GOLDEN DESTINY

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

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ECONOMIC ENVIRONMENT

US growth is in danger as shutdown heads into second week with Moody's bringing an air of optimism. According to the chief executive of Moody's, the US government is unlikely to default even if President Barack Obama and Republicans in Congress fail to raise the debt ceiling by a mid-October deadline. However, there are hopes that a deal could be reached before October 17th, which is the scheduled date for raising the $16.7tn borrowing limit. Moody's rating for US government debt is currently standing at AAA with a stable outlook, while Standard & Poor's has downgraded its rating to AA+ with a stable outlook and Fitch's rating is triple A rating with negative outlook.

Under the current economic uncertainty of US economy, Bank of America Merrill Lynch forecasts that the government shutdown will be too short to impact fourth quarter US GDP growth, but it cut its forecast for US gross domestic product growth to 2% during the October-December period from its previous estimation for 2.5% growth. As main reasons mentions the lower government spending, business environment and consumption as confidence is undermined by the ongoing budget impasse. The estimate is based on an assumption that the shutdown will last two weeks and there is no violation of the debt ceiling.

The International Monetary Fund warns that the U.S. government default could seriously damage the world economy and cut its 2013 worldwide growth projections. It now predicts 2.9% worldwide growth for 2013 and 3.6% for next year, compared with its July predictions of 3.1% growth in 2013 and 3.8% in 2014. For emerging economies, it estimates 4.5% growth this year, 0.5% less than three months ago by lowering its projections for China, Mexico, India and Russia. *"Advanced economies are gradually strengthening" while "growth in emerging-market economies has slowed," IMF chief economist Olivier Blanchard wrote in a foreword to the World Economic Outlook report.*

- In the United States, growth is expected to rise from 1½ percent this year to 2½ percent in 2014 driven by continued strength in private demand, which is supported by a recovering housing market and rising household wealth.

- In the euro area, policy actions have reduced major risks and stabilized financial conditions, although growth in the periphery is still constrained by credit bottlenecks. The region is expected to gradually pull out of recession, with growth reaching 1 percent in 2014.

- In Japan, fiscal stimulus and monetary easing under the authorities' new policy package—the so-called Abenomics—has enabled an impressive rebound in activity. But the expected unwinding of fiscal stimulus and reconstruction spending together with consumption tax hikes will lower growth from 2 percent this year to 1¼ percent in 2014.

- In China, growth is projected to decelerate slightly from 7½ percent this year to 7¼ percent in 2014. Policymakers have refrained from stimulating activity amid concerns for financial stability and the need to support a more balanced and sustainable growth path.

The developing East Asia is still considered the driving force for the exit from global economic recession. However, the World Bank, as Asia Development Bank, cut its 2013 growth forecast for developing East Asia, citing weak commodity prices, slowing consumer demand and China's efforts to restructure its economy away from exports. The World Bank expects now 7.1% growth for East Asia in 2013, from its earlier prediction in April for 7.8% growth. For China, it estimates 7.5% growth from 8.3% previous estimation, which it said was primarily because the most recent expansion in credit has been less effective in generating growth.

Under the current lower projections for China's economic growth, the official Purchasing Managers' Index for the manufacturing activity is still in expansionary levels by edging at 51.1 in September from 51 in August, according to the National Bureau of Statistics. The rebound of manufacturing activity pours confidence that China's government will meet its target for a 7.5% growth this year, which would be the slowest pace of expansion in 23 years. Chinese Premier Li Keqiang said that the nation's economic growth probably exceeded 7.5% growth in the first nine months of the year, with the government introducing measures including faster railway spending and tax cuts to reach its target for a 7.5% growth this year. The National Bureau of Statistics will report statistics data for China's third quarter GDP growth on October 18th; however, a median estimate of 33 analysts surveyed by Bloomberg News reports a 7.8% growth in the third quarter, up from 7.5% growth in the second quarter.

SHIPPING MARKET

Amid the negative signs for the world economy from US government shutdown, there is optimism in the shipping market with investors being more than willing to invest either in the secondhand or newbuilding vessels as asset prices signal upward spikes, mainly in the bulk carrier segment. September ended with an astonishing number of reported newbuilding orders – 356 – up by 96% month-on-month with 144% increase in the bulk carrier segement, 105% increase in the gas tanker and 150% in the container segment.

