

This Week's News: A snapshot on the economic and shipping environment**Week Ending: 13th December 2013 (Week 50/13)***(Given in good faith but without guarantee)*

This Report/Analysis is distributed for the primary use of GOLDEN DESTINY'S subscribers and should not be redistributed to any third parties without the written consent of GOLDEN DESTINY. An extraction of market information from GOLDEN DESTINY'S Reports/Analysis is allowed only when GOLDEN DESTINY is mentioned as a source.

ECONOMIC ENVIRONMENT

The end of "2013" signals for the world's second largest economy, China, more solid momentum, while Eurozone still has serious sovereign issues and US is progressing to stronger economic performance.

In the Eurozone, European banks would face severe capital pressure on their capital for the year ahead with European policy makers discussing ways to enhance bank's ability to cope with financial stress. European banks' capital and profit will remain "under pressure" in most countries next year as the industry deals with the aftermath of the sovereign-debt crisis and recession, Moody's Investors Service said. "More time is required to restore European banking systems to full health and to resolve the deterioration of banks' fundamentals. Pressures on asset quality, profitability and capital still weigh on the prospects of many European banks," Moody's added.

For Germany, Bundesbank has upgraded its economic projections saying that the euro area's largest economy will operate at full capacity for the next two years and forecasts growth for 1.7% in 2014 and 1.8% in 2015. The unemployment rate, 5.2% in October, is already at the lowest levels and it is expected to fall further. The return of growth to trend levels, after an economic expansion of 0.6 per cent this year, would come largely on the back of a rise in private consumption, driven by low interest rates and higher wages, and construction, the central bank said.

In China, November economic figures defy economic expectations for a slowdown during the third quarter of the year. The upward revision of the recent data comes against economists' estimates suggesting a slower than 7.8% fourth quarter GDP growth, but it seems that China's economic expansion will stay near to 7.8% year-on-year growth of the third quarter. In the meantime, Chinese leaders have already started their annual meeting to discuss economic plans for the next year and set new growth targets. There are some predictions that Beijing would lower its target growth to 7% for 2014, but after the recent supportive economic data, they may also keep the growth target at 7.5% as of 2013.

- ✓ Stronger rebound in exports and slower growth in imports with trade surplus nearing to new highs.
- ✓ Data released from the General Administration of Customs showed that Chinese exports rose by 12.7% from a year earlier and the trade surplus reached to \$33.8billion, which is the biggest since January 2009. The export figures reflect pick up in shipments from China to US, Europe and South Korea, according to customs data.

- ✓ Retail sales surpassed expectations and expanded by 13.7% year-on-year in November, from 13.3% in the previous month.
- ✓ Lower inflation with consumer price index rising by 3% year-on-year, down from its 3.2% increase in October and below the official target of 3.5% for 2013.

In Japan, country's GDP growth slowed more sharply during the third quarter of the year than official estimates had previously suggested, as revised government data showed. GDP grew at an annualized rate of 1.1% for July to September period, down from an initial estimate of 1.9% growth announced in November. During the first quarter of the year, Japan's GDP grew by 4.5% year-on-year and 3.6% year-on-year in the second quarter. The downward revision of the third quarter is mainly due to the lower pace of investments and inventory building by companies, while the growth in the consumer spending was not enough to offset the losses of business activity. In the meantime, the Bank of Japan announced that it will keep its highly expansionary monetary policy in place until inflation hits and stabilizes at its 2% target.

SHIPPING MARKET

China has played a dynamic role in the dry bulk shipping recovery this year and it would be a key factor for the stability of this upturn in the year ahead. Chinese customs data showed that China, the world's largest buyer of iron ore, increased imports of the steel making ingredient to a record in November, as traders replenished stockpiles. Recently data released showed that Chinese iron ore imports posted a record of 77,8 million tons of iron ore in November, which is 10 million tons (15%) more than was imported in October and 12 million tons (18%) more than was imported in November 2012. The previous record was 74.6 million tons imported in last September.

Iron ore exports to China from Australia's Port Hedland rose by 38% to 22.3 million tons in November from the previous month, as another sign of China's solid demand. Chinese iron ore imports are expected to stay at the same elevated levels also for December as steel mills are restocking for the winter season and some domestic iron ore production shuts temporarily.

For the first ten months of the year, government data showed that China imported a total of 668,3 million tons of iron ore during the first ten months of the year, up by 10% from a year earlier, due to strong steel production, and is going to hit 800 tons for the full year. The China Metallurgical Industry Planning and Research Institute expects Chinese iron ore imports to rise by 6.3% to a record of 850 million tons next year as steel output and consumption of the world's top consumer also push to new highs. China's crude steel consumption for 2013 is estimated at 693 million tons and it is expected to grow by 3.2% year-on-year to reach 715 million tons in 2014.

