GOLDEN DESTINY

This Week's News: A snapshot on the economic and shipping environment
Week Ending: 6th December 2013 (Week 49/13)
(Given in good faith but without guarantee)

ECONOMIC ENVIRONMENT

December begins with a sense of skepticism for euro area's recovery as the Gross Domestic Product rose by 0.1% during the third quarter of the year from 0.3% rise in the previous three months, according to European Union's statistics office. The European Central bank predicts that the euro area economy will contract 0.4% this year before growing 1% in 2014.

According to Bloomberg's monthly survey of economists, the euro area economy will expand 0.2% in the fourth quarter and 0.3% in the first three months of 2014. Growth in Germany, euro's largest economy, slowed to 0.3% following a 0.7% expansion in the previous quarter, France's GDP fell by 0.1% and in Netherlands, GDP grew by 0.1%.

In U.S., trade deficit narrowed in October for the first time in four months as exports trading data grew at a faster pace than imports and gab decreased by 5.4% to $40.6 billion, from $43 billion in September, according to the Commerce Department. Exports climbed by 1.8% to $192.7 billion on growing sales of food, petroleum products, drilling equipment and consumer goods, while imports increased by 0.4% to $233.3 billion. In terms of GDP growth, a median estimate of economists in a Bloomberg survey foresees a 3.1% annualized rate for growth for the third quarter of the year and project a slower growth of 1.8% for the fourth and final quarter of the year.

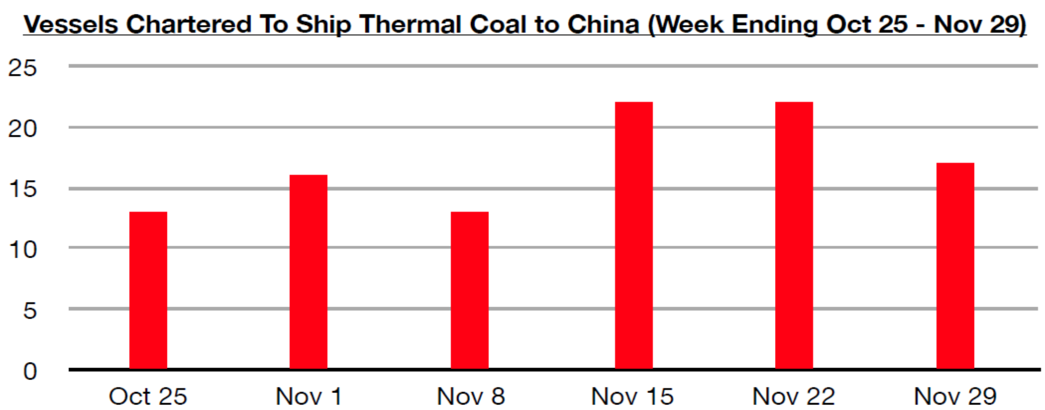
In China, the solid growth momentum of its economy continues as the official Purchasing Managers' Index, from the National Bureau of Statistics, indicating the nation's economic recovery is sustaining momentum. The official Purchasing Managers' Index stayed stable from October's levels at 51.4, an 18-month high, against economist estimations for a drop to 51 points. According to the median projection in Bloomberg New Surveys last month, China's GDP growth will slow to 7.5 next year, from 7.6% in 2013, while the government holds a 7.5% target growth for 2013. Chinese Premier Li Keqiang said in October that China needs annual growth of 7.2% to keep unemployment stable.

SHIPPING MARKET

The end of year 2013 signals a positive outlook for dry bulk /tanker freight rates, but with the threat of oversupply to remain and global economic recovery not yet secured. The increasing cost of bunker prices is also a serious challenge for shipping players as fuel IFO380 prices are slightly above $600 per metric tons in major ports, but below from end Nov-2011 vessels of about $700 per metric tons.

