GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 15th November 2013 (Week 46/13)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

Disappointing growth figures in the eurozone and Japan dashed hopes for the stability of global economic growth and pose serious risk on the hopes for an earlier full world recovery from the beginning of 2014. Growth in the eurozone faltered and expanded by 0.1% during the third quarter of the year, from 0.3% in the second quarter, according to Eurostat, with the currency's bloc two largest economies, France and Germany recording lower economic perfromace. Germany, the main eurozone engine, experienced a slip in its GPD growth to 0.3% in July to September, from 0.7% in the previous quarter and France's GDP growth slowed to 0.1% from 0.5%.

In Japan, the rate of growth halved to an annualized rate of 1.9% as weaker consumption and exports offset rises in public spending and property investment, according to estimates from the Cabinet Office. However, Japan still recorded growth above its potential levels, which most economists estimate at between 0.5% and 1% and there are predictions for a stronger growth in the next two quarters as households boost spending and investment before an increase in the rate of consumption tax to be effective from next April.

In U.S., Moody's has cut the credit rating of three big US banks, Morgan Stanley, Goldman Sachs, JP Morgan Chase after the decision of the federal government to not provide additional bailout out in future financial difficulties. According to Moody's, Goldman, Morgan Stanley and JP Morgan had the ratings on their long-term senior unsecured debt lowered by one notch to Baa1, Baa2 and A3 respectively.

In China, annual inflation rose to an eight month high of 3.2% in October as food prices soaring, from 3.1% in September, but it is still below the official target of 3.5% in 2013. Data from the National Bureau of Statistics also showed that China's factory output increased by 10.3% in October from a year earlier, beating market expectations for a 10% growth. In addition, fixed asset investments, a key driver of economic growth, climbed 20.1% year-on-year, real estate investment growth rose 19.2% year-on-year, revenue from property sales rose 32.3% year-on-year and retail sales were up by 13.3% year-on-year. Overall statistics data recorded in October underline that Chinese economy is stabilizing and the annual 7.5% growth target is easily reachable for the current year.

SHIPPING MARKET

As we move towards the end of 2013, the full upturn of the shipping market seems even more realistic as bulk carriers have already shown a remarkable improvement from last year's levels and China is trying hard to keep its pace of growth under its target. In the tanker segment, VLCC spot rates record have started to record increases that pose a glimmer of hope, while containers still facing serious macroeconomic challenges combined with overcapacity issues.

Under the current worldwide economic and shipping market status, optimistic expectations are came to light from a survey conducted by Petrofin Research to a total of 20 top ship financial institutions that hold about $200bn in shipping loan portfolios (approximately 50% of top 40 international financial institutions with a total portfolio of about $400.89bn). The results from the survey showed that 80% of the respondents expect a 3%-4% rise in 2014-2015, which is translated to a robust 5%-7% increase in world trade. For the dry bulk shipping market, 55% of respondents now expect a higher freight market in 2014 and the rest they predict a similar picture of this year. It is the first time after several years that there are no negative projections for the bulker and tanker freight market in the forthcoming year. For tankers, financial institutions also do not predict deterioration in the market and 35% of the respondents are confident that the recovery is near to come in next year. In the container segment, expectations are positive but the optimism is not general. The bankers that expect a lower 2014 market have declined from 58.6% in 2011 to 28.6% in 2012 and 10% in 2013. In last, for overall the shipping market, there has been an interesting shift of opinion with 40% expecting the crisis to be over in one year as opposed to 10.7% last year, while 35% predict the crisis to prolong over the next 3-4 years.

However, a leading German banker speaking in Lloyds list this week, Commerzbank's Stefan Otto, warned that the recovery in shipping markets in 2014 should not be seen as a foregone conclusion and the upturn may not emerge until 2015 as new orders spur in the market.

The ordering activity is now near to surpass the number of 2,000 orders for the first time since the end of 2008 as January-September 2013 statistics figures recorded 1958 new orders, from 1055 in a corresponding period last year with 120% year-on-year increase for bulk carrier new orders (639 new orders placed in the first nine months from 291 last year).

In the **dry** market, the Baltic Dry Index keeps its positive trend by staying above 1,500 points mark from the end of October with capesize charter rates falling below $20,000/day. Supramax rates record new gains this week as they fetched $14,000/day for the first time since November 2011.

