GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 27th September 2013 (Week 39/13)
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ECONOMIC ENVIRONMENT

The week opened with a historical election victory for Germany's Chancellor Angela Merkel to lead Europe's biggest economy with euro climbing to a high of $1.3554 against dollar. Chancellor Angela Merkel is considered to be the most powerful politician in Europe as it became the only major European leader to be re-elected twice since the financial crisis of 2008. She is now under the process of forming a new coalition government and stated that Germany policy towards eurozone is not going to change. European policy "will continue in the same spirit as before," Ms. Merkel said. Her party's victory "was a very strong vote for a unified Europe," she said.

The comforting is that eurozone recovery seems even stronger in September as the Flash Markit PMI Composite Output, which combines both manufacturing and services' activity, moved up to a 27-month high to 52.1, from 51.5 in August, signaling growth for six consecutive months. Overall, business activity in the eurozone rose on average for the second successive month, by growing at the steepest rate since April 2011. In addition, manufacturing activity continued to grow and accompanied by the first noteworthy increase in service sector activity since May 2011.

In France, euro's second biggest economy, the composite output index managed to increase to 50.2 in September, from 48.8 in August, after 18 months of constant contraction, due to an improvement in services sector by offsetting a sharp fall in manufacturing output. In Germany, Markit's composite output index stood at an eight month high of 53.8, from 53.5 in August, as business activity grew at the fastest rate for eight months and employment accelerated at the sharpest rate for 18 months.

Commenting on the flash PMI data, **Chris Williamson, Chief Economist at Markit** said: *"An upturn in the Eurozone PMI in September rounds off the best quarter for over two years, and adds to growing signs that the region is recovering from the longest recession in its history. "It is particularly encouraging to see the business situation improved across the region. Although the upturn continued to be led by Germany, France saw the first increase in business since early-2012 and elsewhere growth was the strongest since early-2011. "Employment continued to fall, though it is reassuring that the rate of job losses eased to only a very modest pace, suggesting that employment could start rising again soon. The overall rate of growth signalled by the Eurozone PMI remains modest, however, consistent with gross domestic product rising by a meagre 0.2% in the third quarter. While rising inflows of new business bode well for a further upturn in the fourth quarter, policymakers at the ECB will no doubt view it as too early to change their stance on keeping policy on hold for an extended period."*

The president of the European Central Bank, Mario Draghi, said that the ECB is ready to inject more liquidity into banks "if needed", in the form of a long term refinancing operation-LRTO, which it used in 2011 and 2012 to inject EUR1trillion loan in cheap three year loans in the banking system, despite further signs that the eurozone economy is holding its slow recovery.

In U.S., the Markit Flash US Manufacturing Purchasing Managers' Index is on decline for two successive months, by showing a modest manufacturing expansion. It stood at 52.8 in September, down from 53.1 in August, indicating the weakest rate of growth since June. However, manufacturing

output increased at a solid rate in September, which is the fastest since March as it accelerated from a ten month low in August. Commenting on the flash PMI data, **Chris Williamson, Chief Economist at Markit** said: *"The flash PMI indicates that manufacturers enjoyed a further improvement in business conditions in September, suggesting the third quarter has on the whole seen stronger growth than the lacklustre performance seen in the second quarter. "However, as far as policymakers are concerned there are some worrying signals in relation to the sector's growth momentum, which vindicate the Fed's decision to hold off on tapering its asset purchases. Employment growth also slowed, reflecting manufacturers' concerns about the strength of future demand and the on-going need to boost productivity to remain competitive at home and abroad. The sector is consequently not helping to bring unemployment down."*

In China, manufacturing activity is emerging stronger with HSBC Flash China Manufacturing PMI reaching a six month high of 51.2, from 50.1 in August. Commenting on the Flash China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co- Head of Asian Economic Research at HSBC said: *"The HSBC Flash China Manufacturing PMI rose to a six-month high in September, adding further evidence to China's ongoing growth rebound. The firmer footing was supported by simultaneous improvements of external and domestic demand conditions. We expect a more sustained recovery as the further filtering-through of fine-tuning measures should lift domestic demand. This will create more favourable conditions to push forward reforms, which should in turn boost mid- and long-term growth outlooks."*

