This Week's News: A snapshot on the economic and shipping environment

Week Ending: 10th January 2014 (Week 1/14)

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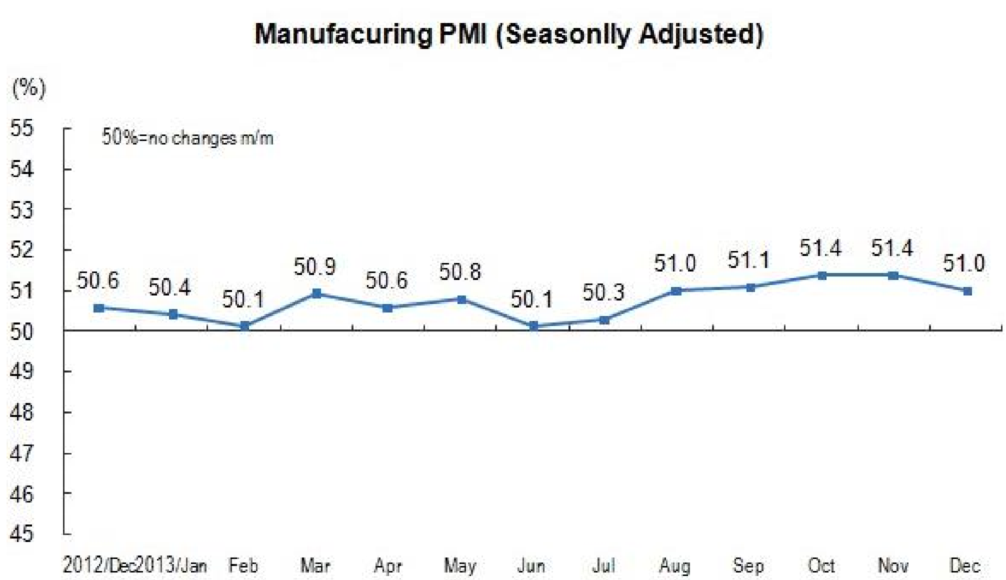
ECONOMIC ENVIRONMENT

The New Year opened with disappointing economic figures for China, while eurozone and US economies give positive signs. Overall expansion in emerging market economies slowed during December with the HSBC Emerging Markets Index dropping to 51.6 in December from 52.1 in November, but still indicating growth. *"Emerging economies are no longer expanding at the rapid rates recorded before the onset of the global financial crisis*," HSBC Chief Global Economist Stephen King said.

In China, December's manufacturing growth eased from November's eight month high due to soft restocking and investment demand. According to National Bureau of Statistics, China's manufacturing purchasing managers index was 51% in December, down by 0.4% points from the previous months and 0.2% points higher than the average of 2013. December's reading still shows expansion, but export sector producers experienced contraction last month for the first time since July. New export orders index stood at 49.8 in December, from 50.6 in the previous month.

