GOLDEN DESTINY

**This Week's News: A snapshot on the economic and shipping environment**
**Week Ending: 24th May 2013 (Week 21/2013)**
*(Given in good faith but without guarantee)*



## ECONOMIC ENVIRONMENT

May seems that will end with disappointing figures for the world's second largest economy. Preliminary estimates for China, a main engine for the global economic recovery, signal slower manufacturing in May by falling below the 50-level, from expansion to contraction, for the first time since October.The HSBC Flash China Manufacturing Purchasing Managers' Index, which is published on a monthly basis one week before the official release of final PMI, fell at seven month low of 49.6, from 50.4 in April. Based on the last published data, analysts have lowered their prediction for China's economic growth towards 7.5% from their initial estimate of 8% GDP growth in 2013.

In the eurozone, Flash Germany Manufacturing PMI moved up to a two month high of 49.0 from 48.1 in April, but it remains below the 50-expansionary level. The same stabilization under the 50-point level is also been recorded in the French economy with Flash France Manufacturing PMI rising to a 9-month high of 45.5 from 44.4 in April. Overall, the initial reading of the Markit eurozone Purchasing Managers' Composite Index for both manufacturing and services sectors rose to 47.7 in May from 46.9 in April, beating market expectations but remained below the 50.0 level that separates growth from contraction.

In Spain, the eurozone's fourth largest economy, trade balance recorded its first monthly trade surplus since 1971. The trade surplus could not be seen as a positive development for Spanish economy as it comes from a severe plunge in imports, which indicates weak domestic demand with unemployment now standing at 26.7%. According to official released figures, the surplus of EUR634.9m ($814.1mil) in March reflects a 15% plunge in imports compared with the same month last year. Spanish exports to other European countries fell by 8.1% in March, but overall exports grew by 2% to 20.2bn euros.

In Greece, Prime Minister's trip to China brings optimism in the struggling economy that has remained in a sixth year of recession with unemployment at a record of 27%. "Until recently, many analysts believed that Greece was a lost case. We proved them wrong," Samaras said in a speech in Beijing last Friday. "Most of them now witness not a "Grexit" - an exit from the euro zone - but a "Greekovery" - a recovery of the Greek economy."

In Japan, trade deficit widened in April as a rise in exports was outweighed by a higher value of imports due to rising prices of imported commodities. Preliminary figures from the finance ministry showed that Japan posted a deficit of Y879bn ($8,6bn) in April, which is almost 70% larger than a year earlier. The total value of exports rose 3.8% from previous year to Y5,78tn, while imports were up by 9.4% to Y6,66tn. The growth in imports beat expectations, and is an indication of "solid domestic demand," said Shuji Tonouchi, a strategist at Mitsubishi UFJ Morgan Stanley in Tokyo. China remains behind US as Japan's primary export destination. Japanese exports to China remained in April at almost the same levels of last year of Y998bn, while shipments to US rose by 15% to Y1,1tn. In the meantime, the Bank of Japan kept its monetary policy on hold based on the huge stimulus plan unveiled in April, which seems enough to spur growth in the world's third largest economy.

**SHIPPING MARKET**

Greek Prime Minister's visit in China brought interesting news this week for the domestic shipping industry. China is planning to invest more in Greece at its port industry in Piraeus, the country's largest port. Fu Chengqiu, the managing director of Piraeus Container Terminal SACOSCO Group, said that despite Greece still being in deep crisis, he still considers Piraeus as a vital gateway for shipping heading to Europe. Greek Prime Minister said: "Greek infrastructure is open (to investment) and we welcome Chinese enterprises to take part in the operation of some projects." Samaras also encouraged Chinese companies to invest in his country's logistics services industry, highlighting Greece's good geographical position

The trip to China pours also interesting developments on the newbuilding plans of Greek shipowners at Chinese shipyards. The statement of Greek Shipping Minister Kostis Mousouroulis for Greek shipowners signing 142 newbuildings at Chinese yards in April surprised the world shipping industry. It remains interesting to be seen if these orders are actually fresh orders signed in April or the statement refers to accumulated newbuilding business in previous months and years. Greek shipowners' support at Chinese shipbuilding industry through their newbuilding plans seems a reward of Greece for China's investments in our country. On the other hand, China supports Greek newbuilding plans through its ship lending under the current tight European lending conditions.

In the **dry** market, Baltic Dry Index keeps its slide from weaker activity in bigger vessels, panamax and capesizes, while handysize vessel earnings are gaining support from a healthy amount of grain fixture activity. Panamax vessel earnings are under the most severe pressure from the continuous flow of newbuilding deliveries even the healthy amount of coal cargo demand. Chinese thermal coal fixture activity gives firm signs but without an upward pressure on panamax vessel earnings.

