GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 31st May 2013 (Week 22/2013)
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ECONOMIC ENVIRONMENT

The world economy is still in danger zone with OECD warning about high unemployment in Euro area and IMF lowering its growth forecast of China after disappointing economic figures during the first four months of the year.

The International Monetary Fund in its annual review of the Chinese economy downgraded its growth forecast for this year to about 7.75% from an earlier prediction of 8% based on lower demand for Chinese exports from the worldwide economic recession. In a new estimate, IMF said that China's government debt totaled nearly 50% of gross domestic product, which is much lower than the debt levels of US and Japan but significant larger than an initial estimate of about 22% of GDP at the end of 2012, based on Chinese government data.

China's Premier Li Keqiang during a speech at a lunchtime reception for German and Chinese business representatives in Berlin on May 27, 2013, confirmed that his country is confronted by "huge challenges" as it seeks 7% annual growth this decade, which is down for more than 10% growth in the previous two years. Li said that the Chinese government will move forward with market-driven reforms to generate stable growth after the economy unexpectedly slowed in the first quarter. He affirmed that industrialization and urbanization give "huge" potential for expansion during the rest of the decade.

The Organization for Economic Cooperation and Development holds almost the same prediction with IMF for China's GDP growth. It also gives a more pessimistic approach on China's expansion by forecasting GDP growth of 7.8% this year, down from its previous estimate of 8.5%.

According to OECD's latest economic outlook, there is also a conservative approach on world economic growth with the organization estimating a 3.1% GDP global growth for this year before accelerating to 4% in 2014. It said that eurozone will remain in recession for a second year by contracting 0.6% in 2013 and returning to growth next year with a rate of 1.1%. In contrast, US is predicted to be already in an expansionary level with estimations for 1.9% growth this year and 2.8% in 2014, which considered to be the most excellent US economic performance since 2005.

Even the negative signs of eurozone and the weaker growth in the main world's economic powerhouse, China, OECD confirmed that the global economy is advancing but the pace of recovery in the main economies varies. "The global economy is strengthening gradually, but the upturn remains weak and uneven," said OECD Secretary-General Angel Gurría. "Supportive monetary policies, improving financial market conditions and a gradual restoration of confidence are at the root of the recovery. Also, the fiscal adjustment of the last few years is beginning to pay off. Several countries are close to stabilising their government debt-to-GDP ratios and ensuring a gradual decline in indebtedness over the longer term," Mr Gurría said. The OECD warned governments that urgent actions must be taken to reduce unemployment, which has risen to worrying high levels in many countries. According to the OECD Economic Outlook, government policies should focus on measures to enhance growth, make public finances more sustainable and growth-friendly and implement structural reforms to boost investment and create jobs.

In emerging economies, one more country Brazil disappoints with its growth figures in the first quarter following China's softer performance. Latin America's largest economy managed to grow just 0.6% in the first quarter compared with the fourth, which is lower than Bloomberg's consensus forecasts of 0.9% growth. The Brazilian Central Bank's Monetary Policy Committee raised the country's benchmark Selic interest rate from 7.5% to 8%, following last month's 0.25% increase, to rein in inflation that was 2.5% from January to April. Brazil also announced a cut for the 2013 federal budget by $13,65 billion last week and set the inflation target for 2013 at 4.5%.

SHIPPING MARKET

The slower economic expansion of major emerging economic powerhouses fuels worries for the fortune of shipping freight markets. China has posted soft economic figures during the first four months of the years, but China's Premier Li Keqiang confirms the power of the world's second largest economy on the world trade. He said that China will import goods totaling $10trillion in the next five years and foreign investment will reach $500bn, while the country is targeting at 7% annual target GDP growth by 2020. The stability of growth in Chinese economy by the end of decade provides a safe vehicle for the development of freight rates towards better levels in the years ahead based on transportation demand for bulk commodities.