In the wet market, Chinese appetite for crude oil imports is also set to new records from a 13 month low in October of 20,41 million tons, as Chinese refineries halted operations for maintenance. Sinopec's 400,000-barrels-per-day Maoming refinery in the southern province of Guangdong and the 240,000-bpd Fujian refinery in southeastern Fujian shut down from mid-October for 50-55 days of maintenance. Preliminary data from the General Administration of Customs showed that China imported 23,56 million metric tons of crude oil in November, which is equivalent to 5,76 million barrels/day, 0.7% higher than the 23,4 million tons of crude oil shipped in the corresponding month last year.

In the **dry** market, the Baltic Dry Index has stayed above 2,000 points from last week's ending, while it is on a constant rally since the beginning of November. The Baltic Capesize

Index reached again the accelerated levels of September as it surpassed the 4,000 points mark and the Panamax Index broke again the barrier of 2,000 points since end October. Supramax and handy vessels keep also their firmness with supramax vessel rates at more than \$16,000/day for the first time since the end of October 2011. In the handy segment, rates are hovering at more than \$11,000/day, also for the first time since the end of October 2011.

In the capesize segment, vessel rates are nearing again to \$40,000/day with Chinese iron ore appetite suggesting that could even surpass these levels and fetch the highest levels since the end of October 2010. Capesize fleet growth remains low supporting tight vessel availability and further boost in rates. According to Commodore Research, 31 capesize vessels were chartered in the spot market last week to haul iron ore, which were mainly chartered to haul iron ore to China. Chinese iron ore port stockpiles are now on increase for nine consecutive weeks from intense stockpiling by reaching about 85,2 million tons of iron ore, at their highest levels since November 2012.

The question is if BDI will hold its accelerated levels during the first days of New Year, when newbuilding vessel deliveries traditionally speed up from slow pace during December and as the surge in the newbuilding orders keeps at surprising levels.

In last, the surge in Chinese thermal coal fixture activity and the record lows of Qinhuangdao coal port stockpiles support also the recent euphoria with panamax rates floating at similar levels with surpamax – more than \$16,000/day for the first time since October 2011. According to Commodore Research, Chinese thermal coal fixture activity has increased for two weeks now and is above the lows seen during October, while it is expected to stay firm as power plant and coal port stockpiles still need to be restocked further ahead the winter period.

On Friday **December 13th**, **BDI** closed at 2330 points, up by 7% from last week's closing and up by 195% from a similar week closing in 2012, when it was 789 points. All dry indices closed in green and large vessel categories recorded the largest increases. **BCI** is up by 11% w-o-w, **BPI** is up 9% week-on-week, **BSI** no change week-on-week, **BHSI** is up 3% week-on-week.

Summary of Baltic Dry Indices & Average Time Charter Earnings

			13/12/2013	6/12/2013		2012	%	%
			<u>week 50</u>	<u>week 49</u>	<u>w-o-w</u>	<u>week 50</u>	<u>w-o-w</u>	<u>y-o-y</u>
Dry	BDI	▲	2330	2176	154	789	7%	195%
Capesize	BCI	▲	4246	3842	404	1440	11%	195%
Panamax	BPI	▲	2096	1923	173	839	9%	150%
Supramax	BSI	▲	1553	1552	1	745	0%	108%
Handy	BHSI	▲	814	789	25	443	3%	84%

			13/12/2013	6/12/2013		2012	%	%
			<u>week 50</u>	<u>week 49</u>	<u>w-o-w</u>	<u>week 50</u>	<u>w-o-w</u>	<u>y-o-y</u>
Capesize	Average T/C routes	▲	37510	24611	12899	6633	52%	466%
Panamax	Average T/C routes	▲	16728	13293	3435	6660	26%	151%
Supramax	Average T/C routes	▲	16242	15424	818	7785	5%	109%
Handy	Average T/C routes	▲	11637	10870	767	6542	7%	78%

Capesizes are currently earning \$37,510/day, up by \$12,899/day from last week's closing and panamaxs are earning \$16,728/day, up by \$3,435/day from last week's closing. At similar week in 2012, capesizes were earning \$6,663/day, while panamaxs were earning

\$6,660/day. Supramaxes are trading at about \$16,242/day, up by \$818/day from last week's closing, about 57% lower than capesize and 3% lower than panamax earnings. At similar week in 2012, supramaxes were getting \$7,785/day, hovering at 17% higher levels than capesizes versus 57% today's lower levels. Handysizes are trading at about \$11,637/day, up by \$767/day from last week's closing; when at similar week in 2012 were earning \$6,542/day.

