Investing In Indonesia

Weekly Tanker Market Report

The upgrading of Indonesia's refining industry has been one of the government's top priorities for nearly two years. The largest population in South Asia is heavily dependent on imported fuel to meet domestic demand. Estimates suggest that about half of Indonesia's fuel consumption is processed by domestic refineries. Furthermore, data highlights oil demand could reach close to 2.3 million b/d by 2025. Without sufficient advances in domestic refineries, Indonesia could be on track to become one of the world's largest product importers. The scale of upgrade required by the refining industry is further highlighted as total refinery capacity is roughly the same today as 15 years ago, with the last new refinery being built in 1994.

State owned Pertamina has been tasked with finding partners for refining projects throughout the country. Numerous refineries have been earmarked as candidates for investment and upgrade; Cilacap (348,000 b/d), Balikapapan (260,000 b/d), Balongan (125,000 b/d) and Dumai (125,000 b/d). In addition to these existing refineries, the government also aims to begin construction of the Bontang refinery in East Kalimantan (235,000 b/d) and Tuban refinery in East Java (300,000 b/d).

Several countries and corporations have been approached over these projects and new government regulations have enabled private companies to build and operate domestic refineries. The Bontang refinery has been offered to Iran after the country showed a willingness to invest $8.4 billion, however, with costs expected to be closer to $14-15 billion, a completion date is not confirmed. Russia's Rosneft has agreed to develop the Tuban refinery through a $13.8 billion deal, the refinery should be operational by 2022. Furthermore, Saudi Aramco has committed to invest in the Cilacap refinery to the tune of $5.5 billion, aiming to modernize the plant, while increasing refining capacity to 370,000 b/d, with a completion date in 2022. Pertamina has signaled it would be prepared to solely revamp the Balikpapan refinery, after initial investors JX dropped out, boosting capacity to 360,000 b/d by 2019.

Indonesia's refineries offer an exciting prospect to foreign investors as shown by the scale of investment already committed. Despite a notorious record of failed planning projects, the likelihood of these projects materialising has increased, in part due to the incentives offered by the government. Besides this, one of the most enticing propositions for investment is finding a secured destination for crude output. It would appear Saudi Arabia, Iran and Russia are making big plays to secure a foothold in the Indonesian domestic fuel market. This should prove beneficial to dirty tanker owners as more crude will be moved into Indonesian refineries. However, the possible negative effects for product tanker owners in the future counter balance those gains. Despite this, in the short-term product imports will grow ahead of capacity additions as any upgrades or new refineries will take time to build and become operational. Nevertheless, investment in Indonesia's refining industry will be to meet domestic demand and will naturally impact on import demand in the future.

Crude Oil

Middle East

A solidly active week for VLCCs with enough early momentum created to push the top end of the market higher even as the U.S. Holiday allowed some excuse for a slower end to the week. Interestingly, the rate range to the East widened to as much as 15 ws points depending on the promptness of laydays and 'special' needs. That degree of spread is rare and leads to some speculation, at least, that once normal service resumes next week, things could get a degree hotter. Currently rates average low ws 70’s to the East and low ws 40’s to the West. Suezmaxes upped the tempo and increased premium paying Iranian interest added extra froth. Rates moved to ws 90 East and towards ws 50 to the West, but much bigger numbers were payable for Iran loadings. Strangely perhaps, Aframaxes didn’t find much reflected glory from the larger sizes and merely ticked over at around 80,000 by ws 90 to Singapore - some even call it lower for next week.

West Africa

Suezmaxes continued upon their roll, initially consolidating and then jumping higher to ws 95 USGulf and ws 100 to Europe. Availability was seemingly adequate throughout, but Owners definitely had command of the sentiment whip hand and won’t let go in the short term. VLCCs were much more active than of late and complemented prevailing numbers from the AGulf. Rates held solidly at, or a bit above, ws 70 to the Far East with $4.5 million the last paid to East Coast India. To be continued.

Mediterranean

Aframaxes had already seen a last gasp spike at the end of last week and broadly used that to keep the market at much higher than recent average levels. Much volatility within the week, however, with daily swings of up to 25 ws points. By the weeks end rates had returned to a ws 175 level XMed and seemingly set to stay similar into next week. Suezmaxes benefitted from the strength on the smaller size, but also from West African success and persistent local delays. Rates moved to 140,000 by ws 115 from the Black Sea to European destinations with up to $3.7 million asked for any runs to China.

Caribbean

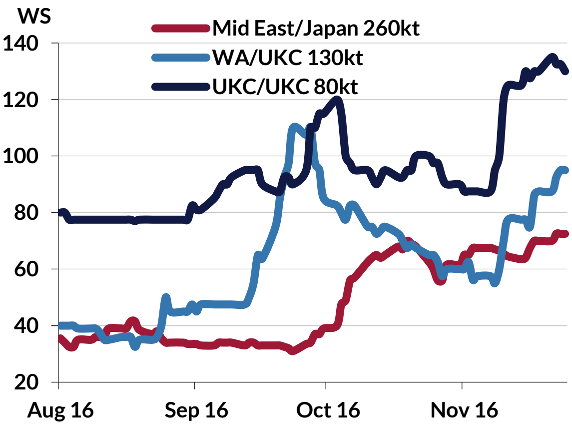
Aframaxes eased a touch, but then held onto 70,000 by ws 120 upcoast before the holiday brought an effective shutdown. Owners may well come back from the break upon the defensive - to begin with at least. VLCCs were largely left alone here, but alternative load opportunities in West Africa and Brazil, propped up theoretical rate demands at $4.5 million to Singapore and around $3.6 million to West Coast India. It should get more active from next week.

