DME

Review of trading and delivery data (2014)

Review of trading and delivery data for the DME

The 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 a crude oil benchmark. This document sets out to further enhance transparency by highlighting some of the dynamics behind the trading activity.

Due to confidentiality and regulatory constraints, some detailed data has to remain confidential but for the purpose of this paper, the data from calendar year 2014 has been analyzed with a sufficient time delay to minimize the risk of publishing client-sensitive data. All care has been taken that no client-confidential data has been published.

The document will focus on a number of areas that in the past have not been published, including an activity report on the key five-minute trading window and greater detail on DME physical delivery, which is the world’s largest physical-delivery oil futures contract. The paper will also look at general market trends and the fundamentals driving prices during 2014.

Window volumes (for Oman OSP)

The window refers to the period of trading activity during the five-minute period running from 12.25-1230pm Dubai time, which underpins the Marker Price and which is the basis for Oman and Dubai’s Official Selling Prices.

A combination of commercial companies, typically entities that have a presence in the physical oil markets, and financial entities such as professional proprietary traders and funds, take part in settlement trading. Commercial entities are typically made up of international oil companies (IOCs), national oil companies (NOCs), commodity trading houses and banks. In 2014, the DME had more than 90 different trading companies trading on the Exchange. To date the DME does not have significant participation by retail customers.

While the DME’s traditional customer base has been in the Middle East and Asia (particularly Singapore), a growing number of European-based participants are trading the settlement window and related instruments, including the Trade at Marker contract (TAM), launched in July 2014.

The front-month DME contract often traded in excess of 5,000 lots (equivalent to 5mn bl of Oman crude oil) during 2014, although volumes typical fall below 1,500 lots ahead of expiry and going into the last days of the month. Activity is spread among commercial and financial players.

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Window Volumes (for Oman OSP)

[redacted]

The following data shows the top two positions from commercial entities in terms of percentage of window trade over any given month, as commercial companies are those that have the ability to go into physical delivery. For reasons of confidentiality the names of the commercial trading entities cannot be published in the following box, but what the data clearly demonstrates is that no one entity comes anywhere close to be what can be termed as taking a dominant position.

	1)	2)
JANUARY	8 %	7 %
FEBRAURY	5 %	4 %
MARCH	6 %	5 %
APRIL	5 %	4 %
MAY	4 %	3 %
JUNE	6 %	4 %
JULY	5 %	4 %
AUGUST	7 %	5 %
SEPTEMBER	5 %	5 %
OCTOBER	12 %	6 %
NOVEMBER	7 %	7 %
DECEMBER	11 %	7 %

During 2014 no commercial entity was behind more than 12% of window trading activity in any given month, which shows that the DME is not used as a vehicle to build unusually large positions, which may be termed by a regulator or the wider market as a dominant position. The figures from 2014 are consistent with previous years.

Physical delivery and destinations

Over 30 different participants went to physical delivery on expiry during the 12-month period, made up of IOCs, Asian refiners, global trading houses and to a lesser extent, financial institutions. China furthered its position as the dominant consumer of Oman crude oil with at least 60% of deliveries marked as 'final destination China' in any given month. Chinese companies, however, account for a much smaller percentage of DME delivery, with many trading houses or financial institutions reselling Oman crude into China.

Physical deliveries on the DME are typically in the region of 12-15 million barrels, which is over half of Oman's export program, and the record in 2014 was over 18 million barrels for May delivery. This record was subsequently overhauled on the January 2015 expiry, with over 22 million barrels scheduled for delivery in March.

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. At the time of writing full year's data up to 2013 was available, which underlines the growing influence of China in the Asian market and its demand for Oman crude.

Oman Destinations (by percentage)

	2010	2011	2012	2013
China	41	46	50	59
Japan	14	10	14	10
Taiwan	5	4	12	9
Thailand	11	8	4	6
India	14	12	2	5
Singapore	4	4	7	4
South Korea	6	7	7	2
Sri Lanka	0	0	0	2
New Zealand	0	0	2	0
USA	3	5	0	0
South Africa	0	2	0	0
Others	2	2	2	3
Total	100	100	100	100

Asia was the destination for nearly all of Oman's crude oil production in 2014 with Chinese refiners by far the largest consumer, according to figures from MOG.