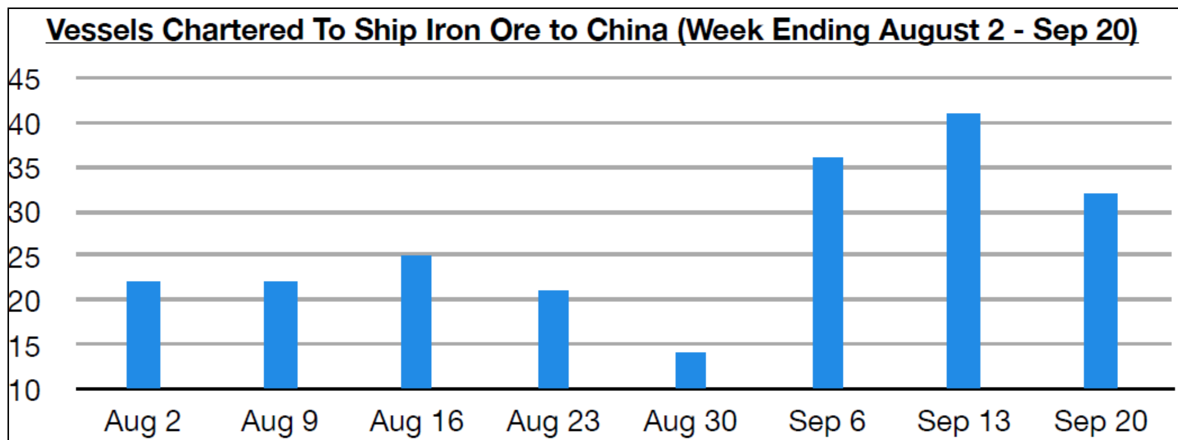
The recent positive news for China's manufacturing activity reinforce the International Monetary Fund's forecast for the world's second largest economy avoiding a second half slowdown and keeping its 2013 growth forecast at 7.75%, which is above Beijing's 7.5% growth target.

SHIPPING MARKET

Shipping confidence levels keep high despite concerns for oversupply issues and downward cycle of freight rates. According to the latest Shipping Confidence Survey by Moore Stephens, overall confidence levels in the shipping industry held firm over the three month period to August 2013, maintaining the highest level reached since November 2010. In August 2013, the average confidence level expressed by respondents in the markets in which they operate was 5.9 on a scale of 1 (low) to 10 (high), identical to the figure recorded in the previous survey in May 2013. This is the highest figure since the 6.0 recorded in November 2010, while in May 2008, when the survey was launched, the confidence rating was 6.8.

Under the current freight market developments in all main vessel segments, bulk carriers, tankers and containers, bulk carrier is predicted to be heading in a recovery. According to a survey pool of 30 analysts by Bloomberg, rates for capesize, panamax, supramax and handysize vessels will move above the breakeven levels in 2014. Capesize rates are estimated that will average $16,000/day, panamax $12,000/day, supramax $12,000/day and handysize $9,800/day in 2014. Optimism for the dry bulk segment is being kept as Chinese iron ore demand seems that will stay at supportive levels for vessel earnings. According to Jose Carlos Martins, executive director of Brazil's Vale, demand growth in China, the world's top iron ore consumer is likely to moderate next year, but he does not expect any major decline. Brazil's Vale expansion plans remain intact as it is scheduled to raise annual production capacity to 480 million tonnes by 2018 from 306 million tonnes this year. In addition, Australian BHP Billiton is going to boost its annual iron ore production capacity to more than 200 million tonnes and its rival Rio Tinto to 360 million tons per year, from an already 290million tons' expansion.

In the **dry** market, the Baltic Dry Index broke this week even the barrier of 2,000 points mark, for the first time since October 2011 due to an accelerated growth in charter rates for capesize vessels. Spot chartering activity holds firm with 119 vessels being chartered last week in the spot market, while 30 capesize vessels were chartered to haul iron ore to China, and another 5 capesize vessels to haul iron ore to other countries, according to data from Commodore Research. The period of Chinese iron ore restocking is still underway and as long as capesize fleet growth remains low, capesize rates will continue to stay on the high side. Chinese iron ore port stockpiles are now at about 75.2 million tons, 1% more than a week ago but still 21 million tons (22%) lower than last year's levels. Overall, Chinese iron ore imports during August declined by 5.6% month-on-month, but with an increase of 7.2% from previous year and there are expectations for a firmer improvement during September.



