This Week's News: A snapshot on the economic and shipping environment
Week Ending: 2nd August 2013 (Week 30/13)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

The signs for a weaker economic growth in the world second largest economy for this year continue as the HSBC Flash China Manufacturing Purchasing Managers' Index, which is published on a monthly basis one week before final PMI data are released, fell at a seven month low to 47.7 from 48.2 in June. Commenting on the Flash China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said: *"The lower reading of the July HSBC Flash China Manufacturing PMI suggests a continuous slowdown in manufacturing sectors thanks to weaker new orders and faster destocking. This adds more pressure on the labour market. As Beijing has recently stressed to secure the minimum level of growth required to ensure stable employment, the flash PMI reinforces the need to introduce additional fine-tuning measures to stabilise growth.*

The official Purchasing Managers' Index of China comes once again in contradiction with the flash estimate from HSBC. The official PMI rose to 50.3 in July from 50.1 in June, indicating that conditions had improved marginally in the manufacturing sector. Former World Bank chief economist and senior adviser to the Chinese government Justin Lin has criticised widespread pessimism among economists and investors about the outlook for the world's second-largest economy and predicted it would grow between 7.5 per cent and 8 per cent for the next 20 years. Mr Lin said he believed 7.3 per cent growth for the next seven years was the government's basic bottom line, as that was the rate needed to achieve Beijing's formal target of doubling household incomes in China between 2010 and 2020. China has already unveiled measures to boost its sluggish economy in a mini stimulus program. The "mini stimulus", although limited in size, could trigger more policy moves to prop up growth. The government will eliminate taxes on small businesses, reduce costs for exporters and line up funds for the construction of railways.

In contrast with China's weaker economic outlook, the recession in the eurozone is about to end with the Markit "flash" estimate of its composite purchasing managers' index for July increasing to a reading of 50.4, up from 48.7 in June, representing growth and not contraction. In the meantime, the European Central Bank decided to keep rates on hold at 0.5% and noted signs of a tentative improvement in the eurozone economy. The unemployment numbers released for the eurozone showed the first fall in two and a half years although the fall was not enough to drop the unemployment rate of 12.1%.

In UK, economy expanded at a pace of 0.6% in the second quarter, from a 0.3% improvement in the first quarter and it is the first time since the third quarter of 2010 that the three major industry groups, production, construction and services, all had positive contributions to GDP, according to the Office for National Statistics. "Prospects look good for a continuation of the recovery in the third quarter, with consumers and businesses both helping drive the upturn. There are even signs that exporters will see improved sales, helping drive the long-awaited re-balancing of the economy," said Chris Williamson, chief economist at Markit, in a note.

In Japan, industrial output declined for the first time in five months in June, contracting by 3.3% with a 4.1% fall in automobile production and declines also in other sectors, including electronic components and factory machinery. However, there are expectations for expansion in production due to weaker yen.

"We believe the boost from yen depreciation should gradually begin emerging from summer 2013 in the form of export volume growth," said Naohiko Baba, chief Japan economist at Goldman Sachs. Shuichi Obata, senior economist at Nomura Research, said Japanese industry could weather a predicted economic slowdown in China, in part because demand from the US, Japan's other major export destination, was expected to remain relatively strong. "We project China's real GDP growth will slow to around the mid-6 per cent level through to the middle of next year, but we do not expect that level of slowing to lead to serious stalling in the Japanese economy," he said.

In the meantime, Japan’s unemployment rate fell below 4% for the first time since 2008, dropping to 3.9% in June from 4.1% in May, but household spending fell by 0.4% year-on-year, confounding market expectations for a 1% increase. Strong level of confidence in a solid Japanese economic growth is that the country posted its highest rate of inflation for nearly five years, providing a boost to policy makers seeking to overturn more than a decade of growth deflation. The year-on-year rise in the country’s core consumer price inflation index stood at 0.4% in June, the government reported, rising for a four month in a row and it is the highest recorded since November 2008.

In South Korea, the economy recorded its strongest quarterly growth for more than two years during April-June period, as consumer spending rebounded and the new government boosted state expenditure. According to data from the Bank of Korea, the economy expanded at a seasonally adjusted 1.1% in the second quarter from the first three months of the year, which is the strongest economic performance since the first quarter of 2011. Compared with the same period a year earlier, gross domestic product grew 2.3%.

In U.S., the economic growth accelerated in the April-June quarter at a 1.7% rate as businesses step up spending from a sluggish 1.1% rate in the January-March quarter, which was revised from an initial 1.8% rate, according to the Commerce Department. There are hopes from economists that growth could improve to around 2.5% in the third and fourth quarter.