In the capesize segment, iron ore fixture activity has shown a revival but vessel earnings are still floating at levels of less than $5,500/day. According to Commodore Research, 20 vessels were chartered to haul iron ore to Chinese buyers last week, 3 more than the previous week and 7 more than the trailing four week average. Last week marked the second consecutive week that Chinese iron ore fixture volume increased, and was the largest amount to surface since the Week Ending February 22nd.

Capesize vessel earnings are now averaging of about $5,600/day, which is higher from April's average value of $4,448/day, while panamax's average value of less than $8,000/day is lower than April's value of near to $9,000/day. In the supramax segment, vessel earnings are now averaging about $9,000/day from almost $9,500/day last month and handysize vessels keep their soft improvement from April's levels. Handysize vessel earnings are now averaging at slightly more than $8,000/day, from about $7,900/day in April and $7,500/day in March.

On **Friday May 24th, BDI** closed at 826 points, down by 1.7% from last week's closing and down by 20% from a similar week closing in 2012, when it was 1,034 points. BCI and BPI remain weak with supramax and handysize vessel earnings surpassing the earnings of large vessel size categories. The largest decrease has been recorded in the panamax segment with vessel earnings falling below $7,000/day for the first time since February 20. **BCI** is up by 1.8% w-o-w, **BPI** is down by 8.1% week-on-week, **BSI** up 0.7% week-on-week, **BHSI** is down 2.4% week-on-week.

**Capesizes** are currently earning $5,271/ day, up by $103/day from a week ago while **panamaxes** are earning $6,801/day, a decrease of $617/day. At similar week in 2012, **capesizes** were earning $6,426/day, while **panamaxes** were earning $8,633/day. **Supramaxes** are trading at $8,965day, up by $63/day from last week's closing, 70% higher than capesize and 32% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $11,694/day, hovering at 82% higher levels than capesizes versus 70% today's higher levels. **Handysizes** are trading at $8,084/day; down by $81/day from last week, when at similar week in 2012 were earning $9,702/day.

In the **wet** market, the distressed picture persists in the very large crude carrier segment even though the strong chartering activity in AG last week with time charter equivalent earnings below zero levels since the beginning of the year. The completion of May cargo program and the slow start to June cargoes led to spot rates declining this week. In AG-USG route, rates fell to WS22.5, down by 1 point from last week, but stayed 4.5 points above from end-April. In AG-SPORE and AG-JPN routes, spot rates fell to WS38.5 with time charter equivalent earnings of $17,600/day and $17,300/day respectively, down by 1.5 points from last week and up by 6.5 points from end-April. In WAFR-USG route, rates declined to WS37.5-$15,500/day, down by 2.5 points from last week and end-April. In WAFR-China route, WS fell to 37-$14,800/day, down by 3 points from last week and up by 3 points from end-April.

In the suezmax segment, rates in WAFR-USAC route remained unchanged at WS55 level-$12,200/day, down by 2.5 points from end-April levels. West African fixture activity posted a modest improvement last week but oversupply of vessels continues to weight negatively on rate acceleration. In B.SEA-Med route, the rate deterioration is sharp with spot rates declining to WS60-$8,600/day, down by 6.5 points from last week and 12.5 points down from end-April.

In the aframax segment, N.SEA-UKC rates stayed at WS80-$7,200/day, for a third straight week, while rates on the MED-MED route shed 5 points to conclude at WS67.5, from more sluggish fixture activity levels. In the CBS-USG route, rates gained 10 points to conclude at WS115-$22,100, up by 17.5 points from end-April levels due to more limited supply of tonnage trough weather related delays in USG and sustained cargo demand. In the panamax market, the CBS-USG route stayed under negative pressure with rates falling by 5 points to WS115-$9,600/day.

In the product segment, AG-JPN routes are experiencing declines with WS for 75,000dwt vessel sliding to 80.5points-$13,100/day, down by 6 points from last week and down by 14.5 points from end-April. Spot rates for 55,000dwt vessel fell by 4.5 points to conclude at WS95.5-$8,600/day, down by 18.5 points from end-April. The continent market is under strong negative pressure due to slower fresh demand and larger supply/demand imbalance. Rates on the CONT-USAC route shed 26.5 points to conclude at WS143.5.

In the **gas** market, against the recent slide in LNG spot rates to levels of less than $100,000/day, LPG spot rates are experiencing record highs. According to the Baltic Exchange, LPG spot rates for very large gas carriers surged 47% this month to $70.86/metric ton. According to Diego de Potter, deputy chartering director at Exmar NV, Belgium based operator of very large gas carriers, costs to ship liquefied petroleum gas will exceed the 2008 record as the US expands exports amid rising demand in Latin America and India. LPG spot rates reached $81.64/metric ton in July 2008 according to the Baltic Exchange. Energy Department showed that US is shipping more LPG than ever as a byproduct of record natural gas output. US produced a record 29.8 trillion cubic feet of natural gas last year and exported 71.9 million barrels of LPG, as per data from the Energy Department. During the year to February, US LPG shipments rose by 15% to 5.8 million barrels.