Investors are now more than eager for acquiring shipping assets as the second quarter of the year seems to end with a higher pace of secondhand purchases and newbuilding orders than the previous quarter. The demand for purchasing secondhand vessels is now higher as potential buyers have now realized that asset prices reached their bottom lows and purchasing prices for secondhand vessels are heading to higher levels than the beginning of the year. The upward pressure on secondhand asset prices is stemmed mainly from the higher demand for purchasing and not from the recovery of the freight rates. Levels of vessel earnings are still too low to ensure profitability and secondhand prices do not yet surpass the higher levels of previous years welcoming investor for solid pace of investments till the end of the year.

In the **dry** market, panamax vessels earnings' performance worsened during the last days of May, while capesizes are showing a mild improvement and supramax vessel earnings are outperforming. Spot panamax earnings have fallen to less than $6,500/day, while peak South American grain season has led supramax to levels of near $9,000/day.

In the capesize segment, spot earnings could not surpass the levels of $5,500/day since mid-May with Chinese iron ore port stockpiles being on increase. According to Commodore Research, the increase in iron ore stockpiles is coinciding with weakness in the Chinese steel market. Chinese iron ore port stockpiles have now reached their highest level since January of approximately 70,6mil tons, which is the fourth straight weekly increase. The lower demand for imported iron ore cargoes have resulted in spot iron ore price falling to its lowest level for the year at below $120/ton, from a 16-month high of $158.9 on February 20th, according to the Steel Index Ltd.

In contrast with iron ore fixture activity, Chinese demand for imported thermal coal cargoes in the spot market has remained strong due to low Qinhuangdao port stockpiles and robust electricity production. Coal stockpiles at the port of Qinhuangdao remain well below the critical level of 7 million and have increased by only 200,000tons during the last two weeks. Panamax newbuilding vessel deliveries have now surpassed the number of deliveries in the other categories of bulkers and the firm amount of Chinese thermal coal fixture activity seems unable to absorb the excess supply.

The weaker activity in panamax and capesize still downsizes the Baltic Dry Index below 900 points. On **Friday May 31st, BDI** closed at 809 points, down by 2% from last week's closing and down by 11% from a similar week closing in 2012, when it was 904 points. All dry indices closed in red apart from the supramax. The largest decrease has been recorded in the panamax segment. **BCI** is down by 1% w-o-w, **BPI** is down by 7% week-on-week, **BSI** up 1.6% week-on-week, **BHSI** is down 2.3% week-on-week.

Capesizes are currently earning less than $5,200/day and **panamaxes** are earning less than $6,500/day. At similar week in 2012, **capesizes** were earning $4,814/day, while **panamaxes** were earning $7,138/day. **Supramaxes** are trading at more than $9,000/day, about 74% higher than capesize and 38.5% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $10,694/day, hovering at 122% higher levels than capesizes versus 74% today's higher levels. **Handysizes** are trading at about $7,900/day; when at similar week in 2012 were earning $9,217/day.

In the **wet** market, more active AG activity led to a rise in spot rates in the troubled AG-US route with WS for very large crude carriers moving to WS23.5, up by 1 point from previous week. Although the forward supply reached 55 vessels, which is the lowest seen since November 2012, the freight environment remains extremely weak. At the end of May 2012, WS in AG-USG was 39 with time charter equivalent earnings of about $15,000/day. In AG-SPORE and AG-JPN routes, rates increased to WS40-with time charter equivalent earnings of about $20,000/day, up by 1.5 points on a weekly basis, from WS 56-$36,000/day at the end May 2012. In WAFR-USAC route, rates stayed steady at WS37.5-$17,700/day, from WS60-$39,200/day at end May 2012 and moved up by 1.5 points in WAFR-USAC route to WS38.5-$17,700/day.

In the suezmax segment, West African activity was under negative pressure with rates in WAFR-USAC route falling to WS52.5, down by 2.5 points, while in B.SEA-MED route showed no change at WS60-$8,900/day. At end May 2012, rates in WAFR-USAC and B.SEA-MED routes were at WS82.5 with time charter equivalent earnings of $25,000-$26,000/day.

