



DME

Futures Insights

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SWEET prices for SOUR grades!

DME Oman reflects the fair value of SOUR grades in the Middle East

**JUNE 2020
CONTRACT**

OSP  **\$23.65**

TOTAL DELIVERY  **12.649**
MILLION BARRELS

TOTAL EXCHANGE VOLUME  **82,851**
CONTRACTS

ADV  **3,946**
CONTRACTS

Overview

The collapse in global oil prices and unprecedented market volatility has had an unusual knock-on effect for Benchmark Oman oil prices in the Middle East, as physical prices of Oman assessed by Price Reporting Agency (PRA) Platts have averaged at a discount of more than \$3 per barrel against Oman futures traded on the Dubai Mercantile Exchange (DME)

The DME futures contract is physically settled, so historically the gap between DME futures and physical Oman (traded as 'partials' in the Platts MOC process) has typically been less than \$0.20/b.

However, different underlying methodologies and the price swings between light crude oil versus the heavier grades have created record spread between DME futures and Platts Oman.

Crucially, the Platts physical Oman assessment also includes the light sweet Murban crude, Abu Dhabi's flagship grade which can produce more than 1.5 million b/d.

Overproduction of light sweet crude, particularly shale output in the US, along with the demand destruction in transport fuels has placed massive strains on lighter grades, which in turn has dampened demand for Murban and made it one of the lowest-priced grades in the region.

Oman as a Benchmark

Oman is the single most important grade in the Middle East when it comes to price discovery and trading; not only in terms of the DME futures contract and stand-alone physical benchmark, but is also a key part of the Dubai pricing mechanism and going forward is expected to play an integral role in Shanghai's INE crude contract.

Oman's Ministry of Oil and Gas (MOG) adopted Exchange-based pricing in 2007 and uses the DME pricing as the basis for its monthly OSP calculation.

The weighted average of the daily five-minute DME pricing window is averaged out over the month, enabling both buyers and sellers to hedge on a forward basis.

This price is also incorporated into other National Oil Company (NOC) sales price, including Saudi Arabia, Kuwait, Bahrain and Dubai.

Physical Oman pricing is determined in the Platts Market-on-Close process, where traders can buy and sell Oman in 25,000 barrel clips, known as partials.

If the counterparties reach 20 transactions, the seller must supply a 500,000/b physical cargo. Historically this has always

been a cargo of Oman (hence Platts Oman and DME Oman have similar historical pricing) but for the past two months sellers have nominated the light sweet Murban grade.

Additionally, the Platts Dubai benchmark is also being set by Murban, so is also at a larger discount to DME Oman futures than previously.

A paper published April 2020 by The Oxford Institute for Energy Studies notes: On January 4, 2016, Platts added Murban as an alternative delivery crude in its Dubai and Oman crude oil benchmarks.

Traditionally Murban traded at significant premium both to Oman and Dubai grades, and the addition of Murban was seen only as a 'safety valve' in case of a market squeeze, and probably never to be needed.

However, the current demand shock has had a major impact on gasoline use and this product is the major part of each barrel of Murban crude produced. Murban started setting the price of both Dubai and Oman in the Platts assessment as the cheapest crude in the basket. As a result, Platts Oman price started to reflect not Oman, but lower, Murban value.

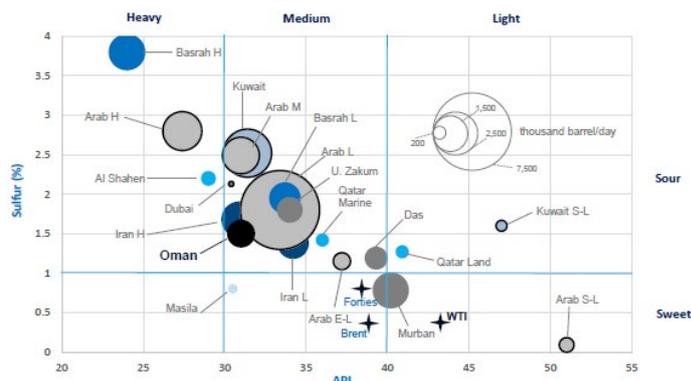
Being significantly cheaper than Oman, Murban has dragged down the Platts Oman assessment well below the physical Oman contract on the DME.

Full report available on www.oxfordenergy.org

Middle East crude quality

The majority of Middle East crude grades fit in to the heavy or medium sour category, but Murban is more closely aligned with North Sea marker crudes such as Brent/Forties, or US export grade WTI Midland.

Physical Dated Brent prices have traded at record discounts of around \$10/b to Brent futures during April, while WTI Midland has been sold into China at discounts of more than \$10/b to Brent futures, adding to the downwards pressure on Murban.

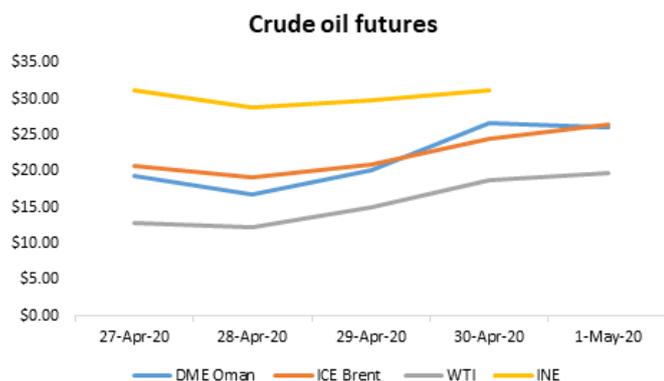


Destination China

As the world's top importer of crude oil, China is by far the largest consumer of Middle East crude and Oman is regularly in the top five monthly suppliers to China.

Enhancing Oman's benchmark status, Shanghai's INE picked Oman as one of the deliverable crudes for its sour crude contract launched in 2018.

Other deliverable Middle East grades include Iraq's Basrah Light, Abu Dhabi's Upper Zakum, Qatar Marine and Dubai.



Nb. in the above graph Singapore and China were closed Friday May 1

Physical deliveries against the INE sour crude contract have been sparse up until now, but Platts reported late April the strong possibility of Middle East crudes delivered into INE as sour crude prices in China have recovered much faster than the rest of the world; plus INE has doubled the available storage capacity.

The report noted that the volume of crude held on warrant in INE tanks for April 2020 had reached an all-time high of 8.2 million barrels on April 28, up from 3.4 million barrels at the beginning of the month.

The vast majority of the crude in INE-approved tanks is Basrah Light, but with around 950,000 barrels of Oman there is also the chance that Oman will be delivered into INE for the first time in two years.



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