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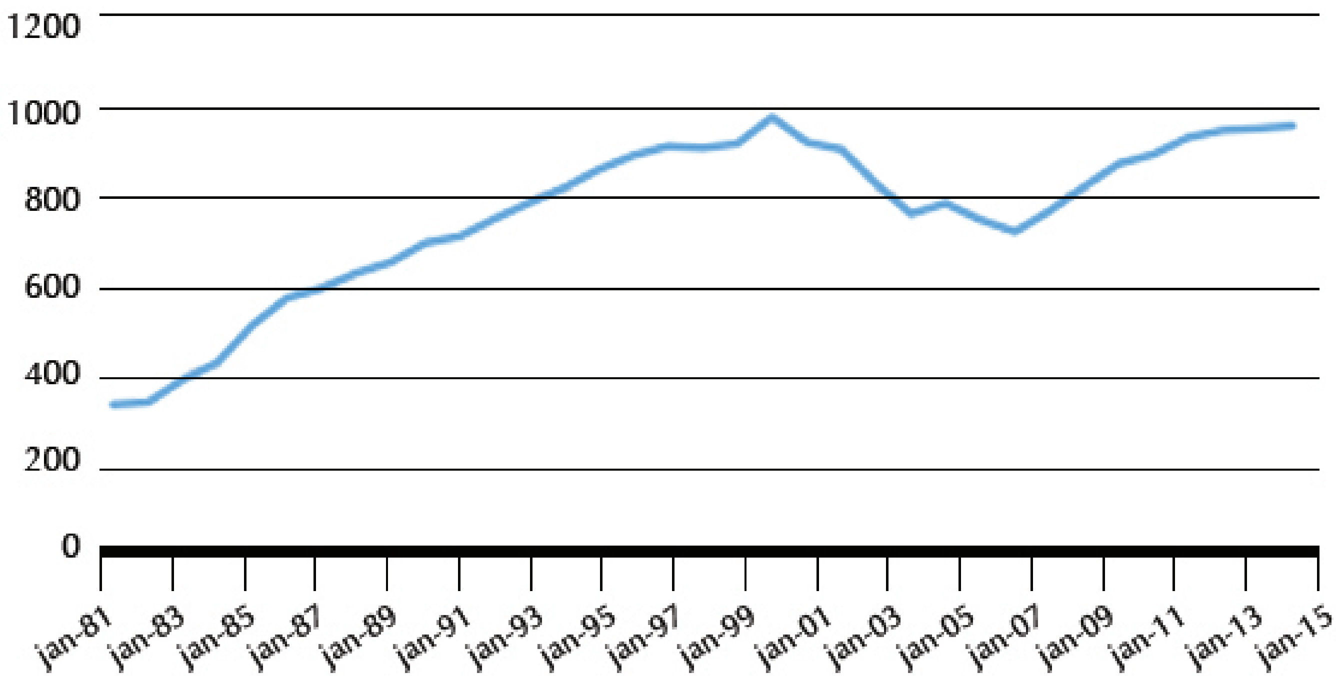
[redacted]

Oman's average daily production of oil and condensate stood at 944,500 barrels in 2014 according to MOG, a slight increase from 2013, with further growth forecast for 2015. 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

Oman was also the largest single grade nominated into the Dubai mechanism, which allows for deliveries of Dubai, Oman and Upper Zakum. Out of 129 convergences, in 2014 there were 67 Oman, 62 Upper Zakum and 2 Dubai cargoes – including a record 47 convergences for December-loading to a single entity. In the second half of the year, the relative weakness of Upper Zakum compared to Oman meant that Upper Zakum was increasingly establishing the Dubai price and this trend continued into early 2015.



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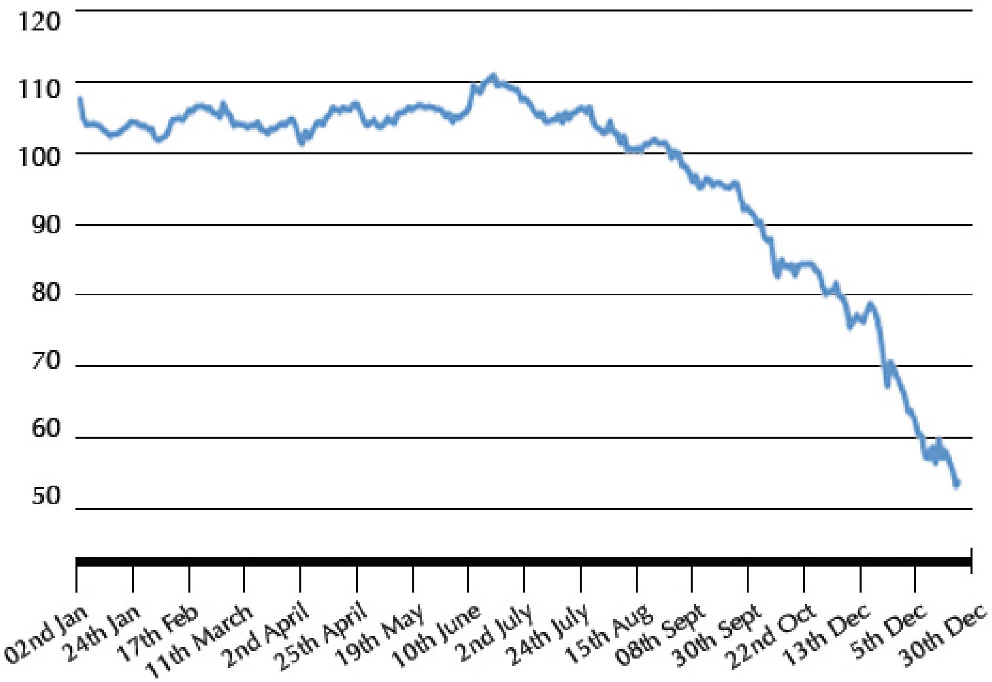
The closing price for 2014 of $53.76/b was the lowest since May 2009, representing a fall of more than 50% from the yearly peak of $111.18/b on June 23, and also down 50% from the December 2013 close. The peak of the year coincided with the ISIS-lead conflict in Iraq, prompting fears that the Iraqi crude exports could be seriously impacted -- but ultimately these fears proved unfounded as the conflict failed to reach the main crude production and export facilities in southern Iraq.