In the aframax segment, spot rates in the N.SEA-UKC and CBS-USG routes stayed stable from last weekly levels at WS80-$7,500/day and WS115-$22,400/day respectively. At end May 2012, rates in N.SEA-UKC route closed at WS95-$19,400/day and WS108-$14,200/day in CBS-USG route. In the panamax segment, the Caribbean market experienced modest losses with CBS-USG route easing 2.5 points to conclude at WS112.5-$9,100/day, from WS155-$24,600/day at the end May 2012.

In the product segment, rates showed significant weakness in AG-JPN route for 75,000dwt vessels by easing 7.5 points to conclude at WS73-$9,800/day, from WS84-$10,400/day at end May-2012. For 55,000dwt vessels, the fall was no so sharp with rates sliding to WS93-$8,100/day, down by 2.5 points from previous week, while at end-May 2012, rates ended at WS105-$10,000/day.

In the **gas** market, Danish oil and shipping group A.P. Moller Maersk announced its exit from very large gas segment by selling its fleet to the BW Group. The BW Group buys Maersk Tankers five owned vessels and takes over the five existing time charter commitments. The divestment is part of Maersk Tankers strategy to focus on fewer segments. Hanne B. Sørensen, CEO Maersk Tankers: "This transaction supports our strategy to focus on fewer segments. I am confident that BW will deliver the same first-rate service to our customers as we have." Andreas Sohmen-Pao, CEO BW Group, says: "Maersk Tankers has a fleet of high quality vessels and BW is pleased to be acquiring this fleet. With this purchase, we will be able to deliver even more flexible service to our customers, providing ready access to vessels in all regions at all times."

In the LNG segment, Japan's Osaka Gas and Chubu Electric have decided to tender for up to nine liquefied natural gas (LNG) carriers to transport LNG from the US Freeport LNG project. Both parties have already proceeded with related talks with Korean shipbuilders and worldwide LNG shipowners and the newbuilding project has been pushed forward as the Freeport LNG project won an approval from the U.S. Department of Energy to export shale gas as a non-FTA country. The Freeport LNG project is planned to export a total of 4.4m tons of LNG to Japan's Osaka Gas and Chubu Electric from 2017 and other 4.4m tons to BP from 2018.

In the **container** market, the Shanghai Container Freight Index ended flat last week at 991 points with no change from previous week's closing as losses in European routes were offset by gains in the transpacific trade. Eurozone recession and ample vessel capacity led rates in Asia-Europe to end even lower at $641/TEU, down by 4% week-on-week and 63% year-on-year. The last time that Asia-European rates were too low was at the end of October 2011. In Asia-Mediterranean route, rates closed at $760/TEU, down by 2.4% week-on-week and 58.8% year-on-year. Trading volumes remain weak and the downward incline seems that will persist until July's General Rate Increases.

In transpacific route, rates in Asia-USWC and Asia-USEC improved by 4% and 2.7% respectively, but the recovery is expected to be short term as transpacific capacity increases. Rates in Asia-USWC ended at $2093/FEU, down by 10.3% year-on-year, and $3254/FEU in Asia-USEC route, down by 6.4% year-on-year. The gradual rebound of US economy is helping the freight market environment in US routes, but estimations for an increase in transpacific vessel capacity will keep rates under pressure. According to Alphaliner estimates, transpacific capacity will increase by 6.8% in the peak season of this year with 8.9% increase in the capacity of US to West Coast and 2.2% increase in the capacity to US East Coast.

Alphaliner added that although carriers have placed high hopes on the recovery of the US economy to drive demand for container imports this year, total volumes have so far failed to match expectations. In the first four months of 2013, total Asia-US demand decreased by 1.5%, even as new supply continues to be phased in with the average capacity utilization rate falling in the year to date, from 92% in 2012 to 86% in 2013.

