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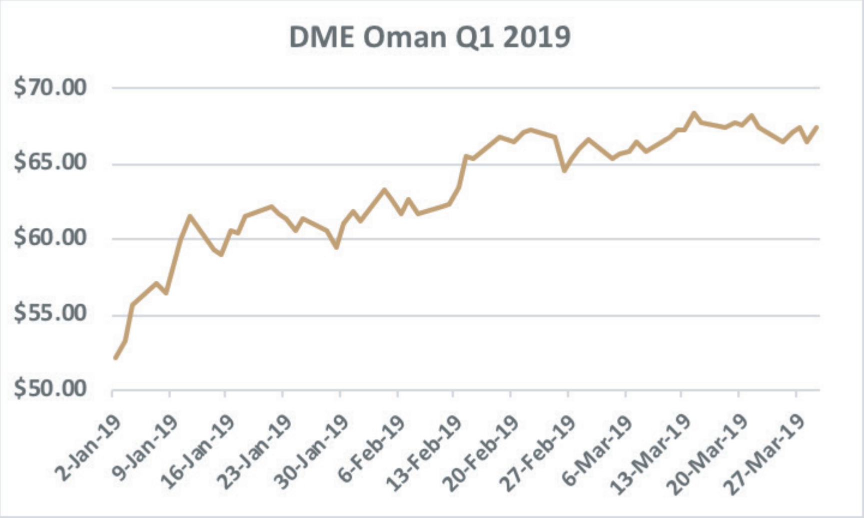
DME **NEWSLETTER**

DME Oman Quarterly review: Q1 2019

Solid performance as Oman trades close to parity with Brent

The continued glut of light crudes in global markets, combined with a tightening of the supply of medium and heavy crude oil, led to the unusual phenomenon whereby benchmark Middle East **Oman** crude regularly traded at a premium to the North Sea **Brent** benchmark during the first quarter of 2019.

Comparing the DME **Oman Marker Price** against the price of Brent as measured at 4.30pm Singapore, the Brent/Oman spread averaged $0.12/barrel – a record low measured over a full quarter. For large parts of February and March the Middle East marker price traded at a premium to Brent. This was particularly noticeable in February, when Oman averaged $0.16/barrel above its North Sea counterpart.



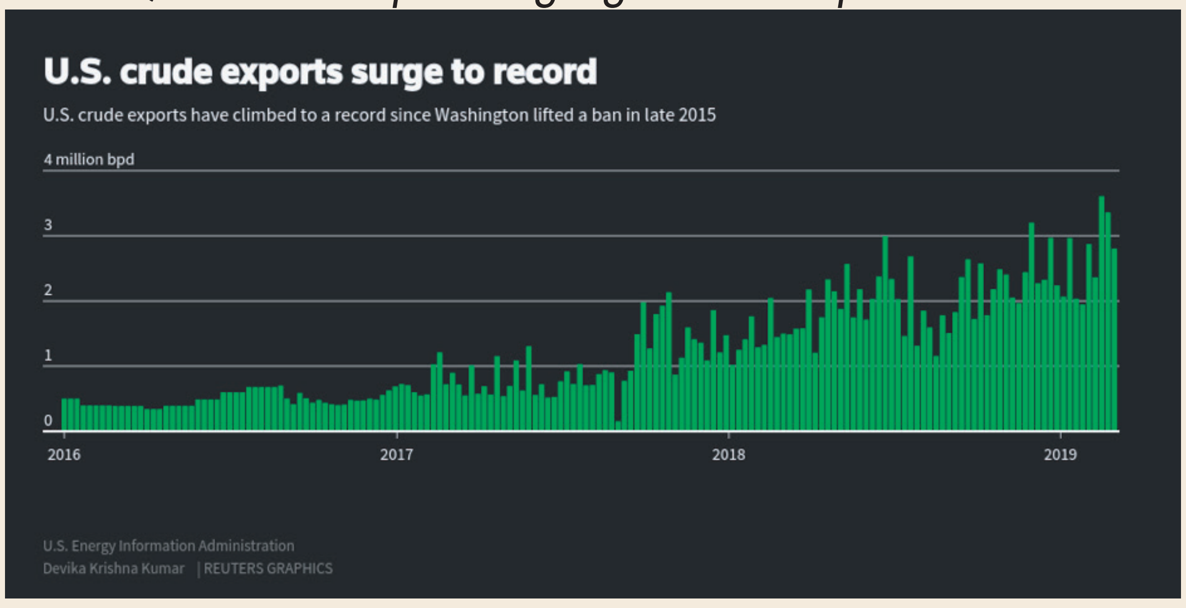
In terms of outright pricing, **Oman prices increased by around $15/b** between the start of January and the end of March, representing a gain of almost 30%. The lowest pricing point of the first quarter of $52.18/b came on the first trading day of the year, while Oman closed the quarter at $67.42/b having held above $65/b for the whole of March. Decisive action from OPEC, plus lower exports from Iran and Venezuela were cited as key reasons for the strong performance for Oman, which peaked at $68.23/b on March 21.