In the **wet** market, the crude tanker spot rates hold their firmness with outstanding increases, but with concerns that this may be just a seasonal rebound. The ongoing surge in VLCC newbuilding orders threatens the recent spike as prolongs the existing oversupply issues. During the year to date, there has been a significant drop in VLCC newbuilding deliveries that contributed in the recent seasonal rebound of freight rates. Preliminary estimates suggest that less than 30 very large crude carriers have been delivered this year, from about 50 VLCC newbuilding deliveries last year.

In the VLCC market, there is already a downward momentum from two weeks' highs. Rates in AG-USG route dropped by 1.5 points to WS37 and in AG-SPORE / AG-JPN routes, by 2 points to WS61. In the suezmax segment, rates in WAFFR-USAC route stayed flat at WS82.5 and in the B.SEA-Med route moved by 17.5 points to WS97.5. In the aframax segment, there is an upward incline in all major routes with rates in CBS-USG route rising to 125 points, but in the panamax segment stayed flat at WS130.

In terms of oil demand, the projections emerged positive and supportive for the rebound in freight rates if scrapping activity would keep an accelerated pace. The International Energy Agency in its oil Report, revised up its 2013 oil demand estimate by 130,000 barrels/day to 91,2million barrels/day, which is stemmed from a stronger than expected third quarter demand growth of 320,000 barrels/day from Organization of Economic Co-operation and Development countries. The International Energy Agency estimates that global oil demand will advance 1,2million barrels/day to reach 92,4million barrels per day in 2014. In addition, more crude from the Atlantic Basin is heading longhaul to Asia, boosting sailing distances for VLCCs up by 9% since 2010 and up by 15% since 2003, according to DNB Markets.

For China, the International Energy Agency cut its growth forecast for oil demand to 3.8% from 4% this year and reduced its forecast to 3.7% for 2014 from 3.9%. What is noteworthy is the forecast from Goldman Sachs that the oil demand growth in the US is likely to exceed China's for the first time since 1990s.

The bank said China's oil demand growth had slowed to just 230,000 b/d year on year from January to October because of its stable GDP growth and moderation of industrial production gains. Overall oil demand growth in China is expected to average 267,000 b/d this year, down from 417,000 b/d last year. US oil demand had been in decline since 2011, but recent data suggest that oil demand growth is stabilizing this year. In September, demand increased by over 1 million b/d year on year, the highest level since January 2001, resulting in US oil demand in Q3 expanding twice as fast as China's, Goldman pointed out. Oil demand growth in the US this year is expected to reach 343,000/d, compared with a contraction of 407,000 b/d in 2012, according to Goldman's forecast.

In the **gas** market, LNG spot rates for modern 160,000 cubic meter (cbm) tri-fuel diesel engine liquefied natural gas (LNG) carriers remained flat at \$100,000/day, while demand prospects for more LNG transportation continue positive for the future of LNG freight rates.

The world's largest oil and gas company, Exxon Mobil, estimates that the natural gas will overtake coal as a global energy source by 2025 and it will become the world's second most-used fuel on an energy-equivalent basis, behind oil. Exxon forecasts that by 2014, natural gas consumption would rise by 65%, but coal use to be no higher than it is today, rising and then falling again during the next two decades.

The rising LNG demand triggered robust newbuilding orders and there are fears for issues of oversupply for the forthcoming two years. It is estimated that around 32 LNG carriers will be delivered in 2015 leading the global trading fleet to around 390 ships and additional 37 newbuilding deliveries for 2015.

In the LPG segment, spot market freight rates in the main route Middle East to Asia fell to less than \$60/ton this week with time charter equivalent earnings falling to region \$35,000/day from \$41,000/day. Despite the recent dip in LPG spot rates, expectations are optimistic for the future.

DNB is predicting VLGCs to earn an average of \$45,000 daily next year, rising further to \$60,000 daily in 2015. "The US shale gas boom and resulting low gas price are the new elements in this market, leading to substantial new export capacity," the report said. "There is a high probability that we are entering an LPG market in 2014 and 2015 with a tight supply balance and if the fundamental arbitrage remains wide open as of today we could see significant upside to current LPG rates."

In the **container** market, the Shanghai Container Freight Index is now below 1,000 points for two straight weeks with downward revisions in Asia-Europe and transpacific routes. The SCFI fell last week by 2.6% with Asia-Europe rates declining to \$987/TEU, down by 1.3% week-on-week and 27% year-on-year. In Asia-Mediterranean route, rates dropped to \$1076/TEU, down by 2.9% week-on-week and 10.3% year-on-year.

