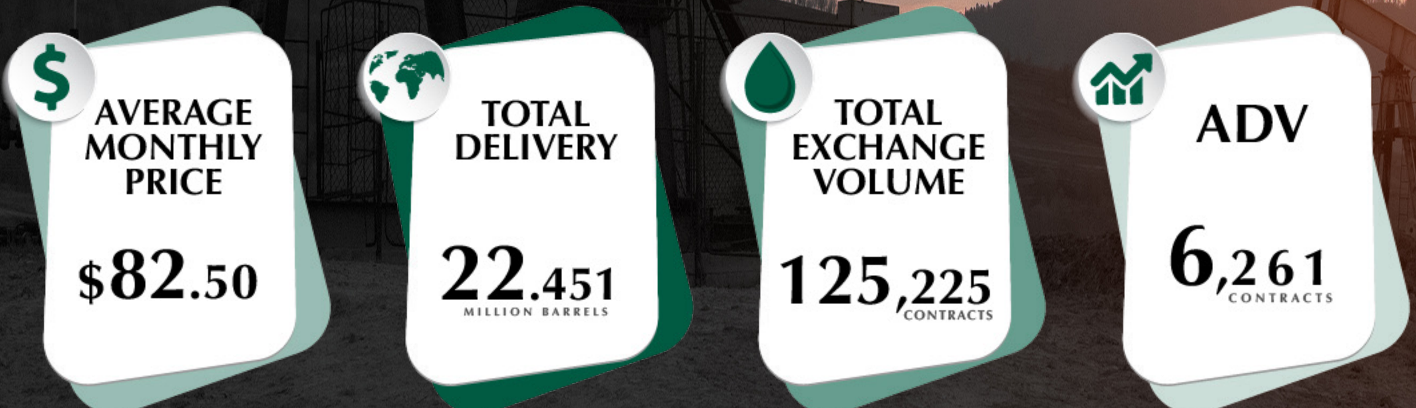
DME

FUTURES INSIGHTS

Issue 48 - July 2024

AUGUST CONTRACT



Market fundamentals

Benchmark crude prices have recovered since the June 2 OPEC+ meeting, with prices just above US$85/b as the August contract reached expiry. What has driven the price strength? On the supply side, OPEC+ output in June dropped only slightly, registering a mild drop of around 90-100kb/d. Driving this has been lower Russian output.

Compliance gains however continue to remain complicated by overproduction from Iraq (which remains around 200kb/d above its OPEC target) and Kazakhstan. The turnaround in long/short futures positioning has also played its role.

Geopolitical risks (Israel-Hamas, Ukraine drone strikes and Red Sea disruptions) and growing confidence that inventories will plunge during the summer in the Northern hemisphere continue to support risk-on activity.

With flat price continuing to trade in a narrow range of US$80-85/b, the road to US$90/b may however prove more challenging. In several weeks, physical market players will start trading Q4 barrels, when demand is expected to inch lower and OPEC+ will release more barrels in the market.

Fig. 1: Benchmark crude prices (US$/b)

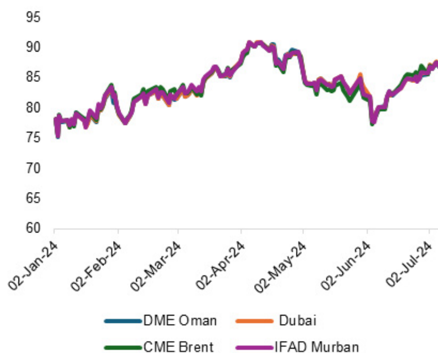
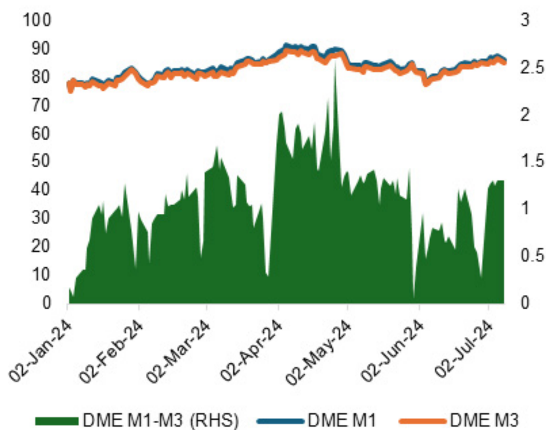


Fig. 2: DME Oman M1-M3



Source: DME

Market attention in June was dominated by Gunvor and Trafigura activity in the Brent window, as both trading houses bid aggressively across all major basket grades, particularly Forties.

Dated physical strength was also reflected in the shape of the Brent CFD curve, which was firmly backwardated toward the end of June, reversing the contango structure witnessed in late May.

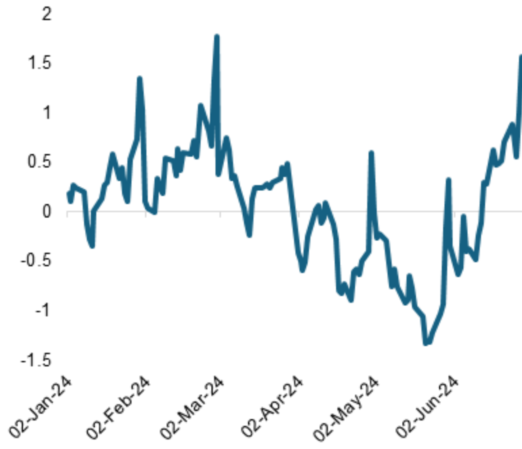
In contrast to the Atlantic, physical strength in the Middle East Gulf market weakened throughout June. Front-month Dubai for Aug delivery averaged US$82.55/b, US$1.49/b lower m-o-m.

