



### The Week In Review

#### ECONOMIC ENVIRONMENT

The week opened with a series of downgrades from Standard & Poor's rating agency that pours double concerns for euro and worldwide prosperity in 2012. The World Bank cuts sharply its world economic growth expectations by warning that an escalation in the euro area debt crisis could push the world into a similar global crisis of September 2008. The World Bank predicts world economic growth of 2.5% in 2012 and 3.1% in 2013, well below the 3.6% growth predicted for each year in June. Developing countries would be more vulnerable than they were in 2008 facing reduced capital flows and softer trade. The International Monetary fund has requested from its member countries to offer an extra \$500 billion to combat the world's spreading fiscal emergencies, which it estimates will generate demand for bail-out loans totaling \$1tn over the next two years.

Standard & Poor's downgraded the credit rating of the European Financial Stability Facility to AA+, following its decision to remove the triple A ratings of France and Austria, the guarantors of the eurozone's bailout fund. It also lowered the ratings of other seven euro countries, Cyprus, Italy, Portugal, Spain, Malta, Slovakia and Slovenia. France and Austria account about EUR 180 billion of the credit guarantees of the fund, after the first Greek bailout in May 2010, while they are supposed to serve as a firewall for sealing the eurozone's core economies from the crisis. However, the German finance minister, Wolfgang Schäuble, stated that the European Financial Stability Facility has ample resources and it will not need further support from Berlin, its biggest sponsorship. On the other hand, Merkel stated that the decision of S&P to downgrade several euro countries won't hamper the work of the currency area's temporary bailout mechanism EFSF calling eurozone governments speedily to implement tough new fiscal rules.

Positive news is that inflation in the eurozone has eased. According to EU's statistics office, Eurostat, inflation has fallen to 2.7% in the year to December 2011, which is below the previous month 3% and down from the initial estimate of 2.8%. The European Central Bank cut interest rates in November and December as inflation is running above the European Central Bank's target of 2% and more cuts are expected in the coming months as eurozone economy appears to be heading into recession

In Greece, the government appears to be closer to seal a deal with private bondholders for averting a threatened default. The most variable aspect of the negotiations is the new bonds coupon rate. Sources suggest that the latest proposal is calling for a coupon starting at about 3% and rising to 4.5% as the bond approached maturity. German Finance Minister Mr. Schaeuble told that the target of cutting Greek debt by 50% should not be jeopardized by the demand for very high interest rates in the new bonds to be issued as Greece needs more structural reforms and European investment programs fiscal measures with Merkel pushing for a deal.

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In Japan, the strong appreciation of yen against the dollar has hurt Japanese exporters with the country's economy minister urging Japanese exporters to make use of the strong yen and increase overseas investments. The economy minister also called for greater competition in Japan's electricity market after the nuclear crisis at the Fukushima Daiichi nuclear plant.

In China, consumer inflation fell to 4.1% in December, marking the fifth consecutive month of diminishing inflation, which is well below July's peak of 6.5%. However, China's consumer price index edged only 0.1% point lower than November, compared with larger declines of 1.3 and 0.6 percentage points in the previous two months. In the meantime, China's economy expanded 8.9% in the fourth quarter of 2011, extending the slowdown seen in previous year that is expected to continue in the year ahead. Chinese government had implemented tightening measures to control inflation by increasing interest rates and the amount of money that banks must keep as reserves that brought a negative impact on domestic growth. Overall growth of 2011 is estimated at 9.2%, the same as in 2009 when the Chinese economy expanded at its lowest pace since 2002. As China prepares to enter the year of Dragon the economy is expected to follow further slowdown, which will be eased once the government succeeds to control the inflationary pressures and loosen its monetary policy.

#### SHIPPING MARKET

Before the Chinese Lunar New Year, the market sentiment in the shipping industry is negative with the dry market losing every day more ground, the wet market being still in limbo, from the previous year, in terms of freight earnings' outlook and the container industry showing signs of recovery with doubts for a full upturn. Chinese economy, the biggest driver of shipping industry, showed a slow growth of its gross domestic before 9% in the fourth quarter of last year, brings concerns for the Chinese appetite for raw materials.

**In the dry market**, the situation remains dire with the BDI losing ground from the opening of New Year and falling this week below the 1,000 points mark for the first time since the financial crisis of 2008. The Chinese New Year is expected to bring more weakness in the market due to disruption in Chinese iron ore imports, while iron ore inventories remain high and concerns for a weaker steel production are growing. Spot rates in all vessel sizes are under serious pressure with capesize earnings experiencing the biggest



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falls bringing doubts for a prompt rebound in the market given the current vessels' orderbook. The Chinese Lunar New Year, the stormy weather that has curbed shipments from Australia and Brazil have resulted in a current weakness of the freight market that is too early to judge if this will persist after the end of January. Returns for capesize vessels have slumped once again to the levels seen in the previous year, below break-even levels, with the market sentiment being negative and asset prices expected to follow further downward revision.

The average price of iron ore imports will be a significant factor for a future revival of Chinese iron ore imports. According to Commodore Research, the average price of imports fell to \$162.10/ton in November and \$141.20/ton in December that brought a significant increase of Chinese iron ore imports in the last two months of the previous year, 28.5% increase of October imports.