In transpacific routes, Asia-USWC rates decreased to \$1717/FEU, down by 2.9% week-on-week and by 22% year-on-year and in Asia-USEC route to \$2953/FEU, down by 1.7% week-on-week and 12.6% year-on-year.

Overcapacity issue will trouble the freight market performance also for the next year despite the scheduled general rate increases. Drewry estimates that *by the end of this year 55 vessels averaging 8,600teu will already have been delivered, increasing the sector's capacity by a remarkable 18%, well ahead of global cargo growth, and a further 40 are due for delivery next year, which will increase it by another 11.6%. Moreover, 45 more are due for delivery in 2015, adding yet another 11.6% year-on-year growth,"* Drewry said.

In the meantime, CSAV and Hapag-Lloyd have confirmed that they are in discussions on "a possible business combination or any other form of association", after news of a November meeting in Miami on a potential merger was reported by Germany's 'Die Welt' newspaper last week. German carrier Hapag Lloyd aims to create a fleet big enough to narrow the gap with the world's three largest container players, Maersk Line, CMA CGM and MSC. According to Lloyd's List Intelligence, Hapag-Lloyd has the world's sixth-largest containership fleet with 723,804 teu of capacity. This lags behind the fleets of Maersk Line, Mediterranean Shipping Co and CMA CGM, which stand at 2.5m teu, 2.2m teu and 1.5m teu. If Hapag-Lloyd and CSAV merge, the combined entity's fleet would reach just over 1m teu and would be the fourth-largest in the world. Its fleet would exceed that of Cosco Container Lines and Evergreen Marine, now ranked fourth and fifth.

In the **shipbuilding industry**, Zhang Guangqin, president of China Association of National Shipbuilding Industry (Cansi) urged Chinese shipyards to no longer offer low newbuilding prices and compromise on quality in order to win shipbuilding contracts. *"We have to admit that in the eyes of shipowners, the quality of China-built vessels is not first class. Some owners would rather approach Japanese or Korean yards,"* Zhang told delegates at the shipbuilding conference of Marintec China 2013 in Shanghai. *"We should stay away from competing for orders by offering low newbuilding prices, which would potentially compromise the quality of our finished products,"* he said.

Zhang further urged for a halt in the expansion of China's shipbuilding capacity, which has reached severely excessive levels for the country to be productive. At present, China boasts a total shipbuilding capacity of 80.1m dwt with utilisation at only 50-55% during the first nine months of this year.

Chinese shipyards should not expand their capacity irrationally anymore. The focus should now be on cooperation and consolidation. It is also critical for us to raise our capabilities in producing high specification and more complex offshore units and equipment," Zhang said. *"Becoming the world's leading shipbuilding nation should be not a goal, it should be a continuous process. And regardless of whether the market is in a downturn or an upturn, we should focus on raising our quality,"* he said.

In the **shipping finance**, Germany's leading shipping lenders face \$22 billion in credit losses in the coming year as a severe sector slump makes it increasingly difficult for shipowners to repay their loans, ratings agency Moody's said. Germany's eight major ship financiers have lent a total of 105 billion euros to the sector, a fifth of which are categorized as non-performing, Moody's said in a report. *"We expect the extended downward shipping cycle to cause rising problem loans in the shipping sector during 2013-14, requiring German banks to increase their loan-loss provisions. This will challenge their earnings power",* the agency said.

In the **capital** markets, Navig8, a commercial manager of clean and dirty tankers and dry bulk vessels, raised \$160MM in the Oslo OTC market to finance the purchase of 8 VLCC newbuilds at Asian yards, through its newly created entity, Navig8 Crude Tankers in a joint venture with Oaktree Captial. Navig8 expects increased tonne-mile demand for VLCCs given emerging South American and West African exports, with newbuilding slots also somewhat limited before 2017.

Scorpio Bulkers Inc. announced the commencement of its initial public offering of 15,500,000 common shares. The Company will grant the underwriters a 30-day option to purchase up to 2,325,000 additional common shares. The net proceeds of this public offering are expected to be used to fund newbuilding vessel capital expenditures, including capital expenditures related to the Company's initial fleet, and for general corporate purposes, including working capital.

MARIA BERTZELETOU – Shipping Analyst

GOLDEN DESTINY RESEARCH & VALUATIONS DEPARTMENT

For more Research Services, please contact us:

Email: snv@goldendestiny.com