GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 9th August 2013 (Week 31/13)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

The week ended with some air of optimism in the Chinese economy following two consecutive quarters of slowdown. China's exports and imports posted stronger figures than analysts estimated last month, with exports to US and European Union, China's biggest markets, increasing for the first time in five months. Chinese exports to US were up by 5.3% year-on-year and 2.8% up year-on-year to Europe. Chinese exporters could benefit further in the coming months as the US economy shows signs of gradual recovery

Overall, Chinese exports, according to data from the General Administration of Customs, rose 5.1% year-on-year, rebounding from a 3.1% drop in June, while imports increased 10.9% year-on-year, up from 0.7% fall in June. The surprising rebound in Chinese imported resulted in a smaller than expected trade surplus of $17.8 billion. Stronger trading data for the world's second largest economy indicate stability in the country's growth outlook after a sharp slowdown in exports and imports over the previous months. Meanwhile, consumer prices in China grew by 2.7% in July from a year earlier, at the same pace as in June, and well below the 3.5% upper annual limit targeted by Beijing at the start of the year.

In eurozone, German exports improved in June adding signs that the Europe's largest economy is gaining strength. As per data from the Federal Statistics Office, German exports increased 0.6% from May and the nation's trade surplus widened to 16.9 billion euros from a revised 13.6 billion euros in May. Demand for German-made commodities is increasing as European countries are showing signs of emerging from their long lasting recession and the US economic expansion accelerates. "Exports will probably rise slowly over the following months as growth in North America picks up and countries in the euro area recover," Gerd Hassel, a Frankfurt-based analyst at Bhf-Bank AG, said before the report. "Germany will grow faster than other euro-area countries as domestic demand also increases."

For the eurozone's fourth largest economy, Spain, the International Monetary Fund acknowledges that the country is correcting key imbalances that contributed in its current double dip recession; but it needs to do more to tackle with its high unemployment rates. The International Monetary Fund predicts that Spain's unemployment rate will stay above 25% for at least five years and urged Spain's government to do more to improve the country's labour legislation by removing existing barriers to hiring and firing workers.

Under the current outlook of euro countries, Brazil has called for the IMF-backed rescue programmes for Greece and other southern eurozone countries to be reviewed to make them more economically sustainable. In an interview with Financial Times, Spain' Finance Minister said Brazil believed the International Monetary Fund-backed eurozone programmes needed to be overhauled to make them more realistic. *"I think these programmes of fiscal adjustment created by Europe in general are excessive, they are very stringent," he said.* He expressed the belief that the rescue programme for Greece and other euro countries need to be revised and improved so as to provide better chances of recovery for these countries.

In US, unemployment rate dropped to 7.4% in July, according to the government's monthly survey of households, while it was 8.2% a year earlier. The improved labour market data confirm that US economy is rebounding at a relatively steady pace. The Federal Reserve's interest rate-setting committee maintained the $85billion per month rate of bond buying. However, Ben Bernanke, Fed chairman indicated that if the recovery progresses smoothly, some tapering of those purchases would begin later this year and end by the middle of 2014.

In South Korea and Japan, the central banks kept their policy rates steady meeting analyst expectations for no additional moves. The Bank of Korea held its policy rate unchanged at 2.5% given accelerating inflation in the country. The Bank of Japan maintains its position that the economy is starting to recover moderately and noted that consumer prices have begun to head higher by setting a 2% inflation target, which it hopes to achieve by 2015.

SHIPPING MARKET

The challenging outlook in the dry and wet markets gains stronger positive confidence from the supporting figures of Chinese commodity imports for crude oil and iron ore during July amid China's slowing economic in the first two quarters of the year. According to China's General Administration of Customs, iron ore imports to China climbed to a record high in July of 73.14 million metric tons, 17% up from the previous month and 26% from a year earlier. The prospects for a firm Chinese iron ore demand are supported by the accelerated demand for the construction of transportation related infrastructure projects that boost domestic steel demand, according to China's economic planning agency. China's crude steel production gained 7.4% to 389.9 million tons during the first half of this year from a year ago, according to National Bureau of Statistics. Overall, Chinese iron ore imports during the first seven months of the year increased by 8% to 457.23 million tons from a year earlier, customs said.

In the wet market, Chinese crude imports hit also a record high during July as the country's largest refiner SINOPEC cut maintenance plan by 40% in the third quarter. According to the General Administration of Customs, China bought a net 25.9 million metric tons of crude – 6.13 million barrels/day last month, compared with a previous high of 5.98 million barrels per day in May 2012. Chinese crude imports during July are up by 13% from June's levels.

