

Review of the new expiry procedure by DME



The new expiry procedure was used for the first time on February 29, 2016, where the M2 May window was used to derive the M1 Market price for April on expiry day (see <http://dubaimerc.com/changes-expiry-day> notice for details).

A Price Adjustment Factor (PAF) was used to measure the M1-M2 value and the first PAF was set at $-\$0.87$, which was consistent with the prevailing April/May contango.

The $-\$0.87$ PAF was derived from the average of the three previous days' April/May spreads; $-\$0.80/-\$0.80/-\$1.01$.

Over 800 lots traded ahead of and during the 12.25-12.30pm pricing window, which is around double the typical volume seen on expiry day.

The volume was spread between M1 outright, M2 outright, plus Trade at Marker (TAM) screen and blocks for the M1 contract.

We expect in future that the volumes traded on M1 will migrate into the M2 contract on expiry day.

Narrow trading ranges on expiry day

Nearly all of the M2 volume was traded 10cts/b either side of the $\$31.72$ M2 Marker Price – making it the least volatile expiry window we have seen. Under the previous methodology, the trading range was over $\$4/b$ around 30% of the time on expiry day during 2015.

April TAM was traded consistently on screen at $\$0.01$ and $+\$0.01$ for much of the morning session, reaching a low of $-\$0.30$. TAM blocks posted by brokers were traded $\$30.88$, the equivalent of $\$0.03$ over the April Market Price. Around 95% of screen TAM + TAM blocks were transacted within $\$0.03$ of the settlement price.

The April Oman contract was settled at $\$30.85/b$ ($\$31.72$ minus $\$0.87$) or $\$0.95$ above April Dubai, which was also consistent with the monthly average of $\$0.93$ over Dubai.

In conclusion, the amended expiry methodology lead to a much less volatile pricing environment on expiry day and a smooth M1-M2 roll procedure. The DME will continue to monitor further final-day contract activity and welcomes any feedback from market participants.

