DME

FUTURES INSIGHTS

Issue 47 - June 2024

JULY CONTRACT

AVERAGE MONTHLY PRICE

$83.89

TOTAL DELIVERY

16.541 MILLION BARRELS

TOTAL EXCHANGE VOLUME

123,080 CONTRACTS

ADV

5,351 CONTRACTS

Market Fundamentals

Benchmark crude prices traded in a narrow range of US$80-85/b throughout May.

In the North Sea, Brent CFD curves came under significant pressure as the pace of backwardation eased. Futures spreads in the DME Oman contract also narrowed, tracking the wider weakness in physical premiums and distillate cracks.

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

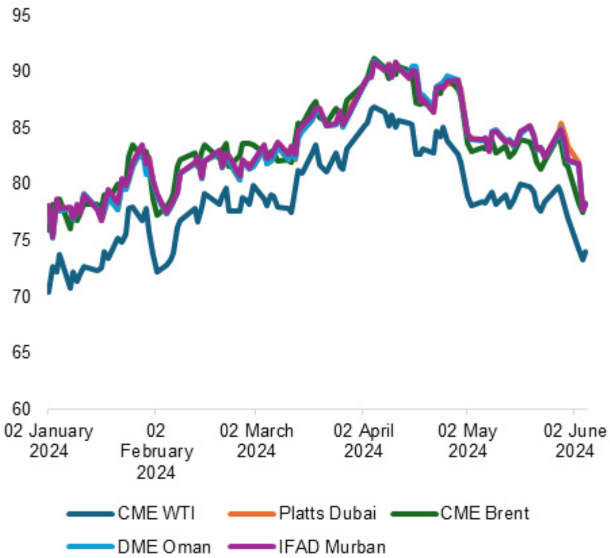
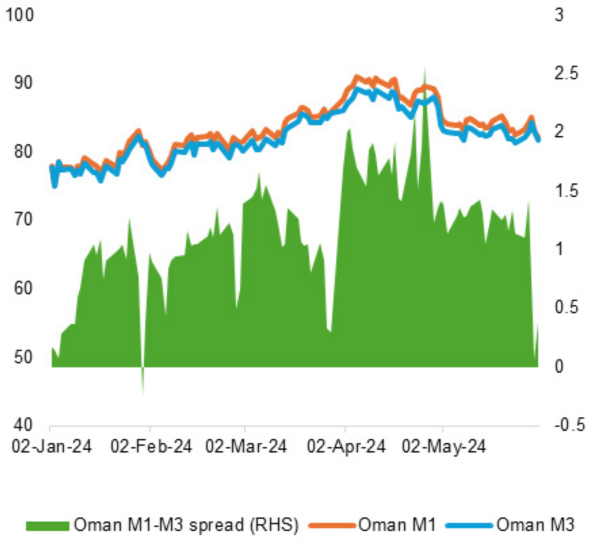


Fig. 2: DME Oman M1-M3 spread (US$/b)

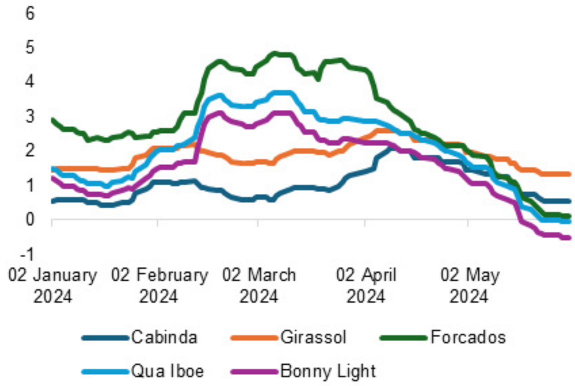


Source: DME, S&P Global Commodity Insights

Reflecting looser Atlantic balances, West African differentials – a useful proxy for market health as Nigerian barrels act as swing barrels to both east and west – weakened throughout May.

While European refiners returned from seasonal maintenance, ample US crude availability, high crude stocks and ongoing weakness in distillate cracks weighed on physical premiums.

