DME

Futures Insights

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Futures Insights

Review of trading and delivery data for the DME

Introduction

The following paper is a review of trading and delivery data for the Dubai Mercantile Exchange (DME) for the first half of 2015, with the aim of further enhancing transparency and examining some of the details behind price, volume and delivery data.

DME's flagship Oman contract is already the most transparent all-day crude oil pricing system available in the Middle East or Asia, with constant updates and an established five-minute trading window that is typically the most liquid trading period in Asia for setting crude oil benchmark prices. Due to confidentiality and regulatory guidelines, some data cannot be published.

This document will focus on a number of areas, including an activity report on the key five-minute trading window and on the Oman contract consolidating its position as the largest physical delivery of any energy futures contract in the world.

Window volumes (for Oman OSP)

The window refers to trading activity during the five-minute period running from 12.25-12.30pm Dubai time (4.25-4.30pm Singapore time), which underpins the Marker Price and is used in compiling Oman's Official Selling Price. 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 the first half of 2015, the DME had around 90 different entities trading on the Exchange.

While the DME's traditional customer base has been in the Middle East and Asia (particularly Singapore), the number of European and US based participants continues to grow. Typical front-month volumes are in the 2,500-4,000 lot (2.5-4mn bl) range, with activity spread among commercial and financial players.

The following data shows the top two most active commercial entities in terms of percentage of window trade over any given month.

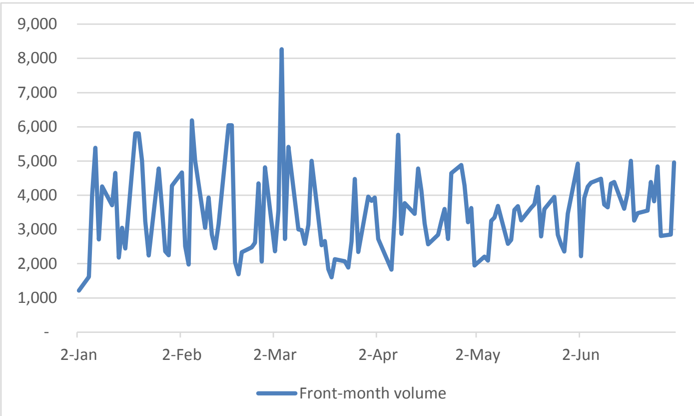
For reasons of confidentiality the names of the commercial trading entities cannot be published, but the data clearly demonstrates that no single entity comes anywhere close to what can be termed as a dominant position.

Month	Most active entity	Second most active entity
January	16%	5%
February	13%	10%
March	13%	5%
April	9%	6%
May	9%	7%
June	9%	4%

During the first half of 2015 the highest percentage of window trading activity by a commercial entity was 16% (during January), surpassing the 2014 high of 12% in December. In the second quarter of the year, no single commercial entity exceeded 10% of window activity, which is largely consistent with previous years.

It is worth noting that when a record 55 cargoes of Oman and Upper Zakum were delivered through the Platts Dubai mechanism during April, with one company dominating the buy side, the spread of DME customers remained very healthy with no participant accounting for more than 9% of price-setting activity.

Despite the unusually large physical positions seen in the Platts Dubai mechanism during the first half of the year, window volumes on DME remained remarkably consistent. The stability of DME window volumes relative to the large fluctuations in volumes in Dubai tends to disprove the theory that the volumes in the two price-setting mechanisms are correlated.