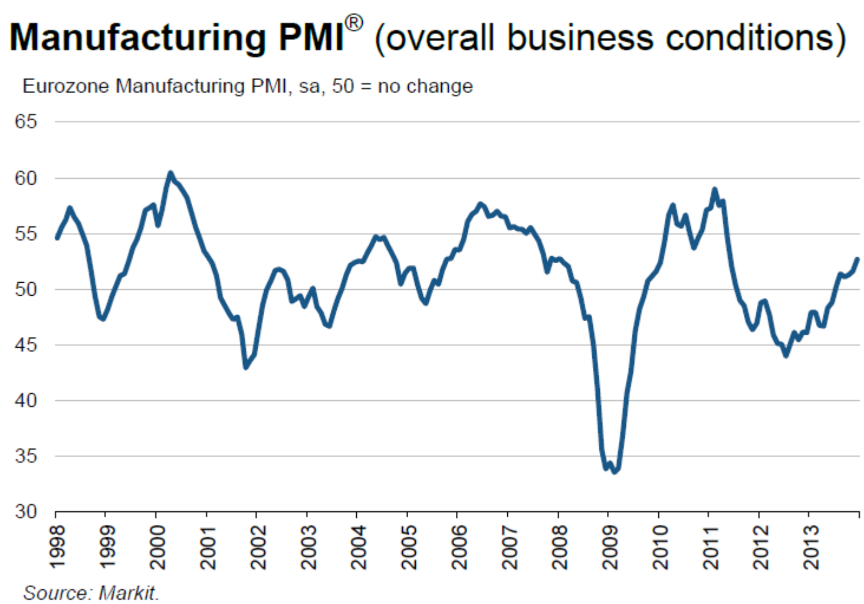


One more negative sign for the world's second largest economy is that its GDP growth indicates softer expansion from the previous quarter. The median forecast of 24 economists polled by Reuters showed that China's gross domestic product grew by 7.6% between October and December from a year ago, slower than 7.8% year-on-year growth in the third quarter, while 2013 GDP growth is said to be the weakest in the last 14 years. China's central bank continues to maintain prudent monetary policy in 2014 and credit growth to support the real economy. Sources have said that Chinese banks extended a total of 8.9 trillion yuan worth of new loans in 2013, while new yuan lending reached 500 billion yuan in December.

In the meantime, Chinese consumer inflation eased in December by rising 2.5% from year earlier, compared with 3% gain in November, according to the National Bureau of Statistics. *"The fall in headline CPI inflation will be welcomed by monetary policy makers. It confirms that, despite a pick up earlier in 2013, inflation is not an issue,"* wrote RBS chief China economist Louis Kuijs.

In the eurozone, manufacturing activity rose to a 31-month high in December indicating a sustained economic recovery for the euro area. A final reading of the manufacturing purchasing managers' index rose to 52.7 in December, which is unchanged from the flash PMI, but up from the 51.6 reading in November, separating expansion from contraction. The increase stems mainly from a rise in export orders and output, while it helps the high unemployment rate of about 12% to be reduced at lower levels.

Euro consumer inflation fell in December, after a small increase in the previous month, to 0.8% from 0.9% in November, according to data from the EU's statistics office Eurostat. The inflation rate is well below European Central Bank's target of 2% and increases the challenge of avoiding the deflation risk. ECB President Mario Draghi said that there were no signs of deflation or an urgent need for a further rate cut, but he added that is vital to avoid a scenario of the inflation rate staying permanently at below 1%. Under the current economic fundamentals, the European Central Bank in its first policy setting meeting for 2014 left the main refinancing rate unchanged at 0.25%, the deposit rate at zero and the marginal lending rate at 0.75%.



Countries ranked by Manufacturing PMI®: Dec.

Netherlands	57.0	32-month high
Germany	54.3 (flash 54.2)	30-month high
Austria	54.1	2-month low
Ireland	53.5	2-month high
Italy	53.3	32-month high
Spain	50.8	2-month high
Greece	49.6	52-month high
France	47.0 (flash 47.1)	7-month low

In the US, economic activity in the manufacturing sector expanded in December for the seventh consecutive month, according to the latest ***Manufacturing ISM Report on Business***. The Purchasing Managers' Index registered at 57%, the second highest reading for the year, which is just 0.3% points below November's reading of 57.3 percent. The New Orders Index increased in December by 0.6% points to 64.2 percent, which is its highest reading since April 2010 when it registered 65.1 percent. In last, the Employment Index registered 56.9%, an increase of 0.4% points compared to November's reading of 56.5%. December's employment reading is the highest since June 2011 when the Employment Index registered 59 percent.

An additional positive element for the US economy is that its trade deficit narrowed sharper than economists' forecasts as oil imports dropped to the lowest level in three years and exports climbed to a record. According to figures from the Commerce Department, the gap narrowed by 12.9% to $34,3 billion in November, which is considered the lowest since October 2009. In last, the US economy expanded more than previously reported in the third quarter, with GDP rising at a 4.1% annualized rate, Commerce Department figures showed Dec. 20. An initial reading showed a 2.8% rate of expansion in the three months ended September and a second release estimated a 3.6% growth.