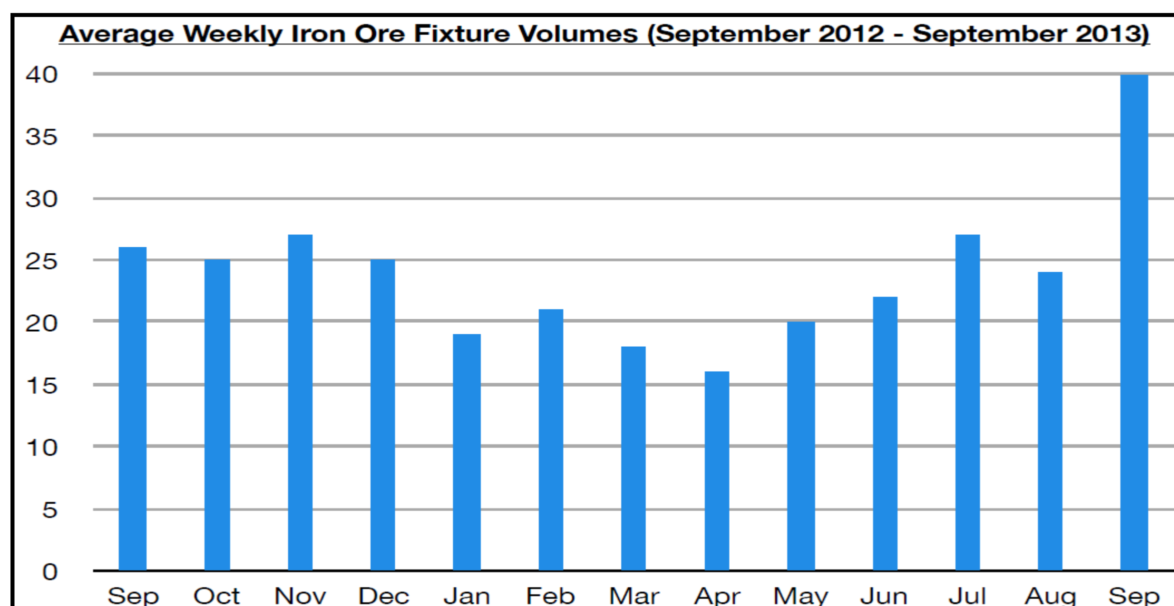
The world economy has started to show signs of gradual recovery with ongoing threats and the world trade has now entered in expansionary levels that would alleviate the burden from imbalance between vessels' supply and demand. According to a report published from HSBC Holdings, global trade is expected to grow 7% this year and at an annualized rate of 3.8% over the next five years due to an earlier economic recovery. Sectors such as steel will support the expansion of trade with a 7.4% annualized growth rate forecast in trading of rolled iron and steel bars over the next five years. *"Despite the current climate, the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014, the global economy ends a period of slow growth and contraction and there will be an upturn in trade in line with GDP forecasts*", HSBC said in its report. Overall, world trade would expand by 86% in the next 15 years and the total trading activity would reach $53,8 trillion in 2026.

In the **dry** market, China's steel production is the driving force behind the current stability in the unexpected euphoria recorded in vessel charter rates since the end of August with the Baltic Dry Index not falling less than 2,000 points mark. The significant increase in the capesize segment is now dragged in the panamax segment, while supramax vessels are benefited from the South American grain activity and hanysizes remain positive with slight improvement.

During September, there was a large increase in iron ore fixture volume that contributed in the rebound of capesize rates- at levels of more than $30,000/day. According to Commodore Research, a weekly average of 40 iron ore fixtures came to the spot market during September, 16 more than August. The sentiment remains bullish also for October as Chinese iron ore restocking remains underway. The National Day Holiday in China last week had no serious negative effect on the upward trend of freight rates with the chartering market being surprisingly active. On the long term, Chinese iron ore imports seem that will hold strong as steel production indicates high levels and Australian/Brazilian iron ore production is likely to increase by a total of roughly 120-140 million tons next year.

In the panamax segment, vessel earnings surpassed this week the barrier of $16,000/day, with expectations for a further recovery till the end of October as China's maintenance Da Qin Railway has finally begun. According to Commodore Research, the railway will be offline for part of each day and

coal haulage is expected to decrease by about 200,000 to 300,000 tons each day. Overall, 3 to 4.5 million tons of domestic coal will not be railed to Qinhuangdao and instead will likely need to be imported. As it stands now, Qinhuangdao coal port stockpiles are already very low and Chinese power plant coal stockpiles remain at levels previously not seen since September 2011.



Source: Commodore Research

On Friday **October 11th**, **BDI** closed at 1985 points, down by 4.7% from last week's closing and up by 114% from a similar week closing in 2012, when it was 926 points. All dry indices closed in green apart from the capesize index that showed a sharp donward revision, while panamax and suprmax vessels recorded solid increase. The largest increase is recorded in the panamax segment. **BCI** is down by 10.5% w-o-w, **BPI** is up 6.7% week-on-week, **BSI** is up 6.1% week-on-week, **BHSI** is up 3.7% week-on-week.