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Physical delivery and destinations

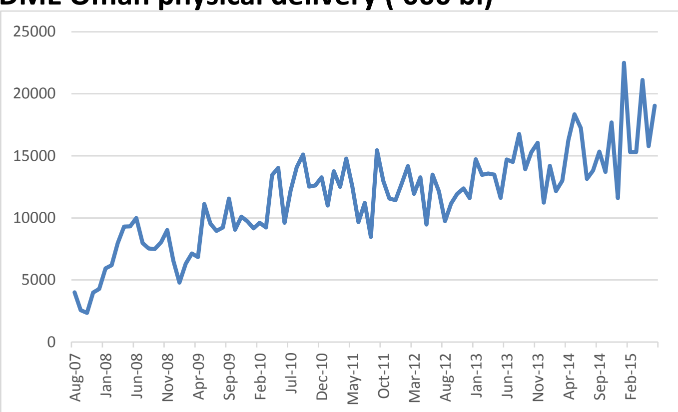
Over 40 different participants went to physical delivery on expiry during the six-month period, made up of International Oil Companies (IOCs), Asian refiners, global trading houses and, to a lesser extent, financial institutions.

DME does not publish a breakout of final destinations of crude delivered via the DME, but Oman's Ministry of Oil and Gas (MOG) publishes a detailed breakdown of delivery destinations. Asia was the destination for nearly all of Oman's crude oil production in 2015 with Chinese refiners by far the largest consumers according to figures from MOG. This came as China consolidated its position as the world's largest buyer of crude oil with imports regularly topping more than 7 million b/d and hitting a new record of 7.4 million b/d in April. China remained the dominant consumer of Oman crude oil with most months at least 70% of Oman crude was reported as 'final destination China'.

Chinese companies, however, account for a much smaller percentage of DME-delivered crude, with many trading houses and financial institutions reselling Oman crude into China. Chinese companies typically accounted for less 25% of physical loading via the DME, largely split among three primary Chinese lifters. Likewise, combined activity by Chinese companies averaged around 10% of DME price-setting activity in any given month.

Physical deliveries on the DME recorded the three highest ever delivery months in the Exchange's history during the first six months of 2015, including a record of over 22.5 million barrels on expiry of the March contract. This sets the DME on course for a record year of deliveries, with over 100 million barrels of Oman crude oil delivered through the Exchange in the first half.

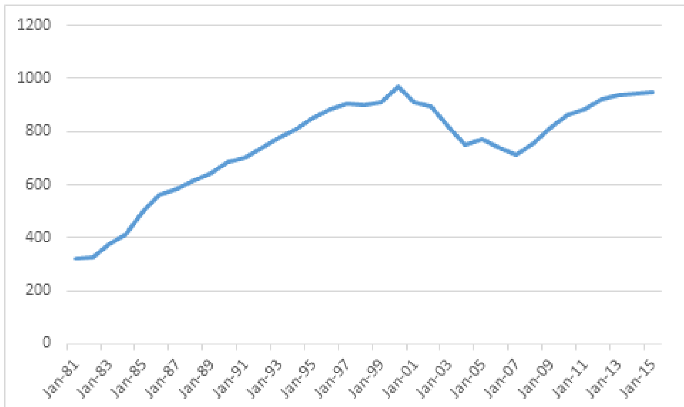
DME Oman physical delivery ('000 bl)



Physical lots delivered	
Year	Oman Crude
2007	17,203
2008	95,369
2009	104,380
2010	144,892
2011	145,377
2012	144,106
2013	169,357
2014	176,514
2015 (Jan-Jun)	109,044

Oman's average daily production of crude oil and condensate continued to push higher, reaching over 980,000/b in June of this year according to MOG figures and putting production back to the peaks of close to 1 million b/d fifteen years ago. The sharp increase in Oman production in recent 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.

Oman daily production ('000 bl)



Oman was also by far the largest single grade nominated into the Dubai physical crude oil mechanism, which allows for the delivery of Oman, Upper Zakum or Dubai. Around 80 cargoes of Oman crude were nominated into the Platts mechanism, although 49 of these were in a single month.