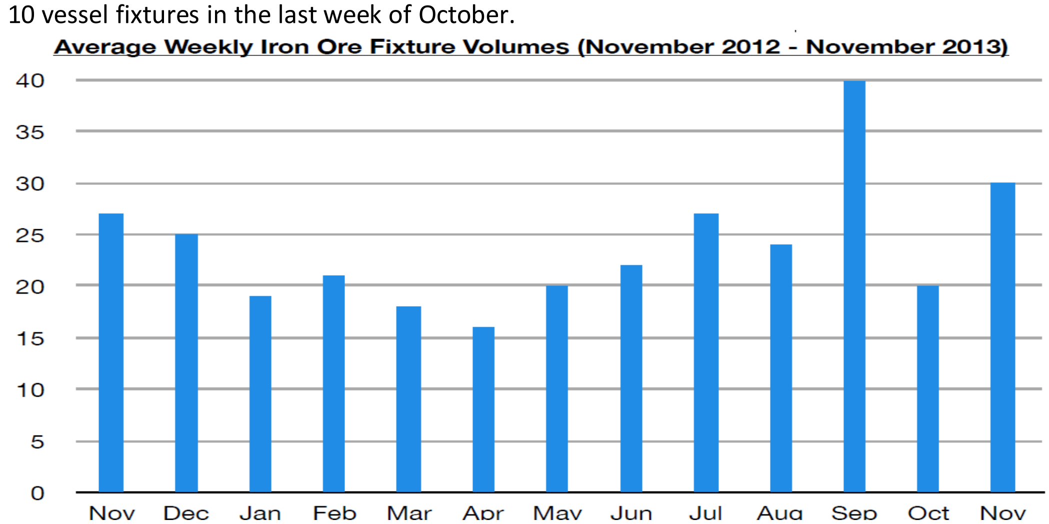
In the **dry** market, BDI is on an endless rally supported by remarkable growth in capesize and panamax rates that leads the index to new highs by breaking the 2,000 points mark. The last time that BDI was trading above 2,000 points was at the end of September-beginning October with charter rates for capesize vessels at levels of near $40,000/day. Currently, capesize rates are nearing to $30,000/day, from less than $20,000/day at the beginning of November supported by strong Chinese iron ore fixture activity.

In the panamax segment, vessel earnings are nearing to $14,000/day with record low of Qinhuangdao coal port stockpiles, at about 4.8 million tons, 13% less than a month ago, supporting further boost in Chinese thrermal coal fixture activity.



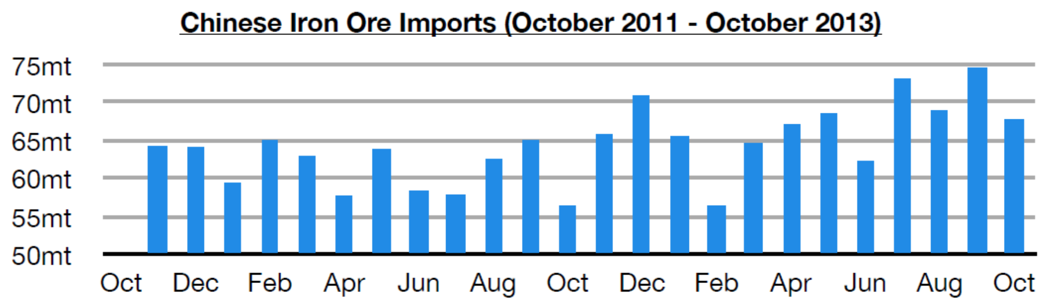
Source: Commodore Research

In the iron ore market, there is also a steady increase in the volume of capesize vessels chartered to ship iron ore from the beginning of November, with the number of vessel fixtures fetching to more than 30 during the final week of November from about more than 10 vessel fixtures in the last week of October.



Source: Commodore Research

In the meantime, Chinese iron ore production is also on increase but without affecting the accelerating pace of iron ore imports. The first ten months of the year recorded a 6% year-on-year increase in Chinese iron ore production, but China imported 10% more than previous year and on the long term, expectations hold positive for further firmness. Chinese iron ore imports as steel production is likely to remain high and Australian/Brazilian iron ore production remain likely to increase by a total of approximately 120 to 140 million tons next year. Chinese iron ore port stockpiles are now on increase for eight consecutive weeks by standing at bought 84.1 million tons of iron ore, 15% higher than they were just three months ago.



Source: Commodore Research

In smaller vessel categories, supramax and handysize rates are also on a high momentum by trading at about more than $15,000/day and $11,000/day respectively, from less than $13,000/day and less than $10,000/day respectively in mid-October. On the long term, prospects are also supportive for these vessel sizes as USDA is predicting that 333.9 million tons of grain will be exported worldwide during 2013/14, which is 7.1 million tons (2%) more than it predicted in its previous forecast released in September and is 38.5 million tons (13%) more than is estimated to have been exported during 2012/13.

On Friday **December 6th**, **BDI** closed at 2176 points, up by 19% from last week's closing and up by 66% from a similar week closing in 2012, when it was 966 points. All dry indices closed in green and large vessel categories recorded the largest increases. **BCI** is up by 24% w-o-w, **BPI** is up 15% week-on-week, **BSI** is up 5% week-on-week, **BHSI** is up 3% week-on-week.