The index closed today at 862 points, down by 18% from last week's closing and down by 37% from a similar week closing in 2010 when it was 1,370 points. The highest rate increase has been in the capesize segment, BCI down 9.8% w-o-w, BPI down 19.3% w-o-w, BSI down 16.8% w-o-w, BHSI down 9 % w-o-w.

Capesizes are currently earning \$6,688/day, a decline of \$2,428/day from a week ago, while panamaxs are earning \$8,131/day, a decline of \$1,944/day. At similar week in 2011, capesizes were earning \$8,859/day, while panamaxs were earning \$13,175/day. Supramaxes are still trading at 26.2% higher levels than capesizes by earning \$8,441/day, down by \$1,713/day from last week's closing. At similar week in 2011, supramaxes were getting \$14,926/day, hovering at 68.4% and 13.2% respectively higher levels than capesize and panamax earnings. Handysizes are trading at \$7,115/day; down by \$664/day from last week, when at similar week in 2010 were earning \$11,334/day.

In the **wet market**, there was an uptick in tanker fixtures ahead of Chinese New Year that influenced positively spot rates for crude carriers. Strong Asian demand for Middle East crude oil pushed rates for VLCCs on the benchmark route from the Middle East to Japan at worldscale W 56.10 from W 51.56 last week. However, the improvement seems more seasonal as market fundamentals do not support a prolong recovery.

Chinese charterers dominated the spot fixtures of VLCCs last year according to brokers Poten & Partners. Unipet, a subsidiary of Sinopec Corp, was the largest spot charterer of VLCCs in 2011 with 449 fixtures and Petrochina to follow with 149 VLCC spot fixtures last year. However, China's consumer demand may not be enough to lift tanker rates higher in 2012, as the International Energy Agency warned that economic weakness will curtail global oil demand in 2012. Thus, the vessels' supply gap with oil demand will be very difficult to be bridged for the year ahead.

According to new estimates from the International Energy Agency, oil demand has fallen for the first time since the 2008-2009 global

financial crisis. It estimated that oil demand dropped 300,000 barrels per day in the fourth quarter of 2011 and cut its outlook for this year by expecting an additional 1,1 million barrels/day of demand, down from 1,3 million barrels per day previously. Consequently, global crude demand is expected to average 90M bpd in 2012, up just 1.2% from 2011. Global oil demand in 2011 was 89.5m b/d. The agency believes that OECD demand will drop 0.3M bpd in 2012 while non-OECD demand will increase 1.4M bpd.

The price of crude oil is a threatening factor for wet operators as it has jumped above \$110/barrel with the opening of New Year as the European Union prepared to impose a ban on Iranian oil imports and Tehran threatened to close the Strait of Hormuz, a crucial channel for the transshipment of oil exports from the Gulf.

In the **gas market**, LNG spot tanker rates remain at high levels due to increasing LNG demand in Europe and Asia that meets less available prompt tonnage. According to Drewry, short term freight rates in December 2011 averaged at \$125,000/day, up from \$68,000/day averaged in December 2010 and are climbing to \$150,000/day this month. Norwegian shipper Stena Bulk is reported to have extended the leasehold on its two 2011-built Stena Clear Sky and Stena Crystal Sky tankers for a further four years, securing a rate of \$140,000/day.

In the **container market**, the recent freight buoyancy continued also last week with the Shanghai Container Freight Index closing at \$981/teu, 0.6% up week-on-week, with 0.4% gains in Europe. However, the Shanghai Container Freight index is down 11.8% year on year, when at similar week was at \$1,112/TEU and Alphaliner expects that the recent rally will not last after the Chinese New Year next week. The analyst believes that ocean freight rates and charter rates will remain weak through 2012 as slowing demand growth in Europe and U.S. and the rapid growth of vessels' supply offsets the supply-demand balance. Asia-Europe rates surged in early 2012 as European importers rushed to secure vessel capacity before the week-long factory shutdown in Asia.

In the meantime, Maersk Line is not going to exercise its option of ten more ships of 18,000 TEU at the end of February and will remain on its plans for the delivery of all 20 Triple-E ships ordered last year at a cost of \$190 mil each.

In the **shipbuilding industry**, Chinese shipbuilder Yangzijiang has entered a 40-55 joint venture with German shipowner Peter Doehle to own four 92,000 dwt post panamax ships that are under construction in the yard. Sources reveal that the units have been ordered not by Peter Doehle but by another entity and the deal didn't proceed due to financing issues. The Chinese shipbuilder has started to follow other non core-business to accumulate losses from the fall in newbuilding business. Furthermore, Korean Shipbuilders is reported that are preparing a joint €1Bn (\$1.27Bn)



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bid to take over French gas carrier design specialist Gaztransport & Technigaz (GTT). Hyundai HI, DSME and Samsung HI are working on the bid with STX's shipbuilding arm considering joining them.

In the **shipping finance**, GasLog is planning its filing for an initial public offering on the New York Stock Exchange for funding its LNG newbuilding program. The company has applied to list its shares on the NYSE under the symbol GLOG and has set an upper figure of \$350 mil for its IPO target, saying that proceeds would help the fund of newbuildings along with \$1,1 billion debt financing agreed with various banks.