Capesizes are currently earning $32,382/day, down by $5,417/day from last week's closing and **panamaxes** are earning $16,233/day, up by $883/day week-on-week. At similar week in 2012, **capesizes** were earning $11,074/day, while **panamaxes** were earning $6,937/day. **Supramaxes** are trading at $12,355day, an increase of $712/day from last week, about 62% lower than capesize and 24% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,110/day, hovering at 27% lower levels than capesizes versus 62% today's lower levels. **Handysizes** are trading at about $8,988/day, up by $304/day from last week's closing; when at similar week in 2012 were earning $6,536/day.

In the **wet** market, VLCC rates in AG-USG route have stay stable at WS25 for three consecutive weeks, up by 1.75 points from the beginning of October 2012, but they are still too low, when on October 2011, were standing at WS 33. In AG-SPORE and AG-JPN routes, rates moved up by 2 points to WS37, almost at the same levels of October 2012 and down by 5 points from the levels of October 2011. In WAFR-USG routes, rates are showed no change from the beginning of September by standing at WS37.5, down by 2.5 points from the levels of beginning October 2012 and down by 17.5 points from October 2011. In WAFR-China routes, rates gained 1 point and moved to WS38, down by 2 points from October 2012 levels and down by 22 points from October 2011.

In the suezmax segment, West African market is under negative pressure with sluggish fixture activity, however, WAFR-USAC rates gained 2 points and concluded at WS45, down by 12.5 points from October 2012 levels and down 55 points from October 2011.

In the aframax segment, activity in the Caribbean market increased 200% week-on-week with rates in CBS-USG route standing at WS90, at the same levels of October 2012 and only 5 points down from

October 2011 levels. In the panamax segment, CBS-USG routes keep also a stable outlook, from previous week, with rates at WS107.5, down by 7.5 points from October 2012 levels and down by 12.5 points from October 2011.

In the MR segment, AG-JPN rates recorded soft improvement and moved to WS97 for 75,000dwt vessels, up by 4.5 points on a weekly basis, but down by 4 points from October 2012 levels and down by 23 points from October 2011 levels. For 55,000dwt vessels, AG-JPN rates gained 11 points on a weekly basis and concluded at WS110; up by 3 points from October 2012 levels, but down by 20 points from October 2011 levels.

China has started to play a dynamic role in the employment of very large crude carriers given also the current projections from US government's Energy Information Administration that China should increase its oil imports over the next year and overtake US as the top world oil importer. According to data from Lloyds List Intelligence, China imported over 5mil barrels/day in August, up from 4.3 mil barrels/day a year ago with the vast majority of oil imports, some 4mil barrels per day, being carried by very large crude carriers. Suezmax vessels carried 350,000 barrels/day and aframax 470,000 barrels per day.

There are concerns that US government shutdown will influence negatively the oil demand with energy markets watching carefully the situation in USA. However, spot brent is floating above $109/barrel against the cloudy outlook on oil demand as its seems that supply outages sustain the price momentum on the high side. UAE oil minister Suhai-al Mazrouei said that oil producers are currently doing a good job of balancing world oil market fundamentals, at a time when a significant amount of oil has been cut due to an instability in some parts of North Africa and the Middle East, but it is too early to say if OPEC will leave production levels unchanged in its next meeting in December. "*The current oil market situation remains potentially volatile. We see strong economic growth in key emerging markets, particularly China and India, continued weakness in Europe and a collapse in demand for oil imports from the US due to the shale oil and gas production*," the minister said. "*It is therefore critical for oil producers to make sure that oil market remains in balance. This means ensuring that enough but not too much oil reaches the market place. We need to monitor the situation carefully*," he said.

In the **gas** market, spot rates for modern 160,000 cubic meter tri fuel diesel engine liquefied natural gas carriers fell to $95,000/day, from $105,000/day, as tonnage availability is slightly up from the delivery of several newbuildings. Although rates seem to have rebounded from a low of $88,000/day in June, the ordering spree of 2011 puts a downward pressure in the LNG spot market. IHS CERA expects fleet utilisation to decline toward 80% and then remain steady from September through November. "Charter rates should follow a similar pattern. With even stronger delivery schedules for each of the next two years and little to no new supply, charter rates are expected to decline in each of the next two summers," said IHS CERA.

In the **container** market, the Shanghai Container Freight Index keeps its decline from August 1st, by falling almost 22% with major losses in Asia-European rates – almost 50% decline from the beginning of August with failures in the general rate increases applied by major shipping players.

In an attempt to defend with overcapacity issues, Maersk Line and CMA CGM announced plans to cancel several sailings in Asia-Europe trade in the coming months to meet with demand. In addition, G6 Alliance, which includes APL, Hapag-Lloyd, Hyundai Merchant Marine, K Line, MOL and Orient Overseas Container Line, announced that it will void eight round-trip sailings between the end of October and March, five on Asia-North Europe and three on Asia-Mediterranean. However, the cancellations seem that will have minimal impact on the current overcapacity, as the void sailings represent only 5% of the G6 Alliance's capacity, according to Alphaliner estimations. In addition, Maersk Line will increase its GRI of $600/TEU in Asia-Europe trade to $950/TEU from November 1st to tackle with the current slump.