In the **dry** market, capesize vessel earnings are loosing steadily ground during the first days of August, while demand for iron ore remains strong supporting levels at more than $10,000/day along with manageable lower fleet growth. According to data released by Australia's Port Hedland Authority, iron ore exports from port Hedland in Western Australia rose 36% year-on-year to 26.6 million mt in July, from 19.5 million mt shipped in July 2012. The year-on-year rise was driven by increased iron ore production capacity from the port's major users, BHP Billiton and Fortescue Metals Group.

It is worth mentioning that this year's achievable lower fleet growth in the capesize segment is not secured for the upcoming years due to the unexpected rise of newbuilding orders seen during the first seven months of the year. Panamax vessel earnings are under pressure with a decline in South American grain fixture activity and lower Chinese demand for thermal coal cargoes. Charter rates for panamax vessel fell again this week at levels of less than $8,000/day, for the first time since July 8th. Handysize and supramax vessels' performance is relative steady with supramax vessel earnings surpassing panamax earnings by floating at levels of more than $9,000/day since end May.

In the meantime, Chinese iron ore port stockpiles are on an increase for two consecutive weeks fetching levels of about 73.2 million tons, as per data from Commodore Research, but there are 26% lower than the levels of a year ago. The levels of Chinese iron ore port stockpiles indicate that there is still room for a further rise in Chinese iron ore fixture activity, while the levels of Chinese coal port stockpiles remain above the critical level of 7mil tons resulting in a moderate amount of thermal coal fixture activity.

This week ended with the BDI standing one point above the psychological barrier of 1,000 points and sharp downward revision in the capesize and panamax segments. On **Friday August 9th, BDI** closed at 1001 points, down by 6% from last week's closing and up by 29% from a similar week closing in 2012, when it was 774 points. **BCI** is down by 7% w-o-w, **BPI** is down 7.1% week-on-week, **BSI** is down 0.3% week-on-week, **BHSI** is down 1.5% week-on-week.

Capesizes are currently earning $10,620/day, down by $1,571/day from last week's closing and **panamaxes** are earning $7,541day, down by $579/day week-on-week. At similar week in 2012, **capesizes** were earning $3,852/day, while **panamaxes** were earning $6,483/day. **Supramaxes** are trading at $9,524/day, an increase of $30/day from last week, about 10% lower than capesize and 26% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $9,264/day, hovering at 140% higher levels than capesizes versus 10% today's lower levels. **Handysizes** are trading at about $7,617/day, down by $134/day from last week's closing; when at similar week in 2012 were earning $7,699/day.

In the **wet** market, VLCC rates remain in a negative territory as the supply of ships is more than enough to cover the demand for cargoes. The recession is estimated to persist during the whole summer period with rates in AG-USG route staying below WS25 for two straight weeks. A negative sentiment is also viewed in AG-SPORE and AG-JPN trading routes with rates floating below WS35, while a steady outlook is being recorded in WAFR-USG route with rates at WS40.

In the suezmax segment, an upward pressure in the WAFR-USAC route has lifted rates to surpass the barrier of WS60 in the first days of August, while the B.SEA-Med route seems to hold the significant spike of the last days of July with rates at WS65. Aframax segment records also positive influence in CBS-USG route with rates surpassing WS100 in the last three weeks with stability in the N.SEA-UKC route at WS80. In the MR segment, rates in AG-JPN route for 75,000dwt vessels remain flat at WS70 from the beginning of July, while rates for 55,000dwt vessels seem to be on increase surpassing the barrier of WS80.

In the **gas** market, Malaysian oil and gas producer PETRONAS has decided to build its own fleet of LNG carriers rather than rely on its shipping subsidiary MISC. In a released statement, PETRONAS said: "As part of our strategy to optimise the value of our liquefied natural gas business, we have decided to directly procure newbuild LNG ships to meet our LNG transportation requirements." The move would enable PETRONAS to have direct access to LNG shipping capacity at the lowest possible costs, said the company. PETRONAS will be engaging MISC to provide project management and technical consultancy services for the construction of the new LNG ships, given MISC's extensive experience and expertise in the LNG shipping sector and familiarity with PETRONAS' business needs. MISC had been in discussions with South Korean shipbuilders to build as many as eight LNG carriers, in anticipation of PETRONAS taking a final investment decision on a floating LNG project in Rotan.

LNG spot rates are squeezed downwards at levels of about $115,000/day, slightly above 2013 lows of $100,000/day for modern tri fuel diesel engine LNG carriers. Chartering interest has been primarily for north and west coast of Africa LNG cargoes bound for South America and Far East. In the West, most vessels remain employed, with the next available modern vessel not until September. In the East, chartering interest is generally subdued with a modest interest for Middle East voyages. Limited demand is driving longer voyages in the East as owners seek to extend employment and maximize fuel efficiency.

