GOLDEN DESTINY

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

Week ending 23rd December 2011

ECONOMIC ENVIRONMENT

The eurozone's uncertain future shadows the outlook of global economy for 2012 with China playing a central role for global growth. Since 2008 credit crisis, China has prevented the world economy from falling in full collapse. However, there are doubts if China will succeed once again to be the key player for the world expansion by controlling the rise of inflation with estimations of its GDP growth falling below 9% for 2012.

The European Central Bank was warned that the contagion of euro area sovereign debt remains the most pressing risk for financial stability in the euro area, the European Union and worldwide. On the fears of euro instability, Fitch downgraded a cluster of the world's largest banks, including Bank of America, Morgan Stanley, Goldman Sachs, as well as Europe's Barclays, Societe Generale and BNP Paribas. Germany's Deutsche Bank and Switerzland's Credit Suisse were also downgraded. As a response to the eurozone crisis, European Central Bank has sought to reduce banks' funding difficulties by providing €489bn in unprecedented three-year loans to more than 500 banks across the region in the hope of averting a dangerous "credit crunch" that would drive the eurozone into a deeper recession.

In U.S., economy grew at a slower rate than initially expected in the third quarter due to lower personal consumption. According to data released from the US Commerce Department, gross domestic product grew at an annual pace of 1.8% in the period, down from the previous estimate of 2% and first estimate of 2.5%.

SHIPPING MARKET

2011 seems to end with worries for the future outlook of the freight markets and a downward trend in the wet and container segments, while a sense of optimism persists for the dry bulk earnings. The European financial crisis casts more fears on the shipping environment, however the alluring asset prices seem that will motivate the investments of shipowners in the next 12 months. According to the latest Shipping Confidence Survey from leading accountant and shipping adviser Moore Stephens, respondents showed a high level of concern about the negative impact of oversupply on the market amid continuing fears about the global economic climate and the eurozone crisis in particular.

In the dry market, the BDI fell below the high base of 1,900 points with capesize earnings hovering at healthy levels, but lower than $30,000/day, and panamaxes showing weaker signs by earning less than $14,000/day. Chinese iron ore fixture activity is still under uncertainty as domestic iron ore port stockpiles are high and remain slightly below the 98,1mt record reached in middle of November, according to Commodore Research. The year seems to end with a positive note as the index broke the 2,000 points mark during the fourth quarter and capesizes are still above $30,000/day.

The index closed today at 1,738 points, down by 7.9% from last week's closing and down by 1.9 % from a similar week closing in 2010 when it was 1,773 points. This week all Baltic dry indices ended in red with the slowest decline being recorded in the supramax segment, BCI down 7.9% w-o-w, BPI down 7.3% w-o-w, BSI down 1.4% w-o-w, BHSI down 1.8% w-o-w.

Capesizes are currently earning $27,512/day, a decline of $3,968/day from a week ago, while panamaxes are earning $13,139/day, a decline of $1,044/day. At similar week in 2010, capesizes were earning $20,009/day, 27% lower than the current earnings, while panamaxes were earning $14,711day,

12% higher than the current levels. Supramaxes earnings remain below $13,000/day, trading at lower levels than capesizes and panamaxes, by earning $12,296/day, down by $180/day from last week's closing. At similar week in 2010, supramaxes were getting $15,611/day, hovering at 22% discounted levels from capesize earnings. Handysizes are trading at $ 8,319/day; down by $106/day from last week, when at similar week in 2010 were earning $12,157/day.

In the **wet market**, daily returns for VLCC owners remain weak with a dark outlook for 2012. The Institute of Energy Economic Japan said that global supply and demand of crude oil is expected to be balanced in 2012 if OPEC's oil production stays at the current level of 30 million b/d. Positive signs for the world oil demand is China's appetite that is expected to reach 535 million tonnes in 2015, 10,7 million barrels/day, an increase of 19% from 449 million tonnes in 2010, according to a research report by the country's top oil firm CNPC.

In the **gas market,** LNG one year time charter rates broke the $150,000/day level, up 11% from $135,000 last week, while rumors circulated in the market that a LNG vessel has been fixed for a short voyage in the intra Asian market at the outstanding rate of $200,000 daily. Norwegian investment bank Arctic Securities has forecasted rates above $170,000 daily in 2013.

In the **container market**, the influx of mega containerships on the Asia-Europe route has brought the fall of rates on the Shanghai-Northern Europe below $500/TEU with laid up fleet reaching the highest level in 18 months as trade growth slows. According to Alphaliner estimates, around 210 ships with a combined capacity of 526,000 20-foot boxes were idled on the beginning of December. Shipments to Europe from Asia rose 4.5% in the first 10 months, while capacity expanded at faster pace with liner operators loosing the strength of their profitability. One more alliance came to light between Hamburg Sud, Hapag-Lloyd, Nippon Yusen Kaisha and Orient Overseas Container Line to replace seven smaller containerships with four 5,400 TEU vessels on its Northern Europe – US East Coast route beginning in March 2012.

In the **shipbuilding industry,** Japanese export ship orders grew for a second straight month year-on-year basis with November closing with an increase of 47.4%, from a 26.5% in October, according to the Japan Ship Exporters' Association. Japanese shipbuilders received orders for 17 export ships, 11 bulk carriers, three automobile carriers, two passenger ships and one tanker. On the other hand, Chinese shipbuilding industry is suffering with estimations that in the next two year the industry will enter into a frequent merging and restructuring period.

In the **shipping finance**, Diana Containerships has announced that it had entered into an agreement for a revolving credit facility of up to $100 mil with the Royal Bank of Scotland Plc, which may be increased to US$150 mil subject to further syndication. The credit facility has a term of five years and will bear interest at the rate of 2.75% over LIBOR.

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