Iron ore fixture activity has not lost its pace of growth. During the last week, 27 iron ore fixtures came to the market, 5 more than the previous week and 8 more than the trailing four week average supporting the strong levels of capesize rates. Chinese iron ore stockpiles are still on increase implying that the levels of Chinese iron ore fixture activity will stay at lower levels than the highs seen during September, when capesize rates reached the levels of $40,000/day. Chinese iron ore stockpiles are now on increase for five straight weeks and are currently standing at about 81million tons.

There has been also a small rise in Chinese coal port stockpiles to about 5.6 million tons, but they are still below the critical 7mil tons with Chinese thermal coal fixture activity to hold strong combined with the demand for thermal coal during the winter season. Panamax rates have now fallen below $12,000/day, but they are significant above from last year's low levels of about $6,100/day.

On Friday **November 8th**, **BDI** closed at 1517 points, down by 4% from last week's closing and up by 46.4% from a similar week closing in 2012, when it was 1036 points. BCI and BPI closed in red, while small vessel categories recorded gains with the supramax size showing the largest weekly increase. The largest weekly increase is being recorded in the capsize segment. **BCI** is down by 5.4% w-o-w, **BPI** is down 10% week-on-week, **BSI** is up 2.9% week-on-week, **BHSI** is up 1.8% week-on-week.

Capesizes are currently earning less than $19,000/day, from more than $20,000/day in last week's closing and **panamaxes** are earning less than $12,000/day, from more than $12,000/day in last week's closing. At similar week in 2012, **capesizes** were earning $16,438/day, while **panamaxes** were earning $6,760/day. **Supramaxes** are trading at about $14,000/day, from more than $13,000/day in last week, about 26% lower than capesize and 17% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $6,946/day, hovering at 58% lower levels than capesizes versus 26% today's lower levels. **Handysizes** are trading at about $9,900/day, from $9,700/day in last week's closing; when at similar week in 2012 were earning $5,968/day.

In the **wet** market, crude spot rates for very large crude carriers continue their significant upward incline from the end of October with rates in AG-USG route gaining 2.5 points on a weekly basis to conclude at WS35-$15,678/day, which is the highest level seen since the end of May 2012. In AG-SPORE and AG-JPN routes, rates gained 7.5 points and rose to WS60-$50,000/day, levels not seen since the first quarter of 2012. In WAFR-USG route, rates moved up to WS57.5-$43,000/day, up by 7.5 points week-on-week, from WS38 at the end of October, while rates in WAFR-China route gained 5 points on a weekly basis and ended at WS57.5-$43,000/day.

In the suezmax segment, rates in WAFR-USAC remain flat at WS57.5 from last week, but up by 12.5 points from the beginning of October and rates in B.SEA-Med route stay firm at WS57.5, up by 2 points week-on-week and 10 points up from the beginning of October.

In the aframax segment, fixture activity in the Caribbean market experienced strong levels and weekly rates gained 12.5 points to conclude at WS107.5-$21,200/day, up by 17.5 points from beginning-October levels. In the panama segment, Caribbean market recorded weakness with rates falling by 5 points to WS92.5-$6,700/day, down by 15 points from the beginning-October levels.

In the MR segment, AG-JPN rates for 75,000dwt vessels dropped by 13 points to WS72-$9,600/day, down by 25 points from beginning-October levels. For 55,000dwt vessels, AG-JPN rates moved by 1 point to WS96-$8,300/day, but they are down by 15 points from the beginning of October.

In terms oil demand, October ended with China’s crude oil imports falling by 13.8% year-on-year to 20.41million mt (4.83 million barrels/day), according to preliminary data released by the General Administration of Customs. This is the first time that China's crude oil imports have fallen below 5 million barrels/day and is considered to be the lowest daily average since August 2012, when crude oil imports stood at 4.35million barrels/day and are also 23% down from the record high of 6.27million barrels/day imported in September. Overall, China's total crude imports for the first ten months of the year totaled 231.62 million mt or an average 5.58 barrels/day- up by 3.4% year-on-year, which is lower than the 7.1% year-on-year growth recorded during January-October 2012.

