Change to DME Oman Expiry Day

DME closed the consultation process on changes to the way that the Marker Price is calculated on Expiry Day on 13 January. Thank you to all the firms that commented.

Feedback was positive and so DME will move ahead with the changes from February 2016 (for the expiry of the April 2016 OQD contract).

From February 2016 onwards, the front-month (M1) Marker Price on Expiry Day will be calculated using the Marker Price, or weighted average price, of second-month (M2) trades in the settlement window from 16:25-16:30 Singapore time, adjusted by the average of the previous three day's M1/M2 spread.

This adjustment will be referred to as the Price Adjustment Factor (PAF) and will be derived from the M1 versus M2 spread in the three trading days prior to Expiry Day. The PAF will be sent out as a Member Notice one trading day prior to Expiry Day.

From February 2016 onwards, DME will also open the Trade at Marker (TAM) market in M1 on Expiry Day.

Example (April OQD):

Trade Date	M1 Marker	M2 Marker	M1-M2 Spread
Wednesday 24 February	\$25.05	\$26.00	-\$0.95
Thursday 25 February	\$24.50	\$25.20	-\$0.70
Friday 26 February	\$24.00	\$24.60	-\$0.60
Price adjustment factor (PAF)	-\$0.75 *(average of previous three days; sent as Member Notice)*		
Monday 29 February	M2 Marker Price is \$24.25		
(March OQD Expiry Day)	PAF was previously announced at -\$0.75		
	M1 Marker Price will be \$23.50 *(= \$24.25 – \$0.75)*		
	M1 TAM will settle at \$23.50		
	Final settlement will also be \$23.50		

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I always need to buy 100 lots of M1 on Expiry Day, how will I do this in future?
A firm that needs to buy 100 lots of M1 on Expiry Day will most likely buy 100 lots of M1 TAM as early in the trading day as possible. It will also still be possible to buy lots in the M1 flat-price market but DME cannot guarantee how liquid the M1 flat-price market will be on Expiry Day. M1 flat-price trade will not be taken into consideration for the Final Settlement so we anticipate that existing flat-price liquidity will transfer into TAM on Expiry day. The firm may choose whether or not it wants to manage its price exposure by trading in the M2 settlement window.

How does DME establish the M1-M2 spread in the three days before Expiry Day?
The front-month (M1) Marker Price on Expiry Day will be calculated using the Price Adjustment Factor (PAF) with a tiered methodology.

The Price Adjustment Factor (PAF) will use a volume-weighted average of spread trades in the M1-M2 spread during the five- minute marker window.

If there is insufficient liquidity in the M1-M2 spread to derive a representative value, then DME will take the volume-weighted average of trade in the M2 Marker and subtract the M1 Marker.

If there is insufficient liquidity in the M2 Marker to derive a representative value, then the Exchange will use other market correlations and indicators such as bids and offers to establish fair value.

The Exchange retains the right to exclude non-representative trades from the spread calculation.

The PAF will be sent out as a Member Notice one trading day prior to Expiry Day.

How do I register to receive notification of the Price Adjustment Factor (PAF)?
The PAF will be sent out on the trading day prior to Expiry Day to customers who have registered to receive DME Member Notices. Registration can be done here or by emailing customerrelations@dubaimerc.com.

I have sold TAM on Expiry Day but I do not want to go to physical delivery.
An open TAM position in M1 will become an M1 position at expiry and will therefore lead to physical delivery. Participants that do not want to go to physical delivery should avoid holding a front-month TAM or flat-price position on Expiry Day as they may find it difficult to close their position.

I have missed buying or selling 5 lots on Expiry Day and need to cover my position.
The change in settlement methodology does not change the mechanics of Expiry Day and the need for caution ahead of physical delivery. A full guide to how DME Expiry Day works and the EFRP mechanism is available here.

I am concerned about volatility in the M1-M2 spread ahead of Expiry Day.
DME decided to use the previous three-day average of the M1-M2 spread in order to limit the impact of outlying activity on any one particular day. Market participants will be fully aware of the Price Adjustment Factor (PAF) ahead of Expiry Day. This will allow participants to trade M1 TAM and M2 flat price with the PAF already incorporated into their calculations of fair value.

I buy 50 lots every day on DME but I typically bought 100 lots on the day before expiry. Will I no longer need to follow this strategy?
The revised Expiry Day methodology should smooth the pricing process on Expiry Day, while the introduction of M1 TAM on Expiry Day will reduce execution risk. DME expects liquidity on Expiry Day to improve under the new methodology.

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