SHIPPING MARKET

Against adverse economic conditions, the shipping market features growth in investments as the fist half of 2013 marked increase in the number of shipping deals. According to data from Marine Money, 230 shipping deals are recorded for the first half of 2013 with total proceeds of $48.1billion, which is a substantial increase from the first half of 2012 that witnessed 125 deals worth $25.6 billion. Average deal size increased as well, from $182 million to $268 million. DNB is recorded as the most productive dealmaker in both debt and equity, Pareto, Platou, Merrill Lynch, and Nordea followed. In terms of public debt, Marine Money tracked 42 corporate bonds and 5 convertible bonds issued in the first half, raising a total of $9,029 million, up from last year's $7,531. In private debt segment, bank loan data provided by Dealogic posted an increase during the first half of the year to 83 deals worth $21.7 billion from 75 deals worth $17.2 billion in the first half of 2012. In terms of equity, New York continued as the market of choice for shipping equity. 12 offerings were made on the NYSE, raising $1.3 billion and five offerings on the NASDAQ raised $872 million. The average issuance price of all public equity offerings was $13 per share. Three IPOs (KNOT Offshore Partners, PT BBR, and Norwegian Cruise Lines Holdings) raised a total of $707 million. Eighteen follow-on offerings raised $1.9 billion, up from 11 in 2012, which raised $773 million.

In the **dry** market, the Baltic Dry Index is on a straight downward incline since July 17th and fell the last days of July at levels below 1,100 points with uncertainty for its stability above the psychological barrier of 1,000 points during the next month. Capesize vessel earnings are loosing steadily ground by falling at levels of less than $12,000/day from more than $13,000/day at the end of the second week of July and panamax at levels of less than $8,600/day from more than $9,000/day. Supramax vessels’ performance is shaping at rosier levels than panamaxes with vessel earnings at levels of more than $9,000/day, while handysizes are hovering at levels of around $8,000/day. Supramax rates seem to have been supported by a large amount of coal and grain surfaced in the market, while capesize rates have weakened in contradiction with a sufficient amount of iron ore cargoes.

According to Commodore Research, last week saw 30 vessels chartered to haul spot iron ore cargoes, 7 more than chartered during the previous week, while 25 vessels were chartered to haul iron ore cargoes to Chinese buyers, 5 more than the previous week. Overall, a weekly average of 27 iron ore fixtures came to the spot market during July, 5 more than during June, which marks the third consecutive month that iron ore fixture volume has increased aiding average daily capesize rates to remain above the $10,000/day level. Chinese demand for imported iron ore cargoes remains firm with iron ore port stockpiles staying at a relatively low level of 72.7millon tons that will be contributing factors in the euphoria that the market experienced for capesize vessels during July. It is encouraging that iron ore cargoes will remain firm during the upcoming weeks so as to prevent a sharp downfall in capesize vessel earnings at levels of less than 10,000/day that will drive again the BDI at levels below 1,000points. It is expected to see what would be the reaction between vessel supply and demand during August now that the capesize net fleet growth seems to have slowed and international iron ore production and iron ore imports are poised to continue to rise.

Average Value:

- **Baltic Dry Index –** *up by 19.3% month-on-month and up by 6.3% year-on-year*: 1123 points July 2013– 941 points June 2013– 1056 points July 2012
- **Baltic Capesize Index –** *up by 21.3% month-on-month and up by 51% year-on-year*: 1986 points July 2013-1637 points June 2013- 1316 points July 2012
- **Baltic Panamax Index–** *up by 25% month-on-month and down by 2.7% year-on-year:* 1084 points July 2013- 865 points June 2013– 1115 points July 2012
- **Baltic Supramax Index–** *up by 0.7% month-on-month and down by 24.8% year-on-year* : 914 points July 2013- 907 points June 2013– 1217 points July 2012
- **Baltic Handysize Index–** *up by 2.7% month-on-month and down by 17.5% year-on-year*:: 553 points July 2013- 538 points June 2013-671 points July 2012

Charter rates – Average Value:

- **Capesize–** *up by 50.5% month-on-month and up by 125% year-on-year* : $13,315/day July 2013 - $8,845/day June 2013 - $5,910/day July 2012
- **Panamax–** *up by 25% month-on-month and down by 3% year-on-year* :$8,618/day July 2013 $6,884/day June 2013 - $8,891/day July 2012
- **Supramax–** *up by 0.7% month-on-month and down by 25% year-on-year :* $9,556/day July 2013 - $9,485/day June 2013 - $12,726/day July 2012
- **Handysize** *up by 2% month-on-month and down by 16.5% year-on-year:* $8,101/day July 2013 $7,938/day June 2013 - $9,707/day July 2012

Lower investors' buying appetite during July has led to a 7% fall in the value of a 5yrd old capesize and panamax units, as per estimations from the Baltic Exchange, despite the rebound in vessel earnings. Compared with July 2012 levels, the estimated value of a 5yrd old capesize vessels is 12% down year-on-year, 6% down year-on-year in the panamax segment and 3% down year-on-year in the surpamax segment.