In the **gas** market, Russia is planning to order 13 or more LNG carrier newbuildings at South Korean yards in an attempt to increase the business between the world's top gas producer and the second biggest LNG buyer. The announcement came from South Korea's presidential office during Russian President Vladimir Putin's trip to Seoul for a summit with South Korean President Park Geun-Hye Russian energy giant Rosneft, Russian vessel operator SovComFlot, Gazprombank and South Korea's Daewoo Shipbuilding & Marine Engineering Co Ltd (DSME) agreed to set up a ship building yard in Russia as a part of the agreement. In addition, Russian delegates have signed a raft of MOU including one between Russian state development bank Vnesheconombank, or VEB, and Korea Exim Bank (KEXIM) to set up a $1 billion fund for energy, infrastructure, shipbuilding and other projects, according to the statement from the Korean presidential office.

In the **container** market, the general rate increases applied from November 1st have already shown its positive effect as Shanghai Container Freight Index is now above 1,000 points from the end of October with Asia-Europe rates recording 97% increase from end-October levels. Last week, the Shanghai Container Freight Index closed at 1090 points, down by 3.4% week-on-week with 7.2% and 7.8% weekly declines in Asia-Europe and Asia-Mediterranean rates respectively.In Asia-Europe, rates are now standing at $1320/TEU, up by 11% year-on-year and $1,382/TEU in Asia-Mediterranean, up by 45% year-on-year.

In transpacific routes, Asia-USWC and Asia-USEC rates are still on soft declining trend by recording 0.3% and 0.7% weekly declines respectively. In Asia-USWC route, rates ended at $1718/FEU, down by 26% year-on-year and in Asia-USEC route, rates stood at $3078/FEU by recording a weaker yearly downward revision of 7%.

In the **shipbuilding industry**, China's third largest shipbuilder, Yangzijiang Shipbuilding Holdings Ltd, based in eastern China's Jiangsu province, is on a track to win the most new orders since 2007 worth $2.1bn during the first nine months of the year and is poised to end the year with $3billion worth of new orders, chairman's yard Ren Yuanlin stated in Reuters. Overall, Chinese shipbuilders in Jiangsu province recorded improved performance during the first nine months of the year due to strong ordering interest from overseas shipowners. During January-September 2013, Jiangsu shipbuilders sealed new orders to build 297 vessels-11.3mil dwt, showing a 223% year-on-year increase on tonnage terms and about 95% of the newbuilding tonnage is booked for export. Jiangsu shipbuilders' newly orders received accounted for 13.5% of the world total and 29.7% share of China's Shipbuilding activity resulting in Jiangsu province to be one of China's leading provinces along with Zhejiang and Liaoning provinces.

In the **shipping finance**, Royal Bank of Scotland is said to be in talks to sell its outstanding loan of $776,5mil in US headquartered dry bulk group-Eagle Bulk Shipping in an attempt to scale down its exposure in shipping. Sources suggest that the potential bidders for the RBS loan included Bank of America as well as private equity and investment companies Tennenbaum Capital Partners and Oaktree Capital Management. In addition, Lloyds Banking Group is said to have sold a $500-$500 million portfolio of shipping loans with Bank of America being as the most likely bidder.

In terms of **ship financing deals**, United Arab Shipping Co has secured a syndicated loan of $512mil from seven banks to fund the construction of 12 ultra large containerships at Hyundai HI. The loan is guaranteed by Korea Trade Insurance and includes $150mil from Credit Suisse, $75mil from Bank of America, $75mil from IMG, $75mil from Societe Generale, $50mil from Standard Chartered, $43mil from Deutsche Bank and $25mil from DNB Bank.

China Merchants Energy Shipping has received a $510mil long term financing from the Import-Export Bank of China for the construction of 10 very large crude carrier newbuildings, but the terms of the loans are not disclosed.

Norwegian Car Carriers is refinancing a bank facility, extending the maturity until 2019. The refinancing will release NOK 40 million which will be applied to the partial redemption of the 10.5% NOK 225 million unsecured bonds due 2014. The bonds are to be redeemed at 102.5 percent of par value. The deal will save the company an estimated NOK 3 million per year.

In the **capital** market, Scorpio Bulkers filed for an IPO on the New York Stock Exchange with a proposed offering size of $100 million, Scorpio Bulkers has issued 97 million common shares in three Norwegian private placements this year, raising $824 million. These shares will be registered in NY as well. Thus far, Scorpio has paid $157 million for its newbuilding commitments and has $872.8 remaining for its initial fleet.

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