SHIPPING MARKET

Year 2013 leaves the pace shipping investments to new record highs since the onset of the financial crisis in 2013. After the end of 2010, investments in the secondhand and newbuilding market accelerated and fetched remarkable levels. In the secondhand market, the number of vessels purchases touched about 1,490 vessels, up by 21% year-on-year, at an invested capital of more than $21,5mil. In the newbuilding market, the increase of invested capital surpassed every expectation and the number of new orders fetched more than 2,800 vessels by recording 97% year-on-year increase, with an invested capital of more than $92bn. (**2012**: 1423 new orders, **2011**: 1782 new orders, **2010**: 1905 new orders).

In the **dry** market, BDI fell below the high level of 2,000 points during the first week of the New Year with capesize freight rates lowering as few cargoes are seen from both West Australia and Brazil. Stormy weathers influenced the overpeformace of capesize vessels as cyclone in Australian bulk ports and rain in Brazil prompted Vale to declare force majeure. Although ports in Australia's iron ore rich Pilbara region are returing to normal loading conditions, capesize freight rates follow a constant decline by reaching to levels of less than $28,000/day, from near $39,000/day at the end of 2013.

Holiday celebrations combined with harsh weather conditions and newbuilding deliveries led BDI to levels of less than 1,700 points with a downward revision in rates not only for capes but also for other vessel sizes. In the panamax segment, daily rates are hovering at less than $13,500/day, from more than $14,500 at the end of 2013 and supramax at less than $13,000/day from more than $15,000/day.

Overall, there is still a bullish outlook for dry bulkers in 2014 as Chinese iron ore imports are predicted that will stay on the high side. Chinese steel production is likely to remain above last year's levels and Australian/Brazilian iron ore production is estimated that will increase by a total of approximately 120 to 140 million tons next year. Australia's Bureau of Resources and Energy Economics expects that Australian iron ore exports will total 709 million tons in 2014. Australia's Port Hedland reported a 20% year-on-year increase in iron ore exports to China for December, 24.1mt from 20.2 in December 2012. Data from the Port Hedland Port Authority showed that iron ore exported to China in December is also higher than the 22.3mt recorded in November 2013. Overall, iron ore exports to China totalled a record of 256mt for the year 2013 compared with 193.4mt in 2012.

On Friday **January 10th**, **BDI** closed at 1512 points, down by 26% from last week's closing and up by 99% from a similar week closing in 2013, when it was 760 points. All dry indices closed in red and capesize category recorded the largest decrease. **BCI** is down by 40% week-on-week, **BPI** is down 7% week-on-week, **BSI** is down 7% week-on-week, **BHSI** is down 4% week-on-week.

Summary of Baltic Dry Indices & Average Time Charter Earnings

		10/1/2014 week 01	3/1/2014 week 52	w-o-w	2013 week 01	% w-o-w	% y-o-y
Dry	BDI	1512	2036	-524	760	-26%	99%
Capesize	BCI	2101	3531	-1430	1367	-40%	54%
Panamax	BPI	1621	1750	-129	772	-7%	110%
Supramax	BSI	1190	1276	-86	745	-7%	60%
Handy	BHSI	730	763	-33	443	-4%	65%

		10/1/2014 week 01	3/1/2014 week 52	w-o-w	2013 week 01	% w-o-w	% y-o-y
Capesize	Average T/C routes	17452	33514	-16062	6213	-48%	181%
Panamax	Average T/C routes	12921	13948	-1027	6123	-7%	111%
Supramax	Average T/C routes	12448	13347	-899	7791	-7%	60%
Handy	Average T/C routes	10465	10947	-482	6586	-4%	59%

Capesizes are currently earning $17,452/day, down by $16,062/day from last week's closing and panamaxes are earning $12,921/day, down by $1,027/day from last week's closing. At similar week in 2013, capesizes were earning $6,213/day, while panamaxes were earning $6,123/day. Supramaxes are trading at about $12,448/day, down by $899/day from last week's closing, about 29% lower than capesize and 4% lower than panamax earnings. At similar week in 2013, supramaxes were getting $7,791/day, hovering at 25% higher levels than capesizes versus 29% today's lower levels. Handysizes are trading at about $10,465/day, down by $482/day from last week's closing; when at similar week in 2013 were earning $6,586/day.