In the **container** market, the Shanghai Container Freight Index fell for a ninth straight week with losses in Asia-Europe and Asia-Mediterranean routes. The Shanghai Container Freight Index fell to less than 1,000 points at 991, down by 1.8% week-on-week, for the first time since February 2012, which is 30.5% down year-on-year. In Asia-Europe route, rates fell to less than $700/TEU, at $668/TEU, down 8.6% week-on-week and down 61.7% year-on-year. The last time that Asian-European routes have dipped to such low levels was end-2011. In Asia-Mediterranean route, rates have now fallen to less than $800/TEU, $779/TEU, down 3.2% week-on-week and down 58.4% year-on-year.

Liners have already announced general rate increases for July of $750-$1000/TEU as they are not able to reduce capacity and cargo volumes remain weak. MAERSK Line has announced a general rate increase on the Asia-Europe westbound trade lane US$750 per TEU from July 1, following the increase of its rival Hapag-Lloyd by $250/TEU, which will take effect from the same date.

In transpacific routes, rates in Asia to the USWC and USEC routes showed a mild improvement. In Asia-USWC route, rates moved up to $2012/FEU, up by 0.8% week-on-week and down by 13.6% year-on-year. In Asia-USEC route, rates increased to $3169/FEU, up by 0.5% week-on-week and down 9.2% year-on-year.

In the **shipbuilding industry**, Japanese shipbuilding nation is gaining more ground by winning stronger new business from a slide in the appreciation of its currency yen and the new designs of eco friendly vessels. According to Japan Ship Exporters' Association, Japanese shipbuilders have more than doubled their ordering business won from foreign buyers during April compared with the levels of April 2012. Japanese yards won orders for 35 vessels with a combined capacity of 1,3m gross tons, up from 10 ships ordered in April 2012 with a combined capacity of 515,768 gross tons. However, April's levels are lower than March; when Japanese yards have received 49 export orders with a combined capacity of 2,7m gross tons. Most of their business won is in the bulk carrier segment, as ship-owners seem to return to Japanese yards after the depreciation of the yen. As per data from Japan Ship Exporters' Association, yards won orders for 7 handysize bulkers, 14 handymax bulkers, 6 panamax bulkers and 1 woodchip carrier.

In the **shipping finance**, the new cooperation of China with Greek economy brings to light new lending agreements for Greek shipowners from China's primary lenders. The two main Chinese banks, China Export-Import and China Development Bank, which have already showed their willingness for support foreign investors that wish to place newbuilding orders at domestic shipyards, appear to be involved in new deals with reputable Greek shipowners.

China Development Bank has signed with Nasdaq-listed Paragon Shipping a loan agreement of US$ 69mil for the partial funding of the construction of two 4,800 TEU boxship vessels in Zhejiang Ouhua Shipbuilding for delivery in 2014. In addition, the China EXIM bank offered financing to the Angelicoussis Group for the construction of three 319,000dwt tankers at Shanghai Waigaoqiao Shipbuilding. China EXIM seems willing to lend about $48mil per vessel. In one more deal, China EXIM is said to have provided $30mil in financing to Diana Shipping for the construction of two ice class bulkers ordered last year with China Shipbuilding Trading Company and Jiangnan Shipyard (Group) Co. to be delivered at the end of 2013. In addition, Laskaridis Shipping is reportedly to have secured financing from China Development Bank for the funding of its ultramax and kamasarmax newbuildings Penglai Zhongbai Jinglu.

In the European ship financing scene, Germany's second largest bank, Commerzbank AG, is said to be under plans to buy and run ships from its struggling borrowers in an effort to restructure its ship financing portfolio. Hanseatic Ship Asset Management GmbH, a Hamburg-based unit of the German bank, will run the vessels with partners and sell them when the shipping market recovers, Commerzbank said in a share sale prospectus published on its website on May 14. "The reduction of the ship-financing portfolio is subject to significant risks due to the difficult market situation at the moment and the price volatility of ships," Frankfurt-based Commerzbank said.

One interesting ship financing deal reported this week from Hoegh LNG that received commitment letters from five banks to finance its Lampung floating storage and regasification unit (FSRU) project in Indonesia. **DBS Bank, Korea Development Bank, Oversea-Chinese Banking Corporation Limited, Standard Chartered, Bank of Tokyo-Mitsubishi commit to $299 million facility with Höegh LNG to finance the project.** The credit facility consists of $237m of long term finance for the FSRU and a further $62m of construction finance for the mooring system. Korea Trade Insurance Corporation will cover 75% of the loan. Hoëgh president and ceo, Sveinung Støhle said, "We are very pleased with the structure of this facility. Commercial banks expressed strong interest in participating in the financing of this Project and we had to limit the bank group. The Lampung FSRU project is on schedule in all aspects for its planned start-up in June 2014."

***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