Fig. 3: Platts West African differentials v Platts Dated Brent (US$/b)



Source: S&P Global Commodity Insights

Fig. 4: Platts WTI Midland CIF Rotterdam v Platts Dated Brent (US$/b)

The faster pace of the decline in backwardation in sweet versus sour markets supported the flow of arbitrage barrels from the Atlantic to North Asia, reflected in the narrowing of the Brent-Dubai Exchange of Futures for Swaps (EFS).

The front-month EFS averaged US$0.84/b in May, more than US$1.1/b lower m-o-m and its lowest level since December 2023.

Likewise, Brent/Oman spreads continued to trade in negative territory as Brent was dragged lower by the relative glut in light barrels.

Taking advantage of weaker Atlantic basin pricing, Chinese refiners picked up a flurry of sweet cargoes, particularly Tupi – a cheaper alternative than Mideast grades Oman and Upper Zakum.

As we head into H2 24, Chinese appetite for medium-sour crudes should start to pick up as refiners ramp-up runs after exiting seasonal maintenance.

During May, around 1.8-1.9m b/d of refining capacity was offline due to maintenance.

Saudi Aramco OSPs

At the same time, softer Middle East NOC prices for July-loading should help keep Gulf barrels competitive.

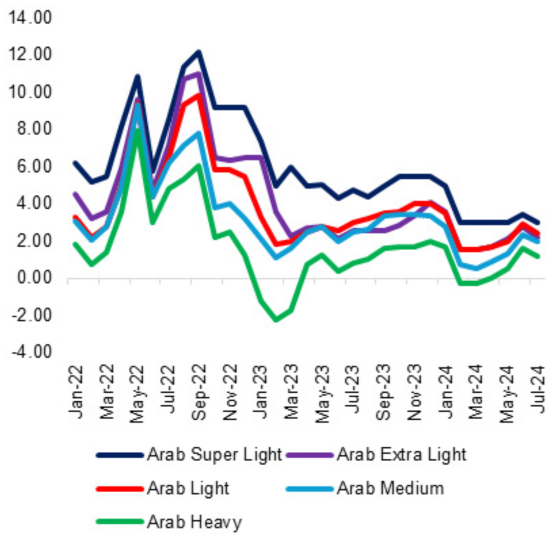
Middle East NOCs are expected to follow Aramco's lead in softening Asia-bound OSP differentials for July-loading cargoes.

Saudi Aramco lowered its OSPs for Arab Light crude loading to Asia in July while increasing OSPs to Europe.

Arab Light OSP diffs to Asia were priced at US$2.40/b versus the Dubai/DME Oman average, down US$0.50/b m-o-m.

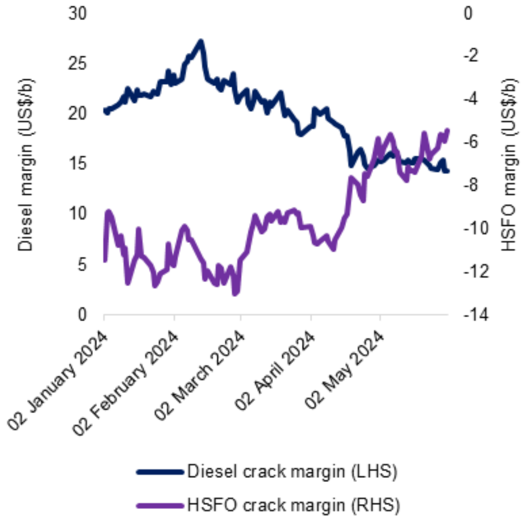
The OSP adjustment was largely in line with Dubai/ DME Oman structure and the overall drop in Asian middle distillate margins.

Fig. 5: Saudi Aramco Asia OSPs (vs DME Oman/ Dubai), US$/b



Source: DME, S&P Global Commodity Insights

Fig. 6: Asia product crack spread versus Platts Dubai (US$/b)



The DME May contract saw a substantial rise in traded volume with total volumes traded in May reaching 123,080 contracts, more than 13,000 contracts higher m-o-m.