Source: Commodore Research

Panamax rates have also started to find firm support, with charter rates surpassing this week the barrier of $14,000/day for the first time since December 2011, with a large amount of coal and grain cargoes flowing in the market. One more encouraging factor for firmer expectations in the increasing trend of panamax rates is that coal stockpiles at China's Qinhungdao, China's largest coal port, are below the critical million 7 mil tons for six consecutive week by standing now at bout 5.9 million tons, 100,000 tons (-2%) less than a week ago. The upcoming maintenance in China's coal dedicated Daqin Railway on October 5th will create more need for imported coal as over the 15 day period of maintenance is estimated that about 3 to 4.5 million tons of domestic coal will not be railed. However, the accelerating pace of panamax fleet growth remains the serious headwind in the recovery of freight market.

The Baltic Capesize Index has now broken the barrier of 4,000 points, for the first time since October 2010 with charter rates heading to more than $40,000/day, from tight vessel availability and increased mineral cargo volumes from the Atlantic. The prospects keep positive for the capesize segment as long as fleet growth remains slow and there are estimations that demand for extra 430 capesize bulkers could emerge as the world's four largest iron ore miners ramp up production. The investment bank Jefferies noted that iron ore giants are planning to increase iron ore capacity by 400 million tons between 2013 and 2016 and this would increase iron ore shipments by 10% per year, if logistics bottlenecks can be avoided.

On Thursday September 26th, the BCI recorded, for the first time after two weeks of solid gains, daily losses of 136 points, while the panamax index moved up by 397 points. The fourth week of September ended with the **BDI** not loosing its firmness as it ended, on **Friday September 27th,** at 2046 points, down by 7.4% from last week's closing and up by 167% from a similar week closing in 2012, when it was 766 points. The largest increase is recorded in the panamax segment, while supramax vessel earnings exceeded this week at levels of more than $11,000/day. **BCI** is down by 1.2% w-o-w, **BPI** is up 23.8% week-on-week, **BSI** is up 11% week-on-week, **BHSI** is up 6.4% week-on-week.

Capesizes are currently earning $38,023/day, up by $580/day from last week's closing and **panamaxes** are earning $14,436/day, up by $2,785/day week-on-week. At similar week in 2012, **capesizes** were earning $8,039/day, while **panamaxes** were earning $3,389/day. **Supramaxes** are trading at $11,179/day, an increase of $1,104/day from last week, about 71% lower than capesize and 22.5% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,676/day, hovering at 7.9% higher levels than capesizes versus 71% today's lower levels. **Handysizes** are trading at about $8,473/day, up by $530/day from last week's closing; when at similar week in 2012 were earning $6,893/day.

In the **wet** market, the outlook of VLCC segment remains bleak with rates at this week showing a very soft improvement in AG-USG route with an increase of 2 points to WS25, and a yearly decline of 2 points from a similar week's closing in September 2012. In AG-SPORE and AG-JPN routes, rates also increased by 2 points to WS35, at almost the same levels of last year, only 1 point down. In WAFR-USG and WAFR-CHINA routes, rates kept steady at WS37.5 and WS35 respectively, down by 5 and 6 points respectively, from a similar week's closing in 2012.

In the suezmax segment, fixture activity in the West Africa and Mediterranean markets kept limited with rates in WAFR-USAC route falling by 3.75 points to WS46.25 and 2.5 points in B.SEA-MED route to WS52.5. At a similar week in September 2012, rates in WAFR-USAC route stood at WS60 and WS55 in B.SEA-Med. In the aframax segment, Caribbean market keeps quiet with rates moving up by 2.5 points to WS105, but up by 15 points from similar week's closing in 2012, while N.SEA-UKC rates posted no weekly change by staying at WS82.5 for three successive weeks and at the same levels of last year.

In the panamax segment, the Caribbean market witnesses also quiet fixture activity with rates stable at WS100, down by 15 points from a similar week's closing in 2012. In the MR segment, rates in AG-JPN route keep falling from the end of August by ending to WS93 for 75,000dwt vessels, down by 12 points from the first week of September and WS104 for 55,000dwt vessels, down by 14 points. Compared with last year, rates in AG-JPN route for 75,000dwt vessels are down by 4 points and 8 points for 55,000dwt vessels.

The outlook of VLCC market is being threatened from the increase in US shale production as it is said to have reduce US oil imports from 9.2mil barrels per day to 4mil barrels/day during the period June 2012 to June 2013. However, not only the VLCC segment is being hit seriously, but also the MR segment is under serious risk from the frenzy ordering business. According to chief commercial officer Klaus Rud Sejling from Maersk Tankers, speaking at a Marine Money Conference in Singapore, the over ordering of MR tankers threatens to damage the positive prospects of the product tankers. He said that if the market wasn't over supplied a one year charter for an MR tanker would not be $14,000/day, but it would be $20,000/day. Although annual demand growth for product tanker transportation appears to be positive, Maersk Tankers expects that the fleet growth of MR tankers would be dramatic at around 20% and that the underlying demand would not be able to absorb the level of fleet growth.