Meanwhile DME Oman averaged US$82.5/b, around US$1.3/b lower m-o-m. Reflecting the weakness, the cash Dubai to Dubai paper structure fell US$0.84/b through June, averaging US$0.85/b through the month, down from the US$1.69/b spread seen in May. Likewise, DME Oman M1-M3 structure also fell (**see: Fig. 3**).

The weakness in East of Suez pricing relative to the Atlantic basin was also reflected in Brent-DME Oman spreads and the widening of the Brent-Dubai Exchange of Futures for Swaps (EFS) spread, which averaged US$1.04/b during June.

Fig. 3: Dubai and DME Oman M1-M3 structure (US$/b)

Fig. 4: Brent-Oman spread (US$/b)



Source: DME

With Brent-linked crudes priced out of Asia, Murban's relative competitiveness in Asia continues to dominate market attention.

Having recently traded largely at parity with DME Oman, Murban's weakness has been a function of greater cargo availability, keeping the grade in play as a convergence candidate in the Dubai window (**see: Fig.6**).

Since the launch of ADNOC's Crude Flexibility Project (CFP), Murban crude exports have inched upward as the lighter grade has been swapped out for heavier ones, primarily Upper Zakum and other third-party crudes (e.g. Basrah Heavy). As a result, Upper Zakum's OSP diff to Murban has narrowed in recent months, with UZ's August OSP set at parity with Murban.

Fig. 5: Ruwais refinery intake by grade and global imports of Murban (RHS)

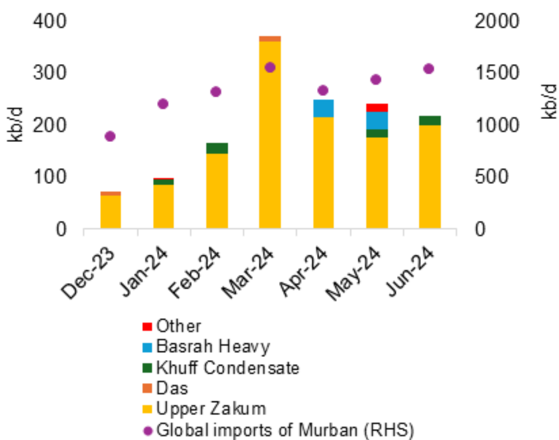
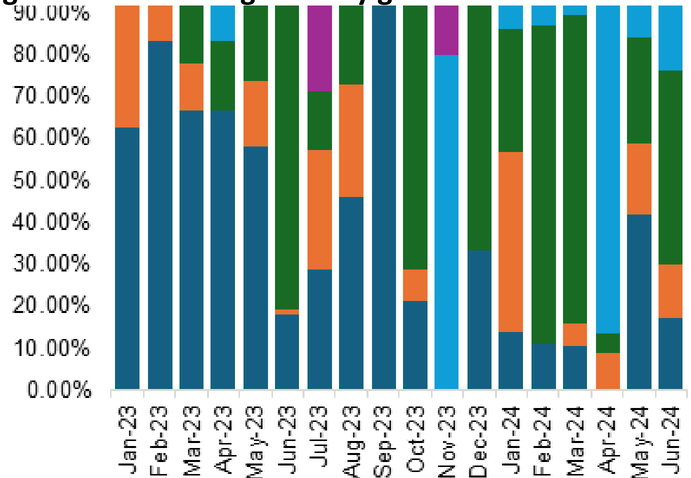


Fig. 6: Dubai convergences by grade

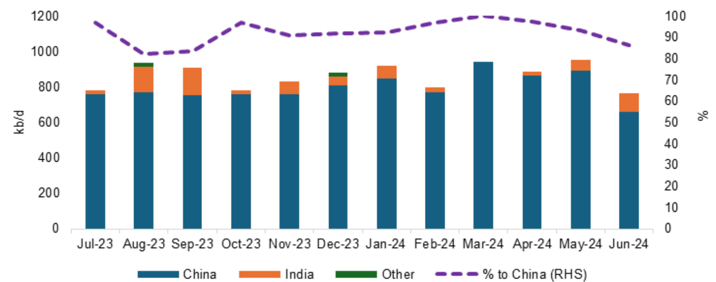


Source: Renaissance Energy Advisors, KPLER

On the demand side, concerns continue to grow around the health of Chinese oil consumption. Chinese refinery runs hit a five-month low in May at around 14.25m b/d – approximately 350kb/d lower y-o-y.

Notwithstanding a heavy maintenance period this year (particularly from PetroChina), runs have been lowered to support ailing refinery margins – particularly for diesel. Weak diesel margins have prompted China to cut imports of ESPO (which has a high diesel yield). ESPO's discount to Dubai also widened in June, averaging US$3.94/b versus Dubai, around US$0.08/b lower m-o-m.

Fig. 7: Global imports of seaborne ESPO by country (kbd)



Source: DME, KPLER

Despite the weakness in Chinese buying activity, Middle East term crude continues to remain competitive. Saudi Aramco cut its Arab Light Asia OSP by US$0.60/b for Aug-loading cargoes.

Trading sources also noted that Aramco increased its allocations to Chinese term lifters to around 44-45mb (8-9mb higher m-o-m). The higher allocation follows news that China plans to add a new round of SPR stockpiling lasting from July 24-March 2025, aiming to add around 60mb of crude in state-owned operated storage.