		6/12/2013	29/11/2013				
		current	previous		%	2012	%
		week 49	week 48	w-o-w	w-o-w	week 49	y-o-y
Dry	BDI	2176	1821	355	19%	966	66%
Capesize	BCI	3842	3089	753	24%	1832	65%
Panamax	BPI	1923	1665	258	15%	936	59%
Supramax	BSI	1552	1475	77	5%	760	54%
Handy	BHSI	789	764	25	3%	447	45%

In the **wet** market, VLCC rates recorded weekly declines in major routes, following a successive increase since the end of August. In the suezmax segment, there was an upward revision with aframax rates recording a flat outlook. VLCC spot rates in AG-USG route declined to WS38.5, but 10 points above from end-August levels. Benchmark time charter rates for one year for VLCCs have now increased to about $27,000/day, from about

$18,000/day. AG-SPORE and AG-JPN rates declined to WS63, but they are 32 points above from end-August levels.

In the suezmax segment, WAFR-USAC rates increased to WS85, up by 42.5 points from end-September levels and B.SEA-Med rates to WS80. In the aframax segment, there is a downward pressure with rates dropping to WS92.5, down by 22.5 points from end-August levels. In contrast with the downward revision of CBS-USG in the aframax segment, rates in the panamax segment moved up to WS110, 15 points above from end-October levels.

The sentiment in the crude tanker market seems reversed from negative to positive, but uncertainty still looms for the stability of the upturn due to the imbalance between vessels' supply and demand. One positive development for the freight market is that the Organization of Petroleum Exporting Countries will bolster crude shipments through to mid December, driven by Iraq and as refiners come out of maintenance, according to tanker tracker Oil Movements. Data from Oil Movements suggest that OPEC will lift sailings by 700,000 barrels/day-3% , to 24.05 million barrels in the four weeks to December 14 and crude on board tankers will increase to 487.81 million barrels from 473.58 million four weeks ago.

In the **gas** market, spot rates for modern 160,000 cubic meter (cbm) tri-fuel diesel engine (TFDE) liquefied natural gas (LNG) carriers stayed stable at $100,000/day week-on-week , while chartering activity is relatively thin despite strong buying interest from the Far East.

LNG demand from Japan's, the top buyer of LNG after the Fukushima disaster, remains high. Preliminary data show that Japan imported 1.74million barrels/day of LNG during the first three quarters of the year, down marginally from 1.78 million barrels/day over the same period in 2012. Asia and Middle East provided 60% of Japanese LNG imports and 10% came from Russia. Under the current robust LNG demand, Japanese top shipping players, Mitsui OSK Lines, Nippon Yusen KK and Kawasaki Kisen are planning to order around 90 LNG newbuildings with a total value of about 1,8 trillion yen ($17,61billion) by 2020.

Global LNG trading volume is expected to grow to 400 million tons in 2020 from 0250 million tons in 2012, according to industry data. Mitsui OSK Lines Ltd. is planning to increase the number of its LNG carriers to 110 by 2020 from about 70 now, Nippon Yusen KK to 100 from about 70 now and Kawasaki Kisen is planning to order about 20 LNG newbuildings before the end of decade.

K Line managing executive officer Hiromichi Aoki told journalists in Tokyo that he envisions annual global LNG trade growing to 380mil tones by 2020, up from 270 mil tons currently. He estimates that India with China would account for half of the increase in LNG trade as energy demand is growing in these two countries. The annual transport capacity per LNG carrier is 700,000-800,000tones and it is estimated that the growth in volume of 50mil tones for the two countries will translate to a requirement for 70 vessels. In addition, new LNG projects are being planned in Australia and US, while China is aiming to produce shale gas with Petrochina forecasting that 3mil tons of shale gas will be produced in the country in 2015. K Line projects that LNG demand for transportation will generally reach about 120-130 vessels by 2020, while many LNG projects are currently being planned for execution worldwide and their commencement dates are concentrated in 2017.

In the **container** market, declines in Asia-Europe and Asia-Mediterranean routes continue for four straight weeks with the Shanghai Container Freight Index falling to less than 1,000 points during the last week of November by closing at 997 points, down by 4.1% week-on-week and 5.4% year-on-year.

In Asia-Europe, rates fell to $1000/TEU, down by 7.2% week-on-week, almost at the same levels of the first week of December 2012- when they stood at $999/TEU. In Asia-Mediterranean route, rates dropped to $1108/TEU, down by 9.7% week-on-week but up by 53.5% year-on-year.

Transpacific rates also recorded downward revisions of 4.4% in Asia-USWC route to $1768/FEU and 4.6% in Asia-USEC route to $3005/FEU. Compared with last year' s levels, Asia-USWC routes are down by 12.4% year-on-year and Asia-USEC rates only by 2.1%.

