GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment

Week Ending: 20th September 2013 (Week 38/13)

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ECONOMIC ENVIRONMENT

The US Federal Reserve surprised this week by keeping its monetary stimulus policy unchanged for its monthly $85bn bond buying programme. Fed Chairman Ben Bernanke did not specify the date of reducing the bond purchases this year and emphasized that if the data confirm their basic outlook and gain more confidence then could move later this year. In the meantime, Fed lowered its projections for US economic growth to 2%-2.3% from June's estimations of 2.3%-2.6%. In June, Fed Charman Ben Bernanke had stated that the bond purchasing programme would slow later this year and finalize by mid-2014, when central bank estimated that unemployment rate would be at 7%. The downgrade for next year is even sharper at 2.9%-3.1% from the initial estimate of 3%-3.5%.

The market was expecting that the Fed would start reducing its asset purchases by roughly $10-$15 billion per month and S&P 500 with Dow Jones industrial average hit a record high following Fed's decision. Dow Jones industrial average rose 147.21 points or 0.95 percent, to 15,676.94, the S&P 500 gained 20.76 points or 1.22 percent, to 1,725.52 and the Nasdaq Composite added 37.942 points or 1.01 percent, to 3,783.641. The S&P's previous closing high was 1,709.67 and the Dow's was 15,658.36, both on August 2.

In the eurozone, Ireland seems to emerge from recession as new statistics figures show that gross domestic product increased by 0.4% in the second quarter of 2013, from the previous three months, due a rebound in exports and consumer spending. The return to modest growth follows three successive quarters of slowdown and the new statistics figures suggest a stabilization of the domestic economy, according to Ireland's Finance Minister. However, International Monetary Fund and European Union hold fears that Ireland is still vulnerable to external shocks and any failure to meet its deficit targets would influence negatively the euro area. Ireland is scheduled to be the first eurozone economy to exit international EU-IMF bailout in December.

SHIPPING MARKET

South Korea is said to be considering the establishment of a state-sponsored guarantee fund as part of government's efforts to support shipowners, according to an official from Financial Services Commission. The government is planning to order a feasibility study by research institutes due for consideration in the first half of next year. Similar funds have already been established in some European countries, such as Germany and Denmark, according to South Korean regulatory official, in the scope of the funds to be served as a guarantor for the loans to shipping companies.

In the **dry** market, increased iron ore volumes and solid Australian coal exports seem to be the main driving forces behind the recent rally of freight rates and remarkable turnaround of the Baltic Dry Index from the end of June. The return of a firm Atlantic market, due to solid Brazilian iron fixture activity, and lower capesize fleet growth, led to tight vessel availability and higher charter rates that signal firmness till November from high Atlantic iron ore exports. Roughly estimations suggest that capesize vessel deliveries could hardly surpass the number of 100 vessels compared with near or more than 200 vessel deliveries in the years before since 2010.

During the first quarter of the year, limited Brazilian iron ore exports due to weather issues and mineral related operational and permitting issues, which influenced negatively the iron ore production and exports created downward dismal pressure at capesize rates with levels of less than $5,000/day. The recent rally in capesize market led also to an improvement in the panamax market, possibly from some cargo splitting in the Pacific market, which concluded in charter rates at levels of excess $10,000/day, for the first time since end-May 2012. Charter rates for capesize vessels have now surpassed even the levels of $30,000/day, with the Baltic Dry Index heading to levels of more than 1,700 points, up by more than 110% from end-May.

It is remarkable the increase in iron ore fixture volume to China, as 41 vessels are reported to have been chartered to haul iron ore to Chinese buyers during the second week of September, 5 more than the previous week and 16 more than the trailing four week average, according to data from Commodore Research. In addition, Chinese iron ore port stockpiles are still standing at about 22% lower levels than last year stimulating further need for more imports and Chinese iron ore fixture activity.

In the panamax segment, rates are also supported by an increase in Chinese thermal coal fixture volume as Qinhuangdao coal stockpiles follow a downward trend and China's coal dedicated Daqin Railway maintenance is approaching. According to Commodore Research, 13 vessels were chartered to haul thermal coal to Chinese buyers at the end of the second week of September, 5 more than the trailing four week average.

In contrast with the rosy outlook of capesize market, supramax rates record modest gains at levels of lower than panamax rates, while handysize vessels show almost stability with rates that could not surpass the barrier of $8,000/day since mid-July. The fall season seems that would be quieter for supramax and handysize vessels, while the ahead South American grain season and Australian wheat exports pour hopes for a firmer recovery in the supramax segment during the fourth quarter of the year. Potential factors that could affect the steady increasing trend in capesize rates, in the near term, seem to be the upcoming Chinese National Holiday on October 1, the increased Chinese iron ore inventories and weather related issues in Australia or South America resulting in limited production and iron ore / coal export volumes.