In the **wet** market, New Year brings strength in the earnings of crude carriers with firm chartering activity. Market fundamentals (vessel supply-demand) remain fragile, which implies that the euphoria seen is not yet secured for 2014. US oil demand emerges weaker every month as domestic oil production is an endless increase. According to data released from the Energy Information Administration, US crude oil imports fell to the lowest level in almost 16years to 7.41 million barrels/day, the lowest since January 1998, based on the four-week average through Dec. 27, while domestic production increased to 8.12 million barrels/day, which is the largest increase recorded since September 1998. The current projections released by the Energy Information Administration reveal that the current surge in US crude oil and natural gas production will continue in the forthcoming years. In 2016, crude production should be near the record set in 1970 of 9,6 million barrels/day, but after 2020, production is expected to decline.

Despite the negative projections on US oil demand growth, the world oil demand is expected to grow by 1million barrels/day in 2014 compared with 900,000 barrels/day last year, supported by improved perfromances in the emerging economies and slow recovery in global economy.

Major tanker shipping player, Frontline 2012, holds an optimistic outlook for the crude freight market sentiment. Increased demand and higher rates will improve the prospects for oil tanker firms this year as world economic growth accelerates and exports recover from some oil-producing countries, the chief executive of major tanker company Frontline said.

Rates were unexpectedly strong at the end of 2013, mostly due to surging Chinese imports. A recent dip, because of lower demand ahead of the Chinese New Year, is likely to be reversed, CEO Jens Martin Jensen told Reuters in a telephone interview from Singapore. "There are some positive triggers that may result in higher activity going forward, like Libya and Sudan," he said, referring to an expected rise in volumes.

"We had a very good end to the year and a good start in 2014, so I think it will stabilize," Jensen said. In late 2013, however, strong Chinese crude oil demand drove rates for very large crude carriers (VLCCs) from around $10,000 dollars per day in September to above $50,000 in December, the highest level since 2009, before they eased to about $30,000 this week. "That (fall back to $30,000) was caused by a reduction in volumes going to China ahead of the Chinese New Year in late January. The signs are that it will pick up again in a few weeks' time," he added. "We see that there's a new wave of new-build contracts, which is unfortunate," he said. "But I don't think we'll get as many orders as earlier; there isn't as much shipyard capacity available. But we still need more scrapping to maintain a reasonable balance in the market."

However, DNB Bank forecasts that rates in 2014 are unlikely to show much improvement, with excess tonnage the main cause of the continued slump. “Despite the expected increase in demand, fleet oversupply will continue putting pressure on fleet employment. Freight rates and asset values may decline further to historical low levels,” DVB predicts. It estimated a modest demand growth of just 1.1% in 2013 and projects 1.2% growth in 2014, with non OECD countries accounting for most of the increase. Long term growth till 2017 is estimated at between 1% and 1.2% annually. All the net growth in global oil demand is said to be stemmed from the transport and industrial sector in emerging economies.

In the **gas** market, preliminary figures showed that 2013 was a year of stagnation for LNG trade growth. BIMCO reported that LNG trade in 2013 dropped a few percentage points from the 236.8 million tons traded in the previous year. LNG trade is experiencing a slump of two years compared with an average rate of growth of 10% per annum over the first decade of the new century. The trade contraction recorded in 2012 was the first in three decades. Asia, which is currently the destination for 70% of all LNG shipped worldwide, will continue to drive market demand in the years ahead. Japan accounts for 38% of the global LNG trade and is set to remain the leading importer for many years to come, even after the country begins to restart its nuclear reactors following the completion of rigorous post-tsunami safety checks. Korea, which is the second largest buyer of LNG, expects its 2013 imports to be around the 40 mt mark, following a 10% rise in demand during the year.

