



DME



Futures Insights

Issue 08 - April 2016



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Review of 2015 trading and delivery data

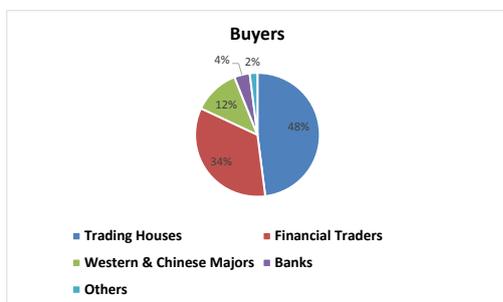
Introduction

The following report is the latest update in the DME’s ongoing efforts to bring greater transparency to the Oman crude oil market, particularly with regard to the DME’s flagship Oman crude oil contract (OQD).

Oman Blend is world’s largest fully-tradeable primary benchmark grade with typically 1 million barrels of production per day of which around 850,000 bpd is exported. Due to confidentiality guidelines, the 2015 review is published with a time lapse and client-confidential data cannot be reported.

Price setting and Window activity (for Oman OSP)

The Window refers to the period of trading activity during the five-minute period running from 12.25-12.30pm Dubai time (Singapore 4.25-4.30pm), which underpins the Marker Price and is used in compiling Oman’s Official Settlement Price (OSP). The Marker Price is the weighted average of the five minute period, which is also colloquially known as the ‘DME Window’.



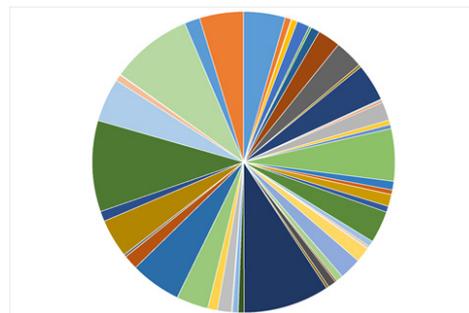
A combination of commercial companies, which typically encompass entities that have a presence in the physical oil markets, and financial entities such as professional proprietary traders and funds take part in window trading. Commercial entities are typically made up of International Oil Companies (IOCs) National Oil

Companies (NOCs), commodities trading houses and banks.

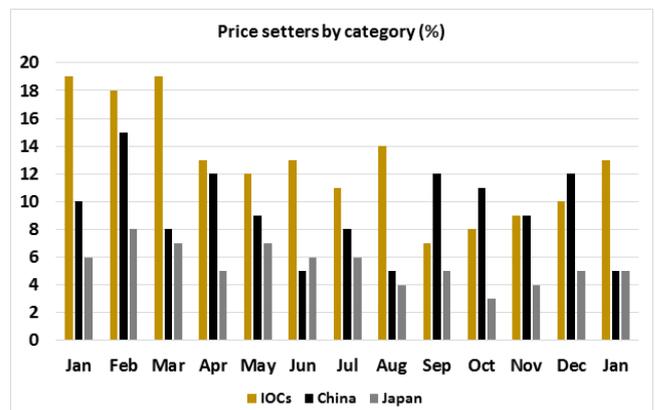
In 2015 more than 120 entities traded on the DME, of which over 90 are companies totally independent of each other. Window volumes are broadly distributed between commercial and financial parties.

The DME’s three largest categories of commercial customers can be classified as Chinese majors, Japanese trading houses, plus IOCs with integrated trading and refining systems – historically referred to as ‘western majors’.

DME price setters



China has three firms which are referred to as majors, which in recent years are playing an increasing role in trading and price setting across the global oil markets, particularly in the Middle East and Asia. So for comparison purposes the following chart measures window volume from the three Chinese majors against the top three Japanese traders and top three integrated traders in any given month.





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The western majors' category topped the monthly window volume on eight occasions during 2015, Chinese majors on three occasions, and honors shared between those two groups in one month.

