DME

FUTURES INSIGHTS

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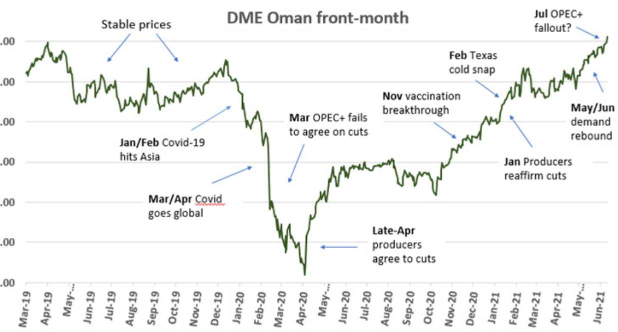
DME Oman – the contract to trade during times of OPEC turmoil

OSP	TOTAL DELIVERY	TOTAL EXCHANGE VOLUME	ADV
$71.66	11.782 MILLION BARRELS	97,474 CONTRACTS	4,431 CONTRACTS

DME (Dubai Mercantile Exchange) Oman futures provided the pricing backdrop to the Asia-led global demand recovery, and is now reflecting the market volatility around the OPEC fallout.

Middle East benchmark DME Oman prices reached a 32-month high of $76.09 per barrel on July 6, which was effectively a 100% increase since early November 2020 when the first successful vaccination trials were announced.

Although rollouts have been uneven, vaccines have played a major role in the demand and price recovery, which has been reflected throughout by benchmark Oman prices trading on the Dubai Mercantile Exchange.



Oman futures trading on DME has been in a strong upwards trend since November, but the rally came to a shuddering halt in early July.

This was related to the OPEC+ producer group unable to reach an agreement to increase production from August.

Around 5 million barrels per day, or 20%, of total OPEC oil is directly priced against DME, but in terms of Middle East crude, DME Oman is included in the pricing formula for around 50% of exports to the key Asia markets.

As such, DME Oman is the oil futures contract with the greatest direct exposure to OPEC policy and is closely watched by traders as a guide to broader Middle East and Asian fundamentals.

Organization of the Petroleum Exporting Countries The July 2021 OPEC+ meeting agreed in principal to increase production by 400,000 barrels per day (bpd) in August, followed by similar monthly hikes until the end of the year, adding 2 million bpd of much-needed crude into the market by December 2021.

The proposal also included and extension to the 23-member producer pact from April 2022 until the end of 2022.

The UAE said it would only support the production hike if its own baseline production of 3.168 million bpd is increased 3.8 million bpd, which UAE says is consistent with its output potential.

The UAE contends that an extension to the OPEC+ 'Declaration of Cooperation' amounts to a new agreement and should trigger a discussion on new baselines.

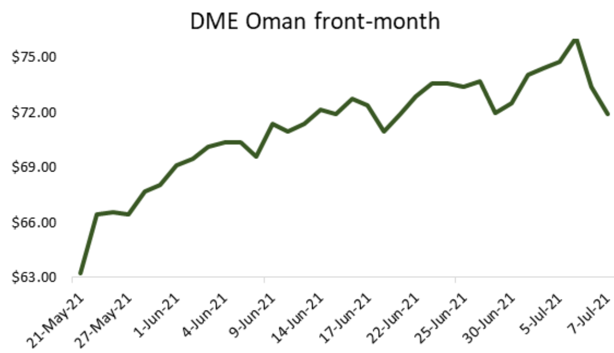
Saudi Arabia, on the other hand, does not want to risk causing disarray by opening up renegotiations on previously-agreed production levels.

OPEC+ initially reduced output by 9.7 million bpd last April, with the allocated baselines forming the basis of quotas, so UAE is essentially arguing for a higher production quota.

The initial collapse in the OPEC+ talks saw DME Oman rally to over $76/barrel on fears that an already tight market was set to get even tighter with no agreement to increase output.

But as the disagreement between Saudi Arabia and UAE intensified, fears that the OPEC, or OPEC+, alliance might fracture saw DME Oman retreating more than $4/barrel during a 24-hour period.

A spilt within the producer group would likely lead to an increase in supplies, say analysts.



However, immediately following the breakdown in talks, Saudi Aramco issued its Official Selling Prices, including hiking differentials vs the underlying basis for Asian customers by $0.80-$1.00/b.

The Saudi formula is based on 50% DME Oman futures and 50% from the Dubai physical market.

After OPEC initially failed to reach an agreement on oil production at the height of the pandemic in the second quarter of 2020, the usual allies of

OPEC+ engaged in a price war, which along with the collapse in demand sent oil prices spiraling down to 20 year lows.

In 2020 Russia was the primary adversary against the OPEC+ pact, which triggered a flood of oil onto the market sold at record discounts to underlying benchmarks.

However, the historic deal of April 2020 brought the parties together with the current deal that last until April 2022.

Demand dropped by an unprecedented 8.6 million in 2020 according to the International Energy Agency (IEA), but that was the average for the full year with consumption falling by more than 20 million bpd at height of the pandemic.

Part of the 2020 price battle included record cuts for OSPs, but Saudi Aramco announcing relatively steep hikes on August OSPs signals to the market that Saudi has no intention of engaging in an immediate pricing war.

No doubt the current impasse will involve a great deal of delicate diplomacy and traders are set for potentially weeks of price fluctuations.

The Middle East starts a week-long holiday on July 19, so analysts say that any deal allowing for an August production hike would have to be concluded by this date. Without a deal, traders expect heightened volatility.

Among global oil futures contracts, DME Oman is the most relevant marker price for OPEC and Middle East oil, so movements in the DME Oman futures contract (OQD) will be closely monitored by the global market.

The vast majority of Middle East OPEC oil is shipped to Asian customers, while barrels shipped into Europe are sold as a differential to physical Brent or Brent futures.

Sales to the US are priced against a basket of US Gulf sour crudes, which in turn are priced as differentials to the primary US WTI benchmark.

Going forward the market will be scrutinizing every word coming from the opposing OPEC+ factions, but traders will be keeping a close eye on DME Oman futures to gauge price reaction and market sentiment.

Oman Blend is a medium sour crude, representing the majority of Middle East crude oil production, which is typically on the medium of heavier crude.

Oman has been a key benchmark crude and reference price in the Middle East for several decades, with NOCs using Oman in pricing formulas since the 1980s.

Additionally, Oman is a major component of Dubai pricing, while Dubai Mercantile Exchange has hosted the Oman futures contract since 2007.

The grade is one the largest freely traded crude streams in the region with a production capacity of around 1 million b/d and exports of over 800,000 b/d, which is a higher volume than the five North Sea grades in the Dated Brent 'basket'

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