FUTURES INSIGHTS

Issue 43 - July 2023

AUGUST CONTRACT

OSP
$74.78

TOTAL DELIVERY
19.163
MILLION BARRELS

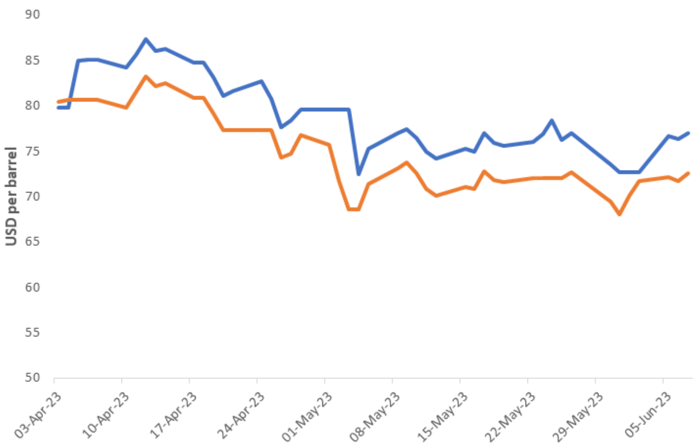
TOTAL EXCHANGE VOLUME
105,314
CONTRACTS

ADV
4,787
CONTRACTS

Oil markets continued to focus on the outlook for demand as the global economy showed further signs of weakening despite the re-opening of the Chinese economy at the beginning of 2023.

The rebound in Chinese oil demand has yet to fully materialise and this has had a negative impact on oil prices. OPEC announced an unexpected cut in production at the beginning of April of 500,000 barrels per day and a further cut of 1 million barrels per day (for July) in early June.

Global crude oil prices declined around $10 per barrel between the start of April and early June as traders weighed up concerns about the demand outlook for oil.



Crude prices weaken despite OPEC cuts

Middle East crudes under pressure from growing Asian imports of U.S crude

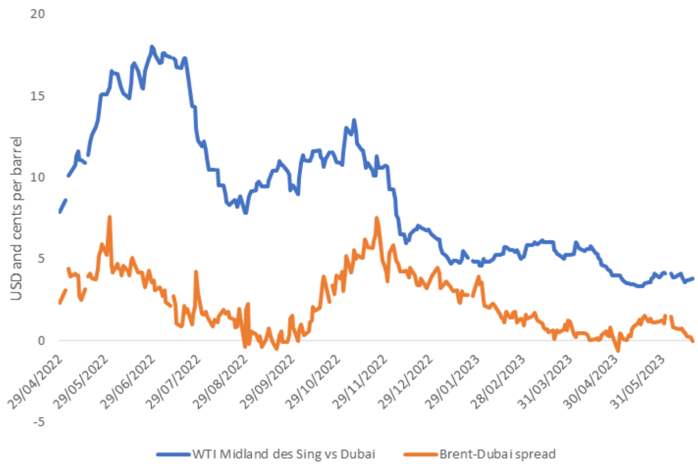
The price of sour crude remains strong compared to the alternative grades trading in the Atlantic basin. The effect has been that sweet/sour spreads have continued to weaken, providing further support for the sweet crude market.

The spread between WTI Midland and other grades in the Middle East such as Dubai or Oman have fallen further.

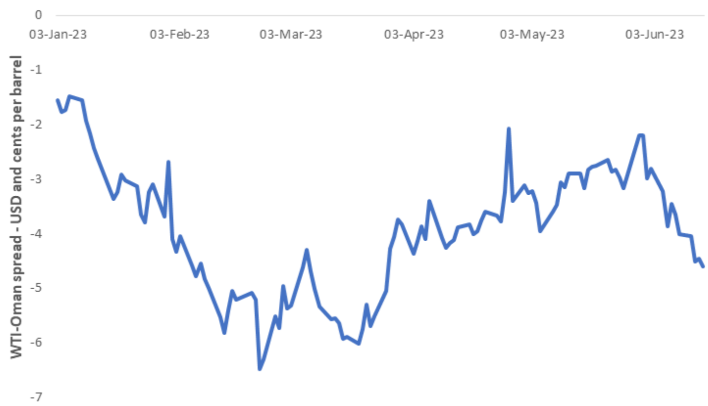
Exchange data shows that the spread between WTI on a delivered basis in Singapore and Dubai traded close to $3.80, a fall of around $9 per barrel from the levels seen in Q4 2022. Similarly, the much-watched Brent-Dubai spread was traded close to zero from around $6 per barrel in Q4 2022. Prices at these levels imply that the arbitrage for U.S crudes to Asia is open. Brent prices traded close to parity with Dubai in another supportive move for Atlantic basin crudes oils moving out to refiners across Asia-Pacific.

Naphtha crack spreads in Asia remain at low levels on weakening demand. Singapore crack spreads traded around -$20 per barrel, the lowest level so far in 2023.

This is one of the headwinds that may affect the flow of higher volumes of sweet crudes into the Asia-Pacific region.



Prices in the Middle East has also come under pressure from declining crude prices in the Atlantic basin. The spread between NYMEX WTI and the DME Oman crude oil futures at the Singapore close fell to -$4.50 per barrel, the lowest level for over 3 months.