In the **container** market, Shanghai Container Freight Index is on rise by moving up by 6.8% week-n-week due to carriers implementing increases as per August 1st. Asia-Europe rates increased by 10% to $1501/TEU, while on the Asia-Mediterranean route are 21% up to $1493/TEU. The Shanghai Container Freight Index ended on August 2 at 1162 points, still down by 15% year-on-year with 12% yearly decline in Asia-Europe rates and 7.3% in Asia-Mediterranean.

Rates in transpacific routes experienced also gains with 6.5% weekly increase in Asia-USWC and 7.3% in Asia-USEC. Rates in Asia-USWC route lifted to more than $2,000/FEU for the first time since week ending July 12th, but remain 22.5% down from last year. In Asia-USEC routes, rates surpassed the barrier of $3,500/FEU for the first time since week ending February 22, and are down 12% year-on-year.

In the meantime, shipping players have already started to announce a new round of General Rate Increases in September to support the current rebound of freight rates. NYK Line said it would implement a structural rate recovery of $455/TEU on services from Asia and the Indian subcontinent to North Europe, Mediterranean, Adriatic Sea and Black Sea. In addition, Hanjin said it would increase prices by $500/TEU on services from Asia, Southeast Asia and Indian subcontinent to North Europe and the Mediterranean.

In the **shipbuilding industry**, the recession in China's shipbuilding sector has prompted Beijing to unveil a three year plan to revive business in domestic shipbuilders, the official Xinhua News Agency reported. The sector faces "unprecedented, severe challenges" as a lack of new orders, due to weakness in the global shipping market, has exacerbated overcapacity in the industry, Xinhua said, citing a government document. At the same time, companies should be confident as "the potential in the domestic market remains relatively large." Currently, China has roughly 1600 yards, from more than 3,000 at the start of 2010 and 50% of them are predicted to shutdown in the next five years. The new program is in line with a 2009 blueprint that focused on efforts to revitalize the shipbuilding industry for the next three years through 2011. In the meantime, China's largest leading privately owned shipbuilder, has recently appealed for cash from the government as it suffered heavy losses due to a sharp decline in newbuilding orders and prices.

The 2013-2015 plan, revealed by China's State Council, has outlined key areas of focus that would raise efficiency of the sector and China's shipbuilding position in the current global competitive industry. The plan is aiming at the advancement of technology in the shipbuilding sector, an expansion into offshore shipbuilding and equipment construction, a strict control on adding new yard capacity, a quicker phasing out of old vessels, the enhancement of corporate management and services and the capturing of a larger global market share.

In the **shipping finance**, Singapore listed yard, JES International announced that it has secured a $20mil loan facility, with an option for another loan facility up to $20mil. The yard said that it signed a letter of intent with US based private investment firm on August 2. The $20M would be used for working capital and the additional facility of up to $20M would be subject to approval from the lender. Each loan would have period for three years, commencing from the date of disbursement. In the meantime, China's Rongsheng Shipyard, listed in Hong Kong, raised HK$1.38 billion ($178 million) in a bond issue, however there are signs that its balance sheet is really stretched and the much needed money will ease the pressure, but this is far from enough."

In the tanker segment, private equity Alterna Capital Partners is said to have secured a a five-year senior secured facility of $61.8M from a unit of the NYSE-listed group CIT Maritime Finance that structured the transaction and CIT Bank provided the money. The parties did not disclose further terms. The funds would be used to complete the purchase of three 'eco' design MR product/chemical tankers from South Korea. The 50,000dwt, IMO II/III ships, owned by Alterna's majority-owned entity Sterling Ocean Shipping, have been secured in long-term timecharters with Stena Weco, the venture between Stena Bulk and Weco, associated with the Danish group Dannebrog.

In the offshore segment, Prospector Offshore Drilling has finalised a loan worth $129.5mil from China Development Bank to fund the construction of a drilling rig in China. The loan should be insured by the China Export & Credit Insurance Corp and is about 70% of the contract price paid for the newbuilding jack up rig under construction at Dalian Shipbuilding Industry Offshore.

In the capital markets, Capital Product Partners L.P. announced that it plans to offer 11,900,000 common units representing limited partnership interests in a public offering. The Partnership intends to use the net proceeds from the public offering towards acquiring three 5,023 TEU container vessels, namely the M/V CCNI Angol (ex Hyundai Prestige), the M/V Hyundai Privilege and the M/V Hyundai Platinum, (the "Vessels") from its sponsor Capital Maritime & Trading Corp. ("Capital Maritime") for an aggregate purchase price of $195,000,000. Each of the three container vessels was built in 2013 at Hyundai Heavy Industries. Co. Ltd. and each vessel is employed under a 12 year time charter employment (+/- 60 days) to Hyundai Merchant Marine Co. Ltd. ("HMM") at a gross rate of $29,350 per day, which commenced shortly after the delivery during the first half of 2013.

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