
DME

# OQD - 2019 Review

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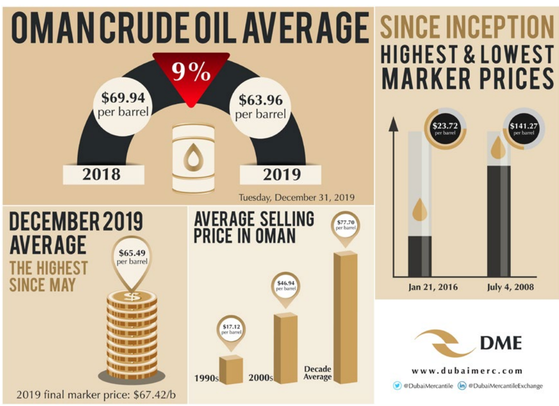
**Highlights**

- Decisive OPEC+ action supports Oman prices, particularly in Q4
- Narrow Brent/Oman spread a theme throughout the year
- Middle East copes with IMO 2020 bunker fuel transition
- KPC latest National Oil Company to incorporate DME Oman into pricing

**Overview**

Oman crude trading on Dubai Mercantile Exchange in 2019 averaged $63.96/b, down from $69.94/b the previous year. The December average of $65.49/b was the highest since May's $69.80/b, underpinned by decisive action from the OPEC+ group of producers in committing to deeper cuts and stave off fears of an oversupply in the market.

Year-on-year, the final DME Marker Price for the year of $67.42/b represented a 26% increase on the corresponding year-end 2018 Marker Price of $53.38/b.




Much of 2019 was characterized by competing pricing signals, including fears over the global economic slowdown and record production of US shale crude, versus the more bullish factors of geopolitical uncertainty in the Middle East and rearguard action from the OPEC+ group to keep demand/supply fundamentals in balance and prevent a major price retreat.

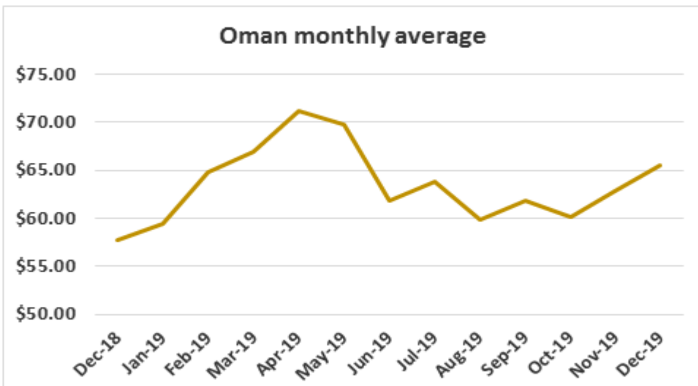
In price terms the high-point of the year came in late April when upbeat sentiment lifted DME Oman to just shy of $75/b – a continuation of the first-quarter rally which had initially registered the 2019 low of $52.18 on the very first trading day of the year.

But fears of a global economic slowdown lead to a sequence of cuts to demand-growth forecast from the likes of the International Energy Agency and OPEC, setting the tone for a more downbeat picture going into the summer and the third quarter. In addition, record US shale production further heightened the gloomier outlook for crude oil prices.

However, the biggest price move came in the wake of the September 14 drone attacks on key Saudi Arabian oil processing facilities, sending shockwaves through global oil markets as traders reacted to the single largest disruption event ever with 5.7 million barrels of crude per day -- or over 5% of the world's supply - taken out of circulation.

The international Brent benchmark initially spiked almost 20% to reach a high of more than $70/barrel, but as Saudi Aramco issued reassurances that supplies to customers would be largely maintained, prices calmed by time Middle East markets started to trade.

DME Oman rallied 15% in two days to hit a then four-month high of $68/b, before markets largely reversed the gains in the following few days as it became apparent the disruptions would not be nearly as severe as many traders initially feared.



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Over the longer term, Oman averaged $77.70/b during the past decade, compared to the average selling price for Oman of $46.94/b the 2000s and the 1990s average of $17.12/b.

**Brent/Oman price inversion**

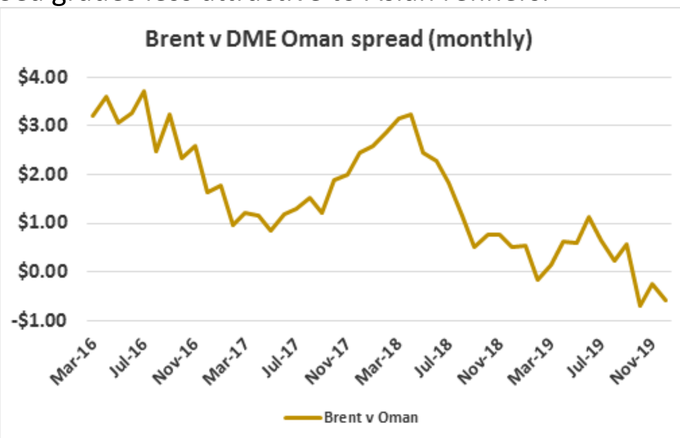
2019 was marked by the unusual phenomenon of Oman regularly trading at a premium to Brent, particularly in the fourth quarter of the year - defying many forecasts that the Brent/Oman spread would widen ahead of the IMO 2020 transition period as demand for lower-sulfur crudes increases.

The new IMO 2020 mandates the shipping industry to switch away from 3.5%-sulfur bunker fuel in favor of the cleaner 0.5%-sulfur grade.

Historically Brent has traded a comfortable premium to Oman and other similar medium sour crudes from the Middle East, but during 2019 that premium has averaged around $0.25/b and has been in negative territory for much of the fourth quarter.

The long-term losses of Iranian and Venezuelan exports due to sanctions, plus relatively healthy Asian demand for medium sour barrels has generally supported the Middle East market, while the OPEC+ action to curtail supplies has prevented a build-up of inventory.

On the flip side, Brent has lost relative value as it faces increasing competition from surging US exports, while expensive freight in Q4 made North Sea grades less attractive to Asian refiners.




**Middle East Benchmarks**

Two of the Middle East's most important crude oil producers - Abu Dhabi and Kuwait - both announced a major overhaul in the way it sells crude to Asia customers in future.

Kuwait announced in December it would become the latest Middle East government to incorporate DME Oman into its OSP joining Saudi Arabia, Oman, Bahrain and Dubai, starting February 2020.

The new pricing formula will follow Saudi Aramco's 50:50 Dubai/DME Oman for sales into Asia.

Abu Dhabi's ADNOC meanwhile announced that it will list its own futures contract for the flagship Murban grade.

Launch date is expected late Q2 or early Q3, and is expected to be implemented for benchmark pricing on a number of ADNOC grades, including Murban, Upper Zakum and Das crude.

Additionally, smaller-producer Qatar has informed customers it will start pricing its crude oil grades of Qatar Marine and Qatar Land on a forward pricing basis in February 2020.

2019 presented a number of unprecedented challenges to the markets in terms of regulatory change and geopolitical uncertainty, but Middle East oil benchmarks proved robust pricing references for the global market.

As the Middle East moves increasingly towards a futures pricing model, the region will not only cement its place the world's key production region, but also as a global trading hub.