The highest percentage volume of price setting activity was 19% from western majors in both January and March, while the highest total from combined Chinese majors was 15% in February and the highest by Japanese trading houses was 8%, also in February.

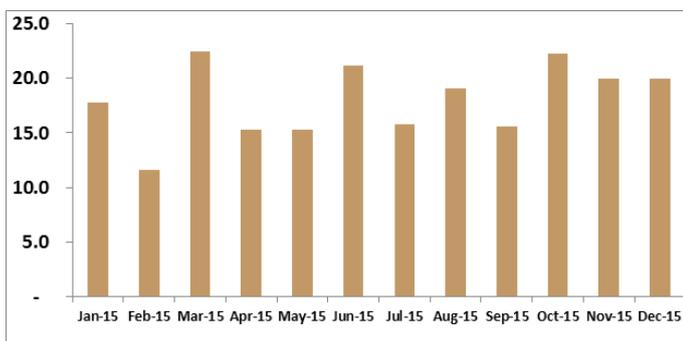
Physical delivery and destinations

Over 40 different participants went to physical delivery on expiry during 2015. Physical participants comprised IOCs, Asian refiners, global trading houses and to a lesser extent, financial institutions.

The strong upwards trend of physical deliveries on the DME continued with barrels going into the delivery procedure on contract expiry topping 20 million on several occasions, including a then new record of over 22.5 million b on expiry of the March 2015 contract, which has since been surpassed with 27.3 million b for lifting in March 2016.

Well in excess of 200 million b of Oman crude oil went to physical delivery through the DME in 2015, beating the previous annual record of around 175 million b in 2014.

DME Oman (OQD) - Monthly Physical Delivery 2015 (Million b)



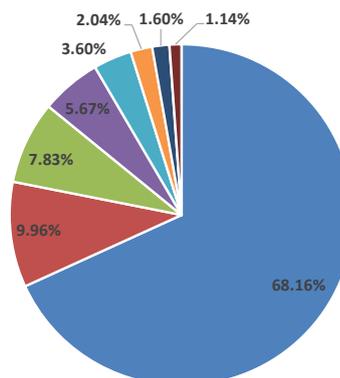
DME does not publish a breakout of final destinations of crude delivered via the DME, but Oman's Ministry of Oil and Gas (MOG) releases a detailed breakdown of delivery destinations. On eight occasions during 2015 China accounted for at least 70% of Oman monthly crude exports, while Japan, Thailand, Taiwan, South Korea, India, Tanzania, Singapore, Sri Lanka, Australian and New Zealand have all featured as end users.

More recently, in the first quarter of 2016 at least two VLCCs (2 million b each) have been fixed for the US, reopening an arbitrage route that had not been seen for several years.

Chinese companies account for a much smaller percentage of DME-delivered crude than the MOG destination data implies, as many trading houses and financial institutions resell Oman crude into China. Chinese companies accounted for less than 25% of physical deliveries via the DME in 2015.

The following chart shows the typical end-user destinations of Oman crude oil at year-end.

Crude Oil Destination - December 2015



Oman Production

Oman's average daily production of oil and condensate is now typically above 1 million bpd, according to MOG figures, making Oman crude the largest single field among primary benchmark grades.

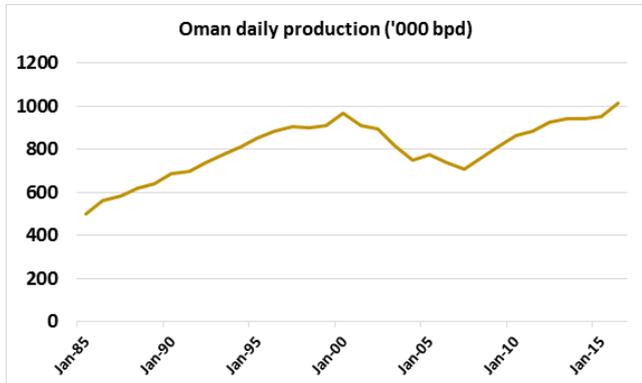
The sharp increase in Oman production in the last five years coupled with continuing declines in the North Sea means that Oman is now outstripping the total supply of BFOE (Brent, Forties, Oseberg and Ekofisk) -- the four grades that underpin the North Sea Brent/BFOE benchmark



