This Week's News: A snapshot on the economic and shipping environment
Week Ending: 18th October 2013 (Week 42/13)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

The week ended with positive news for the global economy as the as the US goverment shutdown finally terminated. Following a 16-day government shutdown, Republican and Democrat leaders of the US Senate finally reached a cross party deal to end a partial government shutdown and raise the US debt limit just one day before the official deadline to raise the $16.7trillion borrowing limit averting the US default. China welcomed the deal and the head of the International Monetary Fund called it important and necessary.

The US government shutdown has already caused a negative impact on GDP growth. According to Standard & Poor's estimates, the shutdown has cut at least 0.6% points of fourth quarter's gross domestic product growth, or $24 billlion.

In the eurozone, rising exports and stagnant imports pushed the eurozone's trade surplus to its highest level in August for over a decade. According to the European's Statistics Agency, trade surplus in the euro area reached 7.1 billion euros ($9.6 billion) at the end of August, which is the highest surplus since August 2002.

In the current gradual recovery of euro area, Greece is facing tough negotiations with international lenders, European Commission, European Central Bank and International Monetary Fund, to adopt further austerity measures as a looming fiscal gab in 2014 undermines the country's chances for exit from a six years' recession.

In the UK economy, business exports and investments are likely to be the driving forces of economic recovery in 2014, according to autumn forecast from Ernst & Young. UK growth in 2013 is expected to hit 1.4%, which is far above the 0.7% forecast from the Office for Budget Responsibility in March, with signs of an acceleration to 2.4% in 2014, close to Britain's long term average.

In China, consumer prices lifted faster than expected in September, but remained in government's target range. According to data released, China's Consumer Price Index increased 3.1% in September on a yearly basis, accelerating from a 2.6% gain in August. Economists had expected lower increase at 2.9% according to Dow Jones Newswires Survey. In addition, China's economic growth accelerated during the third quarter of the year at 7.8% following two previous quarters of slowdown, as per official data from National Bureau of Statistics, underlining the importance of the world's second largest economy in the global economic recovery.

China's rebound in the third quarter stems mainly from government efforts to stimulate growth through looser monetary policy and a mini stimulus of investment in infrastructure such as rail and subway systems. However, there are worries that this upturn would not be sustained as monthly data released from China's National Statistics Bureau showed growth in industrial activity, retail sales and fixed asset investment slowed slightly in September from previous months. Industrial production in September increased by 10.2% year-on-year, down from 10.4% expansion recorded in August, while fixed asset investment and retail sales declined slightly to grow by 20.2% and 13.3% respectively. One more warning sign for the stability of China's recent firm growth is the unexpected drop in its exports during September. According to data from the General Administration of Customs, Chinese exports dropped by 0.3% from a year earlier in September, while imports increased by more than was forecasted – up 7.4% year-on-year leading to a trade surplus of $15.2 billion compared with a median projection of $26.25 billion and $28.5 billion in August. Overall, for the first nine months Chinese economy grew by 7.7% and is on track to meet government's growth target of 7.5% for this year, far outperforming other major economies but still the slowest performance in the last 23 years.

SHIPPING MARKET

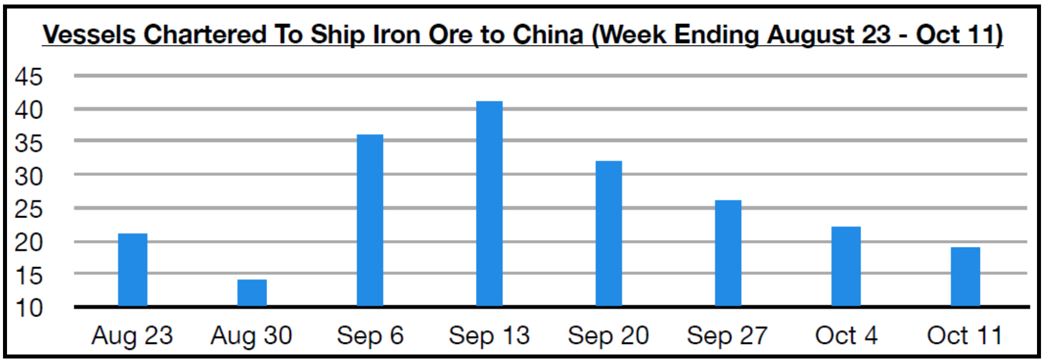
Against 2013 lower GDP growth in China, at the slowest pace in more than 20 years, China remains the key factor lying behind the strong performance of freight rates. Global trade growth under the last 10 years is being driven from China's economic expansion, especially after it became a member of the World Trade Organization in 2001. According to Claire Teng, head of Asia Transport & Infrastructure, equity research, Standard Chartered Bank (Hong Kong), an improving Chinese economy will give a boost shipping demand, which has been proportionately low because of the present vessels' oversupply. "People are worried about demand coming from China as the country's GDP is slowing down", Teng said. She noted that Chinese demand going forward will be driven more by consumer demand and the service industry, rather than buying in raw materials, leading to a reduced need for commodity reported that would have an impact on wet and dry freight rates.