DME front-month trading volumes (M1) saw a long-term high in May, with over 90,000 contracts traded.

Fig. 7: DME Oman M1 trading volume

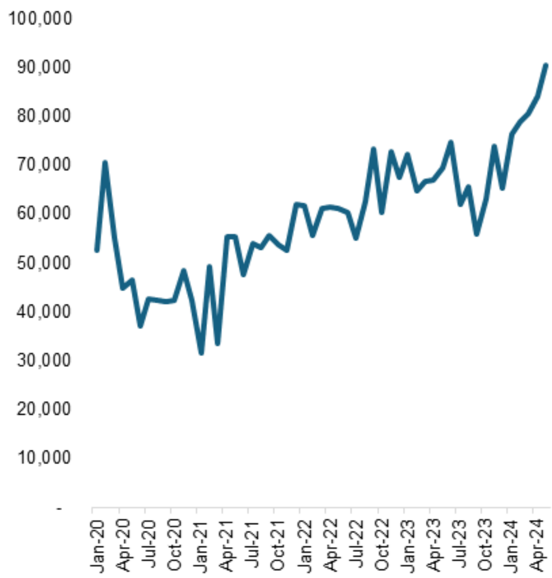
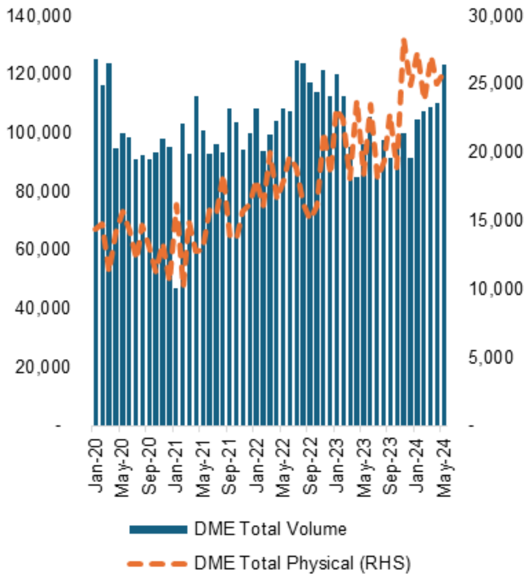


Fig. 8: DME total volume and physical (RHS)



OPEC+ and the search for market direction

On Sunday 2 June, OPEC+ extended most of its output cuts well into 2025.

Currently, OPEC+ have official cuts amounting to around 5.86m b/d, which include official cuts of 3.66m b/d (originally set to expire end-2024) and voluntary cuts of 2.2m b/d (which were due to expire in June 24).

Under the new deal, OPEC+ will now extend its official cuts of until end-2025.

The voluntary cuts of 2.2m b/d (which include Saudi's 1m b/d "lollipop" cut) will now extend until September 24 and then gradually phase out until end-September 2025.

Several important points can be made about the deal:

1 - The unwinding of the 2.2m b/d voluntary cuts don't start until October and remain subject to market conditions.

Like the US Fed, OPEC can change course if market conditions deteriorate. In other words, OPEC's forward guidance is not set in stone.

2- Having stitched together a complex roadmap suggests that OPEC+ unity remains strong, rather than weak.

In a best-case scenario, the payback schedules for past overproduction (to be met by Iraq and Kazakhstan) could offset some of the release in the market.

While the market – justifiably – remains doubtful of this, the level of detail OPEC+ has given will make cheating more awkward.

3- Having offered the UAE a 300kb/d increase in its required production level, Saudi has effectively nipped an oil market "wildcard" in the bud, namely anxiety that the UAE would seek to exit OPEC+.

Dubai Mercantile Exchange
Dubai International Financial Centre
Gate Village 10, Level 4
P.O. Box 66500
Dubai, UAE

T +971 4 365 5500
F +971 4 365 5599