GIBSON SHIPBROKERS

North Sea

Aframaxes didn't fire here as brightly as in the Med and slipped off bit by bit as the week wore on. Now levels stand at 80,000 by ws 122.5 XUKCont and to 100,000 by ws 92.5 from the Baltic, but talk of heavier stems to come will prevent any real panic. Larger size fixing to the East lurked, but was only occasional. $4.25 million was paid for fuel oil from Rotterdam to Singapore and $5.4 million seen for a crude oil movement to South Korea. Some Owners may accept a touch less upon firm interest.

Crude Tanker Spot Rates



Clean Products

East

An interesting week of action in the Middle East on the MRs. The inevitable rush of cargoes arrived on Monday with returning Charterers post Bahri looking to move stems, but rates have been slow to react to a steadily thinning tonnage list. EAf runs have started to creep up from the ws100 level, and some Owners are talking ws130 for next done - sending ships down to Africa an obvious option currently for Owners who want to keep ships in the area for a potentially shifting winter market. Shorthaul has crept up to \$150k for the cross, and \$375k to Gizan. Longhaul is an interesting one, as TC12 is moving up past the ws 100 level towards ws 105 to end the week, but westbound has sat steady at the \$900k level. Owners with Ice Class ships are in need of West voyages to capitalise on winter markets, but are struggling with a current lack of westbound cargoes due to relative in expense of LRs for this route. As the MR2s level off slightly, the MR1s will likely pick up slightly next week, with a possible lift for the MRs in tow.

LRs had a busy start to the week and although things calmed down towards the end, rates were pushed up particularly on the LR2s. We will see if these increases are sustained, but there is some disagreement on this. In any case 90,000 mt jet AG/UKCont is now up to \$1.675 million and 75,000 mt naphtha AG/Japan is at ws 72.5. LR1s have seen a lot of fixing, but rates have struggled with 55,000 mt naphtha AG/Japan at ws 75 and 65,000 mt jet AG/UKCont at \$1.1 million. With refineries still under maintenance volumes are unlikely to help rates much more.

Mediterranean

Handies in the Med have maintained their positivity throughout the week and for the most part enquiry has been fairly prompt, and with tonnage in short supply Owners have been able to keep the favour. 30 x ws 157.5 for XMed voyages seems to have settled in even late in the week whilst Black Sea voyages are paying 30 x ws 160 with the majority of Owners asking for high minimum flat rates. The activity looks to continue early in to next week, as early December dates are now firmly working.

MR tonnage in the Mediterranean remains scarce which has allowed Owners to push for higher levels in the market. Med/AG has risen to L/S \$965k and transatlantic runs have continue to mirror TC2 and trade around 37 x ws 110 mark.

UK Continent

As we come to the close of week 47 in the Continent for the MRs, rates have traded sideways for the majority of period, with a good balance between ships and stems. TC2 numbers have swayed 2.5 points both ways off the fulcrum of 37 x ws 110 with good interest for WAf and China runs also helping. Pushing ahead, tonnage will continue to be in demand and we can expect rates to hold fast for the moment. Any additional interest could see rates creep upwards.

Handies have played the 30 x ws 105 game all week with little chance of change soon. Charterers and Owners alike seem content with present fixing levels and the sprinkling of stems throughout the week, have kept the tonnage lists turning over. With Early December stems starting to appear on the horizon, we could start to see any leftover tonnage needing to commit soon. For the time being, more of the same ahead.

Finally to the Flexis where similarly to the Handies we have seen the same 22 x ws 140 repeated throughout the week. Little opportunity seems to present itself for any change ahead with tonnage lists being slowly refreshed.

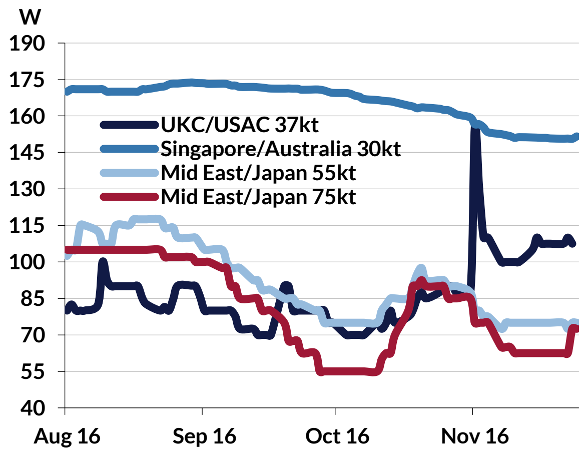
LRs

There has been a steady level of activity this week for both LR1s and LR2s in the West. The LR1 tonnage list has continued to tick over with a small handful of LR1s being fixed for UMS ARA-WAF runs although Charterers have managed to keep levels flat at 60 x ws 90 and we have seen a few LR1s fixed to move UMS to the AGulf from the Cont/Baltic and Med. Levels of $1.325 million have been reported for Baltic/AGulf, $1.15 million for ARA/AGulf and we have seen $1.05 million for a MED/AGulf run.

