This Week's News: A snapshot on the economic and shipping environment
Week Ending: 29th November 2013 (Week 48/13)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

The world merchandise trade seems to regain power with major economies recording increase in the volume of imports and exports' trading data. According to estimates from the OECD, merchandise trade imports and exports in G7 and BRICs economies grew by 1.4% during the third quarter of the year, offsetting the declines seen in the previous quarter.

In euro area economies, Germany and France posted significant increases as imports and exports for Germany grew by 4.7% and 4.6% respectively in the third quarter of 2013, compared with 2.2% and 1.9% respectively declines in the second quarter. In France, imports and exports are up by 2.2% and 1.8% respectively and in Italy by 4.4% and 2.1%.

In the United States merchandise trade imports and exports grew by 1.4% and 0.5% and in the Russian Federation by 0.7% and 4.4%. For China, the increase in imports surpassed the increase in exports (imports grew by 2.3% and exports by 0.7%) with the trade surplus declining for a third straight quarter.

In contrast with the rebound of trading growth in some of the largest world economies, imports and exports continued to contract in Japan by showing 0.1% and 2.9% respectively downward revisions from the previous quarter. Japan's merchandise trade is now at the lowest levels seen since the end of 2009, following six successive quarters of slowdown.

In the meantime, one more optimistic sign for the euro area is that Credit Rating agency Standard & Poor's raised Spain's sovereign debt rating outlook to stable from negative, saying the country's credit metrics are stabilizing helped by budget cuts and structural reforms while the economy is on a modest growth path. "We see improvement in Spain's external position as economic growth gradually resumes," S&P said. The ratings agency also pointed to supportive euro-zone policies as helpful for the economy. S&P rates Spain's sovereign debt BBB- and it expects Spain's real gross domestic product to contract by about 1.2% in 2013 and then grow by 0.8% in 2014 and 1.2% in 2015. One of the main defects for Spain's economic recovery remains the high unemployment rate at levels of above 26%.

For Netherlands, Standard & Poor's downgraded its long term sovereign credit rating to AA+ from AAA, citing growth concerns. S&P said the country's growth prospects are weaker than it had previously anticipated. "We do not anticipate that real economic output will surpass 2008 levels before 2017, and believe that the strong contribution of net exports to growth has not been enough to offset a weak domestic economy," S&P said in a statement.

SHIPPING MARKET

Credit rating agency Fitch Ratings said that losses from shipping portfolios are likely to remain high in 2014, particularly for German banks with large exposures to the sector and higher risk financing structures. Nordic banks' smaller and more diversified shipping portfolios are likely to stabilise first, although they will stay under pressure until a sustainable recovery for the sector emerges.

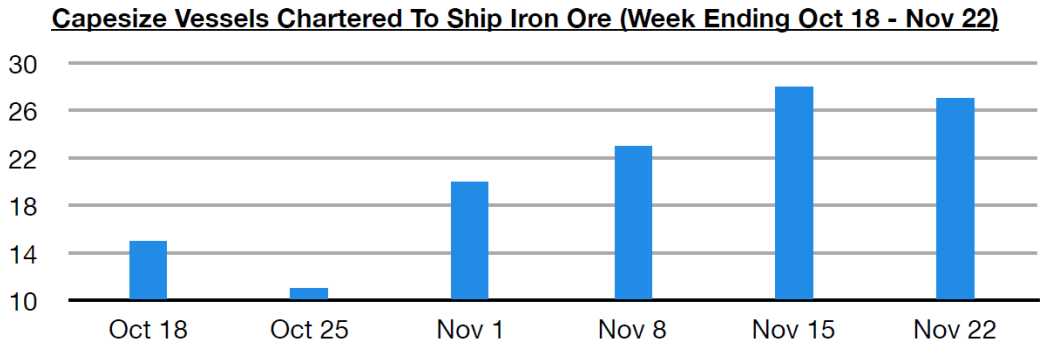
German banks active in ship lending, such as HSH Nordbank, NordLB and Commerzbank, may be more affected in the ECB's asset quality review and stress tests in 2014. The riskier Kommanditgesellschaft or limited partnership structures commonly used for ship financing in Germany before the start of the shipping crisis remain a particular burden on German ship portfolios.

