

# FUTURES INSIGHTS

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## Five key themes for Middle East crude markets

The Middle East crude markets look set for further volatility in 2024, extending a period of heightened volatility in 2023. The call on OPEC production is largely seen as declining to deal with the slowing demand situation across Asia whilst other producers such as the U.S produce at record rates exporting higher volumes to Europe which has suffered the loss of Russian exports.

Supply/demand uncertainties look set to continue to persist following recent events in Israel and Palestine coupled with the latest military action in the Red Sea against the Houthi's in Yemen which could threaten a broader conflict affecting larger parts of the Middle East.

Absent any wider escalation in events emanating from Israel and a major escalation in the Red Sea, oil demand is expected to continue to weaken in 2024 which should cap oil prices below the \$80 per barrel level.

### Chart 1: Crude oil prices – further volatility expected in 2024



## There are several key things to watch in the market for 2024.

OPEC is expected to continue its efforts to rebalance the global oil market amidst weakening demand. China remained an important buyer of Omani crude oil in 2023 and looks set to remain the case for 2024.

The battle for market share between OPEC and other non-OPEC producers looks set to intensify in 2024. The U.S is reporting increases of 1.2 million barrels per day by the end of 2024 at the same time as OPEC looks set to continue cutting production to support prices.

The volume of exports to Europe from the U.S has increased rapidly as refiners try and secure alternative supplies to offset the cessation of Russian export flows.

Volumes of **crude oil delivered** via **Dubai Mercantile Exchange** has been a key feature of the Middle East crude market in 2023 with volumes rising to a record level of 21.8 million barrels per delivery month, an increase of around 22% year on year compared to 2022.

Crude deliveries for the November 2023 contract month, for January 2024 delivery reached a record 24 million barrels of oil plus a further 4.2 million barrels for trades concluded as an Exchange of Futures for Physical (EFP).

Spot Month Trading volumes also reached over 800k contracts, just 4% under all-time highs set in 2018 when physical volumes were 24% higher, a clear indication that DME Oman has become a tradable futures benchmark correlating with other crude oil benchmarks, giving the trading community a solid East to West Crude Oil portfolio as a liquid risk management and speculative solution.

**Energy transition** is expected to feature more strongly in 2024 and beyond with the Omani government having announced ambitious plans to scale its hydrogen markets to reach one million tons per year by 2030 and aiming to reach 7.5 million tons by 2050.

The local state-owned enterprise, Hydrogen Oman (Hydrom) signed six investment agreements worth \$38 billion in 2023 and further investments are likely in the future.

Trading in the **light sweet/sour crude** spreads looks set to remain volatile following a period of sharp price moves in 2023.

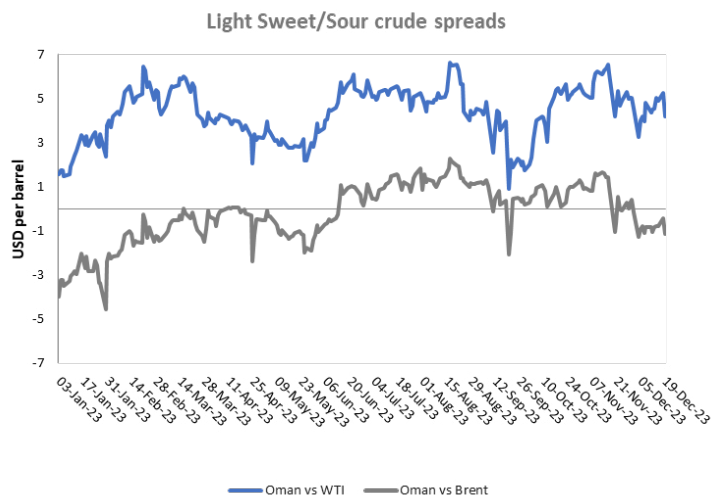
Crude flows from the U.S, Russia and the broader Atlantic basin to Asia have increased which has resulted in fewer cargoes being shipped into the region from the Middle East.

These dynamics have ensured that the crude spreads between the light sweet crudes such as WTI and Brent.

Further trading of the spreads is expected in 2024 as traders look to manage the flow of crudes priced off both WTI and Brent into the Asian markets.

The five items above are just an excerpt from a long list of shifts in the coming year. Change is a constant in the energy market, creating endless opportunities and challenges for companies, consumers, traders, and investors. No matter your corner of the energy market, 2024 looks set to have something for everyone.

**Chart 2: Sweet/Sour crude spreads**



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