LR2s are also looking well placed at the minute. The tonnage list is very thin and many of the vessels on that list have uncertain positions. Given this, Owners have tried to apply pressure on rates, but rates haven't jumped too much on week 46. The latest reports are that an LR2 has been placed on subs for a naphtha run from the Med to Japan at $1.775 million.

We have seen examples this week of Owners continuing to dirty up vessels and that is understandable given the excellent returns the DPP market is presently providing. With a slight improvement in activity on both LR sizes recently, and a trim looking tonnage list, Owners can hope for a better finish to the year after many months of frustration.

Clean Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Products

Handy

Take your eye off the Continent for two seconds and you might be overjoyed or heartbroken with recent fixtures. Securing a vessel in this region before it gets snapped up has been the bane of most Charterers life this week, whereas Owners feel they are finally getting back to levels they should have been seeing a month ago. Laycans are being worked to the limit on terms of when an Owner is prepared to fix and with replacement jobs throwing a spanner in the works the market is unbelievably tight.

This week in the Mediterranean was very much a case of which Owner had the best itinerary, with this in mind we saw numbers achieve new peaks. Laycans now leading forward, it did appear that a number of Charterers have opted to roll the dice on vessel schedules, which on the premise that these same units inevitably run late, only serves to postpone logistical problems rather than actually solving the problem. In turn, this is likely to have a further knock-on effect with Charterers facing a climbing market where winter conditions close in.

MR

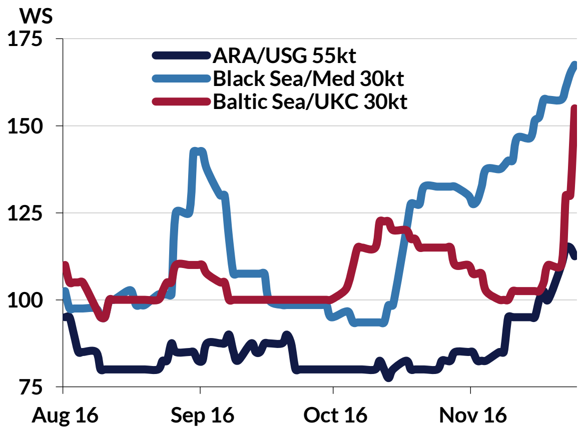
Tonnage availability in the UKCont was thin in terms of availability this week. With MR's making more sense to traders in terms of dollar per tonne, it comes as no surprise the limited units have been cherry picked. Having said this, we are yet to see volatility stretch to the kind of levels that the surrounding smaller sizes have seen, but expect Owners to be eager to correct this moving forward.

There was a day this week where 45kt cargoes appeared to take centre stage in terms of activity with Owners making the most of the winter months, spurred on additionally by Aframax stems being split. Charterers will know that they need to be wary of availability diminishing with trend looking firm for the time being.

Panamax

Although the Continent might not have seen the most activity this week, short supply and momentum have kept trading conditions in Owners favour. This said, the end of the week has seen Charterers earn a reprieve where U.S. holidays seem to have dampened appetite. Going forward where a few units are opening come Monday, this could lead to a moment of equal equilibrium being struck.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 24th	Nov 10th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+2**	71	69	56	69
TD20	Suezmax	WAF-UKC	**+13**	100	87	59	84
TD7	Aframax	N.Sea-UKC	**+2**	134	132	95	112

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Nov 24th	Nov 10th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+1,250**	53,250	52,000	35,250	50,750
TD20	Suezmax	WAF-UKC	**+6,500**	38,750	32,250	15,000	30,000
TD7	Aframax	N.Sea-UKC	**+1,250**	57,500	56,250	16,750	37,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 24th	Nov 10th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+10**	72	63	85	
TC2	MR - west	UKC-USAC	**+1**	108	107	90	113
TC5	LR1	AG-Japan	**-1**	74	75	89	82
TC7	MR - east	Singapore-EC Aus	**-1**	151	151	161	

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Nov 24th	Nov 10th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2,500**	9,000	6,500	12,500	
TC2	MR - west	UKC-USAC	**+0**	9,500	9,500	5,500	10,500
TC5	LR1	AG-Japan	**-500**	5,750	6,250	8,750	7,250
TC7	MR - east	Singapore-EC Aus	**-250**	8,750	9,000	11,000	

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam HSFO 380)	**+10**	261	251	273
ClearView Bunker Price (Fujairah 380 HSFO)	**+11**	290	279	288
ClearView Bunker Price (Singapore 380 HSFO)	**+9**	290	281	289
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+9**	418	409	448

GIBSON SHIPBROKERS

www.gibson.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States