On **Friday September 20th, BDI** closed at 1904 points, up by 16% from last week's closing and up by 146% from a similar week closing in 2012, when it was 774 points. The largest increases are recorded in the capesize panamax segment, while supramax vessel earnings finally surpassed this week the level of $10,000/day. **BCI** is up by 16.5% w-o-w, **BPI** is up 11% week-on-week, **BSI** is up 2.5% week-on-week, **BHSI** is up 2.5% week-on-week.

Capesizes are currently earning $37,443/day, up by $7,834/day from last week's closing and **panamaxes** are earning $11,651/day, up by $1,177/day week-on-week. At similar week in 2012, **capesizes** were earning $7,664/day, while **panamaxes** were earning $3,719/day. **Supramaxes** are trading at $10,075/day, an increase of $244/day from last week, about 73% lower than capesize and 13.5% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,859/day, hovering at 15.5% higher levels than capesizes versus 73% today's lower levels. **Handysizes** are trading at about $7,943/day, up by $172/day from last week's closing; when at similar week in 2012 were earning $7,047/day.

In the **wet** market, firmness in Chinese chartering activity from the recent tension in Middle East region keeps on and heading to lower available vessel supply, but rates in the crude segment remain in negative territory. In the suezmax market, both the Mediterranean and West African markets remain oversupplied with limited activity reported.

In AG-USG route, rates for VLCC gained one point and moved up to WS23.5 and up by 3 points from end-August. In AG-SPORE and AG-JPN routes, rates lost one point and decreased to WS33 with time charter equivalent earnings of about $9,400/day, but rates are up by 2 points from end –August. In WAFR-USG route, rates showed no changed at WS37.5-$14,877/day, and by 2.5 points from end-August. In WAFR-CHINA route, rates decreased by 1 point to WS35-$9,405/day, and up by 1 point from end-August.

In the suezmax segment, WAFR-USAC rates lost 2.5 points and moved down to WS50-$7,945 as supply-demand ratio remains imbalanced, with an decrease of 17.5 points from the levels of beginning August. In the B.SEA-MED route, rates gained 2.5 points and increased to WS55-$3,423/DAY, but are still down by 7.5 points from the levels of beginning August. In the aframax segment, a soft trend in the CBS-USG route persists with rates falling by 2.5 points to WS102.5-$17,793/day, at the same levels of beginning August. The Caribbean panamax market remains also quiet with rates on CBS-USG route loosing 10 points to conclude at WS100-$4,580/day and 35 points down from the highs of WS135 at the week ending July 26th. In the MR segment, there is also a downward pressure in AG-JPN route with rates for 75,000dwt vessels falling by 6 points to WS99-$22,367/day, but there are up by 31 points from the lows of WS68 at the end of July. AG-JPN rates for 55,000dwt vessels declined by 8 points to WS118-$14,043/day, but are up by 32.5 points from the lows of WS77.5 at the end of the second week of July.

In terms of oil supply, the Organization of Petroleum Exporting Countries is reportedly that will increase crude shipments by 1.5% this month to meet the rising demand from Asian refiners, which seems a positive factor in the recent distressed picture of VLCC rates and vessels' oversupply. According to estimations from the tanker tracker Oil movements, OPEC, which caters about 40% of the wold's oil needs, will boost exports by 360,000 barrels/day during the four weeks to September 28th from the period to August 31st. Noteworthy is that OPEC's member, Saudi Arabia, produced record high volumes of crude in August and boosted its output for the second time in two years, despite recent production outages offering a cushion in the global oil market. Saudi Oil Minister Ali al-Naimi said that the global oil market is well balanced and top exporter Saudi Arabia is ready to supply whatever volume of crude is needed to meet demand. Rising supply from Saudi Arabia rebalanced losses in oil production from other OPEC members, but brent crude spot price keeps its upward trend at levels of more than $110/barrel.

In the **container** market, the Shanghai Container Freight Index is on a decreasing trend since the beginning of September, by lowering 5.5% on the second week of September from declines in all the four main routes. In Asia-Europe, rates fell again below $1,000/TEU to $966/TEU, for the first time since end-June, down by 10% week-on-week and 21% year-on-year. In Asia-Mediterranean route, rates decreased by 9.8% week-on-week to $1,000/TEU, down by 19.5% year-on-year. However, Asia-Europe rates are up by 88% from the lows of $514/TEU at the week ending June 21st.

Under the current Asia-Europe rates, Maersk Line has already announced plans to increase its Asia-Europe freight rates by $600/TEU in all services from Far East, excluding Japan, to North Europe and the Mediterranean from November 1st. The Danish shipping line stated that the recent freight market development in the container market from Asia to North Europe has made it increasingly unsustainable to run the service at current rate levels.

In transpacific routes, rates in Asia-USWC route fell to $1,916/FEU, down by 3.7% week-on-week and 29.3% year-on-year, while rates seem unable to surpass the barrier of $2,000/FEU as they fetched on the week ending August 2nd. In Asia-USEC route, the decline seems softer of 2.0% week-on-week and 16.1% year-on-year and rates concluded at $3,326/FEU, down by 5.3% from the highs of $3,513/FEU on the week ending August 2nd.

