



**DME**



# **Futures Insights**



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## Diversity the key to DME Oman oil contract success

### Introduction

As part of the Dubai Mercantile Exchange's (DME) ongoing efforts to enhance transparency on its flagship Oman crude oil contract, this article updates previous data published by the DME and highlights the diverse participation in trading of the Middle East's primary benchmark crude oil.

### Trading and price formation on the DME

The key DME trading activity during the day takes place during the five-minute period running from 12.25-1230pm Dubai time, which is colloquially known as the DME Window.

The average price of this trading activity underpins the DME Marker Price and is used in compiling the Oman and Dubai governments' Official Selling Price on term contracts to customers.

A successful pricing mechanism needs sufficient liquidity underpinned by wide base of industry participants and not biased towards any one sector of the industry. Nor should it be dominated by a single trader, or small band of traders, as such activity can lead to a disconnect in pricing.

So far this year over 120 entities have traded on the DME, of which over 90 are companies totally independent of each other. These are 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.

Focusing on the commercials, the International Oil Companies (IOCs), Asian refiners, banks and commodity trading houses typically account for the largest share of DME Window volume. The largest single trader had around 10% of total market share so far in 2015, which is well below any threshold that could be considered a dominant position.

With almost 100% of Oman crude having a final destination of Asia during 2015, Asian-based entities feature strongly.

Among Asia-based participants, Chinese companies accounted for around 8.5% of price-setting activity

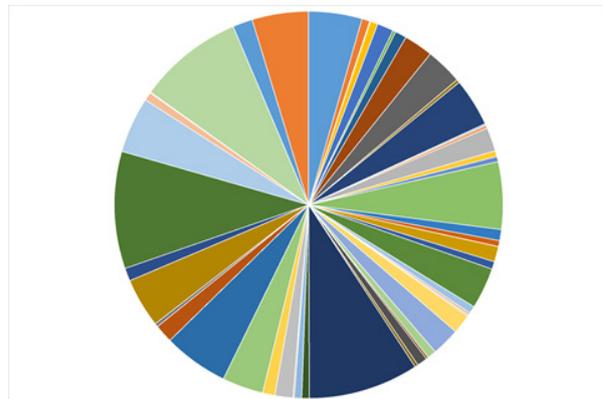
during 2015, beating the nearest rival in terms of country, Japan, which came in with an average 6% share of DME Window activity.

Cumulative activity among the three major Chinese companies averaged above 10% in the first four months of the year, but eased off in the June to September period, meaning that in two of these months Japanese volume topped Chinese.

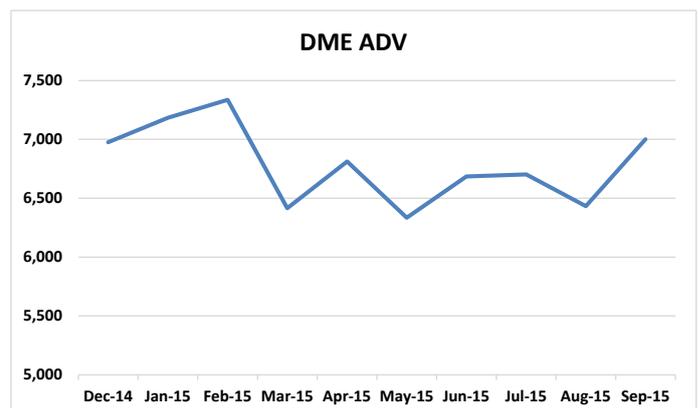
With Oman crude oil a recognized key benchmark grade for the Middle East and Asia, the international commodity trading houses take a keen interest in the grade in both the form of term barrels direct from Oman's Ministry of Oil and Gas and trading on the DME.

While trading houses are behind a healthy volume of the DME's liquidity, on only one occasion so far this year has the volume of a single trading house exceeded 5% of the overall window volume in any given month.

### SHARE OF DME PRICE DISCOVERY BY CUSTOMER



Volumes on the DME during 2015 have been fairly consistent at 6,500-7,500, with typical front-month Window volumes in the 2,500-4,000 lot range.





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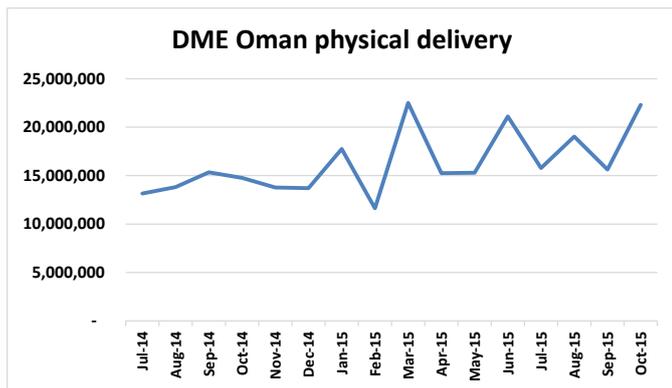
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### Physical delivery and destinations

Over 40 different participants went to physical delivery on expiry during the first eight months of 2015, made up of 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 three occasions, including a record of over 22.5 million barrels on expiry of the March contract.

To date 176 million/b have gone to physical delivery in 2015, topping the previous annual record of 175 million/b in 2014.



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.

In all but two months this year China has accounted for at least 70% of Oman crude exports, while Japan, Thailand, Taiwan, South Korea, India, Tanzania, Singapore and Sri Lanka have all featured as end users.

Chinese companies, however, account for a much smaller percentage of DME-delivered crude, with many trading houses reselling Oman crude into China. Chinese companies accounted for under 25% of physical loading via the DME, largely split among the primary Chinese lifters, with Japanese companies coming in second.

The DME is an internationally regulated exchange, which in today’s volatile and often uncertain marketplace, adds another layer of assurance for oil producers and consumers across Asia.

Such a diverse and regulated market will ensure that the Oman crude will retain its position as the region’s top grade for trading and price discovery.

### DME latest news

**31 - Aug - 2015 DME sets a new Open Interest record for Oman Crude Oil Futures of 27.1mn barrels**

**28-Aug-2015 Oman Tank Terminal Company (OTTCO) Launches Floating Storage Facility in Oman**

**15-Jul-2015 Bank of China to Issue Letters of Credit for DME Trading from Singapore**

**07-Jul-2015 DME and ADX Sign MoU to Drive Development of UAE & Regional Capital Markets**

**06-Jul-2015 Nanhua USA Becomes First China-headquartered Clearing Member of DME**

# COMING SOON