On the LNG supply side the largest contributor to LNG trade growth over the next five years will be Australia. Seven new liquefaction projects are currently underway in the country and the first LNG from this new tranche of production capacity will begin to flow in 2014.

In the freight market, LNG spot rates for modern 160,000 cbm tri fuel diesel engine liquefied natural gas carriers have now fallen to less than $90,000/day as the fixture activity has slowed down from the holiday season. Angola LNG is expected to restart production by mid-January with output increasing through the first quarter of 2014.

In the **container** market, the Shanghai Container Freight Index increased to 1176 points during the first week of 2014, up by 5.6% from the last week of December 2013 with rates in Asia-Europe and Asia-Mediterranean increasing by 16.8% and 14.1% week-on-week respectively. In Asia-Europe, rates ended at $1765/TEU, up by $778/TEU from the beginning of December and in Asia-Mediterranean, at $1791/TEU, up by $715/TEU from the beginning of December. Major shipping players have already announced general rate increases applied from January to boost further the freight sentiment. Maersk Line, Zim, CMA CGM, OOCL, Hapag Lloyd and Hanjin Shipping will implement rate increase of $250-$500/TEU.

Soft increases are also recorded in transpacific rates, 0.7% week-on-week rise in Asia-USWC and 1% week-on-week rise in Asia-USEC route. In Asia-USWC route, rates moved up to $1815/FEU, up by $98/FEU from the beginning of December and in Asia-USEC route, to $3137/FEU, up by 184/FEU from the beginning of December.

The recent upturn in Asia-Europe rates is not secured in the long term as overcapacity issue will be a serious threat also for this year. According to Alphaliner estimates, newbuilding vessel deliveries will reach record levels this year and next. It estimated a 5.8% year-on-year increase in the capacity of the worldwide container fleet and said the growth would be even higher for this year and next as shipping players continue to order vessels. The orderbook for cellular container ships increased by 12.4% to 3.86 million TEU last year with the ratio of orderbook to the existing fleet increasing to 22.3%.

In the **shipbuilding industry**, South Korea’s major shipbuilders are expected to witness a mild recovery based on the increasing demands for commercial vessels and LNG carriers, according to experts and analysts. “*Ship orders by Hyundai HI, Samsung HI and DSME are expected to increase by more than 13% year on year in 2014 as demand for commercial vessels capitalising on LNG carriers increases,”* said Woori Investment & Securities analyst Yoo Jae-hoon in a recent research report. Hyundai HI, Samsung HI and DSME are forecasted to win $24.3Bn, $13Bn and $13.1Bn orders respectively in 2013. It is expected the order targets by the top three shipbuilders to reach a total of $45Bn in 2014, from $39.8Bn in 2013.

In China, excess shipyards’ capacity is likely to exist for the next five years and may reach as high as 20% in 2014 bringing a negative business outlook for the nation’s shipbuilding industry. According to the President of the China Association of the National Shipbuilding Industry (CANSI), Zhang Guanggin, the Chinese shipbuilding market faces a negative outlook in 2014 as the surplus shipbuilding capacity may take as long as five years to be digested.

According to the National Development and Reform Commission (NDRC), China currently has in excess of 1,600 shipbuilding enterprises which employ a 1.5 million strong workforce and turnout some RMB800bn ($130.6bn) per year.

In the **shipping finance**, First Commercial bank of Taiwan has completed its sales of bad loans to compatriot owner TMT that filed for Chapter 11 protection in June. According to exchange filing, the bank sold non-performing loans totalling $176,6mil, most secured against vessels to three buyers earlier this week.

In terms of **ship financing** deals, an interesting syndicated loan facility agreement came to light during the first days of New Year as BW Group secured financing and refinancing from a number of banks for its LPG and LNG fleet. DNB Asia was the facility agent for a syndicate of eight lenders (leading banks across Europe and Asia) to lend $700mil to BW LPG Holdings for the funding of 20 LPG carriers and for general working capital purposes.