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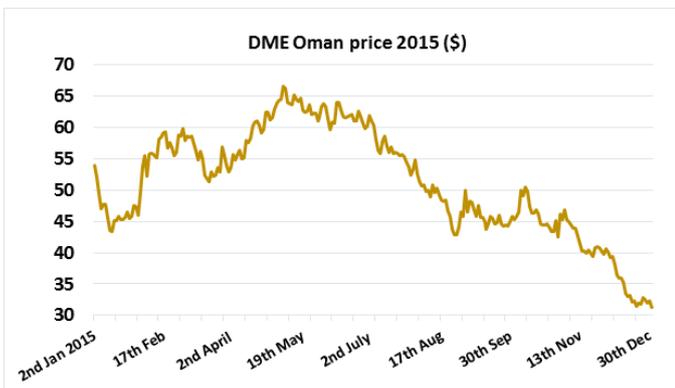


Oman was also the largest single grade nominated into the Platts Dubai mechanism, which in 2015 allowed for deliveries of Dubai, Oman and Abu Dhabi's Upper Zakum. Around 130 cargoes of Oman were delivered into the Dubai mechanism, which was approximately double the next largest grade – Upper Zakum at 66 cargoes, and Dubai a distant third with just seven deliveries.

Oman Prices in 2015

Oil markets in the Middle East rounded off the most turbulent year since 2008 by hitting fresh multi-year lows during the final week of December 2015, as prices plummeted towards the \$30 per barrel range as oversupply fears continue to ravage the market

Oman closed out the year at \$31.21, the lowest price recorded since the DME's flagship Oman contract was launched in 2007 and levels not seen for over a decade on similar Middle East grades such as Dubai and Upper Zakum.



Prices subsequently reached a low of \$23/b in January 2016, before recovering later in the first quarter. On an annual basis, Oman crude during 2015 lost a

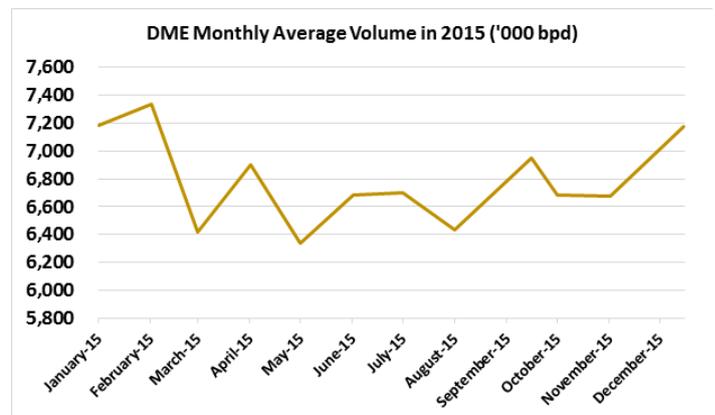
record \$45.74/b year-on-year, averaging \$51.22/b in 2015 compared to \$96.96/b in 2014 – which followed three record highs of prices averaging over \$100/b.

This was a fall of around 47% but from peak (\$111 in summer 2014) to trough -- and Middle East crude prices collapsed by over 70% from the highs.

2015 was dominated by major producers' reluctance to voluntarily give up market share, leaving pure economics to find equilibrium in the market.

The relatively high cost of shale oil means that US production was in decline during the second half of the year, but production proved more robust than some forecasters had expected.

Volumes



Volumes on the DME during 2015 were fairly consistent at 6,500-7,500 lots per day, with typical front-month Window volumes typically in the 3,000-4,000 lot range. Volumes trended still higher in the first quarter of 2016.