BALTIC SALE & PURCHASE ASSESSMENT - 5yrd old vessels									in terms of USD($)		
	Average	T/C Average	Average	T/C Average	%monthly	Average	% since	%July 2012	monthly	since	from July 2012
Dry	July 2013	$/day	June 2013	$/day	change	Jan 2013	Jan 2013	change	change	Jan 2013	change
Capesize -172,000 dwt	28.724.000	13.315	31.029.600	8.845	-7%	29.793.500	-4%	-12%	-2.305.600	-1.069.500	-3.930.000
Panamax -74,000 dwt	21.155.500	8.618	22.743.600	6.884	-7%	18.409.500	15%	-6%	-1.588.100	2.746.000	-1.265.250
Supramax-56,000 dwt	20.921.250	9.556	20.366.000	9.485	3%	18.104.250	16%	-3%	555.250	2.817.000	-545.750
									in terms of USD($)		
	Average	T/C Average	Average	T/C Average	Average	T/C Average	Average	T/C Average	2012-2011	2011-2010	2010-2009
Dry	July 2012	$/day	2012	$/day	2011	$/day	2010	$/day	change	change	change
Capesize -172,000 dwt	32.654.000	5.910	32.738.320	7.680	42.858.192	15.635	57.366.118	33.320	-10.119.872	-14.507.925	5.655.549
Panamax -74,000 dwt	22.420.750	8.891	22.326.400	7.684	30.671.442	14.000	38.122.510	25.067	-8.345.042	-7.451.067	1.375.412
Supramax-56,000 dwt	21.467.000	12.726	21.438.507	9.455	27.031.000	14.401	30.848.294	22.479	-5.592.493	-3.817.294	4.118.333
									in terms of USD($)		
	Average	T/C Average	Average	T/C Average	Average	T/C Average	Average	T/C Average	2009-2008	2008-2007	2007-2006
Dry	2009	$/day	2008	$/day	2007	$/day	2006	$/day	change	change	change
Capesize -172,000 dwt	51.710.569	42.565	128.306.882	106.100	109.562.596	116.049	63.394.824	45.139	-76.596.314	18.744.286	46.167.773
Panamax -74,000 dwt	36.747.098	19.257	73.996.314	49.013	65.086.442	56.815	42.173.588	23.778	-37.249.216	8.909.871	22.912.854
Supramax-56,000 dwt	26.729.961	17.339	70.897.588	41.563	56.632.462	47.449	32.413.882	22.619	-44.167.627	14.265.127	24.218.579

During the first two days of August, the Baltic Dry Index recorded small gains from a soft rebound in the capesize segment. On **Friday August 2nd, BDI** closed at 1065 points, down by 1.5% from last week's closing and up by 25% from a similar week closing in 2012, when it was 852 points. An increase is recorded in the capesize segment, a sharp downward revision in the panamax and soft declines in the supramax and handy segments. **BCI** is up by 4.1% w-o-w, **BPI** is down 7.5% week-on-week, **BSI** is down 0.9% week-on-week, **BHSI** is down 0.9% week-on-week.

Capesizes are currently earning $12,191/day, up by $243/day from last week's closing and **panamaxes** are earning $8,120/day, down by $660/day week-on-week. At similar week in 2012, **capesizes** were earning $4,346/day, while **panamaxes** were earning $7,258/day. **Supramaxes** are trading at $9,494/day, a decrease of $98/day from last week, about 22% lower than capesize and 17% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $10,399/day, hovering at 140% higher levels than capesizes versus 22% today's lower levels. **Handysizes** are trading at about $7,751/day, down by $76/day from last week's closing; when at similar week in 2012 were earning $8,034/day.

In the **wet** market, crude spot rates for very large crude carriers are in a downward momentum with rates in AG-USG falling to WS23 at time charter equivalent earnings below zero levels from WS28.5 at the second week of July. At the end of July 2012, rates were standing at almost the same levels at WS24. In AG-SPORE and AG-JPN routes, rates eased by 3.5 points and fell to WS36.5 at time charter equivalent earnings in the region $14,000-$15,000/day, down by 11 points from the highest level of this year at WS47.5 at the end of the second week of July. However, there are 2.5 points up from the level of WS34 at the end of July 2012. In WAFR-USG and WAFR-China routes, the downward correction was softer than in other routes with rates loosing 2.5 points to conclude at WS40-about $19,000/day, down by 7.5 points from the highest level for this year of WS47.5 at the second week of July. At the end of July 2012, rates in the West African market were up by 1.5 points standing at WS41.5.