In the **shipbuilding industry**, Chinese shipbuilders appear to have strengthened their position during the first four months of the year. According to the China National Association of Shipbuilding Industry, the volume of new orders gained by China increased 57% year-on-year during January-April aggregating 11,6mil deadweight. In April, the number of new orders increased 12.3% from April 2012 to 2mil deadweight. CANSI added that newbuilding orders for exports rose 89.4% year-on-year to 10.6mil dwt during the first four months of the year. However, the orderbooks of Chinese builders shrank 24.8% year on year to 104.7M dwt at the end of April, or 2.1% below the level at the end of 2012, said the group, as the situation became even harsher for the production and operations of 80 surveyed companies in the Chinese sector.

According to market sources, some of Chinese shipyards have excessively lowered the level of deposits for newbuildings in an attempt to grasp more business and face stagnation for new orders and contract cancellations. For instance, Jinhai Heavy Industry recently penned an order for 180,000 dwt bulkers, costing around $45m apiece, with deposits of just 2.5%. Meanwhile, sources said other small-and-medium shipyards in China have started to quote prices based on deposits of just around 2.5% as Jinhai did, compared to a more standard 10% in today’s market. However, they added that this can be seen only at financially troubled less reputable yards, but state-owned builders are not taking these measures.

In the **shipping finance**, the Government of Korea has said that it will back small and medium sized shipping companies with KRW 2 trillion ($1.78 billion) to boost ship financing and building. The funding will be supported by The Bank of Korea, Korea Exchange Bank and Kookmin Bank which have each agreed to put KRW 100 billion ($89 million). This decision is one more aid from the Korean government towards its shipping industry and more larger measures are expected in the coming months, including the creation of a mega-shipping fund are expected to be announced over the summer.

In the **capital markets**, Costamare Inc. announced that it has entered into a joint venture with Framework Deed with York Capital Management Global Advisors LLC (“York”), a New York-based investment advisor firm, to invest jointly up to approximately $500 million in equity for the acquisition of container vessels. The term of the joint venture is six years unless earlier terminated by the parties upon the occurrence of certain extraordinary events or disagreements. Upon any termination of the joint venture, Costamare Inc. will have the right to require a split of the vessel fleet between the parties. Costamare Inc. will hold up to a 49% interest in the joint venture. It will have the option to increase its percentage participation from a minimum of 25% to a maximum of 49% within a pre-determined time period after each acquisition commitment has been agreed upon. Gregory Zikos, Chief Financial Officer of the Company, commented: “We are pleased to announce our joint venture agreement with York, a first class and well respected fund manager, and we look forward to pursuing investment opportunities in container shipping. “The structure of the agreement is designed to avoid any conflict between the public company and private investors; on the contrary, Costamare Inc. will be co-investing alongside York and will have the opportunity to earn incremental returns. “With this agreement we complement our own purchasing power with that of our partner, allowing us to pursue opportunities of larger scale and cater to the increased needs of our clients. “Our strategy has always been returns-oriented; we believe that our partnership with York will further enhance investor returns.”

In terms of **ship financing** deals, one massive loan agreement has been secured from leading Norwegian car carrier Hoegh Autoliners of $1,4bn with a number of banks led by Danske Bank, DNB Bank and Nordea Bank Norge.

Scorpio Tankers Inc. announced that it has increased its $267 million credit facility with Nordea, ABN AMRO and SEB, which was established in February, to $525 million. The news comes in conjunction with the announcement of the construction of 16 more fuel efficient product tanker newbuildings and confirmed that it plans no more orders. The newbuilding agreements include eight 114,000dwt LR2 vessels for $52mil each, four 52,000dwt MR vessels for $32,5mil each and four 37,000dwt Handymax ice class vessels for $31,6mil each.

In addition, Aegean Marine Petroleum Network has lined up $800 million in multi-currency revolving credit facilities. The amount is separated into three tranches: $100 million 364-day secured facility, $100 million two-year secured facility and $600 million secured uncommitted facility. The proceeds will be used to finance the purchase, transportation, storage and sale of fuel and gas oil.

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