After a long period of rapid investments in infrastructure, China is now looking at more sustainable growth model based on domestic consumption that would have a serious impact on the fortune of dry bulk and tanker segments combined with the surge in the newbuilding orders during 2013. In addition, the country has set a target on using more clean energy such as natural gas via pipelines from its neighbours, reducing the need for coal and crude imports. However, China's eager appetite for LNG will play a significant role in the current buoyant sentiment in the LNG freight market.

The latest released outlook for world steel from World Steel Association poses serious concerns for the future Chinese steel demand, while the estimates are strong for 2013. According to the World Steel Association, following a 2.9% increase in 2012, apparent steel use in China is expected to grow by 6% in 2013 to 699.7mt reflecting the impact of the government's stimulus measures focused in infrastructure. However, steel demand in 2014 is expected to slow to 3.0% growth as the Chinese government's efforts to rebalance the economy continues to restrain investment activities.

In India, steel demand is expected to grow by 3.4% to 74.0mt in 2013, following 2.6% growth in 2012 as high inflation and structural problems are constraining steel using sectors' activities. In 2014, steel demand is expected to grow by 5.6% by accelerated attempts to implement structural reforms.

In the **dry** market, capesize spot rates are on a downward momentum pushing the Baltic Dry Index below 2,000 points with Chinese holidays limiting fixture activity, According to Commodore Research, only 19 vessels were chartered to haul iron ore to China last week, 3 less than chartered during the previous week and well below the record 41 vessels chartered during the week ending September 13th. In addition, capesize rates are on a negative pressure from a recent lull in Brazilian iron ore cargoes and a large increase from Vale has not yet emerged as many have expected. The surge in Brazilian iron ore fixtures on the weeks ending September 6th and September 13th was one of the main reasons that led to tightness in capesize availability in the Atlantic basin and the spectacular charter rates.



Source: Commodore Research

Panamax rates are also on a soft downward momentum with with hopes for firmer levels at the end of October following China's Daqin railway maintenance. Smaller vessel categories, supramax and handysize keep almost a stable outlook with signs of revival from activity in US Gulf and cargoes to the Indian subcontinent from Asia.

Asset prices are holding firm from the recent firm increase in charter rates with the value of a 5yrs old capesize vessel standing at about $36mil at the end of the second week of October, according to S&P Assessments from the Baltic Exchange, up by 16 % year-on-year. In the panamax segment, the value of a 5yrs old vessel is now in region $22,4mil, up by 10% year-on-year.

Chinese iron ore inventories have now shown signs of increase from September's strong iron ore haul shipments and higher volume of iron ore production from major suppliers in Australia and Brazil. Australia's Rio Tinto reported record iron ore shipments of 68 million tons during the third quarter of the year, up by 4% from the previous quarter and 11% up from 2012 relevant period. Currently, around 75 millions tons of iron ore are stockpiled at Chinese ports, 800,000 tons more than two weeks ago and 17% lower than last year's levels.

Coal stockpiles also showed a weekly increase of 3% by reaching now at about 6mil tons, but they are still well below the critical 7million ton levels implying the need for firmer Chinese coal fixture activity. Daqin Railway coal haulage is now expected to decline by a total of 4 to 6 million tons (it was previously announced that this month's maintenance would last for 15 days, rather than 20, and we estimated that 3 to 4.5 million tons of coal would not be railed). It is now expect that a total of 4 to 6 million tons of coal will likely need to be imported to compensate for the decline in domestic coal haulage.

On Friday **October 18th**, **BDI** closed at 1901 points, down by 4.2% from last week's closing and up by 88% from a similar week closing in 2012, when it was 1010 points. All dry indices closed in green apart from the capesize index, with the supramax segment recording the biggest weekly increase. **BCI** is down by 7.4% w-o-w, **BPI** is up 1.7% week-on-week, **BSI** is up 2.6% week-on-week, **BHSI** is up 0.3% week-on-week.

