



NAPHTHA FUTURES TRADING MARKET

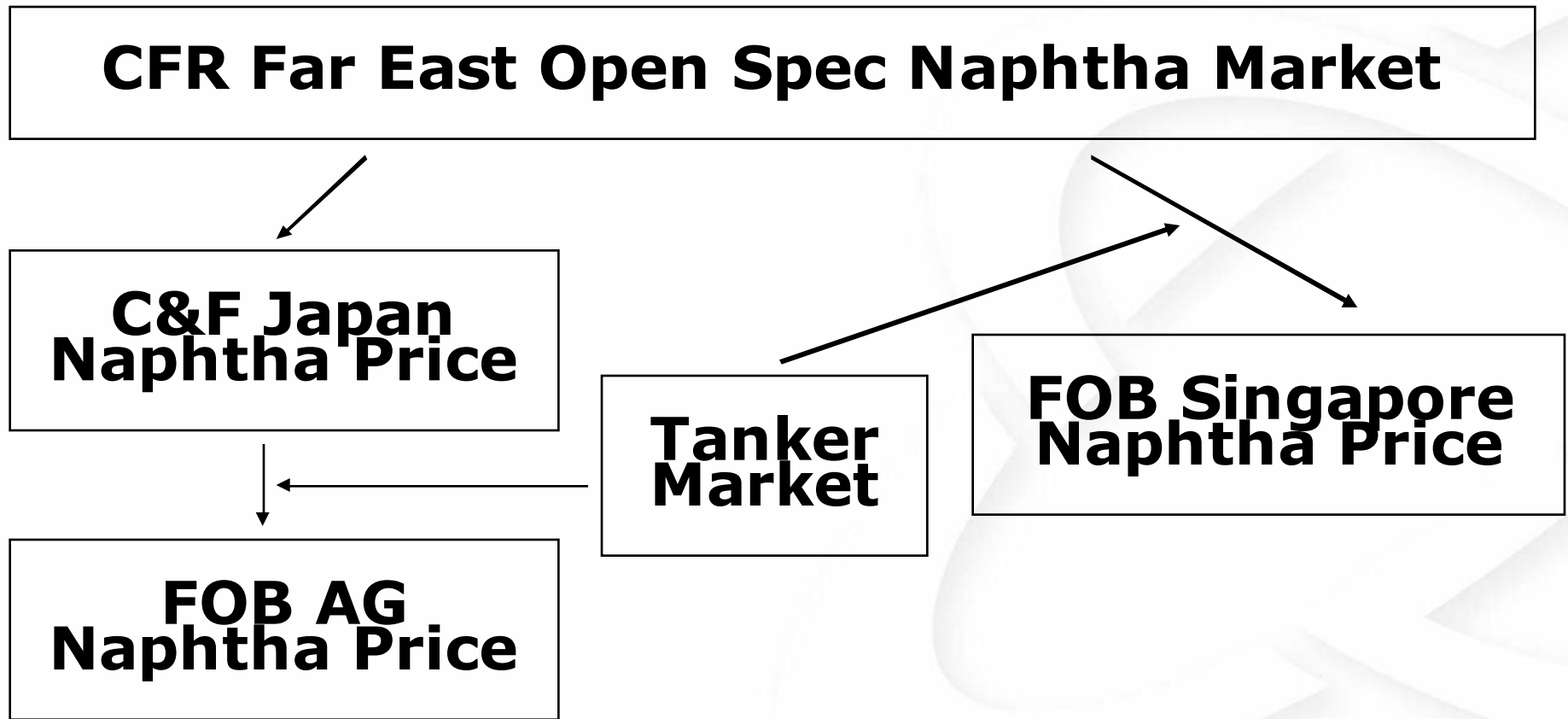
H. NIIMURA – Managing Director

April 2007

NAPHTHA FUTURES TRADING MARKET

- ❑ Naphtha Market Price Mechanism**
- ❑ Hedging Tools & Market for Naphtha Position**
- ❑ Management Risk for Hedging**
- ❑ Forecast Trends**

NAPHTHA MARKET PRICE MECHANISM



PLATTS' METHODOLOGY

□ Open Spec Naphtha

- 1st Line (45 days)

- 2nd Line (60 days)

- 3rd Line (75 days)



C&F Japan Price

□ FOB Singapore Price

- 1st Line – Freight (MR/SIN-Japan)

HEDGING TOOLS & MARKET FOR NAPHTHA POSITION

There are 4 Markets for Hedging:

- 1. CFR Far East Open Spec Naphtha**
- 2. FOB Singapore Swaps**
- 3. C&F Japan Swaps**
- 4. Tanker Freight Swaps**

1. CFR FAR EAST OPEN SPEC NAPHTHA

- ❑ **Forward Market**
- ❑ **25,000MT \pm 10% per lot**
- ❑ **Half Month Delivery Period**
- ❑ **Market Volume is 60~80 million tons per year**
- ❑ **There are 25~30 Players in this Market**
- ❑ **0~5 Cargo per month Physical Delivery**

2. FOB SINGAPORE SWAPS

- ❑ **PLATTS' FOB Singapore Base**
- ❑ **Normally 50,000 BBLs per lot**
- ❑ **Monthly Base**
- ❑ **Market Volume is 18~20 million BBLs per Month**
- ❑ **There are 30~40 Players in this Market**

3. C&F JAPAN SWAPS

- ❑ **PLATTS' C&F Japan Base**
- ❑ **Normally 5,000 tons per lot**
- ❑ **Monthly Base & Daily Base**
- ❑ **Market Volume:**
 - **Monthly Base: Around 150,000 tons per month**
 - **Daily Base: Around 500,000 tons per month**

4. TANKER FREIGHT SWAPS

- ❑ **PLATTS' Tanker Wire Base**
- ❑ **MR (Singapore-Japan), LR1 (AG-Japan)**
- ❑ **Monthly Base and normally 5,000~10,000 tons per lot**
- ❑ **Market Volume:**
 - **4~5 Million Tons for both Markets**

MANAGEMENT RISKS FOR HEDGING

1. VOLUME RISK

- **Differential between Physical Volume and Hedging Volume**
- **Open Spec Naphtha Quantity Allowance
25,000 Tons \pm 10%**

MANAGEMENT RISKS FOR HEDGING

2. PRICE RISK

- **Differential between Deal Done Level for Hedging and PLATTS' Assessment Price**
- **Differential between Physical Price and Hedging Market Price (Time Process)**

3. HUMAN RISK

- **Hedging Timing and Liquidate Timing**
- **Turn to Speculation**

FORECAST TRENDS

Points of Consideration:

- 1. Increasing Naphtha Cracker Capacity (Korea, China)**
- 2. Gasoline Demand in Middle East**
- 3. Price Differential between East and West**

FORECAST TRENDS

Points of Consideration:

- 4. Indian Naphtha Exporting Volume**
- 5. Trend of LPG Market**
- 6. Who is the Next Open Spec Naphtha Market Leader**



THANK YOU