In contradiction with the current slump in Asia-Europe rates from overcapacity issues, Asia-Europe box volumes are estimated to have recorded the highest year-on-year increase so far in 2013. According to the latest figures from Container Trade Statistics, Asia-Europe box volumes increased by 10.1% in August to reach 1.3m TEU, up by 3.2% from the trading volumes during the first eight months of 2012.

However, Asia-Europe box volumes are 14.3% lower than the volumes recorded in the first eight months of 2011, which also explains the current recession of freight rates in relation with vessels' supply.

In the **shipbuilding industry**, KEPPEL O&M has signed an MOU with Mexico's national oil company PEMEX, to jointly develop, own and operate a $400M yard in Mexico. The Singapore rig builder signed the MOU with two of PEMEX's subsidiaries: PEMEX Exploracion y Produccion and PMI Norteamerica SA de CV to set up the yard, with the first phase of which is to construct six KFELS B class jack-up drilling rigs for PEP. Subsequent phases of the yard development would enable it to take in deep draft semi-submersibles and drillships for repairs, undertake FPSO and FLNG vessel conversions, as well as fabricate topside modules and other offshore structures.

Poland's historic Gdansk Shipyard is near bankruptcy, its Ukrainian majority owner has reportedly warned. **Sergei Taruta** – head of **Ukraine's steel producer ISD**, which has 75% control of the yard – has appealed to Warsaw to bail out the yard, and said that he urgently needs PLN180M ($58.2M), according to the **Polish website www.thenews.pl**. Taruta also reportedly told Polish radio reporters that he was ready to provide PLN80M if the government, which holds a 25% minority stake in the yard, provides PLN100M. He issued the warning after **treasury minister** Wvlodzimierz Karpinski cautioned that Poland's Industrial Development Agency could provide no more aid for the yard. According to the **Warsaw Business Journal,** the minister claimed that the agency had fulfilled all of its obligations towards the yard but that ISD had met just 30% of its commitments. Development agency CEO Wojciech Dabrowski told the Journal that his office had already granted the yard PLN150M toward returning the facility to profits but that this goal had not been achieved.

In the **shipping finance**, Navios Maritime Holdings has secured a $40mil loan from DVB Bank for the financing of four secondhand panamax bulkers. According to SEC filing, the cash will cover the cost of the 76,600-dwt Navios Galileo (built 2006), Navios Taurus, Navios Amitie and Navios Northern Star (all built 2005).

In addition, Oman Shipping Company has signed a 137 million rials ($355.8 million) loan with two local banks, 107million rials from Bank Muscat and 30 million rials from Bank Dhofar, with a 12-year lifespan to fund the acquisition of four Very Large Ore Carriers (VLOCs), it said in a statement. The VLOCs each have a capacity of 400,000 deadweight tonnes (DWT), which make them among the largest dry cargo vessels in the world, and will be chartered to Vale International for a period of 20 years, the statement added. *($1 = 0.3850 Omani rials)*

In the wet market, Exxon Mobil has secured an additional $1.5 billion in debt financing for its $19 billion Papua New Guinea liquefied natural gas (LNG) project, according to its project partner Oil Search. The $1.5 billion in supplemental financing will help cover overruns at the 6.9 million metric ton (1 metric ton = 1.1023 tons) per year LNG development, where costs climbed to $19 billion from $15.7 billion late last year. PNG LNG remains on track to deliver its first LNG cargoes in 2014, Oil Search said. The PNG LNG project is Papua New Guinea's biggest-ever resources development and could lift GDP by 20 percent.

In the **capital** market, Scorpio Bulkers, listed in Oslo, announced plans to purchase 15 dry bulkers (11 ultramax vessels -62,000dwt and 4 kamsarmax vessels -85,000dwt) from Chinese and Japanese shipyards for $455mil with expected deliveries between first quarter of 2015 and third quarter of 2016.

Greece-based LNG player, Dynagas is said to have filed with the US Securities and Exchange Commission for listing in the Nasdaq Market. The filling sets $150mil as the target of the initial public offering and the public entity would be newly established Dynagas LNG Partners. The vessels will continue to be managed by privately held Dynagas Ltd at a flat fee of $2,500/day. The initial filing documentation forecasts that the partnership will have $48,2mil in cash in 2014 that would potentially be available for distribution.

<u>MARIA BERTZELETOU – Shipping Analyst</u>

<u>GOLDEN DESTINY RESEARCH & VALUATIONS DEPARTMENT</u>

For more Research Services, please contact us:

Email: snv@goldendestiny.com