In contrast, the downside risk on shipping exposures is limited for Nordic banks because they were typically more conservative in financing structures, have more diversified portfolios and focus on larger ship companies with multiple cash flows and fleets for collateral. The Nordic banks are also more focused on offshore and logistics. Many banks are trying to sell shipping portfolios or wind down exposures.

Norway-based DNB Bank sold its debt position against a distressed shipping firm. The UK's Lloyds Banking Group was reported to have sold a USD500m-plus portfolio of shipping loans this month. HSH Nordbank announced the sale of 10 vessels in April. Commerzbank reduced its exposure to shipping loans by around 10% in the first nine months of 2013. Fitch believes that more asset sales are likely in 2014 and 2015 and shipping crisis could last till the end of 2014. Despite some signs of improvement for the freight market of bulkers and tankers during the third quarter of the current year the oversupply of vessels in dry cargo, container and crude tanker markets means that market imbalance persists and a full recovery is some time away.

In the **dry** market, last week capsize rates were facing facing downward pressure as the Atlantic basin emerged weaker from lower amount of Brazilian iron ore cargoes surfacing in the market, while Chinese demand for imported thermal coal cargoes is surging and provides support in the panamax segment. Vessels' oversupply pushes panamax rates downwards, with smaller vessel categories-supramax/handysize, not losing their solid momentum.

Overall, spot chartering activity remained firm with the Baltic Dry Index surpassing this week the levels of 1,700 points, for the first time since end October, from a rebound in the panamax and capsize sentiment. Capesize iron ore fixtures still record high levels by surpassing the number of 20 vessel fixtures compared to more than 10 fixtures at the end of October. The encouraging factor in the capesize segment is that fleet growth remains relatively low as during the first ten months of the year the capesize fleet has grown by an average of only 5.5 vessels each month compared with an average of 17 vessels in each month during the first half of 2012.



Source: Commodore Research

In the meantime, Chinese iron ore port stockpiles are on increase for seven consecutive weeks by standing around 82.9 million tons, implying that iron ore vessel fixtures will stay at lower levels than the record amount of fixtures reported during September. In contrast with the increasing trend in Chinese iron ore port stockpiles, the coal stockpiles at Qinhuangdao, China's largest coal port fell to levels of less than 5 million tons that will cause a very large amount of thermal coal fixtures coming in the market that will support panamax rates at excess $10,000/day. *The 4.9 million tons of coal stockpiled at Qinhuangdao is the least amount of coal stockpiled in Qinhuangdao since the Week Ending October 14th 2011.* During the last week, a total of 22 dry bulk vessels were chartered to haul thermal coal to buyers, which is the largest amount of thermal coal fixtures recorded since the beginning of the year.

On Friday **November 29th**, **BDI** closed at 1821 points, up by 23% from last week's closing and up by 68% from a similar week closing in 2012, when it was 1086 points. Large vessel categories are on upward incline, while supramax/handy experience firm stability. The largest weekly increase is recorded in the capesize segment. **BCI** is up by 29% w-o-w, **BPI** is up 22% week-on-week, **BSI** is up 6% week-on-week, **BHSI** is up 5.7% week-on-week.

Capesizes are currently earning $24,611/day, up by $8,057/day from last week's closing and **panamaxes** are earning $13,293/day, up by $2,413/day from last week's closing. At similar week in 2012, **capesizes** were earning $15,869/day, while **panamaxes** were earning $7,815/day. **Supramaxes** are trading at about $15,424/day, up by $854day from last week's closing, about 37% lower than capesize and 16% higher than panamax earnings. At similar week in 2012, **supramaxes** were getting $8,005/day, hovering at 50% lower levels than capesizes versus 37% today's lower levels. **Handysizes** are trading at about $10,870/day, up by $588/day from last week's closing; when at similar week in 2012 were earning $8,885/day.

In the **wet** market, VLCC spot rate improvement keeps buoyant with seasonal demand narrowing vessels' availability to 47 vessels in the Middle East, down by 15 vessels week-on-week. As a result spot Marex VLCC rates increased to $53,027/day, with particular strength in Middle East Gulf to US Gulf Coast route. Suezmax rates also improved to more than $15,000/day with activity in the cross-Mediterranean route picking up.