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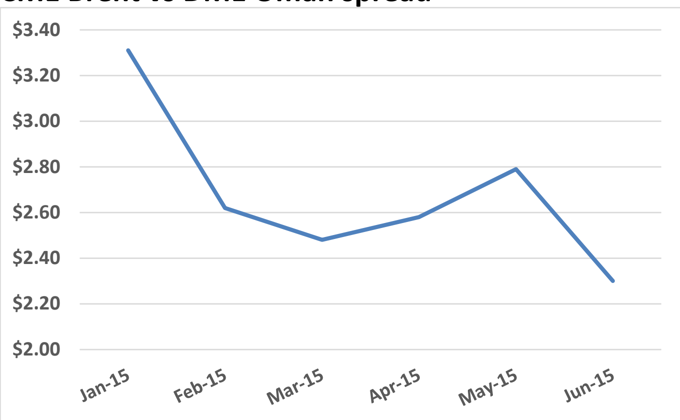
Market Structure and Spreads

Oman remained firmly in contango for much of the first half of the year, with the front-month spread averaging around minus $1/b in January, before improving to around minus 60-70 cts/b in the following months. Against the North Sea Brent crude benchmark, Oman started the year at over $3/b discount on fears of a Middle East overhang and significant inventory builds in Asia. But with the contango narrowing and alleviating fears of a stock build up, the Brent/Oman spread has since narrowed to under $2.50/b.

CME Brent vs DME Oman spread



1H 2015 prices in review

Front-month Oman marker prices traded in a range of more than $20/b, from a six-year low of $43.35/b in January, to a high of $66.19/b in May. The market was characterized by a return to volatility with the Marker Price moving by more than 2% (from previous Marker Price) on no fewer than 40 occasions. During the corresponding period of 2014, the Marker Price moved over 2% on the day on just two occasions.

January – Prices continue the sharp downtrend trend into 2015 with further heavy losses recorded during the first few days trading of the March delivery contract, hitting multi-year lows of u $43.35/b.

February – The rebounded strongly from the six-year lows recorded in January, pushing towards the $60/b following the sharp fall in the US rig count, plus the deteriorating situation in Yemen.

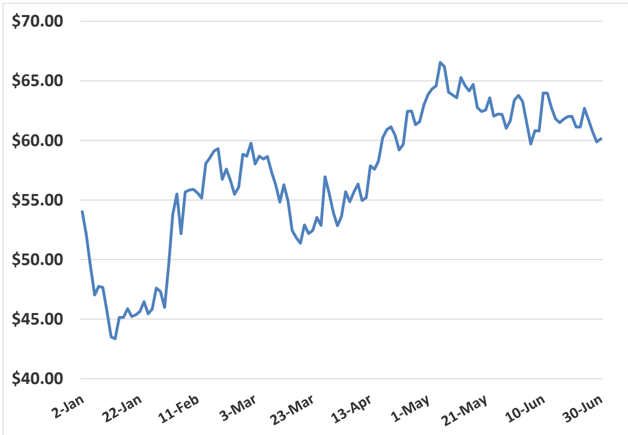
March – Oman prices hold in the mid-$50s per barrel as US production growth is forecast to flatten out, while lack of agreement on easing Iran sanctions provides further support.

April – Prices rallied strongly during on a combination of Middle Eastern geopolitical concerns and increasing signs that US shale oil production is levelling off, lifting prices above $60/b for the first time since December.

May – Oman hit a fresh yearly highs of over $66/b as further unrest in Yemen and Libya outweigh oversupply concerns, as Saudi Arabian production pushes well above 10 million b/d.

June – Surging OPEC production, the possible easing of Iran sanctions and the latest financial turmoil in Europe combine to ease prices back towards the $60/b range. Prices averaged $57.06/b in the first six months of 2015, compared to $105.05/b in the first half of 2014.

DME Oman



DME News in first-half 2015

06-Jan-2015 Mizuho Bank Becomes First Japanese bank to be approved to Issue Letters of Credit for DME from Singapore

12-Jan-2015 33 % Growth in Trading Volumes Recorded by DME in 2014

21-Jan-2015 ING Bank N.V. Approved to Issue Letters of Credit for DME Trading from Singapore

31-Mar-2015 DME Reaches Significant New Milestone of 8 Billion barrels Traded on the Exchange

29-Jun-2015 DBS Bank Singapore Receives Approval to Issue Letters of Credit for Trading on DME