In the meantime, spot brent crude price is still high at more than $108/barrel with the Research devision of Citigroup raising its brent price forecast to $108/barrel from $99/barrel, due to geopolitical turmoil in the Middle East and North Africa. The research division of Citigroup said the geopolitics of the region will always matter for oil as the region is the source of 40 % of global oil supplies. Citigroup expects that the deteriorating conditions in the Middle East and the persistence of current supply disruption will keep the upward momentum of prices, despite the continued US supply growth.

In the **gas** market, Malaysian LNG player, Petronas, is said to be planning to order four 150,000 cbm LNG carriers, including four options, at South Korea's Hyundai Heavy Industries at a total newbuilding cost of about $1,7bn. The LNG newbuildings are expected to fulfill are expected to fulfill both new business for Petronas, which is currently trying to finalize contracts on the projects in which it holds an interest, such as the Gladstone LNG in Australia, the Bintulu production complex (expansion) in Malaysia and the Pacific Northwest LNG project in British Columbia, Canada, as well as fleet-replacement plans for its owned 1994 to 1997-built vessels.

In the meantime, LNG spot rates for modern 160,000 cbm tri fuel diesel engine liquefied natural gas carriers keep their downfall by declining to $105,000/day, from $115,000/day, with at least four fixtures reported this week due to the needs from Australia, Indonesia and Middle East. On the long term, prospects for LNG spot rates remain positive under the current freight market recession in the crude tanker vessel categories. China's LNG appetite for imports is set to be high in the next three years as China National Offshore Oil Corp (CNOOC) expects to add five liquefied natural gas receiving terminals by 2015, from four terminals currently, doubling its total capacity to 35-40 million tonnes per year from 18.7 million tonnes per year. Thus, the expansion will enable CNOOC to import more LNG to meet strong demand growth in the country. China is currently aiming to increase the share of natural gas in its energy to 8% by 2015 from 5% to cut emission from coal and reduce its dependence on oil imports.

In the **container** market, the Shanghai Container Freight Index keeps falling for a third straight week by falling at levels of less than 1000 points, for the first time since week ending June 21st. The SCFI ended last week at 991 points, down by 2% week-on-week and down by 31% year-on-year. The decline is directed by major losses in Asia-Europe and Asia-Mediterranean rates. In Asia-Europe, rates fell below $900/TEU to $875/TEU, but are still up by $361/TEU from the lows of $514/TEU on June 21st. On a weekly basis, Asia-Europe rates are down by 9.4% and 18.5% year-on-year. In Asia-Mediterranean, rates fell below $1000/TEU to $944/TEU, for the first time since end May, with a weekly decline of 15.3% and yearly decline of 22.6%.

In transpacific rates, the losses continue to be softer with 1.3% weekly decline in Asia-USWC route and 0.9% weekly decline in Asia-USEC. In Asia-USWC route, rates fell to less than $1,900/FEU, at $1,891/FEU, and are down by 31% year-on-year. In Asia-USEC route, the decline is even weaker with rates falling by $32/FEU to $3,294/FEU, down by 11.7% year-on-year.

In the **shipbuilding industry**, South Korean Shipbuilders are facing a downfall in their profits due to a decline in the number of contracts placed for high valued drillships and drop in the newbuilding cost. According to industry sources, Korean shipbuilders have won nine drill ship contracts since the beginning of this year, from 17 in 2012. Daewoo Shipbuilding & Marine Engineering has sealed 4 contracts and Samsung Heavy Industries 5, while the newbuilding cost declines. During the first half of 2013, the newbuilding cost for the construction of such unit has remained over $600mil, but now has dipped to about $500mil. In July, Samsung Heavy Industries won two drillship contracts from Seadrill Draco at the price of $1,04 billion.

Chinese shipbuilders seem to overpass South Korean this year by winning 39.5% of global orders in the first half compared with 36.5% of South Korea and reversing 2012's trend. During, January-August period, newbuilding orders for exports were up by 193% year-on-year to 32.4mil dwt, as per data from the China National Association of Shipbuilding Industry. Although Chinese shipbuilders have won more business so far this year than 2012, only 4% of the country's more than 1,600 yards have won new contracts. The major yards, supported with financing from China's policy banks, are also the ones that are going to survive in the upcoming years.