The summer also saw major tensions between Russia and Ukraine plus the stop/start Libyan oil exports, which both provided strong support for oil prices.

But it was OPEC's acknowledgement that the US shale boom was a major threat to the oil producers' group -- which could eventually trigger a long-term price collapse -- that had a far greater impact on oil prices than any geopolitical concerns during 2014.

Having spent the first half of the 2014 in a tight range of $101-$107/b, prices went into retreat during the summer followed by freefall in the final quarter of the year.

OPEC's strong stance against cutting production and opting for maintaining market share set the tone for the second half of the year, particularly OPEC's decision at its November meeting to maintain production at current levels – pushed prices down to around four-and-a-half-year lows.

The oil price slump meant the lowest annual DME average since 2010

		Change
2007	75.5	
2008	94.32	18.82
2009	62.07	-32.25
2010	78.29	16.22
2011	106.65	28.36
2012	109.3	2.65
2013	105.48	-3.82
2014	96.96	-8.52

Market Structure and Spreads

In the months of March to July 2014 the market remained firmly in backwardation with the average for the front-month spread at $0.28-0.45 range, but the flat-price slump saw the market slip into contango by September (averaged minus $0.50/b) with the average front-month spread widening to more than minus $1/b by December.

Against the North Sea Brent crude benchmark, Oman averaged around $2.70/b over the year, but on a monthly average basis the spread could fluctuate between $1.50 and $3.50.

Volumes

DME volumes averaged 8,431 lots per day in 2014, an increase of 33% year-on-year and the DME's strongest performance to date. During the year, DME set records in every aspect of the DME Oman contract with record daily and monthly volumes, record physical delivery, record EFP (Exchange Futures for Physical) activity, and record open interest in addition to record marker windows. In December, DME average daily volume (ADV) was 6,975 lots (7.0mn bl), which was 9% up year-on-year. Physical delivery for February loading was 11.6mn bl while EFP/EFR (Exchange for Risk) volumes were 7.8mn bl.

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2014 Performance Highlights:

- Record Volume Traded:
  14,873 on 25th November 2014. Previous high was 14,282 on 26th February 2014

- Record Window Volume:
  6,511 on 26th February 2014. Previous high was 5,951 on 12th February 2014

- Overall DME Record ADV
  10,764 in February 2014. Second high was 9,334 in April 2014

- Record Physical Delivery
  18,355 in March for May 2014 delivery. Second high was 17,238 in April for June 2014 delivery

- Record Volume Traded
  18,922 lots on 18th February, 2014. Previous high was 16,732 lots on 21st January, 2014

[redacted]

- Overall DME Record ADV:
  10,764 in February 2014. Previous high was 8,162 in January 2014

- DME Oman traded above $110 per barrel:
  during the 5-minute settlement window on 18th June 2014

2014 prices in review

[redacted]

January
Prices eased slightly in the first month of the year, falling below $105/b on talks that Iran would curb its nuclear program, which could trigger an easing of sanctions.

February
The extended US winter saw global stock levels tumble and push prices back above $105/b, although Asian demand remained relatively sluggish

March
Oman held around the $105/b level as a brewing political crises between Russia and the EU/US over the fate of Crimea prompted fears of supply disruptions

April
Little change in prices as the geopolitical concerns were cancelled out by the sharp build in US oil inventories.

May
Deteriorating situations in Ukraine and Libya saw Oman crude edge higher

June
Oman at yearly highs above $110/b as a wave of violence hits Iraq

July
Prices eased back as Iraq exports were maintained, but the Oman OSP saw a 24th consecutive month above $100/b

August
Summer price slide extended as demand forecasts were cut, but Oman crude holds above $100/b.

September
Summer price slide extended as demand forecasts were cut, but Oman crude holds above $100/b.

October
Prices retreat sharply as OPEC shows no sign of curtailing production in the face of tumbling prices, prompting speculation that OPEC kingpin Saudi Arabia is the main architect of the price reversal.

November
Was dominated by the most important OPEC meeting for many years. Crude stabilized in the $76-78/b range heading into the meeting, but after OPEC made it clear there was no intention to curtail production prices tumbled another $10/b in the following days

December
The second half of the year price collapse was completed as crude dropped more than 20% on the month to under $55/b. OPEC makes it clear there will be no rethink in its policy to maintain market share, regardless of price.

Dubai Mercantile Exchange
P.O. Box 66500
DIFC Gate Village, Building 10
Dubai, United Arab Emirates
Tel: +971 4 365 5500 | Fax: +971 4 365 5599
customerrelations@dubaimerc.com