Under the current oversupply issues and downward movement of freight rates, major player do not lose their appetite for post panamax newbuildings as they benefit from economies of scale. Alphaliner said that the orderbook of three largest carriers, Maersk Line, MSC and CMA CGM currently stands at 15.6% of their current fleet and continue to enjoy significant scale advantages by outperforming the rest of the industry.

BIMCO expects that the total container capacity will grow by 5.9% in 2013, while the amount of scrapping capacity will reach 450,000 TEU in 2013, which is considered to be the highest annual total ever to be scrapped in the industry. The average age of demolished vessels has fallen to around 22 years from 30 years few years ago. However, the uncertainty from overcapacity is high as the world economy has not exited from the crisis and there is not guaranteed that vessels oversupply would be absorbed by demand growth.

In the **shipbuilding industry**, Chinese 10 top shipyards won 65% of all the newbuilding orders placed at Chinese yards, in terms of deadweight tonnage, during the first 10 months of the year, up by 7% year-on-year. The increase in the top 10 yards' share showed the more intense concentration of the Chinese shipbuilding industry, Bo Su, vice-minister of the China Ministry of Industry and Information Technology, said at the biennial Marintec China. During the same period, the newbuilding orders placed at all Chinese yards increased by 183% year-on-year to 46.4Mdwt, according to statistics released by China Association of National Shipbuilding Industry (CANSI). The top 39 Chinese shipyards won 94% of all the orders, amounting 43.7Mdwt, CANSI added. Su also said that the Chinese offshore makers won new orders worth $12.8Bn, accounting for 26% of all the global orders placed in the first 10 months in 2013.

In Japan, three big shipping companies, Mitsui OSK Lines, NYK Line, K Line and SCI, announced a joint venture with the Shipping Corporation of India to build an LNG carrier to be chartered to Petronet LNG. The 173,000m^3 membrane-type carrier will be built in Hyundai HI, and delivered in September 2016. The ship will be employed to carry gas from the Gorgon LNG project in Australia to India. The vessel price was not disclosed, but recent LNG carriers ordered from South Korean shipyards have been priced about $200M.

In the **shipping finance**, Commonwealth Bank of Australia (CBA) is said to be moving in lending for shipping assets, when European rivals cut capital exposure to the seaborne sector. Australia's top lender by market value is one of the few banks looking to expand its presence in shipping as it is looking for business opportunities. "We don't have any legacy portfolio of non-performing loans and we do not have any impediment in that regard," said Nick Fletcher, CBA's global head of structured asset finance. "We have set a portfolio objective to have about $3.5 billion worth of ship finance exposure and we think that is quite achievable through 2015. We are not growing for growth's sake," he said in an interview. "We are very well capitalized and have a very strong regulatory environment in Australia with no issue with liquidity. So when you feed all these elements, our entrance to the shipping market is well timed," he said.

In terms of **ship financing** deals, the Export-Import Bank of China's Shanghai branch has provided $100M in shipping finances to compatriot China National Aero-Technology Corporation Shanghai (CATIC Shanghai) for two newbuilding projects. In one the of the project, CATIC Shanghai has placed newbuilding orders at its partner Taizhou Kouan Shipbuilding to build four 38,000dwt general cargo vessels and the other project is for a 8,500dwt chemical tanker, the bank said.

In addition, Dutch shipping player Vroon announced that it signed an agreement in mid-November with the ABN AMRO Bank and Export-Import Bank of China for the financing of some vessels currently under construction in China.

BW Gas JUJU LNG Ltd., jointly owned by BW Group and Marubeni Corp has taken a new term loan of $866mil to pay down existing facilities and is secured against eight LNG vessels owned by the joint venture. The loan is fully dawn and repaid a shareholder loan between BW Gas JUJU and BW Group. Following from this BW Group used the fresh funds to repay part of its secured revolving credit facility.

In last, Teekay is seeking finance from South Korean institutions to support its $757million FPSO newbuilding on order at Samsung Heavy Industries. The financing composition includes $177 million from KEXIM (Export-Import Bank of Korea) and $130 million from Korea Exchange Bank, to be guaranteed in full by KEXIM.

Additionally KSure (Korea Trade Insurance) will offer $307 million in export insurance which will be used by Teekay as collateral in its discussion with several international banks.

The total cost of the FPSO will be close to $1 billion, being the $757 in Korea and an additional $200 million approx. for components which will be added by Norwegian engineering firm Framo. For this portion Teekay will receive ECA financing from Norway's policy lender GIEK of $120 million and will take additional debt of $80 million from commercial banks.

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