In contrast with the week picture of VLCC rates, West African suezmax market record gains on continued fixture activity strength with rates moving up to WS62.5-$17,622/day, from WS52.5 at the end of the first week of July. Compared with end July 2012 levels, rates are standing at the same levels, but there is still no secured stability for not falling again at levels in the region WS50. A significant upward pressure is also being note in the B.SEA-Med route with gains extending to WS65, 10 points above from last week's closing, but down 7.5 points from end July 2012.

Upward pressure is also viewed in the Caribbean market for aframax and panamax vessels. Rates in CBS-USG route for aframax vessels concluded at WS105, up by 25 points from the levels at the second week of July and up by 7.5 points from the levels of end July last year. In the panamax segment, the CBS-USG route gained 15 points to conclude at WS135, up by 20 points from the levels end June. Compared with end July 2012 levels, CBS-USG rates for panamax vessels are up by 20 points.

In the MR product segment, rates in AG-JPN route remained almost at steady levels during July with an average value of WS70 for 75,000dwt vessels and WS79 for 55,000dwt vessels. Compared with end July 2012 levels, rates for 75,000dwt vessels are down by 37 points and 52 points down for 55,000dwt vessels.

In the **container** market, the Shanghai Container Freight Index rose to 1088 points, up by 1.6% week-on-week from a 9.7% increase in Asia-Europe rates. Compared with June levels, the Shanghai Container Freight Index is up by 9% month-on-month with 74% monthly increase in Asia-Europe rates stemmed from the announcement of General Rate Increases. At the last week of July, Asia-Europe rates lifted to $1360/TEU and are expected to experience further gains in the upcoming days as liners have announced August 1 General Rate Increases of $300-$500/TEU. Compared with last yearly levels, Asia-Europe rates are down by 21% year-on-year. In Asia-Mediterranean, rates remained almost steady by falling only $1/TEU to $1,234/TEU, down by 0.1% week-on-week and down by 25% year-on-year.

In transpacific routes, rates in Asia-USWC and Asia-USEC showed soft weekly declines by 1.9% and 0.6% respectively. In Asia-USWC route, rates are now $1,942/FEU, down by 18% year-on-year and $3,273/FEU in Asia-USEC route, down by 6.8% year-on-year.

The announcement of General Rate Increases gave a boost in the struggling freight conditions, but the uncertainty persists as capacity influx jeopardizes the full upturn of the market. According to Alphaliner estimates, New containership deliveries reached 1.275 Mteu during the past 12 months (July 2012 to June 2013), with half of the new capacity delivered, or 622,000 teu, assigned to the FE-Europe route. No less than 33 units over 10,000 teu were delivered for a total capacity of 442,000 teu, led by the delivery of the 18,200 teu MAERSK MCKINNEY MØLLER last month. The stagnant demand on the FE-Europe route led carriers to remove an equal amount of capacity from the trade, re-assigning smaller units to other trades and triggering a wave of vessel cascading across multiple tradelanes. The FE-North America sector recorded the largest capacity increase, with 321,000 teu added during the last 12 months for a year-on-year growth of 12%. Of these, 131,000 teu were newbuildings of between 3,500 and 9,200 teu while the remaining 190,000 teu of net additions were capacity cascaded from the FE-Europe route.

Under the current freight market instability, the world's fourth largest container line Evergreen Line of Taiwan follows a conservative approach towards ultra large boxships of 18,000TEU and beyond. "We acknowledge the scale economy of such mega-ships could bring, but only under circumstances of full utilisation," a spokesman for Evergreen told Seatrade Asia Week. "With current complexities of global economy and shipping market's situation, we keep our minds open but stay on the sideline at this moment." MSC's orderbook is currently the largest amongst all carriers, having overtaken Evergreen and Maersk in the last two months, and could rise further if the ordering spree continues. A recent spate of new vessel orders by MSC has pushed its new (owned and long term chartered) containership orders placed since 2009 to 473,000 teu, including 97,000 teu that are already delivered and 376,000 teu that are due over the next three years.