Capesizes are currently earning $28,868/day, down by $3,514/day from last week's closing and **panamaxes** are earning $16,486/day, up by $253/day week-on-week. At similar week in 2012, **capesizes** were earning $14,380/day, while **panamaxes** were earning $7,020/day. **Supramaxes** are trading at $12,678/day, an increase of $323/day from last week, about 56% lower than capesize and 23% lower than panamax earnings. At similar week in 2012, **supramaxes** were getting $7,652/day, hovering at 47% lower levels than capesizes versus 56% today's lower levels. **Handysizes** are trading at about $8,990/day, up by $2/day from last week's closing; when at similar week in 2012 were earning $6,555/day.

In the **wet** market, VLCC rates in AG-USG route stayed stable at WS25 for one more week with no improvement since week ending September 20th, while rates in AG-SPORE and AG-JPN routes increased by 1 point to WS38. WAFR-USG and WAFR-China routes record the better performance with rates in WAFR-USG route gaining 2.5 points to conclude at WS40-$19,165/day and in WAFR-China route, also ended at WS40-$17,932/day, up by 2 points from previous week.

Suezmax rates are benefited from increased activity in the Black Sea market with rates in B.SEA-MED route moving up by 2.5 points to WS50, but time charter equivalent earnings remain below zero levels for three straight weeks. The West African market also records marginal improvement with rates moving up by 2.5 points in WAFR-USAC route to WS47.5-$5,756/day,

Aframax spot rates are on a downward pressure from tonnage oversupply in the Mediterranean, but the Caribbean market recorded firmness with an increase of 7.5 points from previous week as rates in CBS-USG route lifted to WS97.5-$14,921/day. However, the Caribbean panamax market experienced quiet demand with rates in CBS-USG route declining by 10 points to WS100-$2,764/day.

In the MR segment, AG-JPN rates for 55,000 and 75,000dwt vessels experienced soft improvement with 1 point increase to WS98-$21,1333/day for 75,000dwt vessels and WS111-$13,653/day for 55,000dwt vessels.

In terms of oil supply, production levels in Gulf region hit a record despite fears of loosing their main share in oil market from the US shale revolution. According to fresh estimates from the International Energy Agency, Saudi Arabia, Kuwait, United Arab Emirates and Qatar set aggregate production records in each of the last three months and their production accounted 18% of global demand, a level only matched twice in IEA data from 1980s. “Despite the shale revolution, the Middle East is and will remain the heart of global oil industry for some time to come,” Fatih Birol, the IEA’s chief economist said. Saudi Arabia has increased its output by more than 10% since the start of the year and United Arab Emirates by 7%. Kuwait has also set a series of production records this year, while Qatar has been unable to raise its capacity significantly.

In the **gas** market, LPG rates are on rise with expectations for firmer levels as we are heading towards the winter period. Currently, rates on the main Middle East to Asia trading route are now in the mid-$60s per tonne of about $40,000/day, from mid-70s per tonne at the start of June. The propects seem positive for LPG rates as US increase in domestic oil production generates bigger volumes of LPG exports by vessel. According to Arctic Securities, the year-on-year rise in US LPG exports is equal to 11 additional very large gas carriers required to join the global fleet of around 150 vessels and the LPG market is likely to strengthen over the next 12-18 months.

In the LNG segment, imports from the world’s importers, South Korea and Japan keep promising for the current LNG orderbook. According to Lloyds List Intelligence data, South Korea imported 6.2m c.u. of LNG on vessels during September keeping its position as the world’s second largest LNG importer and Japan imported 15.6m cu m in September as the world’s top LNG importer.

In the **container** market, freight rates continue to disappoint as fleet remains oversupplied with the Shanghai Container Freight Index falling below 900 points and ended at 894 points at the end of the second week of October 11th . The Shanghai Container Freight Index is now down by 24% year-on-year with Asia-Europe rates falling to levels of less than $700/TEU, from more than $1,000/TEU at a similar week in October 2012.

Asia-Europe rates stood last week at $675/TEU, down by 12% week-on-week and down by 37% year-on-year, when at the beginning of August 2nd reached the highest level for this year at $1500/TEU. In Asia-Mediterranean route, rates fell now at levels of less than $800/TEU, $726/TEU, down by 13% week-on-week and 32.5% down year-on-year, when at the beginning of August stood at $1493/TEU.

In transpacific routes, rates in Asia-USWC and Asia-USEC routes recorded weekly decline of 3.5% and 1.5% respectively. In Asia-USWC route, rates fell now at the lowest levels of this year - $1,773/FEU, down by 29.4% year-on-year, when at the beginning of the year rates were about $2,500/FEU during January. In Asia-USEC route, rates are recording the softer downward revision from the beginning of the year by ending at $3,205/FEU, down by 1.4% week-on-week and down by 7.2% year-on-year. At the beginning of the year, the average value of Asia-USEC rates stood at $3,568/FEU in January.