According to the China Association for National Shipbuilding, there are around 1,650 shipyards in China and up to 50% of them are set to collapse in the next years. A senior executive from the Export-Import Bank of China stated in Reuters that around two-thirds of the shipyards that won orders this year were supported with a mix of financial instruments that benefited individual shipowners or shipyards. These included shipyards controlled by state-owned groups China State Shipbuilding Corporation and China Shipbuilding Industry Corporation, COSCO and private yards such as Sinopacific shipbuilding. CEXIM is aiming to lend about $3bn to the shipping industry this year, 30% would go to Chinese shipyards and 70% would be advanced in the form of buyer's credits and loan guarantees to support foreign and domestic shipowners ordering ships at Chinese shipyards.

In Japan, shipbuilding booms with domestic shipbuilders winning 193 bulkers as export orders during January-August, compared with a total of 81 bulkers ordered in a corresponding period of 2012. According to Japan Ship Exporters' Association, Japanese yards received 15 export orders for bulkers in August, from 32 in July and 31 in June. The dry bulkers of August included seven handysizes, three handymaxes, four panamaxes and one coal carrier.

In the **shipping finance**, an interesting deal is reported this week in South Korea from Korea Development Bank as a leader in a syndicated loan facility of $216mil to South Korean dry bulk player Polaris Shipping for the construction of four very large ore carriers at Hyundai Samho Heavy Industries. The total newbuilding cost for the three very large ore capes of 250,000dwt and one fourth of 208,000dwt will ne $254mil in total, with the remainder of the funding coming from Polaris Shipping. The KDB will provide $166m, Nonghyup Bank $30m and South Korea's National Federation of Fisheries Co-operatives $20m.

The Thai-based shipowner, Precious Shipping has secured a loan of $38.7 million from Bangkok Bank to finance two cement carriers being built at Shanhaiguan New Shipbuilding Industry in China. The loan will reportedly cover 80% of the contract price of the vessels, which had been contracted in December 2012 for about $24.2mil with a third vessel being added in April for delivery in the first half of 2014.

Aegean Marine Petroleum signed Secured Borrowing Base Multi Currency Revolving Credit Facilities syndicated by 13 banks. The deal consists of three tranches: Tranche A, a $115 million 364 day secured committed facility with 364 day extension option; Tranche B, a $115 million two-year secured committed facility with 364 day extension option; and Tranche C a $730 million secured uncommitted facility. The facilities will be used for working capital needs. ABN AMRO and BNP Paribas served as book runners mandated lead arrangers; KBC Bank and NATIXIS Paris served as senior mandated lead arrangers, Rabobank International, ING Belgium Brussels Geneva Branch, and Société Générale were mandated

lead arrangers; Belfius Bank, National Bank of Greece, Credit Suisse, and Mashreqbank were lead arrangers; Emirates NBD PJSC London Branch and Arab Bank (Switzerland) were arrangers.

In the **capital** market, Navios Maritime Partners announced that it plans to offer 5,000,000 common units representing limited partnership interests in a public offering. Navios Partners expects to use the net proceeds from the public offering to fund its fleet expansion and/or for general partnership purposes. The joint book-running managers for this offering are Citigroup, Wells Fargo Securities, J.P. Morgan and Deutsche Bank Securities and the co-manager is S. Goldman Capital LLC. In addition, Navios Maritime Acquisition Corporation announced the closing of its previously announced placement, issuing a total of 25,974,026 shares of common stock, at a price of $3.85 per share, raising approximately $100.0 million of gross proceeds. Navios Acquisition expects to use the net proceeds of the placements for working capital and other general corporate purposes, including the repayment of outstanding indebtedness and/or the acquisition of vessels, although no such acquisitions are pending or have been identified.

German carrier, Hapag Lloyd raised €250m ($338m) through a bond issue that will be mainly used to pay down debt. The bond had been placed with private investors, had a maturity of five years and a coupon of 7.75%."The proceeds of the bond will be used for general corporate purposes including refinancing of outstanding indebtedness — approximately €200m — and for early redemption of parts of the existing senior notes due 2015 — approximately €50m," Hapag-Lloyd said in a statement.

In addition, Scorpio Bulkers, the dry bulk subsidiary of Scorpio Tankers, has raised about $300mil via a private placement of 33.4mil new shares over-the-counter market, at a subscription price of NKr53.50. The company in its first placement, at the end of June, has raised $250mil. According to Scorpio, proceeds will be used to "part finance construction of a series of fuel efficient dry bulk vessels and for general corporate purposes".

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