WTI takes the global stage

A fundamental change happened in the crude oil market in early May 2023 when S&P Global Platts permitted the delivery of WTI Midland into the Brent crude oil market.

The change will alter the way that the North Sea crude oil market is traded with oil traders managing risk on an increasingly large flow of U.S cargoes destined for refineries in Europe.

Total exports of U.S crude bound for Europe reached 1.75 million barrels per day in 2022 which was an increase of 70% on 2021 volumes. The higher flows of U.S crude to the international markets helps to promote the role of WTI as a financial benchmark in the global crude oil trade.

WTI Midland flows into Brent

The North Sea market is undergoing changes, in part due to the declining volumes of crude oil within the current basket of crude oils for Brent, Forties, Oseberg, Ekofisk and Troll (BFOET). From June 2023 the U.S grade WTI Midland will become one of the deliverable crude oils into the Brent forward contract and used as one of the crude streams in the Dated Brent pricing mechanism.

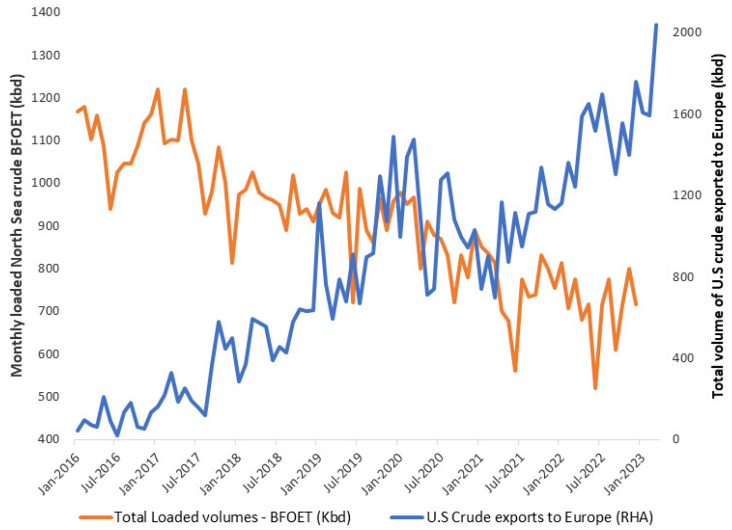
The Brent forward contract consists of the trading of cargoes of 700,000 barrels of any of the BFOET streams (including WTI Midland) for delivery beyond month ahead, with no specific dates assigned for loading. At the point the holder of a forward contract notifies a buyer of specific loading dates and which crude cargo is being loaded, the cargo is deemed to have moved from the forward to the Dated Brent market.

The inclusion of WTI Midland as a deliverable crude oil into the forward Brent contract has generated greater interest in the U.S crude oil market and all the associated derivatives markets such as the U.S grades including WTI Midland and WTI Houston that price linked to NYMEX WTI crude futures.

WTI Midland offsets North Sea declines

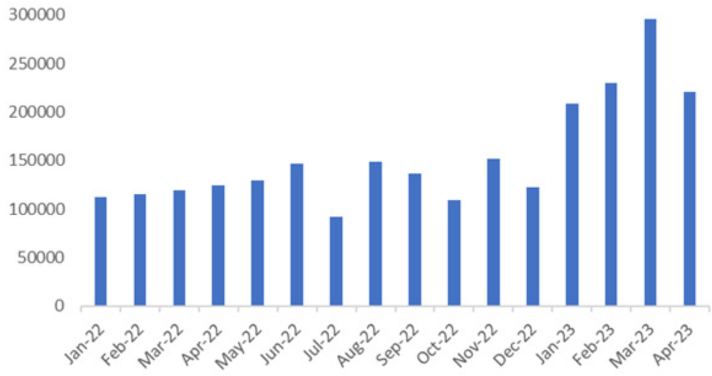
Production in the North Sea market has been falling since 2016 and there have been numerous attempts to bolster the amount of available crude oil for delivery into the forward cash Brent contract and ultimately to underpin the Dated Brent benchmark (into which the forward Brent converges).

Based on the latest data from the U.S Energy Information Administration (EIA) and Bloomberg, the total volume of U.S crude exported to Europe in October 2022 was around 865,000 barrels per day more than the volume loaded at the existing North Sea crude terminals for the grades that underpin the Brent contract.



US crude exports continue to outpace North Sea volumes

Volatility between the U.S grades and WTI as well as the Brent benchmark has drawn greater trading interest in the benchmarks for WTI Midland and WTI Houston. Traders are increasingly looking to manage any associated price risk to the underlying markets through the trading of the listed futures markets listed at CME Group. Trading interest in the WTI and U.S grades markets is coming from trading firms, producers, and refiners on both sides of the Atlantic which is expected to lead to a rise in overall trading volumes as WTI Midland becomes further embedded into the Brent pricing mechanisms. The total volume of WTI Midland and WTI Houston crude oil futures vs WTI averaged 165,000 lots per month YTD April 2023, an increase of nearly 70,000 lots over the same period in 2022.



Volumes of U.S crude grades nearly doubles in 12 months
Source: CME Group data

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