Paragon Shipping sealed a $17,2mil from HSH Nordbank to fund two ultramax newbuilding at Yangzhou Dayang Shipbuilding for delivery in the second and third quarters of 2014.

In the container market, Sumitomo Group will finance the building of seven 14,000 teu containerships which will go on charter to the Evergreen Group of Japan. The vessels will be chartered to Evergreen at delivery for 10 years at about $64,000 daily. Deliveries are expected in 2016 and 2017. In addition, Seaspan has been busy raising finance and arranging debt in order to optimize balance sheet efficiency. The latest move is a $1 billion refinance which extends existing debt maturities from 2015 to 2019 and places funds on the table for new acquisitions. According to CEO Gerry Wang, the refinancing has been done at attractive rates and enables the operator to capitalize on a compelling acquisition environment, while utilizing their growing asset base and cash flows. The refinancing was lead arranged by BNP Paribas Securities Corp. In addition, Seaspan announced that it entered into a five-year $125 million non-amortizing fixed rate unsecured loan agreement with a privately held global financial firm and proceeds will be used for general corporate purposes.

In the **capital** markets, Scorpio Bulkers Inc, Monaco announced that it had reached newbuilding agreements for the construction of 22 bulkers (20 capesizes and 2 kamsarmaxes) for an aggregate purchase price of approximately $1,171 bn to be built at shipyards in China and Romania (Korean operated yard) for delivery in 2015-2016. Scorpio Bulkers believes that the current dry bulk environment favors its current newbuilding decision. It said that dry bulk rates reached a trough in 2013, as supply growth is set to moderate beginning in 2014, after a period of oversupply. Global fleet growth in DWT is set to decelerate through 2016 and on the demand side, new capacity for iron ore production is poised to come online in the next several years. SCORPIO Bulkers is to raise another $42.6m to fund its massive newbuilding programme after the underwriters of its initial public offering agreed to exercise their options in full. The dry bulk unit of the expansion-minded Scorpio Group said in a statement that those underwriters will purchase nearly 4.7m common shares at $9.75 per share, compared to the previous settlement of $9.73 per share.

Euronav, Belgium announced that it has entered into a contract to acquire fifteen (15) Very Large Crude Carriers (VLCC) from Maersk Tankers Singapore Pte Ltd for a total acquisition price of USD 980 million payable as the vessels are being delivered. The vessels have an average age of 4 years and will expand the large tanker fleet of Euronav made of 1 ULCC, 11 VLCCs and 23 Suezmaxes. The vessels will be operated in the Tankers International VLCC Pool of which Euronav is a founding member. The outlook for the large crude tanker market has improved significantly over the last months indicating a resurgence of demand and an improved near term outlook. Upon company's announcement for VLCC acquisition, Euronav reported also that the board of directors had decided to raise USD 50,000,000 by way of a capital increase under the authorised capital and that 5,473,571 new shares will be issued upon full payment of the subscription price, which is expected to be at or around 10 January 2014. Euronav will finalise in the coming days a USD 500 million bank debt facility as well as USD 235 million of mezzanine financing in order to complete the funding of the acquisition.

Navios Europe successfully closed a deal to acquire five tankers and five container vessels, averaging six years of age, from the debtors of HSH Nordbank, which was announced in April of 2013. The current market value of the vessels is approximately $218 million. The purchase price consists of $127.8 million in cash and the assumption of the $173 million subordinated HSH participating loan. The cash portion is funded by a $10 million investment from Navios Maritime Holdings, Navios Maritime Acquisition, and Navios Maritime Partners and a 120.4 million senior bank loan provided by HSH, which is secured by a first priority mortgage on the ten vessels and is non-recourse to Navios.

MARIA BERTZELETOU – Shipping Analyst

GOLDEN DESTINY RESEARCH & VALUATIONS DEPARTMENT

For more Research Services, please contact us:

Email: snv@goldendestiny.com