Amid the current downward cycle of the freight market, Alphaliner said that there are no signs of industry consolidation in the form of mergers or exits among the top 20 carriers in the near future. MSC continues to lead with new order commitments since 2009 reaching at least 572,000 TEU. MSC seems to narrow the gap with Maersk and is poised to be on the top over the next four years.

The sluggish recovery in Asia-Europe rates will remain as the global economy is still fragile and the supply-demand imbalance gets bigger from strong competition among major liner companies through the ordering of ultra large container vessels, between 14,000-18,000 TEU. According to Yu Ling, vice president of China Merchants Group, the container market will remain in a downward cycle over the next three years due to a worsening of the tonnage glut, despite the gradual growth in container vessel demand. He noted that container vessel demand grew by 4% in 2012 from previous year and demand is projected to increase by 5% this year. However, vessel supply increased by 6.6% in 2012 and this year's projections foresee that will reach 1.6mil TEU surpassing the historic high of 1.57mil TEU added in 2008.

In the **shipbuilding industry**, China Shipbuilding Industry Co ltd is reportedly to target in the construction of military vessels in an attempt to cut is reliance on the commercial shipping. It said that they will raise RMB 8.5 billion ($1.4 billion) in order to expand through acquisition of other yards with expertise in the construction of military vessels and equipment. A CSICL filing stated that military assets securitisation is the overarching trend in the international capital market and the private share issuance would be pioneering in the domestic capital market. The group has set a target of 20% revenue from military contracts with the remainder coming from the until now core areas of shipbuilding and ship repair, offshore and energy.

In South Korea, expectations for a strong business won by domestic shipyards are elevated. According to forecasts from Export-Import Bank of Korea, orders for South Korean yards will increase by 84% in 2013 to 14m compensated gross tonnes. South Korea analyst Choi Won-Kyung of Kiwoom Securities said in a report that Hyundai Heavy Industries is heading for a record year in orders by estimating that order value could reach the historic highs recorded in 2007-2008, when the shipyard reported $16.6bn and $16.8bn respectively. In addition, Samsung Securities analyst Han Young Soo noted that South Korea's third largest shipbuilder Daewoo Shipbuilding & Marine Engineering had clinched $9.1Bn in orders year-to-date, or 70% of its $13Bn full-year target, which the shipbuilder expects to beat. Han estimates DSME's full-year profits to hit 525Bn won ($484M) for 2014, up from an estimated 285Bn won this year.

In Japan, statistics figures showed a downfall in export business for its domestic shipyards during August. According to Japan Ship Exporters Association, its members had secured 19 export orders aggregating 642,584gt last month, down from the 20 export orders of 790,948gt in August 2012 and down from 35 orders totalling 1,155,913gt, in July 2013. Bulkers dominated Japanese shipbuilding business with the yards receiving 15 export orders for bulkers, one liner, two aframax tankers and one ferry. At the end of August, Japanese shipbuilders' outstanding orderbook stood at 587 ships of 25,730,080gt, slightly up from the 583 ships of 25,681,658gt by 31 July, but lower than the 631 ships of 28,612,654gt by 31 August 2012.

In Turkey, Turkish owner Palmali Group has bought the inactive TVK Shipyard in Izmit and plans for a $500mil newbuilding program. The owner said to have paid $67mil for the yard and another $20mil to reactivate it in a 50/50 partnership with Turkey's Fiba Holding. The yard will be renamed Armada and Palmali will use the yard for the construction of its own vessels.

In the **shipping finance**, Capital Product Partners L.P. announced the successful acquisition of 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 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. The charters commenced shortly after the delivery of the Vessels during the first half of 2013.

The acquisition was mainly funded from the Partnership's new $200,000,000 senior secured credit facility with ING Bank N.V. and HSH Nordbank AG (the "Credit Facility") and from the net proceeds of its public offering of 13,685,000 common units, including the exercise of the overallotment option, which was closed on August 9, 2013, at a price of $9.25 per unit. Under the Credit Facility, the Partnership may further borrow for the financing up to 50% of the value of modern product tanker and post panamax container vessels. The facility is non-amortizing until March 2016.

In addition, Japan Bank for International Cooperation (JBIC), formerly the Export-Import Bank of Japan and Citibank Japan will provide financing of about $81.1mil for three post panamax bulkers of 84,000dwt that U Ming ordered in November 2012 at Oshima Shipbuilding. JBIC will provide $40.5mil of the financing and the rest will be funded by Citibank Japan, while Nippon Export & Investment Insurance will provide buyer's credit insurance for the portion co-financed by Citibank. JBIC said: "Amid continued constraints to structure ship financing across the world, these loans will provide financial support for the export of ships built in Japanese shipyards, thereby contributing to maintaining and improving the international competitiveness of the Japanese shipbuilding industry." The bank pledged continued active support for the export of ships built in Japanese yards, which it noted performed a significant role in the regional Japanese economy.

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