility that will allow the group to purchase more boxes. The company has agreed the funding with a group of financial institutions led by ABN Amro Capital US and including ING Belgium, Sovereign Bank and Union Bank. The interest rate under the credit agreement is 200 basis points over the London Interbank Offered Rate. The facility replaces and expands an existing three-year, $120m revolving credit facility that had an interest rate of 375 basis points over Libor. Furthermore, Canadian Seaspan announced over $500mil in new term loan facilities through Asian Banks in first quarter, including a $340mil term loan to refinance existing vessels and a $174mil term loan to fund newbuildings for delivery in second quarter of the year.

In the capital markets, Chilean carrier CSAV received approval for a capital increase of $500mil through a share issuing later in the year for the purchase of seven 9,300TEU wide-beamed fuel efficient boxships ordered from South Korean shipyard Samsung Heavy Industries and partly towards the repayment of debt. Chief executive Oscar Hasbún said: “With this investment, CSAV will have one of the most efficient fleets in the industry and its implementation is intended to reinforce our strategy of strengthening our policy of joint operations and the generation of economies of scale. “Having vessels of large capacity and efficient in fuel consumption, at a cost that can be considered to be very attractive compared to the standards of the competition, enables us to build a competitive advantage in the medium and long term.”

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