But it was the unusual Brent/Oman relationship that caught the attention of many traders. The spread between the two grades had not traded at a negative differential for any sustained period of time since August 2015.

Brent/Oman during the first half of 2018 was in the $2-3/b range, reflecting what are generally considered to be the superior quality of North Sea crude, which is lighter so yields more higher-value products such as diesel, jet and gasoline.

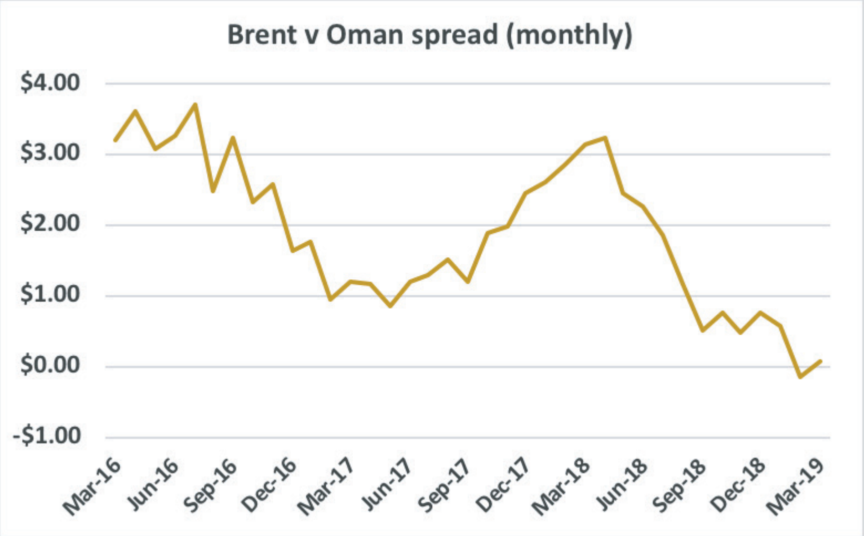
The Brent/Oman spread started to narrow sharply in September 2018 on the anticipated sanctions against Iran and the decline in Venezuelan exports. At the same time a surge in US exports of light crude and condensates dragged down global prices of naphtha and gasoline, pulling down the entire complex for lighter, low-sulfur crudes such as North Sea Brent.

Refinitiv/Reuters Graphics highlights the sharp increase



Refineries in Asia had previously invested in more complex refining technologies to take advantage of an expected abundance of medium and heavy crudes in the Arab Gulf. With the reshaping of the light/heavy relationship, the discount for heavier crude oil has largely evaporated. Although Asian refiners have been taking increasing volumes of lighter US crudes, plants configured to run heavier crudes are unable to take full advantage of cheaper US exports. Complex refineries are better able to process heavy grades such as those from Iran and Venezuela.

While Brent and related grades such as Forties, Oseberg and Ekofisk are from the North Sea, they are closer in quality to the US WTI benchmark than Oman and are more impacted by surging US crude output. Brent's premium to Oman was below $1/b throughout the fourth quarter of 2018, falling to a monthly-average of $0.49/b in November. The spread recovered slightly during December and January, but a further slump in February saw the Brent/Oman average minus $0.16 – the first time Oman has commanded a premium over its North Sea counterpart on a monthly-average basis.



The spread was again negative for the first half of March but a strong rebound in Brent prices in the latter part of the month saw the North Sea marker move back to around $0.70/b over Oman. The Brent resurgence appears to be short-lived as the June-delivery Brent/Oman spread was back below $0.30/b on the first two trading days of April.

The Brent/Oman spread is, however, expected to widen out later in 2019 as the deadline for IMO 2020 approaches. The IMO 2020 rules will limit sulfur content in marine bunker fuel to 0.5% from the current 3.5%. Oman's sulfur content is close to 1.5%, whereas Forties crude, which regularly sets the value of Brent, is around 0.8% sulfur. Forward markets indicate that Brent/Oman will widen back out to around $1/b later in the year, and may widen further moving into 2020. However, the uncertainty surrounding Iranian and Venezuelan exports is likely to keep oil markets in a state of flux for some time.

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