Rates in AG-USG route moved further upwards to WS39-$21,000/day, from WS21 at the end of August, while rates in AG-SPORE and AG-JPN routes moved up to WS65-at levels near $60,000/day. In the suezmax segment, WAFR-USAC rates stayed stable at WS57.5-$13,000/day and in the aframax segment, CBS-USG rates are flat at WS95-$15,000/day.

In the **container** market, the Shanghai Container Freight is still above 1,000points since the beginning of November, but is on decline for three straight weeks. Despite the effect of General Rate Increases on November 1, the decline in Asia-Europe and Asia-Mediterranean routes are leading the Shanghai Container Freight Index to lower levels week-on-week. The Shanghai Container Freight Index fell last week to 1039 points, down 4.6% week-on-week with 11.1% weekly decline in Asia-Europe and 6.2% weekly decline in Asia-Mediterranean route. Some carriers have already begun to cancel sailings on Asia-Europe rates, but the supply-demand balance is not supportive to lead rates at higher levels.

In Asia-Europe, rates fell now to $1078/TEU, but are up by 61% from end-October levels and up by 4.9% year-on-year. In Asia-Mediterranean route, rates fell to $1227/TEU, but are up by 73% from end-October levels and up by 64.5% year-on-year. In Asia-USWC routes, rates dropped to $1849/FEU, down by 1.9% week-on-week and down by 9.6% year-on-year and in Asia-USEC route, to $3151/FEU, down by 1% week-on-week and up by 1.7% year-on-year.

In transpacific routes, there is also a declining trend but at a slower pace than Asia-European rates with expectations that rates to the West Coast will likely benefit from the Transpacific Stabilization Agreement's recently announced General Rate Increases for December and January.

In the **shipbuilding industry**, China's shipbuilding output is on decline as its aggregate shipbuilding output (from a total of 80 shipbuilding enterprises amounted 34,8 million deadweight tons, fell by 25.4% year-on-year for the first ten months of the year, according to figures released by the China Association of the National Shipbuilding Industry. In terms of new orders, China's yards received more orders by showing a 183% year-on-year increase with a total deadweight of new orders -46,44million. At the end of October, ship orders on the books of Chinese shipbuilding enterprises stood at 117,87 million dwt, up by 1.1% year-on-year and up by 10.2% compared with the end of 2012.

In the **shipping finance**, HSH Nordbank is said to be in negotiations to sell two shipping portfolios so as to reduce high risk loans and its exposure to shipping industry. "Two deals are in the making, one regarding tankers, the other regarding bulkers", Chief Executive Constantin von Oesterreich told Reuters on the sidelines of a banking congress in Frankfurt. "Both deals involve a handful of ships and have a volume of several hundred millions of euros, but they will not yet be finalized this year - mostly because of the high complexity of these deals", he added. "The goal is that buyers will operate the ships more successfully than the current owners", Oesterreich said.

In terms of **ship financing** deals, Teekay Corp received a $614mil loan from South Korean policy banks, Export-Import Bank of Korea, Korea Trade Insurance Corp and Korea Exchange Bank, to finance the construction of a floating production, storage and offloading unit at Samsung HI. KEXIM offered a direct loan of $177M, while Korea Exchange Bank provided $130M with KEXIM's foreign debt guarantee. Ksure offered $307M trade insurance. Teekay, run by CEO Peter Evensen, had ordered the $1.02Bn FPSO in September 2010 and the vessel would be used to produce and store oil from the Knarr oil and gas field in the North Sea. Teekay, the biggest FPSO operator in the North Sea, said this FPSO is expected to be delivered in 1Q14.

In the **capital** market, EXMAR NV announced that is preparing submission to the United States Securities and Exchange Commission for Exmar Energy Partners LP. The Initial Public Offering of Exmar Energy Partners LP common units is expected to commence after the Securities and Exchange Commission completes its review process and upon completion is

expected to own a 50% equity interest in joint ventures that own and operate four LNG ragacification vessels and one LNG carrier.

In addition, SCORPIO Bulkers has upsized it's highly anticipated initial public offering in New York from $100M to $175M and filed a revised prospectus with US securities regulators to go public with a 43-newbuilding fleet as compared with the 36 ships listed in the original prospectus lodged two weeks ago.

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