Under the current downward revision of freight market, the world’s fleet of inactive containerships increased this week as carriers laid up vessels for the winter. According to the latest figures from Lloyds List Intelligence, the laid up fleet represents 2.3% of the total fleet (282 vessels – 396,211 TEU), which is the highest level reached since June 26. However, the percentage of laid up tonnage is lower than last year, when 400,961 TEU or 2.5% of the total fleet was inactive.

In the **shipbuilding industry**, recently released data from the China Association of the National Shipbuilding Industry (CANSI) showed that Chinese yards built approximately 30.6 million deadweight tons of vessels during the first nine months of this year, down by 26% year-on-year from the 41.6 million deadweight tons of vessels built during the same period last year. However, Chinese yards have seen a 147% year-on-year rise in the number of new orders received during the first nine months of the year to 38.1 million deadweight tons. The stronger data of new orders from Chinese shipyards do not resolve the struggling conditions of Chinese Shipbuilding industry. CANSI has reported that approximately 97% of the newbuilding orders placed at Chinese yards this year have been placed at just 39 yards compared with a total of over 1,600 yards in China.

In South Korea, CONTRACT values of ship orders secured by South Korean builders hit $30.4Bn in the first three quarters of 2013, which is 27% up year-on-year, according to official statement from the industry & energy ministry and the Korea Offshore & Shipbuilders Association. Korean builders won 10.86M cgt in aggregate new orders, accounting for 36% of worldwide orders. Of the 225 worldwide orders for tankers in the first three quarters, Korean builders clinched 117. The figures also showed that Korean builders clinched 50 of the 120 post-Panamax and ULCS orders, plus 26 of the 32 LNG carriers. “Among worldwide orders, South Korean builders won eight of the 10 drillships booked worldwide, three FPSOs and one floating LNG vessel,” the statement added. “Our shipbuilders’ abilities have confirmed South Korea as a shipbuilding power where offshore plants are concerned.” As at the end of September 2013, the outstanding orderbook of Korean builders stood at 29.91M cgt, up 2.7% from the same period in 2012. The statement also said that in the first nine months of 2013, the value of Korean builders’ ship exports increased 14.4% y/y to $27Bn.

In Japan, shipbuilders gained strength in September as they sealed33 orders aggregating 1,202,350gt in September, up from 17 orders of 908,639gt in the same month in 2012, according to data released from Japan Ship Exporters’ Association. Bulkers continue to dominate in their orders won with Japanese yards receiving orders for 26 bulkers, up from 15 in August, and just 10 in September 2012. The September 2013 orders included 22 Handysize and Handymax bulkers; one container ship, one pure car carrier and two chemical tankers were also ordered. the statistics show that Japanese yards were mainly supported by compatriot ship owners, with 53.8% of the orders coming from Japanese companies and just over 15% of the orders came from European and US owners. As at 30 September, the outstanding order book of JSEA member builders stood at 586 ships of 25,250,198gt, down from 622 ships of 28,251,483gt in September 2012.

In the **shipping finance**, Korea Development Bank, the largest creditor of STX Offshore & Shipbuilding, is poised to sell STX-owned shipyards in Europe by the end of 2013. Unidentified sources have stated that STX Europe yards in Finland and France could be sold for up to KRW 1 trillion (about $933 million). Other STX European yards have already been sold.

In terms of **ship financing deals**, Japan’s MODEC, a global supplier and operator of offshore floating platforms, has obtained a financing of US$ 847 million from banks including Sumitomo Mitsui Banking Corporation, Japan Bank of International Cooperation (JBIC), Bank of Tokyo-Mitsubishi UFJ, ING Bank, Mizuho Bank and ABN AMRO Bank. SMBC acted as the Coordinating Bank. The financing is for one Floating, Production, Storage and Offloading (FPSO) unit, to be converted from an existing very large crude carrier by Jurong in Singapore, and to be chartered to an affiliate of Tullow Oil in Ghana from 2016 onwards. Upon conversion, the FPSO will have a production capacity of 80,000 bopd, a storage capacity of 1.7 million barrels and a gas production capacity of 170 mmscfd. The FPSO will be used to monetise the significant deepwater oil reserves held in the Tweneboa, Enyara and Ntome (TEN) fields offshore Ghana.

In addition, a joint venture including Mitsui OSK Lines has secured a total of JPY 21.7billion ($220mil) from Japan Bank of International Cooperation to cover over half of the the cost of two LNG newbuilding of $220mil each vessel. Japan Bank of International Cooperation said that the loan will be syndicated without revealing the names of the other financial institutions.

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