In last, NYSE-listed Seaspan confirmed orders for another round of fuel-efficient newbuilding box ships and reported lower adjusted profits for its latest quarter. The newbuilding contract was signed on 19 July. It is for five option conversions at Hyundai HI, from an original order for box ships of 14,000teu, for delivery over April-July 2015, with an aggregate price-tag of $550M. It is unconfirmed whether Seaspan will split the order with its Carlyle joint venture Grand China Intermodal, as it has in previous contracts.

In the **shipbuilding industry**, China's biggest shipbuilding province, Jiangsu, is facing great pressure from limited newbuilding orders. "Based on the current production situation, if we don't have enough new orders, the shipyards' production can only sustain for two years, some of the middle and small-sized shipyards will be closed," Jiangsu Economic and Information Technology Commission warned. Among the 66 monitored shipbuilding companies in Jiangsu, only 23 shipyards received new orders in the first half.

In the **shipping finance**, bank lending rules for Chinese shipping are being tightened because of the prolonged sector depression, IHS Global Insight reported. Banks are asking yards to obtain upfront payments from clients of at least 15%, and in some cases 30%, according to IHS Global Insight, which based its report on Reuters interviews with industry and banking sources. "Until now, yards have been generous with shippers by asking for upfront payments of as little as 1%," IHS Global Insight added. Also, banks have withdrawn "loan approval rights from branches, moving towards greater co-ordination of industry credit risk at the bank level" it added. In more extreme cases, banks are cutting credit lines completely, aiming for gradual recovery of loans to yards, according to the China Association of the National Shipbuilding Industry.

In terms of **ship financing deals**, Japan's export credit agency and other compatriot financial institutions have decided to lend up to $1.5Bn to encourage Brazil's government-owned oil giant PETROBRAS to buy equipment and services from Japanese companies, based on the memorandum of understanding on the strategic partnership between JBIC and PETROBRAS signed in October 2012. JBIC's two general agreements with PETROBRAS would offer two credit lines together worth up to $900M. Mizuho Bank will co-finance the credit lines with private financial institutions, bringing the co-financed amounts to $1.5Bn in total, being covered by Nippon Export & Investment Insurance (NEXI)'s insurance for the portion co-financed.

In addition, Golar LNG announced a $1.125billion financing agreement to fund the first 8 of its 13 newbuilding vessels and FSRU, none of which have official charters, which makes the funding even more significant. The facility is divided into three tranches: a $450MM term loan from a consortium of lenders, guaranteed by a 95% Korea Trade Insurance policy; a $450MM term loan from the Export Import Bank of Korea and a $225MM term loan from a syndicate of commercial banks which each tranche having a 12year repayment profile.

In the shipbuilding industry, STX Offshore & Shipbuilding has reached agreements with its creditors for fresh cash injection and debt to equity swap. Korea Development Bank, Woori Bank and Nonghyup

Bank have agreed to provide Won2.15trn ($1.92bn), reported Yohap News Agency, slightly more than the Won1.9trn ($1.7bn) proposed by Korea Development Bank in mid-July.

In the **capita**l markets, Costamare announced the issuance of Series B Preferred Shares at $25/share, redeemable August 2018. Costamare intends to use the proceeds from the offering to support acquisitions in addition to general corporate purposes. Costamare currently has about $165mil in cash prior to the offering and is expected the incremental capital from Series B issuance to provide Costamare with a solid capital base for future acquisitions.

Star Bulk Carriers completed a backstopped equity rights offering and private placement of 15,338,861 shares with gross proceeds of approximately $80.1 million. Existing shareholders and other investors, including investment funds managed by Oaktree Capital Management, Monarch Alternative Capital, Blue Shore Global Equity fund, and Far View Partners, as well as certain Star Bulk directors and executive officers, backstopped the rights offering. Proceeds will be used to enhance liquidity and to partially fund the construction of two 180,000 capesizes and two 60,000 ultramaxes.

Teekay GP, the general partner of Teekay LNG Partners, issued 930,000 shares of common units through a private placement to an institutional investor, raising $40 million. Proceeds from the deal will be used to partially finance two 173,400 cbm LNG carrier newbuildings at Daewoo Shipbuilding and Marine Engineering, which the company executed options for earlier this month and are scheduled for delivery in 2016. Proceeds will also be used for general corporate purposes.

Scorpio Tankers announced a public offering, its fourth of this year, of 20 million shares of common stock priced at $9.50 per share. 3 million additional shares are available to the underwriters to cover over-allotments. UBS Securities is acting as sole book-running manager, with RS Platou Markets as joint lead manager and Global Hunter Securities as co-manager. The $190 million in proceeds are expected to be used for further product tanker and LPG carrier acquisitions, working capital, and general corporate purposes.

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